Earnings Conference Call Transcript

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PRESENTATION

Shareena - Moderator

Good afternoon, ladies and gentlemen, I am Shareena, the moderator for this conference. Welcome to the Bharti Airtel Limited fourth quarter and full year ended March 31, 2015 Earnings Call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question-and-answer the session will be conducted for all the participants on this call. In case of a natural
disaster, the conference call will be terminated post an announcement. Present with us on the call today
is the senior leadership team of Bharti Airtel Limited. Before I hand over the call, I must remind you that
the overview and discussions today may include certain forward-looking statements that must be viewed
in conjunction with the risks that we face. I now hand over the call to our first speaker of the day, Mr.
Srikanth Balachandran. Thank you and over to you, Mr. Srikanth Balachandran!

Srikanth Balachandran - Global Chief Financial Officer - Bharti Airtel Limited

Good afternoon ladies and gentlemen. Thank you for joining us today for this earnings call to discuss our
results for the Q4 and the full year ended March 31, 2015, which we announced yesterday. Let me first
introduce you to the Senior Leadership Team who are present with me today on this call. We have Gopal
Vittal who is the CEO of India and South Asia, we have Christian De Faria, CEO for Africa, Nilanjan Roy,
CFO for India and South Asia, Jaideep Paul, CFO for Africa and Harjeet Kohli who is the Group Treasurer
and Head of Investor Relations.

Firstly let me share a few thoughts on the sector developments. As all of you are aware during the quarter
the spectrum auctions in four bands 800, 900, 1800 and 2100 Megahertz concluded with the operators
finally securing 470.75 MHz of spectrum at a total cost of nearly $18 billion. Cumulatively the top three
incumbents successfully bid for 64% of the supply and accounted for 78% of the overall proceeds. This
auction has been defining in many ways. It paves the way for increased certainty and stability over the
next 20 years. At this stage one must take stock of the economic realities of the telecom sector. Since
2010 operators have sunk $50 billion just on spectrum. As Internet penetration moves up month-on-
month operators are also continuously investing in network. Hence revenue development accompanied
by cash generation is the only way forward for sustained investments in the sector, which we believe can
be sustained by top players thereby further consolidating market in favor of top players. In the auctions
Airtel not only renewed its spectrum but also acquired more across bands to augment voice and data
delivery.

Airtel acquired 111.6 MHz of prime spectrum across the bands for a total consideration of Rs.29,129
Crores. Of this 57% of the payout was for additional growth spectrum. Airtel is proud to be the only
operator with Pan India 3G and 4G capabilities. Kerala is the only circle without our own 3G spectrum but
that is covered by both FD and TD-LTE spectrum. Such a national footprint would allow us to fully
participate in the data story going forward, reduce dependency on ICR arrangements, and a more cost
optimized network. Bharti Airtel has also stolen the march by picking up additional 900 spectrum. We now
have the capability to deploy premium 3G over 900 MHz band in ten circles within the next one to two
years. We are happy to note that Airtel's spectrum market share has expanded to 16.1% from 15%
earlier. Excluding the spectrum held by MTNL and BSNL, Airtel's spectrum market share is 20.4%.
Between the last two auctions, we have created for ourselves a stronger position in the industry with the
best pan India spectrum assets across bands. The company has so far invested 681 Billion Rupees
towards spectrum since 2010. These spectrum investments have to start yielding revenue and margins.

The regulator, Telecom Regulatory Authority of India has now prescribed new interconnect rates effective
for the industry from March 1, 2015. While the fixed line termination rates have been reduced to zero, the
mobile termination charges were reduced by 30% and the termination charge on international incoming
calls was increased by 32.5%. On an overall basis this has led to a fall in the gross revenues of the
company, but there is a limited impact on net revenue and EBITDA for mobility. This has also resulted in
better EBITDA for the telemedia business.

TRAi has also reduced the ceiling tariff for national roaming calls by 20% to 40% and roaming SMS by
75% to 80% effective from May 1.

The government wants to usher in a digital India and bring along a transformative impact on every citizen
through the medium of internet. We are excited to be part of this revolution and do hope that the policy
environment will create a win-win for all the stakeholders, consumers, government and the industry.

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prior written consent of Bharti Airtel Limited.
Now let me turn to some other company developments. You are aware of the announcement in the previous quarters regarding the divestment of 12,500 towers across 13 African countries. These agreements were subject to statutory and regulatory approvals, which are progressing well. There are other in-country formalities that also need to be completed before the actual transfers take place. As and when such transfers are completed, the transaction will then be accounted for and the new leases will take shape. During the Q4, the transfer was completed in one country and the new lease came into effect. In Q1, we do expect to complete the divestments in the remaining 12 countries including the bigger ones like Nigeria, Kenya, Uganda, Tanzania, and Zambia. We will of course keep all of you updated with more details at the end of the first quarter.

The next highlight is on the data side - aiming for a superior experience for our customers, we launched 3G on 900 MHZ in Mumbai and Kolkata, branded “Platinum 3G”. This service will enable customers to experience 34% faster speed than other 3G networks and with 30% better indoor coverage for seamless voice & data experience. Customers need not pay extra to avail the superior connectivity and can enjoy platinum 3G at the existing 3G tariff.

