

## Earnings Conference Call Transcript

Event: Bharti Airtel Limited Third Quarter Ended December 31, 2012  
Earnings Call

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**PRESENTATION****Sanya- Moderator**

Good afternoon ladies and gentlemen. I am Sanya, the moderator for this conference. Welcome all to Bharti Airtel Limited Q3 ended December 31, 2012 Earnings Call. For the duration of the presentation all participants' lines will be in the listen only mode. After the

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**Bharti Airtel Limited Third Quarter Ended December 31, 2012 Earnings Call**

presentation the question and answer session will be conducted for all the participants on this call. Present with us on the call today is the Senior Leadership Team of Bharti Airtel Limited. Before I handover the call I must remind you that the overview and discussions today may include certain forward looking statements that must be viewed in conjunction with the risk that we face. I now hand over the call to a first speaker of the day Mr. Sarvjit Singh Dhillon. Thank you and over to you Mr. Dhillon.

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

Thank you Sanya and welcome to everyone who has joined the call both in India in Asia and North America mostly likely. This is the call for our third quarter December 31, 2012 but you know I have with me all of the senior leadership team from Bharti Airtel both from India and Africa and will take those calls as far as Q&A is concerned once I completed i am glad to say that I have the full team here - Manoj from Africa and Sanjay from India, we have Srin, Drew, Nilanjan and also joining us is Srikanth and Harjeet along with Hans from Africa.

So the full team today. So welcome firstly and thank you for dialing in. I hope everybody has received the quarterly report and had a chance to go through it. Today what we will do is before I go into some of the numbers, I think what we really wanted to do and while I wanted to emphasize is really some of the key interventions as far as we are concerned have taken place in the last quarter and those are basically in three areas, which I think is very important for our investors and analysts to understand and in not in any particular order.

Firstly on the Infratel IPO as you know this was a very successful one process in the last six months all the way from when we started in mid August to our listing in December. We have listed and had open subscription from December 11 to 14 with the listing on the December 28. The issue was oversubscribed overall by 1.3x and the QIP was oversubscribed just under three times.

The receipt as far as the company is concerned was at 3200 net of the secondary receipt. So a very successful issue and that you see has an impact on financial ratios as far as the quarter is concerned. Secondly I think which is very important event for the quarter as far as Bharti Airtel is concerned, is the spectrum auction that took place. As you know the spectrum auction itself I would suggest actually received a very lukewarm response from operators. We ourselves looked at the whole process on a very commercial basis, on economic interest and as a result of which we only picked up one license one spot in one circle in the northeast.

Thirdly and most importantly I think in terms of regulatory intervention as you know the stories of the last quarter up until a few days ago for the industry as a whole especially as far as India is concerned has been this whole aspect of one time license fees. The one time license fees have resulted in demand for various operators including us. As demand raise not retrospectively from 2008 to the expiry of the licenses has been a total of 5200 Crores besides you know not only us but other operators have in their various cases gone through various types of courts both from TDSAT point of view and in the regular courts and we have a stay do not want to talk too much else about this because obviously the matter is sub-judice but I think from that point of view one thing we are very clear on is that this is spectrum that we already have and that is something that we will consider as we move forward as an industry is moving as Bharti.

Moving on now apart from these three elements, I think one other thing which is very, very important for us to understand especially in the Indian context and I think for us it is also now prevalent in Africa is the cost of input drivers. I have already mentioned even if the one time is there, spectrum auction costs, other regulatory interventions, which has taken place this year and also more recently your diesel cost increases, which All these collectively result in high input costs for us whether it is at the operating level or whether it is at the depreciation and amortization levels as a result of fees and auction costs.

As a result of this we believe that the industry also cannot be inflation proof as well and this has to in effect translate somewhere along the line into the pricing or output that we pass on to our consumers and to this end you have seen a little bit I would say, the start of some rationality amongst operators in two areas. One is in the market interventions including us and with subscriber acquisition cost and efficiencies improving quarter-on-quarter. That is reflected in the absolute selves in the Indian market. And where there is an opportunity to reduce and eliminate discounting, wastage, leakage, freebies, whatever you want to call it without having to necessarily have any impact on the prevailing headline prices.

So that is the strategy that we have adopted and hopefully that will have some fruition coming forward in the next few months. Having said all of that on a positive note, as you know I have mentioned it previously as well, we have deeply invested in data networks in India and across Africa, at least \$3-\$4 billion has been invested. In India it is 13 3G licenses and now a 4G licenses and in Africa we have 13 3G licenses out of which 11 are operational, which is the largest footprint across the continent. If you look at the data traffic, which we have started publishing in the last three quarters you will see that even on a cliff basis, India is growing at 25% per quarter on a MB basis, which is a very, very healthy growth and also as far as customer base is concerned this quarter we have actually crossed 5 million customers as far as 3G data customers is concerned and also forayed in excess of 20% as far as percentage of the base is concerned.

Even in Africa in terms of rupees year-on-year growth now is somewhere around 80% for quarter-to-quarter December. So I think this is one area which is a thrust as a strategy for the group and with the investments, we have made, which are kind of behind us now to a large extent, incremental ones are really hanging more electronics from existing towers. So I think that is something that we are looking forward to and we have to expand going forward. So, that is why I wanted to mention as far as overall business is concerned and kind of interventions and happenings in the quarter.

**Bharti Airtel Limited Third Quarter Ended December 31, 2012 Earnings Call**

So, moving on to the results, the global consolidated revenues for the quarter were 202 billion that is a year-on-year of nearly double-digit at 10%. If you recall in the last quarter and we put it in the quarterly report as it is public information that we did have a one-time benefit of nearly 600 Crores, which was favorable TDSAT order based around interconnect agreements. So that we have recognized all of that revenue in the last quarter, but if we adjust for that amount so our like-to-like picture you will see that actually on a quarter-on-quarter basis our revenues have grown just under 3%. That flow through in the quarterly report we showed last year also have obviously an EBITDA and PAT impact.

