

Bharti Infratel Limited Third Quarter Ended December 31, 2017 Earnings Call

Conference Call Transcript

Event: Bharti Infratel Limited, Third Quarter Ended December 31st, 2017 Earnings Call

Event Date/Time: January 18th, 2018 at 1430 hrs.

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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 31st, 2017 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. I now hand over the floor to our first speaker of the day, Mr. Akhil Gupta. Thank you, and over to you sir!

Akhil Gupta - Chairman - Bharti Infratel Limited

Thank you, and a very warm welcome to all of you to the Earnings Call for Bharti Infratel for the Q3 ended December 31, 2017. First of all, a very Happy 2018 to all of you and your families.

You are all aware of the unprecedented consolidation that has taken place in the Indian telecom industry over the last one year, the most recent, of course, being acquisition of Reliance Communications' assets by Reliance Jio and the consequent closure of mobile operations of Reliance Communications. In line with our earlier communication and as anticipated, we are now witnessing exits of co-locations due to such consolidation. In addition, the last quarter also experienced a bit of a slowdown in the new co-locations, as we suspect that the merging operators seem to be evaluating the network strategies in light of the spectrum and the networks that they have acquired. As a result, the last quarter saw a net reduction of 6612 co-locations on a consolidated basis, as a result of 8562 exits that we recorded.

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I would like to point out that while earlier, due to small numbers of exits; we were reporting the exits only when the actual co-location was shutdown, we are now changing to a more conservative approach; whereby we are recognizing such exits at the time of receipt of the exit notice itself. We believe that this would provide more transparency in this regard. And as a result, out of reported churn of 8562 co-locations, 5601 co-locations were still active and were generating revenue as at the end of the quarter. As a result, the average revenue per co-location reported is higher by Rs.443 per month than what it would have been had we followed the earlier practice of reporting churn. While we believe that there could be more exits over time on account of consolidation, in particular due to the announced merger of Vodafone and Idea, in the absence of any specific information regarding the quantities, as well as the time required for the process completion of that merger, it is not possible at this stage for us to give you any guidance with respect to numbers or the timing of such possible exits. We are in the process of calculating the exact exit charges on the exited co-locations as per the MSA. No revenue on that account has been accounted for as yet, as we account for the same only on actual receipt as per our accounting policy.

It is also important to note that while there is a lot of consolidation happening on the operational front, there is a similar consolidation also happening in the tower industry. During this quarter, two significant developments took place. First, ATC announced its agreement to acquire towers from Vodafone and Idea held outside Indus. You might recollect that earlier on, I think about a year back, ATC had announced the acquisition of Viom. Second, Reliance Jio announced the acquisition of approximately 43,000 towers from Reliance Communication. On most of these towers, they are already co-located and it is expected that these towers will now continue to be their captive towers. It is thus quite clear that besides Infratel and Indus, the major tower company in India is now ATC. Between these, they now have approximately 85% or a little bit more of the total towers with all the tower companies in India. Now, while due to the exits caused due to this consolidation, there would be some short-term adverse impact, it is our belief that with the consolidated industry in the hands of three major and well-resourced private operators, we would see accelerated step-up of nationwide 4G rollout by each one of them. This is particularly important, as Reliance Jio has already announced its aspiration to cover 99% of the nation with 4G in near future. We believe that the other operators would have to be matching this footprint as soon as possible.

Another major development, which would significantly have positive impact for tower industry globally, though on a slightly medium to long term, is acceleration in the plan to deploy 5G. Some of you might have noted that AT&T has recently announced its plans to be the first company globally to introduce 5G commercially by the end of this calendar year. This, of course, is a big acceleration from the earlier stated timeframe of 2020 and even 2021, sometime back. This would inevitably accelerate the process of introduction of 5G in the rest of the world, including in India, and in fact, particularly in India, because India is taking a leadership role in evolution of 5G for the first time in telecom. At Infratel and Indus, our micro cell products are ready and we are already in discussion with operators to assess their future needs and understand their requirements in this regard.

Coming to the operational and financial highlights of the quarter, the consolidated tower base as on December 31, 2017 stood at 91007 with consolidated co-locations at over 213000, which grew by 4.2% Y-on-Y. The co-location factor at closing was 2.35. Consolidated revenues for the quarter were Rs.3655 Crores, growth of 7% year-on-year. EBITDA was at Rs.1613 Crores, a year-on-year growth of 8% with an EBITDA margin of over 44%. EBIT for the quarter was at Rs.1009 Crores, up 10% year-on-year and the operating free cash flow grew by 21% year-on-year to Rs.970 Crores. ROCE pretax for the quarter improved to 34.6%, up from 29.5% last year.

