Earnings Conference Call Transcript

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CORPORATE PARTICIPANTS

Manik Jhangiani
Group CFO - Bharti Enterprises

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

Sanjay Kapoor
CEO - India & South Asia- Bharti Airtel Limited

Atul Bindal
President, Mobile Services - Bharti Airtel Limited

K. Srinivas
President - Telemedia, Bharti Airtel Limited

CONFERENCE CALL PARTICIPANTS

Sachin Gupta
Nomura – Singapore

Srinivas Rao
Deutsche bank - Mumbai

Rahul Singh
Standard Chartered - Singapore

Rajeev Sharma
HSBC - Mumbai

Malvika Gupta
JP Morgan - Mumbai

Rishi Bothra
JM Financial - Mumbai

Sunil Tirumalai
Credit Suisse - Mumbai

Piyush Chaudhary
India Bulls – Mumbai

PRESENTATION

Surbhi - Moderator

Good afternoon ladies and gentlemen, I am Surbhi the moderator for this conference. Welcome to the Bharti Airtel Limited Second Quarter Ended September 30, 2010 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. Manik Jhangiani. Thank you and over to you Mr. Jhangiani.

Manik Jhangiani – Group CFO – Bharti Enterprises

Good afternoon to all of you joining us for the second quarter and half year results announcement today. I think this has been a very flattish quarter for our company and a lot has actually been accomplished. Of course with immense satisfaction that I update you that despite the odds, be it the seasonality effects in India, the multiple geographies that we have taken on, the multiple priorities to deliver in a short period of time, the management team has been able to address all that was needed as evidenced by our results for this quarter.

Let us just look at the backdrop I think you are all well aware that in South Asia, in India, there has been continued pressures on the competitive front, tie-ups, and multisimming. The second quarter here has always been seasonally weaker in the telecom sector. Results in Bangladesh have added new priorities to bring in superior business performances and finally the 3G spectrum allocated and the huge data opportunity waiting to be well harnessed. At the Africa level, which is really the first full quarter when we had the reins fully in our hands, so getting the strategic pieces rightly put together specifically around culture, philosophy, our model and importantly the induction of the right talent. So against this backdrop let us assess what the teams at the group level and at the operating leadership at both South Asia and Africa have been able to collectively deliver.

Despite the seasonality of Q2, India has maintained the aggregate usage and importantly rate at a very stable rate at a stable level. In this competitive environment this is a huge accomplishment leading us to further solidifying our leadership position in India. We picked up the needed capex and rollout of network post the security clearance issues sorting out. Work on our 3G business proposition, delivery architecture, platforms, capex, and supplier partnerships you would have seen some announcements made on this regard for the India business. We are working to make 3G really a pan-India proposition. Sri Lanka and Bangladesh showing the right sign to solid improvement as desired and deserving of the toil invested in these markets and Sanjay will give you clearer picture on each of these initiatives. If you look at the Africa level we have really started attacking all the big blocks, we have announced the IT outsourcing and closed that on the customer service and BPO partnerships, added Telecom Seychelles to African operation, initiated and closed on our strategic planning process for all these markets including the operating plan under the Bharti model and our philosophy, get all the key people movements done at the Africa level both centrally and a few of the outposts. 2G and 3G capex in their last mile announcement show these schemes shortly. Higher business is a separate vehicle both for efficiencies and sharing enablement, works have already been initiated in this area as well and a host of in-country strategic interventions be it price, networks, distribution all these are being taken care of as well. So all in all while clearly a lot to do, a lot is also already been achieved and all this clearly reflect in a very strong set of financials announced this quarter. Revenue growth both at the South Asia and the Africa levels continued solid cash generation in the South Asia business, which resulted in debt pay downs. South Asia usage revenue rates and margin sustained. Africa revenue growth despite tariff interventions and really if you step back and look at this, you know, for the first time ever clearly reflective of our increasing global scale and stature of Airtel, you know, we have delivered close to $3.5 billion of revenue this quarter, with over $1 billion of EBITDA and over $1 billion of cash profit for quarter before any exchange related or other extraordinary items.

Importantly we have generated over $1 billion of operating free cash flow in the first half of the financial year, so all auguring well towards the huge opportunity facing us in South Asia and Africa and our strategy is showing early signs of being very much in the right direction. I will now hand over to Sanjay to take us through some more details of the South Asia business.

Sanjay Kapoor – CEO - India & South Asia- Bharti Airtel Limited

Thanks Manik. A very good afternoon and a very warm welcome to you all. I hope you all had a happy and safe Diwali. The quarter gone by has been a very satisfying one. Traditionally July to September quarter has been a quarter of subdued customer demand for telecom industry and the last quarter was no different. This year the seasonality effect was even more pronounced because of floods in many parts of India in addition to the holy abstinence months of Ramzan and Shraddh, I call this quarter satisfying primarily because despite seasonality dips, overcapacity in the Indian market and ongoing multiple sim phenomena we sustained our revenue usage and rates.

