

Earnings Conference Call Transcript

Event: Bharti Airtel Limited First Quarter ended June 30, 2013
Earnings Call

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Bharti Airtel Limited First Quarter ended June 30, 2013**CORPORATE PARTICIPANTS****Sarvjit Singh Dhillon**

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PRESENTATION**Sanya – Moderator**

Good afternoon, ladies and gentlemen, I am Sanya, the moderator for this conference. Welcome to Bharti Airtel Limited first quarter ended June 30, 2013 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. Present with us on the call today is the senior leadership team of Bharti Airtel Limited. Before I hand over the call, I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risks that we face. I now hand over the call to our first speaker of the day, Mr. Sarvjit Singh Dhillon, thank you and over to you, Mr. Dhillon!

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Sarvjit Singh Dhillon - Group Chief Financial Officer- Bharti Airtel Limited

Thank you and a warm welcome for those who are participating in India, good afternoon and for everyone else who is dialing in from around the world for our first quarter this year, that is the results for the quarter ended June 30, 2013. I have with me the entire management team of Bharti Airtel. We have Gopal and Nilanjan here from the India Team, the CEO and the CFO, Manoj and Hans from the International Team, CEO and the CFO, and from the Corporate Group Team, we have Srikanth and Harjeet who are representing Group Finance and Treasury.

Before I talk about the business today, I think this is a New Year as well. Let me just talk a little bit about the disclosures and changes that we have made on disclosure for this year and also on the issue of one or two accounting changes, and these are well presented in the quarterly report anyway. Hopefully, you have had a chance to look through the quarterly and seen them through yourself, but just to reiterate, the numbers firstly as far as accounting is concerned IFRS 11 comes into effect from April 1, 2013. The Company has now moved mandatorily to IFRS 11 that means for the JV of Indus, instead of accounting for it on a line-to-line basis it is now through equity accounting and that the financials have been recast for previous quarters. So that is very, very important to note. That recast is also something, which is shown in the schedule and the quarterly report. So, on a like-to-like basis, we have taken the current quarter as JV accounting according to IFRS 11 and recast previous quarters accordingly.

Second issue is on Bharti Infratel and that merger into Indus has also taken place effect from June 10 of this year according to the court rulings. And here again as a result of that some element of elimination of revenue and EBITDA for the quarter, but no effect on profit before tax level as a result of the merger. So these are really representational changes not fundamental business changes as far as the business is concerned.

As far as the business side is concerned, again two real alignments, the alignments are firstly as far as the way we manage our business. As you know towards the end of the last year, we announced the alignment of the business is into two strategic business units of India and International, as a result of that the quarterly report also reflects this, and again that has been recast for the previous periods as well. International now includes Sri Lanka and Bangladesh businesses as well.

The other one really is to do with within India. We have also aligned various businesses within India. The India region is now split into Mobility India, Airtel Business, Telemedia, DTH and Towers, and some element of common costs which were in others have been attributed to these business on a consistent and constant basis going forward and this has really been done to align some of the elements. For example, we have taken access network, which was previously in Telemedia and into the Mobile business because principally, a lot of that access is utilized by our Mobile business right now. Telemedia business with a fair charging principal back into Telemedia. So it is really an alignment of where those costs should be. Again, these have been recast historically as well and so it is on apple for apple basis, this full disclosure, if you look at section 5.1, of the MD&A in the quarter report, you will see a full ready reference for your information.

Let me just move on now to the industry and take a picture probably on regulation on our market perspective and events for the quarter. First as far as the regulation is concerned, especially on the India front it continues, I think, in the last quarter and so far to be a very dynamic period for the industry. The regulatory headwinds we have been talking about in the last few quarters are still there, issues such as spectrum auctions, license extensions, one time fees, 3G ICR issues, are as we speak sitting in some forum or the other in the judicial process, probably that would be unfair of me to comment on that as they are going through their own due legal processes. Having said that on a positive note, TRAI guidelines have come out on roaming tariffs and that was clarified quite well and that in itself tells us that there is some element of movement as far as the regulator being fair towards the industry and the market dynamics is concerned.

Secondly, we have now received and as you would know the consultation paper for 2G auction, again this should go through its own consultative process, but I guess with what we have seen in the last few auctions, we will look at this diligently over the next few weeks as to what that would really mean for the company. So, it is a little early to comment on that at this point.

So moving on from regulation on to the market, we have been discussing and I think many of you have been asking on the issues of pricing and pricing power, coming back to the operators. We have mentioned in the last quarter as well that we have seen some element of passive consolidation in the industry and that we are seeing pricing coming back more by the way of elimination of wasteful expenditure in sales and distribution costs with quality of acquisitions coming up and by way of elimination of low yielding or non-yielding usage, whether it is on voice or in data. That has been playing on the minds of operators I think for a quite few quarters now and we have seen some early signs this quarter of some of that coming back into the business and I will talk about the actual numbers in a while. Having said that we have seen, I think a small but meaningful RPM increase by 1.39 paise and that's a 4% quarter-on-quarter growth. And for a company like ours which pumps a trillion minutes in India annually, it is very important that this sustains. So, early days, we are not seeing any negative elasticity on this account and you could see that by the fact that MOUs are pretty stable and as a result, which you are seeing Indian ARPU's increase again for the first time in many, many quarters.

So, this would be I think a very healthy move for the industry if it sustained to see the effective rates per minute actually growing and I think from our point of view, this should go up even further. We would like that to be the case and continuing with elimination of waste as far as S&D expenditure is concerned as to quality of acquisition. If these two parameters can sustain over the next few quarters, we think it is a very healthy sign for the industry to be coming back into a situation where it is economically viable for operators to be present in India. So, that is on the voice side, I think on the data side, which as you know substantial investments have been made here over 3G and 4G both in India and in Africa and both I think we are now starting to see the J curve coming into play, it is a strong focus area for the company, both in India and in Africa. As far as

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India is concerned, the data customers are now well over 46 million customers, and we are seeing a 7% growth quarter-on-quarter and about 25% of the overall base comes from the data services. Mobile internet revenues continue to grow on a very healthy click, and we have seen that accelerating every quarter. We now have grown revenues above the 90% year-on-year and over 117% as far as usage is concerned, year-on-year so, high double-digit or triple digit growth taking place and that is on all parameters, whether it is the base or the number of customers we are having on 3G, the usage and the rates and the data story continues to perform quarter-on-quarter. Likewise in Africa same similar pattern, or better. I think Africa has a little way to catch up with India, but we have seen that coming into play now as well with at least 17% of overall revenues coming from non-voice, and over 24% of that base now in Africa using some form of data services. Revenue growth again year-on-year has been in excess of 65%, so again a story, which holds well for the coming quarters and years and I think the investments that will be made here and we continue to make should prove dividend going forward.

