

Bharti Infratel Limited Third Quarter Ended December 31, 2014 Earnings Call

Earnings Conference Call Transcript

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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, 2014 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 statements that must be viewed in conjunction with the risk that we face. I now hand over the call to our first speaker of the day, Mr. Akhil Gupta. Thank you and over to you, Mr. Gupta!

Akhil Gupta – Chairman – Bharti Infratel Limited

Thanks. A very warm welcome to all the participants on this earning call for Bharti Infratel for the third quarter ended December 31, 2014. Since the prospects of the tower company are very intimately linked to the telecom industry let me start by talking about the telecom industry in India. As you are all aware that the telecom industry in India is undergoing a transformation with a major growth in data uptake, not a surprising thing I think the world has witnessed this but it is heartening to know that in India quarter-after-quarter we have seen over 100% annual growth on data uptake in line with what has happened in the world and that the Indian telecom industry is no different.

Let me give you some data from the published results of Airtel and Idea two of the leading operators. Airtel as per the result of September 30, 2014 showed that it has grown the data traffic from 35 to 68 million MB over a year, nearly about 100% while 3G customers grew by 8 million a growth of 108%. Similarly idea grew its traffic from 21 to 46 billion, the growth well again over 100% and added by 7 million 3G customers which translates to over 120% growth.

The key point here is that it is not sporadic, it was not limited to one or two operators. I think everybody who is in data space is witnessing similar growths. As you are also aware the investment in spectrum really to be used for data going forward has been over \$30 billion since 2010. We are looking at the fresh round of auctions in March this year next month and you can imagine that this 30 billion will go up further significantly, so a very high amount of the investment has already been made by operators for data services and therefore it is obvious that going forward the rollouts of data networks will have to take place far, wide and deep into the country. This obviously is good news for the tower company.

The potential for Tower Company's because of these factors are naturally very robust, as anticipated the rollouts for data networks are now accelerated. Let me again give you some facts from Airtel and Idea. Airtel as on September 30, 2014 had 38000 3G sites versus 26600 for last year, which means they added around 11,500 3G sites in a year. Idea added around 7800 sites in the period ended 31st Dec 2014 going up to around 28,000 from 20,000 sites so this is obviously on a growth path. The same has been the experience for Infratel, for this quarter we added 4478 collocations which is the highest in our history so far.

For the first nine months that is April to December 2014 on a consolidated basis we added 11546 tenancies versus 6762 in the same period a growth of over 70%. We have all the reason to believe that this growth of data rollouts will continue and we are very confident that in times to come with capacity constraints that the operators are facing and experiencing, this roll out will only accelerate.

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What is heartening is that it is not limited to one or two operators, the rollouts as we see are being done now by all operators who have taken data spectrum. And as a result our average tenancy ratio has inched up sharply from 1.96 last year in this period to 2.08 and the closing tenancy ratio was at 2.1.

A very important development in favor of the tower industry took place in this quarter. You might recall that TRAI in an earlier recommendation, which was I think a few years back had recommended to bring IP1 companies like the tower companies under licensing regime. Tower industry led by TAIPA that is Tower & Infrastructure Providers Association had long series of discussions with the authorities and finally I am really pleased to report that we were able to convince about the wrong recommendation made by TRAI in this respect and I am very pleased that TRAI in January 2015 has reversed the earlier recommendation and has decided and have now recommended that IP1s like tower companies should be kept out of licensing.

I think this recommendation also reinforces the recognition by the government and by authorities about the importance of this industry and its role in providing vital infrastructure and connectivity through all the service providers.

We are aware that we have excess cash which we carry on the balance sheet we have been making attempts to get clarity from MCA, unfortunately we have not yet succeeded in getting the clarification about company's act and provisions to return cash, we continue to work on it. We are also looking at inorganic opportunities for growth, Bangladesh is certainly one of the items on our radar. Unfortunately the current set of regulations and the policy does not favor it, we are in touch with the regulator in Bangladesh and trying to explain about the importance of this industry and hopefully in the coming few months the regulator should be able to form a new tower policy and this should enable us to look at the Bangladesh opportunity very seriously.

One big development, which you all would have noticed besides focus on 'Digital India' by the Government of India is on smart cities. Now this obviously is a huge project and this will perhaps be a transformational one for this country and Infratel and other tower companies I believe that a very important aspect for any smart city is a very robust telecom infrastructure, which should be capable of sharing by different operators and service providers. That to my mind should be the backbone of this smart city policy.

We are keenly awaiting and following the developments in this regard and are waiting for the guidelines and setup rules that the government would frame in this. I do believe that to protect the environment and to ensure that the roads are not dug up perpetually they would opt in favor of shared infrastructure and common infrastructure and I do feel that there could be a big opportunity for Infratel and Indus in terms of smart city infrastructure.

I will keep you informed about this in our next quarter call as to the development that would be taking place on this and while obviously at this point it is not feasible to give any specific guidance on this but we would love to be associated with this and we will follow it very closely.

