

Earnings Call Transcript

Event: Bharti Tele-Ventures Limited Earnings Conference Call for the Second Quarter and Half Year Ended September 30, 2005.

Event Date/Time: October 27, 2005 / 2:00 p.m. IST

BTVL – Second Quarter and Half Year Ended September 30, 2005

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Good afternoon ladies and gentlemen. I am Swati, the moderator, for this conference. Welcome to the Bharti Tele-Ventures' second quarter and half year ended September 30, 2005 earnings call hosted by Deutsche Bank. Mr. Piyush Mubayi, Director Asia-Pacific Telecom Research – Deutsche Bank, is your call leader today. 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 the international participants connected to Airtel International Center. After that, a similar question and answer session will be conducted for the participants in India. Now, I hand over to Mr. Piyush Mubayi of Deutsche Bank.

Thank you and over to you Mr. Mubayi.

Piyush Mubayi – Deutsche Bank – Director Asia-Pacific Telecom Research

Thank you Swati. Good morning or good afternoon ladies and gentlemen. We at Deutsche Bank are pleased to host this call and welcome you all to this analyst briefing on Bharti's second quarter and half year ended September 30, 2005 earnings. May I take this opportunity to extend my congratulations to Bharti's management on a good set of numbers. As usual we have the full participation from Bharti's senior management on the call today. On behalf of all the participants and the Deutsche Bank, I would like to thank the senior management for taking the time to be with us on the call today. Now, I would hand over the call to Ms. Sonal Kapasi, Head, Investor Relations of Bharti Tele-Ventures to initiate the proceedings.

Over to you, Sonal.

Sonal Kapasi - Bharti Tele-Ventures Limited - Head, Investor Relations

Thank you, Piyush. A very warm welcome to all of you. We hope each one of you is in receipt of the results for the quarter ended September 30, 2005. The results are also available on our website www.bhartiteleventures.com. Today, we have with us members of the senior management on the earnings call to provide an overview on the performance of the company and to respond to the queries during the Q&A session. Before I hand over the call to Mr. Sunil Bharti Mittal, Chairman and Group Managing Director, I must remind you that the overview and the 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 Mr. Sunil Bharti Mittal.

Thank you.

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Sunil Bharti Mittal - Bharti Tele-Ventures Limited - Chairman and Group Managing Director

Thank you Sonal. Let me add my own welcome to all of you who have taken the time to be with us on this earnings call. We have announced our results today and I am hopeful that all of you would have seen most of it. It has been another satisfying quarter, a quarter of satisfaction both on the operational and financial front. As you may have noticed, the company has added the highest ever- net addition of 2 million customers, in a single quarter, comprising of 1.8 million mobile customers. It has maintained its position as a dominant wireless market leader now with a market share of 22%. Another landmark achievement, which the company was keenly awaiting, has been the crossing of 1 million mark in our fixed line business. The other key highlights of the quarter are that the revenues have now jumped up to Rs. 27.1 billion; EBITDA at Rs. 10.2 billion; cash profit of Rs. 9.4 billion and the net profit being at Rs. 5.2 billion. In the last few months, the subscriber growth has truly picked up. For the first time in consecutive three months, we have seen the market staying upwards of 2.5 million each, in some months even coming up to nearly 3 million customers. This momentum has been ably assisted by the network rollouts that the industry has been doing at a very feverish pace led by Bharti itself. The other landmark that we saw in this quarter was the crossing of 2 billion subscriber mark around the world and India becoming one of the top 10 mobile markets in the world. As per market estimates, India is expected to rank amongst the top 5 countries in the world in terms of wireless subscribers and this is expected by the turn of the decade. The sector is experiencing developments not only on the wireless front, but also on the wire-line with new technologies like triple play being tested by a few operators around the globe. I feel the opportunity on data is huge; it is largely untapped and therefore offers extremely high opportunities for the company. Currently, countries like Korea, Taiwan, and Japan are setting examples for others to follow on the data growth and we at Bharti are keenly plugged in on the data developments around the world. It will certainly take some time to reach the heights that these nations have achieved, but clearly you will see growth from residential broadband picking up pace in India fairly soon. The Minister(y), Licensor and the regulator are all working towards improving tele-density in India; in particular the minister has been at the forefront of moving telephones in the rural areas. The cabinet finally in this month approved the hike in the FDI limit from 49% to 74%, something that the sector has been awaiting for a very long period of time. While the final notification has still not come out, but we believe this is only a procedural matter. After the cabinet minutes are approved, this notification is now imminent. We expect the notification to be out in the next few days. The company is today at a stage wherein it is preparing itself for the next level of growth. The company is having presence now in 3,200 towns and locations, and with a target to cover over 4,500 towns and other locations in the next six months, the biggest challenge before us today is, on one hand, to roll out networks but more importantly manage growth in a scalable and more importantly in a balanced way. We are truly blessed to be in a country where growth is not an issue. Year after year, the country has surprised everyone including the policy makers in terms of the growth that is coming up in the telecom market. We believe that the innovative models that the company has adopted to outsource its management network, its IT and of late the call center to the best in class around the world will help the company in achieving its vision of being the biggest and more importantly the most admired brand in India. We have

