Earnings Conference Call Transcript

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PRESENTATION

Shareena - Moderator

Good afternoon, ladies and gentlemen, I am Shareena, the moderator for this conference. Welcome to the Bharti Airtel Limited First Quarter ended June 30, 2015 earnings call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question-and-answer session will be conducted for all the participants on this call. In case of a natural disaster, the conference call will be culminated post an announcement. Present with us on the call today is the senior leadership team of Bharti Airtel Limited. Before I hand over the call, I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risk that we face. I now hand over the call to our first speaker of the day, Mr. Srikanth Balachandran. Thank you and over to you, Mr. Balachandran!
Srikanth Balachandran – Global Chief Financial Officer - Bharti Airtel Limited

Good afternoon, ladies and gentlemen thank you for joining us today for this earnings call to discuss our results for the first quarter ended June 30, 2015, which we announced yesterday.

Let me first introduce you to the senior leadership team who are present with me today on the call, Gopal Vittal, Nilanjan Roy, Christian de Faria, Jaideep Paul, and Harjeet Kohli.

Firstly, let me share a few thoughts on the sector developments on the regulatory space. The Telecom Regulatory Authority of India had prescribed new interconnect rates effective for the industry from March 01, 2015. Although this has led to a fall in the overall gross revenues, there is limited impact on the net revenues and EBITDA for the mobile business. For the telecom business, this has resulted in a better EBITDA. This quarter has the full quarter impact of the above changes reflecting in our financials.

Secondly, the regulator also reduced the ceiling tariffs for national roaming calls and roaming SMS effective from May. This has resulted in a bit of a realization dip again the effect of which is flowing through. With effect from June 01, 2015 the service tax on telecom services has gone up from 12.36% to 14%. This has had some effect on telecom usage in some cases and realization in others.

The DoT also came out with its report on net neutrality, which addresses a key concern about VoIP being allowed a free range, which will impact Telcos. While DoT bats for net neutrality, it makes a distinction between OTT voice service providers and other OTT players. DoT advocates a level playing field between Telcos and OTT voice service providers including bringing them under a licensing regime for offering voice calls. We are hopeful of the government taking a balanced and just view and finally recommending a policy, which can be a win-win for all the stakeholders.

Now let me turn to the key company developments during the quarter. We are very pleased to announce that Airtel is now the third largest mobile operator in the world in terms of number of customers. The company moved up one position in global rankings during the quarter and it achieved this landmark in less than two decades of operations underlying the strength of its business model and the global scale. The end June wireless customers count has since moved up. It is now at 318 million.

During the quarter, the company entered into an agreement with Orange for divestment of its African operations in Burkina Faso, Chad, Congo Brazzaville, and Sierra Leone. Airtel has invested and established quality operations in these four countries. This transaction is about maximizing shareholder value while handing over these businesses to an operator who is committed to take the agenda in these countries forward. By means of this transaction Airtel will be able to establish a sharper focus on the remaining countries and further reduce the debt. Given that we are in the due diligence space we cannot discuss any more details on this transaction but suffice to say that our goal of achieving PAT and cash neutrality at the earliest will get a major boost.

You are also aware of the announcement in the previous quarters regarding the divestment of 12500 towers across 13 African countries. We are pleased to announce that the tower deals have consummated in five of these countries for a total consideration of $1.3 billion. During the quarter and subsequent to the balance sheet date the agreement for sale of towers to three countries, Tanzania, DRC, and Chad; with Helios Towers have lapsed and stands terminated. Accordingly the assets and the related liabilities have been reclassified from held for sale to its earlier original classification. There is the related catch up of the depreciation charge pertaining to the previous quarter, this amounts to Rs.1.6 billion and has been presented as an exceptional item.

In the next two quarters we do expect to complete the tower divestments in the remaining five countries. These agreements are of course subject to statutory and regulatory approval, which are progressing well. As and when such transfers are completed the transaction will then be accounted for and the new leases will take shape. As regards the accounting impact of the tower disposals we have given details in the quarterly report and we will be happy to take any questions that you may have during the Q&A.

Now coming to the ongoing impact of the tower disposals in Africa in the countries where the disposals have been completed or will be completed. The first point to note is the existing revenues from tower sharing which Airtel gets from its tenants from these towers will stop. The OpEx component of the new tower rentals will have to be fair valued as per IFRS principle but it is not much different from the existing market rentals, which we incurred anyway. As the tower companies get more tenants we expect the tenancy and the energy discounts to accrue, but this will happen over the years. The finance-leased portion of the rentals will partly go to interest and partly to reduce the finance lease obligations. After the completion in all the countries, we expect the full impact to dilute the EBITDA margin by around 1% to 1.5%, once all the transactions are closed, but as we had disclosed earlier, we expect the impact on the net profit to be positive.

Airtel announced a successful pricing of an issuance of $1 billion 4.375% senior notes due 2025 in June. We are extremely pleased with the continuing strong appetite for our credit from high quality investors with reducing credit spreads each time we come to the market demonstrating the strength of our credit profile. With cumulative bond issuances of close to $6 billion Bharti Airtel now has a well-established credit curve across tenure buckets and currencies. These along with the availability
under our long dated ECB terms signed recently with the Chinese banks significantly elongate the tenure of our financing as also helps larger cash flows at hand.

Let me come back to India and share a highlight on the data side. Expanding our 4G footprint across India, we rolled out 4G services in new cities such as Mysore, Ambala, Kanpal, Panipat, Yamunanagar, and Hisar. 4G trials were launched for existing Airtel customers in Delhi, Mumbai, Hyderabad, Vizag, Madurai, Chennai and Coimbatore. With this Airtel now has 4G presence in 45 towns of the country, and we are pleased to have the strongest spectrum footprint to be able to offer our customers superior services.

During the quarter we received the 2100 MHz growth spectrum that we picked up in the auctions. We are in the process of rolling out 3G in the six additional circles. With this our 3G presence will be pan India excluding Kerala. Kerala is the only circle without our own 3G spectrum, but it is covered by both FD and TD-LTE spectrum. Such a national footprint would allow us to fully participate in the data growth story going forward, reduce the dependency on ICR arrangements and build a more cost optimized network.

Further, I am pleased to inform that the company has decided to establish a sponsored level one ADR program in the United States. The establishment and launch of this ADR program is subject to all the regulatory approvals and clarifications from SEBI and RBI. The ADRs can be traded on the US OTC, JP Morgan's depository receipt business acting through JP Morgan Chase Bank has been appointed as the depository. This program is not for purpose of raising capital in the US market. There will be no new issuance of shares and there will be no dilution of share value. The purpose is to develop new investors thus expanding the overall investor base by enhancing investor services in the US and broadening the choices of available investment instruments in the US capital markets.

