

Bharti Infratel Limited Third Quarter Ended December 31, 2013 Earnings Call

Earnings Conference Call Transcript

Event: Bharti Infratel Limited Third Quarter Ended December 31, 2013 Earnings Call

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Bharti Infratel Limited Third Quarter Ended December 31, 2013 Earnings Call**CORPORATE PARTICIPANTS****Akhil Gupta**

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Devender Singh Rawat

Chief Executive Officer - Bharti Infratel Limited

Pankaj Miglani

Chief Financial Officer - Bharti Infratel Limited

Harjeet Kohli

Group Treasurer

CONFERENCE CALL PARTICIPANTS**Suresh Mahadevan**

UBS - Mumbai

Gaurav Malhotra

Citi Group - Mumbai

Ketan Shah

Comgest - Mumbai

Shobhit Khare

Motilal Oswal - Mumbai

Reena Verma

Merril Lynch - Mumbai

Sanjay Chawla

JM Financial - Mumbai

Abhay Moghe

ILFS - Mumbai

Kunal Vora

BNP Paribas - Mumbai

Sachin Salgaonkar

Goldman Sachs - Mumbai

Vikas Mantri

ICICI Securities - Mumbai

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, 2013 Earnings Call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question

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Bharti Infratel Limited Third Quarter Ended December 31, 2013 Earnings Call

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 statements 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!

Akhil Gupta - Deputy Group CEO & Managing Director of Bharti Enterprises & Managing Director and Vice Chairman, Bharti Infratel Limited

Thank you and welcome to this earning call for the third quarter, the first for the year 2014. Let me start by wishing you a very Happy New Year. The Indian telecom industry as all of you would be tracking, to my mind has not looked this promising for the last several years and I think the promise is on account of some important things which are having in the telecom industry mainly first and perhaps the foremost is the improvement in the realized rates, and if I may add the hope and the likelihood that this improvement would continue over the coming quarters. I think there is a genuine move and there is a genuine requirement of that. Two, data as you know has been growing very strongly all across the operators; all across the territories the growth has been over 100% year-on-year. Third is the rationalization of the S&D cost, the sales and distribution cost, particularly of new acquisitions, which has not only resulted in big reduction in the churn because this was lower after a rotational churn of the same customers going away, but will also obviously improve the profitability and finally as you are all aware as of today the auctions are slated for the February 3, next month, so the likelihood of the regulatory uncertainties, diminishing overtime, which I think this auction will play a big part. I think all this helps contributing towards a promising outlook for telecom industry.

We are already seeing some signs of faster rollouts by operators on account of faster data revenue growth, as a result colocation factors for Indus crossed the major milestone of two, it is a 2.02 and the consolidated colocation factors for Infratel along with Indus have increased from 1.92, a year back to 1.96 at the end of the December 31 quarter. We are also seeing, both at, Infratel and Indus some step up in the 3G rollouts and while so far these have mainly been loadings on the existing collocations, we are clearly now seeing more demand emerging for fresh collocations for 3G coverage and capacity as the traffic picks up. Particularly this is an aspect we are seeing more in the big cities. As most of you would be aware, the wide band CDMA technology has a peculiar feature that the shrinkage in footprint happens as the traffic picks up and that is something we have now started seeing.

You would also be aware as per the media reports and the industry reports that eight operators have submitted their applications for the forthcoming auctions. It is obviously quite likely that some of the spectrum auctions would also be used for data network, some 900 could be used for instance for 3G, 1800 could be used for FDLT.

It has also been made clear by the government that they intend to come out with auction of 3G spectrum in 2.1 gigahertz later on and I am sure that would be a very welcome step both for the telecom industry and the tower industry as it will allow several operators to complete their desired footprint.

One more factor is a more stringent rollout obligation, which was specified for the forthcoming auctions, which will require operators who are acquiring spectrum recently to rollout their networks. We are also extremely pleased to note that the concept of sharing of infrastructure, which we had pioneered way back, has now been accepted by virtually all operators especially since data network rollouts will necessitate such sharing. All the above points that I have mentioned are extremely well for the tower industry and we have no doubt as leaders we will get the maximum benefit of increased rollouts by the operators, which we expect to happen in this year and the years to come.

