

## **Earnings Call Transcript**

**Event: Bharti Airtel Limited Earnings Conference Call for the Fourth Quarter and Full Year Ended March 31, 2006.**

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**Bharti Airtel Limited - Fourth Quarter and Full Year Ended March 31, 2006**

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GIC- Singapore

**Vinay Jaising**

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**PRESENTATION****Swati – Moderator**

Good afternoon ladies and gentlemen I am Swati, the moderator for this conference. Welcome to the Bharti Airtel Limited Fourth Quarter and Full Year Ended March 31, 2006 Earnings Call hosted by JP Morgan. Mr. Sanjay Chawla, Senior Telecom Analyst, JP Morgan is your call leader today. 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 the international participants connected to Airtel International Center. After that, a similar question and answer session will be conducted for the participants in India. Now, I hand over to Mr. Sanjay Chawla of JP Morgan. Thank you and over to you Mr. Chawla.

**Sanjay Chawla - Senior Telecom- Analyst - JP Morgan**

Thank you Swati. Good morning or good afternoon ladies and gentlemen, who have dialed into this earnings call. We at JP Morgan are pleased to host this call and welcome you all to this analyst briefing on fourth quarter and fiscal year 2006 results. We would like to take this opportunity to extend our congratulations to Bharti's management on a good set of results. As usual, we have a full representation from Bharti's senior management on the call today. On behalf of all the participants and JP Morgan, I would like to thank the senior management for taking the time to be with us on the call today and would now hand over the call to Ms. Sonal Kapasi, Head of Investor Relations of Bharti Airtel Limited, to initiate the proceedings.

Over to you, Sonal.

**Sonal Kapasi - Bharti Airtel Limited - Head, Investor Relations**

Thank you Sanjay. A very warm welcome to all of you. I hope, each one of you is in receipt of the results for the fourth quarter and full year ended March 31, 2006. The results are also available on our new website, [www.bhartiairtel.in](http://www.bhartiairtel.in). This is in line with the recent change of the name of the organization from Bharti Tele-Ventures Limited to Bharti Airtel Limited. Today we have with us the entire senior management on the call. Mr. Sunil Bharti Mittal, Chairman and Group Managing Director, Mr. Rajan Bharti Mittal, Joint Managing Director, Mr. Akhil Gupta, Joint Managing Director and Chief Financial Officer and Mr. Manoj Kohli, President, with us on the call today. Before I handover the call to Mr. Sunil Bharti Mittal, I must remind you that the overview and the discussions today may include certain forward-looking statements that must be viewed in conjunction with the risks that we face. I now handover the call to Mr. Sunil Bharti Mittal.

**Sunil Bharti Mittal - Bharti Airtel Limited - Chairman and Group Managing Director**

Thank you, Sonal. Let me add my own greetings to all the participants on the call today. We have finished a very successful and an outstanding year in the Telecom Industry in India. Bharti being the leader in this space has fully utilized its opportunity of growth and other benefits that the company could get from the vast growth of Telecom in the country. The financial year overall the 2006, if you would all have noted, has been a great year for Telecommunications. The Telecom subscriber base grew by 43% to approximately 140

**Bharti Airtel Limited - Fourth Quarter and Full Year Ended March 31, 2006**

million as of March 31, 2006. Within that the wireless subscriber base grew by an impressive 73% to end at approximately 90 million customers. Wireless subscriber additions have been setting new records quarter after quarter. The last quarter gone by witnessed 14 million subscribers coming on to the mobile bandwagon with March alone contributing to over 5 million subscribers alone. Consolidation of the Indian Wireless Industry by way of Hutch acquiring BPL, entry of few foreign Telecom players gaining presence in India by way of Vodafone's acquisition in Bharti, Maxis acquiring stake in Aircel and Telecom Malaysia acquiring a significant stake in Spice. The other notable developments have been the listing of Reliance Communication Ventures Limited and many players now moving more into the space of integrated play rather than being mobile alone. On the regulatory front, the news though has been good. There has been finally a reduction in the access deficit charges and interconnection cost, these have been put into place with effect from March 01, 2006. You are aware that the ADC has now moved away from per minute charge to a percentage of the revenue giving us the flexibility to bundle our services to the customers segmenting based on their needs and requirements. The debate on number of portability ranges in the country, in Aircel and Bharti is concerned we are neutral to positive on this development. It is our desire to see a comprehensive number of portability coming in the country including the fixed line, but more on that as we develop our business this year, but this will be one issue which will be debated in the coming quarters. On the company's results let me just touch upon some highlights. Akhil Gupta will lead you to the entire details of the financial performance. Bharti is the first private telecom operator to cross the 20 million customer mark. The company had 21 million customers as at the end of the year, comprising of 19.6 million wireless customers and the rest being fixed line customers. The company experienced highest ever net additions in a single quarter of 3.4 million telecom customers comprising of 3.25 million mobile customers and approximately 150,000 broadband and telephone service customers. The key highlights of the quarter were revenues of Rs. 34 billion, EBITDA of 12.8 billion, cash profit of 12.1 billion and a net profit of 6.8 billion. The other significant updates pertaining to the company are the company announced an integrated structure for all its telecom businesses; the Infotel and Mobility arm have been put together under a unified command. Manoj Kohli, is the President of Bharti Airtel and leads the business verticals of the company in all respects. As was just mentioned, the company has had a name change. The name change has resulted in the company now being known as Bharti Airtel Limited, capturing the brand right upfront in the name of the company, in our view will benefit stronger brand selling, for both Bharti and Airtel in the coming years. The company has been recently assigned the GVC level 1 rating by CRISIL for Governance and Value Creation, the highest level of rating they award to the companies. The company has also been awarded the 2006 Frost & Sullivan Asia Pacific ICT Awards for Wireless Service Provider of the year and Competitive Service Provider of the year. A number of other awards and recognitions have come the way of the company and the senior executives in the last 12 months. The company is very well

positioned to realize its vision of making Airtel the most admired brand in India, that is loved by more customers, targeted by top talent and benchmarked by more businesses. Akhil will now take you through the detailed financial and operational performance of the company during the quarter. Thank you.

