

Bharti Infratel Limited Third Quarter Ended December 31, 2012 Earnings Call

Earnings Conference Call Transcript

Event: Bharti Infratel Limited Third Quarter Ended December 31, 2012 Earnings Call

Event Date/Time: January 31, 2013 at 1430 hrs

Bharti Infratel Limited Third Quarter Ended December 31, 2012 Earnings Call**CORPORATE PARTICIPANTS****Rakesh Bharti Mittal**

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PRESENTATION**Shareena - Moderator**

Good afternoon ladies and gentlemen I am Shareena the moderator for this conference. Welcome to the Bharti Infratel Limited third quarter ended December 31, 2012 Earnings Call. For the duration of the presentation all participant lines will be in the listen-only mode. After the presentation the question and answer session will be conducted for all the participants on this call. Present with us on the call today is the senior leadership team of Bharti Infratel Limited. Before I hand over the call I must remind you that the overview and discussions today may include certain forward-looking statement that must be viewed in conjunction with the risk that we face. I will now handover the call to our first speaker of the day Mr. Akhil Gupta. Thank you and over to you, Mr. Gupta.

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Akhil Gupta- Managing Director & Vice Chairman of Bharti Infratel Limited

Thank you. A very warm welcome to all of you who are joining us on our first investor call of the quarterly results for the quarter ended December 31, 2012 post our listing which took place on the December 28.

First of all on behalf of all of us at Bharti Infratel let me take this opportunity to thank all investors for the support during the IPO process and the trust and faith that you have reposed in the company and the management. We are extremely pleased that we were able to successfully close the IPO at a time when the capital markets in India had not witnessed much activity. As you would be aware through the IPO process the company raised over Rs.41 billion of which 23% was paid to the selling shareholders with the balance coming to the company.

You would also be pleased to note that we have been given a fast track entry in the FTSE Global Equity Indices starting January with an investability weightage of 9%.

The Indian Telecom operator activity in terms of network growth was somewhat subdued last year while they did continued to rollout towers and take more sharing's for covering the voice related gaps and loading for data services. This is mainly as you are aware due to the prevailing regulatory uncertainties regarding the auctions and the spectrum pricing on renewal they are also faced with the potential one time payments and therefore overall the financial situation of the operators are definitely stretched.

The positive trends of course going forward are : A) data is continues to witness strong growth in India and it is clearly emerging as a focus area with the Indian operators. It is very clear that as data grows and that seems to be growing very well India does seem to be in the cusp of a data revolution, a natural coronary of this would be the increased demanding for towers for both coverage and for capacity. B) It is heartening to note that practically no operator in India is now building any new towers , they are in fact sharing and taking them mainly from towers companies. C) Following the last round of auctions we have now regained most of the loss tenancies or have the certainty about the tenancies, which were earlier under cloud and therefore the risk of tenancies getting lost due to cancellations, have reduced substantially.

As I have mentioned earlier during our IPO meetings our business is characterized by very robust business model with predictable long-term revenues and cash flows. For instance as at the December exit the weighted average life of service contracts between Infratel and Indus is well over 7.5 years and the total contracted revenues corresponding to this would be in the vicinity or in the region of \$8 to \$9 billion, that is a very large predictable revenue. It is also noteworthy that despite the fact that the operators network rollouts in last year were soft for the reasons that I mentioned above our performance clearly demonstrates significant incremental benefits to us as well as to our customers from the sharing of the infrastructure. These are some of the things I had highlighted and our teams had highlighted during the IPO coverage as well.

Coming specifically to the financial and operational results for the quarter let me first highlight a few things. A) The results represent the consolidated results with the Bharti Infratel standalone and proportionate 42% of Indus representing our shareholding in that company. B) As it is customary for our group we are presenting the fully complete audited accounts for the quarter and nine months as per I GAAP. C) Again as it is customary for the group we have released a detailed quarterly report giving financial information as well as analysis on operational parameters while preparing this we have endeavored to give all relevant information and analysis to help you in taking informed decisions without compromising on competitive benefits or revealing delicate competitive information. I hope you have had a chance to go through that. We would look forward to your suggestions as we are committed to improve this report continuously going forward.

