

Earnings Conference Call Transcript

Event: Bharti Airtel Limited Third Quarter And Nine Months Ended December 31, 2007 Earnings Conference Call

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Transcript for Bharti Airtel Limited Third Quarter And Nine Months Ended December 31, 2007

CORPORATE PARTICIPANTS**Sonal Kapasi**

Bharti Airtel Limited – Head Investor Relations

Sunil Bharti Mittal

Chairman and Managing Director - Bharti Airtel

Rajan Bharti Mittal

Director – Bharti Airtel

Akhil Gupta

Joint Managing Director - Bharti Airtel

Deven Khanna

Director Finance

Manoj Kohli

President & CEO – Bharti Airtel

Sanjay Kapoor

President - Mobile Services - Bharti Airtel

Atul Bindal

President - Telemedia Services – Bharti Airtel

David Nishball

President - Enterprise Services

Saravjit Dhillon

CFO and Director of Strategy

CONFERENCE CALL PARTICIPANTS**Sundeep Bihani**

Lehman Brothers - Hong Kong

Henry Cobbe

Thames River Capital - London

Andrew Haskins

Nomura - HongKong

Suresh Mahadevan

ABN AMRO – Hong Kong

Tien Doe

GIC Singapore

Bivaj

Cable and Wireless UK

Rahul Singh

Citigroup - Mumbai

Shubham Majumdar

Macquarie Research - Mumbai

Anirudh Gangadhar

Goldman Sachs – Mumbai

PRESENTATION**Priyanka – Moderator**

Good afternoon ladies and gentlemen, I am Priyanka, the Moderator for this conference. Welcome to Bharti Airtel Limited Third Quarter and Nine months ended December 31, 2007 Earnings Call. For the duration of the presentation all participant lines will be in 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 Ms. Sonal Kapasi, Head, Investor Relations to initiate the proceedings. Thankyou, and over to you, Ms. Kapasi.

Sonal Kapasi – Bharti Airtel Limited – Head Investor Relations

Thank you Priyanka. A warm welcome to all the participants who have dialed into the Earnings Call of Bharti Airtel for the Third quarter and nine months ended December 31st, 2007. I hope all of you must be in receipt of the results. The same is also available on the company's web site. Present with us on the call today is the senior leadership team of Bharti Airtel. Mr. Sunil Bharti Mittal, Chairman and Managing Director; Mr. Rajan Bharti Mittal, Director; Mr. Akhil Gupta, Joint Managing Director; Mr. Deven Khanna, Director Finance; Mr. Manoj Kohli, President and CEO; Mr. Sanjay Kapoor, President, Mobile Services; Mr. Atul Bindal, President, Telemedia Services; Mr. David Nishball, President, Enterprise Services and Mr. Saravjit Dhillon, CFO and Director of Strategy. We propose to commence this call with opening remarks from Mr. Sunil Bharti Mittal and Mr. Akhil Gupta after which the floor will be open for Q & A. Before I hand over the call to Mr. Mittal, I must remind you that the overview and discussions today may include certain forward looking statements that must be viewed in conjunction with the risk that we face. I now hand over the call to Mr. Mittal, thank you.

Sunil Bharti Mittal - Bharti Airtel Limited - Chairman and Managing Director

Thank you Sonal and let me add my own warm welcome to all the participants on this earning call. I will be brief and will want Akhil Gupta to go through detailed financial analysis and commentary. I must also introduce Deven Khanna, who has joined us on this call. He is the new Director Finance at Bharti Enterprises Corporate Office looking after the telecom vertical. Deven has moved from the operations from Airtel, so he is pretty familiar with all that is happening within the company and the sector. Well, the quarter gone by has been a fantastic quarter for the company. India's telecom sector, the size of the industry is now the third largest in the world based on the number of subscribers just after China and USA. Teledensity at 23% still makes India one of the lowly penetrated markets in the world clearly indicating that the best is still to come.

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The number that has been discussed many times in the past of 500 million customers by 2010 clearly seems in sight. Given the run-rate of over 8 million mobile subscribers a month, none of us has any doubt of achieving this number as an industry by 2010. The wireless subscriber base has now touched 235 million at the close of the quarter and the quarter witnessing addition of 25 million mobile subscribers during this period. Let me touch briefly on the regulation. All of you must have seen heightened news flow and activity in the area of spectrum and issue of new licenses. The matter is sub-judice, so it may not be appropriate for me to talk directly about this particular issue, but clearly the company is disappointed with the way some of the regulatory issues have panned out. We have made appropriate representations to the government as also into various courts and we await the final outcome. In the meanwhile we are delighted that there have been some interim measures to provide much needed relief on temporary basis for our spectrum needs and we have been granted spectrum in some of the areas and we remain hopeful of getting spectrum in some of the other areas. Clearly the TRAI norms, which have been set out to get more spectrum are tight, we believe they are harsh, but now given the current position on the spectrum of TRAI norms the company is clearly bracing itself to manage more capacity within the given spectrum that is available to us. We will of course continue with our representation and agitation to the government to secure the justified spectrum for the massive growth that we are likely to have in the coming quarter as well.

We are hopeful that the ADC will be phased out completely by the end of the current fiscal and we are committed to passing on the benefit of the ADC to the customers as well. During the quarter and as you are aware the company also announced the joint venture in the Indus Towers with Vodafone and Idea, we believe that this is the path breaking move forward in the telecom industry, once again I would say breakthrough development where three operators have decided to pool in their resources in the sixteen common circles and bringing on the table great efficiencies and sharing, which has never been seen in the industry anywhere in the world. We believe this will be a trendsetter and more similar arrangements will be seen in India and around the world. Bharti Infratel, which is the company which will now own 42% in Indus Towers will also be running its own towers in the exclusive seven circles where we are also ramping up our rollout by putting in more towers.