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**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

Thank you Sunil. Let me add my own welcome to all the participants who have taken time to dial in today on this annual, for the full-year's earning call. I hope you have all received the quarterly report and have had a chance to go through it. Before I start the briefing on the company's performance in the quarter, as mentioned by Sunil in his speech, the quarter gone by, was by far the best quarter for the Indian Telecom Market, with a record high of 14.2 million subscribers net additions in the wireless space. The net additions during this quarter were three times the net additions for the quarter ended March 31, 2005. It would also be clear how the Indian market is expanding from the fact that for the quarter of March 31, 2005, the difference between the net adds in China and India were 4.2 million which has got reduced to only 0.3 million for the quarter March 31, 2006. Hopefully in the coming quarters, we would like to see India crossing China in terms of net additions. For Bharti Airtel this has also been the best quarter ever as would be evidenced from the following: The financial year gone by was a period of rapid growth and investment for the company whereby we further consolidated our leadership position. Our total customer base has crossed 20 million mark, it ended at 20.9 million customers as of March 31, 2006, comprising of 19.6 million mobile customers and 1.3 million Broadband and Telephone customers. The net addition of 3.4 million customers during this quarter was the highest ever net addition by the company experienced in a quarter. The company added 9.08 million customers on its network during the last financial year. I would also like to highlight that for the first time the company has added more than 1 million mobile customers consecutively for all the three months during this quarter. Our mobile coverage has now extended to 3,778 towns from approximately 2,000 towns a year back, and that has taken our population coverage to approximately 40%. During this period, the number of cell sites have increased from 10,415 to 20,970 as of the end of March 2006, which means that we have added 10,555 cell sites during this period which incidentally is more than what we had added in the last 10 years. Our network utilization in terms of total minutes of use for this quarter has more than doubled to over 23.2 billion minutes as compared to the total minutes of use of 11.6 billion minutes for the corresponding period in the previous year. During last year, we have rolled out broadband and telephone services, that is the wireline services in 38 additional cities which has increased our presence to 90 cities as of March 31, 2006 from 52 cities that we covered as on March 31, 2005. With our acceleration of deployment and rollouts in new towns and cities we have been able to invest over Rs.24.2 billion as capex during this quarter roughly about US\$544 million and for the full year the capex spend was Rs.63.3 billion or

**Bharti Airtel Limited - Fourth Quarter and Full Year Ended March 31, 2006**

approximately US\$1.4 billion. This is broadly inline with the capex estimates that the company had given previously. We have made total gross investment of Rs.229 billion that's roughly about US\$5.1 billion as on March 31, 2006. Let me now talk about some financial performance highlights first for the quarter ended March 31, 2006 and then for the full year. For this quarter the consolidated revenue was Rs.34.1 billion, a very robust increase of 47% over last year. The consolidated EBITDA was 12.8 billion, a 41% increase and the margin for the quarter were 37.5%, which was up 0.5% over the immediately preceding quarter. The net finance cost was at Rs.733 million out of which the normal finance cost was 620 million and 113 million was on account of exchange fluctuations and derivative accounting. The cash profit from operations for the quarter was Rs.12 billion, an improvement of 46% over the last year. And the earnings before taxation for the quarter was Rs.7.4 billion, an increase of 45%. During this quarter the company had depreciation and amortization expense of Rs.4.7 billion. The increase in depreciation and the amortization expenses was mainly on account of increased capex due to the massive expansion made by the company and that's clearly evident in increase in town coverage, sites installed and new rollouts mentioned earlier. During the quarter, the company incurred an income tax expense of Rs.549 million, out of this the current tax expense was Rs.513 million while with deferred tax expense recognized was Rs.36 million. The net profit for the quarter was Rs.6.8 billion, a growth of 49% year-on-year. This led to earning per share of rupees 3.62. Mobile segment contributed to 71% of total revenue and 68% to the EBITDA for the quarter. The total capex on mobile segment for the quarter was 17.7 billion rupees representing about 73% of the total capex for the quarter, which was 24.21 billion. Just to recap a few key ratios, the return on equity for the quarter was 29.4% as compared to 28.5% a year ago, while the return on capital employed improved from 18.3% to 22.3% in March 2006 quarter. For the full year ended March 31, 2006, our revenue was 116.6 billion a year-on-year increase of 46%, EBITDA was 43.6 billion, an increase of 45% and the overall EBITDA margin for the year was 37.4%. The net finance cost was Rs.2.65 billion out of which the normal finance cost was 2.318 billion and Rs.332 million were on account of exchange fluctuations and the derivative accounting. The cash profit from operations was Rs.41 billion crossing the 4000 crore mark, an improvement of 46% and the earning before taxation was Rs.25.6 billion an increase of 54%. During the year, the company had depreciation and amortization expense of 15.8 billion and we incurred an income tax expense of 2.736 billion. The current tax expense out of this was 1.968 billion, while the deferred tax expense was Rs.768 million. The net profit was Rs.22.6 billion, a growth of 51% year-on-year and this has led to an earning per share of Rs.12.06 for the full year. Before moving on to the balance sheet, I would like to highlight an accounting treatment in the Indian GAAP financials. Please note that the figures given above are all based on US GAAP results. I would like to highlight that the auditors report under the Indian GAAP accounts had been carrying a qualification in respect of an old outstanding dispute with DoT regarding our claim for refund of Punjab license fee. While we do believe that we have a good case on

