Event: Bharti Airtel Limited Fourth Quarter and Year Ended March 31, 2014 Earnings Call

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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 Fourth Quarter and Full Year Ended March 31, 2014 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 risk 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!

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

Thank you very much and warm welcome everyone who is on the call in the afternoon here in India and wherever you have dialed in from around the globe. This is obviously our fourth quarter and year ended March 31, 2014 as far as results are concerned.

I have with me today the senior management team of Airtel, Gopal and Nilanjan from the India, Srikanth who is CFO of Airtel. Have Christian, who is the CEO of Africa; and we have Harjeet, who you all know from the Treasury and Investor Relation.

So let us start with the usual thing which is on regulation. As you know it has been quite an interesting year from that point of view for the industry as a whole and especially from the India front. I think some of the dynamic area that we have seen is hopefully behind us and they are few signs that we’re getting some element of regularity clarity for the industry in India especially with items such as concluded spectrum auctions that we have had. There is also some clarity coming through as far as M&A rules are concerned and initial thinking process is there as far as spectrum trading goes, so some element of movements under regulatory front which are a positive signs.

Just talking about the spectrum auctions, as you know, the auctions we had a dominant play as far as picking up spectrum is concerned, really picking up 115 megahertz spectrum across the country for consideration of about Rs.18500 Crores. What is most important in that is we are able to secure our new our renewals for Delhi and Kolkata and picking up a 900 band frequency for the lucrative leadership circle of Mumbai.

The current spectrum that we have taken on, in addition to the 2G landscape that we have across the country and dominant position we have for 3G while looking now to roll out high speed 4G networks in addition to the existing 2300 megahertz band that we have and 1800 megahertz FD-LTE. So think that is something which is very, very important for us and you know that from looking at the data statistics in India especially and likewise in Africa we are seeing almost doubling of usage and revenues year-on-year.

While the 1800 band, I think was more or less at a base price, so across the board, auctions of 900 bands were inflated to a to a large extent and that made us incumbent especially had to bid at a premium to retain the extension of licenses. What is heartening in that though is that we do have a secure situation I guess for 20 years and will be having with the further renewals maybe towards the end of this year and next year, value some element of certainties now in the marketplace as far as regulation is concerned.

I did mention a little while ago about the M&A policy, which has been notified as we know I think there is overcapacity as far as competition is concerned in India. We do have a situation where we only have competition, but I would describe it as hyper-competition still. Although we have seen some passive consolidation I think going forward over the next few years, there may be some active consolidation play and if media news is anything to go by, there are some activities, possibly taking in the marketplace. But I hope see that apart from the entrance of Reliance Jio, you will see a
consolidating picture over the next few years as far as competition is concerned with clarity on the M&A policy coming into play.

As far as the quarter is concerned for airtel, as you know we have been in the last year or so quite actively diversifying our debt portfolio away from just pure banking play and again this quarter, we had a successful issue of Swiss bond of CHF 350 million. So, that part of our strategy to diversify the debt portfolio gives us a door-to-door extension as well as far as the average life period of debt is concerned and also it gives us a multi-currency play. The other one is as far as S&P is concerned they upgraded us as far as credit rating is concerned into BBB- with a stable outlook. All of our really agencies, probably all three of them, Moody's and Fitch as well have a similar rating profile across the three.

In the quarter, we also announced subject to clearances that we will acquire the customers and certain number of towers of Loop in Mumbai, if that goes through, Loop’s 3 million customers will be added to our 4 million and given just a pretty size book play in a very important market of Mumbai for us, with the current revenue streams that the Mumbai opportunity provides to us.

Like I said, it is subject to various transactional approvals and we’ll see how that goes on I guess over next few weeks or months. From a market perspective, nothing new as far as input costs are concerned with spectrum auctions having taken place, which obviously drives the input cost for operators, including ourselves. Energy costs are still on the rise, maintenance, and also the billions that we are investing in just upkeep of data network, over the longer period that it is very important that we see pricing power returning to operators and that is a strategy, we will continue to drive over the next few quarters surely over the next few quarters and it is very, very important that comes into play also we consolidate in the marketplace.

In the quarter, there was a balance, I would say between the traffic and RPM and obviously we have to look at the overall revenue growth to keep that balance going. The minutes on the network in India reported may be 10 billion minutes of growth. Voice RPM I would say was fairly flattish for the quarter, but longer term, we do see that operators, the input cost they are experiencing having to increase voice RPM either by way of reducing more discounts as you know there is still a fair difference between customer rate and prevailing RRP rate in the market place or by increasing the prevailing rate itself.

The other one is I think really on elimination of waste, especially on the sales and distribution front and I think today at 2.4% the churn rates in India are the lowest in the industry and that is really we are refocusing I would say our efforts continuously on eliminating wasteful expenditure and ensuring that we have quality of acquisitions in our go to market strategy.

We have been talking about data for many quarters now and it really is starting to come to fruition like I said earlier across our global footprint, both in India and all across Africa, mobile data revenues are growing in very, very high double digit actually just triple digit by 90% to 100% and both in revenues and in consumption. In fact, if we look at the India story actually annualizes almost at billion dollars now contributing 11% of mobile revenues. In 3G in Africa also non-voice now contributes to about 20% overall revenues, but one third of the base is using some form of data and the traffic that we have been carrying in Africa is doubled year-on-year for the quarter. That is very, very promising. The investments we are making we do see this is a clear strategy from the group.