Bharti Infratel Limited Third Quarter Ended December 31, 2013 Earnings Call
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On mergers and acquisition, you would remember that we had announced our decision of not looking at expansion into Africa. After that we would be looking at possibility and feasibility of expansion into the Indian subcontinent mainly Bangladesh and Sri Lanka and if something interesting comes up there, we could of course come back to you. I must share two significant developments out of today's board meeting. First, which has already been conveyed to the stock exchanges is that in light of our philosophy of returning excess cash to shareholders as the first step the board has revised dividend policy by making two major changes. Earlier the rate of dividend payable out of the profits was 30% to 50% as per policy that has been increased from 30% - 50% to 60% - 80%. Second earlier this percentage included the dividend distribution tax in the new policy this excludes the dividend distribution tax. As a result what it would amount to is that this payout at the higher reach combined with the dividend distribution tax would mean practically 100% payout at that upper end of the range, we are also looking at other possibilities of returning more surplus cash overtime in a most tax effective manner and in keeping with the requirements of various statutes namely, the Company's Act, the SEBI guidelines, RBI regulations and so on. So hopefully, over a period of time, we should be able to come, based on the opinions and suggestions by our lawyers, with some solution on that.

Second, business development which the board approved was that in recognition of sound performance of our current CEO, D.S. Rawat the board announced the decision to promote him as MD and CEO with effect from April 1, 2014. He will also be inducted on to the board with effect from April 1, 2014 as an Additional Director. I will continue to discharge my responsibilities and duties from April 1, 2014 as Executive Chairman of the board and of course changes which are subject to necessary shareholder's approval.

As far as the quarter was concerned, I think the performance continued to be extremely robust. For the first time our EBITDA crossed a landmark of 1100 Crores showing a year-on-year growth of 16%. The profit after tax was at 411 Crores, 62% year-on-year increase, EBIT was over 600 Crores, 46% year-on-year increase, and the adjusted funds from operations, that is EBITDA adjusted for maintenance capex and noncash charge and income was at 976 Crores for the quarter which was up almost 20% year-on-year.

So overall before I hand over to DS to give you a more detailed account of the quarter's performance, I think it was a good quarter, we are seeing some very strong tailwinds towards the data network rollouts, they are starting and I have no doubt that the year 2014 and beyond would see some increased rollouts of these networks, which would mean good for the tower industry. Over to you DS!

Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited

Thank you very much Akhil. A very Happy New Year to all the investors. Let me now take you through the quarterly performance and the highlights of the quarter. Total tower base at 82,813 and collocations at 1,63,370. Average sharing factor of 1.96 and as Akhil mentioned Indus has already hit the sweet spot; their sharing ratio is at 2.02. Our consolidated revenue for the quarter were at Rs.27311 million, a year-on-year growth of 4% and quarter-on-quarter growth of just under 2%. The YOY number looks lower due to merger impact, which was there in the last year on a normalized basis the revenue growth is 8%.

EBITDA for the quarter is Rs.11298 million up 5% quarter-on-quarter and 16% year-on-year. The EBITDA increased by about 540 million on a quarter-on-quarter basis. However, we must mention that this 540 million comprises of two components. 200 million upside is due to certain onetime settlements of past disputes and reversals of provision of doubtful debt. Being a B2B business we do keep signing reconciliations and sign-offs and there are postings that happen, but this quarter we have had settlements with more than one OpCo and hence we see a significant upside there. Balance 300 million is due to organic growth and efficiencies in the business.

Bharti Infratel Limited Third Quarter Ended December 31, 2013 Earnings Call
--

EBIT for the quarter was a strong Rs. 6,031 million up 12% quarter-on-quarter and 46% year-on-year. Another positive is that we were able to recoup the mark-to-market losses that we mentioned in the last quarter due to the sharp movement in bond yields where we had invested the proceeds. The loss was fully recouped through a combination of mark-to-market write back and dividend accrual on the portfolio. Consequently, at the back of strong EBIT growth as well as recoupment of mark-to-market losses, profit after tax for the quarter came at Rs. 4,105 million up 48% quarter-on-quarter and up 62% year-on-year. We have seen some early signs of capex revival. We did mention this in the last quarterly call too. This quarter we rolled out 337 towers, but more important the territories grew by 3373 collocations which is a 72% jump in collocation additions compared to the last quarter and almost 116% growth in tower although at a very small base that we had last quarter. Operating free cash flow is strong at Rs.7,076 million down 4% quarter-on-quarter and up 30% year-on-year. The adjusted free funds from operation are up 4.4% quarter-on-quarter and 19% year-on-year to Rs. 9,762 million.