merits inline with our commitments for the highest corporate governance and benchmarking against the best practice in the world of having unqualified audit reports. We have provided for this amount of Rs.1.86 billion in this quarter. Accordingly, the profit for the quarter as well as full year in Indian GAAP are lower by this amount. However, this has no impact on the US GAAP financials other than a benefit arising out of lower MAT since the principle amount in US GAAP had already been provided for earlier. On the balance sheet front, the company had a net debt of Rs.41.5 billion about US\$932 million as on March 31, 2006, the net debt to EBITDA was 0.95 times as compared to 1.33 times a year ago and the interest coverage has improved to 19.86 times, up from 13.24 times in March 2005. Quite clearly, the company has a very comfortable leveraging position. In the end, I would like to summarize that this has been indeed a very satisfying quarter. We are excited about the growth momentum in the Indian Telecom Industry, and the fact that in every which way we are very well positioned to capture this growth and fulfill our vision. I would like to now handover the floor back to Swati for question and answer session.

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**Swati – Moderator**

Thank you very much sir. I now handover the proceedings to Lucy at Airtel International Center to conduct the question and answer session for the international participants. After this, we will have a question and answer session for the participants in India. Over to you Lucy.

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**Lucy - Moderator**

Thank you Swati. At this time, international participants may press zero one (01) if they would like to ask a question. On pressing zero one (01), participants will get a chance to present their questions on a first in-line basis.

One moment please for the first question. Mr. Suresh Mahadevan from ABN AMRO Hong Kong. Please go ahead sir.

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**Suresh Mahadevan- ABN AMRO- Hong Kong**

Yeah, thanks a lot for the earnings call and, you know, congrats on an excellent set of numbers again. I had a few questions first of all on the long distance margins, there seems to have been a significant expansion both on the EBITDA level as well as on the EBIT level, could you go through you know what are some of the reasons, why the margins are looking up there in that business. And second question is, this is particularly for Manoj, to understand the usage pattern of this 999 users in terms of (a) how much they are recharging per month as well as how much of outgoing they are using? Because you know from looking at your MoU levels as well as ARPU levels, it does seem like a substantial usage is coming from the segment. And finally wanted to get a quick update on how many retail outlets now

**Bharti Airtel Limited - Fourth Quarter and Full Year Ended March 31, 2006**

Bharti Services are available in and also the easy recharge percentages in terms of the value of recharges as well as the number of outlets. Thanks a lot.

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**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

Let me take up the long distance one and then I will pass it on to Manoj for the other two questions. Our long distance business if you notice, we had quarter ended March 31, 2006 EBITDA to total revenue of 37.1% which is still a bit lower than what it was last year, but this is a business where the recurring expenses are not -- more or less of the fixed nature, so they do not increase drastically with the business and the volume increase and as the long distance traffic is going up that is the reason why the margin have somewhat improved from the previous quarter. Manoj?

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**Manoj Kohli - Bharti Airtel Limited - President**

Welcome Suresh, this is Manoj. You know when we introduced lifetime product in India, I think we initiated a new paradigm in the marketplace and we have had a very healthy response from customers all over the country. Initially there were some anxieties that, you know, the customers may have more incoming calls etc., etc., but we are seeing very robust trends of customers using both outgoing very well and overall we see MoU's growing quite healthily. So, I believe that the outgoing percentage is already showing a good trend, it is growing every month and every quarter. So, this issue also is impacting our cost per minute going down over the last quarter. Moving to your second question about distributions, our distribution strategy is very clear, our distribution depth goes in first and then networks comes in. Today, we have more than 400,000 retail outlets and about 1,000 exclusive brand -- Airtel brand outlets in the country and about 68% of retail outlets are easy charge sales outlets. On top of that we have more than 100,000 outlets who are trained to sell music and already if you our saw Easy Music platform has picked up very well and lot of retailers are earning extra margin through Easy Music. Thank you.

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**Suresh Mahadevan- ABN Amro- Hong Kong**

Thanks a lot.

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**Lucy - Moderator**

Thank you sir. Next we have Mr. Anand Ramachandran, from Citigroup. Please go ahead sir.

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**Anand Ramachandran – Citigroup – Hong Kong**

Yes, hi good evening gentlemen, thank you for the call. Couple of questions, one in terms of coverage, could you elaborate what the company's targets would be for the next 12 months I guess in mobile and fixed line

space and what kind of broad capex numbers this would entail. My second question would be broadly I guess in a competitive front over the next 12 months which I guess you're looking to spend, Hutch looking to spend again they up capex, Reliance looking to spend and BSNL coming out with the numbers they have Do you expect any change at all to the competitive background? it is intense but has never been irrational, do you expect it to probably stay that way over the next 12 months? Thank you.

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**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

Thanks Anand. You know we have roughly about 3,800 towns out of the census towns covered as on March 31. Our aim is that by March 31, 2007, we should cover practically each one of the 5,161 census towns. In the process, of course, we will significantly be also increasing the number of villages and other towns, which as on March 31, are over 80,000, which we cover. So, it is a big rollout and we do hope that by end of next year we should be in a position to cover all the census towns. We have current coverage of population about 40% odd. We believe that with this coverage it should go somewhere between 50% to 55% for sure. In terms of capex, we believe, we will be spending in the current year anywhere between 1.8 billion to 2 billion. We are now encouraged with the deployment which has taken place in the last quarter over 3,600 base stations, I think the teams are now very well equipped, they have the right processes and experience now. And therefore we are quite encouraged to feel that the capex could be going up to 1.8 billion to 2 billion during this year. Of this, broadly speaking about two-thirds should be going towards mobile and the balance towards the non-mobile segment. Competition obviously remains very intense as you can all feel and while surely as more and more operators get revenue on their balance sheets, there is more rational behavior; we expect that to continue but the intensity of competition we do not expect that to come down.