The financial performance of Infratel continues to be robust, I will just mention a few highlights because you have had the results since yesterday I think you would have gone through it. Revenues for the quarter that is Rs.29.5 billion that is an increase of 9% YoY, EBITDA at 12.76 billion 13% increase year-on-year and profit after tax of 5.06 billion at 23% increase year-on-year. What is heartening is return on capital employed, which in one year has gone from 13.6% to 18.5%. Adjusted fund from operations which is EBITDA less the maintenance capex is an important key performance indicator for tower industry across the world because it gives an idea of how this company would be producing cash assuming there is no further towers to be put up. I am pleased to report that for this quarter the AFFO was Rs.11.42 billion up from 9.76 billion last year a growth of 17%.

I think once again the business model for the tower companies which as I pointed out earlier is a win-win between the operators and the tower companies. With increases in revenues there is higher increase in

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profit by way of EBITDA and PAT and I think quarter-after-quarter this thing is becoming clear. In some way I feel that the telecom industry in India is poised for faster rollouts of data networks. Encouraged by the surging demand for data across the country and to monetize significant investments already made in spectrum the operators have stepped up rollout of data networks we expect this to further accelerate in the ensuing years. We Infratel & Indus continue to be a preferred infrastructure partner for telecom operators in India and we are fully geared in every which way to serve the rapidly increasing requirement of rollouts. We are also as I mentioned keenly following the developments on smart city and would look to exploit the potential that it might offer for infrastructure companies like ours. With that let me turn it over to the moderator to take the questions.

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 questions may press “*1” on their touchtone enable telephone keypad. On pressing “*1” participants will get a chance to present their questions on a first in line basis, to ask a question participant may please press “*1” now. The first question comes from Mr. Kunal Vora from BNP Paribas, Mumbai. Mr. Vora you may ask your question now.

Kunal Vora – BNP Paribas – Mumbai

Thanks Sir. Thanks for the opportunity and congrats for a good set of numbers. Two questions from my side, first; are you building any monopolies, microcells or small cells at Infratel or Indus, how do you look at this opportunity and whether it is already contributing? and second is while the Maintenance capex seems slow, the growth capex actually looks a bit high assuming that you spend about Rs.3 million for new tower and what you earlier discussed about 1 to 3 lakh per new tenant the number should be a bit lower. Can you share your thoughts on how we should be looking at the growth capex? Thank you.

Devender Singh Rawat – Managing Director and CEO – Bharti Infratel Limited

Hi Kunal this is D. S. Rawat, so your first question of monopolies yes we have built monopolies in our networks and some of them have been there for slightly longer time. In areas where there is a space constraint we do have designs from our vendors which we deploy in some select areas, we believe this will be the way forward when operators will have to off-load creating smaller cells and that is the reason we mentioned in our previous calls too that we have started to take up opportunities like in-building solutions, distributed antenna system and small cells. While these numbers are not significant, as of now these are smaller pilot deployments that have happened, today operators are going through more macro deployment of 3G, 4G networks as and when they start to get congested we will be working with them closely in building some of these sites in the future.

Kunal Vora – BNP Paribas – Mumbai

Just a follow up on that sir how is the tenancy potential on these towers, is it similar to what the existing towers have or higher or lower.

Devender Singh Rawat – Managing Director and CEO – Bharti Infratel Limited

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Traditionally monopolies become more expensive than the normal tower if you were to load similar amount of loading as you build a normal tower as I said these are built on areas where there is more a space constraint and hence that is where these have built with lower capacities which is maximum of three tenants.

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

Hi Kunal, Pankaj this side, on the on the capex side the increase in the capex is purely driven by the volumes. So while maintenance capex as we have reported as somewhere around 106 Crores balance is more coming both from site as well as tenancy. So the capex on adding a tenancy is on an average between 2 to 2.5 lakhs instead of 1 or 1.5 what you are stating.

Kunal Vora – BNP Paribas – Mumbai

But it looks like the number is coming to 6.5 lakhs because I assume that like for new towers you spend about say 30 lakhs per tower and like then I just try to look at the cost per new tenant and that comes to almost 6.5 lakhs compared to 2 to 3 lakhs I just wanted to try to reconcile the number?

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

In addition to that there is a bit of electrification and energy initiatives also.

Akhil Gupta – Chairman – Bharti Infratel Limited

Just to add, I am assuming you are also trying to layer out the growth capex. Along with the capex for new sites, new Capex of few lakhs needs to be added up for tenancy additions and when you do a 3G loading you still do a little bit of incremental minor Capex all these three are growth Capex and then you will have maintenance Capex and then some bit of electrification and solar related stuff. If you add all of these you will be able to reconcile.

Kunal Vora – BNP Paribas – Mumbai

Okay that is helpful. I will probably take it offline I think the numbers looks a bit high to me but we can discuss offline. Thank you Sir.

Shareena – Moderator

Thank you very much Mr. Vora. The next question comes from Mr. Viju George from JP Morgan Mumbai. Mr. George you may ask your question now.

Viju George – JP Morgan – Mumbai

Hi thanks for taking my question. Just two questions here, when I look at your incremental EBITDA the last one year December 2013 to December 2014 almost 35% a little more a third has been driven purely by the energy profits and if you look at this quarter I think energy margins are hitting 10% what is the outlook there and how should we forecast it.

