

Earnings Conference Call Transcript

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Earnings Conference Call

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PRESENTATION

Namita - Moderator

Good afternoon ladies and gentlemen, I am Namita, the moderator for this conference. Welcome to the Bharti Airtel Limited, first quarter ended June 30, 2011 earnings call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for all the participants on this call. Present with us on the call today is the senior leadership team of Bharti Airtel Limited. Before I hand over the call I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risk that we face. I now hand over the call to our first speaker of the day Mr. Manik Jhangiani. Thank you and over to you Mr. Jhangiani.

Manik Jhangiani – Group Chief Financial Officer - Bharti Enterprises Limited

Thank you and good afternoon and a very warm welcome to all of you joining us today. My apologies today for doing this call a little later than normal but we had our board meeting in Nairobi this quarter and accordingly needed to adjust the time a little bit.

Our first quarter for the financial year 2012 has witnessed a healthy and robust start across all our geographies with continued delivery of growth, efficiency gains and more importantly sustainability. Key highlights of our global consolidated performance are revenues of almost Rs.170 billion, approximately \$3.8 billion for the quarter ended June 30, 2011 with a sequential quarter-on-quarter growth of 4.2%. The added incremental revenue was about Rs.6.8 billion quarter-on-quarter.

Consolidated EBITDA for the quarter was Rs.57 billion or \$1.28 billion with an EBITDA margin of 33.6% sustained with that at the previous quarter. The net income for the quarter was just over Rs.12 billion, a reduction on quarter-on-quarter basis by approximately 13% primarily as a result of higher interest and amortization related to the 3G spectrum acquisition in India for the fourth quarter, first restatement in Africa and a higher effective tax rate in India mainly due to reduction of tax holiday benefits. The consolidated Capex for the quarter was Rs.43.5 billion or about \$975 million including that of Infratel.

Let me now take a few minutes to underscore a couple of strategic initiatives we have undertaken during the quarter and some of the milestones that we have achieved.

In India and South Asia we ended Q1 on a strong and formidable note. Quarter-on-quarter we enhanced our wireless subscriber base to over 174 million subscribers, a growth of 4.3% and notched up 227 billion minutes on the network, a growth of 4.6% sequentially. We ended the quarter with consolidated revenue of Rs.126 billion, a growth of 4% on a sequential quarter basis and 11.9% year-on-year and thereby reinforcing our revenue leadership in the market - importantly defending our EBITDA margins for the total business, the mobility margins in fact expanding to 34.2% versus 33.6% last quarter.

In India we started an exciting journey of an organization restructuring in our effort of becoming a more agile, customer centric organization and in furtherance of our vision of being the most loved brand enriching the lives of millions. We have restructured the organization creating two distinct customer business units with clear focus on the B2C and B2B segments with the B2C business looking at products and geography as a matrix. The new organizational structure is effective August 1, 2011.

We have expanded our 3G services to 84 cities, as of June 30th, covering all our 13 service areas where we have won 3G spectrum. We also launched international video calling services on 3G for our customers in India. While we continue to roll out in our live circles we are also committed to providing our customers superior pan India 3G experience and accordingly partnered with quality operators for complimenting circles on bilateral terms.

Another very important achievement was the tariff corrections that we have initiated; telecom is probably the only industry where despite increasing inflation, tariffs have been falling unabatedly. Continuous decline in margin, high 3G and BWA auction prices and constrained spectrum left us with little choice but to make some price corrections.

Finally on our passive infrastructure business we continue to register robust growth complimented well by margin expansion. Year-on-year basis the revenues in the business grew by 11.5% and our EBITDA margins now stand at 37.7%, with tenancies at we 1.83 times.

Coming to our Africa operations, the company ended the quarter with an active customer base of 46.3 million and a revenue base of \$979 million, a quarter-on-quarter growth of 6% and EBITDA of \$261 million with EBITDA margin of 26.7% versus 26.4% last quarter. Our minutes on the network have grown 9.5% on a quarter-on-quarter basis further cementing our belief that affordability and importantly simplicity of our tariff structures as well as a strong network and distribution presence will manifest itself in higher market shares. The MOU per subscriber is at 121 minutes, which is higher than our last quarter exit of 115 minutes- clearly showing signs of increased elasticity of usage. Consequently the ARPU in the quarter is \$7.3 increase compared to the last quarter number of \$7.2. Non voice revenue as a percentage of gross revenues continue to grow with data now contributing 8.4% of revenues compared to 7.8% last quarter. This of course will continue to grow organically, but will be at an accelerated pace as we launch 3G services across a number of our markets in the coming quarters.

We are delighted to note that in every single market of operation we have successfully gained market share both in customer and revenue terms. In every country we are garnering significantly higher proportions of the existing as well as incremental markets.

One of the key values which Airtel cherishes and espouses is people leadership. In Africa as well we are creating a strong pipeline of talents for whom we will continue to deliver remarkable career growth plan.

