

Earnings Conference Call Transcript

Event: Transcript of Bharti Airtel Limited Third Quarter Ended December 31, 2008 Earnings Conference Call

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Bharti Airtel Limited

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PRESENTATION**Kamaldeep – Moderator**

Good afternoon ladies and gentlemen I am Kamaldeep, the moderator for this conference. Welcome to the Bharti Airtel Limited Third Quarter Ended December 31, 2008 Earnings Call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for all the participants on this call. Present with us on the call today is the senior leadership team of Bharti Airtel Limited. 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 Airtel

Thank you. A very good afternoon and a warm welcome to all the participants for taking time to join us for this third quarter earnings call. Since we are speaking for the first time in this New Year, a very Happy New Year to each one of you. The last few months, five or six months, particularly the last quarter has seen the world shake. Shake in many ways, which have been mostly unpleasant. We are all very, very familiar with the global meltdown; most of the industries have taken a knock, very bad beating. I think one industry which has withstood this kind of meltdown is telecom industry across the world. More or less across the world, telecom industry hasn't seen that kind of meltdown and it is our privilege that in India the meltdown has virtually not affected the Indian telecom industry at all. Now you are aware that Indian mobile industry which is spearheading the telecom revolution in India is adding today between 10-11 million new customers per month and it continues to add that month after month, which clearly indicates that the effects of this meltdown are not seen by us here and we stand quite insulated. Now this insulation, very clearly, is not by an accident. To our mind, this industry is insulated because of the policies, because of the business model that has been adopted here, fundamentally on two accounts, one it is not dependent on just a few large cities, which have been very severely affected by the meltdown. This is truly an inclusive model which stretches across the length and breadth of this country. Airtel has presence now in over 400,000 towns and villages and that speaks volume because the growth of this industry is not dependent on somebody in a Delhi or a Mumbai, but goes to every district of this country and that is where the impact of the meltdown starts evaporating.

The other factor is that this industry in India is built on the strength of affordability. As you are aware, the tariffs are absolutely the rock bottom in the world and that is another reason, which has provided a lot of insulation because the value of money proposition that the Indian telecom industry offers to its customers is so strong that this is obviously the last expenditure which gets hit.

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The third reason which is linked to the first one is that now over 60% of our customers come from rural area and I think just like they did not feel the impact of India Shining at that time I think the impact on them of this meltdown has also been more or less not there as compared to what we have seen with the other citizens, so that is great news. I think the growth is strong. I and my colleagues anticipate that this growth is sustainable and as we reach even deeper into the country, please note that we do cover already about 80% of the population of this country, but we are expanding our networks and hopefully we will be covering much more. The second big thing, which rocked India in particular, was, of course, the issue on corporate governance. All of us at Bharti Airtel take immense pride in the highest levels of corporate governance that have been set by us right from the word go, which is reflected in a very voluntary measure to get our Indian GAAP as well as US GAAP results audited on a quarterly basis, no specific requirement, but we felt this is extremely important not only for our investors, but for the management. We have also displayed to the best of our ability some very strong disclosures and transparency in our quarterly reports and therefore to us, it has been a way of life, which we keep improving quarter after quarter. So, while the current episodes obviously reaffirm everybody's faith to look afresh, I think for us it has been a matter of rule, it has been a matter of practice and we are very sure that all of you who have dealt with us over the years would endorse our view that the corporate governance standards that have been set by Bharti Airtel are something which all of us can be very, very proud of. I think it is very important, Sunil said it in his speech in Mumbai at the Economic Times Summit in the panel discussion and I think it is an important point that we need to ponder upon. So far we have seen that the companies with good corporate governance versus companies with not so good or bad corporate governance, the only difference has been a delta in the multiples and I guess to some extent on the investor community and the other stakeholders, it is now imperative that it is not just a matter of rewarding good corporate governance there has to be severe punishment of bad corporate governance. But on this score of corporate governance, I think we are all extremely satisfied with the robustness of our internal controls, the rigor with which we ask our auditors to do the checkings on every quarterly result and we are very, very confident about our internal systems. The third thing which we have seen in the last quarter is some pretty bad financial management, which has now of course become very significant when the finances available in the world are not what they used to be. Again, Bharti Airtel on this account has come out with flying colors.

As you are aware, we are an aggressive company when it comes to marketing and reaching out to the customers, but I am sure all of you who have watched us are aware that we are a very conservative company when it comes to financial management, and that is very much evident from extremely low, virtually nonexistent net debt, which we have for our size and we feel that this prudent financial policy, conservative approach to finances, low leveraging has helped us in being a rock solid company. Our performance in the quarter has been absolutely satisfying for all of us and I think the team has done here a great job, which Manoj will be talking about in his speech, but congratulations

to the entire team. It was a significant quarter, we launched our much awaited services in Sri Lanka. The response has been, by every account, overwhelming. We have also launched our DTH service, which from the market reactions is picking up steam at a very rapid pace and yesterday we launched the IPTV in some cities. So overall this has been a very significant quarter. This has been a quarter, which has tested many companies and I am pleased that with the hard work put in by the entire team, I think Airtel is in a rock solid position. Over to you, 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 and wish all of you a very Happy New Year. On behalf of my team, I am delighted to share that we recorded another quarter of strong performance, with revenues of very close to \$2 billion, thereby strengthening our leadership position in the marketplace despite intense competition, which actually is getting intensive day by day. We also continue to witness stable margins, consistently sustainable margins regardless of the pressure on the input cost. I would also like to reiterate that till now we are not seeing any direct impact of any economic slowdown on telecom growth because of the reasons, which Akhil explained to you. We look at this economic situation with confidence and being entrepreneurial and agile company, we will find opportunities of gaining higher market share in the coming years. We have recently launched our first international operations in Sri Lanka, as Akhil shared with you, and also IPTV in Delhi and NCR towns. I would like to share the initial response has been very good and it is my pleasure to share that Sri Lanka, as a new country for Bharti Airtel, is witnessing the fastest ever growth experienced by us in any single operations in our company.

Moving on, there is gratifying news that we have won top honours in Frost & Sullivan ICT Awards for 2008 in the category of "Large Enterprise Telecom Services, Wholesale Data Services and Mobile Services." This is significant from the point of view that we are emerging as leaders in Enterprise sector, all the large enterprises don't look at us only as a B2C leader, they are also looking at Bharti Airtel as a B2B business leader. On our leadership team, I just wanted to share good news that we have had very high quality additions to our leadership team in the company. Srikanth Balachandran has joined us as CFO replacing Sarvjeet. Sarvjeet Dhillon all of you know him very well; he has been the CFO of the company for a long time, now he is moving to a higher responsibility in the group office with Sunil and Akhil. Srikanth has come in couple of months back and he has twenty-four years of experience with Unilever in India and UK. Another very important addition to our team has been Shirish Joshi who has joined us as Chief Marketing Officer of the company with 20 years experience with P&G and Pepsi, his last posting was in Pepsi, China. Another colleague and I cannot share the name with you right now will be the CTO of the company and by tomorrow we are formally announcing his induction into Bharti from a leading European Telco because we want to really build our network into a far higher reliability, efficiency in the coming years. So with these new

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additions, I am sure our leadership in the marketplace will also get enhanced due to its stronger leadership team.

