

## Earnings Conference Call Transcript

Event: Bharti Airtel Limited Second Quarter Ended September 30, 2012 Earnings Call

Event Date/Time: November 07, 2012 at 1430 hrs

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**Sachin Gupta**

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## PRESENTATION

**Sanya - Moderator**

Good afternoon ladies and gentlemen. I am Sanya, the moderator for this conference. Welcome to the Bharti Airtel Limited second quarter ended September 30, 2012, 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 risks

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that we face. I now hand over the call to our first speaker of the day, Mr. Sarvjit Singh Dhillon. Thank you and over to you, Mr. Dhillon.

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**Sarvjit Singh Dhillon - Group Chief Financial Officer - Bharti Enterprises Limited**

Thank you very much. Good afternoon to everyone from India and around the world who have dialed in today. Joining me on the call today is our senior leadership team comprising of Manoj Kohli our Africa CEO, and along with Africa CFO, Hans. In South Asia, we have the usual team led by Sanjay along with the Consumer and Business Head, Srini, Drew, and Nilanjan Roy, our CFO for India. From the overall corporate point of view we have Srikanth, our Airtel CFO, and Harjeet, as you know our Treasurer and Head of IR. Just to start of it I think everyone already knows this, this quarter the Company crossed 260 million customers becoming the fourth largest mobile operator in the world in terms of customer spread. So that is a feat which we've achieved with only 15 years of operation and I think from an emerging market point of view, it is something that we're very, very proud of.

Going forward now, that 263 million customers are consisting of over 252 million mobile customers over 3 million Telemedia customers and 7.5 million Digital TV customers. The customer base increased by 11% year-on-year. The 250 million mark (wireless customers) is an important milestone and has placed the company as the fourth largest mobile operator in the world (Source: Wireless Intelligence 'Scorecard').

As per the quarter, and despite it being a seasonally weak quarter in India, as a result of our geographical diversity aspect, the fact that we countries and within India having segment diversity, our operational parameters in the quarter have largely been cushioned, so that we have actually a sustained performance over the previous quarter, and that diversity is something that we think is very, very important to ensure that we have revenue diversity.

Like I said, despite the fact that it is seasonally weak quarter on the Indian side for quarter two, our global minutes on the network, just under 3 billion a day and so annually that we have over a trillion minutes running through our network, which is very, very, sizable as you know. Moving on now, I think data is something that we will be talking about for many months and the last few years especially is something we think is now kicking in as you know for investors and for analysts. The last quarter we introduced KPIs in data, especially for the Indian market and our data strategy, which we put in, place a couple of years ago involving stuff that we have invested heavily and continued to invest. We have invested over \$4 billion of capital in licensing in the data networks both in India and Africa. In India we have invested directly in 13 3G licenses and 8 4G licenses, and in Africa we now have 13 3G licenses of which 11 are already operational.

In that respect, Airtel in the last two to three years from our point of view has been in the forefront industry in transforming it from a voice-only to a voice, data and lifestyle company going forward. As you know, for data India has more than 50% of its population below the age of 26 making it one of the youngest countries in the world from an age point of view. And, if you look at Africa the median age in Africa is even younger as under 20 years old. So there is a tremendous opportunity for us to grow as far as data is concerned, and I think the platforms that we have put in place in the last two to three years in terms of infrastructure investment, in terms of licensing is something that we are looking forward to translating into metric, which I will also talk about in a while. Also, just on that, with the launch of 4G LTE in India, we now have now have followed, while we were following on 2G and 3G, we actually caught up with the rest of the world and matching access to technology as the world brings it on.

Let me talk a little bit about the metrics on data as a result of some of the investments we have made. In India today, over 20% of our subscribers are now using some form of wireless data and this line item continues to be our growth, largest growing P&L item. Although it is still relatively small, it serves you and gives you an indication like something which is growing at a rapid pace and quarter-on-quarter we are growing in this by at least 25% in the last few quarters in the Indian market and I think that is something, we think that is something that we can capitalize going forward. We offer 3G services in about 1250 towns now and cities of the country, and in addition to that we already have now over 4 million active 3G customers on the networks.

Last quarter alone, like I mentioned earlier, by carrying 16 billion MBs of data on our network, it was a sequential growth in excess of 25% quarter-on-quarter for the last few quarters. Over 20,000 sites on our network now are equipped with 3G – a growth of over 2300 sites as compared to last quarter. As for 4G, as you know, we have already launched services in Kolkata and Bangalore and more recently now in Pune, being one of the first operators in South Asia for such commercial services. Although it is early stages yet, we will see how it goes on and we have seen in the last few quarters like I said small but significant strides there. As far as Africa is concerned, as I mentioned before, level of growth, 11 countries for 3G services and I am delighted from year-on-year point of view, and for the quarter we have increased data revenue in that area by 35%.

Moving on, just a few developments for the quarter, before I go into the financials. As you are aware, last quarter we announced that we are looking at a committee of directors of the board, looking for opportunity of listing our tower assets and we filed with SEBI in September this year, and we maintain that this business growth is a non-discriminatory business. We think it is strategic priority for us to get the Company listed on a non-discriminatory basis and operational intensity substantially will be enhanced by listing of the Company, which currently is looking at 10% listing opportunity, and offers the combination for sale by existing shareholders and a balance of fresh issue. As you know we are currently engaged with SEBI, looking at various queries that come in. We are responding to them as and when they come in and we hope very soon that we will get a clearance from SEBI to proceed with the listing.

