

Bharti Airtel Limited Second Quarter and Half Year Ended September 30, 2008 Earnings Call

Earnings Conference Call Transcript

Event: Bharti Airtel Limited Second Quarter and Half Year Ended
September 30, 2008 Earnings Call

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CORPORATE PARTICIPANTS

Akhil Gupta
Deputy Group CEO and Managing Director of Bharti Enterprises

Manoj Kohli
CEO & Joint Managing Director - Bharti Airtel

Sarvjit Dhillon
Chief Financial Officer and Director Strategy - Bharti Airtel

Sanjay Kapoor
President - Mobile Services - Bharti Airtel

David Nishball
President - Enterprise Services - Bharti Airtel

Atul Bindal
President - Broadband & Telephone Services - Bharti Airtel

CONFERENCE CALL PARTICIPANTS

Santhan Krishnan
Spark Capital - Chennai

Anand Ramachandran
Citigroup - Hong Kong

Kevin Trindade
KR Securities - Mumbai

Vinay Jai Singh
Morgan Stanley - Mumbai

Henry Cobbe
Nevsky Capital - UK

Andrew Hoskins
Nomura - Hong Kong

Shubham Majumdar
Macquarie - Mumbai

Reena Verma
Merrill Lynch - Mumbai

Anirudh Gangahar
Goldman Sachs - Mumbai

Tien Doe
GIC - Singapore

Rajeev Sharma
HSBC Securities - Mumbai

Sameer Naringreka
BNP Paribas - Mumbai

Srinivas Rao
Deutsche Bank - Mumbai

PRESENTATION**Kamaldeep – Moderator**

Good afternoon ladies and gentlemen. I am Kamaldeep, the moderator for this conference. Welcome to the Bharti Airtel Limited Second Quarter and Half Year ended September 30, 2008 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 open for the question and answer session. 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 and Managing Director - Bharti Enterprises

Thank you, very much. On behalf of all of us at Bharti let me extend a very warm welcome to all the participants in this Earnings call, and thank you for participating. Also, a very happy Diwali. Hope you all enjoyed it. You are all aware that the world has seen some unprecedented turmoil in the financial sector in the last quarter. Some impact has inevitably been felt in India also, especially on the equity valuations and more importantly the liquidity crunch. It is also widely anticipated that India might suffer a marginal slowdown in the GDP growth. However, amidst all this turmoil, if there is one sector which has shown tremendous stability and sustainability of growth in these very trying times, it has been the Indian telecom industry. This is evident from the fact that the customer addition on the mobile services in this quarter was a record 28.44 million in three months. The regulatory environment on the telecom side is now very stable and progressive. The timelines for the much awaited and much desired 3G and broadband wireless access services have already been announced. The Indian telecom subscribers, which now constitute the second largest cellular base in the world after China, would definitely benefit from these technologies, and they deserve to have these technologies with them. This clubbed with the fact that India provides, as you know, the cheapest tariffs to its customers compared to anywhere else in the world by huge margin would result in rapid growth of this sector in the years to come, and more importantly with the penetration, which will go deep into this country. For Bharti Airtel this has indeed been an extremely satisfying quarter on all fronts, both financial and non-financial. Our net additions of more than 8 million new customers have been the highest ever. More importantly, these customer additions are now increasingly coming from smaller towns and villages from all across the country and that makes us believe that this growth is clearly a sustainable growth. Our revenue market share has continued to grow

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significantly not only in mobiles, but in all our businesses. The overall revenue and EBITDA have grown by 42% and 37% respectively over the corresponding period last year. We have also witnessed significant improvement in our customer satisfaction scores, brand scores and employee engagement scores. A very important milestone that was achieved in this quarter was the fact that we have a free cash flow for the quarter, which is incidentally the first time since inception that we have been able to have that. This coupled with the fact that we as a company are at an extremely low leverage. For instance, our debt equity ratio is 0.09 times, the net debt to EBITDA is 0.14 times, and our interest coverage is 44 times we believe may have put us in a unique position in the industry in terms of our funding and our financial health. To my mind this gives us a very significant edge over our competitors who have very large funding needs on account of either new circle rollouts or setting up parallel GSM networks. In today's environment, where liquidity in the financial market is clearly tight, I think this puts us in a great position to surge ahead. I have no doubt that with this advantage and the continued passion and hard work of our team and their determination to excel and improve efficiencies consistently we would in the coming years be in a very strong position to further consolidate our leadership, exploit the large potential the telecom industry presents in India, and enrich the lives of our customers with superior and affordable services. Let me now hand over to Manoj for a more detailed account of our operational results for the quarter. Manoj.

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel

Thank you, Akhil. Let me now extend a warm welcome to all participants on this Earnings call. I am delighted to share that we recorded a strong performance and strengthened our leadership position despite intensive competitive market conditions in this quarter. We believe that the present correction in the economy will result in the Indian economy emerging stronger and healthier. We see this as a beginning of a new era, which is more sustainable and pragmatic. Fortunately there is no direct impact of economic slowdown on telecom growth till now, which is evident from growth in the last couple of quarters. We look at this economic situation with confidence and being entrepreneurial and agile company we will find opportunities of gaining higher market share. Earlier this month we also forayed into the media space with the launch of DTH service in 62 cities across the country. The initial response of all across these towns has been extremely positive. I am sure that we will stride towards providing a superior customer proposition for significant presence in the media space also. Now moving on to the operational highlights of the quarter. The total customer base has increased to 79.99 million customers with mobile customer base increasing to 77.48 million and Telemia customer base to 2.51 million. Please note that we are now the third largest in-country mobile operator in the world after the two Chinese companies. In the mobile services, the company's population coverage has increased to 77% by expanding its presence in two new census towns and 20,000 new non-census towns and villages. In line with our