The Partner Ecosystem continues to expand and operate. In most countries of operations the outsourcing of network, MSA, IT, CSO are nearing completion. We are confident that the process would be fully executed over the ensuing quarters

But there have been some challenges as well which have slowed us down. The main one I would like to highlight is the KYC norm, which are impacting the net additions in most of the markets in which we are present. The norms of subscriber verification are very stringent often more so than what exists in India. We are ensuring compliance in every

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country and will probably be the first fully compliant operator in this regard. Finally with the end of this quarter we are now completing a full year of our African operation. We are pleased to announce that our transformation and restructuring of operations is moving ahead on a smooth trajectory and started to bring stability to operation.

We continue to be enriched with learning's from these countries and are confident of meeting our goals of creating a superior value enhancing franchise. Before I end, I would like to highlight that during this quarter the company was also conferred with several awards and recognitions. To mention a few we were adjudged as the "Enterprise Telecom Service Provider of the Year", "Wholesale Data Service Provider of the year" and "Mobile VAS Provider of the Year" at the Frost & Sullivan 2011 Asia Pacific ICT Awards. We were rated as one of the top five best employers alongside companies like Hindustan Lever, and LG in the Aon Hewitt, Best Employers In India 2011 study.

To summarize I would say that it has been a healthy quarter. We are very excited about the new paradigms of growth both from existing operations as well as through the prospects of data and 3G across our geographies. With our new organization structure for the India South Asia operations we are poised to be an even more integrated and customer centric franchise, which is and will be very well positioned to capitalize on the growth opportunities that the future holds. Thank you and with that we will open up the floor for the question and answer session. I am joined by Manoj, Sanjay, Srikanth and Nilanjan as well. Operator we can take the Q&A session please.

Namita – Moderator

Thank you very much Sir. We will now begin the question and answer interactive session for all the participants who are connected through the audio conference services from Airtel. Due to time constraints we would request you to if you could limit the number of questions to two to enable more participation, hence management will take only two questions to enable maximum participation. Participants who wish to ask questions may please press "*" "1" on their touchtone 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 participant may please press "*" "1" now.

The first question comes from Mr. Sachin Salgaonkar from Goldman Sachs, Hong Kong. Mr. Salgaonkar, you may ask your question now.

Sachin Salgaonkar - Goldman Sachs - Hong Kong

My first question is to Sanjay. I was wondering what prompted you guys to hike tariffs as high as 20% in select circles and why now when the overcapacity in the system fills them in. Do you see the risk of market share decline as the new entrants you do not follow this? My second question is to Manik. Your minority interest amount declined significantly Q-on-Q this quarter. So while I look at Africa a bit it is largely flat. So I was wondering what is driving this. And finally a small clarification when I look at the balance sheet, I see current liability borrowing is significantly increasing and non-current liability borrowings are decreasing almost of the same magnitude. So I was wondering what is happening also? Thank you.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited (India and South Asia)

Hi, Sachin this is Sanjay Kapoor. I would have been very surprised that the first question was anything other than the price hike. I first of all want to put to that I do not know how do you calculate a 20% hike, but whatever it is I must say that over the past few quarters we have clearly seen that the tariff decline is by and large stabilizing and it is only a mix change that it all has lead to some decline in prices, no matter whose price you talk about and given that and the fact that the top few players still continue to command bulk of the market share and also the performance that we have exhibited therein all of ourselves had tough times of declining margins and also by 3G pricing we are still to cover the rural market in terms of our aspirations. It clearly spells out that affordability of the current tariff structure is just not there and sustainability is not there so given the circumstance where the market's exuberance to further deplete margins and profits does not probably exist. I think as market leaders we had to take a call on how we are performing and based on that performance I think we took a call to say let us begin with all the markets where we are market leaders and based on that we started, but I think, now as I speak with you other than three market be by and large corrected some tariffs in every market and we think that for the sustainability of the industry and to make sure that we come back to a semblance level this is the right move that we should have made.

Sachin Salgaonkar - Goldman Sachs - Hong Kong

Just a followup on the same I was just wondering, I know it is very early day with that respect, but what has been the update with respect to the consumers, so is there a particular change in pattern and MOU declined or less number of subscribers updating because of this?

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited (India and South Asia)

I think it is trifle early to be commenting on any one of those, but given at the overall inflation in this country and given the role that communication plays in a customer's life in Indian market place I would be very surprised if volumes fall to any large extent. Small corrections will always happen, but you know overall we think this is the right move for the industry and our company as well.

Sachin Salgaonkar - Goldman Sachs - Hong Kong

Okay great.

Manik Jhangiani – Group Chief Financial Officer - Bharti Enterprises Limited

Sachin in relationship to your question on the debt movements, is that we had had some reclassifications on this quarter based on the outstanding maturities of the facilities, which cause these movements so we can give you details of those. On minority interest quite honestly it is really related to the mix of the taxable profits that are coming in from the countries where we have minority partners and where we dont. So that is pretty much the only reason as opposed to anything else.

Sachin Salgaonkar - Goldman Sachs - Hong Kong

Okay got it. Thanks.

