

Earnings Conference Call Transcript

Event: Bharti Airtel Limited, Third Quarter Ended December 31, 2009 Earning's Conference Call

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Transcript for Bharti Airtel Limited, Third Quarter Ended December 31, 2009**CORPORATE PARTICIPANTS**

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PRESENTATION**Hina – Moderator**

Good afternoon ladies and gentlemen, I am Hina, the moderator for this conference. Welcome to Bharti Airtel Limited, Third Quarter Ended December 31, 2009 Earning's call. For the duration of the presentation, all participant lines will be in listen-only mode. After the presentation the question and answer session will be conducted for the 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. Manoj Kohli and Mr. Sanjay Kapoor, after which the floor will be opened for the question and answer session. Before I hand over the call to Mr. Kohli, 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 Mr. Manoj Kohli. Thank you and over to you, Mr. Kohli.

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel

Thank you, Hina. Sanjay and me will be taking this call for today, but all my senior colleagues are here, Atul, Srin, Srikanth, Manik. Manik as you know is the Group CFO of the Company. He is also present here.

A very good afternoon to all of you; a warm welcome on this call. We are speaking for the first time in this year, so wish you a very Happy New Year to all of you. We have already shared our new organization plan with all of you, where Sanjay is taking over as CEO of India and South Asia operations of the Company effective 2010. At the same time so as to enhance our focus on expanding operations to international markets beyond India and South Asia a dedicated international business group has been formed, which will shape and execute the international strategy of the Company.

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In the context of difficult global economic situation, India has emerged as one of the best performers in the world where consumer demand is fairly strong, showing a power of growing middle class, rural customers as well as higher spends by the large youth population of India. The Indian economy has already rapidly recovered to a 7% growth and is expected to grow to 8% in the coming fiscal year.

Coming to our industry now, we are going through peak of competitive intensity in India, which no other market of the world has ever experienced. In many markets in India, there are already more than 10 operators and a couple of more operators are expected to launch in the next five to six months. The entry of new players is usually coupled with attractive promotional tariff schemes, which we continue to feel, are not supported by their cost structures, but nonetheless that continues to put pressure on the market tariffs. The current trends of 15 million new ads each month are SIM ads and not real customer ads, which could be about 10 million real customers a month. Based upon this the overall wireless market base of over 520 million is a SIM number base and does not reflect the real customer teledensity which could be about 80% of the total base. In this phase it is heartening to note that the existing operators have come out stronger in terms of both growing traffic as well as revenues.

Sharing some regulatory updates with you now; the industry is looking forward to major regulatory developments in the coming months. We hope that the 3G and BWA options should get concluded within this fiscal year. Simultaneously TRAI is also going through intensive consultation process on many key issues such as 2G-spectrum allocation, M&A policy for future and other issues. TRAI's recommendation could be with the government in the next few weeks leading to final government decision, which will lay down a smooth and orderly roadmap for industry's growth in the next five years. Also government is reviewing utilization of USO funds, so that the balance 170,000 villages are also expeditiously covered by the industry with government support.

In this quarter we have observed resurgence of customer usage as well as elasticity, which is a strong proof of customer's preference for our brand especially after had exciting and more affordable offers have been provided to customers. With focus on network quality, service quality and product innovation we have continued to sustain a healthy revenue market share of over 32% despite hypercompetition. Simultaneously our acute focus on cost efficiency, productivity and making our business model leaner has led to healthy EBITDA margin of 40%.

I am also happy to share with you about our recent acquisition of Warid Telecom in Bangladesh. We are all excited about this market. Not many countries in the world have population of over 160 million people along with low teledensity of 32% only. Bangladesh will surely be a promising market for us. I would also like you to note that the transaction structure where our investment of \$300 million stays with the Company for its expansion, rollout and growth needs. I must also emphasize that this phase of hypercompetition in India may continue for another few quarters and the industry will observe more stable market environment in the second half of this year.

Our results reflect that strong operators are getting stronger with quality talent, a leadership brand and strong balance sheets. We are committed to capitalizing all growth opportunities in the coming quarters.

With that I hand over to Sanjay to take you through performance of the quarter. Thank you.

Sanjay Kapoor – Deputy CEO - Bharti Airtel

Thank you, Manoj, and let me add my own welcome and a very Happy New Year to all the participants on the call today. A very good afternoon to all of you. Before I share the Company's performance details with all of you, let us have a quick recap of Indian telecom market. At the end of the quarter, the telecom base stood at 561 million with a telecom penetration at 48%. Wireless continues to drive telecom growth this country adding close to 53 million wireless customers taking this total wireless customer base to 524 million; However, the rural penetration is still very low at 17%. Last few months, industry has experienced the phase of heightened competitive activities. While the telecom penetration has gone up, proliferation has happened more by increasing multi SIM phenomenon. While the price got triggered, we responded to remain competitive but at the meantime not matching the least common denominator in the market. The good news is that customers have almost responded instantaneously, which is evident from the traffic growth in this quarter. The phase may continue with a couple of new competitors who may enter into the markets in this quarter, but once this phase is over, we may see the third round of this industry to start seeing early signs of consolidation.