We are extremely excited with the opportunity to bring all Indians within the easy reach of digital services. Airtel launched One Touch Internet - a first of its kind initiative aimed at simplifying Internet services for millions of first time users in India. It is a WAP portal designed with a simple, secured and intuitive interface that will allow users to discover Internet easily. One Touch Internet was accredited as the best mobile service application of the year for consumers at the GSMA.

All of you are probably aware of the developments in the payments banking space. As India’s leading mobile operator with a deep distribution reach and loyal customer base we are uniquely positioned to leverage on this opportunity to spread financial inclusion. Airtel in collaboration with Kotak Mahindra Bank has applied for a payments bank license. The company seeks to be a partner in the national mission of financial inclusion.

Another exciting opportunity for Airtel is the digital TV business, which crossed the 10 million subscriber base milestone. This business now has 10.07 million customers as at March 31, 2015.

In Africa Airtel money launched cross border person-to-person transfer between DRC, Zambia and Rwanda and also received regulatory approval for launch of cross border remittances in Niger. As you all know, Africa is witnessing the beginning of a mobile money boom and we are positioning ourselves to participate in this exciting opportunity.

Let me now dwell on the company’s operating metrics. Q4 is seasonally good for Telcos in India and we are happy to note that this quarter saw the highest net additions in four years. Our customer base grew by 8.8 million. The minutes of usage sequentially increased by 10.4 billion minutes. On an underlying basis India mobile revenues have increased sequentially by 3.2% but after considering the impact of termination rate changes, the mobile revenue growth finally reported was 1.9%. This quarter, our voice RPM decreased from 37.67p to 36.22p, a fall of 1.45p over the last 12 months out of which the termination rate changes accounted for 0.67p.

Hence the drop in realizations during the quarter was the result of the changes in the mobile termination rates and also the way the customer growth story is playing out in an environment, which is increasingly getting consolidated. There is no divergence from our established price stability approach in managing the existing portfolio of minutes. Equally our strategy seeks to expand the customer base so long as the customers are sticky and especially in under-served semi urban and rural areas.

The interplay of multiple metrics such as churn, usage, rates and mix has to be seen as the overall framework of sustained revenue growth complimented by robust profitability. So if you look beyond the rates and minutes in Q4, the churn has dropped to 2.5% from 2.7% in the previous quarter while our net additions have jumped from 5.5 million to 8.8 million. All of this has helped the underlying year on year
mobile revenue growth to be at 12.4% and the EBITDA margin improvement of 3.6% over the last 12 months.

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

For a healthy telecom sector, we also need to see the elimination of wastage in trade spend through quality of acquisitions. As market leader, we have been continuously driving towards elimination of wastage and will continue to do so. You have seen the evidence of this in the tight management of SGA cost throughout fiscal year 2015.

On data we are very happy to confirm that the data revenues continue to march up with double-digit quarter on quarter growth momentum. Data consumption has increased by 12.1% sequentially and by 71% on a year on year basis. While the growth percentage seems to have marginally dipped, we should note that the data is at a higher base now and hence this is just the mathematical representation. We continue to see impressive 3G as well as 2G additions to the data user base every quarter. Data ARPU is up 32% year on year at Rs.176 at such early levels, and has already surpassed the more mature voice ARPU at Rs.151. We firmly believe that we are still at a very nascent stage of data revenue pool development. Data now contributes 17.6% of mobile revenues as against 11.4% in the corresponding quarter last year and the trajectory up seems to be a continuing one. We are incubating the data opportunity very carefully and ensuring that we calibrate the pricing to yield maximum off-take. As such, we may run plans from time to time for whetting the data appetite. So the data realization rate has to be seen in the context of the emerging customer behavior.

I am delighted to note that in Africa also the data story is unfolding well. Non-voice revenues in Africa are more than 25% of the total revenues. Mobile data itself is 11.5% of the total revenue. Our 3G networks have enabled the data volumes increasing 84% year on year and we have been gearing up for much more growth. Airtel Money transaction values are growing 31% year on year to $2.9 billion during the quarter. More than 6 million customers are carrying out a daily average of 1.75 million transactions on Airtel money in Africa.

Moving on to the quarter’s financial results, the consolidated revenues increased by 4% year on year. Within the portfolio underlying India revenues grew by 12.8% adjusted for the IUC impact and 12% on a reported basis.

In this quarter mobile data in India grew 70.4% to INR 23 Billion and now accounts for 17.6% of the mobile revenues. Digital TV grew by 17.2% helped by healthy trends in ARPU and adoption of HD services. Starting this quarter, we have also turned EBIT positive in DTH business and have started to generate meaningful operating free cash flow. Telemedia also grew 10% year on year as the data growth story plays out in that segment as well. As you can see, data and entertainment are now the engines of growth in India.

In Africa let us first take stock of the currency trends. First, on exit March 2014 to exit March 2015 basis the weighted average currency depreciation in the last 12 months has been 21% led primarily by the Nigerian Naira, which fell by 28%, the Central African Franc by 27% the Ghana Cedi by 36%.

Second the weighted average depreciation during Q4 versus Q3 has been 8.1%. These sharp declines have impacted the reported revenues in dollar translations. To understand the intrinsic performance of the Africa operations, let us look at the growth in constant currency terms. In Q4 gross revenues in Africa are up 3.4% year on year on a constant currency basis. Net revenues which are a true reflection of the underlying performance after netting off access charges and cost of goods have grown 4.2% year on
year. Mobile data revenues in Africa have grown by 61% year on year. Overall we continued to be No.1 or No.2 in 14 countries in terms of revenue market shares. Barring a few exceptions, we have grown either in line or ahead of market in those countries. I am pleased to share that our local currency revenue growth in Nigeria has been robust and was accompanied by expansion in the EBITDA margin.