Before I share the performance of India and South Asia in detail let us have a quick recap of Indian telecom market. At the end of last quarter telecom base reached close to 725 million customers with the teledensity of 61% for the country and 26.4% for rural India still offering a huge potential for growth. Wireless continues to drive telecom sector with 688 million mobile customers adding more than 52 million customers in the quarter. DOT has allocated 3G and BWA spectrum to successful bidders of the spectrum auction at the end of Q1 in September. Our belief is that spectrum being a technology agnostic asset would drive demand in three ways, firstly by addressing opportunities traditionally attributed to 3G, secondly by decongesting the 2G space, and finally by driving a mass market opportunity of hand-held based internet connectivity. On the customer reverification issues DOT had extended the deadline by two months up to December 31, 2010. The majority of our customer base has been already verified and remaining pieces as we speak through is being re-verified. In case of MNP as per DOT pan-India MNC migration is to be completed in January starting with Haryana this month. We have already completed intra-operator acceptance testing from network and provisioning systems and are in progress of finalizing the migration plans.

Moving to the highlight for the last quarter performance of the company for India and South Asia operations. As Indian telecom industry prepared itself for a much anticipated consolidation in the near future with the stabilizing comparative environment we continue to strengthen our revenue market position and it is evident that our 0.6% increase in RMS, which takes it now to 31.2% in Q1 is absolutely a testimony to what I just said, while the industry continues to add anywhere between 17-18 million customers a month these are actually SIM addition and does not reveal the real new customer addition.

The company added 7.7 million customers including DTH on its network with mobile adding 7 million customers alone. The total customer base on fixed, mobile, and DTH in India alone stands over 150 million. We held on to our minutes traffic more importantly managed to uphold the realized rate per minute witnessing only a small decline of 0.4 paisa per minute, which is the lowest decline in the parameter in the last seven quarters. The consolidated revenues of Rs.113.3 billion for the quarter ended September 30, 2010 represents a growth of 9.2% year-on-year thereby reinforcing our revenue leadership in the market despite many competing challenges. The consolidated EBITDA for the quarter was Rs.42.2 billion and resultant EBITDA margin was 37.3%. The quarter gone by witnessed increased network expenses on account of increased size rollout coupled with higher energy expenses with the increase in diesel prices. There is also a full quarter impact of the increased salary expenses that was implemented in June 2010 factored in. The cash profit of the company for the quarter was 42.5 billion, a growth of 3.8 year-on-year. The profit before tax for the quarter was Rs.24.5 billion while the net income was 20.4 billion. The profit margin for the quarter was 18%. The consolidated capex for the quarter was Rs.29.3 billion including that of Infratel. The standalone capex for the company was 23.4 billion, nonvoice revenue as a percentage of mobile revenues in India has witnessed an increase from 11.6% in Q1 to 12.7% in Q2 of financial year 2011. This highlight once again of Airtel being at the forefront of data revolution as we continue focusing on diversifying revenue stream with concerted focus on nonvoice revenues beyond SMS. We have joined hands with Nokia to launch 'Ovi Life tools' targeted at providing our mobile customers with access to relevant content on agriculture, education, and entertainment. This is available in 11 languages in addition to English. We also launched 'Talk2Me' a live interactive voice service with celebrity that is hopefully going to be a picky service going forward. We continue to explore and evaluate new growth avenues including M-commerce; in the M-commerce space we have been granted the license by Reserve Bank for the 'Semi-closed wallets (SWC)'. SWC are prepaid payment instrument that will allow our customers to exchange physical cash for virtual money, which can be stored on mobile phone to pay for goods and services for transaction value less than Rs.5000 to a specific merchant location. Sri Lanka and Bangladesh operations continue to move in the right direction with growing revenues and optimal expenses despite adverse regulatory changes including imposition of flow piping and introduction of mobile termination charges Sri Lanka witnessed a robust growth in traffic with minutes kicking in from the eastern region wherein the service was launched in the previous quarter. In our Telemedia business there is continued focus on the data part resulting in over 80% of all B2C Telemedia customers being data users. On an overall basis 42.8% of the Telemedia customers subscribe to DSL services. We are committed to enhancing our customer experience in line with our customer expectation and therefore have upgraded everyone to a minimum speed of 512 kbps. On Enterprise Services we have received a Cisco Gold Certification becoming the first Indian telecom company operator to achieve this recognition. We have also launched Easy Cable System along with other global telecos a 10,000 km cable with a capacity of 1.4 terabits per second making it the largest submarine cable system serving the African continent. This enables us to ensure all time connectivity to eastern African countries with the world. Last but not the least Airtel Digital TV maintained its share of gross addition adding every fourth customers on our network. We had 3.9 million customers at the end of September despite being a late entrant Airtel Digital TV has captured the imagination of customers, which is evident from the fact that we are being ranked at #2 in the Hindustan Times-MARS consumer satisfaction survey on India's favorite DTH operators.

On an overall basis I would say a great quarter where we delivered on mobility against backdrop of a weak seasonal quarter, improved on nonmobile business across financials and operational parameters, and are now well placed to capitalize on opportunities around data be it in 3G or VAS or other new opportunities.

With this I hand over to Manoj for taking up the discussions on Africa.