One of the point, I wanted to make is as far as the quarter is concerned, last quarter we did mention, I did mention to you about Qualcomm, and that 49% interest that we have taken for the four licenses in India. We now have this quarter financially accounted for a proportion of the debts about USD \$450 million and that is why you see the net debt there is an increase proportionately for the quarter. Although that's the case, it's a financial accounting, consolidation as a result of JV accounting, but physical payout is

actually on a different schedule over the next year or two. Moving on to one other point, regulations this quarter I think in the past as well as full disclosure the Group, based on the TDSAT judgment and legal opinion has recognized and addressed outstanding dispute on in the inter-connect agreement, and we have recognized about just under INR600 crores of revenue and that is resulting in PBT, net income of INR 345 crores, INR 239 crores respectively in the current quarter and having said that, offsetting that has been the dividend distribution tax. So, overall tax has been impacted positively by about INR180 crores.

Going on to the highlights for the quarter, I will start with South Asia and India. I said, a seasonally weak quarter, a couple of percentage points of traffic growth and from an industry perspective that was the stress that the industry is taking for the quarter is concerned. I think, one other point, I think it is important to raise here that we have seen in the Indian Telecom sector over the last few quarters, abnormally high rotation of churn taking place. I am pleased to say Airtel has taken a leadership position here in the last quarter in trying to recalibrate acquisition costs by ensuring that all products in prepaid have a net landing cost, which is not negative. This has led in turn to retail our acquisition being led and trying to focus on quality growth adds and reducing churns. The market correction has enabled us in the quarter to reduce SG&A costs over INR100 crores as compared to the previous quarter. I think this heightened discipline in customer acquisition coupled with seasonal impact on our customer base, we actually had a negative for the period, but that came with even lower churn. So we have a very good existing customer base loyalty and stickiness is very, very important for us and that market correction is seen as a positive trend in the sector.

I will just move on non-mobile segment. The Non Mobile segments also continue to see steady growth rates- Enterprise segment has seen an over 17% sequential growth at the back of higher market share. DTH segment is uniquely poised to benefit from the Digitization Drive. In terms of investments, this quarter we have invested over 2900 Crores in India and that of adding sites in both 2G, 3G and 4G networks. Our data story continues to reflect in returns, which are increasing quarter-on-quarter.

Moving on to Africa now, and as you know Africa business has been very steady and we have seen a steady straight growth this quarter. Revenues have grown \$30 million in reported currency, about \$40 million in constant currency. That is a 4% growth quarter-on-quarter and 13% double-digit year-on-year. We saw a little bit of seasonal weakness in quarter one in Anglophone, that this quarter has come back, and Francophone continues with a steady straight growth despite Ramadan being there this quarter. There is heightened competition in Nigeria, which has dropped the revenue table for all operators, but I think, from our point of view, increased also our market share.

In Africa now as far as capex is concerned, we have invested about \$210 million and what is really pleasing to see with the steady straight growth that we have had is that we continue to be operating free cash flow positive and this is now the fourth quarter that has been the case. When I mean operating cash flow positives is that EBITDA less capex being in a positive situation and I think that is something that we hope to see continuing.

So just moving now on to global performance, KPIs, revenues were at 202 billion; year-on-year growth of 17% and just under 5% as far as quarter is concerned. Consolidated EBITDA, slightly over INR63.5 billion representing a year-on-year growth of 9% and 8.5% from the previous quarter. The EBITDA margin for the quarter is at 31.3% over the corresponding period last year is down 240 basis points, but for in the last quarter it is up 110 basis points. The net income during the quarter was in excess of INR7.2 billion, which is a decrease of 30% over the same period last year and 5.3% QOQ and as you know that is largely driven by our investments on the capital expenditure, licensing and which is resulting in increased DNA cost and as well as acquisition cost of funding for Africa, which has increased interest cost.

As far as CapEx of our Company is concerned, we invested \$735 million this quarter, clearly in line with our CapEx guidance for the year of 3 to 3.2 billion that we are looking at, in the first half of the year we have done 1.4 billion. Operating free cash flows would be at INR23 billion. On the balance sheet just a couple of points, the net debt is standing at \$12.7 billion as of end of September but that also includes what we have as the acquisition for the Qualcomm debt. So the net debt to EBITDA was at 2.72 times as compared to 2.70 times as the same quarter a year ago. Like I said, that includes the proportion of stake of the Qualcomm debt.

In summary, what we have as overall parameters for the quarter and development parameters for the quarter, some developments that have taken place, South Asia and Africa results. What I will do now is opening back to the floor for question and answer session. Thank you.

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**Sanya - Moderator**

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

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**Suresh Mahadevan – UBS - Mumbai**

Good afternoon. Thanks for the opportunity to ask the questions. Congratulations on a good set of numbers as well given it are a seasonally weak quarter. I have two questions. One is obviously clearly data seems to be suddenly picking up as a non-voice as a percentage of revenues has clearly seen an uptake. Just wanted to hear from you two aspects of it; one do you think this pick up is

sustainable and what needs to happen for this pickup to be sustainable in terms of handset prices or other things. Related to that, how should we think about the profitability of the data business? As in other words, is it fair to say if non-voice as a percentage of revenues improve, does it mean that your EBITDA margins could perhaps expand? So that is one, question number one related to data. The second question, which is an obvious question in the mind of most investors is how should we think about pricing, mobile tariff essentially, because clearly it seems to be that some of the input costs are certainly going up, CPI is running at 10%, you have had the diesel price hike, still mobile operators have not really moved tariffs much. There have been some minor moves. Are we setting ourselves up for a big tariff increase at some point, because clearly all these firms exist to generate certain returns on capital. Sir, just would like to hear your thoughts on how we should view mobile pricing in general? Thank you.