The consolidated EBITDA this quarter is just under 62 billion. That is a year-on-year growth of 3% and quarter-on-quarter 1% if we exclude the one time impact of last quarter, which is the way you should really look at it, I guess as an underlying process. Continuing on EBITDA margin obviously below than last year, but again just marginally up as a percentage although absolute amounts will be higher quarter-on-quarter. So, as far as cash profit is concerned before derivatives, it is just under 51 billion. Net income is a derivative obviously of some of the stuff I have been saying. There are two things to consider here, when you are looking on underlying basis. One is the impact of the one off last quarter, for this quarter if you take the 2.83 billion PAT that we have and adjust it for two factors, last quarter if you adjusted for the one time, which is about 240 Crores which gives you roughly about 500 Crores of PAT for the previous quarter on like-to-like basis and this quarter really the differentiator therefore really has been the exchange fluctuations, which has impacted us by about 300 odd Crores. So, really a flatish kind of picture as far as PAT is concerned. Operating highlights, I am going through them, look reasonably okay.

Just moving on to the capital front, the capex in the quarter is just under \$440 million for the nine months which takes us about \$1.8 billion for the year. I mentioned earlier on about the IPO, the IPO proceeds are obviously on the primary side has flown into the company and on the balance sheet reflects that with a net debt which has come down to US \$11.7 billion and net debt to EBITDA has 2.58 times compared to 2.71 the previous quarter.

I will just move on now to a little bit on the regions, India itself. We had a little bit of recovery post what we have is a seasonally weak quarter. Q3 also saw the new first time acquisition FTA as it were those coming into full play. That obviously in the market place has affected gross ads which from our point of view and the industry point of view that is a positive thing with quality acquisitions hopefully coming in, and as a result we also saw the VLR ratio in India showing very positive trends somewhere around 95%. Both things coupled together obviously had an impact therefore on churn. Churn came down and the cost of churn has also reflected in S&D cost, the churn coming down to 5.9%. Even though we have reduced the acquisition cost from that point of network minutes grew in the quarter by 6.6 billion minutes.

Voice traffic also grew quarter-on-quarter at 2.8% and MoUs per customer per month 435 is up by 18 minutes, which is a 4.4% increase quarter-on-quarter. If you exclude what I mentioned earlier on processing fee, changes which took place earlier in the year, the realized rates are fairly static. And going forward based to what I mentioned earlier, hopefully with elimination of unyielding or non-yielding revenue minute we should see some uptake there.

Finally on India, what I say and you can see in the quarterly report, you will see that every single segment, margins has actually improved quarter-on-quarter both while I mentioned of mobile, particularly if you look at like-to-like for the one off excluded along with the Telemedia, DTH and Airtel business.

Moving on to Africa now, as far as Africa is concerned, we have seen a steady growth of revenue of about \$36 million in the quarter concerned. We are seeing if I move on data growth continue to show a healthy increase. 23% of the customers are 14 million data users in some form or other and data usage unit per customer is 58 MB, realized rate is growing at US 1.9 cents. ARPUs are in excess of \$1 per data, which is very, very healthy. Our non-voice revenues are already at 15.1%, which is if you think from an Indian context has really achieved that rate at a very fast clip vis-à-vis what we saw in India.

Having said that as you know the market in Africa has seen an overall growth rate, which has declined a little bit, reducing to mid to late single digits against what we saw earlier and that is something, which I think from emerging market point of view is something that we are trying to work on quite aggressively and as a leading operator there. From that point of view, I think, we are looking at and have been looking at continuing to invest to take a disproportionate share of the market that we do have in Africa and I just want to probably focus on four areas, which I think are still very, very prevalent for us as we continue on the continent, and before I do that, I will just mention the fact that we have now I think maybe and maybe Manoj might mention it later on. We have now, I think, gone over the cusp of our capital investment requirements on the continent and we have invested substantially \$2-\$3 billion/ billion in the last two to three years. Going forward even now that has actually gone over the cliff as it were from that point of view and peak investment has taken place.

We do see therefore incremental capital investments on a reducing basis going forward. The four areas I was mentioning is really our networks, which is part of the capex story, 3G I mentioned as already launched in 11 Opcos. We are enhancing our backbone as well as looking at alternative technologies of solar and backbone enhancement in both fiber transmission, network security, etc. We have also built now 6800 2G sites and 5900 3G nodes in the period. Unlike I mentioned, it is \$2.8 billion of investment has taken place and we are really looking forward now to see how that is going to sweat over the next few years.

Second, area is airtel money, which I think, we now have launched across maybe own Opcos 15 already. Like in India, African operations are also segregating the tower company business as an independent unit. At the moment, it will be independent, but within African operations and that is really to drive operational efficiency, the ability to share the tower as we have seen in the Indian model both from a capex efficiency point of view and from driving operating efficiency through reduced sharing of energy cost is very, very critical and that is a huge opportunity that we are seeing in Africa.

<b>Bharti Airtel Limited Third Quarter Ended December 31, 2012 Earnings Call</b>
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Before I move on to Q&A, one last, one is on the tower infrastructure business and as you are aware yesterday we went for the first quarter public on Bharti Infratel and we announced the results. Just a few highlights, revenues at INR 26 billion is a year-on-year growth of 8%, EBITDA again year-on-year at about 10% and PAT by 31%. Towers proportionate of 42% of Indus included at 81,000 as at the end of December.

Last parameter, which is very important for us to look at is actually the average sharing factor, which is now at 1.92 on a weighted average where it is 1.87 a year ago. So as you know this business is a fairly stable B2B business, robust business model and with predictable long-term revenues and cash flows. The weighted average of the contracts is now somewhere around seven and a half years. That is principally the business as far as the quarter is concerned. A few points on interventions, the first three points, the balance on some of the business results and I think how you should be looking at it as a quarter, with one offs apart from last quarter and the currency movement this quarter. I will now hand it back to Sanya to open it for the floor, and we will take few questions and answer them.

