

Earnings call transcript

Event: Bharti Tele-Ventures Limited Earnings Conference Call for the Second Quarter & Half Year ended September 30, 2004 results.

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Good afternoon ladies and gentlemen. I am Swati, the moderator, for this conference. Welcome to the Bharti Tele-Ventures' second quarter and half year ended September 30, 2004 earnings call hosted by SSKI Securities. Mr. Rahul Singh, SSKI Securities, Vice President – Research, is your call leader today. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for the international participants connected to Airtel International Center. After that, a similar question and answer session will be conducted for the participants in India. Now, I hand over to Mr. Rahul Singh of SSKI Securities. Thank you, and over to you Mr. Singh.

Rahul Singh – SSKI Securities – Vice President, Research

Thank you Swati. Once again, I also extend my welcome to all the participants and Bharti's senior management for the call. Once again Bharti has shown good numbers with all the businesses contributing and growing at a fairly good clip. Without wasting too much time, because I am sure people would have a lot of questions on future plans of the company, I will hand it over to Ms. Sonal Kapasi, Head, Investor Relations, who will introduce Bharti's management and take the call forward. Over to you, Sonal.

Sonal Kapasi - Bharti Tele-Ventures Limited - Head, Investor Relations

Thank you, Rahul. A very warm welcome to all of you. We hope that each one of you is in receipt of the results for the second quarter and half year ended September 30, 2004. The results are also available on our website, which is www.bhartiteleventures.com. Today, we have with us the entire senior management on the call. Mr. Sunil Bharti Mittal, Chairman and Group Managing Director; Mr. Rajan Bharti Mittal, Joint Managing Director; Mr. Akhil Gupta, Joint Managing Director; and Mr. Badri Agarwal, President of the Infotel Operations. Before I hand over the call to Mr. Sunil Bharti Mittal, I must remind you that the overview and the discussions today may include certain forward-looking

statements and that must be viewed in conjunction with the risks that we face. I now hand over the call to Mr. Sunil Bharti Mittal. Thank you.

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

Thank you Sonal. Let me add my own welcome to all of you who have joined us on this conference call today. It has been a great quarter, full of excitement and challenges. At the end of it when we signed off and are announcing these results today, we are very pleased that Bharti did a great performance for the quarter. Let me present an overview on a few recent developments and the company's performance. Akhil will cover the financial and operational performance of the company in more detail immediately following my talk here.

Let me just touch upon the economic position here in India. India's economy is on a truly strong footing. It has emerged as one of the fastest growing economies in the world. Most of you are aware that the GDP growth last year was 8.2%, and the government is determined to maintain and sustain a growth of over 7% on a go-forward basis. Clearly, the growth is dependent on certain underlying factors. Major initiatives are being planned by the government in terms of infrastructure, be that power, roads, civil aviation, shipping, new airports, etc., and clearly the policy pronouncements that are coming from the government quarters are clearly directing towards achieving this accelerated growth.

Despite the adverse monsoons, the government has taken all efforts to pace up the economic growth in the country. Growth boost has been given to the agriculture sector which to my mind holds the strong promise for creating a lot of wealth in the rural areas, and in particular for Bharti, this is good news because telecom services are now being increasingly taken up in the hinterlands of the country, and some of our recent launches in new states and cities are confirming that the telecom spend in the villages and rural areas is on a steep rise.

India in the first quarter achieved a GDP growth of 7.4%. This is despite the rise in global oil prices along with its impact on the inflation and drive in the economic growth. More closer to the telecom industry development, there have been a number of positive policy initiatives by the government, by the regulator, and by the Department of Telecommunications, and we believe that these policies as they are being converted into commercially possible propositions for the operators are resulting in the market growing up once again in a very major way. I personally believe that the telecom sector is now truly on a threshold of a big breakthrough with 85 million telephone connections of which approximately 43 million are wireless and teledensity is on the improvement with almost every passing month. The common street estimates including various experts suggest that 200 million phones in another 4-5 years seem to be a very strong possibility now. So moving the mobile phones from 40 odd millions to 200 millions in the next 4-5 years holds a great promise for the major player like Bharti Tele-Ventures.

India is also emerging as one of the most attractive FDI destinations. A number of large telecom manufacturing companies like Erickson, Nokia, and various handset manufacturers are finally now coming

and setting up their bases in India, and I believe that this activity holds great promise for Bharti as we will be continuously buying a lot of capital equipment from these companies, and the local manufacturing should help us in bringing our Capex per sub down even further. The most recent developments had been in the area of tariffs. A number of new innovative price points have been offered to the customers. Some of these tariff cuts have led to a significant growth of customers once again, and I believe the momentum which had been earlier lost in the previous quarter has once again picked up in full gusto.

On the regulatory front, the unified licensing regime is underway, and draft recommendations have been released by TRAI. They are under consideration of the government. We are very hopeful that the next round of unified licenses will ensure that India will have the finest regulatory propositions for the people who are operating the telecom services in the country. In the broadband space, a lot of discussions took place. Finally, the Department of Telecom based on the recommendation made by TRAI has announced the broadband policy, while on the unbundling of local loop there is a bit of disappointment, but the opening up of the wireless broadband spectrum for the private sector and the players in the Indian telecom industry holds a great promise for a company like Bharti which is now increasingly putting a lot of focus in the broadband arena.

On the company front, I personally believe this has been a sterling quarter, a quarter where we met with a lot of challenges and overcame those challenges and delivered a very-very good result for the quarter. We once again added over 1 million new customers in the quarter gone by. We maintained our dominant market leadership position with nearly 26% market share in the GSM arena and over 20% share of the market in the wireless arena of the country. The net profit for six months, i.e., first half of 2004-05, exceeds the profit of the last year. This to my mind is a great performance covering up the journey in half the time as compared to what we did in the whole of last year. The revenues at Rs. 19 billion, the EBITDA at Rs. 7 billion, the cash profit of Rs. 6.6 billion, and a net profit of Rs. 3.3 billion is indeed to my mind a great performance by both the units under Bharti Tele-Ventures, the Mobility and the Infotel.

Our broadband and telephony business is emerging as a robust business. It is stitching and tying in very well with the integrated strategy that we had laid out of the company. Partnership with other IT companies such as IBM is helping us to enter and picking up much bigger contracts in the marketplace. In fact, the emphasis that we have given to our data business by creation of the enterprise unit has resulted in some major wins in the marketplace. One of the significant one being Bank of India Wide Area Network.

Some of the other company developments are unifying of the brand Airtel, which is India's leading telecommunication brand, which has now spread its wings to cover the fixed line telephony, the long distance telephony, and the enterprise business unit. Airtel will herein after cover all telecom services provided by Bharti Tele-Ventures taking away the

sub-brand that has been created, which were inefficient and did not have the scale to create or command market leadership. The early results from the market are very gratifying, whether it is the broadband fixed line services or long distance services or large corporates who are using our enterprise services, all are delighted to align with the leadership brand of Airtel.