Now moving to the operational highlights of the quarter, the total customer base has increased to 88.27 million customers, with mobile customer base increasing to 85.65 million and Telemedia customer base to 2.62 million. We were able to improve our mobile market share by 110 basis points year-on-year to 24.7%. In the mobile services, the company's population coverage has increased to 79% by expanding its presence to seven new census towns and over 17,000 new non-census towns and villages. This makes our rural coverage an excellent rural coverage. There are a very few companies, even outside telecom, which have a coverage of more than four lakh villages and this, actually, is helping us to grow the topline very well just like the FMCG companies, two-wheeler companies who have rural coverage. And fortunately the agriculture incomes this year have done well, crops have done well, they are not impacted by EMLs of home loans and automobile loans, so agriculture, the rural areas are actually benefiting the growth of Bharti Airtel quite well.

In line with our expansion plan, our mobile distribution network now comprises of more than one million retail outlets. We have 88,000 sites serving the villages and towns. This quarter, we experienced a decline in minutes of usage per subscriber per month to 505 minutes. This was primarily due to the company lead initiatives to clean up discounted and irrational minutes, which were in the system for a long time; however, the good news is that the company has not only been able to hold its realized rate per minute, but also improved the realized rate for the first time despite increased competitive activities in the market. During the quarter, the company obtained additional spectrum in four service areas of Rajasthan, North-East, Maharashtra and Bihar and we are awaiting allocations in eight more circles where we are already eligible as per TRAI's new eligibility criteria.

In Telemedia, we added 110,000 customers subscribing to Voice and Data services in this quarter. Of our total customer base, 38% subscribed to broadband and DSL services and this percentage is growing quite well. Earlier this quarter, we also forayed into media space with launch of DTH services in 62 cities across the country. The initial response all across has been extremely positive especially on the quality of our products and services in terms of installation and commissioning of the product at homes. Currently, we are adding more than 100,000 customers a month. The financial and non-financial disclosures have not been separately disclosed in the current quarter due to non-material impact on the overall results of the company.

In the Enterprise Carrier business, the total national and international minutes carried increased by 50% and we have added 6,800 kms of optic fiber across the country 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. Our manpower productivity has shown marked improvement quarter-on-quarter and year-on-year as a result of maintaining our head count. While the

company has increased its revenue by 38%, employee count has increased marginally by just 3% year-on-year. Our customer per employee benchmark has improved by a close to 50%. Fortunately, 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 December 31, 2008, was Rs 96.3 billion, representing an increase of 38% over corresponding prior period quarter. The consolidated EBITDA for the quarter ended December 31, 2008, was Rs. 39.4 billion, representing an increase of 33% (approx) over corresponding prior period. The EBITDA margin was sustained at 41% in this quarter. The cash profit from operations for the quarter was Rs. 37.5 billion, representing an increase of 30% over the corresponding prior period quarter, and of course the net profit was Rs. 21.6 billion, representing an increase of 25% over the corresponding prior quarter. The total CapEx for the quarter has gone up from the last quarter to the level of Rs. 38.7 billion.

At the end, I would like to summarize that this has been very satisfying quarter both in financial terms as well as enhancing our market leadership in each segment, each business segment of the company. We are also excited about continuing to lead the growth momentum in the Telecom sector and in the present economic circumstances, our unique business model and our high focus on execution will surely help us gain more incremental revenues and create higher value for our shareholders in the coming quarter. Before I hand over the call to the moderator, I would like to reinforce what Akhil said, that Bharti Airtel has and will remain committed to all its stakeholders for its good governance and transparency and highest global benchmarks will be established in this area. Thank you, and over to the moderator for opening the floor for Q&A.

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 please press "*" "1" on their touchtone-enabled telephone keypad. On pressing "*" "1", participants will get a chance to present their questions on a first-in-line basis. To ask a question, participants may please press "*" "1" now.

The first question comes from Mr. Gaurav Jaitley from Reliance Equity, Mumbai. Mr. Jaitley, you may ask your question now.

Gaurav Jaitley - Reliance Equity - Mumbai

Great, thanks. Good afternoon, everybody. Just a couple of questions, if I may. First, Manoj, in your comments you mentioned that the competitive environment has been intensifying lately even more than ever, just wanted to get your, I mean, pricing has been a big concern with investors, you know, some of your peers have come out with pretty aggressive

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promotional offers. Just wanted to get your view on the current pricing environment in the last couple of weeks that will be great and then secondly on the margins, very healthy, very impressive and pretty increase in wireless margins, just wanted to get a sense of some colour on the drivers of that and if you think that is sustainable? And finally on the pay-TV business, if you could just give us a sense of how many customers you had at the end of the quarter and you mentioned that the financial impact was pretty insignificant, but is it fair to assume that the increase in EBITDA loss in the other segment was due to that? That is it. Thank you.

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel

Thanks, I will request Sanjay to take on the first two questions and then Atul will share the third issue.

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Hi Gaurav, this is Sanjay. Let me try and answer your first two questions where you have spoken about the competitive pricing environment. Well, very clearly, and you are talking Reliance over here. They have entered with an entry strategy or a free trial offer to the customers where they are trying to test out the network alongside as well. We believe that for any trial offer there is no need for significant existing operators to be reacting on a knee-jerk basis because eventually the moment you tend to withdraw these plans the customer are very discerning and they correct their usage immediately and we believe strongly that no free models are sustainable by any operator. So, you know, whether it will be a 90-day trial or a 120-day trial is a matter of detail but the fact is that sooner than later these will get withdrawn because nobody can afford these free offers for a long time and I think we are very competitive on prices in the marketplace today and we keep adjusting our prices to the market realities and there is no need for a knee-jerk reaction at this stage.

Gaurav Jaitley - Reliance Equity - Mumbai

Just a follow up on that. So in the sense of the impact in the marketplace, you have not really seen a big impact of this in terms of subscriber additions or, you know, we have seen IDEA actually come out with some pretty aggressive call rates as well on a promotional basis, so you haven't seen much of an impact yet. Is that correct?

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Well, you know, very clearly, usage-based, segment-based tariff vouchers always are a part of the UNR activity for any telco our size. We are offering those value propositions to our customers based on a segmented fashion all the time. So, I do not think we are uncompetitive in any fashion and our performance last quarter may not have taken this fully into account,

but there is no such caution that we at least noticed even during this month. On your second question were you talking about wireless margins?

Gaurav Jaitley - Reliance Equity - Mumbai

Right.