In an uncertain Indian macro growth environment, tower companies are insulated from the broader uncertainty and we did reiterate this the last time too the average residual life of all our contracts as of December exit is 6.87 years and the committed revenue for the company is a strong Rs. 489 billion. In an industry like this where operating leverage is very high and you are sweating the existing assets, the return on capital employed and return on equity climbs steeply after a certain stage. We are seeing some good signs on this front. As of this quarter exit also ROCE continues to inch up and is at 13.6% at a time when our overall sharing factor is still shared under 2 and outlook for growth basis data pickup, which Akhil mentioned remains very strong. Incremental ROCE and ROE for the trailing 12 months period is also worthy of note, with incremental ROE being 19% and incremental ROCE being infinity due to lower total capital employed. Hence the underlying strength of the business model remains where tower demand translates into an even higher tenancy demand causing a multiplier effect on revenue and EBITDAs and even higher multiplication on PBT and cash flows.

Over the last year, the towers and tenancies have grown by 1.7% and 4.5% respectively. Normalized revenue has grown by 8%, EBITDA by 16%, EBIT by 46% and profit after tax by 62%. The company has special focus on energy management and has taken strong steps towards reduction of carbon footprint. We mentioned about solar deployment that continues. Additionally, we have taken up a project on Green Site deployment, which are sites without DG sets within the Infratel and Indus and we have started to deploy free cooling units widely in the network to convert indoor sites to outdoor thereby reducing the use of air-conditioner.

To sum up, we have been mentioning over the last few quarters that operator rollouts have been soft; however, the operator environment is continuing to improve for the better both in terms of its operational and financial performance. Besides, the regulatory clarity and hence the tower industry is also well poised for growth. At a time, data outlook is also very positive and provides a favorable upward bias in the tower industry's prospect. Successful spectrum auction will lead to a faster rollout and will further add to tower demand at a healthy ROCE of 13.6% when tenancy levels are just under 2, the company is well poised and extremely focused to capitalize on the benefits from the growth of sites with its associated financial returns.

With that I would like to hand over back to the operator to take on question and answers please.

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 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

Bharti Infratel Limited Third Quarter Ended December 31, 2013 Earnings Call
--

participants may please press “*” “1” now. The first question comes from Mr. Suresh Mahadevan from UBS, Singapore. Mr. Mahadevan, you may ask your question now.

Suresh Mahadevan - UBS - Singapore

Good afternoon. Thanks a lot for the opportunity. Congratulations on an excellent set of numbers. I have two quick questions. One is regarding your sharing revenue per operator per month. I think it seems to indicate it is falling, but clearly occupancy has gone up but I am assuming some loading would have also gone up, has it something do with the way the IRU is treated because intuitively it does not make sense it should fall to 0.6% on a year-on-year basis. That is question number one. The second question is a follow-up as to what Akhil discussed in his opening speech in terms of the cash and the balance sheet. Certainly, your return on capital trends has been very, very encouraging. It is now up to 13.6%, but the ROE obviously is not moving up proportionately because I think you are accumulating cash and in this quarter you have generated probably close to Rs. 7 to Rs. 8 billion cash and next quarter is going to be similar and you did talk about the dividend payout certainly going up post the board meeting, but is there any other way or any other plans or timelines to fix the balance sheet to make it a lot more efficient? Those are my two questions. Thank you.

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

Suresh let me take the first question. So, as far as your first question is concerning, you are right. Last year December we had the uneliminated portion of IRU revenue sitting in the revenue line items and hence when you see the decline that is primarily driven by that. It amounted to close to 70 Crores, which was included in December 2012 and hence the decline.

Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited

Also Suresh, just to add, you rightly said, that as the tenancy ratios move up you will see on a per tenant basis this figure coming down. We did mention that the construct is such that as people go into higher tenancy ratio, the benefits are shared by the operators in terms of getting the benefit and at the same time we have higher realizations on a per tower basis.

Suresh Mahadevan - UBS - Mumbai

But you also probably get loading Sir. So I am just assuming intuitively maybe it should not fall as much because of that but for the accounting adjustment. Is that fair?

Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited

Pankaj has clarified just now that it is true of what you have said both the things.

Harjeet Kohli - Group Treasurer

The additional impact also came in from the tenancy write off because of the Supreme Court order and related cancellations that have happened late last year and some bit of carry forward in the first quarter of this calendar.