Let me now come back to the company's operating metrics. We are happy to note that this quarter saw industry leading Airtel's net additions of 4.6 million versus 3.9 million in the same quarter last year. The minutes of usage sequentially increased by 12.9 billion minutes which is up 4.7% quarter-on-quarter. On an underlying basis India mobile revenues have increased sequentially by 5.8% but after considering the impact of the termination rate changes, increase in service tax and the roaming rate tariff changes the mobile revenue growth finally reported was 2.9%. This quarter our voice RPM decreased from 36.22 paisa to 34.93 paisa, which is a fall of 1.29 paisa, but out of this the termination rate changes accounted for 1.14 paisa which is almost 90% of the per paisa decrease in the voice RPM. Excluding the impact of changes in the termination rate service tax and roaming rate tariffs, our voice realization during the quarter has held steady.

Quarter-on-quarter these realizations may not move as the way the customer growth story is playing out in an environment which is increasingly getting consolidated but there is no divergence from the established price stability approach in managing our portfolio. Equally our strategy seeks to expand the customer base so long as the customers are sticky especially in the underserved semi urban and rural areas. The interplay of multiple metrics such as churn, usage rates and mix has to be seen in the overall framework of sustained revenue growth complimented by robust profitability. The churn continues to be the industry lowest at 3.3%. All of this has helped the underlying year-on-year mobile revenue growth to be at 8.2%. The growth in the mobile revenues on an underlying basis is actually 12.2% if you adjust for the IUC rate change impact.

The input cost for telecom sector are increasing. This includes spectrum, CapEx, network running OpEx and so on. To sustain the health of this sector it is imperative that we see prices inching up maybe just to cover the cost escalations, but such rate adjustments may not follow the same trajectory quarter-on-quarter but suffice to say that there is a need for a disciplined approach to pricing in such a way that the sector is able to fund the significant CapEx that is getting deployed, the dominant portion of which is the spectrum investment and which has already been done.

Data prices have been stagnant for the past three years as you know, but this quarter data prices have been increased in some of the markets on the prepaid side although this is happened towards the end of the quarter. We would look at gradually inching up the same in a calibrated manner across the markets to suit adoption usage as well as profitability. We are very happy to confirm that data revenues continue to march up with the double-digit quarter-on-quarter growth momentum. Data consumption has increased 18% sequentially and 83% on a year-on-year basis. We continue to see impressive 3G as well as 2G additions to the data user base every quarter. Data ARPU is up 30% year-on-year at Rs.181 at such early levels this has already surpassed the more mature voice ARPU at Rs.148 again bearing testimony to the demand for data.

We firmly believe that we are still at a very nascent stage of data revenue pool development. Data now contributes 19.2% of the mobile revenues as against 12.4% in the same quarter last year and this trajectory seems to be continuing one. I am delighted to note that in Africa also the data story is unfolding well. Non-voice revenues in Africa are more than 27% of the total revenues, mobile data itself is now 12.9% of the total revenues. Our 3G networks have enabled data volumes increasing 111.6% year-on-year and we have been gearing up for much more growth. Airtel Money transaction values are also growing. They grew by 72.6% year-on-year to touch $3.3 billion during the quarter. More than 7 million customers are carrying out a total of 198 million transactions on Airtel Money and this has doubled over the year.

Moving onto the quarter's financial results, consolidated revenues increased by 3% year-on-year. This needs an explanation. While the reported India revenues grew by 10% you will recall that the changes in the IUC have led to a drop in gross revenue in India. On an underlying basis if we adjust for the IUC impact, India revenues grew by 12.6%. If you look at the sequential quarterly revenue on an underlying adjusted basis it is 5.8%, which is one of the best in recent times in India and let me explain this in some detail. If you look at the mobile voice revenues in India sequentially they have grown, the reported has grown by around Rs.900 million but if you add back the IUC impact of 1.14 paisa per minute on 290 billion minutes which translates to about Rs.3.5 billion, the underlying growth in voice revenues is actually Rs.4.4 billion. This is a sequential growth
of 4.4% in voice revenues, which is why I said it has been one of the best in our recent times and of course on top of all of this our data revenues have sequentially grown by 12.3%.

On the margin front, we continue to see India margin holding up at 40% plus. The full quarter impact on the change in the IUC has led to an improvement in EBITDA margin by 0.7% for India though on a sequential quarter basis the improvement is 0.5% in the current quarter. Further if we consider the onetime credit, cost reversals and reversal & credits of Rs.1.6 billion in fourth quarter last year we can safely conclude that the underlying India EBITDA margin in Q4 was 39.7 against the reported figure of 40.7 and if you add the incremental IUC benefit of 0.5 we get to a number of 40.2 whereas the actual margin in Q1 is 40.4 so there is an underlying incremental 0.2% margin improvement which truly reflects the benefits of growth and cost efficiency. The amortization of spectrum in India has stepped up due to the impact of 4G launches in Andhra, Tamil Nadu, Chennai and Mumbai as also the TD-LTE spectrum in Delhi and Mumbai. Despite the increased amortization and depreciation EBIT margin in India has continued to improve year-on-year.

Coming to Africa first let us take note of the currency trends. The weighted average currency depreciation in the last 12 months that is exit June this year versus last year the weighted average depreciation has been 21.6% and this has been mainly caused by the depreciation in Madagascar by 37%, Ghana by 31%, Nigeria by 28%, Uganda by 27%, the Central African Franc by 23%, and Tanzania by 21%, and Zambia by 19%. These sharp declines have impacted the reported revenues in dollar translation. To understand the intrinsic performance of Africa operations therefore we have presented all the financials from revenue up to EBIT and all the operating metrics in constant currency. We have used the constant currency rates as of March 5, 2015 to present all these numbers and these are the rates we will deploy for reporting right through the year and we have adopted this date of March 5, 2015 being the date on which we signed off our internal annual operating plan for Africa. In the first quarter, gross revenues in Africa on a constant currency basis grew 1.1% year-on-year. Despite the currency issues we have maintained our focus on growing the customer base and the network, we added over 700 3G sites in this quarter. We have continued to grow our customer base with 2.1 million net adds during the quarter accompanied by 16% growth in minutes year-on-year, which is the fastest growth in the last five quarters. The continuing growth in customer base, volumes of voice and data as well as the adoption of mobile money are a reaffirmation of the potential growth in Africa coupled with the demographic dividends there is no doubt that Africa will see the benefits of scale in the future. In Africa the margins are following the flat revenue trend. We have continued to hold the OpEx line tight but the key to the margin improvement lies in revival of top line growth.

