

## **Conference Call Transcript**

**Event: Bharti Infratel Limited Third Quarter Ended December 31, 2015 Conference Call**

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**Bharti Infratel Limited Third Quarter Ended December 31, 2015 Conference Call****CORPORATE PARTICIPANTS****Akhil Gupta**

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Managing Director and CEO – Bharti Infratel Limited

**Pankaj Miglani**

Chief Financial Officer - Bharti Infratel

**Harjeet Kohli**

Group Treasurer – Bharti Airtel Limited

**CONFERENCE CALL PARTICIPANTS****Sachin Salgaonkar**

Bank of America – Mumbai

**Kunal Vora**

BNP Paribas – Mumbai

**Gaurav Malhotra**

Citi Group - Mumbai

**Viju George**

JP Morgan - Mumbai

**Rajiv Sharma**

HSBC Securities - Mumbai

**Piyush Choudhary**

CIMB - Mumbai

**Aditya Soman**

Goldman Sachs - Mumbai

**Manthan Shah**

Future Generali - Mumbai

**Pawan Ahluwalia**

Laburnum Capital - New Delhi

**Gabor Sitanyi**

Charlemagne Capital - London

**Pranav Kshatriya**

Edelweiss – Mumbai

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**PRESENTATION****Shareena – Moderator**

Good afternoon, ladies and gentlemen, I am the Shareena, the moderator for this conference. Welcome to the Bharti Infratel Limited third quarter ended December 31, 2015 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. In case of a natural disaster, the conference call will be culminated post an announcement. 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

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<b>Bharti Infratel Limited Third Quarter Ended December 31, 2015 Conference Call</b>
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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!

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**Akhil Gupta - Chairman – Bharti Infratel Limited**

Thank you very much and a very warm welcome to all the participants to this earning call. Firstly, a very happy 2016 to all of you, this is the first time in this year that we are interacting. The year gone by, that is 2015, I think from Telecom industry's point of view, in India was quite an important year in terms of clarity and laying down a road map on some of the key pending issues in terms of regulation. What those regulations like spectrum trading, sharing guidelines are ensuring is that the spectrum which is lying unutilized in this country and that is a very scarce and expensive resource, will start getting utilized and that augers well for the industry as well as the tower industry because that means that it will lead to more roll outs. We are all pretty clear that Indian mobile story is like every other country, seeing massive growth in data but it remains a huge opportunity. One of the pillars of data growth as we have seen across the world is the smart phone penetration. Now despite being one of the largest markets in this region, the smart phone penetration in India is very poor and it is just about 13% in India today and Ericsson in one of their reports estimates that it will go to a whopping 58% by 2020. So that clearly shows as a proxy as to what kind of data growth could we be looking at.

IDC predicts India to overtake US as the second largest smart phone market globally by 2017. To date, only 0.3% of the GSM users have accessed a mobile money account. This is as per a GSMA report. I think the recent payment bank licenses to 11 players, which will be starting soon will lead to a massive increase in this penetration too. It is quite clear that every time we talk of Digital India, everything which we want to link to Digital India will have to be in a simple manner connecting a billion people to internet and that is very clear in a country like India which does not have too much of fixed line, has got to be on the back of mobile networks. It can be only done a wireless way and not a fixed line way.

Quite clearly in terms of the development of the eco system, 3G is the answer to this immediately but as we know, the 4G roll outs have also started though still it is a niche product but it is growing fast. There are now 335 HDA deployments in 118 countries but still in terms of the development of eco system, it will take some time but 3G is growing at a very fast pace. Now, as telecom industry, my feeling is that we do not have too much of luxury of time on our hand in terms of growing 3G. If we have to take this internet connectivity to a billion people, 3G has got to roll out and has to replicate the 2G coverage which today is over 90% population, about 85% geography within the next two to maximum three years and that means a very massive roll out because right now we are at a much lower penetration on 3G.

You would have seen some announcements from some operators like Airtel, they announced 'Project Leap', and they have committed Rs.60000 crores of capital expenditure in the next three years. We are seeing more announcements coming from Vodafone, Idea and others. So quite clearly, I think the CapEx lay out by the operators has been on the rise, not surprising, because a whole lot of investment have been made already on the spectrums in the last four to five years.

Launch of Reliance Jio has of course caused some anxiety but on the positive side it has also spurred the existing operators into action. They are rolling out 4G. Airtel is already in about 300 cities; Idea and Vodafone have said that in the next quarters they will start rolling it out. Of course, a new entrant is causing some concern on the operation side and some uncertainties but I think it is resulting into some big roll outs already happening. I think all the above developments are clearly positive for Infratel, Indus and in fact for the other tower companies also because there is evident and sustainable acceleration in the rollouts by the operators.

Just to give you a data point, the data installations on the towers which we operate, which means, either 3G or 4G, have nearly tripled in this quarter as compared to the same quarter last year and that is a massive increase. As we had expected, the first flush had to come by way of loadings on the same towers where these people are but our experience and that is the nature of this technology, as the capacities start getting consumed the propagation or the foot print shrinks and you need more towers and therefore more tenancies.

So at some stage that situation will come but what is very heartening is the fact that the data installations have become three times of last year and therefore in many ways it is proceeding in the direction and at the pace that we have been talking about. We also believe that in 2016, quality-led differentiation will also start

<b>Bharti Infratel Limited Third Quarter Ended December 31, 2015 Conference Call</b>
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becoming important not just the coverage and we are already seeing a lot of emphasis on the betterment of quality by operators. We do believe therefore that going forward; it will be very clearly driven by data, the mobile network growth. In addition we are also seeing big focus on quality of service. I think these trends are clearly positive for tower companies and of course Bharti Infratel Indus as leaders, will be a major beneficiaries.