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Very clearly, one of the biggest drivers for the wireless margin has been the topline growth where we have added 655 crores to the topline this quarter and if you look at our incremental EBITDA margins they are at 45%, you know, so obviously the topline has been flowing through. Needless to say that on other OpEx items in the company, especially on the non-network related OpEx, I think we have been doing well and consistently coming down. All productivity measures in the organization, whether capital productivity or manpower productivity are at their best and last but not the least, you know very clearly we are seeing that we are improving, with tower companies now taking position and improving their processes and settling down, I think, those flow-throughs will also happen in the subsequent quarters as they begin to perform.

Gaurav Jaitley - Reliance Equity - Mumbai

Great. Thank you. That was very helpful.

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

Gaurav hi, this is Atul Bindal here. Just to answer you question on pay-TV. First of all obviously there is no material impact at all. We in fact just had this launch during the course of last quarter. The launch has gone off extremely well, and I think what I would emphasize here is that our Digital TV business is not really a stand-alone opportunity for us but we really look at this as a very integral part of our triple play which is across voice, data, broadband and now video, and therefore if anything we actually see an opportunity to leverage a common cost base for all these three services and an opportunity to get a higher share of wallet as is also being demonstrated through the 999 price plan, which we have launched to address this particular opportunity and more recently the IPTV launch of last week which would also help us address the existing customers.

The other point, which I would like to share with you is that, you know, we obviously have the third quarter, which tends to be more sluggish than all other quarters and that is something which we have seen year-after-year, which is there really because of the greater number of festivities during October, November and December and also increased number of holidays and if at all there was a little bit of softness because of that, but the good thing is that in Telemedia today, we now have a diversity of revenue stream and are no longer dependent just on voice alone, so the data and broadband penetration, as Manoj also touched on

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earlier, that actually continues to grow and climb at a very steady clip. We now have almost a million broadband customers and many of these would now automatically become target customers for our TV products both IPTV as well as DTH as well.

Gaurav Jaitley - Reliance Equity - Mumbai

Great, thank you, very much.

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

Thank you.

Kamaldeep - Moderator

Thank you, Mr. Jaitley. The next question comes from Ms. Nupur Agarwal from UBS, Mumbai. Ms. Agarwal, you may ask your question now.

Suresh Mahadevan - UBS - Mumbai

Hi. Good afternoon. This is Suresh Mahadevan from UBS. Just had one or two simple questions on the mobile business as well as the general return profile. I think if you look at your own quarterly performances clearly I think if you look at the past several quarters, returns whether you measure it on ROE or return on capital employed, on a last twelve month basis, has suddenly peaked around second quarter of fiscal year 2008 and they have been coming down and it may be an indication of competition. I was just hoping to get your view in terms of how do you see these numbers behaving because, you know, clearly I think competition seems to be intensifying further and you know what kind of a ROC may be sustainable or what you would be targeting or happy with. I think that is question one.

Second question is related to pricing. I do understand the introductory nature of the offer of 90-days, 120-days, but you know clearly this seems to be down with either getting the spectrum or if you put yourselves in the shoes of competition maybe after 90-days a lower tariff is probably what could keep the customers there, so I was wondering what your hypothetical or potential reaction could be because, you know, clearly some of your competitors seem to be, I think, are thinking it is more material and you know clearly, I mean, I do not know the numbers, but it at least seems like without much advertising, your competition seems to have created quite a bit of hype at least around the offer, so I wanted to hear your thoughts on what happens after 90-days. How do you plan to react? Thanks.

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

Suresh, this is Akhil. Let me take up your very valid question on the return on shareholders' equity and capital employed and I am glad you asked that because

for a long time this industry, the investors, the analysts, the fund managers have, to my mind in a slightly faulty manner, just focused on one thing and that is EBITDA margins, because ultimately EBITDA margin was on a steady state basis where every company made its own capital expenditure, a good reference point, but as you know over a period of time these businesses have changed. To a very large extent, Airtel has been instrumental in transforming some of these business models. We have separated the tower companies thereby converting what was earlier CapEx into OpEx.

If you see our performance, the return on stockholders' equity is still at a very high 34%. No doubt it has come down a bit from about 37 point something percent to 34.1% over the last four quarters, but the return on capital employed is at around 32.5% and has hardly moved. That is about 33.8% going down to 32.5%. In fact, for the whole of 2008, that is 2007-2008, it was 31.7%. Now that is very clearly an indication of two things, one is you know these are on the basis of the consolidated results, but as you are aware we have formed this tower company and naturally at this point of time we are pumping in CapEx there where the benefits will come over a period of time with higher tenancies. So, some of the return there may be temporarily low. The second also is very clearly that we have an extremely low net debt position, which means most of the funding is from the shareholders' equity, but I would say nothing really to be worried about here. I think we are maintaining a very, very high return on equity, but you are right, I think, for anybody who is a financial analyst trying to maintain a 34%-35% return on equity is always going to be a challenge, but I guess our management team has taken that challenge very, very well and I am confident that they would keep coming up with good return on capital employed as well as equity. Sanjay...

Manoj Kohli - CEO & Joint Managing Director of Bharti Airtel

Okay, Suresh, before Sanjay comes in with some more details, I just wanted to share one insight with you because I think obviously certain competitors are sharing confidence, which may not have a basis. You know across the world, it has been established that free minutes gain huge traffic. Whenever you throw free minutes in the marketplace, it gains huge traffic. Now this comes from a segment in a market, which is a deal seeker segment. This deal seeker segment could be more in some parts of the country and less in some parts of the country. This segment is not loyal to any brand. This segment goes wherever there is a good deal in this quarter or this month. The moment that free deal goes away that segment moves to the next good deal, which could be from some other brand, neither the traffic nor the segment is loyal to any brand at all, so we believe that we as a company which is a long-term institution, we are not really looking and working for this segment because this segment is not loyal to any brand. And in this particular case, this segment is being attracted by these free offers and hence, large traffic is moving to these free minutes. So particularly we are not worried. As soon as the charging starts, we believe that this traffic will move back to wherever it should move and it doesn't really impact the loyal segment of

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any good brand. So I believe that this is a temporary issue and as investors you should really look beyond the temporary blitz here and there especially if this blitz is led by deal seeker segment. I will just request Sanjay to give some more detail.

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Thanks Manoj. Suresh, hi. You know, I can put forward some facts, which actually are based on rationality and not irrationality. First and foremost, Bharti Airtel produces 1.34 billion minutes per day, and after producing so many minutes we are able to offer the rates that we are able to offer in the marketplace, which are very competitive, and after offering these rates, you know, we make 23.2% as EBIT margins and that is what is left on the table but at economies of scale that I have just referred to you. Now if anybody wants to come and offer minutes free and we have a mix of 900 and 1800 networks and you know there are cost differentials on maintaining the two types of networks, and somebody who comes in with an 1800-network and is willing to lower his price levels to the price points where it is virtually free, I don't think it is sustainable at all. Even if tomorrow they hike the prices and give, you know, a different price it will be a big challenge. But what you need to keep in mind is that some of these competitors who are offering these types of tariffs actually have an existing customer base to support. They have 60 million existing customers that they have, you know, Reliance has about 60 million customers, so I can't believe that if they are wanting to churn the customers of existing operators their own customers will not churn, if they do not offer them the same value, and if they end up offering the same free value to them they are going to be losing revenues as well, so it is a self-destruction methodology, you know, but what you need to keep in mind is that as competition has intensified in this country, we have moved from strength to strength. Our market share has been consistently going up. When the Indian market had only four or five players, the top two players combine in the market did not have a 50% revenue market share. Now that there are eight or ten players in the market, the top two players have more than 50% revenue market share, which means the market clearly seeks bigger brands in the marketplace and identifies and relates with them.