**Sanya - Moderator**

Thank you very much, Sir. 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. Due to time constraints we would request if you could limit the number of questions to two to enable more participation hence management will take only two questions to ensure maximum participation. Participants who wish to ask questions may press "\*" "1" on their touchtone enabled telephone keypad. On pressing "\*" "1" participants will get a chance to present their questions on a first-in-line basis. To ask a question, participants may please press "\*" "1" now. The first question comes from Mr. Sunil Tirumalai from Credit Suisse, Mumbai. Mr. Tirumalai, you may ask your question now.

**Sunil Tirumalai - Credit Suisse – Mumbai**

Thank you very much. So, this is a question for Sanjay, Sridhar, or Sarvjit, you could take this as well. Just on the India competition scenario, how do you see have you seen some action happening on the discount vouchers, but I mean when do you think or if at all, will it start showing up in the reported RPMs?

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

Yes, Sunil, hi, this is Sanjay Kapoor. And let me try and answer this question. First of all when you look at it at a very macro level, I do not think the competition post the cancellation of licenses etc., has become very subdued as yet, because licenses are being kept alive in fact there was a flash on the television just a little while back to say it's extended up to March 11. So I think there is still a lot of heated competition in the market and that is not coming down. However, we have very clearly identified a space to say there is a huge gap between the listed prices and the realized prices and we need to really cover up that gap and there is a lot that happened in that area. You see that during this quarter but for some corrections that the regulator made on processing fee we are by and large flat on the realized rate and I am absolutely hopeful with the interventions that we are making there will be some positive impact on the prices starting this quarter itself in the current quarter going forward we should see some connection happening and the gap between the realized tariffs and the listed tariffs begin to gradually comedown. So I do not see headline tariffs to be moved immediately there is no need to do it till we can bring in a discipline in how we manage our existing prices in the market.

**Sunil Tirumalai - Credit Suisse – Mumbai**

Got it. And just following more on that point, would it be fair to say that given your more dominant or stronger market position, your processing fee as a percentage of the re-charges would have been higher and hence you were affected to a greater extent by the competition?

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

To some extent you might be right but I do not think the gap will be too much, because it often happens that the lesser players are very aggressive compared to their size at times on such like products in the market. It is very difficult to hypothesize it to that degree. We will figure out in the coming quarter as to how much is the gap between them and us but I would not concretely say that a larger player will lose more and a smaller player will lose less.

**Sunil Thirumalai - Credit Suisse – Mumbai**

**Bharti Airtel Limited Third Quarter Ended December 31, 2012 Earnings Call**

Okay, that was helpful and Sarvjit, if we could get some way to look at how the tax rates will go going forward, given the rate it has moved quietly this quarter?

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

Okay, Sunil. This is Srikanth here. So obviously the tax rates on a consolidated basis is a mix of how many countries provide. I am assuming that your question is more with regard to India. If you look at the nine months effective tax rate in India and South Asia it is coming at 29.1% and if you exclude the dividend distribution tax which was incurred in the previous quarter arising out of the dividend that came in from Indus Towers, it is 27.8%. And so that is the numbers for the nine months and so I think I should just summarize by saying that is the running effective tax rate at this point of time.

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**Sunil Thirumalai - Credit Suisse – Mumbai**

So, is it fair to assume that compared to the 25% levels we are working with earlier we should see an increase?

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

Okay, see this is Sunil, this is obviously again a mix up because every circle is a separate taxable entity in this country because each and everyone is a licensing entity. So this is a very much dependent on the proportion of taxable profits that is coming from each circle and every circle is in the different state of tax rate at this point of time so earlier I do agree that earlier we had indicated 25% the earlier part of the year. And the way the current mix is currently playing out, it has turned out to be 27.8%.

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**Sunil Thirumalai - Credit Suisse – Mumbai**

Okay, sure. And if you could just add a couple of statements on the Africa, how to look at it as well, Africa taxes, and that's from me, thanks.

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

Okay, so as far as the Africa taxes is concerned in this quarter there is a one-time impact of a derecognition of a deferred tax asset in one country where the effective tax rate was effective tax rate applicable to the country as such was dropped from 40% to 35% and therefore the deferred tax assets which we were carrying having on the balance sheet, pertaining to that country had to be derecognized or let us say we call it derecognized so that caused an impact of \$11 million that is a one-time impact of this quarter. Otherwise the way you have to look at in Africa is obviously it is a mix of again profit making opcos and opcos, which are not yet in the profit bracket at this point of time. So that is the way it is playing out but if you want to know the one-time impact in this quarter it is a deferred tax debit or a charge of \$11 million are flowing in this quarter.

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**Sunil Tirumalai - Credit Suisse – Mumbai**

Thank you. I will come back later for further questions.

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**Sanya - Moderator**

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

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**Srinivas Rao - Deutsche Bank – Mumbai**

Hi, thank you very much sir. My first question actually pertains to Africa in terms of the margins, which you have been seeing for the last almost six quarters which has been relatively stable in the 26.5%, 27% band. So, my question is do we see that move up in the medium term, by that I mean the next six quarters to a level of 28.5% or 29%. So that would be my first question. The second is a bit more housekeeping. You mentioned, I mean, your notes mentioned an acquisition interest cost of \$46 million for your African operations, it looks slightly lower, the effective rate looks quite low given your acquisition debt, and also if that is the acquisition interest cost what is the balance interest cost in Africa?

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**Manoj Kohli – Managing Director – Bharti Airtel Limited**

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**Bharti Airtel Limited Third Quarter Ended December 31, 2012 Earnings Call**

Okay Srinivas, let me come on the first question you asked. There are two factors you need to consider here. Why is the margin being stable and not growing at a healthy clip. First is that when we took over Africa, the market growth was around 15%. And at 15%, I think we would have picked up 50% incremental EBITDA as we stabilized and that would have been very healthy. However, the market growth has come down since then to 8% and 9% and we are picking up more than the competition we are definitely increasing RMS we have run faster increased about 3% points of RMS despite all those restructuring that we have done in Africa but that is not enough for us to bring it down to the margin level that is point number one. The two is that the major investments, which we are doing in Africa, and let me list them for you. One, 3G launches in 13 countries. Second, Airtel Money launch is already in 15, and 2 more countries coming in next two months. Third, building up Tower Company in next, in all 17 countries. Fourth, building the brand, which is a brand new brand, I mean it is just a brand it is not a leadership brand like India, it's a brand that is just 24 month old brand hence we need to continue investments. Fifth, all the network changes, etc, strengthening of network, 2G and 3G both have costed us. So our investments actually continue. Now, if you divide the P&L in just a simple voice P&L and others, obviously we must have increased EBITDA margins on pure 2G voice. But that is not the game we are in. We are in the game which is long-term. We are in a game where we will have a core portfolio of 2G voice, 3G data and Airtel Money, and of course the Tower Company in Africa. So, we are looking at longer term, the stable margins will grow, will definitely grow because investment we are making will definitely start giving us benefits in the coming quarter.

