

Earnings Conference Call Transcript

Event: Bharti Airtel Limited First Quarter ended June 30th, 2014
Earnings Call

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Bharti Airtel Limited First Quarter and Year Ended June 30, 2014 Earnings Call**CORPORATE PARTICIPANTS****Harjeet Kohli**

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PRESENTATION**Shareena - Moderator**

Good afternoon, ladies and gentlemen, I am Shareena, the moderator for this conference. Welcome to the Bharti Airtel Limited First Quarter Ended June 30, 2014 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.

Before I hand over the call, I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risk that we face. I now hand over the call to our first speaker of the day, Mr. Harjeet Kohli, Group Treasurer. Thank you, and over to you, Mr. Kohli!

Harjeet Kohli - Group Treasurer – Bharti Airtel Limited

Thanks Shareena. A very warm welcome to all of you who have joined us on this call and indeed across the time zones. For this call, we have with us Gopal, who is the CEO for India and South Asia, Christian, who is the CEO for

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Bharti Airtel Limited First Quarter and Year Ended June 30, 2014 Earnings Call

Africa, Sarvjit, who is the Group CFO, Srikanth, our Global CFO, Nilanjan, CFO for India and South Asia and Jaideep, CFO for Africa.

Recently Sarvjit and myself are traveling on work, Sarvjit is in Kenya and I am in Midwest US, so both of us are logged in remotely for this call. Hence requesting Srikanth, our Global CFO to cover the opening remarks with all of you and post that all of us are available for the Q&A. So over to you Srikanth! Thanks.

Srikanth Balachandran- Global Chief Financial Officer – Bharti Airtel Limited

Thank you Harjeet, good afternoon ladies and gentlemen. Thank you for joining us today for this earnings call to discuss our results for the first quarter ended June 30, 2014, which we announced yesterday. Firstly, let me share a few thoughts on the external environment. In India, with the new Central Government expressing its clear intentions to usher in the next telecom revolution, we do expect certain policies, which will ensure the health and long-term sustainability for the telecom sector.

The implementation of the much awaited GST will give the Indian economy a much needed boost through simplification of the indirect tax system and eliminating the multiple tax levies, which are prevalent today. The Telecom Regulatory Authority of India has also recently given its recommendations on spectrum sharing and we expect the DoT to issue the guidelines soon. We welcome spectrum sharing.

Spectrum sharing is a progressive policy, which will enable the telcos to utilize a scarce national resource more efficiently; however, we hope and believe that DoT will take a more balanced approach on some of the recommendations such as the increased spectrum usage charges, the cap on the combined spectrum as well as the restriction for only intraband sharing as these restrictions and these provisions could really deprive the industry and the customer of the true benefits of spectrum sharing.

Now, let me turn to the key company developments. Firstly, I am delighted to share the good news of crossing the 300 million subscriber mark just last week. This milestone underlines the strength of our operations and that too on a global scale. That also attributes to the Airtel brand, which is now the largest global consumer brand out of India.

The second highlight I would like to share today is actually a first literally. During the quarter we issued \$1 billion ten year US dollar denominated bonds and 750 million Euros of seven years Euro denominated bonds as part of a twin offer both at very attractive prices. This is the first ever dual tranche offering from an Indian issuer. With this transaction, we are also the single largest private bond issuer out of India and now have more than \$5 billion bonds, across variety number of tenures and currency basis. We have applied the net proceeds of these issues to refinance the existing debts and in the process we have significantly lengthened the average maturity profile of our debt.

Another highlight I would like to share with all of you is the agreement for the divestment of over 3100 telecom towers across four countries to Helios Tower in Africa. This deal reaffirms our belief in the virtue of infrastructure sharing. This will allow us to focus our customer facing business and also drive cost efficiencies through sharing of passive infra in African countries where energy, fuel, security and other logistic costs as such are very high.

The divestment would also enable us to deleverage through debt reduction and significantly reduce the company's ongoing CapEx on passive infrastructure. We will of course continue to have full access to the towers from Helios under a long-term lease contract. This agreement is, of course, subject to statutory and regulatory approvals in the respective countries, which we expect to obtain in due course of time.

As we mentioned in the previous earnings call and our other forums we do continue to believe in synergizing tower assets and are inclined to consider tower divestments in other locations, in other countries, subject to valuation and competitive rental rates. We have no more information to share in this regard at this point of time and of course we will keep you informed if any positive developments take place.

I need to highlight there is a definitive agreement that we signed with Loop Mobile under which Loop Mobile's three million subscribers in Mumbai will join Airtel's network of over four million subscribers in that city and this will create a superior mobile network in the city of Mumbai, which by itself is over 6% of the country's telecom revenues. We will be integrating the two operations seamlessly over time.

Finally, I am very pleased to say that just last week we were awarded the 3G license in Niger and closely following the 3G and 4G license that we got in Chad in April. With this we now have 3G footprint across all our 17 African countries.

Bharti Airtel Limited First Quarter and Year Ended June 30, 2014 Earnings Call

While we have commercially launched 3G in 15 of the 17 markets, we do hope to rollout 3G services commercially in these two countries as well shortly. As you all know, Africa is witnessing the beginning of an internet boom and we are well poised to participate in this round of growth.

There are some reporting changes and reclassification in the reported numbers for the quarter and I would like to highlight them upfront. South Asia operations, which are, Sri Lanka and Bangladesh, have consolidated back with the India operations following the management changes that happened last year. So, we now have India & South Asia and Africa as the two management groups.

Secondly, starting this quarter, the debt taken for the Africa acquisition and the associated finance costs have been reclassified into the India South Asia segment for an accurate representation of the operational profitability of the African business. Prior periods have also been regrouped to enable the comparison. We do believe the acquisition debt at the Netherlands level really does not represent debts related to running the African operations rather it is the capital that we invested for taking over the African operations at the time of acquisition. Also, this debt is primarily guaranteed by Airtel India. Accordingly, the debt and the finance cost and the profit before tax in the India segment includes the impact of this reclassification. Africa segment, as a result, now shows the true operational picture and its profitability reflects the underlying performance.

