

Earnings Conference Call Transcript

Event: Bharti Airtel Limited Fourth Quarter and Full Year Ended March 31, 2009 Earnings Conference Call

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PRESENTATION

Hina - Moderator

Good afternoon ladies and gentlemen. I am Hina, the moderator for this conference. Welcome to the Bharti Airtel Limited fourth quarter and full year ended March 31, 2009 Earnings Call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for all the participants on this call. Present with us on the call today is the senior leadership team of Bharti Airtel Limited. We propose to commence this call with opening remarks by Mr. Sunil Bharti Mittal after which the floor will be open for the question and answer session. Before I hand over the call to Mr. Mittal, I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risks that we face. I now hand over the call to Mr. Sunil Bharti Mittal. Thank you, and over to you, Mr. Mittal

Sunil Bharti Mittal - Chairman and Group CEO – Bharti Enterprises

Thank you very much and let me add my own very warm welcome to all the investors who have joined this call. I wanted to start by congratulating the operating team for yet another great set of results this quarter and specifically amidst the challenging environment we are affronted with, be it related to the signs of economic weakness or the competitive intensity that has been increasing with each passing day. Let me briefly talk about the economic slowdown that we are witnessing across the globe and its effects and impacts in India and to some extent with all those who are operating in this environment and how Airtel has weathered this storm and mitigated some of the difficulties that the economic slowdown is posing to the industry. We are very clear now that the year that has gone by will not see a 7% growth rate that was being talked about even until the last few weeks; it is going to be more like 6%. World has now only recently started to stabilize with large doses of funds that have been injected across the western economies, in particular the US, Europe and Japan and the last of what is happening in the financial world is not heard and like you we all await the stabilization of our financial institutions so that the economy can stabilize across the globe. I also want to touch upon the competitive intensity, which has in the last few months gone higher than ever before, India has always been a very highly competitive environment, no other place in the world has seen six or more operators competing for the same space with grant of several new licenses and launch of new service providers. With the new service providers the competitive intensity has really gone up. So, clearly one will have to acknowledge that there are head winds but I am equally delighted to report that if there is any company, any management team that is in a position to withstand these head winds and still surge ahead with same or more velocity, it is without a doubt to my mind Bharti Airtel and its highly accomplished management team. On the regulatory front, we all await the formation of the new government with a number of issues that were left undone by the previous regime will have to be taken up.

3G in particular will be something to be watched in the first few months of the new government taking over, the issues around spectrum, as you are aware, the TDSAT's judgment came by virtue of which a committee has been set up to finally decide how the 2G spectrum is to be dealt with. We must also report that we have had continuous flow of additional spectrum in many of our operating circles until the date of TDSAT's order and one or two circles where we have now become eligible, await the final outcome of the committee and we are hopeful that the rights for spectrum that we now have to get in one or two circles will be granted to us. The new business verticals like IPTV, DTH are all being moved into the market place with great deal of enthusiasm and we have seen very good reports coming back in terms of customer satisfaction, the installation of these services in customer homes, and we believe we are definitely delighting our customers, which should result in a better market share and higher sales in these verticals in the coming period. In particular, I am pleased to report that the Enterprise Services business has started to solidify. Many, many large Indian corporates are now coming to Bharti Airtel for taking care of their connectivity needs, managed services needs, and also providing them high-end solutions. We have in the last quarter won some significant accounts from competition and are providing some leading edge services to these corporates. In terms of opportunity, I still remain very confident that the opportunity really is in the new areas, the suburban and rural India. In fact, rural India is today generating a high number of new net adds and will continue to do so. 20% of rural India really lives like 80% of urban India and we do believe that most of these people will not only use the basic services but will start to enjoy the high-end services including GPRS and EDGE-based services. Our broad positioning remains very competitive in the market place, we are very competitive. At the same time, however, we do not go and match free offers or some crazy introductory tariffs and we have seen that we have been able to hold our ground against some of these introductory offers. We also believe that the next big wave of upliftment of value-added services in mobile arena will come for mobile commerce and mobile banking and of course the entertainment vertical that we are strengthening in the mobility business. I will not touch upon too much on the financial details which will come subsequently in this call. I also want to acknowledge the lack of time today because we had to conduct the earnings call on day one as opposed to our traditional day two when we could have given enough time, so I will be brief but just add that yearly increase in revenue has been on course, margin initiatives have yielded very, very strong, robust results. We still are talking about trends, which suggest growth in the coming quarters, a large amount of rural India is still to be connected. The teledensity is fairly low and given the numbers that we have seen in the last few months it goes to suggest that large amount of growth is still coming in the coming quarters. We are putting seed for new revenue streams as I mentioned. We believe that on account of both acquisition of customers and upselling them new value-added services, the growth, in particular the revenue growth should continue. One of the areas where we have worked very hard is the area of cost efficiency initiatives. We have been centralizing a lot of activities within Airtel, the network factories, the shared services, is an article of faith with us and a lot of activities are afoot in this area, which will further result in cost

