

Bharti Airtel Limited Q2 Ended September 30, 2009

Earnings Conference Call Transcript

Event: Transcript for Bharti Airtel Limited Q2 Ended September 30, 2009
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Bharti Airtel Limited Q2 Ended September 30, 2009**CORPORATE PARTICIPANTS****Akhil Gupta**

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CONFERENCE CALL PARTICIPANTS**Henry Cobbe**

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Sanjay Chawla

Anand Rathi - Mumbai

PRESENTATION**Hina - Moderator**

Good afternoon ladies and gentlemen, I am Hina the moderator for this conference. Welcome to the Bharti Airtel Limited, Second Quarter Ended September 30, 2009 Earnings Call. For the duration of the presentation, all participants' 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. We propose to commence this call with opening remarks by Mr. Akhil Gupta and Mr. Manoj Kohli, after which the floor will be opened for the question and answer session.

Bharti Airtel Limited Q2 Ended September 30, 2009

Before I hand over the call to Mr. Gupta, I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risks that we face. I now hand over the call to Mr. Akhil Gupta. Thank you and over to you Mr. Gupta.

Akhil Gupta - Deputy Group CEO & Managing Director - Bharti Enterprises and Director - Bharti Airtel Limited

Thank you. A very warm welcome on behalf of all my colleagues, we have the President of the three divisions, Manoj, and Sanjay along with the Group CFO and CFO of Airtel with me. So hearty welcome to you on this earnings call.

As we speak, I think we will all agree that the telecom industry in India is at an inflection point, a very important inflection point I would say and while it may not, looking at the share price, be a very appropriate word, but I still say it is a very interesting inflection point that we are facing. Why I say that is because on one hand we are very clearly having unprecedented growth which India is seeing on the mobile side, we are still adding 12-13 million customers a month, there is clearly some irrational pricing going on, there is shortage of Spectrum, there is 3G round the corner which will require more and more capital investment by the players. I think, this entire gamut makes it a very interesting point in the history of Indian telecom.

The questions are obviously before us as to what is first of all the health of the industry and what is the situation going to do to help with the situation of the industry. My take on that is that this so-called price irrationality or undercutting or war whatever words you may want to use is not something, which is new to us. In India in the telecom industry we have seen it time and again. The telecom industry internationally has seen it time and again, and I think there is hardly any industry unless it is completely controlled by a government entity where these wars have not been fought. Very clearly to some extent the industry does get disrupted, but one thing, which looking at all the history which emerges as a common factor in all this is that the players who were stronger before the commencement of these wars always emerge stronger and I think there is a very sound reason why that happens and to my mind the reason really is that while very strong players of that industry or sector do suffer some temporary or short-term setback, the players who are smaller and financially weaker end up getting a irreparable damage done to them and that makes it very difficult for them to recover for a long time and that is how I think stronger players always become stronger and that is something we firmly believe in. In some sense, it leads to a natural consolidation in every industry.

The next question obviously is how does it impact Airtel at this point of time? Now to examine that, I think the first aspect, which we need to consider, is the strength of Airtel. I think without any iota of doubt, Airtel today is the strongest player on the Indian telecom scene, which is evident by the fact that we have the largest number of customers, almost 115 million customers. We do about 50 billion minutes a month and we are very quickly moving towards the 2 billion minutes a day mark. We are into a net cash position on a standalone basis on the operational side. So there is no debt on the balance sheet. We have the largest network in this country, we have the deepest network in the country, we have the maximum capacity, we have deep distribution, which is absolutely unparalleled. Very important and perhaps overlook most of the time is the fact that we are a pure and a true integrated player where 35% of our EBITDAs actually come from non-mobile where these wars are not going on. We are on a standalone basis in a free cash flow situation and I think that makes us not only unique, but clearly the strongest player in the industry today. So what could be or what should be our strategy in these kinds of uncertain times when we face the irrational pricing by some players? We have obviously debated that we have looked at the empirical evidence and we believe that our strategy will focus around a few things. First and foremost it is our belief that when it comes to a value proposition to a customer, price is only one of the elements. The other and perhaps at times more important to a customer will be network coverage and quality, the distribution, the customer service, the products and then the overall customer experience. Having said that, we absolutely acknowledge the price is important, price is something important more so in a value driven country like India and therefore our philosophy is that while we will always be competitive, but as leaders it is our firm belief that there is no reason why we need to match the lowest common denominator in the marketplace. We shall continue to invest, in capacity and coverage, because irrespective of some temporary setback we believe in the future and we are ready to invest in this future and for customer experience. We will keep growing our non-mobile business at the speed that we have been growing it, and we will continue to invest in that as well. Very clearly with the current level of pricing the passive infrastructure business it augurs well for it, because at these prices it is my belief that for any operator to try and even remotely set up the passive infrastructure will be completely out of question. It is just the economics does not stand up at all and finally I think, the big thrust we have always on operational excellence and cost optimization is something, which is a way of life with Airtel. We have been always doing it and there is a small proof of that is in this quarter there was a dip in revenue versus the previous quarter, we did marginally improve the EBITDA margins to 42.1%. The other strategy, which we have talked about and which has been in the news, recently has been on our international strategy. As you know we tried for MTN, unfortunately because of the government situation and the stand taken it did not work out, but very clearly we believe in that strategy and we believe that we are ready to try the business model that we have built up in India in other emerging markets and I would say the MTN experience has only reinforced that belief. Thus I can say that while we would obviously not be desperate to do it, we would always look at the right value but we will be open to any opportunities that come that way.

Before I hand over to Manoj, let me summarize by saying that while it looks obvious and very likely that the leaders like us in the marketplace could suffer some temporary setbacks in terms of our revenue growth or the profitability growth, I think we are very, very clear that on a long-term basis we will emerge stronger, we have a great opportunity here to capitalize on the strong balance sheet and the other strengths which we have. We will continue to focus on our operational excellence and I think we are in the best shape possible amongst all the players to be ready for the opportunity which future is going to bring us. Thank you. Manoj.

Bharti Airtel Limited Q2 Ended September 30, 2009**Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel Limited**

Thank you, Akhil. I extend warm welcome to all participants on the call. Very good afternoon to all of you. Before I share the company's performance details with all of you, let us have a quick recap of the overall telecom markets. At the end of the quarter the telecom base finally crossed 0.5 billion customers with penetration at about 44%. Wireless continues to drive the telecom growth with country adding 44 million customers taking the total wireless base to 471 million. As Akhil said last few months, we have all experienced a phase of heightened competitive activities, not just informed of launch of new and innovative tariff plan, but also few paradigm shifts that industry is experiencing in the form of per-second billing does have distance etc. The industry has also started experiencing a new phenomenon of multi sim environment, which is quite natural in an era of increased competitive intensity. We are all excited by this new phase of growth and I am confident that Bharti Airtel will not only strengthen its competitive position, but also once again emerge as a winner.

In this market, what one must note is the challenges of new operators are likely to face. Be it lack of brand pull or lack of access to quality, distribution channel or single play over 1800 Megahertz spectrum. Pricing is the only tactic, which they are pursuing to acquire the customers. Further, given the late entrant disadvantage these new operators are banking either on the churn of low-end customers or second sim users. Hence, they get only a small share of existing customer's wallet. They may acquire some customer numbers and some share of traffic, but nowhere commensurate revenue market share. Given the prevailing tariff viewed against significant differential of cost structures between new operator and present operators, the new players in our opinion do not have any viable business case.

