

**Bharti Infratel Limited Third Quarter Ended December 31, 2016 Earnings Conference Call**

## Conference Call Transcript

Event: Bharti Infratel Limited Third Quarter Ended December 31, 2016 Earnings Call

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<b>Bharti Infratel Limited Third Quarter Ended December 31, 2016 Earnings Conference Call</b>
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**Gaurav Malhotra**

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**Mark Smith**

Charlemagne Capital/ London

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**PRESENTATION****Kamaldeep - Moderator**

Good afternoon, ladies and gentlemen. I am Kamaldeep, the moderator for this conference. Welcome to the Bharti Infratel Limited Third Quarter ended December 31, 2016 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 with the risks that we face.

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<b>Bharti Infratel Limited Third Quarter Ended December 31, 2016 Earnings Conference Call</b>
-----------------------------------------------------------------------------------------------

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. A warm welcome to all of you on this earnings call for Bharti Infratel third quarter ended on December 31, 2016. First of all a very Happy New Year to all of you and your families and I hope this New Year 2017 brings the best for all of you.

As you would have noted the quarter gone by saw a significant resurgence of the network rollouts with the completion of spectrum auctions in early October. As a result both Infratel and Indus witnessed strong co-location addition during the quarter with highest ever new co-locations of over 3000 and 7400 at Infratel and Indus respectively. These are the highest in the last five years, and I think as we have been saying this time had to come and the surge in the network rollout was to happen.

As a result we also crossed the coveted 200,000 tenancy mark on a consolidated basis. The total consolidated co-locations as on December 31, were at 204,934 just under 205,000 with a co-location factor of 2.27 at closing. We continue to be bullish on the prospects of mobile broadband in the country with hugely increasing data usage all around. The impending reported introduction of inexpensive 4G feature phones clubbed with major data tariff reduction by all the operators and government's vision of Digital India which will result in surge in digital services like e-governance, mobile banking, smart cities and cashless financial transactions should further add to the existing strong momentum for data demand and result in rollout of data networks by all the operators.

There have been two key developments on the legal front during this quarter, which I would like to take you through. The first was on the matter of entry tax where the Honorable Supreme Court held that the power of imposition of entry tax by states, they have upheld at par provided they are on a non-discriminatory basis. This has been a long outstanding matter and while fundamentally we have upheld the constitutional validity, there are conditions attached to that. This judgment not only affects telecom, but every industry in the country. There are various legal issues which have been raised as a result of this order and the telecom and tower industry along with industry associations are working together to find the right answers on these.

The second judgment again was by the Honorable Supreme Court where it was held that towers were buildings for the purpose of imposition of property tax on mobile towers. Again as you know this has been a longstanding thing where every state had been doing ad hoc charging on the towers, so in some sense this will bring sanity, but because we still believe that this should not come under buildings. The whole industry has filed review petition and we await further developments on both these matters and will keep the market apprised of the same.

In the absence of full clarity on these two matters, we are at this point, unable to have a cogent estimate on impact on us, all I can confirm is that vis-à-vis our size, we do not expect the overall end result to be materially adverse to us.

Coming to the results this quarter the consolidated total tower base stood at 90,255, a year-on-year growth of 2.5% whereas the co-location growth was at 6.8% and as I mentioned earlier we ended the quarter with almost 205,000 co-locations with the sharing factor, which went up very sharply from 2.18 in December 2015 to 2.27 in December 2016.

The consolidated revenues for the quarter were at Rs.3,400 Crores, a year-on-year growth of 10% and the EBITDA for the quarter was just under Rs.1,500 Crores again a growth of 9% year-on-year. Profit after tax for the quarter was at Rs.620 Crores which witnessed a 25% year-on-year growth this would have been higher, but as you know under Ind-AS now we mark-to-market on the mutual funds and other investments which we make and this quarter was lower than the earlier quarter, but the profit after tax for full nine months was at Rs.2,150 Crores showing a 41% growth year-on-year.

I am also pleased to report that during this quarter Bharti Infratel along with its consortium partners have finally signed the concession agreement for Bhopal Smart Cities with the authorities and thereby we have become the first company in telecom and tower infrastructure industry to do so.

We are now working towards successful project delivery, we expect Bhopal Smart City to serve as the model for the Smart Cities initiative and expect other state governments to follow this by way of RFPs or Request For Proposals. For Infratel, this project will open a new avenue of business for the company and we believe that we can replicate the benefits of the shared infrastructure model in this segment as well.

In summary, as we had anticipated we are now witnessing strong rollouts of data networks by all operators. We believe that the momentum created should further accelerate with even faster growth in data demand fueled by deeper affordability on tariffs, as you know the tariffs are falling rapidly, introduction of inexpensive 3G and 4G feature phones, which would result in need for quick rollout of data networks by all the operators.

Thank you all the management will take your questions now.

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**Kamaldeep - 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

<b>Bharti Infratel Limited Third Quarter Ended December 31, 2016 Earnings Conference Call</b>
-----------------------------------------------------------------------------------------------

to enable more participation. Hence management will take only two questions per participant to ensure maximum participation. Participants who wish to ask questions may please 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 press "\*" "1" now.