Bharti Infratel has also attracted fantastic lineup of investors, who have committed a billion dollars to take a stake in Bharti Infratel in a value range of about \$10 - \$12.5 billion. The entities which have committed to invest are Temasek, The Investment Corporation of Dubai, Goldman Sachs, Macquarie, AIF Capital, India Equity Partners and Citigroup, clearly giving a very solid testimony to the fact that Bharti Infratel is attractive to all these Blue-chip investors from around the globe. A few updates on Bharti Airtel - customer base is inching towards the 60 million mark, a year back we had only 34 million customers. Our company had over 6 million wireless customers in this quarter and over 100,000 broadband and telephony customers. Not only having maintained leads but we have endeavored constantly to

improve our market share in the wireless nodes taking our market share to a higher level. We are clearly emerging as one of the strongest telecom players not just in the country but in the world, based on our growth and financial performance. The revenues in the quarter gone by were at Rs. 69.6 billion, EBITDA of Rs. 29.6 billion and a net profit of Rs. 17.22 billion.

Akhil, as I mentioned, will give you a detailed financial and operational performance of the company. I would like to take this opportunity to highlight few of the recent awards. We were ranked as the Second in the Survey of India's Most Respected Company by Businessworld, adjudged as the Company of the Year at the CNBC India Business Leaders Award and won the India's Most Admired Knowledge Enterprises Award in 2007. In closing, let me mention that the company is extremely prepared to face more competition in the market given that we today have a significant lead over our next competitor in the lineup. I believe that the new players who will come into the market in the coming months need to fight and struggle for some rankings with fifth, sixth and seventh operators in the market place. Nobody has the size and scale that Bharti enjoys today with nearly 90 billion minutes on its networks in the last quarter. Bharti enjoys scales that very few other companies in the world enjoy. Bharti is not only in the right technology of GSM space, but has the largest market access in terms of network coverage, distribution and reach, which will continue to grow and support Bharti's leadership position. Bharti is also one of the very few companies, which has end-to-end product availability. It is the only other alternate fixed line provider and therefore becomes the choice of broadband and telephony. It has over 60,000 km of fibre. Its own satellite nodes supporting V-SAT services, several submarine cables and more importantly catering to the business of Enterprise Services supporting thousands of corporate customers in the market place. There is clearly nobody better positioned than Bharti, which can serve the telecommunication needs on a comprehensive basis in the market place as Bharti Airtel. I am confident that in the coming quarters ahead Bharti will demonstrate that it will not only maintain its leadership but surge ahead in all its respective businesses. Thank you.

Akhil Gupta - Joint Managing Director - Bharti Airtel

Thank you Sunil. My welcome and thanks to all the participants. I hope you have had a chance to go through the quarterly report, which was circulated earlier today. Well, as we mentioned the past quarter has been another quarter of extremely strong growth. The wireless market witnessed tremendous growth and the country added 24.5 million new wireless customers in this quarter. The total wireless subscriber base of India at the end of December 2007 was over 233 million. Let me first update you on some few significant developments that we have shared with you earlier and Sunil talked about. This is relating to the hiving off of the tower side into separate companies. The Honorable High Court of Delhi has sanctioned a scheme of demerger of passive telecom infrastructure for mobile services of the company into a company called Bharti Infratel Limited, which has been so far its

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wholly owned subsidiary. This was by way of an order dated 26th November 2007. This scheme will become effective when the certified copy of the same is filed with the Registrar Of Companies as per rules. Accordingly, this scheme has not been taken cognizance of in these financial statements and no accounting adjustments have been made in the books of accounts for the three-month and nine-month period ended on 31st December 2007. This on account of the fact the certified copy was received subsequent to 31st December 2007. These adjustments would take place in the coming quarter. As Sunil mentioned, eight leading international investors have agreed to invest one billion USD in Bharti Infratel Limited. The enterprise valuation, which we declared earlier has been agreed to be in the range of 10-12.5 billion USD and the final valuation will be determined on the basis of actual operating performance of Bharti Infratel Limited and Indus Towers in the financial year 2008-2009.

As you are aware, Infratel has entered into a joint venture agreement with Vodafone Essar to form Indus Towers, which would be an independent tower company to provide passive infrastructure services in 16 circles of India on a non-discriminatory basis to all the operators including but not limited to the three promoters. Bharti Infratel and Vodafone would own 42% approximately in this venture and the balance 16% would be held by Idea. For this purpose, we have incorporated Bharti Infratel Ventures Limited as a wholly owned subsidiary of Bharti Infratel Limited where the relevant assets are to be transferred for ultimate merger into Indus Towers. I think before I give you a brief on the company's performance for this quarter with respect to the quarterly report, in a continuing endeavor to enhance transparency and able our investors to understand and track some relevant key performance indicators, we have added in this quarterly report the number of mobile services network sites or of the base stations, which includes indoor as well as outdoor base stations or site locations in the operational highlight section.

Moving on to the highlights of the results, first and foremost, we have accelerated our leadership position during this quarter despite highly competitive market conditions, our total customer base increased to 57.34 million customers with mobile increasing to 55.16 million and Telemedia, that is the new name for the wireline or the broadband and telephony service to 2.18 million. During this quarter, we enhanced the coverage of our mobile services to additional 26 census towns and 30,623 non-census towns and villages and now we cover about 68% of the total population of India under our networks. We added close to 7500 new base stations during this quarter. In line with our expanding network reach our mobile distribution network now comprises of over 768,000 outlets. We are also very pleased to report a very strong performance from other business segments. In Telemedia we added just over a 100,000 new customers in the past quarter; in Carriers the minutes increased 17% over the preceding quarter with gross of inter-segment total of 9.5 billion minutes. We have also added 4,626 route kilometers of optic fibre across the country during this quarter. Let me now turn to the financial performance for this quarter, very clearly it was an extremely satisfactory quarter both from the operational front and on the financial front.

