

Bharti Airtel Limited Third Quarter and Year Ended December 31, 2014 Earnings Call

Earnings Conference Call Transcript

Event: Bharti Airtel Limited Third Quarter and Year Ended December 31, 2014 Earnings Call

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Bharti Airtel Limited Third Quarter and Year Ended December 31, 2014 Earnings Call**CORPORATE PARTICIPANTS****Srikanth Balachandran**

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

Christian De Faria

Chief Executive Officer - Africa - Bharti Airtel Limited

Nilanjan Roy

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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 Q3 ended December 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 handover the call I must remind you that the overview and discussions today may include certain forward

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looking statements that must be viewed in conjunction with the risk that we face. I now handover the call to our first speaker of the day Mr. Srikanth Balachandran, thank you and over to you Mr. Balachandran.

Srikanth Balachandran - Global Chief Financial Officer -Bharti Airtel Limited

Good afternoon ladies and gentlemen. Thank you for joining us today for this earnings call to discuss our results for the Q3 ended December 31, 2014, which we announced yesterday. Let me first introduce you to the Senior Leadership Team of the company, who are present with me on the call today. Gopal Vittal - MD and CEO of India and South Asia, Christian de Faria - MD and CEO of Africa, Nilanjan Roy - CFO of India and South Asia, Jaideep Paul, CFO of Africa and Harjeet Kohli our Group Treasurer.

Firstly let me share a few thoughts on the external environment. In India there is a strong convergence of views that has emerged. The government wants to usher in a Digital India and bring about a transformative impact on every citizen through the medium of internet. We are excited to be part of this revolution and have always believed that the policy environment should create a win-win for all the stakeholders - consumer, government and the industry.

After the Union Cabinet's approval of the spectrum availability and reserve prices, the Department of Telecommunications has released a notice inviting applications for the upcoming auction of spectrum in four bands - 800, 900, 1800 and 2100 megahertz. This auction will be defining in many ways and will pave the way for increased certainty and stability over the over the next 20 years. We also believe that these auctions will be rational and enable market discovered and balanced pricing to emerge.

All of you are probably aware of the development in the payment banking space. As India's leading mobile operator with a deep distribution reach and a loyal customer base we are uniquely positioned to leverage this opportunity to spread financial inclusion.

Turning to the macro developments in Africa, as you know the African continent is commodity rich and the economies there have strong linkages to commodity prices. The sharp slide in crude oil prices and other commodity prices have resulted in currency depreciation and fiscal pressures on government budgets across the continent, especially in Nigeria. The Euro weakness is also felt in Central and West Africa where the currencies are pegged to the Euro. This in fact was significant in Q3, and there will be some spillover in Q4 as well.

Let me now turn to the key company developments. You are aware of the announcement in the previous quarter, regarding divestment of 6,600 towers across 10 African countries. In Q3 we announced two more agreements for the divestment of 4,800 towers in Nigeria to ATC and 1,100 telecom towers in Zambia and Rwanda to IHS. With this, we have entered into agreement for divestment of a total of 12,500 towers across 13 countries in Africa. We have been pioneers and strong proponents of telecom infrastructure sharing and these agreements are an extension of that philosophy. This will lead to far superior utilization of passive infrastructure and enable cost efficiencies in infrastructure management, energy and logistics.

It also allows us to focus on our customer facing business. The divestment at the same time would enable us to deleverage through debt reduction and significantly reduce the company's ongoing CapEx on passive infrastructure. Of course we will continue to have full access to these towers under long term lease contracts. All these agreements are subject to statutory and regulatory approvals in the respective countries, which are progressing well. There are several other in-country formalities that need to be completed before the actual transfers take place in each country. As and when such transfers are completed the transaction will then be accounted for and the new leases will take shape. We will of course keep all of you updated with more details at that point of time. We are also inclined to consider tower divestment in the remaining countries subject to valuations and competitive rental rates.

The second highlight is on the data side. We are the pioneers in the 4G space in India and we have seen good uptake so far. We are also keen on participating in accelerating this growth in the near future. Airtel now offers 4G across 16 cities in India and we have signed an agreement with Nokia networks to expand our 4G presence to six new circles. This deal marks the first FDD-LTE deployment on 1800 MHZ in India.

We are extremely excited with the opportunity to bring all Indians within 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 portal designed with a simple, secure, and intuitive interface that will allow users to discover Internet easily. It works as a single point destination for users to see, drive and buy a host of popular services.

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We are very pleased to launch 3G services in Tchad and Niger in Africa during the last quarter and this now marks our 3G presence in all the 17 countries that we operate in Africa. We also launched 4G services in Seychelles which is our first commercial LTE network in Africa. As you all know, Africa is witnessing the beginning of an internet boom and we are positioning ourselves to participate in this round of growth.

Finally we have successfully migrated the yuMobile customers in Kenya into our network. Airtel now has consolidated its position as the second largest mobile operator in Kenya with a combined customer base of over 8 million and a 26.6% customer market share.

I would now like to draw attention to some reporting issues. As we know in the previous quarter, we designated a significant portion of the Euro denominated borrowings as a hedge against net investment in five countries where the local currency is pegged to the Euro. In addition, during Q3, we have designated a portion of our US dollar borrowing as a cash flow hedge of the foreign currency risk arising from the consideration for the sale of telecom towers. On a combined basis during the quarter the net foreign exchange gain of Rs.4.17 billion has been recognized in other comprehensive income.

Let me now dwell on the Company's operating metrics. Q3 is a seasonally stronger quarter for telcos in India and we are happy to note that India mobile revenues increased by 4.2% this quarter versus the 2.6% growth witnessed during Q3 last year. You have seen and will continue to see that our strategy is sharply focused on revenue generation. The inter-play of various metrics such as churn, usage, rates and mix has to be seen in the context of our single minded focus on revenue growth well complimented by profitability focus.

