

## Earnings Conference Call Transcript

Event: Bharti Airtel Limited Third Quarter Ended December 31, 2011  
Earnings Call

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**CORPORATE PARTICIPANTS**

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

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

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

Srikanth Balachander  
**Chief Financial Officer - Bharti Airtel**

**K. Srinivas**  
President B2C – Bharti Airtel

**Harjeet Kohli**  
Group Treasurer - Bharti Enterprises

**CONFERENCE CALL PARTICIPANTS**

**Sachin Salgaonkar**  
Goldman Sachs - Mumbai

**Srinivas Rao**  
Deutsche Bank - Mumbai

**Tien Doe**  
GIC - Singapore

**Rahul Singh**  
Standard Chartered – Mumbai

**Suresh Mahadevan**  
UBS Securities – Mumbai

**Sachin Gupta**  
Nomura Securities - Singapore

**Rajeev Sharma**  
HSBC Securities - Mumbai

**G.V. Giri**  
IIFL - Mumbai

**Shobhit Khare**  
Motilal Oswal – Mumbai

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**PRESENTATION**

**Namita - Moderator**

Good afternoon ladies and gentlemen, I am Namita, the Namita - Moderator for this conference. Welcome to the Bharti Airtel Limited Third Quarter Ended December 31, 2011 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, our Group CFO. Thank you and over to you Mr. Dhillon.

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

Good afternoon everyone and welcome to all of you who have joined us from India and around the world for the call. This is our third quarter for the year ending March 2012 and the quarter ended December 2011. As far as the nine months are concerned

we have had a sustainable performance this quarter with improving operating highlights across our operations, despite the fact that we do have an economic environment, which is quite adverse especially in Europe and to a certain extent domestically here in India. I will just give you a bit of the operating highlights for the quarter. We ended the quarter with a global customer base of about 243 million representing a growth of 17% year-on-year and 3% Q on Q. The minutes on our network grew to nearly 274 billion - that's representing an increase of 11% over the same quarter last year.

Moving on to the financial result of third quarter, our global consolidated revenues for the quarter were at Rs.185 billion that is a year-on-year growth of 17% and 7% for quarter-on-quarter. The consolidated EBITDA was Rs, 60 billion. That is representing a year-on-year growth of 19% and a sequential Q on Q growth above the 2%. The EBITDA margin for the quarter is standing at 32.2% and it is a rise about 50-basis points over the corresponding period last year. The particular quarter - as far as height of investments is concerned you will see that on the network sales, general and admin expenses and our brand, which is critical to such a hyper competitive market. Bearing in mind that this quarter we also had some extraordinary investments in partnerships retaining to sponsorships around Airtel Grand Prix, BCCI Cricket and the Delhi Half Marathon.

Moving on now- a cash profit from operations before derivatives and exchange fluctuations for the quarter was at Rs. 52 billion, an increase of about 17% over the corresponding period last year and 4% quarter-on-quarter. Despite some of the FX wide volatility which has been witnessed around the globe and domestically last quarter the penal impacts on the derivatives and exchange fluctuations have actually had an income of about 1.3 billion and that reflects that we have been judicious in our hedging policies and that there has been no material adverse impact as far as profitability is concerned on those accounts.

This has resulted in the net income of about Rs. 10 billion rupees this quarter.

I will just move on as far as capital is concerned and capital investments. We continue to invest our networks both in India and in Africa. This quarter we invested US \$ 420 billion taking our nine months capital expenditure to just under \$ 2.5 billion and this is fairly in line with our projection for the year of somewhere around US \$ 3.2 billion for March 2012.

As far as operating free cash flows are concerned, the quarter improved to Rs. 38 billion and also we witnessed for the first quarter although it may be small, African operation is turning FCF positive. Just a couple of more points on the balance sheet, the company our net debt were just US \$12.7 at the end of December and the net debt to the last quarter annualized EBITDA was at 2.56 as compared to 2.59 a quarter back and 3.01 for the corresponding period last year.

I will just move on now for everyone's benefit on to the segment starting with India and South Asia. September to December quarter has been quarter of improved customer demand for telecom minutes domestically primarily on account of the festive season, but despite seasonality in Q2 and on-going to multiple sim issues, we sustained our revenues and more importantly for the industry witnessed a reverse in the declining rate trend that we have been seeing over the past few years.

Very much of the operational highlights for India and South Asia; India and South Asia business witnessed strong rebound after a seasonally subdued quarter with a growth of 12.1% year-on-year and 3.8% Q on Q. Moving on as far as investments are concerned, I mentioned earlier India also has network, sales and general admin and brand expenses, which to our mind are very, very critical as far as investments, are concerned. That has resulted in an EBITDA margins for the quarter at 34.4% for the third quarter. In the quarter we also added about 2.3 billion minutes on our traffic network, carrying in excess 227 billion on the wireless side alone and this has been quite satisfying bearing in mind the global economic condition.

As I mentioned earlier the quarter also witnessed an increase in gross realization rate at 1.4 paisa from 43.2 paisa last quarter to 44.6 paisa in Q3 and that is some factor of tariff park initiated in Q1 and Q2 and as I mentioned reversing previously downward trends.

I will just move on now to our 3G services. They are now in 945 cities covering all of our 13 licensed areas and 7 more areas where we entered into the ICR arrangement, with quality operators providing superior pan India experience to our customers. We now have over 8 million 3G subscribers and over 24 million mobile internet users. We think that the data opportunities provide tremendous benefit for us and potential for the products and benefits for the customer.