Considering that I am assuming you have had a chance to go through this report I would not go into too much of details but just want to highlight a few aspects. Our total tower count increased to well over 81000 towers showing a growth of 3% year-on-year, tenancies about more than 156,000 a growth of 5% year-on-year, the sharing factor improved during one year from 1.87 to 1.92. The revenues for the quarter stood at 26.3 billion an 8% of year-on-year growth. While the EBITDA at 9.8 billion showed a 10% year-to-year growth. The EBITDA margin overall has increased or improved to over 37.4%, this is on the total revenue including energy. The profit after tax for the quarter is at Rs.2.5 billion showing a healthy 31% growth year-on-year and the operating free cash flow is at about Rs.5.5 billion for the quarter showing a marginal reduction of 2% because of most capex being incurred now vis-à-vis the corresponding quarter in 2011.

I also would like to point out that the company has a huge focus on energy efficiency; energy is a very severe challenge which faces as the telecom operators, because of continuous increase in diesel prices. I am pleased to report that our focus has yielded good results for us and we are taking future initiatives in this regard continuously both towards improving the efficiencies of whatever we are operating as well as development of alternate energy. Particular emphasis is on solar and installing higher capacity battery banks.

Finally before we open for Q&A, let me summarize by saying that while the last year was soft in terms of rollouts we do expect more network rollouts in the coming years, this would be mainly on account of the following three reasons. The data as I mentioned the traffic is growing at a very handsome pace. If you look at the last quarter results of Airtel, Idea and also Vodafone we have seen quarter-to-quarter growth well over 20% on an average this is quarter-to-quarter not year-to-year. So that is a very healthy growth which we are witnessing. Two, uncertainties in the telecom sector are definitely getting resolved and three, from what we see the telecom industry in India is now seemingly poised or improved realized rates in the coming quarters, which would obviously mean improved expectations of their financial performance. All this would auger well for the tower company because all this would lead to more demand for new towers and more important for tenancies on the existing towers. Thank you.

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We would like to now open for Q&A. We have the entire management team here lead by Rakesh is the Chairman of the company, D.S. Rawat the CEO, we also have Pankaj Miglani, CFO of the company, also Sarvjit Dhillon the Group CFO and Harjeet the Group Treasurer and the IR Head.

Shareena - Moderator

Thank you very much sir. We will now begin the question and answer interactive session for all the participants who are connected to the audio conference service from Airtel. Due to time constraints we would request if you could limit the number of questions to two to enable more participation hence management will take only two questions to ensure maximum participation. Participants who wish to ask question may press “*” “1” on their touchtone enable telephone keypad. On pressing “*” “1” participants’ will get a chance to present their questions on a first inline basis. To ask a question participants’ may please press “*” “1” now. The first question comes from Mr. Suresh Mahadevan from UBS, Mumbai. Mr. Mahadevan, you may ask your question now.

Suresh Mahadevan – UBS – Mumbai

Good afternoon. Thanks for the opportunity. Looks like a good set of numbers sir. I think I had two questions. One is related to obviously you are very focused on returns that is one of the hallmarks of this group if I look at your return on equity and return on capital clearly they are below the cost and clearly this is because the industry might be still at a nascent stage, anyhow we are expecting occupancies to take up. So I think what level of occupancy, do we really need to see for us to earn a spread over our cost of equity and cost of capital that is question number one. The second question is related to your customers and it seems finally that competition maybe at the margin reducing on the mobile services space. I am just wondering if your customer that is the mobile operators get some pricing power will be benefit as well as a result of that in terms of could new tenancies come at a slightly better price because it is certainly seems compared to other countries like Indonesia, the US I think we have been in a lot more competitive towards our customers when it comes to the rentals, so I would like to hear your views on both. Thank you.

Akhil Gupta- Managing Director & Vice Chairman of Bharti Infratel Limited

Thank you Suresh. First on the cost on equity of the return and equity and return on capital employed I would like to invite your attention to page four, which should be performance at a glance section. One if you go into the key ratios you would see the return on capital employed having improved from March 2012 quarter at 8.6 to 9.8 already.

If you look at the next line, you would see that we increased, incremental return on capital actually for 2012 and the full year it was infinity because if you look at note number four the incremental return for this year have not ascertainable because capital employed was lower than the last year a marginally lower. Now what point I am trying to make it that in this business as we had discussed earlier the incremental returns can be very good as it is showed in your existing assets. Similarly on the return on shareholders equity it is still in the vicinity of between 5% and 6% but again if you look at the incremental return on shareholders equity it has been pretty high. We do expect this to continue and so while I would not be able to guide you as to where it would go but very clearly, this is the endeavor and this is what we are constantly watching and I think we are on the right direction and at the well trajectory.