Airtel is heading now from a pan-India footprint to an all India footprint. The North-South corridor is already covered. I was personally present in Jammu & Kashmir last week to launch the services in Kashmir. The quarter gone by witnessed the launch of UP East, which was followed earlier this month with a launch in West Bengal and of course Jammu & Kashmir last week. The two major states from our, I would say, second last phase are Bihar and Orissa. In Bihar, you also have Jharkhand under the same license, work is in advanced stage. If all approvals are in place, both these networks should be launched by the end of November, and in the event there are some delays, I am very-very hopeful that by early December both these states would have been launched, and that would leave just Assam and North East where licenses have been renewed and obtained. Work has started, and I am very hopeful that by the end of quarter IV, North East and Assam would have been launched as well thereby making Bharti the first and the only company to have a complete presence and coverage all across the country.

We have also looked at a number of other initiatives; particularly, one I would like to mention is the roll out of the EDGE networks. We have already launched the EDGE in six cities, namely, Delhi, Chandigarh, Mumbai, Pune, Bangalore, and the whole of Andhra Pradesh. In the coming weeks, we will be launching EDGE services in a number of more cities. The company has also convened the merger process of its subsidiaries into the holding company. Akhil will elucidate on this a little bit more in his speech.

Airtel has been launching a number of innovative services. I am very pleased that the new product Blackberry Wireless Solutions that we have launched in India has met with a tremendous response. We have already broken through a number of key accounts, some of these accounts belong to competition, and we are very pleased that this is becoming a great tool in Airtel's hand to pick up high value large customers. I am very confident that in the coming months Blackberry will become the de facto standard in India for mobile on the move. We are the first operator in India to launch innovative services like the Ring Back Tones service, which has become extremely popular amongst the youth. We believe that going forward with the value propositions that we continue to offer to our customers along with competitive tariffing will hold Airtel's leadership in the marketplace.

The company has continued to receive a number of awards. I will just mention a few of the important ones. The World Communications has recognized Airtel as the best brand in the world. This is being something we are extremely proud of competing with companies like British Telecom, Orange, SingTel, and M1. Airtel came as the number one brand across the world in the telecom space. Bharti Tele-Ventures featured in this year's Forbes A-List being amongst the 400 of the world's best big companies. Economic Times in the week gone by has awarded the Emerging Company Title to Bharti Tele-Ventures. This is again a testimony to the respect that the company is gaining in the minds of decision

makers and of course the jury members who are all very illustrious industrialists and public people.

In conclusion and before I hand over the floor to Akhil, I must point out that the period ahead is full of excitement and challenges, particularly in this competitive environment. We have proven ourselves in the past and committed in creating value for all our stakeholders and our customers going forward. The largest challenge that lies ahead of us is to sustain and improve our profits in the midst of such a competitive environment by capturing the benefits of economies of scale, which Bharti Tele-Ventures has so assiduously built as strength in the company. Clear emphasis is on providing value propositions to our customers in conjunction of course is being price competitive. Emphasis is on building the company on the basis of brand equity so that the customers in the marketplace prefer Airtel to the competitors' offering. Superior products, services, and customer service delivery is something we are working very hard upon. We are widening and deepening our networks all across the country. Up from 1100 towns, we will be into seven thousand towns by the end of this financial year. Clearly, we are building a brand, which will not be respected for its coverage and reach but for its innovative services as well. We are committed to achieving our vision to be globally admired for telecom services that delight customers, and I am very hopeful that the company will perform extremely well in the coming quarters ahead. Let me now pass the microphone to Akhil who will take you through the detailed financial and operational performance of the company during the quarter. Thank you.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Thank you Sunil. Good afternoon and a very warm welcome to all of you on this call. I am delighted that this has been a very satisfying quarter and a half year in terms of financial performance. The key highlights as Sunil mentioned, first the company's net profit for the first half has been more than the net profit for the full year 2003-2004. The company for its first time crossed EBITDA of Rs. 7 billion for the quarter and our cash profits for the quarter were at a very strong Rs. 6.6 billion. I would like to point out that the results for the period provided in our quarterly report are unaudited and are as per IFRS. While the consolidated Indian GAAP numbers and accounts there for this quarter are audited.

Before I take up the financial and operating results in detail, let me highlight some new additions that we have made in the quarterly report in response to the suggestions received from our investors. During the quarter ended September 30' 2004, we did commence mobile services in Uttar Pradesh East, and in the month of October, we have commenced them in West Bengal and Jammu & Kashmir. To provide greater transparency, we have continued once again the practice of disclosing the financial results bifurcated into existing and new mobile operations. The existing mobile segment for this quarter includes 15 mobile circles. For this

quarter, it does not include Rajasthan, which will be fully consolidated from next quarter, and the new mobile circle in this period includes UP East as well as the preoperative expenses of West Bengal, Jammu & Kashmir, and other areas, which are supposed to be launched soon. We believe that the disclosures will provide understanding to all of you on the performance of existing mobile circles and the impact of the launch of new operations.

We have also started a separate section titled Trends and Key Ratio Analysis, which has been included in the annexures in this report. This section provides key financial information on parameters and ratios for a period of five rolling quarters, and I sincerely hope that all of you would find it very useful. We would of course as usual look forward to your feedback on each of these changes and the addition s that we have introduced.

Let me now take you through the performance of the company for the quarter. As mentioned earlier, the quarter has been extremely strong in terms of financial and operational performance. This would be clear from the following. During the quarter, we crossed the 9 million-customer base, approximately 9.5 million with about 8.70 million on GSM mobile and approximately 765,000 on fixed line. We added more than a million new customers on our networks in this quarter. During this quarter, our revenues were at Rs. 18.6 billion and EBITDA at Rs. 7.01 billion, which showed a growth of 63% and 86% respectively over the corresponding quarter last year, and these increased by 9% and 13% respectively over the previous quarter for this year. The cash profit from operations at Rs. 6.6 billion increased by 118% over the corresponding quarter last year and 22% over the preceding quarter. The EBITDA margin for the quarter has improved to 38% as compared to 33% for the corresponding quarter last year and 36% for the preceding quarter. The increase in EBITDA margin clearly in a very tough quarter where the tariffs did come down is clearly demonstrative of our operating efficiencies, economies of scale, and benefits of the integrated operations that we have in our business. The profit before tax for the quarter ended September 30th 2004, was almost Rs. 4 billion, Rs. 3.96 billion, as against Rs. 939 million for the quarter ended September 30th 2003.

I would like to point out that we do concentrate more on profit before tax because the profit after tax in our case gets quite muddled because of a large provision of deferred tax expenses, which we have to make, which we will take up separately. We do believe that because of the tax holiday we should not be required to make such a large provision but this is something we are taking up with our auditors; however, so far we have been advised to make these large provisions, which we do feel are not warranted in our case. The net profit after a large provision of about Rs. 860 odd million for the quarter was at Rs. 3.33 billion. This is more than triple as compared to the previous quarter ended on September 30th 2003. We have started witnessing the benefit of our unique and innovative contracts with the vendors, both in terms of IT and the capital equipment, which is helping us in very speedy deployment. We are, therefore, concentrating on rolling out the network in new circles and increasing the coverage and our reach in the existing circles. During this quarter, we incurred a capital expenditure of Rs. 13.37 billion, approximately US \$290 million, whereby we increased the coverage many folds. As on September 30th 2004, the net debt of the company as per IFRS was approximately Rs. 38.5 billion and this resulted in a net debt to stockholders' equity ratio of a very low 0.65.