The input costs for the telecom sector are increasing such as spectrum cost, CapEx and there are now auctions on the anvil. To sustain the health of this sector it is imperative that over a long period we see pricing power return back to operators and we continue to believe that over a secular basis it should continue to inch up; however, these rates may not follow the same trajectory quarter-on-quarter. Also one has to be competitively focused at all times in a dynamic market. This quarter, our voice RPM was flat but we are happy that these rates have gone up 1.2% year-on-year.

For a healthy telecom sector, we also need to see the elimination of wastage in trade spends through quality of acquisitions. As market leader, we have been continuously driving towards elimination of wastage and will continue to do so. As a result churn in Q3 decreased to 2.7% from 3.1% in the previous quarter. We have the lowest churn rate in the industry and it will be our endeavor to keep it within the 2% to 3% range. On data we are happy that data revenues have continued to march up with the double digit quarter-on-quarter growth momentum. The data consumption increased by 14% sequentially and by 94% on a year-on-year basis, continuing the trend that we have been witnessing over the last several quarters. We continue to see impressive 3G as well as 2G additions to the data user base every quarter. Data ARPU is up 25% year-on-year at Rs.170 - at such early level it has already surpassed the more mature voice ARPU at Rs.157; again bearing testimony to the value potential in data. We also firmly believe but we are still at a very nascent stage of data revenue pool development. Data now contributes 16.2% of mobile revenue as against 10.6% in the corresponding quarter last year. This trajectory is there for all of us to see now. We are incubating the data opportunity very carefully and are ensuring that we calibrate the pricing to yield maximum offtake. 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. Non-voice revenues in Africa are now almost 24% of the total revenue. Mobile data itself is now 10.5% of Africa's revenue. Our 3G networks have enabled data volumes to increase by 76% year-on-year and we have been gearing up for much more growth. Airtel Money transactions values have grown 71% year-on-year to \$2.9 Billion during the quarter. More than six million customers are now carrying out a daily average of 1.8 million transactions on Airtel Money in Africa.

Let me now move on to the quarter's financial results, and start with the growth statistics. Consolidated revenues increased by 6% year-on-year. Within this portfolio India revenues grew by 12.6% which is the highest in nine quarters. In this quarter mobile data revenue grew by 74.3% to Rs.21 Billion and now accounts for 16.2% of our mobile revenue. Digital TV grew by 15.8% helped by healthy trend in ARPU and adoption of HD services. Telemedia also grew 13% year-on-year as the data growth story plays out in that segment as well. As you can now see data and entertainment are the engines of growth in India.

In Africa despite the currency issues we have maintained our focus of growing customer base and topline in a cost efficient manner. In order to enable this we have invested in growing our network, brand and Airtel Money. We have added over 1000 3G sites and over 400 2G sites this quarter, a testimony to our belief in the African opportunity.

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We have continued to grow our customer base with 3.2 million net ads during the quarter and 7.7% growth in minutes year-on-year. Mobile data revenues in Africa have grown by 35% year-on-year to clock \$116 million this quarter.

Overall in revenue terms we are number 1 or number 2 in 14 countries in terms of the revenue market share. Revenues in Africa were up 3.9% 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 6.1% year-on-year in constant currency terms. However, considering the average revenue weighted exchange rate depreciation of almost 9% in the last 12 months, the net revenue in Q3 has declined 3.1% year-on-year.

Despite the recent macroeconomic developments we continue to believe in the demographic and economic potential of Africa. We will carefully calibrate our investments to ensure that we are uniquely positioned to capitalize on the data story playing itself out as well as the mobile money boom. Our investments in Africa are aligned with these objectives.

Let me now talk about margins. The company's consolidated EBITDA margin stood firmly at 32.9%. This is healthy in the context of a competitive environment and this is an improvement of 50 basis points over one year, India's EBITDA margin improved by 290 basis points year-on-year and 60 basis points sequentially. The improving trend in India over the last four quarters reflects the benefits of operating leverage flowing from sustained topline growth and our efforts on improving OpEx productivity. With significant investments on the ground our scale offers the single biggest opportunity for margin improvement.

As far as Africa is concerned we are pushing for growth, this is reflected in the continued expansion of network and the resultant increased OpEx on a sequential quarter basis. On the other heads of expenses, we have exercised some restraint in a quarter which was in the midst of economic upheaval. So you would see that the absolute OpEx in dollar terms, except for network, has come down on all other heads with the overall dollar spend coming down sequentially.

Coming to the consolidated company P&L while the year-on-year revenue growth in Rupee terms was 6%, this was accompanied by 10% growth in EBITDA and a 25% growth in EBIT and 135% growth in net income. This outcome has been very encouraging.

Consolidated net finance cost during the quarter came in lower by 2.2% at Rs.10.5 billion. This decrease is primarily due to higher mark-to-market gains on investment income in India and the impact of a one off credit in finance charges partially offset by derivative and forex loss. The reported derivative and forex losses came in at Rs.5.5 Billion caused mainly by the composite depreciation of the Nigerian Naira by 18.2%, the Central African Franc by 12.9%, and Malawi Kwacha by 8.1% and the Indian Rupee by 2.3% during the quarter.

Consolidated profit before tax and exceptional items during the quarter stood at Rs.32.12 Billion, which reflects a growth of 40.6% year-on-year. The effective tax rate in India excluding the impact of dividend distribution taxes has improved to 25.5% for the nine months - lower than 29.1% for the last full year due to the improved performance of the subsidiaries and lower forex losses in relation to borrowing. The Tax charge in Africa for the period of nine months came in at \$ 208 Million compared to \$ 273 Million for the full year last year.