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Harjeet Kohli – Group Treasurer – Bharti Infratel Limited

Viju, hi this is Harjeet, look I think obviously the facts are what you are stating but you need to consider two three points, number one do not look at the energy margins QoQ like you are saying the Energy margin is close to 10% so obviously some quarters there is a higher margin and in some quarters lower margin depending upon how we are managing our cost side while the revenue side is based on a fixed energy card model so that is number one, so look at the energy margin on a 12 month rolling basis that might be a better averaged out way to look at it. Secondly while you are seeing some incremental EBITDA margins come from energy please note that not significant but we do spend Capex to be able to get these energy savings as we incrementally keep spending a few Crores every quarter you will need to add up to the EBITDA margins over time because the depreciation and the interest cost imputed is coming below the EBITDA line. The bulk of the capital goes into the pure direct towers and related tenancy add and there is a small Capex that goes towards energy which over time will earn more energy margins to sustain the ongoing Capex. Having said all of this major returns come from rentals and tenancy adds, the benefits on RoCE coming from energy may be 3%, 4%, 5% even up to 10% EBITDA margin sometimes but over time you will not have superlative 60% - 70% kind of the EBITDA margin like the regular business, so keep that in mind but these are QoQ things and over time you will see energy margins going up slightly as you obviously incur more Capex.

Viju George – JP Morgan – Mumbai

Sure that is helpful thanks. One more question if I look at your rental per operator in Bharti Infratel standalone they seem to have declined by about 4% YoY from 38000 roughly to about 36000 odd so just want to understand what is happening there and just also trying to understand why is this the 15%, 20% premium to your average revenue per operator on Indus.

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

Hi Pankaj this side, as far as the sharing revenue per operator is concerned that is there inherent in the model so as you know as the second tenant comes the overall rent reduces for both tenants. As the tenancy moved up from 1.96 last year same quarter to 2.08 in this quarter on an overall basis because of incremental tenancy the sharing revenue per operator will go down and that gets offset by incremental loading. So to my mind rather than sharing revenue per operator you should look at sharing revenue per tower which shows the consistent increase on a quarter-on-quarter basis.

Viju George – JP Morgan – Mumbai

Sure but I do not see that in Indus though, even in Indus your tenancies moved from a little over 2 to 2.14 but there your revenue per operator per month has actually inched up in the last four quarters so...

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

Yes, absolutely right, and the only reason why Indus which has marginally gone up the revenue per operator per tower is because as you can imagine the circles they are in are naturally the ones where there is a faster rollout of data network and the first phase of data network rollout is on the same tower therefore more loading revenue comes there and that is the reason why in case of Indus vis-à-vis Infratel the revenue per operator has gone up while in case of Infratel it has come down.

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Thank you so much all the best.

Shareena – Moderator

Thank you very much Mr. George. The next question comes from Mr. Pranav Kshatriya from Edelweiss Mumbai. Mr. Kshatriya you may ask your question now.

Pranav Kshatriya – Edelweiss – Mumbai

Thanks for the opportunity I just have one question will you be looking at dark fiber opportunities for growth and are you looking for any acquisitions or capacity addition in that space. Thank you.

Akhil Gupta – Chairman – Bharti Infratel Limited

We are certainly evaluating. I think as we mentioned in terms of smart cities there will definitely be requirement of laying down the optic fiber network for those smart cities, we are certainly going to evaluate that because these are basic aspects of infrastructure for telecom companies.

Pranav Kshatriya – Edelweiss – Mumbai

Do you have any acquisition targets or acquisition you want to expand by the way of acquisitions or you would look at to grow it organically?

Akhil Gupta – Chairman – Bharti Infratel Limited

We do not have at this point any thought process in terms of any acquisition of any optic fiber company or asset because first of all I think we need to evaluate the business case in optic fiber, at this point absolutely nothing on our horizon for acquisition of optic fiber as such.

Pranav Kshatriya – Edelweiss – Mumbai

Thank you so much.

Shareena – Moderator

Thank you very much Mr. Kshatriya. 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. Sir I just trying to understand if the incremental data led opportunity is more about loading or it is about new tenancies because you know let us say Idea or Bharti, they have their

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fixed capital budgets, Capex budgets and even if they are doing loading they are putting up 3G, you know they are using that Capex budget for deploying 3G equipment so they are left with very little in the wallet to meet or buy 2G equipment so are we going to see lot of data led growth more in loading and demand in 2G led tenancy growth because the wallet will not increase so if you can help me understand if I am thinking in the wrong manner?

Akhil Gupta – Chairman – Bharti Infratel Limited

It is a wrong thinking, one part is right, that is first rollout in any territory will be by way of loading for the data network but if you look at the characteristic of data networks and WCDMA technology is such that the moment the same tower is loaded with traffic, the radius of the propagation shrinks. We are experiencing that the operators come in with loading first but very soon as traffic increases they have to put up new sites which means new tenancies and tower rollout for us. The new sites which are coming up predominantly or in a very significant manner for data networks only. Of course they would have also put 2G load but it is not that the 2G demand will go down and the data will be only by way of loading. I think in terms of number of colocations the increase which we are expecting from data will continue while the loading also will continue.