Now moving on to Bharti Airtel from our perspective we will continue to focus on our revenue market share and be competitive, but at the same time as Akhil said we do not see any need to match the least common denominator in the marketplace. We will continue our relentless focus on revenue market share in every segment we operate in. For example, to expand our non-mobile businesses, recently we announced a strategic business alliance with Cisco to help expand our market coverage in rapidly growing managed services market and pursue leadership in B2B segments after achieving similar and bigger leadership in B2C segment. This complemented with our brand, distribution strength, quality of network as well as coverage of network and high quality customer service. With a business model, which is not only unique across the world, but very lean, all this shall see us emerging not only even stronger, as the short-term disruptive phase recedes away. Some of the strengths that we have built as a market leader are network rollout with over 1 lac sites, healthy combination of 900-1800 Megahertz Spectrum, over 100,000 route Km of fiber optic, 83% of population coverage which is far ahead of any other operator, widest distribution network with presence of over 1.5 million retailers, excellent customer service with customer satisfaction scores ahead of competition, strong leadership talent pool, which actually proves that our execution is definitely far superior to other operators and finally a strong brand appeal across 240 million households in urban and rural districts. Collectively all of these put Airtel in much superior position of strength.

Now moving to Company's performance, I am pleased to highlight that we recorded a good performance in the quarter. Our total customer base increased to 113.4 million with an addition of 8.2 million in the last quarter. Mobile segment increased to 110 million and Telemedia to 2.9 million. Our Company leads the market both on wireless customer market share and of course revenue market share. The customer market share stands at 23.5 despite strong competitive head winds. Our revenue market share is at 32.7 in the last reported quarter, which is a 90-basis point better than the previous to the last, reported quarter. Hence our strength has helped us to show healthy trends despite all competitive intensity. Some other operational highlights of the company for the quarter are: we carried more than 164 billion minutes on our network up 22% year-on-year. This quarter we added close to 4 billion minutes on our network. The total number of sites at the end of the period was 99,500. With strong presence in all census towns, nearly all census towns over 429,000 non-census towns and villages help us cover the population of 83%. The realized rate for the quarter was 0.56 paise, a decline of 4% quarter-on-quarter and 11% year-on-year. Also during the quarter we were able to very smoothly transition over 4000 employees seamlessly to our newly formed joint venture with Alcatel Lucent for our access network group with some other BPO outsourcing initiative, we were able to raise productivity significantly and get superior domain knowledge from our strategic partners.

Now I will move to the financial performance of the Company. The consolidated revenue for the quarter is 98.5 billion, representing a growth of 9% compared to same quarter last year whereas for half year it is 197.8 billion representing 13% growth over the same period last year. Consolidated EBITDA stands at Rs. 41.4 billion, a growth of 12% compared to the same quarter last year. It is Rs. 82.9 billion for half year representing 15% growth over the same period last year. The EBITDA margin for the quarter has been healthy 42.1%, which is pointing well to our improving cost efficiencies and productivity. This is reflective of our leaner cost model and productivity of each resource, which we utilize. It is 41.9% over half year ended September 30.

Moving on to finance cost, the net finance expenses for the quarter is 42.8 billion against net finance income of 260 billion in the June quarter. The charge is largely due to adverse Foreign exchange movement. The net income before tax for the quarter is 26.6 billion. The income tax expenditure is Rs. 2.9 billion comprising of Rs. 5.1 billion of current tax and 2.2 billion of deferred tax income. The net income for the quarter is Rs. 23.2 billion whereas half year is Rs. 48.4 billion. The consolidate CapEx for the quarter is Rs. 23 billion and Rs. 50 billion for the half year, which is in line with our annual CapEx guidance.

In closing I would like to reiterate that as the market and competitors landscape changes in the next few quarters, our constant endeavor would be to drive our revenue market share objective and at the same time continue to work hard on operational efficiencies for sustaining the margins not through cost reduction alone, but through scale benefits, new business model innovation, which will be seen over the next three to four quarters. We have a strong conviction that we will retain our lead and emerge as stronger winners in the market.

I will now handover the floor back to Hina for Q&A. Thank you.

Bharti Airtel Limited Q2 Ended September 30, 2009**Hina - 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. 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 question on a first-in-line basis. To ask a question participants may please press "*" "1" now. The first question comes from Mr. Henry Cobbe from Nevsky Capital, London. Mr. Cobbe, you may ask your question now.

Henry Cobbe - Nevsky Capital - London

Hi there. Thank you, very much indeed for the call. My question is firstly just on tariff side. You mentioned you do not want to stoop down to the lowest common denominator and yet when we look at the RPM on the mobile business was down 12% quarter-on-quarter and this suggests that you are responding on price already, so could you just comment on that. Secondly, if we look at the incremental traffic, the network minutes increase I think at about 3 billion quarter-on-quarter which implies that the new price plans have been successful in taking away your share of traffic, basically share of revenues, so how are you going to respond for maintaining your revenue market share and lastly you made the comments right here on new entrants and I understand the life has become more difficult for them with lower price plan and have to adjust their business models but they are not going to walk away from India overnight, so do you see scope for consolidation or have you been approached by anyone to talk about how they can share your scale?

Akhil Gupta - Deputy Group CEO & Managing Director - Bharti Enterprises and Director - Bharti Airtel Limited

Let me take the last one and then I will leave the first two on the tariffs and the minutes and what we are doing to Atul to respond. I think there is Henry no doubt that with this it is a bit of trap that you have set for yourself. Some of the newcomers and of course you know this was a newspaper item, so I am not sharing anything which is only my domain. For one of the players there was projected cash loss of \$3.2 billion, which was at the earlier rates. Now you can only imagine that with these rates plugged in that cash burn could be somewhere perhaps near \$5 billion, I do not know the figure but I am assuming that 3.2 would have significantly gone up with these kinds of rates being plugged into the same business plan. The question is, there is a natural consolidation to my mind because the roll-out plans of these players will, to my mind, really become difficult because when I look around, the funding does become difficult. The lenders, the equity investors obviously look at business plans before they invest and that is what could be happening to our mind that the funding propositions will become more difficult leading to lesser roll-outs and therefore to some extent we do believe that these kind of situations, as I had mentioned do affect the weaker or the smaller players, not necessarily weaker because this may be very large corporation but the players who are smaller, they really get more badly affected in the long term, whether they have approached us or not, well I do not think I would like to talk about that or make any comments on that.