expansion plan, our mobile distribution network now comprises of over 1 million retail outlets. Due to normal seasonality of Q2, the MOUs have marginally declined by 8 minutes from 534 to 526 minutes in this quarter. Our Sri Lanka project is on track and in terms of rollout and we hope to launch the operations later this year. During the quarter the company has obtained additional spectrum in Tamil Nadu, Bihar and Karnataka service areas. We are awaiting allocations in Rajasthan, Maharashtra, Delhi, UP East, Bihar and North East circles too. In Telemia, we have added 1,16,000 customers in this quarter and increased our DSL penetration to 36.7%. We have also launched our fixed line and broadband operations in the city of Surat in Gujarat this quarter. In Enterprise Carrier business, the minutes increased by over 10% and we added over 4,800 km of optic fiber across the country in this quarter. In Enterprise Corporate segment, we completed many large projects in this quarter leading to healthy revenue growth. Keeping our enhanced focus on the customers, our customer service and satisfaction scores have shown good improvement in this quarter. Also the earlier customer feedback on DTH installations at homes has been very positive. Our manpower productivity has shown marked improvement in this quarter. Our customer per employee benchmark has improved by 14% and our revenue per employee has improved by 10% in Q2. The employee attrition has declined significantly indicating that our employee initiatives are showing positive results. Now let me talk about the financial performance highlights. The consolidated revenue for the quarter ended September 30, 2008 was Rs.90.2 billion representing an increase of 42% over the corresponding prior period quarter and quarter-on-quarter increase of 6.34%. The consolidated EBITDA for the quarter ended September 30, was Rs.37 billion approximately, representing an increase of 37% over corresponding prior period and quarter-on-quarter increase of 5%. The EBITDA margin for the quarter ending September 30 was 41%. The cash profit from operations for the quarter ended September 30 was Rs.31.3 billion representing an increase of 20% over the corresponding prior period quarter. The net profit for the quarter ended September 30 was Rs.20.5 billion representing an increase of 27% over the corresponding prior period. Our total Capex for the quarter was Rs.31.9 billion. Also couple of other financial issues I wanted to share with you as you know the markets have been very volatile and we have seen a dramatic depreciation of Rupee. Under US GAAP, all such exchange fluctuations are charged to P&L. For the current quarter our finance costs are therefore Rs.5.74 billion vis-à-vis Rs.1.83 billion in the previous quarter, while the actual cost of interest and borrowings have remained largely constant. This item is largely notional in our case since the predominant portion of our foreign exchange liabilities is always hedged as per our treasury policy. As far as taxation is concerned our current tax is Rs.1.76 billion in Q2 under MAT. We also have a deferred tax income and MAT credit recognized in the current quarter of Rs.3 billion as against Rs.0.98 billion in the corresponding quarter last year. This credit arises mainly on account of tax holiday available to telecom services under 80 (IA) of Income Tax Act. At the end I would like to summarize that this has been a very satisfying quarter both in financial terms as well as in enhancing our market leadership in each business segment of the company. We are also excited about leading the growth momentum in the Indian telecom

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industry and in the new economic circumstances our unique business model and execution focus will help us gain more of incremental revenues and create higher value for our shareholders. I now hand over to Sarvjit for some clarifications pertaining to the quarterly report. Thank you, over to Sarvjit.

Sarvjit Dhillon - Chief Financial Officer and Director Strategy - Bharti Airtel

Hello to everyone. Welcome to the call today. Before I hand over to the moderator I just like to point out one correction on Q2 report and that is we had a formula error. The calculation of the average number of customers as far as ARPU and MOU per customer should actually read as Rs. 331 for ARPU instead of Rs. 335 and the MOU per Sub of 526 minutes instead of 536 minutes. The changes will be made on the quarterly and uploaded by the end of today's date. Now I will hand over back to the moderator for the Q&A session.

Kamaldeep – 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 press "*" "1" on their touchtone enabled telephone keypad. On pressing "*" "1" participants will get a chance to present their questions on a first-in-line basis. To ask a question participants may please press "*" "1" now. The first question comes from Mr. Santhan Krishnan from Spark Capital, Chennai. Mr. Krishnan you may ask your question now.

Santhan Krishnan - Spark Capital - Chennai

Hi. I just wanted to clarify on the Capex front. Is it possible to sort of give a Capex split between what is sustenance Capex and what is sort of next generation technology Capex that you are investing in?

Sarvjit Dhillon - Chief Financial Officer and Director Strategy - Bharti Airtel

Krishnan hi, this is Sarvjit. Actually if you look at the quarterly, we do separate in the Capex schedule between our segments. But really for that kind of question we have maintenance Capex, we have expansion Capex, all that kind of stuff is pretty much part and parcel of routine of that sort and giving out separately it would not be fair.

Santhan Krishnan - Spark Capital - Chennai

Sure. Okay and just one more question pertaining to your VAS, mobile value added services. I just noticed that the value added services as a percentage of revenue is still about 10% of your revenue. So I just wanted to know how sensitive is your VAS revenue is to your price differential as the user is more price-sensitive

and do you see increase in VAS volumes as the price reduces, how do you plan to sort of improve your VAS revenues?

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Well Santhan, first and foremost there is good news as far as the value added services are concerned because we have grown faster on revenues from VAS than revenues from voice and this time around it is a 7.8% growth on value added services and that is a good news. Just to keep you apprised our dependence on P-to-P, which is phone-to-phone messages, which was SMS was very high in the past. Our dependence on that has gone down. In fact now good about 60% of our revenues comes from non P-to-P which is a good news. Sensitivities around price, especially on content based services is a little low, but yes most of the services that we offer in the market are very competitive. In fact all services offered in India by and large least compared to any part of the world. So I do not think pricing is really an issue on any value added service and as we are proliferating more and more on some of these services we are bringing down the prices.

Santhan Krishnan - Spark Capital - Chennai

Sure thanks a lot.

Kamaldeep - Moderator

Thank you Mr. Krishnan. The next question comes from Mr. Anand Ramachandra from Citigroup, Hong Kong. Mr. Ramachandra you may ask your questions now.

Anand Ramachandran – Citigroup – Hong Kong

Yes, Hi. Good evening. Thank you so much for the call. I had three questions. Firstly on Capex I was wondering if you could update us on the CapEx intentions for this year active and passive. Secondly if I were just to look through the numbers I do note that the government has reduced the USO contribution by about 2% points. I just wanted to figure out how this will reflect in your numbers or whether it has already reflected in this year's account, what should we be looking out for, for that particular change to reflect in your financials? My third question would be I guess a little more longer term in nature congratulations on the free cash of positive nature and you got an absolutely unleveraged balance sheet, what could view be on a strategic basis I guess on a two to five year view we are looking at to do with this free cash? Thank you.

