Earnings Conference Call Transcript

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PRESENTATION

Sanya - Moderator

Good afternoon ladies and gentlemen, I am Sanya, the moderator for this conference.Welcome to Bharti Airtel Limited, second quarter ended September 30, 2013 earnings call.For the duration of the presentation, all participant lines will be in the listen-only mode.After the presentation, the question and answer session will be conducted for all the participants on this call.Present with us on the call today is the senior leadership team of Bharti Airtel Limited.Before I hand over the call, I must remind you that the overview and discussions today may include certain forward looking statements that must be viewed in conjunction with the risks that we face.I now hand over the call to our first speaker of the day Mr. Sarvjit Singh Dhillon.Thank you and over to Mr. Dhillon!

Sarvjit Singh Dhillon - Group Chief Financial Officer - Bharti Enterprises Limited

Thank you very much, good afternoon and good morning wherever you are in the world today and thank you for joining us for our results announcement and earnings call for the quarter ended September 30, 2013.

On the call with me today are Gopal and Nilanjan from India, we have Manoj and Hans from our International Operations and Srikanth and Harjeet from both Finance and Treasury, and so the full management team is present today.

Let me just go on to a few elements which are around the business itself starting up with regulation. As you know for many months now the industry continued as far as regulation is concerned in a very dynamic period.We are seeing some early signs of regulatory clarity in mergers with the recommendations by the TRAI, whether it is on spectrum pricing, auction, trading and any similar kind of proposals.

We hope likewise that we will see in the telecom department a final roadmap for auctions and for the new telecom policy which holds a sustainable market discovered reserve price for spectrum and a balanced and financially viable policy framework as far as entities are concerned. It will actually contribute to uplift the industry actually from a difficult phase that it has been going through in the last few years. What is more important that whatever framework we see, we see as far as auctions are concerned would describe as a win-win, the win-win should be for all stakeholders, whether that is the consumers, the governments and obviously the industry as well. Mostly the spectrum trading has been given some kind of a principal nod by nod by the telecom commission and it's a shot in the arm and positive or favorable stance as I would say towards the sector. All in all we see some kind of positive stroke taking place. Having said that as you know we still have a number of issues which are floating around whether it is one time fees, 3G ICR issues, penalties in to the sector, all sitting is some form of jurisdiction or judicial process and I would say a fairly balanced approach as far as the regulation is concerned, some positive strokes, some issues which are still floating around.

Just moving on from regulation now to the quarter itself, the highlights for the quarter in terms of the events for the company, firstly and not in particular order, Moody’s has assigned investment grade rating for Bharti Airtel and that is equivalent to an investor grade like I said, it is the second investment grade rating for the company with a favorable outlook also by Fitch.That actually puts us at par into the Moody’s credit rating of India.Second area which is I think something we have already mentioned in the last few quarters is the final closure on Qualcomm. As you may know we are now taking up 100% of the equity shares in all the four BWA licenses of Qualcomm. With these licenses, we now have eight licenses enablement in the country and it puts us in a leadership position as far as portfolio of 2G, 3G and 4G.I think what is particularly interesting is that from the three elements of spectrum 2G, 3G and 4G, I would call data hungry market in India particularly Delhi, Mumbai, and Bangalore and we will be offering the whole portfolio, we have started offering the whole portfolio, this as a market size in itself is equivalent to many countries in the world, that is something we are looking forward to over the next six to twelve months, as to how we can get these three actually supporting our portfolio of voice and data market. The third one is Bangladesh.3G auctions took place in the quarter in Bangladesh as you may be aware. We acquired 5 MHz of 3G spectrum at 2100 bands and Bangladesh in itself is a huge market, it is the densest market of the world.I think that is something where we should be able to leverage it going forward over the next few years quite aggressively, is my guess.Those three points actually are key events for the quarter. From a market point of view, I am not sure if I'm going to say much different from what I have said in the last few quarters as far as the Indian scene is concerned anyway. We continue to see some positive market movement, that despite seasonality which is customary for mobiles businesses especially in the second quarter, we have seen a very sustained performance through Q2 operating level anyway. I would like to reiterate though that input cost in the sector is still huge.We talked about and have started to talk about whether its energy, whether its maintenance costs which are replacement cost, OpEx or CapEx over the billions that we have invested and we will continue to invest either in maintenance CapEx or data network across all our geographies. Having said that and as a result of that actually especially with inflationary pressures in addition to what I just mentioned about input costs, it's imperative that pricing power continues to return to the operators and we have pricing stability and indeed we are seeing and have seen over the last couple of quarters from a market point of view initial signs of price-up slips which have gone through to a certain extent also in Q2.For Airtel India itself, voice RPM has improved by 0.35 paise and we are watching this and seeing that it continues to improve and based upon what I mentioned earlier it is critical for the viability of the sector in itself. The other area coupled with that actually continues to eliminate what we call the wasteful leakages in the system rather than price rises this would be eliminating discounting & discounting minutes, the value diluting minutes actually as well as the other part of the equation which is ensuring that we have prudent acquisition policies and processes which result in quality acquisition of customers and reducing churn, so these elements are very, very important I would say going forward so far in the last couple of quarters you have seen early signs but a long, long way to go.