To summarize, the Indian tower industry will face some challenges in the short term, with possible exits as a result of the ongoing consolidation; however, we expect the overall long-term impact to be positive due to expected accelerated step-up of nationwide 4G rollouts by the remaining operators. With our reach, financial strength and operational expertise, both Bharti Infratel and Indus, we believe are in the best position to capture what we are convinced is a big potential for our industry based on exciting data based demand.

Thank you for your attention. The management will take your questions now, please.

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 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

Thank you for the opportunity. I have two questions. My first question is on the exposure what Bharti Infratel consolidated has on smaller telcos. Now I know you guys do not give exact numbers, but if I remember, a year back you guys had said 85% of your revenues come from top-3, and given the fact that we have seen some cancellations in last few quarters, I was wondering where that 85% number is right now? Or to put in other words, what kind of exposure right now are we having to smaller telcos? So that is question number one. Question number two is generally on the revenue growth for industry. Now, Akhil clearly you did mention about Jio's aspiration to have 99% coverage and other operators looking to perhaps follow. This should be positive for the industry. I

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was just trying to understand from a revenue growth outlook for the industry and given the fact that data boom appears to be picking up, what could be the steady state industry growth? And again, I know you guys do not give general guidance, but broadly, directionally, would be helpful for us to understand, post a few quarters of these tenancy cancellations.

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

Happy New Year to all of you. On your question about our exposure to the smaller players, as of today, if you look at Airtel, Vodafone, Idea, Jio and BSNL, which is what we are tracking now separately, our tenancies with them are today at 93%. So we have less than 7% exposure to the smaller players. On your projections of growth, we do not give guidance as a company, but after this turbulence is over, there is a huge opportunity that we are looking at in terms of growth, which is coming in on account of, firstly, increased rollout by the top-3 players and also service differentiation kicking in. Given a very high speed of data growth that we are seeing across all operators, we think we will be able to get back to our old growth rates given the small cells and other deployments that Akhil talked of, which are likely to start picking up from this point on. We hope that we will be able to get back to the old growth rates that we have had.

Akhil Gupta - Chairman - Bharti Infratel Limited

Sachin, I think you would understand that, obviously, the next one year at least would be a little uncertain in terms of what we do in terms of growth, because we really do not know whether and when would some of the other exits, like particularly Voda-Idea might come. So it is really beyond our capability at this point to predict any kind of growth rate for this coming one year at least. And therefore, it would be prudent to expect that the next one-year would be a little soft, taking into account the exits which might happen. But thereafter, I think once we are over with this overhang of exits and everything, I think the growth, to our mind, should be fairly rapid.

Sachin Salgaonkar - Bank of America - Mumbai

Okay, completely understand that Akhil. One small follow-up I have is, clearly we did see some cancellations this quarter, last quarter and in your opening remarks you did mention about you following up them based on the MSAs for penalty. Again, I know the timing is not in your hands, but what should we look at as, you know, when we could see some penalties for the cancellations which have already happened or are coming?

Akhil Gupta - Chairman - Bharti Infratel Limited

This process about our sending the notices and all and calculating, because the penalty is to be calculated site by site, it depends on how much period they have been, what is the residual period and so on. So I think it will take some time and maybe by next quarter or the next time when we meet, we would have a much clearer picture on the total amount, as also what is being realized.

Sachin Salgaonkar - Bank of America - Mumbai

OK, got it. This is clear, thank you.

Kamaldeep - Moderator

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

Gaurav A. Malhotra - Citigroup - Mumbai

Good afternoon everyone. Just couple of questions; while we understand that Idea, Vodafone would probably be slowing down their network deployment in anticipation of the merger, the overall gross additions of around 2000 suggests that even the other two players, which are Jio and Airtel, have also slowed down and the slowdown seems to be quite - it is almost half of what it was in the previous quarter, so any sense on what seems to be the reason why the slowdown has happened? That is one question. And an associated question would be that even though the tenancy or the co-locations slowed down, your capex sort of has gone up, so how should we look at the two together?

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

Gaurav, as you are aware, I think operators are and especially the big-3 who are doing meaningful rollout, we are going through lot of merger/acquisitions that are already there in the news, they have been taking stock of the assets that are coming in, which

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include spectrum, base stations and so on and so forth. And that is why we have seen definitely a pause in this current quarter that we went through. Even Jio's rollout was going between two phases in terms of what they are deploying as the next set of equipment, where they are trying to leverage new technologies as they place orders on new generation equipment. Having said that, while we did see slowdown on the co-location side, we have seen increased acceleration on the 4G rollout by the top-3 operators, including of course, Airtel, Vodafone and Idea, all 3 of them. So that rollout is the bigger priority for the operators, where at a marginal investment of capex they are able to give 4G offerings across the length and breadth of the country. So we see them now in their high 70s in terms the leader having 4G coverage, which we think they will take it up to 100% as we said earlier, that pretty much all the sites would have some kind of a broadband offering in a couple of years from the time they started rolling out. So we are seeing their big focus in terms of 4G rollouts on the spectrum that they already hold. On your question of capex...