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**Srinivas Rao - Deutsche Bank – Mumbai**

This is very helpful sir.

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**Manoj Kohli – Managing Director – Bharti Airtel Limited**

Thank you and I will request Srikanth to come to the second point or Harjeet to come to the second point.

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**Harjeet Kohli - Group Treasurer- Bharti Enterprises Limited**

Srini hi, Harjeet here. I think on the acquisition loans you see when we had acquired at that point in time we had about \$9 plus billion of acquisition loan since then following our communicated debt push down strategy we have pushed down a bit of debt in Africa and also taken some incremental debt in rupees in India. So the current outstanding broadly on a very broad ballpark basis at acquisition finance is less than \$8 billion on which \$43, \$45, \$46 million is for per quarter interest cost that is fine. Africa carries in its Opcodes, close to \$2 billion of gross debt and maybe about 1.7, 1.8 of net debt that itself has more localized interest rates on a weighted average basis between anywhere from 12% to 14% basis quarter movements, so that you can factor in. We have not still get the accurate details because there were finance charges also is a part of the finance cost which are dependent on various banks cost of transaction charges, cash management and other routine bank charges to various banks in India as well as in African countries. I do not know whether that helps really your question.

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**Srinivas Rao - Deutsche Bank – Mumbai**

This is helpful. Thank you very much. Thank you so much.

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**Sanya - Moderator**

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

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**Vinay Jaising - Morgan Stanley, Mumbai**

Thank you so much. I have three questions. Firstly, a kind of housekeeping. Your others, the losses has been \$3 billion this quarter; it seems tough forgetting the last quarter's one-off in or the last couple of quarters from \$2-ish billion to \$3-ish billion, 5% of EBITDA. What is that and when can we expect that to come down? That is my first question. Second, capex has impressively gone down this quarter. Do you want to change your estimates for the year or what do we see as the run rate for the capex incrementally? My third and last question, as far as diesel is concerned, I am a bit confused whether the telecom sector is a bulk diesel consumer or a retail diesel consumer, because it makes a big meaningful impact on the same, so if you could highlight that as well? Thank you.

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

Srikanth here, I will take the question quickly on the, other losses. So there are the items which are included in others are essentially the corporate overheads, which are common to the entire organization and besides that we also have sponsorship cost which are booked in others which are again common to Airtel as a brand. So the second one, which is at sponsorship cost come in lumps and

**Bharti Airtel Limited Third Quarter Ended December 31, 2012 Earnings Call**

therefore they are not exactly predictable and not repeatable from quarter-to-quarter whereas the corporate overheads and the admin cost of the common organization is quite a static figure within that. So to that extent I mean strictly on a quarter-on-quarter basis you cannot really strictly compare on that basis.

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

Any chance of getting this number ? I mean is there a one-off lumpy one which has come this quarter which may not come again in the next couple of quarters?

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

Yes, I think to the extent that we had the Formula 1 that is certainly a lumpy one.

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

Would you like to give a number there?

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

Our Formula 1 is a competitive deal Vinay, so I am afraid we can't give you the numbers.

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

Capex, Vinay, Sarvjit here. So, we have done about, as you know, about by \$1.8 billion, so far this year based on the balance we are looking at for the balance of the year slightly to be somewhere around 2.5 billion is my guess. As you know even with currency movement we did look at about just for the \$3 billion for the year so that is where we expect to end up and I am not be follow this from this morning but above so typically this time of the year we also look at giving some element of predictability for capex is the only way we do look at giving some color on it I guess and for next year we are looking at a full year around an aggregate get somewhere about \$2.2 to \$2.3 billion for FY'14 at this point in time.

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

Yes, Vinay I will just quickly answer your question on diesel. First of all diesel is procured by the Towerco's and obviously the bill is passed on to us but by and large we are retail consumers of diesel.

**Vinay Jaising - Morgan Stanley, Mumbai**

Thank you so much sir.

**Sanya - Moderator**

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

**Sachin Gupta – Nomura – Singapore**

Thank you very much. I have two questions. Firstly, Manoj just going back to the African business you mentioned that obviously the our revenue run rate has decreased and hence the EBITDA impact. I guess previously you have also talked about the cost inefficiency you guys are looking to extract. And it sounds like if that is still playing out or there are actually no more fundamental inefficiencies which kind of actually dried the earnings up, that is one question. Secondly, I guess a very small one is how much of your debt is actually up for renewal or refinancing in the next 12 months? Thank you.

**Manoj Kohli – Managing Director – Bharti Airtel Limited**

Okay Sachin, we have picked up lot of efficiencies through supply chain, new contracts, and our business model, etc., etc., but as business grows I think we have spent more also, because if you remember last four to six quarters Zain did not spend anything. So I think that was a artificial period when Zain was kind of trying to sell in the business and trying to hold back lot of capex as well as

**Bharti Airtel Limited Third Quarter Ended December 31, 2012 Earnings Call**

opex so that was artificial period when we took over we had to gain market share, if we have to have presence of a new brand in the market we had to invest money and that investment continuous but at the same time I can definitely reassure you that there are efficiency still lying on the table, we are working on it, I am sure those efficiencies will help us in the next four quarters may not be very big but definitely some more to go. Now going to your second question.