The first question comes from Mr. Sachin Salgaonkar from Bank of America, Mumbai. Mr. Salgaonkar you may ask your question now.

**Sachin Salgaonkar - Bank of America - Mumbai**

Hi, thank you for the opportunity. I have two questions. First question Akhil, clearly you mentioned this quarter was a great quarter in terms of highest co-locations but did not translate into the highest I would say, revenue growth. I presume it is because of the rental freeze impact. Just would be great if you guys could quantify this impact in the quarter and going forward, when should we look at a time when this rental freeze impact will sort of not be there in numbers?

And second question is on a slightly bigger picture view, clearly Jio is offering free services and that is impacting the industry revenues and industry cash flows. So do telcos have the ability to actually invest in improving the network quality, at least in the near term where the free services continue and of course a related question, as you know, there are been near news flow associated with consolidations. So, just wanted to understand the impact of that on Infratel?

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

On the first one of course as we have got the tenancies in this quarter from next quarter you get the full impact. So for this quarter it would have been for only the part of the period. On the second question about Jio's free services well we believe this free service business will be short-lived and therefore it will be a business as usual and with the growth, which we are witnessing in the market I have absolutely no doubt that at least some operators I cannot say for everybody, because it will undoubtedly put lot of pressure on many operators who are not in the top bracket, but the operators who are having a significant revenue market share and number of customers I have absolutely no doubt that they would have to set up more data networks that rollout the networks quickly. Now regarding their financial ability, I think these are big companies, they would find the base.

**Sachin Salgaonkar - Bank of America - Mumbai**

Okay, got it. Just a small follow-up if DS is, if Pankaj is on the call, Pankaj possible to quantify the impact of rental freeze in this quarter?

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

On rental freeze, Sachin as we have said the freeze effectively started from April 1<sup>st</sup> itself so post that is actually no change and when we talk about the impact that impact was as compared to if increments were happening, so on a YTD basis against Rs.180 crores, if I have to compare vis-à-vis last year, I think we have had impacts happening to the tune of around Rs.120 crores.

**Sachin Salgaonkar - Bank of America - Mumbai**

Okay, got it. Thank you.

**Kamaldeep - Moderator**

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

**Manish Adukia - Goldman Sachs - Mumbai**

Good afternoon and thank you for taking my questions. I have two questions for you. My first question is again on your tenancy additions very strong numbers this quarter. So, can you please tell us if this was driven entirely by increased network deployment by the Top 3 Telcos post spectrum auction or did we also have like a sizable contribution from the new 4G operator Reliance Jio? What I am trying to understand here is that, is this sustainable run rate of tenancies for the next few quarters at least. That is my first question.

And my second question is on your, is on the M&A news that we have had in the industry for a while now. Now, you have mentioned that you would definitely want a scenario where there are smaller number of healthier telcos rather than large number of financially

<b>Bharti Infratel Limited Third Quarter Ended December 31, 2016 Earnings Conference Call</b>
-----------------------------------------------------------------------------------------------

distressed telcos. However, in a scenario where there are M&A between, let us say, some of the larger telcos, could there be a meaningful impact on Infratel or the tower industry over the longer term. Those are my two questions. Thank you.

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

So the first question in fact the Top 3 as you know are the only ones who have been rolling out meaningfully, so large part of our tenancies of course contributed by them, but Jio too as a new entrant is doing a catch-up and we see them becoming more material in our new adds.

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

But as you can imagine, we do not give any specific information about any of our customers. On the second part, well you know we have always maintained that tower industry anywhere in the world does not need tens or twelve operators, what they need is three or four strong passionate able operators who have the ability to invest in taking the network deep down into the country. So to that extent I think we maintain that, to your question that if two big operators were too much, then first of all it is too hypothetical, so I do not want to get into that, but obviously the stage of development of the networks at this stage there is such a huge area to be covered and such a vast way to go that I think if there are three to four big operators we would be as a tower company actually gain. But would not want to comment on the prospects of any merger between large operators.

**Harjeet Kohli - Group Treasurer and Chief Investor Relations Officer**

Just to marginally add to what Akhil was mentioning I think the overall context that will also come in operator perspective if you see the data usage is seeking more capacity apart from spectrum also to handle the experience bit so irrespective of the nature of the consolidation I think capacity at that end may not necessarily need to be consolidated, it may at best be redeployed partially. So I think that also stands positive for the tower companies that while there may be short-term ups and downs here and there and they reallocate, redeploy but I think capacity is certainly needed with the kind of data surge the operators are seeing.

**Manish Adukia - Goldman Sachs - Mumbai**

Great, thanks Harjeet.

**Kamaldeep - Moderator**

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

**Kunal Vora - BNP Paribas - Mumbai**

Thanks for the opportunity sir. Two questions. First is can you share your thoughts on diversification, fibers, smart cities, are there any meaningful investment opportunities, which you are seeing outside of your core business? Like you mentioned about Bhopal Smart City, any sense, which you can give us on capital deployment on this, what kind of monetization you are looking at and this, and that is question number one.

And second is on the finance income this quarter, I would have expected, slightly better this quarter considering bond yield to decline, however interest income looks, it is down quarter-on-quarter can you explain that? Thanks.