Suresh Mahadevan - UBS - Mumbai

Thanks a lot. My only worry is I mean I do not think competition is going to be successful for the reasons you have mentioned. I am just worried that are we entering a time period like we had in Thailand or somewhere else where, you know, the whole market kind of moves from this optimum price and usage kind of sweet spot into a suboptimal bit for four, six, eight quarters where we just see pricing offers and that is the only concern.

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

I can assure you one thing Suresh that we are not losing market share at the moment and that there is a very large critical mass already in the Indian telecom market and I don't think that critical mass can be discounted by any operator, does not matter who he is.

Manoj Kohli - CEO & Joint Managing Director of Bharti Airtel

And more importantly Thailand I think is an example, which is quite different from our situation. So Thailand I think it happened at a certain stage of market, which is very high level of penetration. Our penetration is, we have long way to go and actually if you see as the competition has grown in the last five years, our revenue market share has consistently grown because the tariffs have been coming down, it is not that first time that tariffs have come down, tariffs have been coming down, but our strength of distribution, our strength of network, our strength of our leadership team in every circle of India actually has been the edge of Bharti.

Suresh Mahadevan - UBS - Mumbai

Thanks a lot, gentlemen. Thanks Akhil, Manoj and Sanjay. Thank you.

Kamaldeep - Moderator

Thank you, Mr. Mahadevan. In order to give an opportunity to all the participants to ask questions to the management, we request you to limit the number of your questions to two and not repeat the questions already answered.

The next question comes from Mr. Rahul Singh from Citi Bank, Mumbai. Mr. Singh, you may ask your question now.

Rahul Singh - Citi Bank - Mumbai

Thank you. Good afternoon everyone. I had two questions. Firstly, on the international roaming side, are you seeing any impact already after the incidents in Mumbai, and if you can give some guidance on what that would be as a percentage of your total revenues. The second question I had was more number related. I see some increase in receivables during the quarter as absolute amount and also as number of days that seem to have gone up, so just wanted to get a sense of is there anything structural happening maybe in the tower business or anything which is leading to that?

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Hi Rahul. This is Sanjay Kapoor. Let me give a shot to your first question around international roaming. I think your apprehension is rightly placed. The number of tourists coming into the country has definitely depleted, but you must understand that our dependence on in-roamer international traffic is not very material now

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compared to what it was a few years back, so the impact is not very material to us, but yes, the number of in-roamers has depleted. It is below our expectation. Just a minute I will ask Shrikanth to answer your question on receivables, please.

Srikanth Balachandran - Chief Financial Officer - Bharti Airtel

Rahul, this is Shrikanth here. As far as receivables are concerned you are aware of our dominant business model is based on prepaid and therefore there is really no significant receivables as such, which sticks on in the business. If at all there are timing issues they are only on some of the project-based sales that keep happening from time-to-time on the B2B side and at this point in time we are not seeing any sticky debts or anything that causes concern to us other than the normal trends, which we have been seeing over a course of time. So really speaking at this point of time there is no cause for concern on that front.

Rahul Singh - Citi Bank - Mumbai

Okay, one more quick question, if I may. The per tower CapEx if I look at, if I see quarter-on-quarter, number of towers added and the CapEx on the passive Infra side that seems to be going up from 31 million to 39 million to 3.9 million to almost 5 million. With the commodity costs coming down, steel, cement, etc., do you think, I mean, is there anything I am missing here or do you think this number can come down drastically going forward?

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

Well I am not sure where these numbers are coming, but the definitely per tower CapEx is not that high, certainly not so high, so unless some capitalizations have taken place in this period, they are definitely no way near the figures that you have mentioned. But certainly, in fact the costs have come down a bit, steel has come down and some of the other things also have, so we are seeing a bit of a softening on the CapEx, so there is no cause of concern in terms of the cost going up, if at all they are coming down.

Rahul Singh - Citi Bank - Mumbai

Okay. Thanks a lot, Akhil.

Kamaldeep - Moderator

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

Rajiv Sharma - HSBC - Mumbai

Thanks for the opportunity. Just a couple of questions I will ask; first on the MOU side, I wanted to understand how you have computed your MOUs, what is the new formula you are applying right now, and what it would have been last quarter if the similar methodology was used? So to get a sense as to sequentially, are we facing any pressure on the traffic side? And also though your traffic has also grown only 7% this quarter, so are we seeing some impact because of the economic slowdown? The second question is your realized rates have improved, so is this because your MOUs have gone down or is it because of higher STD calling during the festive season. So some colour out there would be good and the third question is on the Enterprise segment where there is some sequential revenue decline, so is it temporary in nature or there are some longer term reasons to it? Thank you.

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Hi Rajiv, Sanjay Kapoor again. I think both your questions are very closely connected. I would request that you read the minutes decline and the ARPU in tandem. Very clearly, you have seen that the minute declined probably does not represent the very small amount of ARPU decline that has happened and that is actually the answer. Very categorically, Manoj mentioned that we took proactive stance during Q2 to remove some irrationally priced minutes in the system along with some free minutes that were being given on various price plans and by withdrawal of that we have actually taken away the minutes which were draining away the overall realized rate per minute and therefore you see the realized rates per minute sustaining or going up marginally. So that is what has happened. Actually that is good for the business because it takes away the extra CapEx requirements, which is fetching actually no yield from that CapEx spend. So it is a win-win for the company - a) Those free minutes go away. b) You are able to make your capital sweat better. So I think it is a win-win both the ways and that is the answer really to your question.

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

I think before David comes in with the explanation on Enterprise just wanted to give a clarification on the previous question regarding the CapEx on towers. I think it will be wrong to look at the CapEx incurred and divided by the number of towers added for a very simple reason that every time the tenancy goes up, which means if site is shared, there is also capital expenditure which goes into that. So, I think that was explaining the 39 lakh figure, which you had worked out, but that does not represent the cost of the new tower alone, it also includes CapEx on sharing where the site has to be upgraded.

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Rajiv this is Sanjay Kapoor, just one more clarification, you had also asked have we changed any accounting

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methodology in calculating minutes, I want to reassure you it is consistent.

Rajiv Sharma - HSBC - Mumbai

Sanjay, just a follow up. If we were to see it on a sequential basis, you were at 526 last quarter, would I assume that if you were doing the same kind of calculation it would have been 526 or generally Q3 is better than Q2 so it would have been higher?

