

## **CORPORATE PARTICIPANTS**

## Manik Jhangiani

Group Chief Financial Officer - Bharti Enterprises Limited

#### Sanjay Kapoor

CEO, Bharti Airtel Limited- India & South Asia

#### Manoj Kohli

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

#### **Atul Bindal**

President, Mobile Services - India & South Asia

## K. Srinivas

President, Telemedia Services - India & South Asia

#### **Drew Kelton**

President, Enterprise Services - India & South Asia

# Srikanth Balachandran

Chief Financial Officer - India & South Asia

# **CONFERENCE CALL PARTICIPANTS**

#### Sachin Salgaonkar

Goldman Sachs - Mumbai

#### Suresh Mahadevan

UBS - Mumbai

#### Malvika Gupta

JP Morgan - Mumbai

# **Tien Doe**

GIC - Singapore

# Srinivas Rao

Deutsche Bank - Mumbai

# **Justine Dimovic**

Exane - Paris

# Reena Verma

Merrill Lynch - Mumbai

# G.V. Giri

IIFL - Mumbai

## Neeraja Natarajan

Nomura Securities - Mumbai

## Sameer Nagringrekar

BNP Paribas - Mumbai

# **PRESENTATION**

# Surabi - Moderator

Good afternoon ladies and gentlemen, I am Surabi, the moderator for this conference. Welcome to the Bharti Airtel Limited Third Quarter Ended December 31, 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 Chief Financial Officer - Bharti Enterprises Limited

Thank you and good afternoon to all of you joining us today for our third quarter and nine-month results announcement. Let me start out with our phenomenally successful brand launch and relaunch across continents. With Airtel now a brand across 19 countries with population coverage of over 1.8 billion people and an overall customer base 208 million people. Clearly while this might be seen like a marketing exercise, we envisage tremendous long-term positive impact on our businesses as we further develop scale and connectivity across operating units across countries and across continents. On the top line, revenue growth reflects (indiscernible) with India, South Asia up 3.4% and Africa up 8.7%, both on a sequential quarter-on-quarter basis. So as we said earlier this providing us with a twin engine of growth to Airtel with India and South Asia continuing to grow and continuing to yield strong free cash flow and Africa also growing and being self sustaining. From an EBITDA margin perspective, if we look at pre-re-branding cost which clearly the one-time expenditure Airtel has been able to maintain an EBITDA margin on a consolidated basis with India and South Asia continuing to be at 37.3% despite a challenging market dynamic and the Africa operation in fact starting to show that there is spark, increasing the EBITDA margin to 25.1% free pre-re-branding cost. In South Asia, we continue to add robust minutes to our factory driving our scale further with minutes now well over 200 billion per guarter, importantly all these minutes continue to yield a stable RPM; in fact a phenomena now for two quarters in a row. We also started our journey on 3G and Sanjay will talk to you about that. 3G and now m-commerce, Airtel money pushes Airtel now into new paradigm of growth and it is a lifestyle company. In Africa, the network contracts are now closed and hence there are largest to pursue expansion in Africa with ever more zeal. We have added network but we shall pickup more during the next couple of quarters and that should reflect in our operating metrics there. Early signs are all over the RMS picking up wherein in EBITDA growth backed by signs of elasticity and usage growth. But Manoj will give you a lot more details on that. On the tower business as expected this continues to be a strong growth path with EBITDA margins increasing and tenancies moving up as well. EBITDA is now at 38.6% and tenancies at 1.75. Indus at 1.8 and Infratel at 1.68 tenancies both growing substantially quarter on quarter. Importantly, the business is generating strong free cash flows every quarter as well. At a net income level, two main impacts here really. Adverse currency movements in Africa and India resulting in exchange fluctuation related restatement losses and a one-time re-branding cost, excluding the impact of these items, our net impact would have been up by over 10% on a substantial quarter on quarter basis. Adding the impact of additional spectrum charges and the higher net interest outgo to these two items we are looking at a flat performance on year-onyear basis at a net income level. With our continuous strong cash generation we prepaid a further amount of our gross debt about \$415 million and that reflects in our leverage ratios with a net debt to EBITDA going down to 2.9 times. I think overall an increasingly stable platform with twin growth engines in India, South Asia and Africa; an evolution from voice only company to voice and data company backed by 3G and m-commerce, early signs of market share, revenue and EBITDA gains in Africa and very stable cash generation leading to further de-leveraging. With that I am going to hand over to Sanjay to talk about the India South Asia performance.