Next point I would like to make is on digital TV. From last quarter we separately reported national performance of digital TV services. DTH as a business as you know is still in investment mode in India. Over the last three quarters we have achieved repeat of being EBITDA positive and that too on a consistent basis in less than three years since we started the business. We have now concluded the end of quarter with a customer base of over 7 million representing over 18% of the total industry and we see that the cash burn is reducing on quarter-on-quarter.

As far as our passive infrastructure business is concerned we continue to register a robust growth with margins and year-on-year basis the revenues and the business grew 11% and EBITDA margins are stand at just over 37%. Sharing factor is also the key in our business and we are now inching slowly across to level of two standing up 1.87 as of today.

I would just like to move now on to our Africa business. Please note that our transformation of restructuring plans for the operations is moving easily and systematically. From the quarter's performance I would just like to give a few statistics as far as the Africa business is concerned. We have grown our subscriber base over 21% year-on-year and this quarter we have crossed the over 50 million mark, with 51 million customers on our network.

During the quarter, Airtel Africa also carried minutes on network of about 18.5 billion that is 24% growth year-on-year and our revenues as a consequence of that have grown by at least 16% and on last quarter annualized basis and we are now in excess of USD 4.2 billion of annual revenues. But you will also see on quarter-on-quarter is an incremental EBITDA margin expansion

as a result of the revenue growth we have over 45%. Our quarterly margins have moved up from 19.1% in the quarter in December 2010 to 26.7% in the quarter ended December 2011.

Moving on to Capex now for Africa, our Capex guidelines for the full year we are looking at somewhere around 1.3 to 1.4 billion as full Capex here which is in line with our estimation and like I said earlier on Africa is largely operating free cash flow positive about US \$17 million, directionally, very good for us. Data and 3G in Africa continue to be a strong focus area and for us is the next growth phase. We are driving data to 3G and leveraging the unbanked customer base through our services of M-commerce. Also we believe that in almost every single market of operation in Africa we have successfully gained market share in a growing market. In the last one year, I think we have gained RMS in excess of 2% and we are surging ahead of competitive second or third position in Tanzania and Ghana.

Just a bit more as far as recognition is concerned, most of the countries we have already outsourced the networks and that is complete and it brings the recognition like I said several awards have been given to the company, Telecom Centre of Excellence Awards for service provider to customer focus service delivery in 2011 being one of them.

That is a summary of both overall operations in both India and Africa. I will now hand over back for Q&A to the moderator. Thank you.

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**Namita - 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 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 press “\*” “1” on their touchtone enabled telephone keypad. On pressing “\*” “1” participants will get a chance to present their questions on a first-in-line basis. To ask a question, participants may please press “\*” “1” now. The first question comes from Mr. Sachin Salgaonkar from Goldman Sachs, Mumbai. Sir, you may ask your question now.

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**Sachin Salgaonkar – Goldman Sachs - Mumbai**

Thank you for the call. My first question is on the revenue front. Do you think you have witnessed any negative elasticity in India due to tariff hikes, which relate to a moderate MOU growth? Also in Africa the revenue growth appears to be slowing in terms of US dollars as compared to last couple of quarters, so what could have been the reason for that? My second question is on the outlook for Capex and DNA. This quarter DNA was up 13% and Capex was down 55% QOQ. What led to that and how should we look at this trend going forward? Thank you.

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

Hi Sachin, this is Sanjay Kapoor and let me answer your first question for India and South Asia before I hand over to Manoj. On your question on the negative elasticity in view of the rate hikes, from a professional perspective you need to be very clear that when you announce a change in prices you need to ensure that the market accepts the change before you start jerking the market once again. You know, so we do not believe in a policy where you take the prices up and then start fiddling around with them the very next day. The difference between us and many others participating in the market is that we actually corrected the prices all across the board in all 22 circles and it was not selective. That was one. Second thing to answer your question on whether it was elastic, we are absolutely convinced that this was the right move to make after a price adjustment for a simple reason that it turned out to be elastic. I will give you a comparison with last year. Last year from Q3 to Q2 the prices came down. The number of minutes per customer consumed during that period also came down and the total revenues, ARPU, also came down. This year when we took the prices up, the price went up by about 1.4 paisa. The minutes consumed per customer for the period came down to almost the same level as it was last year from Q3 to Q2 but the ARPU went up, which clearly determined that there is a positive price elasticity of demand with the move that we made in the market place. I hope that answers your question.

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

For Africa in this quarter we faced a couple of issues, in October we had some issues in Nigeria, which definitely impacted revenue. As you know there were national elections in December and the whole month of December, DRC definitely had impact of elections on its traffic, SMS, and non-voice, plus we had a MS transition in this quarter, and MS transition definitely also had certain impact, so all these together definitely had an impact but on Local Currency basis our growth is close to 5%, which is quite healthy. However, on reported it does get impacted by the exchange fluctuations.

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**Sachin Salgaonkar – Goldman Sachs - Mumbai**

Manoj, from the next quarter onwards we should be able to see this growth in 5% to 7% because these one-offs are behind us?

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

We do not give guidance, Sachin. You know that.

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**Sachin Salgaonkar – Goldman Sachs - Mumbai**

I was just looking at more on the lines of directionally because you had highlighted some of the issues, which are there in this quarter and I guess with those things behind us there should be a normal trend in revenues, so is that the right way to look at it?

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

We said that few abnormalities like you must have heard about big strike in Nigeria for 10 days, which happened in January, so these are some abnormalities, impact the entire industry. It is not that they impact Bharti and I am sure you will see that impact in the other companies' results also.