also taken advantage of the resources that have been released by this outsourcing arrangement and all these resources have been redirected towards the customer area making Bharti truly a 'Customer-Centric' organization. We are feverishly aligning our people, processes, technology, and the organization to the needs of our external as well our internal customers. Brand experience is becoming a big buzz at Bharti. We are looking at ensuring that the brand vision that we have created for ourselves results in the customers choosing Airtel first and foremost amongst all the service providers. Bharti becoming a company where top talent seeks opportunities and more importantly, the industry benchmarks the practices that we are following at Bharti. We have also been at the forefront of innovation, unique and innovative services are being brought to the customers all the time. During the quarter gone by, Airtel along with ICICI Bank and VISA launched mCheq, a credit card on a mobile phone. The possibilities of this initiative are hard to imagine today, but clearly it has opened up a vista, which perhaps was not taken into account even in the last year or two. It is very clear that mobile phone is now becoming much more than just a phone and it is becoming clearly a tool to do banking, stock market transactions, besides of course using other value added services. There is a very clear emphasis in the company, going forward, in providing value to our customers. This will be done through superior products and services, customer service delivery, and more importantly with wider and stronger networks that will reach across the country far and wide. We are bringing enhanced value proposition to our customers in terms of value added services, in terms of very creative tariff packages, and more importantly bundling of various services for our upper end customers. We are, of course, building a very strong brand identity, which we believe will hold the company's business in good shape going forward. Our aim is to create comparative advantage by connecting and enhancing the lives of our customer and providing world class services. It is our endeavor to make Airtel the most admired brand of India that is loved by more customers, targeted by top talent, and benchmarked by more businesses.

I will now hand over the call to Akhil who will walk you through the entire financial presentation that has been put up already on the net.

Thank you.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Thank you Sunil. Welcome to all the participants who have taken the time to dial in today. I hope you have all had a chance to go through the quarterly report. Before I start, let me say that I am extremely pleased to report that as we had promised at the time of last earning call, from this quarter, we have now fully migrated to US GAAP disclosures. All the disclosures for the quarter, including the comparison with the last year figure as well as the trends for the last five quarters are now available in the quarterly report as per US GAAP. It also gives me great pleasure in sharing with you that during this quarter the EBITDA for the first time crossed the Rs. 1000 crore mark that is the Rs. 10 billion mark, and also that the EBITDA margin improved by 30 basis points over the last quarter. This was despite massive increase in operating expenses since we have had massive expansion and new roll outs in the mobile as well as fixed line services side, as well as the fact that the quarter actually had the full impact of

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regulatory and market led developments leading to fall in the tariffs particularly of domestic lease circuit rates, domestic roaming rates, and "0" dialing introduction in a few circles. I think this was something quite exemplary. Please also note that there is a Rs. 259 million EBITDA loss in the new B&T circles, which we have just launched. So I think, considering all these, this has been a great achievement and clearly demonstrates that we are leveraging the economies of scale well. For the first six months, we have now crossed Rs. 5000 crores in revenue, i.e., Rs. 50 billion, and our net profits have exceeded Rs. 10 billion thereby joining a very-very exclusive club. Our total customer base as at the end of September also crossed 15 million and we added almost 2 million customers in this quarter. We have now extended our location coverage to 3,200 towns. Some of you would recollect that at various conferences and meetings, we have been sharing our plans of increasing our coverage to about 4,000 towns plus on the mobile side by the end of this year and rolling out broadband and telephone services to another 10 - 15 new towns by the end of this financial year. I am very pleased that our operating teams both on the mobile and fixed line side with commendable cooperation and assistance from our network partners have geared up extremely well to meet the challenge of quick rollout before us. It is encouraging that during this quarter we added about 2,500 new sites, which means that on a current basis, we are now adding one site almost every hour somewhere around the country. This is an unprecedented rollout and I think our teams have done very well to equip themselves for this. With our acceleration of deployment, we were able to actually invest over Rs. 13.6 billion, almost US\$ 309 million, as capex this quarter versus Rs. 9.7 billion last quarter. The capex for the first half was Rs. 23.3 billion or roughly US\$ 530 million. With the increased capacity to deploy and faster rollouts, I am encouraged now to estimate that our total capital expenditure, instead of 1 billion, which we had estimated earlier, would now be between US\$ 1.2 to 1.3 billion for the full year. Before I move to the results, based on the feedback that we have received, we would from this quarter take you through only the consolidated basis results in this call because it has been generally the demand that we should have little more time for Q&A. About the performance for the quarter, the consolidated revenue for the quarter was Rs. 27.1 billion, which reflected a year-on-year increase of 46%. The EBITDA for the quarter was Rs. 10.2 billion representing again a year-on-year increase of 47% and the EBITDA margin for the quarter was 37.7% versus 37.4% in the last quarter. The net finance cost for the quarter was Rs. 844 million as compared to Rs. 149 million last quarter. This difference of Rs. 700 million is solely on account of the adverse movement of the rupee vis-à-vis dollar and this is purely as per the accounting standards that we have to provide this as a cost. In fact, the actual interest on borrowings for the quarter was marginally lower at Rs. 508 million versus Rs. 523 million last year; but for this adverse movement of rupee, of course, the interest cost overall would have been significantly lower. The cash profit from operations was Rs. 9.4 billion, an improvement of 41% and the earning before tax was at Rs. 5.8 billion, an increase of 49%. We incurred during this period an income tax expense of Rs. 514 million. The current tax expense out of this was Rs. 410 million. The net profit stood at Rs. 5.2 billion for the quarter, a growth of 43% on a year-to-year basis. This amounts to earning per share of 2.79 for the quarter, which means on an annualized basis, at Rs. 11.2. The non voice segment has contributed significantly to the revenues roughly 17.1% of the total revenues. On the balance sheet front, as on September 30, 2005, the company had total assets of Rs. 185 billion and total