Coming back to the P&L, consolidated net finance cost during the quarter doubled year-on-year to Rs.19.2 billion but it is quite flat compared to the quarter four of last year which reported Rs.19.4 billion. The year-on-year doubling of the net finance cost can be explained by the higher interest payable to the DoT for spectrum liability, significantly higher Forex losses and lower investment income on account of cash being utilized to pay for the spectrum. If you look at the quarter-on-quarter movements though, the lower investment income in quarter one have been made up by lower Forex losses compared to quarter four and hence you saw the overall net finance cost almost flat between quarter four and quarter one.

Coming to tax rates, the effective tax rate in India for the quarter ending June came in at 31.2% compared to 26.5% for the full year ended March. This increase in the underlying effective tax rate in India is primarily on account of lower tax deduction due to a couple of circles moving out of the tax holiday period and three more circles moving from the full 100% to partial 30% holiday bracket. In Africa, the tax charge for the quarter is at $39 million versus the last year full charge of $203 million for the full year and it has lowered proportionately in the first quarter primarily due to higher operating losses and change in the profit mix between the subsidiaries.

Our quarterly account has exceptional items with net gains of Rs.4.6 billion and these are primarily flowing from tower disposals in Africa, exceptional charges arising out of regulatory fee provisions, depreciation catch up pursuant to the termination of tower sales in Africa, de-recognition of an embedded derivative asset arising from amendment to a long-term contract, provisions against certain disputed receivables and claims and continuing restructuring activities in the a few countries. After accounting for tax impact and minority interest the net gains came to Rs.4.6 billion. After taking into account the exceptional items, the resultant in consolidated net income for the quarter came in at Rs.15.5 billion which is an increase of 40% over previous year.

Let me now come to CapEx, CapEx for the quarter was $629 million out of which $463 million was spent in India the balance in Africa and a small amount in South Asia. Bulk of the CapEx goes to support the data growth including on backhaul and fiber. Our guidance of CapEx for the full year is approximately $3 billion, which includes $700 to $800 million for Africa.

On the balance sheet front the net debt for the company has remained flat for the last three quarters at $10.7 billion; however, if we exclude the deferred payment liabilities to the DoT and excluding the finance lease obligations arising from the tower sales, the net debt has actually reduced to $7.7 billion compared to $8.4 billion in the previous quarter.

In conclusion, the first quarter in India signals continuing momentum in top line growth, sustained efficiencies and margin expansion on an underlying basis. Africa revenues and EBITDA are holding on in constant currency basis, the tower disposals in Africa are taking effect and the impact is being felt on the balance sheet and finally Bharti Airtel’s consolidated earnings per share has been improving quarter-after-quarter.

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

Thank you very much Sir. We will now begin the question and answer interactive session for all the participants who are connected to the audio conference service from Airtel. Due to time constraints we would request if you could limit the number of questions to two to enable more participation. Hence, management will take only two questions to ensure maximum participation. Participants who wish to ask questions may press “∗1” on their touch-tone enabled telephone keypad. On pressing “∗1” participants will get a chance to present their questions on a first-in-line basis. Participants who wish to ask questions may please press “∗1” now. The first question comes from Mr. Sachin Salgaonkar from Bank of America, Mumbai. Mr. Salgaonkar you may ask your question now.

Sachin Salgaonkar – Bank of America – Mumbai

Thank you for the opportunity. I have two questions. One on India and one on Africa. The question on India is I mean if you look at your ARPU, it was down roughly 2% on a YoY basis; adjusted for interconnect I presume it was largely flattish. So, how should we look at that trend? Could this move up and what could drive it up? And again a related question for that is if you look at your voice revenue growth, it appears to be declining perhaps a bit of cannibalization coming from data so how do you look at it? Second question on Africa is post your agreement with Orange, how do you look at the other markets? Is there a possibility that you might exit some more markets or looking to completely exit out of Africa? And the question comes because I mean if we look at a market like Nigeria, looks like the macro might deteriorate further before it starts improving so want to know your thoughts. Thank you.

Gopal Vittal – Managing Director and CEO (India and South Asia) – Bharti Airtel Limited

Let me give you a broad sense on the ARPU. If you look at the last ten odd quarters you will see ARPU broadly holding at between 198 and 202 so it is in that kind of ballpark and in a category like ours given that we are still adding new customers you are unlikely to see major shifts in ARPU in a two to three year period, so I think if we are able to hold on to ARPU or see marginal increases, I think that is really what you should be looking at and I guess that in a way answers your question on the VRPM because the interplay between the voice realization, voice volume, data realization and data volume all make up ARPU.

Srikanth Balachandran – Global Chief Financial Officer - Bharti Airtel Limited

Coming to the question in Africa on the Orange, absolutely no plans for any other countries and these are the four countries, which are currently in due diligence with Orange there is no plans at all for looking at any other country.

Sachin Salgaonkar – Bank of America – Mumbai

Okay, very clear. Thank you.

Shareena – Moderator

Thank you very much Mr. Salgaonkar. The next question comes from Mr. Suresh Mahadevan from UBS, Singapore. Mr. Mahadevan you may ask your question now.

Suresh Mahadevan – UBS Securities – Singapore

Thanks for the opportunity. Congratulations on a good set of numbers. I had a couple of questions. First one is on consumer behavior and how it kind of impacts your strategy on 3G and 4G because it seems very clearly that data is the big growth engine and it seems to me at least looking at the press and what you are doing that you seem to be making a big push or starting to make a big push on 4G. So, how should we think about 3G versus 4G because you have got the spectrum and so far you have taken a measured view on 4G, but I think it seems to me that you are making a big push. So if you could elaborate on that that will be helpful. The second question is related to the operating leverage we have seen. I think if I look at the last nine quarters or so, your EBITDA margin has improved by almost 640 basis points. I mean obviously with growth you are achieving margin improvement, which does not happen in many companies in India or in the Telcos. So, just wanted to understand how much more leverage do we have. It seems to me it is primarily driven by data because you are incurring the costs upfront but as you generate revenues, I think the incremental margin on that could be probably much higher than your current margin. So, just wanted to get an insight into how we should be thinking about these numbers going forward. Thank you very much.

