

Bharti Infratel Limited Third Quarter Ended December 31, 2018 Earnings Conference Call

Conference Call Transcript

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Earnings Conference Call

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Bharti Infratel Limited Third Quarter Ended December 31, 2018 Earnings Conference Call

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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, 2018, 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 call to our first speaker of the day, Mr. Akhil Gupta. Thank you, and over to you Mr. Gupta!

Akhil Gupta - Chairman - Bharti Infratel Limited

Thank you. Thank you all for joining us today. The Indian telecom industry, as you know, has undergone unprecedented consolidation in the last year driven by a heightened competitive intensity following the entry of the new operator.

With the completion of Vodafone-Idea merger, we believe that the consolidation phase is now largely behind us and so are the co-location exits that we have been witnessing. Between Indus and Infratel, there were exits of over 57000 on a consolidated basis till December 31, 2018 spread over six quarters on account of various mergers and acquisitions. We believe that the industry will now

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move forward with higher network rollouts to cater to a better 4G user experience and we are already witnessing early signs of this with an increased demand of both, new towers and co-locations from all operators.

On a consolidated basis, gross tower and co-location additions in this quarter, I am pleased to report, were the highest in the last five quarters.

Following our announcement and disclosures last quarter regarding the exit charges, I am also pleased to report that all these exit charges with Airtel, Tatas, Telenor and Voda-Idea have been settled for all the major exits that were received up to November 30, 2018. As a snapshot, on a consolidated basis, of the total exit charges of approximately Rs.20 billion, which related to about Rs.37 billion on a 100% basis, we have had a cash settlement against Rs.20 billion of Rs.11 billion, that is more than 50%, and extension of 2x in rental revenues for the balance amounting to approximately Rs.18 billion. For the cash settlement, we have received Rs.550 million in cash and for the balance Rs.10.7 billion, we have agreed to equated monthly installments over 36-month period with interest. In line with our accounting policy, the amount of Rs.550 million has been accounted for as revenue for this quarter. The EMIs amounting to approximately Rs.900 million per quarter shall be accounted for from next quarter as the revenues for the next 12 quarters.

This is important to highlight that despite such major exits the company's financial performance has been quite stable with revenues flat on a year-to-year basis, EBITDA, of course, declined by 6%, but PAT and operating free cash flow are both up 11% and 13%, respectively, on year-to-year basis.

I would also like to point out that the return on equity pretax improved from 24.7% to 27.4% year-on-year and on a post tax basis improved from 14.6% to 16.4% on year-on-year basis. An interesting development, which we have been witnessing, is on 5G, which by all accounts seems to be evolving faster than was anticipated earlier. I am sure that the Mobile World Congress in Barcelona next month will give an in-depth view of the progress being made globally. Needless to say that beyond 4G, which, of course, itself requires very significant rollouts, 5G that will follow will not only ensure continued growth but would also open up many more opportunities like fiber, Wi-Fi, etc., for infrastructure companies like ours.

Let me give you a quick update on the merger process of Indus Towers. Currently, we are in the process of getting approvals from shareholders of Indus for which the court-convened meetings are scheduled on February 2. Subject to approval by majority or minority shareholders, we expect the closure in April to June quarter, barring, of course, any unusual delays at NCLT or DoT.

To conclude, we see a sizable opportunity for infrastructure providers like us to create robust and scalable networks of tomorrow that go beyond the traditional macro towers. We believe that we are best positioned given our large nationwide footprint, very strong balance sheet and proven and reliable high quality of service on complete non-discriminatory basis to our customers.

We would be pleased to take your questions now. Thank you.