Rajiv Sharma – HSBC – Mumbai

So that means Akhil, that the overall Capex spend has to go up and that will be an indicator that 2G led tenancy demand and 3G led demand both contribute to tenancy demand?

Akhil Gupta – Chairman – Bharti Infratel Limited

I think, one thing is very obvious going forward for every operator across the world including in India the Capex spend on 2G will keep coming down while on 3G it may rise dramatically, 3G and 4G. This is a natural evolution process for the telecom industry but whether the expenditure is on 3G and 4G or on 2G ultimately you need more tenancies and more towers at this stage.

Rajiv Sharma – HSBC – Mumbai

My separate question is; this quarter there is good growth in incremental tenancy at Indus. It looks like this could be from Jio. I know you do not share the specific number but can you give us a broad trend as to how much impact at least in the next 12 months Jio or 4G new entrants are going to have on the incremental tenancy demand and how much will be the stable run rate?

Akhil Gupta – Chairman – Bharti Infratel Limited

I think the only thing that I am permitted to tell you is that it does include Jio tenancy but as I mentioned the fundamental principle of our business is no discrimination and I will never be able to give out the plans which would have been shared with us by some of the operators, I will also not be able to share anything about Jio as to what they plan to do.

Rajiv Sharma – HSBC – Mumbai

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Okay and I was looking at the Capex numbers this quarter, so your consol revenue is just gone up 9% but your Capex number is up 57% on a nine month YTD basis and the same trend is both at Infratel and Indus level so is this the way to plot future growth also?

Akhil Gupta – Chairman – Bharti Infratel Limited

There is always a lag effect between the Capex spend and the revenue because revenue may have been captured for just a few months but Capex comes in one block. That is why it is important to look at 12 month basis.

Harjeet Kohli – Group Treasurer – Bharti Infratel Limited

Also Rajiv on the revenue side we will have to see the last 12 month the energy has gone down so you know you are looking at revenues 9% including the energy so we should look at the percentage growth which is ex energy.

Rajiv Sharma – HSBC – Mumbai

Yes, Harjeet that's at 8% at consol level the rental growth.

Akhil Gupta – Chairman – Bharti Infratel Limited

Rajiv the Capex would be actually for the whole life of the asset capex is spent once and that asset generates revenues for 20 years so you will have to see from a longer term perspective.

Harjeet Kohli – Group Treasurer – Bharti Infratel Limited

With that said, Rajiv what is important is that in our business where we are now and the way we are looking at the growth, for us it is healthy to see that the Capex is actually going up by leaps and bounds, for the future of the company. Just to remind you we do not incur any Capex on the prospective basis, we are only incurring against the specific order and therefore when we incur Capex what we are ensuring is the long term revenue stream secured for asset.

Akhil Gupta – Chairman – Bharti Infratel Limited

And return on Capex is going up.

Rajiv Sharma – HSBC – Mumbai

Yes this is helpful. Just quickly so what is the Capex budget for next year in FY'16 and what is the loading Capex when we do 3G loading what is the incremental spend per loading tenant, I mean it's not a tenant, but...?

Akhil Gupta – Chairman – Bharti Infratel Limited

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We cannot share the breakup for competitive reasons nor be we able to share as what is our outlook of Capex for next year because that indirectly will be giving a guidance as to how I am looking at the growth.

Rajiv Sharma – HSBC – Mumbai

Fair enough. Thanks a lot for the questions and good luck for the coming quarter.

Shareena – Moderator

Thank you very much Mr. Sharma. The next question comes from Mr. Vinay Jaisingh from Morgan Stanley, Mumbai. Mr. Jaisingh you may ask your question now.

Vinay Jaisingh – Morgan Stanley – Mumbai

Thank you so much for the opportunity. Most of my questions have been answered. I have just two. First you all did mentioned of the future plans for acquisitions and paying back cash. The net debt to EBITDA can you comment something on that as to what would be a stated policy for net debt to EBITDA and when do you plan to achieve that? That is my first question? And second this quarter we have seen a healthy margin coming in from power. I assume there may be some cyclical or some more consumption from state electricity boards against DG sets, but what do we look at that in the future, you know power margins for the overall business? Thank you sir.

Akhil Gupta – Chairman – Bharti Infratel Limited

First one it is so hypothetical for me at this point to say that we in the long run are looking at in the net debt to EBITDA 2:1 or 3:1. First of all I have a problem of getting from the negative zone to the positive zone there so I think over a period of time we will certainly take care of cash, we will come out with the stated policy later, but yes, let me point out that in this business we do believe over a period of time there should be a reasonable leveraging for sure.

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

Vinay, I think Harjeet just explained initially you know so for energy I think it's better to look at a trend on a yearly basis and as we have been reiterating in the past you know we do expect to earn a reasonable margin. This is not a complete line of business or profitability that we are trying to get from energy. The way we view it is as a USP for our customers to make sure the costs go down but we do expect to earn a reasonable margin, which is you know what we have initially said in the past in that particular range of 3% to 5% to continue.

Vinay Jaisingh – Morgan Stanley – Mumbai

Thank you so much.

Shareena – Moderator

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Thank you very much, Mr. Jaisingh. 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

Good afternoon. Thank you for the call. I just had one question. How much of this Capex is actually being incurred on energy related assets. Just a broad percentage or a range would do?