As far as the results are concerned, quarter results, consolidated revenues stood at 222 billion that is a 13.5% increase year-on-year. The EBITDA was at 73 billion that is an increase just over 20% year-on-year. Margin has come up maybe 2%, 32.9% as compared to 30.9% same period last year. EBIT has increased by 48% year-on-year. The EBIT margin has also improved by 3.6%. After exceptional items, the exceptional item being prima facie consolidation of one of our acquired entities in Africa that requires under IFRS to accelerate any costs that you think may be incurred at a future period. That has been taking in the quarter four. So that is prima facie the exceptional items along with some element of tax issues as well.

Even after that, we have 9.6 billion, net income in the quarter, which is nearly 90% year-on-year. On the CapEx front, probably coming in at $1.7 billion, this is a little shy of what we expected. There may
be a flow through into the first quarter next year of expectation and I think even that we are looking at $2 to $2.2 billion and now capital investment for FY 2015 year and maybe some flow through of work-in-progress on top of that.

On the balance sheet, the net debt that we showing is about US $10 billion at the end of March the spectrum accounting has really been on the basis in advance and that is really due to the fact that the allotment has not happened for the spectrum. When the spectrum gets allotted the full debt would be accounted for, so it is only a timing issue. So if you add that in it will be something about $12 billion of over reflecting net debt to EBITDA annualized at 2.13 between two to full spectrum should be somewhere about 2.6. So, I think that is just a timing issue to be honest.

Now, for the full year results briefly, the consolidated revenues grew by 11.5%, EBITDA by 19.5%, EBITDA margin as you know increased to 32.4% from 30.2% from previous year. Net income for the full year at 28 billion is an increase of just under 22% over last year. The board has proposed a final dividend at Rs.1.8 per share for this year. That is subject to obviously shareholder approval. That is from Rs.1 from previous year.

I will just go onto some segment information. Mobile operations in India 205 million customers, GSM customers that is, I think with the first operation now in India to cross the 200 million mark. The VLR ratio has also been improving and now standing at 96%. Minutes on the network has increased by 4.6%, 264 billion minutes as compared to 253 billion in corresponding quarter the last year. Like I mentioned earlier on, the traffic on the network has been increased by over 10 billion minutes.

Just as far as other businesses are concerned, telemedia has actually crossed the Rs.10 billion first time ever in the quarter. That is about in the back of increased data usage and we are saying over 61% revenues from telemedia being contributed by non-voice or again data growth. DTH continues to grow adding another 250,000 customers in quarter and digitization across that 38 cities now, we see this as a big driver for the DTH business as we continue to increase its customer base and obviously its revenues. Airtel business is only the steady state business, and saw a marginal growth in the quarter.

Just moving onto our international business as far as Africa is concerned. Africa as you know for Q4 is traditionally a seasonally weaker quarter and compounded on that for this quarter at least we had couple of external factors coming into play such as one month SIM card sale ban in Nigeria and some KYC which Know Your Customer issues in Zambia and some DRC. So that had some element of impact as far as the revenue is concerned along with lesser number of days that we witnessed obviously in Q4.

The revenues at $1,145 million were 2% up on a year-on-year basis. The good news is that Nigeria market that as you know is one third of our business continues to show growth during the quarter despite what I mentioned on external factors and KPIs are fairly positive there.

Minutes on the network in Africa 28.2 billion compared to 23.3 billion last year. That is a very healthy 21% growth year-on-year. I mentioned data earlier on, Africa is no different story as far as data is concerned, maybe it is behind India but you are seeing the traction, especially the fact that we have now got 14 3G licenses up in running. We have doubled the traffic that we carried last year 66 billion MBs in the quarter and usage is also being growing quite nicely at 96.4 MB per customer from 73 in the same quarter last year.

Airtel Money is now gaining traction. We have launched in all 17 of our OpCos and given that spread of the geographies, we are still however seeing momentum picking up.

The customer base using Airtel Money, the platform increased just under 30% at 3.5 million on a quarter-to-quarter basis which is 2.7 billion last year and the value of transaction is very interesting and the platform is also increased by 30% to $2.2 billion as compared to $1.7 billion in Q3. That is something which I think is a strategic drive from the company and again just like data we are seeing huge tractions of Airtel Money as we rolled out across over 17 jurisdictions across Africa.

Margins have been pretty stable and like I said, with it being a softer quarter due to seasonality. However, we will continue to make the investments of 2 to 2.2 billion dollars are mentioned of capital
investments for FY15. I do see 700 to 800 million of that coming from Africa, so we will continue to
invest now in the network brand, Airtel Money and distribution for the forthcoming period.

Just one point up next probably on towers although we have had our results last week, the tower
base on the proportional basis stands up just over 83,000 towers, co-locations are 167,000, the
average sharing factor is 1.99 per quarter, but the magical figure of two has been crossed as far as
closing base is concerned. That really sets the tower business in a very good life bearing in mind the
enormous amount of investments that have been made recently in spectrum auctions by operators.
This should then translate only into new tower infrastructure, but also an increase in loading.

The consolidated revenues in the tower company were at 13 billion, EBITDA for the quarter was at
6.3 billion, EBIT has increased 72% year-on-year to reach 3.8 billion. So a fairly steady state, B2B
business and obviously with very strong operating cash flows, and BIL as you know Bharti Infratel
also announced dividend of Rs.4.4/ share and Airtel obviously benefits from that as being a majority
shareholder.

So that is from the tower company. So what I do now is to hand it back to the moderator to open for
Q&A. If you don’t mind. Thank you.

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,
you would request if you could limit the number of question 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 “*” and “1” on their touchtone enable telephone keypad. On pressing “*”
and “1”, participants will get a chance to present their questions on a first-in-line basis. To ask a
question, participants may please press “*” and “1” now. The first question comes from Mr. Sachin
Salgaonkar from Goldman Sachs, Mumbai. Mr. Salgaonkar, you may ask your question now.

