Earnings Conference Call Transcript

Event: Bharti Airtel Limited First Quarter ended June 30th, 2012, Earnings Call

Event Date/Time: August 08, 2012 at 1400 hrs

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PRESENTATION

Sanya – Moderator

Good afternoon ladies and gentlemen. I am Sanya, the moderator for this conference. Welcome to the Bharti Airtel Limited First Quarter ended June 30, 2012, 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 you, Mr. Dhillon.

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

Good afternoon and Thank you Sanya and a very warm welcome to each one of you to our call for first quarter ending June 30, 2012. Joining me on the call today is senior management team at Airtel. That is Manoj Kohli as you know from Africa, Sanjay Kapoor from India together with the consumer and business heads, Srinivas and Drew Kelton & Nilanjan Roy the CFO of India. Also with me are Srikanth, Airtel CFO and you all know Harjeet, Group Treasurer

As of the New Year we do tend to look at reporting disclosures and I am pleased to say that this quarter we are adding some more disclosures for this forthcoming year and something which was requested by many investors as far as data is concerned. I am sure you have received the pack and if you go through it you will see some additional disclosures in data and that I'd like to highlight some of those disclosures in the quarterly report from this quarter onwards as well as some additional developments before I talk about the financial results.

As you know the company has and continues to invest in 3G and 4G networks to capture the untapped and growing demand for data services. To provide more color on our performance as I said, we have now started disclosing a number of data metrics, and I will talk about them later. Secondly, as we have now a multi-country operation, our treasury pool has become fungible across territories. And we designed the reporting of finance costs now into three distinct and aggregate segments, one is on interest one is on interest on borrowing from finance charges, the second one on derivatives and exchange gains and losses, and the third one on one on investment income. Developments in the quarter, there are a couple of major developments that have taken place that I would like to talk about. As you already know we have BWA licenses in four circles, Kolkata, Karnataka, Punjab, and Maharashtra and 3G licenses in 13 circles across India.

In the first quarter this quarter we made an initial investment of approximately US \$165 million in acquiring the 49% stake in Qualcomm's Asia-Pacific entities that hold licenses in Delhi, Mumbai, Haryana, and Kerala. This is partly by way of acquisition of a 26% equity in global holdings in Tulip Telecom and the balance, by way of subscription into fresh equity in those entities. This represents a proportionate enterprise value of US\$ 550 million and over a period of time we do intend to take a majority stake in these entities.

With this agreement we have secured now, a nationwide broadband leadership through a combination of 4G and 3G with our networks in around 18 circles across the country and as you know we've already taken a lead in the TD-LTE space by launching 4G services in the quarter in Kolkata and Karnataka circles.

The second development I really want to talk about is our tower company Infratel. As you know this company has been operational for a number of years now with quality tenancies and strong cash flows. Going forward the tower company has the opportunity to benefit from the growth story I mentioned on data that we are experiencing in 3G and 4G as far as tenancies and loading is concerned. We have always maintained and it is always our intent to take this company public as the company that provides infrastructure on a nondiscriminatory basis, so it is an ideal opportunity for us to take this forward.

To this extent, the board of directors of BIL, that is Bharti Infratel has appointed a committee of board of directors to consider the listing of the equity of shares of the company. The proposed issue may include an offer to sale of equity shares as decided by the existing shareholders of the company.

That will obviously be subject to market conditions obtaining necessary shareholder and the regulatory approvals.

The final decision for the proposal will be taken by the committee of directors and the board of directors of Infratel. In addition, the Board of Directors of Bharti Airtel has also constituted a committee to consider and finalize the terms and conditions with respect to participation in the offer for sale up to 10% of Infratel's equity share capital. So those are two developments that have taken place as major developments on the business development front.

Just moving on to business now, and I mentioned earlier about the data disclosures, so let me just elaborate a little bit on our data metrics. In India alone you have seen from the quarterly report now, over 20% of our subscriber base is the wireless data users. This continues to be and remains the fastest growing line item in our P&L. Although it is a small base, just a reminder of what happened 10 years ago as far as voice is concerned and we fully expect this to continue as the data story promises over the next few years. Last quarter alone, we had over 12 billion GB of data networks in India, translating to about 50 billion GB a year. We now offer 3G services in over 1100 towns and cities and as of the end of first quarter, over 5 million active customers on 3G, above which 3.7 are active 3G users. We also have over 18000 around sites equipped with 3G. I mentioned to you earlier one of the milestones for India has been the launched of 4G in Kolkata and Bangalore during the quarter and we are the first operator to do so.

Moving on, now for the quarterly highlights and I will talk firstly about South Asia. I do believe the quarter has been a fairly satisfying quarter from a growth perspective despite the seasonally weak nature of quarter one, we have expanded traffic to just about 9 billion minutes on network the first quarter, which translates to about 4% growth which is noteworthy and we report it as the leader and the third operator in the market. MoU per sub has also improved in the quarter implying that we would be able to expand usage on the back of elasticity and even though it is a seasonally sluggish quarter.

The revenue growth that we have reported and this is quite important as far as this quarter is concerned must be seen in the light of few issues. One is the contexual issues which pertains of the industry at large and second the softer and more volatile market place due to the lack of clarity on the competitive landscapes and the cancelled licenses. And let me just go through one each at a time. The TRAI guidelines on our consumer protection which came into force in March this year had a full quarter impact on our financials. These regulations have been restricting our ability to offer bundled packages to our customers and also put a cap on the processing fee that we can charge vis-à-vis the free market prevailing prices in a very- very intensive multi-operator environment.