The final reporting change that I would like to highlight is the definition of data customers in India. We will now define data customers as only those customers who have used greater than one megabyte for the immediate 30-day period as far as India is concerned. We do believe that as the data usage in India evolves, this is the right time to realign this metric to report a growing serious user and usage base. I am sure all of you would appreciate that this revived definition truly reflects the huge potential that data presents in India.

Let me now dwell on the company's operating metrics. The Telecom Sector incurs huge input costs such as spectrum auctions, impact of significant CapEx, high energy cost, maintenance cost, IT cost, as well as high incidence of sales and marketing cost. To sustain the health of this sector it is imperative that over a longer period we see pricing power return to the operators and that effective price should continue to neutralize the impact of this inflation.

Our voice RPM has gone up in this quarter by 2.5% to 38.08 paisa in India. Just 15 months back the rate per minute was 35 paisa and this rise of 8.8% in 15 months has barely neutralized inflation. On data, I am very happy to state that data revenues in India have crossed 1500 Crores mark in this quarter and at this rate, we are already in excess of US \$1 billion of annualized revenues on mobile data.

Mobile data now contributes 12.4% of India's mobile revenue as against 7.4% in the corresponding quarter last year. Data ARPU is up 8% year-on-year and the rebased reporting data ARPU at Rs.139 at such early levels of development is just about 20% short of a much more matured voice ARPU.

Again this bears testimony to the demand for data consumption in India. You may be wondering why data realization in India is dipping somewhat? This is entirely due to more customers now choosing plans to avail of internet services rather than volume based charging which was the norm sometime back.

The benefits of customers going in for plans rather than volume based charging are that the usage goes up rapidly and the data ARPU keeps going up. We are glad that our metrics are showing these trends.

Having said all this I must reiterate that we remain single-mindedly focused on growing our revenues in India through a combination of traffic, realization, data growth and customer stickiness. You are seeing and will continue to see that our strategy is sharply focused on revenue generation.

As reported in earlier quarters, voice pricing in Africa has remained stable in local currency terms. The good news is that voice ARPU has also remained stable. The data usage has been going up and that is driving a stable data ARPU as well. As a result you will see the overall combined ARPU has remained quite stable in the respective currencies of the countries for the last one year even as the customer base has continued to grow in Africa. This pricing stability augers well for growth in the African continent.

Across our global operations we are incubating the data opportunity very carefully and this is at an inflexion point. South Asia is going through the same data boom so is Africa. In both these geographies data consumption is growing by more than 100% year-on-year.

Now moving on to this quarter's financial results let me start with the growth statistics. Consolidated revenues of Airtel increased by 13.3% year-on-year. Within this portfolio India and South Asia revenues grew by 11.8%, mobile data in

Bharti Airtel Limited First Quarter and Year Ended June 30, 2014 Earnings Call

revenues grew by 68.2% year-on-year to each Rs.15.6 billion and as I said before it is already a billion dollar business. Digital TV grew by 20.7% year-on-year and I am sure you would have seen the healthy trends in ARPU which have resulted in the upliftment of the digital TV revenue.

Coming to Africa, while the reported revenue in dollar terms grew 9.6% year-on-year, Africa revenues in the currencies of the respective country grew year-on-year by 12.1%, which puts it on par with the growth in India. Net revenues in Africa which we believe is a true reflection of the underlying performance after netting of access cost and cost of goods sold grew about 13% in constant currency term.

Mobile data in Africa continues to outperform with 85.5% year-on-year growth in the EBITDA. We now have leading revenue market shares in ten African countries and we are number two in four other countries and therefore I could say that we are well poised to capture growth opportunities in the future.

Let me talk about margins, the company's EBITDA margin crossed 33% to touch 33.6%. To our mind, this is an extremely healthy development and this reflects an improvement of 130-basis points in one year. India's EBITDA margin improved by 310-basis points year-on-year to touch 38% in the first quarter. India's improvement has been quite steady over the last four quarters reflecting benefits of operating leverage, flowing from a sustained top line growth.

As far as Africa is concerned, we are focused on participating in the growth opportunity in Africa and we continue to lead in investments there, but we are optimistic that the acceleration of revenues will yield operating leverage soon.

Consolidated net finance costs during the quarter are lower at Rs.9.6 billion, thanks to a stable rupee. However, I must point out that the Ghana currency, the Cedi has seen some sharp depreciation against the US dollar, depreciating by 25% in this quarter and by 64% in the last 12 months. This sharp fall of 25% in the quarter along with other African currency movements has resulted in the Forex and derivative losses of Rs.3 billion in this quarter despite the stable rupee.

Consolidated profit before tax and exceptional items during the quarter stood at Rs.28.8 billion, a growth of 78.9% year-on-year. Tax charged for the quarter amounted to Rs.14.6 billion. I must point out that the effective tax rate in the India for the quarter has come in at 28.1% compared to 31.2% for the full year ended March 31, 2014. This reduction in the effective tax rate in India is primarily on account of reduced losses in subsidiary companies in India.

Tax charge in Africa; however, has been higher at \$80 million during this quarter and this is due to the changing country mix in terms of profitability. Exceptional items during the quarter resulted in a net impact of Rs.2.5 billion and this comprises of a charge of Rs. 1.82 billion on account of various disputes and related tax provisions of Rs.699 million. These are all one off items and we do not expect to see their recurrence.

The final consolidated net income after exceptional items was Rs.11.08 billion, which is an increase of 60.9% year-on-year. For the sake of better understanding of the underlying performance, the net profit before exceptional items was Rs.13.6 billion and this is an increase of 91.8% year-on-year.

Let me now talk about our CapEx in Q1. We spent almost Rs.40 billion of CapEx which translates to \$665 million. This includes \$505 million in India and South Asia and \$160 million in Africa and bulk of this CapEx has gone into the data growth including on backhaul and fiber. Our CapEx guidance for the full year is maintained within a range of \$2.2 to \$2.4 billion, which includes \$800 million for Africa.