efficiency in an already highly efficient telecom operations that we run. Bharti has continued to attract great deal of talent pool, we have had a number of new joinees at the highest level from best-in-class in the world companies and we are delighted that they have integration within the Bharti management team in the shortest possible timeframe. Last but not the least, brand remains very strong in the market place month after month, quarter after quarter, it is giving us higher acquisitive power in the market place, more importantly, high revenue compared to our competition resulting in better ARPU and better share of the wallet per customer on value-added services as well. The CapEx, which has been one of the main drivers for Bharti growth, incidentally, is now slowing down in terms of the spend that the company has to do. Therefore I can safely conclude that the peak CapEx now is really behind the company and having now covered over 80% of the population, we are really now moderating our growth in the areas, which are sparse, which are not highly populated and you will see therefore with the addition of lesser number of towers, we should be able to continue our minute-factory growth by adding more capacity on our existing sites, by sharing more sites, and the introduction of the tower companies - in particular Infratel and Indus allow us to now conserve more capital within the parent company Bharti Airtel. Business is now generating free cash flow and we believe that the future organic CapEx will be self-funded.

We have also finally today announced a maiden dividend, a testimony to the fact that we believe that the company now has come to a point where the patience of the investors needs to be rewarded and we are delighted that the board took a decision to offer its maiden dividend to all its shareholders.

Before I hand over the floor to Manoj, may I once more time thank all of you for having joined us here today at the earning call and more importantly having your faith in this management and this company on a continued basis. Thank you, very much. Manoj....

Manoj Kohli - CEO & Joint Managing Director of Bharti Airtel

Thank you, Sunil, and let me welcome all the participants on this call. The quarter and the year gone by have been very eventful period for us. We always believe that India has a huge advantage of deep domestic demand and thus may be only marginally impacted by the meltdown in the world economy. This belief is coming true as Indian economy is turning around faster than all other large economies across the globe. In particular, the telecom sector has demonstrated a sustained growth last year with country adding 130 million telecom customers, crossing 400 million mark in January this year and really putting the speed of growth of China behind the Indian growth.

The total telecom base now stands at 430 million with a teledensity of 37% at the end of March 2009. I hope you all have received the quarterly report and have had a chance to go through it.

Now, I am pleased to first share the highlights of the Annual operational and financial performance of the company and I will come to quarter later. For the full

year, the company added 32.4 million mobile and fixed telephony broadband customers on its network. Further, the consolidated revenue grew from Rs 270 billion in the financial year 2008 to Rs 370 billion in the financial year 2009 thus adding approximately Rs.100 billion or 10,000 crores of revenue in a single year, representing a robust growth of 37% year-on-year.

The EBITDA during the year was Rs 152 billion thus experiencing a growth of 33% and net income for the year was 85 billion representing a growth of 26% year-on-year. The consolidated CapEx for the year was Rs 140 billion. It was similar to last year's CapEx despite the new investments in projects in Sri Lanka, DTH, IPTV, Infratel and Indus, in line with our estimates.

The stand-alone CapEx of the company excluding Infratel was Rs 104 billion and the company turned FCF positive on a full year basis, on a stand-alone basis. We believe this situation is definitely sustainable.

Moving to the quarter highlights now, the company had 97 million mobile and fixed telephony and broadband customers at the end of March 2009, thus is only 3 million short of the 100 million coveted mark. The company added 8.3 million customers during the quarter. Our company leads the market both on wireless customer market share and revenue market share, which is more important. The customer market share at the end of quarter was 24% while the revenue market share was about 32%. We have consistently improved our leadership position last year on the revenue market share.

The company's consolidated revenue of 98.2 billion for the quarter ended March 2009 represented a growth of 26% year-on-year. Mobile segment, which contributes to 80% of the revenues, experienced a robust growth of 28% year-on-year.

Let me recap for the benefit of all, that mobile segment is the consolidation of performance of India as well as Sri Lanka operations. Further let me explain the impact of Indus IRU on our consolidated results. US GAAP mandates equity accounting for a joint venture thus only PAT of Indus is accounted after EBIT. As a result, with effect from January 2009, amount paid by mobile services to Indus is not getting eliminated, leading to increased network operations cost in the quarter ended March 2009, and drop in EBITDA margin by about 2 percentage points.

Similarly, the share of revenue of Indus, which was earlier with Infratel and hence consolidated till last quarter, is not being consolidated in this quarter.

Moving on to the EBITDA now, the consolidated EBITDA for the quarter was Rs. 40.01 billion and the resultant EBITDA margin was marginally lower at 40.7% vis-à-vis 41.5 in the previous quarter. Despite the impact of Indus accounting treatment as I explained earlier, we are pleased that despite huge competitive pressures and conversion of CapEx to OpEx model due to formation of two tower companies, the company has enabled to maintain a robust margin of over 40%, which clearly reflects cost efficiencies as well as productivity focus of the company. The cash profit of the company for the quarter was Rs 37.9 billion, a growth of 25% year-on-year. This is despite the fact that India experienced major forex fluctuations this year. The

company has mitigated a significant portion of its risk on forex fluctuation by taking long-term hedges. However, under US GAAP, the company has to mark-to-market all its foreign currency loans irrespective of its hedged position and recognize the notional profit or loss on the forward contract, which has impacted our operating results last year.

