

Earnings Conference Call

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Earnings Conference Call

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Bharti Airtel Limited First Quarter Ended June 30, 2009
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Presentation**Hina - Moderator**

Good afternoon ladies and gentlemen, I am Hina, the moderator for this conference. Welcome to the Bharti Airtel Limited First Quarter ended June 30, 2009, Earnings Call. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for all the participants on this call. Present with us on the call today is the senior leadership team of Bharti Airtel Limited. We propose to commence this call with opening remarks by Mr. Akhil Gupta and Mr. Manoj Kohli after which the floor will be open for the question and answer session.

Before I hand over the call to Mr. Gupta, I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risks that we face.

I now hand over the call to Mr. Akhil Gupta. Thank you and over to you, Mr. Gupta.

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

Good afternoon and, on behalf of all my colleagues here, a very hearty and warm welcome to each one of you for joining us on this call. All of us are very pleased and satisfied with our performance in the first quarter that has ended on June 30. I think it has been a great beginning to the new year of 2009-2010, also a very historic quarter. This is the quarter, which we had been waiting for, for a long time. As you know, we have crossed the 100 million customer mark, not only in terms of the total customers, but also on the mobile in this quarter and that puts us as the only third operator in the whole world to have in-country customers exceeding 100 million. The two other operators being the Chinese operators and this I think provides not only Bharti Airtel but the Indian Telecom Industry a very unique and a very prestigious and revered place at the high table amongst all telecom operators globally.

The growth in the quarter is something, which has been very gratifying. We had recorded net ads of over 8.5 million for this quarter. More important, the growth in traffic, which had experienced a little bit of a lull perhaps as a result of bit of economic slowdown, bounced back in this quarter. We had over 10 billion minutes added, which in terms of our business model, is a very significant mark, a very strong growth in the net revenue. Obviously you would have seen that the top line growth is lower, which I think, Manoj and Sanjay would explain because of the termination charges coming down, but the net revenue is very strong. We have improved profitability as you can see. I think it is a matter, which we all know that what has happened on the telecom industry in India in the last 15 years is very clearly something, which is nothing short of a true revolution. We are very proud that we had been given the opportunity to lead this revolution along with our other colleagues in this industry, but what is even more satisfying today is that this revolution has already now entered according to us into the second phase, which is moving beyond the cities to the hinterland, to the villages, to every nook and corner of this country touching what is truly the ordinary man and it is a matter of great pride, great privilege and a great satisfaction for all of us at Airtel that this time around we are not only leading this second phase, but I think we are very strongly leading it or perhaps much more stronger than what we were in the first phase, and we have no doubt that this revolution and this spreading out of telecom into the other parts of the country is what is going to be the catalyst for tremendous economic growth which this country will see. As you know, we now cover over 82% of the total population, over 425,000 towns and villages. Almost all the census towns are now under our coverage. We have roughly about 100,000 base stations today and what is most important is that we are no longer, as an industry, dependent on growth coming from select few cities. Over 60% of

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our net adds come from outside the main 30-40 cities. I am told by Sanjay that 54% of our total net adds come from the rural subscribers now. I think that is something, which is wonderful news for telecom industry because this inclusive growth is what will sustain the growth for many, many more years to come.

Our new businesses, which we started last year, have been doing well. They are growing at a very fast pace, whether it is DTH, whether it is our new operations in Sri Lanka or the passive infrastructure companies. We have seen some good operating efficiencies and capital efficiencies mostly because of tremendous execution capabilities which our teams have displayed, but also as a result of the strategic steps, which we have been taking well ahead of time. One big instance of that has been our decision to suo moto allow sharing of passive infrastructure with our competitors. A bold move that we feel and absolutely correct move, what is now showing are the results not only in terms of lowering our own costs but also the cost of our competitors and besides that also kicking in actual profits for us in this business. The CapEx efficiencies are resulting into significant free cash flows, which I think Srikanth would be speaking about answering some of your questions. We have seen solid improvements in HR productivity and more importantly on customer satisfaction and employee satisfaction scores. We are constantly looking at new streams of revenue whether it is more and more applications on value added services where we have been the innovators and the first to introduce new applications. M-commerce focus, focus on money transfer, solutions for corporate large customers, solutions for SMBs that is the small and medium businesses are things which we are focusing on because these are the segments which will grow and which will provide additional revenues to us.

I think in summary a very satisfying quarter. The environment remains challenging. It is very intense competition as you know, but as I mentioned earlier I think the focus of our Indian economy, which has been amplified by the recent union budget on rural areas, our own focus in terms of growth into every part of the country will see us sustaining our growth. We are, as you know, extremely well positioned not only in terms of our execution capabilities but our inherent balance sheet sense and I am sure that since the environment is challenging for everybody we should be coming out with flying colors in quarters to come.

Let me hand over now to Manoj to give you little more detail on the quarter.

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel Ltd

Thank you, Akhil. I would like to welcome all participants on the call today. Before I share the company's performance details with you, I would like to recap that in the last quarter Indian telecom sector has witnessed sustained growth with addition of 35 million mobile customers taking the total mobile market to 425 million and the total telecom market inclusive of fixed line, broadband, etc., to 465 million. Not only the competitive intensity is peaking now, we are also observing some other shifts in the market. As Akhil said, the rural and semi-urban markets are growing like never before and thus validating the rural thrust and the investments made by Bharti in

the last three years. Also the consumer sentiment in retail markets is building up and we expect that by the second half of the year the economy will be achieving higher growth rates. This will surely be bolstered by Government of India's recent budget focus on demand stimulation and rural thrust.