On the balance sheet front, the company had a net debt of \$9.6 billion at the end of June, so net debt to EBITDA on an annualized basis stands at a pretty low figure of 1.86. Bear in mind, however, this does not include any of the commitments relating to the spectrum not yet allocated to us. Even then including the full spectrum that would be allocated to us, the net debt would be around \$12 billion and the net debt to EBITDA ratio would still be fairly comfortable at 2.3 times.

At this stage, let me compliment the entire Airtel team, its leaders and employees for giving such a great start to the year 2014-2015.

I would now like to hand over back to the moderator for conducting the Q&A part for this earnings call.

Shareena - Moderator

Bharti Airtel Limited First Quarter and Year Ended June 30, 2014 Earnings Call

Thank you very much Sir. We will now begin the question and answer interactive session for all the participants who are connected to the Audio Conference Service from Airtel. Due to time constraints, we would request if you could limit the number of questions to two to enable more participation, hence management will take only two questions to ensure maximum participation. Participants who wish to ask question may press “*” “1” on their touchtone enabled telephone keypad. On pressing “*” “1” participants’ will get a chance to present their questions on a first-in-line basis. To ask a question participants’ may please press “*” “1” now. The first question comes from Ms. Reena Verma from DSP Merrill Lynch, Mumbai. Ms. Verma, you may ask your question now.

Reena Verma - DSP Merrill Lynch, Mumbai

Good afternoon. Thank you for the call and congratulations on your performance. Just a couple of questions from me; firstly, I just wanted to get your thoughts on the 4G launch expansion that we have seen from you in the last 15 days. Are you sensing that the ecosystem for 4G is improving and giving you confidence to expand into so many more cities, if you could please talk about that a bit? My second question is with regard to the rise in CapEx that we have seen this quarter, the site additions on 2G, 3G, the fiber rollouts directionally all of those seem pretty much in line with earlier quarters. So, I am just trying to understand, what is contributing to the significantly higher rupee CapEx number and is it all of it capitalized or is this towards LTA rollout and not capitalized? My final question is on Africa, if you could please comment on the tax and the P&L treatment of the tower lease rentals. Will it be taken above the EBITDA line or below the EBITDA line in terms of IFRS treatment? Thank you.

Gopal Vittal - Joint Managing Director and Chief Executive Officer – India & South Asia – Bharti Airtel Limited

Hi Reena, this is Gopal here. Let me take your first question and I will hand over to Nilanjan for the second and Christian for the third part. On the first question, which is the 4G launch expansion, we had rolled out into Nagpur and few cities in Punjab. I do not think you should read too much into that at this stage. It is part of the ongoing, it was actually planned earlier, it has happened to come on in this quarter. I am not sure whether you will actually see this as some change in the ecosystem and all. As I had mentioned three months ago, the ecosystem is still quite nascent, devices are very expensive and I have always said that the spectrum is quite difficult to work with. So, nothing changes there and therefore what you see here is an expansion which is also predicated and we see the opportunity in these markets and the fact that we do not have 3G networks in the ecosystem. I think it is a combination of both of those.

Nilanjan Roy - Chief Financial Officer of India & South Asia - Bharti Airtel Limited

On the CapEx question, you have answered the question. There are Rs.3000 odd Crores I think in India itself. We have seen Rs.1000 Crores CWIP in this quarter so the amount actually capitalized is closer to 2000 crores, which is the underlying number you should be dealing with and the year guidance, Srikanth has already mentioned as well. So we will be well in line with that.

Reena Verma - DSP Merrill Lynch, Mumbai

Sorry, I did not catch, what is the reason for the rupee CapEx to have gone up?

Gopal Vittal - Joint Managing Director and Chief Executive Officer – India & South Asia – Bharti Airtel Limited

CWIP has gone up by Rs.1000 Crores, this is capital work in progress, so that is not capitalized yet, so these are advance orders for the next quarter. So the underlying capitalized amount which we should be working with is about Rs.2000 Crores.

Reena Verma - DSP Merrill Lynch, Mumbai

But the CapEx is towards what, even if those are advance orders, could you share any color on the nature of the CapEx?

Gopal Vittal - Joint Managing Director and Chief Executive Officer – India & South Asia – Bharti Airtel Limited

This will be a combination of 3G sites some 4G fiber, these are normal CapEx. Usually we would not have such an upfront run because historically you see we were a bit slow during the year as we started our CapEx spends where as this time we make sure that we start in the beginning of the year. The CapEx, is just a timing issue in terms of the year, but underlying capitalization concerned is about Rs.2000 odd Crores.

Srikanth Balachandran – Global Chief Financial Officer – Bharti Airtel Limited

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Bharti Airtel Limited First Quarter and Year Ended June 30, 2014 Earnings Call

Reena, on the tower accounting in Africa, it is a little too premature. The actual transactions would happen after the statutory and regulatory approvals in the respective countries and at this point of time, we are evaluating all aspects of the arrangements and in due course of time, we will be in a position to decide on the accounting treatment and of course at that time, we will definitely share it with the community.

Reena Verma - DSP Merrill Lynch, Mumbai

Srikanth, the rise in network in this quarter is not due to accounting for any lease rental?

Srikanth Balachandran -Global Chief Financial Officer – Bharti Airtel Limited

Could you repeat that once again?

Reena Verma - DSP Merrill Lynch, Mumbai

This quarter's rise in network cost in Africa that is nothing to do with the tower co formation?

Srikanth Balachandran – Global Chief Financial Officer – Bharti Airtel Limited

Nothing to do with tower co formation, as I said the transactions are yet to actually fortify and these all going happen in the next few weeks, months etc.

Reena Verma - DSP Merrill Lynch, Mumbai

Thank you, all the very best.