We are all excited with this new phase of growth and I am confident that Bharti Airtel will not only strengthen its competitive position, but also once again emerge as a winner. Even on the cost side, we are looking at efficiency and productivity. Lot of initiatives are underway, which is evident in EBITDA margins despite of the sharp decline in ARPM in this quarter. One amongst those initiatives being the next year's planning on a zero-base budgeting. Nonetheless while the environment is what it is, we also want to mention that we also see this as an opportunity to continue to invest our resources as we had planned earlier for and even better customer access, a heightened network quality, continuous lead laureate customer service, and new service, and product for an entrenched and enriched customer engagement. All this is what shall count as the market comes out of this disruptive phase.

Moving on to the Company's performance. I am pleased to highlight that we recorded a strong performance in the quarter. Our total customer base increased 121.9 million with an addition of 8.4 million in the last quarter. Mobile segment increased 118.9 million customers and Telemedia at close to 3 million. Our Company leads the market both on

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wireless customer market share and revenue market share. The customer market share stands at 22.7% despite strong competitive headwinds and we have been able to maintain our revenue market share shade above 32% in the last reported quarter.

Few of the other operational highlights for the Company for the quarter; the Company carried total of approximately 175 billion minutes on its network up 7% quarter-on-quarter and 23% year-on-year. This quarter we added close to 11 billion minutes on our network. Total number of network sites at the end of the period was over 102,000. With a strong presence in all census towns and close to 434,000 non-census towns and villages the Company covers 84% of India's population. The realized rate per minute for the quarter was 0.52 paise, a decline of 8% quarter-on-quarter and 20% year-on-year.

Now I will move to the financial performance of the Company. The consolidated revenue for the quarter is Rs. 97.7 billion representing a growth of 1% compared to same quarter last year whereas for nine months is Rs. 295.6 billion representing 9% growth over the same period last year. This quarter revenues also saw the impact of J&K Prepaid ban effective from November 2009 onwards and IMEI disconnections. Consolidated EBITDA stands at Rs. 39 billion experiencing degrowth of 1% compared to same quarter last year. It is Rs. 122 billion for nine months representing 9% growth over the same period last year. EBITDA margins for the quarter is 40% which has gone down from the last quarter because of the sharp decline in tariff, but the good news is that while the ARPM drop is 8% quarter-on-quarter the drop in EBITDA margins has been restricted to 2%, which is pointing well to our improvement cost efficiencies. This is reflective of the leaner cost model and superior efficiencies and productivity for each resource utilized. EBITDA stands at 41.3% over nine months ended December 31. Moving on to the finance cost, the net finance income for the quarter is Rs. 1766 million against a net finance expense of Rs. 428 million in the September quarter. The change is largely due to favourable foreign exchange movement. The net income before tax for the quarter is Rs. 25.7 billion. The income tax expense is Rs. 3.2 billion comprising of 5.4 billion of current tax and Rs. 2.2 billion of deferred tax income. The net income for the quarter is 22.1 billion whereas for the nine months is Rs. 70.5 billion. The consolidated CapEx for the quarter is 17 billion and Rs. 67 billion for the nine months.

To close I must mention that while it may take some time for competitive landscape to change Airtel led by strong management team continues to execute on the ground and in the marketplace on a daily basis adding customers, seeding new revenue streams, maintaining revenue market share, deepening distribution, driving usage, leveraging both scale and innovation for higher cost efficiencies. We have been doing well on these fronts and are convinced that we will come out stronger after this temporary phase is over.

I will now hand over the floor back to Hina for question and answers. Thank you.

Hina - Moderator

Thank you very much Sir. We apologize; Mr. Akhil Gupta will not be a part of the call today. Mr. Manoj Kohli and Mr. Sanjay Kapoor would be representing from the senior leadership team of Bharti Airtel Limited.

We will now begin with the question and answer interactive session for all the participants who are connected to the audio conference service from Airtel. Participants who wish to ask questions may please press "*" "1" on their touchtone enabled telephone keypad. On pressing "*" "1" participants will get a chance to present their question on a first-in line basis. To ask a question participants may please press "*" "1" now. The first question comes from Mr Tien Doe from Singapore GIC. Mr. Doe you may ask your question now.

Tien Doe - Singapore GIC

Good afternoon. I have just got two questions. The first question is just on your future growth. You had a couple of quarters now of declining mobile revenues and overall declining EBITDA. In the near-term over the next two quarters, what factors can you see to reverse that situation, or if that trend of declining EBITDA, declining mobile revenues set to continue? The second question is just on Bangladesh. It was not an obvious acquisition to me despite what you said a very low telecom penetration, so can you provide some comfort on say what would be your target for your KPIs, for your new acquisition will be to justify that investment? Thank you.