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

Gaurav, on capex, as you are aware, capex is fundamentally driven by incremental volumes, maintenance capex, initiatives and Cabexes (Cabinet Expansions) plus, whatever the advance buying we do for subsequent orders, but the increase what you are seeing last quarter we had actually an anomaly at Indus level, because of which the GST implementation, there were certain purchase orders, which were getting reissued, which got delayed, which impacted the reporting of the numbers there. And hence it would be prudent, if you see on a YTD basis you will find capex to be in line with the normal trends we've been incurring the capex.

Gaurav A. Malhotra - Citigroup - Mumbai

Okay. Just a follow-up, so by when do you think the sort of the growth pie at least say a Jio or an Airtel, so sort of the non-Idea, Vodafone guys, when that should sort of pickup? Are you seeing signs of that picking up now or this quarter also looks mostly soft to you?

Akhil Gupta - Chairman - Bharti Infratel Limited

It is a little early, because the quarter has just begun and of course there are intimate discussions. How much of that results into it, but we see no reason why the operators would be delaying the rollouts anymore, because data is truly picking up, 4G penetration of handsets is increasing. I think they would not want to lose time, because whatever time they lose now, they are losing revenue. So hopefully the rollouts should start soon unless DS do you want to add anything?

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

Again, there are more news in the public domain. I do not want to share operator-specific discussions here, but news in public domain about operators wanting to do catch up. And as I said earlier too, that we first expect the existing operators to use their 4G spectrum and have 4G offering across the length and breadth of the country. You have to look at the market today from an operator market standpoint. Jio's offering is a 4G offering, and he has been the challenger who has been aggressive on rollouts. So there is a catch up that all operators need to do as leaders, not only to retain their market share, but also to gain out of the smaller operators that are exiting the market. So from a strategy standpoint, yes, for incumbents there is an option where they could continue to focus and complete 100% of sites with 4G rollouts before they start to look at meaningfully adding tenancies and new build sites for 4G only. But definitely Jio is the one who is acting a catalyst in the last two quarters, so the numbers that you saw bumped up in the previous quarter, the first and the second one. So we hope that they have done their purchasing for the next phases and start to roll out as quickly as possible.

Akhil Gupta - Chairman - Bharti Infratel Limited

And also do not believe that Vodafone and Idea will just go into a sleep mode. They are very active in the market. They are, on a combined basis, would have currently the highest market share, so we do expect them to rollout as well and they will not be pausing, because they have a process of consolidation going on. I am sure between the two companies they will sort out, which one rolls out what, even before the full merger.

Gaurav A. Malhotra - Citigroup - Mumbai

Just one small question so from the tenancy exits, has the MSA led to an increase in the rental per tenant in those towers?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

Gaurav, so that is the function of when exactly the tenancy shut downs of that respective operators in the network to the extent those numbers are shut down, automatically the increase goes in, in that particular month's billing.

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Gaurav A. Malhotra - Citigroup - Mumbai

Okay, so that has started?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

Yes, that has started.

Gaurav A. Malhotra - Citigroup - Mumbai

Thank you.

Kamaldeep - Moderator

Thank you very much Mr. Malhotra. 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. Thank you for taking my questions. I have a couple of very quick questions. First one is just on the exits that you saw in the quarter. Can you just comment on which operator has contributed most to it? Was it largely Idea and Vodafone? And a follow-up to that is, I think ATC's press release back in November mentioned that they would be the preferred partners for Idea and Vodafone subject to few existing agreements. Does that change anything for Bharti Infratel and Indus? And just lastly if you can comment, or provide us any update on the potential Indus stake purchase that you had commented on during the last call? That will be all, thank you.

Akhil Gupta - Chairman - Bharti Infratel Limited

So we obviously, I am sure we cannot comment on any specific operator's numbers, that we would not be able to give. On ATC's comment, as I think everybody is entitled to make the comment, but so far very clearly on facts, Indus and Infratel are the preferred tower companies. On the third one was on the merger. Well, look, this is a topic which has been often discussed. Surely there have been thoughts going on around it. But at this point I can only say if and when if there is something to it, we will obviously openly come out to the market and to the stock exchanges. But at this point I have nothing else to say.