The processing fee has obviously hit the industry at a wrong time. Flexibility in pricing such as processing fees is extremely vital to the industry, where realizations are far lower than what we expect globally. The industry is appealing to the regulator to remove

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these caps and to ensure that there is a free playing field as far as pricing is concerned. The other impact really has been on the service tax hike which has impacted at about 2% and that's also reduced the effective realization on usage basis vouchers. And each of these factors as I mentioned have had varying on the top line growth and resulting growth yields to margin. This has been coupled with market investments that have also taken place in the quarter.

In addition to that capital investment as you know we have been increasing. In this quarter 2900 Crores the capital investment has taken place and besides that expanding not only 2G, but 3G in the quarter and continuing to do so. That was as far as India SA is concerned.

Let me just now move on to Africa. Africa, again this quarter, has been a quarter of continued investment; however, on an underlying basis on a constant currency basis, the sequential top line addition has been over US \$12 million that is about 2% growth on the CC basis and a year-on-year of 17%. But the growth must be seen in the context of economic growth, evolving competitive dynamics, and more important adverse currency movements. Anglophone countries continue have seasonal weakness which is customary in Q4, but it has continued to prolong in Q1.

Nigeria also had an impact of sectarian violence in the northern states and inflationary pressures. A few markets also saw heightened competitive action which meant the alignment of tariffs, so margins this quarter have primarily come down due to adverse currency movement, the contribution mix of the countries and heightened investment in operating sales and distribution and marketing costs.

So that is as far as this quarter close to 608 sites in the quarter like I said to continue investment and capital investment and now expanded our networks in the last two years by 50% in excess of 15000 2G sites and nearly 5000 3G sites. Distribution is the other pillar that we looking at obviously. We wish to become one of the largest African retailers with over a million distribution points of presence.

Finally let me move on to highlights for the quarter as far as the financials are concerned. We ended the quarter with a global customer base of 261 million, a growth of 13% year-on-year and 4% quarter-on-quarter. Minutes, as I mentioned earlier have continued their upward trajectory both the eliminations minutes and efforts for the quarter of nearly 297 billion, a 9% increase over the same quarter last year.

Moving on to the financial results for the quarter, the consolidated revenues were up at Rs.193 billion a year-on-year for about 14% and quarter-on-quarter 3.3%. The consolidated EBITDA slightly over 58 billion representing a year-on-year growth of 3% and 6% decline quarter-on-quarter. The EBITDA margin for the quarter at 30.2% a decline of 340-basis-points over the corresponding period last year and decline of about 300 basis points as compared to the previous quarter. I mentioned earlier this has been a quarter of heightened investment on the networks, on SG&A and brand which are critical and essential to consolidate us have leadership position. As to the net income as a result of that during the quarter was in excess of Rs.7.6 billion that is a decrease of 37% over the same period last year and 24% Q-on-Q.

Moving on now just on the capital front, our CapEx in Q1 was nearly approximately \$660 million and that is fairly in-line with the capital guidance that we have given for the year. Operating free cash flows for the quarter improved to INR 23 billion and Africa continues to remain with a free cash flow positive situation. On the balance sheet the company had a net debt of about USD 12.1 billion as of the end of June and the net debt to EBITDA ratio of 2.54 is fairly stable with a quarter back and obviously improved substantially from 2.85 times this for the same quarter last year.

That is in summary on some of the highlights of on reporting front and some developments as far as the as far as the Company is concerned in a couple of years and on the operational front. What I will do now is open the floor for Q-and-A. As I said we have the management team here, so back to for Q&A.

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 "*" and "1" participants will get a chance to present their questions on a first-in-line basis. To ask a question participants may please press "*" and "1" now. The first question comes from Mr. Suresh Mahadevan from UBS, Mumbai. Mr. Mahadevan you may ask your question now.

Suresh Mahadevan – UBS - Mumbai

Good afternoon, I have quick two questions. Question number one is on your strategy on the mobile side. It seems like I think you have been fairly aggressive, last July you increased prices, but after that you have been fairly aggressive not only just in your challenger circles, even otherwise, which is quite obvious with this whole service charge absorbed by Bharti and also even this processing charge thing when essentially you could have had the option of increasing tariffs right, which you have chosen not to. So I just want to understand the mobile strategy here and clearly the new guys are not making an impact as far as we can see it is essentially Bharti, Vodafone, Idea which have two thirds of the market, is there reason to be this hypercompetitive in the market that

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is one and the second question is your view on the whole auction process which will happen later this year or early next year. How is Bharti approaching this, because Bharti does not really need any spectrum right now, right, I mean there is no immediate need? The renewal only happens in 2015, so I just want to understand your thoughts around the auction how Bharti is approaching it. Thank you.

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

I will ask Sanjay to address both the mobile strategy and the auction process.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia

Hi, this is Sanjay Kapoor. Let me start with your second question first, because I want to spend some time on the first question, because I am sure there are some others who have got related questions to answer. So on the process for the auction very clearly, it is very early days and we are not at a place right now where we can share what and how will we come and execute our strategy on the auction process, so I cannot, I am afraid, at this stage, share that with you. Yes there are speculations on whether it makes sense, not making sense, we are evaluating all those things internally and we will come back at an appropriate moment if the need be and share that with all of you.

Let me get on to the first one which is the very critical question to say, what is Bharti's mobile strategy? We increased prices last year and then we clearly announced to all of you and shared with you that we will not allow our mark-to-market position to be given up and it is starting January of this year and then a full quarter which is the quarter one, we went in with aggression challenging our competitors in some of their strong markets which we were not doing earlier, because we were protecting our turf, we were increasing prices at that stage and obviously that led to a little bit of dilution on our revenue market share and that was not acceptable. We said we are going to go back and get back the position that we truly deserve in the market. Obviously when we did that we were absolutely cognizant of fact thatthis might have a risk on protecting our EBITDA margins and the bottom-line and therefore there is a possibility that they there will a dilution on that, but we also made it very clear to everybody that if there was a choice to be made in the short run we would make the choice in favor of revenue market share.