Now moving to company's performance, I am pleased to highlight that we recorded a strong performance in the quarter in a highly competitive market. Our customer base increased to 105 million with addition of 8.5 million last quarter, the strongest ever by our company. The mobile segment itself went up to 102.4 million customers and Telemedia at 2.8 million customers. Our company leads the market, both on wireless customer market share and revenue market share. We have been able to maintain the customer market share at 24% despite strong competitive headwinds. Our brand scores are also showing healthy trends despite these competitive moves.

Few other operational highlights of the quarter; the company carried total of more than 160 billion minutes on its network up by 31% year-on-year. This quarter, of course, as Akhil said, we added more than 10 billion minutes on our networks on the mobile side, which is very gratifying, which shows that the new rural customers are also picking up on their usage. The total number of sites at the end of the period was over 96,000 and with strong presence in all census towns and over 423,000 non-census towns and villages; we cover over 82% of India's population. As you must have seen there has been a decline in mobile ARPU from Rs. 305 last quarter to Rs. 278 this quarter. This has been largely due to revision of MTC-Mobile Termination Charge from 30 paise to 20 paise. The impact of this revision on ARPU was approximately Rs. 12 for the period. Even with increased competitive intensity the MOUs are 478, which are lower by about 7 minutes only despite adding close to two million rural customers every month.

Now I will move to the financial performance of the company. The consolidated revenue for the quarter is Rs. 99.4 billion representing a growth of 17% compared to the same quarter last year. The impact of MTC reduction from 0.30 paise to 0.20 paise had an adverse impact on gross revenues of about 3.6 billion, while the impact of net revenue was a marginal impact of 100 million. The consolidated EBITDA stands at 41.5 billion experiencing a growth of 18% compared to the same quarter last year. The EBITDA margin for the quarter was 41.8, which is a clear pointer to our improving cost efficiencies and productivity in all parameters of network, manpower and other cost heads.

Moving on to finance cost, the net finance income for the quarter was 2.6 billion comprising of 2.5 billion of Forex and derivative gains. During the quarter, the rupee strengthened against US dollar by 6% and against Japanese Yen by 3.6%. These resulted in Forex and derivative gains. The net income before tax for the quarter was Rs. 30 billion. The income tax expenses, expense was 4.4 billion comprising of 6.8 billion of current tax and 2.4 billion of deferred tax income. As you are aware the recent finance bill has proposed an increase in MAT from 11.33% to 16.99%. After considering MAT credits we estimate this could have had impact of increasing our effective tax rate by about 2% points. Together with higher tax impact on Forex gains of the quarter the effective tax

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rate for this quarter has increased to 14.8%. The net income for the quarter was 25 billion and the consolidated CapEx for the quarter was 27 billion.

In closing, I would like to reiterate that as the market and competitive landscape changes in the next few quarters, our management team will continue to focus on superior execution of network, distribution and service along with creating a youthful and distinct brand for achieving a higher wallet share of all Indian customers. I will now hand over the floor back to Hina for the Q&A session. Thank you.

Hina – Moderator

Thank you very much sir. We will now begin the question and answer interactive session for all the participants who are connected to the audio conference service from Airtel. Participants who wish to ask questions may please press "" "1" on their touchtone enabled telephone keypad. On pressing "" "1" participants will get a chance to present their questions on a first-in-line basis. To ask a question participants may please press "" "1" now. The first question comes from Mr. Tim Storey from JP Morgan, Hong Kong. Mr. Storey, you may ask your question now.

Tim Storey - JP Morgan - Hong Kong

Thank you very much for hosting today's call. I had just a macro question regarding the environment for regulatory change. Obviously with the new government, I am curious on your thoughts of the implications of perhaps the medium term policy outlook for this sector. I guess in particular given the number of licenses in the markets what you see possibly changing in terms of the possibility with M&A activity and would you be interested in participating in that, you know, would be one of the things, I will be curious, but anything on the potential change on the regulatory policy front in the next two years and your thoughts and that will be great. Thank you.

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

I think a lot is being written these days about possible regulatory changes. We are all watching it. Government is discussing it with the industry players and the industry associations. Without commenting on what is going on or what could happen all I would say is there is likelihood of some M&A policy coming out. At this point I would say we have no plans for any M&A in India.

Tim Storey - JP Morgan - Hong Kong

Thank you.

Hina – Moderator

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

Rahul Singh - Citigroup - Mumbai

Thank you and good afternoon everyone. I have three questions. Firstly on the minutes of usage, if you can just highlight if there is any, because I remember this quarter, you used to highlight seasonality as one of the factors, if you still see that as one of the reasons for the continued drift downwards or is it because of competitive issues that we continue to see MOU per subscriber going down and this is especially on the back of last quarter MOU going down which was also because of lower number of days, and this quarter had higher number of days. The second question is on the revenue per operator if you look for Bharti Infratel, revenue per tenant operator that has moved up quite materially this quarter from about Rs. 33,000 per month to Rs. 36,000 per month, so any reason why that should happen because if the tenancy goes up that should actually be going down and lastly on the share of profits in joint venture that is again a positive number this quarter so is it because of Indus turning net positive or what exactly is leading to that? Thanks.

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

This is Akhil. Let me take the last question about Infratel and JV and then on minutes of use, I will ask Atul to run that. On the JV, yes, the difference is on account of Indus turning into net profits and that is what the difference you see. On Infratel, I am not exactly sure why this has gone up, I think it was because of some loading charges, which were pending earlier but I will have to really come back to you with some details on this.

