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BTVL - Bharti Tele-Ventures Limited Q2 Earnings Call

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Bharti Tele-Ventures - Chairman and Group Managing Director
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Bharti Tele-Ventures - Joint Managing Director
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P R E S E N T A T I O N
Operator
I am Puja, the moderator for this conference. Welcome to the Bharti Tele-Ventures Quarter 2 Earnings Call hosted by SSKI Securities. Mr. Rahul Singh, SSKI Securities' India Telecom Analyst 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 international participants connected to IndiaOne International Center. After that, a similar Q&A will be conducted for the participants in India. Now, I handover to Mr. Rahul Singh of SSKI Securities. Thank you and over to you, Mr. Singh.

Rahul Singh - SSKI Securities
Good afternoon and welcome to everyone. We at SSKI Securities are pleased to host this quarter's results conference call. We have seen yet another demonstration of the robustness and sustainability of Bharti’s business model in this quarter. On behalf of everyone on the call, I thank the top management team of Bharti for making themselves available today. With this, I handover the call to Mr. Sunil Goyal to introduce the management and take the call forward. Over to you, Sunil.

Sunil Goyal - Bharti Tele-Ventures
Thanks Rahul. Good afternoon ladies and gentlemen. I hope you are all in the receipt of our results. They are also available on our website. You can access them right away. This time we have supplemented our disclosures with further analysis and some analytical ratios like OPEX to Net Revenue, Interest coverage, Debt to EBITDA, and another change we introduced this time was the silent period of 7-8 days, which we thank all of you for helping us comply with. Actually, we didn't receive any call from anybody that was nice of all of you. Today we have the top management here. Our Chairman and Group Managing Director, Mr. Sunil Bharti Mittal, both the Joint Managing Directors, Mr. Rajan Bharti Mittal, Mr. Akhil Gupta, and the President, Mobility, Mr. Manoj Kohli. Meanwhile I must remind you that during the discussions and overview may include some forward-looking statements that must be read in conjunction with the risks that we face. Now I hand over to Sunil Bharti Mittal.

Sunil Bharti Mittal - Bharti Tele-Ventures - Chairman and Group Managing Director
Thank you, Sunil. Let me add my own welcome to all the participants. I'm pleased to come to you online for our second quarter results. This quarter has been a very challenging quarter on
one hand and very gratifying on the other. All of you must have by now, absorbed the results that we have put out. It’s been a quarter of fantastic financial and operational performance. Bharti added nearly a million customers, generated revenue of over 250 million dollars, culminating into net profits of around USD 20 million. This performance makes us now a billion dollar revenue company, joining a select group of other companies in the country, and some of the very few in the services industry in the country. I am pleased to report that all operations, including all the new mobile operations, are now individually EBIDTA positive. This was something we had targeted if you would recall in our earlier calls to you. We were working incessantly towards getting our new operations into shape and I am pleased to report that finally each one of them individually have crossed that hump. We have also demonstrated very strong results in the area of fixed line; in fact, there has generally been a myth around fixed line not being a profitable business. I think we have demonstrated that business which is otherwise considered as a low return business can be managed very efficiently. This quarter, we have registered positive returns, on a consolidated basis for our fixed line operations. In fact, the new fixed line operations have delivered returns much earlier than the new mobility operations. This performance has been possible due to our ability to scale up the operations in a cost effective manner. If you’d notice, most of our OPEX lines are static, and we have been able to realize much higher revenues on the basis of same or similar operating expenses. This success has been possible due to the structure that we have put into place, and more importantly, a very empowered, professional management team across the length and breadth of the country. You are aware that we have now two groups – Mobility and Infotel, which is managed by two separate presidents with their own professional teams.

Our business is all about people, about employees, customers and investors. In as far the employees are concerned, we have built an organization, which now attracts some of the finest people into its fold. BT Hewitt came out with their rankings and I am pleased to report that Bharti came up in the list of Best Employers - the Best 20 Employers in the country. We have recently constituted a Mobility Management Board further empowering senior people in the organization and taking the decision making process into a more consultative basis rather than individual oriented. We have simplified the structure and transferred decision-making powers at the right levels in the organization. There has been internal allocation of high performing individuals to more senior positions and more responsible positions as well.