While all that happened obviously there were two external factors that came into play. One was around the service tax increase that the government did and obviously that Rs. 2 although it happened on the February 28, it probably becomes difficult for every company to really envisage and predict as to how much of that Rs. 2 will the customer additionally spend and how much of that Rs. 2 he will not spend and probably that habit change will happen over a period in time, so I think we were guessing as well and therefore foreign industry which is according to you the new players are not making mark and probably are dying out, yes, that is true, the bulk of share in the market is with the bigger brand, but also the fact that the canceled licenses have lead to more aggression by some of these operators in the market place because it is in their interest to protect their existing revenues at any cost in the market place and therefore the aggression in the market does not die down. We were the first ones to take the price correction and everybody took much longer before they came in and then with all this happening in the market dilution of prices happened across and we did not want to not participate in that market.

The other important thing that happened at the same time was, that TRAI came out with this revised regulation on processing fee and on combination packages or combo packs and that was not envisaged because it happened just after we entered into the market to make sure we win back our revenue market share and at that stage to pull back on your strategy and up our prices contrary to the market is probably not something that is advisable. However, while I make that statement I am absolutely cognizant that it is in our interest to find the sweet spot where we make the right amount of margin and we make or protect or gain our market shares in proportionate levels. Obviously keeping cognizance of that we will keep making changes in our strategy going forward to bring in the right balance, so that we do not give up too much on the bottom line and we do not get overtly aggressive in the market. So I guess this was the first quarter when we had to follow through with what we had done and I think you done fairly well on all mark-to-market parameters, so whether you see the minutes, whether you see the number of customers, whether you see the gains on mobile number portability, I think that we have got a great gain on all the market led activities during the quarter. Of course this had a pressure on the price and things at service tax and at combo packs did not make life easy.

So I guess that there will be fine tuning which will happen some of it has already started, but I think something is very important for us to realize is that industry is hypercompetitive and to some extent there are some structural mismatches that are happening as the industry is going. Imagine 80 million gross ads happen in this industry every month and about 8 million flows through the bottomline, which means rest of it is all trading of minutes that happens in the market. You have to make a choice to participate not to participate, of course we refrain from participating on 0.05 paisa and free minutes and 0.10 paisa minutes, but it cannot be completely away from the market and that is why we entered the market. The second important thing to note is that because of this activity the industry churn has gone completely out of hand. It is an industry where average churn today should be in excess of 16% or 17% per month. We, because of our prudent policies, are half that rate that you cannot not participate in that market and therefore we try to be as prudent as possible, so we took a conscious call, got into the market, we have to fine tune to make sure as we progress we keep making balances and make sure that we are relevant to the market yet come back and protect our margins to the extent possible.

Suresh Mahadevan – UBS - Mumbai

Thanks Sanjay. Thanks for the detailed explanation. Good luck for the coming quarters and the auction.

Sanya – Moderator

Thank you Mr. Mahadevan. The next question comes from Mr. Sachin Salgaonkar from Goldman Sachs, Mumbai. Mr. Salgaonkar you may ask your question now.

Sachin Salgaonkar – Goldman Sachs - Mumbai

Hi, thank you for the call. I have two questions. Firstly a follow-up on Sanjay. Sanjay, are you content with your aggression that it has delivered the required results in 1Q, or you see room to become further aggressive going forward and you know related question as what we saw in across Telco market it is easy for margins to go down, but it takes times to recover, so I just wanted to understand your thoughts that in the longer and you might recover your market share, but how do you look at margins and my second question is to Manoj. Manoj, any thoughts if elasticity is working in Africa and any modification to your revenue EBITDA target of 5 billion, 2 billion for FY13. Thanks.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia

Sachin, on the aggression piece I do not think there is a standard definition that you can afford to say are we aggressive enough not aggressive enough. I think it is all mark-to-market and given the first phase or the first round of aggression I think we have done well to contain others and to make sure on all mark-to-market parameters we come back you know with a decent bank. I think you have done well in that. How aggressive we will be in future is not something that is predetermined and predesigned we mark the market in every zone in the country every sub zone in the country, we mark the market on a daily, weekly, monthly basis. And therefore we will keep adjusting our aggression based on what is required, but we have never been destroyers of value in the market and we will never be destroyers of value in the market. In the long run we want to make sure that the value in the market is accretive and the whole industry gains. However the structure of the industry today does not permit and we do believe that yes it is difficult for margins to erode but it is difficult for them to recover. Although I make that statement I do believe that given the current position of the industry and actually the financial strength of everybody else including us in the market place I think there is room for a fundamental correction on the way the industry behaves in the market both on expenditure, on distribution and sales and also on the way we price our products because bulk of the operators in the market actually operate on prices which do not even cover their marginal costs. So I firmly believe that as this industry moves towards consolidation there will be correction of price, there will be corrections of behaviors and you will see that actually the strengths of being profitable and some of the traits will return to the industry.

