

## Earnings Conference Call Transcript

Event: Bharti Airtel Limited Second Quarter Ended September 30, 2011  
Earnings Conference Call

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**Bharti Airtel Limited First Quarter Ended September 30, 2011 Earnings Conference Call**

**CORPORATE PARTICIPANTS**

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

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

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**CONFERENCE CALL PARTICIPANTS**

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**Bharti Airtel Limited First Quarter Ended September 30, 2011 Earnings Conference Call**

**Reena Verma**

Merrill Lynch - Mumbai

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ICICI Securities - Mumbai

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**Bharti Airtel Limited First Quarter Ended September 30, 2011 Earnings Conference Call****PRESENTATION****Namita - Moderator**

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

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**Manik Jhangiani - Group Chief Financial Officer - Bharti Airtel Limited**

Thank you. Good afternoon and a very warm welcome to each of you joining us today. Bharti Airtel has had yet another solid quarter driving efficiencies as well as product and price structuring in across South Asia and Africa. Markets globally and locally have been challenging, as you all know, the macroeconomic environment and weakening currencies but some bit of good news from the update yesterday on the TRAI response to the DOT, which is largely positive for our structure but Sanjay will discuss more on that during the question and answer session.

Despite the challenging backdrop in South Asia, the added impact of seasonality Airtel delivered an overall revenue growth of 13.4% year-on-year and 1.7% quarter on quarter with EBITDA margins expanding by 0.1% this quarter. A quick highlights on our performance, global consolidated revenue of Rs.172.7 billion approximately \$3.8 billion, global consolidated EBITDA at Rs.58.1 billion approximately \$1.3 billion, global minutes on our network this quarter is 250 billion minutes with our growing subscriber base which now stands at approximately 237 million customers. Global operating free cash flow of Rs.10.8 billion during the quarter.

Let me now look at the geographic segments first the India and South Asia. Traditionally the July to September quarter has been a quarter of subdued customer demands for telephone services domestically. This time around the quarter witnessed a heightened impact of seasonality given the holy abstinence months of Ramzan and Shraad, which caused a modest drop in our mobile minutes for the first time in the quarter. Despite the seasonality trends in the ongoing multi SIM marketing phenomena, we sustained our revenues and more importantly for the industry witnessed the reversal of the declining rate trend.

As you are aware with the rising input cost we had revised voice tariff from both per minute and per second plans putting an end to the declining price regime in a phased manner starting in the middle of July. This was a pioneering move for the industry where we are the market leader. We have seen early results of this with a 0.4 paise RPM uptake this quarter, but the bulk of our subscriber base has yet to be transitioned to the new tariff structure. The EBITDA for the quarter was Rs.45.7 billion and the resultant EBITDA margins were 36.1%. Margin pressures were stemming from the higher diesel prices as well as lower usage volumes during the quarter. The B2B segment witnessed strong revenue growth of over 6% quarter-on-quarter on account of increased data revenue from new accounts and geographies with revenue at approximately Rs.11 billion.

We expanded our 3G services to approximately 200 cities this quarter covering all of our 13 licenses circles entered into the ICR arrangements with quality operators to provide a superior and pan India experience to our customers across approximately 500 cities. We now have over 7 million 3G subs provisioned and close to 24 million mobile Internet users.

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Starting this quarter we are separately reporting our financial performance of our digital TV services. DTH as a business is still in the investment phase; however, over the last few quarters we have achieved the feat of being EBITDA positive on a consistent basis- that to in only 10 quarters since the start of this business, truly a remarkable achievement given the high capital intensity in this business. We also welcome the government's decision to make digitization of cable services mandatory by December 2014 and believe that both the broadcasting industry and the consumers stand to gain from this pioneering move.

Our passive infrastructure business continues to register robust growth complimented well by margin expansion. On a year-on-year basis the revenues in the business grew by 12.5% and the EBITDA margin now stands at 37.5%. Sharing factors, which are the key to the tower business, are inching up to 1.85.

Moving on to Africa now, we are pleased to note that our transformation and restructuring plans for these operations is moving ahead on a smooth growth curve. It gives us immense satisfaction to highlight some key milestones that we have achieved this far over a full year comparing our exit of September 2010 which was our first full quarter of operations after the acquisitions which is September 2011 exit. We have grown our subscriber base by over 21% year-on-year to reach 48 million customers; total minutes on the network surged by over 40% during this period and together with our sub base expansion, this translated into the MOU per sub growth of about 14%.

In fact in this quarter alone our traffic has expanded by 10% on a sequential QoQ basis. This traffic surge was at the back of an average ARPM decline of 12% year-on-year. The markets have well accepted the simplicity and transparency in our tariff structures and that has reflected in our volume growth. Consequently our revenues on year-on-year basis have grown by approximately 23%. As you have probably noted we have crossed the billion-dollar mark of revenue in a single quarter. In fact in this quarter alone we added about \$50 million to our topline on a reported currency basis.

Through the last year we have added 2600 sites across various operations to ensure superior unmatched network coverage. In this quarter itself we have added close to 1000 network sites. EBITDA has grown by 39% in absolute terms whereas on a margin basis we have expanded the EBITDA margins by over 3% during this period.

On a quarter-on-quarter basis we have expanded margins by 1% in this Q2 FY12. Starting this quarter we have modified our financial reporting of this year to combine Africa and Africa others i.e., the Netherlands SPV has in the acquisitions facility with the African operations. Previous quarter EBITDA has been realigned for the easy of comparison.

We are very pleased to note that in almost every single market of operation we have successfully gained market share by garnering significant proportions of the existing as well as the incremental market. As per our internal estimates we are garnered anywhere between 0.7% and 0.2% in any of these operations by two countries where weak macroeconomic condition persists.