Going back on one other point I think which is a continuous story and a nice story I guess on the data side, it still continues and it is strong focus area for the company both in India and Africa, you have seen in this quarter on the India side data customers have crossed 50 million, that is nearly one in four users about 26% of the base.Mobile internet revenues this quarter have grown healthily and 84% year on year.Indeed, in this quarter data revenues in India crossed a 1000 Crores, data consumption allied with that is also increasing at triple digits year on year and the story in Africa is likewise no different with non-voice contributing at 18% of overall revenues and over 26% using some form of data with data traffic also having doubled year-on-year and revenues almost at 80-90%.So our focus continues to remain also on 3G services in Africa.We are now at the end of this quarter we are in 14 countries with some form of 3G services.

Airtel m-commerce's offering under Airtel money is also now coming through as far as African market is concerned, in all 17 countries, which are reaching out to the impacted population.The total customer base using Airtel money platform increased by 35% on a quarter-to-quarter basis, transactions increased by 70% and today the value of transactions actually conducted using this platform is somewhere around $867 million, that is an increase of 93% on a quarter on quarter basis, so we are seeing Airtel Money glancing up as a product offering.What is more important on this is really the drive for policy of customer base coupled with retention and the reduction of churn is where the real value comes as far as lifetime value of the customer is concerned providing Airtel Money as an alternative to the basic product and you have seen this quarter's growth as well as revenue growth in the Africa and the quarter financials reflecting I would say an inherited potential in what is today probably the world's most promising continent for telecom services.

That was on market perspective.I think we will just move on now to the results for quarter on quarter.Global consolidated revenue for the quarter were over Rs. 213 billion that is a year on year growth of 10% and sequential growth of 5%.If you recall for the corresponding period last year and this is especially relevant for analysts I guess who are on the call, we did have one time revenue recognition of 586 Crores resulting in a higher PBT and net income of 344 Crores and 238 Crores respectively.When you do look at the results please bear that in mind as a comparative for apple to apple comparison for the one time that we had in Q2 of FY'13 which is September last year.If you actually backup that one time revenue impact adjusting for the same the year-on-year growth of top line is 13.3% and you can probably do the same for the two other parameters I mentioned PBT and PAT.

Moving on consolidated EBITDA was at 68 billion that is year-on-year growth of 15% and sequentially Q-o-Q growth of 4%.The EBITDA margin for the quarter was at 32%, with a growth of 140 basis points over the same period last year. Consolidated EBIT was a very healthy 29 billion that is a year on year growth of 29%.Cash profit from operations before derivatives and exchange fluctuations for the quarter is Rs. 55 billion representing a growth of 10% year on year.

As you know below the line EBIT we have seen some hits in the quarter, firstly the Indian rupee sliding by 5% on exit to exit basis which is a record low, that sharp rupee decline has resulted in the company accounting a surcharge of Rs. 3.5 billion on forex movement.At the same time as the RBI also took measures to strengthen the rupees resulted in significant rise in interest rates in the country and widening of the bond yields and that has given a marked-to-market loss on our term investment.So these two factors that you will need to consider although may be not necessarily cash items as far as business is concerned.During the quarter, we also recorded a charge of Rs. 890 million arising from a new regulatory levy in one of our international operations. This is not normal trading business and hence has been recorded as an exceptional item although it has been accounted for obviously.We do not think it is sustainable, but we disclosed as an exceptional item and obviously therefore it adversely impacted the net income by Rs. 343 million.

The consolidated net income for the quarter before these exceptional items came in at 5.4 billion, as compared to 7.2 billion the corresponding period last year.Exceptional items to the quarter came in at 5.1 billion and if you normalize for the mark to market and forex that would have been higher by 5.5 billion and please do look at what we have recorded as a one time last year as well if you are trying to do some comparatives.

On the capital front Q2 we invested about $340 million.That takes us to about $750 million for the first half of the year.At the moment I think we will continue with the guidance that we have given for FY'14 which is $2 billion to $2.2 billion and that would probably from a rupee depreciation point of view fall up a little bit and my guess is that we will probably give more color as to what we think will have in half year probably in January end when we will have a best picture of the full year, recent changes from that and also what we are looking at for possible investment for the FY'15 year as well.

On the balance sheet the company had a net debt of US 9.7 billion, at the end of September the net debt to EBITDA on LTM basis was 2.18, it is down from 2.59 in the corresponding period last year, as you know last quarter it is actually apart from sustained cash accruals and equity infusion last year.

We will move on to the segments now.As far as India is concerned the focus on improving realized rate continues and this has been the second sequential quarter when the rate volume mix continue to tilt in our favor with us reporting like I said earlier 0.35 paise voice realization increase and then like I said with market conditions where they are we hope to see that sustenance going forward as a key strategic initiative by the company.Having said that Q2 has been a seasonally weak quarter as far as minutes of growth are concerned, we saw this slightly go off by 3%.I do not think from my point of view there is any meaningful negative elasticity.We will carry on monitoring this trend, we are sitting in India in the seasonal season subject to certain weather conditions on the east I think we should see that it could impact a little bit.

VLR customers sustained at 95% in Q2 which is amongst the highest in the industry which indicates superior quality of customers. Churn at 3.3% is also one of the lowest in the industry.I mentioned it earlier as well data continued to perform very well with an increase of over 10.4 billion due to improving operating metrics.On data growth very, this is very clearly the pillar that we are looking at going forward.