Sachin Salgaonkar – Goldman Sachs – Mumbai

Thank you for the opportunity. Congratulations for a good set of numbers. I have two questions. First
question is on Africa, now if you look at Africa business EBITDA margin for last three years, it is
hovering in the range of 25% to 26%. So the question here is should we assume this more like a
steady state margins, so is there some room for this to move from this range to around 30% or 35%?
Second question is on India, more so on 4G, now till date we have seen from Airtel 4G on 2300 more
like a hotspot strategy. So any thoughts on how do you look at 1800 FD-LTE 4G, will it be a mass
market strategy or will it be a similar hotspot strategy?

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

Sachin let me answer the second question first. 4G as you know TD-LTE 2300 spectrum has limited
propagation and we have launched this in four cities Bangalore, Chandigarh, Pune and Calcutta. So,
while we are learning about the spectrum every day, I think our strategy on going forward, 4G would
be perhaps 1800 to provide more coverage layer and 2300 to provide a capacity layer. Of course the
whole issue is how fast will devices come in and so on and so forth and that is something that we will
need to look at.

Sachin Salgaonkar – Goldman Sachs – Mumbai

Okay. So, it will still be your hotspot strategy, right? So wherever there is 2300, you will roll out 1800?
Gopal Vittal – Managing Director and CEO (India and South Asia) – Bharti Airtel Limited

I think 1800 will play much more in the long term, so if you now step forward and look at let us say three years out, my sense is that 1800 will play a more of coverage layer and 2300 will play more of a capacity layer with hotspot so on and so forth.

Sachin Salgaonkar – Goldman Sachs – Mumbai

Okay, got it. And Gopal, just to follow-up on this. Are we having full integration between the TD-LTE and FD-LTE technology or is that still an issue?

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

What do you mean by integration, do you mean at carrier aggregation and so on?

Sachin Salgaonkar – Goldman Sachs – Mumbai

A) Carrier aggregation and b) a particular handset which could work on both an FD-LTE as well as TD-LTE?

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

At this point, there are very few handsets Sachin which are 4G compatible, the iPhone 5S and then there is one LG handset which is compatible, iPhone 5S flips between TD and FD, but there are very few other handsets that actually are there. The carrier aggregation roadmap is clear at this point, the technology still does not permit FD and TD carrier aggregation, but it is a matter of very short time by when it will be available.

Sachin Salgaonkar – Goldman Sachs, Mumbai

Thanks.

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

Sachin, just on the other issue on Africa margin we do not get guidance but having said that we have fairly invested in the network in the last two years. I mean Q4 is not really representative, because like I said, it is a seasonal quarter. Having said that, with the investments we have made and I have mentioned earlier on data kicking in which obviously does not have an interconnect cost, we are expanding the network still, Airtel Money is now starting to take up, that will have some mixed revenue associated with it because our cost base is now in play, really I would say revenue sweating issues that we have, so logically, we should, going forward, see some element of expansion and assuming all other factors being equal with the kind of investments that we have made.

Sachin Salgaonkar – Goldman Sachs – Mumbai

Okay. Got it. Thank you.

Shareena – Moderator
Thank you very much Mr. Salgaonkar. The next question comes from Mr. Shobhit Khare from Motilal Oswal, Mumbai. Mr. Khare, you may ask your question now.

Shobhit Khare – Motilal Oswal – Mumbai

Good afternoon and congratulations on a good set of numbers. My first question is on the India mobile business. Do you see further scope for cost efficiencies going forward or we should see operating cost growing at a slightly faster cliff in FY15 given the expected investments in data networks and the fact that subscriber churn is also at a historically low level currently? That is the first. Second, if you could help me with gross debt in Africa and the current cost of debt?

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

Shobhit, so about the cost efficiency of mobile, I think that is always something which we are going to be continuously targeting towards. I think any company which says the cost efficiency drive is done is probably kidding itself and I think we continue to learn in this space whether it is cost efficiencies coming in our customer service side by reducing customer complaints, whether it is on the infrastructure side, where we are looking at more tenants coming in and therefore costs coming down, energy savings, so I think S&D cost will be a big part as well, even if our churn has come down to 2.4%, we still have sizable number of gross adds so how do we bring down churn even further. So, I think all these come into play I think the search for more cost cuts and cost target is continuous and of course margin improvement will come from revenues, which will be growing definitely faster than the costs.

Harjeet Kohli – Group Treasurer– Bharti Airtel Limited

Shobhit as you would have noted in the last five-six quarters from a debt perspective which is capital to be uniform and fungibly available across the operations so really gross debt and net debt are across the International and Indian operations, but mainly as a matter of indication, because you know bulk of the debt sits in the acquisition finance vehicles which is in Netherlands. Africa operating company debt plus the acquisition debt is about $9.5 billion on a gross basis. They also have cash available with them. Again cost of capital or cost of debt capital is again a uniform one across the globe. If you see the last 12 months interest costs and the average debt that we are carrying you will come to a figure of about 5.5% to 6% on a composite basis. Africa local currency debt obviously will be dependent on each currency’s interest rate; but broadly this 5.5% to 6% range is what the cost of debt is for the overall capital on the debt side.

Shobhit Khare – Motilal Oswal, Mumbai

Ok Sir, understood. Thanks a lot. All the best.