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**Anand Ramachandran – Citigroup – Hong Kong**

Okay, Akhil, if I could just quickly follow-up, do you plan to expand the footprint for the fixed line business beyond 98 towns or do you plan to keep it that way?

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**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

Well our aim on the fixed line has been that we would be selective, we are already at 90. Our overall target is anywhere below 100. So, we don't expect much of an expansion on that in this year.

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**Anand Ramachandran – Citigroup – Hong Kong**

Thank you so much.

**Bharti Airtel Limited - Fourth Quarter and Full Year Ended March 31, 2006**

**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

Thanks.

**Lucy - Moderator**

Next we have Reena Verma from Merrill Lynch. Please go ahead.

**Reena Verma - Merrill Lynch- India**

Thank you very much for this opportunity to speak with you. I have a few questions. Firstly, on the mobility front, you mentioned that this was a record quarter for net additions. But for the last two or three quarters we have seen your mobility margins stay in the band of 36.5% or so. What needs to happen for this number to rise given that we are already seeing some stunning growth in the marketplace and that is not moving margins, that is my first question. Secondly, on capital productivity your graph shows some slippage for the third quarter and followed by slippage in the fourth quarter. At what threshold of capital productivity would you worry about the spend levels? On your fixed line business, we have looked at your capex numbers, your net adds are obviously not a great benchmark at this point. But, you know, we are just a kind of worried on what exactly are you spending on because it seems to be extremely high in relation to the numbers that you are getting at least on a quarterly basis. So, if you could please help us understand in detail what your fixed line spend is towards? And lastly, on your long distance business is there a benefit of the ADC cut that is still pending to be passed on to customers? Those are my questions please.

**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

Thanks Reena. As far as the mobility margins are concerned, you know in our business, sometimes you have to invest for the future. And therefore, there is always a tussle between growth and the margin. As a company, we are very-very clear that what we are looking for is growth. Even if the margins stay at where they are, we are pretty satisfied with those margins. We are not too worried about rapid expansion of these margins. Our aim always has been to pass on the cost benefits to the customers and expand this market. So, I do not see that as a priority that the margins on mobile business must expand drastically. What we would be working on is expansion of the revenues, and I think that has been very satisfactory. As far as capital productivity is concerned well, first of all I think I must warn that looking at capital productivity on a quarter-to-quarter basis would be a wrong benchmark. I think capital productivity ratios do need to be seen over a longer period. If you would note the only difference has been between 62% and 61% in this quarter over the last four quarters which is absolutely delightful for us because the kind of investments we have made this year, but despite that if we are able to maintain it above

60% I think that is a very delightful situation from our point of view.

**Reena Verma - Merrill Lynch- India**

But Akhil, in the fourth quarter results from last year the same graph had a 65% number against the fourth quarter and not 62%. So, the decline you know versus your last quarterly report on the same quarter versus today is almost 4 percentage points.

**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

No, I send the 60, I didn't get your question Reena, you mean the third quarter 65%?

**Reena Verma - Merrill Lynch- India**

No, your quarterly report of fourth quarter last year had capital productivity at 65% and that seems to have been restated at 62% in this quarterly report.

**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

I will get it checked, I am not aware of any, you know, change in that percentage but we will of course -- I will ask Sonal to clarify that position, but I would say to answer to your question anywhere around 60%, with this pace of growth is something which we find a very-very acceptable situation. But I will ask Sonal to clarify this particular position to you.

**Reena Verma - Merrill Lynch- India**

Yes, thank you.

**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

On the fixed line, well you know this is a business which is a high capex business because this involves digging, this involves copper, the wire been taken to every house, obviously the capex here is high but so is the ARPU. This is a revenue per customer business and we are pleased that we are still maintaining an ARPU of over a 1000 rupees in this business. So, we are very clear that, with the expansion of broadband services which I think India will adopt in a big measure in times to come, this will be a very good investment. On long distance, I am pleased to confirm we have passed on the entire cut on ADC straight away to the customers and that has, of course, started showing now an increasing traffic on long distance side and as I explained and answered to an earlier question, because of that increase there is a slight improvement in the margin in that business also. Thank you.

**Bharti Airtel Limited - Fourth Quarter and Full Year Ended March 31, 2006**

**Reena Verma - Merrill Lynch- India**

Akhil, thank you very much. And I just have two small follow-up questions, one is on fixed line again, when you are incurring the capex currently and since you are more or less done with your coverage target at around 100 cities, are you building capability for triple play into your network, if you can please elaborate a bit on that. And on your mobility business, has there been any impact on revenue per minute from migration of your earlier subscribers to the lifetime plan or is that insignificant?

**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

Well on the fixed line side, well while we will not be adding to the number of towns, it is not that the expansion within those city will completely ceased, there will be some expansion within those cities, but we have no intention of going for too many new towns at this stage at least in this year. As far as triple play is concerned, we are doing some commercial test on that. The results have been good, but I think we still have to wait for sometime. We would certainly be building up the triple play capabilities in the networks once we make a commercial launch. The migration of some of the older customers of prepaid side to the lifetime product has not resulted in a fall in the effective rate per minute.

**Reena Verma - Merrill Lynch- India**

Thank you very much.

**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

Thanks.