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**Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia**

Let me go one by one and talk about data to begin with. You are absolutely right that data is seeing traction and we have said that in the past that India has a long growth to cover on data and any new ecosystem takes a while before it picks up. Therefore we have to allow 3G and 3G ecosystems enough room to start expanding and that is what is happening. What is interesting is that despite a smart phone penetration not really achieving the targets, in fact the smart phone penetration in the country is going slower than what we envisaged. The data revenues are still growing 70%-80%. We think this can be further accelerated with more and more proliferation of smart phones. We are working hard with all smart phone device manufacturers trying to put together our retail strategy in place and therefore bring about a differentiation in the customer experience on Airtel network versus anybody else. The world is very fast graduating to tonnes of Apps and Apps are what are driving the usage amongst various data users. We observe this data very granularly and are making disproportionate investments into analytics to make sure we understand our customers and can therefore push data consumption much more rigorously as compared to what we are today. To answer your question on sustainability, I have no doubt in my mind that this growth is sustainable for next many years and also the fact that as smart phone penetration in the country goes up you will see more and more traction and we are building platforms, we are building experiential systems to make sure we have an edge in the market. On the profitability of data, data does not get consumed in the peak hours that voice gets consumed. It actually extends itself down to even early hours of morning and very late hours of night and therefore the network utilization becomes better with consumption of data and therefore inherently it has a design where it can give you better profitability. However, what is required is proper pricing which probably is not in order today. There is a dysfunctionality on the dysfunctionality in the market world over you see 2G and 3G prices are inline, however in India because of hyper competition 2G prices came down to a low well actually they cannot make too much money for anybody I believe that this will get corrected as we progress and when that get corrected and the fact that data will actually have a longer peak hours compared to voice, it should inherently give us better margins than voice does. Let me come on to pricing and tariffs also there are no interconnects on data. There is a flow through that happened on voice, which does not happened on data so that is also adding to the margins.

On the pricing, I think we have never minced words on this to say the current tariffing is not going to support all the levies that are going to hit the industry in the near future and have already hit the industry and therefore I think some initial results are on the cards where operators are being forced to shut down circles to begin with. I am sure of this trend continues many of them will have to shutdown shops completely, because this level of tariffing is not sustainable by any standard. We do believe the tariffs have to go up. There is enough and more representation that the industry has made on what type of hikes are anticipated and we support that we are a part of the industry have supported all those documents. Also there is a lot of independent study that has happened, which is also in circulation and we are supportive of those as well. So, I think that gives you ballparks of what sort of tariff hikes are required but, but however I think once these auctions are over some measures will come into place where I think some tariff corrections will start showing on the surface sooner than later.

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**Suresh Mahadevan – UBS - Mumbai**

Sir, is it just a quick follow-up, Sanjay. Thanks for giving such a detailed answer. A quick follow-up on pricing, as market leaders since tariffs are forbear and should not Bharti be leading the way as opposed to waiting for things to happen because certainly as you rightly said input costs are going up, regulatory costs are going up and clearly I think returns are in everybody's mind, right now?

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**Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia**

Suresh, here I will give a little balanced answer to say, we led the way last time the tariff hikes happened about a year and a half back. Some operators followed and the other took much longer. We lost a little bit of traffic market share at that time. So, I think we will weigh circle-by-circle tariff increase strategy and then take a call; however, we have never shy being leaders to take lead in this area and we are looking at various permutations and combinations to see how this can happen. The issue is not around the rack rates or the stated tariffs. The issues are more on discounting that happens below the line because although the tariffs that are stated by operators are closer to 1.2 paisa, 1.3, 1.5 paisa in some circles what flows down is 0.35 paisa or 0.36 paisa on a voice call and the discounting happens by way of various tariff vouchers that flows. I personally think that is where the correction is required and we look at this like of we will come out with whatever is required to take the tariffs up. That is one. The other thing is that I believe that once all the players are more certain about where they stand, whether they have the licenses, do not have the licenses some semblance will return because of tax certainty also returning back.

**Suresh Mahadevan – UBS – Mumbai**

Okay, thank you so much again Sanjay and all the best for the next quarter.

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**Sanya - Moderator**

Thank you very much Sir. The next question comes from Mr. Rama Maruvada from Daiwa, Singapore. Mr. Maruvada you may ask your question now.

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**Rama Maruvada – Daiwa - Singapore**

Good afternoon two questions from me. Firstly, with regards to access charges in African business, I was just wondering the trends they have fallen sharply this quarter. If you could elaborate on what the drivers there are it will be good. The second one is with regards of the Indian business in particular the one-off that you saw on the revenue front, if you could break it down into what is the contribution on the EBITDA? Thank you.

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

Mr. Maruvada, Srikanth here and I will take the question first on the Africa side. The access cost on the one Africa as you see you have seen the movements in this quarter. It is a reflection broadly of the overall ecosystem that is evolving in our business with much more on the traffic, which is coming on as a result of our sustained efforts to increase our customer base and also increase the loyalty within the customer base. So the results are paid off, and I am not making forward projections, but I can say that we have been pretty pleased with the developments of this quarter. There are a few developments in some countries to revise interconnecting charges but these are all working in process as we speak. So, as far as the India impact of the favorable order, which has come from the TDSAT ruling on an outstanding dispute in respect of interconnect agreements, based on the TDSAT judgment and independent legal opinion, we have recognized in our accounting for this quarter, the impact for the prior period. The revenue, which has been taken up is 586 Crores that is 5860 million and as far as we had disclosed in the notes in the MD analysis I am sure you would have seen it. We had disclosed that there is a higher PBT flowing in because of this to the extent of 3,448 million and obviously the revenue recognition for a prior period has got an inbuilt element of interest flowing into that as well. So, broadly speaking I leave it to you to estimate how much would be the interest built into with PBT and will back towards the EBITDA but if you take a number of about 250 Crores that would be reflective of the impact there.