Let me now give you a brief overview on the segment wise performance for the quarter. Mobile segment, of our 8.7 million GSM customers we had about 77% of those on prepaid. For the quarter, however, we added more than a million customers and out of those 31% were postpaid customers. So we are clearly gaining more of the postpaid customer market in the last quarter and in this quarter. On the mobile side, we have launched a couple of operations as we have mentioned earlier. With that now we are in 19 circles; only 4 circles remain to be launched herein after. The consolidated revenue for the mobile business for this quarter was Rs. 12.4 billion. This contributed to 67% of our total consolidated revenues and the new launched Uttar Pradesh East circle contributed Rs. 62 million as revenue in this quarter. The blended ARPU for the quarter was at Rs. 509, which was just 1% lower than the previous quarter. So the ARPUs are holding good. Our new services on the WAP, which we are introducing, are improving the ARPUs. We have seen robust growth in short messaging service revenue, which now accounts for 5.8% of the total revenue of this mobile segment, which is an improvement of 79% over the last year. The consolidated earnings before interest and tax from mobile business for this quarter was Rs. 2.44 billion, which shows a very strong growth of 98% over last year.

Our broadband and telephone services are demonstrating very robust performance. As on September 30th 2004, the company had 765,000 customers in this segment. Out of these approximately, 75,000 were DSL customers as well. The revenue for the quarter from this segment was Rs. 2.8 billion, which was an improvement of 46% year on year, and this contributed to 15% of the overall revenues of the company. The EBITDA for the quarter was Rs. 864 million compared to Rs. 448 million in the corresponding period last year. The margin in this business improved from 23% to 31%. The earnings before interest and tax for the quarter was Rs. 420 million, a growth of approximately 206% over the corresponding quarter last year. The long distance services continue to perform very well with revenues of Rs. 4.4 billion, increase of 62% over last year, and the EBITDA margin from this business improved to 33% from 25% in the quarter ended September 30, 2003. On the enterprise services business, the group which we have recently formed, the revenue for the quarter mainly out of the data business was Rs. 1.3 billion, which was an increase of 127% over last year, and the EBITDA for the quarter was almost Rs. 600 million while the margin improved from 44% to 46%.

Before I hand over the floor back for Q&A, I would like to draw your attention to some key developments other than financial. We have now obtained the shareholders' approval for the ADR offering of up to 200 million shares by way of a sponsored offering. I must of course as per the legal requirements once again point out that this offering would be contingent upon a number of factors including stock market conditions and the company's and the underwriters' determination as to the appropriate time if any for such an offering, and of course, there can be no assurance that such

offering will at all be completed. During the quarter, the company made significant progress in the process of merger of its subsidiaries, i.e., Bharti Cellular and Bharti Infotel into a single company, Bharti Tele-Ventures. We have already obtained the shareholders' and the creditors' approval. The matter is now pending the final approval by the High Court. Barring unfortunate circumstances, I have been legally advised that the process of the merger is expected to be completed within this financial year, and with this, we believe that we would complete the process of cleaning up our structure that we started some time back and that would clearly make it the simplest and the most transparent structure in the industry.

In conclusion, I would like to point out that we are very pleased to state that Bharti continues to be a leader amongst the ICE sector in India. Based on the results declared for the quarter ended September 30th 2004, by all leading companies including the IT companies, I am very proud to state that we are ahead of every other company in terms of EBITDA and cash profit, ahead of the most admired companies from our side like Infosys, Wipro, Tata Telecom, and Tata Consultancy Services. In terms of revenues, we are at number 2 position after TCS with just a gap of approximately Rs. 1.5 billion in terms of revenue for the quarter, and we are number 4 in terms of net profit largely due to a very large deferred tax expenditure provision of almost Rs. 860 million, which we have had to provide in this, which I do not think they have to provide to that extent. So we are very pleased that we are maintaining a very strong position in the ICE sector in India.

I would like to now hand over the call back to Swati for commencement of the question and answer session.

Swati – Moderator

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

Kala - Moderator

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

We have Mr. Suresh Mahadevan from Lehman Brothers.

Suresh Mahadevan – Lehman Brothers – Hong Kong

Good evening and thanks a lot for the conference call and congratulations on a good set of numbers on yet another quarter. I have three very quick questions.

One is, I wanted an update on your electronic or over-the-air Easy

Recharge in terms of what percentage of recharges are done through this route in terms of value as well as how many outlets have it been rolled out to.

Second question is, what contributed to the almost 4% improvement quarter on quarter in terms of EBITDA margins?

Third question is, there was the news reports yesterday about the Indian regulator objecting to the migration fees. I was just wondering are any of the revenues booked by Bharti in this quarter affected by this?

Thanks a lot.

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

A number of questions there in one question. We will try to answer all one by one.

The first one is, nearly 40% of the recharges on mobile are happening on through the Easy Recharge, which is an electronic mechanism. We have over 50,000 outlets all over the country, which are geared up to load electronic recharge. These numbers are incidentally growing dramatically with every passing month, but the results have been quite outstanding and have given Airtel a great leadership in the prepaid market.

On the EBITDA margin improvement in this particular quarter, I will ask Akhil to come in at the very end, but let me just pick up the last question on the TRAI directive which we received day before yesterday in terms of refund of the onetime charge for a club membership, which was never supposed to be a migration. We believe that TRAI did not go into the entire facts of the case, but since the issue involves our existing customers, we have decided in line with our main theme of customer delight not to challenge this in any court of law. We have decided to refund as per the direction given by TRAI. The quarter results that have been presented to you have taken into account the refund in its entirety. The entire refund has been provided for, which means the revenue, which was earned in this quarter from the onetime charge, has been completely reversed.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

In terms of the improvement in the margins, well you know, we have always maintained that ours is a business where as revenues grow and as the scale grows the economies of scale do step in because a lot of our expenditure is of fixed nature, and I think our business is clearly demonstrating the benefits of the economies of scale which we are able to get. We are also seeing the benefit coming from the integrated strategy, which we have, our own long distance backbones, both on the national and the international side, and I think all these and the operational efficiencies are contributing too

much better margin. Of course, as Sunil pointed out the fact we have reversed this amount. If we had not had to reverse this amount, it would have looked even better.

Suresh Mahadevan – Lehman Brothers – Hong Kong

I was particularly wondering about the fixed line EBITDA actually, which improved pretty significantly quarter on quarter. Anything in particular contributed to that or apart from, you know, the overall economies of the scale and the integrated nature?

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

I think it is really a combination of many things. The business is getting into a sweet spot, the economies of scale and operational efficiencies kicking in. We are also giving broadband on our fixed line pipes, which is being picked up in a very large measure now, which has improved the margin on the existing copper lines. It is a combination of many things.