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

Thank you Manik. A very good afternoon and a very warm welcome to all of you and a happy new year. The quarter gone by has been a historic one for us and also a special one because we refreshed our brand identity in India, Sri Lanka and followed by the launch of the brand Airtel in Bangladesh. The new brand identity represents the new face of emerging Airtel which is youthful, international, inclusive and dynamic. Our mobile customers in India crossed 150 million mark with the last 50 million added in just 18 months underlying we continue to gain the confidence of customers more than ever before. We launched an inspiring vision 2015 which is by 2015 Airtel will be the most loved brand enriching the lives of million. This is inspiring and directing all our stake holders of the next transformation in the company. The quarter gone by saw a bounce back both in terms of customers as well as usage uptake after seasonality inflicted second quarter. This all has happened despite over capacity in the Indian market and the ongoing multi SIM phenomena and while upholding the tariffs, festive season further helped up in gaining the momentum to participate in the revenue growth particularly in the mobile and digital TV service. Before I share the performance of India and South Asia in detail let us have a quick recap of the Indian telecom market. At the end of the last guarter, telecom based reached 780 million customers with a tele-density of 65.5% for the country and 28.4% of the rural India still offering a huge potential for growth. TRAI for the first time reported VLR (Visitors Location Register customer) database for September 2010 providing insights into active customers on the mobile operator network. As per this report, while the active customer base is 70% of the total customer base Bharti has the highest active customer base at just under 90% clearly indicating the superior quality of our customer base. Mobile number portability is now a reality. It was launched on a pan India basis on January 20 by our honorable Prime Minister Shri. Manmohan Singh. We truly believe it is a big win for all mobile customers in India as it allows them to choose an operator of their choice offering better product and services. We are well-positioned to leverage from the opportunity based on our wide network presence, robust customer service delivery mechanism, well complemented with our refreshed brand appealing to the younger generation. Last quarter saw the launch of 3G services by some of the operators. This change is all about offering best service experience to the customers across the country. Recently we have launched 3G services in Karnataka which is Airtel largest circle with revenue market share followed by Tamil Nadu. The current target is to launch in all 13 3G license areas by March 2011. We are also in dialogue with other quality operators to provide a Pan India 3G experience to the Airtel customers.

Moving on to the highlights of the last quarter performance of the company, we want to disclose that the consolidated revenues of 117.2 billion for the quarter ended December 31, 2010 represents a growth of 13.7% year-on-year thereby reinforcing our revenue leadership in the market. The consolidated EBITDA for the quarter was 43.7 billion with underlying EBITDA margins held constant at 37.3%. After accounting for one time branding expenses of 1657 million EBITDA margins stand at 35.9%. We have added 8.4 billion minutes on our network in India taking the total minutes traffic to 199

billion minutes. What is striking is that we have managed to uphold the realized rate per minute witnessing only a marginal decline of 0.25 paise per minute which is the lowest decline in this parameter in the last eight quarters. The net income was 18.3 billion. The profit margin for the quarter was 15.6%. The consolidated CapEx for the quarter was 29.3 billion including that of Infratel. The stand-alone CapEx of the company was Rs.23.6 billion. Non-voice revenues as a percentage of mobile revenues in India have witnessed an increase from 12.7% in Q2 to 13.8% in Q3 FY'11. We continue to expand the bouquet of products and services available to the customers. Airtel apps central launched in March 2010 now has over 100,000 applications which make it the largest operator driven app store globally. With the advent of 3G services, the industry is all set to witness a new wave of internet access and mobile applications that will usher the growth of data services. We continue to maintain our revenue leadership with mobile revenue market share upwards of 30% while upholding the realized rates and profitability per minute. In the M-Commerce space we have entered into a joint venture agreement with State Bank of India targeting financial inclusion on the ubiquitous mobile platform. The joint venture will become the business correspondent of State Bank of India to offer banking products and services to the citizens in un-banked and other areas. We have also recently launched Airtel money in Gurgaon. This service is India's first mobile wallet service by a telecom operator enabling our customers to use the power of ubiquitous mobile platform to make payments at anytime sitting anywhere. Moving to the other geographies within South Asia, Sri Lanka and Bangladesh operations continued to move along the growth trajectory. We launched mobile services in the northern region of Sri Lanka and with this we now are present in 25 districts of the country with 90% population coverage. In Bangladesh, launch of brand Airtel was accompanied by the launch of Airtel Live - the WAP portal. This is also first in Bangladesh I am told. Telemedia business did well with a continued focus on the non-voice revenues which contributes to nearly half of the total revenues for this quarter. We also launched the IPTV services in Bangalore and with this, we have now extended our triple play proposition to two cities NCR and Bangalore. On enterprise side, we have established a direct underground terrestrial link between India and China in association with China Telecom. This is the third international gateway for our customers in India. Last but not the least, Airtel digital TV for the first time since inception added over 1 million customers during the guarter taking the total customer base to 4.9 million as at December 2010. Despite the competition and aggressive pricing we continue to add every fourth customer on our network on digital TV. Wrapping up, I would say Q3 was a satisfying quarter marked by strong traffic bounce back after a seasonally weak quarter and as we enter into the new year 2011 and a new decade, the impending launch of 3G services and other opportunities which will come along, we see an opportunity to enrich lives. With this I hand over to Manoj for taking up the discussion for Africa. Thank you so much.