Manish Adukia - Goldman Sachs - Mumbai

Right. And just a very quick follow up. I think I noticed for Indus the number of towers actually declined in this quarter. Can you just throw some light on what is the dynamic that had played there?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

So Manish, this decline is when we have reported about the co-location churn, so there were certain sites wherein the notices have been received even for those, they were single tenant sites, because of which the tower numbers are going into negative.

Manish Adukia - Goldman Sachs - Mumbai

Thank you and all the best.

Kamaldeep - Moderator

Thank you very much Mr. Adukia. 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 AG – Singapore

Thank you very much. I have two questions, one relating to your average lease period and the lease renewal which you disclose. That number had kind of peaked in September last year and that has been, so to say, coming down since then. It actually fell even this quarter. Does that mean that the effective tenure of the tenancy contractor will be coming down? And could you throw some light as to where they will stand and does that number go to like 2, 3 years over a period of time?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

Srinivas, that is a function of the total tenure which elapses plus the new co-locations, which are coming, the new revenue getting added. Now, because of the overall kind of net additions what we have seen, the overall revenue realized has been more and hence we see that kind of a decline happening.

Srinivas Rao - Deutsche Bank AG - Singapore

So I mean is it, I do not know if it is right to look at it, but the decline in the residual contracts here, does it mean that the newer -- so the contracts, which are getting cancelled, and is that a right way to look at it? Those were the longer-term contracts?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

It is a function of both. On the existing contracts, which have been running, so every quarter that residual life goes down by another three months, so to say, coupled with all new additions happening, whatever is the addition in the residual life plus, now on account of the co-location churns which have happened, whatever was the residual life for those contracts too has been adjusted in this number.

Srinivas Rao - Deutsche Bank AG - Singapore

Okay. And you were kind of transitioning all the contracts to a new kind of a rate card-based framework. Has that been completely done, all that now fully into the financials for all tenancies?

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

As of today, any new tenancy that we are taking is as per the new rate card.

Srinivas Rao - Deutsche Bank AG - Singapore

No, the existing players also had to kind of be given some kind of a NPV-neutral offer. I am talking of that transition.

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

That offer we had made that for the period and after that whoever has signed in, in that period, we have closed with them. And the people who have not chosen to sign it, we have left that. As I said, we continue to do business. There are two propositions there. One was of course the increase in the rate card, basic rate card by 2.5%. That has been applicable to all new tenancies that we have been taking across the board. The second offer, of course, was an extension offer that if you agree on to taking or granting a further extension, we had given a freeze. And that was the NPV-neutral calculation against that. So that offer has been withdrawn from the people. Whoever has signed has taken that offer and we continue to execute that with them on the existing tenancies. There is a freeze. And the unfreeze happens on the day when their base rental starts to cross that threshold for those particular sites.

Srinivas Rao - Deutsche Bank AG - Singapore

Is that a large number for us to kind of materially look at it or that is not, that is less relevant going forward?

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

No, I don't think there is any impact going forward on account of that.

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Srinivas Rao - Deutsche Bank AG - Singapore

Understood, understood. This is helpful. Can I add one more question? You did mention about small cell products being ready. Would it be fair I mean obviously would expect the rentals to be lower on that. Will that also have the similar framework of pass-through energy costs and will the effective rental yield be similar to your current macro sites or it is lower?

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

Srinivas, the expectation is yes, because we have built some of these sites on trial basis with operators and shared with them as we speak. We are going through the learning. We intend to take them also into a model where energy will be a fixed energy model itself, or a rate card based contract, where we do not take the rate risk, but we do guarantee a consumption-based model where there is a fixed fee to a small cell, depending on the power consumption that they use in the site. So we have various models that are in proposition. Once we start to scale that up, we will share the exact economics too, because today variants, depending on Smart Cities, the deployment is slightly different, because of aesthetics reasons and in other places we are trying to deploy cheaper alternatives, which will meet the end objective for the customer. But to the point that you said in the beginning, we expect that at least on two tenants the return ratios are comparable to the macro site that we have been building.

Srinivas Rao - Deutsche Bank AG - Singapore

That is helpful. Thanks a lot. Happy New Year to you DS.

Kamaldeep - Moderator

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

Rajiv Sharma - HSBC - Mumbai

Thanks a lot for the opportunity. I have just a few questions. First one being, the slowdown from Jio, is it to do with the fact that they are focusing more on pole sites and something, which we cannot offer? I understand you have smaller sites, macro sites, but is it something to do with that? Second, can you play pricing as a lever in the coming days to accelerate some kind of demand, given that this whole 5G could take a lot of time, maybe three years or four years from today to play out? And these are my two questions. And third is more conceptual, which is Voda and Idea, they will have to get into one network. Will it make sense for them to do new capex till the time they really get there in any meaningful way, because that could be wasteful, that could be irrelevant and may not fit into the big picture? Thank you.