The profit before tax for the quarter was Rs 25 billion, while the net income was Rs 22 billion. The profit margin for the quarter was 22.8%. The consolidated CapEx for the quarter was Rs 29 billion including that of Infratel. The stand-alone CapEx of the company was Rs 24 billion. Thus the company continues to be FCF positive on stand-alone basis and as Sunil said this is the peak CapEx of the company and the guidance for next year is \$2 to \$2.2 billion for the Airtel stand-alone operations. Our company has always been in the forefront of providing disclosures and setting the benchmark for other players in the sector. We will start disclosing the operational and financial performance of Sri Lanka and DTH operations next year, once they become material, based on their respective overall performance. On the disclosure of Indus, the share of profit or loss of Indus is reflected in our consolidated income statement.

We have also included a new section in this quarterly report on Indus related disclosures. Further, from Q1 2010, we will start reporting our Enterprise Services on a consolidated basis instead of providing separate disclosures on Carriers and Corporates, this reporting norm is aligned to the way we run our business internally. I would like to reiterate that while our industry continues to be extremely competitive, the company will fully leverage its large scale, innovative business model, strong management and of course strong financials and balance sheets with its leadership brand to enhance our market leadership once again in the coming year.

I wish you all the best and let me now hand over the call back to the moderator to open the floor for Q&A. Thank you!

Hina - Moderator

Thank you, very much sir. We will now begin the question and answer interactive session for all the participants who are connected to Audio Conference Service from Airtel. Participants who wish to ask questions may please press "*" "1" on their touchtone enabled telephone keypad. On pressing "*" "1" participants will get a chance to present their questions on a first-in-line basis. To ask a question participants may please press "*" "1" now. The first question comes from Mr. Gaurav Jaitley from Reliance Equity. Mr. Jaitley, you may ask your question now.

Gaurav Jaitley - Reliance Equity - Mumbai

Thank you. Good afternoon. I do not mean to monopolize the time on this call, but I just have three questions. First on your minutes of usage trends, you know, they were down about 4% sequentially. I am assuming some of this had to do with some of the free-minute plans that were offered by competitors. I was

just hoping to get some colour on how these MOUs-per-sub kind of trended through the quarter, you know, January, February, March and what you are seeing currently. Can we potentially see these MOUs bounce back or do you think this is like a structural problem and elasticity is falling in the industry as a whole?

Secondly, as you mentioned, margins were very impressive on the wireless side especially given the additional expense due to the Indus operationalization. I was hoping to get some more color on the drivers of that. Was it lower diesel costs, lower advertising, better advertising rates, and then you know as your pace of network rollout, which is clearly slowing, as that continues, can we see margins potentially improve further from here on?

And then finally, you know the MTC cut kind of went into effect April 1. If you can just provide us, you know, what the impact on ARPU and EBITDA would be from that, that would be very helpful. Thank you.

Manoj Kohli - CEO & Joint Managing Director of Bharti Airtel

Ok, Gaurav, I will just start with the third point and then Sanjay will take over the first two. On the MTC, we of course will have a lower gross revenue because the gross revenue gets impacted but at the EBITDA level the impact is really negligible, so we really do not have too much of impact of MTC on the EBITDA.

On the first two issues I request Sanjay to take over.

Sanjay Kapoor - Deputy CEO

Hi, Gaurav. Let me try and demystify your question on minutes. You see that there is a 20-minute per customer decline during the quarter and 11 minutes out of this actually gets explained by two days less that were there in that quarter and the balance nine minutes drop has come by way of, you are absolutely right, because of an arbitrage that got created by competition throwing in free minutes. Also the fact that there was a service tax, actually that would have impacted more the revenue part more than anything else. The service tax reduction where we ended up pumping in some free minutes, but they were free, so to the revenue they did not add. And we exited from low margin but high revenue minutes to the Gulf from PCOs and therefore there was a bit of decline on minutes usage as well.

We cannot give you any details about month wise forecast and performance because that is very competitive in nature but by and large it is about 9 minutes drop and if you look at the past that is the least drop when you have more than 52% of your customers coming from rural India.

Gaurav Jaitley - Reliance Equity - Mumbai

Sanjay, if I could just followup on that. As the number of days, I guess, obviously will be more next quarter, we should see this MOU kind of move up sequentially, or all has been equal, is that fair?

Sanjay Kapoor - Deputy CEO

Well, I would not like to comment on the future, but if you really look at our last one-year performance despite of going so deep into the rural and adding so many new customers actually the minutes of use per customer has fallen only 4% over a full year period. So, I think that is a very battable sort of a trend if you go forward and add probably the next 100 million customers or so.

Your next question was on margin on mobiles, why they were good? Well, I cannot deliberate on every line item on cost, but I can tell you that overall cost has been kept at bay and productivities have been consciously driven. The non-network expenses have been really driven down and we have done very well on that. On network expenses, because we are going into rural India, to bring them down at a very fast pace is not possible, but I think overall we managed both cost and productivity very well to produce those margins that you spoke about.

Gaurav Jaitley - Reliance Equity - Mumbai

Thank you, very helpful.

Hina - Moderator

Thank you, Mr. Jaitley. The next question comes from Mr. Suresh Mahadevan from UBS, Mumbai. Mr. Mahadevan, you may ask your question now.