On the customers, I am not seriously looking or thinking in terms of increasing prices that is not necessary but yes when the customer’s increase their prices and improve their financial performance two things happen with effect one big thing happens and that is the change in mood. What we have experienced is that whenever there are huge uncertainties and the financial performance is going down, it is obvious that the operators will be more cautious. They would like to hold back to the capital expenditure and very clearly it improves realized rates where they see their results becoming better. I have absolutely no doubt that they would rollout more networks especially on data, which in any case we need to do because of the large investment in spectrum, so not that the price has been necessary increase but certainly the volume of new towers, new tenancies that would definitely increase.

Suresh Mahadevan – UBS – Mumbai

Okay, thank you and all the best.

Shareena – Moderator

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

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Srinivas Rao – Deutsche Bank – Mumbai

Thank you very much and congratulations on your first results update. Sir I have two questions number one on your comment that data will be the next growth opportunity for you. Mobile companies have been kind of commenting that the 3G uptake has been slower than what they had anticipated and that most of the 3G sites today are collocated and have a low incremental cost. So in that context would you like to comment on your medium term trends on sharing revenue or your tenancies? So that is my first question. The second question is if you can just let us know why in September quarter there was a fairly high capex as per your cash flow statement so I just want to understand that?

Devender Singh Rawat – Chief Executive Officer – Bharti Infratel

Hi, this is DS Rawat firstly thanks for your question. On the point of 3G uptake and I that we would like to refute the claim that the growth is not very high and we did mention earlier to that some sequential quarter we have been saying that seems traffic growth close to about 20% to 25% on a sequential quarter basis and this is some of the listed entities declaring this as part of their quarterly results. Clearly of course the network utilizations are lower today and we are seeing uptake in terms of cabinet 3G equipments being deployed every quarter as a growth and that is something which we are tracking in both Infratel and Indus too.

Pankaj Miglani- Chief Financial Officer – Bharti Infratel Limited

Coming onto the next question what had happened in September the capex is high on account of creation of an asset retirement obligations and a corrective action was taken with regards to the same - which we revised which led to the increase in capex happening during quarter two and as you know ARO it is just an accounting entry which has been done and it does not have any impact on it – cash flow it hence of creating asset as well as an artificial liability in the books.

Srinivas Rao – Deutsche Bank – Mumbai

Fair enough thank you so much. Just one question on the same sharing revenue. You had indicated in the past that you have taken a kind of a reduction on the negotiated rate in June so in that context the June actually as you have reported the June sharing revenue per operator had fallen compared to March so now it has content to pick up so any thoughts on the trends around that.

Devender Singh Rawat – Chief Executive Officer – Bharti Infratel

Hi, this is DS Rawat again. June we did say that Q1 was again the baseline from whereon we will continue to see this trend to move on, so prices were adjusted into it and that was the base line from where we were expecting the business to move as business as usual. Also in June quarter we have taken the tenancy knock-off for some of them so sharing revenue per tower per month also had some bit of that element coming in. So Q4 actually last year we have taken knock on account of Stel exiting and the revenues of that we are also not reflecting on Q1 since we have done a catch up on some of the tenancies there you will see that is getting rest or two.

Srinivas Rao – Deutsche Bank – Mumbai

Okay, this is helpful thank you very much everyone thanks a lot.

Shareena - Moderator

Thank you very much Mr. Rao. The next question comes from Mr. Kunal Vora from BNP Paribas Mumbai. Mr. Vora you may ask your question now.

Kunal Vora – BNP Paribas – Mumbai

Thank you sir and congrats for getting listed and a good set of numbers. Sir my first question is on how do you look at your recurring capex to sales I understand that you will continue to spend on the batteries and gensets and on a like say three years,

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seven years life cycle so how do we look at the capex to sales for the company in the longer-term recurring part not the expansion which is the new tower addition?

Akhil Gupta- Managing Director & Vice Chairman of Bharti Infratel Limited

On the recurring capex which is the replacement capex which is cyclical on batteries, on DG sets, which is limited life we had earlier also mentioned that on the thumb rule basis could imagine about Rs. 100,000 per tower average as the replacement expenditure, greater than three years, but on the simple basis whatever are the number of towers about 100,000 per year, as a very simplistic measure. Other than that, it is purely dependant on the demand for new towers, new tenancies how much energy initiatives, which they have. That is one thing which we be able to identify but on replacement capex I would think that it would be a good number to work on.