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

Thank you Sanjay and I welcome all friends to this investor call. Happy Diwali to all of you. First I wanted to recap, take you back five months on the key reasons why Bharti acquired Zain in Africa so that what I say later can connect up with the big story why we took this big call of large acquisition. Africa as you know is a one billion-population continent. By and large it has low penetration of 20%-25%. It has moderate competition may be to 3-4 major players. It has healthy tariff structure of 6 cents upwards and Zain when we took over was #2 in Africa continent, which gave us a fantastic takeoff platform as a company new in Africa. So these are the key reasons for acquisition and I think these reasons continue to get stronger by the day. In the last five months since we have acquired the company, we have integrated the operations completely with Bharti. The headquarters in Nairobi has been launched with high quality leaders from Bahrain, which was the headquarters of Zain and of course some leaders from Bharti India and of course some very high quality African colleagues saw that integration within first 90 days was completed, all the information flow, all the decision flow, all the cultural flows have taken place. We also in the same period of five months have registered the declining trend, if you review last six to eight quarters of Zain there has been declining trend of revenues and EBITDA due to lack of investments and lack of market participation by Zain and those trends have been arrested, not only arrested but also we can see positive trend now and this has happened primarily because we have redefined the market, redefined our strategy country by country, which has let to new adds in the quarter, the 3.7 million, which is highest ever Zain has done. We also have made tariff changes in 10/16 markets and primarily we have withdrawn the unsustainable premium, we have driven simplicity in tariff and let me share with you that the early results are extremely positive, elasticity definitely exists in Africa, how much is difficult to say, I think it will take us another two quarters of experience whether it is the same as India, higher than or lower than India but definitely elasticity of usage exists. Our revenues have grown this quarter by about 4%, our MOU per customer has grown by 9% and overall we believe that the pricing power of Africa is important and we will retain the pricing power but we will focus both on off-net as well as on-net traffic so that we give more choice to the customers to call. Firstly we have initiated deployment of our innovative Bharti business model, which has started. Within two quarters from now we will complete restructuring of seven or eight key areas where the business needs restructuring so that we can have more scalable platform.

Let me start with network all the networks have been audited, the quality of service has improved, new capacities are coming in, the network architecture in terms of quality and reliability has been under transformation. In the next few weeks we will announce our strategic network partners in Africa because the negotiations are on the final stages. On IT front we had already announced the extension of IT transformation agreement with IBM in India. IBM will be our IT partner in Africa too and already I can see many IBM leaders in Africa helping our team country by country in launching the new IT platform. Going ahead on BPO we have signed agreements with three BPO partners, IBM, Tech Mahindra, and Spanco. All three partners are extremely hungry to build their call center infrastructure in Africa and they have already made plans to build their call centers, transition employees and really provide high quality service to customers and now this is the first time in Africa any BPO sector activity has been launched. On the distribution front we are redefining the model, we have good existing distribution, dealers, and distributors, but I think we need to do much more, like in India we had a matchbox strategy we went deep into the market in terms of accessibility by customers, in the same kind of ethos, we will relaunch and have deeper distribution in Africa too just like FMCG companies have and also introduce electronic recharging for the convenience of our customer. The brand launch as we had committed will happen in this quarter, it will happen in the coming weeks and this is not just about change of brand name, it is also about change of brand experience, experience of networks, experience of call center service, experience in showrooms, experience of IT power, and experience of overall innovation product services, which we bring to the table for the customer. Also inside the company we have initiated a cultural transformation on new ways of working for people, colleagues who have joined us from Zain Africa in terms of openness of culture, entrepreneurial spirit in the company, speed of our execution and of course multitasking with Bharti's famous plot. On the government side let me share a good news we have had great start in our relationship with each national government, all 16 national governments, they are very supportive of Bharti's entry into Africa and our agenda is fully aligned with the government agenda. In many countries the president, prime minister had commented that how aligned Bharti is to future growth based on government agenda so I think that is a very good start from a regulatory and government point of view. We also see new opportunities on the nonvoice front in Africa, as you know in Africa there is no internet connectivity or DHL, unfortunately we have 3G licenses in nine markets out of 16 and therefore we will definitely have a significant 3G focus to provide wireless broadband to the use of Africa. At the same time in the last few months we have realized that there are challenges in Africa, which we need to study, analyze, and overcome in matter of few months. For example the logistics is very tough vis-à-vis Europe, US and even India. For example certain costs especially labor cost are high and also availability of expertise, skill, capability is not as high as we expect. We are confident that we will be able to overcome these challenge through the scale, which we are building up, through the standard platforms we are building up, through automation we are doing so that logistics can become easier and smoother and we also expect through this to bring down the cost structure in Africa. We believe that after two quarters of restructure of each of these major areas we will surely have healthier business with superior market share and scalability to grow the business to over 100 million plus. Overall, let me reinforce that it was a great decision to enter the new continent, and take the Indian consumer brands to 16 new countries.

Let me now share a bit about our disclosures for our reporting purpose. This is the first full quarter of reporting the performance of African operation. Last quarter as you recall had only 23 days of performance. Like last quarter our disclosure currently is bifurcated at two levels, Africa operations that comprises of our 15 country operations and Africa others, which comprises of holding companies of our operating entity. At this juncture, we would like to keep the disclosure at this level only.