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

Sachin, Hi this is Manoj. You had a question on elasticity in Africa and the target. The elasticity is present in Africa not as much as in India though and also very diverse country-by-country market-by-market. There are markets where we have done pilots and the elasticity has come up to nearly one. And there markets are pilots have resulted in 0.5, 0.4 elasticity. So one has to be very careful that we do not erode our top-line by reducing tariffs in hope of elasticity so we are doing it very carefully, we are doing it market-by-market, also we are linking it to a cost structure reductions because as the cost structure is reducing we are passing on some parts of reduction to the customers so that affordability can help us grow the revenues faster. We are also doing smarter options like smaller coupons and of course 3G. 3G tariff affordability is very important for us because we are leading 3G introduction in Africa because we believe the youth, SMB and corporate South Africa we will use data and that is why 3G affordability we are leading, 3G networks we are leading, so overall we believe that elasticity is there but it is place-to-place market-to-market hence we are also being very practical on that. In terms of our targets, our aspirations remain intact. We have targets for 2013 and it may take a bit longer but we are completely committed to our targets, we continue to drive the markets. Our investments in this quarter as you have seen, our investments in basic building blocks continue whether they are network growth whether they are Airtel Money launches, 3G launches, SG&A has added another 150000 outlets with 1000 exclusive shops so all the basic building blocks and investments continue because the long-term goals are important to us in Africa.

Sachin Salgaonkar – Goldman Sachs - Mumbai

Okay, very clear both Sanjay and Manoj thanks a lot and all the very best.

Sanya – Moderator

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

Sachin Gupta - Nomura - Singapore

Thank you very much. Sanjay forward to ask for going back to the mobile strategy question, but you have already talked about the focus on protecting revenues or market share at a cost but are you somewhat disappointed or concerned with the current quarter but we have seen costs go up but the revenue have not really kicked in. I understand there is some seasonality or do you expect

this to start flowing through in the subsequent quarters as well. That is one thing. And secondly is I think Sarvjit you have mentioned initially that the about the Infratel IPO. Just wondering any more indication on the timing of that and also given how volatile the markets are at the moment and in the event this thing does not go ahead any further plans for management to review the balance sheet at the moment, the giving is only that the debt is quite high at \$12-13 billion. Just any thoughts there will be appreciated. Thank you.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia

Let me answer the first question Mr. Gupta. As far as revenue kicking in is concerned, I think you are right if you look at the overall revenues of the industry this quarter and you compare it with the same quarter last year probably it seems to be almost at a 50% - 60% mark and I think that is a industry wide trend and however ,when you start looking at the operating parameters the story is little different. After growing at 12 billion minutes we have again added about 9 billion minutes in the quarter it is the highest number of net additions that we have done on customers in the market place not that you are compromising on our VLR ratios. If you look at our traffic market share we have gained from the market and if it is mobile number portability we have again gained for the last consecutive five months we have been doing over 1 million tokens every month and now we are the second largest beneficiary of the mobile number portability in the market. So clearly on our operational parameters we have done well. I think the fact is that have played a role on what happens and of course with all the aggression in the market there is a little bit of dilution of price that has happened as well. So I think these three have really hampered probably those growth prospects that probably would have been there on the higher side. However I think mark-to-market parameter it has been fairly satisfying.

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

Thank you Sanjay. Sachin as far as your other questions are concerned, first as far as Infratel IPO is concerned I think I mentioned it earlier when I opened up, really that is subject to market conditions making sure that we get the necessary approvals both regulatory and the shareholder and also I think its bit early to say because the committee of directors we put together to evaluate this, and obviously the market conditions to answer your question have to be right. The other point which is as far as the debt is concerned, as you know we are now currently at about \$12.1 billion in debt. It has been coming down consistently over the last few quarters. I mentioned earlier it is about 2.54 now and coming down from 2.85 from the last year. We do continuously look and evaluate as to our debt portfolio and so that is an ongoing process. There is nothing new in that and we will continue to do so.

Sachin Gupta – Nomura – Singapore

Thank you for that.

Sanya – Moderator

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

Vinay Jai Singh – Morgan Stanley – Mumbai

Thank you so much. I have three questions. As you say in your page 22 and you have also expressed on the call the service taxrelated issue, as well as the admin-related issue, which has led to probably a notional loss on revenues of about Rs.4.5 billion what would be the impact of EBITDA, if at all, if this were not to happen or the 300 odd basis points EBITDA margins which have reduced this quarter because of higher SG&A as well as higher network cost, is there something we will see coming back in the next quarter that is my first question?

The second question is basically on your DTH, if you can give us some update out there. We are seeing it go back in the red wonder why? And the third is on the Infratel bid. We are seeing the EBITDA go back to where it was last year same time about Rs.8.8 billion you did mentioned that data should be the driving factor out here, so if you can expect something out there well it would be helpful. Thank you.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia

Great. So Vinay, Sanjay this side, and let me start answering your questions in the reverse order. Infratel we have always said is a 40% plus EBITDA margin business and I think we are sticking to that. It is very much there. The Telemedia business very clearly, Vinay, is a business which were a marginal drop happened on EBITDA because of the voice traffic going up compared to the data traffic during the quarter and that is the only reason why there was a little bit of.

Vinay Jai Singh - Morgan Stanley - Mumbai

Sanjay, sorry, I actually asked on Infratel, so my apologies.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia

On the DTH side, very clearly there are some adjustments that have happened Vinay on the way we have accounted for the content and that is the only change that has happened it has become a straight line method and that is the only change and other than that you do not need to worry in fact the DTH business has recovered some bad practices from the market where the amount of cash that is being burnt actually comes down by correcting the subsidy that was going in the market. So I think it is moving in the right direction.

Let me comedown to service-tax and all these things that you spoke about on page #22 and whether we will recover or not.

Vinay Jai Singh – Morgan Stanley – Mumbai

Sanjay, before you do that just on the Infratel bid. If you could go back there and spoke about the data revenues and then you move to Telemedia. So are we saying that the margin there should be 40% and data should drive the growth there?

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

Vinay, your question is on the Infratel or the passive infrastructure business?

Vinay Jai Singh - Morgan Stanley - Mumbai

That is right.

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

Okay, so just I think your question is on margin changes, is that correct?

Vinay Jai Singh - Morgan Stanley - Mumbai

That is right.