Bharti Infratel Limited Third Quarter Ended December 31, 2013 Earnings Call

Akhil Gupta - Deputy Group CEO & Managing Director of Bharti Enterprises & Managing Director and Vice Chairman, Bharti Infratel Limited

On the return and equity I think if you see, Suresh, page #4 of the quarterly report, we would give the incremental return on shareholders' equity, and that is at 19% for this quarter. So I think on an incremental basis, we are doing pretty well but you are absolutely right, I think with so much of cash on the balance sheet which as per the Indian GAAP does not actually earn any money because if we do not take it out then we do not have to account for the income on that on mark-to-market basis. That is something that pulled it down. To your third question, which was about what could be done to return excess cash, in addition to the dividend policy? Well we are proactively looking at it. The little bit of problem is that there are many regulations we have to cope as I mentioned. It will take care of Companies Act, SEBI regulations, RBI and so on. There are various possible ways being suggested which we are studying, which could be bonus, nonconvertible debentures, through preferential shares, capital reductions is being suggested and buyback of shares, schemes at the court etc., etc., so I am not going to take you through all that because that is still work-in-progress, but we do expect that in the coming quarter based on the legal opinions and our discussions with our counsels we should be in a position to come to a conclusive decision in this regard. So hopefully in the next two to three months we should be clear with the options available.

Suresh Mahadevan - UBS - Mumbai

Thanks a lot Sir. Congrats once again and all the very best.

Shareena - Moderator

Thank you very much Mr. Mahadevan. The next question comes from Mr. Gaurav Malhotra from Citi Group, Mumbai. Mr. Malhotra you may ask your question now.

Gaurav Malhotra - Citi Group - Mumbai

Thanks for this. Just two questions; firstly on your capex you have spent around 960 Crores in the first nine months and the guidance is for 1500 Crores, so just wanted to check whether you would be able to achieve this guidance or it is going to be a little bit less than the guided number? The second question was on what Akhil mentioned about the spectrum auctions being successful and part of the spectrum being used for providing data services both LTE and 3G now given that scenario in which maybe more than couple of operators are bidding for that spectrum and the spectrum prices going quite on the higher side, would not then cause the balance sheets to come under pressure and then for the operators to not being able to invest as aggressively in the network. Just wanted to hear your thoughts on that? That is it. Thanks.

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

As you remember last time we had given guidance so I think for the whole year we are still looking at a number of somewhere around 1400 to 1500 Crores so that is the guidance for the year.

Akhil Gupta - Deputy Group CEO & Managing Director of Bharti Enterprises & Managing Director and Vice Chairman, Bharti Infratel Limited

Bharti Infratel Limited Third Quarter Ended December 31, 2013 Earnings Call

On the spectrum, I do not know how the auctions will go because there is still the issue of the spectrum user charge yet to be decided. It seems pretty clear from the statements made by the operators and typically if that problem does not get solved the response in the auctions is bound to be pretty muted, so we really do not know how it will go. But one fact remains that if operators bid in the auction and they take the spectrum and invest money in that, you know that the cost for stretching the balance sheet will be a lot and the operators will not sit on debt, therefore if they take the spectrum they are bound to rollout the networks very quickly. So we do believe that if the auctions go well, people take the spectrums especially if some of them take it for data networks, the rollouts will speed up.

Gaurav Malhotra - Citi Group - Mumbai

Thank you so much.

Shareena - Moderator

Thank you very much Mr. Malhotra. The next question comes from Mr. Ketan Shah from Comgest, Mumbai. Mr. Shah you may ask your question now.

Ketan Shah - Comgest - Mumbai

Congratulations to the management for good set of numbers. My question is on Reliance-Jio deal. Can you share what will be the rentals or any other details; would you like to share on it?

Akhil Gupta - Deputy Group CEO & Managing Director of Bharti Enterprises & Managing Director and Vice Chairman, Bharti Infratel Limited

This was a memorandum of understanding as was announced in the press release by Bharti Group that there is an understanding between the two entities that we would look forward to sharing the infrastructure on either side at the market related prices. So that does include obviously the towers as you are aware, the whole purpose of forming Indus and Infratel was to promote tower sharing amongst all the operators so as far as we are concerned, it has always been our vision to share infrastructure. We are extremely pleased that Reliance-Jio which could be looking at a major rollout on the data network side on TDLT are now agreeing with our philosophy that infrastructure must be shared and not duplicated so we would continue to work with them very closely. The key factor is that this would be at the market determined prices so there are no special prices being envisaged here.