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**Harjeet Kohli - Group Treasurer- Bharti Enterprises Limited**

Sachin of the overall gross kind of about \$12.5 – \$12.7 billion depending on the dollar rupee rate it is in the next full year it is not more than \$1.7 – \$1.8 billion that comes up for renewals some of it is of course on a revolver basis already so we do not need to really look for refinancing over there and the balance for that we have ample backup standby lines already available having said which if you recall we have been discussing that there is a dollar bond which basis market conditions which be might come up with in the coming few months. So really no grave refinancing pressures it is more opportunistic from our side is trying diversified sources of debt rather than really being reactive with some bit of liquidity refinancing is coming in.

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**Sachin Gupta – Nomura – Singapore**

Okay thanks. Also thanks Sanjay, and all the best in your future endeavors as well.

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

Yeah, thank you so much.

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**Sanya - Moderator**

Thank you very much sir. The next question comes from Mr. G.V. Giri from IIFL Capital, Mumbai. Mr. Giri you may ask your question now.

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**G.V. Giri - IIFL Capital – Mumbai**

Hi, number one, if one of your competitors had tonned their VAS selling because of regulatory nudge. Is that already done by you or is it in the future? Secondly, in Nigeria we understand that promotion was stopped for all operators did that temporarily help EBITDA margins in Nigeria and by how much roughly. And thirdly, if you remove the one-off charges from the excess for last quarter do excess charges in India seem to be up fairly sharply, but if I look at the segmental breakdown I cannot see which segment it has actually got parked in, so just wanted to know?

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

Yeah, G.V. let me try and answer the VAS question. VAS regulation that you were talking about, we were probably the first operator in the market to have acted upon. And we took huge cuts in the last three or four quarters, this exercise has been on for over a year now. We have taken a lot of cuts there but let me tell you that the avatar in which VAS regulation was conceived by TRAI; actually no operator in the market has gone and implemented that as yet. If government was to implement methodology of putting in snail mail to confirm VAS, nobody has done it. But the industry is resisting that and fighting it out to say we do not need that, we are happy to confirm with a customer on USSD. What we have gone and done is the subscription engines, outbound dialers, all those have been now brought under the control of the Company and we were amongst the first operators to do it. And we lost our revenue doing that in the previous quarters, some of them started late and they might be seeing an impact now.

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**Manoj Kohli – Managing Director – Bharti Airtel Limited**

Coming in to Nigeria, G.V., it is too early to say about positive impact, but clearly NCC which is a regulator in Nigeria went for a promotion ban to safeguard the leaders. We believe, it was a problem which was created by the leader because the network of the leader in Nigeria was clogged, very congested, and giving a bad service to the customers, whereas our networks were in good shape with lot of headroom for additional traffic. But also at the same time, Nigeria market was going through a bit of tariff action in the last six months because again the leader dropped the tariff by more than 30%. And we had to adjust, fortunately, we have got elasticity and our revenues are back. We did not see a major dip in revenue as the leaders saw our revenues have been neither stable nor growing in Nigeria, and luckily we have gained RMS in Nigeria. Now, with gain in revenues definitely some percentage of that would fall into additional incremental EBITDA which we will see in the coming quarters.

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**G.V. Giri - IIFL Capital – Mumbai**

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**Bharti Airtel Limited Third Quarter Ended December 31, 2012 Earnings Call**

Okay and the access charges please in India.

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

Okay, if you look at the access charges in line with the previous quarter I think it is in holding at almost similar ratio and as I said in the previous earnings call I think you also have to look at it from the mix of the businesses which are included in India and South Asia which includes the international business incoming and the outgoing business that the Airtel business that is the B2B business around this branch.

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**G.V. Giri - IIFL Capital – Mumbai**

But Srikanth just wanted to confirm if I have got my basic numbers right. I am lopping off 350 Crores from the consolidated India access charge and then comparing it with this quarter's access charge is there a fair apples-to-apples comparison firstly.

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

I think we may have to take it off line Giri because I am not able to relate to those numbers but certainly we can take it offline.

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**Harjeet Kohli - Group Treasurer- Bharti Enterprises Limited**

So Giri I will connect with you on that Harjeet here.

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**G.V. Giri - IIFL Capital – Mumbai**

Sure, just one quick question Manoj. The license fees were up very sharply in Africa, any explanation for that, any new countries or something?

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**Manoj Kohli – Managing Director – Bharti Airtel Limited**

Yeah, you are right, G.V., there are certain penalties in few countries especially Franco which are hitting us and those are added into the license fee; license fee percentage is not going up. So there is a onetime cost we have.

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**G.V. Giri - IIFL Capital – Mumbai**

I understood, okay. Thank you very much.

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**Sanya - Moderator**

Thank you very much sir. The next question comes from Mr. Suresh Mahadevan from UBS Securities, Mumbai. Mr. Mahadevan you may ask your question now.

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**Suresh Mahadevan - UBS Securities – Mumbai**

Yeah hi, thanks for the opportunity. I have two questions. One is when I looked at your quarterly trajectory of particularly the mobile services business. It seems to me that you have sacrificed almost 3% points in EBITDA versus last year, if I look at just FY'13. And I mean it does not look like there has been a lot of revenue which has come in, I mean, by doing that. So I just wanted to get a sense of, I mean is this a clear strategy to defend your revenue market share and then you are hoping that the pricing will come in and you can reap the benefits, because at the outset, I mean, for an investor it looks like, okay, Bharti's margins have dropped from 33%, 34% to around 30%-odd. But Bharti is not yet enjoying the benefits in terms of revenue or EBITDA, so that is question number one. The second one is for Manoj. In Africa, I think you had a target of \$5 billion and \$2 billion. I think these are probably internal targets maybe, and obviously the revenue line seems to be okay, moving towards that 5 billion annualized over a period of time. But on the EBITDA line obviously I think there is a big gap for this, what I mean, it seems to me that the profitability of the Africa business, at least at the EBITDA level, has stagnated, maybe it is a conscious strategy to, for you, you are adapting to make sure your RMS goes up. But I just wanted to, I mean, hear your thoughts in terms of the profitability of the Africa business. Seems to be a little bit lower than what we thought it would be, so just wanted to hear your thoughts on that? Thank you.