Exceptional items during the quarter resulted in a net charge of Rs.2.93 billion. There was a one-time restatement impact of certain foreign currency liabilities in Nigeria from the Central Bank administered rates to the open market exchange rates, the impact of which was Rs.2.1 billion.

The other items of exceptional nature pertains to one of restructuring in some countries, the benefits of which will flow in the coming quarters and also for one off dispute settlements and some credits. The final consolidated net income after exceptional items was Rs.14.4 Billion which is an increase of 135% year-on-year. This is the highest quarterly profit since September 2010.

Let me now talk about our CapEx. In Q3 we spent Rs.45 Billion which translates to \$729 million. This includes \$445 Million in India and South Asia and \$284 Million in Africa. For the nine months ended December 2014, we have spent Rs.122 billion which translate to around \$2 billion on a consolidated basis. This includes \$1.3 Billion in India South Asia and \$700 Million in Africa. Bulk of this CapEx has gone to support the data growth including on back haul and fiber. Our CapEx guidance for the full year is now revised upwards to \$2.6 to 2.8 billion which includes \$800 million for Africa.

On the balance sheet front consequent to an addition of Rs. 6,468 Crore of deferred payment liabilities for the spectrum, the company's consolidated net debt has increased to \$10.55 billion and the net debt to EBITDA ratio has

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moved to 2.11 from 2.06 in the previous quarter. However excluding the deferred payment liabilities to the DoT the consolidated net debt of the company as at December 31, 2014 stands at \$8.35 Billion,

I would now like to hand over back to the moderator for conducting the Q&A part of this earnings call.

Shareena-Moderator

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

Suresh Mahadevan-UBS - Singapore

Congrats on a good set of numbers in India. I have two questions, one is on India mobile, clearly the data growth has been impressive, but still looking at your 3G users, you have only less than 17 million 3G users on a user base of, I don't know, 215 million or so. So clearly, what is the impediment for faster 3G adoption? And clearly the handset system has evolved, et cetera so just would like to hear that. As a follow-up of that, does that mean 4G will be a significantly smaller subset of this as and when it is launched? So, that is question number one. The second question is related to Africa. I mean Africa seems to be even under-delivering on very low expectations; I mean I understand part of it is currency, part of which is Ebola, part of which is the crude oil price going down, commodity prices going down. But what is the Company's strategy on Africa because it just seems to me that there are way too many challenges than we originally anticipated? But I mean I just want to understand how should we look at Africa on a three-year or five-year kind of time frame, how should we think about Bharti Airtel Africa? Thank you.

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

Hi, Suresh this is Gopal here. Let me just take the question on 3G you are absolutely right. Customer base on 3G is what you said which is 17-odd million customers and the way we define it is more than one megabyte per month.

Now if you look at smart phone shipments which obviously would be one of the key drivers of 3G and you take a look at industry reports then what you see is that over a seven quarter period the cumulative amount of smart phones shipped in India is about 70-odd million handsets and that is 15 Million in Q2. So while it is climbing if you assume that due to change in device let's say once in 18 months or 20 months its still very, very small. And so one of the big drivers of the fact that the 3G customer base is 17 million is we get our fair share or probably more than our fair share of these smart phones coming on to our network. So that is the fundamental reason for the penetration headroom that exists.

Now the growth in shipments, if you look for example at Q4 FY 2013 the percentage contribution of smart phones as a percentage of total shipment of phones was about 14% and now it is close to 30% so while it is growing the installed base is still small and that kind of leads naturally to your second question, which is if you look at device prices, today the cheapest 4G device price is about \$160 which was the Xiaomi device which got launched with an alliance that we had with them. But you do have 3G devices at \$50 to \$60 and you have got 2G devices at \$10 to \$20. So you will in the conceivable future, even as 4G device prices come down, you are going to see a co-existence of multiple technologies simply because of the fact of the affordability factor.

Christian de Faria - MD and CEO of Africa - Bharti Airtel Limited

Good afternoon. We are still optimistic in Africa. We continue to invest in network by adding 1000 3G sites and 400 2G sites this quarter, I mean it is really a testimony that we believe we are well positioned in Africa even if you know we have quite a lot of macroeconomic and the geopolitical issues on the continent which is not new. I think we have in the last 12 months done a lot of re-establishment of fundamentals on the way we work, on the way we address the brand or the way we address the customer and the results speak for themselves where we had 3.2 million on the net

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additions in the quarter, we have been growing. We are the number one or number two in 14 countries and number three or four in 3 countries so I mean we have to and we continue look into Africa on a positive angle and are very conscious on the fact that those fundamentals being fixed, we are well positioned if you want to capture and grow not only at the pace of the market, but faster than the market.

Suresh Mahadevan-UBS - Singapore

Thanks a lot Christian. Thank you.

Shareena-Moderator

Thank you very much Mr. Mahadevan. 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

Sir, my first question is on your India mobile. If I look at the trend of the mobile voice revenues, specifically the minutes and RPM, the trend for the last two, three quarters for you is slightly different from what we have seen in case of say Idea, one of your peers. Specifically RPM for you has been flat to potentially rising whereas for Idea there seem to be a bit more volume led growth. So I just want to understand what is the reason for this dichotomy in the way things are shaping up?

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

I think if you look at our goals, our goal as we constantly reiterated is to grow our revenue topline, gain the operating leverage in order to get margin growth, keep a tight lid on OpEx and deliver competitive growth thereby increasing our market share. The co-driver for that is really what we call go to market excellence and that is along two dimensions, which I am going to talk about in a moment.