On the customers’ front, we have strengthened our market leadership position. We have grown much faster than the market and have finally crossed the 25% market share thereby improving our market share considerably in the marketplace. We have now put in a new brand positioning with a new advertisement and brand positioning that has been rolled out recently. We are increasingly working towards getting customer loyalty and getting more intimate and involved with our customers in the marketplace. On the investor front, we are constantly working towards creating value. All this has been possible because of the efforts of our organization as well coming into the final phase of regulatory stabilization. I personally believe we are truly at the end of regulatory uncertainties. Out of the 8 points, 7 points that the group of ministers has already been handled. And one is listed for the 30th of this month. I have no doubt that by the end of December, we will have a final clear position on where the regulatory position stands vis-a-vis some of the contentious issues. The critical recommendations that have been made by group of ministers for which our company and I am personally being working on, are around intra circle mergers, spectrum availability, the issue of sales tax which is now lying at the big bench of the Supreme Court, the FDI limit, the important issue of enforcement of limited mobility; and of course ensuring that if and when a change in the policy takes place in the form of either new licensing or unified license, the existing investments and the existing licenses are fully secured from any adverse shocks.

I would like to conclude by saying it has been a fantastic quarter for the Company. We have thoroughly enjoyed the triumphs and tribulations both at the same time, and have further stabilized our company in a very fast growing telecom environment. Let me hand over the mike to Akhil Gupta who will walk you through some of the key financial parameters. Thank you.

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director

Thank you Sunil. Welcome all of you. Let me give you some of the highlights of the financial results for which the quarterly report is already, I hope, with you and on our website. We have demonstrated continuous success on each of the parameters and in each of our businesses in this quarter. In term of profit after-tax, we have improved the net profit three times to 933 million Rs. compared to 310 million last quarter. In terms of comparison with last year, there was a loss of 1.29 billion Rs. in the corresponding period; and also the net profit margin which was at 3% in the last quarter have improved to 8% this quarter. The total revenue has grown by 75.4% year-on-year and as Sunil mentioned we are now, based on the quarterly revenue being annualized. We are in a billion dollar club. The net revenue has grown sequentially between the two quarters by 18% versus a 10% sequential growth in total revenue. It reflects better revenue mix, higher data revenue, and benefits of integration of our businesses. Mobility contributed to 66% of the consolidated revenue, fixed Line with 17%, which was up from 63% and 15% respectively in the last quarter. While the revenue has grown as we've seen by 74% year-to-year, the efficiencies have come from our optimizing the operating costs, which have increased by nearly 13% from 3,486 million Rs. to 3,929 million Rs. over this year. This has resulted in EBITDA been tripled from 1.2 billion to 3.76 billion in this corresponding periods which is a clear demonstration of the operating efficiencies achieved by our teams and clearly indicates the benefits of scale in telecom. We'd also note that the OPEX to net service percentage
has fallen from 48% to 44% between the two quarters. And the EBITDA clearly reflects a growth of over 200% over last year and a sequential growth of 30%. The overall EBITDA margin improved during the quarter from 28% in the last quarter to 33%. The growth in revenue and EBITDA was primarily on account of strong customer additions coupled also with increased usage per customer and reduction in bad debts. The improvement in EBITDA also resulted in very strong financials. Interest coverage ratio has improved from 4.57 to 5.32 and also the net debt to EBITDA has come down to 2.54 from 3.05 in the last quarter. The fact that we have very strong financials is now recognized by the markets and we have now P1+, which is the highest rating for short-term debts from CRISIL. As on date, our net debt to the company was approximately 38 billion rupees, which results in a debt-to-funded equity ratio of 0.74. We are very pleased to inform that the overall interest cost to us is approximately 8%, slightly below that; however, all the long-term ECBs, which we have raised recently in the past few months, have been raised at cost of less than 5%.

Coming to the mobility segment; we improved in this quarter our market share from 24.8% in the last quarter to 25.3%; and our share of net adds in this quarter correspondingly was higher at 27.7%. We also saw improvement in the additions of postpaid subscribers. The prepaid subscriber base now forms 83% of our overall subscriber base.

The EBITDA margin on the mobility businesses has improved dramatically from 27% in the last quarter to 32% and that clearly indicates that our new projects, which had come up, are all turning EBITDA positive. Individually, as Mr. Mittal mentioned, all our new operations have now turned EBITDA positive while the older projects, which were there earlier on, have a combined EBITDA margin of over 40%. During the quarter the prepaid ARPU improved by 6% to Rs. 355, which is primarily due to increased usage.