liabilities of Rs. 107 billion respectively. The company has made gross investment of Rs. 189 billion, which means roughly about US\$ 4.3 billion. We had a net debt of just US\$ 768 million that is Rs. 33.7 billion. We had an extremely low net debt to EBITDA ratio of 0.92 and our interest coverage is well above 20. During the quarter, as I mentioned, the company has incurred a capital expenditure of Rs. 13.6 billion, i.e., about US\$ 309 million. The mobile segment in this quarter has contributed about 70% of the total revenue, 68% to EBITDA, and the capex spent on mobile was roughly 63% of the total capital expenditure. I would also like to draw your attention to the three line graph, which we use to monitor the performance of the company. As you would see over the past 5 quarters our revenues have grown significantly from 18.5 billion to 27.1 billion and it is extremely heartening to note that despite such massive rollout and continuing expansion and a significant deployment of capital, the capital productivity has actually improved in this period from 58% to 64%. I am also pleased to report that in terms of operating efficiency we have maintained the efficiency more or less and our opex to revenue has only gone up from 32% to 34%. This is something which is really heartening. Before I open the floor for questions and answers, I would like to summarize that we are very excited with the growth in this sector. The Rs. 200 coupon has started showing its effect and the market is deepening and we are also very pleased with the outcome of our expansion strategy. We believe that at Bharti we are very well prepared in every respect to lead the growth in the telecommunication sector.

I now hand over the floor back to Swati for questions and answers.

Swati – Moderator

Thank you very much sir. I now hand over the proceedings to Farida at Airtel International Center to conduct the question and answer session for the international participants. After this, we will have a question and answer session for the participants in India.

Over to you, Farida.

Farida - Moderator

Thank you, Swati. At this time, international participants may press zero one (01) if they would like to ask a question. On pressing zero one (01), participants will get a chance to present their questions on a first-in-line basis. The international participants who wish to ask a question may please press zero one (01).

Please press zero one (01) now.

The first question coming in from Mr. Suresh Mahadevan, ABN AMRO Banking.

Suresh Mahadevan - ABN AMRO

Good afternoon. Thanks a lot for the call and congrats on a good set of numbers, I had a few very simple questions. First of all, on the fixed line side which is the broadband and telephone services side, the EBITDA margin seems to have dropped considerably, which is understandable, given that, I

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think you guys have accelerated the rollout, but I just want to make sure that it is indeed the case and absolute EBITDA has also come down. So any light on the fixed line EBITDA will be helpful.

The second question I have is related to your effective tax rate, it seems to be fluctuating quite a bit and I mean, I know, in the past you have said it is very difficult to guide but you know, I just wanted an update in terms, if it has become more predictable now.

Third question I have is that I wanted a quick update on your easy recharge, where it is in terms of number of outlets as well as what percentage of recharges are done on that basis?

Thanks a lot.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Okay let me take up, first of all, the B&T. I think in B&T if you have seen, you have to see the existing and the new one separately.

Suresh Mahadevan - ABN AMRO

Okay.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

If you go to page 7 of the quarterly report, you will actually find that the EBITDA has improved quite significantly. I think as compared to last quarter, there is a marginal improvement in EBITDA but the overall percentage down which you see is on account of the fact that the new operations there have a negative EBITDA of Rs. 259 million. If you adjust for that, it is reasonably okay.

The second one pertains to deferred tax. Well, you are right, I think I have explained that earlier it is very difficult to predict deferred tax. I am given to now believe that it is getting a little more predictable than before and unless there is a massive change in either the tax laws or the tax rate, I hope that we would be able to see some stability on this account, but it is always a little difficult to predict.

On the electronic recharge, Manoj, if you could please give us the information.

Suresh Mahadevan - ABN AMRO

Akhil, quick follow-up on that, I mean when you say some level of predictability, does it mean this quarter is kind of representative for probably at least the rest of the year, another two quarters or?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Well I definitely cannot give you a very-very clear answer on this Suresh.

Suresh Mahadevan - ABN AMRO

Okay, okay.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

All that I can say is that it will be a little more predictable than before but still it could change on account of various factors.

Suresh Mahadevan - ABN AMRO

Okay, thanks.

Manoj Kohli - Bharti Tele-Ventures Limited - President Mobility

Suresh, hi, this is Manoj. On the easy charge question, I can share with you that the easy charge in value terms. Close to 60% of our total recharge is through the electronic process and out of 325,000 retailers, two-thirds of retailers have already been trained and they are utilizing easy charge in the day-to-day recharging process, and the balance one-third are in the process of being covered.

Farida – Moderator

Thank you, sir. The next question coming up from Mr. Sundeep, Lehman Brothers, Hong Kong. Over to you, sir.

Sundeep Bihani - Lehman Brothers – Hong Kong

Good afternoon gentlemen and thanks for the call. Just a couple of questions. First is, quite an impressive increase in mobile EBITDA margins quarter-over-quarter, can you give some color on where is it coming from and is it sustainable or we can expect some more improvements there?

The second question is on some of the recent tariff action from the Tatas where they have been offering free incoming for the next two years etc, how do you see that impacting you for this year and going forward?