Shareena – Moderator

Thank you very much Ms. Verma. 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. I have two questions. First on the India mobile business, just wanted to understand the dynamics of the customers. Your churn has been fairly low, almost half of your peers and your postpaid subscriber base seems to be increasing, has there been any definitive plan around that or does reflect a better operating environment? That is my first question. The second on the deal with Loop in Mumbai, do those subscribers are seamless subscribers of BPL do they need to be given any compulsory MNP option or any other regulatory directives you may have been given by TRAI on account of that?

Srikanth Balachandran -Global Chief Financial Officer – Bharti Airtel Limited

Can you just repeat the third question? I understood the churn and the postpaid question. What was your last question?

Srinivas Rao - Deutsche Bank - Mumbai

The second question is the deal which you have done with BPL, where you are going to acquire the 3 million subscriber base of BPL. Do these subscribers seamlessly transition to you or is there a process that you will necessarily need to give them an option for number portability, because technically the license of BPL will basically expire in November 2014. So are there any regulatory requirements around the transition?

Gopal Vittal - Joint Managing Director and Chief Executive Officer - India & South Asia– Bharti Airtel Limited

Okay, I understand. Let me take each of these. I think the churn is low. We declared our overall churn. We see the churn being low primarily because we have focused on two areas. One is as part of our go-to market excellence priority. We are really relentlessly focused on driving improved quality of acquisitions through a lot of work that has been done at the retail outlet level and that has sort of paid off in terms of quality of acquisition which has impacted the churn.

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Bharti Airtel Limited First Quarter and Year Ended June 30, 2014 Earnings Call

The second is the second key priority which is winning with the valuable customers where we are trying to improve our customer experience and trying to automate many of our processes in order to simplify them. As a part of that, we have also put a lot more focus on driving our postpaid business. You are aware of the launch of our myPlan innovation that was meant for the consumer segment a few quarters ago. More recently, we have just launched our myPlan innovation for B2B customers and that is again going into the market as we speak. That coupled with our focus on actually getting our own stores, which we now have about 150 of them across the country, plus our franchised stores has given a great fillip to our postpaid business. As far as Loop deal is concerned, this is yet to be approved from a regulatory perspective and therefore I cannot comment on exactly how it will work out. We have to await regulatory clearances. The moment that that happens we will then, our hope is, that we will seamlessly migrate those customers from the Loop on to our network.

Srinivas Rao - Deutsche Bank - Mumbai

Thank you very much. I would come back in the queue.

Shareena - Moderator

Thank you very much Rao. The next question comes from Rahul Singh from Standard Chartered Securities, Mumbai. Mr. Singh you may ask your question now.

Rahul Singh - Standard Chartered Securities, Mumbai

I have two questions firstly on the India mobile; we see that the messaging and VAS as percentage of mobile revenue, the decline has moderated last quarter. There was no decline as a percentage of revenue which means actually in an absolute number it grew as much as the overall revenue. So, is there any sense of whether the decline because of OTT applications and otherwise has finally come to an end or do we see more downside? The second question is on Africa and it is a broader question. I mean if you look at the total capital invested of \$14 billion and if you see the quarterly EBITDA run rate never exceeding to \$300 million for the last 11, 12 quarters. What is the larger game plan? I mean I understand the focus on data and that data is growing fast, but surely that cannot be the only kind of source of comfort for foreign investment of this size when the EBITDA last 11, 12 quarters have not gone up. So, I just wanted to understand the strategy on the voice and have we given up all ambition of market share gains or growth in voice. So these are the two questions.

Gopal Vittal - Joint Managing Director and Chief Executive Officer - India & South Asia – Bharti Airtel Limited

Just to clarify, we report messaging and VAS revenues combined. On the messaging front, we continue to see some downward pressure arising out of cannibalization due to OTT applications. On VAS however, we have put in a great degree of focus on actually shifting the model away from what was a push based model to now a pull based model. We have a very large and meaningful portal in terms of the number of customers who call in. We are quite pleased with the progress of our VAS services which are based on a double consent mandate.

Christian de Faria – Chief Executive Officer, Africa – Bharti Airtel Limited

On Africa growth potential, I think we are very bullish on the growth. The EBITDA increases are not justly reflected, if you want that -- we have growth in mobile commerce and we have also seen in voice our growth, especially in the medium to high value subscriber where we have been in the past under-represented. So I think, in all the market, we have put the right commercial strategy that are starting to pay off in many aspects. We have also invested where we were lagging behind somehow. So, I think, those strategies are starting to pay off in many aspects and we are continuing to be very, very optimistic on the growth, which will definitely reflect in the profitability, reflect the underlying performance.

Rahul Singh - Standard Chartered Securities, Mumbai

Thanks.

Shareena - Moderator

Thank you very much Mr. Singh. The next question comes from Sunil Tirumalai from Credit Suisse, Mumbai. Mr. Tirumalai, you may ask your question now.

Sunil Tirumalai - Credit Suisse - Mumbai

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Bharti Airtel Limited First Quarter and Year Ended June 30, 2014 Earnings Call

Thank you very much sir and Congrats on good numbers. I had a couple of questions. Firstly, if you could explain the nature of disputes that have led to the exceptional item for the quarter?

Srikanth Balachandran -Global Chief Financial Officer – Bharti Airtel Limited

As in the past Sunil, these are related to various disputes; it could be legal, it could be tax, regulatory, it could be commercial etc., and in the interest of confidentiality involving parties and involving our own sensitive nature of some of the issues we will not be in a position to share open details of these disputes. But this is in line with the past and as we follow conservative accounting anyway, we do provide for known liabilities.

Sunil Tirumalai - Credit Suisse – Mumbai

These are provisions at this point. These are not actual penalties that have been imposed?

Srikanth Balachandran -Global Chief Financial Officer – Bharti Airtel Limited

There is no risk of penalty. These are issues where liabilities are crystallized and I would not say fully provided, only provisions and no payments.