Atul Bindal - Joint President - Broadband & Telephone Services - Bharti Airtel

Henry Hi, this is Atul Bindal here. I would like to divide my response into three parts, first, a very quick touch on what is our strategy and the guiding rationale, second, how numbers have actually moved over the last three months and then third respond very specifically to the two points that you raised. Number one, on the strategy part, it is really revenue market share maximization and revenue market share leadership as the only criteria, which actually guides all our actions in the market place. We continue to be focused very sharply on marked-to-market and obviously there, our position is that we would stay competitive but we would stay competitive with respect to the leading revenue market players and obviously that would mean that there would be certain lowest common denominator players in the market place, it is neither our desire nor our action at any point in time to go and match any of those. Having said that if you look at the consumption over the last three months first of all in terms of the number of customers we have added well over 8 million customers just like what we had been doing earlier, so we have not seen any significant let up in terms of the new customer activity. If you look at the total amount of minutes that we have added again at 143.6 billion minutes there is still robust and healthy consumption in the market place. If you were to divide these minutes by the various tiers of yield that they would fall into there is most definitely a bucket at the bottom end which is really the free minutes arbitrage or really as any of the new operators or any of the existing operators who launch in any of the newer circles. When they launch they give offers which normally run for three months, six months, million minutes free and there are all kinds of these offers. We have also seen over the last so many quarters that these promotions and programs last their duration and after that certain percentage of these customers tend to also come back on to the networks, in fact even with respect to one or two new operators who had launched in January we have seen the same kind of activity happen, so that is certainly one aspect which has impacted consumption. The second as we had referred earlier there is definitely dual and multiple SIM consumption in the market place which combined with some of the disruptive tactic obviously has taken some of that consumption away and finally on the rural front, although not very marked because of the food prices going up as well as somewhat softer monsoon, the last quarter also was impacted a little bit by that particular phenomenon.

Now coming to the rate, the rate has actually dropped only by 2 paisae, 2.1 to be precise over the last quarter and if you were to compare it even with our rate drop over the previous three months, prior quarter over the preceding quarter, it is almost the same. That is actually a good proxy for how well we have been able to manage our participation in the various segments because at any point in time it is really customer market share, minute and yield that we are trying to maximize. Even going forward, our objective is that it is the same kind of strategy, which we would continue to guide our actions with.

Bharti Airtel Limited Q2 Ended September 30, 2009**Henry Cobbe - Nevsky Capital - UK**

Thank you. May I just ask one last question just on the CapEx side, what is your guidance for CapEx this year both for the business and for the Tower Co. I am just interested whether the lower network laid out means under your agreement with Ericsson that your actual purchase of minutes will also be lower, is there any change to your CapEx side or will it just remain at what it is?

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel Limited

Henry, we had a guidance of 2-2.2 billion earlier. We are maintaining our guidance there is no change in that. On Tower Co., I would request Akhil to add.

Akhil Gupta - Deputy Group CEO & Managing Director - Bharti Enterprises and Director - Bharti Airtel Limited

I think we added overall about a billion dollars of our share. It could be slightly lower than that as some of the operators, as we are seeing, have expressed in their recent statements that they might slow down in terms of expansion into newer areas, so I guess that would really depend on that but I would say more or less at the same level, slightly lower on the tower side from that one billion I would say around \$700 million or so, but it really would pan out now because some of the operators have expressed reservations on CapEx this year into new areas, Airtel is not one of them. We are absolutely clear that we are ready to invest in the future but some other operators may be looking at scaling some down.

Henry Cobbe - Nevsky Capital - UK

Okay. Thank you very much indeed.

Hina - Moderator

Thank you Mr. Cobbe, the next question comes from Mr. Sandeep Bihani from Prudential Singapore. Mr. Bihani, you may ask your question now.

Sandeep Bihani - Prudential ICICI – Singapore

Thank you for this call. My interest is on the non-wireless areas, broadband, telephone revenues year-on-year have been flat, no growth there. Similarly enterprise services both Carrier and Corporate put together, revenues are flat across quarter. I want to understand what is the bad thing in this part of your revenues and what kind of sustainable revenue growth rates can we expect in the medium term? Thank you.

K. Srinivas – Bharti Airtel

Hi, Sandeep, this is Srini here; I take care of the telemedia business. After that I will ask David to talk about the enterprise. Essentially in telemedia business there are two parts, there is a significant fixed-line voice business and then there is a broadband / data business. We do not share the numbers, but suffice to say that the fixed line broadband plus the data business is growing pretty handsomely, however given the pricing figures that you have seen in mobile price that obviously impacts the voice revenue, so that is why you are seeing flat revenues in the telemedia business quarter-on-quarter because the fixed line revenues have been softer while the broadband revenue has actually been pretty strong and going forward as broadband penetration picks up I think you will probably start seeing far more robust performance from the telemedia side.

Akhil Gupta - Deputy Group CEO & Managing Director - Bharti Enterprises and Director - Bharti Airtel Limited

Sandeep, I would like to add on the telemedia side in particular, very clearly constantly for us seeing a bit of slide of voice traffic from the fixed line side we had taken a call that this year for us will be a year of consolidation of the telemedia business before we finally assess as to what we do in terms of our future strategy for the broadband full-fledged side, we are happy that we are increasing our margins, if you would have noticed. The EBITDA margin is at over 40%, so this was the year of consolidation and we do believe that these businesses going forward would see some good growth.

David Nishball – President Enterprise Services – Airtel

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Sandeep, this is David Nishball. On the enterprise side, will just give you a little bit of further insight. First of all, if you look at the overall enterprise business, we have been impacted to a degree by the economic slowdown, certainly customers have been showing a bit of caution, but in spite of that, the basic business volumes, in particular data business have continued to grow. What you are seeing on top line revenues is really a combination of pricing and volume game where volumes are continuing to grow, prices in this business segments are always under pressure. At the beginning of this year, you did not see a lot of customers renewing contracts and with the economic situation, the price discounting level that we saw was a little bit higher than what we have seen in previous years. The other factor that you see if you look at these numbers is that there is a lot of voice business particularly wholesale voice in these enterprise results, that business includes the flow through of access charges. In a quarter-on-quarter basis there have been several changes over the last few quarters in the access charge regime. As a result, the flow through of the access charge reductions both the domestic termination rates and also ADC back about nine months ago have actually flattened out the top line revenue. However, if you look at the net revenue basis the revenue we collect minus the access charge we pay, that net revenues have been consistently growing. That flows through to the EBITDA line and if you look at the EBITDA line on the statements we have published you will see that is where we have fairly consistent growth, about 18% year-on-year, about 4 to 5% each quarter and it has always been positive.

Sandeep Bihani - Prudential ICICI – Singapore

Okay. Thank you.

Hina – Moderator

Thank you Mr. Bihani. The next question comes from Mr. Rahul Singh from Citigroup Global, Mumbai. Mr. Singh, you may ask your question now.

Rahul Singh - Citigroup – Mumbai

Good afternoon everyone. I had three questions. Firstly, Akhil you mentioned about brand and the value of brand. To me, it does not seem like that is good enough given what we have seen in the last two three months where practically a new brand has come and created some kind of a successful wave just purely on the pricing and smart positioning, so just wanted your thoughts on that. I mean are you counting on your brand a bit too much and why should you not count on your scale and the pricing to match the lowest common denominator much more than what you are currently doing. Secondly on the MOUs, just wanted to get a sense as to what do you think was the proportion or some kind of color on the seasonal factors impacting the MOUs in this quarter because I am sure we should not be ascribing the entire decline just to competition and lastly on Indus what happened during the quarter financially in terms of though the tenancy and all is up, the share of profits and associates have moved from a profit to a loss?