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**Sachin Salgaonkar – Goldman Sachs - Mumbai**

And on question on Capex and D&A?

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

Sachin Sarvjit here. I think if you heard me earlier on the Capex is just at two and half billion dollars for the first nine months per share. We are looking to end our Capex guidance of about \$3.2 billion dollars for the year ended March. We are still on the line for that.

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**Srikanth Balachander- Chief Financial Officer - Bharti Airtel**

Sachin, on your question on depreciation, I think you are probably referring to the movement of the figures on the Africa side. India is chugging along on more on the straight line. As far as Africa is concerned, as you are aware early part of the year we concluded the one year purchase accounting, the entire fair value accounting of the acquisition and since then a massive exercise has been undertaken everywhere to update the fixed assets register across the 16 operating companies and as we do that some of the reclassifications have come in and as you know -the lives of our assets range between 3 to 20 years and some of these reclassifications would have resulted in a one-time catch up on the depreciation in this quarter. You can assume on an ongoing basis that the number of 224 million that we reported about 15 million is one-time.

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**Sachin Salgaonkar – Goldman Sachs - Mumbai**

Got it, very helpful. One follow-up question for Sanjay. Sanjay someone like Idea actually witnessed the strong revenue and minutes growth in this quarter by keeping revenue per minute stable and not raising it too much, is Bharti also exploring that kind of a strategy with focus more on growing revenues rather than fully looking at strong revenue per minute increase?

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

Sachin it is very difficult for me to give away what I am going to do vis-à-vis competition in the coming quarter; however, like I said it was very pertinent for us in the quarter where we increased the prices to demonstrate stability in the market for the price change to get accepted. Going forward will there be an alteration in our cost to make sure we are back fighting in the market and being competitive of course we always have been competitive and we will keep altering our warfare in the market based on the ground realities. So I cannot definitely confirm anything to you, but you will see as we move along there will be variations in how we go and address the market.

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**Sachin Salgaonkar – Goldman Sachs - Mumbai**

This is very helpful. Thank you.

**Namita - Moderator**

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

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**Sunil Tirumalai – Credit Suisse - Mumbai**

Sanjay just a follow-up to Sachin's question. I think when you gave the response on the ARPUs going up we are missing out one important factor that is the subscriber additions are slowing. The way I would look at your intrusion is that the traffic between June of 2011 and December 2011 we were ignoring the dip and bounce in between. The overall traffic in the network has actually come down by 1%, which is quite shocking since we are seeing a bit in a growing industry. The only reason I can attribute to that is your tariff hike. Correct me if I am wrong?

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

I did not hear the last line. The only reason that you attribute to that is the tariff hike?

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**Sunil Tirumalai – Credit Suisse - Mumbai**

Yes.

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

I hear you Sunil and I have very clearly acknowledged saying that say that when you make a price move you have to make sure that the price gets accepted over the base that you made to move on, and you need to be patient to that extent, but I would not attribute everything to price. There is a difference in how the market has behaved to different strategies. There could be a strategy where you dip the price even before it settles down and see some minutes coming up. This could happen by new acquisitions and difference in base between two operators and it could happen by keeping the base a little lower but making sure that the price gets accepted fully. So I think we opted for the two because we are settling down with prices. Will this be the tact as we go along, answer may be no, so you will see that once the price settles down there will be change in move that we will accord to the market as we move.

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**Sunil Tirumalai – Credit Suisse - Mumbai**

That was helpful. Secondly, on Capex how much of the drop in Capex both India and Africa quarter-to-quarter was driven by the rupee movement and should we see a bounce back if the rupee appreciates?

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**Srikanth Balachander - Chief Financial Officer - Bharti Airtel**

Well I think as far as the Capex is concerned I think it was reasonably earlier communicated in the earlier part of the year that Africa was front ending a lot of investments, so I think that was very clear and even on the India side you are probably informed earlier in the year that the 3G investments were going in the earlier part of the year, so it is really nothing much to do with the exchange rate fluctuations. It is to do with our strategy on both fronts because there was a sense of timing, which was important in both the deals.

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**Sunil Tirumalai – Credit Suisse - Mumbai**

Thank you that was useful. I will come back for further questions later.

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**Namita - Moderator**

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

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**Srinivasa Rao – Deutsche Bank - Mumbai**

Thank you very much. I have just two questions. One is your net debt as reported on a consolidated basis in Rupees that has increased over the last three quarters, approximately from 601 billion to like 678 billion. So there is an increase yet that is not what is reflected from your cash flows. If I were to just look at consolidated cash flows, so just wanted to get a sense of how and where are we missing on that? The basic point is from your cash flows, your cash from operating activities, mostly you are actually fully covered, your investments and interest costs. So can you throw some light as to how the net debt has gone up over the last nine months? That is number one question. This is on the FX basis. Second is just wanted to check with you on the Capex side we heard Ericsson in its last result kind of comment that in India they have seen a slowdown in purchases, they are a big partner of yours so how should we read the comments, which Ericsson made? These are the two kinds of questions I have?