Kunal Vora – BNP Paribas – Mumbai

Thanks sir. Second question is on the energy cost sir. This quarter I noticed that the energy cost realization, is about 2.5% higher compared to this spending, how do we look at this is it because of spending which the company is doing on solar and other initiative or it just an aberration. Will this gap sustain or how do we look at this?

Devender Singh Rawat – Chief Executive Officer – Bharti Infratel

Just to clarify, firstly from a rate perspective as and when the diesel prices go up which has been in the case and also electricity price goes up, the same is passed on to operators, from a realization while that keeps going up the thin margins that you look at in case of for the results there is on account of saving measures that have been taken up and also returned for some other capital has been employed towards these energy initiative and as you rightly mentioned solar or higher electrification and some battery deployment that we have done as around going to this.

Kunal Vora – BNP Paribas – Mumbai

As the initiative we continue to make this investment and initiative, the gap between energy cost, realization and spending should increase?

Devender Singh Rawat – Chief Executive Officer – Bharti Infratel

Yes, as the capex incurred towards energy initiatives particularly solar starts to take off we will.

Akhil Gupta- Managing Director & Vice Chairman of Bharti Infratel Limited

But it think it is important that nobody builds up huge margins on account of energy that is not our business model, on energy definitely we would not be wanting negative, but we do not expect major margins on the energy.

Kunal Vora – BNP Paribas – Mumbai

But wouldn't it be natural to assume some benefits from this, because company is spending Capex on these initiatives, so could you some benefit approved to the company?

Akhil Gupta- Managing Director & Vice Chairman of Bharti Infratel Limited

Absolutely we will, all I am saying is that I do not want anybody to start imagining the company making 40%, 50% kind of margin on energy that is all. So, it should definitely be a very thin margin.

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Kunal Vora – BNP Paribas – Mumbai

Sir, final question on the loading on the sites any numbers you can give how many sites are already loaded and any guidance on what kind of loading we can assume more than in the next couple of quarters?

Akhil Gupta- Managing Director & Vice Chairman of Bharti Infratel Limited

Definitely no guidance. Loading on site, it is a very natural kind of phenomena, because it is in various forms, if somebody adds TRX that is also loading, so I would say on the practically every side they would have been loading at some stage.

Kunal Vora – BNP Paribas – Mumbai

But I am referring to 3G loading if you can give some numbers on that?

Devender Singh Rawat – Chief Executive Officer – Bharti Infratel

If you look at some disclosures that operators are doing you will be able to see, because most of them as we said earlier, are enabling 3G on a site where we are already present for the 2G as a first phase to roll out.

Kunal Vora – BNP Paribas – Mumbai

Thank you Sir.

Shareena – Moderator

Thank you very much Mr. Vora. The next question comes from Vinay Jai Singh from Morgan Stanley Mumbai. Mr. Jai Singh you may ask your question now.

Vinay Jai Singh - Morgan Stanley - Mumbai

Thank you so much for the opportunity sir. I would ask two questions. Firstly, you have net cash on hand courtesy the IPO we just did and one of my colleagues had asked to about the term and equity and return on the capital employed, any chances of getting more than the 30% to 50% payout or what are your plans for capex, which should see to it that the cash is deployed in the right way, that is my first question. Secondly, a micro question, if I look at your margins or look at your costs both for network as well as for rent, they seemed to have moved up by about 30 BPS and 40 BPS respectively. Is it just because the number of towers this quarter have increased so this would be a steady runrate? Thank you.

Akhil Gupta- Managing Director & Vice Chairman of Bharti Infratel Limited

Pankaj, I do not know, you will pick up the second question. On the first, Vinay very clearly in our business as I mentioned earlier there is a replacement capex which you have to do anyway as far as the rest of the capex is concerned, I would love to do as much customers asked me to do, but naturally every capex which we put, we will be seen very judiciously and so it is not really possible to predict what will be the capex it will depend on the orders. All I can say is that this company is not going to refrain from spending capex if that is for growth that we will keep on doing it.

Pankaj Miglani- Chief Financial Officer – Bharti Infratel Limited

Second question, which was on rent, I think if we really look at the trend, we had again a certain amount of aberration happening in Q2, but normalized for that specific the trend what you are talking about which might one can safely presume on a go forward basis.

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Vinay Jai Singh - Morgan Stanley - Mumbai

Thank you sir.