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

Thank you Sanjay and I welcome all the friends on the call. Good afternoon to all of you. Before I talk about the key focus area and the results of Africa, let me share a few milestones achieved during this quarter. The first and foremost, we were back in the market by pulling back 1% revenue market share and I am really very happy to report that our teams really did a great job in the market. We picked up the market growth, we picked up the elasticity in the market. Second and maybe more important is successful launch of Airtel brand in 16 African countries and I am happy to share with you that we had a great launch in each of the countries which was spread over November 19 to 22 when we launched Airtel across all countries overnight in the streets and all the customer touch points, we transitioned from Zain to Airtel. We have signed major partnerships and now that era of signing partnership is over and executing the partnerships have started. Then we also deployed strong leadership team, performance management systems, new organization design and structure and established a new headquarters for the company at Nairobi. As we enter 2011 on a high to achieve greater success, our focus will be on superior and relentless execution in Africa. This will happen through tangible milestones in few areas and these key areas I want to share with you before I get in to financial details. First and most important is revenue market share through driving affordability. This is one of the key promises to our customers and it is about exciting products but at affordable prices. Affordability is one of the fundamental pillars in this exciting journey to become the most loved brand in Africa. We will focus on building our revenue share in our market through understanding the customers much more deeply, much more intensely. Given the competitive dynamics of our markets we will always respond with great speed for which Bharti is known for. Second, the focus on network quality and rapid roll out into deep parts of each geography. During the guarter, we achieved another milestone and the networks with closure of our network contracts with three big partners, Ericsson, NSN and Huawei. Network quality is another one of our key pillars that will ensure that will leave a superior brand experience to our customers, role out new sites both capacity as well as coverage will be crucial to give superior competitive edge over competition. We will ensure that we give this necessary focus and resources to ensure we achieve our rollout targets in this guarter and next year with full steam. On return on capital employed we are accelerating our investments in revenue generating activities like brands, services, IT platforms, network rollout, conversely we are cutting down significantly on wasteful and a non-revenue linked expenditure. On partnerships the conclusion of major world class partnerships is providing great opportunity for our people to work with global best in the fields of IT network and customer service. I am pleased to inform you that phase 1 of IBM transition has been completed with 100% acceptance by employees in many countries. We will ensure that a seamless transition happens with IT network and BPO partners and should be completed by next quarter. On our brand preference, we will continue to enhance the brand preference through affordability, innovation and big interventions in the market. We will continue to leverage on some of our big initiatives that all already under way as One anthem which is the Airtel anthem in Africa which is topping the charts, the Manchester United partnership, Nokia, Blackberry and ZTE alliances for handsets. On customer satisfaction, let me give you good news that we have started measuring the impact of our processes on various customer moments of truth. The customer satisfaction function will engage with each function to redesign the processes, improve customer satisfaction. A lot of training and retraining has already started for our customer facing employees and the customer are already feeling a positive impact of the brand change. On our people, they are the foundation of the company and most powerful asset. We will practice higher degree of entrepreneurship which Airtel is known for, employee engagement and empowerment. In Africa especially, speed and multitasking will be an essential component in delivering our superior

execution combined with coaching and mentoring from senior members of the team. We are very, very clear that we are building a strong Africa leadership pipeline which will sustain our great performance in the long-term. On the obligation to society in form of CSR, we are fulfilling it through sponsoring schools in every country and I think that has been taken up very well. Government authorities are supporting us, communities and societies are very, very happy but Airtel has taken this social objective to the headquarters in my office. In particular, we have adopted a school in the outskirts of Nairobi which is picking up very well. All these pillars will be drivers of overall context of an enduring brand which is loved by millions of African people. Moving on to performance of the company during the quarter the company has an active customer base of 42 million at the end of December. This quarter reported revenues of \$911 million and EBITDA before one time re-branding cost of \$288 million resulting in margin of 25.1%. EBIT of the quarter was \$9 million dollar. The monthly ARPU for the quarter is \$7.3. MOU per month 120 which is a 7% improvement over the last quarter which reflects early signs of positive elasticity in Africa. However, I must also share that we will drive our revenues through price sustenance and quality customer growth so that in addition to elasticity being experienced in this market. The current churn levels are high at 5.9% on account of multi-SIM environment and KYC registration applicable in many countries of Africa. We are closely studying the reasons for churn and working hard towards reducing the dormant sentiment. The non-voice revenues in Africa have grown to 7.9% of our total revenues and have gone up in the last quarter. We believe there is a huge opportunity to grow this on account of 3G data applications and nine countries had 3G in Africa. Mcommerce we already had m-commerce activity launched in seven countries in Africa and many other mobile enabled services like music, football, sports, etc., etc., The company has more than 11,000 sites on the ground with additional investment in the form of CapEx coming up. We expect to enhance the coverage in the coming quarters as well as improve the network quality. The good news is that the support which we are getting from our partners is enhancing our speed of execution of new networks. Overall I would like to reiterate that we are moving in the right direction and with each passing day we are more confident of our success in this continent of this decade. In summary, I would like to conclude, restructuring is at the peak and is moving in the right direction. All our markets are responding well with elasticity established in key markets, government support is growing as we shared a common agenda with it, business will surely reach to auto growth mode by September so that we can grow with much rapid click beyond that. Organization is being further strengthened, capabilities, leadership pipeline being measured for long-term success. We are also triggering big focus on innovation whether it is music, sports easy charge which is electronic recharge which we have launched in Nigeria recently. Majority of countries markets have responded very well and gained market share. Few countries which are still in the process are expected to gain market share by March this year. The partnership eco system is being built very well. All partners are responding positively and employee transitions are going on very well. All these have started to reflect in our results with revenue growth picking up, EBITDA margin showing signs of improvement. Friends, there are challenges in Africa, but I believe that this platform and the strong set of initiatives I shared with you for 2011, we shall be able to win over these challenges for sure. With this I thank you all for the support and I hand over the call to the moderator. Thank you.

#### Surabi - 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 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. Mr. Salgaonkar, you may ask your question now.