Despite the currency issues, we have maintained our focus on growing customer base and network. We have added over 783 3G sites this quarter. We have continued to grow our customer base with 1.7 million net adds during the quarter and 10.3% growth in minutes year on year, which is the fastest growth in fiscal year 2015.

We continue to believe in the demographic and economic potential of Africa. We carefully calibrate our investments to ensure that we are uniquely positioned to capitalize on the Africa growth story playing itself out on voice and data, as well as the mobile money boom. Our investments in Africa are aligned with these objectives. You have seen that in the last six months, as our data volumes and voice traffic increased sharply, we have invested $650 million in capex.

Let me talk about margins. The company’s consolidated EBITDA margin has expanded to 35% up from 33.7% in the previous quarter, an improvement of 130 basis points over one year. India’s EBITDA margin improved by 380 basis points year on year, 160 basis points sequentially. The improving trend over the last four quarters reflects the benefits of operating leverage flowing from sustained topline growth and our continued efforts on what we call as war on waste which is all about improving OpEx productivity.

With significant investments on the ground, our scale offers the single biggest opportunity for margin improvement. However one must remember that during this quarter the mobile termination rate cuts have led to mathematically higher margin due to fall in gross revenues so this needs to be kept in mind for the coming quarters. The estimated full quarter impact of the termination rate changes on an ongoing basis is an uptick of 0.6% in mobile margins and 0.7% in overall India margins.

As far as the Africa is concerned, let me explain how the EBITDA has evolved. In the last quarter we had reported EBITDA of $241 million. Adjusting for the currency depreciation quarter on quarter this number is $217 million at Q4 currency rates. If you factor in the impact of international inter-connect agreements which are usually in dollar as well as those OpEx contracts which are priced in dollars, this had an adverse impact of another $10 million. That broadly reconciles to the $207 million dollars of EBITDA in Q4. Incidentally we also had two days less in this quarter. As regards the core operations, we are evolving well as you can see in the operational KPI’s.

Basis all of this our approach and strategy for Africa is five pronged.

a) Customer growth with quality at the focus.
b) Stronger data network rollout thereby garnering the incremental RMS higher than our current RMS in data.
c) Airtel Money adoption to induce loyalty and reduce the churn.
d) Localized go to market with intelligent volume and rate per minute play for profitable revenue growth.
e) Replicate the war on waste, like we had in India, in Africa as well.

Coming back to the consolidated company P&L in Q4. From a Rupee perspective while the year on year revenue growth was 3.6% if you adjust for the constant currency in Africa this year on year growth would have been 9.7%. This topline growth was accompanied by 9.4% growth in EBITDA and 20.6% growth in EBIT. This outcome has been very encouraging.

Consolidated net finance cost during the quarter went up by 96% year on year at Rs.19.4 billion. This increase is attributed to the following:

a) Higher interest charge to the P&L towards spectrum deferred liabilities on the February 2014 spectrum now fully put to use.
b) At the same time, investment income in India was lower for the quarter compared to Q3 which benefited from the higher mark to market gains due to interest rate movements last quarter.

c) The reported derivative and forex translate on losses at INR 11.5 billion caused mainly by the composite depreciation of the Nigerian Naira, Central African Franc, Tanzanian Shilling, and Zambian Kwacha.

Consolidated profit before tax on exceptional items during the quarter stood at INR 25.2 billion, which is flat on a year on year basis.

The effective tax rate in India, excluding the impact of dividend distribution taxes has improved to 26.5% for the year, lower than 31.2% in the last full year due to improved performance of subsidiaries and lower forex losses in relation to borrowings. The tax charge in Africa for the financial year ending March 31, 2015 came in at $203 million compared to $273 million for the last year. This has been lower primarily due to higher operating losses and reduction in withholding taxes on the up streaming from subsidiaries.

Exceptional items during the quarter resulted in a net loss of INR1.6 billion comprising of a charge of INR 2.18 billion on account of restructuring activities in a few countries and a credit of INR142 million on account of the gains recognized on divestment of telecom towers in one country in Africa during the quarter. Also, there was a one-time credit of INR572 million on account of reassessment of certain other levies for earlier periods and of course it includes the tax and minority interest impact of the above items.

The final consolidated net income after exceptional items came in at INR12.6 billion, which is an increase of 31% year on year. At this stage I must mention that we ended the full year with a net income of INR51.8 billion, which is a growth of 87% year on year. The annual earnings per share at INR12.97 has improved from INR7.01. You are all aware that the board has recommended a final dividend of INR2.22 per share taking the total dividend for the year to INR3.85 per share. The dividend outflows effectively utilize all the dividend inflows to utilize again the dividend distribution taxes paid by the subsidiary.

Let me now talk about our Capex. In Q4 we spent INR 63 billion which translates to $1.1 billion. This includes $689 million in India, South Asia and $352 million in Africa. For the year ended March 2015 we spent in total INR 185 billion, which translates to around $3 billion, this includes $2 billion in India South Asia and $1.06 billion in Africa. Bulk of the capex has gone to support the data growth including on backhaul and fiber. Our capex guidance for the next full year is approximately $3 billion, which includes $700 to $800 million for Africa, the remaining being in India and South Asia.