Akhil Gupta – Chairman – Bharti Infratel Limited

Unfortunately Sanjay, we do not give out these details because as you can imagine it is a competitive information. I would not be really able to give you any help on that.

Sanjay Chawla – JM Financial – Mumbai

Just a follow up question on the energy margin. You mentioned 3% to 5% should be the normalized range. I thought I heard that the energy margin may go up slightly from current 8% to 9% level over the long-term. Is the former correct? Are we looking at 3% to 5% range of 8% to 9%?

Harjeet Kohli – Group Treasurer – Bharti Infratel Limited

Sanjay, what the idea was that there has to be and we are talking about let us say before tax margin on the investments that you are doing in the P&L, it has to be 3% to 5% meaning it is significantly lesser than the dominant 50% to 60%. If it reaches double-digit levels obviously you are not running this business by earning energy margins. There might be different things and different models to be adopted so that the incentivization continues, but not with an intent to continue to yield lot of the synergy business. So that is the whole idea. Otherwise, we should take 3% to 5% more from a modeling perspective. The idea is that as it increases on a sustainable basis there will be some or the other things which will be required to continue to have a healthy incentivization rather than an earnings model there.

Sanjay Chawla – JM Financial – Mumbai

So, Harjeet you are indicating that given the current Capex level that you are incurring on energy 3% to 5% is a reasonable range. If the margins grow up that will be accompanied with higher energy Capex as well?

Harjeet Kohli – Group Treasurer – Bharti Infratel Limited

Return on capital, this is basically PBT margin on the P&L for whatever we earn.

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

Once again this has to be seen over a longer period, not on a quarter-to-quarter basis because our model is a fixed energy model. Since the charge is fixed for month, but obviously you do have seasonality and other factors, the cost varies therefore you will need to see these margins over longer period, not on a quarter-to-quarter basis.

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Sanjay Chawla – JM Financial – Mumbai

Thank you.

Shareena – Moderator

Thank you very much Mr. Chawla. The next question comes from Mr. Piyush Choudhary from CIMB, Mumbai. Mr. Choudhary, you may ask your question now.

Piyush Choudhary – CIMB – Mumbai

Thanks a lot and congratulations for great set of numbers. Most of the questions have been answered. Just one question; if I look at the power and fuel cost per tenant, it has declined 6% year-on-year. I assume there are two elements, one would be the improvement in the EB supply as well as the second is the diesel price cut. Could you help us kind of break the decline in these two aspects? How much is due to the grid supply improvement on a year-on-year basis?

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

Sorry Piyush. I think these numbers cannot be shared from a perspective of a breakup and as you are rightly saying the decrease is primarily happening on account of the diesel price reduction, which has happened during the last quarter as well as you know a better EB utilization, which we have seen in certain parts of the country.

Piyush Choudhary – CIMB – Mumbai

But Pankaj, are you seeing a varied EB supply improvement let us say in BHIN circles and Indus circles because the numbers of energy cost per tenant are coming different in BHIN standalone and Indus?

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

It varies and you are right. In the southern belt we have seen a better EB availability this particular quarter.

Akhil Gupta – Chairman – Bharti Infratel Limited

Just to add to that point, it is absolutely clear that for Indus circles the EB supplies is significantly better than the Infratel.

Piyush Choudhary – CIMB – Mumbai

Sir, actually structurally as the grid of improves, your maintenance Capex should come down as the replacement cycle...?

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Absolutely, the maintenance Capex can come down, the depreciation can come down because the depreciation in our business is a function of the life of assets, like DG or batteries and hopefully one day we will have a situation where we do not need DGs and battery. There should be 24-hour EB supply. So you are right. Absolutely it is correct analysis that as the EB supply grows the maintenance Capex will come down and the depreciation will come down because the life of the asset will increase.

Piyush Choudhary – CIMB – Mumbai

So any likelihood in probably a year or so when the management will actually decide at relooking at the life of these assets?

Akhil Gupta – Chairman – Bharti Infratel Limited

That is too early. We can always do that without a hurry. Let us hope that the EB supply, which has been improving a little bit increases significantly as promised by this Government.

Devender Singh Rawat – Managing Director and CEO – Bharti Infratel Limited

Just to add this is D. S. Rawat. All the Green Capex's and the efforts that we are making towards solar and also towards Green sites that we are declaring as part of our quarterly results. Those are ways of shifting away from diesel to maximizing grid. So while grid electricity per se might not have improved in the town but because on improvement on storage and incentive in terms of billing and additional Capex; there is a certain shift that would happen from diesel to the grid electricity portion even in the circles where the grid improvement would not have happened.

Piyush Choudhary – CIMB – Mumbai

Would you be sharing the solar site for Infratel standalone separately or that would be on an annual basis?

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

As it is we have given the consolidated Piyush.

Piyush Choudhary – CIMB – Mumbai

I have seen that 2700 is the number.

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

That is the number. If you have to ask specifically, I think Infratel would be in the range of 2100 to 2200 sites out of this.

Bharti Infratel Limited Third Quarter Ended December 31, 2014 Earnings Call**Piyush Choudhary – CIMB – Mumbai**

So most of it is Infratel. Thanks a lot and all the best for the future.