Namita – Moderator

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

Vinay Jaisingh – Morgan Stanley - Mumbai

Thank you so much. Sir my first question is on 3G. Could you please suggest to us where you are on the 3G front in terms of subscribers, any revenue numbers for the last quarter would be great or ARPUs from the existing subscribers you are getting incrementally, you know something on that, Sanjay, would be very helpful. My second question is on the tax rate. What I see is your effective tax rate has gone up especially in the Indian business and the tax rate on the African business has gone negative; some thoughts out there as well. Thank you.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited (India and South Asia)

Hi Vinay. To begin with I do not think I will be able to give you precise numbers on 3G versus non-3G, but all I wish to say is that we are seeing that the proliferation of handsets in the Indian market on 3G side is increasing. Since the time we took over the 3G licenses and have gone to market we have seen a tremendous growth on the number of handsets on 3G. It is substantial and hopefully that should lead to people opting for 3G services in the near future, but I have always said that for a leader like us it is absolutely the first priority to set the customer experience right and I think that is where the concentration has been to make sure that the customers get a good experience on the network s that we opt for to make sure that they are bill shields so that the bill shocks, which is a worldwide phenomenon on 3G and data consumption does not accrue to the customers in India to make sure networks are more pervasive and continuous when it comes to 3G services is our first line of concentration. I would not worry too much about the revenue increase at this stage if we get the eco-system going and we get the customer experience right I have no doubt in my mind that revenues will follow. So I think the whole concentration of the management teams and people on the ground is to create the right experience and to make sure that the customer's interest is kept in mind and I think that is what we are concentrating on. I am happy to announce that since last the time we spoke now our customers can have access to 3G networks virtually in every part of the country other than Orissa and Punjab for the time being and with like minded operators we have provided roaming for our customers wherever we did not possess our own network, which is outside the 13 circles. So I think the whole concentration, to summarize is on the experience, I am sure this will yield opportunities in revenue as well as we grow.

Vinay Jaisingh – Morgan Stanley - Mumbai

Sir, sorry the reason I asked this question was your non-voice revenues as a percentage of domestic business has fallen from 15-odd percent to 14.6%, so if I do some maths I seem to be getting a similar number last quarter and this quarter in the overall non-voice revenues.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited (India and South Africa)

The only clarification Vinay that I can provide you on that is a huge amount of seasonality that hit VAS services if you were to look at the last period, the last quarter where you had three very vital festivals during that period, the New Year, the Valentine's Day, the Holi they all were celebrated in Q4 and they really account for a lot of upsurge that that happened. Moreover do not forget that was also the Cricket World Cup season which gives you a big amount of upside through cricket and that did not follow through, so it is seasonality. I would not read much more than that in between the lines.

Vinay Jaisingh – Morgan Stanley - Mumbai

Sure Sir.

Manik Jhangiani- Group Chief Financial Officer - Bharti Enterprises Limited

Vinay on the taxes if you look at the India South Asia business the current effective tax rate is about 25% this quarter which has really resulted with some of our business operations moving out of tax holiday I would say this year we are probably looking at an effective tax rate of around 23% and going forward for the next three to four years it should be pretty stable at around - 23% to 25% type of range.

On the Africa piece if you look at this quarter we have some previously unrecognized tax assets on temporary differences and carry forward of losses in a couple of our markets what we recognized and hence you can see the deferred tax line actually having a credit to their recognition of an asset. But there is also some one off items related to taxes as we queued up on the measurement period. Keep in mind that we have the one year window to adjust our goodwill, so I think that this quarter definitely was a bit of an anomaly there. On a going forward basis I would say we are probably looking at a total tax charge - current and deferred is approximately \$20-\$30 million per quarter during 2011-12. I cannot really give you an effective tax rate because of the fact that you know that the PBT was at a small level right now and it will keep moving and changing. So the effective tax rate might be lower but the recurring charge will be and probably what will be good for this year.

Vinay Jaisingh – Morgan Stanley - Mumbai

Thank you, so much Sir.

Namita - Moderator

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

Sachin Gupta – Nomura – Singapore

Thanks very much. Just two things; firstly just on the African business interest on your thoughts free cash flow trajectory because the EBITDA are going up but the CapEx is picking up as well, so how is the cash flow likely to evolve and number two Sanjay you talked about obviously 3G data revenues are still that some of the consideration but if you look at some of the other markets the data is taking off, it is catalyzing voice and SMS quite significantly. Wondering do you see same risks for the Indian market as well. That is it. Thank you.

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

Sachin this is Manoj. On the free cash flow that is a very important objective for us; however as you know we are in an investment mode now we need to build our network or rebuild our network as well as grow the sites of our network as soon as possible in many countries, in many markets we are lagging behind and hence we need to catch up, so very frankly still we need to catch up and be competitive on our network coverage and quality and we really need to focus on investment, but at the same time we are trying to improve our cash cycle. We are trying to improve our cash and you will see improvements in our direction towards the cash flow, but I cannot give you a date by which we will reach there, but definitely we are trying our best to do that as early as possible.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited (India and South Asia)

Sachin to take your question on data growth cannibalization of some of existing opportunities let me say that our knowledge tells us that when data upsurge happens in any part of the world in 3G or broadband technologies 2.5G technologies and 2G technologies also tend to benefit. A data explosion happens at every end of the spectrum, and I am sure in India you will experience a similar sort of stuff. As far as cannibalization of SMS is concerned fortunately in India SMS accounts for a very small proportion of our overall VAS revenues unlike many other developing countries where SMS is a very high proportion of the overall VAS revenues or VAS contributes very little to it. I think it is less than 4% now and therefore I would not lose my sleep over that one. I think the upsurge in data will more than make up for any such risks that exists and anyway the amount of revenues like I said from these streams is very, very small.