Data and 3G continued its strong focus areas given the high proportion of youth population and various cultures across our markets. Non-voice revenues as a percentage of GR now contribute to 8.5% of the total revenue. 3G licenses have been obtained for all the anglophone countries now. Within the francophone countries we have licenses now in Gabon and Congo B and in fact in Congo B we have already launched the 3G services last week becoming the first operator in the Central Africa's to do so.

Partner ecosystem continues to expand with the outsourcing of network, IT and CS are nearing completion in most countries and we are confident that the process would be fully executed over the current quarter. Also the TowerCo formation has been completed in 16 countries. Airtel Money has been launched in Kenya and Zambia and the total number of Airtel Money registered customers as at the end of September was 11.8 million.

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Replicating our successful FMCG like Indian distribution model as at the end of September total number of active retailers was over 800,000 and easy recharge has been deployed across all the operators. The year-to-date CapEx spend has been on a pleasant positive for us, we are extremely pleased that we have been able to execute on our CapEx deployment plans, managing the logistic issues, and easing our supply chain bottlenecks, faster than what we have initially hoped and hence our network aspirations can be put together with its consequent performance on the business and profitability.

To ensure our network is superior both in quality as well as coverage, we feel that we may be able to complete about USD 1.4-1.5 billion of CapEx in Africa in FY'12.

During the quarter gone by we have also been conferred with several awards and recognitions, to mention a few we have been adjudged as number one service brand and number three in overall rankings in the Annual Brand Of Equity's Most Trusted Brand Survey, we were also voted as the Top Telecom Operator, Top Cellular Operator and Top NLD Service Provider for voice and Data 100 Awards 2011.

Finally we were voted as India's best managed IT services brand, for large enterprises and SMEs by PC Quest Annual user choice Club Awards 2011.

Summarizing on the whole it has been a quarter and a year full of successful growth performance. While we are satisfied and pleased yet this growth story has reenergized us to move forward with even more focus and dedication. With that moderator we will open up the floor for question and answer session. Thanks.

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**Namita - Moderator**

Thank you very much Sir. We will now begin the question and answer session for all the participants who are connected for the auto conference from Airtel. Due to time constraint 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\*1 on their touchtone enabled telephone keypad. On pressing "\*" "1", participants will get a chance to present their question on a first in line basis. To ask a question participants may please press "\*" "1" now. The first question comes from Mr. Sachin Salgoankar from Golden Sacs Mumbai. Mr. Salgoankar you may ask your question now.

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**Sachin Salgoankar - Golden Sacs - Mumbai**

Hi, thank you for the call. My first question is on 3G. I guess it is a second consecutive quarter where we are seeing data as the percentage of revenue declining even after the expanding the 3G coverage, so want to understand when will we see 3G inflection point, and are you also planning to launch branded smart phones like one of your peers to develop 3G ecosystem? My second question is on Africa wanted to know how much is the constant currency or the local currency revenue growth this quarter and when we should see a decent margin improvement, also any one of the impact in the coming through due to the recent service disruption in Nigeria? Thank you.

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**Sanjay Kapoor - CEO (International) & Joint MD - Bharti Airtel**

Sachin, hi, this is Sanjay Kapoor. Your question on 3G data, well, in a very generalist manner I would start by saying that if you look at any part of the world it generally takes between five and six years for the complete ecosystem on a technology like 3G to be fully leveraged. We have just been in this game for just six months in this country and the entire emphasis has been to up the customers experience whether it is handsets or devices or it is the APN and connectivity's or it is the network seamlessness, I think we

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were all busy doing that and also busy putting together a Pan-India option for our customers through roaming arrangements with other like minded operators. Your question on 3G revenues as a percentage that could be a little deceptive for a simple reason that there was an anomaly in the pricing of 3G services that we launched. We have majorly corrected those prices over the last quarter and therefore although the volumes of the 3G usages are going up significantly month-on-month you do not see that reflected in revenues. This does not mean that the number of customers getting on to 3G is not increasing; they are increasing every passing day. When do you think that we will on the leverage or will be an inflection point it is anybody's guess, but I would say you need to allow us at least a couple of quarters from now, before we will start reporting meaningful indices on 3G to you which will give you an idea of how we are moving with respect to 3G and broadband overall.

Your question on branded smart phones, we work with all possible branded smart phones in the country and across the globe. Just for your information we are the only one of the two and the most dominant player in the market selling iPhones in this country, similarly we work with all of the large smart phone brands like Samsung, HTC in fact the 60%-65% of HTC launches in the country happened with Airtel and as far as Blackberry is concerned we virtually have in excess of 40% of the Blackberry market, so I think we are there virtually in all Blackberry and smart phone spaces, and I cannot disclose anything around the branded smart phones because that will be competitive in nature but we are working with all of them, so our customers will have more than enough choice available on the table for various options on smart phones and devices.

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**Manoj Kohli – Chief Executive Officer (International) & JMD - Bharti Airtel Limited**

Sachin, hi this is Manoj our gross revenue growth on constant currency, which is the local currency basis was 7% if you refer to Page 33 you will see 7% growth, which is equivalent to \$69 million vis-à-vis the reported growth of \$50 million at 5.3% growth. The other question you have asked about margin, the margin has been growing at a steady clip and I can assure you that over the next four to six quarters you will see continuous steady growth of margin as a transformation, and restructuring of our business model embeds itself in Africa.

On Nigeria very frankly no major impact of any incidents these incidents keep happening in various markets, some are reported and some are unreported very frankly no major impact on the financials.

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**Sachin Salgoankar - Golden Sacs - Mumbai**

Thank you. That was very helpful and there is one follow up question for Sanjay, wanted to understand about the recently signed 3G roaming contracts whether there was a net positive or a net negative impact on your financials this quarter?