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel

Thank you, this is Manoj. See let me start with your first question, we do not give any guidance on our future revenue growth or EBITDA growth but I can definitely say that the peak of hyper competitive intensity will be over in a couple of quarters which clearly means that we need to go through these quarters with a lot of control, with a lot of aggression in the market to gain shares and that is our single biggest objective, gaining share which we are gaining quarter-after-quarter, at the same time the economies of scale are kicking in definitely, so that the tariffs erosion does not impact the bottomline beyond a point. So economies of scale are coming in, the business model we are trying to make it learner, more outsourcing initiatives have been taken. We will see this twin focus of getting the share to improve and getting the margin to be stable. I think will definitely pay off and as this hyper competitive era comes to an end in a couple of quarters, I think

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the company's financial health will improve much more than now. I can basically state this; I really cannot give you anything more specific than this about the future.

Coming to your second question about Bangladesh, Bangladesh is I think one of the last markets in the world with such huge population of 165 million people and very small 30%-32% teledensity. We believe we have got a majority stake of 70% in this company, which has 3 million customers and which has potential to grow into leadership position in the next few years. We are in the process of finalizing our strategy, finalizing our business plan for the country which should be done in the next few weeks and as we go into the future may be by the next call, we will share more details of our strategy for Bangladesh leadership.

Tien Doe - Singapore GIC

Okay thank you.

Hina - Moderator

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

Shubham Majumdar - Macquarie Capital - Mumbai

Hello, my first question is what would you attribute the relatively weak minutes bounce back in this quarter, to given the fact that your prices have cut significantly and were more or less matched with competitions through the course of the quarter? I personally was a little dismayed at the minutes of use on a per sub basis not actually going up on a sequential basis in this quarter and your QOQ growth in network minutes were also a little short of our expectations. So first your comments and then we will go to my next question.

Sanjay Kapoor – Deputy CEO - Bharti Airtel

Shubham I am surprised you say that you find the bounce back of the minutes a little weak, but let me try and explain to you we have got about 9.6 billion minutes coming back but do take a factor of J&K which was not there and if you normalise it for J&K the minutes growth could have been anywhere between 10.5 to 11 billion minutes. So that is one factor and the other factor is that the price changes began last quarter, but any migration to the new regime of prices take a bit longer. You know it is not that the whole base has moved and you know all the elasticities are reflected. In fact the good news on minutes declined has been that this is the first quarter after many quarters that we have almost arrested the decline in the usage per customer. This is the best that we have got in the last five quarters, so I think as far as we are concerned, we see this to be a clear pronouncement in the market where the top players are getting back the minutes that probably some of the new operators got on their side because of the arbitrage that they created, so I think this is a clear reflection of brand preference and the very fact that we have been saying in the past that at the end of this bigger operators will emerge bigger, I think that is clearly beginning to step up and at Airtel, we are actually delighted with the minutes bounce back and we do not find it weak at all.

Atul Bindal - President – Mobile Services

Hi, this is Atul here, just to build on what Sanjay said if you go back to our revenue market share and customer market share, you know, clearly the high end of the market and the high value customers we have a disproportionately higher share. What has also happened is that as a result of a pricing intervention during the quarter we have seen a very healthy elasticity of consumption kick in towards the lower end of the market and the pyramid and at the middle to higher end it has been customer retention because that is where price sensitivity is there rather than price elasticity. So, that is the reason why on the whole you have seen MOUs per sub, which are holding, in fact going back to the Jammu & Kashmir point also, which was the other thing, which happened from an environmental perspective, if you were to correct for that actually the MOU per sub would have been flattish throughout the quarter.

Shubham Mazumdar - Macqarie - Mumbai

Sure, on that point can you just give me a sense of what percentage of your customer base or volumes would have moved over to the new pricing plan that were introduced in mid and end October?

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That is a competitive information and I am afraid we cannot give you precise answer. All I can say is that the movement is fairly healthy and hopefully over the next quarter or so we should by and large be done with customer movement in to the new plans.

Shubham Mazumdar - Macquarie - Mumbai

So based on the earlier answer of yours and based on this answer can I read that all of the readjustments downwards because of the tariff cuts have not really reflected in ARPMs yet?

Sanjay Kapoor – Deputy CEO - Bharti Airtel

No, I don't think we are saying that. Do appreciate one fact that when customers migrate to lower tariff plans, then the high end guys who get impacted more migrate first, so looking at only absolute number of customers might be unfair, it is always best to look at the traffic that they carry and hopefully in the first tranche the higher end of traffic moves and in the later tranches the lower end of traffic moves.

Shubham Mazumdar - Macquarie - Mumbai

Would you just give us a sense of what is actually happening on the pricing and volume front on specific segments like SMS, international roaming, and ILD?