Sachin Gupta – Nomura – Singapore

Fair enough, thank you, very much.

Namita - Moderator

Thank you, very much Sir. The next question comes from Ms. Malvika Gupta from JP Morgan, Mumbai. Ms. Gupta, you may ask your question now.

Malvika Gupta – JP Morgan - Mumbai

Thank you for taking my question. I wanted to check a little bit on the Africa margin trends. We have seen a slight slowdown in the rate of improvement in this particular quarter versus a couple of quarters ago. I was just wondering given that we are close to finalizing the outsourcing or completing the outsourcing agreements how should we be thinking about the rate of improvement in EBITDA going forward? What will be the drivers then? Secondly, moving back to India slightly, I wanted to check what would be a cause of concern for you in terms of the tariff increases? What would be a key metric you would be watching which could possibly cause you to slowdown tariff increases or possibly even reverse them? Thank you very much.

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

Malvika this is Manoj. Let me pick up the Africa question. You know as a strategy our first objective is to gain revenue and revenue market share in these markets and that I can show you and now according to the call that we are gaining RMS in every market across 16 markets. While we are doing it as I said earlier we need to give big priority to our network coverage and network quality which I can say we are lagging behind in many markets and that is not good in long-term situation hence we need to plug this gap as early as possible. It will take us another two to three quarters to plug this gap and hence we are rolling out rapidly and quickly after all the network contracts for 2G and 3G has been concluded and signed this rollout will actually pick up from this quarter onwards. Therefore investments have been made and because of those investments there will be certain extra costs to rollout. At the same time the restructuring of each of our parts of business that is network, IT, call centers, distribution, organization keep continuing and this multiple restructuring is happening at the same time concurrently whereas in India we did all these over approximately 10 years, therefore there are multiple moving parts at the same time because of this there could be a slowdown of EBITDA- It is as swift as we expected, but let me reassure you that all the needles are pointing at the right direction. For example, network cost, energy cost and there is a huge amount of focus, which pays us dividends in the coming quarters, because the energy cost is the biggest cost and is the biggest OpEx item on our P&L in Africa. Similarly the other process, which is going month after month, comes under control and will give higher efficiency. So we will see a steady improvement in EBITDA in the coming quarters, but please do remember that we are in an investment phase also and only investment related costs something has to be incurred by us so that our market shares in challenger markets grow rapidly.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited (India and South Asia)

Hi Malvika, this is Sanjay Kapoor. I think I will draw your attention to a little broader picture to begin with, very clearly I think India is at a cusp where probably voice penetration in the urban parts of the country looks fairly healthy, but voice is very underpenetrated in the rural part of the country, which still talks about more investments that needs to be made for the rural customers. On the other side, we all know and we are absolutely at the right spot to plunge into a data surge in this country and there is a data explosion that is waiting for us, obviously that cannot happen without big investments made and I think if we were to go by the 3G auction and BWA auctions that happen we know that that investment is yet to be made in this country. Now obviously in this environment and the customer expectations, rising with consumerism really spreading in our country- what does not make sense for us we believe, does probably not make sense for anybody else as well. We do believe that we are probably amongst the most efficient operators in the Indian market at least and if that is true then obviously any move that we make of this nature has to be mark-to-market to see will others react or not react with smaller people have a big arbitrage, will the usage come down or not and I assure you that our teams have

eyes on all these indicators on a day-to-day basis and please also understand that these are the base tariffs to provide value to our customers and we always believe that Airtel customers will not be deprived of a value which we have got to them for being loyal to the brand and we believe that there will be many value interventions that will keep happening below the line and that happens all the time and therefore we will always remain mark-to-market. If there is any fine-tuning to be done in this market as any other way we are always glued down to the market realities and in market condition, but I must say as of now even looking at smaller operators now trying to correct their tariffs truly gives us a confidence that probably this is what is right for the industry to go forward and serve the customer in the best possible fashion.

Malvika Gupta – JP Morgan - Mumbai

Thank you, very much.

Namita - Moderator

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

Rahul Singh – Standard Chartered Securities - Mumbai

I had two questions; firstly on the CapEx front, the CapEx for India at almost \$600 million and for Africa at \$400 million seem to be running well ahead even though even if you account for seasonality and stuff like that is running well ahead of the guidance which you had given of \$1.5 and \$1.2 billion respectively. So just wanted your thoughts on whether you think there is a need to revise the guidance as of now or that stands? Secondly, on the Africa business on the cost side I see significant variations quarter-on-quarter between march and June quarter, the employee cost are down significantly and the network OpEx is up significantly. So if you can just highlight. I mean it does not seem network OpEx does not seem to be only a function of the number of cell sites, so is there anything else, which are driving these costs in these countries?