Coming to the results of this quarter, the total tower lays for us taking 42% of the towers of Indus into account on a consolidated base stood at just over 88000 towers, while the new towers witnessed a growth of 3.5%, our co-locations which now are just under 192,000 tenancies, grew by 7.5% nearly and the closing sharing factor was 2.18. This could have been somewhat higher but for the fact that our tenancy additions have been affected by some one-off exits from a couple of operators who could not renew the spectrum they were holding.

Barring this we could have seen better tenancy additions. The consolidated revenues were just under Rs.3100 crores, a growth of 5% year-on-year; EBITDA is at approximately Rs. 1350 crores, this was 6% growth; the profit after tax grew by 12% on a year-to-year basis to Rs.565 crores and the operating pre cash flow, that is, EBITDA minus CapEx was nearly Rs.800 crores up 18% on a year-on-year basis. The return ratios continue to inch up and the return on capital employed for the quarter was a pretty healthy 21.7%.

I think a couple of points, which I may point out. You would recall that this quarter saw a very major calamity, Chennai floods that affected us this quarter. Chennai, as you would recollect is operated by Indus, we were able to restore the sites in record time and it had some minor impact on our revenues and costs due to additional repair and maintenance costs. The profit before tax and profit after tax have also been impacted negatively this quarter because of a significantly lower other income. This is mainly on account of a lower investment income that is the interest income from investments. It was under the Indian GAAP. These income is recognized on a realized basis rather than the accrual basis and this quarter, the realization was deliberately kept low because of the tax reasons because if we realize it a little later, you get the long term capital gains benefit on this. So these would catch up but of course for this quarter there was a bit of a shortfall of this.

One very significant development that we have spoken about but which is now starting to unfold is smart cities and that is a major development in terms of infrastructure. We are expecting that for a few cities the tendering process will start soon. There are all indications that for some of the cities, which have been chosen for smart cities, the tendering process in which we have been participating in terms of discussions also, they are likely to come out soon. We will be very closely watching this. Smart cities as you can imagine, will require a huge amount of communication infrastructure because by very nature this will have to be an infrastructure which will have to be built for a long time, which will have to be shared amongst many operators and Bharti Infratel can be at the forefront of this opportunity. We believe we can create and share this infrastructure on a non-discriminatory basis going forward.

As you are aware we have the financial strength, the expertise and the passion to take up such a huge opportunity and as you can imagine our very strong balance sheet will certainly provide us the edge against the competition. I think given the above let me conclude by saying that the prospects for Telecom industry look promising. There is consolidation in the Telecom industry and as I have always maintained from a tower company point of view, it absolutely does not matter how many number of competitors or telecom operators you have, what you need is a few telecom operators, but healthy telecom operators who have the wherewithal and the finances and the strength to roll out networks very, very quickly.

We continue to be the preferred infrastructure partners for all telecom operators in India and we are ready to roll out the communication backbone while we have towers across the length and breadth and help India realize the Digital India dream. Thank you very much. The management will now take your questions.

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#### **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 enabled telephone keypad. On pressing “\*1” participants will get a chance to present their questions on a first-in-line basis. To ask a question, participants may please

<b>Bharti Infratel Limited Third Quarter Ended December 31, 2015 Conference Call</b>
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press "\*" "1" now. The first question comes from Mr. Sachin Salgaonkar from Bank of America, Mumbai. Mr. Salgaonkar, you may ask your question now.

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**Sachin Salgaonkar – Bank of America – Mumbai**

Thank you for the opportunity. Have two questions. First question is, Infratel's consolidated EBITDA margin adjusted for power and fuel is not improving for last two quarters despite increase in tenancies. I guess the rent and personal expenses were high and might continue to remain high and with new towers being added, is it fair to assume that margins perhaps would not improve at least in near term? Second question, with Telcos and Akhil I completely agree with you that telcos are increasing CapEx but when we look at your core revenue growth it continues to remain at 9% YOY, it is unchanged for last so many quarters and I understand initial spend from operators will go towards loading but any sense on how far are we away from a point that it will lead to increase in acceleration of your revenues? Thanks.

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**Akhil Gupta - Chairman – Bharti Infratel Limited**

Well, I think the EBITDA margins are reasonably healthy; we were at 42.3% last year in December 2014, we are at 43.6% for this quarter. So naturally these are pretty healthy and these are taking into account the energy revenue as well. So I would say these are fairly healthy margins but yes, we should see them inching up as more and more tenancies and revenues come up. On the second one in terms of the telcos capex. Very difficult to really say as to when that happens but my past experience is that when these things start picking up, the momentum becomes so strong and everybody just wants to go on to 3G and give up 2G, these things could turn quickly but it is not perhaps prudent to try and speculate as to when that avalanche shall start. We are already seeing the early adoptions. Wherever initially the loadings were done, we are seeing some fresh tenancies purely arising for capacities and for coverage. So these would happen but I would say at this point it would be perhaps not very wise to speculate as to when that could start happening, it could be a couple of quarters away for sure.

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**Sachin Salgaonkar – Bank of America – Mumbai**

One follow up I have is, with new tower additions being happening and presumably most of the new towers initially have only one tenant, is it fair to assume that that would put a bit of pressure on your EBITDA margins in general or should we assume two tenants on each of the towers being added and hence there should be no pressure on margins lead by new tower additions.

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**Akhil Gupta - Chairman – Bharti Infratel Limited**

Well if you look at our history, this phenomenon has always existed but our tenancy factor has been going one way, it has always been rising. I have no reason to believe that this trend will reverse because if very large number of new towers come, even if it reverses a little bit it does not really matter. As far as the EBITDA is concerned, surely there will be good margins but our experience is that if large numbers come they will come in the cities and naturally our expectation is that we should get a second tenant very quickly. DS, you want to add something to that?