Shareena – Moderator

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

Rahul Singh - Standard Chartered Securities - Mumbai

Good afternoon. I have two questions, firstly on the sharing revenue per tenant for Indus is growing or it grew slower than for Bharti Infratel consolidated, so I was just trying to understand why is a growth in rental pertinent should be slower than Indus whereas my understanding the 3G loading in Indus must be happening at a slightly faster pace and the second question is the energy cost per tower even though it is pass through it is down this quarter despite the diesel price hike in September and obviously the electricity price increase in which have been happening, so just wanted to understand these two things?

Devender Singh Rawat – Chief Executive Officer – Bharti Infratel

The sharing for Indus typically as a higher rooftop to ground-based ratio than Infratel. Infratel has about 90% of sites, which ground base for which the rentals are higher, for each to the tenancy and in the case of Indus it is close to about 30% sites which are rooftops and that is why you see that there is a gap in terms of those numbers between Indus and Infratel. In terms of loading it is roughly about the same that we see in terms of overall ratio. Indus being larger in sites, they also have mixed of rural and urban and we are seeing a similar kind of trend in terms of 3G enablement in the Indus versus Infratel circle on loading. On energy cost as you rightly said, it is the pass through, there is also seasonality for Q3 whereby we managed to reduce the significant amount of diesel consumption.

Pankaj Miglani- Chief Financial Officer – Bharti Infratel Limited

Q2 had certain unusual items or one offs which led to the increase. It happened for Indus, Indus had one of which led to high energy cost in Q2 versus Q3.

Akhil Gupta- Managing Director & Vice Chairman of Bharti Infratel Limited

But Q3 is obviously because of the weather condition definitely from energy point of view, a good quarter in any case.

Rahul Singh - Standard Chartered Securities - Mumbai

Just one followup on the first part. I am actually referring to the QOQ growth in sharing revenue and for Bharti Infratel standalone it was 1.9% whereas for industry it was only 0.7% during the quarter, QOQ growth in sharing revenues, so is there any one of which is effecting it or because typically the loading effect is the same in both 3G loading the pace of 3G loading, it should be at least similar growth in the rentals.

Akhil Gupta- Managing Director & Vice Chairman of Bharti Infratel Limited

I think you are absolutely right and why that has happened was, because in the last quarter Indus has had some extra credits on account of SLA reversal and I think that went into their revenue which was a little high, but nothing otherwise significantly different.

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Rahul Singh - Standard Chartered Securities - Mumbai

Okay thanks Akhil.

Shareena – Moderator

Thank you very much Mr. Singh. The next question comes from Mr. GV Giri from IIFL, Mumbai. Mr. Giri you may ask your question now.

GV Giri – IIFL - Mumbai

Thanks for the call. Number one, your capex may be it is coming of a small base or whatever, but in YTD basis it is about 40%, so I just wanted to understand the direction your business is taking, because it seems to me that lot of operators had spurt especially Bharti are spurt of capex in the early part of this year whereas your building capacity for the future, so how much of this, what drives this sudden increase in capacity, not sudden, but it is a significant increase?

Akhil Gupta- Managing Director & Vice Chairman of Bharti Infratel Limited

I think let me absolutely make it clear as a tower company we do not build capacities for future on the perspective basis. All the capital expenditure which will do can be broadly in three categories one I mentioned about replacement capital which have to do because things come well end of their life. Number two, will be on energy initiative which we will see from time-to-time what is more suitable and number three, based on the actual orders from our customers. So an increased capex clearly reflects as I mentioned a better mood than last year and therefore resulting into more orders coming to us.

GV Giri – IIFL - Mumbai

Sir, we should look for matching numbers in the operator financials which may be one quarter lag or two quarter lags or should it be much thicker in that?

Akhil Gupta- Managing Director & Vice Chairman of Bharti Infratel Limited

Since, we do it on basis of the actual orders. I do not know which operator, would you want to look at, because that may not exactly with one giving the order, I cannot, if you look as industry as a whole absolutely.

Devender Singh Rawat – Chief Executive Officer – Bharti Infratel

Just to add, we have two types of capex, one is when I build a new tower which is significantly higher, when I build a tower for someone whereas in other case you might have an operator going into the existing tower where I invest very small amount of capex, for both these cases if you look at an operator side, the capex involved would be roughly the same, so there is no direct correlation between our capex to their it is more dependent on how much of new build versus tenancy addition that we are doing that is our capex is dependant besides the course of placement and energy Capex which Akhil talked of earlier. There is no direct correlation to answer your question in part there.