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

Hi Anand, this is Akhil. Let me take up the last question, which you posed on the free cash flow and

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what we will do with that money. I think it will be wrong to say in four years time what we will do with this money; it will depend on the circumstances, if there is a good or there are more than one good acquisition opportunities may be we will use there. What we consistently have been saying is that if a stage comes where we have excess cash with us and we do not have good solid use for that cash in terms of new projects or in terms of expansions we would have no hesitation returning to the shareholders at that point of time. That does not obviously seem to be the situation right now, but at some point if that happens there will be no hesitation.

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Anand, hi this is Sanjay Kapoor. I will answer your second question around the USO 2%. Yes the department has given guidelines on bringing that down and they have defined developmental blocks around which this will be calculated on a 95% penetration. Well all I can say at this stage is that we are still seeking some clarifications on the definition of developmental blocks, but all I can say we are the best poised, you know, to benefit from this because of our extensive rollout over the last many years. This however will be applicable only from April 1, 2009 so there is still sometime and I guess closer to that we will be able to spell out what is the sort of benefit that we are expecting.

Sarvjit Dhillon - Chief Financial Officer and Director Strategy - Bharti Airtel

Hi, this is Sarvjit. As far as your Capex question is concerned you would have seen from the quarter and the year till date that we are on an YTD position of Rs. 7,300 crores. We did give Capex guidance earlier in the year for the full year being about \$2.5 billion of Bharti Airtel standalone and for the balance up to \$3.5 million being for passive infrastructure in total. So I think there is nothing that has changed from that as far as this year is concerned at this point and we will continue to invest as we have done and the guidance would remain the same for now.

Anand Ramachandra – Citigroup – Hong Kong

Thank you.

Kamaldeep - Moderator

Thank you, Mr. Ramachandra. The next question comes from Mr. Kevin Trindade from KR Securities, Mumbai. Mr. Trindade you may ask your questions now.

Kevin Trindade - KR Securities - Mumbai

Thanks gentlemen, thank you for taking the call. Congratulations on the good set of numbers. My

question relates to the summary of differences in net income and profit between the US GAAP and India GAAP. I wanted some clarity on the line item, which is titled differences in accounting for finance charges, which has increased to about Rs. 502 crores. Could you throw some light on this please?

Sarvjit Dhillon - Chief Financial Officer and Director Strategy - Bharti Airtel

Kevin, hi this is Sarvjit. Actually we are actually US GAAP reporting company; we have been doing that for a fair few years now. And the US GAAP, as you have seen from the current quarter's results as well, we charge everything off as far as forex exchange movements are concerned to the P&L. So I think this issue does not even arise as far as our reporting is concerned. Having said that we have taken a position in IGAAP as well to align IGAAP to US GAAP in this respect as previously being capitalized that has changed this quarter, which is why you are seeing that differential. Having said that, if you look at the YTD position for the half-year, you will see very little difference. Okay.

Kevin Trindade - KR Securities - Mumbai

Okay thanks. I just had another question, with regards to interest expenses. Could you throw some color on that as well please?

Sarvjit Dhillon - Chief Financial Officer and Director Strategy - Bharti Airtel

As far as US GAAP is concerned there are two parts to it. The first part actually Manoj covered in his speech, but the first part is what we have as recurring. This expense you see that from quarter-to-quarter it is pretty standard and it has not really changed too much at roughly about Rs. 80 crores and as far as derivative & exchange fluctuation is concerned you've seen that, there has been as mentioned earlier there has been a fair amount of fluctuation in the marketplace that resulted in the charge to the P&L as a result of the depreciation in the rupee and our forex liability. What you can do is just look at page #27 of the quarterly report that will give you the details. Thanks.

Kevin Trindade - KR Securities - Mumbai

Okay thanks.

Kamaldeep – Moderator

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

Vinay Jai Singh - Morgan Stanley - Mumbai

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Thank you, so much. Sir I have a couple of questions. Back on the Capex, the dollar has moved from Rs. 40 to Rs. 49, if you can give us a rupee based Capex, which you are planning for this year, you have spent close to Rs. 70-72 billion so far. Is it that you are spending another 100 for the rest of the year and what is your target for this year or next. Does that include 3G option license fee as well? That is question one. Question two, if you look at your cost, you look at your network operating cost as well as your sales and marketing, two interesting parameters your network is at the highest ever and your sales and marketing to your lowest ever as the percentage of sales and both are the same percentage points I wonder why? Is that a trend or what do we expect going ahead? The third question on your passive network your margins have been a little bit under pressure here, maybe it is the diesel cost, I do not know, if you can throw some light there also? One of your peers had done a call suggesting Indus would be operational only in November. I understand that since you are all starting operating on Bharti Airtel you know it does not make all the difference as such, but if you can throw some light even on that. Finally tax rate in the next two years including for Infratel, is it fair to assume your usual 14% as your average tax rate? Thank you.

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

Vinay, hi this is Akhil. On Capex as you can see we have had about Rs. 7,253 crores of Capex for the first half. At this point of time I would say that for the remaining half and this of course includes about Rs. 2,300 crores on the passive side, so if you exclude the passive, it is about Rs. 5,000 crores, I would feel that nearly the same amount or may be marginally higher than that is what we expect could be the expenditure of Airtel in the second half of the year. As far as the rupee stuff is concerned it does not make that much of a difference for us because the import component is coming down and of course as far as the passive infrastructure is concerned there is very little import element there. So I would say at this point of time the first half is pretty much representative and if you exclude the passive infrastructure Capex, which will be taken up separately it could be in the vicinity about Rs. 5,000 crores plus something in the second half. But let's see I think by next quarter we will know the exact difference on that. I will ask Sanjay to take up about network Opex and sales and marketing, but let me quickly answer on the passive network, the margin, which you see about 35 odd percent I think on passive network 33-34%. As you know the revenues have a large element of energy cost, which is a pass through on which the company is currently not making any margin. Over a period of time the arrangement is with the operators that as the passive infrastructure company can demonstrate a significant saving for them the savings would be by mutual consultation shared. So that is not happening right now therefore the 33% EBITDA to total revenue includes a large component of energy charge, which would be roughly about 40% of the total billing if I am not mistaken and therefore it needs to be seen in that light. On tax rate Infratel would not have a tax holiday with it, so there would be a slightly higher tax there though it will have a large

depreciation cover. So, I think we will know that in a Quarter or two as to how those trends come up. As far as Airtel is concerned I think here the tax holiday will continue therefore we can expect similar kind of tax rates.