The first is really gaining customer additions but gaining quality customer additions and one of the big levers that we put in place is to actually drive the quality of the customer additions as a consequence of which our churn is now at an industry low of 2.7%.

The second part of this is to keep looking for opportunities to move up rates without having a significant impact on volumes and being able to calibrate this tradeoff between rate and volume. As you know rate is an outcome of many tariff structures that actually operates across multiple customer segments which then shows up as a VRPM. So we are totally consistent with that approach.

One other thing that we believe is an opportunity for us to step up now, given that there is much greater discipline in the company on quality customer additions is to actually step up the amount of customer additions particularly as we go deeper into rural markets and that is something that we believe will be revenue accretive. So that is really the way we see it. I am not going to comment specifically on any competitor but I would say that what you have to look at is the combination of the quality of acquisition, the churn and the cost of actually doing that in relative terms which is really our sales, distribution, marketing and customer services cost, which is the way most of us reported.

Srinivas Rao-Deutsche Bank - Singapore

Understood. And my second question is on this payment bank, which we have seen a fair amount of flurry of activity. How exactly is that different from the existing Airtel Money platform which you have and how do things change with this payment bank framework compared to what you had earlier?

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

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See we had a PPI License which was granted by the RBI and under which we set up Airtel Money. We have been around for about 3.5 years. One of the big challenges of the PPI license is that the regulation does not allow you to do cash out. It is a closed wallet so once you put cash in you can't actually take cash out. The only way you take cash out is transfer it into a bank account and then take cash out. What the payments bank will do is enable us strategically to actually use our telco distribution assets but operate as a niche bank fundamentally geared towards transactions and also allow cash out. Now we have made an application to the RBI in partnership with Kotak Bank, we will wait for the process to take its course and see what happens.

Srinivas Rao-Deutsche Bank - Singapore

Understood. So, this basically allows theoretically a retailer to actually give out money to a customer if someone would have transferred money into his account. Is that correct?

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

Yes, so what would happen is lets say theoretically a retailer which would be a banking agent would be able to accept cash in, open accounts as well as give cash out, and accept deposits.

Srinivas Rao-Deutsche Bank - Singapore

Understood and this is really very helpful. If I may take one question there was a news item on Tanzania some bidding for the 4th operator, Christian would you like to comment on that?

Srikanth Balachandran - Global Chief Financial Officer -Bharti Airtel Limited

We have confirmed that you know there is no such development at all from our side.

Srinivas Rao-Deutsche Bank - Singapore

Understood thank you.

Shareena - Moderator

Thank you very much Mr. Rao. 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

Questions on Africa. Number one, this cost of diesel; has the cost fallen? In what proportion to the expected fall in crude, is there any difference between the fall that you can benefit from in different countries, and in the next quarter do you see a continuation or expansion of the benefits? Secondly, you've increased your CapEx in the last couple of quarters in Africa to an average of about \$275 million, but you've not raised your guidance. So, was this just a quarterly up and down or you have a plan of stepping it up? And then thirdly, your taxes have fallen quite sharply this quarter and any explanations would be nice. And lastly, you've invested \$285 million in a Mauritius subsidiary and is that regular recapitalization or cash infusion or something else?

Srikanth Balachandran - Global Chief Financial Officer -Bharti Airtel Limited

Let me take the question on the CapEx. The pipeline is built up for deployments in this quarter so there has been an increase while I mentioned the guidance of \$800 million depending on how the deployment happens you may have plus another \$50 million at best so that is on the CapEx. As far as the tax is concerned, could you please repeat that question.

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G. V. Giri-IIFL Capital- Mumbai

I just thought that your tax had a slightly sharpish fall. The last time the PBT was around these kinds of numbers, the tax outgo was much higher, around \$70 million so now it's only \$41 million.

Srikanth Balachandran - Global Chief Financial Officer -Bharti Airtel Limited

Okay as I said and as I have been maintaining you have to look at it on the basis of what really happens on an annual estimated basis so it is better to look at it from a nine months or a YTD basis always and if you look at the nine month basis as I said the total tax charge of \$208 million in this year compared to the \$271 million last year and depending on how the profits across the companies play out especially the way the companies which are incurring taxable profit play out, these things keep moving. I think it would be fair to assume as I said before may be \$65 to \$70 million as the kind of quarterly rate at which taxes are being incurred in Africa. I think that would be fair to assume at this stage.

As far as diesel is concerned Christian you would like to add in.

Christian de Faria - MD and CEO of Africa - Bharti Airtel Limited

Yes I think we have not seen it yet, if you want huge change in the cost of fuel in the country especially in those countries which are really dependent on oil like Nigeria, Gabon, Congo Brazzaville, Chad where there is pressure on economy and also in the currency depreciation. So, I do not believe that one will see a cost impact on the energy bill so soon.

G. V. Giri - IIFL Capital - Mumbai

And the \$285 million please?

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

Giri could you repeat the question on the \$285 million please.

G. V. Giri - IIFL Capital - Mumbai

Harjeet, the notes to one of your quarterly statements consolidated says that you invested \$285 million in a subsidiary in Mauritius?

Harjeet Kohli - Group Treasurer- Bharti Airtel Limited

That is fine. Look Giri, let me just take that. As you know from a free cash flow position perspective India is a free cash flow generating operating company and some of the free cash flows in the overseas entity, as also some of the debt rebalancing we do from the rupee free cash flows that we have, so whenever we send money out from here to let us say Airtel Netherlands through a variety of number of intermediary companies we go and pay down the debt there so that overall leverage comes down at the Airtel Netherlands and below level and/or any free cash flow funding gaps come down. This sum total of \$285 million is what had gone in the September to December quarter of the free cash flows that we generated in India.