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

It is not a question of better, you know, if we had not removed these free minutes, probably it would have been at similar level.

Rajiv Sharma - HSBC - Mumbai

Okay, and one more question was there on the Enterprise side, where the revenues have declined.

David Nishball - President - Enterprise Services - Bharti Airtel

This is David Nishball to answer your question on Enterprise. Let me break it down for you into the Carrier segment and the Corporate segment because there are two different dynamics going on there. First of all in the Corporate side I think it is very straightforward. There is timing issue in terms of when we recognize revenue on very large projects and we had a number of very large projects, which were completed in the first half of this year and recognized for revenue purposes in Q2, so there is a bit of lumpiness in terms of revenues. You cannot compare Q2 to Q3. It would be more appropriate if you look at say the first nine months of this year compared to the first nine months of last year and you will see kind of continuous growth in the 30 plus range and so I think that is a more appropriate way to look at it.

In the Carrier side, what you see in this quarter versus last quarter is the last piece of the ADC or the Access Deficit Charge reduction on international traffic. So there was a half-rupee reduction, which we passed on to customers resulting in the 5% revenue increase you saw quarter-on-quarter. If you look on EBITDA level you will see about 10% increase quarter-on-quarter, which is more reflective of the kind of volume growth that we saw. International traffic actually grew quarter-on-quarter by about 14%, so you will see that is flowing through on the EBITDA side, but does not flow through the topline because of the Access Deficit Charge change that we passed on to the customers.

Rajiv Sharma - HSBC - Mumbai

Okay. That was very helpful. Just a small follow up question for Sanjay. You have used this methodology and you are doing away with free minutes, but

competition is giving away a lot of free minutes, so is it sustainable do you think, or you may have to go back to providing free minutes in the future?

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Rajiv we just answered this question. You know sustainability should be a question for the people who are giving free minutes.

Rajiv Sharma - HSBC - Mumbai

Okay thank you, very much.

Kamaldeep - Moderator

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

Reena Verma - Merrill Lynch - Mumbai

Hi, sorry it is Reena Verma from Merrill. Thank you for this opportunity. I have couple of questions. Firstly, can you please confirm to us what is the increase in spectrum charges for Bharti as a company in terms of the wireless business? Secondly, can you please also let us know how much of your coverage is eligible for the USO concession that comes in from April 09? If you permit me I just have two small followup questions on the previously answered ones. One is, Sanjay, I heard you on the MOU, but please can you confirm once again whether the new user who is coming in is still bringing in the same type of minutes as you were seeing earlier or is there any change in that pattern? On Enterprise side, David mentioned that if you look at the nine-month trend the revenues haven't slowed, but the EBITDA has, so if you can please comment? Thank you.

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Yes, Reena. Sanjay Kapoor. I will take the first three questions. On increase on spectrum charges, I can give you a rough idea, it would be around a percent probably that's the increase from earlier position.

As far as USO concession is concerned,

a) It is comparative in nature.

b) We are still calculating, to be honest, so I can't give you an answer to that, I think when we meet the next time probably we will be able to give you a better answer.

Last one on new users, I would always say to judge this you must look at a bigger horizon. Look at our performance over a twelve-month period in time we have grown 30% on customers, 42% on revenues and 6.5% on minutes of use per customer. Now this clearly is telling you that despite of going deeper into hinterlands the minutes have not come down at least

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that has been the track record. I cannot give you any guidance for future.

Reena Verma - Merrill Lynch - Mumbai

No problem. Thank you, Sanjay. On Enterprise revenues, my question is still pending.

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Yes, just a moment.

David Nishball - President - Enterprise Services - Bharti Airtel

I think your question was on Enterprise EBITDA versus Enterprise revenue?

Reena Verma - Merrill Lynch - Mumbai

Yes, David. Thank you.

David Nishball - President - Enterprise Services - Bharti Airtel

Are you talking specifically about Corporate Carrier or the consolidated Enterprise numbers?

Reena Verma - Merrill Lynch - Mumbai

No Enterprise Corporates.

David Nishball - President - Enterprise Services - Bharti Airtel

Enterprise Corporates actually margins have been pretty steady. We did 42.9% EBITDA margin this December that compares to 41.9% EBITDA margin in the prior December, the quarter ending December. So we look at the growth in revenue over that period and the growth in EBITDA, they track it almost exactly the same percentage. I think the EBITDA margin does move around for a couple of reasons; one is the mix of services that are sold within the quarter. So where we have a quarter where there is a large amount of equipment sale, the margins will be lower in that quarter because the margins on that component of the service, the equipment sale versus the services sale have different EBITDA profile, but overall, I think we are seeing consistent margins in the 40%-45% on the Corporate side.

Reena Verma - Merrill Lynch - Mumbai

I am sorry to persist, but my question was more about whether there is a slowdown and not about the margin because if you look at the absolute EBITDA run rate, which is, you know, revenue into margin that seems to

have slowed on a nine-month basis. So would that be, you know, is there a slowdown in this segment?

David Nishball - President - Enterprise Services - Bharti Airtel

I do not think there is a slowdown in this segment in terms of the EBITDA profile relative to the revenue.

Srikanth Balachandran - Chief Financial Officer - Bharti Airtel

I will build on David's reply. Srikanth here. If you just trace the absolute EBITDA amounts in rupees and if you look at a similar quarter last year, it was about 1.3 billion and at this point of time we are at 1.75 billion, so you know what David says is right. There are peaks here and there whenever you have project sales, such as what happened in the previous quarter, but as you can see over a period of twelve months you can see that there has been a steady improvement from 1.3 to 1.75.

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

Reena, I think to your question definitely we feel Enterprise business, especially on the Corporate side, has way to go, there is scope, there is potential and in the coming years we would be trying to see how we can unshackle that potential.

Reena Verma - Merrill Lynch - Mumbai

Sure. Thank you, very much gentlemen.

Kamaldeep - Moderator

Thank you, Ms. Verma.
The next question comes from Mr. Shrinivas Rao from Deutsche Bank, Mumbai. Mr. Rao, you may ask your question now.

Shrinivas Rao - Deutsche Bank - Mumbai

Thanks this is Shrinivas here sir. Good day. I have two questions. One is, you know, we were just calculating the mobile CapEx over the last nine months on a per tower basis, and the number is almost 6 million. Is that the right number, is it high? Akhil, if you can just throw some light on that. Second question is on your investments in submarine systems, could you quantify how much you are planning to invest and how much you have done that specifically the SEA-ME-WE-4 and others, which you have mentioned in your report. And finally a small question, there is a talk about termination charges potentially coming down, could you quantify what could be your share of interconnect revenue and as a percentage of your overall revenues or just give a colour on where, what kind of impact if these charges have to come down?