On the balance sheet front, the net debt at the end of March increased by around $600 million to $10.68 billion as compared to $10.21 billion last year. Net debt to EBITDA ratio has improved to 2.08 from 2.19 in the previous quarter. The net debt excluding the DoT obligations is now standing at $8.4 billion as at March 31.

At this stage I would like to handover back to the moderator for conducting the Q&A part of this earnings call.
Sachin Salgaonkar - Bank of America - Mumbai

Thank you for the opportunity. My first question is on India. Wanted to get some more data on what led to that 5% QoQ decline in voice RPM. I understand a part of it is the IUC rate cut, also I think Srikanth mentioned it is to do with the way customer growth is playing out. So just wanted to understand a bit more on that. And how do you look at elasticity for such customer base? Second question is on Africa. Now again, I understand you are in investment phase for last few years and the current constant currency revenue rate on margin is not where you want to be, but what needs to change for the revenue uptick and margin improvement to happen, and how far are we from that inflection point? Thanks.

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

We have seen a decline in VRPM. Now part of that is on account of mobile termination rate which is about 0.66 paise, which is around 175 crores a month and the other part is the intrinsic decline in voice realization. You will recall in the last quarter where we had talked about the need for us to step up our acquisition even as we continue the focus on the quality of the acquisition and we believe we have done that. We have got 8.8 million customers in the quarter and our churn has actually fallen to 2.5%, a part of that 8.8 million is coming through on a slightly lower tariff and that is part of the VRPM decline, so that is one part of it. The second part of it is around the portfolio, there are certain challenger markets that we operate with and given the competitive pressure that we have faced in these markets we have been trying to find the sweet spot between driving for minutes versus rate and figuring the right elasticity and that has been another contributor to the voice realization decline. We believe that going forward and you know we have maintained this all through that there is a need for us to actually improve voice pricing, it is abysmally low right now but we will keep doing this looking at the competitive situation, looking at the growth of really marginal operators and yet trying to do that in more sustainable and profitable way. So we have continued to look at those opportunities.

Srikanth Balachandran - Global Chief Financial Officer - Bharti Airtel Limited

Let me take the question on Africa. As I said and as you also alluded to, I think we have to look at it in constant currency terms - that is another way you call it local currency term - each of the countries how are they performing in their local currency. We do not give forward guidance and therefore I am unable to give a pointed reply to your question as to when and how much etc., but as I said in my earlier opening remarks in Africa we have continued our capex investments and we have continued even in terms of OpEx the activities on ground to support our data network which have been rolled out and the Airtel Money which is rolling out and more and more customers are adopting Airtel Money, so as you see the investments have continued. Going forward as I said we have a clear five-pronged strategy, one is on customer base with a sharp eye on the churn, the second is much stronger data growth disproportionate to our existing market share. No.3, Airtel Money adoptions leading to reduction of churn and of course adding to revenue pool as well. No.4 localized go-to markets with smarter value and rate play of a profitable revenue growth and the last one is an intensive war on waste in Africa like what we have done in India now replicate some of these learnings and some of these teams will be working intensely in the Africa continent as well. So broadly that explains what we are going to do, what we are doing and what we are going to do in Africa. If there are any more specific questions of course welcome.

Sachin Salgaonkar - Bank of America – Mumbai
Okay and that is very clear. Just one small follow up your CapEx guidance of $3 billion, it does imply CapEx to sales declining from FY15 so just was wondering are you guys comfortable with that?

Srikanth Balachandran - Global Chief Financial Officer - Bharti Airtel Limited

No of course we have had a head start as you know in the last few quarters, so we are juicing those investments and as we go along if the volumes catch up, we will be open. We operate on a demand led capex and so, we will be open to look at it. At this point in time we believe that $3 billion including the $0.7-$0.8 billion in Africa, therefore $2.2 to $2.3 billion in India is what we've got.

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

One more thing, I think we will also look at up fronting some of this capex in the first half we will watch for what happens to data growth, and you are aware that we picked up 3G spectrum in many circles, we are going to rollout our 3G networks aggressively over the first six months of this year and we will then watch what happens at the end of the first half and decide if we need to put more CapEx, that will not be a constraint if we are actually getting the revenue growth that we seek. So I just wanted to reassure you on that front.

Sachin Salgaonkar - Bank of America - Mumbai

Thanks Gopal.

Shareena - Moderator

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

Srinivas Rao - Deutsche Bank - Singapore

Thank you very much. My first question is on 3G. Would it be fair to say that your ICR arrangements currently will probably not be in place by the end of this year? If you can even give us the sense of what can be the revenue impact because of that? Also just wanted to double check that should give you the ability to gain more subscribers because currently, I understand the ICR arrangement do not allow you to gain incremental subscribers. So that is the first question. Second question is really on Africa where number one is a housekeeping question. What is the actual cash flow loss there or if you can give us what was the cash interest and the cash tax? I am just trying to calculate that? Secondly from a business perspective the growth rates in Africa have come down actually. So what is your outlook for the next year in Africa? Is that something which you can comment on? Thank you.