Atul Bindal - President – Mobile Services

This quarter saw a very healthy bump up on the non-voice side from 9.8% of revenue we grew to about 11%, likewise the SMS revenue grew from 4.9% to 6% and the underlying drivers were of course number one the festive season, which leads to a higher texting and SMS demand and then a healthy kick in of new services like classifieds, music on demand, and a number of services associated with mobile internet, which was really also what helped us shore up the voice side very well, also on that note I would like to share that all the new revenue streams, which also goes back to the earlier question of how we see the revenue build up happening in future, creation of that is working out very well and exactly the same is happening for rural value added services as well where we have seen that after a few quarters of the customer coming on to our network, there is a healthy demand, which actually builds up for various new and innovative value added services, which are fit for use for the rural customers.

Shubham Mazumdar - Macquarie - Mumbai

Just on that quick question, how much would you attribute the growth in network minutes quarter-on-quarter and also the volumes and realizations on SMS and VAS side to any sort of seasonality and how much would be a more sort of structural?

Atul Bindal - President – Mobile Services

Well, I would not attribute much to seasonality Shubham. I think what we saw by and large is that if you go back to the end of last quarter we had just about unleashed Airtel Advantage plan where one part of the four legged strategy was built around pricing which was all about leveraging on-net community and the other three were around brands, networks, and customer service. We saw a very healthy surge in minutes, which began to happen as a result of that. Within four weeks after that we followed with a per second billing option and then with the roaming option, so I think it has really been a spate of that, which has led to the surge in minutes consumption, which is picking up. Surely events and festivals like Diwali and Christmas have helped us shore up SMS because that is an industry trend and that happens every year but I would not say that to be significantly higher.

Shubham Mazumdar - Macquarie - Mumbai

Okay and finally my question is regards to organizational restructuring that we had a while back, given that Mr. Sanjay Kapoor has been named as CEO of South Asia, which I would assume does include Bangladesh and Sri Lanka operations and Mr. Manoj Kohli is CEO of international, I would assume that is ex-South Asia given that Bharti does not have any operations outside of South Asia at this point in time do we see that as a huge step up in expansion agenda insofar as finding new acquisitions, targets or concerns outside of South Asia and would you just sort of fill in with a little bit of color on what is the kind of timeframe and size and what exactly are you looking to do here outside of South Asia.

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Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel

Shubham, we have clearly stated our intention to grow internationally in the last couple of years with some initiatives we have taken, which did not fructify. Now as we complete our South Asia coverage, this is an appropriate time when we look outwards into international markets especially emerging markets, growing markets where we can implant our unique business model and for the first time a dedicated team has been formed to focus and get the international business to take off as soon as possible. I cannot share any details with you today because at the senior top management level and at the Board level, we are reviewing our strategies, reviewing which acquisitions, countries and economies we should look at. As soon as we reach to conclusions we will share more details with you but definitely we have gone to the next gear now.

Shubham Mazumdar - Macquarie - Mumbai

Okay thank you Manoj and all the best in your new role.

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel

Thank you Shubham.

Hina – Moderator

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

Srinivas Rao – Deutsche Bank – Mumbai

Thank you Sir. This is Srinivas here. Just had a couple of questions. One is in the context of the fact that you have acquired this license in Bangladesh, could you throw some light on how has been your experience in Sri Lanka till now because that probably can give us a colour as to how we can expect the Bangladesh acquisition to move forward in terms of what is the kind of tariffs, how much it has fallen since you kind of entered the market and what kind of subscriber and revenue market shares do you have in Sri Lanka? That would be my first question. Second, would you throw some light, we heard some comments, I believe, on the television regarding the tower IPO or tower disinvestment, so any timeline on that would you like to let us know, and finally the fact that your EBITDA margins have at least in the mobile side have fallen compared to your competitor, would you like to make any comments on that; your capacity utilization is quite large and hence any increase in minutes is impacting your network cost much more? Would that be a fair assessment of this quarter numbers?

Sanjay Kapoor – Deputy CEO - Bharti Airtel

Srinivas, this is Sanjay Kapoor, let me go through your questions one by one and I will ask Manik to chip in for the towers. On Sri Lanka versus Bangladesh, it is not an apple to apple comparison. Sri Lanka was a Greenfield project with a fresh license coming from behind a fifth operator. In Bangladesh Warid is already number four and has an existing base of 3 million customers. It has a management team in place. You do not have to start from scratch, so it is not an apple to apple comparison, but even given Sri Lanka, coming from behind as fifth operator we had our first million customers in a record time of 170 days in that place and we moved from number five slot to number four slot in that country virtually in the first quarter of operations. I would say that going at Sri Lanka has been fairly good; we have had some challenges with competition trying to create road blocks on network POI congestion, which is artificially created at times, so we have struggled through those but by and large the going has been pretty good. We were not covering the southern and eastern part of the country, we have begun to cover that now and we are now virtually going to be present in every part. I think the going in Sri Lanka has been good, but Warid definitely is a head start. It is not a Greenfield project. I cannot share much more details with you at this stage because it is again sensitive information, but I think the advantage in Bangladesh in terms of readiness and kick starting is probably more developed than it was in Sri Lanka.