Akhil Gupta - Deputy Group CEO & Managing Director - Bharti Enterprises

Let me take up the Indus part and then I will ask Sanjay and his team who you know are the marketing experts to handle the brand and the MOU part. On Indus, I think things are going pretty well on the tower side and what you are seeing is steady growth in the tenancies. In terms of the profit, from that there was a slight dip because I think in Indus, there was a lot of cleaning up of the databases, so there was some one time reversals of revenue and I think that is pretty temporary, but that business as you know is a very steady business, so I would say nothing which I would like to point out as reasons for any caution or alarm there, so that is growing at a pretty steady base.

Sanjay Kapoor - Deputy Chief Executive Officer - Bharti Airtel Limited

Rahul, hi, this is Sanjay Kapoor. On the brand, you are absolutely right. When any new player comes into the market he splurges a lot of money to create initial recognition of the brand that he is coming out with. You also must understand in the same breath that any new operator coming to the market has tremendous amount of wastages in the communication that he does for simple reason his network is not all pervasive and his services are not all pervasive but he ends up spending money on mediums like television which probably necessarily do not reach out to all his immediate target segments, the second thing is often because of the initial splurge the moneys are not commensurating with the returns that they might get. Now, brand like Airtel was not created overnight, you know, we have been investing money year after year and brand is not about sheer communications, it is about what you deliver to the customer in forms of network, services, customer service and several other things and collectively we have created a powerful offering to the customer which has actually built the brand Airtel. We do not believe that any amounts of money spent in the market in a short span of time can outdo what we have done and to come up to levels of a leadership brand in the market it takes perseverance and consistent delivery over a very long period of time.

The second thing around the stuff that you were talking on seasonality, you are partially right that Q2 has traditionally been a weak quarter and during Q2 the numbers are as it is a little weak. We have not asserted any percentage to that but yes, you are right that Q2 is generally weaker than the other quarter when it comes to customer usage numbers.

Bharti Airtel Limited Q2 Ended September 30, 2009**Atul Bindal - President – Mobile Services - Bharti Airtel**

Just to add to that Rahul, we have had 28 minutes of difference which is showing between last quarter MOU per sub and this quarter's MOU per sub and again you know I think there are three aspects which would very clearly bridge it. Number one is that for us well over 57% of the non metro customers that we have added they continue to come from rural and because of this higher percentage as we have stated earlier, it is now validated that the rural customers do take certain amount of time before they mature in coverage, so that is one reason for somewhat lower MOU, the second is definitely the aspect that you touched on which is that there was a little bit of softness at least initially with respect to monsoon as well as rural food prices but more importantly as far as urban part of the market is concerned there we did see dual and multiple SIM consumption which when combined with the disruptive play from some of the newer players or the existing operators launching in newer markets with their introductory offers, so it is really a net combination of all these three which accounted for these 28 minutes per sub.

Sanjay Kapoor - Deputy Chief Executive Officer - Bharti Airtel Limited

Rahul this is Sanjay Kapoor once again. Any part of your question on the brand, which probably we misunderstood or not answered fully?

Rahul Singh - Citigroup – Mumbai

Yes. I was about to ask a followup question. My question was not so much trying to question the Airtel's brand strength. My question was that should you not be relying more on your scale benefits and your ability to drive tariffs down rather than letting a new entrant and upstart companies do it, so you rely less on your brand and effectively hasten this process of consolidation if you firmly believe in it rather than going through this painful and slow death kind of a scenario?

Sanjay Kapoor - Deputy Chief Executive Officer - Bharti Airtel Limited

Rahul, all I can say is that this film has been watched in many parts of the world earlier. It is not playing for the first time and I can assure you that wherever it has followed a similar trajectory where the market leaders have led the price, it has led to lot bigger disasters and we do not think the market leader needs to do that. When a new player comes in the market, a player who is a market leader will always be able to charge a little bit of premium and our strategy has been to provide a little bit of headroom because if you go down below the new entrants and then they will go down further, then it becomes a question to say where does it end and if you go by examples in Indonesia, the prices went down to .00001 Rupiah per minute and we do not want it to be headed in that direction.

Akhil Gupta - Deputy Group CEO & Managing Director - Bharti Enterprises

Well Rahul I think the fact is, we are a product of competition. We like competition, there is no way we are wishing that, we have to wish for death of some competitor. Absolutely not and therefore there is no question of this slow death or fast death. I think we would wish them all the best and from our side we love to see competition and there is absolutely nothing that we are trying to do to see that we throttle competition completely.

Rahul Singh - Citigroup – Mumbai

No, I was just waiting to see the old Bharti back again, but one followup question on Indus Akhil, can you quantify the one of items, which were there in the quarter, how much that would be?

Akhil Gupta - Deputy Group CEO & Managing Director - Bharti Enterprises

I think one was on account of the some of the SLA penalties, which were levied for the first time to them. I do not have the exact figure but that should have been well over I think 50-60 Crores for this quarter at least but I can send those figures separately.

Rahul Singh - Citigroup – Mumbai

That is your portion or total for Indus?

Akhil Gupta - Deputy Group CEO & Managing Director - Bharti Enterprises

Full total for Indus.

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Rahul Singh - Citigroup – Mumbai

Okay. Thanks a lot guys.

Hina - Moderator

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

Srinivas Rao - Deutsche Bank - Mumbai

Thanks. I have three questions; first if you could clarify in your calculation of MoU for Bharti to Bharti calls, do you use both the legs for your calculation.

Akhil Gupta - Deputy Group CEO & Managing Director of Bharti Enterprises – Bharti Airtel

Yes, we use both.

Srinivas Rao - Deutsche Bank - Mumbai

Secondly, the tariff plans, which we are seeing right now seem not to discriminate between any off-net or on-net call. Do you expect any change in calling patterns because of this new tariff plan, not just the tariff per se?

Atul Bindal - President – Mobile Services - Bharti Airtel

Srini, this is Atul Bindal and in a way this links back the earlier question, which was being asked for us. The brand and the Airtel advantage is very important, okay? Airtel advantage is built around our network advantage, which is 100,000 towers and we are clearly number one as perceived by customers and partners. Airtel advantage is built and reinforced by our customer service infrastructure, which is plus one and, you know, our technology, our VAS innovation, and everything, but most of all the customer community, which is 110 million strong and it is there really where we believe that the on-net and off-net advantage differentiates Airtel customer where we reward them and we also have a very powerful customer life-cycle management engine, which works from the back-end and so on, so all our pricing strategy is actually geared around how do we differentiate and deliver a superior value to customers who are on Airtel vis-à-vis customers who are not on Airtel and therefore that is the reason why there is a differentiator between on-net and off-net.

Srinivas Rao - Deutsche Bank - Mumbai

Now that you will be, probably as I said over a period of matching tariffs, which will not be able to discriminate that. Do you still expect that? You have seen the share of your internal calls or Airtel to Airtel calls being fairly large and, you know, we have seen that for the industry as a whole also, so is there a potential for change in that pattern?