The consolidated revenue for the quarter was 69.6 billion rupees, this represents an increase of 42% over the corresponding period last year. EBITDA for the quarter was close to 30 billion rupees, 29.6 billion to be precise, this represented an increase of 48% over quarter-on-quarter for last year. The margin for the quarter was at 42.6% versus 40.8% in the corresponding period. The cash profit from operations after the derivatives and exchange fluctuation for the quarter was Rs.28.8 billion, which represented 35% increase and net profit stood at Rs. 17.2 billion, an increase of 42%. Our total Capex during quarter was approximately USD 845 million and we are pretty much in track with our earlier guidance about Capex of USD 3.3-3.5 billion for the full year. The mobile segment contributed 81% to the overall revenue 77% to EBITDA and 83% towards the capital expenditure for the quarter. On the balance sheet front, the company had a net debt of Rs. 44.9 billion, approximately 1.1 billion USD as on 31st December.

During this quarter the net debt to EBITDA was at 0.43 times as compared to 0.63 a year back. Net debt to equity ratio was 0.24 as compared to 0.34 and the interest coverage increased to 34.7 times vis-à-vis 24.8 times a year back. Indeed a very comfortable leveraging position for the company. Going forward with effect from February 1, 2008 the passive infrastructure charges will be paid to Indus Towers and Infratel. Accordingly Airtel would consciously be converting a part of Capex into Opex. The benefits of formation of the independent passive infrastructure companies like Sunil mentioned will be quite significant. We believe this move will bring much better efficiencies and would result in cost reduction on a meaningful basis very significant going forward for all operators. Inevitably while the EBITDA margin mathematically may decline we do expect better profitability on a profit before tax basis going forward on this account. For ease of understanding of the effect of this we would be giving like-to-like comparison for EBITDA for the next few quarters resulting out of this action. To summarize, let me say that this has been an extremely satisfying quarter, very solid growth on the traffic. We are excited about the growth momentum in the Indian telecom industry and all of us at Airtel keenly look forward to not just sustaining but improving our leadership position. Thank you very much. I now hand over the floor back to the moderator for question and answers.

Priyanka – Moderator

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

Aishah – Airtel International Center

Thank you Priyanka. At this time international participants may press "0" "1" if they would like to ask a question. On pressing "0" "1", participants will get a chance to present their questions on a first-in-line basis.

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Please hold on for the first question. The first question comes from Mr. Sundeep Bihani from Lehman Brothers.

Sundeep Bihani - Lehman Brothers - Hong Kong

Good afternoon gentlemen and thank you for the call and for another good quarter. I have three questions. First of all on the fixed line margin strength as well as sustainability going forward, what should we think of. Secondly in terms of the long distance margins, they have been showing a consistent decline now for five quarters. What would be a good number to think of especially after all the ADCs cut etc. And the third is on Capex for FY'09, any quantitative or qualitative colour there specially after excluding the Capex, which Indus Tower and Bharti Infratel would be doing as well as any details on the book value, which will be transferred out of Bharti's consolidated numbers into Indus?

Akhil Gupta - Joint Managing Director - Bharti Airtel

Thank you, Sundeep. I am extremely pleased that this call has started with the first question on fixed line and not traditionally on mobiles, so this is a good trend that finally the great work being done by our Telemedia team is being noticed. Before I ask Atul Bindal to talk about the fixed line margins and David Nishball to talk about the long distance margins let me take up your third question about the Capex for FY'08-09. I think we are in the process of finalizing our Capex plans, but I could confirm that we are looking at somewhere in the region of about \$2.5 billion. If you remember for last year we had given a guidance of about \$3.5 billion or \$3.3 to \$3.5 billion that included over a billion dollars on account of passive infrastructure. So for Bharti Airtel as a standalone operating company we expect that the Capex should be in the vicinity of about \$2.5 billion going forward, which is a significant saving in Capex due to formation of this company. Atul, would you comment on the fixed lines?

Atul Bindal - President - Airtel Telemedia Services - Bharti Airtel

Thanks Akhil. Good afternoon, Sundeep, this is Atul Bindal. Just to respond to your question on expansion of margins that is the strategy which has now been driving results for us for the last few quarters. It is primarily a result of aligning the segment mix and the customer mix so that we can actually focus on the classes and not the masses, and therefore the revenue flow through, which is happening directly down to the profits, as well as huge drive, which was there on Opex productivity and Opex efficiency. As we have mentioned in the last few calls we believe that somewhere in the 40s is actually something which we believe is actually sustainable and we believe we are now actually at that point of inflection and a building block, which we can start multiplying and getting both broadband customers penetration into homes as well as small and medium sized businesses at this level of performance.

Sundeep Bihani - Lehman Brothers - Hong Kong

Thank you Atul.

Aishah - Moderator

Next in line we have Mr. Henry Cobbe. Over to you.

Henry Cobbe - Thames River Capital - London

Good evening. Thanks very much indeed for the call. Congratulations for the results. I was just wondering I know there are constraints, but if you could talk a little bit about the spectrum issue and you have provided a very useful summary of the events that have led up to where we are today and it is really a simple question of how concerned are you either way depending on the outcome. Are there constraints on your growth? Whether by how much spectrum you get or not, and secondly is there more of an issue about the scale of new entrants that can come into the market?