**Lucy - Moderator**

Thank you. Next we have Piyush from Alliance in Hong Kong. Please go ahead sir.

**Piyush – Alliance - Hong Kong**

Thank you and congratulations on an excellent set of numbers. If I may ask just two questions first, given the complexities of India and its geography what is the likely capex once coverage has been attained? I am trying to look beyond 2007 and if you could help on this issue, I would appreciate it. Secondly, how is the revenue from the lifetime plans been booked and what is the impact of this been on margin? Thank you.

**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

Hi, Piyush, quite clearly I don't think that beyond 2007, there is not going to be growth, as I mentioned we expect that we should cover something about 55% of population, there would still be a long way to go. So, I do not at this stage see a stage where the capex will cease to occur, I think it will continue for some more years. So I think at the end of next year it will be a little more visible but certainly today we are not concentrating too much at a stage where capex ceases to exist. The second question?

**Manoj Kohli - Bharti Airtel Limited - President**

Lifetime?

**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

Yes, Manoj.

**Manoj Kohli - Bharti Airtel Limited - President**

The Lifetime treatment Piyush continues to be the same as we shared with you in the last quarterly, we are amortizing it over 18 months which continues to be consistent with the earlier policy.

**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

Piyush, that was your question on lifetime or is it something else?

**Piyush- Alliance- Hong Kong**

Is it possible to look at the impact of that on the margins?

**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

Well we would not like to report separately for any segment of our tariff plan in terms of the margins, Piyush.

**Piyush- Alliance- Hong Kong**

Okay, thank you.

**Lucy - Moderator**

Participants who wish to ask questions, please press zero one (01) now. Mr. Tien Doe, from GIC Singapore. Please go ahead.

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**Bharti Airtel Limited - Fourth Quarter and Full Year Ended March 31, 2006**


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**Tien Doe- GIC- Singapore**

Hi, good evening, I just have one question, recently the DoT came out with some new policies on spectrum, just wondering what you thought of those policies and whether it's going to have any immediate effect on your business, thank you.

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**Sunil Bharti Mittal - Bharti Airtel Limited - Chairman and Group Managing Director**

Well, we are very delighted that department has put out a policy confirming the path from 10 Mhz to 15 Mhz for the GSM industry with a clear demarcation of how much license fee impact with that would carry and recently the Prime Minister of India on two occasions one at the launch of Bharti School and at the other CII National Convention mentioned very clearly that the government is committed in vacation of the spectrum from the government uses on to the private side and there is a group of ministers which has been formed to look into this. We are quite hopeful that by June this year the release of 2G spectrum will be made available up to 15 meg for the GSM industry on a nationwide basis. The issue on 3G is still under debate, I personally would tend to believe that the decision on which way to go on 3G is more or less a second issue, it will be IMT 2000 Band, when, how much, commercially what terms will be there remains to be seen, but here again we believe that the group of ministers should come out with their 3G policy in the next quarter hopefully.

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**Tien Doe- GIC- Singapore**

Thank you.

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**Lucy - Moderator**

Participants who wish to ask questions, please press zero one (01) now. At this moment, there are no further questions from participants outside India. I would like to handover the proceedings back to Swati.

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**Swati – Moderator**

Thank you very much Lucy. We will now begin the question and answer interactive session for the Indian participants connected to Audio Conference Service from Airtel.

Participants who wish to ask questions may please press star one (\*1) on their touchtone enabled telephone keypad. On pressing star one (\*1), participants will get a chance to present their questions on a first in-line basis. To ask a question, please press star one (\*1) now. The first question comes from Mr. Mayur Sahni from Current Analysis, Gurgaon. Mr Sahni, you may ask your question now.

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**Mayur Sahni- Current Analysis- Gurgaon**

Thank you, congratulations on a wonderful set results. My question is more focused towards the enterprise markets in India wherein I would like to understand as to what is the future plan focusing on the enterprise customers. You already have the strong partnerships and alliances with the service providers and vendors, what is next the market can expect from Bharti?

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**Manoj Kohli - Bharti Airtel Limited – President**

We believe we have established our enterprise organization quite strongly in the last couple of years and now it is all set to pick up the opportunity of growth in this segment. This organization is in two broad parts, one is carrier which is long distance, other is corporates where as you know there is major growth in all the corporates in India and they are demanding end-to-end customized integrated solutions from us. And fortunately, we are maybe the only ones who are able to effectively give the solutions to them. Therefore, we see a robust growth here. We also have joint go to market plans with our partners like IBM which is helping this business to grow well.

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**Mayur Sahni- Current Analysis- Gurgaon**

Okay, thank you.

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**Swati – Moderator**

Thank you very much sir. The next question comes from Ms. Sayali from Rathi Tech Services, Pune. Ms. Sayali, you may ask your question now.

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**Sayali- Rathi Tech Services- Pune**

Good afternoon, congratulations for a great set of numbers for one more quarter. I have a couple of questions here. We heard Sunil say at CII that you are expecting around a million customers for the next year and that is what you have done over last quarter too. So, I would like to know what is the proportion of customers who are opting for the lifetime cards up on this and if you could put some light on per minute cost charge that you have currently at current level of customers and minutes of usage. And the last question would be any update on the WiMax front; you spoke about it in the last quarterly call.

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**Manoj Kohli - Bharti Airtel Limited - President**

Okay, this is Manoj. The lifetime was launched in later part of December. Initially, it picked up a huge momentum in the market, has shown good results in terms of numbers in the last quarter, but there are many other products in the market which are also gaining

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**Bharti Airtel Limited - Fourth Quarter and Full Year Ended March 31, 2006**

grounds. Especially postpaid now with this one rate, One India rate being becoming popular now, so we believe that lifetime has done well last quarter, continuous to do well this quarter, I cannot share with you exact proportions of this product in terms of percentage within the mix, but let me share with you in terms of tariff when we launched this product. This product tariffs are higher than tariffs of a normal prepaid, hence, our outgoing realization has been better in this product vis-à-vis the normal product.