Suresh Mahadevan - UBS - Mumbai

Yes, thanks for the opportunity to ask this question and congratulations on a good set of numbers. I had one question. I think Sunil Bharti Mittal talked about the head winds and competitive intensity going up. I was just wondering what it means in terms of returns because, you know, even now if I look at Bharti in terms of last twelve-month trends, I think you are still earning well over 30% ROE as well as return on capital employed. Given the competitive situation has changed a little bit for the worse, how do we expect these numbers to behave going forward? Thanks a lot.

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

Suresh, very clearly our theory and our philosophy has been that the day we have extra-operational cash income than what we can gainfully employ for the growth and as you know there is of course massive CapEx still, but we have higher operating cash flows and that is why the dividends because that would reduce the shareholder funds and we hope that the return on equity is something we would like to see at a very healthy level going forward.

Suresh Mahadevan - UBS - Mumbai

Sir, do you think these numbers could be sustainable well into the coming years?

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

Well, we can only try. I guess we are certainly going to try to do that and hopefully we should be successful as we improve efficiencies even more.

Suresh Mahadevan - UBS - Mumbai

Okay. Thanks a lot and all the best.

Hina - Moderator

Thank you, Mr. Mahadevan. The next question comes from Mr. Tim Storey from J. P. Morgan, Hong Kong. Mr. Storey, you may ask your question now.

Tim Storey - J. P. Morgan - Hong Kong

Thank you, very much for the call and the opportunity to discuss the results.

Manoj Kohli - CEO & Joint Managing Director of Bharti Airtel

Tim, can you please speak loudly because we could not hear you.

Tim Storey - J. P. Morgan - Hong Kong

Can you hear me okay?

Manoj Kohli - CEO & Joint Managing Director of Bharti Airtel

No, you are still very faint.

Tim Storey - J. P. Morgan - Hong Kong

I will keep the question short. I just wanted to ask about MOU and if you could help us better understand the dynamics of users in your urban versus rural segment and you know in particular if you can give us any sense of the difference in terms of the MOU that you are finding for users in the urban market and what the trend is on those numbers as compared to users in your rural market and again the trend of those numbers will be useful too. Thank you.

Sanjay Kapoor - Deputy CEO

Tim, this is Sanjay Kapoor. Let me say that we have been going rural over the last 10-odd quarters very aggressively and whatever numbers you are seeing has got a favorable mix of rural and urban built into it and despite of going rural very heavily, we have just dropped the minutes per customer by 4% over the last

one year, although we added close to 32-33 million customers and despite of that we held on to the minutes. But you are right that as you go down to rural India, because the penetration of a town is very less, the ecosystem does not enable a lot of calls and therefore there is a propensity to pick up numbers and usage as the penetration goes up. So it takes a little longer for a rural customer to come back to the national averages, but despite of adding 50%-55% customers from rural India I think we by and large sustained the numbers on minutes of use. So it is not that drastically away from the averages otherwise we would not have been able to retain the sort of numbers that we have.

Tim Storey - J. P. Morgan - Hong Kong

If I could just maybe say that in a different way, do you essentially say that the rural MOU is just a little bit lower than the average as compared to significantly lower? Is that a fair observation?

Sanjay Kapoor - Deputy CEO

Yes, I think so.

Tim Storey - J. P. Morgan - Hong Kong

Okay. Thank you.

Hina - Moderator

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

Shubham Mazumdar - Macquarie Capital - Mumbai

Thank you. I have three questions essentially; would you be able to give us the exact like-for-like EBITDA, EBIT and PBT adjusted for all the movements in Towers, basically Indus coming up. Also if you could give us the like-for-like number for network OpEx on a quarter-on-quarter basis. I am trying to slip out the impact of Indus here. Related question would be, would you not see significant moderation in network OpEx as you have already reached 81% pop coverage in line with the trends visible in wireless CapEx? That is my first question. I will just come back with the others once you answer. Thank you.

Srikanth Balachandran - Chief Financial Officer - Bharti Airtel

Shubham this is Srikanth here. As far as your first question is concerned on the EBITDA, PBT movements in Towers, I would invite you to the segmental results of Infratel, the passive Infrastructure where you can see the most of the movement that has happened on account of the Indus IRU. The impact on the EBITDA for the quarter, as explained before, has been about 3% on the EBITDA margin, but if you take into account the

income that the company is getting from Indus on the IRU, the impact comes down to 2% of gross revenue.

Sanjay Kapoor - Deputy CEO

....and the network OpEx adjusted for the towers.

Srikanth Balachandran - Chief Financial Officer - Bharti Airtel

As far as the network OpEx suggested for the towers, Shubham, the impact in Northeast, because we have separated the towers in any case some time back from the mobility business, the effect of the Indus IRU you will see in the passive infrastructure segment of the company and not in the mobility segment.

Sanjay Kapoor - Deputy CEO

And the last question that you had was, you know, how does network OpEx change given that we have achieved our peak capital. You are right, but let me just put a caveat here to say that all the CapEx that we put in is not necessarily for new coverage, there is a lot that we put in which is for capacity and that is still going to be continuing with the number of customers that we are adding even in existing territory. Yes, you are right that as the CapEx should not grow more than what it was in the past, hopefully the incremental network expenses should also slowdown comparatively.

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

I think Shubham one thing which you must note that while we would not want to give specific details on any of the efficiencies that we have achieved, as Srikanth explained, the net effect would have been approximately 2% due to the industry put under US GAAP as a joint venture and if you would look at the overall results our EBITDA margin has only come down marginally between the quarters from 41% to 40.7% and that clearly reflects the efficiencies at various levels. Network OpEx or sales in marketing, every line item, so I think that is an important factor.