#### Sachin Salgaonkar - Goldman Sachs - Mumbai

Thanks for the call. My two questions are first how do you look at MNP opportunity in India and in African markets like Ghana, Nigeria. In one market, you are incumbent and in others operators you are more like a challenger? More specifically with respect to India, do you see pressure on postpaid tariffs in the coming months? Secondly, how should we look at your CapEx in India and Africa business going forward with the 3G launch in India, should it remain at 3Q levels and are you done with the major network ramp up in Africa? Any guidance on FY'12 will be very helpful? Finally, a clarification on the debt repaid, was it a 3G debt, was it a debt related to Zain acquisition or is it India operations debt? Thanks.

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

I will just take the CapEx question on India. We had given a guidance earlier to say that CapEx will be any where between \$1.8 and \$2 billion and with the advent of 3G we will still hold on to that outlook

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

Sachin, you had two questions for Africa, Number portability, Kenya Government has already announced it effective from April 1, 2011 and we are working with the industry so that it is launched on April 1, and we get major benefits out of it. There are three other countries where number portability is seriously being considered by Government and regulators and

we are working closely with them. These are Nigeria, Ghana and Uganda and I am sure in all these four countries we will get upsides. On CapEx we are not giving a new guidance for next year, but we have given a guidance of 800 million a year for Africa and we are sticking to that guidance for the time being.

#### Atul Bindal - President, Mobile Services - India & South Asia

Just to take the question on MNP in India, it is clearly a net accretive opportunity for us as we have maintained every time customer's choice and flexibility has increased. It is an opportunity for any operator who has a leadership position in network, customer service and distribution to enhance the share and we believe it is exactly the same even this time around. If you were go by the results so far both from the early results from Haryana as well as last week 10 days we continue to be a very strong net positive. The only thing which we would also like to add however, is that while it is a very small minuscule percentage of the base, which is coming up for number portability right now, it will be useful to see it in revenue terms exactly the same way that we are doing for general acquisitions in the marketplace, because not all these customers are necessarily coming from the revenue accretive segments of the marketplace.

On your question on postpaid, once again, it is clearly a net positive opportunity, because much of the postpaid base actually comes to us also from the enterprise services, enterprise accounts, SMB, SME, and commercial accounts and clearly that is where two key strengths of the organization one in terms of price as well as the second being the integrated play, because usually it is these customers who buy a bundle of services and not just mobile alone and that is what we are being able to successfully leverage and we believe that is what really would hold for us as an advantage.

# Manik Jhangiani – Group Chief Financial Officer – Bharti Enterprises Limited

To your last question, bulk of debt paid can be related to the India South Asia debt relating to 3G that we took on. We did have some small pre- payments in Africa as well, which was about \$30 million. So the bulk of it again as I said was India debt for 3G.

# Sachin Salgaonkar - Goldman Sachs - Mumbai

Thanks. This is helpful.

# Surabi - Moderator

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

# Suresh Mahadevan - UBS - Mumbai

Good afternoon and thanks for the opportunity. I had two questions related to Africa. One is I think we have not heard much about your passive infrastructure side on Africa, if Manoj could give an update on that what your plans are and what stage you are in terms of generally encouraging tower sharing and passive infrastructure sharing in Africa that will be helpful? The second thing is I think, Manoj, you talked a lot about the opportunities in Africa. I would like to hear the other side as well in terms of what are the challenges you face and risks in Africa, as you embark on this journey to get a lot more revenues and bring affordable telephony there? Thanks.

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

Thank you, Suresh. Good questions. Let me start with the tower question. You know we have started to share towers in all the countries. We have tower-sharing agreements in each country. Fortunately all the players of Africa has risen to the occasion there, they have woken up to a great benefits of tower sharing and infrastructure sharing. We also have started fiber sharing in Africa. This is also good news because there is no need to duplicate or triplicate infrastructure in Africa. On the Tower Co. side, we have already started the process of de-merging towers in each country. We have also started the process of registration of new tower companies in each country and I think beyond that I really cannot say today, but we will definitely come back in few months from now when our plans are ready. But the process of forming new tower companies in each country has started.

So second question on opportunities and challenges, I can tell you opportunities are far outgoing the challenges. In six months time, we have learnt Africa. We know and understand Africa not fully, I think, it will take us may be another year or so to understand it fully in terms of psyche of customers, psyche of governments but initial first six months report is extremely positive. Our relationships with governments are rock solid. Our understanding of customer behavior is improving by the day and that is why our new schemes and packages are getting good responses. Our employees are much more engaged and much more motivated to work more, deliver more, perform better. Challenges are there. First is

the challenge of logistics. That is why we travel a lot but we use video conferencing a lot. We are planning huge automation much more than India, because automation is the biggest solution to logistics problem of Africa.

The second issue of challenge of Africa is the cost structure of Africa is higher than India and that is the important feature because we definitely want to have a very financially healthy business in Africa, so we are trying to do our best to deploy the Indian business model but also do it in the context of Africa, so that we can further mitigate the higher cost structure of Africa as much as possible. These are the two challenges that I see. On the long-term basis, the challenges about capabilities and building capabilities, training, retraining, getting great talents, which let me tell you the journey has started and in six months our leadership pipeline both at the top level, middle level will be far more robust. So these are the three big challenges we are facing and let me tell you, we are definitely running fast to get over these challenges.