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

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<b>Bharti Airtel Limited Third Quarter Ended December 31, 2012 Earnings Call</b>
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So Suresh, Sanjay Kapoor and let me take your first question. You are right that when you look at the margins they show a decline of 3%; however, the things that have contributed to the decline begin with price decline then the higher activity in the market place on S&D which had acute activity going on at a gross level and very little coming at the net level and finally the network cost. These are the only three items that actually contributed to the trajectory. Yes it was necessary for us to turn the trends on market share gain and if you look at the market share gains in the last one year we have come back in the market and gained more than anybody else and that was important for us to be back in the game and actually strike with our competitors where they had strong territories compared to us. However we had to start mellowing this down as we gain our share and that is what happening if you look at the new activation process and you see since August 1, the gross activity in the market has mellow down and if you see the S&D cost quarter-on-quarter for two consecutive quarters we have saved over a 100 Crores each quarter on S&D now we are on S&D where we were probably a year back and this is also led to churn coming down drastically which would have positive impact on the margins going forward, yes, our investments on network are probably unique compared to others simply because we are the only guys who are investing in 4G which is extraordinary and also 3G which necessary does not give you the returns in the same quarter or the next quarter, but all these are necessary for long-term competitiveness because you see how the data lines have begun to grow for us. Quarter-on-quarter we are growing now 25% to 26% plus and this is the great growth rate and we believe once handsets begin proliferate in the market more and more this will accentuate and therefore it is necessary to make these investments. So we have taken adequate corrective measures to make sure that the burn on S&D comes down that that churn comes down. There is more semblance on quality customers coming in, we gain revenue market share and network investments, which are important to give data, life for future.

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**Suresh Mahadevan - UBS Securities – Mumbai**

Okay, that was very, very helpful Sanjay. It was really helpful to know how you are thinking and great.

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**Manoj Kohli – Managing Director – Bharti Airtel Limited**

Suresh, thank you for reminding me of my personal aspirations, which we hadn't achieved. So we had aspiration of 5 billion and 2 billion at that point of time and truthfully at that time we thought we can achieve it. But there are two gaps of judgement let me share with you openly. First as I said earlier the market growth the overall Africa market growth close at 15% to 16% cliff and we thought with that cliff we can actually do 10% to 20% higher than the market growth and hence we can grow the topline very well, which did not come true today the market growth has come down to 8% to 9% income markets even 6% to 7% that is one change. Change #2, is that the health and the state of the company in terms of infrastructure we took over was definitely weaker than we expected whether it's infrastructure of network IT, brand, organization design, process, many, many other things. Now our estimation was that we will restructure all this in 12 months despite the speed of Bharti it took us double that time. It took us two year to restructure what should have been ideally done in one year. So that actually extended the period of turnaround. Third thing, which I said earlier and it is important that we did not continue Zain to be a voice company, we took over a voice company and from the voice company we are turning it to my portfolio of 2G voice, 3G data and Airtel Money plus building tower companies in all the countries. Now we are investing for long-term these three four major extra expenditure over 2G voice are definitely incurring extra expenditure in every quarter but we believe that this is the right strategy because we are making a stronger corporations, stronger business for the long-term in Africa. So that is where we are. You are absolutely right, I think revenue looks within reach but margin has been lower. Therefore our focus on margin is accentuated now is definitely higher but at the same time let me also remind you the majority of our market are challenger market where we have 15%, 18%, 20%, 25% market share vis-à-vis big gorillas of 50% to 60% market share. Therefore investment of S&D, investments of marketing and branding and equalization of network if not higher better network are essential. Our objective is to gain or continue to gain RMS but not at the cost of erosion of tariff, not at the cost of erosion of margin. Therefore the focus on margin will be higher now because we have proven ourselves that we gain RMS in every country in Africa. So that is the change we are doing for the next coming year. Focus on margin to be higher than focus on RMS because RMS growth will anyway happen. Suresh is that fine?

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**Suresh Mahadevan - UBS Securities – Mumbai**

Very, very good color Manoj and I expect all the very best to you because I think and clearly since Bharti has taken over Zain I think the topline has grown very impressively. I think EBITDA I think we are probably got a lot of operating leverage but you have chosen to invest that it seems like. I think it is good to get that perspective.

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**Manoj Kohli – Managing Director – Bharti Airtel Limited**

Thank you Suresh, we are committed to those goals but timelines are shifting.

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**Suresh Mahadevan - UBS Securities – Mumbai**

Okay thanks.

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**Sanya - Moderator**

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<b>Bharti Airtel Limited Third Quarter Ended December 31, 2012 Earnings Call</b>
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Thank you very much Sir. The next question comes from Mr. Rajat Deep Anand from ICICI Prudential Life Insurance, Mumbai. Mr. Anand you may ask you question now.

**Rajat Deep Anand - ICICI Prudential Life Insurance – Mumbai**

Good afternoon. So just two simple questions I think first one you have already answered to some extent, which is on Africa. Just trying to understand what is the roadmap to profitability in Africa and I think you will be making some \$400 million loss there. How and when we can we hope to see profits that is one? Secondly on India what has been your assessment of Airtel versus industry and how it is likely to be going forward?

**Manoj Kohli – Managing Director – Bharti Airtel Limited**

Let me start with Africa we have two goals for the coming year for Africa one first getting the cash right. If you see the trend line of last five quarters our operating free cash flow has been positive. In this quarter our operating free cash flow has been \$140 million, which actually by in large cover all cash cost of interest, tax, and of course capex. So our goal is to cover the cash cost of even acquisition interest, which is about \$43 million a quarter. If you cover that then Africa is not putting any burden on the entire group because we are managing within our own cash. That is the first goal, which is important. Second is as I said earlier to Suresh that growing the topline faster so that we can pickup a higher incremental EBITDA, not only in terms of percentage but also in absolute terms. There are X number of countries where we are earning profits already that is why there is a large tax impact but there are other countries where we are not earning so a glide path for each country because there is nothing for Africa profit or Africa loss. Each country has a PAT glide path or an improvement glide path which is there. Our objective is that each market should have a PAT positive and have these market growth was that Africa will start earning profits. I cannot give you a very precise guidance at this time but definitely that is our goal.