Coming to the fixed line segment, during the quarter we added almost 73,000 customers, which has been the highest for us ever. This was a growth of 17% over the last quarter, and 106% over the last year. And, we now have a subscriber base of the fixed line customers of over 500,000 i.e., half a million. We continue to be the largest private sector wire line operator in the country. The consolidated revenues from our fixed line operations at 1.92 billion Rs. registered a quarter-to-quarter growth of 24% and the consolidated EBITDA at 448 million Rs. improved by 47% over the previous quarter. Like in mobility, the fixed line operations have also shown EBITDA margin improvement from 20% in the previous quarter to 23% this quarter. We are also seeing higher usage and that has actually resulted in the fixed line ARPUs improving to Rs. 1,360 per month from Rs. 1,310 in the previous quarter. Our fixed line investments as Mr. Mittal pointed out have started showing very positive results, very quickly, in fact quicker than the new mobility projects. During the quarter ended 30th September, our consolidated fixed line operations have turned EBIT positive with an EBIT of Rs. 137 million. In fact two of our new fixed line operations have already started generating profit after tax.

Long distance group data and enterprise solution businesses during this quarter; the consolidated revenue from all these businesses was Rs. 3.27 billion. This was an increase of 8% over the last quarter. The EBITDA from these businesses during the quarter was Rs. 928 million exhibiting a margin of 28%. Our long distance operations have experienced a month-on-month growth in traffic, particularly, carried by us due to increased captive subscriber base and superior network quality. Our network quality has also enabled us to retain traffic of the other cellular mobile operators in particular. The improvement in revenues is also supplemented by increased data revenue on account of sale of lease lines during the quarter. Finally, I am extremely pleased to inform that our scrip has now been included in the BSE Sensex. This will be effective from 10th Of November 2003, and we do believe that this would improve the liquidity from the current levels of approximately 2.7 million shares per day, which is around $4 million per trading day. I must, in the end thank all of you for your confidence in our company all through this very uncertain period. I would now like to handover the call back to the moderator to open the house for Q&A.
QUESTION AND ANSWER

Operator

Thank you very much sir. I now handover the proceeding to Diana at IndiaOne international center to conduct the Q&A session for international participants, after this we will have a QA session for the participants in India. Over to you, Diana.

Operator

Thank you, Puja. At this time international participants may press star “0” if they would like to ask a question. On pressing star “0” participants will get a chance to ask their question on a first in line basis. Participants, who wish to ask questions, please press star “0” now.

First question is from Alistair Scott, Merrill Lynch. Over to you, sir. Mr. Alistair Scott, are you there, sir?

Alistar Scott - Merrill Lynch - Analyst

Yes, I am. Thank you. First of all, thank you very much for the call and for the numbers which I am sure if you’ve seen your stock prices today, again the market will be very encouraging. Just a couple of questions, please. Could you just walk us through a little bit the CAPEX in the second quarter, which and how you see the CAPEX of the full year now? Whether anything particularly was driving it because it looks like that your figures have obviously popped up a fair way. And, the second question, just looking at the prepaid ARPU trend, what do you see is driving that, is that some function of clean up of the subscriber base or is it very much just driven by plain old minutes of use pushing up? Thank you very much.

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director

Thanks, Alistair. The CAPEX, during this quarter was 5.69 billion rupees. The CAPEX for the half-year is approximately 10.2 billion rupees. We had last time predicted that for the full year we expect the CAPEX to be in the region of $350-375 million. Despite the fact that we are seeing higher growth, we believe we should be able to maintain it more or less within those kinds of ranges. So, I think we are pretty much on line or on track in terms of our CAPEX.

In terms of the ARPU on prepaid, well it's very heartening to see the ARPU improving and that as you can see the usage has improved by 13% and we believe that this is the main driving force. We've also pushed long distance pretty hard on this and the roaming and I think that is clearly showing some good results.

Alistar Scott - Merrill Lynch - Analyst

Are you seeing much migration of traffic? Do you think that long distance traffic was migrating across from the fixed networks or is this new traffic being stimulated do you think. I know it's very hard to answer these questions sometimes but?

Sunil Bharti Mittal - Bharti Tele-Ventures - Chairman and Group Managing Director

This is Sunil. I think there is mix of both. There is a migration of traffic from fixed line and also there have schemes of late, inducing the customers to use mobile as opposed to fixed line for making long distance call especially the international ones. And I have met a lot of people who are now calling UK and US and all only on mobile because the rate difference on mobile is in his favor as opposed to fixed line.

Alistar Scott - Merrill Lynch - Analyst

Right. Okay. Thank you very much indeed.

Sunil Bharti Mittal - Bharti Tele-Ventures - Chairman and Group Managing Director

Thank you.

Operator

Thank you, sir. Next in line is Mr. Suresh Mahadevan from Lehman Hong Kong. Over to you, sir.

Suresh Mahadevan - Lehman Hong Kong - Analyst

Yeah, hi. Thanks a lot for the call and two quick questions. One is what is the kind of capacity utilization that is there on your cellular network now because it looks like the MOU has really shot up. So that's one. I mean especially after the first quarter and second quarter. And second, is there any kind of indication on what your DLD and the IDD business, such as what market shares or any color that you can give on that would be helpful.