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**Srikanth Balachander** - Chief Financial Officer - Bharti Airtel

Let me answer the first one. As far as the net debt question is concerned and I invite your attention to the nine months cash flow in page # 28 of the quarterly report where you will find that the net flow from the operations is 179 billion rupees and the Capex payouts have been 106 billion rupees and the purchase of intangible is 5 billion rupees and the interest paid in the paragraph on the bottom of the page is 25 billion rupees, that leaves a surplus of about \$700 to \$800 million as you will see there at the end of this arithmetic, now remember that in the early part of the year there was the remaining payout which was made to the Zain and that is reflected in the line called "investment in subsidiary" but that's really an M&A activity, the remaining portion roughly around 550 million, so really speaking if you see the operations have generated after payment of interest it has generated about \$700 million in the nine months. As far as the net debt in dollar is concerned I am sure you have noticed that it has come down to \$12.7 billion as we speak and beginning of one year ago it was \$13.4 billion and it is now at \$12.7 billion so in 12 months time it has come down in dollar terms by \$700 million and as far as the rupee debt is concerned it is purely a result of the translation of the exchange rate of the rupee to the dollar and you are aware of the sharp moves in the exchange rate.

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**Srinivasa Rao – Deutsche Bank - Mumbai**

So the cash flow picture which is where you are largely fully covered on from your cash flow operations is a right one the rupee reflection of the debt is more a translation impact?

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**Srikanth Balachander** - Chief Financial Officer - Bharti Airtel

Absolutely right.

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**Srinivasa Rao – Deutsche Bank - Mumbai**

And sir the second question on the Capex and the comments?

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

Srini, this is Sanjay Kapoor and I will try and answer your second question. First of all I think now comparing Capex quarter on quarter may not give you the true picture because there is a little bit of change in the way that we have been buying the equipment, you know we were buying the equipment earlier totally as per erlang now there is a little bit of change that we made, there is a little bit of box and little bit of erlang and therefore there is a bit of lumpiness that comes also we were front ending some of the Capex during this year, so I would strongly suggest that when you look at our Capex spends don't go quarter by quarter as you have been doing typically in the past, look at the full year and you will get a better picture.

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**Srinivasa Rao – Deutsche Bank - Mumbai**

Fair enough Sir. We should just kind of look at our 12-month number, which you have given at about 3.2 billion for the company, fair enough, this is helpful. Thank you so much.

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**Namita - Moderator**

Thank you very much Sir. The next question comes from Mr. Tien Doe from GIC Singapore, sir you may ask your question now?

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**Tien Doe - GIC - Singapore**

Good afternoon, thanks for the call, just a couple of questions, first on your prepaid churn rates in India that is starting to creep up, have you changed your definitions or are you experiencing true rise in churn rates now you are experiencing that both in open areas and rural areas? Second question your non voice revenue percentage continues to decline, why do you think that it fits directionally opposite to what I would expect and third question on broadband and telephone customers, they were off by around 11,000 in the quarter, and your ARPU certainly hit there what is going on in that business? Thank you.

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

Hi, this is Sanjay Kapoor once again. On your question on churn yes your observation is right that the churn creaked out a bit and this creek out is for the whole industry, no matter who you are. The industry churns in the vicinity of 14% plus per month. There are operators who have more than 22 to 23% churn per month and we are absolutely on the low end of the market as far the churn is concerned. It is a function of the rotating SIMs and the multi and dual SIMs prevailing in the market. This is a hierarchy that is brought about by the hyper competition that exists. It probably went up, however we keep fine tuning it as we progress, you would have seen in the past there were quarters when we went up and then we again fine tune it and it comes down and you will similar trends going forward. We are very cognizant of churns not going up significantly because the moment they become very high, then this truly becomes a box business rather than a perpetuity business and we are very cognizant of that. We are making all efforts to make sure we are absolutely in control of the churn and much better off than anybody else in the market, so that is on the churn. I will ask Srini to answer the question on the non-voice.

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**K. Srinivas – President B2C – Bharti Airtel**

Let me add one more bit on churn. In fact when you look at even the past in Q3 especially when the winter season actually sets in some of the rural north Indian places, which actually you see a lot of existing customers going a bit dormant, and the moment the cropping season comes most of them tend to come back. That has been a seasonal pattern to the winter months when actually some dormancy actually sets in and then comes back once the winter gets over, I think that is something which is actually we are witnessing in this quarter as well. So, that just supplements what Sanjay has said.

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

On non voice what I say is that as far as the internet business is concerned, as far as the data is concerned we are seeing absolute positive trends month on month both on 2G and 3G data we are seeing a lot of possibility month on month. In fact, as said earlier that the 3G ecosystems takes time to kickoff we are already seeing that it is gaining momentum with every passing month. However, on the traditional VAS that is there, there are two unique phenomenons that make us go through what we are going through, one is that the TRAI has recommended very tight norms around how you approach the VAS customers and how you sell and promote VAS in the market. I am happy to say that in the interest of customer experience and satisfaction we are amongst the first companies to adopt many of those very stringent measures in our marketing capabilities and in our up selling capabilities and we saw that by implying those methodology the revenues seem to tank very quickly in the short run and then begin to rise. I am happy to state that much of the tanking that happened during the last four-five months is actually returning back and we saw that in the month of December and then January, so hopefully we will be back. It is just a phenomenon because of the change of process, which is very, very stringent. The second phenomenon that hits a little bit that is correcting itself now actually TRAI came back with a recommendation of limiting SMS to only 100 and then now it has been increased from 100 to 200 so 200 is greater than 100, lot of have come back and hopefully going forward we will see some more arrival of this however I want to state very upfront that dependence on P2P SMS has grossly declined over the past couple of years, so we are not fully dependent on SMS but it does have some impact in the short run when suddenly those SMS vanish from the market.

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**Harjeet Kohli** - Group Treasurer - Bharti Enterprises

Tien Doe, could you repeat your third question please?