Suresh Mahadevan – Lehman Brothers – Hong Kong

Thank you very much.

Kala - Moderator

The next question comes from Mr. Anand Ramachandran, Citigroup, Singapore.

Anand Ramachandran – Citigroup – Singapore

Good afternoon gentlemen. Thanks so much for the call and again let me add my congratulations on the excellent set of results. I guess I just have four quick questions.

Firstly, the ARPUs as Akhil mentioned did very well, down only 1.2% quarter on quarter; however, given the tariff cuts which went into effect, I guess end August or beginning September, I was wondering if could you provide us with some kind of idea on what trends you are seeing as far as ARPUs and MOUs go right now and what we should be expecting may be for the next quarter?

Second question is, again staying on those margins, long distance margins are up from 500 basis points quarter on quarter. I am just wondering if you can provide any specific color on what drives this. Specifically are you accounting for the capacity sale to VSNL here in any form of fashion and if you could have some detail there?

Point number 3, on the mobile margins, I mean existing mobile operations, those were the only margins to probably shrink, although very marginally quarter on quarter, I am wondering if there is anything specific that is driving this?

And lastly Akhil, as you mentioned before the tax rate, I mean I am

totally confused, so any kind of picture on how to put this into our numbers going ahead would be very useful?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Thanks Anand. On the ARPU, well I have always maintained, I think ARPU is a bit of an overrated phenomenon. The fact is if this country has to grow the base from 50 to 200 million, which most analysts today feel can be done in a couple of years' time, I would like to mention that the new customers which will come will give lower ARPUs, so it is most of the time a simple mathematical calculation. Your existing customers, let's say previous quarter had an ARPU of Rs. 515, the new customers, a million, which have been added are obviously most of them low ARPU customers. Therefore, this simple mathematical calculation will give you a slightly lower ARPU. So it is not a matter of worry at all, and I believe that ultimately ARPUs are meant to give financial results. So if we finally look at the results, you will clearly see that the results have been extremely robust. I would not like to give any guidance in terms of ARPUs like any other guidance, which as a matter of principle we do not give, but we are pretty confident that we should be in a pretty good position as far as even the ARPUs are concerned.

On the long distance margins, first of all I must find out that the EBITDA margin has nothing to do with the VSNL sale because that is a sale, which we are amortizing over the 15-year period in our accounts. The margins are good in this business and they are improving because again it is all a fixed cost business. So I think long distance margin is something, which is clearly benefitting from the higher sales.

Sorry, could you repeat the question on the mobile?

Anand Ramachandran – Citigroup – Singapore

On the mobile margins, Akhil, you know that was probably the only segment on existing operations that saw a very slight EBITDA margin decline quarter on quarter.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Right, surprisingly lower, which I think if we were not to reverse the club membership, which we did as Sunil explained, it would have been the same. But I think on a quarter to quarter margin is not what we have in mind because sometimes looking at the competitive intensity and the other seasonal factors, we do step up the gas, for instance, on advertising expenditure. So, I think quarter-to-quarter is not something, which I would feel, is the right thing to look at. The right comparison would be on a slightly larger time frame on a year-to-year basis in terms of the margins, but we are very satisfied with the margin performance on mobile.

Last and not the least is the deferred tax. To be very honest, Anand, I cannot say that I am completely clear in terms of deferred tax calculations either. The fact remains that we have a huge tax holiday with us. We have been discussing it with our auditors. They have gone through the standards and they have made some calculations. To our mind, we do not need to have this big deferred tax expenditure as a provision; however, taking the cautious route, whatever the auditors based on their understanding of the standards have suggested, we have taken, but I can promise you this is something which agitates us too because we believe this is not the right kind of provision on deferred tax expenditure. We would be taking it up again with our auditors and see what we can do, but I cannot of course given any predictions about that.

Anand Ramachandran – Citigroup – Singapore

Fair enough On a quick followup, so I can conclude that you know the tariff cuts that you had, I mean, they do not worry you significantly at all in terms of any trends that you are seeing in the subscriber base right now?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Well the tariff cuts, we are pretty used to it. I mean, last 10 years, we have been seeing this tariff cuts very clearly and are not too worried about them.

Anand Ramachandran – Citigroup – Singapore

Fair enough Thank you so much.

Kala - Moderator

Next in line we have Mr. Alistair Scott from Merrill Lynch, Hong Kong.

Alistair Scott – Merrill Lynch - Hong Kong

Thank you very much indeed and thanks for the call. Anand picked up a couple of my questions, but in terms of the wireless broadband, which you identified as something interesting, just be fascinated to know where you are in terms of studying that opportunity in terms of technology, how you would approach that sector, and to the timetable outline, that would be very interesting.

The second point is if you could just confirm on the Blackberry, is that an exclusive deal with yourselves, and in terms of sort of take off, are you saying this is not sort of what I could describe as a fleet situation, i.e., large bundles or packages being taken up by corporates or is it tending to be more at the individual level. I suppose, if you could just give us your senses to the shape of Capex in the first half, second half, or how you see that trending at the moment.

Thank you very much.

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

Okay, the wireless broadband, a number of trials have been going on within Bharti for the last six to eight months now. We have had UTStarcom, we have had Navini, and we have had some other technologies, which are being looked at. Some commercial applications have also been put into play. The freeing of the spectrum of certain bands now gives us the clear, where with all to approach up large and medium corporate customers to provide them with broadband especially in the absence of unbundling of the local loop. So the attack in broadband from Bharti side has been on our own copper lines, which are in excess of a million now across the country. The MAN, metropolitan area networks, where we have rolled out fiber in many buildings, with the absence of Bharti being present in other key cities with copper and fiber, the only way to now complete the suite of services for most of the corporates was broadband wireless. We believe that this opportunity really now completes our offering into the marketplace. Whether we will go now heavily with the Navini type of proposition in the marketplace or some other technology will be decided in the coming weeks, I would say, but we now have a hook into the large and medium companies through a medium of wireless which is very-very welcome. We will still keep on pushing for the unbundling of local loops so we can go to residential customers also to give them broadband in the future but that is what we have for the moment. Of course, we have put in a lot of hotspots with Wi-Fi in Delhi, Mumbai, and some other places. The results are being watched. We are seeing how the utilization of these hotspots is developing. Given the large and wide infrastructure that we have already rolled out, Bharti is clearly realizing the benefits of efficiencies of what is already put into place and putting in Wi-Fi hotspots are now on an incremental Capex basis, very interesting.

On the Blackberry, it is an exclusive deal. We will, for competitive reasons, not like to give the period but it is in our industry, I would say, is a fairly comfortable period in which we can pick up a large market share. Most of the early direction or early emphasis is on corporates, although surprisingly the number of calls that are landing on our call centers are also from individuals who are wanting to take Blackberry. So it is quite a big buzz that is happening and the number of calls is quite high and even if a small portion of them is to be converted into orders, it is holding a very good promise for us. We have launched both the server-based solutions for Blackberry and web-client-based services for individual customer. So, I think, in a country like India, there will be a lot of small individual customers who may want to use this service as well.