Gopal Vittal – Managing Director and CEO (India and South Asia) – Bharti Airtel Limited

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Thank you Suresh. Let me answer both your questions. Let me take the first one, which is the question on data. You will recall that over the course of the last two auctions we have significantly strengthened our spectrum footprint. Today we have a pan India presence on 3G with the exception of Kerala. Secondly we, through a combination of TD and FD spectrum, are present in 14 circles across the country on 4G that is the first point I want to make. The second point, I want to make is on devices. What you see on devices is a rapid growth of the ecosystem. 3G devices are now available at Rs.3500 some of them even going up to Rs.3000 and 4G devices which a year ago was at Rs.20000 and Rs.25000 are down to Rs.7000 and rapidly approaching to Rs.6000 mark. So what we expect is that in the course of the next year or two you will see a rapid proliferation of 4G devices coming into India anywhere between Rs.5000 and Rs.7000, but you will still have substantial amount of devices below that price point on 3G so that is the second point. Now the combination of the spectrum footprint and the device ecosystem leads us to believe that there is an opportunity for us to accelerate data both through a combination of both 3G and 4G so we are in the midst of a very big deployment of our 3G equipment so as to complete as Srikanth mentioned upfront the gap circles and cover the gap that we have out there which means that by end of September early October we should pretty much have our own 3G across the country. So that is the first point, the second point is that with the growth of 4G devices that are anticipated we had taken a call around nine months ago to start rolling out our 4G footprint into different circles and I think that has been a good call because as you see these devices proliferate, we are well positioned in these 14 circles. Today we have got 4G now in almost 50 cities across the country, which largely contribute almost 50% to 70% of the data revenues and I think that is really what gives us the confidence to sustain the data push. The difference between 3G and 4G what we find is that been a consumer actually picks up a 4G devices and gets down the 4G their consumption is substantially more than what you see on 3G, just as 3G is substantially more than what you see on 2G data so while the consumption is much more what we also see is on 4G we are seeing an ARPU upside for those customers coming in at this stage. So I think time will tell how that plays out but what would be very clear is that we are readying ourselves with our future proof data network.

Your second question is on the operating leverage, I think there are couple of points that I would like to make we have a five point strategic program that we run one of which is called war on waste, we really look very closely at both operating efficiency as well as capex efficiencies. There are two things that I would like to mention one is that with the growth of data you see an improvement in the net revenue to gross revenue ratio which kind of improves which flows through to the bottom-line and the second part is really operating efficiencies which we look at very closely in order to continue to keep a tight leash on cost. That said with the expansion of our network there are going to be pressures on input cost and our challenge will be to try and deal with them as they arise.

Suresh Mahadevan – UBS Securities – Singapore

Thank you. I think one small follow-up is I think you have mentioned the Top 50 cities contribute about two-thirds of our data revenue, did I hear that correctly?

Gopal Vittal – Managing Director and CEO (India and South Asia) – Bharti Airtel Limited

Two-thirds of the market is what I would say.

Suresh Mahadevan – UBS Securities – Singapore

Two-thirds of the market. Thanks so much. This is very, very helpful.

Shareena - Moderator

Thank you very much Mr. Mahadevan. The next question comes from Mr. Sachin Gupta from Nomura, Singapore. Mr. Gupta you may ask your question now. Mr. Gupta’s line has got disconnected shall we take up the next question sir. The next question comes from Mr. Shobhit Khare from Motilal Oswal Securities, Mumbai. Mr. Khare you may ask your question now.

Shobhit Khare – Motilal Oswal Securities – Mumbai

Good afternoon and thanks for the opportunity, I have two questions. One is could you please talk about what is the churn behavior of mobile broadband subscribers as compared to the voice subscribers and also are you witnessing an improvement in terms of the subscriber life on the network once they take up a 3G or 4G service? So, that is question number one. Question number two is on mobile margins. So if you could just help us understand excluding IUC change, what was the movement quarter-on-quarter in mobile margins, is there an underlying improvement there?

Gopal Vittal – Managing Director and CEO (India and South Asia) – Bharti Airtel Limited

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Shobhit, let me say the way we look at our business is churn across different classes of customers so we look at high value customers, we look at marginal customers and we try and assess the churn across and by surrogate you can well imagine that high value customer is likely to be consuming data and voice and many other services. What we typically see is our churn rates on our higher value customer base is substantially lower than marginal customers, a lot of the marginal customers tend to use two Sim cards and look for a good deal this is the behavior that we see. This has actually led us to one of our strategic priorities, which is all about winning with valuable customers. We put a relentless emphasis on actually driving postpaid. We have invested a lot of money in rolling out our own retail stores, today we have almost 400 stores which are our own retail stores. We have about 1500 franchise stores and this has given a substantial impetus to our postpaid business, which see a significantly lower churn.

Shobhit Khare – Motilal Oswal Securities – Mumbai

Sure Gopal, my second part of the question was basically is there a change in the churn behavior once the subscriber takes up 3G?

Gopal Vittal – Managing Director and CEO (India and South Asia) – Bharti Airtel Limited

I can answer that question again through the same lens which is fundamentally if you look at the entire customer profile you will find that people who can afford a more expensive device are those who are using 3G or increasingly 4G. So by extension you can imagine that somebody who is able to afford a Rs.5000 device is likely to be customer who is buying 3G whereas somebody who is not able to afford more than a Rs.2000 device is likely to be using only voice and when I say that you see a lower churn amongst higher value customers by implication you can imagine that what you are saying is true but I do not think is to do with whether they use the data or voice, it is to do with how valuable they are and how much more share of wallet or how much more of the valet they would actually give to us which is what plays to our strength in terms of both network experience as well as the overall customer experience.

Nilanjan Roy – Chief Financial Officer (India and South Asia) – Bharti Airtel Limited

The question on the margins, on mobile if you see the reported numbers going up from 38.6% to 38.8%. If you factor in the net IUC impact on margin quarter-on-quarter is about 0.5% and improves our margin so that would drop our margin to 0.3% but if you recall in quarter four we had disclosed that we had a one off about a 1% impact on margins and if we normalize for that we would see an underlying improvement of about 0.7% so that there is an underlying improvement of about 0.7% in mobile margin quarter-on-quarter.

Shobhit Khare – Motilal Oswal Securities – Mumbai

Okay sure, I got that. Thank you so much.

Shareena – Moderator

Thank you very much Mr. Khare. The next question comes from Mr. Aditya Soman from Goldman Sachs, Mumbai. Mr. Soman you may ask your questions now.

Aditya Soman – Goldman Sachs Securities – Mumbai

Thanks for the opportunity. I think my first question was on data realizations. I have noticed that data realizations have sort of trended downwards on a sequential basis for even on a YoY basis. Would this be largely because of a transition to packs or if not, what is the reason for this?

Gopal Vittal – Managing Director and CEO (India and South Asia) – Bharti Airtel Limited

One of the reasons why you are absolutely right, Aditya one of the reasons that you see a reduction in data realizations over a longish period of time is that people are using more of the allowance that we have given them, so just imagine if you gave a customer 1GB and charge them Rs.300 and they use only 500MB of it then your realization will be 0.60 paise whether they use the whole GB your realization drops to 0.30 paise so that is the underlying reason why the realization keeps looking down so one of the metrics that we look at very closely is what is the overall data revenue growth and what is the consumption growth and I think that is what is important at this stage of the market.

Aditya Soman – Goldman Sachs Securities – Mumbai

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My second question is actually on your DTH business. Even in your DTH business you saw about a 240 basis point margin improvement. Again, is there any significant accounting change or a change in the way you recognize the license fee or anything of that sort?