Rahul Singh - Citigroup - Mumbai

Just to follow up on that could the same thing have happened for Indus also in this quarter?

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

As you said normally with the increase in tenancy this should not happen, so I will certainly come back to you on this.

Atul Bindal - President - Mobile Services - Bharti Airtel Ltd

Rahul, hi this is Atul here. Just to take your first question on the minutes of use, first of all at a macro level as you are aware there was healthy growth which continued, we are now standing at around approximately 140.7 billion minutes with over 10 billion minutes of additional usage and consumption which we saw happening this quarter. If you were to look at the MOUs per sub, we are today at 478 on a per customer basis which compares with 485 and therefore there is a 7 minutes of usage per sub difference that we are talking about here. Basically you know there are two factors, which are playing here, number one is rural thrust. What we are seeing is that our rural thrust is resulting in terms of a large number of customers with a healthy and profitable operation that they are bringing in. But in terms of minutes accretion, billing up to the same level that has been normally in an urban consumption that

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takes quarters before they start firing at them, so that is one thing which is continuing to happen, just that as we had shared last quarter as well with a couple of new operators come in there are a large number of free minutes which are floating around in the market. There is a certain part of customer base which is constantly in a somewhat promiscuous stage, think of best deals and garage sales and you know obviously some of the minutes therefore get arbitrated away. What we have also seen is that as and when these freebie offers go away, these minutes tend to migrate back to our customer base and they are loyal to us.

Rahul Singh - Citigroup - Mumbai

So, you would not attribute too much to seasonality here.

Atul Bindal - President - Mobile Services - Bharti Airtel Ltd

You know if you look at seasonality that is something, which for this sector happens much more somewhat later in the year. I would say at least in the first quarter there is nothing, which we have seen, if you notice, it is the second quarter normally which tends to go through a little bit of downturn before the industry starts picking up.

Rahul Singh - Citigroup - Mumbai

Okay, thanks a lot everyone.

Hina – Moderator

Thank you, Mr. Singh. The next question comes from Mr. Sachin Gupta from Nomura Securities, Singapore. Mr. Gupta, you may ask your question now.

Sachin Gupta – Nomura Securities – Singapore

Yes, thanks very much. I just got a couple of questions. Firstly, it is only minor, but it is a second consecutive quarter we have seen a postpaid subscriber drop. I just wanted to understand what is driving this subscriber drop in postpaid and secondly if I have the numbers correctly, I think using the adjusted ARPU would be 290, so that implies that 61 paise prices, so if you look at that that is a drop of 2 paise from March quarter, but the termination rates have dropped 10 paise, so was just wondering if there is a risk that basically could see most of the termination drop you can pass on to consumers though the prices could drop in the second set of one to two quarters and my third question I guess is just looking at the net adds, you mentioned that 60% of the net adds are coming from rural India, was wondering if there is any clarity on what sort of revenues or profitability that is generating. The reason I ask that if you look at the asset turnover that seems to be dropping. Is that just a function of more expansion in rural India please. Thanks.

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

Let me just take up the last point because on the capital productivity falling it is nothing to do with the rural India thing because that is as you can see clearly is very profitable. The reason why that is falling is because as you know because of termination charges the top line has gone away to the extent of those termination charges, which I believe is about 350 crores or something this quarter slightly less than that. If you annualize that and that is the reason for that drop, but it has nothing to do with rural subscribers not being profitable.

Atul Bindal - President - Mobile Services - Bharti Airtel Ltd

Hi Sachin, this is Atul again. Let me just also build on the third question what Akhil responded to just now, in fact net of MTC impact on capital productivity would have actually got firmed up and therefore actually there is no correlation with what we are seeing as a rural thrust. As a matter of fact, the rural thrust is also helping us extract utilization of rapid spending stations much better. Going back to your first question on the postpaid, we have a very focused and targeted strategy around postpaid. Obviously, in terms of the new customers that we have seen come on to the network those are predominantly prepaid customers. Given the cost to serve the postpaid customers, we are right now targeted on serving postpaid customers in a small set of large towns and that too across the target audiences of B2B, SMB, and then the high-end retail. We believe we have a strategy which pivots around value-added services as well as giving them very high class of customer service through our platinum call centers and other such strategic interventions and we would continue to have ring-fencing program around all such postpaid customers. The second question, which you asked, was with respect to the rate and the ARPU. If you look at our realized rates this quarter, again a large part of that is really happening on account of the MTC and then basically you are left with a 2 paise drop, so by and large we have been able to hold our rates while still driving both the customer gross adds and new customer addition on the network as well as minutes of use. Also during this quarter, in order to hold and retain and grow the usage of high-end customers, we have been running programs which have been focused around long distance as well international long distance, so there is a little bit of play which we are also seeing because of that.

Sachin Gupta – Nomura Securities – Singapore

Can I just ask obviously the termination rate, they dropped 10 paise and it looks like the effective pass through is only 2 paise? Is that a risk from a regulatory standpoint?

Sanjay Kapoor - Deputy CEO - Bharti Airtel Ltd

Sachin, it is not that the full 10 paise will go to the market. There is an incoming ratio and an outgoing ratio and as an average a company like ours would net off the two. It will be almost close to 50:50. There will be a minor gap between the two, that is why you see an MTC difference, but there is no question of passing this on to any customer.

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Customer does not even get to see this rate of 10 paise. It is just between operators. This settlement happens between operators.

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel Ltd

And finally the tariff decline, which is seen in the market place for the last many years has no linkages. The termination charges, that continues independent.