Sunil Bharti Mittal - Bharti Tele-Ventures - Chairman and Group Managing Director

Well, on the capacity utilization, it will be difficult to generalize because there are different networks and different phases. Most of the new networks as you know have been built out for coverage to start with and capacity is not an issue. And in all the old networks, there has been a constant addition of network elements and in fact for some months, we were in a chase up mode, where traffic was
ahead of our build out, but I am pleased to inform you that things are under control now. Network, which is the busiest of the network, is Delhi, where we have been able to add over 100 sites in a very short timeframe reducing the congestion and adding a lot more capacity to the network. I would say on this parameter, the network utilization in all the old circles is as high as the networks can allow and we have now come up to a point where, we are in a mode of matching the traffic growth rather being in a catch-up mode. The new networks have less of a problem in capacities. There was some other question too, Suresh could you repeat the question on DLD and ILD please?

Suresh Mahadevan - Lehman Hong Kong - Analyst

Yeah. Just wanted to get some color on either your market share, and I guess I don’t think you'll disclosed that but just that..

Sunil Bharti Mittal - Bharti Tele-Ventures - Chairman and Group Managing Director

Our problem is that as far as the market shares on mobile and fixed lines are concerned, at least those numbers are disclosed by everyone. There is no disclosure by anybody else; therefore we don’t want to give anything, which might be misleading. We don’t have any authentic data in terms of the overall traffic in the country.

Suresh Mahadevan - Lehman Hong Kong - Analyst

Okay. Thanks.

Operator

Thank you, sir. Next online Mr. Anand Ramachandran from Citigroup Smith Singapore. Over to you, sir.

Anand Ramachandran - Citigroup Smith Singapore - Analyst

Hi, Gentlemen. Good afternoon and again congratulations, on an excellent set of results. Two quick questions. Firstly, just following up on the last question there. Could you provide any rough indication on, if I look at the total long distance kind of traffic, how much of it is a rough like maybe between IDD and DLD and again any indications on how much data revenues are at this point in time as a proportion of that number? That's question number one and question number two is really you mentioned existing circles or the old circles having an EBITDA margin in excess of 40%. Could I just confirm that? And also if there is any rough indication of where we are on the new operations now? Thanks.

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director

Anand, this is Akhil. I am sorry we would not be able to give you the split between IDD, DLD, and data for competition or competitive purposes because these are not available. We don't want to give any details to the competition on this. In terms of the 40% margin were the old circles, our overall is 32% and lot of them have just come out of EBITDA being positive. But for the new operations on an overall basis is in the vicinity of 11-12% right now.

Anand Ramachandran - Citigroup Smith Singapore - Analyst

Okay. That's great. Thanks.

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director

Thank you.

Operator

Thank you, sir. Next in line Mr. Henry Cobb, Thames River Capital. Over to you, sir.

Henry Cobb - Thames River Capital - Analyst

Good evening. Thank you very much for the presentation. I just wanted to ask a similar question on the EBITDA margins for the wire line side i.e., for the fixed side and what kind of margins you're getting in the mature areas and what kind of margins you're getting in the new areas and what your target EBITDA margin is for that segment?

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director

As you know in this on the EBITDA side, there is not a great amount of difference between old and new. Overall we are at 23%. The old one, which was Madhya Pradesh, is around 30% and we would look forward to continuous improvement in these. The new ones are at about 21%; old one at 30%. We believe there is scope for improvement in both but we haven't set any target at this stage because we believe we have a long way to go on this.

Henry Cobb - Thames River Capital - Analyst

Okay. On the fixed and data ARPs and its suggested they are actually even growing and I am just interested in what your plans on fixed line rollout is, and what your outlook is for ARPs in the fixed line?

Sunil Bharti Mittal - Bharti Tele-Ventures - Chairman and Group Managing Director

Okay.
Well, the fixed line ARPUs have actually not only been holding up, they have been firming up because of additional applications like DSL and Internet which is being used extensively on our lines and going forward we would like to continue at least from the wire to wire side 20,000-25,000 net additions per month. We do not have the ambition of going beyond these numbers because digging up streets and getting local permission and all of that is a very tough element. I remember we have very successfully captured month on month very high ARPU customers and that seems to be the policy going forward. The only way for us to have more customers on the network would be to go wireless in the local loop in a fixed basis, something which we haven't ventured other that one state in Madhya Pradesh as yet. The ARPUs of fixed line have only been provided in the data given out but the exact figure is 1,360 Rs. per month.