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**Tien Doe - GIC - Singapore**

On the broadband and telephony customers we saw about 11,000 decline there and the ARPU came off quite a bit too in the quarter, I just was wondering what happened in that business?

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

Yes, your observation on that is correct as well and let me explain that to you. There are two-three things that happened during this period, first of all from a seasonality perspective this particular time for telemedia is what Q2 is for mobile because it has the



highest number of holidays etc., and therefore the seasonality hits but that does not probably impact as many customers and explains the full 11,000 the balance gets explained by two other things that happened one is the DND guidelines got introduced where the telemarketing fraternity vanished virtually out of the consideration set because telemarketers reduced by a large number because of the government regulation, but finally what really caused the short-term dip to us was we made a very significant migration on the composite billing system that we had deployed for telemedia and while migrating to this billing system and like it happens for any large transition of this nature there are hiccups and jerks that happened and we went through our set of learning and troubles on that and therefore a short term dip was caused but this will come back and this has come back and I am happy to state however what will not come back and will have to be replaced by data is the small amount of a loss of customers that happened because of telemarketers vanishing or reducing out of the scene.

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**Tien Doe - GIC - Singapore**

Thank you.

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**Namita - Moderator**

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

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**Rahul Singh – Standard Chartered - Mumbai**

Good afternoon everyone, I have a question for Sanjay first, on your point on obviously giving the market enough time to absorb the tariff hikes while I take that point of view it is all about revenue market share at the end of the day as you yourself have been saying all these years, so aren't you worried that now the revenue market share losses seem to be happening and seem to be a steady kind of trend of declining market share for you and now the revenue market share declines might be happening we don't have the data for December might be happening to your bigger and more well funded peers rather than the start ups, so does that worry you or in other words has it been disappointing for you that some of the larger peers and mid size peers did not really follow what was so called the return of pricing power which you have kind of struck to that is number one and number two is more on the finance related question on the sponsorship cost, is it something which will be repeated every year or is there an one off element in it in terms of up fronting of some of the sponsorship cost which have come in the other segment. Thank you.

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

Rahul first let me without any caveat state that we are a marked-to-market company and revenue market share is of prime importance to us - both on medium term and long term perspective, so whatever needs to be done to regain that revenue market share and the competitive in the market will always be done, however there are times when to put in place your policy on strategy you end up have taking a short term hit to make sure you are long term more viable and sustainable on your strategic moves so in this case raising the prices at that time was absolutely right and many of the large players saw merit in that and recovered. I do understand that there are some smaller players in the market who probably try to capitalize on the arbitrage in the market, did not follow suit and therefore could pump up more minutes, however those are not sustainable strategies on a longer term basis, while I say that, we are absolutely cognizant that we need to bounce back, this bump up in prices and making sure that we have lot more color than others gives you a platform to strike back at will, so we will keep that in mind and I rest assure you that me and everybody in this company have got their eyes on revenue market share now and on going forward both.

Your second question on finance, yes these sponsorships that we had in terms of Formula 1, in terms of cricket, in terms of half marathon are longer term commitments that we have made and you will see them add spikes during the year in the quarter when the events occur and therefore are not one time that will again happen probably in the coming years as well.

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**Rahul Singh – Standard Chartered - Mumbai**

Just one follow up, Sanjay, to the first part, when you say that you will obviously look at the strategy or tariffs going forward what is the comfort level which you have one quarter back or two quarter back that once you as the leader start in revealing tariffs may be in a selective manner through special tariff vouchers and so on which we have already seen in the two or three circles what is the guarantee that the pain which you had taken over the last six months or so in sticking to that discipline you will do damage to that and essentially am I correct in assessing the fact that in coming to a conclusion that may be the inflection point between the trade off of RPM and the minutes there was a little bit of misreading of that situation which is what has resulted in what has happened in last six months?

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

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Rahul, first and foremost, you have already recognized that Bharti Airtel has picked up localized strategy on a market by market basis to grow and sort of counter attack many of the players where there is an opportunity and that is visible, you have already noticed that, however, while I say that you also must keep in mind that as far as we are concerned the risk is absolutely least because most of the challengers who challenge us in our leadership market are already operating at the least price point, you know there cannot go any lower than what they are operating on, so they cannot take the market down further. It is the move by the leader that is awaited to make sure that he goes and counterbalances what is happening in somebody's else's leadership circle, so I think we are in a vantage point on this one, I do not see that there is too much leverage with the current challenges to take down the tables within our leadership circle.

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**Rahul Singh – Standard Chartered - Mumbai**

Okay thanks a lot.

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**Namita - Moderator**

Thank you very much sir. The next question comes from Mr. Suresh Mahadevan from UBS Securities Mumbai. Mr. Mahadevan you may your question now.

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**Suresh Mahadevan – UBS Securities – Mumbai**

Good afternoon, thanks for the opportunity, I have two quick questions, one is for Manoj on Africa, just on the long term stretch goal of 5 billion revenues and 2 billion EBITDA are we still on track and just wanted to hear your color on that. Second is a question, this is a question a lot of my fellow sell side has raised, anyway you look at it, it does seem like the mobile business seems to suffer, maybe this is a problem of the market leader or whatever but you know any data I look at whether it is minutes growth, revenue market share, whether it is MNP data everything points to perhaps you know Vodafone and Idea doing a little better, part of this I can understand because Bharti is obviously present all over India and these guys are trying to increase their presence but beyond a point I think you know after some point the base effect should start kicking in so I am just curious to hear further color around the brand strength from particularly may be Sanjay if possible. Thank you.