Moving on to performance of the company during the quarter. The company has a total 40 million active customers at the end of the quarter. When I say active, these are customers who have made calls during the month and the customers who have not made calls are not considered as active customers.

Moving on to financial performance. The full quarter performance is about revenue for the quarter being Rs.38.9 billion. EBITDA being Rs.9.3 billion resulting in an EBITDA margin of 23.9%. EBIT for the quarter is 1.7 billion. The ARPU in the quarter is US$7.4. MOUs, as I said earlier has grown to 112, which is a 9% improvement over last quarter. I truly believe that there is major elasticity in each of our 16 markets. During last few weeks we have done some tariff intervention and already manifested some of these elasticity. The market currently faces huge challenge of multi-sim environment and the current churn levels are high, also due to KYC registration imposed in many countries we are experiencing high churn in line with market trend. The monthly churn is in the range of 5% to 6%, which we hope should come to normalcy in a couple of quarters. Non Voice revenue is just about 7.1% of our total revenues and I believe that there is a huge opportunity to grow this based on 3G based data application, M-Commerce and many, many other mobile enabled service. The company has close to 11,000 sites on the ground with additional investments in the form of opex and capex, we expect enhanced coverage in the coming quarters, as well as improve our quality of network. The good news being is that the support which we are getting from our partners is enhancing our speed of implementation of network.

Overall I would like to reiterate that the decision of moving into Africa is a great decision and the right timing too. After spending five months in Africa and understanding the ground realties we are more confident of our success and remain committed to investing for significant growth in the company.

Thank you and over to the moderator.

Surbhi - Moderator

Thank you, very much sir. We will now begin with the question and answer interactive session for all the participants who are connected to 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 question may press "*" "1" on the 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. Sachin Gupta from Nomura, Singapore. Mr. Gupta you may ask your question now.

Sachin Gupta – Nomura - Singapore

Thank you very much and good afternoon. Just few question, firstly on the Indian wireless traffic patterns in the September quarter we have not seen much of a growth domestically. Just wondering any thoughts there, because if you look at some of your peers have registered a place to trips and growth, just wanted your thoughts on that? Secondly, Manoj for the African businesses you did talk about the labor cost and some of the other issues. I was just interested in your thoughts on if you look at cost per employee in Africa that seems to be about US $50,000 per annum and India is half of that. Are there any major differences there, that is one thing and the same thing with the networks as well if you look at the subscribers per cell site Africa versus India, there seems to be much of discrepancy there as well, so just any thoughts there would be appreciated. Thanks.

Sanjay Kapoor – CEO - India & South Asia- Bharti Airtel Limited

Sachin, on the voice traffic let me say that there are two options available at the beginning of the quarter. We had grown very well on traffic share during the Q1 and Q4 of the last year and therefore there was a choice to be made to say do we allow the rate to deplete further and part of the paid in the free and cheap minute market or to abstain from there and make sure we protect our price, and we chose the latter, and I think paid good dividend to us and I think the loss on account of rate drop would have been lot more severe on the results. So I think it was a good decision in the hindsight and considering the seasonality factor I think to sustain our traffic during this quarter I think we are reasonably satisfied with that.

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

Coming to the second question about cost per employee, the cost per employee is about $4000 a month and you are right it is higher than India primarily because the cost of the composition levels in Africa are higher, we also have no outsourcing in Africa today, so all the employees if you see 6,371 employees there, but as we outsource we will see the number of employees will transition to our partners. Now the cost per employee may not come down, it may actually go up; because outsourcing will take away employees may be who are at the middle level or at the lower level. So we see the trend, and see how the productivity and efficiencies can go up further and that is one of the strong programs for the next few quarters. Also the customers per cell site, you are right, due to the intensity of network coverage has to be better I believe that network utilization in some parts of Africa is very moderate as the marketing operations become intensive, you will see more and more customers per cell site. We have already initiated a lot of KPIs, which we utilized very well in India with this kind of improvement. You will see the improvement trends quarter-after-quarter now.

Sachin Gupta – Nomura - Singapore

Thanks Sanjay. Can I just followup on this, you answered the first question obviously we are focusing on keeping the process a bit more resilient but we are seeing that our 3G round the corner and there is still 3G launches happening as well, is that something you intent to maintain going forward as well?

Atul Bindal –President - Mobile Services – Bharti Airtel Limited

Sachin, this is Atul Bindal here. Quite frankly, on 3G we have not firmed up our prices as yet, but we do not believe there is any reason at all to think in terms of discounting those prices. In fact whatever first signs we have seen from the industry and rest of the players are signs of responsible leadership because obviously adoption of customers would take place for those who are already data exposed or data using customers in some manner or the other and therefore it is only as rest of the eco-system grows in the country, both in terms of devices as well as application that we would see adoption rates take place at a faster rate, which might necessitate different kind of pricing strategy but that would happen only later on.

Sachin Gupta – Nomura - Singapore

I appreciate that. Thank you.

Surbhi - Moderator

Thank you, Mr. Gupta. 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

Thank you very much. I have two questions, one on Africa, Manoj has kind of mentioned that they have taken tariff intervention in 10 markets of the 16. Could you may be throw some light on the larger markets like Nigeria, Uganda, and Kenya, we are seeing some pretty strong interventions in markets like Kenya, so if any country based insight if you can give that would be great? That is my first question.