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

So Jio-specific, I think I cannot share everything in detail in terms of what their plans would be. But as I said, our personal reading of this is, they are between two phases of ordering the latest generation equipment and that is why we did see a slowdown from them, in terms of rollout. Your second question on saying whether there is pricing as a lever, honestly, in this business we have stated this repeatedly that firstly the requirements are not fungible and if there is a tower it is cheaper to be on that tower rather than asking someone else, for a small delta difference to build a new tower next to an existing tower. So on sharing, there is absolutely no rationale for or any, I should say, demand expansion on account of price reductions.

Akhil Gupta - Chairman - Bharti Infratel Limited

On Vodafone and Idea, look, I do not believe they are going to just sit tight and sleep and say, till our merger is complete, which I do not know how long will it take, and throw away the entire market power to the other big operators. It does not work like that. I agree they would not duplicate it, but they can always, that is my guess, work out an arrangement as to between the two of them, they roll out in different places and cover it up. So I do not expect them to be just sitting tight till the merger happens. They will have to rollout.

Rajiv Sharma - HSBC - Mumbai

Okay. And second is, these exits, just a separate follow-up question we have seen exits for the last five six quarters, but we have not seen any one-time fee coming in yet from all these exits. So should we assume that it is going to be a similar process going

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forward? And normally, if the notice is served in this quarter, what should be the ideal time for you to realize money and/or is it going to be always getting contested in court and will there be a scenario that 100%, no money will rather come in from all the exits?

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

So, Rajiv, historically, I think the cases that are mostly there in court are of the nature where there was license cancellation or the spectrum renewal had not happened, where the operators have taken a position of force majeure. Then there are second set of operators who have gone or closed operations; those are the second set of operators and some of them you are following them on the newspaper too in terms of various people taking their claims on the operations. The third and the bigger chunk that is likely to come in now going forward are the number of operators who are consolidating for becoming stronger or bigger. And clearly these are cases in which exit amounts are applicable by the contract and recognized by both the parties. From our standpoint, we would rather resort to dialogue and see if we can have a win-win proposition of growth going forward with these people, rather than having a one-time revenue recognized against these exits charges too. So there are discussions that you work with an existing operator to see how you maximize growth, and at the same time, see if you can have some kind of NPV-neutral arrangement to make sure that we are fairly compensated for what the contract stands for. And those discussions we have had in the past, we have settled with a few operators too. There are small exit monies that have been coming in for some operators that exit, but that has been an insignificant amount. It is started to become material now for operators who are trying to do consolidation among themselves and grow and become bigger. So we hope to recover these exit charges, whether in absolute money, in one go, or may be adjusted into a mechanism where it is compensated for in the growth to come in coming years.

Rajiv Sharma - HSBC - Mumbai

This is very helpful, but just trying to understand this growth and win-win formula, because there are only two tower companies. So there is a 50% chance that you will get incremental growth. So how do you ensure that you are getting compensated, because there is always a chance this could have come to you in future?

Akhil Gupta - Chairman - Bharti Infratel Limited

You are right. I think that is one of the ways of ensuring growth of some committed tenancies and so on. There could be many other ways of it. For instance, extension of the time frame for which the contract is entered into. Also there could be arrangements of payments coming over a period of time. So there could be many ways, which the operators could suggest. For us the critical thing is to try and ensure that the NPV is preserved. We are not that keen to say, Oh! The cheque must come on day one. That does not serve our long-term goal in this business. We are absolutely committed to working on a win-win situation with our big customers. And that is where with dialogue we will try and make sure that while we do preserve our interest, we would also be looking at their interest.

Rajiv Sharma - HSBC - Mumbai

And does it make sense for you to go with pole sites or something similar?

Akhil Gupta - Chairman - Bharti Infratel Limited

Yes, of course.

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

So the small cell product I talked of, in fact, has various variants of these pole sites as you name them, depending on the place where these are getting deployed right now. And if you are referring to the monopoles that are there on the street side of 25, 30 meters, we had mentioned that we have already deployed these both between Indus and Infratel at various locations, and we are sharing them with operators on a non-discriminatory basis.

Rajiv Sharma - HSBC - Mumbai

That is helpful. Thanks a lot.