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

Suresh I remind myself of this commitment everyday and I am grateful that you are reminding me about this commitment again today. We are committed to this goal. Personally and professionally I am committed to this goal. We are doing our best to achieve this goal as we have announced and you can all actually rather than roam in to Europe you can roam in to Africa and gives us some roaming revenue.

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**Suresh Mahadevan – UBS Securities – Mumbai**

I certainly plan to visit Manoj at some point, but you know on the bigger picture front are Interconnect rates etc., working your way because it does seem like being an emerging market some of these things are quite challenging.

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

Suresh the issue is that you have to look at the positive direction and one thing I can tell you that in the last four quarters the Opex efficiency has definitely been achieved not up to as per our expectations but close to our expectations maybe some more work has to be done in the next one or two quarter and I believe that in one of the quarter sufficiency will be very, very good, better than today and definitely the best of Africa in terms of all other operators. The Capex efficiency is now coming in. Capex productivity is now coming in. We are going in to first time utilization. Our Capex contracts are now fully embedded in our figure and you are actually seeing them in this quarter of Capex coming down and operating free cash flows coming up. Now, the last game, which we are trying to master, it is very, very different from Indian mastery that we have achieved with a game of stable tariffs and a robust revenue growth. Now this something, this formula Suresh, is an Indian formula that we had tariffs which over the last decade have come down steadily and we have utilized elasticity to our benefit at any point of time whether it is local, whether it is international, whether it is data and fortunately elasticity has always been coming to our help. In Africa, the situation is different. The model is different. The formula obviously has to be different of stable tariffs and a robust healthy revenue growth and RMS growth. RMS growth is happening. The revenue growth formula is being dealt out by our marketing teams and I think we are experimenting in some countries which has been positive, in some countries it has not been that positive because we are very clear till our cost per minute comes down to our satisfaction, till that time the tariffs will remain stable and we will not depend upon elasticity to get back the ARPU, so that is where we are today, to be very frank with you and if you see incremental EBITDA margin, the incremental EBITDA of 45 to 50% definitely it is a very healthy sign, free operating cash flows

definitely is a healthy sign, so we are in a very positive direction which are being achieved every quarter. I hope Suresh that is fine.

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**Suresh Mahadevan – UBS Securities – Mumbai**

Excellent and all the best for hitting the stretch goals. Thank you Manoj.

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

Suresh, Hi this is Sanjay Kapoor your question on the brand strength and I think brand strength comes from the fact that in a 14-player scenario there is a brand that holds close to 29% 30% of the revenue market share and margins that are grossly higher than what the second or the third player holds in the same market I think that's where the brand strength comes from and in our endeavor to maintain the right balance between the RMS and the profitability in the market place our balance sheet and our performance provides us the strength to play according to the market dynamics as and when we want to, so I think that is the strength that we have and we are marked-to-market environment, we will give rope but not beyond a particular point and we will keep balancing the RMS and profitability to our advantage as we progress.

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**Suresh Mahadevan – UBS Securities – Mumbai**

Thank you.

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**Namita - Moderator**

Thank you very much Sir. The next question comes from the Mr. Sachin Gupta from Nomura Singapore. Mr. Gupta you may ask your question now.

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**Sachin Gupta – Nomura Securities - Singapore**

Thanks very much just a couple of things firstly Manoj just to the previous questions you talked about what exactly is working in Africa, just wondering can you also talk about what exactly is not working in that country, the reason for that is if you look at the pricing they are still pretty much at 5.5 to 6 cents per minute, the total cost base is still running at 750 to 760 million, so we have not seen any respite in that, any thoughts there will be good and secondly just on the kind of regulatory framework or regulatory development, any thoughts from you guys on what you make of the current time, 2G license cancellation potential and how the NTP -11 could pan out and just a minor clarification, this Grand Prix and marathon sponsorship, if you can quantify, what was the number for that, I think I missed that, thanks.

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**Manoj Kohli - CEO (International) & JMD – Bharti Airtel**

Sachin let me pick up the first question. You know we are six quarters old in Africa. We are learning Africa I guess in places of every market consumer behavior changes in every market and let me tell you it is very, very different from India . India is one market, one country, one currency, one time zone, one government, one DOT, one Bollywood and one cricket. Africa is 17 markets, every market is different culturally, behaviorally and regulatory wise. We need to adjust to each market independently of all the markets. The gap between various markets is not much. In some markets we gained revenue market share 3%- 4%, in some markets we have gained revenue market share of may be a percentage point, that is the difference. In some market we are running faster, in some markets we are running slower, but everywhere, let me give you good news, everywhere we are growing our revenue market share. The point I was making to Suresh earlier is more about rapid revenue growth, while we are gaining market share, which means that we are running faster than other operators but we want to run much faster than that and gain much more of revenues and create a new market and that is where some markets are responding slower than other markets. We are trying our best to excite the markets, lot of brand work is being done, lot of non-voice we are catering, Airtel Money, 3G a lot of new ideas are being pumped into the markets, so I think you will see in the next three to six months, I am sure many of these markets which are slow today will pick up.

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

Your second question on license cancellations and NTP 11, I do not think I can comment on the license cancellation because it is all sub judice at the moment and therefore all I can tell you is that with or without these players the market still remains very competitive and we will continue to make sure that we are relevant and leaders in this market. As far as NTP 11 is concerned it is no more NTP -11, it is more like NTP 12. I think all those deliberations are going on. We cannot comment any more or less on that at the moment, we expressed our thoughts by the way of what you would have read in the media and how the industry

thinks about it and as an industry body we are representing whatever needs to be done for the sustenance and profitable growth in this industry going forward.