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

If you see a unitary model and check the margins, the margins are lower definitely while the revenues are higher, that is the model and as long as we are adding more tenancies than towers, we see our tenancy ratio inching up and hence accretion of EBITDA in terms of our growth there. On the second tenant most infill sites that we are able to acquire and get from government properties or areas where we traditionally did not have permissions from the government. Those tend to have a second tenant coming up straight on day one in lot of these cases. Yes, new and rural areas, there is a lag between the tower being built and the second tenant coming in. So to answer your question, I think, in cities we are seeing the demand pick up, especially in category A and B cities where the second and third tenant tends to come up faster on even the new built sites.

**Bharti Infratel Limited Third Quarter Ended December 31, 2015 Conference Call**

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**Akhil Gupta - Chairman – Bharti Infratel Limited**

Also you must also remember that we are already around 88000 plus sites and nearing 200000 tenancies. So we have a huge legacy by now and therefore anything additional, which happens one way, or the other is not going to dramatically change this equation.

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**Sachin Salgaonkar – Bank of America – Mumbai**

DS, one last question for you is, should there be a lag between the tenancy improvement and margin improvement because margins are clearly healthy and pretty good but they have not moved up for two quarters. So just wanted to check if it will happen with a lag or how we should look at it.

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**Akhil Gupta - Chairman – Bharti Infratel Limited**

I think the best is to assume that they will not move up. It is a steady business. It is our aim to make sure that we keep our tariffs and everything in a manner that the operators are not tempted to make their own towers. So it will not be very wise to say that every quarter margin must dramatically go up. They would not.

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**Pankaj Miglani – Chief Financial Officer - Bharti Infratel**

Another point, Pankaj this side. While you are just looking at two quarters, as we have said in the past, it is better if you look at on a yearly basis. Today if I had to know YTD December current year versus last year, you will find incremental margins in the same levels are improving. So it will not be right to look at only a two-quarter approach.

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**Sachin Salgaonkar – Bank of America – Mumbai**

Thank you.

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**Shareena – Moderator**

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

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**Kunal Vora – BNP Paribas – Mumbai**

Thanks for the opportunity sir, three questions. First for the 600 odd sites which you lost because of the exit of some the tenants, have you received any compensation and otherwise your thoughts on that, first. Second is, how do you see the potential of operators deploying LTE or 4G networks on low frequency spectrum. Jio is already going to be on 850 others might also go for 700. What are your thoughts on operators deploying their data networks on sub-1 gigahertz spectrum? Could that hurt the longer-term tenancy potential? Lastly what will be Bharti Infratel's role in the smart cities? Will it be about new towers or fiber or there any other opportunities adjacent which you can look at and on the same line what will be the capital investment and who your competitors are when it comes to bidding for these projects, thank you.

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**Akhil Gupta - Chairman – Bharti Infratel Limited**

Let me take the last one first. I think smart cities we are waiting how the tenders come out, how these people want to go about with the task of making infrastructure. So it is a little premature for us to start speculating what exactly our role will be. It could be towers for sure, it could be in-building coverage and so on, so very

**Bharti Infratel Limited Third Quarter Ended December 31, 2015 Conference Call**

difficult at this point to guess what that role will be and therefore the investment. What the competition will be well, I guess, the competition really will be with the IP-1 providers and so somewhat limited because obviously as far as the operators are concerned they are already grappling with massive CapEx on spectrum and on the network roll outs but I think this is the space which I think all of us should watch very closely. DS would take the other two.

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

So, coming down to the potential of LTE on low frequency, yes, low frequency coverage solutions are better. You are expecting to have larger coverages in that area and that also is seen on the price premium that one is expected to pay to acquire these low frequencies. In the long run, in terms of capacity solutions that will be required are purely dependent on subscriber growth and the per-subscriber utilizations over a period of time and that will not get addressed with the frequency issue. There operators will need larger bandwidth or create more sites and given the cost of spectrum, it is cheaper to build more sites than actually having more spectrum till your demand for the capacity sites is across the length and breadth of the entire circle. As we have seen in the case of 2G, there will be a similar case we believe in the case of 3G too. On the first question of tenancies lost, we have a master service agreement, which allows us to bill to these customers and collect that money, and we are in that process right now. I think these terminations came up closer to the end of the quarter. We have billed them and we continue to be in discussions with customers to collect those money.

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**Akhil Gupta - Chairman – Bharti Infratel Limited**

But as a prudent policy we do not recognize them as revenue till they are actually received.

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

Yes, it is on cash basis.

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**Kunal Vora – BNP Paribas – Mumbai**

Okay, thank you sir.

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**Shareena – Moderator**

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

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**Gaurav Malhotra – Citi Group - Mumbai**

Yes, hi, thanks. Most of my questions have been answered. Just one question, presuming that most of the new towers are coming in the urban areas, how are we seeing the lease rentals coming along – what is the sort of the price escalation versus your legacy sites and is part of it passed through to the operators or all that it has been taken by the tower companies itself, thank you.

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

So Gaurav, DS Rawat this side. New towers we have said that last time too. We are seeing a mix of two types of growth – one is, in category A and B circles and the city in particular where there are infill sites, where also government is supporting in terms of acquiring buildings and land in areas where traditionally we were not allowed to acquire. There, there are some sites, which have come in with reasonable rentals; there are places, which are expensive in terms of rentals, which have also been won through bidding process.



**Bharti Infratel Limited Third Quarter Ended December 31, 2015 Conference Call**

There are thresholds defined for each of the cities beyond which rents are passed on to the operator. So as you rightly said, some part of it is taken up as IP-1s, beyond the threshold it is passed on to the operators on the rent. From an annual escalation standpoint we are not seeing any significant shift. Our typical contracts have escalations built every three years ranging from 8% - 9% to up to about 15%. That is the rate and we are not seeing any shift from those brackets as of yet. On the rural side, we continue to get sites where the rentals are lower still and that is fewer in category for B and C circles where there are still some areas to be covered for coverage.