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

Firstly we do not want to comment on country-by-country generally because those are very specific to the countries and we know that county is specific. Secondly, let me clarify Kenya is one of the small markets, it is not a large market comparatively compared to Nigeria, Zambia, DRC and Gabon, etc., Kenya is a much smaller market. Third, I want to explain to you and which I said in my earlier speech that we have corrected unsustainable premium, there are some markets where we have had premiums going up to 30% to 40% over to the closest competition, which obviously are not sustainable, they were harming the company, they were harming the market share for the last many quarters, so we thought as a first flush we should correct all these unsustainable premiums, not that we do not have premiums today. I think we have sustainable premiums up to 10% or 5% from there or competitive tariffs somewhere, which are sustain-free. Every country as I said earlier has an independent market strategy-based on the consumer behavior, consumer needs, which are potential as well as competitive intensity. So I really do not want to share more on that because I think this sometimes tantamount to be competitive information, but let me assure you on the price front we are not in Africa for the price war, because that is some consideration, which has happened in few quarters. We are there for long-term healthy business and we are very clear that we would utilize in a positive way, the pricing power of Africa, because the pricing is healthy and that is why I want to give a clear message to all investors who are listening in this call that we are not here for a price war, we are here for stable prices but competitive prices. We will not have uncompetitive prices as Zain had in the last few quarters. All these corrections made are towards this intention of the company. I hope this clarifies?

Srinivas Rao - Deutsche bank - Mumbai

Yes, sir. I have a second question, on the India 3G strategy, you said this particular effort I think which you and Idea are making for a pan India 3G network what exactly is the thought process behind it. Obviously you take on a new competitor in an existing market, in your 13 markets and you do get footprints outside that. So is there a thought that that will be a net value add over a period of time?

Sanjay Kapoor – CEO - India & South Asia- Bharti Airtel Limited

Well Srinivas, you are right that because we have got license in 13 circles, if competitors being the strongest operators in the market to offer a pan India footprint for our customers and therefore alliances with other quality and leading operators becomes a necessity and those dialogues are on and we are very hopeful that by the time we come to the market with our offerings we will have alliances with some of those partners to bring pan India services and footprint for our customers.

Srinivas Rao - Deutsche bank - Mumbai

Pricing will be uniform or independent or is that just a marketplace construct? I mean the agreement basically would talk about overall cost, is that a fair assumption?

Sanjay Kapoor – CEO - India & South Asia- Bharti Airtel Limited

Absolutely. Pricing is determined by the market dynamics. It is not determined by what goes behind the alliance.

Srinivas Rao - Deutsche bank - Mumbai

Thank you, so much.

Surbhi - Moderator

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

Rahul Singh – Standard Chartered – Singapore

Good afternoon everyone. I had two questions; first to Manoj on the Africa strategy. From whatever I see in the results in terms of subscriber per cell site or in terms of the fact that the amount of capex going in is really at the same level as what we are doing for Bharti in terms of capex to EBITDA or capex to sales, what it seems like is that the low hanging fruit in Africa is not really from the low cost model per say but from rebranding or just repositioning the company and just utilizing the assets better, before you get into the low cost models so some comment on that whether that is a correct reading? Secondly, continuing with Africa on the financials the EBITDA if I see the depreciation run rate for Africa its running at a lower rate than what it was in 2009, if I just annualize this quarter's numbers, so any comment on that whether there has been any change in the depreciation policy, etc?

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

Thank you, Rahul. I will respond to the first query and the second query I will request my colleague our CFO of Africa, Mr. Caba Pinter to respond. So let me start with the first one. I think you have a very good point here. I believe that we need to one hand leverage and implant our unique business model which is low cost model and then we say that we will implant the model, we are not trying to say that we will just implant the India model we are doing a +1 in India model, we are customizing the India model to specific needs of Africa, so it has become an African model and for Africa this will be the most efficient model, and that has to be done early on because it is better that we do at 40 million scale rather than try to do at 100 million or 200 million scale. If we do it now then there is more and more economies will come to us when we reach to 100 or more million customers. So at the same time what you are saying about branding and repositioning the company's approach to customers, the innovation, the possibilities and potential in each country I think that is definitely high on our agenda. We are definitely you will see that as soon as we launch the brand you will see a flurry of new innovations, new products, new offers which will surprise the customers in a positive way, which will surprise the government in a positive way, so that they are able to support us more. I think next five or six months of post launch period will be important for us and for the customers and I would request you to be tuned to what all we do in Africa. I am sure customers will have a very positive time in post launch period. Can I just request Caba to come in now?

Manik Jhangiani - Group CFO - Bharti Enterprises

Thank you Manoj. This is Manik. I will take that question in terms of depreciation. As a part of the fair value exercise we have to revalue the assets that we have taken on, so while there has been some reduction in the passive and the active side, there has also been an increase on the intangibles such as customers, dealers, licenses so you have slightly lower depreciation versus what you would have seen on the 2009 books that you have a higher amortization on those intangibles. There is also deferred tax asset that has been recorded which would also be reversed as we go through, so you have to look at the tax sheet as well as the depreciation amortization piece to get a true picture. So there is some slight net benefit to the bottomline but I think as we finalize the fair valuation exercise we will be able to give you some more details on that, but keep in mind we have to look at both those elements together not just one line item.