Atul Bindal - President – Mobile Services - Bharti Airtel

See, I cannot comment on what our pricing plan in the future would be, but our strategy would be to stay competitive with respect to the top three players and much as we have brand and other advantages but obviously we will also not allow any of the newer players to continue to have pricing as an advantage. Pricing as an advantage is not sustainable in the market place and to that extent we would move appropriately at the right time.

Srinivas Rao - Deutsche Bank - Mumbai

Fair enough sir. One more question I had, you know, this is based on again what Idea has also reported on Indus' EBITDA margin versus your own, you know, reporting of your Infratel margin. It seems Infratel has higher EBITDA margin than Indus despite the fact that Indus probably will have a bigger scale. Any comment on what we should look at as sustainable margins in passive infrastructure business?

Bharti Airtel Limited Q2 Ended September 30, 2009**Akhil Gupta - Deputy Group CEO & Managing Director of Bharti Enterprises – Bharti Airtel**

Well, I would definitely not want to give you any kind of guidance, on those margins, but what I can tell you is that in the long run surely Indus must have the same kind of margins as Infratel because the potential for tenancy at Indus is obviously much more with three partners and three captive customers there, so the current margin, which you are seeing on the passive infrastructure side, I think, are definitely sustainable and we expect those to be sustainable for the company.

Srinivas Rao - Deutsche Bank - Mumbai

Thank you so much.

Hina - Moderator

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

Rajiv Sharma – HSBC - Mumbai

Thanks for the opportunity. My question is first on the Indus, as you mentioned that some of the players are scaling back on their investment, so is it somehow impacting Bharti's growth as well because, you know, you will not get two tenants for the towers and that impacts your growth. Secondly, is it Spectrum issue for you of not matching the prices aggressively on the lowest common denominator and not leveraging scale and once you have the spectrum you will be better placed to do so and as you mentioned the top three players, Vodafone, Idea have already started doing it, I do not have the confirmation yet but Vodafone has done it in Orissa, Bihar and also in Karnataka circle today, you know, so Karnataka is a very prime market of yours, so if Vodafone does it, is there a suggestion that you may move to per second billing and these are the two and then I will follow-up with one more question.

Akhil Gupta - Deputy Group CEO & Managing Director of Bharti Enterprises – Bharti Airtel

Okay, let me take up on the Indus one. Yes, I think we have noted some of the statements saying that the CapEx plans of these other operators may be scaled back. My personal feeling is that the scale back is more in terms of expansion into new areas rather than putting up capacities and therefore while I do expect that the passive infrastructure with new towers coming up in the new areas may somewhat slowdown, but I think there is enough demand on two fronts, one is for sharing of the towers of the existing towers and second of towers in the existing areas where people need more, in fact, we are seeing no dearth of demand on these two fronts and as you can well imagine from a tower company point of view, this is the best business because the last business they willingly want to do is expansion into new areas where the second tenants may take a longer time to come. So, in some way from the tower company point of view this is a good news because that conserves their capital, enables them to scale up very quickly and enhance their revenues not at much cost but surely if they all decide not to expand and not to spend any CapEx, I think from Airtel's point of view this is a great news.

Atul Bindal - President – Mobile Services - Bharti Airtel

Rajiv, this is Atul back again. It may not be correct to really isolate per second as a cause or a reason. You know, in fact, what we have seen especially after our launch of Airtel Advantage, the 50 paise tariff, we have had a remarkable shift and positive trend, which is there in almost all our outgoing traffic legs and so on. Also, to your point on the top three revenue players, we do not define those across the whole country, we have a portfolio of different markets and fortunately we have that degree of sophistication in our marketing and customer management, which actually allows us to address different markets not just differently at a circle level but even at a district level and so on. So, it is really at a very granular level that we get focused on the top three revenue players and that is where we ensure that our prices are competitive. Having said that, we obviously would always be examining all segments of the market and should there be a segmental need, which asks for one kind of pricing option versus other, we would certainly find a way to address that.

Rajiv Sharma – HSBC - Mumbai

Thanks for the answer. Just a follow-up. Atul, on the Indus question it is good from a tower company point of view, but does it impact Bharti in terms of rural growth because the towers cannot be, you know, constructed in new areas, which means will you go and do the incremental tower if Indus is not doing it and second, for Atul, I did not really get on spectrum, is spectrum really impacting your abilities to be little aggressive because your networks may get choked up or something like that.

Akhil Gupta - Deputy Group CEO & Managing Director of Bharti Enterprises – Bharti Airtel

Bharti Airtel Limited Q2 Ended September 30, 2009

I think on the second one the answer is absolutely no, nothing is impacting our capabilities, it is just a matter of strategy, so it is not that we have constraints by any of the factors whether it is finances or spectrum or any such thing. On the Indus thing, it is not that Indus is not willing to put a tower, it is more than happy to put a tower and that is why it has been set up for. We are not seeing the demand from Airtel slowing down too much either at Infratel or at Indus, little bit it maybe lesser than last year, but generally it is not so. Also, what I was saying was that it is not that Indus would not build up towers. Indus is free to build any tower, but there could be with the announcement that some players may go for lower CapEx, they might not build more towers in new areas.

Rajiv Sharma – HSBC - Mumbai

What is your timing for monetization of both your towers, Indus and Infratel?

Akhil Gupta - Deputy Group CEO & Managing Director of Bharti Enterprises – Bharti Airtel

Well, I bill the customers every month that is the real monetization for us; if you mean IPO, well we said we will do that in two to three years time. I think we still remain with that view.

Rajiv Sharma – HSBC - Mumbai

Okay. Thank you very much.

Hina - Moderator

Thank you Mr. Sharma. 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 have just got three questions; firstly, coming back to the competition again; you have been pretty clear that you do not need to match the lowest common denominator, but you definitely look to defend the market share. I guess it is a direct question. Would Bharti be looking to match something, the plans which RCOM has out there or you actually do not think these plans are sustainable over the medium term and just to clarify the previous question – did you say yes, you do not have any network capacity constraints to cut the prices further as well, so that is my first question. Secondly, there has been a large drop in the employee numbers, I think it is more like 5000 or 5100, I was wondering what is driving that and is it reasonable to cut staff when the market is relatively competitive. Thank you very much.

Sanjay Kapoor - Deputy Chief Executive Officer - Bharti Airtel Limited

The employee number drop comes by virtue of a) our focus on productivity. As we grow Bharti Airtel we are watching customer per employee and revenue per employee as a very important index of manpower productivity. The other stuff that happened during the last quarter was an outsourcing deal that we did with Alcatel-Lucent on the fixed line and broadband area and that is where there was a transfer of about 4000 plus people into the new joint venture and therefore you see the impact on our rolls for those many people, so that is what contributed to that 5100 number that you have.

Atul Bindal - President – Mobile Services - Bharti Airtel

Sachin, this is Atul, we do not have any network capacity constraints so that will never come in the way of any of the operational strategy that we want to rollout and on your first question while I cannot comment on operator by operator, but I do want to share that the trust, which the brand enjoys in the market place, it is a very powerful driver of customer franchise and, you know, whether off-take takes place or not. So it is really a combination of both price as well as non-price factors, which finally result in the off take, you know, so we believe we are very well positioned vis-à-vis all the various players other than the real disruptive behaviour, which we hope is going to be, you know, somewhat short-lived, which is coming from either the new players or the new circles being rolled out by the existing players.