GV Giri – IIFL - Mumbai

Sure, you said that mostly the capacity addition in responds to customer's orders would be roughly in equal parts between the capacity on existing towers and new towers in terms of your spending. In other words if you spend \$100 on capacity on existing towers, because there are so many of them, although the cost per tower might be lower, but the overall quantum be roughly equal to the spending on new towers?

Devender Singh Rawat – Chief Executive Officer – Bharti Infratel

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Significantly higher, just you give you a sense the new towers ground phase tower is closed to about Rs. 25 Lakh to build whereas to accommodate a tenant or add a new tenant we would be spending about Rs. 3 Lakhs so. So we are talking of a ratio 1:10 roughly there or 1:8. That is the ratio gap between adding someone as a tenant versus building a new tower.

GV Giri – IIFL - Mumbai

Right, since the number of new tower are very small, the number of towers in which you build capacity upgrade must be probably equally high 10:1 very large ratio presumably?

Devender Singh Rawat – Chief Executive Officer – Bharti Infratel

The fact that we are growing on an overall tenancy ratio if you look at a number that the number of towers I am building is less than the number of new tenants that I am growing.

GV Giri – IIFL - Mumbai

Right, understood and also this 100,000 per tower per year that Akhil mentioned that would be dependant on the tenancy, for example if your tenancy were to go up from 2 to 2.5 over the next few years then at current prices this 100,000 also should be a higher number or will you be able to hold it at 100,000?

Akhil Gupta- Managing Director & Vice Chairman of Bharti Infratel Limited

We will not completely correlate it, but there are more tenants and more utilization on a site, there is a way lifecycle or expectancy it could be somewhat lower, but if we are taking a very large base we are taking it on overall average basis, as it grows up I think we will keep to telling you if there is any major difference.

GV Giri – IIFL - Mumbai

Thanks a lot, my questions you are answered.

Shareena – Moderator

Thank you very much Mr. Giri. The next question comes from Ms. Reena Verma from DSP Merrill Lynch, Mumbai. Ms. Verma you may ask your question now.

Reena Verma - DSP Merrill Lynch - Mumbai

Thank you very much for the call, just a couple of questions. On the quarter-on-quarter slowdown in tenancy additions or collocation additions, please can you help us identify what timing you have for a recovery or what event could make you more confident about the recovery in the pace of additions, because while you talked at a broad level about data growth, the slowdown in Indus tenancy is much sharper than that we have seen for Infratel standalone, which does not quite match the overall picture in terms of data driving tenancy growth, so if you can see help us to understand what event or what timeframe you see for a recovery in the pace of additions that it could be very helpful. I also have small question on your balance sheet trends. If you can please help us understand both the increase in short-term loans in advances and the sharp increase in other current liabilities that would be useful. Thank you.

Akhil Gupta- Managing Director & Vice Chairman of Bharti Infratel Limited

I think the reason where I do not know where which quarter you are talking of, but if you look at 4.1.2 and 4.1.3 the collocation in case of Infratel went up by 9000 over the year, quarter-to-quarter could be very dicey, over the years have gone up from 60,000

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normal 63,000 in case of Infratel, by in case of Indus it has gone up 210,000 to 222,000, so I am not absolute where we have seen that their growth has been has been very low.

Reena Verma - DSP Merrill Lynch - Mumbai

I am looking at the quarter-on-quarter change and also the data event from first quarter of fiscal 13.

Akhil Gupta- Managing Director & Vice Chairman of Bharti Infratel Limited

On a quarter-on-quarter basis, Infratel went up from 62,000 to 63,000, they went up from almost 220,000 to 222,000, so whereas may be you can take it up offline so understand exactly what is the concern.

Reena Verma - DSP Merrill Lynch - Mumbai

Okay, I have just one second make a brief attempt in otherwise take it up offline, you added about 2,837 tenancies in the second quarter or level that flowed in addition to 2,040 in the third quarter. So your phase of additions slowed between Q2 and Q3.

Akhil Gupta- Managing Director & Vice Chairman of Bharti Infratel Limited

I do not have absolutely ready answer but I would request that in our business instead of just looking at every figure on a quarter-to-quarter basis better to take a slightly longer trend. On a quarter-to-quarter basis there could be small aberration but take a longer trend I think we will get clear picture. May be rolling last 12 months would be a better way of looking at this business. Because this is not a business it is suddenly goes up and suddenly comes down. It is good to see a slightly longer trend.

Reena Verma - DSP Merrill Lynch - Mumbai

I appreciate your advice Akhil and we will follow that but do you think it could help us with some kind of more specific outlook on when you think operators might start accelerating their spend because net adds have been negative, profit growth is not accelerating so we kind of trying to understand what event might trigger bigger spend from operator. Do you see anything happening in next 12 months?