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**Rama Maruvada – Daiwa - Singapore**

Thank you and one just follow-up, just managed to catch my breath out here, on the second one with regards to the 5.8 billion revenues recognition, could you categorize it into the Mobile as well as Enterprise division in terms of what is the order of magnitude you have booked on both those lines and also with regards to my first question on the interconnect side. Has there been any reduction in interconnect rates this quarter that could have driven the cost down or is it or should we look at it in a slightly different way?

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**Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia**

The whole of this revenue is attributable to the Mobile business and because it is an interconnect agreement therefore there is no charge payable to somebody else as the charge that was payable to us. So yes but there is an access as well that happen so I truly do not know how else to answer this question. Yes, this is an interconnect on a SMS and therefore we payout and we receive so it has both impacts.

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**Rama Maruvada – Daiwa - Singapore**

Understood.

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**Sanya - Moderator**

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

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**Sachin Gupta – Nomura - Singapore**

Thank you very much. My first question is on Africa. Obviously you have had a fantastic growth in volumes on the traffic in the current quarter, and also the prices are come up as well. So, I was just wondering are there any people markets where the trends are there any particular markets where these trends are more pronounced or that are just an Africa-wide trend. Any granularity on that would be appreciated. Secondly, just a very general question, I think if you look at your reported profit, the underlying profit in the past 10-11 quarters now they have been consistently declining and I understand obviously there are FX issues or interest or the amortization. But is that the metric the management is closely observing? I guess I am just trying to what is actually happening below the EBITDA line and what is being done to address that? Thank you.

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**Manoj Kohli – President – Bharti Airtel Limited**

Sachin, this is Manoj. Let me start with the first question in the last two years, we have been hesitant in experimenting with major elasticity test across our African markets, just as we did in India and we were very successful in India. This quarter, we have experimented two or may be three ideas of checking elasticity of voice in our customers and initial results are gratifying, are positive. We wanted to do these tariffs without dropping tariffs because we felt that has doing creatively. Let us see how customers react to that and it was a positive reaction over a period of time as our cost structure comes down, per minute cost structure comes down, we will start bringing in more affordability in Africa. So, let me give you the positive news here that the results are very good, the traffic has gone up by 20%, MoUs 120 to 138 with is a major increase in Africa and we are seeing this in many markets, Anglo, Nigeria, and even one or two Franco markets and these schemes have not been launched in all the markets yet, but definitely by December it will be in all the markets and I think it is a good positive shift of testing elasticity while maintaining the ARPU which was the very important precondition of these schemes.

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

On the question that you have asked about the declining EBITDA trend and what are the profitability and what are the metrics one would suggest? I think it is a general question and I think you would permit me, if I answer in the general basis rather than a specific answer for this one. For a company like Airtel with a multiple geography exposure and with the kind of span we have, we do have a lots of balanced measures, which include external, market facing and customer facing metric as well as internal profitability on return metrics and therefore it would be appropriate to say that we look at our entire performance in a balanced manner over the years in both in terms of our market standing, market competitiveness and our profitability measures as well. As far as the declining profitability comment that you made, let us look at it not just in terms of EBITDA, but also in terms of the investments that we have made in the data business in India for example which is on 3G and 4G. Both on the licenses two years back as well as the capex following the licenses as we introduce the products and services into the market and again in Africa after the post the acquisition of Africa we invested in our capex in our network and then rolling out our brands and then rolling our customer base to almost 60 million customers today from the number of 35 – 36 million that when we took over. Again we have had major investments in the Network in Africa as well and the depreciation amortization and the financing cost of all these investments have had an impact on the overall profits and profitability. But overall I just wanted to say that looking at the company's performance in a balanced manner of both external markets facing, customer facing and internal financial metrics would be more appropriate. Thank you.

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**Sachin Gupta – Nomura - Singapore**

Thank you very much.

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**Moderator**

Thank you very much sir. The next question comes from Mr. Sanjay Chawla from JM Financial, Mumbai. Mr. Chawla you may ask your question now.

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**Sanjay Chawla – JM Financial - Mumbai**

Good afternoon. Thank for the call. I have a couple of questions. One is your SG&A cost in Africa has grown quite faster this quarter. So, my question is and of course you made some savings in the India side in the India business but in Africa are there any one offs, which you would explain that? Secondly, your enterprise revenues have also shown very strong growth this quarter. My question is how much of that could be taken as temporary or cyclical and what kind of a sustainable revenue increase, one should see in that particular segment? Third is a quick question on your Manesar NEC facility. Obviously, you have booked some capex and opex related to that so my question is has this facility being operational for the entire second quarter which you reflecting in the opex?

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

I will take this question first on the selling general expenses in Africa was that your question?

**Sanjay Chawla – JM Financial - Mumbai**

Yes

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

So, if you look at it as a percentage of the gross revenue, I think it is very much inline number one and number two I would say if you look at it over a period of two quarters, you would find that it is actually very much inline with the overall productivity that you would look at. There are some timing issues especially inline with marketing campaigns and some typical events that may happen. That we would like to support and sponsor and advertise so these are things, which may come at different points of times. But the overall speaking if you look at the way we are managed our opex efficiency in Africa, this quarter, I think it is a good evidence of the way the incremental margins come through and the incremental EBITDA has been achieved. I would say it has been very satisfying as far as the cost efficiency measures are concerned.

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**Drew Kelton - President, Enterprise Services - Bharti Enterprises Limited**

Drew Kelton here from Airtel Business; we have very pleasing results for the B2B business this quarter. A couple of comments on where we go especially the business had a very aggressive profile in this year for annual operating plan, and unlike the consumer business Q2 for us is not a seasonal weakness in quarter one. We actually see more working days in the Q2 than actually Q3. So the business has had a good mix of its global operations, its global voice, its global data and its enterprise data, all-contributing towards the INR200-odd crores growth quarter-on-quarter. We are trading ahead of where we had expected to be. So there are some incremental revenues there due to some of the seasonality volumes, but we expect to see a continued growth in the business throughout the year and we expect to meet our annual operating in terms of growth trajectory.