Alistair Scott – Merrill Lynch - Hong Kong

Okay, actually, just on the broadband side, sorry to track

back, just be interested in your assessment as to the PC penetration, and you know, although the number of PCs that are broadband capable as it were, and whether you see that and the distribution of those as an obstacle to the policy or your strategy.

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

Not much I can offer on that accepting that the prices are falling almost all the time and the kit prices that we are now picking up from some of the propriety technologies are extremely low, I would not really worry, you know, too much. At this stage, we really need to complete that trial. We are going to bundle in a lot of stuff into our customers' premises, which are corporate customers, where we can say 20 sites we are putting on wired network but the 10 or 15 which are left out are being done through broadband wireless. So this strategy will really form a holistic piece for Bharti where large customers who may not be coming on to us because of our lack of copper layout in the country will now be brought into the fold because of this.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

On the Capex front, we have spent about \$400 million in the first half. You might recollect that I had stated earlier that the intent is to spend between \$750 million and I would love to spend \$800 million if our people can actually go out and roll more networks. It was a bit of the worrisome situation for us because in the first quarter we could do only about \$110-120 million because of lack of supplies coming our way. I am glad they have been able to pick up the momentum in the second quarter. They have spent \$290 million. We have added more than a thousand sites in more than 200 towns in this quarter. So I am very glad that the roll out of the networks is back on the pace. I would feel that at the current rate I would still go with the estimate of \$750 to \$800 million as the total Capex which seems to be pretty much in line with that.

Alistair Scott – Merrill Lynch - Hong Kong

Thank you very much indeed. Thanks.

Kala - Moderator

The next question comes from Mr. Doe Tien, Alliance Capital, Singapore.

Doe Tien – Alliance Capital – Singapore

Thank you everyone for the call. I just have three questions, Reliance Infocom, reported continued losses in their telecom business last week. Are you seeing any signs of change in strategy from Reliance or any of the other big players?

The second question is just on your access and interconnection fees. Those have come off as a percentage of your gross revenue. If I look back, you were trending at about 23 or 24% in the last two quarters and in the second quarter that has come down to about 20%. What is the reason for that?

The third question is just on electronic reloads again. Is the phenomenon of your electronic reloads having a higher value on an average versus the physical reloads, is that still happening or has that actually converged.

Thank you.

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

Well on the first one, in as far as the question of Reliance is concerned really we would have no comment to offer as to what their strategy is on a go-forward basis.

On the interconnect question, where the interconnect charges have come down by I think about 3% point to 20%, it is largely on the on-net calls which are happening within our customers. As the cloud of Airtel will grow across the territories and as the captive consumption on long distance keeps on happening more and more, our need to pay out to other operators will keep on going down. So this is really truly reflective of the integrated strategy that we had put in place some years back. We always knew that if we can pick up both ends of the spectrum on our own network, we would be able to have better margins for our company. There is no other message here but the good news is that we are now putting more calls within our own network, both the fixed line and mobile.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

On the electronic recharge, yes we do continue to see slightly higher value in terms of recharge. In terms of the actual number of recharges and the value, the value is relatively higher. It continues to be like that.

Doe Tien – Alliance Capital – Singapore

Okay. Thank you.

Kala - Moderator

The next question comes from Mr. Manish Srivastava, ABN AMRO, Singapore

Manish Srivastava – ABN AMRO – Singapore

Thanks for the call and again congratulations on a great set of numbers. I had just one remaining issue here again on the Capex side. Akhil, you just mentioned this quarter has been very-very heartening from Capex perspective and you have been able to spend \$290 million, but really coming back on the capital productivity side which has been a key theme you all have been harping, it has gone down really relative to where you were in the past on whatever metric you see. You said you have rolled out thousand sites which is broadly in line with your quarterly roll out target for the year and the Capex actually is much higher than what would be the average quarterly roll out, or if you look at the number of incremental minutes that have been added on network for each of those, the cost is like almost Rs. 10 a minute versus what you were trending earlier at about Rs. 4 a minute in terms of capacity cost or like even on per sub basis it is double where you are trending at in the past. So would you say that there is a slip back here or is there a longer-term trend here to get worried about or it is just one off here?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Not at all Manish. You have made this analysis, but the fact is this analysis needs to be made over a longer period always. The expenditure which we have, almost \$400 million, includes a lot of work in progress which is there as on September 30, 2004, which is not included in the 1000 sites and the 200 towns. As I mentioned, in the first quarter, we were not able to get all the supplies that we needed from the vendors. Second quarter the supplies came up and I think the momentum has picked up. So it would not be a fair analysis. What I can say is, there is absolutely no escalation of our Capex either in terms of per subscriber or per minute or any parameter, which you see. In fact what we are clearly seeing, but unfortunately I cannot share too much of detail on that, is that with increased activity and increased volumes, we are getting tremendous amount of benefits in terms of costing, even more than what we were expecting earlier. So I would like to dispel any fears in terms of any such things about the Capex going up on a unit basis. In fact, I would like to point out that if you would look at the analysis in terms of the annualized revenue to gross capital or Capex which we have incurred, which we have shared with you earlier, it has been steadily going up. So it is not something, which is a cause of worry, especially when we roll out deeper and we roll out much faster ahead of the plan.

Manish Srivastava – ABN AMRO –Singapore

Just to come back on that, one would have expected that with your new deals with your vendors, typically your Capex would have ended up being more just in time versus what was the situation earlier. What would you comment on that here?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

It is the other way round Manish because my deals with the vendors now allows me the luxury of paying when I start utilizing the capacity physically. I have no reason why it should be just in time. It allows

me the luxury of going out and rolling out very quickly capturing the potential much ahead of time. So we are taking full advantage of that. So even though you see so much of capital expenditure it is not that the payments out of us have been to that extent. So the new contracts are really helping us in very quick roll out.

Manish Srivastava – ABN AMRO –Singapore

Thank you. Thanks Akhil.

Kala - Moderator

The next question comes from Mr. Henry Cobbe of Thames River Capital, London

Henry Cobbe - Thames River Capital — London

Hi, good evening. Thank you very much for the call and the results. My question is just to get at the revenue per minute, where you see that at the end of the year. I think all my other questions have been answered actually.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Sir, could you repeat the question please.

Henry Cobbe - Thames River Capital — London

Just, revenue per minute, where you see that at about the end of the year.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Well, I do not think I would like to give any such information. Revenue per minute, that is certainly something, which, I think in a very converted manner, you can perhaps calculate it but we would not like to give it or definitely not give anything about the projection on the revenue per minute.

Henry Cobbe - Thames River Capital — London

Okay. Another question would just be, you have given the MOU, so it would be really helpful if you could give a breakdown of the traffic of what strength your traffic is on network sensitive to other mobile calls etc. Is that analysis available?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint

Managing Director

No, we do not give that analysis at all.

Henry Cobbe - Thames River Capital — London

Could you say how much your traffic is on net?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Yes, because it would not serve any purpose in terms of any serious analysis because as the mobile cloud becomes equal to the fixed line cloud, I think, and that the interconnect charges are the same except for the on-net traffic.