Kamaldeep - Moderator

Thank you very much Mr. Sharma. 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. Couple of questions. First is on the 5600 exits, which pertain to future quarters, would these happen in 4Q 2018 or this could be even beyond that? And are these largely from TTSL or even Idea-Vodafone are meaningful, if you can comment on that? That is question number one. Second is, the finance income for the quarter, it looks too low. Is there an impact of MTM losses on long duration bonds and in that case, should we expect the low finance income to continue? And one last question which is on trade receivables, almost doubled over the last year, though the absolute amount is not very large, if you can help understand what is driving this? That is it.

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

Kunal, on the exits, as was shared earlier, we will not be in a position to talk about the individual.

Akhil Gupta - Chairman - Bharti Infratel Limited

No, he is saying the 5600, whether they would exit actually in fourth quarter.

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

No, he had two questions was this Tata and Idea. So I am actually picking up the second one. So Kunal, we cannot share the name of the individual operator, so to say, but clearly we do expect these exits to come into account within this quarter only, because there is a normal lead time within which operator wants to take down their equipment, and hence that lead time continues. So our expectation is maybe in this quarter, sometime all these exits will start coming into play. As far as the finance income is concerned, the finance income primarily is the G-sec market last quarter has been pretty much volatile and looking at a fiscal deficit, oil prices going up, the yields had actually hardened, and this MTM loss, because of which the MTM loss has happened during the quarter. But, as you build, it is going to happen for future, we cannot comment, but please assume depending upon how further movement in yields takes place, MTM accordingly would start coming into play.

Akhil Gupta - Chairman - Bharti Infratel Limited

Yes. But considering the volatility on the bond front and the interest yields, I think we would be resorting, at least in near future for short-term duration instruments and therefore, we would expect that in the coming few quarters it would be a steady income stream.

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

And on receivables, Kunal, it is more of a timing issue, which has happened. There has been a bit of lower or a delayed collection, so to say. So nothing major to worry as far as the trade receivables are concerned. As you can see, the amount as compared to the monthly billing revenues, the amount is not that high.

Kunal Vora - BNP Paribas - Mumbai

Sir, just a follow-up on the first question. Actually the reason why we would be interested, like TTSL versus Idea-Vodafone, because Idea-Vodafone has already laid out their view, they have their plans to cut down cell sites, so from 270 to 220 or 200k. So while TTSL is something, which we can live with. Idea-Vodafone that pain is already behind partially, that will give some comfort. So if you can comment on whether it is like even their adjustment is already taking place or that is like completely still away and it is largely the exiting operators only?

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

It is largely exiting operators. Voda, Idea, there are certain permitted exists which is what has been triggered maybe in these numbers. On the merger front, we have not seen those exits, if that is the question that you are alluding to. The NCLT approval I think only came in about a week or two back. So the feedback that we had is post that is when actual discussions around the merged scenario would start to come up for discussion. So we have not seen exits on account of merger on Voda, Idea front.

Kunal Vora - BNP Paribas - Mumbai

Understood. That is very helpful. Thank you Sir.

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Kamaldeep - Moderator

Thank you very much Mr. Vora. The next question comes from Mr. Vivekanand Subbaraman from Ambit Capital, Mumbai. Mr. Subbaraman you may ask your question now.

Vivekanand Subbaraman - AMBIT Capital Private Limited - Mumbai

Thank you very much for the opportunity. I have two questions. One is with respect to the discussions on the Indus stake acquisition. Can you help understand how you are viewing the acquisition of the stake? Are you looking at acquiring a partial stake, would you want to acquire a full stake and what are the potential capital structure options that you are considering? That is question number one. Secondly, so far we have seen that growth has largely been driven by loading and to a certain extent by incremental tenancy. Tower addition has been very, very muted in FY 2017 and 2018 so far. How should we look at incremental business for you? Is it largely going to be on the back of more loading or will there be tower additions also needed to support 4G growth over FY 2019? Thank you.

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

So let me try to answer the second question first. Yes, we have seen a slowdown on tower additions and this is something, which we have been saying from the time 3G, 4G spectrum came up for rollout. Our view was that first they will try and fill up all their existing sites with 3G/4G spectrum and thereafter they will start to create infill sites or small cell sites to offload capacity and also to create more capacity and coverage improvements in areas where there are coverage holes. Clearly, with Jio's announcement of 99% coverage and the number that is publicly being talked off is the north of 200000 sites, clearly there will be more towers needed. And if those towers are to come up in both, whether it is for infill or for deep rural coverages, it will come up for construction in the times to come. We could also see some part of that macro tower growth shift towards small cell as and when that picks up in a meaningful way too. The limiting factor there of course being fiber and good power availability for small cells to multiply. And we see improvement on both those areas and that is why some of this could be taken up by larger growth on small cells in the times to come.