On our other businesses, enterprise business grew by 20% quarter on quarter on the back of strong data and global voice revenues.I think that also holds well for the fact that we are an integrated operator and can leverage across our various business lines for the core network to sweat the asset.DTH business has also added a strong customer base, it is important to note that ARPU is nearly Rs.200 now at a very healthy level and churn has also declined by may be half on a year on year basis which again shows that the quality focus of the organization in driving quality base and revenue mix.Telemedia business has now got nearly 60% of revenues coming from data services which again show the kind of widening base of revenues that are coming from not just voice revenues.

Just moving on to Africa now, Africa grew revenues by 5.4% quarter on quarter and that stands at $1,119 billion and net revenues which is actually the underlying performance reflection and the $934 million actually has increased this quarter by 5.5% over the last quarter which actually is strengthening our Africa performance quarter on quarter.Total minutes on network to Africa were 27.8 billion compared to 23.6 billion in the corresponding quarter last year that is showing a year-on-year growth of nearly 18%.Same story on data like I mentioned earlier has been registering a steady growth quarter after quarter and has increased 26% of the total customer base and now data has long contribution of 6.6% of revenue and when you see the result the key operating net indicators such as customer net ads, voice and data traffic, price realization are all going to see what we think is a steady improvement.

The other aspect on Africa is the tower company story.All the tower companies formation has taken place in 17 countries & operationalized and first objective here is clearly in a continent where tower and passive infrastructure is disproportionally higher the CapEx versus India and operating expenditure especially on energy being higher than India it makes even more sense to drive share through economies of scale and that moment of sharing is not picking up.

On South Asia the business continue to be EBITDA positive, South Asia being non-India mostly and it continues to strengthen the market share there as well.

Before I handover, may be just a couple of points on the tower infrastructure business, as you may be aware the results came out a couple of days ago, total tower base is at 82,476 and collocations are 159,997, proportionately.The sharing factor is now 1.93.Consolidated revenues for the quarter were 12.6 billion.Since the last quarter Airtel is now following an equity count in the consolidation so you probably would not see quarter to quarter comparison which is like to like, I think as you move forward in the next two to three quarters you will see that coming back into play as a normal growth level rather than just an accounting adjustment which took place for that is why you see a EBITDA being flat because of the IRDA merger in the last quarter.I think that is the little background on the business.What we will do now is probably hand it back over to the operator for a Q&A session.

Sanya - 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.Due to time constraints we would request if you could limit the number of questions to two to enable more participation hence management will take only two questions to ensure maximum participation.Participants who wish to ask questions may please press "*" and "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. Srinivas Rao from Deutsche Bank Mumbai.Mr. Rao you may ask your question now.

Srinivas Rao - Deutsche Bank - Mumbai

Thank you very much Sir.My first question is on your India mobile business. For now two quarters you have seen EBITDA at the level of around INR37 billion, INR38 billion, which is obviously higher than what we have seen practically over the previous eight quarters and which was in the INR 31 billion to INR 33 billion range. So the question is, I mean is this the new EBITDA table which we can look forward to in the medium term? That would be my first question. My second question is actually on your cash flows there is a very large movement in a line called other financial and non-financial assets, if you could tell us what that is, that will be helpful?

Gopal Vittal – Chief Executive Officer – Bharti Airtel Limited

Okay I think what you have seen Srinivas just let me take the first part of your question.EBITDA margin Q2, 33.5% up around 130 basis points and if you look at it the last two quarters have been around that level which has marginally come up 130 basis points this quarter.I would say it is a function of three things, the increase in RPM that we have seen in the first half, our calibrated volume that we have actually got as a consequence of the RPM, so there has been some elasticity but it is not meaningful, data growth and a very tight focus on cost, so I would look at this as something that does not have any one off and it is more or less sustainable.

Srikanth Balachander - Chief Financial Officer- Bharti Airtel Limited

Regarding your question on the financial and other non-financial assets if you look at between the two quarters which is the previous quarter and this quarter there has not been much of a movement 13.2 billion rupees in the previous quarter has moved to 14.9 and 22.86 billion rupees has moved to 23.26, so I am not sure if I got the question right on why there are large movement because we do not see the large movement between the previous quarter and now Srini.

Srinivas Rao - Deutsche Bank Mumbai – Analyst

Okay. Sorry. It is in the cash flow statement where you have this particular line just above cash generated from operation which is other financial and non-financial assets. That number was a negative INR 34 billion last quarter in the first quarter and it is a positive INR 31.5 billion contributing significantly to the cash flow from operations?

Srikanth Balachander - Chief Financial Officer- Bharti Airtel Limited

This is little bit of reclassification of the loan that we have given to the erstwhile subsidiary of Qualcomm before it became a subsidiary so you will see the matching outflow in the loan to associates and the matching inflow in the other financial and non-financial assets, so this is actually a contra entry, just an accounting presentation it is not actually either a big inflow or an outflow.

Srinivas Rao - Deutsche Bank Mumbai – Analyst

Okay fair enough, thank you Sir this is very helpful.Thanks.

Sanya-Moderator

Thank you very much Sir.The next question comes from Mr. Kunal Vohra from BNP Paribas Mumbai.Mr. Vohra you may ask your question now.