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**Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia**

Let me answer your third question on Manesar facility. The Opex on that facility is very nominal. I think taking it in a quarter full-year partially actually does not change anything. So, I would say, we should not get overly worried about it.

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**Sanjay Chawla – JM Financial – Mumbai**

Ok thank you very much.

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**Sanya – Moderator**

Thank you very much. The next question comes from Mr. Rohit Chordia from Kotak Securities, Mumbai. Mr. Chordia you may ask your question now.

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**Rohit Chordia – Kotak Securities - Mumbai**

Thank you. My first question is on your on net trajectory in Africa if you could just talk about how was the on net proportion track. If you could some numbers, it is great otherwise if you could just talk qualitatively about this? Second, you have seen a very good growth in Bangladesh and Sri Lanka this quarter. If you could just share some thoughts on what is happening in these two countries? The third one if you could just share your thoughts on what is the voice volume growth potential left in Indian markets from a three to five year perspective. These will be my three questions.

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**Manoj Kohli – President – Bharti Airtel Limited**

Okay, Rohit, let me start with the Africa question? On net in Africa is improving quarter-after-quarter. I cannot give you specific data what percentage in this but there is a very good improvement every quarter including this quarter. Thank you.

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**Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia**

Rohit let me get down to Bangladesh and Sri Lanka. The issue is that we do not declare the details of these two entities; however, all I can tell you is that we have been investing in increasing our coverage and reach in Bangladesh and there is a healthy pickup on customer additions in that markets. I can assure you we are gaining on market share coming from behind and that is what I can tell you about Bangladesh for now. In Sri Lanka in particular, we had gone behind a data capability building strategy because we have 3G spectrum there and a 3G network there and also we made investment in the network especially in the Eastern and Northern part

where it was infested and we were not allowed to cover earlier. I must say that we have gaining of both counts and we are gaining share in that market as well. So, both Bangladesh and Sri Lanka are doing well and we are gaining our share in those markets, but we must appreciate that we are coming from behind virtually as the last new entrant in those markets. As far as RPM for next three, four, five years is concerned is very difficult to crystal ball gaze. RPMs are always a function of the market structure and market behavior as much; however, the current economics strongly suggest and also the overhang on the industry in terms of various levies that the tariffs should begin to move northwards sooner than later and given the inflation in the parts of the world that we operate, it will absolutely be non-prudent if we were not to correct these prices as an industry. For most of the operators in the industry we all know they do not even cover the marginal cost from the pricing that prevails. So, I guess I will be very surprised with over the next period and I do not want to say three years, four years, but I think in the foreseeable future the prices need to correct themselves drastically from where they are today.

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**Rohit Chordia – Kotak Securities - Mumbai**

Sanjay, my question was really on why this volume growth potential. Thanks for you sharing your thoughts on RPM, but my question was on voice volume growth potential in India over the next three to five years. Do you think there is enough left for the industry as a whole. Of course we can talk about market share but is there enough voice volume growth less for the as a whole?

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**Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia**

Rohit, if you look at the number of customers and I can go with the past experience over a here the number of customers that we have added in the last two three years have been phenomenal and even while adding those customers and picking up customers from rural India, the minutes of usage have always still at an average remained over 400 minutes and that clearly suggests that there is a in very embedded demand that sits there. Do not forget that rural India still 40% penetrated and before they start picking on data there is a lot of voice to be covered. The second phenomena that would be worth your while are that we have seen as any towns; village or community of interest gets populated. There is at least a 15% to 20% propensity of usage increase because as I start penetrating those markets to go to 20%, 30%, 40% penetration the users per customer's tends to go up and rural India still 40% penetrated. So, yes, in terms of share volumes, I think they are still a game, and seeing the Indian behavior despite of data, we are not seeing that the volumes are falling between below 400 minutes per customer even with 950 million SIMs in the country.

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**Rohit Chordia – Kotak Securities - Mumbai**

Thank you. Congrats on a strong quarter.

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**Sanya - Moderator**

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

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**Vinay Jai Singh – Morgan Stanley - Mumbai**

Sir I want to ask two questions. First on the passive infrastructure business are being done well revenue and EBITDA growth of 6% and 9% sequentially. I assume the cancellation pain is behind us how do we look at this business in the next couple of quarters? Is there a way of us understanding when data grows how does the tendency grow out here? Also it seems there has been some loading impact on the revenue growth has been great not including the pass-through's. So, some light on the passive business would be great. Secondly, in the Airtel business, again we have seen a good revenue growth of 20% odd maybe low margin business but if you can throw some light on this. That will be great as well. Thank you.

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**Sarvjit Singh Dhillon - Group Chief Financial Officer - Bharti Enterprises Limited**

Good afternoon. As far as the Tower business is concerned, I think, you know, the business model very well. The business model is that an annuity model. So you won't see really great steps or inclines as you may do in other businesses. And this is a recurring business for us. So, you are seeing consistently between lower, mid and almost double-digit both from revenue and cost parameters, other operating parameters and as we get more, more tenancies those go on additionally. So from that point of view, I think I consider it a steady state business and I cannot see it being very different from what you are seeing already in the last few quarters going forward, and it will continue to be going the way it is.