Sachin Gupta – Nomura Securities – Singapore

Thank you very much.

Hina – Moderator

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

Shubham Majumdar - Macquarie Capital – Mumbai

Thank you for the opportunity. I have three questions. One would be on if you could just relate to us once more, you have given those numbers out in bits and pieces but if you just could just give us at one go what exactly will be the impact on ARPU which I have gotten is at 290 on ARPM and if you could give us some sense of how net ARPUs will trend at in the wireless business? If you could get the impact of MTC at one go and second, the broadband and fixed line business we are seeing continued slide in ARPUs even while you are looking at a very selective market penetration strategy in that business, so just want to understand why that is happening and secondly if there is any likelihood of turning up with more services being put through to households and customers and third would essentially be in terms of profitability of the business going forward, we have seen significant movements in the EBITDA margin in the wireless business and also for other business in the last couple of quarters. Where do you think EBITDA margin basically sustains at this level or does it actually potentially move up as new network roll out and starts to slow down, significantly. Thanks.

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel Ltd

Okay, Shubham let me take the third question first on profitability. Very frankly, we are very satisfied with our profitability, EBITDA being in the 40s, so we believe that with such competitive intensity and tariff erosion, if we are able to maintain that kind of profitability, it is good news for us and we really feel that it is important that we continue to offer affordability to customers so that we can build more customers, build more revenues in future. On the first and second question, I will request Atul and Srinu to share details with you.

Atul Bindal - President - Mobile Services - Bharti Airtel Ltd

Shubham, hi, this is Atul. Let us just move step by step. If you look at our ARPU it is standing at 278, so on the face of it you are seeing actually a drop of Rs. 27 vis-à-vis 305, which was there in Q4. This Rs. 27 is made up of two parts, there is Rs. 12, which is on account of MTC impact which would actually take this 278 to therefore 290 and Rs. 15 is balance drop that you are actually seeing. If you were to also divide this overall variable into MOU/subscriber as well as rate, so on MOUs per sub you are seeing 7 minutes decline from 485 minutes per sub to 478 minutes per sub and on rates we have actually come down from 63 paise to 58.2 paise, so therefore there is a rate decline of 4.8 paise, out of this 4.8 paise, there is 2.6 paise once again which is on account of MTC which would actually take this rate back up to 60.8 and therefore the delta between 63 and 60.8 will leave you with 2.2 paise which is a real drop which you are seeing this quarter, so in effect therefore what explains this gap is number one MTC, number two, as we said earlier, our rural drive and therefore the time that these customers are taking on the network to mature to those minutes, number three a little bit of free minutes arbitrage because of the new operators coming in and so on and number four I would just believe that also as an important input that we are obviously now smartly diluting both MOUs versus the rate all the time and you know choosing where we need to participate in the market, wherever we want to drive affordability as a strategy, go and ensure that we are deploying those tools but not necessarily picking up and fighting with the free minutes just for the heck of it because as I said earlier, we have found that whenever these deals run their time out the customers do return back to their preferred network providers.

K Srinivas - Joint President – Telemedia

Hi Shubham, this is Srinu here. On your third question on the Telemedia revenue, basically there are two components for this. One component is pretty much like in case with mobile where the termination cost which has actually dropped from 30 paise per minute to 20 paise per minute, there is an impact of that on gross revenue. The second one, of course, is on the B2B segment which is pretty significant for Telemedia business, there has been a little soft in the last quarter or so, so these two things fundamentally have had an impact on the overall Telemedia revenue, but having said that, if you really look at the B2C segment, the broadband, the DSL and the data revenues, that thrust continues to be very robust and those revenues continue to be pretty good.

Shubham Majumdar - Macquarie Capital – Mumbai

If you would allow me to just put in a couple of quick follow on, one is are you seeing any impact of the weaker macro economy on minutes elasticity in addition to the points that you just mentioned given that rate declines in the sector overall and for you over the last six months have been pretty strong, what are you thinking in terms of minutes elasticity on a per shop basis over a three-four quarter time frame, probably not on a one quarter time frame, but probably a little medium term and two would be could you just quantify the kind of losses you are running on the DTH business at this point in time as that business ramps up?

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Sanjay Kapoor - Deputy CEO - Bharti Airtel Ltd

Okay, let me give a shot to both your questions. First on the DTH, we are not in a position to reveal any sector wise results over there, so I will hold my statement for that for some time. On overall economic scenario and the meltdown what I would say is that we have said in the past that elasticities in the market are choosy and segment driven. It is not that elasticities do not exist in the market, but they are rather selective now, so that is what Atul was trying to explain in that there are positions that we take and there are positions that we do not take and it purely depends on which segment we believe has the elasticity and which segment we do not believe has the elasticity, so that is how we play the portfolio game now but generally the sort of elasticity that existed probably a couple of years back does not exist in the system anymore and I ensure you this is nothing to do with the meltdown per se, it is that an Indian customer uses his telephony much more than many of the parts of the world. We are just next to Puerto Rico and United States and the consumption is fairly high, so elasticities are not easy to be found, you got to be selective.

Shubham Majumdar - Macquarie Capital - Mumbai

Okay. Thank you.