G. V. Giri - IIFL Capital - Mumbai

Sure thanks a lot and all the best.

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

Sachin Gupta - Nomura - Singapore

Thank you very much. I just got a couple of questions on Africa as well. My question firstly I understand there are few license or spectrum renewals coming up in three or four countries, just want to understand is that generally complicated over there or any indication on how much could it cost - the license renewals? And secondly, you did mention that obviously the CapEx has been going up. But if you look at the three line graph which you guys have on page 27, there's a fair bit of difference between Indian CapEx productivity and the African one. India is 74%, 75% and Africa is 110%. Just want to understand is that actually a good thing because you are getting more revenue per unit of CapEx or does that mean the net books are bad or congested and you're not getting operating leverage? Any thoughts on difference between the two will be good.

Srikanth Balachandran - Global Chief Financial Officer -Bharti Airtel Limited

I will take first the question on the CapEx productivity. So as far as Africa is concerned first of all our definition of CapEx productivity includes only tangible assets and does not include the goodwill and therefore you have to see it in that context, number one. Number two as we announced the divestment of towers in Africa the net book value of the asset proposed to be divested moved from fixed assets to current assets as assets held for sale and therefore that is also coming off. So that is how you would see some of these statistics coming out. As far as the license renewals are concerned I am going to request my colleague to say when the other big licenses are coming up for renewals.

Christian de Faria - MD and CEO of Africa - Bharti Airtel Limited

There are 3 licenses coming for renewal, Madagascar, Nigeria and Kenya. We would just like to point out that the process for license renewal is not very complicated and it is more or less an automatic process where the only issue being price negotiation and sometimes prices are fixed by the regulator. So, I would think it is not complicated process.

Sachin Gupta - Nomura - Singapore

Thank you.

Shareena - Moderator

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

Rajiv Sharma - HSBC - Mumbai

Hi, thanks very much for the opportunity. First one is for Gopal. Bharti has a mobile voice proposition, you have a DTH business, and you have a Telemedia business. Is there any plan to come up with some kind of bundling perspective ever, given that you have Reliance Jio which is planning to bundle all this? And is there any strategy around mapping subscribers from all businesses? So, has anything been done in this regard so far? The second is, is there a need to really bid in the upcoming 3G spectrum auctions? Because on one hand COAI and everybody are saying that the 3G spectrum price is on the higher end. What if you skip this auction like 2013 900 auction, then government will be forced to revisit the price so is that a possibility? And how far given that your average data consumption is 600 MB plus which means your 3G would be roughly above 1.2 GB so how far you would be from data cannibalizing voice and any guidance on the CapEx for next year? That is it from my side.

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

Let me just start with the bundling part, one of the challenges that we have is the fact that our IT systems for different lines of business are different and secondly the database of customers that we have is not entirely consistent across the lines of business. So you may show up as Rajiv Sharma in one line of business and S Rajiv in the other line of business. Having said that one of the things that we are embarking on is actually to look at businesses like Telemedia, DTH and postpaid and try and see what we can do to clean up some of the data. We are as we speak in the midst of a pilot where we are bundling our postpaid and broadband in Hyderabad and we will assess the results of that pilot to decide how we move forward so that is the answer to your first question. On 3G auctions I am not going to comment because that is premature. The final document from DoT is yet to come to us - there are 17 circles where 3G spectrum is being put up for auction, many of these circles are those where we do not have spectrum and some of them are where we already have 5 megahertz of spectrum so we will wait and see the final document before we frame the strategy so it is a bit premature. As far as 3G capacity is concerned, there are some cities such as Delhi, Bangalore etc., where given the paucity of spectrum and the surge in data traffic we do have some congested sites. I mentioned this last quarter as well. Just to give you some statistics we carry almost 13 times the amount of data traffic that Shanghai carries. We carry almost 19 times the amount of traffic the Singapore carries on the same carrier of spectrum so there is a lot of traffic on a very, very scarce amount of spectrum and so on the one side we have pretty congested networks and sites and on the other side given the way data is consumed, in the same city you might have empty sites. Finally the last question is on the cannibalization, there is still no evidence that suggests that there is cannibalization. Yes we have seen cannibalization coming on our SMS, the cannibalization that we see right at the top end, if at all there is some, is really not material so I would not like to say that there is cannibalization.

Srikanth Balachandran - Global Chief Financial Officer -Bharti Airtel Limited

The question on the projected CapEx for the next year - we are currently in the process of our annual operating plan and we hope to complete it in the next one month or so. So I would imagine in the next round we will be able to give you a projection.

Rajiv Sharma - HSBC - Mumbai

Just on the last one, just a small follow-up, sir. Directionally do you think because you will be doing both 4G, 3G together and in addition some kind of 2G; will there be some increase at least on the India side from \$1.3 billion?

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

Rajiv hi, Harjeet here. I think it is little early but you should also take into account these tower company sell off that are happening so passive infrastructure CapEx will have to go out. There could be some commensurate increases on the data side but at the portfolio level little early to say whether it will materially increase or decrease. We will come back in the next quarter but there will be compensatory pushes and pulls in the portfolio on CapEx.

Rajiv Sharma - HSBC - Mumbai

And do you see new towers required to accommodate data growth or you think you can leverage your existing 2G tower base?

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

It is not material. There could be some requirement in a few places and a few cities but it is still a little early to say so we will assess that as we go forward.

Rajiv Sharma - HSBC - Mumbai

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Thank you very much. That answers my question. Thanks a lot.

Shareena - Moderator

Thank you very much Mr. Sharma. The next question comes from Mr. Sunil Thirumalai from Credit Suisse, Mumbai. Mr. Thirumalai you may ask your question now.