Sunil Thirumalai - Credit Suisse – Mumbai

Is there any reason for taking it below the EBITDA and not as a business expense because one of your competitors keeps such provisions or regulatory disputes as operating expense above the EBITDA line?

Srikanth Balachandran -Global Chief Financial Officer – Bharti Airtel Limited

For one off kind of items and of significant size, we have a policy where we do not reflect it in the underlying performance of the business, that is why it is taken into exceptional items and it is also in line with the clause 41 of the listing agreement.

Sunil Tirumalai - Credit Suisse – Mumbai

Secondly on CapEx in your opening remarks, if I got your number right you said 2.2 to 2.4 billion, just a small thing, but I think it seems like an increase of what you gave last quarter of 2 to 2.2 billion?

Srikanth Balachandran -Global Chief Financial Officer – Bharti Airtel Limited

At this point of time, you could take the range as 2.2 to 2.4.

Sunil Tirumalai - Credit Suisse – Mumbai

Just the last question, in your reporting on South Asia, the numbers seem to have been significantly restated down, and so revenues have come down by about 75% compared to what we were getting till last quarter, whereas the total India plus South Asia seems to have remained the same, just trying to understand what's happening there?

Srikanth Balachandran -Global Chief Financial Officer – Bharti Airtel Limited

Last year, because it was a part of international, it was reported in US dollar and now it is reported in Indian rupees. After the call, certainly, we could take it offline.

Sunil Tirumalai - Credit Suisse - Mumbai

I am referring to like for like on currencies, but okay we can take this offline. Thanks.

Bharti Airtel Limited First Quarter and Year Ended June 30, 2014 Earnings Call

Shareena - Moderator

Thank you very much Mr. Tirumalai. The next question comes from Mr. Rajeev Sharma from HSBC, Mumbai. Mr. Sharma you may ask your question now.

Rajeev Sharma – HSBC - Mumbai

Thanks very much for the opportunity. I have just few questions. First one is on India, I am just trying to understand how do you see this upcoming 900 auctions and will you be keen on adding 900 spectrum in additional markets in the upcoming auctions or you will just stick to the book and just take it wherever you need it, wherever your renewal is coming up. Just some color there, how do you look at these auctions? Will you be interested in 850 as well as and when it is put for auction or more my question is how do you want to allocate your funds and balance sheet going forward, you want to preserve it for 3G and 700 or you want to chase 900 in additional markets? Second is if you can provide some color on the kind of rentals Africa tower market has and what will be, if we were to adjust the EBITDA this quarter let say theoretically, what could have been the impact on the margins in Africa after this deal and lastly some guidance on the tax rate in Africa? Thank you very much.

Gopal Vittal - Joint Managing Director and Chief Executive Officer - India & South Asia– Bharti Airtel Limited

Rajeev, first on the auction part, then I will take 900 and 850 together. I think we have always said that as far as 850 spectrum is concerned, it should be seen as EGSM, it should be seen as technology agnostic, number one. Two is our effort has been actually to work with the government to try and get as much of spectrum into the auction as possible. Last year, the prices were actually driven up dramatically, due to insufficient spectrum or lack of contiguous spectrum in a particular circle, we had bizarre situations where some circles which were operating with significantly lower revenue, had higher spectrum prices, because of this anomaly. At this point in time, if you look at many of the circles that are coming up for extension there are between 12 and 14 MHz of 900 spectrum that is coming up and we have been trying to work with the DoT and with the government to try and put together more spectrum into auctions, so there are at least three blocks of spectrum for 900 and if we can also throw in 2100, 1800 contiguous spectrum and actually auction the whole thing together we can then take a look at how do we actually play our spectrum strategy in a particular circle and I think that it is still work in progress. It is still not clear exactly what we will be put on the block so its premature to comment on what exactly our strategy will be.

Srikanth Balachandran- Global Chief Financial Officer – Bharti Airtel Limited

Rajeev, I will take the question on the Africa towers. Let me at the cost of repetition let me reaffirm that we believe in the virtue of infrastructure sharing, it allows cost synergies and it allows cost to be spread between the operators, as a result the tenant operators could get lower cost. In Africa, the business case is strong especially when it comes to energy, fuel and logistic cost. So business case is quite clear. Now, as you are aware, we do not give clear forward guidance on margins or impact on profits etc, but as a thumb rule you can say that all these deals would be done with the thumb rule of a positive profit before tax arising out of these kinds of arrangements compared to what we currently have. So, the incremental impact at the PBT level should be a positive one and that is the sort of guidance that we have in our mind when we structure these transactions, but beyond this at this point of time, you would understand I cannot give any forward guidance.

Rajeev Sharma – HSBC - Mumbai

Tax rate on Africa?

Srikanth Balachandran- Global Chief Financial Officer – Bharti Airtel Limited

Could you just repeat that question?

Rajeev Sharma – HSBC - Mumbai

For India we have this broader range of 30% to 31% or 28% to 30%, what should be the broader range for this year for Africa?

Srikanth Balachandran- Global Chief Financial Officer – Bharti Airtel Limited

There, obviously the effective tax rate as such is still not in their level metric, because you have mix of countries with profits and you have a mix of countries with losses. And, therefore, I think it is better to track the absolute amount of the PBT, the tax charge that comes into the books. Last year, in Africa we have the total charge of \$273 million and this quarter we have had a charge of \$80 million and this is entirely because of change in profit mix between the profitable and the loss making countries. But again as I have

Bharti Airtel Limited First Quarter and Year Ended June 30, 2014 Earnings Call

said in the previous earnings call there are some countries where at this point of time, the deferred tax credits have been accumulated are being taken into the books and the timing of these would be decided by when the viability and the profitability of these particular countries look positively. So at that point of time is when we would consider taking deferred tax credit in those countries. So effective tax rate in Africa is still not a relevant metric, but you could be tracking the absolute tax charge quarter on quarter and it has gone up compared to last year, because of the mix.