Kunal Vohra - BNP Paribas Mumbai - Analyst

Thanks for the opportunity and congrats for a good set of numbers. My first question is on the data pricing strategy. What we are seeing is on 2G data the prices had been raised from 100 to 125 and I think this quarter early in October operators have raised 2G data prices to 155 levels, just wanted to get a sense of strategy, are you trying lower the arbitrage between 2G and 3G pricing and how the customers have been reacting to this price move? That is question number one. And second one was on your expectations of industry minutes growth going forward. Urban areas are largely saturated, even rural voice I think high-end customers already would have adopted voice services. So where do you see the minutes growth coming from especially with the voice prices being reached. So these are the two questions. Thanks.

Gopal Vittal – Chief Executive Officer – Bharti Airtel Limited

Okay Kunal let me take both those questions, on 2G firstly 2G data at 155 which is the price that you are referring to is also unsustainable because at that price extremely low sort of price that we operate at, at the end of the day data is fungible can be used on 2G or 3G, in our view at this point in time there still is room to move up 2G data prices and bring it more or less in line with 3G because in the longer term 2G and 3G actually is the same thing it is just use of data.As far as minutes is concerned if you look at the last few quarters you will find that the industry minutes growth is in the ballpark 5% to 6% and we do not see any reason for this to change dramatically in the near future.

Kunal Vohra - BNP Paribas Mumbai - Analyst

Just one follow-up sir. Now the incumbent 2G data pricing is at premium to some of the competitors 3G data pricing. Are you seeing any impact of this?

Gopal Vittal – Chief Executive Officer – Bharti Airtel Limited

It is too early to say that and in some cases some of our competitors do not have very strong 3G networks as well.They also have very empty 3G network and not very strong 3G networks.It is too early to see that there is any impact, a good example would be actually what has happened on where the Supreme Court verdict went or the ICR arrangements actually got changed with the verdict and you will see there that while 3G revenue has dipped in those kinds of markets it has not had any serious impact on churn and customers leaving the network.

Kunal Vohra - BNP Paribas Mumbai - Analyst

Okay great thank you sir.

Sanya-Moderator

Thank you very much Sir.The next question comes from Mr. Sachin Salgaonkar from Goldman Sachs, Mumbai.Mr. Salgoankar, you may ask your question now.

Sachin Salgaonkar - Goldman Sachs – Mumbai

Thank you for the opportunity and congratulations for a good set of results. My two questions are first is on 900 megahertz spectrum. Wanted to understand your thoughts if tomorrow there is an auction will you participate in it or do you believe that you have the right to extension and hence most probably follow the litigation way by going into court? Question number two is in Africa, we actually are seeing revenue growth now falling to as low as around 2% in terms of YoY. So the question here is what do we need to see on the ground for this growth to pick up even data is picking up, but it's not actually moving the needle off the overall Africa revenues? Thank you.

Gopal Vittal – Chief Executive Officer – Bharti Airtel Limited

Sachin thank you for that question. Let me take the first question and hand over to Manoj.Firstly if you look at refarming actually the proposal that TRAI has put out is not refarming but is wholesale redistribution, nowhere in the world and I repeat absolutely nowhere in the world without an exception has any such thing ever happened. We believe extension is our right, we have invested billions of dollars of investments and so we would be really hopeful that this recommendation that has come out by TRAI goes to the EGOM and a sensible view is taken of the whole renewal and extension rather than a wholesale redistribution. Having said that we are fully supportive of finding a market discovered price or the auction and that is something that we believe that there are ways to actually get to that.

Manoj Kohli –Managing Director & CEO (International)- Bharti Airtel Limited

Okay Sachin, I am Manoj here I think you have a very important point here but our revenue growth strategy is a three-legged stool. First strategy is very clear in Africa that we need to keep our voice rates stable, therefore if you notice our voice rates are stable in the last few months and we would like to keep it like that fortunately the competitive intensity is also reasonable, it is not unreasonable and I think it should be like that for growth of the market. The voice ARPU actually has grown if you see the KPIs, which is a good news which means usage has grown by about 10 and 11 minutes. The second leg of the stool is data. Data growth we are happy with, the only thing is that it should grow faster in the coming quarters, it has grown well, we had 17.5 million customers using data which is 26.2% of the total and the data ARPU is $1.5 and that is good news it has grown from $1 last year same quarter which is $0.5 growth and I think if it continues to grow through our bundling, through our collaboration with OTT players I think that will be a good story. The third leg of the stool is Airtel Money, which has just started I think it has a long, long way to go, we have tasted some success in the last few months. We see this to be a very important service for the customers, not only in terms of revenues but also in terms of convenience, in terms of stickiness, in terms of especially for 90% - 95% on bank population of Africa. Today 2 million active customers are there in Africa. The total value as Sarvjit said, was $867 million last quarter and in October the value could be more than half a billion dollars in one month, which means that customers are really using it for three core services. Number one money transfer, number two billing especially the utility of power, water, DSCV etc and number three top up and time top up so that we can save the sales and distribution commission.

The number of transactions last quarter were 44 million which is also growing very well so I think these are the three legs which we are focusing on all three are important for us it depends on how we are able to balance between the three and encourage the customers to use all the three. So I believe it has been a good healthy growth and we should be able to sustain it.

Sachin Salgaonkar - Goldman Sachs – Mumbai

Okay, thanks, one small follow up, Manoj. So on a longer-term basis is it fair to assume high-single digit revenue growth from Africa in US dollar terms, because of point of three legs?