Sachin Gupta – Nomura - Singapore

Thanks a lot. Can I ask another question then – obviously with the termination of MTN discussion, you also mentioned that you have international growth aspirations that are likely to continue. Is it possible to share some thoughts on any learnings from the MTN experience and plus more importantly what is the management acquisition criteria or any explicit hurdles, which you are set to follow.

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Bharti Airtel Limited Q2 Ended September 30, 2009**Akhil Gupta - Deputy Group CEO & Managing Director of Bharti Enterprises – Bharti Airtel**

Well, I think every experience has its learnings. We learnt more about that continent, we learnt more about some aspects, which obviously are peculiar to every geography, so there were good learnings in looking at that opportunity and that is where I said that our faith in our strategy of going for emerging markets based on our business model gets reinforced. The difference is in the costing whether it is CapEx or OpEx I think makes it a very, very good case. The other learnings and the hurdles I would definitely not like to share with you because should any of those guys who are wanting to sell to us, by listening to them, they would obviously have a competitive and negotiating advantage against me, but it was a good experience. We did realize that, you know if the government of a country feels otherwise then obviously it cannot go through but otherwise I think the whole team learnt quite a bit.

Sachin Gupta – Nomura - Singapore

Thanks.

Hina - Moderator

Thank you Mr. Gupta. The next question comes from Mr. Anirudh Gangahar from JM Financials, Mumbai. Mr. Gangahar, you may ask your question now.

Anirudh Gangahar - JM Financials – Mumbai

Thank you for the opportunity. Two questions; one, if you could provide any kind of guidance on what the average call duration is given everybody is doing ga ga per second plan; any light on that would be very helpful and the second thing is that we are talking about consolidation, any idea from the management whether at the regulatory front in New Delhi there have been moves being made to hasten this process, tweak the rules once again so that we can get over this painful period quickly? Thank you.

Atul Bindal - President – Mobile Services - Bharti Airtel

Well, we do not share any of those details Anirudh but the only thing I can share with you is that their percentage is nowhere near as significant as sometimes what is made out to be, but you know obviously there are different segments, which a market is comprised of and as I said earlier we are watching all the segments of the market, we believe we have a portfolio of different pricing options, which are able to attract the segments in an attractive way and if we need to act to that or modify that, then we would certainly look at that.

Akhil Gupta - Deputy Group CEO & Managing Director of Bharti Enterprises – Bharti Airtel

On the second point Anirudh, well I think there are some talks and consultations at the government level about consolidation and the rules around that, we would definitely be watching them. I think in every market wherever there are large number of competitors these things should be in-built and I am sure over a period of time there will be very clear rules for that, which will be good for the industry. But having said that - you mentioned about the painful time. Painful time as I believe is also - what it does, is it gives a natural consolidation because the players who would have become bigger and healthier and therefore other players would have had to take them out at some kind of a premium. I think the current situation does not permit them to go there, so therefore there is in a way some consolidation already happening but to your specific question I think hopefully the government should come out with consolidation rules including that on the spectrum very quickly.

Manoj Kohli - CEO - CEO & Joint Managing Director Bharti Airtel

Hi, this is Manoj again. If you read the consultation paper issued by TRAI recently, there are questions on consolidation, M&A norms etc., and I think over the next few weeks TRAI will consult the entire industry and get back to DOT and the ministry with its recommendation.

Anirudh Gangahar - JM Financials – Mumbai

Thank you very much.

Hina - Moderator

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Bharti Airtel Limited Q2 Ended September 30, 2009

Thank you Mr. Gangahar. The next question comes from Mr. Shubham Mazumdar from Macquarie, Mumbai. Mr. Mazumdar, you may ask your question now.

Shubham Mazumdar – Macquarie - Mumbai

Thank you for giving the opportunity to ask this question. I have three questions; the first is on an answer earlier Akhil by you on the competitiveness in the market place and the brand strength of Airtel, which obviously should not be underestimated at all, but do you not think that there is by micro market strategy that competition like Tata Docomo is kind of engaging and while you may be leading the penetration and population coverage head and shoulder ahead of competition in the urban market, you know, a lot of that is probably not that meaningful, so just your thoughts with regard to the network quality, distribution, access points, POP coverage those things are not really that meaningful in terms of a differentiator in urban market, which is where the price competition is largely playing out and the rural markets are largely insulated, clearly your thoughts there and secondly, would you be able to give me a sense of what is the percentage of Indian wireless subscriber base that you think are dual sim customers and implications thereof and third, would be on on-net calling plan that you launched, you know, with the Airtel Advantage plan how has the experience been up till now? Are you happy with the sort of traffic patterns that are emerging and do you see the need to make any changes and any thoughts on per second billing as some of your key incumbent peers embrace that much sooner than one would have thought and finally, in terms of mergers and acquisitions, do you not see that as only a medium term driver of discipline and sanity given that not even the rules are out there at this point in time and could well be a 12-18 month distant phenomenon. Thank you so much.

Atul Bindal - Joint President - Broadband & Telephone Services - Bharti Airtel

Shubham, this is Atul here. Let me take the first three questions and I will request Akhil to come in on the last one. As far as micro marketing that you referred to, you are right that someone like Docomo is focused just on the urban market, but I would like to reiterate that the only play that we are seeing from the new operators is that of price, there is nothing else that we have seen as a part of their marketing leverage and we believe that there is actually a lot of strength, which fits on the other aspects, which we bear and we bring to market and that is what we are playing on. Having said that and that also links to the other question, which you are asking, the on-net, off-net price plans that we have launched. In urban market they have had a remarkable traction and in fact we believe that over the last few weeks they have been able to make a significant dent in many of the newer operator plans and if they require to be augmented or modified in any way we would certainly do that, okay? But at the end of the day we do not believe that any operator can play just based on price alone, also independent market research is now suggesting that the customers have begun to face issues of network congestion, recharge pain that they go through especially during the busy hours as well as, you know, call center access and so on and so forth. So, clearly it has to be a holistic package, which is really what wins and what conquers the market.

Sanjay Kapoor - Deputy Chief Executive Officer - Bharti Airtel Limited

Shubham, this is Sanjay Kapoor just building on what Atul said. I think it is a little mythical that urban areas have very little differentiation on many of the parameters that you have suggested. Urban markets have many bigger challenges. The customers in urban markets are lot more discerning. They look for a lot of value addition on not only services, but customer care and after-sales services, they are as worried about the quality as any of the customers in any part of the country and let me try and explain this to you. We operate with 1800 networks and 900 networks everywhere in the country, the problems of 1800 networks in a denser city gets accentuated many times more for the simple reason that 1800 does not penetrate in buildings and that becomes a big challenge and coming from behind as an eighth operator, ninth operator when you go across to a five-star hotel or a multi dwelling unit and tell them you want to rip open their roofs once again to put an inbuilding coverage, they do not even accord you permission and one thing that Bharti Airtel does not share with anybody is inbuilding coverage infrastructure that we have created, just to give you a very vague idea, in a place like Delhi we have more than 1200 inbuilding solutions, I mean, that is a distinct advantage compared to anybody else, so the infrastructure that we have built up the sort of services and the platforms that we have built up are a great advantage and none of the existing players have even reached a stage where they have graduated beyond price as yet to compete or try to be competitive in these areas, so it is a myth that these are not advantages/benefits in urban areas.