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

Okay, so we are continuously resetting of agreements between the operators and Infratel and their volume discounts come to kick in. That is one event that has taken place in the quarter. Secondly the full effect of what is happening with the cancelled licenses has taken effect. And thirdly in addition to that new tenancies are coming along and new loading that comes along. So that is the net effect of what is happening in the quarter. I hope that answers your question.

Vinay Jai Singh – Morgan Stanley – Mumbai

Sure.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia

Yes, Vinay let me go to your first question which you referred to page #22 and what we have stated there. Well some of these changes whether they are on combo packs or processing fee that the regulator has levied, or the service tax, some need behavioral changes from the customers as far as the market place is concerned to start consuming more and coming back to the consumption patterns that were there earlier. As far as the regulatory changes are concerned of course as an industry the whole industry has faced the brunt on this and is talking to the regulator on this count and there is a consultation paper that is already out in the marketplace we are hopeful something positive will come out of that because the health of the industry is well known to the regulator and to the licensors. However, as prudent players in the market, we will have to look at alternate ways to make sure the recover. Yes of course it does take some time, instantly you cannot recover out of the situation but we are working very closely to make sure we are

not solely dependent on these changes and are able to proactively bring about some change which recovers all this sooner than later.

Vinay Jai Singh – Morgan Stanley – Mumbai

Sanjay, just probing a little bit more on this question I assume the revenues incrementally have been reset because of these two parameters. But what you would have grown in the next quarter or in the last quarter should go back to the previous incremental benchmark, is that a fair comment to make?

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia

No, I think in the short-run things do not change that easily these are dents which take a little more time to repair.

Vinay Jai Singh – Morgan Stanley – Mumbai

Thank you.

Sanya – Moderator

Thank you, Mr. Singh. The next question comes from Mr. Srinivas Rao from Deutsche Bank, Mumbai. Mr. Rao you may ask your question now.

Srinivas Rao – Deutsche Bank - Mumbai

Thanks first my question is on Africa. Generally the commentary from your competitors there has been that usage has kind of come down in Nigeria. And generally couples of them have seen low voice growth across that entire Africa portfolio and some indicating pressure on tariff. So what is your commentary has been that the usage continuous to grow. So if you can throw some light on the industry-wide trends in Africa and focus of obviously on the larger countries and that will be helpful. Secondly we have seen mobile financial platforms being pretty core to the strategies of your competitors so obviously at this stage Bharti lags on that part so when can we expect the gap to be kind of meaningfully closed that is on Africa. Second on India and I will continue with what couple of other people has said Sanjay that it seems the assumption which Bharti generally has made is that players will get more rational over a period of time in India and that obviously has not been the case of until now. Is that your basic assumption while you are managing your mobile business that is number one? In that context I wanted to highlight that Telenor has said that there would be EBITDA breakeven in the eight markets which we are concentrating which at least looks to me that scenario is completely different from what you at least assuming for your business strategy. So two questions on Africa and India.

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

Srinivas let me start with your Africa question. Overall Africa many countries are feeling the economic and currency head wins. These head wins are coming because of three big reasons. One, the impact of Europe as you know Africa is dependents on Europe is high; all the impact of Euro zone activity is definitely felt in Africa. Second are commodity prices. And third is, all the grants and aids which were traditionally given at a higher value to Africa, maybe a bit less than past. So this is what is definitely leading to impact. Some countries impact is larger, some countries maybe maybe marginal. Let me take one or two examples. For example, Nigeria had a strike in January. It impacted the economy to some extent. Now there is a violence in North as you know. That impacts economy to some extent. Similarly in DRC there is some violence in the Eastern borders which has some impact. So these are some examples of how some markets are getting impacted. Now their markets have losing their inherent strength I think the markets are strong. And they will continue to grow for long-long time but for a short period sometimes these impacts happen.

Further area which you will have to see here is the competitive intensity. Having the intensity of Ghana let me give you an example of Ghana where due to a new operator intensity has gone up which is leading to certain impact on market growth, revenue growth.

Let me now come to the good news. I think the good news is that we are definitely growing faster than other operators. We have examples of Nigeria, Uganda, Chad, Malawi, Kenya, Zambia many, many countries where we are growing faster. I think you have seen some competitive results and from that it is clear that not only on half year basis but on year-on-year basis also we are growing faster than competition. The second question you asked was about m-Commerce. You are absolutely right in the case of Kenya, in Kenya our competitors m-Commerce platform is very, very good & robust and is doing well, but in all other sixteen countries of Airtel in Africa we have taken a lead we are moving with great speed not only in terms of platform but also in terms of central bank registrations, building up a new team, actually our employees have gone up a bit this quarter because we have recruited bankers from various banks and various countries because we want to enhance our Airtel Money team in each country. So we are also training our consumers, training our agents, authorizing our agents who can deal with cash incoming cash or outgoing cash so definitely Airtel Money is our core business in addition to 2G and 3G and you will see this business in a matter of another two to

three quarter picking up well not only in terms of transactions, but also in terms of retention of customers and stickiness of customers. Thank you.

Srinivas Rao – Deutsche Bank – Mumbai

Thanks you very much.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia

Yes, Srinivas this is Sanjay and let me answer the question on rationality of the market. Well I can begin by saying that being the market leaders we do owe to the market to be rational to a large extent. Of course we take strategic calls based on the need of the hour to make sure whether we want to be aggressive, not be aggressive with company that we build over time we do have the flexibility of playing on the revenue market share and trading off a little bit of bottom-line to derive our objectives as and when required and that is the flexibility that we enjoy being the leaders however, we believe that eventually rationality will come back to this market to make sure that this industry sustainable. The current levels of performance do not suggest that without rationality this industry will ever be sustainable and we do believe that we are probably at the worst times when the competition is at its peak and eventually the rationality will return to the industry.