The third is that recently the government decided to give new long distance licenses at much cheaper cost. How can we rate the risk on your long distance revenues?

The fourth question is that recently you decided for a BOD approval for increase in FII limits from 49% to a higher number. Can you share some color there and is there any intention for the promoters to reduce their stake? Thank you.

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Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

On the mobile margins, well it is quite clearly reflecting on two accounts, one is leveraging the economies of scale and second is that the new mobile operations are now turning EBITDA positive; however, to expect that every quarter it will increase by 2% or 1.5% may perhaps be quite unrealistic because the competition is intense. You have talked about Tatas, which Manoj will separately talk about. So, it may be unrealistic to think that it will keep increasing and at what pace, but I would say we are pretty satisfied with the EBITDA margins that we have under the circumstances.

As far as long distance license is concerned, well, it is, in absolute terms, only a minor difference in license fees, nothing which can have a very adverse impact on us. We believe that it may be fair for us to get back the differential in the license fee but nonetheless irrespective of that it is not of any significance.

As far as the FDI limits are concerned, we believe it is good for the entire industry and I think we are all awaiting the notification and then see what the plans can be.

Manoj, can you talk about the Tata Indicom?

Manoj Kohli - Bharti Tele-Ventures Limited - President Mobility

Hi Sundeep, this is Manoj. It is early days, Sundeep for Tatas. We are very closely observing and monitoring their activities in the marketplace. Let me reassure you that our strengths in network coverage, network quality, our branding, our distribution depth as I was talking about easy charge especially, and our innovations in KBC and Indian Idol, all our strengths are helping us to leverage the growth in the market much better than any other player. In Tata's actions, we see some desperation of a low market share company and we will continue to monitor the market situation closely and respond as appropriate.

Sundeep Bihani - Lehman Brothers – Hong Kong

Just a follow-up question, Akhil. On the EBITDA margins for mobile, do you know it is sustainable at the quarter two levels and secondly my question is that you have typically outsourced several traditional functions like network management etc to vendors; now, you are launching future factories and basically insourcing the data development part, which has been typically outsourced by some of your peers globally, so how do you explain the sudden decision to in source data development?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

I think let me talk first about the EBITDA margins. You know, obviously, the endeavor is always to try and leverage at the best, not only maintain but try and improve EBITDA margins; however, with the kind of growth which we are seeing and the kind of rollouts which we are seeing, which means we may be putting up thousands of new sites, which obviously entails fresh operating expenditure. I did say it last time and I would like to repeat it again, to us this is not a

quarter-to-quarter business. If our operating teams can capture this growth in a much more effective and much quicker manner, we would have no problem even if temporarily the margins dip because you are building a long-term business.

On the in sourcing of data center, I think Manoj can throw some light on that.

Manoj Kohli - Bharti Tele-Ventures Limited - President Mobility

Sundeep, future factory is the innovation factory, which we are planning. It will be a quite a lean operation and it will give us the innovation edge in the future market because we understand the customer's behavior, customer's psyche, and some unarticulated expectations of the customers, but for content we will continue to depend upon the content providers. We already have loads of content providers who support our innovation. So, let me reassure you it is not an insourcing, it is a very lean team, which will build products according to needs of the emerging Indian customers.

Sundeep Bihani - Lehman Brothers – Hong Kong

Thank you, gentlemen.

Farida – Moderator

Thank you, sir. The next question coming in from Mr. Mark Shuper from Morgan Stanley, Hong Kong. Over to you, sir.

Mark Shuper - Morgan Stanley - Hong Kong

Thank you very much and good afternoon. Congratulations as often is the case with your numbers. I will keep it to three questions please. The first relates to the SMS part of your wireless business. If you could please talk a little bit about growth in nonvoice take up in wireless.

Second, with regard to your debt in the Forex, impact that you saw in the most recent period. Can you talk a little bit about whether that has changed any of your financial hedging strategy?

Third, an older topic but a favorite, with regard to capital deployment policy, can you give us a quick update please on any dividend outlook or thoughts about any investments outside India?

Thank you.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Good afternoon Mark, nice to hear from you. On the SMS part, if you will please see page #10 of the quarterly report, the SMS revenue has been growing up very well. As a percentage of mobile revenue, it has gone up from 5.9% to 7.1% over the last one year and between the previous quarters it has gone up from 6.8% to 7.1%. Nonvoice

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revenue as a percentage of mobile revenue, this is on the wireless side, has actually gone up from 7.4% in September 2004 to 10.9%; so very robust growth there. As far as the exchange fluctuation is concerned, well, I think it will be foolhardy for any of us to try and be experts in terms of how the rupee will move, and that is why we follow a very strong policy in terms of our treasury; roughly anywhere between 50% to 60% of our foreign exchange loans, we always keep them hedged. We are currently close to about 60% or so, and I think that is the sound strategy because rupee did strengthen earlier, but we do keep a pretty conservative policy on this. Capital deployment quite clearly, I think as I mentioned in my speech, I am very-very pleased the way our people have rolled out the networks and they have now grouped themselves and expanded their capacities. We were able to spend about US\$ 310 million last quarter. I am hoping that this momentum will continue and I think all of us agree that if we can put whatever we are generating back in expansion of the networks, that is the best use of money, but having said that, the philosophy of the management is that at any point of time when we find that company has excess cash, which it cannot deploy in a manner that it can give higher returns to the shareholders than in their own hands, the company and the management would have no hesitation in considering a dividend.