Let me move on now from the market to really some of the key company events outside in the quarter and it is not in any particular order. In the quarter we completed the transaction the Qatar Foundation Endowment, which is a post money 5% equity shareholding for consideration of just under 6800 Crores. This is through a preferential allotment. The proceeds of this has been principally to retire equivalent debt in the Company and that is going towards and you will see from the KPIs and the financial ratios an improvement in the capital structuring and balance sheet leverage of the Company. With QFE now coming in we now have another great quality long-term institutional investor in our shareholding pattern. Another point for the quarter is as you recall, we have invested in BWA licenses as a result of the investment in the Qualcomm licenses in India, four entities with a movement from 49% to 51%, now become a controlling interest worth and as a result of which we are now absorbing in our financial services at the end of June, 100% of the Qualcomm debts in our books, which was previously a 49% pro-rata stake.

Third one and the final one is really the story on in country acquisitions. As you know we have made an acquisition as far as Uganda Warid Telecom is concerned, and that was completed in the quarter, and we started integrating those results with ours and starting May 13, we also increased our stake in Bangladesh operations to 100% by buying out the minority shareholder 30% balance.

That is as far as that is concerned, some significant events of the quarter. So, you have got basically accounting and disclosure changes I mentioned, the regulation, and market key events and just as a result of that let us just probably talk a little bit about the results themselves. Consolidated revenues for the quarter were over Rs.202 billion, a year-on-year growth of 9% and a sequential growth of 3%. Consolidated EBITDA was Rs.65.4 billion that is representing a year-on-year growth of 19% and sequentially of 8%. As a result of some other initiatives that I mentioned earlier on, the EBITDA matched the margin expansions taking place in the quarter is now standing at 32.3% on a consolidated basis and this is an increase of 1.4% over the previous quarter. Cash before derivatives and exchange fluctuations for the quarter is 59 billion versus 51 billion last quarter. As you know the rupee has been depreciating quite substantially over the quarter and the Company has provided for cross-translation adverse movement to the tune of Rs.5.3 billion.

As far as the business is concerned, the income statement of the Company and the profitability is one point that I wanted to make is on exceptional items. The net income of the Company includes an exceptional item for the quarter. The exceptional item results in a net loss of Rs.200 million that is 20 Crores comprising firstly of a net gain of 8950 million and that is on account of the difference of the fair value of the book assets in Bharti Infratel Ventures being recognized in accordance with IAS 28, and that is consequent to the merger of the BIL with Indus Tower. Against that we have had an additional charge of Rs.6698 million and that also includes the reassessment of some of the useful residual life of certain categories of network assets of the group because of the technological developments. Tax impact on that has been Rs.1110 million and also on minority interest of Rs.1342 million. If you take a net picture of all that, the position of net loss is like I said Rs.200 million. Has this not been the case the profitability, the net income would be higher by Rs.200 million. Now this has been fully disclosed as well in section 5.3 and the results of the operations in the quarterly report.

Moving now on to the CapEx front, CapEx in Q1 was just over \$400 million, \$411 million, CapEx planned for the year which has been disclosed earlier on the year is somewhere between \$2.2 and \$2.3 billion of which \$0.6 billion has been identified for Africa and at the moment that guidance is still same and we will have see how we can organize it over a couple of quarters after we do anything on that. On the balance sheet front based upon principally what I mentioned earlier on the Company now has a net debt of \$9.8 billion or around \$10 billion at the end of June and the ratio's are also improving as a result of equity infusion that came in and annualized is now 2.09 net debt to EBITDA and that is down from 2.39 in the previous quarter and for the same period last year it was at 2.86.

Just moving on to the segments for a few minutes now before I hand the call back, in India, like I said, really the focus has been to improve realized rates and that continues. It is the first quarter where the rate volume mix has really tilted in our favor, that is reporting a 1.39 paise voice realization increase and this is early times again but much awaited in the market place and we hope all operators including us continue to focus on quality and sustainable gross adds and bringing down churn and reducing wasteful expenditure. Data, like I said, continues to perform well. The data revenues are now over 8.5 billion and it has increased due to improvement in all three operating metrics and these usages and the number of subscribers. I would also like to just probably highlight two more points; one is as a result of that the margins have expanded by 190 basis points on mobile due to these factors and as far as the other segments is concerned, the one really to highlight is the DTH segment, which is continuously showing sustainable performance and for being one of the recent businesses in the last few years and the margins have now started to expand quite rapidly with a flow through at over 15% of the sustained revenue market share gains.

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On Africa, briefly the quarter was a little bit softer on account of regulatory changes and social invest, the mobile termination rates across the three of our countries, Nigeria, DRC and Tanzania and along with blackouts as it works in more than in Nigeria has impacted the gross revenue of the top line growth. Having said that if you then look at from a net point of view, or net revenue point of view that is net of access charges and cost of goods sold, which is actually reflecting the underlying performance of the Company. Quarter-on-quarter it has been largely sustained despite the issues that we faced largely in Nigeria. We will continue to invest in the market and EBITDA margins have expanded slightly as far as the African operations are concerned.

Our focus on 3G remains as I mentioned earlier so you will see some traction on the revenue figures and usage figures both in India and Africa. As far as Africa is concerned, we have launched 3G now in 14 operations, which most recently have included the launches in Burkina Faso and DRC. Airtel Money is another plan that we have with the Company. Airtel Money is now integrated in all GSM packages, are showing positive results and at some point we hope to show Airtel Money as the KPI in the coming quarters.

As far as Tower Company is concerned, in all 17 countries, this is now operational as a separate business unit within the country and sharing and the business model of sharing in Africa where the cost of towers and the running of tower infrastructure is very, very high is something that we look forward to really eliminate cost base as a result of synergy benefits. As I mentioned earlier, data and non-voice matrix continues to do very well in Africa. Data now contributes 5.4% of our revenues.

Moving on just on the South Asia business as a part of the International Business, I am pleased to say that this quarter business is combined down to an EBITDA positive, and that's a good sign going forward. Just one last point, I would like to do talk about before I hand it back like I said is I think it is just a few words on the Tower business. As you may be aware we announced the results yesterday. The total tower base stands at just over 82,000 and collocations are just under 160,000 or 158,000. Sharing factor is at 1.91. Consolidated revenue for the quarter stood at 12.8 billion that is a year-on-year increase of 9%. EBITDA for the quarter is at 5.7 billion that is a year-on-year increase of 9% and EBIT has increased 24% year-on-year to reach 1.9 billion. This business model is unique in the fact that if you see large growth that sustains on a longer term in terms of capital investments by operators, if we do not as we have seen in the last couple of quarters, it generates huge operating free cash flows and that came in strong at 4 billion, which is year-on-year increase of 32%. So the model is now yielding an increase in cash flows earnings and improving returns on investments.

That is the essence of the quarter, this quarter, an eventful quarter for Airtel and many events taking place and what we will do is hand it back to the moderator for them to open it up for Qs to the management team. Thank you very much.

Sanya – 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 please press “*1” on their touchtone enable telephone keypad. On pressing “*1” participants will get a chance to present their questions on a first in line basis. To ask a question participant may please press “*1” now. The first question comes from Mr. Suresh Mahadevan from UBS, Singapore. Mr. Mahadevan, you may ask your question now.