Rahul Singh – Standard Chartered – Singapore

Thanks Manik. Just one quick followup to Manoj in Kenya specifically without rebranding have you seen any total evidence of churn from say Safaricom which has the 80% market share just to get a sense of whether there is any kind of bug which is followed, I know the MOUs are up, but just from Kenya's example is there any churn you was seeing from Safaricom customers?

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

Rahul, very frankly I do not want to comment on each market but probably I can say that the Kenya experience has been very positive for us in terms of traffic, in terms of revenues as well as in terms of customer satisfaction. I definitely feel that customers and especially the high value customers of Kenya have a very positive orientation towards our brand now and you are right after the brand launch I think that positive orientation will become more positive when we come out with more innovations and quickly try to attract more and more high value customers.

Rahul Singh – Standard Chartered – Singapore

Thanks Manoj.

Surbhi - Moderator

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

Rajeev Sharma - HSBC - Mumbai

Thanks for the opportunity. I have a couple of questions. First is Sanjay if you could share you thoughts on MNP given that by January we will have Pan India MNP and Bharti has a bulk of postpaid subscribers in the comparison to the overall industry. Separately what has been the usage pickup so far in this third quarter? Diwali is over. We are entering the marriage season but how have been the runrate any early signs of pickup in usage as seasonality coming out and lastly my question is about this news item on Qualcomm selling the Delhi circle to Bharti or the BWA Spectrum, some clarification and if you, most likely you will deny it today, but if you can just throw colour that if tomorrow such things happen what is the thought process behind it, that is it from my side.

Sanjay Kapoor – CEO - India & South Asia- Bharti Airtel Limited

Rajeev, I will start in the reverse order because your bottom two questions are easier to answer. You know on the Qualcomm piece I think these are sheer speculation, right now we are busy with 3G rollout and that is where our concentration is, we will begin to think about BWA subsequently. Coming down to how traffic is picking up, we as a company, you know do not give any forward-looking statements and it will be absolutely incorrect on my part to actually divulge any tracking on that count, however if you go by traditional trends in Q3, Q3 always comes out very handsomely after a Q2 decline and I hope the gods are still on our side on that one and the same trends continue. As far as MNP is concerned, operators have completed the inter-operator testing and are in the process of finalizing the migration plan. As per DOT last minute of the meeting the pan-India MNP migration should be completed by January 19, 2011 on an industry request and this will start from Haryana as a pilot from November 22 and all I can say is that both IT and network are in good position to live up to these deadlines and I think on many of these things we are ahead of the curve. We clearly see that MNP in the long run is going to be an opportunity for a brand like Bharti Airtel in the Indian marketplace.

Rajeev Sharma - HSBC – Mumbai

Just a followup Sanjay, basically the question is for Manoj. In the initial opening remarks it was mentioned that the tower has been created as a separate vehicle in Africa, so all the formalities of that are over in terms of basically unlocking value or doing anything separately with the tower business in Africa?

Manik Jhangiani - Group CFO - Bharti Enterprises

On that, obviously we are working through that. We have been to understanding the legal and the regulatory framework to actually allow for the separation of these assets into a separate tower company in each of these countries. We are also in the process of setting up these companies in each of these operating companies, so the work has started up, but we are nowhere near complete. You can imagine in 16 countries with 16 different regulatory environments legal requirements we are working through that but the work has been initiated and we should be able to complete that over the next couple of quarters.

Rajeev Sharma - HSBC – Mumbai

Thanks Manik. Thanks Sanjay.

Surbhi – Moderator

Thank you Mr. Sharma. The next question comes from Ms. Malvika Gupta from JP Morgan, Mumbai. Ms. Gupta, you may ask your question now.

Malvika Gupta – JP Morgan – Mumbai

Thanks for taking my question. My question is on Telemedia, clearly we had a better set of margins in the quarter, I wanted to understand the drive this year and how we should be thinking about that going forward and secondly for Africa I want to just try and understand the impact of the outsourcing agreements, just from the employee perspective issues which was mentioned a little bit earlier but also in terms of any other businesses and if I can just have a clarification on the capex in Africa, the number so far seems to be tracking sort of well below $800 million, I guess for the fiscal, so I just wanted to check how we should be thinking about this in the second half of the year. Thank you very much.

K. Srinivas – President – Telemedia

Malvika, hi, this is Srinivas here, on your first question on Telemedia margins you are aware that we have actually formed this group called NSG wherein we have actually integrated all our network assets and we are really looking at the network of Telemedia, mobile and all the fiber assets that we have in order to drive better efficiencies, so clearly network efficiencies have helped us to improve our margin, that is point number one, point number two is if you really look at our revenue profile, clearly the impact of data and broadband is showing up on our margins, I think these are the fundamentally two reasons why over the last couple of quarters you had seen margins being steady and robust and I think around 45-46 mark I think is a healthy margin and going forward I do not want to really talk anything about it, so I do not think you can read anything more than that at this point in time.