Mark Shuper - Morgan Stanley - Hong Kong

Sure, if I had to ask you whether you would anticipate any dividend, let us say, over the next one to two years, would you consider that early or do you think that is likely?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Well you know Mark, we do not give any guidance and if say I will give dividend next year, I will be also giving guidance as we will have massive free cash flows. So, I will not do that, but let us wait and watch. I think what is more important in terms of dividend is that we have a very clear philosophy which I articulated just now.

Mark Shuper - Morgan Stanley - Hong Kong

That is clear.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

We will wait and watch, let us see how the growth prospects take place, how the generation is, and so on?

Mark Shuper - Morgan Stanley - Hong Kong

Okay, and in terms of growth, sorry to follow up, just anything overseas then?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Nothing that I can share with you at this point of time.

Mark Shuper - Morgan Stanley - Hong Kong

All right, we will look forward to any future news then.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Thanks.

Mark Shuper - Morgan Stanley - Hong Kong

Thank you very much.

Farida – Moderator

Thank you, sir. The next question is coming in from Mr. Anand Ramachandran, Citigroup, Hong Kong. Over to you, sir.

Anand Ramachandran – Citigroup- Hong Kong

Hi, good evening, congratulation on the numbers. A couple of questions; first I guess I am taking a separate tact to what Mark just asked, spending 1.2 to 1.3 billion in capex this year, generally speaking do you think, you know, you could probably spend that level of capex or probably increase it, let say into next year or the year after, that will be question 1.

Question 2, again coming back to the fixed line segment margins and I appreciate, I am just looking at existing margins, the numbers I have, you know, from page 9 seem to indicate that margins have dropped by I think 170 basis points, 32% to 30.3%. So I just want to confirm that and if that have indeed happened, whether that is one off or if there is anything that is driving that.

Thirdly, if I look at the effective revenue per minute in mobile, my calculation show it has dropped about 9% for this quarter that is versus 5% for the last quarter. Again, I am wondering if there is anything specific driving this, may be it is the ADC working its way through for the entire quarter, so I just wanted some flavor on that.

Thanks.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Anand, can you just remind me of the first question that was about capex, right?

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Anand Ramachandaran – Citigroup- Hong Kong

Yes, can you spend 1.3 billion or more, you think, next year as well?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Well, I think it is a little too early at this stage, but I would say that with the kind of growth which we are seeing and the kind of response we are seeing from all over the country wherever we are going, I would say that yes the capital expenditure next year could be in the same kind of range what we might spend this year, but surely I cannot give you a pretty firm kind of an estimate today. I think we will be able to derive that as we move towards the closure of this year and we will definitely keep you posted in the next earning call on that.

On the fixed line segment you are right that in the existing operations, the margin has come down from last quarter from 32% to 30.3%, but that is mainly on account of the fact that in each of one of these existing cities we have a massive expansion plan going on as well. So, like in the new cities, you can obviously see the impact of the EBITDA loss initially; even in the existing cities a lot of expansion is taking place, but we do believe that this dip should be temporary and it would bounce back.

On revenue per minute, well that is a mathematical calculation. I think there are general reductions in some tariff, there are some ADC reductions. This dip or the extraordinary dip is primarily on account of the ADC reductions, but as we always say that in this business the difference between your cost and the revenue per minute will make, you know, the end result look good or bad.

Anand Ramachandaran – Citigroup- Hong Kong

Absolutely, and the margins show that, thank you so much.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Thanks.

Farida – Moderator

Thank you, sir. The next question coming from Mr. Tien Doe, Alliance Capital, Singapore. Over to you, sir.

Tien Doe – Alliance Capital -Singapore

Hi, good evening and thank you very much for the call, just a couple of questions.

The first question is just on page 8 of your presentation, table 3.2.6. I am just wondering what was the swing in the depreciation in others that has gone positive in the second

quarter from negative by about the same amount in the first quarter, so a swing of about Rs. 200 million and you got an inflow of Rs. 102 million positive there. I am just wondering what that is?

The second question is on the capex. Your revised guidance outputs, does that assume stable level of subscriber adds in the third quarter and fourth quarter versus the second quarter, or are you looking for a further acceleration?

Thank you.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

By taking the second one first, I think what we are seeing in the market is some good momentum, some very solid growth, and while we would not want to predict as to whether we will accelerate or not, our general belief is that the strong growth momentum, which we have witnessed should continue in the coming quarters as well, and of course our attempt would be to try and see that we can maximize our market share out of that.

On the first one about depreciation and others, I think I will ask Sonal from the IR to revert to you with whatever clarification you want because that would be a very specific clarification. She will come back to you.

Tien Doe – Alliance Capital- Singapore

Okay, thank you.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Thanks.

Farida – Moderator

Thank you, sir. Next question coming in from Mr. Manish Srivastava. Go ahead, sir.

Manish Srivastava – Insite Equity - Singapore

Hi, congratulations to the management on a great set of numbers. Just one issue, I wanted to figure out why has there been some acceleration in capex on the long distance services and enterprise services, especially the long distance services seems slightly surprising.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Manish, the capex impact on long distance services, well, it is mainly on account of investments and taking more capacity from i2i on the international side, but even otherwise, I think we will have a sustained expansion of our long-distance network in times to come, so that would certainly be continuing.