Shareena – Moderator

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

Suresh Mahadevan – UBS – Singapore

Good afternoon. Thanks for the opportunity and congratulations on a good set of numbers. Two questions from me. One is a follow-up of what Sachin asked on 4G. I mean clearly Bharti is positioned everywhere, you have got obviously 2G across the country, 3G in most parts, and obviously the TD-LTE you have rolled out in a few places. I mean how should we think about, clearly
data is growing, there is no two ways about it, but looking at some of the numbers you gave in your disclosure, it seems to me that even 3G is at a really infant stage in India. I mean I look at your data, I mean you have got over 200 million subscribers, of which 3G is less than 11 million which is like 5% or whatever. So I mean is it fair to think that the next three years at least 3G will really proliferate in India because you have got Smartphone price points which are coming down? So just wanted to hear your views on how to look at the data story for the next three years? Would it be predominantly 3G or you think it will be a combination? So that is question number one. The second question is related to pricing. Clearly, I think there are some pricing initiatives in the market, which I think operators do. But I mean I was just wondering given you just paid market based pricing for 1800 and 900, which are multiples I do not know; seven, eight, nine times of what the earlier price was. Is not this a good opportunity to take up that one-time headline tariff increase because clearly I think even a company like Idea, which is a pure play mobile operator, still does not earn its cost of capital and it has been one of the market leader, I mean a top 3 company. And clearly Bharti probably in India earns its cost of capital, but I mean is it not this a golden opportunity where you could have taken tariffs up? So, that is the second question and any thoughts on how the pricing will evolve? Thank you.

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

Suresh, Gopal here. I think your hypothesis or what you are hinting is right. I think over the next three years 3G will really be the leading contributor to incremental data growth and the reason for that is very simple it is just that the device ecosystem is far more developed in 3G. Today, you can get a 3G device at about Rs.3500 to Rs.4000. Over a period of time the same will happen to 4G but it is all about how fast the device ecosystem grows. So today you find a TD handset available at about Rs.50,000 with China mobile planning the sort of networks they are on TD, chances are that in the next 18 months you could have a $100 device but do not forget by then your 3G device will be at $35 to $40. So I personally think over the next three year period both these technologies will coexist. 3G will be much larger much more mass and 4G will probably be more niche and more for high value customers. The second factor of the device price is while the chipset costs money the fact is that as you have better technology and you have better technology for data, so what you need is good camera, what you need is a large screen, what you need is a high power processor and so and all that actually costs money and that is the reason these costs stay the way they are.

To your second question on pricing, I absolutely agree there is opportunity to take up pricing and the only thing that we will need to keep watching are the competitive dynamics. Do not forget that there are operators out there, the marginal operators who have not paid anything for any spectrum so this is reality of the Indian marketplace we have got to watch what happens because what we need to deliver is really both growth that is competitive and growth that is profitable.

Suresh Mahadevan – UBS – Singapore

Okay thanks a lot. Because I think the one follow up is look even in as a mass market solution when 3G handset prices will be $30 or $40 I mean you are basically talking about the mass market accessing things over the small screen. So 3G will probably be more than sufficient, would not it be I mean with HSPA+ or whatever?

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

I think Suresh it is quite surprising how much of demand there is for heavy duty bandwidth and heavy duty applications. I mean look out our broadband business. I will just give you a very simple example. We have a million - million and a half broadband homes. The fact is that after a long time we are now seeing revenue growth on broadband, which is almost 12% this quarter fundamentally led out of DSL and broadband. So there will be a set of consumers for whom the need for data will be very, very high and you have seen that all around the world. But if you approach it from a mass market perspective the large set of customers who live in small towns and rural areas and so on and so forth or even within cities, the middle class, the next rung of customers, you will find all this will coexist. I mean there will be 3G, there will also be 4G and also there will also be wired broadband.
Suresh Mahadevan – UBS – Singapore

Okay thank you so much.

Shareena – Moderator

Thank you very much, Mr. Mahadevan. 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. My first question is on Africa. The tax in Africa for fiscal 2014 has been generally higher compared to fiscal 2013. Just wanted to understand, is it because there is an increasing divergence between the performances of the various countries and hence you are unable to set off the tax losses? That is the first question. Second, if you can throw light on your cash flow. We have seen a fairly significant increase in the payables number, which has impacted the operating cash flows. I mean I know it has happened practically every year in the fourth quarter, but this time the extent seems to be quite high. So if you could throw a light on that aspect. Thank you

Srikanth Balachander – Chief Financial Officer – Bharti Airtel Limited

Srinivas Rao, Srikanth here. The first one is on the tax in Africa and if you see the overall tax charge in Africa for the full year, has come in at $273 million compared to the $92 million that we probably saw last year. The main increase is primarily due to three reasons. No.1 there have been planned increases in up streaming for cash surpluses from the profit making companies and the profit making subsidiaries in the form of fees, dividends etc., and these have led to higher withholding taxes at the group level. So that is an impact of about $35 million compared to the previous year. As we progress through the year they were one off settlements results of various tax assessments and closures of disputed cases with various authorities and countries and that resulted in a charge of $35 million and that does not necessarily pertain to this year, it could pertain to previous year and therefore that is again kind of one off and there have been some impacts of the new taxes in some countries and rate changes etc., and that have led to about another $11 million of charge but there is also changing profit and loss mix between the various countries and obviously rising profits in the profitable countries have attracted tax charges there. Now if you look at right through this year all the four quarters if you look at it more or less plus or minus about $5 to $10 million of the quarter you will see a steady flow and that is because we do take a view when we provide the taxes for every quarter we do take a view of the annual expected tax rate which is the usual accounting guidance. So which is what we do and therefore you will see that more or less right through the quarter this has been reflected as the tax charge in Africa as I mentioned in the previous quarters’ earnings call this is the quarterly charge that you are seeing now fairly reflective of the taxation impact in Africa. As far as second question this quarter’s cash flow is concerned so yes there are usual payables which come in the Q4 because of payments of license fees in India which happen in the last month of the year instead of in the first month of the next fiscal year and that is mainly a regulatory stipulation in terms of the payment condition but overall if you look at the cash flow for this quarter, other than the fact that there has been an upfront payment for the spectrum for Rs.55 billion, post the auction otherwise you would see that the organic cash flow on a consolidated basis has been quite stable and other than this last quarter license fee hike there are not any peculiar items in the cash flow this quarter. If you have any other questions on cash flow please do ask but I thought the cash flow statement that we publish is quite self explanatory.