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

Okay, let me move to the second question you asked on Africa. The outsourcing process has started and the good news is that the acceptance of employees is very, very high. The first announcement which was made on IT was taken in a very positive fashion by all employees; about 80-90% of IT employees will move in to IBM, balance will stay back into the company to help the company through the planning and governance, subsequently when the announcement of BPO was made, that also has been taken up very positively by employees, all the senior leaders of the company including HR are really engaging the employees trying to make them understand how this outsourcing has been so positive in India and employees actually have benefited from the outsourcing, so this has been a great start and I am sure this will continue through network outsourcing also. On capex you are right, I think the capex deployment momentum is picking up of both passive and active and that is why we are planning to retain the capex guidance of around $800 million for the year up to March 2011.

Malvika Gupta – JP Morgan – Mumbai

Thank you very much.

Surbhi – Moderator

Thank you Ms. Gupta. The next question comes from Mr. Rishi Bothra from JM Financial, Mumbai. Mr. Bothra, you may ask your question now.

Rishi Bothra – JM Financial - Mumbai

Hi, I have couple of questions on the Africa side of it, would just like to understand the effective rate of taxation which you mentioned has increased because of the result of taxes in the Africa segment, this is part of the media release, I just wanted to understand there because as per the release you seem to be running losses there. The second question is to understand the interconnect and license charges on the Africa piece. There were no license charges which were there earlier, but we see some license and spectrum charges coming in this quarter and also in terms of the understanding the interconnect over the access charges, we see that has gone up significantly, so if you could throw some light on that? Thanks.

Manik Jhangiani - Group CFO - Bharti Enterprises

Rishi let me start up with your first question on tax and then I will hand over to Manoj. You know across the 16 countries in Africa it is a pretty complicated tax structure to actually be able to give you some specific numbers, but let me just gives you a sense of what we are doing. We have got several countries that are loss making and we do have several countries that are actually profit making in Africa as well. Obviously on the profit making countries we have to record a tax, on some of the loss making countries, we have actually taken a much more prudent approach and we are not creating a deferred tax asset for those and as soon as we have definitive plans of knowing when those countries will turn profitable which we are finalizing over the next couple of quarters we would start with recording a deferred tax asset. There are a couple of countries in that loss making category where we are recognizing a deferred tax asset, but I think all those in a certain way complicates the matter and if you look at it from angle of the country tax rates those range anywhere on average from about 30-35%, so you will have one where there is a tax charge, you will have some that has a deferred tax asset created and others that do not, so net-net you would have a tax charge. Keep in mind also there are a couple of countries that still have NAT charge or a charge on turnover, a tax charge on turnover, so all those regardless of whether it is a profit or loss situation would also have an impact on the taxation, so again, quite complex, I think as we set this down over the next couple of quarters we will be able to give you some more guidance on a going forward basis as to what you could think of as an effective tax rate for Africa.

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

Okay, coming to your other two questions on Africa, there is a licensing cost or a license fee in Africa of different types in each country. In some countries, it is linked to GR, which is gross revenue, in some countries it is linked to net revenues, some countries it is linked to the PRXS you deploy. We are working with all the regulators to standardize the definition of adjusted GR so that you know we have a consistency in definition but it will take time, it has not happened so far, but there is a cost of 3%-4% of license fee and spectrum fees. On the interconnect cost this cost has gone up primarily because we are also driving off-net traffic which traditionally has been very low in Africa, in some countries it is in single digit, but it will have to go up because we cannot drive this on net traffic therefore the cost of interconnect may have gone up, but we are working with every regulator to bring down the interconnect rate. In many countries the rates are really very high vis-à-vis what they should be for the level of GDP per capita of that country, so I think over the next one year you will see interconnect rates coming down in Africa and make the services more affordable.

Rishi Bothra – JM Financial – Mumbai

Just a follow up question if you may allow me, in terms of looking at cost structures between India and Africa largely we find that on network side, maybe because of under investment the charges are not to the order of India where they seem to about 23% of revenues in India but about 18% in Africa, clearly the only areas where one might look at some optimizations happening appear would be employee cost and a big chunk sitting in SG&A, so if you can share thoughts on that as to whether this is the right reading or what it would be?

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

Every cost will have a huge efficiency drive in Africa, drive by eliminating wastage which maybe the company has been doing till now, drive by implanting our unique business model which will definitely bring in more economies of scale and drive by having global contracts with our major strategic partners who will actually have contracts for the complete Bharti whether it is India, Bangladesh, Sri Lanka or Africa and I think each line item of course will get efficiency in the coming few quarters, so we see absolutely ever line item and not in an limited way but in a holistic way.

Rishi Bothra – JM Financial – Mumbai

Thanks for answering the questions that is all from my side.

Surbhi – Moderator

Thank you Mr. Bothra. 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. Manoj, just a question for you on Africa, i just wanted an update from you on the FY 2013 targets that you had earlier put out four or five months ago, any update to that looking at the developments over the last few months?