Sunil Thirumalai - Credit Suisse - Mumbai

Most of my questions have been answered, I just have two. First one is carrying on from the discussion on 3G. Since you report that about 29% of your 2G locations are also 3G enabled, I suspect that in your 3G circles this should be a number in excess of 60%, 70%. So I am just intrigued that you are saying that you do not foresee a requirement of standalone 3G towers especially since you are hitting congestion levels in some of these places.

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

I think the numbers that you are looking at is the 3G sites you must remember it is also several circles where we actually do not have 3G.

Sunil Thirumalai - Credit Suisse - Mumbai

That's why I adjusted it down to only the circles where you have 3G sites. So I'm assuming there are 29%, but probably I'm just doubling it.

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

Like I said I think in some of our cities where there is congestion we will assess the need for standalone sites but frankly it is not significant at this stage so we will wait and watch. There are a few experiments that we are doing to off load traffic some of it also to 4G. We're looking at off-loading voice traffic back onto 2G so there are many solutions that we are looking at so it is not black and white as you make it out to be.

Sunil Thirumalai - Credit Suisse - Mumbai

Just something on the accounting. Your depreciation has gone down in Africa because you've taken the tower assets and labeled them as for sale, but I'm wondering when the cost offset will come in the form of either a higher network OpEx or a higher finance charge. When and in what form will it come?

Srikanth Balachandran - Global Chief Financial Officer -Bharti Airtel Limited

You are right in the observation as per the accounting standard the depreciation ceases when you declare assets held for sale and the new lease implications will come out only when actual transfers happens. So in terms of accounting of the leases we will inform once we are firmed up at the time of the transfers. We will I am sure intimate all of you in terms of what is the implication of the accounting especially the impact on what will be the finance lease component etc.

Sunil Thirumalai - Credit Suisse - Mumbai

Okay. That was helpful. Thank you.

Bharti Airtel Limited Third Quarter and Year Ended December 31, 2014 Earnings Call**Shareena - Moderator**

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

Piyush Choudhary - CIMB - Mumbai

Thanks for the opportunity. Two questions on India side if you look at the 3G cell sites expansion it has been phenomenal. Could you help us understand what is your population coverage in your 3G circles and what would be your target in 2 years to 3 years' time frame - that is first. Secondly on the India voice RPM side you have alluded to this earlier but the gap between your pricing and your competitors pricing has increased to almost 5.5% to 6% which is almost after four years, so just outlook on voice pricing on the short and in the medium-term would be helpful. Thanks.

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

On the 3G population coverage I think it is sensitive, and I don't think we have declared it. And off-hand I do not know figures so I think we will have to pass.

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

On the rate and the VRPM outlook I would say that I would reiterate what Srikanth said, which is that at a level of 37 paisa voice realization per minute and with the kind of cost in this industry both from a spectrum perspective as well as an operating cost perspective, and don't also forget that as we build out data networks we will need a lot of transmission, a lot of fiber. There is only one long-term way for this to actually move which is up. And we believe that with all the cost that the industry has, in a period of a couple of years if we are able to move the rates up by 6, 7 paisa then I think we are a viable industry. That said, I think there are always going to be challenges every quarter in terms of competitive pressures. You must remember that the top three operators which have roughly 70-72% market share have only 30% of the spectrum. And so on one side you have full networks, not great experience and on the other side you have empty networks. And this is a fixed cost business so when you have an empty network there is going to be competitive pressure from that end of the market and we have to deal with those competitive issues. Yet as a leader we have to kind of be responsible about how we actually create a more viable situation for ourselves in order to rollout networks, in order to roll out broadband and make sure that customers have a great experience. So I think it is a fine balance that we just need to keep doing every few months but the long-term trend as I see it - there is no way but for these rates to actually increase.

Piyush Choudhary - CIMB - Mumbai

Thanks a lot Gopal. On the 3G cell site count would you have any kind of targets which you can share like from 42000 do you envisage it to go to 70000 in two years or some kind of targets which you would like to share. And just if I may ask in India your access charges have increased 16% year-on-year while minutes are growing at 5% so how should we read this difference. Thanks a lot.

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

On the 3G cell site - I think again as Srikanth mentioned as we are still in the process of AOP et cetera, I do not think we will be able to give any comment on that. Just looking at the access costs, I would think that's largely because of the enterprise business. On the mobile side there is nothing it's in line with our minutes growth. So we can come back to you later with details but there's nothing happening on the mobile side definitely.

Piyush Choudhary - CIMB - Mumbai

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Great thanks a lot and good luck.

Shareena- Moderator

Thank you very much Mr. Choudhary. The next question comes from Mr. Viju George from JP Morgan Mumbai. Mr. George you may ask your question now.

Viju George - JP Morgan - Mumbai

Hi thank you for taking my question. Just wanted to understand the reason for the increase in CapEx and I think you started the year forecasting 2.2 to 2.4 and you have increased it now to 2.6 to 2.8. Would just like to understand how the increase is split along India and Africa and for what reason.

Srikanth Balachandran - Global Chief Financial Officer -Bharti Airtel Limited

I thought we had mentioned this. Okay the year to date is \$1.3 billion so far in India and \$0.7 billion in Africa and Africa includes some amount of inventory build-up as well which will be deployed in this quarter. As far as Africa is concerned depending on how the passive divestment happens, the last quarter spend on the CapEx part, may undergo some downwards adjustment. But if the divestments are not happening because of the formalities, the build-up of the inventory may still continue on passive because the site roll out plans will have to continue irrespective of whether the divestment happens on a particular day or not. So that is on Africa side. As far as India is concerned as we have always maintained we are a mark to market company and as and when we see opportunities and as and when we see network getting utilized beyond a level, CapEx kicks in and therefore you have to see our calibration of network CapEx and CapEx spend progressing through the year in that context.