Sunil Bharti Mittal - Bharti Airtel Limited - Chairman and Managing Director

Well, this is Sunil here. Let me take this question. Clearly there was a policy in place, which we term as March 2006 policy under which we were entitled for more spectrum. But the sudden shift of these norms by TRAI and then others and finally TRAI means clearly that we have to pack in many more customers within the same spectrum. Now this poses a serious challenge especially in key metros where we have been wanting more spectrum and given the state of affairs now it appears that the TRAI norms is the maximum that we can hope for at the moment unless there would be some reversal from the court process, which is ongoing at the moment. Now very clearly Indian spectrum offering by the government to operators is lowest anywhere in the world and that is a factual position, very large amounts of spectrums are given to operators who operate outside India and I say this both for the existing operators who need spectrum to grow and more importantly also even for the new operators who are coming into the market starting at 4.4 clearly is not a very optimal solution. So I think we are in a situation where both the new operators whenever they are granted spectrum will have difficulties in rolling out network especially in the 1800 band and also we will be constrained for our easy growth and easy rollout in the key metros and all the busy business districts in the country.

Having said that thankfully we have growth coming in from many sub-urban and rural markets, they are unlikely to be impacted with any spectrum crunch and for places like Delhi and Mumbai, while we will agitate and represent on one hand, we will have to start working towards more in building solutions and trying to use some other technology solution to take care of our needs. We also are very hopeful that even within the strict TRAI norms which have been now introduced, given the growth pattern that we have at Bharti we should be able to get some more spectrum in some of

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these key territories in the coming months. So this is a challenge, which we have to manage. I am hopeful that we will overcome this by on the one hand demonstrating better efficiencies but more importantly growing to achieve and demand more spectrums under the TRAI norms. As far as the new entrants are coming as I mentioned before this is the market, which is the most sought after market in the market place with highest competitive intensity that one can see anywhere in the world and the lowest tariffs that one can see anywhere in the world. My personal view is that we will see few operators launching themselves, but I cannot imagine that that will alter or change the texture of the market any worse or better from where it is today. Bharti has been picking up as you can see more customers with every passing month and quarter, I think when people will choose GSM they will like to go for its leader who has been leader from day one till now and people who understand this technology, people who have rolled out networks in this technology will certainly get a leg up.

Henry Cobbe - Thames River Capital - London

May I just follow on from there and it is clear it seems perhaps the most defensive measure for you is the rural market where obviously your coverage is much deeper and wider than any real competitors and any of the new entrants who will not be able to achieve that kind of scale unless renting towers of Indus Tower, so you hedge both ways. But the next three years say, would you say that most of your incremental growth will be coming from rural new subscribers or would it be coming from additional market change again in the metro areas. What is the strategy?

Sunil Bharti Mittal - Bharti Airtel Limited Chairman and Group Managing Director

Well, in the end it remains a combination of both. I see no reason why the mature urban markets will stop growing, I mean, we are seeing tremendous growth coming out of Delhi, Mumbai, Chennai, Kolkata, Hyderabad, Pune and also these big cities continue to also demand more customers coming on the network. These cities will see European type of penetrations. They will see 80%, 90%, 100% penetration in the coming years. Equally the small cities, B-circles, C-circles are surprising us almost every month by more and more customers coming onto the network and eventually of course you will see more customers coming from these areas because ultimately the population is fixed outside the metros to a large extent and if you look at state like Bihar, West Bengal, Madhya Pradesh, these are very, very large population states and they will therefore certainly have much more customers coming through than the metros.

Henry Cobbe - Thames River Capital - London

Okay. Am I right in thinking that the spectrum constraint issue is not so critical in rural areas?

Sunil Bharti Mittal - Bharti Airtel Limited Chairman and Managing Director

Absolutely, I mean in rural areas spectrum is not an issue, in fact our appeal to the government has been you cannot equate the whole country as a one unit, there are key metros, there are central business districts, there are busy cities, busy roads, and the spectrum needs for those are very, very different from rural. Unfortunately, you really cannot de-license these, the spectrum is given for the whole state, so if Karnataka has "X" amount of spectrum you find difficulty in Bangalore, but nothing outside.

Henry Cobbe - Thames River Capital - London

Thank you very much indeed.

Aishah - Moderator

Next in line we have Mr. Andrew Haskins.

Andrew Haskins - Nomura - HongKong

This will be a difficult question to answer but if it is possible can you comment on why you think you are not able to persuade the authorities that your view on spectrum allocation was the right one?

Akhil Gupta - Joint Managing Director

Yes, it is indeed difficult because obviously lot of arguments, which we believe were absolutely right did not find complete favor, but I think we would have to leave it at that because the matter as you know has been discussed, written, commented upon very deeply. It is a subjudice matter so I think it will be wrong ethically on our part to start going into the merits of our case vis-à-vis the others' stand. I think we would like to really leave it at that.

Andrew Haskins - Nomura - HongKong

That is fine, Can I just ask maybe one follow up question, this is just a confirmation, you are still challenging the decisions through the court, correct?

Akhil Gupta - Joint Managing Director

That is right.

Andrew Haskins - Nomura - HongKong

If it is the case that the decisions have simply been taken and you have to accept that, what is the motive for making a legal challenge?

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Akhil Gupta - Joint Managing Director

Well, I mean, if you already accept that things will go against you, you should never go to the court, that is right but we do not expect that it will necessarily go against us. I think, let the legal process take its own course.

Andrew Haskins - Nomura - HongKong

That is great. Thank you very much.

Aishah - Moderator

We have a follow up question from Mr. Sundeep Bihani.

Sundeep Bihani - Lehman brothers - Hong Kong

Thank you. Sorry Akhil, but I had two questions, which went unanswered. One was on the long-term margins for the long distance business, which has been now falling for five quarters and second was the book value of assets, which will get transferred to Indus?