Srinivas Rao – Deutsche Bank – Mumbai
Yes, it is. Thank you. So just I mean I am circling back. Because of the closure of certain tax issues at $35 million impact should be non-recurring going forward. Would that be fair?

**Srikanth Balachander – Chief Financial Officer – Bharti Airtel Limited**

We would like to hope so because the next year assessment's are coming up and we do have positions taken in different countries so it is an ongoing assessment proceeding ratio.

**Srinivas Rao – Deutsche Bank – Mumbai**

Fair enough. Thank you so much. I will come back.

**Shareena – Moderator**

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

**Rahul Singh – Standard Chartered Securities – Mumbai**

Good afternoon. On Africa, I had a slightly broader question that if you look at last three years, the EBITDA has been broadly flat whereas the invested capital is now $14 billion gross and the EBITDA is just short of $1.2 billion. So, we are obviously nowhere near becoming an EV neutral kind of exercise, we are far away from that. So just wanted to get a sense as to how the Company is viewing really the Africa investment given that the EBITDA growth no longer for one year, but for three, four years has been in the same flat trajectory and the investments are $14 billion. And secondly, the related question on this would be, is there any update on the proposed hive off of the Africa towers and the potential sale of that? Thanks.

**Srikanth Balachander – Chief Financial Officer – Bharti Airtel Limited**

I think on the EBITDA it was probably the first question as well in the call today. As far as EBITDA is concerned certainly our plans are very much to grow organically the revenues based on the investments that we have gained and the growth in the revenues would definitely lead to increased EBITDA and that certainly what is our business plans are reflecting. So we have seen the last few quarters of subdued performance on the EBITDA side but certainly our plans are to accelerate the performance and let me assure you about that. As far as the investments that are made and what is the situation in Africa, let me just share one bit of information with you if that would be useful. If you look at operating free cash flow of this year in Africa is $540 million, which is the EBITDA less the CapEx. And if you take the taxes which are today at the operating company level that is I am now talking about the operations in the continent not at the group level the group level being an investing kind of entity. If you look at the operational taxes paid in the operating companies we have paid $223 million and if you look at the operational interest which is incurred by the operating companies again on the basis of their local debt that is about $300 million. So really speaking the cash in the operations is evening out between the operating free cash and the tax paid by the companies and the interest paid by the companies. There is of course a group level interest on the acquisition debt and there is a group level tax incurred on the withholding taxes lost. That is more a group activity as it sucks up the profitable cash from the profit making companies and so on and the manages the overall investment in Africa. But we are actually quite pleased with the way Africa operations have turned marginally cash flow positive at an operating level this year and that is the first step I would say it is not the end stage it is the first step to the beginning of a far more profitable and cash surplus situation.
Rahul Singh – Standard Chartered Securities – Mumbai

Just to follow up on that. The real question I had was that if you look at the organic growth that does not seem very exciting, obviously parts of some countries might be growing faster, data might be growing faster; but the organic growth itself on an aggregate basis is not definitely good enough and you are not investing much in the CapEx also. So, what is really the capacity utilization really on an aggregate basis? Is it a case of severe asset underutilization and over a period of time it will even out or are we just looking at a scenario where this will continue to be cash flow positive or marginally positive, but clearly in no position to repay the debt which is there for the acquisition?

Srikanth Balachander – Chief Financial Officer – Bharti Airtel Limited

As far as our CapEx strategy is concerned, clearly we are a company which is mark to market. We do track opportunities, growth opportunities country by country. We do track our performance on a benchmark with competition as well and certainly if you look at the growth opportunities in Africa we believe that there is far more potential in Africa on the medium term to long term. So while we are indeed delighted with Africa turning cash flow positive in the operational level etc., certainly we are a hungry company and we do have much higher ambition as far as organic growth and the EBITDA performance for the future and as far as CapEx is concerned, we would be benchmarked with every possible potential and that way we are quite open as far as CapEx strategy is concerned.

Rahul Singh – Standard Chartered Securities – Mumbai

Thanks and the other question on the towers?

Srikanth Balachander – Chief Financial Officer – Bharti Airtel Limited

Towers at this point of time there are as far as Africa is concerned there is a clear business rationale more than India for certain infrastructure sharing. Just look at the kind of energy cost which operators incur in Africa it is several times higher than in the rest of the world certainly if you compare with India and so on. Business case in Africa for infrastructure sharing and therefore tower sharing is very, very clear. There are inbound inquiries coming in for sharing infrastructure and certainly we will be positively looking at those possibilities at this part of time. No concrete proposal to share with you.

Rahul Singh – Standard Chartered Securities – Mumbai

Okay thanks.

Shareena – Moderator

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

Reena Verma – DSP Merill Lynch – Mumbai

Hi thank you for the call. I have two sets of questions. One is just a quick housekeeping set of questions. Just wanted to know what is the charge that you have taken for business combinations? What does that pertain to, Rs.1.6 billion? On network costs, if you could please confirm that the network cost for the quarter does not have any one-off write-backs and your CapEx guidance for fiscal 2015 for India and Africa? Those are my housekeeping set. Once you answer, I have just one other question, please.
Srikanth Balachander – Chief Financial Officer – Bharti Airtel Limited

I will take the question on exceptional and then request others to chip in. We have had business combination in this quarter and based on an integration plan after the acquisition, the post acquisition integration plan involves a certain expenditures on asset reconfiguration as well as organizational redundancies and therefore we have taken a provision for these costs in the P&L.