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

Okay, Shrinivas Hi, this is Manoj. Let me start with the third question first. The consultation process on IUC is going on, our industry association is talking to the regulator, law of data is being shared, and I think that is going on in a very transparent fashion and we as individual company would not like to share what will happen, when will it happen, what kind of impact because we really do not know what will happen. So I really cannot give you any details here.

On the submarine cable, we have made announcements, there have been five announcements in the last 18 months of two cables on the eastern side, two cables on the western side and one cable going to South Africa, and these capacities will come into play later part of this year and I think as we come into play I think we will start the traffic on these new cable systems. On tower, Akhil is coming in now.

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

For the first nine months if you would look at Page 10 of the quarterly report, the total capital expenditure on the passive infrastructure was Rs. 30.965 billion. This is attributable to Infratel, which means Infratel's own expenditure plus 42% of Indus expenditure. For the full year, we had earlier stated that it could be close to about a billion dollars and it seems it would be more or less in line with that, but between Indus and Infratel, I think there would be a total expenditure this year, capital expenditure of at least close to about 8000-9000 crores.

Shrinivas Rao - Deutsche Bank - Mumbai

Sir, my question is also related to your mobility CapEx, which I am assuming is completely, you know, CapEx largely for active elements?

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

Yes, mainly for that because that does not include the passive side.

Shrinivas Rao - Deutsche Bank - Mumbai

That number approximately you have spent about 53 billion, 54 billion, 5400 crores I am rounding off numbers and about 8500 incremental towers have come into operation over this period. So, obviously we are like analysts we are dividing it mathematically where it comes to about approximately 6 million per tower.

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

No, no, no....it does not work that way because that expenditure is for capacity. It has nothing to do with new towers being added because on the same towers also we could be adding a lot of capacity. So it would not give you the correct picture.

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Shrinivas you will never be able to find out how much capacity is going on to existing towers....

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

And we are definitely not telling you the rate at which we incur this CapEx.

Shrinivas Rao - Deutsche Bank - Mumbai

I appreciate sir. Thank you.

Kamaldeep - Moderator

Thank you, Mr. Rao.

In order to give an opportunity to all the participants to ask questions to the management, we request you to limit the number of your questions to two and not repeat the questions already answered.

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

Vinay Jai Singh - Morgan Stanley - Mumbai

Thank you so much. Congratulations on a good set of results sir. I have just two questions. The first one on Telemedia, if you see across the quarters last two quarters the revenues have been flat, ARPUs are down 4%, EBITDA margin is down about 1.5% to 2%, absolute EBITDA, too, is down, it is not growing in line with the other businesses. If you can throw some light on that that would be great. If you move on to the second question, on the passive infrastructure, Page 6 of the report suggests that you would be transferring 35,000 towers some time in the future to Indus and there are about 10,000 towers which have been built in Indus on account of which you have had some loss of about 460 million in the EBIT levels. Just to understand on the passive infrastructure what to expect next quarter or in the future, I assume the EBITDA of your consolidated entity may come down and the EBIT should go up, so if you can throw some light on that, it will be great. Thank you.

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

Vinay, hi this is Atul Bindal here. Let me just take your first question. Two aspects there Vinay, if you were to

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look at the sequential data and I agree with you that that is what the last two quarters are showing, as I said earlier you know, every year October, November, December these are the three months, which tend to be the most sluggish months driven basically by number one, festive season and number two a lower number of working days on account of greater number of holidays. So as a result of which you know because significant percentage of business continues to ride on the business voice, B2B voice that does tend to get impacted during this period. So we expect that to be purely seasonal and temporary.

The second aspect is that you know once again commenting just on the last three months that in certain sectors within the B2B segment like financial services, etc., there has been a little bit of softness, which we have seen as our customers have really gone on to seek more efficient products and services platforms and therefore you know while on the one hand the demand for conferencing solutions - voice, video conferencing etc., has picked up, there has been a little bit of an impact, which we have seen in voice and those specific sectors within B2B. What has been handsomely compensating that is really the data, the internet lease ports, the leased lines, the MPLS, all those kinds of products you know they continue to get very good traction.

The second point, which I want to make is that I really do believe that the right way to look at this would be therefore on year-on-year and if you were to compare us on that basis revenues are really up 16%, which is a trifle lower than about 21%-22%, which is normally what Telemedia has been tracking on otherwise on a year-on-year basis, but the good part is that this 16% growth has actually translated into an EBIT growth of almost 24% and you know, while holding the margins still in high 41.5% and ARPU, which is still coming at a 1100 or so.

Vinay Jai Singh - Morgan Stanley - Mumbai

Sir, even if you look at your sequential numbers, as you said it is cyclical, you know, even if I look at 2007 3Q to 2Q was 60% up, if I look at 2008 again sequentially it was up 10%. That is why I had asked this question.

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

Right, you know, Vinay, actually as we go forward we do expect that the data and broadband streams on the one hand, and the video and TV streams on the other, they would actually start compensating for the voice displacement and the newer technology like VoIP etc., which are coming in. So we would continue to participate in all three streams, but you would see a transformation, which would start taking place from PSTN voice to really IP based platform and so on.

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

Vinay, just to close on the Telemedia side and move on, I think one thing you must realize is that unlike mobile business, we have taken a conscious call of restricting this business to 95 cities. We are not growing in terms of cities and therefore this is not designed for a very, very high percentage growth of revenue. We are experiencing about 20% year-on-year growth, which I think we are pretty comfortable and satisfied with. On passive infrastructure, yes, I do not have the exact figure, but around 35,000 towers have been now transferred and the rights given to Indus to bill the revenues from those from January 1st, so from the next quarter you will see different figures coming under Infratel because under US GAAP they would be accounting for that 42% of the net profit coming from Indus, so that would be some change, we will try and show you the comparative figures for that, but that is how it is from 1st of January. In respect of the Indus circles the revenues will go to Indus and Infratel gets 42% of the profit there, and for the remaining seven circles plus four overlapping circles Infratel will keep billing on its own.

Vinay Jai Singh - Morgan Stanley - Mumbai

Thank you. Sir.

Kamaldeep - Moderator

Thank you, Mr. Singh. The next question comes from Mr. Bhuvanesh Singh from Credit Suisse, Singapore. Mr. Singh, you may ask your question now.

Bhuvanesh Singh - Credit Suisse - Singapore

Hi sir, thanks a lot for giving me this opportunity. I have got two very simple questions. First on free cash flow - when do you think that the company will start generating free cash, like this quarter again after taking working capital and all into account we are free cash negative? The second thing on CapEx, can you give us some idea about CapEx for next year and also break up of that, and within that, can you also explain how your views on CapEx have changed over the last six months? That is all, thank you.