Viju George - JP Morgan - Mumbai

And I think sometime late last year there was some news reports about Airtel wanting or wishing to levy some extra charges on OTT applications and I think you pulled back. What is your thinking behind that if there is any element of truth there.

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

I think I just want to caveat this firstly by saying that we would not have a data business and we would not be growing any data if we did not have the internet eco system. The reality is that there is a bunch of innovation that is happening out there in the internet eco system and that is why we are in business, in terms of growth of mobile internet. So I think we believe that actually we are going to embrace the internet eco system. We work very closely with device manufactures and with OTT players. We have several partnerships of all kinds on content applications and are opening up APIs and exclusive device alliances and so on and so forth. And whether it is a small internet company or a large internet company, the larger ones we actually are pretty much collaborated with everybody. Having said that I think we await the process of a consultation specifically on VOIP which TRAI has indicated that they will put out which has to do with things like security concerns, issues of lawful intercept and a whole host of other regulatory issues. So beyond that I think we expect the balanced outcome as that process unfolds.

Viju George - JP Morgan - Mumbai

Sure thank you.

Shareena Moderator

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

Bharti Airtel Limited Third Quarter and Year Ended December 31, 2014 Earnings Call**Amrita Pabalkar - Morgan Stanley - Mumbai**

Hi thanks for the opportunity. I have three questions firstly on the spectrum auctions how would you like a GSM or a WCDMA operator largely look at an 800 megahertz band. Any thoughts in terms of your in technology or how it can be augmented for any future technology. Secondly on the south Asia business the margins, the EBITDA has gone into losses - any reasons why and how do we look at this going forward. And thirdly on the payment bank how do you see this model shape up - will it be a replica of a Kenya model, can you use your existing distribution network and how do you see the revenue contribution and the EBITDA contribution from say three, five or seven years perspective. Thank you.

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

Three questions there, first one is on the 800 megahertz. Today it is used largely for CDMA. The number of devices that you see which also support 3G on 850 megahertz is a tiny fraction. So if you for example looked at devices which support 2100 megahertz and you would index them at 100, typically you would find 850 megahertz supported 3G devices that may be 20 and LTE supported 850 MHz devices that may be two or three. Going forward most of the devices, as they start coming in, will be multimodal devices encompassing 1800 FD, 2300 TD - which we are already seeing, and theoretically also 850 megahertz. And so this spectrum can be used for any technology. is the point that we are making. That said, it all depends on how much contiguous spectrum is available in every circle, and that spectrum is not contiguous in many circles. So beyond that, in terms of overall strategy of what we buy and where we buy, is something we have not yet decided. As far as south Asia is concerned we mentioned to you last quarter that we had some cleanup that we needed to do in Bangladesh, which we have done and that is more or less behind us. And we are seeing that the business is now stabilizing in terms of customer additions. You have seen growths in those customer addition that is coming in and so while we are not going to comment on what is going to happen in terms of the outlook all I can say is that it is on a stable footing now and from here on we should be looking at driving a more viable operation. On payments bank we have submitted a business case to RBI. The business model is fundamentally based on transaction fees where the margins are low. This is not a lending business so whatever money you get in you can only put into treasury bonds and government securities, which really means that the whole business is a function of the model scale you are able to generate. So if you have more transactions taking place at a given level of fixed cost, the business will actually start making money. That is really the crux of the business model and there we feel that there is an advantage that Telcos can bring because of two reasons, of three reasons actually. One is our customer base - a large customer base, second is our distribution infrastructure and third is we understand technology, we understand payments in our prepaid business. We in any case manage a lot of cash in terms of a pre funded wallet. So those are some of the skills that we can bring to the table. The guidelines very clearly stipulate that there should not be comingling in the way a Telco and a bank runs, but yet we can leverage some of the infrastructure synergies that we have in terms of distribution. So that is why we are very excited about participating in this to drive financial inclusion.

Amrita Pabalkar - Morgan Stanley - Mumbai

Thank you very much sir.

Shareena - Moderator

Thank you very much Ms. Pabalkar. The next question comes from Mr. Shobit Khare from Motilal Oswal Securities Mumbai. Mr. Khare you may ask your question now.

Shobit Khare - Motilal Oswal Securities - Mumbai

Good afternoon and thank you so much for the opportunity. My first question is on VOIP. So could you give some sense on what could be the size of VOIP traffic in India right now and also how penetrated it is in the 3G subscriber base currently, anything on the usage. Just trying to understand what could be the potential usage from this as the broadband subscriber base grows. And second is - I just wanted to understand a little better the foreign currency

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related impact. So there is some impact on the exceptional items, derivative loss on P&L as well as loss in other comprehensive income. So if you could just remind us which part of the forex liability is causing these impacts?

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

Just to answer your first question, the contribution of VOIP at this point in time is very, very tiny. And so it is not really material as we look at it. There is an arbitrage between voice pricing and data pricing and clearly as an operator we are expected to roll out networks and incur a lot of CapEx on it, we believe there must be some kind of a framework by which we are not disadvantaged in terms of our core source of revenues and that is the context in which the consultation will hopefully take place.