Ketan Shah - Comgest - Mumbai

Thanks. This was very helpful.

Shareena - Moderator

Thank you very much Mr. Shah. The next question comes from Mr. Shobhit Khare from Motilal Oswal, Mumbai. Mr. Khare you may ask your question now.

Shobhit Khare - Motilal Oswal - Mumbai

Bharti Infratel Limited Third Quarter Ended December 31, 2013 Earnings Call

Good afternoon sir. Thanks for the opportunity. Just a follow-up on this Reliance-Jio if you could comment on the potential opportunity size in terms of your tenancies etc., how or what kind of scale up can we see in the next 2-3 years because of this? Second is on your rental revenue which is up around 2% quarter-on-quarter after almost three flattish quarters. Just wanted to understand is there any seasonality in the third quarter for you in terms of rental revenue or there is actually a better pickup in terms of the numbers?

Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited

Shobhit, typically we notice that the third and fourth quarters are the quarters when most of the rollouts take place, but otherwise there is no seasonality. This is purely operator capex dependent on when they are buying electronic equipment and when they are trying to put in place. So we do not see a particular seasonality on any of these numbers. The growth is primarily dependent on the addition of tenancies and loading. That is where the sharing revenue is coming from and since there has been higher number of tenancy additions in the last quarter you start seeing those numbers positively and mind you this means the numbers that have come during the full quarter, the next quarter impact of these is more positive that you have revenues for the full quarter there. As of now part of that would have got reflected in this quarter itself because even the exact month when this was translating into a tenancy.

Akhil Gupta - Deputy Group CEO & Managing Director of Bharti Enterprises & Managing Director and Vice Chairman, Bharti Infratel Limited

On Reliance-Jio, all of us are aware of their potential of rollouts. They have taken a big bet in all 22 circles with 2.3 gigahertz. I am sure with that kind of investment of almost \$3.5 to \$4 billion they would be looking at quick rollouts, so we do expect that over a period of time we should get business from that rollout but at this point of time, firstly as you know we do not give any guidance, most importantly we really do not have any implications as to what they are planning, when they are planning. So we would not be able to even guess at this point as to what the potential could be, but I guess it is a matter of belief. We believe and I am sure many of you believe that they would rollout very strongly. So, I think, very you we would also be watching, our people are in touch with them regularly so we do hope to get business from them.

Shobhit Khare - Motilal Oswal - Mumbai

Thanks a lot and all the best.

Shareena - Moderator

Thank you very much Mr. Khare. 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

Good afternoon. Thank you for the call. Just couple of questions, firstly on the sharing revenue per tenant. Can I please understand why Bharti Infratel standalone posted an increase and is it something that explains the difference in trend line for Indus versus Infratel because I thought loading would be faster in the Indus circles? That is the first question. My second question is more of a long-term

Bharti Infratel Limited Third Quarter Ended December 31, 2013 Earnings Call
--

thought process, which you could share with us if possibly. Is that if there is LTE rollout on 1800, you know, is that something that is a long-term depressant to the potential demand for towers simply because you know operators would have existing networks and you possibly would render the 3G network redundant. If you can just share your knowledge with us on this that would be very kind? Thank you.

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

As far as Infratel is concerned, when you are looking at the sharing revenue per operator, if you heard DS talk about it in the opening speech there was this settlement, which has happened, which has led to a one-off happening in this particular quarter, amounting to close to 20 Crores at EBITDA level. I think the revenue impact is close to around 16 Crores, which is leading to the increase in sharing revenue per operator for Infratel.

Reena Verma - Merrill Lynch - Mumbai

For Indus why is the trend line falling trend line despite loading?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

As far as Indus is concerned, Indus also had this settlement, which has happened, which is a change in the classification, which has led to a decline happening in Indus and hence you see different movements in the two sharing revenue per operators for these companies. It is the same operator settlement which has happened at both the entities, which is leading to this one-off movement what you are seeing.

Akhil Gupta - Deputy Group CEO & Managing Director of Bharti Enterprises & Managing Director and Vice Chairman, Bharti Infratel Limited

Reena, adding to your question on 1800 auction, while there is a speculation, yes and I read various analyst reports about 1800 being used for FDD LTE. First I want to tell you that for 2300 TDLE coverage, we have been mentioning that if one was to build a network, you would need close to a million sites and that was something which we had not factored in our immediate business cases. We definitely felt you would need some lower frequencies to build a pan-India network of that nature. So to your question 1800 is a big positive, even if it is used for LTE. This is the spectrum which will probably give better coverage than the 2300 that was envisaged and will also take LTE much faster to the market. Traditionally LTE has been a big wire line substitute if you see at the developed markets and India being a country with low wire line penetration; this will become a substitute for fiber to home or high speed bandwidth connectivities to home on the 1800.

Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited

But even on that Reena, the footprint which is there on the 1800 megahertz on 2G and the footprint which one would have with 1800 on LTE will be completely different. The propagation on the LTE with 1800, we are told is going to be lesser, noticeably lesser than the 2G propagation. So we do expect that while of course on quite a few sites, there maybe just loading but that also as you know gives us revenue, but very soon once that starts, fresh demand for new tenancies will come up. So, it will be a good move for the tower companies.

Bharti Infratel Limited Third Quarter Ended December 31, 2013 Earnings Call**Reena Verma - Merrill Lynch - Mumbai**

Sir, I appreciate and thank you very much for the input. I really appreciate your comments. My final clarification is what happens to the 3G network expectations in an 1800 LTE scenario. Should we just assume that it goes away? It is just rendered redundant?

Akhil Gupta - Deputy Group CEO & Managing Director of Bharti Enterprises & Managing Director and Vice Chairman, Bharti Infratel Limited

No. It cannot. Because if you look at the developments of the ecosystem, 3G is far ahead. So, 3G will naturally rollout much faster. I do not think there is any danger to 3G rollout.

Reena Verma - Merrill Lynch - Mumbai

Thank you very much.

Shareena - Moderator

Thank you very much Ms. Verma. The next question comes from Mr. Sanjay Chawla from JM Financial, Mumbai. Mr. Chawla you may ask your question now.

Sanjay Chawla - JM Financial - Mumbai

Thank you for the call. I have looked at the opex other expenses and again this item has actually come down. My question is, are there any one-offs there and how much more margin one can squeeze from cost efficiencies with regard to the other network expenses. Are we at a new baseline figure from where the opex will only grow? That is first question and secondly, your depreciation expenses at a consol level is also down and finally could you give some indication of the Green energy capex that you have incurred in the first nine months of this fiscal year?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

As far as opex is concerned, the opex is showing actually a reduction primarily on account of one offs, which DS had initially mentioned plus there has been an old receivable recovery, which has led to a reduction from the last quarter same period, and hence you see the movement happening.

Sanjay Chawla - JM Financial - Mumbai

How much would that amount be?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

That amount in this quarter will be a movement of close to 25 to 26 Crores.

Bharti Infratel Limited Third Quarter Ended December 31, 2013 Earnings Call**Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited**

On the Green capex, we have installed close to about 1500 sites on solar power and it continues to increase from here on. So it is not a meaningful capex as of now, but going forward it will start to go up now from this quarter onwards.

Sanjay Chawla - JM Financial - Mumbai

Thanks. On the depreciation, has also been soft on a sequential basis?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

Again depreciation has actually dropped from last year because last year specifically had one-offs happening in that particular quarter on account of certain accelerated depreciation which we had taken and that is the reason for the decline.

Sanjay Chawla - JM Financial - Mumbai

Sorry, Pankaj, Even on a sequential basis, we have seen a decline. We thought maybe last quarter's number was a baseline number but it seems to have declined even from that level? Are these the new baseline now?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

Last Year depreciation was more than the normal depreciation on the assets, this also includes accelerated depreciation which we provide. So, while this quarter last year had a higher amount of accelerated depreciation and the last quarter in the current year had a lesser amount. So other than the normal depreciation rate there is a minor spike which keeps on happening on account of this. So, between the current trends, which are happening, I think this is the baseline, which you can consider for your future projections.

Sanjay Chawla - JM Financial - Mumbai

Thank you, Pankaj for this. If I could just squeeze in one small question, your energy margins have gone up quite significantly this quarter, can you provide some color on that why it has happened and is there any one-off over there?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

So, the energy margin for the quarter there is a seasonality which happens in this part of the year and because of that we actually see a reduction in the cost and hence margins are slightly more than the other quarters.

Sanjay Chawla - JM Financial - Mumbai

Thank you very much.

Bharti Infratel Limited Third Quarter Ended December 31, 2013 Earnings Call

Shareena - Moderator

Thank you very much Mr. Chawla. The next question comes from Mr. Abhay Moghe from ILFS, Mumbai. Mr. Moghe you may ask your question now.