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**Sayali- Rathi Tech Services- Pune**

Okay.

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**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

On WiMax, well we are still watching the technological developments, we believe WiMax will have a life once it is standardized, I think, we are keenly watching those developments. Propriety systems normally do not last too long in terms of the commercial viability, I think it has to get standardized. We are very keenly watching the developments on the WiMax front.

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**Sayali- Rathi Tech Services- Pune**

Okay.

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**Swati – Moderator**

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

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**Vinay Jaising- JM Morgan Stanley- Mumbai**

Thank you mam. Firstly congratulations on the great results. I have four questions out here; firstly prepaid percentage of net adds have gone up to 98% thus this tells us something about the future obviously it is a function of the success of the 999 scheme, but you know the ARPU's do come down, I do understand ARPU's not so important but you know does it tell us something for the future in terms of net adds. My second question is taxations, again you know this quarter a big surprise at least for me to speak was the taxation. Akhil did mention earlier about the Punjab court case litigation is it because of that the income tax amount as a percentage of PBT was so low for this quarter. And can we have some kind of way of knowing what the future tax rate, as a percentage of PBT would be for the next three to four years. My third question is on tariffs per minute, Manoj just mentioned that the tariff per minute for the 999 scheme is better. Assumably most of the net adds are coming in the 999 scheme despite that the overall tariff per minute seems to be falling, why is that? My last question is on the FDI regulations, I understand from March we have had a four month extension again on the FDI scheme. You

know what are we waiting for and when do we realistically believe that it would be lifted.

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**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

Manoj, if you could take the prepaid and the tariff one, and then I will request Sunil to take the FDI one and then take on the taxation question.

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**Manoj Kohli - Bharti Airtel Limited - President**

Okay, I think our new product lifetime promotion was extremely attractive. I think it picked on the imagination of customers and retailers across the country and I think we led this platform off course the entire competition followed us in this lifetime product and I think that is the reason that the percentage of prepaid has gone up much higher than last few quarters. But in the mean time let me reassure you that the postpaid revenue continues to grow well, postpaid numbers continue -- revenue continues to grow well and overall we are quite happy with the situation. On the tariff per minute what was your question?

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**Vinay Jaising- JM Morgan Stanley- Mumbai**

My question was the tariff per minute in the lifetime is better despite that the company's overall tariff per minute seems to be falling.

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**Manoj Kohli - Bharti Airtel Limited - President**

Right, initially as you know that the tariff rate is better, outgoing tariff rate is better but initially these customers get more incoming calls and as you mature over three to six months then the outgoing calls also stabilize and hence, realization improves. So I think this situation is quite satisfactory.

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**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

Vinay left me just add a little bit to the tariff per minute rate. You know we now have almost a 20 million customer base, therefore individual scheme a little bit there or here on an overall basis will not make too much of a difference. There is no doubt that there is tremendous competitive intensity, the ADC cut has as it is made the tariffs come down a little. So tariffs coming down is no strange phenomena, I think as long as the costs are coming down which is very evident from the results. We are very happy about it because lower tariffs whether on account of cut of taxation, or on account of passing on the benefits only expands the market. Sunil, will you please touch upon the FDI scheme.

**Bharti Airtel Limited - Fourth Quarter and Full Year Ended March 31, 2006**

**Sunil Bharti Mittal - Bharti Airtel Limited - Chairman and Group Managing Director**

Well FDI, Vinay is already in force the point is the rules governing the FDI were deferred because there were some demands of certain industry players in terms of foreign national security issues. But as we speak we are living in a 74% environment. The country's as at 74% and most of us as you know are much ahead of 49% foreign ownership. The only question is regarding the rules and the four months extension that was granted a month and half back. I personally believe that these new rules are getting aligned and agreed and should be out hopefully within the next month time.

**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

Vinay on taxation let me explain this, this may take slightly longer than the normal answers. For this quarter we have gained on the taxation side on two fronts. As far as MAT is concerned approximately Rs.160 million were saved on account of the write-off in the Indian GAAP books of this provision regarding the Punjab license fee. So that has improved that situation somewhat. As per the deferred tax is concerned, you know on a quarter -to- quarter basis the calculation of deferred tax is always on the basis of the anticipated capital expenditure subsequently. So when you end the year you do it on the basis of the full year on the basis of actual expenditures made. Therefore, last quarter will always have some difference in the deferred tax provision. Going forward well last time we have mentioned between 14% to 15% should be our effective tax rate. I have no reason to believe that that should not be the case on a long-term basis except that there has been I must point out one big amendment in the last budget, which is that the MAT which is being paid is now onwards going to be adjustable against the future tax payable. Now we have referred this question to our legal experts to examine and tell us as to what would be the effect of this on the deferred tax provision. Hopefully by next quarter we would be in a much better position because they have to go through some very intricate calculations on this. When would the ATI effects take place for individual circles, so it is a slightly time consuming job for the legal people to look at? Hopefully by next quarter we would be in a better position to tell you about the impact of this amendment. Other than this I would say a 14% to 15% effective tax rate in our case looks like a pretty feasible one.

**Vinay Jaising- JM Morgan Stanley- Mumbai**

Thank you, sir.

**Swati – Moderator**

Thank you very much sir. The next question comes from Mr. Shubham Majumdar from Macquarie Securities, Mumbai. Mr. Majumdar, you may ask your question now.