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**Sanjay Kapoor - CEO (International) & Joint MD - Bharti Airtel**

I am afraid we cannot give that sort of a break-up Sachin.

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**Sachin Salgoankar - Golden Sacs - Mumbai**

Okay. No problem. Thank you.

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**Namita - Moderator**

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Thank you very much sir. The next 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 question. A quick couple of questions from me, one is when I look at the minutes on the network, I think it is probably the first time in your history that quarter-on-quarter the minutes have shown a sequential decline and clearly that has led to the operating leverage working in reverse, just wondering does it have anything to do with the pricing going up in the sense that is there any negative elasticity you are seeing that is question number one. The second question is with respect to your views on the couple of regulatory issues which have come up, I think one is obviously the whole 3G roaming, I think there has been a lot of news flow on this just wanted to hear your view and the second one re-farming which is again resurfaced in the TRAI documents that is released late last evening? Thank you.

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**Sanjay Kapoor - CEO (International) & Joint MD - Bharti Airtel**

Hi Suresh this is Sanjay again and yes the severity of the seasonality this year given the economic downturn and high inflation and interest cost, I think it has been little stronger than the Q2 in the previous year and I think it is an industry wide phenomena based on the information that we capture for everybody else, it seems pretty much a phenomena that the industry has faced. The pricing going up and drawing any inference out of that I think Q2 will be the worst quarter to draw that inference because it has seasonality built into it and one might end up taking a wrong inference based on a quarter which is anyway declining. I would wait for another couple of months to come to any conclusion on that; however, the prima facie understanding based on market realities and not necessarily on analysis suggest that there is no significant impact of price increase because given the inflation in this country, it is taken in the right spirit. That is what the conclusion, which is drawn by the management by and large, but like I said this is a wrong quarter to make any hypothesis on anything because it is anyway got seasonality built.

The second question around regulatory I think our stance and industry stance on 3G ICR has been fairly vocal. We believe that our UAS license permits us a technology agnostic deployment of networks and the clarification on 3G roaming was explicitly sought from DOT before we even bid for 3G Spectrum and license. Therefore we do not believe there is anything at risk over there. While I say this more from a licensing perspective, from a sheer economics perspective the practice of an ICR is very healthy practice in a country, which has paucity of spectrum and therefore we are making the best use of it. Secondly it is good for the customers because it gives choice to the customers. Thirdly it restricts and meets the government's criteria of creating more competition and not restricting it to just one or two people who have spectrum in a particular circle it gives more options to the customer and therefore good for customer overall and it is good for the exchequers because at the end of the day they are earning more revenues out of that spectrum than they would have only from a single operator. So any which way it is good for the exchequers, it is good for the customers and it is all the operators who are into these arrangements are happy as well. So we wonder who is unhappy in this whole arrangement.

The second question around reforming probably would have been a trickier question before yesterday but after the release of the guidelines by the TRAI, I think this matter has been left aside for a debate and a dialogue in future and there are some commercials being associated to 800 and 900 and we have always said that as long as the government has an equitable and fair policy deployed all across no matter which point of time you entered the services we are happy to abide by what finally gets decided.

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**Suresh Mahadevan – UBS - Mumbai**

Thanks a lot Sanjay, thank you.

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**Namita –Moderator**

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

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**Sunil Tirumalai - Mumbai**

Sir, I just had a follow up to the earlier discussion on the seasonal weakness and the declination for the drop in MOUs, I am just wondering because if I look at the gross adds number by using back of the envelope calculation using a churn rate the gross add number has actually gone up for the quarter from the previous quarter, I would have expected even the gross add number to be weak in a seasonally weak quarter?

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**Sanjay Kapoor - CEO (International) & Joint MD - Bharti Airtel**

That is a fair question to ask and compliment to you on that. Let me try and explain this to you, I think the hyperactivity on gross adds is not a reflection of seasonality but a structural defect that sits in the industry per se. What is happening in a hyper competitive environment is that a customer who actually goes to recharge his current account or walks back with buying a new connection or a second or third SIM in his pocket and he starts using the free and discounted minutes instead and just to capture that phenomenon the market there is a lot of good money chasing the bad money and that is what is really happening and therefore when you translate those gross adds into either the net adds or look at the revenue growth the story does not stack up. So in fact I would only expect this phenomenon to happen in a weak environment I would not expect to happen in a healthy environment. People tend to give themselves lot more because there is general buoyancy. When there is not general buoyancy then people start cannibalizing what is there already on the ground and start moving from account A to account B so that is the phenomenon that you see it is barely that any operative economics linked to it.

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**Sunil Tirumalai - Mumbai**

Okay, I was just looking some previous numbers while you were talking I think the September quarter last year did actually see a small dip in gross ads so it is not something that happened in the last time such a weakness happened but I take your point but I think that also leads to a question as to is the competitive intensity really down or is it still that you are still chasing customers with really cheap SIM cards?

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**Sanjay Kapoor - CEO (International) & Joint MD - Bharti Airtel**

As long as 13 players are there and they treat their investments as sunk cost this will keep happening, you cannot wish it away but all I can say is that the overall pricing in the market seems to be at a lot more palatable condition than it ever was earlier so it is not the same story that all of us faced about 8-10 quarters back. I think the worst on those things are behind us and there are some competitors who actually transact in the market at a 40%, 50% discount over the incumbent operators I think the incumbent operators are by and large ignoring those guys even at the cost of losing those minutes because eventually that doesn't make sense on a sustainable basis. One more thing that you would like to carry back with you is that just to support that argument of a very hyper gross add the industry churn is reflective of that. The average churn in the industry is over 11% now and there are operators in the market whose churn is actually more than 20% a month so bulk of them would be running on a treadmill

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and if they do not do those number of gross ads you would actually see their revenues falling down so it is a very difficult situation with a very high churn you actually ending up in a situation where you were running on a treadmill all the time. So it is not the best of the situation. Industry will actually benefit a lot more if the churn was to come down and gross ads were to come down so that all the net ads actually come from the reduced churn and not by heightened churn and heightened gross ads that will be lucrative for the industry. I am hopeful at some stage we will get there, it is the same industry that has experienced in the past at an average of 4% churn which has gone up to 11% so I am hopeful at some stage will get back there.