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**Drew Kelton - President, Enterprise Services - Bharti Enterprises Limited**

Let me just give you a quick flavor of we are going to look at the business, we look at to release free launches, we look at our global voice operations, our global data operations and our enterprise from government. And the growth has actually been pleasing portfolio playing across all the segments. So it is roughly spread about INR150 Crores through the global operation at INR50 Crores

with the enterprise in government in this quarter. Now, we had built an aggressive plan for this business to business to start creating positive trajectory. We are now seeing sequentially four quarters of growth but this has certainly been the most successful in terms of volume uplift in all parameters. You comment on the margin and we have always said that we must look at this business holistically across the annualized view rather than the quarterly view because we have some large puts and takes that go into the quarter's numbers. We are confident of uplifting the EBITDA margin as the year plays out and we will continue stable growth for this business.

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**Vinay Jai Singh – Morgan Stanley – Mumbai**

Thank you so much sir. If I can just add one more question to Sanjay Kapoor, on the costs of the access charges, which I think to gone up this quarter Sir if you could throw some light on that that will be great?

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**Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia**

It is essentially around the mix and the one time impact that we spoke about.

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**Vinay Jai Singh – Morgan Stanley – Mumbai**

Sanjay, even if you remove the one time impact, it seems to me that the overall access charges have moved up by about 150 or 200 basis points so that was the reason for the question?

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

Vinay, I think your comment would be right because you have to also look at the fact that the Airtel business has had a higher proportion of the growth of revenue comparatively relatively speaking in this quarter and the Airtel business is usually associated with higher interconnect and inter-operator cost.

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**Vinay Jai Singh – Morgan Stanley – Mumbai**

Thank you so much.

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**Sanya - Moderator**

Thank you very much Sir. The next question comes from Mr. Sachin Salgaonkar from Goldman Sachs, Mumbai. Mr. Salgaonkar you may ask your question now.

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**Sachin Salgaonkar – Goldman Sachs – Mumbai**

Thank you for the call. I have two questions. My first question is on the potential tariff hikes in India despite the headline tariff hikes in August last year; we did not see Bharti or any other operator actually move up their revenue per minute since then. So the question is with several operators big and small still aggressive in the market, will the revenue per minute increase lead to revenue increase or to that matter turnout into a non-event to company financials if we actually continue to see below-the-line discounting offers. Second question is on Africa any updates on what is happening on the Econet case last we heard was the Lagos High Court rejecting Bharti's appeal and Econet claiming about 3 billion of value so any provisions Bharti intends to make with respect to that. Thank you.

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**Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia**

I will give an answer for your first question around tariff hikes. I think, we have been saying that very openly to say the headline tariff hikes are not going to result into a flow through if discounting does not stop at a voucher level or at acquisition level. If you were to go today and figure out what the acquisition tariff cost compared to the headline tariff, they probably prevail at one fourth or one fifth the price and therefore the rotational churns there in the market and therefore nothing flows through. The other is the special tariff vouchers that sell in the market, which sell at the deep discount and that is where the 10 paisa minutes and 5 paisa minutes actually prevail in the market and they all lead to a big dilution of the headline tariff and therefore what you see flowing through is 40 paisa, 41 paisa, 42 paisa for operators and some of the newer operators are even at 30% - 40% discount on those. So, clearly till this stops nothing is really going to change and that is where discipline has to come in. I am happy to note that at least in the move that we initiated on August 1, where we brought in semblance around the lending price of new vouchers in the market place or new cards in the market place, at least rest of the industry followed suit slowly and there was semblance and therefore you see negative net adds reported and therefore the rotational churn coming down. I think that is a good sign. If these trends continue I am sure there will better pricing that will prevail in the market and that is how tariffing will begin to yield better results for all operators. I think

your guess is absolutely right the solution here does not lie in raising the headline tariff, but lies in maintaining better discipline and killing the arbitrage that sits on the table for customers because of which such a huge churn prevails in the market.

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**Manoj Kohli – President – Bharti Airtel Limited**

Sachin, coming to your Nigeria Econet question, actually we have no concern whatsoever on this matter. Actually this case, which you are referring to as broadly, accepted that our stake is safe. We still are in appeal in two courts, Lagos and another Nigerian court that is subjudice. Let me reassure you that 65.7% of Bharti Airtel Stake in Nigeria is absolutely safe. There is no impact of any of these legal cases on Bharti Airtel's stake at all. Please rest assured on that.

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**Sachin Salgaonkar – Goldman Sachs – Mumbai**

Manoj very clear. Just a follow-up question on this is what could be the worse game outcome as in any potential payments being made or maybe the stake of Bharti reduced slightly?

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**Manoj Kohli – President – Bharti Airtel Limited**

No, I cannot say anything like that. Nothing has been done. Both the cases are in the court. We are fighting the cases and we are optimistic on this matter and our stake is absolutely safe.

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**Sachin Salgaonkar – Goldman Sachs – Mumbai**

Okay, got it thank you.

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**Sanya - 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.

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**Reena Verma – Merrill Lynch - Mumbai**

Thank you very much for the call. Two-and-a-half questions from me. Firstly, on your whole effort around the acquisition cost, Sanjay, please can we get your thoughts on how are you seeing the sector movement, the couple of months into execution because your numbers suggest that your SG&A cost has fallen a lot less than those of some of your other peers while your gross ads have grown better than their's. So I am just wondering whether we are again battling a fragile balance here. That is my first question. My second question is if you could please offer some color on the regulatory situation in India? Do you think we now have certainty on most regulatory issues if not or what else do we need to look out for and my half a question of housekeeping is for Srikanth two things, one is did you mention 250 Crores as the EBITDA impact of the one time recognition for this quarter? Why did your tax rate for India jump so substantially even adjusting for the dividend distribution tax? Thank you.