Manoj Kohli -Managing Director & CEO (International) - Bharti Airtel Limited

You know when we entered the market in 2010 the market was growing at around 15% annually and all our goals and objectives were built around that, unfortunately the market in the last couple of years as you know has gone down to single digit it is even 7% - 8% especially Nigeria actually it really went down sharply last year due to tariff changes.As on date we feel that Anglo markets are recovering and growing better, the Franco markets are quiet stable and Nigeria I think is coming out of that dip last year. So we believe that a high single digit should definitely be possible, I am just trying to be slightly more cautious because I think we need to see more sustained growth for couple of more quarters.

Sachin Salgaonkar - Goldman Sachs – Mumbai

Okay. Got it. Thanks a lot.

Sanya - Moderator

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

Rahul Singh - Standard Chartered Securities – Mumbai

Hi good afternoon, I just had one question on the costs in the India mobile business. It has come down pretty materially and that's good to see. Just wanted to know what are the kind of company-specific steps which are being taken to keep costs under control apart from the fact that obviously the interconnect and access costs have come down and some amount of SG&A reduction has happened industry wide. But is there anything else in the cost line items, which is where we see upside or where we saw some savings from in the current quarter?

Gopal Vittal – Chief Executive Officer – Bharti Airtel Limited

Rahul, there has been actually some reduction in the interconnect costs and that is on account of several factors. One is the portfolio that we have is not just voice but it is a combination of voice, mobile, data, SMS and non-mobile. Second there have been some changes in some roaming arrangements that we have had and the third is that there has been a some change in the mix between STD international calling and so on, that said we have a very strong cost program we are looking at almost every line of cost sales and distribution cost has been a big area of focus where we have dramatically focused on the entire company on driving quality of acquisitions through a lot of signs and a lot of analytics which has resulted in a reduction of sales and distribution cost we are looking at our customer service cost we want to improve our experience but yet try and reduce our cost we are also looking at network cost in terms of outdoor sites and so on and so forth so the whole program that we are looking at end–to-end in order to keep a very tight control on cost.

Rahul Singh - Standard Chartered Securities – Mumbai

Okay. Thanks.

Sanya - Moderator

Thank you very much Sir. The next question comes from Ms. Reena Verma from Merrill Lynch, Mumbai. Ms Varma you may ask your question now.

Reena Verma - Merrill Lynch – Mumbai

Hi, thank you very much for the call, just few quick questions. Firstly on India, can we please get some comment on how you look at the tariff structure for the industry, particularly the fact that Bharti's tariff despite being the market leader are lower than some of its peers, which is quite unheard of for a market leader. So how should we think about competitive intensity in light of the fact that your tariffs as a market leader are at a discount to those of your peers? Secondly, on non-data VAS, if you can please throw some color on how you think this trajectory might look going forward. Are any efforts being made to recoup this revenue stream? And just a small housekeeping question, sir, is that you've shown a decline in EBITDA for passive infrastructure on a QoQ basis, which is not consistent with the Bharti Infratel standalone result, also the rise in other expenses in your divisional numbers. If you can please help us understand these. Thank you.

Gopal Vittal – Chief Executive Officer – Bharti Airtel Limited

Okay, let me take the first two parts Reena. Tariff that you see which is a realized rate that you see is actually a function of several things, it is an outcome of what you have as the headline tariff, it is an outcome of discounted minutes and that sounds simple but actually the whole combination of various discounted tariff vouchers that actually exist. Our belief is that like I had mentioned last quarter our belief is that we need to calibrate the RPM the rate increase along with volumes and the thing that we are really preventing or really not doing is raising any headline tariff because we believe that there is still a large opportunity for us to reduce discounted tariff. So the answer to your question would be from a long-term basis if you take the next 12 to 18 months we see tariffs continuing to raise simply because at these levels of tariff it is an unsustainable situation. The second area that we are very focused on is on churn. At the end of the day if you acquire better quality customers you are likely to actually have a higher ARPU from them and hopefully reduction in churn and that is really what we are doing which is why if you look at our churn numbers they are now at a very healthy level of 3.2% when it comes to non-data VAS you are aware of the regulatory intervention or double consent which we were actually first of the blocks to implement, we pretty much implemented it across the board and we have seen a decline of about a 11 odd percent in our VAS revenues quarter-on-quarter we believe the worst is behind us there is still as a little bit that will flow through but really going forward the question is how do you grow this revenue stream in a manner that genuinely generates demand and that is something that we are going to look at. So for example I will give you an example we have a unified access portal where you dial 56789 that served a link to actually get onto the entertainment store, which we have launched, but it also seamlessly takes you on to the VAS portal where you can actually consume any kind of VAS content. We believe this is a very big strategic initiative to actually draw a lot of consumers to call into this number and hopefully over a period of time start growing our VAS revenues.

Reena Verma - Merrill Lynch – Mumbai

Thank you for that. Just may I quickly ask that when you say you've not raised headline tariffs, is it possible that we continue to see effective tariff rise even while headline tariffs are cut by some of your peers?

Gopal Vittal – Chief Executive Officer – Bharti Airtel Limited

The differential between the headline tariff. So let me give you an example. Our headline tariffs in most circles tend to be about 1.5 to 1.6 paisa, 1.5 paisa per second, which would be around 90 paisa per minute. The realized rates that you see are at a substantial discount to that. So we still believe there is a massive opportunity to continue to cut back on discounted minutes in order to come closer to the headline tariff.