Reena Verma – DSP Merill Lynch – Mumbai

Sorry. Srikanth, I did not understand what you are saying. Would you just clarify so what is this business combination? And I thought it had been knocked out when you look at the segment classification; while it is there in the consol, I thought it was also knocked out of the India P&L.

Srikanth Balachander – Chief Financial Officer – Bharti Airtel Limited

Sorry Reena I should clarify that business combination it is a typical IFRS terminology that we use for an acquisition and this quarter we have seen the acquisition of Warid Congo.

Reena Verma – DSP Merill Lynch – Mumbai

Thanks. But has not it been knocked out of the India P&L in your accounts?

Srikanth Balachander – Chief Financial Officer – Bharti Airtel Limited

No, the exceptional items have been disclosed as a separate line in the consolidated accounts.

Reena Verma – DSP Merill Lynch – Mumbai

Okay. So this is about Warid Congo, right, the business combination?

Srikanth Balachander – Chief Financial Officer – Bharti Airtel Limited

Mostly that.

Nilanjan Roy – Chief Financial Officer – Bharti Airtel Limited

Reena on the network cost yes there is one off and I think we will disclosed that also in the MD&A of about 75 crores on the network line but I think on the other side if you look at the SG&A cost also about 150 odd crores increase that also has a similar amount of one-offs as well on a underline basis our margins are quite representative of the quarter.

Reena Verma – DSP Merill Lynch – Mumbai

So 225 crores of one off write-backs?

Harjeet Kohli – Group Treasurer – Bharti Airtel Limited
Reena Rs 75 crores of write-backs in the network which you are seeing as going down and there is a corresponding similar amount of excess cost sitting, which is rather of a one-off nature in SG&A.

Nilanjan Roy – Chief Financial Officer – Bharti Airtel Limited

SG&A is going up by 150 crores we noticed the question has not come so just preventing that also includes some of cost so 75 crores benefit on network is offset by a similar amount in SG&A as a one of hit so I think on underlying basis margins are sustainable what we have represented in Q4.

Reena Verma – DSP Merill Lynch – Mumbai

That is very clear. Thank you. Just on your interest charged for the quarter, can you confirm how much of the LTE spectrum basket of payment, how much of it is being used on a running basis? What I am trying to say is I am not asking you for the time. I understand that you paid it only in February to the government, but I am trying to understand how much of the spectrum purchase is being treated as business as usual?

Srikanth Balachander – Chief Financial Officer – Bharti Airtel Limited

Okay in terms of accounting for this quarter, Reena, the entire amount of 5500 crores that we have paid has been treated as a capital advance towards the spectrum, which is yet to be allocated and we still have not been given the actual frequencies on hand therefore in the books it has been reflected as capital advance. As far as the interest on that is concerned that has also been capitalized and included in the capital advance in line with the accounting treatment for capitalization of interest in the project period.

Reena Verma – DSP Merill Lynch – Mumbai

Okay. Thank you. And CapEx guidance, please?

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

As far as CapEx is concerned we are looking at the shares from where at this point in time $3 to $3.2 billion overall with $700 million to $800 million would be for Africa.

Reena Verma – DSP Merill Lynch – Mumbai

Okay. Thank you very much for bearing with me. I have just one final question, which is for Gopal. Just on your data growth and competitiveness, my question is more on your competitiveness and data rather than the growth story, which is largely a function of the market. How should I benchmark you versus your competitors? And I’m kind of just wondering whether we should be nervous about the fact that your data usage per subscriber or your data ARPU is lower than some of your other listed competitors. Should one read anything into the quality of customer base then?

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

Reena, I do not think you should read anything into the quality of customer base because if you look at our data customers, we define it as more than one kilobyte and that is why we end up with the 55 to 60 million customers base and there are some others who define it differently so one of our listed competitors for example define that is more than 100 kilobyte and therefore the denominator tends to be much, much lower relatively and that impacts the data ARPU. So there is nothing to be really
concerned about that. I think our quality of customers is good and if you look at our relative advantages on data we have got more spectrums on 3G where it matters. We have, in the fastest growing data markets, we have spectrum and certainly if you look at our performance over the last couple of quarters on data it has been in terms of revenue growth we have been we have been pretty much one of the leading operators in this market.

Reena Verma – DSP Merill Lynch – Mumbai

Okay. Thank you very much. I will come back to you later with questions.

Shareena – Moderator

Thank you very much Ms. Verma. The next question comes from Mr. Tien Doe from GIC, Singapore. Mr. Doe you may ask your question now.

Tien Doe – GIC – Singapore

Thanks very much for the opportunity to ask couple of questions just two. The first is on your churn rates. I don't think I have seen a lower churn rate for you than in the last quarter of 2.4%. I am just wondering what you would attribute that to and whether you think that churn rate could actually go lower even lower than the current 2.4%. Second question is just on your RPM, Idea yesterday they had a decline in average revenue per minute, they attributed that to higher growth in lower tariff states. Yours was far more stable than that, I am just wondering what would you attribute that difference in the trends too? Thanks.