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited (India and South Asia)

Rahul, to begin with let me say that we are not revising any CapEx forecast that we have given to you. We are sticking by it. There could be timings issue on some of the forecasts for example, in India definitely we have been preponing the 3G expenses by rolling out some more towns and we think that it is prudent for us to do that because it allows us to get returns during this fiscal and therefore we probably preponed some of our 3G expenses, but I do not think on an overall basis we have any intention to revise our CapEx forecast. Manoj.

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

Rahul, on CapEx just like Sanjay said we are not revising our CapEx guidance, which remains at \$1.2 billion for Africa. Of course there will be some quarters, which will be high, some quarters will be low, so I think lets wait for the year. On the OpEx point I made earlier, I just wanted to reiterate now that we are going through multiple restructuring. Please do not expect a stable line item behavior from the Africa P&L for at least another four quarters if not six quarters, because when the restructuring is going on there are some line items go up and down, but do not get bothered. We need to see the overall direction of the business, direction of the P&L, which is in the right direction. There are multiple transition periods going on. For example, IT transition happened to IBM, then customer service transition happened to few BPOs, now network transitions are happening, showroom transitions are happening, shared services transitions are happening, so when so many transitions are happening then you cannot have stability in each line item. So do not go by that, go by the margins, which is coming at the end of P&L and that is important and those margins will continue to improve.

Rahul Singh – Standard Chartered Securities - Mumbai

Thanks Manoj.

Namita – Moderator

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

Sunil Tirumalai - Credit Suisse – Mumbai

Thank you very much. Most of my questions have been answered. Manoj just wanted to get your opinion, in addition to the CapEx guidance for the current year, what is your target for FY'13 as well?

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

I have already given my guidance, personal guidance on the revenue and EBITDA for FY'13, but we have not really thought of the CapEx guidance because let this year to be over and when you think of CapEx depending on how good this year is, how good rollout is where we are vis-à-vis each competitor in each market, so there are many factors to be taken into account before we come to the guidance for the next year, so we will just and maybe by December we will come back to you.

Sunil Tirumalai - Credit Suisse – Mumbai

Okay, Sanjay one question to you. Do you think we should be worried about any regulatory back slash for the industry raising the tariff?

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited (India and South Africa)

Industry taking up tariff?

Sunil Tirumalai - Credit Suisse – Mumbai

Yes.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited (India and South Asia)

It is very difficult for me. You know there is a forbearance first of all on tariffs and you know there is enough and more reason and I think the results of each operators are a testimony to why this industry needs correction and I can only talk about my company to say you know, please look at our results of the last year the same quarter and please also look at the cost increases that are happening by way of additional spectrum and the rollouts that are required. So the amount of tariffs that we actually reduced over the past eight to 10 quarters, it cannot be made up by any price increase that we do really.

Sunil Tirumalai - Credit Suisse – Mumbai

Okay that was useful. Thank you very much.

Namita - Moderator

Thank you, very much Sir. The next question comes from Varun Ahuja from UBS, Mumbai. Sir you may ask your question now.

Varun Ahuja – UBS- Mumbai

Hi thanks for the opportunity. I have got two sets of question; one for Sanjay it is on the SBI Airtel partnership, some news flows few days back whether RBI is looking into that. Any update on that? Second to Manik, Manik you have restated historic financial, any reason for that. Third, Sanjay to you it is on the pricing, do you think there is much more upset for prices going up or the market can take that. Thanks.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited (India and South Asia)

Let me answer the two questions and then I will pass on to Manik. On the SBI Airtel JV first of all there are permissions to be sought from the financial regulator and SBI being the majority partner on this venture are doing and following it up. Hopefully you should chase up with them and ask them where it is. I would not like to comment on their behalf, but I know that that is work happening on that account and therefore our emphasis and focus on the whole M-commerce area will

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continue. As far as the prices further going up is anybody's guess. The fact of the matter is that if costs of input are going to keep rising then it is just prudent for the market to be at sustainable levels of pricing in this country like every other industry does. The fact of the matter is that if you look at any other industry across the board, the prices keep correcting to take care of the inflation, this unfortunately is the only industry which has gone southward no matter what happens, I do not know how can any industry absorb a 8%, 8.5% inflation cost year-on-year, I mean at this rate on a real basis, this industry will begin to grow negatively in the near future if it does not adjust itself and I am sure none of us want that to happen, we want to grow on a real basis.

Manik Jhangiani- Group Chief Financial Officer - Bharti Enterprises Limited

On your question on the restatements I am not exactly clear but if you are just meaning in terms of the re-class that we have done in terms of what was recorded as other income now moving to revenues So just a re-class between incomes below EBITDA to revenue. At the PAT level obviously no impact.

Varun Ahuja – UBS – Mumbai

On the KPI sheet that you guys made in that if you look at all the financials your mobile revenue and EBITDA earlier you had EBITDA margin of mobile 31.1% and now this has come back to 33.6%, so the revenue in EBITDA and every numbers have been restated historically from June 2010 to 2011?