Srikanth Balachander - Chief Financial Officer- Bharti Airtel Limited

Reena I will take your question on the tower, as for tower EBITDA decline. As you know the court had approved the mergers of the subsidiary of Bharti Infratel, which is a Bharti Infratel Venture with effect from June 2013. So as far as IFRS is concerned that is the date when it really takes effect from an accounting perspective for IFRS, remember that we are publishing Airtel consolidated accounts and figures on IFRS basis. Now what happens in IFRS basis is till the June 10th the IRU revenue that this subsidiary was getting from Indus for having handed over the towers for an IRU basis for the interim period pending the court decision was available and from the June 10th this revenue is not available. So in the previous quarter effectively out of 90 days this income stream was available to a subsidiary of Bharti Infratel for 70 days and for 20 days it was not available, whereas in this quarter for 90 days it is not available. So the full quarter impact of this is all the consolidated accounts is the revenue is lower by about Rs.1.2 billion the EBITDA is lower by Rs.1.1 billion but the EBIT which is post the depreciation is lower by only Rs.89 million so it is the impact of the court approved merger, whereas in the standalone accounts remember that there is a concept of an appointed date and that appointed date goes back into history and therefore this entire thing does not arise as far as the standalone account as per IGAAP is concerned.

Reena Verma - Merrill Lynch – Mumbai

So this is the new baseline number?

Srikanth Balachander - Chief Financial Officer- Bharti Airtel Limited

Yes as far as you are concerned this is the new baseline number because there is no more Flow of IRU revenue from Indus Towers into this company because this company itself has been merged into Indus Towers therefore what has reflected in Q2 accounts is the new baseline.

Reena Verma - Merrill Lynch – Mumbai

Sure. Thank you very much and just a small clarification on the other expenses that have jumped up?

Srikanth Balachander - Chief Financial Officer- Bharti Airtel Limited

You are talking of the others category.

Reena Verma - Merrill Lynch – Mumbai

Yes, please.

Srikanth Balachander - Chief Financial Officer- Bharti Airtel Limited

Really in terms of these are some one time items so it is not adding to the permanent cost base.

Reena Verma - Merrill Lynch – Mumbai

Thank you very much. All the best.

Sanya - Moderator

Thank you very much madam. The next question comes from Mr. Tien Doe from GIC Singapore. Mr. Doe you may ask your question now.

Tien Doe - GIC – Singapore

Hi, thanks very much for the opportunity to ask a couple of questions. The first question is just on your investment income that was negative in the quarter. Just wondering why that figure was negative, it was a couple of billion rupees. Second question is just on your Capex to sales figure in particular for the Indian mobile operations. That ratio has continued to come down, I'm just wondering whether that ratio's trend has now bottom down and in particular if and when you get clarity on the continuing use of that spectrum, which you currently occupy; should we expect a significant surge in that ratio afterwards? Thank you.

Srikanth Balachander - Chief Financial Officer- Bharti Airtel Limited

Srikanth here I will take the question on the investment income. If you broadly look at our balance sheet you will see that we have the surplus investments have been invested either in cash equivalents which is bank deposits or in short-term investments these short-term investments are all in the nature of debt or liquidity fund investments, they not in equity in mutual funds. So they are in accounted for in IFRS in line with the accounting standard IAS39, which mandates that financial instruments must be marked-to-market at the end of every accounting period and these mark-to-market as per IFRS for either gains or losses and these gains would be even unrealized and that is what happens in IFRS whereas if we were to draw a reference to accounts drawn up with reference to IGAAP you would not mark up for any gain unless it's realized you would only mark down for unrealized losses, but be that as it may, we are talking of accounts drawn up as per IFRS and as per IFRS we had taken the gains in the last quarter on the basis of the market movement and as far as this quarter is concerned after the sudden raise the bond yields in the Indian market the investments had to be marked down with reference to that lower NAVs and therefore there has been a loss in this quarter. So if you look at the cumulative period of six months of the year the first quarter had an income of Rs.4 billion, second quarter had an expense or a loss of Rs.2 billion but effectively the first half has had a net income of Rs.2 billion and that's what really reflects. If we ignore the quarter-to-quarter movement on a longer period that is what really reflects the net returns that have come in despite the bond yield movements in this market.

Gopal Vittal – Chief Executive Officer – Bharti Airtel Limited

As regards the Capex I think Sarvjit has already given the guidance for the year so you will back calculate into look at second half definitely will be higher amount of Capex Q2 usually we take a bit of hiatus on the mobile side because of the monsoons so fiber taking most municipalities do not loss to take fiber and even they realized for new sides gets a bit difficult definitely it going into Q3, Q4 you will see an uptake.

Tien Doe - GIC – Singapore

And then longer term once you do get clarity on the spectrum, should we expect that Capex to sales figure to go back to a double-digit figure on a sustained basis?

Gopal Vittal – Chief Executive Officer – Bharti Airtel Limited

I think it is a bit premature at this stage.

Tien Doe - GIC – Singapore

Okay, alright. Thank you.

Sanya - Moderator

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

Rajeev Sharma – HSBC - Mumbai

Hi, thanks for the opportunity.Just few questions, first one is I see there is a sudden focus on postpaid, your ads talking about it so I understand this is to match with the data growth but do you have a more liberal policy on the bad debt because the banking facilities have not improved significantly so why spend so much on marketing on postpaid. That's the first question. Second is your competitor Idea had started saying RPM is on hold, they will watch out elasticity; but you're keeping a stance that RPM will still improve. I understand RPM is a market led dynamic so there seems a disconnect or you believe that there is something which I'm missing here. On Africa, two questions is Manoj, often there is a concern on the Africa Capex that MTN itself spends so much in Nigeria that Bharti is under investing in Africa. I understand you have a very focused CapEx approach there, but if you could help with some more color and second is on the interconnect, decline in termination charges should ideally result in margin improvement in Africa, which is not happening so if you can provide some color there. Thank you very much.