Akhil Gupta - Chairman - Bharti Infratel Limited

On Indus, well, I already answered that that while this topic is always under discussion and to some extent always under consideration. At this point, I am not in a position to say anything, because there is nothing, which I can confirm, either in terms of structure or anything, because there is nothing. As and when anything happens, whenever, we were absolutely committed to come out in full disclosure.

Vivekanand Subbaraman - AMBIT Capital Private Limited - Mumbai

All right, that makes sense. Just one small follow-up on the tower additions versus loading and co-locations, is it possible for you to disclose the number of towers that have just one tenant?

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

Sorry, Vivekanand we have not done that disclosure separately at any time, and it is also a dynamic number, which keeps moving. Since we build towers for the leaders, both in Indus and Infratel, we believe there is headroom for people to fill those towers up and come in as tenant, and that is what we have seen as a quick option, both in terms of time to market and also in cost of operations for the operators and hence we see higher tenancy growth than the tower growth.

Vivekanand Subbaraman - AMBIT Capital Private Limited - Mumbai

This is very helpful. Thanks and best wishes.

Kamaldeep - Moderator

Thank you very much Mr. Subbaraman. The next 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 Institutional Securities Limited - Mumbai

Thank you for the opportunity. I will start with the first question, which is on capex. I mean there seems to be a fair amount of disconnect between the business growth in terms of the volumes that we have seen on the tower tenancy addition front and the capex number. For example, in last two quarters, and I am considering last two quarters because the second quarter that you said had some anomaly in Indus, if I look at the last two quarters, we have had 50 to 100 tower additions and around 3000 of gross tenancy additions, but you have incurred Rs.500 Crores of capex in each quarter, whereas in the previous seven or eight quarters, we were having around 4500 gross tenancy additions and more than 500 towers added every quarter and you were at Rs.500 Crores to Rs.550 Crores, which is not very different from what we have incurred in the last two quarters. I mean, one would expect that with the consolidation and slowdown in gross tenancy additions, capex would come down, but we have not seen that. So what really explains that? I mean is there lot more money going into energy investments? Is this a classification issue, if you can just throw some light on that? That would be great.

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

Sanjay, Pankaj this side. As I have said earlier in the call, capex is a function not only of the total number of new towers and tenancies what you see. It is also a function of maintenance and replacement what we report, it is a function of energy initiatives what we take, plus it is also function of the 3G/4G rollout, which happens. And plus, depending upon the kind of future outlook on the orders, there is always capital work-in-progress movement, which keeps on happening. So if we really look at it from that perspective, the total summation of that is what you are able to see in the total capex rollout of Rs.500 Crores what you are talking about. So if you just try and equate it more from a tower tenancy, yes, you are right, you will be not be able to see, because there is a lot more replacement, capex happening on energy initiatives. Within the line items, there is a bit of a change, which happens, depending on quarter-to-quarter. The better way on capex, as we have said, is to look at it more on a yearly basis, because in one quarter there can be replacement capex that can be lower which gets picked in subsequent quarters. If you are looking at the trending, may not be the right way. But yes, there are other line items and there is a capex, which is getting invested on that.

Sanjay Chawla - JM Financial Institutional Securities Limited - Mumbai

So would do you attribute it to mostly pickup in energy-related capex and maybe some capital work-in-progress, which is obviously not visible in this immediately?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

Because we report the maintenance one, predominantly this is the revenue growth capex and not anything else, because as you know, we report the maintenance in general corporate. So it is on energy initiatives, advanced buying, as well as the 3G/4G rollout.

Sanjay Chawla - JM Financial Institutional Securities Limited - Mumbai

You mean the loading part also which is not transparent here?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

I think revenue what you get, there is a bit of an incremental capex, which goes on for each of the loadings. This particular growth, increase in capex includes that too.

Sanjay Chawla - JM Financial Institutional Securities Limited - Mumbai

Sure. Are we seeing an uptick in loading and have you seen that, which is keeping the capex rather kind of fixed around Rs.500 Crores number? Have you seen any pickup in loading volumes in the last couple of quarters?

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

Yes. I did mention. I think particularly the shift towards -- earlier we used to have 2G and 3G loadings coming in. Now large part of our loadings are 4Gs, operators are trying to put in 4G on the existing equipment.

Sanjay Chawla - JM Financial Institutional Securities Limited - Mumbai

Okay. My second question is, you mentioned with regard to the long-term opportunity on 5G, you mentioned micro cells. Can you just share more details about this particular aspect, in the sense in terms of what kind of type and configuration of towers are we

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talking about with regard to micro cells and in terms of the sharing potential and how scalable is this whole micro cell sharing model?