Suresh Mahadevan – UBS - Singapore

Yes, good afternoon, and congrats on a good set of numbers, particularly the RPM improvement along with volume growth. Yes, my first question is related to the Indian mobile business. I mean, clearly, you made it very clear that this is primarily due to removal of promotional minutes. I would like to ask you how much more cushion is there by removing more promotional minutes. And have we reached a stage where we can look at some tariff increases as well? That is question number one. The second question is related to your Africa business, where I want to understand obviously your aspirations there because clearly, I think in on the revenue growth is pretty much in the single-digits for the past several quarters. Just want to understand you know what you are trying to do there whether it is, I mean whether this is going to be a steady, single digit revenue growth business. I mean, I think what is it that you are trying to achieve in Airtel Africa? Thank you.

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

Thank you Suresh. This is Gopal. Thank you for that question. So firstly, if you just step back and look at the markets structurally you will find that the headline tariffs are in the ballpark of 0.90 paise or something like that and the discounted tariffs, given the yields that you actually see the yields that are coming through, there is a substantial discount over that. So there is clearly, I think, the first part I want to make is that there is very clear headroom to continue to reduce discounted tariffs. Having said that, I think, what we are going to look at is what is the competitive context, what is the elasticity or the inelasticity that we are seeing and in a period of consumer inflation, not so much telecom inflation, but consumer inflation where customers are pressed and stressed for their sort of overall spend and discretionary spend in wallets, we just have to proceed with caution in terms of how we actually look at this. So, therefore I would like to sort of answer the question in two

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parts; one is on a secular basis from a longer term perspective I think there is headroom, in the short-term perspective we will need to temper this and see how this actually settles it down in terms of what we have done in the last few months.

Manoj Kohli - CEO (International) and Joint Managing Director - Bharti Airtel Limited

Suresh, this is Manoj. Good question on aspirations. Our aspirations clearly are to head for double-digit growth in each market, but various reasons, which I would like to share with you. Last few quarters have been muted. Let me start with Nigeria. Nigeria as you know was growing at a very good cliff till previous year, not the last year, but the previous years, and last year saw a 30% tariff reduction, because of which the incremental industry revenue of billion dollars a year fell to about \$80 million last year. That is a fall of about 90% of market revenue, industry revenue. Obviously everyone suffered, but luckily we kept our revenues stable. So keeping revenues stable in a market, which falls, the market revenue, the incremental market revenue falls by 90% I think was a good job done by the Nigeria team. In this quarter, while the tariffs are stabilized now there were two unprecedented emergencies, which happened in Nigeria, one was three states of north and as you know, in north our market share is higher than west and south Nigeria. Those states were closed down and complete closure by entire industry. Second KYC and NCC got tough and many customers were to be disconnected by every player and that definitely impacted the industry. So, these two together along with the MTR cut lead to the drop but luckily the net revenue is moving well and already we see all these disconnected customers of KYC and north coming back very steadily every week. So, I will say last quarter I said Nigeria is heading for a double-digit growth with this kind of change in North Nigeria, double-digit looks difficult but maybe a high single digit may still be possible. Franco is a steady growth market. Our market share as you know is 50% plus. We are market leaders across Franco. With new launches of 3G and last quarter we launched DRC and Burkina Faso. I think our revenue growth will be better than competition because data revenues will definitely come up from behind. Airtel Money also has been launched in all Franco markets therefore I think that will be additional benefit to Franco. Overall I see Franco keeping a steady growth rate. Anglo actually has been comparatively the highest growth rate. If you see last two years, 15% plus growth rate and I believe this should continue and overall I see large markets like Zambia, Ghana and Tanzania growing well. So, I think that is the aspiration we have and luckily on the South Asia side, Bangladesh has also kept pace, now with positive EBITDA our confidence is better. So, I believe that the top line aspirations remain. There are some road blocks here and there, sometimes regulatory, sometimes social unrest etc., which we face, but we are keeping ourselves and you are seeing it we are keeping margins quite safeguarded while the top line is affected by these external factors.

Suresh Mahadevan – UBS - Singapore

Okay. Thanks a lot, Manoj. And thanks, Gopal, for the detailed answers. Yes.

Sanya – Moderator

Thank you very much Sir. The next question comes from Mr. Sachin Salgaonkar from Goldman Sachs, Mumbai. Mr. Salgaonkar, you may ask your question now.

Sachin Salgaonkar - Goldman Sachs - Mumbai

Hi, thank you for the opportunity and congratulations for a good set of numbers. My two questions are firstly, again, a follow-up on revenue per minute, is this hike led across the board in all the circles or only in few select circles? And a continuation of that is, will the continued tariff increase lead to an equivalent margin increase or the margin improvement could be more or less slower given that the SEC costs are already down. And the second question is on VAS, we did see it in India declining from 9.1% to 8.2%. So is this taking the full impact of the regulatory issue of double confirmation or could we see certain more coming off it in continued quarters? Thank you.

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

I think on the RPM, we obviously have a portfolio of circles as you know, Sachin, I mean, there are 12 to 13 circles where we are leaders by far and in some other circles we are challengers so it is not in across the board in the same sort of manner but having said that I would say pretty much across the board, we have seen some increase in RPMs. That is what we said the same level of increase is not we may have seen across all circles.

Coming to your question on margin, I think given that this RPM increase has been accompanied by a no reduction in volume and in fact a marginal increase in volume by 5 billion or little over 5 billion minutes, most of it has actually flowed through in the margin because the top line has therefore grown and if you look at the operating costs the total OpEx costs have been more or less in the same ballpark give or take a few 100 Crores and therefore as a consequence the margin has increased. On your third point on VAS, we had implemented much of the regulatory change in the quarter that we have just concluded but there still is some regulatory intervention that needs to be done particularly when it comes to things like single point WAP downloads and so on, so there will be some continued impact of that into this quarter and we are already seeing that as we commence the quarter.

Bharti Airtel Limited First Quarter ended June 30, 2013**Sachin Salgaonkar - Goldman Sachs - Mumbai**

Okay, thanks a lot, Gopal, very helpful. Just one small follow-up question about the consumer inflation point, which you mentioned, so is this a reason to worry from a near-term revenue growth perspective, especially given that we are heading into a seasonally slower quarter?

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

I think Q2 generally tends to be a seasonal quarter. Our hypothesis is that that as penetration of mobile telephone has increased in rural markets particularly in markets like Bihar, UP, MP and so on and so forth. You will see some dip in consumption in those markets because of a lot of rural sort of folks who are probably in the fields etc., and therefore during the day they cut back on consumption. Having said that at this stage we do not have any reason to believe that there is any significant impact on elasticity, but you know, this is a dynamic situation, because if overall growth of the economy is slow and there is inflationary pressure, then consumers will get pinched. So, I do not know if there is any cause to worry at this stage simply because the industry tariffs have been so low for so long.

Sachin Salgaonkar - Goldman Sachs - Mumbai

Got it, all the very best for future.

Sanya – Moderator

Thank you very much Sir. The next question comes from Mr. G. V. Giri from IIFL, Mumbai. Mr. Giri, you may ask your question now.