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

No, I think those were my aspirations as we acquired this company and I stand by that prediction, I think we are confident, of myself and my team is stronger vis-à-vis what it was five months back and primarily because five months back we really did not know this continent, and today I can say with confidence that we know the continent, we know the customers, we know the governments, we know the competition, if not 100% maybe 70%-80%, but I am sure in the next quarter or two our knowledge will be far superior and we will be able to move with speed and more confidence, so I am confident that we will be able to achieve those targets which I shared with you.

Sunil Tirumalai – Credit Suisse – Mumbai

Yes, that was useful. My second and last question is on the margins in the Africa side, you did give out good explanation of the drivers for the reduction in margins, I was just wondering how many quarters phenomenon would that be and by when can we expect the margins to start kicking up again?

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

Margins I will leave it to efficiencies and productivity and they are linked to our change in business model. As I said it will take a couple of quarters to restructure our model and customize it to the needs of Africa, complete execution of seven, eight big initiatives we have taken up and as each of those initiatives frutify I am sure it will have a positive impact on margins, I really cannot say anything more because we really do not give guidance but I can only see a positive trend as we continue to restructure.

Sunil Tirumalai – Credit Suisse – Mumbai

Sorry, just a last question the Africa re-branding I am not sure if you had mentioned earlier in the call when do you plan to do it?

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

In a few weeks.

Sunil Tirumalai – Credit Suisse – Mumbai

In a few weeks, okay, that was useful. Thank you very much sir.

Surbhi – Moderator

Thank you Mr. Tirumalai. Ladies and gentlemen, we are in the last five minutes of the conference call. The next question comes from Mr. Piyush Chaudhary from India Bulls Mumbai. Mr. Chaudhary, you may ask your question now.

Piyush Chaudhary – India Bulls – Mumbai

Good afternoon everyone, just a follow up on the tax question on Africa, you know during the quarter we have recorded around $1.9 billion of taxes in Africa. Though it is complicated just wanted to understand if there is some one-off or this is like normal rate because there are some income tax recoverable also which we have recorded in the balance sheet to the tune of around to 80 Crores.

Manik Jhangiani - Group CFO - Bharti Enterprises

As I mentioned earlier when we were talking about the depreciation and amortization charge there is a deferred tax asset that was created as a part of the fair valuation exercise. As you start depreciating and amortizing those assets depending on which way that is going the deferred tax asset also has to be expensed, so in fact a portion of that charge that you are seeing going through in the quarter that is related to that reversal and that would probably continue for the next 18 to 24 months as well.

Piyush Chaudhary – India Bulls – Mumbai

Secondly on the India side, during the quarter, why is RPM decline of around 2% though we have held on to the pricing overall, so just wanted to understand how do you see the pricing environment panning out during the next six to twelve months now?

Sanjay Kapoor – CEO - India & South Asia- Bharti Airtel Limited

Piyush, I do not fully follow your question because the pricing decline is only 0.4 paisa which is the least in the last two years and I think it has sustained itself and behaved very well, I think the price declines have been on a declining curve and hopefully given the financials of various companies and leveraged balance sheet and the performance and result that you would have interpreted by now very clearly market's appetite to drop prices any further seems to be constrained and if we were to go by any initial moves made on 3G pricing, it is also suggesting that deep discounts are virtually not in the reckoning, so I think the current business cases do not permit the market to go any lower but any sort of euphoria or irrationality can never be ruled out.

Piyush Chaudhary – India Bulls – Mumbai

Okay, thanks a lot. I was just referring to the voice RPM in my question because the non-voice revenues have increased so just for that Voice RPM have still declined by 2% on quarter-on-quarter basis?

Sanjay Kapoor – CEO - India & South Asia- Bharti Airtel Limited

I mean we are comparing apple to apple, we are comparing for a previous period where it will be an integrated sort of finding and then again this quarter. The other thing Piyush is that use of price as a strategic tool is not being ruled out, all we are saying is that we would use pricing only if there is revenue elasticity; minutes per customer elasticity is not enough.

Piyush Chaudhary – India Bulls – Mumbai

Thanks that was helpful. Thanks a lot.

Surbhi – Moderator

Ladies and gentlemen, due to constraints of time we are not able to entertain any further question; this brings us to the end of question and answer session. I would now hand over the call proceedings to Manik Jhangiani for the final remarks.

Manik Jhangiani - Group CFO - Bharti Enterprises

Thank you all for joining us on this call. I think I would just like to reiterate that we are very pleased with the way the quarter has shaped up. The India South Asia side as we spoke about, solid performance over there, maintenance of the rates which is a huge accomplishment, solid minutes in terms of what we have seen versus last quarter and you know generally gearing up for the 3G launch and very excited about the bigger opportunity there. On the Africa side, I think we have seen a solid start with goals and revenues, a lot of indications of our plans, be it on the outsourcing side, be it on the plans in relation to capex, 2G, 3G pricing etc., and obviously a strong focus on managing opex and driving top line further, so you know again really a company today that is of global stature, $3.5 billion of revenues in a single quarter and very importantly again I would like to reiterate that we have generated over a billion dollars of operating free cash flow in the first half of this financial year which really gives us that tremendous cash flow generation engine here in India to sustain our growth both here in India as well as what we are going to do in Africa going forward, so thank you for joining us and we look forward to interacting with you again in early February. Thanks for joining.

Surbhi – Moderator

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