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**Sunil Tirumalai - Mumbai**

Got it, and my next question is on the Africa business in your annual report you had mentioned that every in September quarter you would take a review and see if there is an impairment that needs to be reviewed on the investment, I am just wondering did you made such review this time around and what was the result of that given that compared to our expectations say 18 months ago or beginning of last financial year the performance in Africa has been sought of soft?

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**Srikanth Balachander - CFO (India / South Asia & Africa) - Bharti Airtel Limited**

Hopefully as we can see from the annual performance of Africa business year-on-year I am sure you had seen a 23% growth in the topline and almost a 40% growth in the absolute of EBITDA amount with the margins going up and if you look at the EBIT number which is the operating profit number it has moved from \$31 million in quarter two of last year to \$81 million in quarter two of this year. So these are numbers for every one to see. What of course is not published is the detailed business plan and long-term projection which go into the conduct of the annual exercises that we do for testing the values staying in the balance sheet and I can confirm to you that we had a very successful and satisfactory completion of the exercise this year.

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**Sunil Tirumalai - Mumbai**

That was useful. Thank you very much.

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**Namita - Moderator**

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

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**Rahul Singh –Standard Chartered Securities - Mumbai**

Hi, good afternoon. My first question is to Manoj on Africa CapEx just wanted to understand within the space of five or six months the CapEx guidance being raised what exactly is the reason for that at the ground level whether is just the comfort in the execution capability of the machinery or whether it is the confidence in the minutes and the market share traction which you are getting, just wanted a color on which of the two is the driving factor for the increased CapEx and the second question is on the financials I see the access and interconnect cost going up for the India business by about Rs.80-90 Crores , Rs.75 and 80 Crores quarter-on-quarter when the revenues have been flat which is quite an unusual thing to happen in one quarter to see that kind of movement in access in interconnect cost so just wanted to understand the reason for that and if there is any element of 3G roaming cost being partially the reason for that?

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**Manoj Kohli – Chief Executive Officer (International) & JMD - Bharti Airtel Limited**

Rahul this is Manoj. Let me start with the CapEx issue, which you raised. You know in India our number we drive this CapEx of half a billion, a billion and then went up to 3-4 billion I remember at a peak, and I think all this was lead by two factors one is the factor of rollout capability of the partners and our company and second was market growth, traffic growth really pulling the capacities up, so both these are happening in Africa too. The first six months during the calendar year we had some issues of supply with various partners like Erricson, Nokia etc. and of course passive partners Tower partners, 3G partners also had logistical issues in Africa because they were new to Africa. It took us few months to debottleneck all these issue and the good news is in the Q2 which is July, August, September we were able to debottleneck them. Lot of supplies have come in all the issues of logistics, issues of ports, issues of new vendors understanding the African processes I think are behind us, now it the time to execute now is the time to deploy and we will do that, that is why we believe that our CapEx forecast could be anywhere between \$1.4 and \$1.5 billion for the fiscal and I think that reflects the raised confidence which we have on logistic as well as the market.

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**Nilanjan Roy – Chief Financial Officer – Bharti Airtel Limited**

Rahul this is Nilanjan here on the access cost on the India South Asia business this is yes partially related to the 3G ICR as well as on the enterprise side in the mix of international minutes and the access pay out, so it is a combination of both.

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**Rahul Singh –Standard Chartered Securities - Mumbai**

Just to understand the 3G ICR costs, these are based on certain milestones or these are based on per cell site basis, how is it I mean I do not want the exact details but just wanted a color on that because is it front ended in nature and the revenues follow subsequently is that how it is going to be playing out I mean are there any fixed payments in this?

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**Nilanjan Roy – Chief Financial Officer – Bharti Airtel Limited**

Rahul we cannot give any details these are based on bilateral roaming arrangements with all the parties as well so we cannot give any further details on this.

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**Rahul Singh –Standard Chartered Securities - Mumbai**

But correspondingly there would be revenues also booked as per the roaming agreements right.

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**Nilanjan Roy – Chief Financial Officer – Bharti Airtel Limited**

That's right, there is 3G ICR roaming revenue as well.

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**Rahul Singh –Standard Chartered Securities - Mumbai**

That goes into your ARPU and RPM calculations as well?

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**Nilanjan Roy – Chief Financial Officer – Bharti Airtel Limited**

Yes.

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**Rahul Singh –Standard Chartered Securities - Mumbai**

Thanks.

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**Namita - Moderator**

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

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**Malvika Gupta – JP Morgan - Mumbai**

Hi, thank you for taking my questions. I have few remaining. I wanted to check one on the India business just the pricing increase whether you see an appetite for another round of tariff increases at this time, second I wanted a clarification on the 3G sub number of 7 million if you could tell us how many of these are necessarily active subs as an actively using date of each month and third I was just looking for clarifications on the finance charge on the India business which is increased about Rs.1.7 billion any clarification there about 400 million in the previous quarter. That would be a quite great. Thank you.