Nilanjan Roy –Chief Financial Officer (India and South Asia) - Bharti Airtel Limited

No there is no change on this, this is an underlying improvement.

Aditya Soman – Goldman Sachs Securities – Mumbai

This improvement on a like-to-like basis.

Nilanjan Roy –Chief Financial Officer (India and South Asia) - Bharti Airtel Limited

Yes.

Aditya Soman – Goldman Sachs Securities – Mumbai

All right. Thank you very much. I will come back in the queue.

Shareena - Moderator

Thank you very much Mr. Soman. The next question comes from Mr. Jimmy Chen from Bernstein, Hong Kong. Mr. Chen you may ask your question now.

Jimmy Chen - Sanford Bernstein - Hong Kong

Thanks for the opportunity. Two questions; first, in terms of the forex derivative loss in the finance expenses, can you explain what is causing that? What currencies especially and if it is African currencies, why would it hit on an operational level as well as the finance cost level? The second question is about the criteria for deciding which businesses to rationalize or exit from. What are the criteria that you consider and what led to the plan to sell the four operations in Africa to Orange and is your current scale or market share one of those considerations? Thank you.

Srikanth Balachandran – Global Chief Financial Officer - Bharti Airtel Limited

Thank you and let me take first the question on the derivatives and exchange fluctuations. Every operating subsidiary could have a foreign currency liability or a foreign currency asset and in this case we are talking of foreign currency liability sitting on its balance sheet. So let us say if you take a local company like an operating subsidiary like Nigeria, it could be having a US dollar liability and when the accounts of Nigeria are closed in the local currency they have to take a mark-to-market adjustment of the US dollar liability in their balance sheet and mark it to the closing rate at the end of the quarter. Now this could result in a foreign exchange gain or a loss depending on how the local currency has appreciated or depreciated against the US dollar and that really flows into the local company’s P&L and that local company’s P&L is consolidated at the Netherlands level in US dollar terms, which in turn is translated into Indian rupees and in this flow the foreign currency loss which is the monitory loss which is accounted for in the Nigeria P&L in this example would flow right up to the consolidated stage. So really what happens is these are related to capex and opex payables and these are if you have any borrowings as far as in foreign currency are concerned, so in this quarter, we have had depreciation of the currency in a few countries such as Ghana, Tanzania, Uganda, Kenya and Madagascar so these have seen some depreciation and these are flowing through the P&L. As far as the Orange’s deal is concerned, well I am not able to disclose the exact set of criteria but it is about the fit and it is about the fit on both sides in terms of what is the strategic fit for us and what is the strategic fit for the other site as well so these are broadly the criteria that we have deployed.

Jimmy Chen - Sanford Bernstein - Hong Kong

In terms of your strategic fit, how much do you think is your relative market position factor or is culture of being francophone countries is that more than a factor?
Srikanth Balachandran – Global Chief Financial Officer - Bharti Airtel Limited

This question may be should be asked to the other side but clearly when you look at strategic fit, all these factors, tangibles and intangibles do come in.

Jimmy Chen - Sanford Bernstein, Hong Kong

Okay great thank you.

Shareena - Moderator

Thank you very much Mr. Chen. The next question comes from Mr. Piyush Choudhary from CIMB, Mumbai. Mr. Choudhary you may ask you question now.

Piyush Choudhary - CIMB Securities - Mumbai

Thanks a lot for the opportunity and congratulations for a great set of numbers. Firstly Gopal, on your 3G and LTE, would it be possible to share your population coverage targets by March 2017? What is the target footprint, which you are aiming on 3G and similar for LTE? Second question was on the churn, which has risen marginally to around 3.3% and I know it is the industry leading, but just want to understand the underlying competitive pressures, which you are kind of witnessing in the market? Thanks.

Gopal Vittal – Managing Director and CEO (India and South Asia) – Bharti Airtel Limited

Thank you, Piyush. On 3G you know that we have several gap circles across where we picked up spectrum for those circles so our first effort would be to deploy our own 3G services in all of these circles in this financial year and we expect to do that in the next few months. Once we have done that if you look at our 3G footprint, I would imagine that we would be certainly almost every single urban center we have 5160 towns in India we would cover all of them. We would probably be in close to 150000 villages as well. So suffice it to say that we would have a really strong national broadband footprint in this year itself. As far as 4G is concerned, I have already mentioned that we are in 50 cities. We will actually leave no stone unturned to accelerate our 4G investments as the device ecosystem grows and we have spent in the last couple of years we have spent almost 50000 crores acquiring spectrum so the capex that is put behind the spectrum is actually a tiny fraction of the overall investment we made in spectrum. So capex will come in the way of our rollout. The only challenge will be to see how fast the device ecosystem grows, because at the end of day, the customer who uses a device for consumption of the mobile Internet whether it is 3G or 4G the question is - is the speed adequate. For example, if you are doing streaming of video on YouTube, which typically video accounts for about 40% odd of the traffic on our network or you are doing on WhatsApp or Facebook or you are searching stuff on Google these are applications that you really do not need 4G for, 3G works as well. If we are doing heavy downloads, if you are watching movies and things like that then of course 4G is really essential. So what we will look at is the growth of the device ecosystem how the consumer adoption takes place and keep looking at what we need to deploy capex.

You second question was on churn. We have seen an increase in churn in this quarter and we are very conscious of that increase. I think we set out on an approach which I mentioned about seven eight months ago to really step up our acquisition in rural areas and we have seen a significant step up in our net additions particularly in rural. That has come with some increase in churn and we are looking at what we need to do to get a grip on that but having said that it is still industry beating churn it is still very low churn but this is part of our strategy to actually improve the quality of acquisition. So we will keep looking at opportunities to do that.

Piyush Choudhary - CIMB Securities, Mumbai

If I can squeeze in one thing, on the finance charge in India, it has increased sequentially by 6.2 billion quarter-on-quarter, could you please explain that?

Srikanth Balachandran – Global Chief Financial Officer - Bharti Airtel Limited

So you are talking about the sequential, right?

Piyush Choudhary - CIMB Securities - Mumbai

Yes, in the India business, it has risen to Rs.7.5 billion.

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Srikanth Balachandran – Global Chief Financial Officer - Bharti Airtel Limited

You will recall that in the last quarter, there were two things on the investment incomes. Number one, we had liquidated some of the investments that we had to pay upfront for the spectrum auctions that we had secured. So there were profits realized on some of the investments, so that flowed into the investment income plus in this quarter, the regular investment incomes which came from those cash investments have completely gone, because we have used those investments to upfront either in the last week of March or in the first week of April, so you will see that the investment income, therefore has dipped because of the utilization of the cash for the payment of the spectrum upfront that is one. Second as far as the US dollar and movement if you had to consider movement of the Euro and Swiss Franc these have moved contrary between last quarter and this quarter and those are reflected in the derivative losses compared to derivative gains, exchange losses and gains which we had in the last quarter whereas this quarter we have had the gains, but there are the things which go up and down, quarter-on-quarter and they are reflected of course in our quarterly accounts.