Hina - Moderator

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

Suresh Mahadevan - UBS Securities - Mumbai

Yeah, good afternoon, congrats on crossing the 100 million mobile subscribers mark in the last quarter. I had three quick questions. One is could you give us some idea of the next milestones in the potential MTN transaction. We understand there is an exclusive period. So, assuming this deals go through, what are the next milestones in terms of regulatory approvals etc., I think it will be good for the benefit of everyone on the call. Second question I have is how is Bharti's management viewing 3G. Is it as an opportunity to basically get more spectrum or do you think there is a structural case we can make for 3G as such in terms of wireless broadband etc., so wanted to hear your thoughts in terms of how you think about it and the third question is a little bit detail oriented question. Even ignoring your derivatives and FX gains, I think net interest income seems to be around 10.5 crores despite having around 47.8 billion of net debt, so I just wanted to understand how that is happening? Thank you.

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

Suresh, let me take the first one concerning MTN transaction. Well, unfortunately the short answer to your question is that no, I cannot give you any details on this. As you know, we would have loved to give you a complete roadmap and everything which we could have shared with you, unfortunately, the rules and the norms do not permit me to share, so at this point all I can say with respect to MTN or any question related to that is that the talks are on but we are not in a position to really divulge any further details.

Sanjay Kapoor - Deputy CEO - Bharti Airtel Ltd

Suresh, the next question that you had was on the 3G. World over, voice continues to be the stickiest application on 3G and in a spectrum-starved country like India, it will continue to be one of the sticky applications, so the answer is not that straight forward but obviously voice will always be one of the stickiest in revenue generating options for operators like us who operate in virtually every nook and corner of the country including big cities where we have a very large customer base, but this will also be our opportunity to connect rest of the country and the broadband users through a wireless medium, so I think both will play a role. We cannot divulge any more details than that because it will be comparative in nature.

Srikanth Balachandran - Chief Financial Officer - Bharti Airtel Ltd

Suresh, as far as the net interest income is concerned, if you actually look at the kind of items which go into the net interest cost or income, there are two types of things. One is the fixed interest bearing kind of security and the other one is where you hold it till the date of maturity or till the date of sale and book your profit and if you do not sell it again at the end of the quarter you just mark it to the market, so the line on interest is not just the reflection of the actual interest earned in the security, it is also a reflection of the valuation of the marked to market that we have carried out at the end of the quarter, so that is how it flows through and it happens to be just 10 crores difference over the last quarter but otherwise on the net cash generation of 1500 crores over the quarter, of course it has produced net debt because we can see that the short-term investments have indeed gone up.

Suresh Mahadevan - UBS Securities - Mumbai

Okay, thank you.

Hina - Moderator

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

Vinay Jai Singh - Morgan Stanley - Mumbai

Thank you so much. I have about four questions. Firstly on the cost, the impressive reduction in cost

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on the interconnect, clearly understood by your higher on-net calls, but network costs have gone up to about 18.3%, sales and marketing costs have also moved up by about 120 basis points. Where do you see these two costs in the next two to three years if you could give us some guidance on that. Secondly, a micro question, Manoj did suggest effective tax rate has gone up by about 2%, is this 15% tax rate a reasonable estimate to take in the longer term or should we take 17. Third question, your other losses in your EBITDA division have increased to about 2.1 billion, can you throw some light as to you know what do we look at it going ahead and finally in the enterprise business fantastic margins, no revenue growth, if you can throw some light out there, thank you.

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel Ltd

Okay, Vinay, I will start with the cost question and I will request Srikanth to take over the tax issue. Let me tell you, we are quite optimistic on cost efficiency projects we have taken up, network in particular the tower sharing is already going up, as you know the Infratel has gone up to 1.43 sharing, Indus has gone up to 1.55 sharing, the network cost definitely will get more efficient. Sales and distribution is one cost, which actually is very competitive. It is market lead, so I really cannot say how much competitive, but we are trying our best to optimize it because our distributor volumes are much, much bigger than any other company of the country, so clearly distributors are giving a preference to Airtel Brand, working with Airtel, not only for one product, but also for multiple products, so both these large costs I think will get far more efficient in the quarters to come.

Vinay Jai Singh – Morgan Stanley – Mumbai

Manoj, before that just again on the network cost, if I take you back one year, one year ago, it was 14.5%, if I take you back two years it was 11.5% and you know before that it was in the same range of 11-12%, so it has kind of gone up by 7-8%.

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

Yes, Vinay, I think one of the main reasons for that is Indus, because as you know under US GAAP, we are only doing equity accounting for Indus and therefore the charges, which we pay to Indus on some 50,000-55,000 base stations, which we have from them appear in our network expenses and do not get eliminated in the consolidation. My guess would be and I will ask Srikanth and Manoj to come in; I think what we are now seeing is a normalized kind of charge for us. So, I would say this is the kind of percentage we should be looking at.

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel Ltd

I think except for last quarter, Q1 have the highest heat and highest level of power outages, so it leads

to higher cost of diesel generators, so fuel cost may have gone up a bit, but otherwise our efficiencies are definitely going up quarter by quarter.

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

But are you aware Vinay that one year back this was not the case?

Vinay Jai Singh - Morgan Stanley - Mumbai

Sure sir, I mean I was bothered about the last quarter because even last quarter you gave the same reason and now it is up again 100 basis points but you are saying this is more of a steady state.

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

No, I do not think so.

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel Ltd

Okay, on the tax question, Srikanth will address.