Henry Cobb - Thames River Capital - Analyst

And just on the CAPEX side again. As you discussed CAPEX for this year, but going forward and it’s very clear that it is going to be very strong subscriber growth over the next few years on the cellular side. And I just really wanted to know what kind of guidance you could give on CAPEX either in absolute terms or whether it is sales on a per subscriber basis?

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director

I think as a matter of policy, we do not really give guidance but since CAPEX was a major issue, what we had indicated that for the full year we are looking at US$ 350-375 million. You are right that the growth is extremely strong. Our cash flows are also much stronger than what we had initially anticipated or at least conservatively projected. And it is quite possible that by the end of the year, we may deliberately step up the CAPEX slightly higher, so that we build up enough capacities for the subsequent years. But we would say that probably speaking US$ 350-375 million at this point of time looks like that we would be around that benchmark. Maybe we decide to go slightly above that.

Henry Cobb - Thames River Capital - Analyst

What about next financial year now?

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director

No, we would not be able to give guidance at this stage. We would wait for another quarter to really see what kind of market growth is taking place. And that would determine our requirement for the next year. Too early at this.

Henry Cobb - Thames River Capital - Analyst

Is it possible to indicate in rough terms what the capacity is based on current subscribers, in terms of subscribers based on current usage?

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director

I think on a rough basis, you can imagine that we always keep a 30% buffer. The capacity utilization, we like to keep at about 70% on an overall thumb rule basis.

Henry Cobb - Thames River Capital - Analyst

Okay, so if we use on subscriber estimates and then can you kind of set aside a reserve margin and that should be sufficient for getting incremental CAPEX number based on a per-sub basis?

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director

Yeah, well many times the per-sub is really not the right basis but in terms of overall capacity calculation yeah that would be the right method.

Henry Cobb - Thames River Capital - Analyst

Okay. Well, thanks very much for your time.

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director

Thank you.

Operator

Thank you sir. Next in line Mr. Manish from ABN AMRO, Singapore. Over to you sir.

Manish Srivastava - ABN AMRO, Singapore - Analyst

Hi, and congratulations for a great set of results. Just two issues, I wanted clarifications on. Number one, the CAPEX side, if you look at the CAPEX on the incremental sub-basis on the mobile side, it has dropped pretty sharply almost halved over last quarter's numbers and the quarter before that. Given that we still are seeing minutes growth, how and what is the real sustainable number, the current number or what we saw the earlier quarter? And even on the fixed line side CAPEX actually has come down a lot on the incremental basis, in fact again it has gone below 10,000 Rs. levels. What do you think is sustainable number in terms of CAPEX per line on that side? Thanks.

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director

Hi, and congratulations for a great set of results. Just two issues, I wanted clarifications on. Number one, the CAPEX side, if you look at the CAPEX on the incremental sub-basis on the mobile side, it has dropped pretty sharply almost halved over last quarter's numbers and the quarter before that. Given that we still are seeing minutes growth, how and what is the real sustainable number, the current number or what we saw the earlier quarter? And even on the fixed line side CAPEX actually has come down a lot on the incremental basis, in fact again it has gone below 10,000 Rs. levels. What do you think is sustainable number in terms of CAPEX per line on that side? Thanks.

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director
Yeah, I think the CAPEX as we always mentioned, Manish, per-sub is a very misleading figure here because CAPEX is not only incurred for the new subscribers, it's also incurred for the earlier subscribers whose usage has increased, but we always said that the CAPEX will become more and more rational as the project which we had built up first for coverage and now only capacities are being added. As those happen CAPEX would come down and I think and we are clearly seeing that. Similarly, on the fixed line side quite clearly since we have now laid out the optic fiber in the places where we wanted to and the main CAPEX is for utilization of the tags. On a relative basis the CAPEX there is also coming down.

Manish Srivastava - ABN AMRO, Singapore - Analyst

So you would say that that the 5,000 number we are seeing now on the mobile side and 10,000 on the fixed line side is an appropriate number?

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director

Fixed line, I doubt, will be 10,000. How much exactly is our fixed line. Fixed line for this quarter may be this but you can't take it on a sustained basis. Because if you dig more areas or go to newer areas it will come up again. So this may be a quarter where it has gone mainly in the areas where we already were. But on a mobile basis yeah we do see these kind of figures as being the... our benchmark going forward from where we'll need to improve.

Manish Srivastava - ABN AMRO, Singapore - Analyst

Okay and Akhil -- just another issue. Are you consolidating i2i here?