Srikanth Balachander – Chief Financial Officer – Bharti Airtel Limited

Sorry Mr. Doe as your question was not very clear so I am just going to answer as best as I heard it. I think your first question was on churn and whether the focus on the thing is sustainable and your second question was on the diverging trend on RPM between us and one of our listed competitors. If those are the two questions and on the first one the fundamental reason for our reduction in churn has been a significant focus on one of our key strategies which is driving operational excellence and really what we have tried to do here is to cutback the dramatically improve the quality of acquisition and the way we have done that is sort of aligned our field force and sales force incentives, automated the whole process so that we have tried to improve the quality of acquisitions and that led to churn and we believe that that is the strategy that is pre-sustainable. As far as the RPM is concerned, we believe that we played a hard game this quarter. We have sort of calibrated between volume and rates and we have probably struck what we believe in the fine balance. You must realize that the realization of voice is a function of several things and as an outcome, which is a function of the incoming minutes, the outgoing minutes, roaming minutes, international minutes as well as domestic STD minutes. So it is flat on account of that, the mix that is actually intrinsic to what is happening in that entire bundle.

Tien Doe – GIC – Singapore

Okay. Thank you.

Shareena – Moderator

Thank you very much Mr. Doe. The next question comes from Mr. Rajiv Sharma from HSBC Securities, New York. Mr. Sharma you may ask your question now.
Rajiv Sharma – HSBC Securities – New York

Hi thanks very much for the opportunity. Just couple of questions. One is for Gopal that your incremental revenues are at par with the Number 3 player in the Indian wireless space. And if you see your coverage on 2G BTS, it's come down versus Idea from 150% to 132% and you've not invested much in 2G BTS this year. As a market leader, ideally one would think that you would like to maintain a big delta versus Number 2 and Number 3 players, so just want to get your thoughts on this, both combination of this incremental revenue and the BTS thing. And the third question is on Africa for Christian. Etisalat has been very aggressive in Nigeria and they're clearly not EBITDA focused, they are happy with 4% margins, but they've been investing a lot in CapEx. Will the $700 million flat CapEx guidance is sufficient to take on an aggressive competitor? And second, your thoughts on this 10% termination rate cut which has happened in Nigeria? Again, MTN is of the view that this could disrupt pricing. So, then how do you look at revenue growth in Africa? That is it from my side.

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

Rajiv, let me take your first question and I then I will hand over to Nilanjan for the second one and then Christian for the third question. On the incremental revenues that we have, if you just look at our numbers carefully what you will find is that on standalone mobile revenues the incremental revenue that we have generated this quarter is 480 odd crores and the Number 3 player because of listed and the results are there for you to see the revenue that was generated was 350 crores. So I just wanted to clarify the fact so that then you can sort accept that. Let me hand over to Nilanjan.

Nilanjan Roy – Chief Financial Officer – Bharti Airtel Limited

Rajiv your question was on value of the BTS between us and the Number 3 over or was it the utilization of BTS?

Rajiv Sharma – HSBC Securities – New York

It is on the count of BTS, the 2G BTS, and your percentage as a percent of Number 3 player?

Nilanjan Roy – Chief Financial Officer – Bharti Airtel Limited

So I think we have a pretty good coverage where we have and as you see our 2G coverage is more or less done, most of our investments are going in 3G. I think the other operator probably has a lot of catch up and therefore on 3G and on 2G on basic coverage is catching up there but our revenue as you know revenue for BTS is significantly ahead of anybody in the market probably 30% to 40% ahead of anybody else. So I think that is playing to our advantage.

Christian de Faria – Chief Executive Officer, Africa – Bharti Airtel Limited

About Nigeria, I think when you looked at overall situation in Nigeria in quarter two, quarter three; Nigeria has done extremely well in revenues and reported 12% in Q3 compared to Q2 6% in January compared to a Q3 though we had the ban of SIM and sales of SIM cards. So I think we are on the right track in Nigeria. As you also may know, we are second position we got second strong positioning in the market in Nigeria. So we are very bullish in Nigeria. Coming back on the CapEx, head on historic investment in Nigeria and our primary focus is really stretching assets and when we look as level of investment that we are heading for next year we do believe that we have right capacity to cut for the needs especially on where we are because we pretend to be everywhere in Nigeria like suppose the competitor if I compare it on our growth with the competitor, I have no doubt that we will have the capacity to accompany is the market growth going forward.
Srikanth Balachander – Chief Financial Officer – Bharti Airtel Limited

Can you repeat the question on the termination rate because I do not think we got it exactly fully right?

Rajiv Sharma – HSBC Securities – New York

It was on further investments in Nigeria?

Christian de Faria – Chief Executive Officer, Africa – Bharti Airtel Limited

Yes there was reduction that was already planned from 490 down to 440 was already planned.

Rajiv Sharma – HSBC Securities – New York

So you do not think this decline in termination will start another tariff war in Nigeria?

Christian de Faria – Chief Executive Officer, Africa – Bharti Airtel Limited

No. Every operator and I am coming from my experience and definitively no one is really expecting nor in Nigeria nor in other territory a price war. I do believe that all of us are really looking more if you want extract more value of the investments. So I think we do not see unless there is operator in certain markets, who are not abiding by any rules, the two are really not damaging the competition.

Rajiv Sharma – HSBC Securities – New York

Thanks a lot. That answers all the questions. Thank you.

Shareena – Moderator

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

G.V. Giri – IIFL Capital – Mumbai

Hi everyone. This is a question for Gopal. Gopal, you had said in the previous earnings call your major priorities. So, the margin improvement has been quite strong during this period. My question is how much fuel is left in the margin improvement tanks? The second question is, are your data yields on 3G higher than your data yields on 2G and is the 3G traffic growing faster? I am asking because your data yields are falling at a time when growth is so robust and the market is far from saturation?