Shubham Mazumdar - Macquarie Capital - Mumbai

Sure. Akhil, just on the back of that, what led to the very positive CapEx surprise in this quarter and also for the full year and also for your \$2.2 billion CapEx guidance for Fiscal 10, am I right in understanding that it includes Bharti Infratel, but it excludes any CapEx allocation for Indus Towers?

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

No, the 2 to 2.2 billion is purely Airtel stand-alone. Infratel and Indus between them are likely to have approximately \$2 billion of CapEx, which means that

the proportionate share for Airtel could be in the region of just about a billion dollar from the tower company.

Shubham Mazumdar - Macquarie Capital - Mumbai

So like all inclusive it will be about \$3-\$3.2 billion, right?

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

It will be wrong to say all inclusive because as far as tower companies are concerned, they are completely separate, they are funding on their own, so that is not really anything, which Airtel has to fund.

Shubham Mazumdar - Macquarie Capital - Mumbai

And Akhil you talked a lot about the potential for mobile commerce in particular alongside other VAS services. Is there any sort of tangible initiatives, numbers, colour regards to how meaningful or significant this could be in the quarters or years to come, and just lastly, the sharing revenue per sharing operator realized has gone up significantly in Bharti in passive infrastructure segment disclosures. Is this an increase that has been taken in the quarter or this is an outcome of the movement in towers. Just some colour here please?

Sanjay Kapoor - Deputy CEO

This is Sanjay Kapoor. You see mobile commerce is an opportunity that we are very bullish about, keeping a medium range plan in mind. Obviously, we are putting in a lot of effort in terms of developing an ecosystem around banking the unbanked on domestic money transfer, international money transfer and mCommerce. However, to see immediate revenue stream emerging in the next 12 months will be a trifle difficult, but I think in a more medium term period, which is more like 18 months to 24 months you shall see some substantial changes happening and some new revenue streams emerging from mCommerce.

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

On the sharing revenue, well as the tenancy goes up this revenue per tenant initially is going up, but I think it will settle down at these levels.

Shubham Mazumdar - Macquarie Capital - Mumbai

Okay, thanks gentlemen. If I have a question I will come back. Thank you.

Hina - Moderator

Thank you, Mr. Mazumdar. The next question comes from Mr. Rahul Singh from Citigroup, Mumbai. Mr. Singh you may ask your question now.

Rahul Singh - Citigroup - Mumbai

Hi, Good afternoon everyone. I had a question on Indus on the status of, we know that Idea and Bharti have moved to the IRU arrangement, just wanted to get a sense on what is happening with the Vodafone towers. I say that purely because if one were to take the revenue contribution, which Idea reported for Indus and try to calculate the average, it comes out to be much lower than the 50,000 number, which we have got used to seeing for Bharti Infratel.

The second question was on the SG&A expenses. We saw a decline quarter-on-quarter, so just wanted to get a sense of, you know, I remember you talking two quarters back about some rationalization of the commission structure for the retail channels, so how is that going, especially with the higher competition coming up? Is that a factor, which has led to lower SG&A cost?

Lastly, the tax guidance for FY'10, if at all you can help us on that.

Sanjay Kapoor - Deputy CEO

The SG&A cost, you are absolutely right that we have taken a rationalization exercise because now the volumes that we control in the marketplace are very substantial and with a 32% revenue market share, bulk of the retail that is there in the market very heavily relies on what volumes Airtel creates and therefore you know the big three or four players actually do not really end up competing on the distribution margins because there is a possibility of having more semblance on how they get remunerated and I think that is what is reflecting over the past few quarters. But what is important for you to know is that as we are getting down to rural India, the channels probably are not as expensive as they are in the urban part, so that is an advantage that you get and moreover, you know, there are certain synergies that we draw on that count.

Rahul Singh - Citigroup - Mumbai

Just a follow up on that. So are you saying that the sheer volumes of the recharges, which you generate now is helping you keep the commission structures low even for the new gross additions? That is number one. And number two, what do you think of the proposed plan of Telenor to directly incentivize the retail outlets? I mean would it not put pressure on your rationalization of the commission at the retail end?

Sanjay Kapoor - Deputy CEO

I do not want to comment on the Telenor plan. All I know is that to cover 1.2 million retailers directly through company, we will need a few tens of thousands of employees to really link up with so many retailers and we have not been able to find a winning formula on that, so we will leave it to somebody else to try it out.

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

Rahul coming back to the Indus, the IRU arrangement is by all three partners. It is not just Idea and Infratel. It is Idea, Infratel and Vodafone. I think what they have reported, I have not seen their revenue figures from Indus, they would have reported a net of the pass-through energy charges that is why it would look lower.

On the tax, I think we are currently at around 14%-15%, or slightly lower than that. It is likely that it should continue at the same level looking at the tax holiday that is available, but I think we will have a clear picture on the tax as we go into the year.

Rahul Singh - Citigroup - Mumbai

Okay, thanks a lot.