Srinivas Rao – Deutsche Bank – Mumbai

Thanks Sanjay this is helpful thank you.

Sanya – Moderator

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

Rahul Singh - Standard Chartered - Mumbai

The question is why there is a sudden acceleration in the number of 2G sites, voice sites roughly 5000 in this quarter versus previous run-rates of 1000 or less than 1000 so what are we missing here in terms of what your expectation is on the voice?

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia

Okay Rahul, as far as the sites rollout are concerned you are right that if you look at the site rollouts that we did over the last year and probably what we have done in the first quarter we have done more sites rollout in the first quarter than we did in the whole of last year. Very clearly on the 2G side there is a clear-cut change in topography that has happened but customers are today residing in every nook and corner of big cities and smaller towns and therefore availability and quality of network has to be extended there. Not only the voice part of it but the data part of it because large number of customers in the country still hold feature phones and use data through feature phones and you have to make sure that not only the voice network but the data network reaches out to these guys as well. And therefore it is imperative that we reach out for the customers for a superior customer experience. So that is what we have been investing into and we think that investment is prudent, we are very careful about investing in 2G sites and every time we have put a site we make sure that we watch the results of that individual site for making further investments and I can assure you that we are reasonably confident that we are putting our money in the right direction.

Rahul Singh – Standard Chartered – Mumbai

Okay, thanks just one related question the jump in the network OpEx quarter-on-quarter for the India and South Asia business is much higher than just the new sites which have got added. So is there anything else in the network OpEx which has hit this quarter apart from just the new sites.

Srikanth Balachander - Chief Financial Officer – Bharti Airtel Limited

Okay Rahul this is Srikanth hear if you look at the network cost line, you have to see it in the context of not just the 2G sites that have gone in. The incremental impact of the 3G sites which have come in even though they come in at an incremental cost will need

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to be factored in. What we are not discussing here is the incremental 4G sites which have come in and they have their incremental cost coming in as well and again what we are not discussing here is the fact that you have Bangladesh and the other businesses like enterprise etc., where you have seen a jump in the enterprise business for example you have seen a jump in the revenue and a lot of it is on leased bandwidth and on OpEx basis so these are again adding on to the network OpEx line. Again in the overall context of the data consumption that is increasing dramatically you can well imagine that on the cyber side and on the backhaul side there are cost going up both in terms of beefing up the OpEx maintenance as well as wherever there are gaps we may have to take some leases. I hope that answers your question.

Rahul Singh – Standard Chartered – Mumbai

Yes, thanks a lot, thank you.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia

Yes, I would also like to clarify and this is based on Vinay's question that we were talking about the recovery of the revenue loss caused by some of the regulatory actions and the governmental action around increasing the service tax and we were not talking about recovery of the EBITDA margins there. Very clearly there is a program on in the company to see how do we recover the EBITDA and make sure that there is semblance around the SG&A spends across the board.

Sanya - Moderator

Thank you Sir. The next question comes from Mr. Vikas Mantri from ICICI Securities, Mumbai. Mr. Mantri you may ask your question now.

Vikas Mantri - ICICI Securities - Mumbai

I have two questions, one today there is news out that the UPA government plans to give few phones and minutes to the povert poor people, so does this mean that there are more free minutes going around in the country which will further reduce the benefit for us in terms of minutes that we can get. Second is how do we calculate the impact of combo charges at 250 Crores to 300 Crores range?

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia

Well, Vikas the first question is that it might be free for the customer but I am sure the telcos are not paying for it, the government will be paying for it. So I guess those minutes are free from a government perspective, not from the Telco's perspective.

Srikanth Balachander - Chief Financial Officer – Bharti Airtel Limited

As far as the impact of the mechanics of competition of the impact, all I can suggest is the model that we use of course at a final level and I am sure many of you are using it. If you assess an impact it will comes in terms of usage obviously along with usage comes cost-associated with usage such as the consumption cost and the network cost and of course the interconnect cost besides the license fee cost with the revenue share basis, etc. So you can roughly take anyway between 60% to 70% of the top line coming of in the form of bottom line when the usage level impact.

Vikas Mantri - ICICI Securities - Mumbai

Okay thank you.

Sanya – Moderator

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

Reena Verma - Merrill Lynch - Mumbai

Thank you very much for this call. I have three small questions. Firstly, on Africa Manoj please can you help us understand the rise in network cost per minute and what are the factors that will bring it down from here on a per minute basis? My second question is for Sanjay, after the kind of fire power that we have seen from you both in terms of SG&A and in terms of capex acceleration, is containment of traffic market share or containing other players all that we can expect or do you expect to see improvement going forward? My final question is for Sarvjit on the committees which have been formed, we would be very grateful if you could just please offer some color on what exactly are these committees going to do, it is kind of unusual to hear of these kind of committees instead of an IPO plan, so I am just a bit confused in terms of what is the timeline for these committees to come up with something concrete? Thank you.

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

Let me start with network question on Africa as you know we to continue to invest in the network, there are gaps in our existing cities. There are gaps in new cities, which we are trying to fill up. The highways are not covered, so all that we are trying to fill up and we really want to have high quality, great coverage in each country. Now, at the same time it is also clear that the fuel costs are going up, diesel costs are going up across the world, so that also impacts us. This quarter we did 608 new 2G sites and about 1500 3G sites. Fortunately, all the 1500 3G sites were co-located, so there is no new site or extra sites of 3G, but there are some co-location costs, which means that some additional costs are borne because of 3G and 2G being together at the same sites. The good news is that despite all these the network cost per site is stable in Africa over the last four quarters and our intention is to really start dropping it, we have initiated a major program of solar energy, hybrid energy, and green energy in many countries in Africa and that program has started about four to five months back, already many sites are up, we are seeing the initial benefits coming in and we will see over the next three to four quarters per site cost will start coming down. If per sites cost for us and we will definitely become more efficient in this area.