#### Suresh Mahadevan - UBS - Mumbai

Thank you, Manoj. One small follow-up if I may, is the interconnect rates are a big issue for you, because in some markets you may not be the top operator, so if the interconnect rates are high then it might come in the way of bringing affordable telephony and driving your RMS?

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

I would say we are working with each government and regulator on affordability. The regulators are very positive on our approach on interconnect rate reductions. Interconnect rates have to be cost based. So we are helping the regulators and government to understand how much is the cost, how will the cost go down, which is the most efficient cost operator in each country and let me tell you, the governments are extremely positive over a period of next two three years, interconnect rates will surely go down.

#### Suresh Mahadevan - UBS - Mumbai

Thank you, Manoj. Very, very helpful. Thanks and all the best.

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

Thank Suresh.

# Surabi - Moderator

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

# Malvika Gupta - JP Morgan - Mumbai

Thank you for taking my question. I have a question on Africa. I wanted to understand a little bit better on the employee cost and the size of the employee transfer to your other partners and the timing? My second question is around the regulatory environment in India. Is there a provision made for a potential excess payment for the spectrum and if I could just slide in a third one for the trend in the revenue for the South Asian businesses, Sri Lanka and Bangladesh, how those have faired this guarter? Thank you, very much.

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

Okay, Malvika let me start with the Africa two questions on employees. Employee cost per unit has definitely higher than India. Let me start with that. But that is the normal employee composition structure in Africa so we have to go by the same composition structure. The productivity growth is a crucial goal of the company. Over the next year or two you will see Crores of productivity will now outpace the employee cost and that is how we will get better out. On transition of employees to our partners that has just started since last month, so I think that is a trickle but quarter-over-quarter in the next four quarters you will see many more employees transitioning to our network, IT and BPO partners. May be from next quarter we will give you a number of transitions, which are happening partner-by-partner also.

# Atul Bindal - President, Mobile Services - India & South Asia

Let me just take the question on Bangladesh and Sri Lanka. Both countries continue to fair very well. Both countries have also gone through the re-branding exercise. In fact in Bangladesh, it is now Airtel across the whole country as it is also in

Sri Lanka. Coverage has been extended to the entire island as Sanjay shared earlier. So in Sri Lanka today, we have both 3G as well as 2G operations. 3G in select few cities. We are seeing a very good uptake, which is beginning to come through as we have augmented the coverage and as we have strengthened the value proposition of Airtel across the country. Likewise in Bangladesh, the network swap is going on for the EGS and spectrum which we have shared earlier, which was awarded that is going on extremely well as a result of which we have actually seen consumption pickup remarkably even around those very sites which were there earlier and clearly the strategy of network and coverage expansion as well as continuing to bring a combination of both voice as well as non-voice services and then to extend the same complete range that we are offering in India. Those are clearly the two big parts of strategy in Bangladesh. So healthy revenue growth, that is what we have witnessed and we are very upbeat in going forward.

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

Malvika, your question on have we provided for any speculated stuff on regulations, we have not. I think, there are no bases to any calculations at the moment. So you know, it is all speculation and we do not want to provide based on any speculations at this stage.

# Malvika Gupta - JP Morgan - Mumbai

Thank you, very much.

#### Surabi - Moderator

Thank you, Ms. Gupta. The next question comes from Mr. Tien Doe from GIC, Singapore. Mr. Doe, you may ask your question now.

#### Tien Doe - GIC - Singapore

Thanks very much for the opportunity to ask some questions. The first question is just on your minority interest. I have seen that it is now big positive figure. So I was just wondering what are the big contributors to that amongst your having your subsidiaries which of those are rationale-making losses amongst your subsidiaries? The second question is just on your African margins. I guess by 2013 you got a target of somewhere about 40%. How confident you are meeting that objective? The third question I guess I have had my two questions, but if you got time for the third one I will ask that later.

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

Let me share with the African margins. You know I had given a personal commitment of 5 billion and 2 billion. 5 billion revenue and 2 billion EBITDA by March 2013 and we are committed to that commitment. What exactly will be our margins at that time or that quarter I really cannot predict very precisely, but margins will definitely grow quarter-after-quarter it is a healthy cliff. That is all I can say and we will surely achieve the commitment we have given.

## Manik Jhangiani - Group Chief Financial Officer - Bharti Enterprises Limited

On the minority interest piece, I cannot give any specifics in terms of operations that are profit or loss making, but if I were to say to you, we do have eight countries in which we do have a minority partner. One of those which is a large profit making entity than that we just had completed the open offer in the process with the SSEN this stock exchange in terms of the listings, so we would have a full control over there. I think as we continue to look at these operations, where there is an ability to acquire the minority as well, we would probably look at the right valuation, I will just leave it with that.

# Tien Doe - GIC - Singapore

One final question, I have not actually seen your re-branding, the re-branding exercise was done to address which factors that you saw were lacking in the previous brand or what is the reason for the re-branding exercise?

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

Well you know as we have spoken many times earlier life around us is changing. We are moving from being a pure voice set up to defining our canvass as enriching life through various services, which includes data. You also know that we have gone from a single country operation to multi-country operation and the fact that the future customer base and high end customers are going to come from the youth segment in a very large manner, so to address all these three new dimensions in our life, we had to re-brand and re-cast our identity and that is exactly what we have done.

## Tien Doe - GIC - Singapore

Thank you, very much.