**Shubham Majumdar - Macquarie Securities-Mumbai**

Yes, hi congratulations to the management on a great set of numbers. I have three four questions. One in the last two quarters we have seen significant increases in SG&A expenses percentage of revenues at about 17.1%, which is quite a bit higher than what we had experienced with last three-four quarters before that. So just wanted the management stake on what exactly has caused this change, this upward movement and what is the likely announce scenario going ahead. The second is with regard to the cellular business in Delhi we have seen competition, you know we get some higher incremental market share in the last couple of months, than Bharti which has clearly been the dominant force in Delhi many, many years now. So your take on that essentially and you know why this is happened and if there is going to be any kind of trend that we should foresee beyond from this side.

**Manoj Kohli - Bharti Airtel Limited - President**

Okay. This is Manoj. I think our focus on new products on marketing cost etc., has been quite stable in the last couple of quarters. So the cost on branding new product development, new product launches etc., has been there and I think it's been around 17%.

**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

Yes, in the last quarter also.

**Manoj Kohli - Bharti Airtel Limited - President**

Last quarter also 17.3, there is no real change.

**Shubham Majumdar - Macquarie Securities-Mumbai**

Yes. But if you go back a few quarters before that it was to be typically in that 14%, 15% kind of range so is 17% kind of a thing, you know --.

**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

That is I think quite right, and is quite deliberate because as you see we increase our coverage and reach, we have deliberately taken you know in terms of the brand being raised, so there is a deliberate attempt to advertise a little more, incur more on marketing expenditure. So you are right, some percentage would have increased but lets see on an ongoing basis we do believe there will be some reduction in this.

**Bharti Airtel Limited - Fourth Quarter and Full Year Ended March 31, 2006**

**Shubham Majumdar - Macquarie Securities-Mumbai**

But we clearly see huge amount of increase in competition over the next few quarters given the kind of capex plans competitors are lining up. In spite of good subscriber momentum you know the SG&A cause of every operator seems to be going across the board. So going ahead do we see further acceleration on this count as percentage of revenues.

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**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

Yes you are absolutely right I think no body can deny the intensity of the competition in the marketplace, which does mean that in a business like this SG&A cost will be a significant portion of the cost. There is no doubt about it, now whether 17 will go to 20 it doesn't look like, because ultimately whatever is the big ticket expenditure, it remains more less the same does not increase inline with the revenue. So I think we would be watching it carefully we are not going to incur whatever is necessary but of course in terms of benefits of economies of scale that will always be our top priority.

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**Shubham Majumdar - Macquarie Securities-Mumbai**

With regard to my question on MTNL actually doing very well in Delhi over the last couple of months, into incremental market shares that have gone out. Is there something that you read in this you know what is going to be the trend any outlook on that.

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**Manoj Kohli – Bharti Airtel Limited - President**

Okay Mr. Majumdar we do not share circle wise data but I can assure you our revenues are growing very well and we focus on revenue market share and that is definitely growing and there are other players who are exhibiting lot of numbers but how many revenues are there behind those numbers we do not know.

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**Shubham Majumdar - Macquarie Securities-Mumbai**

Okay and in terms of the capex going to be the guidance for the next year. Do you see a significant change of mix across the four businesses in capex that you have seen from the past quarters?

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**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

Not really, not really I think broadly speaking two-third for mobile and about one-third for the rest should be around that, but to answer your question it is not a very significant shift.

**Shubham Majumdar - Macquarie Securities-Mumbai**

Okay and just to understand a better recent initiative on the Airtel music shops across the country, just want to know what is really -- is there really a focus on revenues that is driving that or is it just more of sweeteners for the customers is there a revenue model behind this move.

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**Manoj Kohli – Bharti Airtel Limited – President**

There is surely a revenue model Mr. Majumdar behind this, but it has three benefits. One is that the customer feels the innovation capability of the brand, second because Indian customers loves music, so I think they would like to download either a ring back tone or a ring tone regularly and may be change it regularly too. And third the retail engagement improves because the retailer also earns a bit of the margin and hence his propensity to promote Airtel increases. So these are three benefits of this new product.

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**Shubham Majumdar - Macquarie Securities-Mumbai**

And the last question to round up from my side, we have seen significant acceleration in terms of SMS revenue as a percentage of wireless revenues over the last quarters on a quarter-on-quarter basis, we have seen that go up from 6.6% to almost 7% this quarter. How much do you think can it really go up to over the next one to two years? And is there you know something that you can tell us on this business.

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**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

It is always little difficult to estimate as to what this percentage could be because it depends, there could be plans where SMSs are bundled in, where you do not separately account. So it is a little difficult at this stage to say us to what percentage it could reach, but all I can say is that the movement towards the 7% is a very-very healthy trend and I think SMS is obviously gaining ground, more and more people are using it. So in whatever way whether by way of bundled tariff plans or on standalone basis this will continue to be a big driver of revenue.

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**Shubham Majumdar - Macquarie Securities-Mumbai**

Okay, thank you.

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**Swati – Moderator**

Thank you very much sir. The next question comes from Mr. Sanjay Chawla from JP Morgan, Mumbai. Mr. Chawla, you may ask your question now.

**Bharti Airtel Limited - Fourth Quarter and Full Year Ended March 31, 2006**

**Sanjay Chawla- JP Morgan- Mumbai**

Hi, congratulations again on a very good set of numbers. I have two or three questions. One is just wanted to understand the decline in revenue per minute on a sequential basis around 10%, is the introduction of One India plan for postpaid subscriber been a significant contributor to the decline in RPM? Secondly on the margin improvement both on the long distance and enterprise segment. Just wanted to understand how much of the impact is due to the license fee cut which is effective at the beginning of the quarter.