Gopal Vittal – Chief Executive Officer – Bharti Airtel Limited

Thanks Rajeev for those questions.On postpaid if you look at our current position on postpaid, we believe that we have a massive opportunity for growth, we believe we are under indexed in terms of relative market share and our effort is to actually step up of our growth of postpaid for the simple reason that when customer comes on postpaid, the churn levels on postpaid are substantially lower than prepaid and therefore the lifetime value of that customer is of an exceptional value.Obviously, we will watch bad debts so on and so forth carefully we are not at all concerned about that, in this stepped up effort to play more aggressively in postpaid, so that is part one to answer to your question.On RPM, you know we have always maintained that at the end of the day what we want to drive is revenue and therefore we have got to calibrate both RPM and the volume, look at the elasticity of both and if you therefore look at quarter two, we have seen some improvement in RPM, it is a marginal improvement, but we have managed to optimize that with the volume that we have got.I want to answer your question in two parts.One is from a secular perspective if you take a 18 to 24 month period, there is no other option, but for RPM to rise given the dramatic investments that will need to be made in the sector in terms of spectrum, in terms of fiber and electronics and so on.Secondly with input cost going up, diesel going up, energy, rentals all of this takes a toll on the P&L and therefore for both these reasons we will absolutely need to move out of what are clearly unsustainable levels of tariff.Having said that if you then look at a short term period, if you look at a quarter or within a quarter obviously you will need to calibrate this, it is a dynamic situation, we will need to watch what is happening on volume and then make the moves accordingly.

Manoj Kohli - Managing Director & CEO (International) - Bharti Airtel Limited

Okay Rajeev coming to your three Africa questions, first one on Capex, I think the three big drivers of our Capex productivity and efficiency, one our rates may be best in the world, but definitely best in Africa.Secondly our sharing of passive infrastructure is helping us optimize our Capex and third our 3G roll out in all co-located today, therefore we are saving Capex on that.In future if the 3G has to be located on new sites, different sides from 2G then of course there will be some increase, but let me assure you that Capex there is no intention to hold back anything from genuine growth areas, genuine revenue oriented geographies and towns and in each country we are doing roll outs on merits and may be in the second half it will pick up to some extent compared to first half, but no hold back at all.On your interconnect question, you are absolutely right and if you see the net revenue growth being higher than gross revenue growth last quarter, is a proof that interconnect changes are leading to better net revenue and better margins.So and if these changes continue in other countries through the year I think it will improve further.

Rajeev Sharma – HSBC - Mumbai

Thank you. Thanks a lot.

Sanya - Moderator

Thank you very much sir.The next question comes from Mr. Sandip Agarwal from Edelweiss Mumbai.Mr. Agarwal you may ask your question now.

Sandip Agarwal - Edelweiss - Mumbai

Congratulation to the management team and thanks for taking my question.I have just one question.Sir, you have already mentioned that we are not expecting a significant jump or we are not planning to increase tariff in Africa but going by the volume numbers, two questions come to our mind.First of all, if you can throw some light what would be the constant currency growth in Africa in this quarter and how will we arrive at revenue growth going forward if RPMs are going to be more or less stable on the voice side, so what will be our strategy for revenue growth if at all or we are just planning to have more margin expansion going forward?

Manoj Kohli– Managing Director & CEO (International) - Bharti Airtel Limited

Our local currency growth is similar, this quarter the entire propeller was very, very small and insignificant.The constant currency growth is similar to the reported growth.Generally it is not as good, generally in many quarters we have seen the reported currency growth is lower than LC growth, but we were lucky may be this quarter and I don't think one is lucky every quarters, I don't know how forex will move in the coming month.On GR, again RPM is only our desire. Our desire, is to keep tariffs stable and luckily the competition is also may be tracking on similar desire, because I believe that the elasticity in majority of Africa is not that high compared to India, so therefore there is no need to drop tariffs, there is no need to reduce tariffs in such a way that it will give us the minutes, because it will not give us the minutes or it will give us less than proportionate minutes.So, therefore I think stable RPM is a good strategy for Africa sustainable growth.

Sandip Agarwal - Edelweiss – Mumbai

But sir, then growth numbers will be very, very muted.It would imply that numbers will be very muted because most of the slightly better markets, I think the penetration level is quite decent now.So how will we get the growth and that is one thing and secondly, if I can just squeeze one more on the margin side, where do you see significant delta to come in margins in Africa?

Manoj Kohli– Managing Director & CEO (International) - Bharti Airtel Limited

Okay, I don't agree with you Sandip, because I think you are coming from India base perspective that growth will only come from tariff reduction.I don't think that basis is right for Africa.Africa is very different from India and I believe that average penetration of our 17 markets is about 50%.There is another 50% customers to come in which means that the growth will continue, the voice growth will continue.Even in markets where penetration is more than 50%, let us say 60%, 70% there also including places like Ghana where penetration is higher than 50%, we are seeing growth continue.So we don't agree with your thesis that growth will not happen at stable tariffs.I think it will happen because more and more customers are coming up and getting penetrated every year.Second thing is that the new revenue streams of data value added services, music, and messaging by the way continues to grow, so it is not that messaging is hit by OTT in Africa may be it will take another year or two for messaging to be hit by OTT, WhatsApp etc., that will grow and finally as I said Airtel Money will help us in both stickiness and revenues.So, I think that is the formula of growth which is very different from the formula of growth of India.