Akhil Gupta- Managing Director & Vice Chairman of Bharti Infratel Limited

Firstly, I am not speaking on behalf of the operator especially Airtel here but as I mentioned in my opening remarks we are seeing uncertainty definitely going, becoming lesser. We are seeing data growth taking place. We are seeing a general environment where it seems to be consensus but there is no option but we realized rates to go up and therefore improvement in financial performance of operators, and so on an overall basis we feel bullish. We feel more confident that we will have bigger volumes this year but when that actually starts happening definitely a tower company cannot tell.

Reena Verma - DSP Merrill Lynch - Mumbai

Okay thank you and on the balance sheet side I can get some help.

Pankaj Miglani- Chief Financial Officer – Bharti Infratel Limited

As far as the question on other current liabilities was concerned I think the increase therein represents the proceeds, which we received on account of the sale of shares pertaining to offer for shareholders, which eventually went out post December 31 and hence you see that increase happening. This is close to 900 to 950 Crores and as far as short term loans and advances are concerned there is an increase in the surplus funds, which we invested during this period.

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Reena Verma - DSP Merrill Lynch - Mumbai

Thank you Sir.

Shareena – Moderator

Thank you very much Ms. Verma. The next question comes from Mr. Rajiv Sharma from HSBC, Mumbai. Mr. Sharma you may ask your question now.

Rajiv Sharma – HSBC - Mumbai

Thanks for the opportunity. Just a couple of question. First one is if you can help us provide some color as to what is the kind of incremental capex, which goes in when a 3G loading happens on an existing tower. Let us say if it is one or two operators try to load their 3G gear. So what is the kind of incremental capex because I understand most of tower companies incurred some incremental capex when the first tenant was enhanced by second tenancy so you had to replace generator capacity and other things. So that is one. Second is this is a little tricky question but I just want some color here, which is for long time R-COM has been discussion in with RIL for a 4G deal. What is if this deal is struck at below the market price rate? What does this mean for your business and another example is GTL facing financial crises? What is if it is up for sale and somebody tries to lower the market rates by using those towers? I know they are located all in strategic locations but they also have the Aircel tower? So how do you see these events if they were to happen for your business for your mainly rental rates?

Akhil Gupta- Managing Director & Vice Chairman of Bharti Infratel Limited

Let me answer the second one and I will request on the first one D.S. to give you the answer. I think by our very nature we do not like to comment on our competitors and therefore on the GTL question that they are in trouble etc., we do not want to be answering to that. My only comment there would be that if anybody who you deem to be in financial trouble the answer cannot be lowering you realization rates further. A natural common sense will tell you that in this business it will lead to further trouble. I do not see that kind of hypothetical situation emerging. On the first one about RIL - RCOM well again there are newspaper reports I do not want to get into any kind of these speculations that they might give at lower rate. I believe Reliance Communication and Reliance Infratel is an independent company with investors they would have to take their own decisions and till that kind of a thing happens it will be wrong for us to either presume that they will give throwaway prices or somebody will be able to take it at throwaway prices we really want to refrain from commenting on any of the hypothetical situations.

Devender Singh Rawat – Chief Executive Officer – Bharti Infratel

Talking about the capex you said required to accommodate 3G typically in a tower we would need to do from anything from Rs.0 to Rs.300,000 as a capex that needed. So for an average I think Rs.1,50,000 to Rs.2,00,000 is the fair estimate on capex required to accommodate 3G on an existing site. Most of this average is the way to grow in the network.

Rajiv Sharma – HSBC - Mumbai

What will be this cost regarding this Rs.150,000 to Rs.2,00,000 and you are saying this will be for just one as well let us say Bharti would be on one side and Bharti putting a 3G because it is 3G spectrum in that market. So for one loading where you are getting a rental of 3000 to 4000 you will have to put up at incremental Rs.1,50,000 to Rs.2,00,000 capex?

Devender Singh Rawat – Chief Executive Officer – Bharti Infratel

What I said is in our average. For average you take that number there could be sites where do not have to spend and there could be sites where we could have to spend as high as above Rs.3,00,000 that is where the average comes in, in terms of estimating this cost.

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Rajiv Sharma – HSBC - Mumbai

This goes in which kind of items?

Devender Singh Rawat – Chief Executive Officer – Bharti Infratel

Typically if the battery needs upgrade, or if the generator needs upgrade or electricity connection needs an upgrade depending on that in some case an additional pole is required on the tower.