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**Sanjay Kapoor - CEO (International) & Joint MD - Bharti Airtel**

Malvika, Sanjay Kapoor again. The price increase that is happened now obviously is happening as customers come out of their existing commitments and move on to the new tariff plans and by the time you will see a full impact we would probably be in Q1 of next year and that is how the role out would happen on price increases and what happens to the appetite of the market you know to absorb more pricing I think given the inflationary trends in this country every business will have to make sure that it realigns its costs and prices based on the actual position on the ground and therefore I am sure this industry will take that view but for now we are just busy implementing what we have rolled out and the full impact of that will only be realized in the next couple of quarters. So I do not think anything in a hurry changes. However, the basic economic principle it would not change. The second thing on 3G active-how many customers are active out of the 7 million we feel that over 25%-26% of these are active on a daily basis and they keep coming back and using the services however all 7 million are provisioned on the network for 3G services. As regards in the finance cost I will ask Srikanth to take that question.

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**Srikanth Balachander - CFO (India / South Asia & Africa) - Bharti Airtel Limited**

As far as finance charge line is concerned there are several aspects which they introduced finance charges but some of these are upfront charges which are taken upfront when I say upfront these are taken in one shot and some are period cost and therefore spread over several periods and we have also provided on the some of the interests which are done on the fair valuation and on the discounting of various liabilities which happen in line with IFRS, so it is a mix of these various charges and all I want to say some are upfront and some are period cost and this quarter you will find there are some upfront cost and long time cost as well.

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Thank you for that. May I ask if you can quantify the upfront versus the more recurring cost, if there are any details there or should we assume the previous quarter as a more runrate for the recurring for each of them?

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**Srikanth Balachander - CFO (India / South Asia & Africa) - Bharti Airtel Limited**

As you seen in the press release as well we have prudently accounted for some of the impact of the judicial announcement on the regulatory side and these have been considered in the financials this quarter.

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**Malvika Gupta – JP Morgan - Mumbai**

Great. Thank you very much.

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**Namita - Moderator**

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

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**Srinivas Rao - Deutsche Bank - Mumbai**

Thank you so much. I have two questions first on the India business could you tell us how many circles you would have taken the tariff increases by now or what part of your revenues kind of now cover the tariff increases and related question on that is the 3G capacity which you are rolling out is it also being use for voice. That is on India. On Africa if Manoj can comment on what is happening on the NCC ruling with respect to network quality. I believe that needs to be addressed by end of November so if you could throw some light on that and on the related issue the increase in margin has been driven by fairly stable or actually falling employee cost and a SG&A cost is that a sustainable over a period of time?

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**Sanjay Kapoor - CEO (International) & Joint MD - Bharti Airtel**

Srinivas, Sanjay Kapoor, answered your first question in all circle and answer to your second is yes, it will get used for voice.

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**Manoj Kohli – Chief Executive Officer (International) & JMD - Bharti Airtel Limited**

Srinivas on NCC directors in Nigeria as we gave the directive to three companies, MTN, GLO and Airtel and I am sure all three companies are going back to NCC sharing the details including us. We have given details to NCC of all our plans, network coverage plans, network quality plans, service plans and by and large NCC sounds to be satisfied with that. We believe that our service will be the benchmarked service in Nigeria better than other companies and so nothing to worry on Nigeria front. On the OpEx side we are touching upon every line item of OpEx. It is not only employee line item, it is not sales and distribution every line item is getting optimized, every line item is getting improvements in efficiency and productivity and you will see the positive impact in coming quarters.

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**Srinivas Rao - Deutsche Bank - Mumbai**

Just one more thing, now that your CapEx has been increasing could you comment is Bharti's CapEx more cost effective than the competition do you believe that?

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**Manoj Kohli – Chief Executive Officer (International) & JMD - Bharti Airtel Limited**

We believe that it is more cost effective on per unit basis.

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**Srinivas Rao - Deutsche Bank - Mumbai**

It is. That would be your stance at this stage.

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**Manoj Kohli – Chief Executive Officer (International) & JMD - Bharti Airtel Limited**

Yes.

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**Srinivas Rao - Deutsche Bank - Mumbai**

I think I kind of cut you off when you making it as comment on the CapEx effectiveness related to the competition?

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**Manoj Kohli – Chief Executive Officer (International) & JMD - Bharti Airtel Limited**

I was agreeing with you that our per unit CapEx efficiency is better than competition.

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**Srinivas Rao - Deutsche Bank - Mumbai**

Thanks this is helpful.

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**Namita - Moderator**

Thank you very much Sir. The next question comes from Rajiv Sharma from HSBC Hong Kong Bank, Mumbai. Mr. Sharma you may ask your question now.

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**Rajiv Sharma - HSBC Hong Kong Bank - Mumbai**

Thanks for the opportunity. Just a couple of questions, first being on the review of termination charges from 0.30 paisa to 0.20 paisa, I would like to ask Sanjay what is the kind of impact it could have on the revenues and the EBITDA for the mobile services in India and second will this or could this disturb the whole tariff hike proposition because it may give the GSM new entrants like RCom, Tata Docomo, some kind of leeway to disrupt the outgoing tariff as their cost of business comes down - some color on that will be helpful?

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**Bharti Airtel Limited First Quarter Ended September 30, 2011 Earnings Conference Call****Sanjay Kapoor - CEO (International) & Joint MD - Bharti Airtel**

On the termination I am sure you wanted to say 20 to 10 and not 30 to 20 because it is not 30, it is 20, and I wish it was 30, but nevertheless what I would say that this is an industry subject and right now we are all under deliberation and I would not like to comment on this individually because this gives away our position, but all I can say is that this is the subject that we get debated at an industry level and I am pretty hopeful that something which is acceptable to the industry will emerge.

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**Rajiv Sharma - HSBC Hong Kong Bank - Mumbai**

Any kind of quantification of impact Sanjay if possible? If this scenario where this comes down to 0.10 paisa how is your revenue is impact it?

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**Sanjay Kapoor - CEO (International) & Joint MD - Bharti Airtel**

We will give you these bids Rajiv and we have a decision in hand, we do not have a decision in hand right now it is only a speculation and I do not want to be speculating on what will happen.