G.V. Giri - IIFL Capital – Mumbai

Hi, everyone. Number one, in Africa, your SG&A has fallen by \$14 million, is there any one-off compared to the previous quarter? Is the promotional ban lifted in Nigeria? When it was imposed, there was a dip in SG&A that time also, so is that around the corner or has it already happened, it's in the numbers? Number two, in Africa, why has your COGS fallen? What change in your handset strategy has caused this? And number three, why is your net revenue per minute fallen quite sharply in Africa this quarter also, what is the outlook on tariffs in the competitive situation?

Manoj Kohli - CEO (International) and Joint Managing Director - Bharti Airtel Limited

Let me start with the S&D question. I think there is no major; I will say one-time change in S&D. S&D, our underlying S&D is getting more efficient that is what I can say. There is definitely a focus on quality. There is definitely focus on lower costs. We are definitely reducing our acquisition costs wherever we can. Sometimes alone, sometimes other industry players also do the same. So let me clarify there is no one-time issue here. Your second issue on devices, clearly as you know, traditionally Bharti in India has never bought handsets on its own and sold to the consumers. In Africa we started with the same policy but we saw all other players really bundling and buying handsets, bundling handsets, which was not the Bharti policy, but we modified it bit for some time and now good news is that the distributors some large distributors in Anglo, Nigeria, and now Franco is coming in we have appointed and they will buy handsets for us, take our SIMS and take them, bundle them in their own warehouses and we will pay them basically the activation cost etc., etc., so now we are coming back to the original policy we had in Bharti that our big, big distributors or our device partners will do the bundling for us. We will of course spend money on marketing, branding, going to television jointly with them to promote our bundles. That is the change we have done. On promotions in Nigeria yes, promotions, the hand has been opened by NCC but very, very slowly. I think they are been very cautious, the approvals are taking much longer time, because clearly the regulator is very careful on opening up the promotion doors fully, otherwise some of the operators really go all over and have too many promotions, which disturb the industry. So, I think there is an orderly approach or a cautious approach by the regulator on promotions. On net revenue, there is a small fall. Actually our net revenue from last quarter to this, this is primarily because of Nigeria, these shutdowns, which happened in North otherwise the net revenue is stable. The tariff issue, which you said, let me tell you our attempt is to keep tariff stable. The major change in tariffs we have seen now is primarily because of major IUC change, which has happened in three large markets otherwise our intention is to keep tariff stable, our intention is to really promote through other ways and keep the tariffs as stable as we can. That is the way we are trying to keep our voice net ARPU as stable as possible also, and you will see these trends in the coming quarters.

G.V. Giri - IIFL Capital – Mumbai

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I was referring to the fact that the net revenue was stable, but the minutes have gone up by about 11%, so that implies a sharp fall quarter-on-quarter on the per minute net revenue. So that because of exclusive interventions and it was in that context did I wanted to know what the situation is.

Manoj Kohli - CEO (International) and Joint Managing Director - Bharti Airtel Limited

I think we have introduced bundles in many markets. I think about eight or ten markets we have introduced bundles, which are voice, data and Airtel Money, three in one bundles, which are very, very attractive for the customers and when these bundles are used the tariff, by the way, is not reduced but because of the usage of the bundles sometimes the realized rates comes down, and that is why the usage you have seen I think our usage is up by about 8 minutes or 9 minutes, so this is a positive trend as you know traditionally the elasticity of usage in Africa has been moderate and we have found our experiments of bundles have been very, very well taken by the customers and in some markets we are doing millions of bundles and I think this trend is picking up quite well.

Harjeet Kohli - Group Treasurer - Bharti Airtel

This also may have the Uganda, Warid Uganda because their net revenue is slightly lower and portfolio basis versus ours. So there is a mathematical impact.

Manoj Kohli - CEO (International) and Joint Managing Director - Bharti Airtel Limited

So, Harjeet can explain to you offline, there is some partial impact of Uganda acquisition for 45 days or so.

G.V. Giri - IIFL Capital – Mumbai

Certainly. Thanks a lot. One quick question on India, please. Why is your access charges as a percentage of revenue not fallen despite the fact that the rate per minute has gone up very sharply?

Nilanjan Roy - Chief Financial Officer, India - BhartiAirtel Limited

Actually access is a combination of all other businesses and if you actually see our B2B business that is where we have seen impact of IUC on ILD minutes and if you see ILD incoming minutes have dropped sharply in this quarter, so access actually correspondingly also has come down.

G.V. Giri - IIFL Capital – Mumbai

Sure. No problem. Thanks a lot. All the best.

Sanya – Moderator

Thank you very much Sir. The next question comes from Ms. Reena Verma from DSP Merrill Lynch, Mumbai. Ms. Verma, you may ask your question now.

Reena Verma - DSP Merrill Lynch - Mumbai

Yes, hi. Thank you for the call and congratulations on your India performance. I have a few questions. Firstly, on the cost front, do you think the shape of the cost curve in terms of network cost could change substantially in coming quarters because this is perhaps your slowest network rollout in the last two years? I am just wondering whether this could be offset by SG&A cuts, which have gone up very sharply. So I just wanted to understand your outlook on your cost curve for India over the next two, three quarters. My second question is on the loan book, as Sarvjit has been quoted on Bloomberg as saying that you have taken a substantial rupee hedge, can you share how substantial that is in terms of numbers, what is the unhedged dollar position now and what is the rationale for keeping it unhedged? Just very quickly two small housekeeping questions; firstly, your interest income has shot up very substantially, you have attributed it to Bharti Infratel, and so I am wondering whether that is the dividend income of Indus that is sitting there. And Bharti Infratel margins reported in your numbers do not tally with what is in the Infratel release, why should that be the case? Thank you.

Nilanjan Roy - Chief Financial Officer, India- BhartiAirtel Limited

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Reena, I will take the first question on network front. Yes, there has been a very nominal increase. Going forward, our large 2G roll-outs have stopped; we will continue to have some site roll-outs for Infratel. So there will be some upward movement in network costs but not in the lines of what you have seen in the prior years. And energy utilization usually is there every year, so we will see some uptick on that. And besides that basically, we have 3G site rollout which largely go as Infratel, so we do not pay full rental on 3G. So there is that incremental impact as well. But I think we have the three big elements will drive up costs, but not in the same ratio as the number of sites we used to put up in the past, so that will be the network site. On SG&A the big impact had actually been on bad debts and in Q4 we had a huge seasonality of collection of bad debts if you see in our B2B business and in Q1 it is a timing issue; in quarter one, the bad debt pile up which we collect again in quarter four, so most of the SG&A increase in India is actually on account of bad debt and not on sales and distribution actually.

Reena Verma - DSP Merrill Lynch - Mumbai

So would you say that will stay stable going forward?

Nilanjan Roy - Chief Financial Officer, India - Bharti Airtel Limited

Not at these levels. No.

Reena Verma - DSP Merrill Lynch - Mumbai

No, I am talking about the SG&A cost. Do you think that there is no reason for it to go up?

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

I think the focus of the business is to ensure that we eliminate waste and make sure that we try and acquire and improve quality of acquisition. I think that focus will remain and as a consequence this line of costs will be looked at very ruthlessly all the year through. I think the bad debts that we were referring to are enterprise are the provisions that we do between the two quarters, Q4 and Q1, and that part will get unwind as we go through the rest of the year.