I think you also had a question on the amount for the sponsorships, well if you look at the other and the gap between the two other figures that would be by and large representing that.

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**Namita - Moderator**

Thank you very much sir. Ladies and gentlemen, we are in the last 10 minutes of the conference call, due to constraints of time management will have to speed up the pace of the questions. The next question comes from Mr. Rajeev Sharma from HSBC Securities, Mumbai. Mr. Sharma you may ask your questions now.

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**Rajeev Sharma – HSBC Securities - Mumbai**

Thanks for the opportunity, just quick three questions. One is Sanjay you mentioned about changing your strategy with your vendors from erlang to box and erlang. On a like-to like basis would this result in more procurement or what kind of Capex efficiency this would result in, if you can throw some color? Second if you can give a guidance for the India Capex for FY 2013 and on the Africa side Manoj if you can help us break between the Capex which will be for 3G, and you know what percentage of your Capex is for Nigeria and lastly if you can help us understand the increase in the tax rate this quarter?

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

Rajeev that is a handful of questions let me quickly answer erlang & box. I think this is very internal and competitive in nature. This keeps changing based on to what extent we have the best capital mix in the company and to be able to optimize on our returns and the capital deployed. I don't think that I can throw more light than this on that because it is very competitive and sensitive in nature. We have made some alterations but I cannot delve into the nitty-gritty's of those changes that we have made.

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**Srikanth Balachander - Chief Financial Officer - Bharti Airtel**

As for as Capex is concerned the cumulative this year as you see it on our overall basis \$2.4 billion, this is across Airtel and so we stand by our earlier guidance of 3 to 3.2 for this year and as far as next year is concerned we are right now in the process of planning the entire projects for next year but indications are we will give more or less around the same numbers on an overall basis as far as Capex is concerned. Coming to tax, tax rate, consolidated tax rate for this quarter has been 35.3% and the year to date consolidated tax rate it is 32.5%, so therefore if you see the rate between the three quarters Q1 and Q3 it is averaging in the range of 32 or 33%, you have to see this in the context of the India-South Asia tax rate increasing from 15% last year to about 23% this year and that I am sure if you are aware of the details on that, we are not getting the details on that because there are the tax holidays which come to an end and so on and so forth.

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**Rajeev Sharma – HSBC Securities - Mumbai**

On the Africa break-up, Capex, 3G and Nigeria?

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**Srikanth Balachander - Chief Financial Officer - Bharti Airtel**

Sorry, I just pointed out that we are not getting in to either country parts or further detailing of the Capex.

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**Rajeev Sharma – HSBC Securities - Mumbai**

Lastly Sanjay, even though there was this improvement in RPM but the margins for the wireless business have been stagnant, is it all because of the marketing expenses or there is something else in the mobile business as well which has not allowed any kind of margin improvement?

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

I am very glad Rajeev that you asked this question. It would have been very unique if this call ended without this question. Let me try and deemphasize this for you. First of all when you look at the Indian margins I would actually bucketize it to provide you with the clarity. First and foremost you take mobile and segregate mobile in to Ex Bangladesh, I would say rest of South Asia which is India and Sri Lanka and Bangladesh just to provide you with a bit of clarity. Then take a bucket of telemedia and then

take the bucket of enterprise services. All three are important. When I look at Bangladesh there are some one time product provisions that we have made in consultations with our auditors that were absolutely prudent and required and if you were to take care of these provisions and normalize them as one offs then there is a meaningful change in the mobile margins. I cannot give away the exact figure to you because we don't disclose it to others but I can tell you that it is a meaningful figure and therefore the India business on margins have come to initiate if we look at in totality. When it comes to the telemedia part of the business I want to clearly point out that telemedia is a very robust business for us and has been performing at 44-45% EBITDA levels and is capable of continuing at those levels. There are some discrepancies that cropped up during the quarter which was somewhat vast and somewhat perpetual in nature, seasonality first and foremost because of the holidays, then I spoke out DND telemarketing stuff came in because of which a lot of telemarketers cannot use the voice services and that probably was the most profound one in nature but the biggest one impacting a lot of territorial permissions was the migration of to a new billing system. Otherwise, the telemedia business is capable of getting back to those levels and that is where we will get at too. When it comes to the enterprise services it is again a businesses where while the top line has grown we are not seeing much growth in the bottom line, I have nothing to flowing to the bottom line, and well the future will account for it. First and foremost you are aware that we actually went through a very bad incident in Mumbai, because of that fire and we had to take a lot of charge because of that in terms of customer SLA's that we had promised and penalties around that, which is again one time in nature. There is a little bit of foreign exchange loading on the revenues which does not flow to the bottom line and that is how you do not see it coming down to EBITDA levels and finally we often take decisions as we move along enterprise services between a Capex model and an Opex model based on what is there on the ground, rather than buying capital expenditure we will go and swap fiber from somebody - convert the Capex to Opex and suddenly the EBITDA margin begins to deteriorate because of that, but when it comes down to the EBIT level and when it come down to cash, the cash results from business, it does not hamper anything at that level and finally enterprise services business is lumpy, we said that many times, it probably makes more sense to view this business on an annualized business rather than on a quarterly basis, so I think if you actually decipher the whole margin based on this and then finally correct it for those, events that happened which were the sponsorship events on the others column we think that the entire scenario changes drastically and shows a different light on the performance that has been delivered during Q3.