Abhay Moghe - ILFS - Mumbai

Good afternoon management. BWA spectrum was won by bidders in 2010 auction. They had a rollout obligation, which needs to be completed in five years around 50% of rural SDCAs. Now 3.5-4 years are gone, so do you see a significant pickup in your tenancy levels over the next 12 to 18 months, being the largest player and if they need to comply with the rollout obligations. So, do you have internal targets or any planning on this front. Do you see a significant pickup on your tenancies due to that?

Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited

As of today, most of the sites we have mentioned are operators who won the license for 3G there I do not foresee a problem. For 4G I am not sure of how soon and what people are going to do. My sense is that post the spectrum people will take their positions and will try and decide to meet this rollout obligation. The obligation is about 50% of district headquarters, we have some non-serious operators, operators who want to postpone and choose smaller districts and try and get some kind of coverage to meet this obligation. So they will do this in a hurry towards the deadline date of that five years rather than doing it now; otherwise 3G operators are comfortable to meet that obligation in the normal course of the business itself.

Akhil Gupta - Deputy Group CEO & Managing Director of Bharti Enterprises & Director of Bharti Airtel Limited

Without a doubt, Abhay, I think certainly the rollouts will start happening as we have seen even on 4G. Let's not forget massive investments have been made by people. The only way these operators recover that investment is by rolling out networks so they will get more revenues, so more than the regulation on the rollout obligation, I think it is the business case which will force the operators to offer speedier rollouts now.

Abhay Moghe - ILFS - Mumbai

Any sense if you can give, like if one needs to cover 50% rural SDCAs, even as you have mentioned with smaller districts, they can cover, what is the amount of sites that they may be required? As you have mentioned like TDLT for a PAN India coverage may require something like 1 million site, to achieve this what they may require?

Akhil Gupta - Deputy Group CEO & Managing Director of Bharti Enterprises & Managing Director and Vice Chairman, Bharti Infratel Limited

It would be very difficult to guess that because different operators have different obligations, we have not calculated that.

Bharti Infratel Limited Third Quarter Ended December 31, 2013 Earnings Call**Abhay Moghe - ILFS - Mumbai**

Thanks a lot.

Shareena - Moderator

Thank you very much Mr. Moghe. 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

Thanks for the opportunity Sir. Congratulations for good numbers. Sir, in your opening remarks you mentioned that besides loading, operators are also now taking fresh site for 3G, would it be possible to elaborate this? Any numbers like what proportion? Earlier the assumption has been that most of the 3G sites will be loading but is it changing now? That is my question number one. Second question is on the spectrum auction, if the operators buy more spectrums for 2G services do you believe there could be some adverse impact to tenancy potential going forward and in the similar lines, how much churn is an operator allowed on an annual basis in the contract? Obviously they cannot cancel much, but can you just throw some light on the churn number, which is allowed on annual basis? Thank you.

Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited

First on your question on the additional spectrum impact that is likely to be there, the spectrum was earlier also available for people who wanted it to take it. In theory, yes, in some CBD areas you might not need as many sites to cover that area as one node, but traditionally coverage drives that part of the criteria and that is where we do not foresee an adverse impact on account of spectrum. Even on today's reserve price, people have done that math and come back and chose to build a site on 2G, trying to use more spectrum where lot of this demand for additional spectrum is to do with data, operators want to have a data network which is also good in terms of 2G coverage and that definitely is a key driver for people who look for additional spectrum there. You have mentioned about 3G only sites. This is something which is in discussion right now with a lot of operators who are present in the larger cities where the operators have started to reach a higher utilizations in some of the cell sites. They have started to evaluate now and you will start to see numbers coming in from the next quarter. As Akhil mentioned, more on the big cities, where traffic utilizations have picked up to a higher percentage in the CBD area.

Kunal Vora - BNP Paribas - Mumbai

Sir, the last question on the churn, like how many sites can an operator surrenders on an annualized basis? Is there any provision for that in the contract?

Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited

There is no provision in the contract per se for the churn. There is however, an exit provision that operators can exercise and they have to pay a compensation for that exit.

Kunal Vora - BNP Paribas - Mumbai

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Bharti Infratel Limited Third Quarter Ended December 31, 2013 Earnings Call

Great. Thank you Sir.