Sandip Agarwal - Edelweiss – Mumbai

And sir, the margin part if you can add some light?

Manoj Kohli– Managing Director & CEO (International) - Bharti Airtel Limited

If the net revenue grows then margin has to grow, because the data is all net revenue, VAS substantially is net revenue, on net growth, Airtel-to-Airtel growth is all net revenue.The net revenue growth has grown this quarter, I think will have a better margin growth.

Sandip Agarwal - Edelweiss – Mumbai

Okay, sir.Thanks a lot. Thanks for your time.

Sanya - Moderator

Thank you very much sir.The next question comes from Mr. Shobhit Khare from Motilal Oswal Mumbai.Mr. Khare you may ask your question now.

Shobhit Khare - Motilal Oswal - Mumbai

Good afternoon and congratulations on a good set of numbers.Most of my questions are answered, but two questions.One is on messaging and VAS revenue contribution.So just wanted to understand if you could give some more color on what has been the impact of the SMS termination cut, et cetera and are the current levels of the contribution sustainable at around 6.7%.Second is on DTH business, for this quarter we have seen a decline in subscriber additions as well as EBITDA margins so any outlook you could share on this?

Gopal Vittal – Chief Executive Officer – Bharti Airtel Limited

Firstly when it comes to VAS, you will see that we have executed the TRAI mandate of double consent and that has taken a significant toll on VAS revenues.In fact, we did it early on which we started doing at about three, four months before the regulation actually went in, so we had a bigger hit then and we have had some hits continuing into this quarter.We expect that some of this will fully play out by the end of next quarter.As far as it comes to DTH, this is a seasonal quarter, so some of the addition that you see our function of that and the second factor is that there was substantial increase in addition to last quarter because of cricket and that kind of got evened out.As far as the EBITDA margin is concerned it is tracking well and little bit up and down here, it is not a problem I think overall it is tracking well and the business is tracking in line with our expectations.

Shobhit Khare - Motilal Oswal - Mumbai

Okay.Very helpful, sir.Thanks a lot.

Sanya - Moderator

Thank you very much sir.Ladies and gentleman, we are in the last five minutes of the conference call.Due to constraints of time, we will take one last question from Mr. Sanjay Chawla from JM Financials Mumbai.Mr. Chawla you may ask your question now.

Sanjay Chawla - JM Financials - Mumbai

Good afternoon thank you for the call.I have three quick questions.One is, Manoj, you said that you are expecting market local currency growth in Africa to be 7% to 8%. What is your expectation with regard to Airtel? How much do you think you can outperform this market revenue growth rate? And I have got couple of housekeeping questions as well.One is have you paid the full 3G spectrum cost in Bangladesh because I see INR480 Crores entry in your cash flow statement which seems to be lower than $105 million. And secondly your share of profit from JV associates has almost doubled quarter-on-quarter to INR165 Crores from INR82 Crores in the previous quarter.What was the reason for that?

Manoj Kohli– Managing Director & CEO (International) - Bharti Airtel Limited

Okay Sanjay, let me start with your first question and I just want to give you a background before I come to specific question.I think in the large three years in our 19 countries outside India we have exhibited a growth which has outpaced the market growth.The market in the last three years in these 19 countries has grown at CAGR of 9.2% and that is the market growth and Airtel growth over the same period has been 13.8% of course these are all local currency, it is not reported for in dollars, because of that the local currency growth.So, we have outperformed market by about 4% in the last three years in all the 19 markets, some markets could be lower, some market could be higher.In terms of revenue market share, we have in the last two years gained 33% approximately of the market in Africa whereas our baseline RMS is about 25%, clearly we are gaining more and I think we should continue to gain more than the market growth.

Srikanth Balachander - Chief Financial Officer- Bharti Airtel Limited

Okay for the Bangladesh spectrum is concerned, not all the payments are due, so a part of the payments have been made and part of the payments will be made as per time plan to be set out over the next few months.

Srikanth Balachander - Chief Financial Officer- Bharti Airtel Limited

On JV associates, that is essentially mainly on account of one-off and I would expect that to be evened out in the coming quarter.

Sanjay Chawla - JM Financials Mumbai

Okay. So it is not due to the IRU related adjustments on account of merger of BIVL into Indus?

Srikanth Balachander - Chief Financial Officer- Bharti Airtel Limited

No, that is not to do with Indus, because in any case they have taken over the towers and now they are on the towers other than paying it there.

Sanjay Chawla - JM Financials Mumbai

Okay. Thank you very much, sir.

Sanya - Moderator

Thank you very much sir.At this moment, I would like to hand over the call proceedings to Mr. Sarvjit Singh Dhillon for the final remarks.

Sarvjit Singh Dhillon - Group Chief Financial Officer - Bharti Enterprises

Thank you very much.Thank you for all the participants who have come in on the call from around the globe and we will see you talk to you at least again probably at the end of January or the likes of it, take care, have a good Christmas and New Year.

Sanya - Moderator

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