Rajeev Sharma – HSBC - Mumbai

And one just last question quickly. You have just announced the sale of only 3,000 towers in Africa. The process started somewhere last year and we were expecting that you will announce sale of all the 15,000 - 16,000 towers you have. Should I read that more is to come in the next couple of months or it's tough to actually find the right value for the rest?

Harjeet Kohli - Group Treasurer – Bharti Airtel Limited

In general, your directional thought is right, because frankly what applies to one country in terms of strategy of letting an expert on the ground tower company to handle the tower assets, the energy management associated with it that thought is uniform across the countries. From our perspective, we will be able to look at the other countries the relevant potential partners thereof in due course of time. At this stage, I cannot say whether it is two month activity, 12 month activity or whatever, but it is important to have the right counterparty, the right nature of MSA and the right construct which benefits overall efficiencies of the operating company, but in general, the direction is to be looked at overall countries as time passes by and there is no single touch tower company across the 17 blocks that we have. So obviously we need to look at different counterparties and assess the deal independently.

Rajeev Sharma – HSBC - Mumbai

Thank you.

Shareena - Moderator

Thank you very much Mr. Sharma. The next question comes from Mr. Piyush Choudhary from CIMB, Mumbai. Mr. Choudhary, you may ask your question now.

Piyush Choudhary - CIMB, Mumbai

Thanks for the opportunity. I have two questions. India, if I look at the margins, ex South Asia, they have gone up by 600 basis points over a matter of two years, which is a commendable performance, but I just want your thoughts on whether the cost optimization programs have been complete or there is still room on the margin expansion from cost optimization? Secondly if you could throw some light on your 3G network utilizations across India and Africa, because increase in-fill factor would further drive margins? Thanks.

Gopal Vittal - Joint Managing Director and Chief Executive Officer – India & South Asia – Bharti Airtel Limited

Let me take both India sets of questions. On margins, I think the reason that the margins have gone up over the last five or six quarters is fundamentally on account of improved top line growth as one major driver of margin improvement and in a large business like ours we get a significant operating leverage. The second reason the margins have improved is we have a very very rigorous program which we run in the company called War on Waste and I have talked about this in the past which essentially is looking at every single element of OpEx cost, sweating our CapEx, sweating our assets both in 2G and 3G etc., and looking at a every opportunity we can to be more judicious in where we spend in our CapEx as well as look at all items of OpEx. That effort will continue and so what I am now going to comment on is what the outlook is going to be in the future. I think all I would say is that effort has got to be to continue to drive competitive growth at the same time profitable growth through a combination of driving stronger revenue at the top and making sure that we continue to eliminate inefficiencies in the way we spend our money. On utilization, we have taken on our 2G network, we have been very conscious about actually driving up our utilization and we have done that quite well over the last year five or six quarters. On 3G I think it is a mix story and the reason it is a mix story is that data network typically operates with a very big head and a long tail. And as we roll out the network, what you find out, is that even within a town, you will find a few sites which are very heavily congested, but some of the sites at the periphery which are rather empty. In fact, even if you look at a city like Delhi, we find that there are 10%, 15% of our sites which are very heavily congested and because of the scarce spectrum that we have, we end up in a situation, which actually demands putting in more sites which as you know are very difficult to get. Secondly, it results in a high degree of interference, thirdly it ensures a lot of dropped calls that take place and that is the reason even in the statement that we issued earlier on with the results we said that if you have to really continue to drive data growth in this country, we absolutely need more spectrum failing which we will have deterioration of service, because you will have parts of a city which are deeply congested, but other parts, which are more empty in terms of the 3G network.

Bharti Airtel Limited First Quarter and Year Ended June 30, 2014 Earnings Call

Christian de Faria – Chief Executive Officer, Africa – Bharti Airtel Limited

In Africa, utilization of the 3G network is not too much different as in India. I mean, bearing in mind that in Africa we have started with 3G in some country very recently and those were one or two years ago, three years ago. I mean, we have been very careful where we had rollouts in 3G and we have rollouts in very populated area and the major cities. And I will say that the interest is you can see from the volumes doubling on the traffic. The majority of our investment in CapEx going forward, will be going through that part of 3G and also transmission. So, I mean I would say that the majority of our country the data and the 3G addition is really pretty high and our investment is going to 3G in priority.

Piyush Choudhary – CIMB - Mumbai

Thanks for comments. Gopal, if I may ask one more thing. On the spectrum which the company has won during the February auction, we understand that has not been allocated as of now. If that assumption is correct then what has been the bottleneck and what is the timeline over there?

Gopal Vittal - Joint Managing Director and Chief Executive Officer - India & South Asia– Bharti Airtel Limited

It has not yet been allocated but we hope that it will be allocated quite soon that is the current sense.

Piyush Choudhary – CIMB - Mumbai

Good luck. All the best.

Shareena - Moderator

Thank you very much Mr. Choudhary. The next question comes from Mr. Jimmy Chen from Sandford C Bernstein. Mr. Chen you may ask your question now.

Jimmy Chen - Sandford C Bernstein – Hong Kong

Thank you very much. Two questions. First, can the management give a bit of guidance on where the CapEx allocation would be going to or the cash flow allocation will be going to given that the business has been improving in both Africa and India, would be, for example, going to more international expansion, into new geographies versus putting to existing countries, India, Africa, Southeast Asia or perhaps to the investors? Second question is more on the accounting, and it goes back to tax rate in Africa. So I think you earlier mentioned a lot of the high reported effective tax rates due to some countries making losses, while others were making profit. Is that the biggest driver? Is there any other drivers for example, non-taxable expenses or not tax offsettable expenses from the acquisitions?