Reena Verma - Merrill Lynch - Mumbai

Manoj thank you very much, if I may just quickly ask then if bulk of this increases due to fuel cost, would you say that your incremental EBITDA margin expectation of 40% to 45% has now structurally changed?

Manoj Kohli - CEO (International) and Joint Managing Director - Bharti Airtel

No, I do not think, there is a change in that mission. Our mission is to have incremental margin growing by that number and I think this cost reduction will help achieve our incremental margin of 40% to 50%.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia

Let me answer the second question. Well, as far as the capex is concerned Reena, a very large amount of this capex is by and large going into the network and network is basically getting ready for future, which is to make the network data capable and provide a superior customer experience. So whether it is IPification of the network or whether it is deploying our firepower behind 3G and 4G technologies, we are working on all fronts to make that happen. In fact, over a year we definitely believe that we have a case to grow faster than the market and if you look at our increase on data users, quarter-on-quarter we have grown by about 8% about 2.9 million data customers got added on to the network Q1. Data traffic is going up quite a bit and about 21% of our customers are now data users. So clearly, seeing this, this will help us, these investments will help us to accelerate further and we have aspirations to grow faster than the market in this area. As far as the SG&A is concerned, of course, I think on this front we were coming from behind and therefore the first part was to make sure that we level up to our peers who are very aggressive in the market and I think we have done that. How aggressive we want to get in future I do not want to share that but of course I have told and shared with you earlier will remain mark-to-market.

Reena Verma - Merrill Lynch - Mumbai

Sanjay thanks very much that, just I wanted to know that based on numbers reported by Voda, Idea and yourselves on traffic; you still have some slippage, not very big, but some slippage on traffic market share. So where do we go from with so much already showing up in your P&L in terms of cost?

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia

If you look at our minutes they are about 9 billion and you got to ask them for their numbers, I would not like to comment, but to the best of our comparisons our minutes seem higher than both of them.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia

what we monitor; we monitor these industries at a very local level where we are monitoring incoming minutes, outgoing minutes and finer details all the time. I can assure you that we are quite mark-to-market right now.

K Srinivas, President Consumer Business, Bharti Airtel Limited

Reena, also you will have to look at the total minutes and not just 9 billion versus 8 billion, 9 billion versus 8 billion is only the incremental minutes, when you look at the total billion minutes generated by the network then look at the traffic share, you will actually see an increase.

Reena Verma - Merrill Lynch - Mumbai

Sure thank you. I will just wait for Sarvjit on my last question.

Sarvjit Singh Dhillon - Group Chief Financial Officer - Bharti Enterprises

Good afternoon, good to hear from you. I do not know what the usual amount as far as you are concerned as far as the question is concerned, but we have done an evaluation in governance process as far as this is concerned. As I mentioned earlier, the board has hired a committee of directors to evaluate the IPO process and that is subject to market conditions. I am sure the next few weeks we will evaluate it and the committee will evaluate and come back.

Reena Verma - Merrill Lynch - Mumbai

Sarvjit does this mean that as far as disclosure of Indus financials is concerned for Infratel IPO that is already in place in terms of an okay from Indus?

Sarvjit Singh Dhillon - Group Chief Financial Officer - Bharti Enterprises

Process is on like I said, the committee of directors is there, and necessary shareholder & regulatory approvals are in place, which includes also Indus.

Reena Verma - Merrill Lynch - Mumbai

Are in place, approvals are in place, did I hear you right?

Sarvjit Singh Dhillon - Group Chief Financial Officer - Bharti Enterprises That is right.

Reena Verma - Merrill Lynch - Mumbai

Thank you very much. Thank you gentlemen.

Sanya - Moderator

Thank you Ms. Verma. The next question comes from Mr. Rajeev Sharma from HSBC Securities, Mumbai. Mr. Sharma, you may ask your question now.

Rajeev Sharma – HSBC Securities - Mumbai

Thanks for the opportunity, just a couple of questions. First in terms of minute traction given that we are closer to middle of August, how has been the minute traction this quarter if we can get the feel from Sanjay on this? Second related question is on the mobile strategy so we have RMS of 30% and we have been taking an incremental RMS at 24%-25% around that. So why is not the strategy to long-term to protect 30% we have to chase the incremental RMS of 30% which is going to be very tough? Why not agree to or settle at point ok increment will be 25 and long term RMS will be let us say 27% and higher tariff and that strategy could be

more accretive on the EBITDA side? And lastly I would like to know what the repayment schedule for the Africa is over the next 12-15 months in terms of the debt repayments? Thank you.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia

Rajeev, you asked the pertinent question on the minutes traction during Q2 and you know that Q2 is the weakest quarter for the industry overall and the minutes generally in this quarter are subdued. So I think this quarter, probably, is not going to be a major exception and I think the seasonality does catch up in this quarter. I do not think that I can share anything more than that with you at this stage. However on the RMS you are right that there are choices to be made at every time to say how much of market share at what price and at what bottom-line and you have our word that we do practice a lot of prudence and careful choices that we make on that count. I obviously cannot commit or share with you as to what is the right mix but we will always drive this company towards the right balance between the market share and the bottom-line.