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

Harjeet why do not you take the interest income and DS could answer only the first one.

**Harjeet Kohli - Group Treasurer and Chief Investor Relations Officer**

No look I think on the finance income side while your observation is right vis-à-vis if you look at what we earned in the last quarter, but since the time we have move to Ind-AS all the mark-to-market gains are coming into the P&L in the respective quarter. The interest rates have been sliding down, but if you look at the underlying one of the benchmarks let us take 2025 Government of India paper the decline in that paper in the last quarter was higher than the decline of that paper in this quarter. So while we still have gotten MTM gains apart from the accruals on the coupons, the decline being higher in the last quarter had had a stronger positive impact in last quarter versus this.

<b>Bharti Infratel Limited Third Quarter Ended December 31, 2016 Earnings Conference Call</b>
-----------------------------------------------------------------------------------------------

Secondly as you see the trends of these interest rates coming down, all fixed income portfolios do adjust their durations and with the marginal expectation of the interest rates to go down reducing, duration gets adjusted slightly on the shorter side. So because of that some bit of MTM accrual, which has happened over and above the regular coupons, is slightly lower versus last quarter, but overall the yield is over 10% just so that you can think through how this is working out.

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

What I would feel is that I think the right way of looking at the net profit figure that below the line thing is actually to see it on a cumulative basis because quarter-to-quarter because of the mark-to-market there could be ups and downs.

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

Coming back to smart city, this is DS Rawat this side, first we announced in our quarterly results also that Smartx which is a 100% subsidiary has got a license for NLD and ISP services that we secured during the quarter. Second, this was also towards the Smart City of Bhopal, which is the first Smart City tender that we have signed as Infratel with them, clearly we are looking at laying down approximately about 200 kilometers of fiber there. So this is a small deployment of fiber within this city trying to interconnect our sites and create a pole structure there and also do Wi-Fi in this area, so clearly those. From a Capex standpoint we have not started investing we have just signed the consortium agreement last quarter with them, there is a 12 month window in which we are going to do this first part of deployment. The revenues will start to come in the year after that.

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

And as you can imagine since there are many more cities where Smart City projects will come up this becomes quite a competitive information so I do not think we will be able to share the exact plans on and what is the Capex layout and so on in a great rush. We will have to wait for others cities to really come up.

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

And I think Kunal last time we had actually said because since this is the one off one whatever Capex has to happen it is actually not going to be substantial so from that angle it will not make a meaningful difference because this is just the first one.

**Kunal Vora - BNP Paribas - Mumbai**

So have you been able to identify any areas where you can deploy capital, one option is returning cash to shareholders other one is like diversify. So in terms of diversification. I do not think there are any large opportunities available. Is that the right understanding? In that case your thoughts on returning cash to shareholders.

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

Well not really I think one very large space, which would come up, will be optic fiber and Wi-Fi. I think those are two big spaces which could come up and we are in touch with our customers to understand what their plans are whether they want to do it, we can do it. So let us see I think there is work in progress. There has not been that much of urgency on these so far, but I think going forward the great data demand is increasing and knowing that a lot of data demand comes from in-building, I think these could be good opportunities but we will have to wait before we can commit anything on this.

**Kunal Vora - BNP Paribas - Mumbai**

Just last question, any opportunities in terms of inorganic tower acquisitions, there have been deals happening on the tower side and at least like towers are available. So would that be something in consideration or that will be later on once Bharti sorts out what they want to do regarding the tower portfolio?

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

This is DS Rawat again. As the largest tower company between Indus and Infratel, we keep looking at opportunities from time to time, but given our scale and size that we enjoy 40% of roughly the tower footprint, there are significant overlaps that we have with any tower company that we look at from an acquisition angle. Having said that we keep looking at opportunities as they come in but right now as we speak, we do not have anything on the table.

**Bharti Infratel Limited Third Quarter Ended December 31, 2016 Earnings Conference Call**

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**Kunal Vora - BNP Paribas - Mumbai**

Understood. Thank you.

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**Kamaldeep - Moderator**

Thank you very much Mr. Vora. The next question comes from Ms. Amruta Pabalkar from Morgan Stanley, Mumbai. Ms. Pabalkar, you may ask your question now.

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**Amruta Pabalkar - Morgan Stanley - Mumbai**

Hi, Thanks for the opportunity. I had a question on the energy margins. We are seeing an improvement on pick up over last two quarters, do you see this trend sustainable. And secondly a quick follow-up on your rent rationalization, to confirm 67% of the impact is baked in for the last three quarters?

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

This is DS Rawat. Let me try and answer the first one. Typically energy margins do improve. If you see historically towards the third and fourth quarter and that is a secular trend that we are seeing there too. On specifics on rent rationalization is this the freeze that you are referring to.

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

So Amruta, this is the freeze you are right. That kind of an impact is already shown in.

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**Amruta Pabalkar - Morgan Stanley - Mumbai**

Understood and so on margins, should we expect to move to like 5% over a longer period term, is there any change to that guidance?

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

Energy margin we have said that you have to look on a full year basis and normally a 3% is what we have been saying is a fair number to look at on a full year basis. Quarter-on-quarter is a wrong way normally because the prices are kind of uniform across the full years towards the customers where at actual cost there is a difference that we see on seasonality that comes in there.