**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

Well as far as the revenue per minute is concerned, it is not so much on account of the one rate, we just came, I think on 1<sup>st</sup> of March. It's mainly been on account of the ADC cut, because obviously that brings down the revenue per minute. So it is a healthy one where the revenue per minute has gone down partly because of significant portion because of the ADC cut. As far as the long distance, well we have passed on the entire benefit of ADC to our customers. But yes, mathematically there would be a slight improvement in the margin because your bottom line remains the same and the top line comes down a little. So on mathematical terms, yes there would be some improvement. But as far as the cut is concerned that has all been passed on to the customers.

**Sanjay Chawla- JP Morgan- Mumbai**

Okay, how much has the license fee cut has had an impact on the margins on the long distance enterprises business?

**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

That is what I was explaining in terms of mathematical calculation surely it will improve a little because assuming we have passed down the entire ADC cut to the customers. The revenues to that extent would have come down, but the EBITDA remains the same. Therefore if you just do a mathematical calculation there will be slight improvement, but other than that it is not on account of any improvement, is not on account of our keeping back any cut we have passed that on.

**Sanjay Chawla- JP Morgan- Mumbai**

Now coming back to this One India plan, since this was introduced on 1<sup>st</sup> of March for post-paid subscribers. Do you see the full impact coming through possibly in terms of higher MoU in the second quarter -- in the first quarter fiscal 2007?

**Manoj Kohli - Bharti Airtel Limited - President**

No, we will see the impact in next couple of quarters, it is too early but it has been received quite well by the customers.

**Sanjay Chawla- JP Morgan- Mumbai**

I have one more question there was this news about absorption of about 8,000 to 10,000 employees related to the call center and BPO into Bharti Comtel. Is this exercise complete and also what kind of and has there been any impact on margins because of that?

**Manoj Kohli - Bharti Airtel Limited - President**

Okay, let me clarify I do not think we are in-sourcing call centre employees because we have outsourced call center to four large BPO partners. This exercise has been initiated more on the broadband area where employees who interface with the customers are being brought into our subsidiary company, which is Bharti Comtel so that the customer experience can improve, and these trained employees can deal with customers with higher quality and there is no impact at all on the margins of the company.

**Sanjay Chawla- JP Morgan- Mumbai**

Thank you very much.

**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

Thanks.

**Swati – Moderator**

Thank you very much sir. The next question comes from Mr. B Srinivas Rao from Enam Securities, Mumbai. Mr. Rao, you may ask your question now.

**B Srinivas Rao- Enam Securities- Mumbai**

Good afternoon gentlemen. I have two to three questions. First is on your triple play which we have been discussing for sometime. What exactly is holding back Bharti in terms of a commercial rollout, I mean is the technology not stable, or is it an issue where you do not feel the market is mature enough. What exactly is holding back Bharti on that? And second is, will Bharti be the free cash positive in 2008, I mean by your assessment?

**Sunil Bharti Mittal - Bharti Airtel Limited - Chairman and Group Managing Director**

Well, I think on the first point it is a stated philosophy to track the world on technological development. Triple

**Bharti Airtel Limited - Fourth Quarter and Full Year Ended March 31, 2006**

play is still in very early days; there are now early signs of stabilization of technologies. And therefore, we have started trialling out the triple play but as far as full blown commercial launch is concerned, we will still watch the world markets and closely see what is going on, before we launch it on the full scale basis and our view is very clear, nothing goes into the market which is half baked and triple play is not something which is fully commercialized or stabilized the world over, so in early days let us watch it and we said we will go with the most stable product in the market place and there is really no compelling rush to go with any product which is not great. And as far as the free cash flow is concerned, our position is very clear, we are serving our shareholders for growth and capturing growth which we are doing quite well and so long as the growth remains robust we are less focused on the cash flow situation and I would say the day, the cash generated by the company is greater than the needs of growth, automatically you will start seeing free cash flow situation developing and then as a consequence of that what the management would like to do in terms of that extra money.

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**B Srinivas Rao- Enam Securities- Mumbai**

Thank you very much. I have one additional question, if you can help me out. Your divisional margin is a big movement obviously has been in long distance and your enterprise to an extent. However, if you look at the consolidated numbers the big movement basically has been in the license fee, and that is where I am talking of third quarter to fourth quarter, so can you reconcile or throw some light as to is it because of the license fee cuts in which has helped improvement in margins this quarter as it said mathematically that is what would have happened. Is that correct assessment?

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**Akhil Gupta – Bharti Airtel Limited - Joint Managing Director and Chief Financial Officer**

To some extent yes, the other as I have explained here is that as the volume go out because of lower long distance tariffs, this business has relatively less variable component of expenses and therefore, some margins will improve. But you are right even the license cut which has been passed on fully on a mathematical basis does increase the margin percentage of it.

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**B Srinivas Rao- Enam Securities- Mumbai**

Fair enough, thank you very much.

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**Swati – Moderator**

Thank you very much sir. At this moment, there are no further questions from participants. I would now hand over the floor back to Mr. Sunil Bharti Mittal for the final remarks.

**Sunil Bharti Mittal - Bharti Airtel Limited - Chairman and Group Managing Director**

Thank you, I am delighted that we had such a large participation both on the call and the webcasting and I am grateful to all our shareholders who track this company very closely. I hope we have been able to answer all your questions in a satisfactory way. Do keep on tracking us. The Indian Telecom industry holds a great promise and Bharti has taken a pole position and it will continue to establish its leadership position in the market. I would like to thank you for taking out your time and for being with us for this one hour of very useful earnings call. Thank you.

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**Swati – 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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