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**Gaurav Malhotra – Citi Group - Mumbai**

Got it, thank you.

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**Shareena – Moderator**

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

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**Viju George – JP Morgan - Mumbai**

Thank you for taking my questions. One, Akhil, I think you just mentioned, you would expect margins not to move up and you have sort of asked us to model in sort of almost flattish margins despite maybe an increase in tenancy going forward, but is not the essence of the model longer-term, I am not talking at next couple of quarters premised on operating leverage with tenancy improvement?

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**Akhil Gupta – Chairman – Bharti Infratel Limited**

Well, I have never said that I do not expect them to go up. I only advice that you do not take a higher margin in your model and obviously in every business there will be some limitations up to which margins can increase, maximum being 100% I guess. So, theoretically some improvement can happen but as you can see the margins are already healthy and therefore since the big growth can be a mixture of single tenant site to begin with and addition of new tenancies, it may not be very prudent to build in strong expectations on big margin expansions.

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

Viju, just to add to what Akhil said I think, it is not prudent to look at margin improvement on a quarter-on-quarter basis given our large base of towers and tenancies. So it is hard but if you look at year-on-year basis the model gets established when you look at even our three or five year track that is there with you on an annual basis where you will see significant improvement and those improvements will start to tend towards the final figure where that is likely to head. So three-tenant model, wherever that is likely to go on a unitary model we will be trending in that direction and directionally as long as it is there, I think that the model is getting revalidated at every step. To look on a quarter is probably not a fair way to look at it.

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**Viju George – JP Morgan - Mumbai**

Sure. Yes, I really mean looking at it from a slightly longer-term perspective, not on a quarter basis. The other question I had was really on your tenancies that you've added. I think you're probably close to about 2000 lower in the nine months for the year as compared to the nine months of the previous year. One would have thought that given the 4G plans of the operators, the tenancy adds would have been much stronger. Now I know you did explain that a couple of operators may have ceased operations, which have impacted tenancies, but still the number seem to be fairly much lower than the last year for the same period YTD. So what is the projection going forward besides the explanation for what has led to this?



**Bharti Infratel Limited Third Quarter Ended December 31, 2015 Conference Call****Devender Singh Rawat - Managing Director and CEO – Bharti Infratel Limited**

Well, we do not give guidance Viju. We have said that we are seeing a healthy growth and the big operator focus right now is to see that spectrum for which they pay close to \$ 50 billion is monetized and I also see may be part of it is kind of expedited on anticipation of Jio launch. So lot of investment on 3G, 4G as Akhil said. So a lot of work from deployment stand point and also from the operator's standpoint is going on seeing that they spread the existing assets and deploy as much of 3G, 4G on the existing sites wherever they have got the spectrum. This year in fact, as you said, we have seen nearly three times the amount of cabinet expansion growth on 3G and 4G than what we saw last year while we still continue to see healthy tenancy growth and new tower add.

**Viju George – JP Morgan - Mumbai**

Sure, and I think the last part was rentals, maybe I think has been asked but is the period of the rental, that is the lease period matching the period for which you have the tower agreements with the operators or is that a mismatch, which means that may be you have to go for an earlier renewal which might tend to increase cost slightly higher?

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

Viju, there are different things, which are applicable for different states, hard to say that in the call but we try and do that to see that we at least sign up for a 20-year lease. Lot of states do not allow you to register a 20-year lease, where you have to sign up for a lower period. So they are very state-specific subject but our attempt is to see that we sign up for 20 years wherever we can.

**Akhil Gupta - Chairman – Bharti Infratel Limited**

Yes, but by and large definitely the lease period will be equal to or more than by and large than the contract we have with the operators.

**Viju George – JP Morgan - Mumbai**

Thank you and all the best for 2016.

**Shareena – Moderator**

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

**Rajiv Sharma – HSBC Securities - Mumbai**

Yes, thanks for the opportunity. Just couple of questions, first, Akhil you mentioned that 3G rollout you see at a very accelerated pace and 90% coverage like in three years. So my thought was that, by that time 4G will be bigger. So, don't you think telcos should be trying to cover via 3G in as much as 12 months and not three years? So your thoughts on that, how do you read this last evening published TRAI recommendations on spectrum auction and what it means for Infratel and is the competitive landscape changing with American Towers getting sizable? So your thoughts on these issues, please.

**Akhil Gupta - Chairman – Bharti Infratel Limited**

<b>Bharti Infratel Limited Third Quarter Ended December 31, 2015 Conference Call</b>
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Firstly, let me take the American tower. I think first of all, you know, Viom was a nice good tower operator. So it is not that something, which was not working, has been taken over. ATC getting bigger is actually from a competition point of view is a good news, because once they have a size, naturally there are two big competitors between Indus Infratel on one side and ATC. I think from a competition point of view it is healthy. It is definitely going to be healthy. On the spectrum pricing and the recommendations which came yesterday, a little early but on the face of it, obviously 700 Mhz which is obviously the thing to watch out and where naturally the sub-GHz is available looks very expensive if you compare it to 800, 900 of course 1800, it is four times. That is how they have fixed it. On the face of it definitely looks expensive but I think let us see, I think every operator is studying it and I am sure COAI or individual operators will come back with their comments but on the face of it, it looks expensive and I really do not think that more spectrum availability is going to be a negative for the tower companies, it is actually going to be a positive for the tower companies because that will encourage people who invest in these spectrums to roll out very quickly. On your comment about 3G, you are actually right you know. The fact is when I say two to three years, the need to cover entire country with 3G is now and here but right now we have only about 30% of the towers which have covered around 35% - 40% which means it is still a long way to go for that coverage and how quickly that can be done, I do not think practically it is possible in a year but yes, I guess, within two years, looks quite doable, if not 100% replication at least a sizeable replication.