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**Amruta Pabalkar - Morgan Stanley - Mumbai**

Got it. Thank you.

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**Kamaldeep - Moderator**

Thank you very much Ms. Pabalkar. The next question comes from Mr. Gaurav Malhotra from Citigroup, Mumbai. Mr. Malhotra, you may ask your question now.

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**Gaurav Malhotra - Citigroup - Mumbai**

Hi, thank you for the opportunity. Just a couple of questions. Firstly as Airtel has announced that they are planning to sell a significant stake in Infratel would the right of first refusal continue to hold in that regard, or that would sort of lapse if Airtel is no longer the majority holder of Infratel? That is the first question. The second is that, have all the relevant operators signed on the new rental contracts. And lastly on fiber, if you can just give us some more details as to whether anything is happening on the fiber rollout from your perspective or it's still in discussion stage. Thank you.

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

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<b>Bharti Infratel Limited Third Quarter Ended December 31, 2016 Earnings Conference Call</b>
-----------------------------------------------------------------------------------------------

Let me take up the first one. First of all to remind you what Airtel has announced was that they have set up a Committee of Directors to evaluate that they would like to sell a significant stake but whether should it be controlling its stake or not controlling is something they have to evaluate still.

Now as far as our ROFR is concerned, I am assuming you are talking about the ROFR in Indus? Is that right?

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**Harjeet Kohli - Group Treasurer and Chief Investor Relations Officer**

Operational ROFR, Airtel's ROFR to Infratel for build out of new sites

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

That would continue because whatever is there in the agreement that would continue irrespective of any change of ownership.

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**Gaurav Malhotra - Citigroup - Mumbai**

Okay. And on the fiber bit.

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

Fiber, as I mentioned earlier, Smart Cities are the first initiative. We have just signed the concessional agreement, so the rollout is going to begin there starting actually next quarter, we will start to see the rollout actually start there and revenues thereafter. So right now nothing invested so far. We are only in discussion with various operators to see if this opportunity can be scaled even into non - smart city areas and other towns. So we continue to engage with operators as we speak right now.

On your question about signing of with the OpCos we are in discussion with all the OpCos as we said. We have made this offer. The new 2.5% rate escalation is already applicable across all the tenancies that we are starting to get in and we continue to engage with operators on two options that we have given to operators so respective operators are making their own strategic choices of whether to accept a freeze and extend the tenancies for the full duration versus staying on the existing contract and particularly for operators that are looking at exits, obviously the second one is not a great option for them so they are trying to evaluate that internally too. I think we mentioned to close to about 74% on a consolidated basis is what has kind of moved into the new contract.

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**Gaurav Malhotra - Citigroup - Mumbai**

Thank you.

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**Kamaldeep - Moderator**

Thank you very much Mr. Malhotra. The next question comes from Mr. Sanjesh Jain from ICICI Securities, Mumbai. Mr. Jain, you may ask your question now.

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**Sanjesh Jain - ICICI Securities - Mumbai**

Thanks for the opportunity. My first question is on energy revenue. There is a huge divergence between revenue growth QoQ for Indus, as well as standalone. Can you explain why such a large divergence? Second is on tenancy mix, if you can give us some color on what is the tenancy mix of Top 3 plus Jio versus other operator in your entire portfolio. That is it from my side. Thank you.

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

Sanjesh on the first one, energy again, it is a function of the total volume, which is happening both on cabinet expansions and tenancies plus whatever is the effective rate changes which happen in energy. Between Indus and us if you really see the categorization actually Indus predominantly operates in cities where energy availability or grid power availability is much higher versus Infratel structure. Since that divergence effectively continue on account of design etc.

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**Sanjesh Jain - ICICI Securities - Mumbai**

<b>Bharti Infratel Limited Third Quarter Ended December 31, 2016 Earnings Conference Call</b>
-----------------------------------------------------------------------------------------------

Okay, no, because this quarter around Infratel energy revenue growth is significantly lower than what we have seen in Indus. So I thought the diesel mix was higher in Infratel sites, so just wondering why the energy revenue is higher in Indus.

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

It would be a normal the volume and the rate mix.

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**Sanjesh Jain - ICICI Securities - Mumbai**

That is it nothing more to look in that side.

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

Nothing more to it.

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

Yes, on specifics about tenancy mix we have stated this earlier also saying we do not divulge operators' specific information so you will have to excuse me we will not be able to give more details on this.

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**Sanjesh Jain - ICICI Securities - Mumbai**

Okay. And I just wanted to understand because this quarter also we have seen some cancellations coming in around. So, what could be the mix if not operator wise, if you can just give us some directionally what is the contribution of all the challengers except Top 3 and Jio kept aside.

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

Again hard for me to give you a specific number, I said in my opening context to saying large the top 3 of course and Jio are actually the meaningful adds that we are seeing on new addition, rest of the operators we are not seeing growth coming from them at least.

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

And on the total co-locations, which we have, that is very clear. The smaller operators in our cases both Infratel and Indus have a very small share.

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**Sanjesh Jain - ICICI Securities - Mumbai**

Yes, that is helpful thank you.