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Hi Vinay, this is Sanjay. We will take on your network cost and S&D cost question. You right Vinay that as we are going down to rural India some of the network costs (a) because of the site rollout and (b) because more and more sites now take a little longer to get electricity board connection so the energy costs go up. It is not that we do not get the energy, but it takes time before you get connectivity with the electricity boards and therefore you have to operate on diesel till such time. The prices of diesel have gone up you are pretty well aware so that does have an impact for the moment as we get down to rural India. On the S&D rightly observed there is a downward trend and that is because of two reasons. a) First and foremost we brought in some semblance in the marketplace on the charges that were being paid to distributors and dealers that is on one side. The other is we have tightened our entire order clearance process whereby if there were any wastages they are being eliminated between the gross additions and net customers that get added on and therefore you see some downward trend on the S&D.

Vinay Jai Singh - Morgan Stanley - Mumbai

Sir, if I can just follow up with crude oil prices down from 120 and change 140 and change to 70, is it a fair assumption then that diesel prices are also down so you will have a downward trend on network cost as well for the next two quarters?

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

We are certainly going to pass this observation of yours Vinay to the Finance Minister and the Petroleum Minister hopefully they would do that, but you are right I think it is inevitable that if the crude prices do remain soft for a sustained period, over a period of time there will be rationalization of this, but it will be wrong for us to start taking that into account as a possible reduction at this point.

Vinay Jai Singh - Morgan Stanley - Mumbai

Thank you Sir.

Kamaldeep - Moderator

Thank you, Mr. Singh. The next question comes from Mr. Henry Cobbe from Nevsky Capital UK. Mr. Cobbe you may ask your question now.

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Henry Cobbe - Nevsky Capital - UK

Thank you, very much indeed, just a question on usage and elasticity. Are you finding that as you go in to the C circles, how long it should take for new customers usage patterns to get up to a kind of healthy MOU and have you seen anything indicating slowing down of consumption patterns owing to the higher inflation, food prices, etc?

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Well Henry let me first attempt to answer your first question on C circles. As we are going down to C circle, yes you are probably right that when you go down to a circle which has 2%, 3% penetration then obviously the ecosystem where calling between various parties happens is not there and therefore it takes time to develop, but the opportunities that the moment these penetrations go up to 8%, 10%, 15% you see the calling between each other go up and therefore it might start a little soft, but finally it has the propensity to pick up. Prices prevailing in these parts of the country are very much in line because India is already down to the last cent, cent-and-a-half. So the prices are not going to get any more softened, but because of absence of fixed line or any other mode of communication available in C circles and rural areas, mobile telephony becomes the only way of addressing the pent-up demand that sits there for communications. So very clearly that happens. Now, just to build up on this and say what is happening on inflation, etc., well I think to some extent telecommunication is probably a little more insulated than some other industries because with transportation becoming so expensive, with the rural infrastructure not being there I think the dependence on communication is very high and therefore we do not see that this habit is going to get dropped in a hurry. On the elasticities that you spoke about when we put the rates down for STD or the national long distance we did not see the same level of elasticities that we experienced on local calling. When we brought down the rates for lifetime plans etc., the elasticities were huge and you saw the great buildup of minutes. We grew 16 billion minutes during last quarter but this quarter we grew about 10 billion minutes. Roaming also was very elastic when we brought down the prices for roaming we covered up and it was absolutely unit elastic or more, but STD probably is not that elastic compared to local calling and roaming.

Henry Cobbe - Nevsky Capital - UK

May I also follow up on 3G licensing your reference in your management report about what the latest from the TRAI in terms of reserve prices, could you just, assuming you were to go for nationwide licensing and the 3G space, getting the 5Mhz slot and the 2.1 spectrum and using the reserve prices you quote that and how much that work out overall for nationwide spectrum?

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

Reserve price Henry as you know is about Rs. 2,200 and odd crores, if I am not mistaken, around that figure, so I did not understand your question, that is the reserve price, what bid will go to is anybody's guess.

Henry Cobbe - Nevsky Capital - UK

Is that for each region in the metro areas or is that for all?

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

No, India taken as a whole. There is a breakup circle wise but for all India it works out to about Rs.2,250 crores.

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel

For metros and A category circle this is Rs. 160 crores per circle, for B category it is Rs. 80 crores and for C it is Rs. 30 crores per circle, so these are the rates per circle basis, the reserve price.

Henry Cobbe - Nevsky Capital - UK

And you would be looking for doing it nation wide or just in metros and A-circles?

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

It will be wrong for us, since there is going to be an auction, to give out our strategy at this stage.

Henry Cobbe - Nevsky Capital - UK

Okay and when is the auction due?

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

I think this was supposed to be done by December 31, but perhaps as indicated by the honorable minister, there might be a few days delay, so hopefully in January.

Henry Cobbe - Nevsky Capital - UK

Is it something that you are pushing forward to advance your suite of services or you are fairly relaxed about the timing on this?

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

No, I think it is a wrong way of looking at it, whether operators want to either push it or stop it, that is the not the way to our mind to look at this, what one needs to question is should the customers be wanting it, is it good for the customers and therefore the answer is the customers in India who are the second largest now in the world after China, if they are not made available, this new technology, I wonder who else in the world should be the recipient of this, so if it is good for the customers, it should be done, what happens and what suits individual operators including Bharti Airtel should be absolutely of no consequence.

Henry Cobbe - Nevsky Capital - UK

Understood and very finally, one of the themes all this year has been the difficulty in start-up or smaller subscale operators getting access to financing, I think that you have been vindicated in that respect particularly with some of the new foreign players in the market having to scare by their plans, but how concerned are you about the entrance of Telenor given that they are in Pakistan and Bangladesh, they have got a whole lot of experience in Asia would you say it is a big enough pie for everyone to be happy.

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

Well Henry you have seen Indian telecom sector as long as I have seen. The fact is there has always been intense competition and therefore if we are handling or we are overcoming and consolidating our position with the current competitors, I would have no reason to of course we do not want to ignore any operator, but no reason to get extra scared of somebody else.

Henry Cobbe - Nevsky Capital - UK

Have they approached you or Indus Towers about the possibility of sharing?

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

Yes, they have, I think, as I understand the business plans are predicated on taking a large number of towers for sharing. We do hope that they get funded so that in any case that is a big gain to the group.

Henry Cobbe - Nevsky Capital - UK

What is the timing; at one stage you were talking about listing the stake in Indus Towers on the capital markets, it is not the best atmosphere for fresh equity, but what is the latest on that?