Nilanjan Roy - Chief Financial Officer- India and SA - Bharti Airtel Limited

On the 3G ICR we are just waiting for the spectrum to be allocated and pretty much, we will start rolling out as soon as we get the spectrum. So definitely I think before the year is out, you would see us roll out in all our gap circles with 3G ICR and consequently yes the 3G ICR arrangements from our side at least come to an end. I would not be able to give you the numbers exactly in terms of impact on revenue but net-net, on a net revenue perspective definitely should be positive. The second question was whether it...
will allow us to get incremental subs and revenue I think definitely we can be much more aggressive in the market once we have our own spectrum and own sites, so I think definitely in terms of 3G revenue this should be a push up for those gap circles.

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

For the moment, if you take the full year EBITDA that was reported in Africa, which is the billion dollars and if you take the CapEx, which also came in at the billion dollars so operating free cash is more or less zero. We have incurred cash taxes of about $122 million, withholding tax of $32 million so that is a drain of about $150 million and we have incurred about $200 million on interest in the continent.

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

Just to supplement, I think interest component as you know in general from a debt structure perspective we have a common debt structure. It may not be right to attribute only the given debt that is there. It could be higher, it could be lower. because debt can be sourced from either the holding company or the parent company, so that is why I am not sure how that will lead to impute that interest figure, but the operating companies the loans they have is sub-$200 million. The only other incremental point from a free cash flow perspective you might need to keep in mind Srini is that ours is predominantly a prepaid business so depending upon various countries you do have a source from working capital. It could be as low as 20 to 30 days, it could be as high as 50 to 60 days as well of the overall incremental sales that you are doing it for the year. So that is a bit of a few million dollars that comes in from working capital as well.

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**Srinivas Rao - Deutsche Bank - Singapore**

Understood. This is helpful. Thanks a lot.

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**Shareena - Moderator**

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

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**Rajiv Sharma - HSBC - Mumbai**

Thanks for the opportunity. My first question is for Gopal. I just wanted to know your 4G rollout strategy as to, if we are going to see some cities, circles going with 4G in the next couple of quarters. And in terms of your CapEx, is there a plan to go for pure data sites as of now or it will be a very small percentage this year? And the second question is on Africa. What have been the investments in the distribution and retail over the last one-year, if you can share some KPIs in terms of where are you versus the market leaders like MTN in Nigeria in terms of your outlets and reach. And your CapEx for Africa, does it include the license renewal costs, which you may have to pay for Nigeria this year?

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

Rajiv, let me pick up the first two questions; on 4G rollout, we are in the process of rolling out 4G aggressively in some of our key cities through a combination of both TD-LTE rollout as well as FD rollout.
You will recall that we have launched TD-LTE in four circles. We are looking at launches in several other cities over the course of this year. I am not at liberty to share the specific timing of the plans, but suffice it to say that during the course of the year you will see launches across several other cities.

**Rajiv Sharma - HSBC - Mumbai**

Gopal, if I can chip in, I was more interested in your FD rollout, so will we see any meaningful FD rollout in the next six months?

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

Yes, if you look at some circles for example, if you look at circles like Andhra Pradesh and Tamil Nadu we do not have TD and we will look at FD to get 4G in there. Similarly when you look at circles like Karnataka we might look at a combination of TD and FD depending on the cities, primarily to ensure that we get the right coverage along with capacities and this may apply in Delhi as well. So we will look at a combination in some circles and in other circles where we have only FD we will look at FD standalone. Coming to your second question on independent and standalone data sites if I have understood you I think your question is will we see meaningful deployment of standalone 3G or 4G sites only for data, the answer to that is I do not believe it will be meaningful. I think it will be marginal at best. I think we are still in a situation where we will be able to deploy our existing electronics on existing sites in many of the circles. There are some concerns that we have in terms of congestion in some of the cities and this is where we will look at a few solutions which could be standalone but like I said they will not be meaningful.

**Rajiv Sharma - HSBC - Mumbai**

It is very helpful.

**Christian de Faria -Chief Executive Officer - Africa - Bharti Airtel Limited**

On distribution and reach in our markets, and especially in Nigeria, I think definitely we have concentrated in the last year and this fiscal year in scientific distribution, mark to market. We have reviewed the layers of distribution, so very strong focus on distribution with careful marketing and also on Airtel Money, so lot of work that’s been done mainly in the reach and distribution. I must say that we are mark to market in all our market in sales and distribution and where we are not then those are in the process of being completed.

**Rajiv Sharma - HSBC - Mumbai**

Christian, is there any specific number, which you can share with us in terms of your retail presence like 1 million stores or exclusive stores and where Bharti is versus the incumbent or the market leaders there?

**Christian de Faria -Chief Executive Officer - Africa - Bharti Airtel Limited**

You know in every market when we met and we are looking at every market on where we are today, we had been filling the gap, so I cannot tell you exactly if it is 1.1 million or 1 million but in all shops, in touch points, in reach, we are mark to market in most of our markets.
Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

Rajiv, I think it will be probably selective also because we really do not disclose market by market flavor slightly competitive as well, but mind you what Srikanth earlier mentioned is Airtel is number one or number two in 13 or 14 of these markets. So clearly you cannot have that spot unless you have the right distribution model in most of these markets, having said that a lot of the markets needed some adaptation over the time, and I think that was Christian was mentioning last that six quarters have seen some of those changes which are more localized specifically also in Nigeria. I think in yesterday’s press release Christian’s comment mentioned on some reasonable performance, we cannot really talk about numbers but Nigeria has delivered, which is the largest market for us in Africa.