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**Rajeev Sharma**

Thank you very much Sanjay.

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**Namita - Moderator**

Thank you very much sir. The next question comes from G.V. Giri from IIFL Mumbai. Sir you may ask your question now.

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**G.V. Giri – IIFL Mumbai**

Thank you very much. You said Manoj that your FCF is positive in Africa and in this quarter your Capex fell from 575 million to 265 million, so would that be an indication that you expect to be FCF positive going forward also and will the Capex stay at these levels or will it go up, that is question number one, question number two is on India Idea and Vodafone seemed to have launched some handsets and do you have any thoughts on the handsets part of the 3G business?

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**Srikanth Balachander - Chief Financial Officer - Bharti Airtel**

I will take the question on the Africa Capex, 575 was the peak and we do not expect that sort of peaking to happen going forward, so I would imagine the operating cash flows, positive cash flow, this quarter has been the debut quarter for the positive cash flows, from all accounts I would say this is something that we will aspire for.

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**K. Srinivas – President B2C – Bharti Airtel**

On your second question Giri on handsets, let me first of all say that we would like to concentrate on areas which we believe are core to us. As there are enough people in this world who know handsets much better than us, I think our philosophy has been that we go with brands whether it is Apple in the offering or Samsung right down to the bottom line to the likes of Micromax and the Karbonns, etc. We do not want to compete with these guys, we will collaborate with each one of these handset manufacturers rather than greatly get into handsets because that is not our core strength and I think there are people who know that, just to answer your question do you want or look at Airtel own branded handsets the answer is no.

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**G.V. Giri – IIFL Mumbai**

The issue seemed to be that the market by itself was not generating handsets priced low enough to excite subscribers on to 3G and that's what I believe drove these other companies to get involved. Is that a problem that you see? Or you think that ...

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**K. Srinivas – President B2C – Bharti Airtel**

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Well if there are just like that 14 operators from the mobile space I am sure there are 25 operators on the handset space, now if 25 operators can't do it I am not sure whether 26th and 27th can do it, so this ecosystem is evolving, by the way the handset market, the 3G handset penetration within the handset is actually now multiplying by the day and we are actually seeing more and more 3G handsets get around the system.

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

I am not very sure risk associated with it has to be kept in mind as well because when you are not a full-fledged handset manufacturer you can play with one or two models at best and you cannot have the full range and if god forbid you are stuck with any inventories that do not move it can cost you a bomb to write that off, so I think the deal is and have to make sure you do not turn out to be a competitor, for now we have abstained from getting in to this. In future, who knows?

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**G.V. Giri – IIFL - Mumbai**

Thanks very much.

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**Namita - Moderator**

Thank you very much sir, due to time constraints we are taking one last question from Mr. Shobhit Khare from Motilal Oswal, Mumbai. Mr. Khare you may ask your questions now.

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**Shobhit Khare – Motilal Oswal - Mumbai**

Good afternoon, thanks for the opportunity. Just couple of questions left. One is just wanted to recheck on Africa depreciation what was the comment, is this the run rate we should use in the future or there is some one-off in that and second is I wanted to check what are the total Edge or GPRS data users for Bharti India and why we are not seeing that user base migrating to 3G as an active user?

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**Srikanth Balachander** - Chief Financial Officer - Bharti Airtel

Okay on the depreciation I think it was answered earlier, you could consider a one-off on \$50 million in Africa in this quarter.

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

On your question around GPRS and data user's internet users in the country collectively they will be between 32 and 33 million sort of a mark and many of them as they are procuring 3G handsets are migrating to 3G services, whereas many applications in this day and age like Face book, Twitter etc., are very valuable on the edge itself. As the collaboration of 3G devices happen these customers are bound to upgrade their internet experience to 3G, so I think it is a metamorphoses of sorts that happens and needs to be allowed time. The Indian ecosystem on customers using 3G devices is still very small, all the more as Srini said this is the fastest growing segment in the market, it is growing at almost 100% per annum but despite of that speed the base is so low that it will take a while before it catches up and we reach a critical mass.

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**Shobhit Khare – Motilal Oswal - Mumbai**

Sir, I was asking this more from the point of view that is it like the users themselves have handset issues or maybe the people who have 3G handset also are not feeling the need to get 3G services because probably their services were just fine?

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

I mean it is both you will be surprised that every country goes through this metamorphosis there are enough and more customers in the market who will be carrying a 3G device but would not be using the data on 3G, they will be using only voice on 3G, so there is an adoption level that happens, with every passing day the number of customers who are carrying 3G devices and the number of customers who are active 3G users that percentage is going up with every passing month, so it is on the up, but it is hard to imagine that every high-end guy who uses a high-end device will automatically start using broadband services. There are enough and more iPhone users in this country who do not use data on iPhone.

**Shobhit Khare – Motilal Oswal - Mumbai**

Thanks a lot and all the best.

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**Namita - Moderator**

Thank you very much sir. I would now hand over the call proceedings to Mr. Sarvjit Singh Dhillon for the final remarks.

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

Good afternoon to everyone and thank you for joining us and the questions that you asked us and our investor relations is absolutely there for you, if you have any questions you are welcome to follow up through the quarter and we look forward to being with you again for the year's report on March 31, 2012. We will shortly be with you in early May. Thank you very much.

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**Namita - Moderator**

Ladies and Gentlemen, this concludes the conference call. You may now disconnect your lines. Thank you for connecting to conference services from Airtel and have a pleasant evening.