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

Very quickly, I think free cash flow on Bharti Airtel stand-alone, that is without tower companies, I think we are generating a free cash flow but as far as tower company is concerned there is no question of free cash flow there because there are massive investments going in there between the two tower companies, we will be adding more than 30,000-35,000 new towers, forget about that in addition to all the sharing, which will be done and therefore more CapEx, but on a Bharti Airtel standalone, we are on a free cash flow basis. As far as CapEx is concerned, a little early I think by next quarter we will be able to give you a better estimate but

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on a macro basis it appears that what we incurred this year for Bharti Airtel of between 2-2.5 billion it should not be exceeding that amount for the next year. As far as the tower companies are concerned, I think they are going up very, very rapidly so you should keep that CapEx apart but just on a proportionate basis, I would say another billion dollars on account of tower company. But hopefully by next quarter we will be able to give you a better guidance on the CapEx, as you remember, this is the only guidance which the company provides.

Bhuvanesh Singh - Credit Suisse - Singapore

Atul, one small clarification there. You know, when you are trying to finalize your CapEx for next year....

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

As far as our CapEx plan is concerned, it is only and only driven by our consideration for capital productivity. I think as long as we can get capital productivity, we have absolutely no restraint in our mind on the CapEx which we will spend, so we have a very simple and one only matrix, which determines our CapEx level and therefore it is flexible because if we see more capital productivity, we do not hesitate in putting more CapEx.

Bhuvanesh Singh - Credit Suisse - Singapore

Thanks a lot.

Kamaldeep-Moderator

Thank you, Mr. Singh.

The next question comes from Mr. Sandeep Bihani from Prudential Asset Management, Singapore. Mr. Bihani, you may ask your question now.

Due to lack of response from Mr. Bihani's line we will now take the next question.

The next question comes from Ms. Nandita Parker from Karma Capital Management, New Delhi. Ms. Parker, you may ask your question now.

Nandita Parker - Karma Capital Management - New Delhi

My question is about the Tower business. What exactly is the marketing strategy for increasing tenancy and what do you think in the next year or so we should expect to see increase in tenancy, what kind of numbers are you looking at and are you seeing kind of pricing pressures there in that business?

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

Nandita, on the strategy for Towers, you know, it is a very simple business. There is one simple strategy - the whole business has been set up with a very clear

intention and a very clear purpose that the passive infrastructure must be shared in a non-discriminatory manner between all operators, not the founder members or the founder shareholders, every operator which wants to share the passive infrastructure it is open to them. The simple strategy is to reach out to each one of them, irrespective of whether they are established one, whether they are new ones, what technology they offer, makes no difference to the Tower Company. What tenancy could happen, frankly I think very formative stage at this point of time I do not think anybody can make a good guess but in any case I would not like to give any guidance on the tenancy factor.

Nandita Parker - Karma Capital Management - New Delhi

Just a follow up. Would you see a possibility at all of there being an oversupply in the towers in a couple of years down the road at all?

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

Thank to the financial crisis, I definitely can say that there does not seem to be any possibility of that at all. And accordingly, I do not think there is much of a price pressure because the pricing is in a manner where the tower company and the operators are aligned. As sharing goes up, both gain, so I think it is at a very reasonable good pricing, which is good for both sides.

Nandita Parker - Karma Capital Management - New Delhi

Thank you, sir.

Kamaldeep - Moderator

Thank you Ms. Parker.

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. Two questions, you have expressly stated that you would be going in for all India 3G, I was wondering if you have any comments on whether you will be pursuing to go to the WiMax route as well, and second question was any colour on the effective tax rate for the coming quarter and next year please. Thank you.

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

I think on 3G and WiMax, we would refrain from making any comments because one we do not know what is going to happen, what is the final policy on that and

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two, I think anything, which we say could have a competitive impact. So, we are waiting and watching to see how that policy is finalized and when the auctions takes placed. On tax, let me ask Shrikant to give you break-up.

Srikanth Balachandran - Chief Financial Officer - Bharti Airtel

Srikanth here, you know, taxes is the measure on which we do not give guidance as such as Akhil clarified, it is only CapEx, but having said that, if you see the past few years or the past few quarters if you see you will find the effective tax rate has been stable in the region of between 14%-15%, and there are occasions, such as this quarter for example, it is 10.4% predominantly driven by the tax benefits that are available on the telecom industry from circle to circle basis.

Anirudh Gangahar - Goldman Sachs - Mumbai

All right. Thank you very much.

Kamaldeep - Moderator

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

Sanjay Chawla - Anand Rathi -Mumbai

Hi, good afternoon. Thank you very much for the call and congratulations on a good set of results. I have got two, three questions. What is your passive infrastructure sharing revenue per tenant is down quarter on quarter, could you just clarify what is it really driving that. Secondly, on your balance sheet, you have got these dues from related parties, which has increased to almost Rs. 19 billion compared to Rs. 9 billion in the second quarter, could you just provide some colour on that as well and lastly, you mentioned that Reliance's plan clearly seems to be unsustainable but in the first 20 days what kind of impact have you seen on the MOUs in some of the circles where Reliance has launched this free GSM plan?

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

I think the third question has been already taken up, so in the interest of time we will not repeat that. On the first one about the revenue per sharing operator, very clearly as the ratio goes up, the per tenant revenue will come down because that is how the MSA is designed and that is what exactly what I was saying in reply to the previous question, that the whole methodology and strategy of the tower business is that as sharing goes up, the tower company gains by way of total revenues going up and the operator gains because their cost per tower comes down, so it is not surprising that this

revenue per tower or per operator will come down as the sharing goes.

Srikanth Balachandran - Chief Financial Officer - Bharti Airtel

As far as amounts due from related parties are concerned, the only increase we have seen in this quarter is the amount due from Indus Towers, which is as you know a joint venture within the group, from the subsidiary Infratel.

Sanjay Chawla - Anand Rathi - Mumbai

Can I just ask a follow up question to Atul on the wireline traffic? Is there any evidence of any mobile substitution that you are seeing in your wireline MOUs and traffic?

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

It will be wrong for me to say that we are not getting impacted by that, but that is something, which has been there for quite sometime, you know. I think the question is what is the strategy, which we continue to execute as far as that part of our business is concerned, and that is how the restructuring and transformation got triggered a couple of years ago. We have a very highly focussed and targeted strategy, which is around the high-rise and vertical first in the top 95 cities, which is all about flat combo plans and that is where we continue to see traction as we add more and more revenue streams. As you have seen this quarter the customer acquisition is still continuing at a fairly healthy clip, we added 110,000 customers, we have in fact committed also significantly to CapEx and we believe that across voice, data and video, we still have a fairly healthy mix of customers, which continues to deliver an ARPU of 1100 and above.

Sanjay Chawla - Anand Rathi - Mumbai

Atul, are you suggesting if I understand it correctly, that the strategy to enhance the telemedia offering in terms of DTH or IPTV and penetration of broadband DSL, all that is basically there to basically support the revenue growth? Are you basically seeing a peaking of the voice ARPU in the wireline business?