Akhil Gupta - Joint Managing Director – Bharti Airtel

Yes, unfortunately the lady did not like your voice so she shifted your call to somebody else. We were all set to answer your questions, I am glad that you are back Sundeep. First of all, on the book value, we have the exact figure, WDV should be about 7,000 odd crore but I think Sonal will send you the exact numbers, we are just working it out, I think it is around that, but we will come back with a complete detail on that. On the long distance here is David.

David Nishball - President - Enterprise Services

This is David Nishball. Just to answer your question, I think you pointed out wisely that there have been some structural change in the industry with the change in ADC and so forth, but fundamentally I think the major driver here has been rate revisions due to increased competition in the ILD and the NLD market. We have continued to inject our rate revisions in line with our strategy of driving volume scale and unit cost in our carrier business. At the same time certain termination costs and access charge with India are fixed and have not changed now for many years, so as a result you see some compression in the top line versus the bottom line numbers. The other item which had some impact, I think at this point a relatively small impact is that our traffic profile is changing a bit as we start to take on more international hubbing business. So as we start not only providing traffic to and from India but traffic between other countries hubbed through India that will have a very different profile of top line to bottom line as most of those costs are paid out in third party charges at the same time they will have a net positive impact to EBIT. Finally there have been some investments that

we have been making in further fibre rollouts. You can see the accelerated deployment of fibres in the country at 60,000 km to 70,000 route km now as well as expanded interconnection into the fixed line network, these are some fixed costs that will then recover as we pump more volume through those fibres and through those new interconnections. Over time though I think the margins that we are seeing in the business now are pretty good for a wholesale business and sustainable.

Sundeep Bihani - Lehman brothers - Hong Kong

Thank you gentlemen. Thank you very much.

Aishah - Moderator

The next question comes from Mr. Bivaj .

Bivaj - Cable & Wireless - UK

Hi, thanks a lot for organizing this call and congrats on the great results. I have a question on the Enterprise Business of Bharti. Sir, can you by chance throw some light on financials or profitability of Bharti's Enterprise business especially revenue, EBITDA and cash flow coming from your Enterprise customers?

Akhil Gupta - Joint Managing Director – Bharti Airtel

Well we do report it separately as Enterprise Services - Corporates. This is on page 8 of 42 of the quarterly report under 3.2.4.2. The total revenue from this business for this quarter was Rs. 3.29 billion, a growth of 36% over the last year, EBITDA of Rs. 1.4 billion, a growth of 26%, but EBIT growth of 42% from Rs. 855 million to Rs.1.2 billion for this quarter. The EBITDA to total revenues is at a healthy 42%.4

Bivaj - Cable & Wireless – UK

All right. Thanks a lot.

Aishah- Moderator

The next question comes from Mr. Suresh.

Suresh Mahadevan - ABN AMRO – Hong Kong

Good afternoon. Thanks a lot for the call and congrats on yet another very good quarter. Just wanted to followup on the spectrum. Sorry to raise this issue. I understand there is a legal process going on. Is there any way you could outline what are the key milestones or dates for the legal process going forward. That is related to that. Related to that you said you have obtained spectrum. I was just wondering could you share with us which circles or any details you can share on that, which circle, how much spectrum you have obtained. Finally, one another question, which is in

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investor's mind is assuming the current WPC order, norms are applied as per that, can you also quantify the Capex impact, the delta of Capex essentially on the spectrum? So that is spectrum related. The second question can you provide an update on the DTH and IPTV initiatives?

Akhil Gupta - Joint Managing Director – Bharti Airtel

Obviously we cannot really comment anything on the dates and the milestones for the legal process. Being heard virtually on a continuous basis so it is impossible for us to comment on what the timeframes could be. We have become entitled to additional spectrum as per TRAI norms in 10 circles and we hope that in the coming few months we should be becoming entitled in some other circles as well. On the Capex front, well I think as Sunil mentioned the main impact is going to be on the metros, on some of the business districts, so I think at this point of time it is not completely possible in the absence of knowing how much spectrum is going to finally come to estimate a big figure on the Capex, but what I could say is that in terms of our overall Capex spend it is not going to be too material. Atul, on DTH and IPTV.

Atul Bindal - President - Airtel Telemedia Services – Bharti Airtel

This is Atul Bindal, on DTH and IPTV our plans are progressing well. At this point in time we are targeting to launch both products in the first quarter of the next fiscal year, but most definitely within the first half. For the DTH it would be essentially a nationwide launch starting with targeting of few cities in the beginning. On the IPTV, we have nearly 1000 customers who are currently enjoying the service in parts of NCR and that is the market, which we would be commercially launching some time in the first quarter of the next fiscal year.

Suresh Mahadevan - ABN AMRO – Hong Kong

One quick follow up on the spectrum, you said you have got spectrum in 10 different service areas, is that correct?

Manoj Kohli - President & CEO – Bharti Airtel

This is Manoj. What Akhil said was we have eligibility in 10 circles as per the entrant TRAI eligibility criteria.

Suresh Mahadevan - ABN AMRO – Hong Kong

So you have not obtained any spectrum?

Manoj Kohli - President & CEO – Bharti Airtel

I think very soon we should be able to get the allocation.

Suresh Mahadevan - ABN AMRO – Hong Kong

One more clarification on the spectrum, sorry to harp on this issue, but isn't there a difference between the latest WPC announcement and TRAI norm and even in terms of I think the WPC is much more stringent, am I correct in saying that?

Manoj Kohli - President & CEO – Bharti Airtel

By and large it is the TRAI eligibility norm except for the committee's recommendation of one MHz increment at a time, which is a modification of the TRAI recommendation, which has also been announced by DoT.

Suresh Mahadevan - ABN AMRO – Hong Kong

I mean to clarify you have not got any additional spectrum anywhere?

Manoj Kohli - President & CEO – Bharti Airtel

We have formal communication on five allocations in hand and that spectrum can be utilized by us immediately. The balance five eligibilities are in process of allocation.