Henry Cobbe - Thames River Capital — London

So it effectively impacts your profitability basically, so it is quite important.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Well, I think if we look at the overall access and interconnect charges the percentage, which is normally pretty steady, if you look at the mobile business, it is pretty much the same as last time at approximately 20%. I think we are not seeing any change in that at all.

Henry Cobbe - Thames River Capital — London

Okay. Thank you very much indeed.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Thank you.

Kala - Moderator

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

Swati - Moderator

Thank you very much Kala. We will now begin the question and answer interactive session for the Indian participants connected to audio conference service from Airtel. Participants who wish to ask questions may please press star one (*1) on their touchtone-enabled

telephone keypad. On pressing star one (*1), participants will get a chance to present their questions on a first-in-line basis. To ask a question, please press star one (*1) now.

The first question comes from Mr. Sanjeev from Sharekhan, Mumbai. Mr. Sanjeev you may ask your question now.

Sanjeev – Sharekhan – Mumbai

Hi. I just wanted to know how your broadband strategy would get affected by this unbundling not coming into place.

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

First of all, we have our own copper networks in the key cities and in the whole of Madhya Pradesh. Then we have fiber which is now at about 25,000 km running across all major towns and cities and highways and then we have done some intracity networks of fiber in places like Mumbai, Delhi, Chennai, Hyderabad, etc., and as I mentioned earlier, since the unbundling has not happened, this would mean that all high net worth individuals, residential accounts, and corporate customers will have to be dealt with through wireless broadband. We are trialing a number of networks. Some commercial applications have already been done. We have already given a go ahead to our broadband team to look at various technologies and kits that are being offered to ensure that we are up there in the marketplace to provide wireless broadband connectivity in those places where we cannot reach by copper or fiber.

Sanjeev – Sharekhan – Mumbai

But is wireless as good, you know, when you have your large MAN connectivity. Is the broadband...

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

It is truly broadband. I mean, it gives you as much speed and bandwidth as you want. The only question for so many years has been the price per customer on wireless broadband has almost always been higher than a wired broadband solution. The good news is that the price point for wireless broadband has now come down dramatically. It still remains higher than the copper fixed line, but I think knowing BSNL they would have had their own large high charges on unbundling. In any case, I think that the wireless broadband will become a standard for general public and corporate customers in areas where BSNL is not providing them broadband.

Sanjeev – Sharekhan – Mumbai

Can you tell us what will be the difference in the cost in the wireless broadband.

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

I cannot give you that because these bundles or packages will come out hopefully in the next couple of months, and it will really depend on how much bandwidth and what kind of speed we are guarantying to the customers. There will be a number of different bundles and packages on this.

Sanjeev – Sharekhan – Mumbai

Okay, thanks a lot.

Swati - Moderator

Thank you very much, Sir.

The next question comes from Ms. Rohira from Refco-Sify, Mumbai. Ms. Rohira, you may ask your question now.

Rohira – Refco-Sify - Mumbai

Good afternoon, sir. Congratulations on good set of numbers. I have a couple of questions. My first question relates to the composition of data revenues for the consolidated entity. While we have the breakup for the mobile business, if you could give it for the consolidated entity.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

It is approximately in the region of 19-20% of the net revenue on a consolidated basis.

Rohira – Refco-Sify - Mumbai

Which is what, improved by around 1-2% from the last quarter?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Exactly 1.5% improvement over the last quarter.

Rohira – Refco-Sify - Mumbai

Okay. You mentioned on the fact that you know as far as the access and interconnect charges go it is largely on the account of the fact that the Airtel to Airtel calls have been on an increase but have you seen some wide change in terms of the long distance calls as a result of which partly the decline is on account of, you know,

movement towards those calls.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Well, we have always maintained that finally these businesses will be more captive but what we are seeing is that on an overall basis, it is holding up at something about 65% of the captive business and 35% from outside. It is holding there but there has been an improvement on the captive traffic in this period.

Rohira – Refco-Sify - Mumbai

The third question relates to the case of your broadband business. The ARPU increase has been 6% on a QOQ basis, and if you could highlight what composition in this ARPU would be from data revenue vis a vis the last quarter.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Well I think on the fixed line, since we are concentrating on business customers and we are offering them more and more services, we have seen a consistent increase in the ARPUs on the fixed line. That is a part of the strategy.

Rohira – Refco-Sify - Mumbai

Okay, fair enough. Could you comment on the strategy with respect to reducing the churn in the prepaid segment. In this quarter, we saw it is changing from 8.2 to 8.7. Was it largely concentrated on a particular month or was it evenly spread across?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

It is evenly spread, and I think while the churn on the prepaid is a kind of a global phenomenon, what we do find is that it does not hurt us financially by the way because we do not have a large acquisition cost on prepaid customer but our endeavor is to try and bring down the churn consistently. So, we are trying to take steps to curb the churn, but I would not say it is any particular month. This is a consistent effort.

Rohira – Refco-Sify - Mumbai

Okay, and if you could comment on the elasticity in the volume usage post the tariff cuts which we had recently.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint

Managing Director

The nature of this business is there is an inherent elasticity. The minutes of use do go up every time we see the tariff cuts. For instance, between the last quarter and this quarter, it has gone up by 4% from 309 minutes per user to 321 minutes, but the elasticity is something we have been seeing for the last 10 years ever since we started this business. There is a huge amount of elasticity relative to the tariffs which come down. So you are right. There is a big elasticity here.

Rohira – Refco-Sify - Mumbai

Would it imply that this quarter it was actually greater than 1, and would it be, you know, you would see the impact of these recent cuts yet dribbling down for a few quarters.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Well, I have not made really a calculation of whether it was more than 1 or not, but yes on a general trend there is good elasticity and a good correlation; but again as we have seen over the years, I think the increased volume both in terms of minutes of usage as well as the new customers which come up have been making up for the lost tariff. The lower tariffs have actually been showing higher performance at our end consistently.

Rohira – Refco-Sify - Mumbai

Okay, my last question relates to the network costs. You know, this quarter we had 1.44 billion as compared to 1.42 billion. If you could highlight on, you know, the marginal change of this quarter.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

It is principally on the sites that have gone up. We have added nearly 1000 new sites, and it was only natural that some expenses of the network operating cost would go up.

Rohira – Refco-Sify - Mumbai

That is what I am saying. It is 1,444 million this quarter compared to 1,419 million last quarter, so not much change in that.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Well, if you look at the percentage terms and in terms of the trend analysis, the total overall operating expense you see the trend is given on page 28, but I would not be able to really comment on any specific item in the operating expenses. We will have to do some study. We will ask the IR to send you the reply, a detailed one on

that.

Rohira – Refco-Sify - Mumbai

Akhil, If you could just mention, on page 23 which is there, it says 1,444 million as network operating costs and 2,863 for the first half. So that is where I have taken the data point from.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

You are quite right, but that are network and operating expenses, perhaps we will see what all it includes. We will send you some analysis on this.