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director

Prabhat, in terms of your other two questions on the revenue per minute as you would derive from the two tables there you would see a marginal decline of about 5% and as we said that the fall in the tariffs is which is the reason for the revenue per minute coming down. This is now rationalizing and as you can see the drops are becoming smaller and smaller. We believer this year we are hoping that this would remain stable.

As far as the interconnect revenue is concerned I think some of the main reasons which have contributed to the fall in the access and interconnect charges by Rs. 270 million and as a percentage of revenue reduction from 26% to 22%. Now the main reasons for these are five. The first, is the termination revenue which in this quarter we received for three months versus two months last quarter pushed up the overall revenue bringing down the percentage of interconnect. Two, during this quarter the local call interconnect payout for fixed line calls reduced from the earlier regime of 1 Re. 20 paisa per call to 50 paisa to 60 paisa per call. Last quarter till mid-May we paid 1Re. 20 paisa per call. Third, the traffic pattern has been changing. Increasing number of long distance calls are getting terminated on mobile phones because of two reasons i.e., mobile population has increased significantly and calls to mobiles are becoming cheaper.
This trend is being seen in both the fixed line and the mobile operations and thus the interconnect charges paid for such calls is lower than for the fixed line terminating charges. Long distance, proportion of data revenues is increasing where there is no interconnect charge. Data revenue has been going up steadily as I said. And finally, the contribution of mobile and fixed line revenue increased 83% versus 78% over last quarter. These businesses have lower pay out on account of interconnection cost.

Prabhat Awasthi - J.P. Morgan India - Analyst

All right, thanks.

Operator

Thank you sir. Next we have a follow-up question from Mr. Anand Ramachandran of Citigroup, Singapore. Over to you, sir.

Anand Ramachandran - Citigroup Smith Singapore - Analyst

Thanks ma'am, my question was just answered. Thanks so much.

Operator

Thank you sir. Next on line we have a follow-up question again from Mr. Henry Cobb. Over to you, sir.

Henry Cobb - Thames River Capital - Analyst

Thank you, two more questions. The first is just on my estimates, looks like you could become free cash flow positive in the next quarter, will certainly in the fourth quarter, so could you just talk about your or how your current financing in the balance sheet, would you plan to use that free cash flow to pay down debt or would you or may issue new equity to carry on financing the next stage of growth, the first question.

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director

Okay let me take this up first. I think I must warn all of you from not jumping the gun; we are still away from the free cash flow position. We would like to watch it quarter-to-quarter and of course our -- the management’s aim would be to try and see, that's what every management’s aim is i.e., to reach the free cash flow figure, we are still away from it. Therefore I would not like to really worry about what we would do with the money once we are free cash flow, I am sure we will find many uses of that, but I would feel we are still a little away from the free cash flow position.

Henry Cobb - Thames River Capital - Analyst

So you expect to continue to finance the CAPEX through that?

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director

Yeah, we have already got a fully funded business plan. You would have seen, some debt has gone up in this quarter, while the interest coverage ratios are coming down. We are comfortable with that. For the balance portion of our peak-funding requirement, we already have got complete tie-up of debts and we would be taking the disbursements and withdrawals of those loans as and when we need which will be linked to our ongoing CAPEX expenditures.

Henry Cobb - Thames River Capital - Analyst

So, you have plans to raise new equity on that basis?

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director

On that basis, No.

Henry Cobb - Thames River Capital - Analyst

All right and my second question is just on the effective tax rate and you are paying zero tax and could you just explain how that works and when will you start paying tax?

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director

We have a tax holiday under the Indian Income Tax Laws, of course, in case the full year results are resulting in booked profits, which so far they are not. Then there may be a small amount of what you call the Minimum Alternate Tax which works out to about 13% or so of the overall profit and that may step in even during this period of tax holiday.

Henry Cobb - Thames River Capital - Analyst

And that's okay. And, so that means your effective tax rate will remain zero for the next three or four years, I think?

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director

May not remain zero as I mentioned because if there are booked profits, then under the Indian Income Tax Act there is a Minimum Alternate Tax which works out to about 13% or so of the overall profit and that may step in even during this period of tax holiday.
All right. Okay well thanks so much for your help.

Operator

Thank you sir. At this moment there are no further questions from participants outside India. I would like to handover the proceedings back to Puja. Puja, over to you now.

Operator

Thank you very much Diana. We will now begin the Q&A interactive session for Indian participants connected to IndiaOne Meet Express. Participants who wish to ask a question, may please press “*” “1” on their touchtone enabled telephone keypad. On pressing “*” “1”, participants will get a chance to present their questions on a first-in-line basis. To ask a question, please press “*” “1” now. The first question comes from Mr. Shubham Majumdar of Motilal Oswal. Mr. Majumdar, you may ask your question now.