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**Rajiv Sharma - HSBC Hong Kong Bank - Mumbai**

Second is, any color on the Africa CapEx possible for the next year I know it is too early, but given that there is a lot of confidence now if I can get some feel for that next year Africa CapEx?

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**Manoj Kohli – Chief Executive Officer (International) & JMD - Bharti Airtel Limited**

Normally we cross the bridge when it comes, but in this case I can tell you today we are focusing on in-field sites which means within our present town and very frankly we have not gone beyond the present towns with the quality of the present town coverage is most important for us. In the next six months I am sure we will go into some new towns. Next year we have not decided the roll out strategy, it depends on the experience of this year, both deployment experience and the traffic improvement from the new site. So we will definitely come back to you by March or April.

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**Rajiv Sharma - HSBC Hong Kong Bank - Mumbai**

Thank you very much. Good luck Sanjay and Manoj.

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**Namita – Moderator**

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

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**Vinay Jaisingh - Morgan Stanley - Mumbai**

Thank you so much. Most of the question I am going to ask are partly addressed so pardon me for that. Firstly on the CapEx front, if you were to give a number as a whole for both the CapEx's put together would that now be about \$3.5 billion, or would that inch up to as much as \$4 billion for this year. Secondly on the personal front, that is one section where you have seen lesser number of people as well

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as cost it is down 10% two quarters or 6% one quarter, what do we look at that level is that consistent level now or do we see declines going ahead why is that happened obviously a good news here. Thirdly on the Africa front, we have seen two quarters of great growth in terms of subscribers 10%, in terms of tariff 10% you also mentioned the 7% constant currency gain is this constant currency revenue growth is this something which you want to sustain for the next three to four quarters, is good trend for us. Thank you so much.

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**Manik Jhangiani - Group Chief Financial Officer - Bharti Airtel Limited**

This is Manik on the first question in terms of consolidated CapEx we are looking at \$1.9 to 2 billion on the India South Asia business. This is with passive as well and as I indicated on Africa now with the comfort that we have on some of these issues that we have able to address, we are looking at the \$1.4 to 1.5, so on a consolidated basis you are looking at about \$3.5 billion at the top end.

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**Sanjay Kapoor - CEO (International) & Joint MD - Bharti Airtel**

Your question on the personal cost, well if you look at last five years or so every year you will see that there is rationalization of personal costs and manpower and this is in light of all our strategies of creating shared services, outsourcing, consolidation of circles and this time consolidation of businesses, so I guess this journey of better productivity is not coming to an end, this will continue at Bharti Airtel and we believe that there is more juice, and there is more strategy and implementation in place, so I guess you will keep seeing more results coming out of here, but for now I think it is just a stimulation of some of the actions what we took a little while back of consolidating businesses all under one roof.

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**Manoj Kohli – Chief Executive Officer (International) & JMD - Bharti Airtel Limited**

On the question on Africa your 7% growth is very clear, we cannot really give you guidance for future, but we are optimistic that our performance will continue to be stable.

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**Vinay Jaisingh - Morgan Stanley - Mumbai**

If I may rephrase the question the other way round, in the last two quarters have you grown higher than the market, your growth has come at MTN or some other operator expense, or have you grown inline with the market?

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**Manoj Kohli – Chief Executive Officer (International) & JMD - Bharti Airtel Limited**

That is the better question and more appropriate question, we have definitely grown faster than the market.

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**Vinay Jaisingh - Morgan Stanley - Mumbai**

Anything you can quantify by you have grown, but what about the market?

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**Manoj Kohli – Chief Executive Officer (International) & JMD - Bharti Airtel Limited**

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I cannot talk about the market, but we have certainly grown better than our peers. I think our execution of our network, sales distribution and brand is better.

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**Vinay Jaisingh - Morgan Stanley - Mumbai**

Thank you sir.

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**Namita – Moderator**

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

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**Shobhit Khare - Motilal Oswal Securities - Mumbai**

Good afternoon. First I just wanted to understand the forex losses as compared to the Rupee movement this time around the forex losses seem to be much lower, so just wanted to check why it is so and second is on the digital TV ads, and telemedia net ads they continue to go down, so some color on that would be helpful. Third question based on the non-SMS, non-voice revenue, I just wanted to check with the recent TRA regulations on VAS and do not call how do you see the impact on the 2G VAS and is there a chance that the VAS actually as a percentage of revenue comes down over the next few quarters?

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**Srikanth Balachander - CFO (India / South Asia & Africa) - Bharti Airtel Limited**

Shobhit I will take the question the forex losses. As you well know this line captures the impact of the restatement of all foreign currency denominator liabilities and assets as a global company with operations spread over various geography and since we are talking about India in particular you do have to consider that there will be phases and receivable on the balance sheet, so to the extent there are receivable then the INR weakened and these receivables are in dollar so certainly you have a positive impact and thus this extent of the payables you will have a negative impact, so ultimately the net impact of positive and negative. Added to this of course is the mark-to-market of the various hedging and other instruments that we may have had all at the date of the balance sheet so I can confirm to you that the net impact on the India site is India and South Asia site has resulted in a net gain on the forex line.

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**K. Srinivas - President B2C - Bharti Airtel Limited**

This is Srini here on the question on net additions on DTH having come down, two fundamental reasons, one I think in Q1 there is obviously a heightened activity due to World Cup and some of these things that have obviously raised the entire market to some degree and second one is I think during that same period the entire industry went in to a tailspin by giving a whole lot of free months' preview that gets corrected because obviously that preview was not sustainable, so in fact the good news certainly is that we continue to add about a quarter of the gross ad, and I think that probably is something that we hold very, very dearly. As regarding the telemedia net ads that you are seeing against two core reasons, one you are recently aware of new telemarketers registration which is actually come in place, so that has actually taken down some of the PRI we directly sold to some of the telemarketers. Some of the guys who did not want to be telemarketers with the stringent rules who were actually doing a lot of these pesky calls were dropped off. Second one obviously we went into one integrated billing system over the last quarter and there were some disruptions during that period and these are the two fundamental reasons why you do see a temporary dip in the net ads.