Reena Verma - DSP Merrill Lynch - Mumbai

Sure. Thank you. On the hedge, please.

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

On the loan book we have mentioned that we have two large items of foreign currency loans. Number one is sitting in the acquisition finance vehicle, which is in Netherlands and there, as Sarvjit also mentioned in the morning, that acquisition finance is a liability in dollar taken for an asset which is brought in dollars. Of course that asset yields currently 15, 16, 17 currencies, but that is not necessarily a rupee asset. Africa on the overall free cash flow is also serving the interest costs from this year onwards for the acquisition finance. Functional currency of that Netherlands vehicle is dollars as well, so what really happens is from a transaction risk, we do not have immediate transaction risk in the next 12, 14, 18 and 24 months, you have a dollar payout let us say five years out, three years or ten years payout we did a bond as well, but you have also a translation risk, but because of the functional currency of this Netherlands entity being in dollars when it is translated to our final rupee balance sheet the net asset and the net liability movements versus the dollar to rupee come up and on a net basis the difference is very small and even that small difference goes into the foreign currency translation reserve. That is the big piece which normally is the height of currency risk issues, but that is the current status on that. On the other hand, each of the operating companies including India has dollar loans or most of the operating companies do have, India does certainly have and most of the operating companies also have dollar payables on account of let's say NSN or Ericsson supplying them or IBM being there, all of these are dollar liabilities, which get quarter-to-quarter restated. Now on our payables, we have a firm policy of making sure that we do not have a view on the local currency or in dollars, so we keep about 50% hedged, and similarly on shore in Indian foreign currency loans we have about 50% minimum hedged. It could be more, but 50% is minimum. But in any case, the foreign currency loans in India are not more than \$500 million. Mid quarter there was a fresh requirement for us to make a statement, and we did make the statement that our total loans in India are less than \$500 million and half of them or more are hedged. So that has really what it is.

Reena Verma - DSP Merrill Lynch - Mumbai

Harjeet, thank you for that answer. I just want to understand the \$9.8 billion number you quote in your press release as your net debt. Could you give me the ballpark US dollar number sitting in there please or foreign currency number sitting in there?

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Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

Acquisition finance, which is a large portion of the foreign currency debt, is about \$7.6 million.

Reena Verma - DSP Merrill Lynch – Mumbai

Alright. And all of it is unhedged?

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

Because as I said, the servicing is happening from the respective currencies to the dollar from the hedging of the respective currencies to the dollar, so if Nigeria's or Zambia's is planning to upstream dollar to service the dollar debt repayment that respective hedging is the next 12 months is how it is happening in each of these countries. Rolling 12 months foreign currency exposure is 50% is hedged at all points in time. Just that you also choose to have a dollar debt, which is to be paid out in 10 years you do not necessarily have the exposure of that net debt coming in one year, but for translation, which actually as I explained to you, comes via balance sheet.

Reena Verma - DSP Merrill Lynch – Mumbai

Sure. Thank you. Just my quick questions on Infratel, if you could help me with that and on interest income?

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

I will give you the interest income and maybe I will request Srikanth for the Infratel margins for the difference in the IGAAP versus IFRS. Interest income on Infratel is essentially because of the long-term duration fund investments, the free cash flow of the company already had along with the IPO monies, they have substantial cash which by February or March given the interest rate cycle was invested in more than one year bucket. Because of the interest rates going down in the last quarter, there were a lot of NAV benefits and interest accruals that happened on Infratel cash.

Reena Verma - DSP Merrill Lynch – Mumbai

So, the \$4 billion interest income you have this quarter is sustainable assuming Infratel does not spend its cash?

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

Reena, we cannot predict neither can I predict the interest rates. You know July interventions have happened in the markets. RBI has done what they have done for saving rupee versus dollar that I will not be able to say, but clearly while this is MTM up or down each quarter you have a core value of 8% to 9% whatever percent you want to attribute as an accrual on the underlying principle that we have invested.

Reena Verma - DSP Merrill Lynch – Mumbai

It is not due to Indus dividend?

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

Indus dividend is already accounted for. It is a cash flow event rather than a P&L event.

Reena Verma - DSP Merrill Lynch – Mumbai

Okay, thank you.

Sanya – Moderator

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

Srinivas Rao - Deutsche Bank - Mumbai

Thank you very much, sir. My first question, the intracity fiber which you have now put it under the India Wireless business. You mentioned that there is a) I would like to know what the reason is for that. I think Sarvjit did allude to that? And secondly, the access business usability, you mentioned there is some kind of a revenue share. Can you kind of quantify the extent of revenue, does it make a material impact on the division's margins? Secondly, could you throw some light on what percentage of your data revenues are from 3G? And finally, the strategic rationale behind DTH because, compared to your other businesses, both India and Africa Wireless business has both the DTH business opportunity seems to be fairly small. So why does Bharti continue to be in that space?

Nilanjan Roy - Chief Financial Officer, India - Bharti Airtel Limited

Srinivas, the intracity fiber if you recall, Bharti started the thick fiber business so most of the intracity fiber, actually was used by fixed line, but over the last few years our data has shot up largely more in mobile, we have seen more from intracity being used in mobile business and therefore we thought it makes more sense to club it under mobile. As regards the charging out, it is done on arms length transfer pricing basis, so there is no unusual profit or loss in this transaction, and it is not that material in terms of revenue, it is hold on IRU model, which largely goes into CapEx rather than an OpEx lease charge.

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

Just coming to the question on 3G revenues, the way we look at it Srinivas is that we look at the total data business across 2G and 3G etc., because at the end of the day this is an additional stream of revenue that we are trying to drive and if you look at across the two quarters, there is an increase in ARPU of around Rs.8 and the total data revenues have grown by around 17%. So the issue of looking at 3G and 2G revenues separately is one that is not as relevant.

Srinivas Rao - Deutsche Bank

Fair enough.

Sarvjit Singh Dhillon - Group Chief Financial Officer - Bharti Airtel Limited

Srinivas, your question on DTH, As you recall when we entered this business a few years ago and which it still is at the nascent stage our opportunity was to leverage our existing infrastructure to go across homes as much as possible and to aid our triple play. So we already had a distribution in place and we extended the brands in DTH, we extended content arrangement because we already have them for Telemedia business so all those factors are in play. In fact we probably entered the game a little bit late. As you know we came in as a fifth operator.

Today after three or four years we are now principally the leading operator as far as incremental business is concerned and neck on neck with the second as far as overall market is concerned.

So we see this as a great play going forward. We also see and you could see from the numbers now that we are getting traction as far as financial returns are concerned, margins have gone positive; they are increasing quite rapidly quarter-on-quarter. So, a business which we really much believe in and I think from the play going forward what I guess it is a tremendous value add.

Srinivas Rao - Deutsche Bank

Fair enough. I just have one more housekeeping question. You mentioned in the Qualcomm circles now the entire debt is on your books and you mentioned that the debt is about Rs.59 odd billion, \$1 billion. So I mean how much of that was recognized in the last quarter?

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

So, dollar rupee also changes every quarter. So assuming I take this quadrants dollar rupee of the total of about \$900 million probably 49% of that is recognized when accounting basis in the last quarter's report and the balance 51% is now incrementally added to that.