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**Kamaldeep - Moderator**

Thank you very much Mr. Jain. The next question comes 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 have a couple of questions. Firstly, this other network expenditure has increased sharply and basically 40 basis point of margin has been shaved off. What exactly is this and how recurring this will be? My second question is the tenancy growth for this quarter was very strong. So is it because of the pent-up demand for the last quarter, which is coming in this quarter or we should expect this rate to sustain for a medium term?

And lastly, the tower addition, basically Infratel was doing more like 600 towers to 700-tower addition on a quarterly basis that has gone below 500 towers for the last two quarters. So where should we see this tower addition going ahead? Thank you.

<b>Bharti Infratel Limited Third Quarter Ended December 31, 2016 Earnings Conference Call</b>
-----------------------------------------------------------------------------------------------

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

Pranav, if I pick up the first one, I think on network other network expenses when you are looking at it I think it is more to do with seasonality again as Akhil was saying for certain other parameters the ideal way would be to look at on a YTD basis and there is nothing exceptional per se which has happened so this is something which typically comes up in Q3 in some form and hence it is in line with that.

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

So Pranav answering your question on tenancy growth we did mentioned that we have seen healthy growth on account of all operators. Earlier there was spectrum auction we said in the previous quarter that is also reason maybe that operators were holding back some of their deployments to happen. We continue to see a tenancy growth from the top 3 plus Jio as I said earlier and we would be also continuing to see large part of 4G rollout being done by all the operators across the country and we going by the current trend that we see, we see this continuing even as we speak.

On specifics of tower addition yes we have seen the requirement of towers coming down but at the same time we are also in discussion with the operators to see, if there are new types of towers that would be needed to create infill sites in some of the cities there.

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

But as you know in our business what is important is co-location not new towers. So we are actually very happy that co-locations are increasing at a rapid pace without us having to put up too many new towers.

**Pranav Kshatriya - Edelweiss - Mumbai**

Sir if I can just follow up a bit on this, are you starting to see any standalone data towers for say coming up at least in the cities where basically the demand for data is increasing quite rapidly?

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

As I said, created a few pilot sites with some of the leading operators especially in government buildings and other locations where traditionally acquisitions were not possible but these are more pilots, the large scale up has not yet started on these pilots. So we have created products and offer to some of our customers there.

**Pranav Kshatriya - Edelweiss - Mumbai**

Thank you. That is it from my side.

**Kamaldeep - Moderator**

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

**Gabor Sitanyi - Charlemagne Capital - London**

Thank you very much for the opportunity. Just a few questions from my side, one is concerning the lease hold, rent perhaps if you can explain why that has been growing faster than your sales particularly in an environment where your tenancy growth was higher than the new tower growth, what is the escalation allowed in your rent contract to your landlord? And my second question is related to the Capex, why the Capex has been so heavy in a quarter when the new tower growth was relatively modest? Thank you.

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

Pankaj this side; on rent, rent is a function of 1. The tenant agreements which are running there is a normal escalation, which is built into the same the last year while we are reporting IGAAP we use to have an equalization, which was coming into play, now post Ind - AS the actual rent increase will come as and when that normal escalation kicks in as per the respective agreement. That is one bit to it.

## Bharti Infratel Limited Third Quarter Ended December 31, 2016 Earnings Conference Call

Second on all new tower additions and tenancies there is a bit of a rent which is payable and the normal increase what you see in the rent is more on account of like volume increase which has happened, while revenues will start flowing through, we will start seeing the annualize impact on rental, rental kick starts within in this quarter. So this increase is in line with the volume only.

Coming back on the Capex piece, again Capex if you really look at it, it is again Capex for this quarter is largely driven by volumes itself, plus there is a bit of a movement which happens into the capital work-in-progress, which is nothing, but the anticipated volumes for next quarter. And we have the standard Capex the way we report out, as there is a growth Capex and replacement. So the large increase of Capex, which is there in the current quarters is largely on the growth side.

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

Just to clarify, it is not correct that the new Capex is only needed for new towers, when we add tenancies or we add some change of cabinets etc., etc., in many of those cases they are also required to be upgraded therefore there is some Capex which goes into it?

### **Gabor Sitanyi - Charlemagne Capital - London**

Just to clarify on the rent, what I meant is not the rent you are charging but the rent you are paying looking at your P&L, it looked as though that has been escalating a 12% vis-à-vis 10% growth in your sales?

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

Yes I was also referring to the rent which we were paying which was again a function of which I explained, the normal rent increases so on a, there are contracts ranging from three to five years the annual escalation comes to the range of around 3% which is there, depending upon as and when they are coming up for renewal. And second is again on the towers and new tenancies which happen in any quarter there is an incremental rent payable.

### **Gabor Sitanyi - Charlemagne Capital - London**

Most would be the typical escalations in your rent contracts what you are paying?

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

10% to 15% is what has paid every three years, so it averages to around closer to 3% to 5%. That is the number that it averages around. That is the standard rent on an existing site. Pankaj mentioned that as we get tenancy on an existing site too there is a small rent increase that is given to the landowner and three, whenever we are getting new towers acquired, which is roughly about 3% those are also additional rent increase to the base rent that we had.