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**Rajiv Sharma – HSBC Securities - Mumbai**

This is very helpful. So when you say 40%, it is the total 40% of the Infratel Indus tower portfolio?

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**Akhil Gupta - Chairman – Bharti Infratel Limited**

No, we are giving you the figures from Airtel's, which is quite representative. So against theirs of 150000 towers that they declared, they have roughly about 40 odd thousand.

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

They are a little over that, between 35% and 45%.

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**Harjeet Kohli - Group Treasurer – Bharti Airtel Limited**

No straight numbers but you are right. Close to 40% is where they have as their underlying 3G.

**Rajiv Sharma – HSBC Securities - Mumbai**

Harjeet, what about Infratel Indus at a consolidated level what would be the percentage of towers, which have data deployments today?

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

It is little hard to give specifics because in every circle earlier there was only one operator. What we have noticed is the leaders in the leadership circles are touching now closer to 50% in terms of sites where they have enabled 3G and the trailing operators as we speak, continue to roll out because they got their spectrum in the second third round and they have covered the top cities now during the current quarters that we have seen heightened growth of 3G, CapEx is in these sites. So to put an average number is difficult for me at this stage. Cities are pretty much all covered. So all the metros, pretty much all sites are enabled with 3G and even 4G in the cases where 4G spectrum is available with the operators. So an average of 30 is what I can share I think is probably a fair number to take across all the geographies if you were to look and I am speculating though.

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**Rajiv Sharma - HSBC Securities - Mumbai**

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<b>Bharti Infratel Limited Third Quarter Ended December 31, 2015 Conference Call</b>
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Just quickly chipping in one small question. You have often talked about fiber being one of the business cases but is there any action plan, blueprint, which you have in terms of tower companies getting into this backhaul or last mile fiber business and just an update on how you want to use your cash. Will you acquire GTL towers or anything that is it from my side?

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**Akhil Gupta - Chairman – Bharti Infratel Limited**

On fiber no specific plan. I think we are watching how the data networks get rolled out and what could really arise out of that as an opportunity. Bharti Infratel necessarily don't have too much plans on the national long distance perhaps but there is possibility of course of that. I don't rule that out, but on the last mile, which is connecting the tower, there could be possibility but too early to talk about it because there is no specific plan on that.

On the cash you know unfortunately there is no clarity on the rules, still there is this problem about whether it can be distributed but I guess the big opportunity of deploying this cash in a very productive manner could be projects like Smart Cities, which could consume a lot of capital. So let us see I think this year we would know where the major deployment of cash could happen.

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**Rajiv Sharma - HSBC Securities - Mumbai**

Thank you very much.

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**Shareena – Moderator**

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

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**Piyush Choudhary – CIMB - Mumbai**

Thanks for the opportunity. Firstly, could you share some exposure of your tenancies beyond the top three operators? This is in the backdrop of whatever is happening on the consolidation side, so, just some numbers over there. Secondly, would you be moving from iGAAP to Indian Accounting Standards from April 1 and would that lead to not having those revenue equalization methodology being followed and what are the changes, which we can have? And thirdly, if you can help us understand the CapEx envelop for the next year. Would it remain similar to 2016 or it could be even higher given the rollout trends? Thanks.

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

Sorry Piyush we do not disclose tenancies outside of the top three but it is fairly distributed across all the operators and is fairly proportionate to their own size too in terms of their market shares in these areas. So hard to give you a specific number in terms of our tenancies with each of the operators there.

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**Harjeet Kohli - Group Treasurer – Bharti Airtel Limited**

The only thing we have in 2012 prospectus given that there were some color provided, so we could say that at point in time it was about 85% odd and then increasingly you would have seen the 2012 auctions. Those exits happen, some of the other exits over the last two to three years we have talked about it. The rollouts have been faster in the top three or four category as well. So that weight has been moving up over the last few quarters. We do not have the disclosed numbers.

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**Akhil Gupta - Chairman – Bharti Infratel Limited**

<b>Bharti Infratel Limited Third Quarter Ended December 31, 2015 Conference Call</b>
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I think it's pretty clear. Since the top three are getting almost 85%-86% of incremental revenue market share, they are obviously a significantly higher percentage of new rollouts and new base stations, which are coming up, you can imagine in our case. The bulk of our tenancies are to those three. Therefore to answer your questions our risks or exposure to the others is quite limited. On IndAS, yes we will be moving to IndAS on 01/04/2016. On this revenue equalization I think we are in discussion with the auditors whether they would read these escalations as inflation-linked, likelihood is yes and in that case the revenue equalization would go but at this point I cannot confirm unless Pankaj can confirm this.

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**Pankaj Miglani - Chief Financial Officer - Bharti Infratel**

Not exactly so Piyush we are still in the discussions and Akhil has rightly pointed out.

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**Akhil Gupta - Chairman of the Company and Vice Chairman – Bharti Infratel Limited**

This is an industry issue, not just for us.

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**Pankaj Miglani - Chief Financial Officer - Bharti Infratel**

There is a potential wherein because they can be termed as inflation linked, revenue equalization might go away, but nothing is finalized at this point of time.

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**Akhil Gupta - Chairman – Bharti Infratel Limited**

But from our point of view I think this prudent thing will be we would like to see. Whatever is the revenue coming we like to show that so, I do not know what the auditors finally take a view on this? On CapEx we really cannot give any guidance because the CapEx is not in our hand. It really depend on our customers as you know we are not resource crunched therefore this is at this point I would say CapEx should be virtually in the same kind of thing at normal cost. Leave aside some new thing like smart cities and so on but if there are more rollout there are more micro sites coming up. It could go up somewhat.