Srinivas Rao - Deutsche Bank

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Okay. So approximately \$400 million odd just got added because of that 1% increase in stake?

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

\$450 million and \$460 million or more.

Srinivas Rao - Deutsche Bank

Okay, okay. Fair enough, thanks.

Sanya – Moderator

Thank you very much Sir. The next question comes from Mr. Sachin Gupta from Nomura, Singapore. Mr. Gupta, you may ask your question now.

Sachin Gupta - Nomura – Singapore

Thank you very much. Just a few questions; firstly, on this RPM once again, just any indication on what has been the exit runrate for the quarter, just to understand I guess how much more upside we can expect? And secondly, just a minor one, this asset network, write-down of the network asset of Rs. 7 billion, just wondering what does that relate to. And I guess another high-level question if I may, if you look at the current situation or the current expectations, we are expecting voice prices to go up, most of you are expecting volumes to remain strong, data going up, margins rising, CapEx coming down. All sounds fantastic, but I guess the cynics might think that it might be too good to be true, just any thoughts on or any of the metrics that the management would be concerned about?

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

Sachin thank you for that question; on RPM while we have seen an uptick in rates and as I mentioned to you last quarter that we were seeing an uptick in the rates as we ended the quarter last quarter which was why we sort of were fairly confident that we were on the right track. We have seen movement in RPM through the quarter, but as we look at the subsequent quarter, like I said, we really need to watch for the impact on elasticity and the manner in which this will actually go through and we got to watch how easily it is going to be accepted by customers.

Having said that like I mentioned before from a longer term perspective or a medium term perspective, there is clearly opportunity to reduce discounts even further and therefore raise realized rates, so, I would just be a little cautious about the short-term with a strong secular sort of outlook towards the medium term. You are right. You know if you look at the quarter, I think the quarter is one where as far as data is concerned we have continued to grow the data, so it is not that this quarter has been any better than prior quarters. Data has been growing at these sorts of rate over the last few years, and it is just coming off a larger base and therefore having a bigger impact on the overall revenue of the company. But as far as this quarter is concerned, it is fundamentally a story of increased voice realization coupled with no negative elasticity on voice, in fact a growth of 5 billion minutes invoice. How that plays out is really a situation where we have got to look at in terms of dynamically. The risk to this business are the risks that we have spoken about in the past whether it is regulatory risk, the equilibrium that the sector needs in terms of the manner in which the industry tariff table is actually handled by all the operators. As a leader we have got to set the benchmark which is what we have done during the quarter and that is why we have seen this coming through.

Srikanth Balachander - Chief Financial Officer – Bharti Airtel Limited

I will take the question on the network assets, the exceptional item that you spoke about. As you aware there have been and in the last few years there have been lots of technology changes in this area and we have done a thorough reassessment of the technologies that we have currently. The network assets that we have deployed and based on this reassessment we have come to the conclusion that the residual lives of sub-certain categories of assets across the group, across the geographies, need to be accelerated and therefore we have done a catch up, one time catch up in terms of the accelerated depreciation, and that has what has led to this. This is a non-cash entry and this of course will have some impact going forward in terms of accelerating the depreciation towards a much shorter life in respect of these assets.

Sachin Gupta - Nomura – Singapore

Thank you.

Bharti Airtel Limited First Quarter ended June 30, 2013**Sanya – Moderator**

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

Vinay Jai Singh - Morgan Stanley - Mumbai

Thank you so much. Again, congratulations a lot for the wonderful results. I have three questions out here. Firstly, the CapEx front, now, the CapEx guidance, net of Indus, would you be able to give us a new number out here? Going by the rate you have been spending and the comment you have made in the notes, it seems to be much lower than what you had suggested. This obviously is good news, but you know - if you would give us some guidance on the CapEx, that's my first question. The second question, the Airtel business, I thought last quarter, we had a one-off of about 660 million for some IRUs; this quarter too, the numbers look very good. Some light out here as well would be helpful. Finally, on the tax front, I do understand the international tax the African tax element being high and some tax on the Indus dividend. When do we think the effective tax rate for the Company as a whole would go to 30% to 35%? I will stop here. Thank you.

Nilanjan Roy - Chief Financial Officer, India - Bharti Airtel Limited

Are you talking about India CapEx or you are talking about global CapEx?

Vinay Jai Singh - Morgan Stanley - Mumbai

No, I'm talking about overall CapEx for the Company, which you've given a guidance of about \$2.2 billion?

Sarvjit Singh Dhillon - Group Chief Financial Officer- Bharti Airtel Limited

While I will ask to give you the absolute number offline, but it depends on the rollout of the joint venture as what Indus tells going forward. I understand your point in JV come out. As I recall, I do not want to give a number which is not correct, but I think I will ask IR team to come back to you on absolute numbers.

Srikanth Balachander - Chief Financial Officer – Bharti Airtel Limited

As far as the tax is concerned, can you just repeat that? Is that a question just for India or is it you are asking for global?

Vinay Jai Singh - Morgan Stanley - Mumbai

Absolutely global. The overall Company what I am trying to gauge is your effective tax rate is becoming very difficult to calculate, it is very, very high. When does one expect the effective tax rate to go to a 30%, 35% level for the Company as a whole? I do understand India is at the mat level and Africa because of losses in some circles is a higher number, but both put together, when do you think we should see a 30%, 35% effective tax rate?

Srikanth Balachander - Chief Financial Officer – Bharti Airtel Limited

Now this is certainly a forward-looking question because the assessment of when the company's effective tax rate would go closer to a marginal tax rate would very much depend on the profit mix across the various geographies. So, I think at this point of time, I would like to mention here that India last year had an effective tax rate, if you exclude the dividend distribution tax and the surcharge deferred tax liability that we took for the surcharge. India had effectively it had an effective tax rate of about 25% and we are seeing plus or minus 1% or 2% on that this year as far as India is concerned. As far as Africa is concerned, we are in the stage at this stage where as we are not stabilizing activities, operations in our countries, we certainly would like to upstream the process that are coming out of the operations, out of our subsidiary companies and therefore projecting the going forward effective tax rate would effectively depend on how much profits are really being made in each of the countries, which are at different state of profitability today, so at this point of time, I am not giving you a picture on the timeframe within which this effective tax rate could move towards the marginal tax rate in Africa, because there are lots of variables and it is extremely forward-looking.

Vinay Jai Singh - Morgan Stanley - Mumbai

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The other way around, if I look at a five-year forward perspective, is it fair to assume at least then the tax rate could merge closer to the India tax rates?

Srikanth Balachander - Chief Financial Officer – Bharti Airtel Limited

The marginal tax rate as far as Africa is concerned, you can say is roughly around 35% to 36% on a weighted average and then you of course the up streaming impact of the withholding taxes and they vary from country-to-country so you will have to add a factor for that as well, at least going forward I think you need to probably add another about 5% to 6% on that going forward.

Nilanjan Roy - Chief Financial Officer, India - BhartiAirtel Limited

Vinay can you repeat question on B2B you mentioned about IRUs last time?