Suresh Mahadevan - ABN AMRO – Hong Kong

So five circles you have got the addition, I mean, you are very close to getting additional spectrum?

Manoj Kohli - President & CEO – Bharti Airtel

Yes.

Suresh Mahadevan - ABN AMRO – Hong Kong

Thanks a lot for the clarification.

Aishah - Moderator

The next question comes from Mr. Tien Doe

Tien Doe – GIC - Singapore

Hi. Good afternoon everyone. Thank you very much for the call. Just two questions, the first question is on your SMS revenue and your non-voice revenue overall. That overall has never grown very fast versus your overall mobile revenues. Any thoughts on why that is the case, would it even be desirable to grow or would it just cannibalize your voice revenue in your opinion? Any thought that you have on that would be great. Second question is just on the mobile revenue growth rate. I think seven out of the last eight quarters you had a double-digit growth rate in those mobile revenues, but

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in the last quarter it actually has picked up. There was a trend with growth rate coming down but it picked up in the last quarter. Any thoughts on why the growth rate actually ticked up 8% in the previous quarter? It was 11% QoQ in the third quarter. Anything special you did in that quarter to bring up the growth rate? Thank you.

Sanjay Kapoor – President, Mobile Services - Bharti Airtel

Good evening. This is Sanjay Kapoor. Let me answer your first question first. You are absolutely right that if we look at our SMS revenues and the non-voice share of revenues obviously it has come down over the last couple of quarters and if you look at any part of the world where non-voice revenues are higher than 10%, you will generally see that about 80% to 85% gets contributed by SMS alone and one of the major differences between those countries and India is that although the volumes that we generate are almost similar 80%-85% actually even for us comes from SMS, but the problem is the rate that we charge in India is phenomenally lower than the rate charged over there that is one disadvantage. The other thing is that with voice prices coming down over time, the arbitrage available between SMS and voice has really declined and therefore I think the customers prefer to make a voice call rather than sending an SMS. Voice prices already at a low end therefore SMS is not seven times or eight times cheaper like it is in many other parts of the world including the Philippines for example. So that is the reason. We do not think that India is a country where revenues at least in 2G of non-voice will exceed the 10% mark in a hurry. I think as long as we can sustain these 9%-10% ballparks we should be fine.

On your second question to saying what did we do to revenues? You are absolutely right. When we declared our results last time, we had given three or four reasons and we have actually seen a result of our interventions coming through in this quarter. If you saw one of the interventions that we brought to the table was stimulating the market in terms of usage and bringing down the peak rates to about Re.1 a minute. So there were plans in the market where customers were paying us Rs.2 a minute and about 15 million customers on the Lifetime Value Plans were paying us that sort of a rate. The moment we brought it down to Re.1; it stimulated the number of customers that came on the network, we added 6.3 million customers last quarter, which is a 12.8% increase over the previous quarter and is a record addition to our customer base. That contributed. The next contribution really came from the prepaid usage, which saw a turnaround and actually the total minutes on prepaid increased 14.7% over Q2 minutes. Finally, there was an improvement in the percentage of outgoing calls, which is again contributing to the overall revenues and we have improved it by about 2.5% in the last one year.

Last but not the least, we had mentioned that generally if you look at our track record in the first two quarters we generally perform lower than the next two quarters and there is the seasonality effect that sets in. I think we have come out of that seasonality phenomena and all these have finally contributed to the growth that we have achieved during this quarter.

Tien Doe - GIC - Singapore

Did you actually disclose what is your percentage of incoming and outgoing calls?

Sanjay Kapoor - President, Mobile Services - Bharti Airtel

No we do not disclose that percentage.

Tien Doe - GIC - Singapore

Thank you anyway for those very detailed answers Sanjay.

Aishah – Moderator

Thank you sir. At this moment there are no further questions from participants outside India. I would like to hand over the proceedings back to Priyanka.

Priyanka – Moderator

Thank you very much Aishah. We will now begin the question and answer interactive session for the participants in India who are connected to Audio Conference service from Airtel. 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, please press “*” “1” now. First question comes from Mr. Rahul Singh from Citigroup, Mumbai. Mr. Singh you may ask your question now.

Rahul Singh – Citigroup - Mumbai

Yes. Good afternoon everyone. Congrats for good set of results. I have three questions. Firstly, on your 60,000 sites, which you have disclosed, if we can have some kind of a breakup of that in terms of how much is in-building sites out of that and how many of these sites are on towers of other operators? Secondly I just wanted to know that recently in January you cut the prepaid rates, outgoing rates to Re.1 a minute; just wanted to get a sense of how many of the total 55 million subscribers, does it really impact because I believe it does not include the lifetime subscribers?

The third question is on the Tower Company and Indus development, as I believe with Infratel you would be left with 20,000 towers in the seven circles. So is there a commitment from Vodafone and Idea to necessarily share towers with Infratel, as and when they get spectrum and roll out in those circles?

Also on a macro level with the Indus development, don't you think it will actually make life easier for some of the new entrants, which are waiting for spectrum the likes of Unitech, Videocon? I mean is it not necessarily like sharing your advantage, which Mr. Mittal mentioned with relative upstarts. Thanks.

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Akhil Gupta - Joint Managing Director - Bharti Airtel

Well unfortunately I will not be able to give you any breakups in terms of either our in-building or you know the outdoor base stations or the impact on how many subscribers of these new rates because these are very important competitive information, so I am sorry I will not be able to share that.

On the Tower Company, I think both Indus and Infratel have been formed with a very clear vision, which is that these will be independent tower companies. In Indus you have seen that none of the three partners have a majority stake, in fact truly not in control of any of the operators.