Harjeet Kohli - Group Treasurer - Bharti Enterprises Limited

Rajeev on the debt question of yours, on an overall basis if you see our June 30, financials the net debt is about \$12.1 billion and if you remove away the revolving lines that we have which are rather eternal, of the balanced debt just about 15% of our debt is what is payable in the coming 12 months which is hardly about \$1.3 billion which it is not any great refinancing load and that also in tranches. I would just like to put in context the \$2 billion of refinancing that was due in June earlier this year which had been successfully done much earlier than the June deadline itself, so the capital supply both the committed lines and available lines as also in pipeline financing for us continues to be robust.

Rajeev Sharma – HSBC Securities - Mumbai

Sir this \$2 billion was for the immediate first tranche which is to be payable, Harjeet?

Harjeet Kohli - Group Treasurer - Bharti Enterprises Limited

Yes. This June 12 was second year anniversary of our acquisition on which \$2 billion was due but we have prepaid this much earlier than June 7 itself securing further financing.

Rajeev Sharma – HSBC Securities - Mumbai

And this is the higher interest cost?

Harjeet Kohli - Group Treasurer - Bharti Enterprises Limited

Marginally yes.

Rajeev Sharma – HSBC Securities - Mumbai

Okay, thank you and all the best for the coming quarter.

Sanya - Moderator

Thank you, Mr. Sharma. The next question comes from Mr. Rohit Chordia from Kotak Securities, Mumbai. Mr. Chordia, you may ask your question now.

Rohit Chordia - Kotak Securities - Mumbai

Just a couple of small questions. The first is on has your attitude of handset subsidies in the Indian market changed at all even if marginally, as far as I understand and correct me or if my understanding is wrong 3G penetration in markets has taken off on the back of handsets of subsidies. It has played a major role. So after having seen the market for 12-15 months now, do you think the industry needs to get a little aggressive on this front and now that you have started getting aggressive on the sales and marketing side would you look at spending some of your sales and marketing dollars on this front? The second question is just on Africa. What

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portion of EBITDA margin decline was really contributed by the Rwanda launch, if you could just help me understand that? Thank you.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia

Rohit, on the handset subsidy given the current position in the market where the market is completely prepaid and very few postpaid customers and also no contractual obligation I think the case for handsets subsidies still does not change because it is very difficult to recover any dues from a customer who does not want to pay up and that is the risk that you run and also there is nothing that protects a customer from moving from one operator to another operator with the handset that he acquires, so I think that really makes the subsidy piece tough. However, I want to be very clear that handset and devices is a very integral part of our strategy and today we work with all leading operators in the market place on devices starting from Apple, Blackberry, Samsung, HTC, we work with all of them. Obviously given the constraints of our country we found innovative ways of reaching these handsets to the customers through reverse bundling for example, so we would go to a customer and say if you were to be with me for so and so time, then I will give you so much benefit on my network which almost tantamounts to offsetting the amount that he had paid for these handsets. So those like schemes are there, yes of course you are right that in bigger countries with larger operators they actually achieve burst their seams on the penetration of smart devices only by giving fully subsidized handsets. I am afraid given the financial strength and the structure of the industry and the constraints on the overall structure of the industry I do not think we can get into that practice right away.

Rohit Chordia - Kotak Securities - Mumbai

Sure sir thank you

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

Rohit the impact of Rwanda as you were asking is very small may be half a percentage point, it is a small impact on this quarter. We have launched 2G and 3G services both in Rwanda and now we are about to launch the Airtel Money also in the next few weeks.

Rohit Chordia - Kotak Securities - Mumbai

Thank you so much, thanks.

Sanya - Moderator

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

Sunil Tirumalai - Credit Suisse - Mumbai

Thank you very much. Just two questions, one on Africa and one on India. Sir on Africa we have obviously been behind our initial targets which we set for ourselves two years ago but I am just wondering when you did the review of the impairment charge this year in the annual report that does not seem to be any charge on that, so I am just wondering how you are looking at that and the second one Sanjay this is with respect to the India business, we started reporting the data related parameters for the first time. Just a book-keeping question so when we say data usage MB per user we include downloads and uploads or just downloads because we include both incoming and outgoing call on invoice?

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia

The second one is a very easy one, answers both.

Srikanth Balachander - Chief Financial Officer – Bharti Airtel Limited

I will take the question on the goodwill of impairments evaluation that we did for the fiscal year for March 31, as you know the business plans consider which is there right at the cash flow level, and therefore if you see cash flows of Africa whether it is the last eight quarter cash flow or whether it is the projected cash flow that we have internally done, they are stacking up positively and we are concerned in our annual accounts that there is the headroom as far as the goodwill exercise is concerned whether it is the value of the assets and compare it with the goodwill. The one positive factor I just wanted to refresh, everyone's minds if you could kindly

go through the operating cash flow of Africa in the last three quarters including this quarter \$140 million of operating free cash flow has been generated and that is what really matters for as far as the goodwill impairment or the goodwill evaluation is concerned.

Sunil Thirumalai - Credit Suisse - Mumbai

Yes just a followup on that sir, basically the cash flow is looking up in Africa, yes I agree on the operating income side but also because the capex is also coming of pretty sharply. So how does the guidance currently stand both for India and Africa? I think this was not asked so far in the call today, if you could just update us on the India and Africa guidance?

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

Let me start with Africa. Srikanth is right. I think our cash flow operating free cash flow is picking up very well. Capex originally we were thinking it would be beyond \$1 billion but now the latest estimate we have made is closer to 900 million which could be invested in Africa this year.

Sanjay Kapoor - Chief Executive Officer - Bharti Airtel Limited - India & South Asia

I think as far as the capex for India and South Asia is concerned now, as already said we are keeping it at what we have committed earlier, between \$ 2 and \$2.2 billion.

Sunil Thirumalai - Credit Suisse - Mumbai

That is helpful. Thank you very much.

Sanya - Moderator

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