Srikanth Balachandran - Chief Financial Officer - Bharti Airtel Ltd

Vinay as far as the tax is concerned there are two developments in this particular quarter, one of them is an ongoing development, which is the minimum alternate tax, it has gone from 11.33% to 16.99%. In terms of the tax payments that we have been making for the last few years, the actual tax outflows are in the nature of MAT, but also if you look at the way the tax provisions are made it recognizes the MAT payment, which is let us say at 16.99% now versus the 11.33% before, but we do consider in the deferred tax line in the US GAAP accounts the credits that are available on account of the MAT payments that we have made and these credits as you know extend to 10 years, so up to 10 years if there are years in which we come out of the tax holidays and our actual tax rates go beyond the MAT, we would indeed be availing these MAT credits. So, at this point in time, the cash outflow is 16.99 but we have the credit in the books of taking a deferred tax asset to the extent of the MAT credit that we estimate to gain back during the period of the remaining 10 years. So, the net effective tax rate that you see is a combined effect of both.

Vinay Jai Singh - Morgan Stanley – Mumbai

Sure sir. Thank you.

David Nishball - President - Enterprise Services - Bharti Airtel Ltd

On the enterprise question, let me try to answer the technical part of that question first. I am sure you are all probably tired of hearing about MTC charges, but

that actually had very a significant impact on both the revenue and the EBITDA in exactly the direction that you discussed. Let me just talk about normalization of that first and then let us go on to the other issues that are impacting both the growth and the EBITDA margin in the enterprise space. So the termination charges also impact the enterprise business in a sense that we are carrying all the national long distance business for the group, so as those termination charges go down our top line is reduced by exactly the same amount and the EBITDA margin by a mathematical equation goes up with the same middle line and a lower top line. So if you take a look at the impact of that there is about a 115 crores impact on the enterprise books from the mobile termination charge in Q1 versus Q4. When you normalize for that the growth rate goes from a -1% up to about a 5% quarter-on-quarter. If you look at on a year-on-year basis it has about a 10% change when you include both the ADC reduction versus one year ago, which is also captive charge like MTC and normalizing that takes you to about 19% on a year-on-year growth basis. Again, the exact opposite of that happens on the EBITDA margins, so if you look at the EBITDA margin, the MTC contributed 2.5% to EBITDA margin on a quarter-on-quarter basis, so a 3.5% increase of EBITDA margin on the enterprise books, 2.5% of that was coming from the MTC alone and when you look at the EBIT line 2.1% out of the 2.1% increase, in fact a 100% of that change was in MTC. If you look on a year-on-year basis it is basically the same kind of story, so about 4% of year-on-year EBITDA improvement out of the total 4.8% that is reported is due to the combination of MTC and an access deficit charge on EBIT line is 3.3% out of 3.3%, so I think that basically ties up those numbers for you.

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel Ltd

Okay, Vinay, I hope you are satisfied with that.

Vinay Jai Singh - Morgan Stanley - Mumbai

Sure sir. Just a last question on other losses in the EBITDA division; EBITDA for the other businesses?

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel Ltd

Okay, here we have mix of many, many new projects, our corporate office expenses, DTH, shared services, many, many things, so we really cannot give you a breakup of this, but I can say one thing as the new projects take off the revenues will grow up and as the gestation period is over I think we will have better results here.

Vinay Jai Singh - Morgan Stanley - Mumbai

Sure sir. Thank you so much.

Hina - Moderator

Thank you, Mr. Jai Singh. The next question comes from Mr. Pankaj Kapoor from RBS Equities, Mumbai. Mr. Kapoor, you may ask your question now.

Pankaj Kapoor - RBS Equities - Mumbai

Thank you. Actually three questions; first you spoke of the rural market getting traction, so if you can give some more color on that in terms of the usage pattern, specifically what would be the differential between the MOUs that you see between the rural and the urban users and further on that if there is a trend that you are seeing in terms of the differential narrowing over a period of time and if indeed that happens over what timeframe typically that we can see that. Second question is a clarification if there is any kind of impact of INR appreciation above the EBITDA line. Third, if you can share any thought you have on the possible response to some of the players shifting to per second billing rates. Thanks.

Atul Bindal - President - Mobile Services - Bharti Airtel Ltd

Hi Pankaj, this is Atul again. Let me just take the first and the third question that you asked. First of all in rural while it would not be possible for us to share, you know, specific figures and concrete details but as you are aware we have over 4.2 lakh non-census towns and villages that we cover today and essentially our rural thrust is build around five key pillars, one is obviously distribution excellence and we have over 1.2 million outlets and that is the number which goes on increasing. To the sales and distribution outlets, we have now added service centers so that the rural customer gets service in a self-contained kind of way within his community of movement and it is also a cost efficiency driver for us because that much fewer calls at the call center. We also have relationship and a JV with IFFCO through which we are driving 50,000 cooperative societies that they have and access to millions of customers and that is working out quite well. We have handset bundling and alliance with various device partners, which is also helping us to take us deep into the rural fold and finally we have micro financing partnerships and thereby ensuring that it is not just a one-off outlay that the customer has to incur but, you know, he can kind of pay us in a deferred base. As I said earlier, the rural business is a healthy profitable business for us, but obviously if you were to ask with the same kind of MOU per sub buildup does take some time; our observation has been that its penetration and, you know, brand which works very close to the customer really helps us to drive this growth forward and as the rural community starts building up and the proliferation takes place, consumption automatically starts picking up, so, you know, that is the trend we have seen repeatedly market after market as far as the rural people are concerned and what I can also share is that our market share in the rural part of the country is much healthier of course as compared to let us say what our early market shares were, so we are continuing to do very well.