Rajiv Sharma - HSBC - Mumbai

Okay, and on the CapEx numbers, do they include the Nigeria license renewal cost?

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

These CapEx numbers Rajiv are all CapEx for business operations and not the spectrum or renewal numbers. So that will be separate from the guidance, which Srikanth earlier talked to you about, roughly about $800 million for the fiscal year which we are entering now. That will be apart from any Nigeria or other markets renewal costs.

Rajiv Sharma - HSBC - Mumbai

And what is the expectation for license renewal in Nigeria?

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

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

I wish either I knew or I could tell you.

Rajiv Sharma - HSBC - Mumbai

Thank you.

Shareena - Moderator

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

Aditya Soman - Goldman Sachs - Mumbai

I had a couple of questions. Firstly on the Africa tower sales, can you break out especially since you have completed in one country, can you break out the margin impact specifically because of the Africa tower
sales? And my second question again, it’s on the Airtel Money in Africa, again, can you explain how your margins on each transaction work there?

Srikanth Balachandran - Global Chief Financial Officer - Bharti Airtel Limited

So as far as the Africa towers are concerned, yes, the deal has been consummated in just one country and therefore it is not material from the overall reported numbers of the last quarter. Overall the impact on the margins and the impact on the bottom line, I think, would be very clear in Q2 because that would probably be the first full quarter after substantial divestments happen in Q1. Q1 I would imagine would be a quarter in which many of the countries would have had one or two months of pre-divestment or post divestment phase. Having said this, the overall approach for us is that this deal would be cash accretive as well as PBT neutral or PBT positive at an overall Africa basis and that is what we are seeking to achieve. The impact of the EBITDA will be disclosed in detail in the next quarter but at this point of time, we do not see any adverse impact on the EBITDA because of the lease accounting that we would be doing and therefore the operating expenditure in the post lease scenario would be benchmarked in fair value with the existing market rates and therefore we do not foresee any adverse impact on the impact of the EBITDA, but more details of this actually in the coming quarters.

Aditya Soman - Goldman Sachs - Mumbai

Just one follow-up there in terms of the tax shield, will it work similar in terms of -- can you claim a similar amount of depreciation as compared with the rentals you are paying for taxation purposes?

Srikanth Balachandran - Global Chief Financial Officer - Bharti Airtel Limited

It is not one single regime, tax regime across all the countries, each and every country has its own rules, but by and large most countries permit the entire lease to be expensed out. The other question on Airtel Money you said, so Airtel Money as we are developing the market and as we are seeding the operations we are at this point of time negative in terms of if you can call it marginal contribution, we are negative, but these are known positions that we have taken to especially increase the adoption and get the usage up, but on an intrinsic model, we believe that this will turn out to be a positive EBITDA kind of business going forward.

Aditya Soman - Goldman Sachs - Mumbai

Actually, what I wanted to understand was what are the specifics do you sort of levy any charges per transaction? And are these fixed in nature, are they dependent on sort of the value of the transaction?

Harjeet Kohli- Group Treasurer- Bharti Airtel Limited

There are charges and sometimes they are fixed and some are ad valorem charges as well, so I think Srikanth’s point was that the revenue received from them maybe a few million dollars per quarter which is not necessarily a huge contribution in the overall revenue pie but you do end up needing to harness the distribution strength and thereby they have had distribution commission. In the shorter term, all of this is at the EBITDA level, marginally negative, but having known that it is negative even you know otherwise so-called relatively subdued, EBITDA margin levels the belief in this investment stems from the fact that this provides strong realities of the time where even the usual voice mobility elasticity does not impact. We have seen in markets where we faced the brunt on the other side. They are markets like Kenya where such things were established earlier, we are using that in an opportunistic way to be able to take and
export to all other markets and while in a shorter terms take some EBITDA knocks but overtime build that reality and reduce churn where you have some reasonably inelastic price behavior of your loyal customers.

Aditya Soman - Goldman Sachs - Mumbai

Understand. That is helpful. Thanks a lot and all the best for the rest of the year.

Shareena - Moderator

Thank you very much Mr. Soman. The next question comes from Mr. Janakiraman Rengaraju from Franklin Templeton Mumbai. Mr. Janakiraman you may ask your question now.

Janakiraman Rengaraju - Franklin Templeton - Chennai

Good afternoon gentlemen. A couple of questions for Gopal. One is, over last two auctions, you have augmented your spectrum holdings, what kind of competitive advantage do you expect to get out of this largest spectrum holdings, especially for example in the data segment, do you think that this higher spectrum holdings will increase your revenue market share? And B compared to some of your peers, your CapEx to revenue is bending towards the higher side. So, what is behind this? Are you investing ahead of demand or are you investing in certain newer technologies like 4G? What is driving this higher CapEx to revenue metric? That is all. Thank you.

Nilanjan - Chief Financial Officer - India & South Asia - Bharti Airtel Limited

I think, the point is in the last two auctions definitely around FD-LTE, around 3G and around incremental 900 as well, which we can use for example a premium 3G service on 900. I think we are well ahead and investing ahead of the curve. I think there is no doubt behind that and part of that is also the investments we are making in CapEx around 4G, on 3G, on fiber, these are ahead of the curve as well, so I think the question of whether a CapEx to revenue is looking a bit that higher than what our peers would be I think this is largely about 75% of our incremental CapEx around data whereas from a revenue perspective it is less than 50%, so I think there is still this push towards having more data and CapEx investments there and I am sure over a period of time we are going to see the fruits of these.