On the EBITDA margins on mobile that you spoke about, I think given the severe price drops and the fact that Bharti Airtel probably has the largest share of high end customers who are STD users and the biggest decline actually has happened there, I think we sustained it pretty well and like I said if you normalize it again for J&K, then probably our EBITDA for mobile would have held on to the EBITDA that you would have seen in the previous quarter, so I think given the circumstances and I do not want to compare it with any competitors because let us talk about Airtel. I would ask Manik to comment on the tower IPO.

Transcript for Bharti Airtel Limited, Third Quarter Ended December 31, 2009**Manik Jhangiani - Group Chief Financial Officer - Bharti Airtel Limited**

This is Manik. All I would really say is we have always maintained that we would be looking to list these companies in the near to medium term. I think we have 2010 March financials, which would be the first full year of financials available and as we have indicated, we will evaluate our options thereafter, so nothing new to add on that at this stage.

Srinivas Rao – Deutsche Bank – Mumbai

Thank you gentlemen, thank you very much.

Hina – Moderator

Thank you Mr. Rao. Due to time constraints all participants are requested to ask a maximum two questions at a time. The next question comes from Mr. Vikas Mantri from ICICI Securities Mumbai. Mr. Mantri, you may ask your question now.

Vikas Mantri – ICICI Securities – Mumbai

Good afternoon Sir. Just wanted a feeler on how come the operating cost in our Bharti Infratel or the rentals that we pay or get different significantly from that of Indus?

Manik Jhangiani - Group Chief Financial Officer - Bharti Airtel Limited

I think there are a variety of different factors that we have to look at in terms of both Infratel and Indus, the circles that they operate in, the mix of their ground base and rooftop towers, the tenancy ratios etc., so there really is not a straightforward answer that we can give on that piece other than there are variety of differences that would cause differences in the rentals for those tower companies.

Vikas Mantri – ICICI Securities – Mumbai

But it is a number close to 27000 versus 36000 that we are comparing?

Manik Jhangiani - Group Chief Financial Officer - Bharti Airtel Limited

We worked on the loading factors that are different on the two depending on what the operator is looking for, so we will give you some more information on that offline.

Vikas Mantri – ICICI Securities – Mumbai

Okay, thank you.

Hina – Moderator

Thank you Mr. Mantri. The next question is from Mr. Sachin Gupta from Nomura Securities, Singapore. Mr. Gupta, you may ask your question now.

Sachin Gupta – Nomura Securities – Singapore

Thanks very much. I just have a couple of questions. Firstly, Mr. Manoj Kohli mentioned in the opening remarks that he expects the second half to be more stable. Just wondering what is the reason behind that thinking. Is it more driven by regulatory changes or consolidation or is it likely hope at this stage and secondly on your international long distance minutes, looks like they have declined for the first time ever. Is there a trend emerging as people move to more alternative technologies like Voice Over IP or is this just a one-off event? Thanks.

Transcript for Bharti Airtel Limited, Third Quarter Ended December 31, 2009**Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel**

Hi, this is Manoj here Sachin. On ILD I think this is a normal movement. We do not see it has a major movement upward or downward in this period. Coming to your main question about the second half of the year, we believe because the entry of the new operators will culminate in the next few months and generally the tariff pressures come in when the entry of the new operators happens because at the entry stage they try to be quite creative on tariffs, try to either drop them or place some innovative schemes and packages in front of the customers, so if that is over in the next three to four months then the period of more price stability will start in the second half, now when exactly it will start, how it will impact new players or present players I think we have to wait and see but definitely one thing is sure that the new players in the market would have seen how tough is this market in terms of viability and once they start building up accumulated losses on the P&L, I am sure their view towards the market will be more balanced, more orderly and more viable, so I think those tendencies and those views on the market especially by the new operators should be seen in the second half of this financial year, now how about TRAI and government decide on M&A one is unsure today. In the next few weeks as the government decides the M&A policies we will come to know about that but it looks that government should encourage M&A and consolidation of the industry, which should benefit the industry in the long term.

Sachin Gupta – Nomura Securities – Singapore

Government has started a session and obviously with lot of newcomers it is still relatively early, they only launched these businesses in the last 6 to 12 months and they do have balance sheets behind them, does seem like next 6 months is probably a bit too early for them to assess the viability of their businesses or is it more like a two year story or three year story even?

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel

You may be right in case of one player or two players but by and large we believe that if they are experienced players within two to four quarters of their respective launches they would have understood how viable their business models are. I do not think experienced operators take more time than that to understand long term viability of the business model. That is why we believe they will come to recognize that nonviability much faster in the Indian case.

Sachin Gupta – Nomura Securities – Singapore

Okay, one small question. I just noticed that there are some changes at the Board level from Singtel's perspective. Any particular reasons for that?