Shareena – Moderator

Thank you Mr. Choudhary. The next question from Mr. Pankaj Suri from Nomura, Singapore. Mr. Suri, you may ask your question now.

Pankaj Suri – Nomura – Singapore

Thanks for the opportunity. You mentioned at the start of the call, you are looking seriously at Bangladesh for potential acquisition and you are talking to the regulator. Can you talk a little about how do the economics for tower Co is working in that market? What are the average rents? What are the EBITDA margins and things like that? Let us say you have an option of investing into India or investing in Bangladesh? What would be more appealing from an ROE point of view? The second question is on share premium account that you are trying to get some clarification for returning more cash? What size of a potential cash outlay are we looking at through this one? If you can also comment on how the tax saving actually work, if you are able to utilize this opportunity? If I may sneak in one more, are you fiberizing any of your towers so that you know you are able to make it more attractive for Telco's at this point of time. I understand it is part of your long-term plan for getting into fiber, but if anything being done in terms of fiberization of towers at this point of time?

Akhil Gupta – Chairman – Bharti Infratel Limited

As far as Bangladesh is concerned, it is not that we have done a deal. So I cannot obviously share any detail at this point, this will be a competitive sale and even though the towers could be brought from Airtel, also it will be completely arm's length transaction. All I can say is that with Bangladesh we will not be compromising the growth in India. It is not either or. We have plenty of resources both monetary and manpower. So Bangladesh will be an addition and certainly not as a substitute to India in terms of the returns. We could be looking at any acquisition, not just Bangladesh, but anything we buy should be accretive to us and that is why we are in no rush to just go ahead and make some silly acquisitions. I think we are very conscious and very, very disciplined as far as this part is concerned, but that is something, all I can assure is we will be keeping that in mind and we are not going ahead into acquisitions without looking at the economics. I think the other thing was on fiber. Shared premium would be about 3000-odd Crores, 3600 or 3500 Crores this will be the potential total amount there.

Pankaj Suri – Nomura – Singapore

The other thing is are we fiberizing any towers?

Akhil Gupta – Chairman – Bharti Infratel Limited

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In our circles, we are definitely not looking at fiberizing in any of the towers right now, but as I had mentioned earlier, optic fibers we are evaluating as an option very carefully and hopefully in the next quarters or so we should be in a position to come to some conclusion on that. If it is a buyback then obviously the tax is in the hands of the shareholder. So we will see once we get that clarification as to what route of buyback we take.

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

As our understanding is that the buyback could be done. There is no deemed DDD on that. Obviously the shareholder's will have to see what the gains are and accordingly at their portfolio get relevantly taxed.

Pankaj Suri – Nomura – Singapore

Thanks a lot.

Shareena – Moderator

Thank you very much, Mr. Suri. The next question comes from Mr. Sachin Salgaonkar, Bank of America, Mumbai. Mr. Salgaonkar you may ask your question now.

Sachin Salgaonkar – Bank of America – Mumbai

Thank you for the opportunity. Congrats for a good set of numbers. I have two questions; firstly, if I look at the tower additions this quarter, it was pretty strong. So I was just wondering if this was something seasonal or this is a momentum, which will continue going forward? Second question is broadly on how we look at the telcos given the higher price of spectrum everyone is looking to squeeze cost out there. So do you see pressure on rentals whenever your contracts come for renewal? I mean in other markets like Indonesia, we have seen some pressure come, so any thoughts on that will be very helpful.

Akhil Gupta – Chairman – Bharti Infratel Limited

I think tower addition is a normal phenomenon in this telecom industry and as I mentioned this has been sustainable trend going forward also, I think this is business as usual. As far as telcos are concerned, very clearly there are challenges. There is massive investment which will be required by telcos but that is not to say there is no potential because you can clearly see data is growing. So it is just balancing act of capital requirement, long-term growth and spectrum being taken for long-term use. The good news is that all our contracts are long term and we have not seen any pressure. Nothing is major coming for renewal right now, but we will cross that hurdle when it comes. Right now I would not say this is the situation but on the pressures of pricing, well I think every customer has the right to put that pressure.

Sachin Salgaonkar – Bank of America – Mumbai

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Just to follow-up on the first point. So to go into specific numbers this quarter, Indus did as close to 939 towers, if you look for last three to four quarters, it is in the range of around 300 to 500. So here is the point. So is this something seasonal or you know this is the momentum, which we might see going forward?

Akhil Gupta – Chairman – Bharti Infratel Limited

As you can imagine for a tower company obviously the best result is that it gets new tenancies on existing towers. If the towers increase that is wonderful news for the tower company because that clearly shows that the operators are running out of the capacity on the existing tower and they are also running out of capacity on nearby tower and therefore have to put up new towers. That is wonderful news. At this point, I would not read too much into this. I think there is nothing seasonal, just a normal evolution of the industry.

Sachin Salgaonkar – Bank of America – Mumbai

Thank you.