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

I think we have always made it clear that we would be looking at listing Indus and Infratel only after two years. We want the operations to stabilize, the quality to come up, we should become world class companies, so hopefully after the March 31, 2010 results, is what we have in mind for the listing of those two companies.

Henry Cobbe - Nevsky Capital - UK

Okay, thank you very much indeed.

Kamaldeep - Moderator

Thank you, Mr. Cobbe. The next question comes from Mr. Andrew Hoskins from Nomura Hong Kong. Mr. Hoskins you may ask your questions now?

Andrew Hoskins - Nomura - Hong Kong

Hello, good evening, Andrew Hoskins from Nomura, just an additional question please regarding 3G and related issues. Are there any circle at the moment where you are experiencing particular spectrum constraints which would make it necessary perhaps to transfer customers to 3G very quickly and can you conceive that it might be necessary perhaps to do that through judicious use of handsets subsidy perhaps in order to accelerate that process and also I noticed that the TRAI has invited consultants to offer solutions or invited consultants to discuss the possibility of spectrum trading in India. If you have any thoughts concerning that, whether that might help you, I would be interested to hear them. Thank you.

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Hi Andrew, this is Sanjay Kapoor. First and foremost I think applying for 3G and 2G spectrum constraints are two independent decisions, but to answer your question directly, yes of course, there is a spectrum constraint in the top big cities, metros and may be another top 8, 10 cities, there is always a spectrum constraint and we will be happier to do with more spectrum, not to say that there are alternate technologies that we are trying to deploy to make sure that at the end of the day the customer does not suffer. As far as the TRAI stuff about calling other people for consultative process and what to do with spectrum, we are very clear that you know we would love even active infrastructure sharing whenever it is possible and feasible, so we are absolutely open to any such thing that gets thrown at us. Was there anything else Andrew?

Andrew Haskins - Nomura - Hong Kong

Well I said, do you foresee any possible risk of reintroduction of handset subsidy, I am not talking

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about you, but the market in general, is it necessary to restructure the industry.

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Andrew, first and foremost the one-and-a-half cent tariff in India has absolutely eliminated any case for any handset subsidy and we as a company and as a leader in the market have always been a proponent of no handset subsidies at all, 2G or 3G.

Andrew Haskins – Nomura – Hong Kong

That is great. Thank you very much.

Kamaldeep - Moderator

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

Shubham Majumdar – Macquarie – Mumbai

Hi, I had three questions. With regard to the employee numbers that you report, these numbers have been falling for two quarters now, I wonder why, is there a significantly higher level of outsourcing that you are now resorting to and is there any sort of economies on staff cost that you are deriving out of the process, that is the first question. The second is what is your online formal view on the Indian rupee, which way do you think it is headed because there are quite a few scenarios that are being put out suggest that rupee is headed more southwards which would basically mean that probably we need to relook at the hedges that you put on for your outstanding foreign debt and Capex status. What is your view on the rupee and sort of are you fully hedged with that sort of a view and three is although a small number yet I noticed that the cost of equipment is Rs. 87 crores in this quarter, significantly ahead of what it has ever been in the past and it now is slightly material 1% of your total revenues, is there any significance upside risk in the equipment sales in the fixed-line business?

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

On the cost of equipment let us ask David to explain because that comes mainly from the enterprise side, then I can take the question on the Indian rupee and Manoj on employees.

David Nishball - President - Enterprise Services - Bharti Airtel

With regard to the cost of equipment the clear point this comes primarily from our corporate side of our business where we do a number of different kind of projects for customers some of which are very much network

related which leverage existing assets and generate primarily EBITDA margins against the existing Capex, other projects involve a lot of equipment resale to the customers. In the second quarter we had several large projects that came to conclusion, it actually took us two to three quarters to deliver those projects, so within the second quarter, we recognized both the revenue related to the project as well as the equipment cost which is why you see the overall margin in corporates being slightly lower this quarter just because of the mix of equipment resale versus network sales and that is the primary driver of this large equipment cost within the quarter.

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

On Indian rupee, Shubham obviously I am not going to take any chances of hazarding a guess as to where rupee goes or dollar goes. I have seen enough bankers trying to do that and failing completely but what we do of course fundamentally believe that over a period of time rupee should strengthen but as a telecom company we are not in to the treasury operations as a profit center, it is more a risk mitigation thing for us and therefore as per our treasury policy we have minimum thresholds of coverage of hedging the foreign exchange exposures. I can confirm that predominantly all our foreign exchange exposures are hedged and therefore we do not try to speculate on these matters but on a personal note I do believe that over a period of time the Indian rupee should strengthen. Manoj....

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel

Hi Shubham, this is Manoj, about your people issue, now we have taken manpower productivity as a key goal about a year or two back proactively so that we can initiate the major productivity initiatives to improve the productivity levels of the company, now we have taken lot of steps in the last year or so, we have consolidated many operations across the country, many circles which were defined as per license we have consolidated two circles, three circles in North, South, West and this has lead to improvement in productivity. We have also moved from employees to the passive infrastructure companies as the passive infrastructure companies are formed in the last two, three quarters and finally we have also initiated a major shared services initiative across the company. I think all this has lead to this productivity increase both in terms of customers per employee and revenue per employee. Our teeth-to-tail ratios are improving definitely because our focus is on teeth and we are trying to see the tail productivity should be better and you will see better improvements in times to come. I also feel that our employee engagement scores at the same time are improving, so there is a positive side effect of better engagement, better productivity.

Shubham Majumdar – Macquarie – Mumbai

I had two small followup questions, one is the DTH operations have been launched in this quarter. What is

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the likely quantum of preoperative expenses or the increase in expenses that we are likely to see on annualized basis, this will likely lose money over a two, three, four year time frame and what is the kind of Capex that one can likely see on an annualized basis and the second is in terms of the long distance margins, are we seeing any significant or material difference going ahead, any carriage charges that you had raised last quarter, have you seen any impact on traffic from third party and so on and so forth.

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel

Okay Atul is here to take this.