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel

No, these are normal changes. I think the Board members rotate. I do not think there is anything abnormal about these changes.

Sachin Gupta – Nomura Securities – Singapore

Thank you Sir.

Hina – Moderator

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

Reena Verma – Merrill Lynch – Mumbai

Hi, thank you very much for the call, just two questions. One is if you can please offer some colour on what you think could be the revenue growth trajectory of Bharti two, three years down the road. I am really looking more longer term and wondering what kind of revenue growth rate you foresee from either the market as a whole or for Bharti and secondly we heard Mr. Kohli make some comments on television about how elasticity is better at the lower end of the market versus the top end and I am just wondering if one was to export the same logic at a company level, would it then be fair to say that Bharti will see less elasticity compared with its weaker competitors who are probably at the lower end of the market? That is it, thank you.

Transcript for Bharti Airtel Limited, Third Quarter Ended December 31, 2009**Sanjay Kapoor – Deputy CEO - Bharti Airtel**

Reena, let me take your questions. First of all to tell you what the revenues will look like two, three years later, we do not give any such guidance and I will find it extremely tough to answer your question. All I can say is that the way things have behaved in the recent past given the pressure on pricing if pricing continues to plummet then obviously the revenues do not look bright, but if they begin to gain some semblance based on cost you will again see the market bouncing back because the market has definitely told you one thing that at the right price point, there is propensity to use more. I think that is clearly coming across and you have seen the bounce back of minute from couple of results that have been declared in the last couple of days or so. The second one on elasticity, while your question is theoretically right you are forgetting one thing that Bharti Airtel on sheer numbers is far ahead of others, so if you do percentages maybe you will skew the argument a bit, but the sheer size of absolute numbers that Bharti has at the low end will be much more than any other operator, more so we have a lion's share of the rural market and incrementally when we grow at 60% of the new customers coming from rural India I would say if we have an overall revenue market share of 32% I am sure the rural market share is disproportionately higher and if I am getting disproportionately higher share then the customers who have propensity to grow their usage is far higher with me than anybody else.

Reena Verma - Merrill Lynch - Mumbai

Thank you Sanjay but by that logic, you know, your MOU growth this quarter in comparison to the other peers could have been faster because then you know you should have seen stronger elasticity from rural subs this quarter?

Sanjay Kapoor – Deputy CEO - Bharti Airtel

You know, that is exactly what I was trying to explain. First of all, Reena when a migration happens, there are many factors that play so to read any thing in such a short frame the changes actually happened on November 1st, it is hardly two months in the last quarter that the change happened. It is a mix of customers, mix of traffic, number of customers who migrated, till you have insight into all this I think you will jump into a conclusion while drawing any comparison. I would say over a couple of quarters may be two-and-a-half, three quarters you will realize when the dust settles to say who has gained how much. I think right now it will be trifle early because there is lot of this information that you will not be able to compare from one operator to another operator, so what I would say is that given the time frame that we have, given that we have a higher of the high-end customers, given the fact that we have more STD users and the biggest decline happened over that, I think, you know, the gain of 9.5 billion minutes after a small increase in minutes last quarter is pretty gratifying.

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel

Reena, just to add one more issue to the first question you raised about long-term revenue. We believe long-term revenue position of the industry is very good. This is a blip, which is happening for few quarters, this blip will go away, especially for our company there are two trajectories you will notice, one trajectory is of revenue market share, our revenue market share if you see last three years has grown steadily, which means that we gain more revenue than any other operator in the country through our share growth whereas others really have not seen that kind of a share growth in the last three years. Second thing is we being an integrated company vis-à-vis the pure play companies, which others are we have more new revenue streams to strike, which we have done, you must have seen recent new revenue stream announcement on M-commerce, M-entertainment, global data, regional data, revenue streams being picked up, these are the new revenue streams, which we are picking up and many, many other players do not have capability or networks to pick them up, so I believe in the long run the industry revenue will be healthy and company revenue will definitely be better and will outpace the industry revenue because we believe we can get more share and more new revenue streams.

Reena Verma - Merrill Lynch - Mumbai

Thank you very much for that.

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel

Thanks Reena.

Hina – Moderator

Thank you Ms. Verma. The next question is from Mr. G.V. Giri from IISL Capital, Mumbai. Mr. Giri, you may ask your question now.

Transcript for Bharti Airtel Limited, Third Quarter Ended December 31, 2009**G.V. Giri - IIFL Capital - Mumbai**

Hi, this is about your CapEx, your CapEx in mobile and towers is almost 50% down QOQ, so number one what exactly have you cut and how you are managing this. Number two; have compromised on any part of your expansion or capacity addition of coverage. Number three, what would be your guidance for this year and the next year?