#### Surabi - Moderator

Thank you, Mr. Doe. 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 so much. I have two questions; one, could you throw some light, we see that the number of sites you are operating on in India have kind of accelerated over the last two quarters, so any light on that. Probably related questions on the 3G roll-out. What is your view on that? Secondly, could you throw some light on these two issues of 3G and the impacts? What exactly will that the business correspondent license do for you when you work with SBI and any metrics around your apps Store at this stage would be helpful?

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

Let me quickly answer your question on sites we have put up before I pass it on to Atul for rest of your questions. Very clearly in the first quarter of this year, if you are aware because of the security question being asked by the DOT, the imports were really constraint and therefore there was a lot of material that was ordered and it got staggered to Q2 and Q3 and therefore you will suddenly see a flurry and it has not smoothened out. It is as per plan and that is why we have been maintaining our guidance. So it is just a staggering which happened because of the government process that was put a little bit of halt during the first quarter.

#### Atul Bindal - President, Mobile Services - India & South Asia

Just to address your question on 3G and Apps Store clearly, we are seeing two different segments in the markets emerging. There is urban India where the penetration is 130% plus and then there is rest of India, rest of the country, and rural where clearly there is a tele-density which needs to go to the next level. Obviously 3G comes in at absolutely the right time and the point of inflection and it would allow us to really scale and lead the voice to data and voice to non-voice revolution while actually taking full advantage of demographic profile of the country as well as address a wide spectrum of need which go just beyond voice. Clearly both formation of new verticals that is mobile entertainment, mobile commerce, and we are beginning a new foray in mobile health, these are absolutely timely and they would combine very well with the technology enabler of a the 3G coming in. Content and application which is the third vertex of the triangle if you can call it that is where app store fits in, which is first of a kind because usually speaking you would see devices and handsets which would have these app Stores and mitigated success that we had seen both in terms of number of apps as well as the number of downloads as well as where the downloads are coming from, it is not really only the largest metros, it is not really the most affluent, we have a very wide spectrum of consumption, which is taking place there, so that is really where 3G strategy fits. I am also delighted to share that the markets that we have started opening are 3G launches in, we have had extremely gratifying first few days or a couple of weeks and the consumption is already trending towards a very significant percentage of what we would normally see on 2G non-voice otherwise.

# Srinivas Rao - Deutsche Bank - Mumbai

Fair, sir. Just one thing, if someone can help. There was a news report that the transfer of towers by Vodafone in Gujarat has not kind of passed the muster of the High Court there, but does that impact Indus in any which manner?

# Manik Jhangiani - Group Chief Financial Officer - Bharti Enterprises Limited

I think we would rather not really speculate on to anything in terms of what our Vodafone High Court judgments or issues might be, but keep in mind that the important thing is that if there was a non-approval of the merger-demerger there is still an IRU in place regulator that would allow the Indus to continue on an as is basis.

## Srinivas Rao - Deutsche Bank - Mumbai

Fair enough sir. Thank you so much.

#### Surabi - Moderator

Thank you Mr. Rao. The next question comes from Ms. Justine Dimovic from Exane, Paris. Ms. Dimovic, you may ask your question now.

## Justine Dimovic - Exane - Paris

Thank you very much. I have two questions on Africa please. The first one is about the trends in net additions in Africa Q on Q, it is down while you are reporting stable churn and have rebranded the operation, so I am just wondering if you can give some colour as to whether this is related to a milder market growth done in calendar Q3 or as a result of increasing competition in the market where you operate and the second question I have is if you can, I am fully aware that you do not disclose market-by-market in Africa but if you can give just some sort of granularity as to where the bulk of the net addition is coming this quarter what are the two key markets contributing to the 2 million net additions you are reporting in Africa that would be very helpful, thank you very much.

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

Justine, yes you are right our net adds are just about 2 million this quarter but let me share with you our gross adds have been doing very well every month in this quarter over last quarter; however, we have definitely eliminated all the dormant customers because as you know we believe in REC, we believe in active customers, paying customers so we have eliminated all of them and finally the customers we report are paying and active, so we really do not report any dormant customers, which we started as soon as we took over the company and that process continues even this quarter. We really cannot share with you country-by-country data breakup of this but by and large I will say that all countries are growing well, all countries are growing not only in terms of customer growth but also in terms of revenue growth, which does not only come because of customer growth, it comes from various revenue buckets and beyond customer growth, so I will say that there is a robust growth in all the revenue buckets in various countries.

#### Justine Dimovic - Exane - Paris

Thank you very much, now that is very clear. Thank you.

# Surabi - Moderator

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

## Reena Verma - Merrill Lynch - Mumbai

Thank you very much for this call. I have a few housekeeping questions and another one on India. On minorities, Manik we did not quite understand the jump from 23 million to 904, so if you can please offer some colour on why your minority interest jumped so significantly and my second housekeeping question again is on your Africa cost in the others line item because this is important to the way you report underlying Africa margins, those costs seem to have doubled compared to Q2 resulting in your overall Africa margin being flat quarter-on-quarter. Can you please help us understand it for the reallocation there, and the last housekeeping question is on the license fee for the Africa operations, is the rise as percentage of revenues on account of some regulatory change or is it just an accounting adjustment for the quarter? Those are my three housekeeping questions and finally for Sanjay I just wanted to understand that in India in spite of what is supposed to be a seasonally strong quarter your traffic growth has lagged your subscriber growth in Q3. would you please share some light in terms of what is happening in the market place and whether you think this trend might continue? Thank you.