Srikanth Balachandran- Global Chief Financial Officer – Bharti Airtel Limited

First one on the CapEx, as you know we are operating in 20 countries and that is how we define geography now and India, and two countries in South Asia and 17 countries in Africa and clearly CapEx is focused on growing our business in these markets. And as I said before, the guidance that we have given for the full year is \$2.2 to \$2.4 billion and with an indicative number of 800 million dollar for Africa. As far as the tax rate is concerned, in Africa let me tell you, each and every country has its own tax law. Of course some of them modeled on the British style, some copy of the South African, some mostly have derived from the French Laws as well and each and every country has its own laws in terms of both corporate tax as well as withholding taxes on remittances to the parent company including whether it is of dividend or management fee or interest on loans etc. The tax numbers that we present in our P&L, the numbers that you see for Africa are essentially arising out of those sort of liabilities which are corporate tax liabilities and the various withholding taxes. Beyond that are there any disallowances and so on each and every country would have some odd provision here and there for disallowances, for these are all usually within the normal taxation regimes of the countries and there is no other mystery to this in terms of tax provisioning on liability.

Harjeet Kohli – Group Treasurer - Bharti Airtel Limited

Supplement for Srikanth on your first part of the questions on allocation of cash. As Srikanth mentioned the CapEx guidance is about \$2.2 to \$2.4 billion, so that thereby means there is an intrinsic free cash flow in the overall India plus Africa system and in the shorter term, we continue to believe that cash flow should go towards deleveraging. Although the ratios have been continuously improving, but if you see the DoT liability for the last auctions, the net debt to EBITDA looks like about 2.3 at this point in time. So we do believe it needs to go down at an overall basis at which point in time one needs to assess what is the right way to utilize the cash. The

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Bharti Airtel Limited First Quarter and Year Ended June 30, 2014 Earnings Call

second piece is from an international expansion strategy perspective, within these two geographies, we have earlier stated that if there are opportunities for in country consolidations getting better market share expense I think just like the way Loop happened in India or in Uganda and Congo, there were acquisitions of Warid operations respectively in those countries. I think such opportunities are worthy to be assessed and that could be a strategy not that it will take away heavy cash flows from the system, but that is the only sort of inorganic expansion view that the company has at least for now, given the leverage and the need to reduce the leverage a level or two first. Also on the tax side apart from what Srikanth mentioned there are also some taxes, we ourselves sort of inflict in, in the overall system, because we have cash flow positive companies in Africa as well and they do dividends for the benefit of the overall system, the dividend gets up-streamed back into Netherland and we reduce the dollar debt or acquisition debt that is lying in Netherlands. But such dividend distributions do also attract tax, so some of these are actually positive in senses of tax because 80% of the overall value then actually goes back up and reduces the overall debt and thereby interest cost.

Jimmy Chen - Sandford C Bernstein – Hong Kong

Just one final clarification on the in-country consolidation, would it be only mobile targets that you consider?

Harjeet Kohli – Group Treasurer - Bharti Airtel Limited

Sorry, I did not quite hear you well.

Jimmy Chen - Sandford C Bernstein – Hong Kong

On the in-country consolidation would it be only targeting mobile only players?

Harjeet Kohli – Group Treasurer – Bharti Airtel Limited

That is right. I think the strategy in most of these African companies is premised primarily on the mobile vertical, at this stage no need to look at a related line.

Jimmy Chen - Sandford C Bernstein – Hong Kong

Thank you.

Shareena - Moderator

Thank you very much Mr. Chen. The next question comes from Mr. Varun Ahuja from UBS, Singapore. Mr. Ahuja you may ask your question now.

Varun Ahuja - UBS, Singapore

Thanks for the opportunity and congrats on a good set of numbers. Couple of questions. One on Telemedia business. I believe there have been lots of news flows that one of the player is putting a lot of fiber on the ground. So, how much of a threat do you see this business may present and is the Company preparing to do kind of update of network to improve the speed? Secondly, just wanted to understand on digital TV, the margins have expanded significantly. Any particular reasons, what is happening -- the ARPU improvement that is happening?

Gopal Vittal - Joint Managing Director and Chief Executive Officer – India & South Asia – Bharti Airtel Limited

Let me take both your questions. I think the telemedia business is a very sound business for us but one of the things that you must bear in mind is that the nature of this business is a) it is high gestation and b) you need ARPU which is above a certain threshold in order to actually make a reasonable return on the capital employed. We believe that this opportunity is much larger in the top few cities and we also believe that if you have got 220 million homes or 230 million homes in this country, the opportunity for high speed broadband networks in terms of fixed infrastructure is probably not much more than double-digit in terms of millions of homes. So, really what you need to look at is how you can actually deliver great experience with the infrastructure that we have and we have a very sound infrastructure in many cities with the exception of Bombay as a key city. So, the question really is what do we need to do actually make sure that we deliver a better experience, what do we need to do to drive up utilization of this business and continuously sort of deliver other services in addition to just high speed broadband and I think that really has been the effort. As far as DTH is concerned, I think it is combination of both strong revenue growth as well as reduction in churn and I think both those have resulted in a healthy improvement in EBITDA margin.

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Bharti Airtel Limited First Quarter and Year Ended June 30, 2014 Earnings Call**Varun Ahuja – UBS - Singapore**

If I can just sneak in one more, I heard Srikanth mentioning about spectrum sharing, but I also heard that you are facing some network constraint in 3G areas, so do you still consider spectrum sharing an area where you have got significant constraint on 3G spectrum till further spectrum is allocated?

Gopal Vittal - Joint Managing Director and Chief Executive Officer – India & South Asia – Bharti Airtel Limited

I think we have to wait for these policies to actually fall into place. They are currently just being proposed to DoT, number one. Number two is that as you go forward I think if we are restricting sharing only within a band then that could potentially become a constraint, because actually 3G can be delivered both on 2100 as well as 900 and similarly 2G and 4G can both be delivered on 1800. So it cannot be within a band sharing, it is called the intra-cross band sharing and that is something the Srikanth referred to right at the beginning of this session.

Varun Ahuja – UBS - Singapore

Thank you.

Shareena - Moderator

Thank you very much Mr. Ahuja. The next question comes from Miten Lathia from HDFC Mutual Fund, Mumbai. Mr. Lathia you may ask your question now.