Srikanth Balachandran - Global Chief Financial Officer -Bharti Airtel Limited

Coming to the impact on foreign exchange there are three or four parts, as you rightly said. First of all the simpler part is the payables and the receivables in the various operating subsidiaries and the foreign currency borrowings in those countries are marked-to-market. And of course if we have any swap instruments, derivative instruments, they are also marked-to-market. As far as the euro related borrowings are concerned, you will recall that last time we had designated a significant portion of the euro borrowings as hedge against the net investments in the francophone countries where the currencies are pegged to the euro. So therefore the fluctuation of the euro against the US dollar in the Netherlands subsidiary has taken as a part of comprehensive income. And in this quarter, as we just declared in our notes to accounts, this quarter we have designated a portion of the USD borrowings in Africa as a hedge against the foreign currency risks that are emerging from the sale of the telecom towers. So that has been also taken into other comprehensive income. Then of course you are aware that whatever is the foreign currency translation of the closing equity at the end of every quarter, across the countries, has to get translated. They are also taken into foreign currency translation reserves. The last one is on the exceptional items - there was a change in the regulation in Nigeria - this pertains to the earlier regulation which permitted telecom sector to avail of dollars given by central bank of Nigeria. As the central bank of Nigeria administered rates for payments of the imports and other services et cetera in dollars, and the central bank administered rates were lower than the open market rates. With effect from November 6, 2014 the regulation was changed and the telecom sector was asked to shift to buy that in the over the counter market. The one time impact of that of Rs.2 billion has been take into EI because that is an overnight restatement of the liabilities to a higher rate against the dollar compared to the earlier applicable lower rates which was given by the central bank of Nigeria. I hope this was not confusing but if there are more details needed, I am sure you can get off line with Parag and Monica.

Shobit Khare - Motilal Oswal Securities - Mumbai

Sure sir thank you so much, if I could ask one more could you just give the contribution to the subscriber base from the YuMobile which is coming in the Africa subscriber base in terms of additions.

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

Shobhit hi, this is Harjeet here on an overall basis we had about 2.5 million sub from Yu mobile. But after they came in we will use our standard definitions of the way the REC customer base is calibrated. And the REC customer base I think is about 1.1 or 1.2 million basis our current definition. But that is the overall add that is come from Yu on an overall basis and on the REC.

Shobit Khare - Motilal Oswal Securities - Mumbai

Okay thank you so much and all the best.

Shareena - Moderator

Thank you very much Mr. Khare. At this moment we will take one last question from Mr. Naveen Kulkarni from Philip Capital Mumbai. Mr. Kulkarni you may ask your question now.

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Naveen Kulkarni - Philip capital - Mumbai

Thanks for taking my question....

Shareena - Moderator

Mr. Kulkarni's line has got disconnected sir.

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

Okay so we have time for one more question, who is next in line please.

Shareena - Moderator

The next question comes from Mr. Varun Ahuja from JP Morgan Hong Kong. Mr. Ahuja you may ask your question now.

Varun Ahuja - JP Morgan - Hong Kong

Good evening thanks a lot for giving me the opportunity. Just one question from me, most of the others have been answered. You have obviously done some tower sales in 2014 - could I ask what would be the adjusted net leverage if I include the sale and lease back and those would be more like financial leases so what would be the adjusted leverage that we should look at that includes the rough balance sheet liability et cetera.

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

Varun this is Harjeet here. I cannot for sure say. Obviously once all the deal dynamics are in place, each country may have different outlook of sharing factors, the auditors will need to work through the overall arrangement. But we do believe there will be an element of capital lease involved here on the overall lease rental that we will pay. So assuming let's say two is to one sharing factor over time, you could have 50% or 40% of the overall receipts being put in an imputed capital lease sense as debt. But not more than 40%, 50% of the overall sales receipts will go as debt.

Varun Ahuja - JP Morgan - Hong Kong

And maybe I missed it but did you give a CapEx guidance for next year.

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

Not as yet Varun as Srikanth mentioned that we are running the process of annual operating plan and I think it may run next three or four weeks, so by the time we meet next we will be having a CapEx guidance for the financial year 2015-2016.

Varun Ahuja - JP Morgan - Hong Kong

Okay and really last question - you have been nicely, you are on a deleveraging trend for the last many quarters or last couple of years at least. Obviously this spectrum payment has increased that for this quarter but going forward you have been quite focused on reducing leverage - is that still one of your targets or are you comfortable with what your current leverage is at this time.

Bharti Airtel Limited Third Quarter and Year Ended December 31, 2014 Earnings Call**Harjeet Kohli - Group Treasurer - Bharti Airtel Limited**

Varun there are two parts of this - number one is the spectrum related incremental debt which is obviously coming from the Indian spectrum auctions that are slated for next month. Gopal mentioned we need to run through the whole process, understand & develop our strategy and do what we need to do. So if I keep that out, if I keep that debt out, fundamentally the overall global business is generating free cash flows of \$1.3 - \$1.5 billion and that free cash flow in our current visibility will necessarily go to pay down debt - rather specifically the foreign currency debt so that our foreign currency risk also continues to go down. It has been going down and we will continue to take it down. But as and when the spectrum auctions happen and there is strategic need for doing some investments around that, that may for the temporary quarters change some bit of numbers, but otherwise the deleveraging drive shall continue.

Varun Ahuja - JP Morgan - Hong Kong

Thank you so much. All the best.

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

Thanks Varun.

Shareena - Moderator

Thank you very much Mr. Ahuja. 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 everyone for this very interesting round of question and answers. As I said before our India momentum has been continuing for the last few quarters and we have been very pleased with the topline development there. The operating leverage in India has continued to see excellent improvement. On Africa despite the challenges we remain optimistic and are investing in Africa for taking advantage of the potential for growth that still remains there. On the whole we are optimistic about our investments across all the geographies. On this note I would like to end the call and look forward to talking to you at the end of next quarter when we will be announcing our annual results. In the meantime if there are any conferences and meetings we look forward to meeting some of you. Thank you.

Shareena - Moderator

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