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

Let me start with this Africa question of regulation and license fee. Reena, the license fee is different in Africa vis-à-vis India, in many countries it is big in many countries it is a small percentage of a percentage 1%, 2%, it is very different so when you see overall license fee across all 16 countries, you really cannot reach to a conclusion of what percentage country-by-country it is varying.

# Reena Verma - Merrill Lynch - Mumbai

It has changed between Q2 and Q3 because the numbers are significantly higher.

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

May be the mix of revenue country-by-country could be different compared to Q2, there is no other reason, there is no change in license fee, there is no increase in license fee.

# Manik Jhangiani - Group Chief Financial Officer - Bharti Enterprises Limited

Reena, on the minority interest piece, we can give you some more details of that offline.

# Reena Verma - Merrill Lynch - Mumbai

Okay, Manik I look forward to getting some details offline.

# Manik Jhangiani - Group Chief Financial Officer - Bharti Enterprises Limited

Sure.

#### Atul Bindal - President, Mobile Services - India & South Asia

Reena, this is Atul Bindal, I am coming back on the question regarding India. We have actually every reason to be very satisfied with this quarter and more. We have had healthy growth in base as well as healthy growth in minutes, almost 4.5%, and I think the key metric there is MOUs builds up, which is by and large held and all this has been possible and more while this is stabilizing the rate. I mean, as you are very much aware that we actually have circles which have revenue market share as high as 47-48% to the bottom most, which would still be about 17-18%, so clearly given the net work utilization and everything obviously our strategy on acquiring the right kind of customers and then addressing their usage both for voice as well as non-voice and ensuring that this robust growth which is coming through in growth that is really the strategy and you know this quarter has really been very satisfactorily executed from that point of view.

# Reena Verma - Merrill Lynch - Mumbai

Atul thank you for stepping in. you know, my question still goes unanswered; do you think traffic growth going forward will be stronger than subscriber growth and less than cut-off, you know, Manik there is still a pending question on the other costs of Africa, which has doubled compared to Q2? Thanks.

# Atul Bindal - President, Mobile Services - India & South Asia

Coming back on the traffic growth question let us again divide the country into two, as you are aware the **urban** penetration is 130% plus, which means a multi SIM consumption and multi SIM holding is something, which is rampant and therefore the definition of the revenue earning customers, which is what we have in public domain even earlier, which is that of making one call a month obviously there could be customers who could not be making a call but, you know, who would actually come back later, so the traffic growth rate and base growth rate could therefore have a disparity, which could be there from time-to-time; however, the very fact that we have been able to demonstrate a very healthy and consistent growth in the non-voice part over the last few quarters, I mean that is really the second prong of the strategy. In the rural part of the country we have seen a consistent growth there in fact, both the CMS as well as the RMS in that part of the country has actually grown in a very strong manner and we have been able to take advantage of the increase in teledensity and clearly there we would continue to see traffic growth, which is continuing to be in tandem with the base growth.

# Manik Jhangiani - Group Chief Financial Officer - Bharti Airtel Limited

On the question with regards to Africa others two real main things happening over there. The headquarters for Africa is captured under others and that has obviously been build out on Nairobi headquarters but that is not a significant amount, the bigger increase is really comes from one-off legal theme in relation to the transaction and in particular to the Zambia open offer.

#### Reena Verma - Merrill Lynch - Mumbai

Okay, thank you Manik that was very helpful.

#### Surabi - Moderator

Thank you Ms. Verma. The next question comes from Mr. G.V. Giri from IIFL Mumbai. Mr. Giri, you may ask your question now.

#### G.V. Giri - IIFL - Mumbai

You said Sanjay that your CapEx would be 1.7 to 2 billion and in India you have already done Rs. 76 billion now i.e., approximately 1.7 billion and if I remember your earlier guidance was 1.72 plus 300-500 million for passive. Is that still holding or the whole thing is 2 billion in which case you are very close to that and number two your non-mobile businesses in India including Indus Towers have been fairly flat in terms of revenue growth and if you could provide some colour and outlook on those businesses, and lastly you have a 577 Crore outflow because of acquisition as non-controlling interest is that related to Zambia? Thanks.

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

Giri, let me go one-by-one on your questions. The CapEx guidance that you are looking at includes the Towerco and the one that I gave between 1.8 to 2 billion was excluding the Towerco and we are holding to that including 3G.

#### G.V. Giri - IIFL - Mumbai

Okay, just one quick one; Idea Cellular recently found reasons to bring its guidance down and while direct comparisons might not hold between two companies do you see any possibility of something similar happening on the way forward?

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

You know, I do not want to be commenting on what Idea Cellular does or somebody else does, but I can only throw a perspective. There could be some players who are late entrants in some of the circles if not all and they carry a lot of capacity on some of the newer circles and therefore considering that and the traffic that they have generated, there still might be a headroom for some of them, which is not true for an operator, which is a dominant operator in the market and, you know, whole substantial market share where networks are by and large, generating almost 200 billion minutes a quarter, you know, it is not an apple-to-apple comparison For us we stand by the guidance that I have just given you.