Shubham Majumdar - Motilal Oswal - Analyst

Hello. Congratulations to the management of Bharti Tele-Ventures on an impressive set of numbers. I had couple of questions. Firstly, can you give me a sense of the breakup of the existing and new cellular circles with regard to the revenue and the EBITDA? And my second question is with regard to your long distance businesses especially the ILD business. Do you or what is your take on Reliance’s acquisition of FLAG Telecom?

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director

Let me take up the first and the last, and Mr. Mittal will take up the second one. I think as a matter of policy, we would refrain now from confusing all the analysts in market from giving big breakups on old projects, new projects. The only exception we’ve made this time is to guide as to how the mix is taking place in terms of EBITDA margin. I think in terms of the way we look at these businesses and our Presidents look at these businesses, each one of this is now mature and they are not encouraging even within their own groups of distinguishing. They want the same performance parameters from all. Sunil about FLAG.

Sunil Bharti Mittal - Bharti Tele-Ventures - Chairman and Group Managing Director

Well on the FLAG, Bharti as you know has been using its capacity on 2i2 and satellite SingTel satellite for cellular satellite connectivity and we have also not only been using this cable for our own use but also selling significant bandwidth in marketplace as well. That Reliance has now decided to pick up FLAG is, I think overall good news for the Indian bandwidth market, both for IT-enabled services and software company. And I’m sure that will allow more bandwidth availability to the country and bandwidth swapping between telcos like Reliance and us. I think all in all it’s good that an Indian entity or India now has one more cable in the – in and around the world.

Operator

Thank you very much sir. The next question comes from Mr. Damania, HSBC Mumbai. Mr. Damania, you may ask your question now.

Anish Damania - HSBC Mumbai - Analyst

Hi, Akhil and team. You’ve got a pretty good set of results. I think Bharti never ceases to fox me. I have just three quick questions. One is can you just give a flavor on bad debts? We have seen incremental EBITDA margins of 64% in this quarter on the mobility business, do you think this kind of incremental EBITDA margins could be maintained going forward over the next two to three quarters on incremental cellular revenues?

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director

Well I would say that a 64% incremental EBITDA margin perhaps really be putting our President and his team under an unrealistic pressure if we expect this to happen quarter after quarter. We also need to recognize that in a fiercely competitive environment, it will be important to safeguard, be able to build up the brands, to step up the marketing efforts. And I think over a period of time, I really wouldn’t say that 64% is something which we will keep demanding quarter after quarter. We would be very in the interest of a long-term benefit to the business of making some adjustment to that.

Operator

Thank you very much sir. The next question comes from Mr. Damania, HSBC Mumbai. Mr. Damania, you may ask your question now.

Anish Damania - HSBC Mumbai - Analyst

Hi, Akhil and team. You’ve got a pretty good set of results. I think Bharti never ceases to fox me. I have just three quick questions. One is can you just give a flavor on bad debts? We have seen your other operating expenses come down sharply. The second question is on impact of granulation. Probably if you could give in percentage terms on long distance and local tariff separately. And third is on the long distance side, how much of revenue comes from your own subscribers?
On the bad debts, I would say that we had pointed out if you remember in the last two quarters that our bad debt figures were higher, but now I am happy to report that there has been a significant overall reduction, approximately 300 odd million rupees over the last quarter and now we are within the acceptable benchmarks. As far as the granulation is concerned, I think leave something to us. These are some of the trade secrets we would really not like to indulge and give details of this on long distance and the local ones. Yeah, our own customers on the long distance, I would say roughly about two thirds of the overall revenues are now captive revenues.

Anish Damania - HSBC Mumbai - Analyst

Okay. Thank you.

Operator

Thank you very much sir. The next question comes from Mr. Amit Lodha of Citigroup. Mr. Lodha, you may ask your question now.

Amit Lodha - Citigroup - Analyst

Good afternoon sir. Sir, could you briefly comment on the changes that you would look forward in the new Interconnect scheme expected by the end of October?

Sridhar Irani - IDBI Capital - Analyst

Hi, Sridhar Irani from IDBI Capital, excellent results. I have two questions. I don't know whether first is really answerable at this point in time, but anyhow I just thought if the management has any perspective to it. My first question is how will the unified license regime actually impact Bharti because it is one company that's you know, in fixed line in cellular as well as in ILD and DLD as well as in Internet? And my second question is what is your strategy if at all in WLL mobile services? Thank you.