### **Gabor Sitanyi - Charlemagne Capital - London**

Apologies, Sir, just one last question on this. When you sign up a new tenant, a second or a third tenant do you have to pay more to your landlord or not?

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

It marginally goes up. It is part of our profit sharing with the landlord. He is equally a party to maintain that long-term lease there.

### **Gabor Sitanyi - Charlemagne Capital - London**

Understood. Thank you very much.

### **Kamaldeep - Moderator**

Thank you very much Mr. Sitanyi. The next question comes from Mr. Anirudh Gangahar from Nomura, Mumbai. Mr. Gangahar you may ask your question now.

### **Anirudh Gangahar - Nomura - Mumbai**

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<b>Bharti Infratel Limited Third Quarter Ended December 31, 2016 Earnings Conference Call</b>
-----------------------------------------------------------------------------------------------

Thank you for the opportunity. Two questions from my side. One, Mr. Rawat you used to give some longer-term picture of growth in towers being around 2% to 3% and co-locations 6% to 8%. Have you obviously seen pretty good quarters in both terms are that still what you would expect the industry to grow and the co-locations to grow by that's first question. Second is just a clarification on the entry tax part while Akhil mentioned that it's difficult to quantify what is happening on the property tax verdict. The entry tax how would that impact us and would that be significant if at all. Thank you.

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

On the first part again, we said as a company we do not give guidance, but when I am referring to CAGR growth these are more historical growths looking at the past and we hope the secular trends will continue going forward too. Second what I keep saying is our growths are not to be seen on a quarter basis. It is more a long-term view. We are attached to the Capex cycle of operators and there we believe in a five year period these cycles would pretty much remain in the same lines and we do see the current quarter is probably, we saw a slowness in the previous quarter and we are definitely seeing a catch up there and this is what I meant when I said in a five year window you would probably see some of these ups and downs and eventually the CAGR growths would probably look around the same number.

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

On entry tax the Supreme Court judgment comes with some caveats. It says for instance that it has to be non-discriminatory vis -à - vis what those states charge for goods produced, similar goods produced in their own state and so on. So there are intricate legal matters involved which we are grappling with and the lawyers and the industry are in conference on these matters as to how to deal it state by state. But just to give you one comfort on entry tax, most of the entry tax if imposed is mainly on the capital goods and therefore that would have to be capitalized whatever that amount be and subject to depreciation.

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**Anirudh Gangahar - Nomura - Mumbai**

Right. So it is mostly on the Capex rather than the Opex.

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

Some consumables but otherwise largely Capex only

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**Anirudh Gangahar - Nomura - Mumbai**

Right and can I, I will go back into the queue I have another question but I will go back into the queue. Thank you.

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**Kamaldeep - Moderator**

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

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**Srinivas Rao - Deutsche Bank - Singapore**

Thank you very much for allowing me. Sir, one question I had was recently I think TRAI is floating a quote for buildings, which says non-discriminatory access to in-building infrastructure. Is that something, which is, I don't know, positive or negative for Infratel going forward? That is my first question. Second, on the Smart City project which you have mentioned, can I just understand that the revenue for the way it will be designed will be from the Wi-Fi services, which will be provided by the consortium is that, am I correct in assuming that. Thank you.

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

Let me take up the first one, which is on the non-discriminatory. Obviously when the state or the regulator mandates that these things have to be shared it is obviously great for infrastructure companies, but having said that we have always maintained that instead of us relying on the mandates, our philosophy always has been that we must make our business model so robust that the operators have no choice but to come to us because of the advantage we can give them, but yes, I would say that the move by TRAI is a very mature move especially for in-building where repeated permissions cannot be given by the landlords and so I would say it is a step in the right direction, because looking at the price points in India, I think this infrastructure has got to be shared and this is yet another

<b>Bharti Infratel Limited Third Quarter Ended December 31, 2016 Earnings Conference Call</b>
-----------------------------------------------------------------------------------------------

big, huge acknowledgment by the regulator and the government that infrastructure sharing is a priority. So it is good, but we do not base our business on such mandates, we base it on our business model.

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

On your specific question on Smart City Srinivas, the revenue model from a state requirement of giving us free right of way and access to the government poles, the requirement is to put a certain amount of Wi-Fi spots or hotspots and give the first 20 minutes or so I think for free for customers and there is a certain megabits in a month that is to be given. Our model is based more on creating a white labelled Wi-Fi for all operator customers to be able to seamlessly use better quality Wi-Fi services if they are present in those area, so the model that we are working towards our end operators is to see that their customers, when in a Wi-Fi zone are able to get faster, better user experience through the Wi-Fi network and seamlessly. Actually they continue to be seen as if it is an operator Wi-Fi network.

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

We cannot say that it is the Wi-Fi which is the revenue stream, but many other revenue streams in that.

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

This is one of them, the specific question was on Wi-Fi, so I am trying to come to that and saying we are looking at creating multiple SSIDs where operator's customers are able to seamlessly roam in every Wi-Fi Hotspot as if it is the operator's own network.

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**Srinivas Rao - Deutsche Bank - Singapore**

Understood. This is really helpful. So, one more. Thanks Akhil, thanks DS. Just one clarification Akhil, if there is an in-building in which an existing telecom operator has put up its own in-building facilities, would that now require to be shared or does the mandate essentially require that to be shared now.