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

See the way we are looking at this is that there is a fixed premise, you know, that can be either the home or the office, and there is a share of wallet opportunity that we have with each of these customers, that wallet comprises today a voice component, a data component and a video component, apart from some other ancillary products and services. We do not want to leave anything on the table. We believe that we have a common infrastructure in terms of customer service, go

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to market and our backend systems, which can actually support extraction of all these three services, so that is really in a nutshell the strategy for Telemedia.

Sanjay Chawla - Anand Rathi - Mumbai

Thank you very much.

Kamaldeep - Moderator

Thank you Mr. Chawla.

The next question comes from Mr. Shobhit Khare from Motilal Oswal, Mumbai. Mr. Khare, you may ask your question now.

Shobhit Khare - Motilal Oswal - Mumbai

Hi, good afternoon. My question is on derivative and exchange fluctuation. Just wanted to get a sense of - we understand that this is a notional loss, but will some of this be returned back even if rupee is at current levels or only when rupee appreciates from here we will have some gains on this. Thank you.

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

Let me just explain how it works. As per the accounting standard on the US GAAP, anything which is outstanding in foreign exchange as a liability has got to be marked to the actual foreign exchange rate at the end of the quarter. Therefore if the rupee has depreciated, you will get a shift to the P&L. However, since a very significant portion of our foreign exchange outstandings are already hedged and we have forward covers on those, but the accounting standard does not exclude them, so you have to do the mark-to-market on the foreign exchange rate on the entire loan and then whatever hedging you have done you have to estimate and get an estimate from the bankers that should you cancel all that at the end of the quarter what would be the gain or the loss, which means on the other side if there is a depreciation of rupee and you have got covered at a lower rate naturally we have to cancel these contracts you would be getting some income, but it does not exactly match because the estimation of cancellation of hedge is dependent on what the view on the future rates is, so it is very difficult to say, but you are right, the only way this can come as a profit in those quarters where the rupee has appreciated and vice versa. But from our point of view, the whole lot of this fluctuation on the hedged loans is notional.

Shobhit Khare - Motilal Oswal - Mumbai

Okay. Thank you.

Kamaldeep - Moderator

Thank you, Mr. Khare.

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

Shubham Mazumdar -Macquarie - Mumbai

Thank you for the opportunity, I have two questions, it would be good to have an update on the new initiatives over the last few days and last one quarter, one is the Srilanka business, Akhil could you just articulate what is the CapEx commitment, what is the kind of philosophy guiding the launch, what do you want to achieve over a medium term of the next two to three years and finally how material it could be to the consolidated Bharti numbers over the next two to three 3 years, how do you look at this new business and also it would be good to have the DTH sub number at the end of December 2008, that is my first question. The second question is with regard to the fact that we can clearly see CapEx intensity starting to go down, the number of base station being added every quarter is consistently heading southwards and population coverage is likely to reach 100% possibly over a two year timeframe on 2G. What is the sort of broader outlook in a medium term on CapEx and is there any issue on capacity utilization filling up now that 3G has become a little bit of question mark, is there a problem in the densely packed areas, and finally, related to the question is once you are free-cash positive, is there any sort of an assertion you can make on what sort of pay-out ratio one can expect in the medium term. Thank you.

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

I will ask Sanjay to take up on Srilanka; DTH we have already answered this question in the previous one. On Capex intensity, I have given some idea of what we expect to incur but beyond that I think by next quarter we will have a better idea, capacity constraints no, we have got spectrum in some circles and therefore while some places definitely there is still congestion, but I think on an overall basis, I would say the capacity utilization is within satisfactory levels. As far as free cash flow is concerned, well it is I think, a little too early, we have to wait for the 3G auction, we do not know what is going to happen there, so once that is out of the way we would know exactly how to deal with the situation.

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

In fact Shubham one of the reasons why you see the number of towers declining is because we have got additional spectrum in nine different circles and eight more applications are pending, so as we get more spectrum obviously the number of towers that you require become less because you can fill up the same towers with more capacity. On your Sri Lanka question let me say that, you know, we have entered the Sri Lankan market as the fifth operator. Sri Lanka is 50% penetrated market and we entered from behind with both 2G and 3 1/2 G technologies. We are very pleased to say that we have got an overwhelming

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response in that country. The reason for entering Sri Lanka - we had made available to all you guys earlier to say there is a regional proximity, there is the cultural proximity and our business model could easily be deployed in a place where number of minutes consumed are very less, the rates were still very high, incoming calls are still not free and there is still propensity you know and therefore it made sense, but when we entered the market, we saw that the quality of existing networks was nothing hot, there were lot of room for improvement over there. We also saw that the pricing in that market was exceedingly cluttered and confusing, there were off peak tariffs, peak hour tariffs, in some places incoming charged, some places incoming not charged, outgoing rates on to on-net and off-net were different, so we obviously had a plank where we needed to simplify the entire tariffing, which we did. We made incoming completely free and also the quality of network in the 60% addressable population that we covered on day one was substantially better than anybody else. And finally our communication and brand was not being seen by the customers for the first time. Airtel has been observed because the same channels are viewable in Sri Lanka over a long period in time and therefore soaking the brand did not take too long. All I can tell you is I cannot reveal numbers because we are just 10 days old into the launch, but the response has been absolutely overwhelming, we have never seen such long queues lined up to register for numbers and making bookings etc., anywhere in India earlier, we have launched so many circles. So hopefully things should work out well, but I cannot give any guidance more than that at this stage.

Shubham Mazumdar - Macquarie - Mumbai

Sanjay, that was very helpful, just a very small follow-on question. What has been the tariff strategy on launch? Are you at a discount or at par with the incumbent like Dialogue and secondly, could you just give us a sense of how many base stations Dialogue probably has across the county just to get a sense of what sort of CapEx is in question?

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Well, CapEx guidance we have given earlier as well, we said that we have committed a \$200 million outlay over a five year period, which is up to 2011-2012, and out of that a little less than a \$100 million is what we are committed to right now, we have not expensed out the whole thing but we are committed to about a \$100 million already, and to give you an idea of what our friends at Dialogue do, I think they have roughly a little over a 1000 towers all across and you know, we are fairly comparable and that includes capacity sites. We do not need capacity sites on day one, so I think in other six to eight months' time we will have a very comparable network in terms of coverage compared to them.

Shubham Mazumdar - Macquarie - Mumbai

And tariff, very quickly?

Sanjay Kapoor - President - Mobile Services - Bharti Airtel

Well, tariff obviously we went below the market, but it was a smartly-packed tariff and it is not a free tariff like, you know, what we face, or a promotional tariff, we charge for every minute the customers are really using the network and therefore we want to make money out of it as soon as possible.

Shubham Mazumdar - Macquarie - Mumbai

Thank you very much.

Kamaldeep - Moderator

Thank you, Mr. Mazumdar. 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.

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel

Thank you, I think it is been a gratifying quarter for Bharti Airtel. I believe we have had excellent launches of Sri Lanka, DTH, IPTV, which will add to our new revenue streams in future. The growth is sustainable. I really thank all of you to attending this call and we look forward to again talking to you at the end of next quarter. 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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