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

Hi, this is Atul Bindal. We are on day 20 of the launch today and DTH launch has gone as Manoj indicated earlier extremely well. We have had a memorable communication connect with the customer. The product is a differentiated product with superior features and it has been recognized as such in the market place both by customers as well as the other partners in the entire food chain. We also have an enhanced service delivery, which extends right from installation, integration, and then ongoing service being provided to the customer. We would be providing this as a separate segment for reporting by next quarter and you can expect to get the entire pack at that time. I would however suffice it to say that there is a lot of back ends which would be common to DTH and therefore it is an engine of growth, we should be running on the same railroad as what many of our other services run on.

David Nishball - President - Enterprise Services - Bharti Airtel

In terms of the long distance margins, first there has been no material change in terms of our average rate realization between Q1 and Q2, so roughly margins would have stayed the same. There are still of course a degree of competitive pressure in the market particularly on the international services, you will see slight changes in rates over time and there was no change in ADC between first quarter and second quarter, therefore there may be a very slight margin degradation on the international services resulting from continuous slight price pressure with relatively constant termination costs. On terms of your question on non-group revenues the impact of our carrier charges that we announced last quarter we were already seeing the non-group traffic decrease as a result of the other carriers in the Indian market getting their own NLD licenses and beginning to rollout their networks. Bharti Airtel is one of the first carriers to rollout NLD network. We benefit from them by getting traffic from other carriers that were slower to rollout their own networks as those networks have finally come in to being, we are seeing the non-group national traffic decrease but we believe that is a phenomenon would have happen otherwise and overall the impact of raising carrier rates

in terms of our non-group revenue I think would be neutral.

Shubham Majumdar – Macquarie – Mumbai

Well David, just my last thing on enterprise services, the EBITDA margins have come up quite sharply over the last couple of quarters. Is this a lasting trend or am I missing something?

David Nishball - President - Enterprise Services - Bharti Airtel

No I think EBITDA margin for Enterprise on a consolidated basis were close to 43% this quarter. I think that is a solid result for this kind of business. If you look at quarter-on-quarter basis there has been a slight dip on the carrier side, but not a significant one, again that is really the impact of recalling the first quarter we had the change in ADC rates, the prices for our inbound traffic depends on contract terminations with various carriers, so the key motive effect of the price factor we have done in ADC has increased in the second quarter versus the first quarter resulting in a slight degradation of margins, but not significant. On the corporate side we are seeing a significant difference in margin on quarter-to-quarter its simply due to the balance of business that we did in the quarter of network business versus equipment business and as I mentioned earlier we had several large contracts that concluded and were completed within the second quarter, so the mix of business in second quarter is different than the mix of business in the first quarter, but if you take a look at our equipment business, our network business each on stand-alone basis, there is no significant change in margins.

Shubham Majumdar – Macquarie – Mumbai

Okay, thank you all very much.

Kamaldeep - Moderator

Thank you, Mr. Majumdar. The next question comes from Ms. Reena Verma from Merrill Lynch, Mumbai. Ms. Verma, you may ask your question now.

Reena Verma – Merrill Lynch – Mumbai

Thank you very much for the call, couple of questions. One is on your forex and derivative fluctuation. Can you please help us understand how a four-rupee fluctuation lead to a six billion provision in terms of the derivative fluctuation because last quarter you had a three-rupee depreciation and you had only one- and-half billion of fluctuation, so you know with one additional rupee in terms of depreciation, how does your derivative hit more than double, that is my first question. The second question is really I am struggling a bit to reconcile your net debt having gone up despite your having made free cash for the quarter as you said. If you can please help me understand this as well. The

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third question is on your current portion of long-term debt, big increase in your short-term debt position, please can you help us understand any refinancing or borrowing cost implication of this sharp rise by about Rs. 800 million dollars and lastly just once again, sorry to bother you, just once again wanted clarity on network Opex because you have slowed down your site rollout quite significantly in spite of that network Opex is up and to my mind there has not been a diesel price revision in the last quarter. So, please can you help us understand that again, thank you?

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

First of all Reena the network Opex because site roll outs are going on as they were earlier, so this is not that and the diesel prices did go up in the last quarter. On forex and derivative fluctuation, but let me take the net debt and the current portion out, net debt I think there has been some change in the working capital thing from payments to the vendors may have become due but perhaps Sarvjit, if you would want to give some more details you can send it to her separately and also on that current portion, all I can confirm is this has absolutely no implication on our cost of funding which is at about 6.01% which is amongst the lowest in the industry today. On forex and derivative, I think you have a very valid question. Let me, for the benefit of everybody on the call, just explain the principle how this works under US GAAP. If you have a foreign exchange loan, irrespective of whether it is hedged or it is not hedged I am sure some of you would be aware of this you have to first mark it down or up, based on marked-to-market. So on that four-rupee thing first you have to mark it down because you have had a four-rupee per dollar loss irrespective of whether they were hedged or not, thereafter whatever portion you have hedged, you have to assume that the hedge is getting canceled at the end of the quarter of the reporting period as though you go to a bank and you have to take an estimate that if you were to cancel all this what would you have to either pay to cancel or what would they give you if you were to cancel, now what happened in the last quarter when it went up by 3 or 4 rupees, the curve would have still shown that the rupee could further depreciate and that is why when it comes to canceling notionally the hedge there was a larger profit coming from that. This time, since it hit almost about 49 or something I think the forward curve of the rupee did not show any further depreciation and therefore when they gave the estimate the notional profit on these hedges was very, very low, so as I mentioned and perhaps Manoj has mentioned in his speech, this is by and large notional for us because predominantly we are covered for our foreign exchange exposures, whether it is Rs. 183 crores or Rs. 500 and odd crores, I think this portion for us in all practical terms is a notional kind of figure with very little impact and that is why any profit coming from this also is a notional profit only.

Reena Verma – Merrill Lynch – Mumbai

So, if the rupee were to stay around 49 then sir what happens to this number?

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

It will be wonderful because I would not have to get into any mark-to-market thing and if you would see on page 27 where we gave the details of the finance cost, in terms of what I pay and what I am receiving on the investments which I have as my treasury investments, I am actually at a slight negative which means there is a net income on that account today, but say it is more or less it would be equal.

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Reena, this is Sanjay Kapoor. You know with respect to your question on the network Opex, let me clarify it is not about price alone. It is also about consumption of diesel. As we are getting in to more and more C and D category towns probably the electricity board connections are not available immediately. There is a lag between the time you put a site and you get those connections and some places you have to really wait for the last mile a little longer. Also in some places there is no EB connection available for a much longer period, so therefore the consumption of diesel goes up substantially and that in some places is for a short period of time and in some places a longer period in time and that is obviously more expensive than buying electricity from electricity boards.