Vinay Jai Singh - Morgan Stanley - Mumbai

One division which surprised my numbers at the EBIDTA level was the B2B division this quarter. I was wondering what's happening out there and is this now going to be a regular feature, the numbers coming in out here.

Nilanjan Roy - Chief Financial Officer, India - BhartiAirtel Limited

So, the B2B fundamentally has two components one is our enterprise and government, which is largely on the domestic side, and we have a large international business where we do hubbing and transit business, which is on voice and therefore it is a mix of these two businesses. From every perspective this quarter we have seen a healthy growth in our international side on our voice business and that is where most of the revenue growth has come from. From a margin perspective, you will see the variation because of the bad debts like I have mentioned earlier, the margins that we saw during the quarter, you really see them going up because of the bad debt collection and Q1 we take again a hit and the timing difference. So, from a margin perspective we have this but on the revenue it is an underlying growth we are seeing on the voice business internationally, I guess.

Vinay Jai Singh - Morgan Stanley - Mumbai

Thank you Sir.

Sanya - Moderator

Thank you very much Sir. The next question comes from Mr. Rahul Singh from Standard Chartered Securities, Mumbai. Mr. Singh you may ask your question now.

Rahul Singh - Standard Chartered Securities – Mumbai

Good afternoon. My question is on CapEx again. If I look at your CapEx for last year and this year's guidance, it is in fact turning out to be marginally lower than the depreciation alone, depreciation and amortization definitely. So, just wanted to understand in terms of the maintenance CapEx and the normal growth CapEx and I assume this CapEx would include some growth CapEx for data, so, going forward, if you look at two, three years out, the maintenance CapEx seems to be much lower than the depreciation as per the useful life. So, just wanted to get a sense on what am I missing here in terms of the CapEx?

Sarvjit Singh Dhillon - Group Chief Financial Officer - Bharti Enterprises Limited

This whole concept of maintenance and growth CapEx is actually not one of the fungible position that you have in CapEx because passive is one thing, you are growing actively for coverage or for capacity. So there is no such concept as maintenance CapEx unless you only look at within the OpEx, operation of maintenance which actually goes into network operating expenses. I do not think you can look it like that, and as you know we have a page role model anyway so maybe I am not sure that you should even be looking at it like that.

Rahul Singh - Standard Chartered Securities – Mumbai

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So what I hear you say is that some of the maintenance CapEx is actually captured in the O&M for the tower Companies?

Sarvjit Singh Dhillon - Group Chief Financial Officer- Bharti Airtel Limited

There are two parts, maintenance is maintenance of price whether it is active or passive and that is based upon our business model, OpEx which is active, into operating expenses, that is not capital expenditure. Capital expenditure you have for additional electronics, additional capacity that needs to be augmented on to the network that can be on coverage, it can be on capacities, so we do not have a concept of maintenance CapEx, it is not a concept that we even look at to be honest, and it is so fungible into one growth model.

Rahul Singh - Standard Chartered Securities – Mumbai

Okay thanks.

Sanya - Moderator

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

Sunil Tirumalai - Credit Suisse – Mumbai

Hi, this is Sunil Tirumalai from Credit Suisse. Thanks for the opportunity. A couple of questions; firstly, so in the India side, given that we are one month into the current quarter, with a seasonally weak quarter, is there any letdown in the trend of withdrawing the promotions and the discounts, or do you think that the momentum that was there last quarter is still continuing?

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

I think I was mentioning this to you earlier as well, Sunil that the effort from the medium term perspective is to continue to cut back on discounted minutes, within the quarter, we will need to watch in the context of seasonal downturn in down tick in minutes, we need to watch the elasticity impact of what we have already done. We have determined to hold the tariff for sure, the realized rate for sure, the challenge of actually increasing is one which we will need to look at in the context of elasticity, so at this stage I think we just have to wait and see how, what we have done settles in.

Sunil Tirumalai - Credit Suisse – Mumbai

Okay. And on 3G, one of your competitors has announced a significant cut in the 3G plan rates by about 50%. We have not seen any response to that from any of the other operators. Just wondering what your thoughts on that?

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

If you look at 3G actually there are two parts to the rates, one is the pay as you go rate and here if you recall early in the quarter or last quarter we had actually brought down the pay as you go rates, so that was one thing that we had done and we done that largely on 2G as well as on where customers are buying packs we were actually reducing the pay as you go rates post the pack purchase. As far as what one of our competitors have done, they have actually reduced the pack rate and we will watch this very closely, at this point we believe that this is an unsustainable price to actually operate at, but we will watch this as we go forward, as you know this is the dynamic market and so we are watching this very carefully.

Sunil Tirumalai - Credit Suisse – Mumbai

Okay. And there are final two questions on Africa so the quarterly update, the PDF file is full of tax increases by many countries you know SIM card tax, excise duty, etc. Just wanted to understand, I mean where do you see this settle, I mean and what kind of profitability impact do you see? And secondly, you mentioned about the license renewal in Zambia, was there any money paid for the renewal? And I believe there are a few more expiries happening over the next 12 months or so. What is your view on how much money will be required over there? Thank you.

Bharti Airtel Limited First Quarter ended June 30, 2013**Srikanth Balachander - Chief Financial Officer – Bharti Airtel Limited**

I will take the question on the tax first and then handover to Manoj later. So if you take this quarter's tax entries, tax provisions in Africa you see a total charge of \$68 million in this quarter's P&L and we do have a reference in the notes that the current tax expenditure of \$49 million in this quarter is having a one off of about \$16 million and these \$16 million are basically successful settlements of litigations and closure of several pending issues, so these are certainly of one off nature as far as we are concerned and these are not of recurring nature. So that is on the current tax expenditure. If you look into the other line, which is deferred tax expenditure, the total charge is \$13 million and there is a one off of \$23 million in that line, which basically means there is a routine credit of \$10 million and there is a one off debit of \$23 million, so this \$23 million in the deferred tax line is essentially a liability. These are towards liabilities created for distribution of profits in countries where dividend track record has been established and therefore this is a catch up kind of provision that we have made in our books on a one-time basis now, but having said this now that we have started the dividend track, this will be a recurring kind of a cycle in terms of dividend payout either on an annual basis if they depend on annual general meetings or on interim basis if they are permitted by the respective companies, if they are permitted by their respective company laws in those countries, so in another response I had said therefore it will be prudent to build in a certain amount of routine withholding tax on the dividend distributions from the African subsidiaries. So sum and substance out of the \$68 million charge in this quarter's P&L, there is one off of \$39 million in the tax line in Africa. So as per the Zambia question is concerned I request Manoj to take it.

Sunil Tirumalai - Credit Suisse – Mumbai

Yes, sir. Manoj, if you could answer just if you could add him in, yes, thank you for the first explanation, but my concern was more on the regulatory battles that the industry is having with the governments in terms of the SIM-card tax and additional excise taxes, etc? Thank you.