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Manish Srivastava – Insite Equity- Singapore

Where do you see that expansion really coming in? I would have thought you have enough fiber in there and you can actually say that there is very little capacity utilization under that fiber.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

There is enough fiber but wherever we are expanding the mobile network, we will also be following that up with our long distance network.

Manish Srivastava – Insite Equity -Singapore

Okay, okay.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

There are more kilometers.

Manish Srivastava – Insite Equity- Singapore

Thanks.

Farida – Moderator

At this moment there are no further questions from participants outside India. I would like to hand over the proceeding back to Swati.

Swati – Moderator

Thank you very much Farida. We will now begin the question and answer interactive session for the Indian participants connected to Audio Conference Service from Airtel. We are running short of time. The management is available only till 3:30. We request you to be brief with your questions. Participants who wish to ask questions may please press star one (*1) on their touchtone enabled telephone keypad. On pressing star one (*1), participants will get a chance to present their questions on a first-in-line basis. To ask a question, please press star one (*1) now.

The first question comes from Mr. Sanjay Chawla from JP Morgan, Mumbai.

Mr. Chawla, you may ask your question now.

Sanjay Chawla – JP Morgan - Mumbai

On numbers, I had two questions. One is uptake in the proportion of prepaid.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Would you please speak a little louder, Sanjay?

Sanjay Chawla – JP Morgan - Mumbai

Sure, this uptake in the proportion of prepaid subscribers in the net adds. 90% of your net additions have been prepaid at this quarter. Do you think this is going to be a sustainable trend going forward and secondly the reason for this upward revision to your MOUs that you have reported in previous quarters?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Manoj.

Manoj Kohli - Bharti Tele-Ventures Limited - President Mobility

Hi Sanjay, this is Manoj. Now the overall upside on prepaid has happened because of two reasons. One, launch of new towns and as you know we have launched about 500 new towns, and in these small and medium towns, we do not launch postpaid. Postpaid product is launched primarily in much larger towns where the collection possibilities and other credit possibilities are available. The second reason is that the 200 RC has done well and lot of new customers have found it affordable and picked it up.

Sanjay Chawla – JP Morgan - Mumbai

With regard to this Manoj, if you could share the proportion of your prepaid subscribers who have come on to the Rs. 200 price point.

Manoj Kohli - Bharti Tele-Ventures Limited - President Mobility

We cannot share as a percentage but we are already seeing a lot of customers who have come in, they really go up and pick up the 300 RC, may be, by the time they are two month old or three months old.

Sanjay Chawla – JP Morgan - Mumbai

Would you say that the majority of your new prepaid have come on the Rs. 200 price point in the quarter?

Manoj Kohli - Bharti Tele-Ventures Limited - President Mobility

Yes, the expansion is coming from the 200 RC.

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Sanjay Chawla – JP Morgan - Mumbai

Sure.

Manoj Kohli - Bharti Tele-Ventures Limited - President Mobility

Thanks.

Sanjay Chawla – JP Morgan - Mumbai

And the reason for the MOU revision from previous quarters.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Revision of the minutes of use?

Sanjay Chawla – JP Morgan - Mumbai

That's right, the wireless.....

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

I think if you would notice the trend the minutes of use have been increasing and that is a pretty natural one. As the rate per minute comes down, it will go up.

Sanjay Chawla – JP Morgan - Mumbai

No, my question is that for the last quarter you have provided an MOU of 383 minutes, I think.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

It is 388 versus 383.

Sanjay Chawla – JP Morgan - Mumbai

That is right. So, for the first quarter Q1FY06, when you reported the numbers, the MOU was 367, if I am correct.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Yes. If you look at the note on page #10, there has been standardization on a single technology mediation platform and because of that these figures have been reworked.

Sanjay Chawla – JP Morgan - Mumbai

Okay, thanks.

Swati – Moderator

Thank you very much, sir. The next question comes from Mr. Vaibhav from Network Stock Brokings, Mumbai.

Mr. Vaibhav, you may ask your question now.

Vaibhav - Network Stock Brokings - Mumbai

Congratulations on good set of numbers. Just two questions, gross revenue per employee per month declined for broadband and telephone enterprise, is this because of recruitment towards the end of the quarter, and the second question is on the set top boxes side, what is the progress?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Badri.

Badri Agarwal - Bharti Tele-Ventures Limited - President Infotel

Very good afternoon, the only reason for reduction in the gross revenue is because of the reduction in ADC levied by the government and the reduction took place with effect from 1st February this year, that is the only reason.

Vaibhav - Network Stock Brokings - Mumbai

And the progress on the set top boxes side?

Badri Agarwal - Bharti Tele-Ventures Limited - President Infotel

Set top box for what?

Vaibhav - Network Stock Brokings - Mumbai

There was some news in the article saying that Bharti is getting into set top boxes.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

No, no, that is on the manufacturing side, perhaps.

Vaibhav - Network Stock Brokings - Mumbai

Yes, yes.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Nothing on the services side.

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Vaibhav - Network Stock Brokings - Mumbai

Yes, yes, so is it by the listed entity?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Sorry?

Vaibhav - Network Stock Brokings - Mumbai

Is that part of the listed entity?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

No, no. Not at all, not at all. It is a completely separate entity.

Vaibhav - Network Stock Brokings - Mumbai

Okay.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Nothing to do with the listed entity.

Vaibhav - Network Stock Brokings - Mumbai

Okay, thank you.