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On DTH if I could ask for the first time I think you have reported number separately and around 4% EBITDA margins what kind of if I look at your listed competitor around 24% or 25%, so in what kind of timeframe could we reach, what do you think is the steady state margin and timeframe to reach on the DTH business?

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**Sanjay Kapoor - CEO (International) & Joint MD - Bharti Airtel**

I cannot give answer to the forward-looking basis, but only thing I think I can tell that if you look at the past you will find no other DTH company that would have broken even in a faster time than we have. We are broken even faster than anybody who is there in this market and that should give you some hope that going forward we are well poised.

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**Shobhit Khare - Motilal Oswal Securities - Mumbai**

My question on the VAS revenues. Just wanted to check the TRAI regulations, which have come on VAS and do not call could there be an impact on the 2G VAS businesses because of that and could we see a meaningful decline in that business because of the issues of double confirmation etc?

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**Sanjay Kapoor - CEO (International) & Joint MD - Bharti Airtel**

Fair question, we as an industry believe that a few things that the industry has been asked to do might be against the growth of VAS, which has got a tremendous potential in the developing part of the world and this is an industry issue, not an Airtel issue, so the industry is having a dialogue with the regulation on this however, while I say this I must also bring to your notice that overtime many different channels of communications have come up to promote VAS. We started off with voice, we got in SMS, now Internet is available, I am sure some alternatives will emerge to create more business and demand on value added services going forward; however, this particular where you are talking about regulations where a double confirmation is required we think a little bit of ease on customers part will help while I say that we have already implemented what was said and it might have you know some short-term hiccups but I do not see on a long-term it impacts.

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**Shobhit Khare - Motilal Oswal Securities - Mumbai**

Thanks a lot. All the best.

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**Namita - Moderator**

Thank you, very much Sir. Due to time constraints now we will take the last two questions. 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**

Hi. Thank you very much for the call. Just couple of questions; firstly I know that you do not look at subscriber numbers is being very meaningful, but you know the net adds that you have reported on a

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monthly basis have been kind of falling at a very sharp level, can you tell us whether you see this trend stabilizing, having already fallen from 3 million to 0.9 million a month. In that context how do you look at drastic growth on a full year basis. I am not talking about seasonality impact but saying you know on a year-on-year basis you are already down to say 15% growth what do you think will be the growth drivers over the next 12 months for traffic. My second is on finance charges, can you please confirm whether this includes hedging costs and whether there is any change in your hedging policy on that count. Finally, if I attribute all of your change in access and interconnect cost to the 3G roaming packs given the traffic patterns or traffic levels have not changed, you have hardly had any improvement in revenue per minute. Would that be the right way to look at numbers. Thank you.

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**K. Srinivas - President B2C – Bharti Airtel Limited**

Reena this is Srinu again here. I think your question on net adds, I think you have answered it partly as well. I mean, our focus has always been on fundamentally revenue market shares. Having said that in fact Sanjay also eluded to that earlier in one of the questions essentially the gross additions that you see in the marketplace they are not customers anymore. To a large degree in most of the urban towns these are minutes disguised in SIM cards. So one of the things we have consciously chosen to is not participate in selling cheaper minutes, in fact as today Sanjay said there are minutes which are actually getting sold by some of the operators that has higher discount of 40% to 50%. So having the net adds that you see is in no way a reflection of the overall traffic growth nor revenue growth. Fundamentally, the growth going forward is also going to be a lot more from data services and focus on non-voice services is going to be absolutely vital part of the entire strategy.

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**Reena Verma - Merrill Lynch**

If I can make a task over there, are you suggesting that you know the voice minutes as a cloud are more or less at peak levels for you?

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**K. Srinivas - President B2C – Bharti Airtel Limited**

No, that is not true because the rural penetration is still very, very low but it is still at about 40-odd percent so the focus is to really drive penetration in the rural markets, which are underpenetrated. In the urban count, voice penetration has been if you take cities like Delhi and Mumbai, Bangalore these are in excess of 100%, so there Data services is going to be the focus in the large accounts where the penetration levels of data service is absolutely low. The rural markets I think there is still plenty of penetration when it comes to voice services.

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**Sanjay Kapoor - CEO (International) & Joint MD - Bharti Airtel**

Also Reena one final comment I would like to make that as consolidation happens all the unviable minutes that actually sits in the arbitrage across operators will all come back. They cannot be staying out, ultimately they are today at prices which do not even cover up variable cost that cannot happen endlessly. At some point in time that will gain semblance.

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**Reena Verma - Merrill Lynch**

Sir, thank you for that, but you know if you look at Uninor's numbers which they have just reported they are actually gaining traffic market share while both Idea and Bharti have posted weakness, so in fact the arbitrage continues in favor of those who did not hike tariffs?

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**K. Srinivas - President B2C – Bharti Airtel Limited**

Reena, it is just at the end of the day, you are going to look at traffic shared in consonance along with the realized rate and the margins that you make at the end of the day. You know you can get a TMS, a traffic market share of whatever you want by selling at whatever price, so I am not necessarily talking about Uninor's strategy, but our strategy has been to focus on the high value minutes and not necessarily only on minutes.

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**Sanjay Kapoor - CEO (International) & Joint MD - Bharti Airtel**

Reena there is a 0.10 paise minutes, I mean, when the market is stabilizing prices when the market is increasing prices there could be another operator who is decreasing prices, and then you know churning away some minutes if that is the strategy then I do not know how sustainable it is because it is all on a finite investment and finite spectrum right now, so you are filling up your capacities by unviable minutes. That does not make sense to us at least.