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

Rajat Deep your next question on how do we see ourselves versus the market. Well this is the very broad question and we could go on answering this but I will try to be brief and pick up the relevant points here. First and foremost in any environment like India where 12 to 14 players are competing in the market place for a market leader to keep his market share above 30% and to keep a huge gap on margins versus the next competitor, which is almost 8% to 10%, is virtually unprecedented in any other part of the world. I think on those two fronts we have protected our turf fairly well in a market, which has been termed as hypercompetitive. However, going forward and how things have been changing this market and what we are doing and versus others, I think very clearly when this hypercompetition begin to mellow down what happens with challengers and such a market is that their dependence on new activations and the revenues coming from there is higher than the base because they do not have large base and as the market begins to beat a down on gross activity then the exiting guy tends to benefit more than others because his dependence on new adds is not that much and therefore the whole focus is on existing customer on the quality update that he has that is one. Second thing in India data is where voice was in 1994 and therefore our capability building, our network, our infrastructure and ecosystem around that we think we have been investing faster in a more robust fashion compared to others in the market place and that is also evident from our data growth in the recent past and the results are increased on data and we believe that is something that will hold up in good stead going forward while we were seen a probably overinvesting in some of these areas in the last one year. I think this is the investment into future and we are not seeing data as divided into technologies but data is a space, which in India needs to be satiated and therefore our investment into 2G, 3G, 4G, fiber, IPLC, MPLS is a comprehensive stuff that we are building to create a differentiation in this area in future. I think we are probably with the consolidation of market headed in the right direction and in a very hypercompetitive phase despite the odds of a market leader being challenged by everybody I think we have done a reasonable job of keeping a market share above 30% and keeping a big gap between us and our competitors on the market.

**Rajat Deep Anand - ICICI Prudential Life Insurance – Mumbai**

Okay, great so thanks for taking my question.

**Sanya - Moderator**

Thank you very much Sir. The next question comes from Ms. Reena Verma, from Merrill Lynch, Mumbai. Ms. Verma you may ask you question now.

**Reena Verma - Merrill Lynch - Mumbai**

Yes, thank you very much for the call. Just a few questions. Firstly on Africa; Manoj, please could you share with us at what level of data revenue you think you would have completed the portfolio alignment of voice and data that you are talking about, or in other words how much time is required in terms of 3G spend before we can start looking at margins sizing again? Also on Africa, you have been mentioning something called Towerco build-out costs. What is this, because I am not sure I understand what you mean

**Bharti Airtel Limited Third Quarter Ended December 31, 2012 Earnings Call**

when you say build-out costs for Towerco if you can share some insight there? Two questions on India from me please. I heard Sanjay say that Bangladesh has broken even, so just wanted to confirm that when we look at wireless margins for India and Southeast Asia, are they flat if you look even at just India-to-India, if you could please confirm that? And secondly, on the upcoming license renewal for Delhi, can you share with us some scenarios that you think in terms of do you see risk to your presence in Delhi over a five year view? Thank you.

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**Manoj Kohli – Managing Director – Bharti Airtel Limited**

Reena, thank you for your insightful questions. If you see Africa voice usage trends in the last five years the usage has raised between 60 minutes per month in some countries and going up to 150 to 160 in other countries whereas India has ranged between 460 minutes to 530 minutes. So clearly it means Africa's voice propensity is lower than India. Now, why is it lower than India? One is because the tariff in Africa is much higher than India. Second because the basic behavior of the consumer is different. Now, luckily for us what studies we have done also proving that the behavior is much more towards data. Therefore within two quarters of launching 3G networks in many countries we have seen a very smart pickup of data network of usage etc., which I think takes time and I think we are in the early stage of gestation. I believe that Africa in the long-term can definitely give let us say 25% of the total revenues to coming from data revenues. Now when it will happen? It is very different to predict because early days gestation generally takes time it is long-term. We have reached to a healthy level of close to 15%, which is I think good but we have to invest lot on the content. We will have to invest a lot, we have to promote many, many new services luckily out of the top 10 countries of mobile Facebook, and seven are in Africa. So there is some good news of Facebook, Google, Twitter etc., usage on mobile is very high. But I cannot really give you a very precise time target when we will reach to our goal. The third core business of Airtel Money we will have small revenue but a much higher impact on retention, which is lower churn. So that is not a big revenue again it is more a retention gain. So basically a revenue gain is in voice and data and let me assure you we are focusing a lot on developing data, African customers have higher propensity vis-à-vis Indian customers on that.

Your second question was on buildup of Towerco. Towerco buildup involves all the governmental approvals in each country and there is a long list of governmental approvals. Taking away the physical towers from the main GSM Company into the Towerco, lot of shareholder approvals, lot of passive infrastructure linked actions and planning, which we are doing in each country, additional staffs not only at HQ at Nairobi but also in each country, building a NOC for controlling the uptime of towers etc., so all these actions are falling under the tower companies so there is certain expenditure, which we are doing proactively. So that this part of the business can be buildup and over the next fiscal year, which is 2013-2014, I think we will transit the towers to the Towerco operationally also quarter by quarter, so by end of next fiscal year all the towers will be operational under the new tower company and that involves some additional expenditure at least in the buildup period. I hope it is clear Reena to you.

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**Reena Verma - Merrill Lynch - Mumbai**

Yes, thank you very much. Just a very small follow-up is that when we started on Africa you had outlined 40% to 45% kind of incremental margin as a possibility. With the shift in focus towards data, could you at least guide us broadly in terms of how we should think about incremental margin?

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**Manoj Kohli – Managing Director – Bharti Airtel Limited**

No, I think the goals are still the same. You also absolutely right data margins may be superior to voice margin are superior but today the data proportion is very small. Therefore I do not think we can do more than what you are mentioning, but as the data grows to become a much bigger percentage I am sure it will improve further.