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

Just to complement what Nilanjan was saying in any case, Gopal earlier mentioned in the last few auctions, we have spent and including the auctions in 2010 there is about $12 billion roughly which Airtel has been called to spend both from a renewal perspective or a necessity spend as also on growth CapEx. And these incremental $100 million of whatever we spent on the electronics rollout for data are primarily the investments, which formally end up helping us monetize the earlier spectrum investments from that perspective in the shorter term, I think such CapEx is both from a demand side required as also from the ability to yield on the existing large spectrum investments is important.

Janakiraman Rengaraju - Franklin Templeton - Chennai

Thanks Harjeet.
Shareena - Moderator

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

Jimmy Chen - Sanford Bernstein - Hong Kong

Thanks for the opportunity. My first question is on the recent spectrum auction. How would the deferred payments hit your financials especially in terms of when you would recognize that as a liability and on what balance sheet lines, when or how you would recognize expenses especially the interest during the moratorium period, and when the cash outflow would hit? My second question is on the roaming rate reduction proposed by TRAI, how big of an impact do you think that would have on your revenue and also I think I missed that, can you also clarify what you think the impact was from the reduction of interconnect rate? Thank you.

Srikanth Balachandran - Global Chief Financial Officer - Bharti Airtel Limited

At this point in time, we have about Rs.140 billion of deferred spectrum liabilities on the February 2014 auction. So how does it happen in terms of accounting? When the spectrum is allocated to us that is when both the asset and the liability comes into our book. The asset is included in our intangible assets and the liability comes in as a deferred payment liability. As far as the interest is concerned, the interest is capitalized into the cost of the assets till such time as the asset is put to use commercially so which is the spectrum is really used for commercial business. Till such time the interest on the deferred payment is capitalized into the asset and once the asset is of course put to use the interest is expensed into the P&L. So at this point of time, we have Rs.140 billion of deferred spectrum liability on the February 2014 auctions, 10% per annum is the interest and you can see how much would come into the books. That is something which would go into the P&L. As far as the March 2015 auctions are concerned, about Rs.178 billion of liability would come in only after the spectrum is allocated and the 10% interest on that would initially be capitalized till the asset is put to use and after that it would be expensed in the P&L.

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

Some of the renewals Jimmy, which Airtel has done, some of the renewals are due in the November month of this year including for two of the circles going up to March and April of next year. So the relevant spectrum liabilities for those relevant circles will come in the respective quarters as we inch into that.

Jimmy Chen - Sanford Bernstein - Hong Kong

Understood. Just to clarify on the capitalization, interest expense being capitalized, for any 900 spectrum that is expiring and you have successfully renewed the interest on that would automatically be expensed instead of capitalized, would that be correct because that spectrum would continuously be used after the exploration/allocation day?

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

I think it will come from the renewal date. While we are using today before the auctions happened in anticipation of a future renewal date. Let’s assume auction happened in March, and the renewals start for
the respective 900, which we have either up front paid or deferred paid which is happening in November. Till November, the interest on that deferred payment is capitalized and at the renewal date in November the interest will start coming into P&L. Jimmy, you also asked about the cash flows. The deferred payment scheme is a 12-year deferred payment scheme. The first two years you do not pay anything, at the third anniversary you pay the first installment each installment is same in value in 10 equal annual installments, you pay the residual liability at an imputed IRR of 10% at it stands today.

Nilanjan Roy - Chief Financial Officer - India & SA - Bharti Airtel Limited

As regards to the question on roaming, as you know it is going to kick in from May 1, the impact again in terms of elasticity what happens is still unknown, so I would not be able to share the impact, but I think in the past whenever we have seen this change of roaming rates, the elasticity a bounce back on minutes is there because we actually see customers usually curtailing the consumptions when they are on out roaming, so there may be a short-term blip, but I think in the medium term definitely elasticity kicks in quite fast in roaming. The MTC impact Gopal mentioned that at a company level because it was only for one month was about 145 Crores- 1450 million for one month and on the mobile segment per se it is 175 Crores for one month.

Jimmy Chen - Sanford Bernstein - Hong Kong

Yes, sure. That is great. Just a clarifying question on the roaming rate reduction what are you currently charging roaming rates at the original cap or are we already significantly below charging rates significantly below the original cap?

Nilanjan Roy - Chief Financial Officer - India & SA - Bharti Airtel Limited

There are some people who pay as per the ceiling rates but we have also a lot of people on packs, which are discounted over and above the ceiling rates.

Jimmy Chen - Sanford Bernstein - Hong Kong

Great. Thanks.

Shareena - Moderator

Thank you very much Mr. Chen. The next question comes from Ms. Amruta Pabalkar from Morgan Stanley Mumbai. Ms. Pabalkar you may ask your question now.

Amruta Pabalkar - Morgan Stanley - Mumbai

Thanks for the opportunity. I just had one small housekeeping question. In your report, you have mentioned that you have got one-off benefit of Rs.1.6 billion in operating expenses in the current quarter. If you could help elaborate what does this really point to and which segment do they sit in will be helpful? Thank you.