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**Pankaj Miglani - Chief Financial Officer - Bharti Infratel**

Just a step back on the equalization point, you are obviously aware that equalization was both on revenue although on the smaller component there is rent as well. The equalization there and just keep in mind that equalization was let us say for 15 years and you may have at seven, eight years gone. So if you try and see that you should necessarily expect a huge change having said which we will try and give you a bridge once we changeover. So you can really compare like-to-like as also representation wise whatever makes sense to continue the current analysis. We will try and include that in the pack itself.

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**Piyush Choudhary – CIMB - Mumbai**

Just one clarity in the new standards the other income will also be mark-to-market?

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**Akhil Gupta - Chairman – Bharti Infratel Limited**

Yes that is absolutely clear.

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**Piyush Choudhary – CIMB - Mumbai**

Right and if I may, on the tenancy exposure, if you could help us at least on the MTS side, if there is any big tenancy exposure over there?

**Bharti Infratel Limited Third Quarter Ended December 31, 2015 Conference Call**

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**Akhil Gupta - Chairman - Bharti Infratel Limited**

No, no big exposure.

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**Piyush Choudhary – CIMB - Mumbai**

Thanks and all the best.

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**Shareena – Moderator**

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

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**Aditya Soman - Goldman Sachs - Mumbai**

Good afternoon. Couple of questions from my end. Firstly on incremental tenancies and new tenants, will there be a big difference in the way you set up towers or in terms of the total number of tenancies you look at given that one we have seen a large consolidation, so you potentially have only four or five operators that are expanding and secondly, a lot of these operators now have an option of launching on different bands, which means that their tower requirements could be quite different from each other whereas earlier we had most operators on 900, 1800 and 2100. Now, we could have a wide variety of bands, which means that like you mentioned earlier, they may not have the same site and location requirements. So can you give us some outlook on that?

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

First from incremental tendencies we do not see a significant shift there. In terms of what traditionally operators have been doing we are only getting more and more denser in the cities given that some of these higher frequencies have attenuation and hence any infill sites as I was mentioning earlier too where you are able to acquire in the cities, the demand is higher from an operator standpoint not only to improve the capacity requirement but also to improve the quality in those areas. So given the lower frequency bands yes we expect them to propagate to a longer distance. To me these are also for a coverage led solution of phase I it is a good alternate to have lower frequency band, which can be built. From a tower design not a significant shift, earlier we used to build lot of tall towers, which were required to connect sites, which were 3 to 4 kilometers away. Now-a-days those requirements are not so much there. So tower heights are closer to 30 meter, which is the traditional tower ground based. Rooftops are moving down to smaller poles in terms of giving coverage, which is restrictive because these are noise based algorithms. You do not want to keep it high and illuminate longer areas, which cause interference to the neighboring cells. So there the shift is primarily in terms of building lower height towers and as Akhil briefly alluded earlier in his question, we are looking at small cells and micro cells which will pretty much be like lamp post, serving a small 50 meter kind of area and less where there is high capacity and dense requirement. In building is another shift and where we are seeing coverage requirements inside the building for data. There we think doing the wiring up work for operators to get them to have better coverage inside of building.

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**Aditya Soman - Goldman Sachs - Mumbai**

Understand. That was helpful and specifically on something like in-building, how will the monetization work in terms of the in building model?

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

<b>Bharti Infratel Limited Third Quarter Ended December 31, 2015 Conference Call</b>
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Currently we have tried to create a simple model where our recoveries are similar because these are area based. Typically the area that you do wiring for is converted into a model where the CapEx was recovered from the operators in similar return ratios that we have for the towers.

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**Aditya Soman - Goldman Sachs - Mumbai**

Okay, but could this then if this becomes sort of sizable, could this lead to sort of a shift in the way your margins move?

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**Akhil Gupta - Chairman – Bharti Infratel Limited**

We do not expect the margin movement on account of that but if it starts to become meaningful will start to make a disclosure of that in our quarterly numbers too. Today it is a very small amount and these are more pilots and trials that we are trying to work with in various important buildings and places of high footfall with the operators.

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**Aditya Soman - Goldman Sachs - Mumbai**

Okay that is very useful, thank you very much.

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**Shareena – Moderator**

Thank you very much Mr. Soman. The next question comes from Mr. Manthan Shah from Future Generali, Mumbai. Mr. Shah you may ask your question now.

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**Manthan Shah - Future Generali - Mumbai**

Yes Sir, thank you for taking my questions. This is primarily on account of tenancy, and I guess it has been queried for quite a few times in the call. See the pace of the tenancy ratios the growth has been in the range of nearly 5% to 6% in the last maybe past six quarters if I may have to say and with that pace has actually gone down this quarter to about 4.2%. Now why is this so and given any explanation that you can give on the how you actually look forward to reduce your power and fuel costs wherein you can actually increase given most of your towers run on diesel. So how do you plan to improve energy margins going forward and if tenancies do not improve going ahead?

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

So Mr. Shah, D.S. Rawat this side. The year-on-year growth so far on tenancies has been 7.4%. Given that there is so much investment going towards 3G, 4G cabinet expansions and we do not count those cabinet expansions as additional tenancy. To me it looks like a very healthy and robust growth from overall additions that we are doing. Number two on power and fuel that is though we moved to a construct where we have a flat billing to operator, the rate hikes etc., on account of power and fuel we are insulated. The model actually has a pass through mechanism of rates that are applicable on power and fuel. We continue to strive and see that we reduce that. So that we become more attractive for the operators in our size by keeping the power and fuel cost lower.