Manik Jhangiani - Group Chief Financial Officer - Bharti Enterprises Limited

I think we will get back to you on that because I do not think there was any restatement that we have done but let us look at that and come back to you.

Namita – Moderator

Thank you, very much Sir. The next question comes from Mr. Vivek Doval from Boyer Allan London, Sir you may ask your question now?

Vivek Doval – Boyer Allan – London

Thank you very much, just a few questions, you did make the point that obviously costs have actually gone up and hence you have absorbed it for so many quarters but at the same time one hears in the media that the regulators have started taking note of the fact that the tariffs or the blended tariffs have actually gone up, has that exercise talking to the regulators on this started and you know your kind of arguments of cost increases etc., how well have they been taken by the regulators as they decide to either make certain changes or just make it deep driven by market forces?

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited (India and South Asia)

Well all I can say is we have always been compliant to the rules of the land, we will always continue to do the same and if regulators or licensors have any instructions we will be happy to comply to those instructions but there is nothing that is happening right now.

Vivek Doval – Boyer Allan – London

Right, actually what I am really trying to check is have the regulators already started checking with operators like yourself or is it just a lot of noise that is going in the background?

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited (India and South Asia)

We do find in the pricing with the regulators as we make any changes to the tariff and we are in compliance but if over and above that there are any queries they will have we will be happy to answer those queries.

Vivek Doval – Boyer Allan – London

Second of course some of the tariff hikes that we have probably seen this quarter had been on account of basically discount plans etc., being taken off and in some other cases we had actually seeing the headlines tariff etc., actually

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increased, so wanted to actually get the potential of both these going forth, is there a lot of room for tariffs to go up on account of discounting etc., to come off in the market or is it more likely to be on account of the tariffs actually for particular segment and particular times being actually raised.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited (India and South Africa)

This is a little tough to answer, it always has so many connotations and variables attached to it, it is a 14-player scenario and that there is oversupply in this market is known to everybody and therefore you know you just cannot go on increasing tariffs left, right, and center, you have to make sure that you are answerable to your customers and also make sure that you bring in the balance as required in the competitive market so I would say the market structure in our country and also I think even without this market structure I do not think operators like us do not understand the responsibility in the market so I think it will depend on various variables and whatever is required on the ground level those corrections will be done based on the market realities.

Vivek Doval – Boyer Allan – London

Finally if you could just give us some idea what are the MNP trends you are currently seeing, it has been a while since MNP has been launched, in terms of churn and in terms of pricing, if you could actually give us some more valuable details numerically that would be very, very useful.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited (India and South Asia)

The trends on MNP is not any different to what it was earlier, we said it is not a game changer and it is not a game changer, I think the guys who benefited the maximum out of MNP are the retailers, extra money has been thrown at them to actually allure customers from one operator to another operator but the net impact of that is so low that just about 1.8% of the total base excised those options, the magnitude of the disruption is also coming down with every passing month, so I guess it will be there with us and customers will always have this choice but I do not think it is changing the game for any operator in the market.

Vivek Doval – Boyer Allan – London

And how much of these 1.8% customer base is actually come in from the postpaid market, is it predominantly postpaid?

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited (India and South Asia)

No, it is predominantly prepaid. All I can say is that on postpaid we are net gainers.

Namita - Moderator

Thank you very much Sir. The next question comes from Mr. Shobhit Khare from Motilal Oswal Mumbai. Sir you may ask your question now?

Shobhit Khare – Motilal Oswal Securities - Mumbai

Good afternoon Sir and thanks for the opportunity, two or three questions, one is you mentioned about tariff corrections in 19 circles, just wanted to make sure I heard that correct that and what kind of tariff corrections have been there apart from the 6 circles which was in the media. Second, there has been a good decline in the gross ads on the mobile side, so wanted to check what is driving this, is it the market getting saturated or competitive intensity even in the acquisition side going down and third if you could share the percentage proportionate EBITDA from the Africa business?

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited (India and South Asia)

Shobhit, let me try and answer the first two questions and then I will pass it on to Manoj. You know as far as the prices are concerned, they vary from circle to circle because competition varies from circle to circle, so for me to read out all 19 different circles and what is happening there will be difficult but all I can say is that there are a couple of plans that we have picked up and those are the ones that we are making some corrections on some legs, some legs have been left the way they are and some legs have been altered and that is the way corrections have happened, yes you are right, three or four circles have not been done but by and large rest of them have been done. As far as the market intensity on gross ads and net ads is concerned that is another area where I think there needs to be semblance in this industry, I do not

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know whether you realize but the industry churn is now beyond 12% per month. I do not believe anybody can operate an acquisition machinery viably if you were to be running with such a big leak in the system and I suggest that probably it is catching up on the market and this high churn is really catching up in the market and therefore people will realize sooner than later and you know bring the gross ads which are not actually culminating in to real customers for the industry, so I guess it is emerging out of this big leakage that the industry is facing more than anything else.

Shobit Khare – Motilal Oswal Securities – Mumbai

Could you share which three, four circles we have not taken the hikes or corrections?