Miten Lathia from HDFC Mutual Fund - Mumbai

You mentioned about some sites in Delhi already facing congestion. The next round of spectrum is sometime away and there may not be suitable spectrum available in the auction. Given that situation and given the rate of data growth that we're seeing within our network, what is the fallback plan that we are working upon to augment data capacity?

Gopal Vittal - Joint Managing Director and Chief Executive Officer - India & South Asia– Bharti Airtel Limited

I think the opportunity for data growth is still very high, because while I referred to a few sites that have been congested. On the average, we still have a significant capacity to actually fill out on our 3G network. Secondly, one of the big drivers of growth is going to be the shipment of smart phones and that, as you know, has almost tripled in the last four or five quarters and it will be continuing to see a smart growth in shipment of smart phone. As year-on-year growth on smart phone is almost 75% to 80% and therefore that is going to be second driver of growth. Thirdly this growth that we are seeing is pretty widespread right across the country, so even if you are going to small towns and so on and so forth you will see a substantial amount of data consumption. So, I just want to separate issue of growth and the opportunities of data from the specific issues that are referred to which is a customer experience that you have in a few pockets at every town which really is faced more during certain times of the day when utilization tends to peak.

Miten Lathia from HDFC Mutual Fund, Mumbai

I can hear you Harjeet, I could not hear Gopal actually?

Harjeet Kohli - Group Treasurer – Bharti Airtel Limited

Gopal can you hear us? I could hear Gopal very well, so may be Miten actually could not hear Gopal.

Miten Lathia from HDFC Mutual Fund - Mumbai

I have heard most of his answer. I am okay with that. Just one last bit on the voice part, the trending on the voice pricing has been pretty much in line with management commentary in the past. Do you see any reason for a change in the expectations on voice pricing in either direction or do you hold your earlier sort of view?

Bharti Airtel Limited First Quarter and Year Ended June 30, 2014 Earnings Call**Gopal Vittal - Joint Managing Director and Chief Executive Officer – India & South Asia – Bharti Airtel Limited**

What we have always said is that you might see ups and down in the certain quarters, but the long term secular opportunity for raising voice realization remains, given the significant gap between the headline tariff and the realized rate, or in other words, discounted tariffs. So that opportunity still remains. And this quarter is a seasonal quarter as you know in terms of softening historically of volumes. So, I am not going to comment on how it will play out within a given quarter, but what I will say that on longer term basis there is still opportunity to actually raise voice realization.

Miten Lathia from HDFC Mutual Fund, Mumbai

Thank you very much.

Shareena - Moderator

Thank you very much Mr. Lathia. At this moment, we will take one last question from Mr. Sanjay Chawla from JM Financial, Mumbai. Mr. Chawla, you may ask your question now.

Sanjay Chawla - JM Financial - Mumbai

Good afternoon, thank you for the call. My first question is on your OpEx. If we look at your network cost in India for the last two quarters, they have not really grown materially. So, are there any one-offs there or how do you explain that? Also related issue is, the license fee to revenue ratio, whether you look at cost/revenue ratio or relative to AGR that has also gone up at least in this quarter sequentially more than 50 basis points. So, what is happening there? That is question one. Secondly, you have about Rs.7 billion of item -- purchase of intangible assets item in your cash flow statement. Can you tell us what that pertains to?

Gopal Vittal - Joint Managing Director and Chief Executive Officer - India & South Asia– Bharti Airtel Limited

I will take the questions on OpEx and license fee. On network OpEx I think the number of sites we have put in are only about 1000, because 3G sites only grow at extra tenancies, so they do not come with very incremental OpEx. And 1000 sites also are going on in most places we go with site sharing. So, I think there is nothing underlying in terms of one-off in the source, I think the delta is pretty much where what it is. On license fee area, the big chunk was on the telemedia, the DSL business where the TRAI came up with the guidelines that is going to be 8% license fee on our DSL & on all operators. So that is the big increase which you see on the license fee part.

Sanjay Chawla - JM Financial - Mumbai

Also, if I could just understand the license fee in Africa also, you have seen the trend of license fee to revenue ratio has been a bit volatile. Can you comment on that please?

Srikanth Balachandran -Global Chief Financial Officer – Bharti Airtel Limited

Sanjay, this is Srikanth here and I will take the first question or the second question rather, which is on the purchase of intangible assets. So these are pertaining to the last installment that we had to pay for the 3G license in Bangladesh and also for some of the 3G licenses that we got in Africa during this quarter and the residual payments from the previous quarter. As you know we had got it in Chad & Gabon before that, so it pertains to that and in addition we had one significant software deal in India and we had a big system, so we had to make the payments for that, so that is really nothing much outside of 3G licenses and software. As far as the regulatory fees in Africa is concerned there are two types of regulatory collections in Africa. You have mostly of course revenue share arrangements which are percentage of the revenues etc., and in some countries we also have numbering fee and what you mean by numbering fee is, you go and obtain numbers allocated for your customers and those come in inconsistent patterns. It comes as and when numbers are created, they are coded by the government in the system and so on and so forth, it follows different kind of timing and so the best way to look at it in Africa is to look at it over a period of time.

Sanjay Chawla - JM Financial - Mumbai

Thank you Sir.

Shareena - Moderator

Bharti Airtel Limited First Quarter and Year Ended June 30, 2014 Earnings Call

Thank you very much Mr. Chawla. At this point, I would like to hand over the call proceedings to Mr. Srikanth Balachandran for the final remarks.

Srikanth Balachandran – Global Chief Financial Officer – Bharti Airtel Limited

Thank you Shareena. Thank you all for an interesting round of Q&A. The year has begun well on the top line front across India and Africa. The underlying profitability has improved as we get the benefits of operating leverage. With acceleration of revenues and judicious cost controls, we would like to see improved profitability coming through in Africa as well. Our CapEx is supporting our growth plans especially on data. On that note, we thank you all for this call and look forward to meeting you once again next quarter. Thank you.

Shareena - Moderator

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