Manoj Kohli - CEO (International) and Joint Managing Director - Bharti Airtel Limited

Sunil, let me start with the regulatory part, yes some governments have initiated some taxes like SIM card tax and some international incoming taxes and as an industry we are working with each of them, as GSMA, global GSMA we are working with all the governments to basically bring them to levels of prudence and good news is that governments are listening and I am sure governments will understand where we are coming from. As a sector we already taxed may be one of the heaviest taxed sectors in Africa and governments understand that and we are trying to counsel them more and more as an industry. Coming to your license issue, we have five licenses coming up for renewal in next two years and we are working with the respective governments. The license renewal fees is different from country-to-country, it cannot be same because every government has its own policy. The Zambia fees was quite symbolic. I cannot give you a specific figure but it was a symbolic figure. In addition to 2G renewals there are four new 3G licenses we are looking for in Gabon, Niger, Chad, and now Bangladesh is coming up in the next couple of months and we will bid for all these. We are working with governments for all these four 3G licenses and all these license fees is already budgeted in our CapEx that is a normal course of budgeting we do and so it is all within our CapEx guidance which we have given to you.

Sunil Tirumalai - Credit Suisse – Analyst

Okay, that was really helpful, thank you very much.

Sanya - Moderator

The next question comes from Mr. Ankur Rudra from Ambit Capital, Mumbai. Mr. Rudra you may ask your question now.

Ankur Rudra- Ambit Capital - Analyst

Hi, thanks. Congrats on the strong underlying numbers in India this quarter. I just like to dig into Africa performance actually a bit more. Could you elaborate on the impact of SIM registration and the lower interconnect charges in Africa, particularly with respect to; is Multi-SIM usage declining and hence is there any evidence of resulting traffic or revenue share shift for incumbents as a result of this? And the second part of that was, the one-time impact we saw in the three states in Nigeria, if that wasn't the case, what would be the impact on revenues or EBITDA? The next question is on - if you could add some more color on the data or the penetration of Mobile Money in Africa from Bharti? And the last question is on CapEx for Africa. They continuously look lighter than our leading competitors. Is this due to conservatism on future prospects or better sourcing deals? Thanks.

Manoj Kohli - CEO (International) and Joint Managing Director - Bharti Airtel Limited

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Ankur let me answer to the point, I understood your questions. The five questions you have asked, let me go one by one. First question is on SIM registration and inter-connect rates coming down. I can give you one country example of Tanzania, where we have seen multi-SIM'ing going down and that is a very positive trend; multi-SIM'ing is going down, because IUC comes down, off net becomes as close to on net as possible, therefore there is a positive trend multi-SIM'ing is coming down and people using off net as comfortable as they use on net. So I hope other markets in Africa also go the same trend, because that trend will be good for all the operators. On Nigeria, yes you are right, I think government has opened up two states out of three states which were blocked last quarter and very slowly the customers are coming back, the shops are opening, the networks are coming back, the diesel is reaching the sites. So the third state which looks to be in a bit of extra trouble is still not opened but two are opened and I think in another couple of weeks we should be absolutely normal in those two states. On Airtel money as Sarvjit said we will release KPI's from next quarter as M-Paisa does it for Kenya and we will share, how Airtel money is taking shape in Africa, broadly I can tell you we have launched in all the markets, all the central banks have given us approvals. The brand is coming up well, in all the rural areas the brand is coming up well, customer confidence in our product is a going up, the platform is more stable now, the platform across 17 markets, so I will say the first phase is over, the second phase of growth starts now and we will definitely share some performance KPI's soon. The last question on CapEx, I think we are tracking on our CapEx, we had given guidance in the beginning of the year, and we are tracking along with the same guidance. There is no change. We continue to invest in 2G specially in enhancing capacity, we continue to invest in 3G expansion and our goal is to be the 3G leaders with every market we are in and luckily we are leading 3G, even in Nigeria, our 3G network is bigger than the leader network. We are also investing significantly in solar, because solar is one saving which is permanent, sustainable saving, so our CapEx investments continue in all the growth areas and there is no change in that. How other operators are doing, whether the rates are higher than us or whatever I really cannot comment, but our investments continue in a consistent fashion. Ankur is that ok, have I covered all your questions.

Ankur Rudra- Ambit Capital - Analyst

If, I could just have a follow-up on the multi-SIM question; so the SIM registration process, as you said, is reducing multi-SIM'ing. In the short-term, is that having a negative impact for challenges in terms of traffic shifts towards incumbents?

Manoj Kohli - CEO (International) and Joint Managing Director - Bharti Airtel Limited

Yes, the market is dynamic, the changes to happen, because the customers have to choose one of the SIM. Customer may have two SIM's or three SIM's or some customers carry three of them. So it depends on which brand, which SIM they choose, hence the impact of traffic will be there according to the choice of the customer. I cannot really share with you anything more, more specific data, but definitely market is quite dynamic and it takes about six months to settle down.

Ankur Rudra- Ambit Capital - Analyst

Okay. So that could be a headwin for at least for the next two quarters?

Sanya - Moderator

Thank you very much sir. Ladies and gentlemen, we are in the last five minutes of the conference call. Due to constraints of time, management will have to speed up the pace of the question. The last 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

Thank you so much for the opportunity. Just a couple of follow-ups left. One is on data ARPU we've seen around 15% growth this quarter and every quarter, we are seeing uptake. Just wanted to understand a little more how much of it is driven by 3G and are we seeing ARPU increase for 2G data as well, 2G data subscribers as well? And that is the first question. Second question is on the site rollout. I just want to understand operating leverage here because if I see YOY, the site base is up around 7% for us and traffic is up around 8%. So, wanted your thoughts on how we should see the site utilization scope going forward?

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

If you look at the total data customer base we have got roughly 46.5 million customers, our 3G customers are about 6.8 million, while this has grown over last quarter, you would recall that you had an impact of the 3G ICR, so while we lost some customers of 3G ICR in terms of being prevented by the Supreme Court's interim verdict being prevented to acquire new customers, so while we were inhibited there in those circles we were able to step up the acquisition in the other circles and therefore we have seen overall good data growth. Like I mentioned earlier, we do not split out the data revenues by 3G and 2G. We do look at the customer base on 3G and that is moving along well.

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Nilanjan Roy - Chief Financial Officer, India - BhartiAirtel Limited

Regards your question on site versus traffic, it depends on market-to-market in places like Delhi, you would not require say new sites because your spectrum is limited, but as you go rural definitely existing utilizations are low and actually capture more of the traffic and I will not have a straight answer, it will depend market-to-market but our utilizations overall will leave some headroom across the country.

Shobhit Khare - Motilal Oswal Securities - Mumbai

Okay. Thanks a lot and all the best.

Sanya - Moderator

Thank you very much sir. At this moment, I would like to hand over the call proceeding back to Mr. Sarvjit Singh Dhillon for the final remarks.

Sarvjit Singh Dhillon - Group Chief Financial Officer- Bharti Airtel Limited

Thank you for the participation today. I think the call went on a while longer than we anticipated for an hour and a half, but I think it is well worth it because there was a lot of activity this quarter, eventful quarter I would say on all fronts, please do take the time to look through the quarterly report. We have tried to be as transparent as possible with accounting changes that has taken place with the results of IFRS and also the disclosures and alignments, which is really driven by the change segments according to the way we are running our business with a recast. So thank you very much and hope to see you all or speak to you anyways in three months time. Bye for now.

Sanya - Moderator

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