Shareena – Moderator

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

Aditya Soman – Goldman Sachs – Mumbai

Good afternoon. Just one quick question; actually most of my questions have been answered. Next year we should see an additional 15 MHz of 2100 spectrum being auctioned. Now with this additional spectrum could this sort of dampen the need for densifying the current network because the operators could have potentially a lot more spectrum to play with and the obvious thing is that they will also have paid a significant amount to get this spectrum in the first place?

Akhil Gupta – Chairman – Bharti Infratel Limited

Today there is no operator having pan India 2100 footprint across the country. So first and foremost, each of the operators I am assuming will have to at some point have a national footprint. The need for more spectrum will be obviously because of more capacity requirement, but that is not going to hamper the growth of collocations because in terms of the propagation there is limited propagation on 2100 in any case. D. S. do you want to add something on that?

Devender Singh Rawat – Managing Director and CEO – Bharti Infratel Limited

Pretty much. The first part is obviously the coverage completion for all the operators, which is not there today. In fact, as Akhil said to the extent that all the operators try and complete their footprint most of the ICRs which are currently happening, are going to turn into full blown tenancies for multiple operators in the same states.

Bharti Infratel Limited Third Quarter Ended December 31, 2014 Earnings Call**Akhil Gupta – Chairman – Bharti Infratel Limited**

In fact, ironically for the tower industries it is my belief that more spectrum that goes into the hands of the operators it will be wonderful business for the tower companies because that would make first of all the business cases for the operators better, which means they will have more cash to spare in terms of network rollouts. Secondly their investment in spectrum goes up much more and therefore in order to monetize that again they have to go deeper into the country for roll outs.

Aditya Soman – Goldman Sachs – Mumbai

Got it that was very helpful just one follow-up to that, in terms of between Indus circles and Infratel standalone circles is there a big difference in number of 3G equipment as compared with 2G equipment?

Akhil Gupta – Chairman – Bharti Infratel Limited

At the present moment yes but over a period of time may be no, because at least it's our belief that it is just a matter of time and we can all speculate in the two years or three years but the 3G footprint will have to replicate in India the current 2G footprint at least and therefore while obviously the first rollouts happened in bigger cities and so on which maybe gone on the Indus side, over a period of time ultimately what we are expecting is that the data growth in the smaller towns or in smaller cities is identical. So on a long-term basis no difference just in the short-term Indus is ahead.

Aditya Soman – Goldman Sachs – Mumbai

Thanks a lot for that. Can you just share what the difference would be in sort of basis points on percentage terms?

Akhil Gupta – Chairman – Bharti Infratel Limited

The big difference will come from the four metros as you can understand metros are specific areas specific licenses for a city and they have fair amount of base stations and they are pretty much populated for 3G.

Aditya Soman – Goldman Sachs – Mumbai

Got it, okay.

Shareena – Moderator

Thank you very much Mr. Soman. The next question comes from Mr. Srinivas Rao from Deutsche Bank Singapore. Mr. Rao you may ask your question now.

Srinivas Rao – Deutsche Bank – Singapore

Thank you very much sir. I have two questions. The first if you can tell us that some operators have generally talked about rolling on the single ran, which kind of combines 2G, 3G potentially 4G. How does

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the rental workout in such a scenario? Does it go up if an operator uses a single RAN to say to 2G and 3G that would be my first question?

Akhil Gupta – Chairman – Bharti Infratel Limited

No basically we charge for the space in power that is being consumed if the space and power is exactly the same then there is no extra charges profit is deploying a single ran solution at any specific site.

Srinivas Rao – Deutsche Bank – Singapore

Okay so then the rental would remain unchanged if they utilize the same space?

Akhil Gupta – Chairman – Bharti Infratel Limited

Utilize the same they would have to have more antennas then more microwaves so the requirement of space and power requirement to go up so the rentals do tend to go up.

Srinivas Rao – Deutsche Bank – Singapore

Second is just a balance sheet question your current investments have been coming down over the last two quarters just wanted to understand any particular reason for it and what would that be normal cash equivalents I would imagine?

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

No Srin, when you see the current investment movement on quarter-on-quarter basis, they were liquidated because of the dividend payouts which happened in quarter 2 and in this quarter the reduction is primarily happening because there is a substantial amount sitting in cash-in-cash equivalents, because we disposed-off certain investments and reinvested on the first day of January.

Srinivas Rao – Deutsche Bank – Singapore

Thanks this is helpful thank you.

Shareena – Moderator

Thank you very much Mr. Rao. The next question comes from Mr. Suresh Mahadevan from UBS Singapore. Mr. Mahadevan you may ask your question now.

Suresh Mahadevan – UBS – Singapore

Thanks for the opportunity congratulations on a good set of numbers I just wanted to understand this data growth a little bit more clearly, I think Akhil highlighted that 3G coverage over the medium term should replicate 2G but are you already seeing given the difference in the propagation between 1800 and 900 and 2100 are you already seeing data only 3G towers that are coming in either your circles or Indus

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circles that will be question number one. The second question is clearly the company has kind of done very well since listing in terms of over delivering on numbers etc. I just wanted to check what can cause a change in your revenues on the positive side because obviously a negative is probably difficult given your contracted for six, seven years at least weighted average remaining but is there anything you can feel in the real possibility which can potentially increase your revenues significantly than this growth trajectory other than data which I think is part of my second question. Thank you.