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

So these are not that there are very many sharing models available in the world on small cells and micro cells. For the first time India is probably at far when it comes to 5G and 4G with rest of the world. So we are trying to co-create these models. The clear benefits are whatever rentals that are being paid, instead of one person paying the rental, if it is shared between two, there are economic benefits that are there to be passed on to the operator and also some money to be made. As I said earlier, we are looking at models where on two-tenant basis our return ratios are comparable to what we do on a macro site. The two limiting factors as we see in India are fiber and actually power availability in some of these areas. And that is what is also improving over time and we think that is why the environment is conducive towards small cell growth too. Lastly, coming to 5G, which you are talking of, the talk on 5G is on much higher frequency bands, much beyond the 2.5-gigahertz that we use in this country. It will be probably 3.5-gigahertz and beyond in terms of the spectrum band that will be available for 5G, where the intra-cell site distances would narrow down to less than 200 meters and the target is somewhere between 100 and 150 meters. You would need far more amount of small cell sites to cover a given geography or a given building to be illuminated from the outside. Once there is fiber wherever, we think there will be a large uptick on these numbers to come in.

Sanjay Chawla - JM Financial Institutional Securities Limited - Mumbai

So you mentioned fiber and power availability as a constraint. So does this model not go well with kind of a combined asset sharing, where you also deploy fiber, dig up lot of the cities and deploy fiber and then work out this model? Is that something under consideration?

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

Yes, Sanjay, you absolutely got it right. We did mention when we talked about Smart City earlier that these are the models that we are trying to co-create with the operators, so that we can have them scale this up.

Sanjay Chawla - JM Financial Institutional Securities Limited - Mumbai

All the best. Thank you very much.

Kamaldeep - Moderator

Thank you very much Mr. Chawla. The next question comes from Mr. Akshen Thakkar from Fidelity, Mumbai. Mr. Thakkar you may ask your question now

Akshen Thakkar - Fidelity - Mumbai

I just had a basic question. A couple of times on this call and earlier as well, we have said that we could use small sites for capacity addition from a telco point of view. So two questions there. One, how far are you in terms of offering these services to the telcos? And two, maybe if you could just give us some flavour on how the economics on a per unit basis, on a small site really works out to be, because you know how our large towers are, but we really don't know if your IRRs or ROCE incrementally on these sites similar to the large tower. Thank you.

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

So, first in terms of our product offering, our product offering is already there with operators. We said we have done trial deployments, they are running into few hundreds. These are not very large deployments yet. They are very area-specific too, that's the second thing. As we said, in Bhopal Smart City we are putting a specific type of tower, which is different than what we have built in Bihar, for instance, in some of the locations. So these are a little area-specific. And we have also mentioned that once we start to go around reasonable numbers, into a thousand, we will start to look at having separate disclosures for them too. On the economics, as we said, again because this is varying as per the location and as per the camouflage requirements of those particular areas, we have said that on a one tenant basis it will be similar on the return ratios that we have for a one tenant macro tower, which is in a low single-digit, and on two tenants we are more close to 15% to 16% return on capital. So we hope to replicate that exactly also on the small cell model.

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Akshen Thakkar - Fidelity - Mumbai

Thanks.

Kamaldeep - Moderator

Thank you, Mr. Thakkar. At this moment, I would like to hand over the call proceedings to Mr. DS Rawat for the final remarks.

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

Thank you. As Akhil cited, the telecom industry has seen an unprecedented consolidation. Combining this with few operators shutting down, we saw net decline in co-locations last quarter. We have also taken a conservative approach in recognizing the exit at the time of exit notice itself, leading to reporting of slightly higher average revenue per tenant. Nonetheless, remaining operators are capitalizing on the ever-growing data opportunities and have picked up on the data rollout. As we have said earlier, consolidation in the sector is good for us and as it will lead to stronger and stable players doing larger and faster rollouts. We have closed the quarter with consolidated revenue of Rs.3655 Crores, up 7% year-on-year and EBITDA growing at 8% year-on-year to Rs.1613 Crores.

Going ahead, we believe operators would want to monetize the increasing data consumption, while improving the quality of service. We are best placed to capitalize on this by building and sharing vital telecom infrastructure with all operators on a non-discriminatory basis. On behalf of the entire Bharti Infratel team, I thank all of you for your continued support. We are fully committed to make most of the opportunities before us. I will also like to take this opportunity to wish all of you a very Happy New Year. Thank you.

Kamaldeep - Moderator

Thank you 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.