In Infratel, irrespective of the fact that Bharti would have a control in terms of the share holding it is exactly being done on the same lines of independence; nondiscriminatory offering to all operators. Accordingly we have no commitment or no obligations to give it only to a certain set of operators. You mentioned about Vodafone, Idea, there is no obligation on their part and there is no obligation that we have to only offer it to them.

Not only in Infratel, but in Indus, in fact, it is open to all. The terms at which Airtel, Vodafone or Idea would take are exactly the same as it would be available to others. You are right. Some of the new entrants could get this advantage and I think this is a conscious decision because if as operators we are going to get major advantages on costs and quick roll outs sure if in the process some other operators are able to get an early entrance into the market because of these tower companies I think they're most welcome.

Rahul Singh – Citigroup - Mumbai

Okay as a follow up on Indus Towers specifically. What percentage of towers, are there enough number of towers, which can go beyond three to four tenants because that is potentially where new entrants could benefit. I mean is there any colour you could give on what kind of capacity, maximum capacity which I'm sure will not be on all the towers, but what kind of maximum capacity even the best of towers have?

Akhil Gupta - Joint Managing Director - Bharti Airtel

Well unfortunately I cannot put on a different hat on this call, this is a Bharti Airtel call and as far as Airtel is concerned these towers actually now belong to some other company, so I think we will have to first and foremost ask the management of that company to be answering these questions in the future, but even otherwise I don't think we would like to give any of those details except say that there are very large number of towers, which can take 3 and 4 and maybe more in the future and that would be the endeavor that as we go deeper into the country there will be more towers, which are 40, 50, 60 metre towers, which can take a large number of operators and as I said it is a conscious decision that if new entrants can come and

park themselves on those towers I think it is a very, very welcome situation on a macro basis.

Rahul Singh – Citigroup - Mumbai

Okay thanks, Akhil.

Akhil Gupta - Joint Managing Director - Bharti Airtel

Thank you.

Priyanka – Moderator

Thank you, Mr. Singh. Next question comes from Mr. Shubham Majumdar from Macquarie Securities, Mumbai. Mr. Majumdar you may ask your question now.

Shubham Majumdar – Macquarie Research - Mumbai

Congratulations gentlemen for a splendid set of numbers in the quarter. I have two questions; with regard to the imminent competitive onslaught that you can potentially see from the entry of four players potentially in each circle in India, if you could just give us a colour with regard to what sort of challenges those new entrants actually might face and the virtues of being one of the oldest incumbents in the business that Bharti possesses.

And two, in terms of the network Opex, obviously the network Opex number has not been very strong as percentage of revenues on our growth basis for the last few quarters. When will we start seeing a moderation in that number? And secondly a related question, when will Bharti Infratel start reporting its independent set of financials, when do we get to know they're offering a financial metrics, which quarter onwards? And what could be the potential EBITDA or EBIT line look like once the costs go out of your books and get transformed into lease rentals? Thank you.

Akhil Gupta - Joint Managing Director - Bharti Airtel

Thanks Shubham. On the first one, I think, as far as the term onslaught is concerned the fact is this is a very competitive market already and its not that it is something new, which is going to happen in this market. We do not see these kinds of things as onslaughts or change of turf. This is something we are used to. We are a product of this competition. What would happen to them? How are they going to sustain this business? I do not think it is for me to answer. It's certainly for them to first of all convince their bankers and then convince the analysts. So, I would leave that one for them to explain but yes I would certainly find that will be little difficult to explain. So, I think they need to answer that.

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Next, network Opex will actually in terms of the figures will actually now go up because the charges to passive infrastructure companies Infratel and Indus will start from the 1st of February and therefore the network Opex figure will go up because we are consciously converting a part of the Capex now into Opex.

Infratel will be given as a segment from next quarter and you would see some of the key performance indicators relating to the Infratel side coming there. I'm not sure what would be the disclosure by Indus because that's, you know, a joint venture between the three partners. Their board will have to decide what do they want to disclose, but from the coming quarters you would start seeing the effect on account of Infratel and the profits in Infratel and so on.

As I mentioned in my address, for ease of understanding of all concerned, we would be giving a like-to-like comparison of the EBITDA margins without the passive infrastructure expenditures so that everybody understands that.

Shubham Majumdar – Macquarie Research - Mumbai

Akhil just as a follow up on that, when will we start actually seeing a significant moderation in Opex especially from higher occupancy ratio in terms of an accelerated sharing, two-way or three-way sharing that's already starting to happen?

Akhil Gupta - Joint Managing Director - Bharti Airtel

Well some benefits start coming from day one because even as a single tenant there are some cost advantages but you are right, the major cost advantages do occur when more and more operators start sharing. A little early to comment in terms of how that would move, hopefully, in the next coming quarters we will be able to give a better picture on that.

Shubham Majumdar – Macquarie Research - Mumbai

And just as a follow-on to the first question, a major, you know, recurrent worry of investors when you speak to them is what could happen to pricing on our headline tariff basis or in terms of prepaid coupon denomination basis when these new players do come on because that is the very first thing that comes to everyone's mind? What would you think are the sort of floors to pricing that one can see given the current interconnect structure and the other absolute base level cost structures that are the reality in this business. What sort of floor can one potentially look at in terms of pricing?

Akhil Gupta - Joint Managing Director - Bharti Airtel

Well I think first and foremost it is a complete misnomer to think that some new entrants will come in and the

prices will drop. I think our whole business model has been that to get the economies of scale and get more and more and more customers into this. Two planks, which we have taken are affordability and availability. In terms of affordability it has been our strategy, it has been our stated strategy that every cost saving, which we can do either because of the government lowering some charges or because of our cost efficiencies or because of the simple economies of scale we have as a part of our strategy committed to pass it on to the customer. We are not doing it as a charity obviously; it is just being done because we have seen the economies of scale further accelerating because of that, so that part will continue, its not that somebody will come in and force us to reduce rates, I think that is a part of our own strategy as far as the tariffs are concerned.