Atul Bindal - Joint President - Broadband & Telephone Services - Bharti Airtel

You also asked a question on dual SIM consumption, you know quite frankly, those numbers would vary from market to market but our belief is, it is really plus or minus 30%, so you know the numbers which you see as being reported month on month they could be anywhere from 25 to 35%, it has really gone up in a big way.

Akhil Gupta - Deputy Group CEO & Managing Director of Bharti Enterprises – Bharti Airtel

Shubham, could you repeat on your question on M&A, I really did not get it?

Shubham Mazumdar - Macquarie Securities – Mumbai

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I think eventually consultation will happen and is writing on the wall I am just a little worried about the near or the medium term outlook on impact on financials because even the rules are not framed given the artificial barriers that have been erected in India which impedes consolidation within the existing set of larger and smaller incumbents and the green fields cannot exit before January, February 2011, so in that context do you really see M&A being our driver of sanity and discipline on pricing front from a 12 to 18 months perspective, that is my question?

Akhil Gupta - Deputy Group CEO & Managing Director - Bharti Enterprises

I really do not think so; I think as far as the pricing is concerned, we have already given our views of how it could affect different players. Larger players could have setback in terms of their revenue or profit growth. It is the mid players who are looking for profits and perhaps free cash flows slide down by several years and therefore get from a position where they are just about to make it to a position where they have to wait for another couple of years perhaps. And for the new players who would have expected to come up the ladder quickly they will find it that much more difficult because funding gets more and more difficult, so I guess this is a game which will have to be played out and we are in a good position to play it out.

Shubham Mazumdar - Macquarie Securities – Mumbai

Right. If you would just allow me to squeeze in one small last question, would be the tariffing changes that we are seeing from Bharti itself in October, what sort of an impact do you think that would potentially have on realizations and if you could give a sense of where the market pretty well knows what the negative surprises are, risks are, could you throw some light on what are the positive surprises from here on could be, which possibly the street and the market is missing at this point?

Akhil Gupta - Deputy Group CEO & Managing Director - Bharti Enterprises

Unfortunately, we would not give it because if we do it then there will be no positive surprise left, so I think we will let have some positive surprise at some stage. I know there is a lot of negativity built in at this point in time. I do not think it is fair to count your blessings before they come, but we are sure that what we are planning what we are looking at on a long-term basis we will be stronger.

Shubham Mazumdar - Macquarie Securities – Mumbai

Would you be a natural acquirer in the market Akhil if this continues?

Akhil Gupta - Deputy Group CEO & Managing Director - Bharti Enterprises

We will be the natural winners in the market I can tell you that. I do not know about acquirers, but yes we will be the winners, we will emerge stronger.

Shubham Mazumdar - Macquarie Securities – Mumbai

So you do not see value in acquiring other companies because most of those you can recreate yourselves possibly much more efficiently at lower cost is that what you are saying, do you see value?

Akhil Gupta - Deputy Group CEO & Managing Director - Bharti Enterprises

You know it is pretty cheap thing to try and comment on acquiring other companies when they are not offering themselves for acquisition, so I would refrain from doing that kind of a thing. I think we respect all our competitors and I do not want to start assuming that we are the ones who can acquire and grab everybody, I think as a matter of our DNA we would like to refrain from commenting on these.

Shubham Mazumdar - Macquarie Securities – Mumbai

Okay, thank you so much Akhil and team. Thanks.

Hina – Moderator

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

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Bharti Airtel Limited Q2 Ended September 30, 2009**G.V. Giri – IIFL – Mumbai**

Thank you. Number one, why did your access charges fall and number two, why did your long distance minutes grow only by 0.8% which is well short of what your mobile minutes Q-on-Q?

Srikanth Balachander – CFO – Bharti Airtel

Can you repeat the second question please?

G.V. Giri – IIFL – Mumbai

Normally your long distance minutes growth kind of goes hand in hand with the mobile minutes whereas this quarter it was growing only by 0.8% in mobile minutes.

Srikanth Balachander – CFO – Bharti Airtel

This is Srikanth here. Let me take the first question on the access charges of the company. If you look at the quarter's number on access charges, there are three drivers of what really happens on access charges. One is the off-net on mobile, the second one is international outgoing and termination charges on outgoing calls to international destination and the third one is on telemedia where you know again a lot of outgoing calls do terminate on other destination as well. so as far as telemedia is concerned Srinidhi did explain that there has been a shift in the overall size from voice to data, so to that extent the access charges does not arise on the broadband business, so to that extent it is obviated. As far as the international outgoing and termination charges are concerned, these are very much a factor of commercial negotiations with hundreds of operators across the world and exchange rate also play a strong role in these factors and we have had the benefits of those favorable deals and good movements on some of the rates in the recent past and as far as the mobile business is concerned on access charges there have not been significant shifts in the access charges in Q2 I can tell you that.

David Nishball – President Enterprise Services – Airtel

On the long distance side there are two parts to it; national long distance traffic is up by about 5% that was mostly due to our group business with a combination of pricing and promotional initiatives that we launched within quarter. On international long distance that traffic is not necessarily solely to our mobile growth because a lot of our international long distance traffic is non-group business primarily our global transit business and our inbound business from other foreign carrier partners that terminate traffic in India. There we got a very big quarter and we could only leverage our market leadership in India to help increase our market share in that segment.

G.V. Giri – IIFL – Mumbai

Okay. Thank you.

Hina – Moderator

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

Vinay Jaisingh - Morgan Stanley – Mumbai

Thank you so much. I have three questions firstly on the passive network. If you see your EBITDA coming in from your passive network or from Infratel, it has been close to as much as it was prior to breaking up with Indus, obviously you tenancy has increased from 1.43 to 1.49 and EBITDA margins increased very efficiently. The question here is why has the EBITDA margin improved so much? Is it just because the tenancy has gone up by 0.06 and if yes what are your tenancy ratios expected in the future?

The second question is I think Akhil has addressed that earlier as well about plans in the future for acquisitions. My question is the other way round. Assume you do not get any acquisition at all for the next two years which you think are not accretive, with such a low net debt now and you being cash flow positive, should we expect cash being given to shareholders or should we expect a cash bank being built on your balance sheet. The third question, a very micro question, effective tax rate that is something which has surprised me every quarter, it is a low 10% this quarter, what do we expect in the next couple of quarters? Thank you.

Bharti Airtel Limited Q2 Ended September 30, 2009

Akhil Gupta - Deputy Group CEO & Managing Director - Bharti Enterprises

Okay, let me pass on the effective tax rate one while I think about the answers to other questions Vinay.