Sridhar Irani - IDBI Capital - Analyst

Hi, Sridhar Irani from IDBI Capital, excellent results. I have two questions. I don't know whether first is really answerable at this point in time, but anyhow I just thought if the management has any perspective to it. My first question is how will the unified license regime actually impact Bharti because it is one company that's you know, in fixed line in cellular as well as in ILD and DLD as well as in Internet? And my second question is what is your strategy if at all in WLL mobile services? Thank you.

Sridhar Irani - IDBI Capital - Analyst

Any comments on, you know, one of the proposals of levying and access deficit charge on a per call basis on all mobile and fixed line call rates?

Sridhar Irani - IDBI Capital - Analyst

Right.
And I think, you know, your judgment would be as good or bad as mine.

Sridhar Irani - IDBI Capital - Analyst

Right.

Sunil Bharti Mittal - Bharti Tele-Ventures - Chairman and Group Managing Director

Even we'll wait for the final outcome of this and then we will probably maybe request IR group to set up a call once every thing is out in place to have a discussion on this.

Sridhar Irani - IDBI Capital - Analyst

Okay.

Sunil Bharti Mittal - Bharti Tele-Ventures - Chairman and Group Managing Director

WLL limited mobility or full mobility will again be the outcome of the unified license. We have some spectrum in five states, which we haven’t utilized as yet; depending on the outcome of this process we will take a decision immediately thereafter.

Sridhar Irani - IDBI Capital - Analyst

Okay, thank you.

Sunil Bharti Mittal - Bharti Tele-Ventures - Chairman and Group Managing Director

You are welcome.

Operator

Thank you very much sir. Your next question comes from Mr. Navneet Singh of ICICI Securities. Mr. Singh you may ask your question now.

Navneet Singh - ICICI Securities - Analyst

Good afternoon everybody. Many congratulations to the management for an excellent set of results. I have basically three questions, could you give an idea about a) On how the in-out ratio is behaving both for the postpaid and the prepaid now with IUC regime fully stabilized and you have three months of full data for the quarter? Secondly, what we have seen is that your growth rate on the long distance business is down to single digits and with recent tariff cuts on ILD would we continue to see lower level of growth in this business? And third is would you be able to share some amount of long-distance component of the mobile ARPU's?

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director

Okay, as far as the in-out ratios are concerned, they are now fairly stable; and we expect that going forward, these will start becoming stable. On the prepaid side, we have about 75% or so as incoming and 25% out going. It's higher on the postpaid side. In terms of the long-distance, you are right. I think we have never expected that beyond the initial period this will be runaway growth. These businesses particularly on the voice side as I mentioned almost two-thirds of the revenues come from our captive side, so I think those will move in line with the growth in the rest of the business quite clearly. The data side yes, the data revenues will increase at a higher pace.

Navneet Singh - ICICI Securities - Analyst

Okay and would you be sharing the long distance component of ARPU's, mobile ARPU.

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director

Yeah, in the mobile ARPU's, whatever is the long distance portion is already built in in that. No, we would not want to, I think since it involves the long distance data which the others are not giving out, it's some thing on a competitive basis, Navneet, very difficult for us to share.

Navneet Singh - ICICI Securities - Analyst

Okay fine right thanks a lot.

Operator

Thank you very much sir. The next question comes from Mr. Chawla of Kotak Securities. Mr. Chawla, you may ask your question now.

Sanjay Chawla - Kotak Securities - Analyst

Good afternoon everybody. My congratulations to the management on a very good set of results. I have just one question, if you could share the data on share of roaming revenues as a percentage of mobile revenues last quarter?
Yes, the share of roaming is approximately in the vicinity of about 10%.

Sanjay Chawla - Kotak Securities - Analyst

Is that the only outgoing revenue, outgoing roaming revenue?

Akhil Gupta - Bharti Tele-Ventures - Joint Managing Director

For the overall roaming component.

Sanjay Chawla - Kotak Securities - Analyst

Okay thanks a lot.

Operator

At this moment there are no further questions in the -- from the participants. I now handover the floor back to Mr. Sunil Bharti Mittal for final remarks.

Sunil Bharti Mittal - Bharti Tele-Ventures - Chairman and Group Managing Director

Well I would like to thank all the participants for sparing the time and joining us on this call. I am sure that any further query that you may have, our IR department will be more than glad to engage themselves in giving out. Once again, thank you very much for the confidence that all of you have reposed in the company and I am sure in the coming months and quarters, we will keep on delighting our investors. I would like to acknowledge, that this call was hosted by IndiaOne, Our group company, which has been now doing a remarkable job in the area of conferencing facilities. Thank you very much.

Operator

Ladies and gentlemen thank you for connecting to IndiaOne Media Express. This concludes the earnings call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice evening.