Rohira – Refco-Sify - Mumbai

Okay, thanks a lot and wish you all the best.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Thank you.

Swati - Moderator

Thank you very much madam.

The next question comes from Mr. Nishit Shah from Birla Mutual Funds, Mumbai.

Mr. Shah, you may ask your question now.

Nishit Shah - Birla Mutual Funds - Mumbai

Hi. Congratulations on a very good set of numbers. My question is on BSNL, if you look at the tariffs, their tariffs are almost 40-50% down compared to the tariffs that other cellular operators including you have, and they seem to be aggressively adding over the last few months and this seems to have also addressed the issue on the capacity. Now, what is your comment, how do you plan to tackle that issue, and do you intend to keep the difference in terms of tariff with BSNL as it is, and if at all BSNL goes to a market share of let's say 35-40% then what is the strategy to counter that.

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

Well, first of all clearly the market is not seeing the difference

and in actual terms the difference is not this large. Having said that, there is a difference between what the tariffs are from our company versus BSNL, and we believe that given the superior customer service that we offer and the new innovative products that we put in the marketplace, some premium is clearly justified. That BSNL has been picking up large customers in the last few months is a well-established fact. They are picking this up more from newer places and smaller towns. As far as Bharti is concerned, we are quite satisfied with the growth that we have seen on our side. We added a million customers in the last quarter, and I see that every time BSNL picks up more customers, it just adds more to the GSM base, which is good news for a company like Bharti which is completely committed to GSM. I also believe that we will be able to, because of our superior service, churn BSNL customers in our favor as we go forward, and I do not see any reason why Bharti would need to be concerned about any increase in market share of BSNL as long as we are improving our market share and leadership position in the marketplace.

Nishit Shah - Birla Mutual Funds - Mumbai

What is the incremental market share at this point in time in the GSM space and the overall space in the cellular networks?

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

Overall on a total basis, we are over 20% on the wireless and nearly 26% on GSM, and we have improved or maintained our position. That means on the net add basis despite the BSNL onslaught Bharti is maintaining its position. I would tend to believe that others are yielding a lot of market share to BSNL.

Nishit Shah - Birla Mutual Funds - Mumbai

Okay, one last thing from my end. The Capex we hear from Akhil, what is the Capex on the next year that you are planning and do you expect the next year to be on net cash positive after the Capex.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Well, I cannot really give you any guidance on the Capex for the next year at this stage. I think it will largely depend on how much we are able to roll out quickly in this year. So may be by the end of this year we will be in a much better position to comment on that. As regards the free cash flows, well as a matter of principle we do not give any guidance. So, unfortunately, I would not be able to say anything on that.

Nishit Shah - Birla Mutual Funds - Mumbai

Okay fine, thanks a lot.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Thank you.

Swati - Moderator

Thank you very much sir.

The next question comes from Mr. Sanjay from Kotak Securities, Mumbai.

Mr. Sanjay you may ask your question now.

Sanjay - Kotak Securities - Mumbai

Good afternoon everybody. Congratulations on a good set of results. I have four quick questions.

One is that the SMS revenues as a percentage of total revenues have really gone up over the last couple of quarters. If you could just give some color on that in terms of may be pricing, volume, and may be the mix also.

Second question is if I look at your Capex in your existing circle, which is close to Rs. 9 billion, what percentage of Capex, is Capex on EDGE related upgrade.

My third question is if you could just help us understand a bit on the net finance cost. I can see Rs. 495 million of income on that side which has been netted off against the financial expenses.

My fourth question is related to tax. The current tax expense is again negative, like it was in the first quarter as well. So, if you could just help us understand that bit also.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Thanks Mr. Sanjay.

On the SMS, very clearly this is one area which has been our focus. We are seeing a huge growth in the volumes in this. There is no significant erosion on the prices, and that is why the percentage of contribution from SMS towards the total revenue is increasing, and we are pretty happy that it is increasing. Unfortunately, because in our country the tariffs on the voice are very low, therefore this percentage is not going up to the percentages which we have seen in other countries like Philippines for instance, but I think we are pretty satisfied with the way there has been a growth on SMS.

Sanjay - Kotak Securities - Mumbai

In terms of mix, I mean, is there any peer to application kind of SMS which is picking up or it is only peer-to-peer.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

It is only peer-to-peer.

Sanjay - Kotak Securities - Mumbai

Okay.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

On the Capex, the EDGE related is more or less inbuilt in our network; therefore, there is nothing significant about the EDGE deployment in terms of the Capex, absolutely negligible. On net finance cost, you know there is this standard called IS-39 that we have to account for the derivative accounting for the derivative which we take. As you know most of the foreign exchange exposure we have is hedged. In this quarter, there has been very little movement from Rs. 46.02 to Rs. 46.0 in terms of the rupee-dollar parity. Every time that happens on the IS-39 there is a profit if the rupee does not depreciate. So, I think this is again one of those things, which we have to follow the International Standard 39 on account of movement in the foreign exchange.

Sanjay - Kotak Securities - Mumbai

But Akhil, how much of this Rs 495 million of income is linked to the OCRD's given to Shyam.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Nothing. Negligible. Nothing at all. Virtually nothing.

Sanjay - Kotak Securities - Mumbai

Okay.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

The last one was on tax. The current tax is negative as in the last quarter but that was mainly on account of the fact that on March 31st we had to make a provision for tax on the current basis but once Bharti mobile got merged into Bharti cellular that was reversed, so to that extent this reversal has taken place in this quarter as well.

Sanjay - Kotak Securities - Mumbai

But, I presume the reversal of about Rs. 600 million happened in the first quarter itself. In this quarter if I look at, again there is Rs. 237 million of income. Is there any other reversal coming in here?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

No there is no other reversal going to come in now, but what has happened is that because of certain mergers and because of the way under the Income Tax Act it has to be set off again the brought forward losses and the depreciation. It is as a result of that calculation.

Sanjay - Kotak Securities - Mumbai

To work out the reversal number, can I just, may be, estimate the MAT on your PBT and just add this amount. Would it be a fair way to work out?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

I think the normal MAT is roughly about 7.5% of the book profit that is normal MAT.

Sanjay - Kotak Securities - Mumbai

Right. So the reversal number would perhaps be or is it close to Rs 550 million?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

It could be around that. Yes, you are right. It should be something around that.

Sanjay - Kotak Securities - Mumbai

Okay. Thank you very much.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Thanks.

Swati - Moderator

Thank you very much sir.

The next question comes from Mr. Lalitabh from Mata Securities, Mumbai.

Mr. Lalitabh, you may ask your question now.

Lalitabh - Mata Securities - Mumbai

Hello.

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

Yes.

Lalitabh - Mata Securities - Mumbai

Am I audible sir?

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

Yes.

Lalitabh - Mata Securities - Mumbai

Good evening sir. Congratulations on a very good set of numbers. I just wanted to ask that this quarter you took a very critical decision to give away some operations of yours to IBM. That was a very important partnership you developed. So, can you please throw some light as to how that relationship is paying off and how do you expect that to add to your future value? Thank you.