Harjeet Kohli – Group Treasurer – Bharti Airtel Limited

Just to supplement, the third piece was on the balances, we still have Infratel, in this particular quarter with the ten-year Indian GOI securities partially going up, it is a mark-to-market down on the capital value under IFRS accounts which was not there in the earlier quarters. So there are two parts, one is investment income and investable surplus going down because of a billion dollars of upfront payment on spectrum, the other is dollar rupee had a marginal gain with respect to rupee last quarter over the quarter before last and in this June quarter, dollar rupee actually rupee loss versus dollar, so there is a differential impact and the third is mark-to-market on the Infratel surplus because the underlying ten-year yield increased, while it has decreased in the last year, the capital value had to be marked down a bit.

Piyush Choudhary - CIMB Securities - Mumbai

This is very clear. Thanks a lot and all the best.

Shareena - Moderator

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

Rajiv Sharma – HSBC- Mumbai

Thanks for the opportunity. I have just couple of questions. First is, Gopal, what sense do you get on VoLTE when you are speaking to vendors and you are getting into agreements on 4G handsets so what’s the feedback you get about VoLTE? Second question is will you be open to some kind of ICR arrangements on your 4G network as Vodafone and Idea do not have lot of 4G spectrum, it can give them a two-year window so will you be open to such agreements? Is that allowed by the regulator? The third question is your thoughts on these three issues? Thank you.

Gopal Vittal – Managing Director and CEO (India and South Asia) – Bharti Airtel Limited

Rajiv, Thank you. On VoLTE, I think again we can see that globally, there is a significant progress in the growth of the ecosystem. It still early days for VoLTE, but you must remember as an operator we have circuit switch fallback. We have a 2G layer which is now increasingly right across the country, so delivery of voice services through our 2G and 3G footprint is not a problem for us. That said we will look at VoLTE, it is not something that we are currently looking at, but it is still sometime way. Your second question was whether we have opened to ICR? We are always open to anything; nothing is philosophically shut for us. We have not to yet come to any deal on ICR, I think whether ICR is allowed or not, it is likely to follow the same arrangement on the same set of rules that currently apply for 3G and so theoretically, it should be allowed, but that said we have not done any deal with any operator. Your third question was on 4G and whether the ecosystem is growing slower and why we are putting more investment. You must remember that some of these investments that we are putting in place and some of the readiness that we are preparing for 4G, has taken as about nine to ten months. These are not things that you can turn on within 30 days and 60 days and one of the reasons you see the growth of the ecosystem and reduction in prices of devices is actually two reasons why you see it. One is the substantial investment the China mobile has made on TD and FD in China, which has actually led to reduction in prices of devices and the second reason of course is our own efforts in speaking to all the device manufacturers and rolling out some of 4G
networks and the reason that we are in a situation where you do have Rs.6000, Rs.7000 device, it is because of our efforts to actually grow the ecosystem.

Rajiv Sharma – HSBC- Mumbai

This is very helpful. Thank you so much.

Shareena - Moderator

Thank you very much Mr. Sharma. The next question comes from Mr. Vinay Jaising from Morgan Stanley, Mumbai. Mr. Jaising you may ask your question now.

Vinay Jaising - Morgan Stanley - Mumbai

Thank you so much. I have two questions from my side both of them have been partly addressed. But first on the tax rate, you did mention India going up by 5% to 31% in some circles; but if I look at the overall tax rate, it's north of 50%. I understand Africa has some losses, but how do I look at tax rate for the next year, next two years? Any guidance there would be helpful. I know we have gone all over from 70% to 40% so some guidance there would help all of us. That is question one. The second question, a part of my colleagues had asked it in the last few questions, capex on 4G. You did mention readiness for 4G in the last couple of quarters as you move toward spending on 3G also getting ready for 4G so if I were to look at BTSs today, your BTS is about a third of them have 3G. I am assuming since you mentioned you all have got 2100 and you would launch more of 2100, all your BTSs which have 2G would have 3G, is that a fair assumption and incrementally in the next two years all of them would have 4G? So what would be the capex incurred moving from 2G to 3G and 3G to 4G? Thank you so much.

Srikanth Balachandran – Global Chief Financial Officer - Bharti Airtel Limited

On the tax rate, as you know the maximum tax rate is 34% and if all the entities in India are earning profits, then technically the maximum cap is at best it can go up to 34%. At this point of time, there are still tax holidays in some of the circles, details are which of course we cannot share openly, but certainly to that extent one can expect that the effective tax rate would be less than the marginal tax rate anyway as long as the tax holidays are there. We do expect turnaround in one or two of the loss making subsidiaries in India, which should help us to be less than around 30%, therefore 28% to 30% could be the kind of guidance for this year certainly for next year of course we need to see how the profitability situation improves.

Nilanjan Roy – Chief Financial Officer (India and South Asia)– Bharti Airtel Limited

As regard the rollout of sites, I think just in terms of how we plan about site rollout for 3G, 4G, a lot of it depends on what really are the data handsets, smartphone handsets penetration in those towns where we are rolling out. How much of data has been used. So it is not a number which we have in mind to say that we must blanket 140,000 sites with 3G and 4G, so it is based on actually a line of insight into revenues, also a lot of 140,000 sites quite of few of them are capacity sites which in the near future will not require 3G, because on a coverage layer, we would have probably even less than that. So, I think both these factors in terms of how we rollout and the impact of capacity sites will lower the absolute numbers we are talking about. But having said that I think the CapEx and the guidance as Srikanth has said, it is going to be substantially higher and he has already indicated the number for the year. We have started of the quarter slightly slowly because we had heavy CWIP as we entered into the year, but definitely we would be absolutely touching our guidance and like Srikanth had probably said second part of the year we will come back with more concrete number.

Vinay Jaising - Morgan Stanley - Mumbai

Just in the previous question of tax, you did not mention the India bit, what about the African bit, because the consolidated number goes very high?

Srikanth Balachandran – Global Chief Financial Officer - Bharti Airtel Limited

Africa, there are profit making subsidiaries and loss making subsidiaries and in all the loss making subsidiaries we do not necessarily account for the deferred tax credits on account of the accumulated losses, because we have to follow the IFRS standard which prescribes the timing and methodology for approving for those deferred tax credits. But we could point out that in the last year, the total tax charge in Africa was about $200 million and this year we have started the year with about $40 million, so you can say the annual charge could be probably anywhere between $150 million and $200 million.
Vinay Jaising - Morgan Stanley - Mumbai

Thank you sir.