Swati – Moderator

Thank you very much, sir. The next question comes from Mr. Shobhit from First Global Bank, Mumbai.

Mr. Shobhit, you may ask your question now.

Shobhit Khare – First Global Bank - Mumbai

Good afternoon, my question is on the balance sheet side and if I see for the last two quarters, the trade payables number has increased from around Rs. 7 billion to Rs. 15 billion, just wanted some color on that.

How do you think the equipment supply payables will move because your addition to the gross block has been substantially more than the cash capex? I just wanted to know, what would be the trend going forward?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

No, in terms of our capex arrangement which we have discussed several times before, we have the benefit of, you know, paying as we start utilizing the capacities, so we do get some benefit in terms of the capex creditors; however, I will ask IR to, you know, coordinate with you and give you the details of this movement, but you are right in terms of the cash payout versus the total deployment of capex, we are seeing a major benefit on account of our arrangements.

Shobhit Khare – First Global Bank - Mumbai

Why would the trade payables increase for the last two quarters? Is it also due to the same arrangement or is there something else?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

The major part of that would be towards that but I can ask Sonal to give you the details in this regard.

Shobhit Khare – First Global Bank - Mumbai

Sure, thank you.

Swati – Moderator

Thank you very much, sir. The next question comes from Mr. Ronie Ganguli from Citi Group, Mumbai.

Mr. Ganguly, you may ask your question now.

Ronie Ganguly – Citi Group – Mumbai

Hi, this is Ronie here. Just a quick question, once again on the MOU side, I just wanted to understand what is this standardization of single technology platform, how does this affect the previous numbers of the MOU that you had, and basically how to reconcile between 367 and 383 number that you talk about?

And I just wanted a little more color on the 200 RC, which you are talking about, I mean, I understand that the new subscribers are coming in, and bulk of them would be coming in this coupon, but what about the existing subscriber, what has been the initial trend of migration of existing prepaid subscribers to the 200 RC?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Well, very clearly we have not seen any significant or worth mentioning downward migration on to Rs. 200 RC. That is correct that the new ones are mainly coming on this, a large number, I would not say mainly but a large percentage is coming on this, but we have generally, as Manoj was mentioning, in two or three months we have seen some of them migrating upwards, but there is very insignificant

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migration downwards. I will ask Manoj to explain you the change in the platform for the MOU calculation.

Manoj Kohli - Bharti Tele-Ventures Limited - President Mobility

You know the MOUs have been brought to a standard mediation platform. Earlier there were few circles on a different platform and some other circles on a different platform, so we thought we will standardize it across 23 circles and I think that has led to restating and we have restated MOUs for the last five quarters so that you can make comparisons, which are uniform and consistent.

Ronie Ganguly – Citi Group – Mumbai

Okay, I will take the details from the quarterly report.

Manoj Kohli - Bharti Tele-Ventures Limited - President Mobility

Sonal will share details with you.

Ronie Ganguly – Citi Group – Mumbai

Also just one more question on the weighted average diluted number of shares, I mean what is happening on this and why is the number fluctuating?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Yes, it would fluctuate on account of you remember we had US\$ 115 million of foreign currency convertible bonds.

Ronie Ganguly – Citi Group – Mumbai

Right.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Part of them are getting converted now, so we keep getting the notices on a day-to-day basis and whenever some of them bunch together, we issue the shares against that, that is why it is changing.

Ronie Ganguly – Citi Group – Mumbai

My question here was that it actually went down this quarter, just trying to understand why it went down?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

I will have to look into that and ask IR to send you the details, but it could not have gone down. I will have a look into this. You are talking of the paid up capital, right?

Ronie Ganguly – Citi Group – Mumbai

I am talking of the weighted average number of diluted shares, which is there in the consolidated statement of operations.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Well, it should not. Where are you getting it from, the quarterly report?

Ronie Ganguly – Citi Group – Mumbai

From the Excel report, which was there on your website.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Well, we will have a look because it looks quite extraordinary, well it has gone up from the last quarter, you mean?

Ronie Ganguly – Citi Group – Mumbai

Yes, I mean from the last quarter 1889 coming down to 1870, I just wanted to understand what that is.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Yes, I think we will have to, 1889 is as on September 2005. I think there is some mistake in this, we must reconcile and send it.

Ronie Ganguly – Citi Group – Mumbai

Okay, thanks.

Swati – Moderator

Thank you very much, sir. The next question comes from Mr. Srinivas Rao from Enam Securities, Mumbai.

Mr. Rao, you may ask your question now.

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Srinivas Rao – Enam Securities– Mumbai

Hello sir, Srinivas here. I just wanted to check with you again on the balance sheet thing. From the cash flow side, it seems your decrease in working capital is lower in the quarter compared to a general trend for the last three to four quarters. As you have mentioned it is about something like 1979 million. Considering that your, you know, the easy recharge coverage is going up. I just wanted to check, is there any impact of that and why would this number come down?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Sorry, easy recharge, what effect would it have on the working capital?

Srinivas Rao – Enam Securities– Mumbai

Yes, does it have any impact on your working capital, number of easy recharge?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

No.

Srinivas Rao – Enam Securities– Mumbai

It does not, so, I mean any reason why the working capital number, I mean is it like what you call a decrease in working capital has been lower than the normal trend you have.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Well, I have not actually noticed it. All that I can say is that there is nothing significant that I can point out, just in the normal course.