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**Reena Verma - Merrill Lynch**

Thank you. My other two questions please.

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**Srikanth Balachander - CFO (India / South Asia & Africa) - Bharti Airtel Limited**

If you see the schedule of the finance cost we are multiple line stage. We have two lines on interest on borrowings and we have a line of finance charges. You have a line on investment incomes and you have a line on derivatives and extreme fluctuations. As far the cost to hedges are concerned the cost of the hedges realized and accrued they are booked as part of the derivatives and exchange fluctuation line and there is no change in accounting policy on that front.

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**Reena Verma - Merrill Lynch**

Sir, can you tell us how much of the finance charges are non-recurring as in some upfront booking?

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**Srikanth Balachander - CFO (India / South Asia & Africa) - Bharti Airtel Limited**

Sorry can you repeat that.

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**Reena Verma - Merrill Lynch**

You had mentioned in response to an earlier question that finance charges may have risen because the component of upfront charges may have been higher this quarter, so can you tell us how much of that is non-recurring component?

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**Srikanth Balachander - CFO (India / South Asia & Africa) - Bharti Airtel Limited**

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Sorry Reena. We are not disclosing that to that level of detail.

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**K. Srinivas - President B2C - Bharti Airtel Limited**

Reena, on your last question on the rate like I mentioned earlier, yes the 3G ICR revenue goes into the revenue but I can assure you that the underlying rate itself has gone up as well in the quarter, but we cannot clarify and split between the voice and the ICR, but it has gone up as well.

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**Reena Verma - Merrill Lynch**

Thank you very much.

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**Namita - Moderator**

Thank you very much Madam. The next question comes from Mr. Vikas Mantri from ICICI Securities, Mumbai. Mr. Mantri, you may ask your question now.

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**Vikas Mantri – ICICI Securities - Mumbai**

Good afternoon. Thank you for the opportunity. Just wanted the management views on the proposed one India plan with no roaming and secondly, while these decline in minutes has been attributed to seasonality could we throw some more light in the behavior of the urban subscribers versus the rural subscribers, would it be fair to assume that a seasonality impact should have been lower for urban and therefore if we can see this trend?

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**Sanjay Kapoor - CEO (International) & Joint MD - Bharti Airtel**

Vikas, on what happens to the One-India plan again this is a consultation, which is on, but a response which is being put together by all industry participants and we are supposed to upload it within the next few days so I guess at this stage it would not be right for me to even share because it gives away, and therefore wait for a couple of days and you will get to see transparently on the website our response on this. As far as the urban minutes are concerned very clearly you know the down trend is both in rural and urban minutes, it is not the urban minutes that have come down, it is the rural and urban minutes both that have come down during this period. However, I want for the benefit of everybody that despite of the seasonality the management is always looking at how month-to-month the graphs are moving and I can say that confidence comes from the fact that September was a real revival after a down trend in July and August and October has been better than September. So you know I would say that that clearly tells you the swings that happened during the seasonality.

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**Vikas Mantri – ICICI Securities - Mumbai**

Sanjay, the Shraad period is more attributed to the September month clearly so that could it be the elasticity factor playing out in the earlier two months?

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**Sanjay Kapoor - CEO (International) & Joint MD - Bharti Airtel**

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You know one of your colleagues asked this question and I refrained to answer or give you any hypothesis for a simple reason to draw any conclusion in seasonality there is nobody who will be able to draw the clear cut impact is seasonality and what is because of this, so we might end up drawing wrong conclusion. I would give you an answer to this really from the next call probably.

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**K. Srinivas - President B2C - Bharti Airtel Limited**

We must substantiate one more data point for you, Vikas, if you look at last year between Q1 and Q2 the MOU per customer has exactly dropped by about 5.5%. The drop this year despite an increase in rates has only dropped by 5%. Now if you look at these two data points, because from the reported PAT, you would only imagine that the negative elasticity that you are talking about is not necessarily holding good.

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**Vikas Mantri – ICICI Securities - Mumbai**

I agree with you, and we saw a similar thing in fiscal year 2010 as well, but prior to that we did not see such high seasonality and 2010-11 could be attributed to overall weak environment, economic environment per se. So just wanted a view on that?

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**K. Srinivas - President B2C - Bharti Airtel Limited**

Essentially nothing has gone up we are saying. I will have to look at some of the numbers but fundamentally, if you really look at the price increase there are two parts for the price increase we have a period of time and when the minutes drop quarter-on-quarter this year is actually lower than last year and per customer basis, so probably I think it is playing out the way we wanted it to play.

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**Sanjay Kapoor - CEO (International) & Joint MD - Bharti Airtel**

The number of customers who moved on to the new price regime during Q2 is a very small proportion. The bulk of them have yet to move on, so you know, it will be slightly premature to be drawing both conclusions.

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**Vikas Mantri – ICICI Securities - Mumbai**

Fair enough. We will come back on the next quarter to maybe get it out.

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**Namita - Moderator**

Thank you very much Sir. Ladies and gentlemen due to constraints of time we are unable to entertain any further questions. This brings us to the end of the question and answer session. I would now hand over the call proceedings to Mr. Manik Jhangiani for the final remarks.

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**Manik Jhangiani - Group Chief Financial Officer - Bharti Airtel Limited**

We were very satisfied but despite the weak macroeconomic backdrop and the seasonality in South Asia on a consolidated basis Airtel could actually grow revenues, EBITDA margins improved and continue to strengthen on our operational KPIs across our markets and segments. So we look forward to speaking with you on the next quarter results and thank you again for joining us today.

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**Namita - Moderator**

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