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited (India and South Asia)

It is a process. Ultimately we will make the corrections wherever it is required, so it is very difficult for me to tell you, we might make a change there tomorrow.

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

As far as the proportion of EBITDA from Africa is concerned, it is a little over 20% of the company's EBITDA from Africa.

Shobit Khare – Motilal Oswal Securities – Mumbai

No Sir, my question is as per our shareholding in each of the individual markets what is the proportionate EBITDA we get from Africa, adjusted for our shareholding?

Manik Jhangiani – Group Chief Financial Officer - Bharti Enterprises Limited

That number is probably circa about 10% for the minorities, because keep in mind when we made the acquisition we had not done the open offer in Zambia, so that pretty much now become towards 100% ownership as well as the fact that you got Kenya where we bought out stakes it is sub 10% in terms of what the minority piece would be.

Namita – Moderator

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

Reena Verma – Merrill Lynch – Mumbai

Hi, thank you very much for the call, just a few questions, firstly you know despite a sharp decline in your gross ads your SG&A has actually gone up a tad, can you please help us understand this especially in the context of reports that you have cut dealer commissions. My second question is about the business restructuring that you have announced. Is there a financial impact of this business restructuring and could you share with us how much of the "Others" segment is due to DTH like what is the kind of ballpark DTH loss or profit because that is really a wild card when we try to look ahead and Manik if you could please tell us whether you will be restating accounts in light of the business restructuring from next quarter and my final question is to Sanjay, you mentioned that you monitor traffic on a day to day basis, your teams do, so please can you share with us whether there is any visible change in traffic patterns post the tariff hikes, thank you.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited (India and South Asia)

Last one Reena is the easiest one, so I would say it is too early for us to be observing and I do not think you can take any management calls based on a weeks' traffic change or three days, four days traffic change, so I would not comment, we would all wait for a little while more before we really start talking about it.

Reena Verma – Merrill Lynch - Mumbai

May I just interrupt there and ask you that your Q1 traffic growth is slower than Q4 though if we look back historically Q1 is supposed to be a seasonally strong quarter, so would you be able to say that there was or was not any seasonality in Q1 this year?

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited (India and South Asia)

You know that is why I do not want to compare with us, you are talking about the impact now in Q2 and seasonality wise Q2 for the industry per se is the weakest quarter, so I am saying give us a little more time, we will come and answer that question for you.

The second is on your organization question that you asked. Of course the four key reasons for reorganizing is to make sure that the organization becomes more agile and gets closer to the customer in terms of orders and levels and fast decision making. We also have done it to bring in all the synergies possible to our different lines of businesses and therefore make the organization more customer facing rather than more technology oriented or divided based on technology and finally bring in focus in to those areas that matter to us the most and therefore put the organization design in such a fashion that we are able to drive those agendas very quickly and finally provide growth to our own people, provide them better breadth of leadership and also get them jobs that probably are not done by any other telco in the country and I think given that obviously there will be multiple areas which will get impacted through this organization once it stabilizes, so we think given our circumstances this is the right thing to have done and we are positive about this organization change going ahead.

B Srikanth - Chief Financial Officer – Bharti Airtel Limited

As your question on selling, general administration expenses in India and South Asia are concerned yes it has gone up, but it has gone up in such a small extent and I think you were trying to answer us why it has not seen a dip when the gross ads have gone down, because it is selling general and administration expenses, so there are three components of expenses lined there, so while one has gone down, the others have obviously gone up for the level it should be more or less at the same level as last quarter.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited (India and South Asia)

Reena, just to give you a little bit of confidence on that if you were to just take S&D expenses, I assure you that those expenses with the volumes coming down have gone down.

Reena Verma – Merrill Lynch - Mumbai

Thank you very much Sanjay. Sir, just wanted to know that the impact of lower commissions, was there a time when it was introduced like when you say S&D has fallen do you think it will continue to fall, that is one question and on the restructuring aspect as well, is there likely to be an immediate financial impact that you can help us with and whether you will be restating your segments next quarter again in terms of the way you report numbers?

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited (India and South Asia)

The financial impact of restructuring I cannot give you. There is no such forward-looking statement that we can make and it is also competitive in nature.

Manik Jhangiani – Group Chief Financial Officer - Bharti Enterprises Limited

As far as the reporting is concerned Reena, I would say that obviously the change has been effective August 1. As the new organization continues to get fully operational and seasoned we will reassess, both internally as well as getting inputs from the investor community as to whether we reorganize and report on a B2C & B2B type of structure of we continue to report more details within the B2C, but I think we have not taken that call yet and we will come back to you all on that.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited (India and South Asia)

One more question Reena you had around is there opportunity on the commissions and costs around S&D, undoubtedly. I think in such a market the amount of S&D expenses have really flared up in a hypercompetitive environment. Well the unfortunate part is that the industry structure and the heat in the industry determines what gets spent on this and no individual player can take a call on this in isolation, so I guess there will be a semblance and I believe that the amount of churn that the industry is sitting on today makes this entire activity untenable.

Namita – Moderator

Ladies and Gentlemen we are in the last five minutes of the Conference Call. The next question comes from Mr. Vikas Mantri from ICICI Securities Mumbai. Mr. Mantri, you may ask your question now?