Regarding your third question on per second billing price, quite frankly it would not be possible for me to comment on what any individual operator practices, but obviously, you know, every new act in town comes at a lower price and, you know, whatever you might call as an innovation, we have a strategy, we continue to build and drive the strategy and as a part of that strategy what we have seen is that around the sweet spots where our customers like to make calls in terms of the duration of call and length of call our

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pricing plans and our value propositions are very finely positioned there and you know what we have also seen over the last few quarters as even newer operators and newer circles have come in is that there is a deal seeker / promiscuous customer segment which is constantly looking for whatever is the best price or bargain shopping and they would move to wherever garage sale is taking place and as soon as the period ends, that set of customers also tend to migrate back and so on. So that is really our take in general on pricing, but otherwise we are still focused on our strategy.

Srikanth Balachandran - Chief Financial Officer - Bharti Airtel Ltd

Pankaj as far as the impact of the INR appreciation above the EBITDA is concerned, I would say in the internal substance not much of an impact. You know, there should be quite an impact on fuel prices and of course, you know, the fuel prices are more administered in this country rather than just a reflection of the global commodity prices and the dollar prices, but certainly fuel prices if there is a link to the INR, I am sure there would be an impact on our network operating cost and as far as the other lines on the P&L are concerned, there could be some small impact on the roaming revenue and the cost, but they are more or less even out each other, so I do not think we should count any impact of that. On the international outgoing calls, there could be an impact on the access charges that we pay to the operators in other countries, but you know what happens really, you know, there is a very competitive PCO segment, which really benchmarks the rate, it rates to the daily dollar, so they get evened out, so really speaking none of that really remains in the operator's P&L over here back in India, you know, it washes out in the kind of cutthroat rates that are determined every day by the PCO, so net-net I do not think we should count too much of the INR appreciation even if it happens.

Pankaj Kapoor - RBS Equities - Mumbai

Fair enough sir. If I can just ask one more question on my earlier one on the rural side. Is there any differential in terms of the elasticity that you see to the price between the rural and urban? Elasticity of course has been declining on a blended basis, but are you finding the rural customers are more elastic to increasing the usage if the tariff comes down, so that in case the tariff continues at line that could be a trigger for the usage to go up?

Atul Bindal - President - Mobile Services - Bharti Airtel Ltd

Pankaj, we need to really differentiate among three things, you know, there is price elasticity, there is price sensitivity and there is just driving of adoption rate, okay. You know, we have high-end customers where again it is not price elasticity, but they are obviously price sensitive and that is, you know, going back to my earlier comment that is where we have been ensuring that there are usage and retention stimulating offers, which would ensure that our high-end base actually continues to stay and reside. There is driving of adoption rate, which is really what is happening in rural, you know, it is very well

coordinated and an orchestrated program, it is not just the sales drive for us, where using the five levers that I explained to you earlier, what we are really trying to drive is from the current 13%/14% penetration that the rural market sits at how can we actually help to do that and I think that is really the job in the role of a category leader, and finally yes, there are some other smaller towns, category C circles where we continue to see price elasticity and rural market where of course if needed we would play a pricing strategy to ensure that they pick up more and more MOUs as a result of that.

Sanjay Kapoor - Deputy CEO - Bharti Airtel Ltd

Pankaj one last thing and you need to keep this in mind as we get down to rural India we are getting down to towns where the penetration could be as low as 1%, 2%, 3%, and the ecosystem that is there is a very small ecosystem where people just do not have enough opportunity to call each other. As the penetration in these towns begin to increase, devoid of the price change the usage begins to pickup and we have easily seen that in any one of these towns between 15% to 20% change begins to happen over a 12 to 15 month period, so that is not elasticity but that is just creating an ecosystem, which builds up the usage.

Pankaj Kapoor - RBS Equities - Mumbai

Fair enough. Thank you sir and that is all from my side.

Hina - Moderator

Thank you Mr. Kapoor. The next question comes from Mr. Rajiv Sharma from HSBC, Mumbai. Mr. Sharma, you may ask your question now.

Rajiv Sharma - HSBC - Mumbai

Thanks for the opportunity. I have three questions. One, I understand that you know DOT has stopped releasing 2G spectrum, so in how many circles you would need additional spectrum and how does any further release being stopped affects your subscriber group. Two, if you can give some color on the Alcatel JV and how this could impact the earnings over the next three to four quarters. Will this mean a change in your strategy or you will just penetrate deep in the existing market, so you will move away from cherry picking. Three, a little longer term question but do you think that no handset subsidy model in a scenario of 3G can work in India? That is it. Thank you.

Sanjay Kapoor - Deputy CEO - Bharti Airtel Ltd

Your first question is around the number of circles. Well, we have been getting spectrums in the past and we have been lucky enough to have additional spectrum in many circles that we had applied for. Currently as you speak to us, applications where we are eligible are pending in about eight circles. This opportunity does not bring to a standstill the number of customers that we can bring in and the experience, it only means a little bit of differentiated

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network planning and putting in more CapEx at some places for better customer experience, so I think that is the only difference. We have not reached a stage where the networks are getting slogged and any additional investment is only solicited in some limited CBDs and big cities, it is not all over the place. So that is really, you know, what is happening on this account. I cannot give you the details of where all, you know, but subsequently somebody from our IR group can come back and give you that information.

Atul Bindal - President - Mobile Services - Bharti Airtel Ltd

Rajiv, on handset subsidy for 3G, you know, I do not think it is a point of conjecture, right now quite frankly in India as you are aware handset manufacturers have their own sales and distribution systems. It is a good practice that the customers really look at their handset and the service provider as a bundle from time to time and that is something which as a part of acquisition and retention strategy we will continue to provide, but as of now we do not see any marked change as we go forward. That is a piece, which obviously you would bear in mind, with the tariffs being where they are, there is hardly that kind of elbowroom, which is normally there available in other markets, which would allow bundle or subsidize the handset.