Shareena - Moderator

Thank you very much Mr. Vora. The next question comes from Mr. Sachin Salgaonkar from Goldman Sachs, Mumbai. Mr. Salgaonkar you may ask your question now.

Sachin Salgaonkar - Goldman Sachs - Mumbai

Thank you for the opportunity. My first question is with respect to your long-term net debt to EBITDA of around two times. Now looking at possible potential acquisition opportunities in Sri Lanka and Bangladesh, given that these are relatively smaller markets, you know you really do not see your net debt to EBITDA going to two times simply driven by acquisitions in Sri Lanka and Bangladesh. So, is it fair to assume that one way of reaching a two times ratio could be by returning excess cash or you want to look at opportunities even outside India and Indian subcontinent? Second question is what Akhil mentioned earlier, Bangladesh as an opportunity which is being looked at, just wanted to understand when you look at Grameenphone the incumbent they do not want sharing and they have a decent coverage, Axiata has its own tower company, so in a hypothetical situation where Bharti goes and enters into that market, do you see room for incremental tenancies in that market? Thank you.

Akhil Gupta - Deputy Group CEO & Managing Director of Bharti Enterprises & Managing Director and Vice Chairman, Bharti Infratel Limited

Bangladesh, I think definitely, there will be demand for more sites, all three cells operators have a good footprint. We have seen that as they rollout 3G they are bringing in more sites for coverage and ultimately for capacity. So, certainly there should be good scope for sharing especially 2G and 3G are being rolled out now. On the net debt of the Infratel we would look at the maximum of about 2.1, and it would be quite nice but, yes it looks difficult to meet that. On our plans for the time being we are just going to look at the Indian Subcontinent. We do not have plans of looking at anything else at this stage. So for all practical purposes to move towards this ratio, the only big way would be to return cash, which as I mentioned we would be looking at.

Sachin Salgaonkar - Goldman Sachs - Mumbai

Akhil, any timeline to achieve that net debt to EBITDA of around two times? Is it one year or two years down the line?

Akhil Gupta - Deputy Group CEO & Managing Director of Bharti Enterprises & Managing Director and Vice Chairman, Bharti Infratel Limited

I do not know, cannot comment at this stage because the first priority would be to see how excess cash can be returned. So, let us take it one step at a time, I would be concentrating and focusing more on that.

Sachin Salgaonkar - Goldman Sachs - Mumbai

Got it. Thank you.

Bharti Infratel Limited Third Quarter Ended December 31, 2013 Earnings Call

Shareena - Moderator

Thank you very much Mr. Salgaonkar. The Next question comes from Mr. Vikas Mantri from ICICI Securities, Mumbai. Mr. Mantri you may ask your question now.

Vikas Mantri- ICICI Securities - Mumbai

Just wanted to understand the requirement of a memorandum of understanding with Reliance-Jio given that they are going to come in at market rates, wasn't the current master share agreement good enough for that and will 4G sites be considered as tenancy from Reliance-Geo or loading or is it a totally different rate card for that?

Akhil Gupta - Deputy Group CEO & Managing Director of Bharti Enterprises & Managing Director and Vice Chairman, Bharti Infratel Limited

The agreement of the memorandum of understanding with Reliance Jio is not only with respect to towers. It is on a comparable basis that infrastructure on either side, which could include the intra-city optic fiber, intra-city optic fiber, submarine cables and submarine cable capacity, any type of infrastructure which incidentally also includes towers. As far as tenancy is coming from Reliance Jio on 4G as and when they come, it cannot be loading because they do not have any tenancy existing with us today.

Vikas Mantri - ICICI Securities - Mumbai

But it would be at regular tenancy rates?

Akhil Gupta - Deputy Group CEO & Managing Director of Bharti Enterprises & Managing Director and Vice Chairman, Bharti Infratel Limited

That is right. Whatever is the market rate.

Vikas Mantri - ICICI Securities - Mumbai

Okay. That is all. Thank you.

Shareena - Moderator

Thank you Mr. Mantri. At this moment there are no further questions from participants. I would now hand over the call proceedings to Mr. DS Rawat for the final remarks.

Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited

Thank you. On behalf of the management team here I would like to sign off, hoping that the auctions continue on the schedule and there is an early auction closure thereby a healthy uptake of data and

Bharti Infratel Limited Third Quarter Ended December 31, 2013 Earnings Call

growth of tenancies. We are seeing some early signs. We just hope this momentum carries on from this point on. Thank you very much for joining the call. Thank you.

Shareena - Moderator

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.