Srikanth Balachandran - Global Chief Financial Officer - Bharti Airtel Limited
So these are of course as you are aware these keep happening every now and then either on account of contract closures or on account of the other discounts or any other settlements that we may have and these mostly, the flagship business of course is the one which will get most of it, but these are spread across the segments as well and across lines of costs, which is why we have given it on the overall basis.

Amruta Pabalkar - Morgan Stanley - Mumbai

So, it will be India plus Africa or largely India segments?

Srikanth Balachandran - Global Chief Financial Officer - Bharti Airtel Limited

Largely India.

Amruta Pabalkar - Morgan Stanley - Mumbai

Just one small follow up on the spectrum, currently you have not recognized any deferred spectrum liability despite having paid around Rs.47 billion till March 31. Am I right to get that?

Srikanth Balachandran - Global Chief Financial Officer - Bharti Airtel Limited

Yes, to the extent that we have paid in advance, there is no liability because we have extinguished the obligation in respect of those two circles because we did not avail of the deferred payment option in respect of those two circles. In respect of 15 circles where we have availed of the opportunity or we have availed of the option for the deferred payment liability, we have paid subsequently in April, we have paid an advance, which was upfront of 25% which is as stipulated in the auction rules, so we have fulfilled that obligation and as and when the spectrum is allotted by the Department of Telecommunications, that is when we would pick up the liability for the remaining 4-5 circles.

Amruta Pabalkar - Morgan Stanley - Mumbai

Thank you. And just one more thing on the Supreme Court ruling, wherein there were certain litigations on the spectrum, do we have any update on that?

Srikanth Balachandran - Global Chief Financial Officer - Bharti Airtel Limited

Not at this point of time, there is no update on that.

Amruta Pabalkar - Morgan Stanley - Mumbai

Thank you Sir.

Shareena - Moderator

Thank you very much Ms. Pabalkar. At this moment we will take one last question from Mr. Sanjay Chawla from JM Financial, Mumbai. Mr. Chawla, you may ask your question now.
Sanjay Chawla - JM Financial - Mumbai

Good afternoon. Thank you for the opportunity. I have a question on your constant currency growth rate in Africa. I probably missed it when you were giving that information earlier. So, on a full-year basis in Africa FY15, what is the constant currency revenue growth rate and the EBITDA growth rate? That is one. Secondly, can you give how much interest was capitalized in FY15 at the consolidated level and what kind of estimate one should build in for FY16? Just a broad range also would be quite useful.

Srikanth Balachandran - Global Chief Financial Officer - Bharti Airtel Limited

For the full year the weighted average currency depreciation for Africa is 8.2% and therefore because it is for a 12-month rolling of the previous year and the 12-month rolling of this year, so the reported growth of the full year is -1.9 and the growth in constant currency is +6.2. This is at the gross revenue level. At the net revenue level, it is a constant currency growth of 7.5%.

Sanjay Chawla - JM Financial - Mumbai

7.5% is at the net revenue level and at the EBITDA level?

Srikanth Balachandran - Global Chief Financial Officer - Bharti Airtel Limited

At the EBITDA level it is -7.7%.

What was your second question?

Sanjay Chawla - JM Financial - Mumbai

How much interest was capitalized in FY15 and what is your estimate of interest capitalization in FY16?

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

Of the deferred payment liabilities of last auctions, all of the deferred payment liabilities were on the commercials more in a way in this particular quarter and you have seen a rather full quarter impact of the earlier capitalized but now P&L interest of the earlier liabilities. Now there could be a few days here and there, but that is a very representative quarter in terms of the earlier capitalized entries that we have.

Sanjay Chawla - JM Financial - Mumbai

Harjeet, full year basis the number will not be very large for FY15?

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

Overall context of interest not really.
Sanjay Chawla - JM Financial - Mumbai

Okay. And for FY16?

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

FY16 Sanjay we will have to go circle by circle. There are renewals which are due in November. Till November of course which means till December quarter we will have ability to capitalize the interest rates for the residual payments of those circles, couple of circles go up into 2016 calendar year. I do not have a ready estimate right now but you know the closing prices of all of these circles and circles that we renewed so it is calculable from there.

Sanjay Chawla - JM Financial - Mumbai

So how should we treat this extra 900 that you have purchased which you are going to be deploying for 3G. Should one assume any 3G 900 rollout by the end in this fiscal year or should it be assumed for the next year?

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

I think considering that much of the spectrum that will be up for renewal only in the latter half of the year which is really December to April, so there will be some circles coming up in December and Punjab and so on and so forth will come up only in April. I think realistically you should assume that it will really come into action only in the following year.

Sanjay Chawla - JM Financial - Mumbai

Thank you very much and all the best.

Shareena - Moderator

Thank you very much Mr. Chawla. I would now hand over the call proceedings to Mr. Srikanth Balachandran for the final remarks.

Srikanth Balachandran - Global Chief Financial Officer - Bharti Airtel Limited

Thank you all for your active participation in today’s call. Thank you for interesting round of question and answers that we had. We look forward to talking to you once again next quarter and certainly meeting some of you face-to-face during the investor conferences and meetings during this quarter. Thank you very much.

Shareena - Moderator
Thank you very much Sir. Ladies and gentlemen, this concludes the conference call. You may now disconnect your lines. Thank you for connecting to Audio Conference Service from Airtel and have a pleasant evening.