K Srinivas - Joint President - Telemedia

Hi Rajiv, this is Srini here. Your last question was Alcatel-Lucent JV. The formation of this JV is exactly in line with our strategy of actually outsourcing key activities to the best in each field, you know, in the entire fixed line broad band space as you are aware Alcatel-Lucent is clearly the world leader. Now in terms of our own strategy of what we want to do and where we want to go, that does not change even one bit if at all I think Alcatel-Lucent JV enhances our capability to actually serve our customers better and help us to actually transform our network into massive IP network, I mean that is the direction it is moving, so in terms of operations, it has absolutely no impact on the adverse side if at all it is a massive positive upside.

Rajiv Sharma - HSBC - Mumbai

Thank you very much, just a small follow-up question. This is for Sanjay. Is there any change in the CapEx guidance because of spectrum difficulties and if you could just run through what is the CapEx guidance for this fiscal?

Sanjay Kapoor - Deputy CEO - Bharti Airtel Ltd

You know we had said at the beginning of the year that \$2.2 billion is what we will spend and this does not include the expenditure for the tower company and at the end of first quarter we see no room for any revision on that.

Rajiv Sharma - HSBC - Mumbai

Thank you very much.

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

This 2.2 did not include 3G.

Rajiv Sharma - HSBC – Mumbai

Thanks a lot.

Hina - Moderator

Thank you, Mr. Sharma. The next question comes from Ms. Reena Verma from Merrill Lynch, Mumbai. Ms. Verma, you may ask your question now.

Reena Verma - Merrill Lynch - Mumbai

Hi, thank you very much for the call, just a couple of small questions. One is on your CapEx composition. Can you please just throw some light on why wireless CapEx is trending down even after the passive infra spinoff. Is it you need less capacity in terms of minutes or what exactly is happening there? Also related to that is the network rollout pace, both in Bharti Infratel and in Indus. You know, we have seen a dramatic reduction in the number of owned sites rolled out in this quarter. So is it that Infratel has more or less reached its desired coverage target? Also you know, what is keeping Indus rollout at the pace, which is almost half of the pace at which Bharti was rolling out couple of months ago. Those are the questions on CapEx. On mobility margins, I would be very grateful if Sanjay could please breakup for us the margin impact ex-MTC just as David did in his elaboration on the enterprise margins and just if you would be kind enough to offer quick word on WiMax auctions. What do you think about it, the desirability of it. I mean should one build in both WiMax and 3G when one looks at Bharti going forward. That is it. Thank you.

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

Reena, on the CapEx, Infratel, Indus, I think these are all really related. What is very clearly happening is that in the first quarter at least and I do not know how this spans out in the future, I think we really saw many operators especially the leading operators like Airtel, Vodafone, Idea, one thing to consolidate what all they have built and try and maximize the utilization and see the quality of the networks going up and therefore there was a little less emphasis in this quarter on doing more land coverage, which is to my mind a temporary phase, I think we are trying to consolidate and that is why you saw some numbers being slow. I think the whole passive infrastructure piece is a bit into a consolidation and taking stocks stage and I do believe that these numbers will go up in times to come, but this was a quarter where I think deliberately the operators have been trying to take stock as they strive for more efficiencies and more productivity to really take stock where they are and to have a good planning as to where they should be expanding, where the site should come up and that is why we are all waiting as to what are the readymade sites wherever they want to go vis-a-vis

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new sites happening. That obviously has also resulted in the CapEx percentage of Airtel coming down in this quarter. On WiMax, well, you know, these will be coming up for auction whether it is WiMax or 3G, you would appreciate we would not like to discuss our plans, we would have a strategy, but obviously for competitive purposes, we would not be able to share our plans on that.

Reena Verma - Merrill Lynch - Mumbai

Wireless CapEx. If you can please comment on why the wireless CapEx towers...

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

You have lesser towers, you obviously have lesser active electronic networks also to be put on those.

Atul Bindal - President - Mobile Services - Bharti Airtel Ltd

Reena this is Atul here just to take your question on the EBITDA on the mobile side. There is approximately 1% margin impact on account of MTC, so on the sales it is 33% for the segment and if you were to bill the MTC impact, it will be down to 32%, which is what would compare with 31.5% on a sequential quarter-on-quarter basis.

Reena Verma - Merrill Lynch - Mumbai

On a quarter-on-quarter basis there is a 50 bps improvement in wireless margins like-to-like?

Sanjay Kapoor - Deputy CEO - Bharti Airtel Ltd

Out of that 1.5%, 1% gets explained by MTC and the balance was a true increase.

Reena Verma - Merrill Lynch - Mumbai

Thank you very much sir.

Hina - Moderator

Thank you Ms. Verma. Ladies and Gentleman, due to the constraints of time we are not able to entertain any further questions. This brings us to the end of the question and answer session. I would now hand over the call proceedings to Mr. Manoj Kohli for the final remarks.

Manoj Kohli - CEO & Joint Managing Director - Bharti Airtel Ltd

I just wanted to thank all participants at the end of this call to really have asked lot of good questions and a lot of good analysis. We really look forward to again talking to you on Q2 results and all the best.

Hina - Moderator

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Ladies and Gentlemen, this concludes the earnings call. You may now disconnect your line. Thank you for connecting to audio conference service from Airtel. Have a pleasant evening.

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