Reena Verma – Merrill Lynch – Mumbai

Thank you very much. Just Sanjay while you are on that you know your borrowed sites have gone up a bit as a percentage of your total sites this quarter. Do you think you could give us some guidance on where that number will finally rest?

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Actually, when we go to the tower company, we have no say in whether they need to build a tower for me or need to go and share a tower with somebody. We just go and give our indent and requirement and then whatever is available they do for us.

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

But, needless to say Reena from the tower company's point of view as well as the operator's point of view, the aim is to try and see that the sharing is maximum because that is good for the tower company in terms of its own revenues and returns and it is great for the operator because their overall cost per tower comes down significantly both for rentals and for energy. So, I think the aim would be to try and see that is enhanced as much as possible, but I would say little early to say where it should finally land on.

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Reena Verma – Merrill Lynch – Mumbai

Okay .Thank you.

Kamaldeep - Moderator

Thank you, Ms. Verma. The next question comes from Mr. Anirudh Gangahar from Goldman Sachs, Mumbai. Mr. Gangahar you may ask your question now.

Anirudh Gangahar - Goldman Sachs - Mumbai

Thank you for the opportunity. Two questions from my side, one is 5.3% Q on Q rise in the wireless revenues do we see any element of seasonality here and second question is with the imminent revision of termination charges most likely downwards at some point of time, would the management have any view how it would impact the wireless business. Thank your very much.

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

Let me just answer on the termination charges. I think, this is first of all we do not believe it as imminent because this is a matter, which has been under discussion between the industry and DoT. We believe it is not warranted, but it is an industry matter and we have consistently taken a stand that on some of these industry kind of matters it is wrong for individual players to comment. We believe the consultations are going on, the point of view of the industry in terms of our costing and all that has being put, but we do not believe that this is something, which is going to be imminent. Sanjay.

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Yes, Anirudh. I think you are absolutely right that there is indeed a seasonality impact during this quarter and if you look at the historical data you will see that generally Q2 is probably the weakest of the quarters for mobile operators especially in India and Q3 and Q4 are relatively much stronger and therefore probably comparing a quarter-to-quarter here may not be the right thing and it will be more pertinent to look at a 1-year period from the last quarter same year so that you can compare the seasonality impact and if you look at that versus Q2 last year, our revenues have grown 44%, the number of customers have grown 59%, and even minutes per customer have also gone up by 12%. So, I think, hopefully, this seasonality should be behind us after this quarter.

Anirudh Gangahar - Goldman Sachs - Mumbai

Thank you very much.

Kamaldeep - Moderator

Thank you, Mr. Gangahar. The next question comes from Mr. Tien Doe from GIC Singapore. Mr. Doe you may ask your questions now.

Tien Doe - GIC - Singapore

Hi, thank you for the call. I just have three questions. Back on the employee numbers again, your subscribers to employee number is just under 10,000 now. At what point, do you think you would have to level that off before you start to get quality issues on customer service and how high can that ratio go? Second question is where do you still have spectrum petitions still outstanding that haven't been fulfilled yet? The third question, just wonder whether you could comment say on a hypothetical start-up which thinks it can go EBITDA or break even in three years and operating cash flow break even in five years, whether do you think that is possible in the current Indian Telecom environment? Thank you.

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

Tien Doe, last one about the new startups, well I think, it is fundamentally wrong for us to start commenting as to you know whether they will be feasible or not feasible. All I can say is that I would not be brave enough up to get into that at this stage. I do not see anything where I can, if I was to make a business plan it will be difficult, but I am sure these new entrants since they are committing money I am sure they have some plan up their sleeve and these are all very respected operators therefore I am certain that they would be having a game plan not that we have any visibility to that of course.

Tien Doe - GIC - Singapore

Okay. Thank you.

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Tien Doe this is Sanjay Kapoor. On your employees per customer you are right we are closer to about 9,500 plus now per employee and we are very hopeful that by the end of this year we should have crossed the 10,000 mark. Now, your worry to say that does this impact the customer service delivery? I can assure you these two probably are not directly related because the entire management of CRM, which is front ending and scaling up for customers, is not a part of this head count. That as an activity has been outsourced, we do not outsource head count over there, we outsource the activity completely to the best in class service providers in that space and we do not believe that any one of those shared services will get impacted by the manpower that we have at our end and I assure you if there is any optimization that is being done it will be always done on the tail part of it and not the teeth part of it, so anything that impacts the marketplace will

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never be deprived off of the right additions that are required at any point in time. Let me come down to your question on the spectrum and circles, like Manoj rightly said during the call that we have added spectrum in three circles in fact it is two last quarter and one on October 3, 2008, which technically is this quarter, but we would say three circles and six more applications are pending and we are hopeful that as these have got expedited, those will get expedited soon as well.

Tien Doe - GIC - Singapore

Okay. Great thank you.

Kamaldeep - Moderator

Thank you Mr. Doe. The next question comes from Mr. Rajeev Sharma from HSBC Securities, Mumbai. Mr. Sharma you may ask your question now.

Rajiv Sharma - HSBC Securities - Mumbai

Thanks for the opportunity. I have couple of questions, one how do you see Vodafone and Idea now getting into Bihar and Orissa circles and you enjoy dominant market share and revenue market share, so how do you see the impact on both these metrics. Also, a lot of capacities by new entrants Reliance Communication is being created with their GSM entry, so you mentioned that prices are very low but do you think this over capacities can lead to reduction in prices. Third Akhil started with the GDP slowdown this quarter or you know there is some kind of GDP slowdown, which may happen in India and you enjoy a first mover advantage, have those high quality corporate customers, where which is some amount of usage has been to the economic activity. So if you can give a sense on any kind of slowdown and the usage over the next three to four quarters if any? Fourth is on your tower business. Can we hear some announcements in the coming quarters or coming month about Telenor or Datacom or any other guy joining your Indus Towers? Fifth is on your Infratel would Vodafone and Idea join in? The last one is how much of your towers would be transferred to Indus? How much you would be sharing on Indus? Is Indus planning to add 24,000 towers, which appeared in a news flow a month back? Thanks.