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**Manthan Shah - Future Generali - Mumbai**

Also on the terms of the tenancies, do you see them growing going ahead and what is the growth that you envision and what is the tower addition that you are going to do in this coming quarter and maybe in the next financial year. Could you throw some light on that?

<b>Bharti Infratel Limited Third Quarter Ended December 31, 2015 Conference Call</b>
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**Devender Singh Rawat - Managing Director and CEO – Bharti Infratel Limited**

We do not give guidance, Mr. Shah as a company going forward but we have said in the past that in the long-run we do expect replicate what we have had as a track record in the last five years where towers have grown at low single digit and tendencies were probably higher single digit and current rates at about 6% to 7%. We expect the similar kind of growths to continue over a period of time.

**Harjeet Kohli - Group Treasurer – Bharti Airtel Limited**

If I may quickly add I think Deloitte had done a report of about five or six months ago and as they did research and survey around the industry they reached out to us as well and the way we read the report more or less it is taking into account all the stimuli that are at work in the market including spectrum, the 3G, 4G technological upgrades, how the competitive landscape and the operator is working, loading, new installations all of that. I do think that is a good guidepost to at least have in mind as we look towards evaluating what possibilities on tenancies for Infratel are.

**Manthan Shah - Future Generali - Mumbai**

All right and you look forward to keeping the dividend policy for this year anything?

**Akhil Gupta - Chairman – Bharti Infratel Limited**

We have already a declared and settled dividend policy. We would be following that.

**Manthan Shah - Future Generali - Mumbai**

All right and you wish to continue the same as last year?

**Harjeet Kohli - Group Treasurer – Bharti Airtel Limited**

Yes the same policy. Policy will remain the same. Last year we did I mean to the extent possible maximize the payout of the accruals is what we had said including any tax related to the payouts. So fundamentally stands as is. Obviously this needs to be debated by the board once the full year is finished. We will need to wait for the next quarter but in principle there is nothing, which should be different from the way we thought last year.

**Manthan Shah - Future Generali - Mumbai**

Alright Sir thank you.

**Shareena – Moderator**

Thank you very much Mr. Shah. The next question comes from Mr. Pawan Ahluwalia from Laburnum Capital, New Delhi. Mr. Ahluwalia you may ask your question now.

**Pawan Ahluwalia - Laburnum Capital - New Delhi**

Yes, thank you very much. I have two questions. The first is, we have seen American Towers substantially beef up its presence in India with the acquisition in the last few months and our research suggests and I think they mentioned this at their Analyst Day in the US as well, that their rentals are about 20% lower than



<b>Bharti Infratel Limited Third Quarter Ended December 31, 2015 Conference Call</b>
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yours. Are you seeing in the market that they are maintaining this price differential and using it to be able to attract operators with a lower price point and now kind of better scale, a better offering etc., or do you expect that over time they will gradually just migrate up to your price point? That is my first question. My second question is, it's great that you are thinking about ways in which to use cash. That is obviously been a big philosophical question for the management over the last few years. I was wondering though, the big risk when you are trying to deploy large amounts of cash is that you deploy it, you deploy it at a rate of return on capital that is not particularly attractive and especially when you are doing anything that is government-related with government tenders etc., you can look at the history of people participating in government tenders and you will see the ROICs generally end up being pretty low. Could you give us some guidance as to how you think about hurdle rates for deploying this capital? Is the hurdle rate what you get in an FD? Is the hurdle rate what your current ROICs are in the business? How would you think about it?

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**Akhil Gupta - Chairman – Bharti Infratel Limited**

On ATC, I think it is a wrong information that they are 20% cheaper so I think that question really does not arise. All I can say is as a very small ATC they could perhaps have been tempted to lower the rates. My guess is that now that they have a decent size there should be not be that temptation even it was earlier which we did not notice and as you have seen we have been growing our business quite handsomely. So I think the question is based on a wrong assumption that they are 20% cheaper. On the second one, well it is not going to be a government tender because these smart city tenders we expect are the ones where you creates a network or an infrastructure and then you share it among the service providers not with the government but with the service provider. So this would be entirely different. Now what our hurdle rates would be well you obviously do not expect us to answer that. These are all going to be competitive bets. We are not going to naturally let out as to what those hurdle rates would be but suffice to say that we are extremely conscious of the returns we make and that is something we obviously as a responsible management certainly keep in mind.

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**Pawan Ahluwalia - Laburnum Capital - New Delhi**

No, but how is it not going to be government because if it's just a bunch of operators getting together and saying let us build out a network, they could do that now, right? They do not need any smart city policy. So if you're saying that you are.

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**Akhil Gupta - Chairman – Bharti Infratel Limited**

Enable building of this infrastructure in the smart city but that infrastructure will be used by the specific operators that is what I said.

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**Pawan Ahluwalia - Laburnum Capital - New Delhi**

Could you be a little more concrete on that? What will the government need to do in order to enable this that it has not done so far?

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**Akhil Gupta - Chairman – Bharti Infratel Limited**

The smart cities have not been created so far. So that means only government can create.

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**Pawan Ahluwalia - Laburnum Capital - New Delhi**

But specifically what would you need to do? So say you needed to make Calcutta into a smart city, what would the government need to do?

<b>Bharti Infratel Limited Third Quarter Ended December 31, 2015 Conference Call</b>
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**Akhil Gupta - Chairman – Bharti Infratel Limited**

I really do not know. We will have to wait for the tenders to come because within Calcutta there will be some pockets where they can invite tenders for creating this infrastructure and fundamentally giving the right of way to the winner.

**Pawan Ahluwalia - Laburnum Capital - New Delhi**

Okay, but then you would be bidding on a government tender, right?

**Akhil Gupta - Chairman – Bharti Infratel Limited**

Yes, certainly, whoever has capability, who is authorized to come out with the tender we will have to respond to that tender.