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

Reena, Srikanth here. I will take the two-quarter questions. The first question on the 250 Crores impact on EBITDA, yes, it is 250 Crores. As far as the tax rate is concerned, Reena as you are aware every year as you go along the quarter, you perfect your estimated annual tax rate. So, I would invite you to look at our first-half tax rate in India and South Asia, which is concluded at 27.7% and if you knock down the Indus distribution tax, it comes to an effective tax rate of 26%, which is more or less inline with the guidance that was given or the forecast that was provided the last time. For your information the full year tax rate of India and South Asia last year was 24%. So, as you go along the quarter, the annual estimated effective tax rate is projected and it has taken up in the provisions. Having said that why did we have this variation between the two quarters? You do have the variations based on the deferred tax projections that are done. And deferred tax projections are on the estimated basis, number one, because of actual timing differences that happen, which are taken up, which is pretty straight forward, but when it comes to tax holidays and when it comes to movements which happen because of forex we have to factor in those as we go along the year.

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**Reena Verma – Merill Lynch – Mumbai**

Srikanth, that was very clear. Thank you very much.

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**Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia**

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Reena, after the quarter one let me attempt the full question. The first one on acquisition cost and I understand where your concern is coming from. Let me upfront state that you should not be worried about us guys trying to spend anything extra on acquisition mark-to-market. In fact just to give you a bit of comfort on that while putting a constraint and putting in no negative lending on the products in the marketplace actually Bharti Airtel during the quarter on gross adds shed a percentage point or two, right. So, we did not gain from the market on gross adds. We actually lost out, which means we were as tough or more as compared to the market. Now why do you see your acquisition cost decline of 106 Crores, which probably on per acquisition does not seem inline with the market for two reasons. Our share of dongles in the market and our share of postpaid in the market are differentially higher and the payouts over there are much higher compared to the prepaid. So, you simplistically divide it by prepaid whereas the market is a little more complex in that and that is why you see what you see but on prepaid mark-to-market, which is mass markets, we are absolutely inline of lower than the market. In terms of the regulatory certainty, well there are still a lot of unanswered questions prospective versus retrospective, onetime charges, refarming. All these are unanswered to me as much as they are to you, but I hope that over the next couple of weeks, all these will be behind us. At least that is what one is hearing. I think the only certainly that all of us are sure of is that auctions are happening on the 12th and the number of players who have gone in submitted how much of money and finally that the reserve price holds at 14,000 Crores. So, I think this is the certainty rest all the figure outpost there of auctions.

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**Reena Verma – Merrill Lynch – Mumbai**

Sanjay thank you very much. Just on the reply about the gross adds when you are talking about the loss of 100 BIPS you is talking in market share terms not in terms of growth, right?

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**Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia**

I talked about the gross adds the total gross adds that prevail in the market and what proportion of that we get. You see this swing very quickly. The moment you start throwing extra money in the market the gross adds begin to swing and therefore you always keep a check in the market as to you throwing too much money, not throwing too much money specially an operator like us who will be present in every looking corner of the country. Just to give you a little more comfort, Reena on this one this acquisition cost trend that will started in the August 1, I am glad everybody else saw merit in what we did and came and followed us. In fact of late even lesser players have come in almost done some corrections, which is good for the industry and therefore even if the gross adds are negative we will see the VLR ratios are improving for big operators, which is telling you good customers are sticking with bigger operators. But what should give you respite is that from November 9, a new acquisition policy is being put in place by DoT, which is a very stringent policy, where every customer and not a sample-based has to be verified telephonically and also every acquisition form has to be signed by a company employee, not an outsourced employee. Right now all of us have been busy putting this process in place, hiring people and this is a fairly large number of people that we have hired and trained, but we believe that the amount of savings that will accrue because of this on S&D will far outweigh the small manpower expense and process expense that we will put in place.

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**Reena Verma – Merrill Lynch – Mumbai**

Sanjay, thank you very much and hope to catch up again.

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**Sanya - Moderator**

Thank you very much Madam. The next question comes from Mr. Srinivas Rao from Duetsche Bank, Mumbai. Mr. Rao you may ask your question now.

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**Srinivas Rao – Duetsche Bank – Mumbai**

Sir I have two questions. First, on your organization actually both Africa and India, some time back you had a fair amount of organizational restructuring. I think it was called One Airtel. I mean we know that it has done so if can throw light has to how things are progressing on that front. And on the Africa side we had a new Nigeria CEO. So, Manoj, could you comment what has happened? I what should we read given that in sometime back I think the Kenya CEO, Mr. Rene Meza, resigned and you had a new person there? That is the first question. Second question on pricing, Sanjay is it do we interpret it correctly that you believe data tariff should also go up. That is something, which I wanted to check because you said the pricing is dysfunctional. And on a related issue do you think that growth in data is what will lift all the boats or at least all the incumbent boats? That is the two questions.

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**Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia**

So Srinivas on the first question on the organization change that we did on August 1, 2011, where we collapsed the organizations that were build around various technologies to a customer centric organization and after that we built the B2C and B2B organization, which looked across all businesses all across the country. Well, I must say that any learning or any change of that nature takes a

year to settle down but I am very happy to say that synergies are now flowing in for all lines of businesses because it is a common organization that caters to all lines of business including DTH, fixed line, broadband and mobile. And we have one Chief Minister so-called in every state, which is our CEO for that respective geography, who caters to all those business. It is one executive committee that runs the whole show and even at zonal level, the organization has been amalgamated. This obviously gives us synergies of processes, synergies of real estate, and synergies of go-to market, retailer, distributors and also systems. So, I think overall after about a year's gestation and settling down period we are now looking at some positive results out of this and we believe that this is the right structure to follow going ahead.

