

# **Bharti Airtel quarterly profit slumps 31.5 pct**

ERIKA KINETZ - AP Business Writer - Associated Press

India's top mobile operator Bharti Airtel reported a 31.5 percent drop in quarterly profit Thursday, missing expectations on weak performance in Africa and soaring costs.

Profit for the January to March quarter was 14.0 billion rupees (\$314.1 million) on sales of 162.6 billion rupees (\$3.6 billion).

Analysts polled by FactSet had expected quarterly earnings of 17.1 billion rupees on sales of 162.7 billion rupees.

Bharti has struggled to profitably integrate the Africa assets of Kuwaiti cell phone operator Zain since it acquired them for \$10.7 billion last June, becoming the fifth-largest telecom operator in the world by subscribers in one of the largest cross-border deals in Indian history.

"There are big structural defects in the Africa telecom industry, which lead to very high costs of doing business," said Akhil Gupta, deputy chief executive of the Bharti group.

Executives said strict know-your-customer norms, supply constraints at network operators in Africa, and disappointing 3G launches in seven African countries had slowed growth. Competition is also a concern.

Bharti is hoping to mirror its low-cost Indian business model across Africa, outsourcing most functions to keep costs ultra-low.

Gupta said the company plans to spin off the tower business of its Africa operations soon.

Manoj Kohli, who heads Bharti's international business, said 800 employees have been transferred to partners Ericsson, Nokia, Huawei and IBM, as Bharti nails down its network and information technology operations in Africa.

"I can see the first signs of permanent costs going down in Africa," Kohli said, adding that Africa costs would fall over the next four to six quarters.

Angel Broking telecom analyst Srishti Anand said margins for Bharti's Africa business were "very poor."

"We need to check into what has led to steep erosions in the margins of the Africa business," she said. "We were expecting the Africa business to become neutral at the profit after tax level, but they must have made steep losses."

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Bharti's total employee costs more than doubled, to 9.5 billion rupees (\$213 million) from the same quarter last year, while sales and marketing costs surged from 7.6 billion rupees to 18.3 billion rupees (\$409 million). Depreciation, license fee and network operating expenses also posted sharp rises.

Gupta said he was looking forward to "steady growth" in the company's mainstay India market.

A brutal price war, regulatory challenges, costly 3G spectrum auctions and a massive spectrum fee scandal — which Bharti was not implicated in — have roiled the fast-growing sector over the last year.

Profit before tax and interest from the company's mobile operations in India, Bangladesh and Sri Lanka slipped 4.3 percent, to 20.6 billion rupees (\$462 million) during the quarter from 21.5 billion rupees during the year-ago period as the company cut rates slightly to hold on to market share. Earnings from enterprise services in the region also slid.

Sanjay Kapoor, chief executive of Bharti's India and South Asia operations, said the company is pushing revenue growth from non-voice and Internet-based services.

Mobile phones have taken India by storm, but the country is only now rolling out infrastructure to support mobile data and Internet services.

Kapoor said India — now the second-largest telecom market in the world — still has ample room to grow. Urban mobile penetration in India is 150 percent, while rural penetration remains a low 32.8 percent and broadband penetration is only about 1 percent, he said.

"On the broadband side things can only go northwards," he said.

Bharti said it has launched high-speed 3G services in nine of 13 Indian circles and is awaiting regulatory approval to complete the rollout.

Bharti said it had 212 million mobile customers as of March 31, up from 131 million a year earlier.

The stock plunged as much as 4.6 percent Thursday, before settling down 1 percent in late morning trade on the Bombay Stock Exchange.

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