**Pawan Ahluwalia - Laburnum Capital - New Delhi**

Okay. So then it would not be a matter of private sector, right? You would be bidding to build out government infrastructure and so, the way to look at it would be any government construction project?

**Akhil Gupta - Chairman – Bharti Infratel Limited**

We would be sharing that infrastructure with private operators that is how I would expect the tender to be. That is what the discussions have been that you build the infrastructure and you have a right to share it with the different operators. I think this should start unfolding in the next couple of quarters I guess now. There is lots of works done on smart cities.

**Harjeet Kohli - Group Treasurer – Bharti Airtel Limited**

This is Harjeet here. On your earlier point on ATC's thing this could be an error of observation around what we report as a metric called sharing revenue per operator or per tenant per month. That includes what we get us loading charges from the operators and that is why that metric would be slightly different from what ATC has, they may not have as much loading. Their MSAs are the same. MSAs are fundamentally the same. There is no fundamental difference of any price difference there. It is the way the metric comes on account lowering.

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

You could probably look at the return ratios that we have given our scale and size and also the fact that tower capacities are not really fungible capacities, we actually do not see too much of a change on the way business has been going on with the operators in the past to significantly change post ATC's acquisition of Viom and any premium paid over that is only going to work to further dilute the return ratios. Our return on capital employed is 21.7. This is at a tenancy ratio of 2.17 and if you have a 20% high you could do a math of saying how it would work for someone who is lower than that and if he has paid a premium that would even change significantly to the adverse.

**Pawan Ahluwalia - Laburnum Capital - New Delhi**

Got it, alright thank you.

**Shareena – Moderator**

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**Bharti Infratel Limited Third Quarter Ended December 31, 2015 Conference Call**

Thank you very much Mr. Ahluwalia. The next question comes from Mr. Gabor Sitanyi from Charlemagne Capital – London. Mr. Sitanyi you may ask your question now.

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**Gabor Sitanyi - Charlemagne Capital - London**

Thank you very much for the opportunity. Two questions. One is on the 3G loading; you mentioned earlier that it tripled over the last 12 months. Just wanted to understand why did not it have a much more pronounced impact on your topline because I understand that you charge for that loading maybe 6% to 8% higher rental from the operators. So why did not we see that as more impacting the topline? And the other question is related to the surplus cash. So your plans vis-à-vis smart cities, does that mean that you dropped any plans for share buyback? Thank you.

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**Akhil Gupta - Chairman – Bharti Infratel Limited**

Well, we have not dropped the plans for share buyback or returning the excess cash but it just that there is no clarity on the rules on that and we will keep all the options open. We, naturally if there is an opportunity to invest it in growth of business into a new parallel or adjacent line, we would love to see that first. So there is no dropping of that plan but at this point I cannot give you a timeframe and that would possibly happen. On 3G loadings DS?

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

3G loading as you rightly said there is small incremental revenue that we get for every 3G loading and it is already added to the topline that we have there. If you are looking at the metrics of revenue per tenant that is the construct of the MSA is such that as our tenancy ratio moves up the revenue per tenant is supposed to come down the fact that is arrested and is actually looking higher than the last quarter is a proof point of all these tenancies coming in as all these 3G coming in as loading revenues to the business and also the fact that we have got a large base on which these tenancies are coming in which give us anywhere between Rs.1000 to 1500 to the tenancy added in these sites. That is actually already included in the topline growth that you are seeing on the numbers here.

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**Gabor Sitanyi - Charlemagne Capital - London**

Thank you very much.

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**Shareena – Moderator**

Thank you very much Mr. Sitanyi. At this moment we will take one last question from Mr. Pranav Kshatriya from Edelweiss, Mumbai. Mr. Kshatriya you may ask your question now.

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**Pranav Kshatriya – Edelweiss - Mumbai**

Thanks for the opportunity. I just have a couple of questions. Most of my questions have been answered. First question, you talked about one-off impact due to license expiry. So all the 610 tenancies were cancelled in this quarter only or some of them were cancelled earlier? And do we expect any of these coming up because I guess some of the licenses are expiring in the March or thereabouts. So how should we see this going ahead? My second question is, can you quantify any impact on revenue or EBITDA due to Chennai floods. That would be helpful. Thank you?

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**Akhil Gupta - Chairman – Bharti Infratel Limited**

**Bharti Infratel Limited Third Quarter Ended December 31, 2015 Conference Call**

I do not think Chennai flood thing is something, which is of much significance in the overall scheme of things, so it would be quite irrelevant. On 610 this quarter right and I do not know in March whose is coming up but as we said our dependence on other than the top three whose obviously nothing is coming up for renewal right now is very limited. So we do not expect anything major on this account.

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**Pranav Kshatriya – Edelweiss - Mumbai**

Thank you, that is it from my side.

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**Shareena – Moderator**

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

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

Thank you Shareena. As Akhil cited year 2015 was a year of positivity and growth. We saw the leaders show aggression particularly on the data rollout as they prepared to fight the data war on ground. Clearly investment cycle is on an uptick. We recorded three times growth on 3G, 4G data insulation. Demand for new towers remains in the range of 3% to 4% while collocations grew by 7% to 8%. We expect the positive momentum to continue. We recorded strong financials yet another quarter posting profit after tax of 565 Crores with a year-on-year growth of 12%. The rollout momentum continues in the New Year 2016 too, with leading operators enhancing their capital guidance, RJio soft launch and expected entry soon. Operators focus on improved quality of service. All of this is good for us as tower infrastructure provided. We are fully geared to capitalize on the growth opportunity and win with the customers. On behalf of entire Bharti Infratel team I thank you all for the continued support. Look forward to an exciting journey ahead of us. Thank you.

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**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.