Srinivas Rao – Enam Securities– Mumbai

Fair enough, sir.

Swati – Moderator

Thank you very much, sir. The next question comes from Mr. Vikash Mantri from SBI Capital Markets, Mumbai.

Mr. Mantri, you may ask your question now.

Vikash Mantri - SBI Capital Markets – Mumbai

Yes, three short questions.

One, what is your view on the rural infrastructure move that TRAI has taken and does it sound like a favorable business case that they are putting forward.

Second, your cost per employee on a quarter-to-quarter basis has risen by 10%, reasons for the same.

Third question, on your broadband and fixed line segment, can you give a break up of phones only on fixed line and both broadband and fixed line?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

I will ask Sunil to take up on the rural proposal by TRAI.

On the employee cost, you know we, traditionally in July, have the increments and I think that must be the reason why on a quarter-to-quarter basis there would have been a somewhat significant effect.

On broadband and telephones services, in all about 15%, which is what percentage, approximately 10-12%

Vikash Mantri - SBI Capital Markets – Mumbai

10-12% would be of broadband.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

About 200,000 broadband connections, out of just over a million fixed line connections. So roughly close to about 20%.

Vikash Mantri - SBI Capital Markets – Mumbai

Okay, and if I see your incremental APRUs from the fixed line segment they are down to nearly Rs. 800, now, are we deviating from our strategy to get only high ARPU customers in the fixed line.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

No, I think as Badri had explained just now, some of this ARPU is down because of the ADC reduction which really does not affect, in fact it is good for us. Mainly it is on account of that, that does not mean that you can take ARPUs of the earlier customers fixed at that level, for everybody it has come down.

Vikash Mantri - SBI Capital Markets – Mumbai

Okay and on the rural infrastructure side.

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Sunil Bharti Mittal - Bharti Tele-Ventures Limited - Chairman and Group Managing Director

We are delighted with the TRAI's recommendation in the area of rural telephony. I think what is very significant is that the government is recognizing or the regulators are recognizing that the better and perhaps the more judicious strength of getting into a rural area is through mobile telephony. So far, the mobile industry has not been the recipient of support in going into the rural areas and we are delighted that the government is now looking at ways and means to support the mobile entry into far flung areas. Companies like Bharti, BSNL, and others who are committed to rolling out networks deep and wide clearly would be much more encouraged on the basis of acceptance of this particular recommendation. We await the government's final position on this matter, but I would say that this recommendation is a step in the right direction to allow mobile companies to rollout faster in the rural areas because in certain areas there are subsidies required to go especially because infrastructure cost is significantly higher and if the companies have to serve those areas, the government needs to come out and support rather than probably wasting support on to the fixed line telephony, which may not be necessary in these areas.

Vikas Mantri - SBI Capital Markets – Mumbai

Okay, thank you.

Swati – Moderator

Thank you very much, sir. The next question comes from Mr. Falgun Shah from Cholamandalam, Mumbai.

Mr. Shah, you may ask your question now.

Falgun Shah – Cholamandalam – Mumbai

My question was regarding the **SEA-ME-WE-4**. What kind of bandwidth are we expecting to get once the **SEA-ME-WE-4**, commences and can you give us some idea of the data business post that. I had one more question that was regarding the section 80 IA benefits, I just wanted to know whether incremental investments in infrastructure post March 2005 are eligible for those benefits or not?

Thank you.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

I think I will take up on 80 IA. I think in 80 IA it is not to do with the incremental investments. It has got to do with that if you have started the project before March 31, 2005, these projects get entitled to 80 IA benefit.

Falgun Shah – Cholamandalam – Mumbai

Okay.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

So it would be, you know, not relevant as to whether investments are going after that or not. The key thing is whether you have started the projects before that.

Falgun Shah – Cholamandalam – Mumbai

Okay.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

And our projects were started before that.

Falgun Shah – Cholamandalam – Mumbai

Okay.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Badri, could you take up on **SEA-ME-WE-4**,

Badri Aggarwal - Bharti Tele-Ventures Limited - President Infotel

As far as the capacity on **SEA-ME-WE-4**, is concerned, to start with, the capacity will be about 65 to 70 STM1.

Phalgun Shah – Cholamandalam – Mumbai

Okay, and can you give us some idea about the data business. How will that shape up post that?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Well, today we do not have connectivity towards west and this will be a great booster to our data business, because then all the western circuits can also be taken by us, today, which were are not in a position to take.

Falgun Shah – Cholamandalam – Mumbai

Okay.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

It will be a great boost to our data business.

Falgun Shah – Cholamandalam – Mumbai

Thank you.

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Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Thank you.

Swati – Moderator

Thank you very much, Sir. At this moment, I would like to hand over the floor back to Mr. Sunil Bharti Mittal for the final remarks.

Sunil Bharti Mittal - Bharti Tele-Ventures Limited - Chairman and Group Managing Director

Thank you very much. Let me thank all the participants who have joined us on this earning call. I hope we have been able to clarify or answer most of your questions. IR department will be fully available to give any further clarifications. I would like to say that the industry is truly entering into a very exciting time and Bharti is very well positioned to partake major part of this excitement and growth. Thank you very much.

Swati - Moderator

Ladies and gentlemen. This concludes the earnings call. You may now disconnect your lines.

Thank you for connecting to Audio Conference Service from Airtel and have a nice evening.

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