There was another part to your question right Shubham?

Shubham Majumdar – Macquarie Research - Mumbai

Yes in terms of the hard numbers how they stuck up with regard to the absolute base level cost structure regards the network Opex staff cost or CNA to run Pan India or a semblance of a Pan India business and secondly the termination costs that are there as part of the interconnect regime? What would you think – there is obviously a theoretical floor to pricing and new entrants or old entrants, or big or small will obviously have to, you know, fall in line with that theoretical cost floor. So what would be in your mind would that be from your experience as a leading operator who has got the biggest scale, which investors can take heart from?

Akhil Gupta - Joint Managing Director - Bharti Airtel

Well if I knew an exact answer to that that would mean that we have an absolute control over our business, but surely we know quite a bit about it, what we expect but certainly I am not going to share that on a public platform because this is really some very competitive information and competitive strategy, which we are going to be following.

Shubham Majumdar – Macquarie Research - Mumbai

Thank you so much Akhil. I really appreciate.

Priyanka – Moderator

Thank you Mr. Majumdar. Next question comes from Mr. Anirudh Gangahar from Goldman Sachs, Mumbai. Mr. Gangahar you may ask your question now.

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Anirudh Gangahar – Goldman Sachs – Mumbai

Thank you very much for the call and the opportunity. A couple of questions; first is just where Shubham left – your preparedness as far as new competition is concerned? Well arguably the new competitors will try and wean away market shares from existing operators so could you, if at all possible, shed some light on how your cost structure would compare to let's say another operator who is currently is in a similar scale or reaching similar scale, i.e., Reliance, Idea, Vodafone, I mean the existing competitors. How do you think you are well-positioned vis-à-vis them to lose out or they losing out? That is question number one.

Secondly sir, if there is anything on account of the potential hike in spectrum charges? If you have anything, insight from the regulator or from the DoT as to what is going on that front? This is separate from the incremental spectrum that we have been debating about.

And thirdly just a clarification, \$2.5 billion Capex for ballpark for FY'09 at this point of time; this would be Bharti Airtel plus Infratel minus Indus is that my understanding correct? Thank you.

Akhil Gupta - Joint Managing Director - Bharti Airtel

Let me take the last two ones and leave the first question to be answered by Sanjay. The spectrum charges, we are waiting for the deliberations on that. We have put our point of view across that any increases in these kinds of charges ultimately affect the customer but we don't have any insight into what is the current position in that.

Capex of \$2.5 billion is Bharti Airtel as standalone, as an operator and would not include the Capex, which Infratel has to incur and certainly does not include the Indus Towers' Capex.

Just to remind that Bharti Infratel would be self-sustained in terms of the capital expenditure as it has already got arrangements for a billion dollars by way of placement through its investors. Sanjay?

Sanjay Kapoor - President, Mobile Services - Bharti Airtel

Yes thanks Akhil. Obviously first and foremost we as a company have always believed in chasing our customers and not chasing our competitors. So, as far as preparedness versus competitors is concerned we have been watching our customers all these years and have been doing the right things; whether it's the coverage in the country, we have the farthest reaching coverage compared to anybody else, our rollouts and our investments are always known to you.

To come out with a cost structure that we currently deliver and the price structure that we currently deliver in the market, we have invested a huge amount of money. You are aware of our investments, over \$1 billion and we produce almost 90 billion minutes to get

to those economies of scale. So those by themselves are preparedness that we put on the table.

But going forward you must consider the roaming contracts that we have with the leading operators all across the globe, they didn't happen overnight; we made them happen through a lot of rigor and perseverance over many years. Our contracts on GPRS roaming are probably the highest that any operator has in this country and it takes a huge number of man-hours in convincing and relationship to put those on the table. The relationship that we enjoy with our customers and repeat purchase that we have with them is again a unique phenomena with us. We have more than 5.5 lakh retailers in the marketplace. We have more than 8,100 distributors in the marketplace. We have more than 1000 unique outlets in the marketplace and a brand that everybody is envious of. I think all these collectively put us into a frame where any new competitor or entrant would find it highly challenging to overcome it overnight. So I think we have been preparing overtime and it is not this issuance of license or this regime that is bothering us. We have always taken competition seriously and if you look at our track record we have grown leaps and bounds as competition has increased in the market place. Just to give you a point of reference our distance from the nearest competitor today is about 14.5 million customers, which just about a few quarters away was probably a million or so. So we just widened our gap with everybody else, increased our competitive distance and I think we will continue to perform.

Anirudh Gangahar – Goldman Sachs – Mumbai

Thank you very much for the answers, very, very eloquent.

Priyanka – Moderator

Thank you Mr. Gangahar. Ladies and gentlemen, due to constraints of time we are not able to entertain any further questions. This brings us to the end of the question and answer session. I would now hand over the call proceedings back to Mr. Sunil Bharti Mittal for the final remarks.

Sunil Bharti Mittal - Chairman and Managing Director - Bharti Airtel

Thank you very much. Thank you for joining this call today. We have had a great quarter and I am delighted we could share some of the detailed comments about that and could answer all your queries. Some of the questions obviously we could not answer due to competitive information embedded in those answers. I hope you will bear with us on that. I am expecting that we will continue to perform very well despite some of the constraints that we have discussed in today's call. In the coming months I have no doubt that we will delight all our investors in terms of our performance, our focus on customer remains absolutely key and that is what we believe will hold the success for Bharti Airtel in the quarters to come. I would like to thank all of you for having joined us on this call.

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Priyanka – 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 pleasant evening.

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