Srikanth Balachander – CFO – Bharti Airtel

Okay, Srikanth here again. On the effective tax rate, the first quarter was 14.8% and the second quarter it is 10.8% and as you know most of our business profits are subject to the tax holiday scheme as per the income tax policy of the country. What really varies from quarter to quarter is the foreign exchange gains and losses because these are mostly unrealized but due to the marked to market policy that we follow on to US GAAP accounting we do account for them on a marked-to-market basis and since we are unrealized, really speaking you really cannot take them straight into the tax holiday profit bucket and so on, so the real movement from quarter to quarter if you look at them, you will be able to relate them to the forex charges or the income that goes on the P&L and as far as the effective tax rate, for the company is concerned like I said in the last earnings call, I would say assuming anything between 12 to 14% would be a reasonable assumption.

Akhil Gupta - Deputy Group CEO & Managing Director - Bharti Enterprises

Vinay, on passive infrastructure firstly let me clarify that on page 9 of the quarterly report the figures which have been given for September 2008 and September 2009 are not exactly comparable because you might remember with effect from January 1, 2009, the towers belonging to Indus were given by way of an IRU by all the three partners to Indus and therefore prior to that all the towers coming out of the Airtel's stable were with Infratel and that is why you see a fall in the total revenue as compared to September 2008, so just to clarify that, I do not think you specifically asked

Vinay Jaisingh - Morgan Stanley – Mumbai

No, actually the impressive part of this is, despite all this happening you have reached such an impressive EBITDA, so the question will be other way round.

Akhil Gupta - Deputy Group CEO & Managing Director - Bharti Enterprises

I know. I was coming to that. Firstly I was telling you that the revenue has not fallen. As far as the EBITDA is concerned if you will go to page 11, you do see a big jump in the sharing factor from 1.26 to 1.49 for Infratel. You will also see that the sharing revenue per operator per month has gone up from 32000 to 36000 and that is because when you initially set it up you do not have enough data to charge for the loading, for the premiums so on and so forth and as you go along you get new towers and you start charging these and of course you rationalize your expenses. So that is the very purpose why passive infrastructure companies have been formed and it is my belief that while we have done well on the EBITDA to total revenues which incidentally is also inclusive of the energy charges which are more or less passed through, I do not think we have seen the last of it. The endeavor on part of the teams at Infratel as well as Indus would be to try and improve on them relentlessly but I would say that the margins, which we are seeing here, look sustainable margins to me.

Vinay Jaisingh - Morgan Stanley – Mumbai

Sir, on the tenancy future bit assuming you can replicate 1.26 to 1.49 to probably 1.7 in the next couple of quarters, do we then see margin financing?

Akhil Gupta - Deputy Group CEO & Managing Director - Bharti Enterprises

Well, let me take that as your good wishes for the business but I would not speculate on what that would do to the margins but I guess margins of 46 or so percent, which obviously this is a very capital intensive business are the fair ones to expect, they look sustainable but as you can imagine we are also new in this business, so give us some time to start making some predictions on this but the attempt obviously is to try and see what excellency can be achieved here. On your other question about acquisitions, well merely because we have ability to raise cash or have cash in hand I do not think it will ever prompt us to go for acquisitions. Our philosophy as management is very clear that at any point of time if we do not see good use for capital that we have or the cash we have and we feel that our investors can utilize that better than what we can, we would have no hesitation in returning it to the investors, now what form it would be returned in whether it is dividend or buyback or all I think is speculative at this stage and hypothetical, but I can reaffirm that, that is absolutely the management's philosophy which remains so.

Vinay Jaisingh – Morgan Stanley - Mumbai

Bharti Airtel Limited Q2 Ended September 30, 2009

Thank you so much sir.

Hina – Moderator

Thank you Mr. Jaisingh. The next question comes from Mr. Sanjay Chawla from Anand Rathi, Mumbai. Mr. Chawla, you may ask your question now.

Sanjay Chawla - Anand Rathi – Mumbai

Hi, good afternoon and thank you for the call. I have two questions. One, I wanted to clarify the CapEx guidance that you mentioned which is the CapEx excluding the passive infrastructure which you had given at between \$2-2.2 billion for FY '10, now for the first half you have spent about \$900 million, should we assume that the CapEx would pick up in the second half of the year, that is the first question and secondly wanted to understand what is the \$700 million CapEx that you mentioned on the tower side, does it mean only Bharti Infratel or does it mean Infratel plus proportionate share of Indus, that is the related question. The second question is if you could update us on the status of the convertible debentures issued by BIL to the private equity investors, which was supposed to be converted by September '09 if I am not mistaken?

Akhil Gupta - Deputy Group CEO & Managing Director - Bharti Enterprises

On the tower CapEx 700 million will be in Infratel CapEx plus our 42% share of Indus. I must point out that what you see on the US GAAP results as we are not able to consolidate the 42% of Indus into the US GAAP figures, so the US GAAP CapEx does not come in here and that is why the CapEx figures here and what we are seeing is a little distorted but the 700 million or so which I mentioned relates to the CapEx of Infratel plus 42% of Indus which will not be reflected in these. As far as Airtel stand-alone is concerned I think we are pretty much in line with what we would be doing, say around \$2 billion or so for the full year that is what we expect. There was another question you had.

Sanjay Chawla - Anand Rathi – Mumbai

Yes, on the status of the convertible debentures.

Akhil Gupta - Deputy Group CEO & Managing Director - Bharti Enterprises

Convertible debentures well you remember that there had been some delays in commencement on the real business on account of some delays on IRU. So in consultation with the debenture holders we had offered them to shift the conversion if they so like to a later date based on the March 31, 2010 results which I think most of them have accepted and have opted for, so we would be converting them after 2010 results.

Sanjay Chawla - Anand Rathi – Mumbai

Thank you for the answers, just one more question which I thought just now. Your balance sheet has got receivables, which are declining for the last three quarters, does it reflect any pressure on postpaid revenues among other things.

Srikanth Balachander – CFO – Bharti Airtel

As far as the receivables are concerned I think there has been a tremendous process improvement on the entire billing and recollection cycle from the cash cycle ratios in the last one year and these are clearly showing up in the accounts receivables and if you are talking about the postpaid impact, yes, to the extent that it is predominantly retail business on all the new acquisitions and they are the new expansion of the customer base, to that extent yes, it is certainly showing up. I would attribute the majority of the reason to acceleration of the tax cycle.

Akhil Gupta - Deputy Group CEO & Managing Director - Bharti Enterprises

I think on the last one I must reiterate that the debentures remain compulsorily convertibles, so they are like equity and they remain so.

Sanjay Chawla - Anand Rathi – Mumbai

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Bharti Airtel Limited Q2 Ended September 30, 2009

Alright sir. Thank you very much.

Hina – Moderator

Thank you Mr. Chawla. Ladies and Gentlemen, due to time constraints we are not able to entertain any further questions. This brings us to the end of question and answer session. I would now hand over the call proceeding to Mr. Sanjay Kapoor for the final remarks.

Sanjay Kapoor - Deputy Chief Executive Officer - Bharti Airtel Limited

Thank you friends for being on this call. I assure you on behalf of the management that we remain focused on our customers and market place. While we will remain competitive, there will be no reasons for us to be matching the least common denominator as Akhil said and we will continue to invest in strengthening our differentiation and at the end of the tunnel we believe we will come out winners. So, hope to have you again on the next call at the end of next quarter, thank you so much for joining us this afternoon.

Hina – Moderator

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