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

I have not seen that consultation paper. Does it apply to already existing buildings or new ones I think it would be new ones perhaps but I am not too sure, there are not too many anyway.

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**Srinivas Rao - Deutsche Bank - Singapore**

Understood. Thanks, this is really helpful. Thank you so much.

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**Kamaldeep - Moderator**

Thank you very much Mr. Rao, the next question comes from Mr. Mark Smith from Charlemagne Capital, London. Mr. Smith you may ask your question now.

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**Mark Smith - Charlemagne Capital - London**

Thank you. I recognize your point about quarterly volatility, but when looking at returns or looking at the EBITDA margins over the last three quarters there has not been any improvement, do you still see this is a as a model where there is operating leverage and do you see margins improving over time as they have done for the last this since your listing?

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

So Mark if we look at the margins, as the operating leverage still continues out here, what we are seeing from the past earlier the tenancy as we were had a lower tenancy ratio the mix from one to two tenant or a two to three tenant the margins have got a difference between the two. One was seeing a higher margin growth because tenancy was still not touching two, as it progresses and you are moving in from a three tenant to four tenant which is leading to the tenant mix which leads to the increase, the percentage growth in margin effectively slows down, that is on account of the model not to say that leverage will go away. So ideally margin again should be seen on a yearly basis quarter-on-quarter there can be a bit of a seasonality and there can be spikes and the way we look at margin is more on a rental revenue which has been progressing and that is already at a pretty decent level which is running into

<b>Bharti Infratel Limited Third Quarter Ended December 31, 2016 Earnings Conference Call</b>
-----------------------------------------------------------------------------------------------

around 66% which we feel in future there can be a gradual increase but at this point of time we are happy being able to, what we see is, be able to sustain that kind of a margin in future.

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**Harjeet Kohli - Group Treasurer and Chief Investor Relations Officer**

Yes, just take a cue from Pankaj I think Mark it will be good to see what you are seeing as stated margin good to de-layer into what is rental related margin and what is energy margin, that is part number one and you will see the operating leverage primarily play into the rental margin. Second point Pankaj mentioned just to reiterate I think the marginal benefit on the EBITDA margins for higher tenancy factor is going even higher is low on it, that is the way the mathematics works, but more importantly in the context of because you mentioned last year four quarters I think you have to see that in conjunction with our commentary we gave in the June quarter results around the amendments that had been done and because of the amendments while some of the work is in progress and some customers may or may not accept what we have given them as an offer but we have taken all the relevant charges right from June, so June blended margin that you see it is sort of a rebasing of March basis whatever amendments got executed and if you isolate that you will still see what you are mentioning as the underlying operating leverage kicking in. Having said all that I think given the rental margins are dominant 60s I think incrementally you need to be a little more judicious about how they scale up but the operating leverage in the model still is existing.

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**Mark Smith - Charlemagne Capital - London**

And then on the balance sheet side, I mean the financial structure of your business is very, very different to other tower businesses in other parts of the world and I recognize the restrictions you face in an Indian context, but is there any thought or any guidance you can give us on potential changes in that, I mean the returns have improved nicely over time, but they could be an awful lot higher if there was a more appropriate financial structure in place?

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

I think on that as you have seen ever since we came into existence and listed we have been giving regular dividend, buyback and so on, so whatever is permitted by the Companies Act we have been returning. You can imagine our first priority obviously is to always look for more avenues for growth and putting the capital there. We have been working on that, Smart City for instance is one such initiative, but we have not yet got any meaningful deployment of the capital at our disposal. Now, I must warn that that is also a bit of a challenge for us because with plenty of cash available there is a time-set tendency to recklessly invest and we have I think been very fortunate that all of us are very diligent about it and we will continue to be diligent, but yes, I agree with you. I think with this cash can be used for more projects and better Capex deployment, I think that is what our endeavor is and we will try to see where the possible avenues can exist.

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**Mark Smith - Charlemagne Capital - London**

Thank you.

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**Kamaldeep - Moderator**

Thank you very much Mr. Smith. 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. I think most of my questions have been answered, but just maybe a very small follow-up. Do you think that you have seen some bunching of co-locations towards end of the quarter that might have taken away a little bit from the revenues, which hopefully get sorted out as you go towards Q4 or the impact is entirely due to your pricing framework?

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

Partly yes, but I think, again towards the end of the quarter we did see ramp up on tenancies, because the spectrum auction, other things which is behind us towards the beginning of the quarter and by the time equipment starts to come in, we did see a little bit of bunching.

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**Viju George - JP Morgan - Mumbai**

Is it notable enough to call out not in quantifying, but at least to say that was a factor?

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<b>Bharti Infratel Limited Third Quarter Ended December 31, 2016 Earnings Conference Call</b>
-----------------------------------------------------------------------------------------------

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

Not big enough as I said. Since you asked that specific question we said that, otherwise nothing, which is very specific.

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**Viju George - JP Morgan - Mumbai**

Sure. Thank you and all the best.