Vikas Mantri – ICICI Securities – Mumbai

Good afternoon, I have a question for Manoj, we have seen a strong volume growth in Africa with marginal tariff decline, do we see that lower rates that we had introduced yet to be accepted and therefore we will see this volume growth continuing or we need to do a fresh cut off tariffs in these markets?

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

Vikas we do not have a tariff reduction strategy as I have stated earlier we do utilize the pricing power of Africa. The cost in Africa are much, much higher than India, therefore we need to be very sensitive to tariff in Africa, there is a marginal dip in the tariffs, very, very marginal, I do not think there is a trend, I do not read any trend in that, elasticity has shown up to some extent, we are accessing very carefully, very cautiously, market by market wherever we see elasticity we will definitely note it, but overall our objective is to grow REC's, grow traffic, go deep in to the market and give more value added services and 3G lead data services, ARPU has gone up, that is a positive trend, the tariff is not our strategy, let me reinforce. Africa tariffs will be stable.

Vikas Mantri – ICICI Securities – Mumbai

Thanks one more question for Sanjay here, in terms of our data revenues in India while yes there was a seasonal impact for us, somehow our peers have not shown this seasonal impact and Vodafone which reported numbers relatively showed strong growth in data revenues, so this divergence can be only seasonality?

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited (India and South Asia)

I cannot comment on what Voda has done. All I can tell you is that our analysis of our value added service reporting that we have done clearly points out that normalized for these seasonality we would have been at least where we were in terms of percentage in the last quarter.

Namita – Moderator

Thank you very much Sir The next question comes from Mr. B. Srinivas Rao from Deutsche Mumbai. Sir you may ask your question now.

B. Srinivas Rao– Deutsche Bank

Hi sir, this is Srinivas here from Deutsche Bank. Sir I have four questions actually to ask. First is regarding your revenue market share, which seems to have trended down over the last four, five quarters and also the minutes growth, which has been probably a notch below that of your peers, so would you kind of comment on what you are thinking on that line or something which is in line with your expectations, that is question number one. Number two, on the tariffs, the hikes which you have taken, what would be the broad duration of impact by the time it percolates down to let us say 70%-80% of your customer base, during that they would have different validity plans available to them and third on the India side, we have not seen any announcement on the head for the B2C vertical, has that been announced, these were the three questions on the India side and on the Africa side, Manoj if you could throw light on the competitive response, which you have seen and has that been largely what you have expected, thank you.

Sanjay Kapoor- Chief Executive Officer - Bharti Airtel Limited (India and South Asia)

This is Sanjay and let me try and answer your questions. The head of B2C is your namesake, and we announced his name. His name is K. Srinivas and he used to see the mobile services earlier and then was heading the tele-media business. He is a great professional and he now heads B2C vertical. On tariffs and when will they attain optimal returns is difficult as customers get off their obligation of the validity with us we will keep changing this, I am afraid I cannot give you a precise answer but at least it will take few quarters before you start seeing the full impact of tariff correction. As far as revenue market share is concerned, all I can say is that we do not know very many cases across the pitch when there is such hyper competition, market leaders first give away a little bit of market share. I can do a comparison with the best

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in the world. However keep in mind that in a declining price regime, the guy who has the maximum shares mathematically ends up losing and of course we suffered due to that as well and also at a point in time there were some operators who were not national at that time, they became national post that, so there were territories that they were not competing in which started to compete, but overall I must say given the circumstances, given our market shares, I think it is a phenomenal performance on protecting the market share and the bottom line. I think we have done that very well. Another thing I want you all to keep in mind is please look at the growth of the incremental customers that is coming in the market along with churn percentages. I am happy to say that our churn is not at the low level that it was but it is much, much below the market level, which only tells you that we are trying to fine tune adding customers at any cost and balancing out the churn and the bottom line alongside, so I think we were trying to really manage all those and I think given the circumstances we managed it pretty well.

B Srikanth- Chief Financial Officer – Bharti Airtel Limited

Okay Srinivas, on behalf of Manoj let me answer your question. We have been absolutely and particularly involved as per the customer response is concerned, we have been obsessed with customer response and whether it is the response to the Airtel brand that was introduced or whether it is to our network roll out or to our service rollout and I think if you look at the growth over the last one year, the top line has grown by 21% and I think that is a standing evidence of how customers have really responded to the effort that we have put in Africa. As far as competition is concerned, I think you may like to check out if anyone else has had that kind of growth track record in the last one year in Africa. All I want to say is we respect competition.....

Namita - Moderator

Thank you very much sir. Ladies and gentlemen, due to constraints of time we are not able to entertain any further questions. This brings us to the end of the question and answer session. I would now hand over the call proceedings to Mr. Manik Jhangiani for the final remarks.

Manik Jhangiani – Group Chief Financial Officer – Bharti Enterprises Limited

Thank you all for joining us and I think again we have had a great start to the year, a healthy and robust performance across all geographies and truly looking forward to further opportunities as we go through the year. Thanks again for joining us.

Namita – Moderator

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