Hina - Moderator

Thank you, Mr. Singh. 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

I have just two questions, one on the MOU, we have seen quite a significant dip in the last two quarters. I just wanted a flavor that earlier when we saw this kind of thing our old users or people/subscribers on our network started to increase usage. So are we seeing any trend in our subscribers who have started to decrease their usage or is it purely because of adding lower usage subscribers now?

Second question is on the SG&A spends. Now I would presume that the other expenses which have gone down by close to 800 million this quarter would have led to the drop in SG&A or would have contributed significantly to the drop in SG&A. Correct me if I am wrong?

Sanjay Kapoor - Deputy CEO

First of all that question on MOU, I thought, I have already answered. All I can reiterate is that, you know, if we add 31.94 million customers, add 55% customers from rural India to drop 4% of minutes used per customer over a year's period, I think it is a dumb thing. So that is the explanation that we have already given.

On the SG&A spends, I thought I have also clarified that given the volumes that we have and given the reach and relationship that we have in the marketplace, I think we are able to manage our relationship with much better structured deals for the entire distribution channel. More so going to rural India saves some money for us on the distribution channels as well the way we have structured ourselves. I think that it is the way we are doing business and the volumes that we have in the trade. I think that is what enables us to be more profitable.

Vikas Mantri - ICICI Securities - Mumbai

Can you explain the decline in operating expenses and "others" from last quarter, because they have declined from 3.2 billion to 2.3 billion?

Srikanth Balachandran - Chief Financial Officer - Bharti Airtel

Vikas we can come back on this. Other segment largely relates to DTH, corporate office expenses and so on and so forth. Quarter-on-quarter there is some blip basis the recognition of the expenses. There is nothing in terms of a story here, but we will dig this and we will come back to you.

Vikas Mantri - ICICI Securities - Mumbai

Okay, fair enough. Thanks.

Hina - Moderator

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

Srinivas Rao - Deutsche Bank - Mumbai

Thank you, very much sir. I have two questions, one on your three-line chart. We notice that the capital productivity line has been trending down a bit, so any colour on what can we expect going forward? And the trend has been kind of going down over the last five, six quarters. Similarly your OpEx to gross revenue number has been, you know, sort of inching up to flat, so any thoughts on these two aspects in terms of both, you know, asset efficiency and your OpEx efficiency?

That is number one; number two question is again on Indus. When will the impact of Indus at the PAT level be neutral to positive for Bharti, I mean what timeframe?

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

Well, I would not give any guidance, but let us say in the coming years we should see that impact.

Srinivas Rao - Deutsche Bank - Mumbai

Fair enough, sir.

Manoj Kohli - CEO & Joint Managing Director of Bharti Airtel

Ok, Srinivas, coming back to your first question on three-line graph. I believe not only we have invested in normal CapEx this year, but we have also driven 3-4 large projects this year, so I think this three-line graph is

a reflection of those investments which have gone into DTH, Sri Lanka, IPTV and of course the new Tower company. And as we said earlier, 2% impact on EBITDA this quarter by Indus and Infratel reasons is fairly an example of how gestation period is impacting these three-line graphs and I am sure as gestation goes away I think three-line graphs will become more healthier.

Srinivas Rao - Deutsche Bank - Mumbai

Thank you, sir. Just one clarification. The 2% impact at the EBITDA level, will it be a similar impact even at the EBIT level because I am assuming at least IRU must be compensating for the depreciation. Would that be the right way to look at things and...?

Manoj Kohli - CEO & Joint Managing Director of Bharti Airtel

Yes, Srinivas, it will be a similar impact, but coming back to OpEx, which you raised earlier you know one thing we should appreciate that OpEx productivity has been constant despite all these launches, which clearly we see it as a positive sign, you know, such new projects, new launches, huge marketing spend if our OpEx productivity is stable, I think that is a positive sign of efficiency.

Srinivas Rao - Deutsche Bank - Mumbai

That is it sir. Thank you, very much sir.

Hina - Moderator

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

Vinay Jai Singh - Morgan Stanley - Mumbai

Thank you, so much. Most of my questions have been answered. Just one quick question. The losses in the Others in the EBITDA 1.378 billion is much lower than last quarter. I assume it is probably because DTH is doing better than expected. Also, you know, just to gel on the same question we have been mentioning 2% is the probable improvement on account of had we accounted for last quarter's numbers not accounting for Indus. Where would this EBITDA margin have come in, which division would have done much better? Thank you.

Srikanth Balachandran - Chief Financial Officer - Bharti Airtel

This is Srikanth here. I will answer the second question straight away. The improved margin in the earlier quarters you would have seen in the Infratel segment, which is the passive infrastructure segment and that is where you will see the decline coming, or let me put it factually, that is where you will see most of the decline

coming in. A minor part of the decline, which is insignificant, will come in the mobile segment.

Others we have already answered....Harjeet will come back....

Vinay Jai Singh - Morgan Stanley - Mumbai

Thank you.

Hina - Moderator

Thank you, Mr. Singh. 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 this opportunity. Just a couple of quick questions. One is in terms of your dividend policy. At this stage could you clearly articulate what your pay out policy could be going forward? Is that crystallized? And my second policy-related question is on the news or media reports about 2G Spectrum being considered for auctions going forward. Should that happen like could Bharti be at a standstill in terms of whatever spectrum you currently have, you do not need to bid for anymore? And just two small questions on Indus, one is we were quite disappointed to see the Unitech-Telenor deal go elsewhere. Could you just please help us understand what is the status of your negotiations with any parties outside of the JV partners? And finally, when you look back in hind sight in the way Vodafone has gained market share, particularly in category B circles vis-à-vis Bharti, do you think that it is largely being helped by Indus? I will stop there. Thank you.