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**Kamaldeep - Moderator**

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

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**Sanjay Chawla - JM Financial - Mumbai**

Good afternoon. Thank you for the opportunity. Congratulations on strong set of results. I have two questions, one is just a follow-up to the question on Capex that you answered some time ago, you said that obviously tower additions have been much fewer this quarter, but some of the Capex has gone into the capital work in progress on account of the order book where it is yet to be executed, I guess. But other than that, how has - has there been any uptick in the energy related Capex or any one-time Capex related to the IT or corporate segment and also how has the unit Capex been trending in terms of the upgrade and loading Capex that you have to put up, how has it grown over the last four years, five years since the launch of 3G networks, that is first question? And secondly, just a question on revenue per tenant sharing, rental per tenant in case of Indus, we have seen it going up this quarter on a sequential basis, despite the fact that you have more effect, greater effect of the MSA amendments kicking in and also the fact that you have had very strong tenancy additions, which normally leads to tenancy led discounts. So what are the underlying factors, which have resulted in a growth in Indus revenue per tenant this quarter?

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

Sanjay, Pankaj this side, on Capex as far as emerging Capex is concerned, there is, it is still trending at a same level, there is no such spike which has specifically happen in this quarter vis-a-vis earlier quarter. Let me pick up the rental per tenant, if we have to really look at it, between Indus and us, as you are aware, rental per tenant would be the function of, you know, the increments, happening every year, loadings and premiums, which come in, and offset by the tenancy addition, so there is always a difference, which happens in terms of mix across quarters and hence on a quarterly basis you will see these kind of variations, which might happen.

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**Sanjay Chawla - JM Financial - Mumbai**

Is there any one-off effect? Sorry.

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

No, I think one-off in the sense, you know, depending upon what is the volume metrics happening in Indus versus us, which can vary, the total number of the cabinet expansions, all tenancies, if that ratio changes you will find the Capex, the revenue per tenant changing and hence if you really look at it on a YTD basis, if you have to see a trend you will find while percentage growth will vary, but this is unidirectional and it is positive for both Indus as well as us.

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**Sanjay Chawla - JM Financial - Mumbai**

Okay. And in terms of the loading volumes that you are seeing, are you still seeing sequential growth in the loading volume and do you think it could be close to peaking now with so much of the rollout already done in terms of a quarterly basis?

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

Maybe yes, I think it is our view, we did see a shift 3G to 4G in fact, but the net quantities are comparable in that sense, Indus circle that is slightly higher and that is why it is also reflected on the revenue per tenant that you are seeing, but we think yes this will be the rate, from a run rate if you are asking that, Capex standpoint, we still see operators continuing to add 3G and 4G on existing towers wherever they have recently won the spectrum.

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<b>Bharti Infratel Limited Third Quarter Ended December 31, 2016 Earnings Conference Call</b>
-----------------------------------------------------------------------------------------------

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**Sanjay Chawla - JM Financial - Mumbai**

And this, is this 2.5% escalation rate, is it also applicable on the loading rental in terms of on an annual cycle basis?

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

Yes, Sanjay, it is.

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**Sanjay Chawla - JM Financial - Mumbai**

Okay. But coming back to the Capex part, I mean can you give some sense of how the unit Capex has changed or grown in case of your upgrade or loading Capex, which is linked to a tenancy additions over the last three to four years?

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

We have not seen any major change in that Sanjay. We have not seen any major change on Capex, but some of these are to underlying metals, so we have not seen big change there on Capex, batteries are linked to lead, towers to steel. We have not seen a big shift there in any of these materials enough to bring it up here.

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**Sanjay Chawla - JM Financial - Mumbai**

Okay, so basically there is no one-time effect on the Capex number in this quarter.

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

No Sanjay.

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**Sanjay Chawla - JM Financial - Mumbai**

Okay, great. Thank you very much and all the best.

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**Kamaldeep - Moderator**

Thank you very much Mr. Chawla. At this moment I would like to hand over the call proceeding to Mr. DS Rawat for the final remarks.

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

As Akhil mentioned we saw strong tenancy additions during the quarter due to strong rollout from leading operators and also strong cabinet expansions from the top three telecom operators. The quarter witnessed highest co-locations ever added since the IPO of over 6000. With this we have crossed the 200,000 tenancy mark at a tenancy ratio of 2.27. Demand for new towers remains in the range of 2% to 3% while co-locations grew faster by 7%.

At a consolidated level, we have recorded Rs.3400 Crores revenue and Rs.620 Crores net profit during the quarter. On Digital India front, we have signed our concession agreement for Bhopal Smart City with authorities and have started working towards project delivery. Furthermore, our fully owned subsidiary Smartx applied for and has secured unified license with NLD and ISP category A authorization this would allow us to invest and monetize fiber and Wi-Fi opportunities.

There is no doubt that we are best placed to a play key role in Digital India initiative by building and sharing vital infrastructure solution with all customers on a non-discriminatory basis. We are ready with all the necessary capability and commitment to meet the increasing demand and capitalize on various opportunities.

On behalf of entire Bharti Infratel Team, I thank all of you for continued support. I would also like to take this opportunity to wish all of you a very Happy New Year. Thank you.

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**Kamaldeep - Moderator**

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**Bharti Infratel Limited Third Quarter Ended December 31, 2016 Earnings Conference Call**

Thank you very much Sir. 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.