Sanjay Kapoor – Deputy CEO - Bharti Airtel

Giri, you are right that you have seen a little bit of dip in the last few quarters, but I think the reason is not that we are cutting down the requisite investments into the network, I think we have always used moneys put in to the network as a competitive edge and I think we continue to focus on that; however, there are benefits by virtue of the tower company's sharing ratios going up, there is a bit of gain because of the forex advantage and there are better terms that we get from our suppliers and I think considering all that we are able to conserve our CapEx compared to what we had been doing in the past. Going forward we are still holding up to what we had said on the CapEx; however, it might be here or there by maybe 10%-12%, so that is the only shortfall that you might see at the end of the year.

G.V. Giri - IIFL Capital - Mumbai

Sure. Thanks a lot.

Hina – Moderator

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

Sanjay Chawla - Anand Rathi - Mumbai

Good afternoon. Thank you for the call. I have two questions; one is your average revenue per minute for the quarter was around 52 paise; obviously the migration still continues to cheaper plans. Could you tell us at what level your ARPM number was at the end of December, the exit ARPM for the quarter. Second question is we have seen a pretty significant decline in the enterprise segment EBITDA presumably due to change in NLD tariff rate and transfer pricing rate. My question is if that has indeed been the case what would have been your mobile segment EBITDA margin without any change in the NLD tariff rate that you pay to the enterprise division?

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel

Sanjay let me start with the second question first. As you know, if you track the enterprise EBITDA in the last but four to six quarters the EBITDA has ranged between 44%, 45% to 51%, 52% and I think we are still in the same ballpark and we really do not see any concern in our EBITDA of enterprise. I think it is very healthy, it is doing well, we really have much better EBITDA levels compared to our peers and competitors, so we really do not see a concern in that and it has no relationship with the EBITDA mobility, EBITDA continues on its own stream.

Sanjay Chawla - Anand Rathi - Mumbai

My question is really not about concern but just wanted to understand the decline in your absolute EBITDA level in the enterprise division quarter-on-quarter, which is a 100 crore decline, so first of all, you know, is it partly due to the fact that perhaps the lower NLD tariff rate was paid out by mobile division to enterprise division for NLD calls?

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel

Sanjay the character of this business is very different from the utility businesses of Telemedia and Mobile. The character of this business is much more lumpy, it links to projects, which we do sometimes there are large projects, which come up in some quarters, sometimes there are no major projects in quarters so the EBITDA goes up and down based on those revenue recognitions and project completion. So, quite frankly we do not see anything more than that in this quarter.

Sanjay Chawla - Anand Rathi - Mumbai

You are basically saying there is no relation with the mobile NLD tariff rate?

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Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel

Yes, we are happy with the enterprise EBITDA, 49% is a very, very good EBITDA and we think we will be able to sustain this let us say around 45% for long-term. I will now request Atul to talk about the other question.

Atul Bindal - President – Mobile Services

Hi Sanjay, this is Atul here just to take your question on ARPM. We had a drop of 0.4 paisa coming down from 56.05 to about 52. This was as a result of recalibrating the price value equation, which we did in certain select market segments without necessarily becoming the lowest tariff price denominator in the market or participate in free market, which is also there, as a result of which as Sanjay mentioned earlier we have migration and adoption rate, which are taking place at different pace within the various segments of existing customers that we have today. This would take a little bit of time to play itself out, We are seeing both a healthy elasticity at the lower to middle bands of decrement as well as a very gratifying customer retention, which is taking place in the middle to upper band because it is a high-end customer. Going forward we would continue to stay competitive without necessarily participating once again at absolute bottom end of the market. The dual sim phenomenon continues to play itself out and therefore, you know, one of the objectives is also to ensure that we are the best value provider on the customer's preferred leg of usage.

Sanjay Chawla - Anand Rathi - Mumbai

So, would you be able to share the ARPM at the end of the quarter because obviously it is declining month on month with the adoption rate.

Atul Bindal - President – Mobile Services

No, it represents the fact that it came down from 56.05 to 52, which is really what has happened quarterly.

Sanjay Chawla - Anand Rathi - Mumbai

All right, if I could just ask one more quick question. Your employee cost at the consolidated level has gone down quarter-on-quarter again. Could you provide some colour on this?

Sanjay Kapoor – Deputy CEO - Bharti Airtel

Sanjay, one of the determinants of that would be our outsourcing to Alcatel Lucent where a transfer of about 4000 plus employees happened to Alcatel Lucent and that could be change of heads essentially.

Sanjay Chawla - Anand Rathi - Mumbai

All right. Thank you very much.

Hina – Moderator

Thank you Mr. Chawla. The next question is from Mr Sanjay Parekh from ICICI Prudential, Mumbai. Mr. Parekh, you may ask your question now.

Sanjay Parekh - ICICI Prudential – Mumbai

I just wanted to understand this churn thing, will you be able to differentiate between the churn at the low end of the market and the churn at the medium or high end of the market, how different is that really?