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

Giri, I think if you look at what we have had this year, I think the bulk of the margin improvement that we have seen as actually come about due to the incremental revenue that you actually generated. So it is clear growth story, which is actually led to margin improvement. We have also been very, very clear about a program that we are running which is called war on waste, which is actually looked at
every element of OpEx as well as CapEx in order to squeeze out to sweat our assets and to drive OpEx efficiency. So it has been a combination of both. I think going forward while we do not sort of guidance on margin improvement on so on, I think our effort as I have always maintained is to continue to have comparative and profitable growth. Specifically reference to your question on 3G there is no doubt the 3G data is growing much faster than 2G factor of magnitude but by an order of magnitude. As far as the yields are concerned while the headline prices in the market that you would see between 3G and 2G or 3G is more expense than 2G. In terms of realization they are more or less the same because there is greater granularity as far as 2G data is concerned. People do not use that full allowance and so the realization for MB tends to be quite similar.

G.V. Giri – IIFL Capital – Mumbai

So what prevents you from bumping the yields up a little bit when the growth is so robust? Why is the yield falling?

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

I think this is the legitimate concern. We are also concerned about the fact that data yields have fallen and it has been a combination of little bit of free offers that we have actually given away during the quarter and our effort will be at these levels of data rates clearly it is some sustainable pricing but the story in data is one of growth so our first effort is actually to grow data revenues and we will keep watching the rates as we go through.

G.V. Giri – IIFL Capital – Mumbai

I understand, Gopal. My question is your growth is quite robust so why should you need to give promotions; not only you, but all operators who are doing this? So what is the marketplace dynamics which is forcing you to do those promotional offers?

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

The growth of data is a function of many things. I think number one, it is a function of the growth of devices and devices as the prices of those devices fall. Second there is an education and experience that you want to create amongst new users. I mean I have mentioned earlier that our data customer base is 56 million. We define it is more than one kilobyte but there are a very few set of customers who account for a large part of our data revenue and so one of the key drivers is to actually keep triggering demand amongst the long tail. Some of the things that we have done the innovation around Rs.1 store, the innovation around all the sort of promotions that are run are very targeted to actually get these new users to be using a little more data. So that is the second factor and the third factor is around the mix of data pricing. So one of the things we have done is the pay as you go charges for certain segments we have reduced in order to actually drive data growth and as those consumers that have used a little bit more data the mix has actually shifted which is led to a reduction in data realization.

G.V. Giri – IIFL Capital – Mumbai

Understood, very clear. Thanks a lot. All the best.

Shareena – Moderator
Thank you very much Mr. Giri. At this moment we will take one last question from Mr. Rama Maruvada from Daiwa Capital Markets, Singapore. Mr. Maruvada you may ask your question now.

Rama Maruvada – Daiwa Capital Markets – Singapore

Good afternoon. Just one question from me, please. Just want your thoughts on upcoming spectrum auctions, in particular given that you have already purchased a lot of spectrum in the 1800 megahertz bandwidth. Just wondering what are your thoughts on which circles do you really need to secure spectrum going forward and which circles you don't need to secure the 900 or the 1800 bands, please? Thank you.

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

Just to be honest, I think probably an unfair position to be asking about what is going to happen in these auctions or what can happen on the auction. Secondly, we do not want in the time being what is going to happen. Thirdly, obviously we are looking at our strategy as to what we need and where we need if at all do we need it. So I think it's little early to be even discussing it and secondly it is something that we couldn’t quote in the public domain if we wanted to.

Rama Maruvada – Daiwa Capital Markets – Singapore

I mean given that you are already participated in the auction, would you be comfortable to say that bulk of your needs for the next two years are secure, that has been taken into consideration while you participated in the February auction itself?

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

I think two or three things. One is obviously there is additional renewals coming so that is one aspect that we will have to consider anyway as and when they come especially over the next 24 months I guess along the margins in network are for renew. That is something we will have to think about. The other one is really it depends really on how the networks perform and how consumer demand takes off especially on the data side and continues on voice traffic. So I think it is demand led rather than price led from that point of view but fortunately, we have very established spectrum availability across all frequency bands in many parts of the country especially where we need it more so. So from that point of view, I think we are fairly okay at this point of time.

Rama Maruvada – Daiwa Capital Markets – Singapore

Okay. If I can just add in one more. In terms of the amortization schedule for the spectrum you already acquired, when would you start amortizing all the spectrum that you acquired in February?

Srikanth Balachander – Chief Financial Officer – Bharti Airtel Limited

I cannot give the exact detail of everyone and in every circle very broadly you are aware that there is a big chunk which is coming in November in quarter three which is the 900 megahertz. So obviously it would be linked to that timing and as far as the 1800 is concerned it is varying from circle to circle depending on how the whole utilization and the deployment would happen. So I cannot give a detailed answer but I think it depends on the plan for every circle individually.
Okay. But it would be this financial year or the next financial year, right?

Srikanth Balachander – Chief Financial Officer – Bharti Airtel Limited

By and large in the coming financial year.

Harjeet Kohli – Group Treasurer – Bharti Airtel Limited

Rama, the one’s which are for 2G and for the renewal Q3 will be the one quarter in terms of amortizing all of those new spectrum but whatever needs to be used for 4G deployment as per our press release could take longer depending upon what Gopal was earlier mentioning in terms of the ecosystem. It might take some more time to develop.

Rama Maruvada – Daiwa Capital Markets – Singapore

Okay. Thank you very much.

Shareena – Moderator

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

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

Thank you very much. I think we now completed our 2014 fiscal year. We look forward to seeing you or talking to you rather towards the end of July for our first quarter results. In the interim, may be in the next couple of months, we may be able to see some of you in the various conferences and road shows that will be on. Look forward to it. Thank you very much. Bye-bye.

Shareena – Moderator

Ladies and Gentlemen, this concludes the conference call. You may now disconnect your lines. Thank you for connecting to audio conference services from Airtel and have a pleasant evening.