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

See to start on the tower side and go to the GDP I will ask Sanjay and Manoj to talk about new capacity in Bihar Orissa, Vodafone and Idea. On the transfer of towers to Indus, I do not have the exact figure, but I believe it is in the vicinity of some 35,000 towers or so which will get transferred to Indus and approximately some 24,000-25,000 might remain in Infratel, but I do not have the exact break up broadly that is the one and then thereafter the revenues will start coming to Indus for those towers. On Infratel, on the plans, whether Vodafone and Idea will join Infratel, well joining in this business is of two kinds, one is as a shareholder, there is no plan, but as a customer absolutely, yes. We

already have an MSA signed at Infratel with Vodafone, I think, Idea is in the final stages if I am not mistaken, so as customers absolutely yes. The same goes for Telenor and any other new entrant, they are talking to Infratel as well as Indus. I am certain that there will be our customers on the tower side. I am given to understand that their business plans dedicate on sharing a large number of towers and to that extent I would say there would be very esteemed customers at Infratel and Indus.

On GDP slowdown, well I do not think, we are going to see any effect because the value proposition offered in India on telecom is so strong that there is not going to be an immediate impact to our mind on our business. As far as corporates are concerned, to some extent we can actually expect a little more expenditure on telecom because whenever there is a GDP slowdown the first casualty is always travel and telecom as you know is a direct substitute for travel. Overall basis, I do not think we feel too worried about that.

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Yes, Rajiv, Hi this is Sanjay. First and foremost let me demystify a few things about competition. Competition is not new to us. We started operations as the first operator in many circles, but most of the circles we really truly entered as a fourth operator and then four became five and five became six and if you really look at our track record over the last two years, we have actually gained disproportionately from the market despite new competition being added. In fact, we have got about 3.2% customer market share in the last 24 months despite of 8 or 10 competitors in every circle in different technologies. So, I do not think competition has been a deterrent to our growth, but if you really talk about Idea and Voda in particular, and I do not want to go circle-by-circle, but they have been entering into new circles over the last couple of years. In fact Idea entered into Rajasthan good two years back, year-and-a-half back and the performance is available for you to gauge in the marketplace. Let me clearly say that while new capacities are getting added to cover a complete state or to cover the whole nation takes a long time. You can enter Bihar, we have more than 5,000 towers or 6,000 towers to come up to that level takes a long time and we all know that coming from behind in 1800 MHz spectrum is never an easy job. I mean attenuation is an issue, indoor coverage is an issue and it takes time; therefore, yes you are right capacities are getting created, but we do not see very strong propositions coming into the marketplace other than saying me too and last but not the least when Airtel goes and offers certain propositions to the market, these have been systems that have been built over the last 12 years (a) & (b) the economies that accrue to us after producing 1.3 billion minutes a day. I mean, anybody who comes tomorrow if he wants to go and subsidize all these from day 1 well we wish them good luck, but we do not see any business case behind that proposition.

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel

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Just to add on this Rajiv, actually this is not manufacturing sector, where capacities come and capacities can disturb the sector. Here capacities need to be backed up by right kind of cost structure. Also, capacities need to be backed up by the right kind of brand value and I think these are the two areas where the new competition companies will have some struggle to go because neither the cost structure of those companies will be right nor the brand, which backs the capacities will be close to the customer and anyway customers now are getting agnostic to tariff, so if they misuse the capacities for lower tariff, I do not think customers will get attracted.

Rajeev Sharma - HSBC Securities - Mumbai

Just a small followup here, in terms of your earlier disclosures it was that issue of rentals on Infratel that Vodafone and Idea were not ready, so are the rentals equivalent to about 31,000 or you are charging premium there to your current rentals, which you reflect in your quarterly report?

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

No as far as Infratel or Indus are concerned, these have been formed on the principles of nondiscrimination. The MSA is the same as applies to Airtel, so these have exactly the same rates.

Rajiv Sharma - HSBC Securities - Mumbai

Okay. Thanks a lot.

Kamaldeep – Moderator

Thank you, Mr. Sharma. The next question comes from Mr. Sameer Naringreka from BNP Paribas, Mumbai. Mr. Naringreka you may ask your questions now.

Sameer Naringreka - BNP Paribas - Mumbai

Sir my questions have been answered. Thank you very much.

Kamaldeep – Moderator

Thank you, Sir. 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

Thank you sir, good evening. Thanks for taking the call. I have two questions on spectrum and you mentioned in your opening remarks that the four metros and about eight of the top cities is where you do face reasonable constraint. Could you just may be give us an idea of what kind of revenues come from these

places and I am also speculating that the metros are not constrained during the entire part of the day, just trying to get a sense of how much revenues do get impacted by the constraint? Secondly what is the CapEx implication of the spectrum constraints, which you face and hence require to probably spend more on either towers or sites or indoor coverage?

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Mr. Rao. This is Sanjay Kapoor. First and foremost, I cannot give you revenue breakup which is broken up into circles and metros and non metros, but all I can tell you is that when you look at our dependence on these towns versus rest of the country, with every passing day the dependence is reducing, which means their proportion is becoming smaller and smaller. One figure that is available to you as a surrogate is the customer numbers, so if you were to look at the customer numbers from metro and A category towns and B category towns then the metro share now is just about 13% or 14% that is of the new customers and revenues will be much smaller.

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

I think the fundamental issue is about quality to the customer and it is not about revenues or CapEx or things like that. I think, if we have customers on our network our fundamental concern is that we need to give them the quality that they deserve and that's why spectrums in these places is important for us.

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

One more thing, Srinivas Rao, that there is no dearth of effort from our end whether in building solutions or alternate technologies to be put in place to make sure that the customer does not experience the heat of a tight spectrum so it might mean extra CapEx and you said how much well it is incremental in nature it is not something, which is very substantive at the moment because it is limited to a few towns and we are doing everything possible to make sure that the customer does not experience that at least in the long run.

Srinivas Rao - Deutsche Bank - Mumbai

Thank you, sir. I appreciate. Thank you.

Kamaldeep – Moderator

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

Bharti Airtel Limited Second Quarter and Half Year Ended September 30, 2008 Earnings Call**Manoj Kohli - CEO & Joint Managing Director -
Bharti Airtel**

Thank you, I would like to really thank all the participants to the call for the questions and doubts, which they raised. I am once again really very satisfied with the results which we have come up with and I am sure when we meet again in the month of January we will have another great quarter from Bharti Airtel. Thank you.

Kamaldeep – 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 and have a pleasant evening.

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