Atul Bindal - President – Mobile Services

First of all an overall comment on churn. The churn, which you have seen this quarter it is actually capturing three different streams, you know, as all of you must be aware there was the Jammu & Kashmir environmental challenge where

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we obviously wanted to be totally compliant and as a result of which a number of customers hopefully got temporarily disconnected and with the announcement of day before yesterday we are very, very optimistic that we would be able to convert most of them back on to our active network. The second driver of the churn during the last 90 days has also been the IMEI, the handset verification and authenticity where, you know, I think we did very well in being able to convert and retain over 75% of those customers who had this kind of a challenge, but again certain amount of churn did take place as a result of that. The third driver is of course the dual SIM behavior in the market place, which is leading to a somewhat increasing churn at the lower end of the market; two aspects played themselves out this quarter, one is the per second billing and the Airtel's Advantage plan, which were both able to address the customers in this particular bracket and we were able to not just retain them but we have seen very, very gratifying levels of elasticity build up in those segments. The second one is, you know, there is certain amount of rotational behavior, which is now manifesting the market place, which also goes back to the comment, which Manoj made earlier, which is that, you know, most of the numbers really relate to SIM rather than customers when you talk about the volumes and from that point of view a significant percentage of this churn actually comes back in to the fold as the Airtel customers in any case, so those were really the various frictional aspects as far as prepaid churn is concerned.

Sanjay Parekh - ICICI Prudential – Mumbai

If I can ask one more question; just wanted to understand on this tower rentals, we are seeing that new deals are happening at much lower prices than what they were may be one or two years back, so is it having impact on your existing customer base also on the tower side, do they have an option to bring down their rentals or do they remain at the earlier higher level of rentals?

Manik Jhangiani - Group Chief Financial Officer - Bharti Airtel Limited

The agreements that we have with the operators coming on are long-term agreements and so there is not a discussion at this point in time of bringing those down and in fact we continue to be competitive in the market and we are continuing to be in discussion with a number of the new operators as well as some of the other incumbents who are looking to come on to our towers.

Sanjay Parekh - ICICI Prudential – Mumbai

Okay, thanks.

Hina – Moderator

Thank you Mr. Parekh. The next question comes from Mr Samir Naringrekar from BNP Paribas, Mumbai. Mr. Naringrekar, you may ask your question now.

Sameer Naringrekar - BNP Paribas - Mumbai

Good afternoon. Couple of quick questions; in terms of the impact on Jammu & Kashmir I think I have seen a mention that the prepaid subscribers have been reactivated in Jammu & Kashmir, so it is possible for you to quantify the impact of reactivation of these customers either on the revenue or on the ARPU and the second question is more from a long-term strategic perspective, we are seeing more and more consumption of video and internet usage in India and from that perspective do you think it is worthwhile focusing on your telemedia services because this quarter we have seen a drop in the number of customer additions here to about 600,000, so what is the strategy or does this segment continue to look unattractive from ROC basis?

Atul Bindal - President – Mobile services

Sameer, this is Atul here, let me just take the first question on Jammu & Kashmir. While it will not be possible for us to share with you any specific detail but allow me to say that had it not been for Jammu & Kashmir issue hitting us this quarter our revenue would have been almost in level with the previous quarter. Likewise on the MOUs per sub which is showing just a v-bit of decline vis-à-vis the previous quarter, they would have once again got leveled off, so this played a significant kind of role over the last 90 days and with the announcement of day before yesterday we are very optimistic that we would be able to reconnect most of these customers back on to our network. I would request Srini to take your second question.

Sanjay Kapoor – Deputy CEO - Bharti Airtel

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You know on the video and Internet you are right that the penetration of Internet in this country is very, very dismal and like for most Indians their first experience on voice and telephony has been on a wireless device. We fundamentally believe that the first experience of most Indians on Internet will also be on a wireless device. That is the only way you can massify video and Internet experience in this country; however, you know, for customers who want to use real broadband facility right now we provide that through our fixed line services and if you look at our performance there it has been going up quarter-on-quarter, now about 41% of our base on fixed line is actually DSL customers, which are broadband customers. With the current economics behind fixed line and especially copper as the last mile it is not feasible to be available in every nook and corner of the country. Therefore our strategy around that is more cherry-picking and we only go to limited cities in the country and we also go to richer data centric pockets to serve our customers. We are hopeful that as mobile technology set into the country and 3G happens hopefully Internet then will be available on a massified fashion to larger consumers across the country.

Samir Naringrekar - BNP Paribas - Mumbai

Thank you so much.

Hina – Moderator

Thank you Mr. Naringrekar. 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 will now hand over the call proceedings to Mr. Sanjay Kapoor for the final remarks.

Sanjay Kapoor – Deputy CEO - Bharti Airtel

Once again thanks for being on this call. Hopefully we look forward to meeting you next quarter with much better results and numbers. I am absolutely certain that this industry has a very bright future in the long run and post consolidation you should see this industry and this country spelling out performances, which will be very different from rest of the world. Thank you.

Hina – Moderator

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