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

Well of course this was done prior to the quarter that we are talking about, but nevertheless, I think IBM outsourcing deal is one of the most tracked and talked about IT outsourcing deal in the telecom fraternity across the world. We are picking up great traction on account of this partnership. There are different facets of this partnership, one is the IT piece itself where we have transferred about 250 of Bharti people into IBM, and IBM is now, completely, right from my desktop to the most complex piece of IT, is managing Bharti's IT affairs. They have put in a lot of hardware, upgraded the entire network, put in a middleware and done a complete new network architecture to ensure that the huge growth that Bharti is witnessing is in place. The second part is that IBM uses Bharti as a preferred telecom vendor, which means that most of their telecom needs are met by Bharti. The third one is the partnership that we have developed on joint go to market basis where both Bharti and IBM go and attract large corporate customers and win deals in the

market. There have been a number of wins in the market on a joint telecom-IT basis between Bharti and IBM. The coming week should see some very large orders we have picked up from the marketplace.

Lalitabh - Mata Securities - Mumbai

Thank you.

Swati - Moderator

Thank you very much sir.

The next question comes from Mr. Sheriar Irani from IDBI capital.

Mr. Sheriar Irani, you may ask your question now.

Sheriar Irani - IDBI capital.

Hi. Thanks. My question has already been answered, but I would like to take this opportunity to congratulate Bharti on an excellent set of results. Thanks.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Thanks Sheriar.

Swati - Moderator

Thank you very much sir.

The next question comes from Mr. Ronie Ganguly from J P Morgan, Mumbai.

Mr. Ganguly, you may ask your question now.

Ronie Ganguly - J P Morgan - Mumbai

Hi, good afternoon and congratulations to the management on an excellent set of numbers. Two questions; one, the marketing expenses seem to have gone up a little too much. Is it because of the festival season and we can expect it to come back or these are the levels where we expect them to be stabilized.

The second question is, on the network side, what is the kind of capacity utilization of the network right now and what is the reach that the company expects in terms of number of towns, the current number and the number that the company expects to go by the end of March 2005.

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

Well, on the marketing expenses, clearly there was a big burst of activity in the last quarter. The Hello Tunes which is the ring back tones service, we added much higher gross adds. We added a net add of over a million. All this does increase the marketing expense. Depending on how the current quarter moves on gross adds and net adds, and how the new innovative activities take place, the marketing expenditure could change one way or the other. Typically, in this industry marketing expenses do tend to perk up in certain months, and the last quarter did see a lot of activity around marketing which is not very unusual.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

On the capacity utilization, well as a matter of principle, we like to maintain it around 70% and we do consistently maintain it around that level. We are currently close to about 2,000 towns now, and we are rapidly adding to those towns. I cannot at this stage disclose how many towns we will reach by the 31st of March, but all that I can say is that we are very rapidly adding to the number of towns.

Ronie Ganguly - J P Morgan - Mumbai

Okay. Thanks a lot.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Thank you.

Swati - Moderator

Thank you very much sir.

The next question comes from Mr. Srinivas Rao from ENAM Securities, Mumbai.

Mr. Rao, you may ask your question now.

Srinivas Rao - ENAM Securities - Mumbai.

Hello this is Srinivas here. I just have three questions. One, on your long distance business, is the NLD part of it largely driven by your own subscribers or is there any external other operator taking advantage of that. Secondly, on BSNL, which has made fairly aggressive noises or even tenders on the DSL roll out, will it impact your broadband plan. Thirdly, on the broadband itself, will spectrum have any issues for you since you are going to roll out wireless broadband.

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

Well I think on the NLD, principally the captive market is increasing by the day and we are quite pleased about that because that is all on-net calls which remain with us. The percentage of captive is about 65%, and 35% still comes from other operators, mostly other mobile operators. On the BSNL DSL roll out front, since the local loop is not available to the other operators, it really does not matter. It is good if they can put in DSL in place then these customers will get used to a better experience of broadband. It offers really no obstruct to our copper lines and DSL. Our copper offering is significantly superior to what BSNL or MTNL have been providing in every which way. It is only a matter of regret that we cannot access their copper lines otherwise we could have picked up a large amount of their customers. So we can leave that for the moment, and as far as our own DSL customers are concerned, it is highly-highly unlikely that they will ever look at any other offering in the marketplace being a very satisfied lot. On the wireless broadband, the spectrum has been released now. There is enough spectrum which will be available to the players. I do not see a major issue. Most of these are going to be confined to shorter areas of spectrum. As you know, there are two bands cleared, one for inbuilding and one for outdoor. There will be enough spectrum available to launch large scale wireless broadband services.

Srinivas Rao - ENAM Securities - Mumbai.

Thank you very much sir.

Swati – Moderator

Thank you very much sir.

The next question comes from Mr. Raj Mohan from Chennai.

Mr. Mohan, you may ask your question now.

Raj Mohan - Chennai

Congratulations once more to the Bharti management on a wonderful set of numbers. I have most of my questions answered, just a couple of them remaining. The first one is that the subscriber base increased a bit more in the month of September post the tariffs cuts than the previous month. Will it be sort of logical to assume that with BSNL deepening its reach, it is bound to benefit a big player like Bharti in the GSM space, which is also deepening its own reach?

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

We are already seeing the benefits of BSNL feeding the

market in small towns and highway areas, and wherever we have followed and gone, we have picked up a large amount of customers. So, I think what BSNL gained out of people like us in the past in the urban areas is now being returned to us in the suburban areas. For example, in Jammu & Kashmir when we went we had 54,000 signed postpaid customers on day one. That was only possible because BSNL had gone in there, people knew about mobile phones and some hundred thousand odd were already using it. I would tend to agree with you that it is really positive that BSNL is going ahead of us in some of these marginal areas and we are going and covering them now later on.

Raj Mohan - Chennai

Yeah, that is very heartening. The second question is the elimination of the inter usage charges showed a steep increase and reached about Rs. 228 crores for this quarter. What is the reason for that?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director

Well, I think there is more traffic in between as we mentioned earlier. The captive traffic has increased and I think some increase would have taken place on account of that.

Raj Mohan - Chennai

Okay. Thanks and all the best for the future.

Swati - Moderator

Thank you very much sir.

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

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

Thank you, it has been a pleasure for all of us here at Bharti to host this call and talk to all our existing and potential investors. We have had a great quarter. I hope to be back with you when we have our next quarter. We believe we are in a strong position to meet all the challenges in the marketplace. We are growing our network rapidly. Hopefully that should result in more customers coming in. We remain very optimistic about the Indian Telecom Scenario. The GDP growth is likely to be fairly robust. The economy is looking good despite the oil prices going up. We hope that we will be able to carve out our own share from the marketplace in a significant manner. I would like to, at this point in time, thank each and everybody who have stayed with us on this call.

Thank you very much.

Swati – Moderator

Ladies and gentleman, this concludes the earnings call. You may now disconnect your lines. Thank you for connecting to Audio conference service from Airtel. Have a nice evening.

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