Shareena - Moderator

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

Srinivas Rao - Deutsche Bank - Singapore

Thank you very much. My first question is on Africa. We have seen that over almost two years, the network costs and SG&A have been relatively similar. Would it be fair to say this is the base level and it would be difficult to cut costs below these levels, what we are seeing right now and hence as you mentioned revenue growth is what is required for improving EBITDA? So that is the first question. Second question on India, the improvement in the margins has come about a lot from network costs, how much would have lower oil prices or lower power costs contributed to these improvement over the last four quarters? Thirdly just clarification, does the African tower also have same arrangement as India, which is a rentals fall with increased tendency? Thank you so much.

Jaideep Paul – Chief Financial Officer, Africa - Bharti Airtel Limited

On the network cost, while we have improved on the network cost per site over the last one to two years, but we have also rolled out more than 1500 sites in 2G space and overall cost if you look at it overall cost while it has increased, but on a per site basis it has come down, so we have definitely improved on the network cost per site. On the S&D space, now again if you look at S&D cost has a percentage of the total prepaid revenue, again there is an improvement which has happened over the last few quarters, so clearly there is more room and space available in both the areas to improve further.

Srinivas Rao - Deutsche Bank - Singapore

This is helpful.

Nilanjan Roy – Chief Financial Officer (India and South Asia) - Bharti Airtel Limited

On the India tower costs, yes there has been impact on the network cost per site over the last one to two years, but we have also rolled out more than 1500 sites in 2G space and overall cost if you look at it overall cost while it has increased, but on a per site basis it has come down, so we have definitely improved on the network cost per site. On the S&D space, now again if you look at S&D cost has a percentage of the total prepaid revenue, again there is an improvement which has happened over the last few quarters, so clearly there is more room and space available in both the areas to improve further.

Srinivas Rao - Deutsche Bank - Singapore

This is helpful.

Nilanjan Roy – Chief Financial Officer (India and South Asia) - Bharti Airtel Limited

On the India tower costs, yes there has been impact on energy, but I do not think it is entirely on account of the pure prices of diesel coming down. I think we also have a war on waste program, which is also looking a new technology, and how do we reduce costs. So for instance the new BTSs have a lower energy footprint, we are looking at indoor-to-outdoor BTSs, so I think besides just a pure diesel decrease, I think there is a lot of effort in terms of changing the cost structure of our BTSs and also we get benefit of tenancies as more and more operators come in so it is a combination of all four.

Srikanth Balachandran – Global Chief Financial Officer - Bharti Airtel Limited

Coming back to your third question on Africa, the costing arrangement with the TowerCo operators are subject to annual reviews, but the buyout position for year one is that they will be periodically indexed for either the electricity tariff rates in that country or for landing cost of diesel in that country and so to that extent if there are cost adjustments downwards or upwards they will take effect in the energy charges that will accrue to us.

Harjeet Kohli – Group Treasurer – Bharti Airtel Limited

But on the tenancies, the rentals, there is rental mark down as the second tenant comes in or the third tenant comes in, which is principally in the same way as it happens in India today.

Srinivas Rao - Deutsche Bank, Singapore

For both rentals and the energy.

Harjeet Kohli – Group Treasurer – Bharti Airtel Limited

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Energy of course gets shared and then overtime gets indexed as well for the input cost.

Srinivas Rao - Deutsche Bank, Singapore

Understood. This is helpful. Thanks.

Shareena – Moderator

Thank you very much Mr. Rao. Ladies and gentlemen, due to constraints of time, we will be able to take only two more questions. The next question comes from Mr. Chris Lane from Bernstein, Hong Kong. Mr. Lane you may ask your question now.

Chris Lane - Bernstein Research - Hong Kong

Thank you. I have two questions. The first one relatively simple around the ADR listing. Can you give us any thoughts on the likely timetable to secure the regulatory approvals and actually be up and running? The second question maybe a little bit more difficult. South Asia continues to deteriorate, your subscale in both the key markets. Can you give us an overview of what you are currently thinking on how you are going to improve that business going forward? Thank you.

Harjeet Kohli - Group Treasurer – Bharti Airtel Limited

I will take the first question on ADR. You are right it needs some clarifications, but those are not in the nature of approvals, which as a potential issuer of equity we need to take. These are guidelines that the government came about in 2014 end and basis that the depositary participants in the banks for the nature of this level one ADR security instrument, they need some clarifications both from the Tax Department and from Reserve Bank of India more to get this new instrument so to say covered in the relevant guidelines as they are available and in the relevant exemptions. On timing, a little bit uncertain to say, but both of them are at play today. My assessment is it could take up to two to three months having said which it is something which will need to be determined overtime with the industry associations and the banking lobby working with both the regulators.

Chris Lane - Bernstein Research, Hong Kong – Analyst

Okay thanks.

Gopal Vittal – Managing Director and CEO (India and South Asia) – Bharti Airtel Limited

Hi Chris, let me give you a sense of what is happening in South Asia, so if you split the two markets Sri Lanka and Bangladesh, Sri Lanka is a really small market and has more than the necessary operators, that is the challenge in Sri Lanka, the market there is also not growing. The second issue in Sri Lanka is that there is a tariff regulation issue, which does not allow us to be a strong enough challenger and therefore I think Sri Lanka is more a steady sort of business as we see it. Bangladesh is a business, which is a very different type of market. It is densely populated. It has got very, very strong amounts of spectrum that are available and one other thing that we have done in the last four to five months is really stepped up our whole aggression on adding customers on to our network, so if you look at the results of that, it is very early days, the results of that on a sequential basis that we are seeing improvement. In fact on a South Asia basis you will see a sequential improvement of 4.8% on gross revenue, which is fundamentally coming out of substantial growth that we are seeing in Bangladesh, so we are far more confident about what is happening in Bangladesh. Sri Lanka is going to be a tougher challenge for us.

Chris Lane - Bernstein Research - Hong Kong

Okay. Thanks

Shareena - Moderator

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

Sanjay Chawla - JM Financial Institutional Securities - Mumbai

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Good afternoon. Thank you for the opportunity. I have two questions. First question is on Telemedia business. If I look at just your revenues from data broadband and divide it by the broadband for customer base that you have indicated, we get an ARPU of Rs.1,660. So the question is, is this the right way to look at this ARPU? Is this how much you are actually deriving on a per customer basis from a DSL broadband base? Also a related question is how do you see the ARPU profile and margins evolving in this business given the competition, which is emerging, from cable broadband players and also FTTH being rolled out by Reliance Jio and some of the smaller guys? So, what are your thoughts on that? That is first question. Secondly, on the debt side, you are also accruing some interest on the deferred spectrum liabilities so is this accrued interest being reported as part of net debt or is it outside of that? And also if you could just provide some information on the tenure and the average interest cost on the FLO portion and figure?