# G.V. Giri - IIFL - Mumbai

Sure.

## Manik Jhangiani - Group Chief Financial Officer - Bharti Enterprises Limited

With regards to the non-controlling interest, yes that is for the Zambia open offer/ acquisition.

# G.V. Giri - IIFL - Mumbai

Sure.

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

On the non-mobile businesses and I leave Manik to talk about the Tower Co., by and large if you look at our telemedia business they grew for the last two quarters and in this quarter, they did not grew for a simple reason that the number of working days during the quarter were lesser and therefore they suffered because of that. On DTH side, DTH is a business that is growing handsomely, we do not declare the revenues separately but I can assure you that in the first month when we did a million customers during the quarter and this is unprecedented and, you know, we are truly dominant on the new acquisitions in that market and that business is doing very well. As far as the enterprise business is concerned of course we grew some bit and I think that business again after some stagnation has been growing for the last couple of quarters.

#### G.V. Giri - IIFL - Mumbai

Right, thank you.

#### Surabi - Moderator

Thank you Mr. Giri. Ladies and gentlemen, we are in the last five minutes of the conference call. The next question comes from Ms. Neeraja Natarajan from Nomura Securities, Mumbai. Ms. Natarajan, you may ask your question now.

#### Neeraja Natarajan - Nomura Securities - Mumbai

Hi, thanks for the opportunity. You have done tariff intervention in several markets in Africa but the RPM decline have been similar in both September and December quarter, so I just want to understand if we should expect a possible decline going ahead or what is the kind pick up off you are seeing following this move?

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

Neeraja, this is Manoj, very frankly I was not able to listen to your entire question. Is it about RPM decline being similar in Q3 as Q2 is that what you said?

#### Neeraja Natarajan - Nomura Securities - Mumbai

Yes, so should we see some sort of an acceleration going ahead basically for the Africa business?

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

Okay, let me share with you in Q2 we corrected our tariff in about 7-8 countries because as you know Zain in the last couple of years has been maintaining a premium tariff strategy. In some countries, the premium were 30-40% hence we corrected 7-8 countries in Q2. Similarly we corrected the balance 7-8 countries in Q3 and today I can say that all our tariff across 16 countries are competitive with our competitors. Therefore, there is a bit of a decline in the RPM; however, we were happy to note and I am sure these are positive early signs that elasticity has helped us to gain revenues, the usage has gone up very well and I think this is a good trend, which will continue in the future too. On tariff I can say that our strategy on tariff is very clear, we are going to offer competitive tariffs. There is no question of dropping tariff, we will follow the policy we have followed in India of being followers in tariffs. We will always maintain reasonable tariffs, healthy tariffs for long-term health of the industry. We will also utilize the pricing power of Africa fully and not let the industry erode the tariff as has been done in some of the markets.

#### Neeraja Natarajan - Nomura Securities - Mumbai

Thank you.

# Surabi - Moderator

Thank you Ms. Natarajan. The last question comes from Mr. Sameer Nagringrekar from BNP Paribas, Mumbai. Mr. Nagringrekar, you may ask your question now.

# Sameer Nagringrekar - BNP Paribas - Mumbai

Good afternoon, Just one question in terms of the African market, I can see that 3G spectrum is coming up for allotment in many of these markets. Do you expect a significant outflow towards acquiring 3G spectrum in these markets, is it auction based or is it pretty much a beauty contest or some other means of allotting that spectrum. And the second question is regarding your CapEx in Africa. What we are seeing Bharti doing is pretty much trying to increase the minutes of use in Africa and when I compare it to the indian market you have pretty much got about 4X the customers for a site in Africa, so if you drive up the volumes is most of your CapEx being targeted towards capacity size or is there a conscious effort to reach out into the rural markets as well?

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

Okay, let me start with the 3G question, today in 9 countries we have 3G licenses out of which 7, we have licenses on the day we took over the company and we are expanding our 3G networks in these 7 countries and re-launching them in the next few months. In the two new countries, Kenya and Sierra Leone we are launching new licenses and we have decided to launch 3G services again in the next three months. The 9 countries will have 3G services in key cities etc., and balance countries we are talking to government, we are negotiating with the regulators and I can assure you that cost of 3G will be very reasonable. There is no auction process in Africa and it will be a reasonable cost. Fortunately, the spectrum is about 2 carriers so we can give high quality 3G services at major capacity to customers. Coming to your second question on CapEx, I will say that today the focus is more on capacity because we need to build capacity for short period in the present coverage areas but I will say next year starting April, more than two-thirds of our CapEx will go to new coverage and may be 30% will go to existing capacities. This was the scene in India also 70-30 and I think that will be the scene in Africa too for the next few years till we reach to deep network coverage in small towns and villages.

#### Sameer Nagringrekar - BNP Paribas - Mumbai

Thank you so much Manoj that is all I have.

#### Surabi - Moderator

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

# Manik Jhangiani - Group Chief Financial Officer - Bharti Airtel Limited

Thank you all for joining us and I think I will just deliberate that this has been a solid quarter with strong topline growth in both India and Africa, EBITDA margins have been sustained and as I indicated net income (indiscernible) last quarter. I think we continue to execute very strongly at the local level (indiscernible) sharing with you India and the Africa business when we meet you against to discuss the full year results. Thanks and have a good day.

# Surabi - Moderator

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