Akhil Gupta – Chairman – Bharti Infratel Limited

Suresh on the first question about propagation yes definitely I think on the as far as the data part is concerned, 3G is primarily on 2100 and operators will need more sites for data due to propagation. The standalone 3G sites are still not there because 2G is still expanding, even later if there is 3G coverage with 900 there will be still capacity requirement. The propagation will ensure that there is more and more requirement of base stations for the data networks vis-à-vis 2G. So there does not seem to be any doubt in our mind over a period of time and I could be a little more aggressive in my estimation but whether it is X number of years or Y number of years there will be a replication of 2G network because people will start putting more and more money onto 3G network and wherever there are customers it is our belief that he would access the internet and therefore 3G will be needed. To your second question, Suresh you know we are conservative we do not try to count our eggs before they hatch and I don't want to sound very bullish on this but yes as I mentioned Smart City is big project. Now what would a smart city entail apart from having infrastructure, water and electricity, the other fourth pillar is obviously communication. Now that would mean optic fiber, WiFi, IBS, DAS, towers, monopoles so all kinds of telecom infrastructure will have to be an inherent part of the smart city. Now you can imagine 100 smart cities coming in India which the government has been talking of there is massive opportunity of investment there and obviously revenue. I do not know how it will pan out and as member of CII committee on smart cities we are constantly looking at that aspects and suggesting to the government what can be done, my feeling is if the policy of smart cities is such that infrastructures can be created in a manner and it can be shared amongst the various service providers, I think that could be a game changer. As we have just mentioned we are already at certain places have started pilots on IBS and WiFi because they are all data related but that is well in the future. Now if I have to look at the potential it really looks very exciting but unfortunately a little too early to put any numbers to it because we really do not know how these policies are going to pan out.

Suresh Mahadevan – UBS – Singapore

This is very helpful Akhil one small follow up if I may, given 3G is not yet fully deployed probably because of various considerations is there a chance in India that we at some stage get 700 and which totally changes the landscape because there seems to be a small amount of people who think that may be 3G India does not need to do, may the India can go to 4G any light if you have shared and that will be helpful.

Akhil Gupta – Chairman – Bharti Infratel Limited

This is obviously the hottest topic of discussion in terms of when I put on the other hat as an operator, you know Suresh you have covered telecom for a very long time; technology which comes up has its own evolution cycle it takes time for it to develop, it takes time for it to have an eco-system and there needs to be technology that facilitate the seamless handling over of the calls and the data sessions from one technology to the other. Now as far as evolution of 4G is concerned I think there is absolutely no doubt in anybody's mind including the statement by Jio that the ecosystem is still to develop and I think it will be the collective efforts of operators equipment manufacturers which will lead to decent 4G eco-system. So it is not that it is 3G versus 4G to my mind there is 3G which is the obvious and the only choice for fulfilling the digital connectivity and providing access to internet to all those people who own smartphones, this

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can only be done by 3G in the present context because the handset prices are low. 4G handsets are still expensive and it will be a sort of a niche service to start with because the eco-system will mature over time, in short to your question whether we can skip from 2G to 4G, my assessment is absolute and unambiguous no.

Suresh Mahadevan – UBS – Singapore

Okay Akhil this is very, very helpful thank you and all the best for the coming years.

Shareena – Moderator

Thank you very much Mr. Mahadevan. At this movement we will take one last question from Mr. Gaurav Malhotra from CITI Group Mumbai. Mr. Malhotra you may ask your question now.

Gaurav Malhotra – CITI Group – Mumbai

My question on given the cost pressure which the operators facing have you started seeing any meaningful discussion on the rentals coming down further say the new sites which are coming up for renewal.

Akhil Gupta – Chairman – Bharti Infratel Limited

We haven't seen any pricing pressure from the operators but having said these will be natural discussions over a period of time, but nothing which needs to bother anybody at this stage.

Gaurav Malhotra – CITI Group – Mumbai

Okay thank you.

Shareena – Moderator

Thank you very much Mr. Malhotra I would now hand over the call proceedings to Mr. D. S. Rawat for the final remarks.

Devender Singh Rawat – Managing Director and CEO – Bharti Infratel Limited

Thank you very much. Let me start by reiterating what Akhil articulated, data is the future of Indian telecom whereas rural expansion still continue, the upcoming spectrum auction in 2015 and availability of fresh 3G spectrum shall further accelerate the growth of data networks, our performance for the year so far is the testimony of this we added over 11500 collocations on a year to date basis representing over 1.7x growth versus the same period last year. The robustness of our business model is once again established by the fact that on a year-on-year basis towers grew by 2.7%, co-locations grew by 9.4% translating into a revenue growth of 8%, EBITDA growth of 13% and profit after tax growth of 23%. Profit after tax for the quarter is over 500 Crores. We are evaluating opportunities in the area of fiber, WiFi offloads and other opportunities that will come up with the launch of smart cities. We are well positioned to capitalise on these growth opportunities given our pan India network footprint high service quality

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standard and a strong balance sheet position I on behalf of my entire team thank all of you for your continued support and look forward to an exciting journey ahead of us. Thank you very much.

Shareena – Moderator

Thank you very much. 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.