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**Manoj Kohli – President – Bharti Airtel Limited**

Nigeria, Srini, you know we have completed our first phase of restructuring in Nigeria, and that was led by Rajan who went from India and that has been a good successful phase. The second phase deserves a strong Nigerian marketing leader and that is what was behind Shegun coming in. Shegun was the Managing Director of Coca Cola, which is more than a billion dollars of revenues in Nigeria. He understand the roots of Nigeria, each stage of Nigeria, the markets area, consumer trends etc., very deeply and objective is to have the Nigerian leader lead the Nigerian business because if we have to really get ahead and gain market share in Nigeria a deep insight of Nigerian market is a very important for us so that is the reason for his change.

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**Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia**

Srinivas, I am getting down to your pricing question on data. I thought we were clear that actually it is the 2G data pricing which is actually not realistic and represents the right costs in the market. I think it is far cheaper than what it should be for anybody to run that business profitably and therefore it creates an arbitrage between 2G and 3G, which is not the case in most parts of the world. So, I think the 2G tariffing on data needs to be lifted up, so that 2G and 3G are aligned together and that is the right thing to do; however, the amount of data that has been thrown in through various schemes even on 3G is not sustainable in the long run. The world has learned that unlimited packs do not make any network around successfully in the medium-to-long run and therefore I think those corrections over time will also happen. To give away 6GB and 8GB and 10GB of data on 3G is not sustainable. So, the movement you start to correct the volumes, the pricing automatically will get corrected for the packs. So, I believe both 2G, 3G in the long run will need correction to be realistic and to be profitable; however, I think your guess is right that data will be a fast growing line item for any serious and long-term operators in the market. Voice will continue to grow in rural India and of course as and when consolidation happens this is the market which has multiplicity and duplicity of SIMS, given minutes with consolidation will return to the players who will be a part of the consolidation structure.

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**Srinivas Rao – Deutsche Bank – Mumbai**

Fair enough. This is helpful. I have one more question in your India versus Africa subset what you call I would say top-level question. If I look at the let us say the multiplier of the revenue and the multiplier of the number of sites I mean I am just using that as a metrics so you have approximately in India eight times more sites whereas Africa have somewhere around 2.5 times more revenues relative to Africa. Manoj is there something, which of course, even though they are two well, Africa and India have different demographic and different population disparity but do you think these ratios should move up? I mean, converge over a four-year, five-year period just wanted to understand the big Africa opportunity over a four-year period.

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**Manoj Kohli – President – Bharti Airtel Limited**

It will converge and it can converge. If I am able to export spectrum from Africa to India. Not possible? It is all a spectrum issue. In Africa each site caters too much, much bigger spectrum capacity hence can cater too much more traffic. India the same site caters to nearly 40% / 30% of capacity, which African site can do. So African sites, very frankly, we do not need as many infill sites in Africa because actually the capacity is so much we just have to put in some TRXs and we build capacity and in India we go up to 8-8 in Africa we go up to 15-15-15 or even more. So, it is just plain simple spectrum there is no other rocket science.

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**Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia**

Also Srinivas you got to keep in mind that there is a factor of lines that gets consumed the minutes that an Indian consume is 400 plus and minutes that African is consuming as 130 so that adds on to the whole traffic requirement as well.

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**Srinivas Rao – Deutsche Bank – Mumbai**

Okay fair enough. This is helpful thank you so much.

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**Sanya - Moderator**

Thank you very much Sir. We will now take the last question from Mr. Shobhit Khare from Motilal Oswal, Mumbai. Mr. Khare you may ask your question now.

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**Shobhit Khare – Motilal Oswal - Mumbai**

Good afternoon. Thanks for the opportunity. Just a couple of questions left one is on the mobile traffic which was a decline of 2% quarter-on-quarter. I just wanted to comment on whether we performed better than the industry because clearly a competitor numbers were much lower that is first and second is on Africa so specifically for Nigeria we have seen some negative commentary from your competitors on the pricing side. So, has there been an adverse move in the second quarter and could it impact RPMs going ahead?

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**K. Srinivas - President, Consumer Business, Bharti Airtel Limited**

This is Srinu here. The number of minutes that we came down by this particular quarter is about 5.1 billion minutes, which at least some of the declared results all that I can say is the rate drop that we had is significantly lower than what we have seen on some of our competition in the industry and the in fact if I measure my own traffic market share, we see that it has slightly gone up significantly. So, I would suggest that actually it is the other the other way around.

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**Shobhit Khare – Motilal Oswal - Mumbai**

Got it Sir.

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**Manoj Kohli – President – Bharti Airtel Limited**

Coming to Nigeria, Shobhit. You are absolutely right the table has fallen because the market leader in Nigeria has dropped the tariff by 30%. Luckily for us our tariffs already were lower than the market leader. We have dropped as much smaller and therefore we are not seeing much impact. Our revenues are reasonably stable last quarter versus the major fall, which the market leader has reported. I believe the elasticity, we will have in Nigeria will be very good and healthy because maybe the quantum of the high value customers, we have is less than the quantum of high value customers with the leader. So, we are optimistic we are gaining market share in Nigeria last quarter we gained this quarter again we will gain and I am sure these challenges we will face very well.

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**Shobhit Khare – Motilal Oswal - Mumbai**

Thanks a lot sir and all the very best.

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**Sanya - Moderator**

Thank you very much sir. At this moment, I would like to handover the call proceeding back to Mr. Sarvjit Singh Dhillon for the final remarks.

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**Sarvjit Singh Dhillon – Group CEO – Bharti Airtel**

Thank you Sanya. Thank you for everyone who has joined the call today both in India and like I said around the globe. I know we have been competing with a certain US Presidential event today, but I appreciate you calling in today and thanks to the Airtel management as well and I will see you in the first week of February. Thank you.

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**Sanya - Moderator**

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