Nilanjan Roy –Chief Financial Officer (India and South Asia) - Bharti Airtel Limited

I think on the Telemedia services if you see I think the ARPU is closer to Rs.1000 in terms of both voice and data customers blended ARPU and on pure data, which is just DSL side I would think it is a similar figure just on DSL as well.

Sanjay Chawla - JM Financial Institutional Securities, Mumbai

So when you report non-voice revenues in that, is it something else?

Nilanjan Roy –Chief Financial Officer (India and South Asia) - Bharti Airtel Limited

We have the SME customers as well which is corporate data for small and medium enterprises so that also goes as reported as data, but they are not DSL customers.

Harjeet Kohli - Group Treasurer – Bharti Airtel Limited

But at a portfolio level Sanjay you are right you can deduce using the non-voice revenues and the DSL connections. A deduction, but which is weighted average of both the enterprise, Telemedia equivalents and retail.

Gopal Vittal – Managing Director and CEO (India and South Asia) – Bharti Airtel Limited

The other sort of supplement to the question you asked Sanjay is that this is a small business, but it is a very profitable business. We have about 1.6-1.7 million customers on home broadband. We have a substantial opportunity. Today, already in the last few years we have upgraded our capacities and their offering speeds that are up to 16 Mbps. We are looking at further upgrading these capacities and dramatically increasing the throughput that we offer customers and really future-proofing this network. This is something that we are currently engaged in. We have also passed on the benefit of the drop in mobile termination charges to the customers, we have really made voice free really at a very marginal rate of Rs.49 and all of that has led to our net additions on this business being amongst the highest that we have seen for several years, so we have added almost 35000 net additions this quarter, which is a very, very healthy level for a smaller business like this, so this is a neat little business, profitable, big opportunity, but it is a really focused opportunity. It is not a mass opportunity. It is a focused opportunity and the good news is that as an operator we have news that we have presence on the ground, we have got the infrastructure on the ground and at a very marginal investment we have the opportunity to upgrade this infrastructure, which leads me to a broader point that I just want to leave you with, which is the portfolio of businesses that we have some of which are now beginning to kick in and come together, you will see that our performance on our enterprise side, which is enterprise and corporate side has been almost 18% and we have reported that separately, the 22% that you see includes our Global Carriers business, but on the domestic side we have seen a revenue growth of substantially higher than what we have done on the mobile side. We are seeing the same impact of that kick in on the Telemedia side with the addition of new customers and we are seeing DTH sustain its level of performance over the last several quarters and all of these businesses together are now pretty sizable. I think that is a really good sort of situation to be in from a portfolio standpoint.

Sanjay Chawla - JM Financial Institutional Securities - Mumbai

Sir, but my question was more on the fact that longer term we will have a broader FTTH in terms of the product ladder, we will have FTTH products, than you have DOCS IS 3, 2, 0 kind of products all followed by DSL. So, should not we have ARPU also following this kind of an order longer term? I mean a broader question is on the sustainability of Rs.1000 plus ARPU and also the margins that you have, which are pretty healthy?

Gopal Vittal – Managing Director and CEO (India and South Asia) – Bharti Airtel Limited

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I think it is difficult to sit and speculate right now as to what is going to happen as more capacity comes in into this market in terms of pricing suffice it to say that from a customer standpoint actually they are pretty agnostic to whether this is coming through fiber or copper or DOCSIS or whatever it is. The question is what speed am I getting and there are technologies today, technologies like vectoring, which are available today, which can actually dramatically upgrade the speeds that you have through your copper plant and generate up to 50 MBPS, this is something that we are actively looking at because we have got a goldmine on the ground and the question really is can we convert copper into gold.

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**Sanjay Chawla - JM Financial Institutional Securities, Mumbai**

Fair enough that is useful.

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**Harjeet Kohli - Group Treasurer – Bharti Airtel Limited**

I will take the other one on FLO, so Sanjay, first your point was the accrued interest on the deferred liability on spectrum, to the extent net debt has been recognized, which means spectrum has been allocated, but we have not yet used that spectrum for commercial launches, the accrued interest goes as a part of capitalized portion of deferred liability and adds to the net debt, but wherever we have launched it, the interest is getting passed through the P&L. The second portion your comment was on finance lease obligation. Finance lease obligation will accrue interest, but that will be at an intrinsic internal rate of return on the deal that we have struck with the counter parties. This may vary from country to country, but frankly if you see the weighted average cost of finance in Africa more or less it is about 10% to 12%, arguably some of the Francophone regions are lower and some of the Eastern Africans are higher, but broadly 10% to 12% is the representative number, but I cannot say which one is 6 or 12. That is something you will need to take your overall portfolio call on.

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**Sanjay Chawla - JM Financial Institutional Securities, Mumbai**

So your average cost on the FLO, are you saying that it's a bit lower than the average cost that you have on the African OpCo debt?

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**Harjeet Kohli - Group Treasurer – Bharti Airtel Limited**

African opco debt is actually less than 10%. If you see African OpCo debt is about 7.5% to 8% on a weighted average basis. There are companies, which are at 18%, 20%. There are companies that are at 6%. So as of now, the weighted average cost of debt is about 8% to 8.5%.

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**Sanjay Chawla - JM Financial Institutional Securities, Mumbai**

If I could just have one more small question, a clarification actually, you have reported some provision against disputed receivable and expired claims of Rs.283 Crores in the exceptional item. Can you just comment on the nature of this item that is appearing as an exceptional and not as part of your normal G&A costs?

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**Srikanth Balachandran – Global Chief Financial Officer - Bharti Airtel Limited**

So in line with our established accounting policy that we consistently follow, we report as exceptional items only those legal and disputed items, which are really settled either in a court or outside or through an arbitration so these are the kind of things which do not come on a routine basis. These are not commercially negotiated settlements and so on, so our accounting policy, accounts for settlements arising out of these either credits or debits to be accounted for as an exceptional item.

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**Sanjay Chawla - JM Financial Institutional Securities, Mumbai**

Okay fair enough. Thank you very much and all the best.

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**Shareena - Moderator**

Thank you very much Mr. Chawla. I would like to hand over the call proceedings to Mr. Srikanth Balachandran for the final remarks.
Thank you all for yet another interesting round of Q&A, which covered the entire range of subjects including pricing, margins, Africa, forex, tax, and so on. We look forward to talking to you once again next quarter and probably meeting some of you face to face during the conferences during the quarter. Thank you.

Shareena - Moderator

Thank you very much sir. Ladies and gentlemen, this concludes the conference call. You may now disconnect your lines. Thank you for connecting to audio conference service from Airtel and have a pleasant evening.