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

Ok Reena, let me take up the Indus one. I think like a tower company is to serve all operators on a nondiscriminatory basis, I think it will be very unfair for any tower company to expect exclusive deals from its customers also and therefore we do not see Unitech announced deal with Tata-Quipo or Quipo as the case may be as being anything detrimental to Indus. We are talking to them besides every other operator, although I cannot give any details of where our discussions with them are.

I think our job as a tower company has been to provide whatever we can share with the other operators and whether the Vodafone's gain is only due to that or other factors is something I think Vodafone should be able to answer. As far as we know, we are gaining in revenue market share everywhere and that is what is important for us.

Sunil Bharti Mittal - Chairman and Group CEO – Bharti Enterprises

Let me just add to that, there are going to be always advantages for newer operators to use tower companies in terms of quick entry into the market, but equally there are significant costs associated with hiring these towers and they also take away cost of the incumbents down because they get to pay lower rentals. So, from our point of view, it is a win-win situation and while somebody may get advantage of our towers given to Indus by six or eight months the fact is that it reduces cost significantly for the incumbents and we have to therefore take into account the permanent benefit that comes through this process vis-à-vis our ability to fight in the marketplace and, as Akhil mentioned, we are gaining market share in most of the circles that we are operating in and that must come through not delaying tactics for other operators but by strength of our brand and offerings.

On the other two points, let me talk about dividends first. We will hopefully come out with some policy, which we can then make as a guiding spirit for dividend in the future. Suffice to say that it is a maiden dividend, a startup dividend it also means that we are conscious of the fact that this should be now an ongoing feature. The board carefully examined this aspect and we are confident that the sustainability of dividend in the coming years in the foreseeable future is not an issue at all given where the company's cash flows are today, but we will come out with some guidance on our dividend policy in the future.

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

Your second point on the 2G Spectrum I mean we are awaiting the final guidelines that will come out of the committee report or the telecom commission or as the case may be. We have received spectrum in many places but equally we are requiring spectrum in places where we are growing very fast, especially in the metros, where spectrum has been a perennial problem, and we can choose where we need to get spectrum. If it moves from the current subscriber-linked criteria to auction criteria then we will evaluate it and see wherever we need we will participate. But I would say we need to wait for the final outcome of the policy.

Reena Verma - Merrill Lynch - Mumbai

Sure. Thank you very much. Sanjay, it maybe annoying, but may I ask what is the trend in postpaid MOUs has been for this quarter. I know, he has deliberated on MOUs a bit, but if we can get some color there please.

Sanjay Kapoor - Deputy CEO

Reena, we do not give a break up to that level, you know, it will be very difficult to give you trending on postpaid versus prepaid. Anyway, prepaid is now virtually, you know, the entire base, so I would suggest that you look at the overall numbers and do not, you know, get on to postpaid versus prepaid break up.

Reena Verma - Merrill Lynch - Mumbai

Okay sure. Thank you very much.

Hina – Moderator

Thank you Ms. Verma. 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. Just a couple of questions. Just want some little clarification on Indus. If I look at the balance sheet on page 31, I understand the towers have been migrated. Is that reason why the investment in associates and joint ventures is not reflecting there? That is my first question. Secondly, this total loss of 713 million, is that entirely because of Indus or is there something else clubbed in there as well? Another question, if I look up at the employee cost, that has gone up quite a bit, but if I look at the number of employees at a group level that has come down, so as a result the cost per employee has gone up by 25%-26%. I was just wondering what is driving that? Thanks.

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

Well, on Indus, I think till the whole merger process is complete, the fixed assets will be sitting in Infratel books because that is where they have been demerged and are currently placed, so they will continue to be there and get consolidated in Airtel. It is only when they actually go out of Infratel by way of a demerger, which is underway now, that this will go out. The second one you mentioned about some loss, which loss are you referring to, please?

Sachin Gupta – Nomura - Singapore

I was talking about the share of profit in associates on page 31 on a consolidated level.

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

Yes, that is only Indus.

Sachin Gupta – Nomura - Singapore

Thank you.

Hina – Moderator

Thank you, Mr. Gupta. The next question comes from Mr. Pankaj Kapoor from ABN AMRO, Mumbai. Mr. Kapoor, you may ask your question now.

Pankaj Kapoor - ABN AMRO - Mumbai

Hi! Thank you, Sir. Just persisting again on the MOU, my apologies for that, do you think that the MOU drop in this quarter could also be due to the possible increase in the share of multiple Sim-card holders given the various offers that happened from the launches of the new operators, and do you expect that the impact from this actually can increase going forward as further launches happen? Also related to this is any sense from your own internal studies in the MOU trends in the metros and the A circles, are you seeing a stagnation there? And my second question is on Infratel. There has been a 7% quarter-on-quarter jump in the sharing revenues per tenant. Is this because of the lower rentals at the tower that got shifted to Indus.? Thank you.