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

Reena let me attempt to answer the other two questions of yours. First and foremost the Bangladesh thing yes. I did say that we do not talk about Bangladesh in general as a separate category but I did mention that Bangladesh has broken even on EBITDA margins for the quarter. However, the amount of margins over there or so dismal compared to the overall piece that yes India will remain flat with or without Bangladesh. So you do need to worry about that. The second question is a little more complex to say what do we think about next five years when it comes to refarming in Delhi. Refarming is a very contentious issue. Industry and Bharti have both expressed their views on it openly and have also highlighted what are the downfalls associated with it ranging from consumer experience to more towers to be spending and taking write off some of the investments done in the past so it is the contentious issue. I am afraid that it is not going to see the end of light only where it is today. There will be options all possible options explored on this and then a recourse will be taken. Of course the way it is being projected right now it cannot be very positive on the industry at large. It is something that you will drain away industry's resources and industry's finances for retaining the same amount of revenues. I think this is well known to everybody. So I would not jump to any conclusions as yet I think this is being evaluated. This is being responded to and will be fought in every possible way to bring in resemblance and I think we will talk about it once we know we are really at the final stage.

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**Reena Verma - Merrill Lynch - Mumbai**

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**Bharti Airtel Limited Third Quarter Ended December 31, 2012 Earnings Call**

Thank you. My question was that when you look at these results in hindsight and compare your volume growth to that of say some of your competitors. Do you feel that you have pulled back SG&A a bit much and is that calibration still required?

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

This is a very robust science that exists in an organization like ours. We are watching these numbers like hawks and virtually on a day-to-day basis and yes it might seem that did we pull S&D too much and was somebody spending more S&D to get more acquisition but reflects finally on the margins as well. So I would urge that you look at margins in tandem and also it is too early because this whole activity of discipline and just about started and you will soon begin to see that those negative net adds and will get converted to positive because the churn is falling at a very fast pace and the moment that happens may be to conclusions that you will draw will be very different from what you are drawing today. So I would say that it is too early to jump to any conclusions. Wait for another quarter and then we could probably debating alone to say have we pulled to hard and do we need to let lose a bit.

**Reena Verma - Merrill Lynch - Mumbai**

Well, thank you Sanjay, I look forward to talking to you again in another quarter and another time, and best wishes to both Manoj and you for the new roles.

**Sanya - Moderator**

Thank you very much madam. Ladies and gentlemen due to constraints of time we will take one last question from Mr. Janakiraman from Franklin Mutual Fund, Chennai. Mr. Raman you may ask you question now.

**Janakiraman - Franklin Mutual Fund - Chennai**

Good afternoon gentlemen. See the kind of tariff initiatives the industry has taken over the last fortnight or three weeks, which are primarily not touching the headline tariff but trying to reduce all these discounts, potentially what kind of increase in RPM can the industry raise through such initiatives, and how long is this initiative going to take? Is it going to be done, let us say, over the next two to three months or is it going to take much longer?

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

So, Janaki, this question is pretty straight forward to answer. This is a crusade that I think Bharti Airtel, and I am sure my friends in other companies are thinking alike as well, will have to follow for a much longer period because the task to be accomplished there is too wide. I mean in any part of the world you will see that the headline tariff and the realized tariffs are not so grossly apart. Here the realized tariffs are half that of the headline tariffs, and therefore it's a crusade that cannot be accomplished in two weeks and three weeks and four weeks. I think it will take longer to cover that gap, and I do not know how much can it be bridged, can it be bridged 25%, 50%, 75%, we all figure out, but I think there is clearly room to bridge offering lot of it. How much will this endeavor result into is very difficult to tell you because there are some elasticity associated and also it is forward-looking, I cannot comment on that but endeavor is very clear, endeavor is to bridge the gap between the headline tariff and the realized tariff. We will all find out how much are we can change then there is a huge gap to be covered.

**Janakiraman - Franklin Mutual Fund – Chennai**

Sanjay, in your opinion that is the gap now between the headline tariff and the realized tariff.

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

The headline tariffs are ranging between 1.2 paisa and 1.5 paisa per second, which actually means 0.60 paisa to 0.90 paisa per minute and the realized tariff is 0.40 to 0.43 paisa in our case and the least operators in the market would be more like 0.26 to 0.27 paisa. So it is a huge, huge gap to be covered.

**Janakiraman - Franklin Mutual Fund - Chennai**

**Bharti Airtel Limited Third Quarter Ended December 31, 2012 Earnings Call**

But Sanjay if you adjust the RPM for on-net off-net traffic pattern, and the incoming/outgoing calls, then obviously the potential realized RPM based on the current outgoing rate need not be more than 0.60 paisa in that?

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

Yes, Janaki, technically the headline tariff is about let us say, 0.90 paisa per minute, the incoming minute is at 0.20 per minute on termination. Even if you knock off the A2A, the on-net, it's still 0.10 per minute. So the weighted average gap between let us say 0.42 paisa, which is a realized rate versus what it should technically and theoretically appear to be have been, you can calculate it works over 0.50 paisa. So like what Sanjay is saying if there is a gap is so big and obviously it will take its own time to bridge, but there does exist a big gap.

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

Right now you have to appreciate that a company that does three billion minutes a day every paisa, every two paisa is a quantum jump.

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**Janakiraman - Franklin Mutual Fund - Chennai**

Right. And lastly Sanjay, if you look at all your circles, the circle which gives you the lowest RPM and the circle which gives the highest RPM, can you give some kind of idea about the range?

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

Huge, it is a big gap and that is why this whole stuff around one India one rate and no roaming is being contested and said we need to look a broader solution to this. Yes it ranges I mean the least circle and the higher circle could be almost 60% to 70% apart.

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**Janakiraman - Franklin Mutual Fund - Chennai**

Right, thank you.

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**Sanya - Moderator**

Thank you very much Sir. At this moment, I hand over the call proceedings to Mr. Sarvjit Singh Dhillon for the final remarks.

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

Thank you all for dialing in from around the globe today and we will be I think back on the first week of May for the year end results year-end March 31, 2013 and hope to talk to you then. Thank you very much and have a good day. Bye.

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**Sanya - Moderator**

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