Rajiv Sharma – HSBC - Mumbai

Sorry Sir for being persistent there. I am just trying to gather this incremental capex on 3G is assuming that the tower already has multiple tenancies?

Devender Singh Rawat – Chief Executive Officer – Bharti Infratel

Yes.

Rajiv Sharma – HSBC - Mumbai

That is all my questions. Thank you very much.

Shareena - Moderator

Thank you very much Mr. Sharma. The Next question comes from Mr. Amit Maskara from Carrhae Capital, London. Mr. Maskara you may ask your question now.

Amit Maskara - Carrhae Capital - London

This is Amit. I just have couple of quick questions. One is on the balance sheet. I want to understand what is the optimal level of leverage you see for the business in terms of net cash post the IPO but I want to understand what is the optimal balance sheet structure that you see and the second question is there was some talk about may be your parent company Bharti separating the tower assets in Africa and will you be a contender for that and how do you think about that business becoming a part of Bharti Infratel?

Akhil Gupta- Managing Director & Vice Chairman of Bharti Infratel Limited

Harjeet would you comment on that leverage.

Harjeet Kohli - Group Treasurer – Bharti Enterprises Limited

Amit on an optimal leverage question it will call even the IPO road show discussion this came up for our answers. In a medium term overtime as the opportunities rise both for organic with expansion for disproportionately high share of market as the operator start rule out for data networks in the country or for some inorganic needs as these opportunities rise, which of course are well reviewed at the board level. The idea is to be able to raise the leverage to about two times on a long-term basis and in an unforeseen situation where such opportunities do not arise in the long-term for making inorganic or organic growth the idea is to be able to use the same leverage to return the cash back to the shareholders, so you could take it 2X kind of net debt to EBITDA target over the long-term for the company. Currently as you know after the IPO proceeds for this quarter the net debt is negative but excluding the IPO proceeds and that is about 0.5 to 0.6.

Bharti Infratel Limited Third Quarter Ended December 31, 2012 Earnings Call**Akhil Gupta- Managing Director & Vice Chairman of Bharti Infratel Limited**

On Africa there is absolutely no plan as yet of Bharti Infratel taking over the Africa towers. I think Airtel is as they have already been speaking looking at creating Tower Company there but there is no proposal at this point of time at all from those towers coming into Infratel.

Amit Maskara - Carrhae Capital - London

Okay. That is all. Thank you.

Shareena – Moderator

Thank you very much Mr. Maskara. The last question comes from Mr. Viju George from J P Morgan, Mumbai. Mr. George you may ask your question now.

Viju George – J.P. Morgan - Mumbai

Thank you. Congratulations to the management on your first listing. I just have a question on tenancy wise over the medium to longer term – analyst reports indicate over 2.4 over a period of 3-4 years. When we look at a consolidating industry structure ahead of you do you think it lends itself to such a projected tenancy rise because in ironically it seems if you have larger number of pan-India players it might help the case the tenancy improvement?

Akhil Gupta- Managing Director & Vice Chairman of Bharti Infratel Limited

Technically speaking as we have clarified we do not give guidance what we been pointing out was a research report by Analysys Mason where they had pointed out some tenancy projections and all we have said was that we do not see the methodology being something that we do not agree with. So we are pretty much in agreement with methodology and those assumptions. I think and I had also mentioned earlier with tenancy growth is not the function to my mind of too many players. There is no point having too many players who are financially bankrupt. They will never grow tenancies. What you need is the right number of players who are financially strong who have made long-term investments in spectrum particularly for data and that is the situation which is emerging now because they are the ones who will bring more tenancies and therefore what I am seeing in the market place there are more and more emphasis now on operators who have already made billions of dollars of investments in 3G, 4G spectrum. Those are the ones who will be in a position to grow in more tenancies. So I would say at this point of time there is nothing adverse, which is happening or happened, which would make us believe that these are not achievable for a longer period but let us watch this as we go along.

Shareena - Moderator

Thank you very much Sir. At this moment I would like to handover the call proceedings to Mr. Rakesh Mittal for the final remarks.

Rakesh Bharti Mittal - Chairman and Managing Director - Bharti Infratel Limited

Thank you friends for joining us on this call and there were some interesting questions and I hope we were able to answer them to your satisfaction. While I must say the team is doing a very good job and we continue to look forward to your support in the future as well. Thank you very much and all the very best.

Shareena - Moderator

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