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

Let me clear on the Infratel one. I think that slightly higher rental could have been partly, I am not exactly clear why it has happened in this quarters, it could have been partly on account of some adjustments, but I would say the current numbers, which are now reported look like the ones which are sustainable and it also could be because there are some tenancies, which have come at a higher rate, but the current number, which is now given looks like the one which is sustainable.

Sanjay Kapoor - Deputy CEO

Pankaj, on the MOUs, you are right that multiplicity of Sims does become a reality when multiple new operators come into the market, but that is only for a short arbitrage period till the time some free offers exist. We have seen the moment those free offers are withdrawn the customer bounces back to using the main chip that he generally is using for his regular day-to-day survival. So that is what happens. You would have seen a bit of blip and some of the reasons other than those 11 minutes, which went down because of two days less, a bit of that 9 minutes shortfall could have been explained by even multiplicity of Sims, but please keep in mind that given the fact that we have added so many new customers during the year and the fact that we add virtually 55% of our new customers from rural India, I think the minutes have held on fairly well.

Pankaj Kapoor - ABN AMRO - Mumbai

Thanks Sanjay. Just if you can also give a sense on the MOU trend that you are seeing in the metros and A circles if there has been any stagnation over there in usage?

Sanjay Kapoor - Deputy CEO

Well, you know, whatever we report is a good mix of both, but if you look at circle wise performance on revenue market share that gets reported, we are still

growing in metros, you know, where the penetrations are already very high. So it is not that they are not growing but elasticity is not rampant, you got to be little choosy to create elasticity in urban areas now.

Pankaj Kapoor - ABN AMRO - Mumbai

Fair enough. Thank you and all the best.

Hina – Moderator

Thank you, Mr. Kapoor. The next question comes from Mr. Ajay Nandanwar from India Capital, Mumbai. Mr. Nandanwar, you may ask your question now.

Ajay Nandanwar - India Capital - Mumbai

Thanks. Good afternoon. I had a question if you could shed some light on how the incoming roaming revenues, both on domestic and international, have behaved on a quarter-on-quarter basis?

Sanjay Kapoor - Deputy CEO

Ajay, the domestic is behaving all right, it is not bad, it is by and large in line. Obviously as you go down to rural India, the percentage of people who are roamers, even domestic roamers, might tend to decline but amongst the existing users there is no dampness. International, there is no wild guesses on this, all of us know that the roaming traffic and the international traffic of tourists and otherwise has lessened to the country, and therefore there is a bit of stress on in-roamers, international.

Ajay Nandanwar - India Capital - - Mumbai

Could you give some quantitative data about Q2, Q3 and Q4, you know both these buckets for these numbers on absolute terms or relative to your revenues?

Sanjay Kapoor - Deputy CEO

Well, I do not think I can give you that break up, all I can say is that absolute numbers may not be declining but they are not overall increasing at a great pace.

Ajay Nandanwar - India Capital - - Mumbai

Let me ask you specifically, you know, now that some of the competitors have rolled out in circles that they were not present in, does that impact, you know, sort of non-Airtel subscribers roaming into Airtel area? What is the impact on that revenue base and what part of your roaming revenue is that or your overall revenue share is your incoming roaming from other operators?

Sanjay Kapoor - Deputy CEO

Very, very small insignificant proportion, and it is all bilateral, you know, all roaming that happens with other operators, I mean, we welcome all of them to roam on our networks but to be honest the revenues that we get from them are really very dismal.

Ajay Nandanwar - India Capital - Mumbai

If I assume it, say less than 1% or 2% of your revenues....?

Sanjay Kapoor - Deputy CEO

No, I cannot give you those details, it is insignificant.

Ajay Nandanwar - India Capital - - Mumbai

Also on your Enterprise NLD carrier business, what part of your revenue is coming from other wireless carriers using your backbone?

David Nishball - President - Enterprise Services - Bharti Airtel Ltd.

Ajay, this is David Nishball just quickly answer you question although we do not break out the traffic on network by group and non-group traffic. Clearly what has been happening across the country is most of the significant large wireless carriers across the country now have their own national long distance networks. They have been rolling out those networks over the last several years and for the most part they are relatively self-sufficient in terms of the large bulk of their national long distance traffic. So as that has happened, the bulk of the traffic that we carry has become group business.

Ajay Nandanwar - India Capital - Mumbai

Your inter-group cancellation, is that primarily NLD that you charge to your mobile services?

Srikanth Balachandran - Chief Financial Officer - Bharti Airtel

It pertains to both NLD and the ILD. As you know, we also have an ILD license, so you know that part of Carriers, which carries both NLD and ILD, would be part of the inter-group elimination.

Ajay Nandanwar - India Capital - Mumbai

Thanks so much.

Hina – Moderator

Thank you, Mr. Nandanwar. Ladies and Gentlemen, due to constraints of time we are not able to entertain any further questions. This brings us to the end of question and answer session. I would now hand over

the call proceedings to Mr. Manoj Kohli for the final remarks. Thank you.

Manoj Kohli - CEO & Joint Managing Director of Bharti Airtel

I would like to thank all the participants and I would like to apologize to participants who could not really ask their questions. It will be great if you can send your questions to Harjeet and he will immediately respond to you. So looking forward to meeting you in July now. Thank you and all the best.

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.

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