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. Thank you. The first 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 question. Two questions. First, just on the pick-up in gross tenancy, which you saw this quarter and has been an accelerating trend, is that a broad-based trend in terms of almost all operators rolling out? Or is that led by just one operator in particular? And what is your outlook for that over the next couple of quarters? Second, just a few clarifications on the exit penalties that you talked about. If you can just clarify on the non-cash settlement part and how exactly that is going to work. And this quarter also you saw a few exits, so are these just residual exits from Vodafone and Idea? And are more of those likely to come in the next few quarters?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

So Manish, Rawat this side. Firstly, on the pick-up of gross numbers, they are across the board. Of course, I cannot give specific numbers yet, but we do see 4G focus from all the leading players. And they continue to do rollouts and that is where some of that translates into new builds and some of that coming in as additional co-locations in our case. There has been a steady increase from Q1 to Q2 and then from there on to Q3 on the gross adds that we looked at. The second question about the non-cash component, as Akhil mentioned in the call in the beginning, the understanding is to see that 2x of the residual revenue comes in as extension of the contracts by a period of 5 years, corresponding to that value. So whatever sites that come up for renewal under those buckets will be extended for a period of 5 years, translating into a revenue of 2x of the delta amount that is in reference. About your questions

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on exit, yes, there were exits. I, again, cannot give specific numbers and operator-specific details there, but there was exits that have been reported even during the quarter. Do I expect them going forward? We have seen them already taper down in terms of number. The bulk is pretty much played out. Small amount of business-related exits that come up, that will continue in business as usual, where operators are trying to optimize their network and expand and re-grow. That is part of standard growth. We see that continuing to happen across the board too. And it, we believe, will continue, but the numbers will be significantly smaller than what we have seen in the past.

Manish Adukia - Goldman Sachs - Mumbai

Right. And just a quick clarification there, I mean, you mentioned that this exit amount, this accounts for all of the exits that have happened till November 30, this is gross amount and beyond 30th November what will happen will come in the future or you could talk about that in the future, right?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Yes please.

Manish Adukia - Goldman Sachs - Mumbai

Thank you very much and all the best.

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. First one, can you explain the difference between Rs.37 billion, which you mentioned, and Rs.20 billion, why was the amount settled at a lower level? And on the same lines, the Rs.18 billion, which the exiting operators are committing to, is it new business or is it extension of just the existing contracts? That is question one. If you can answer that, I will go to the next one.

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

The Rs.37 billion is the number at 100% level.

Kunal Vora - BNP Paribas - Mumbai

Okay. So why was it settled at a lower level?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Rs.20 billion was the number at 42% level.

Kunal Vora - BNP Paribas - Mumbai

Okay. Rs.20 billion is the 42% level. Okay, understood. The second question, sir, is it new business?

Akhil Gupta - Chairman - Bharti Infratel Limited

It is the extension of the current existing tenancies.

Kunal Vora - BNP Paribas - Mumbai

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Extension of the current existing tenancies. Okay. No, like, new business commitment from the exiting contracts?

Akhil Gupta - Chairman - Bharti Infratel Limited

That is already there. We do have those commitments already from them.

Kunal Vora - BNP Paribas - Mumbai

Sure, okay. Second question, maintenance Capex has come up a lot. Can you explain that, like what is driving this decline? And how should we see it going forward? Because earlier, we used to look at, like, a number of Rs.60000, Rs.70000 per month, etc. Or those metrics seem to have changed a lot. So if you can explain how we should be looking at maintenance Capex?

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

This is Bala here. Generally, the maintenance Capex during this Q3 is usually a little seasonal in nature. And you should see this in the light of the past guidance, it is in trend and maybe you should keep it at the same level. I don't think you need to see any increase in anything or new fresh guidance.

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

So just to add, Rawat this side. Maintenance Capex has to be seen on a full-year basis. There are seasonalities. We run projects before summer starts in or before rainy season starts in, because there are specific circles, where there are specific Capex needs, which have to be done before the season kicks in. Snow is probably a case in point now for areas where there is snowfall going on currently. So there are preparatory works and you do see this trending to be a little cyclical in that sense going into areas, but you have to still see it on a full-year basis. Also, there has been certain optimization on account of exits too that has been happening on sites. So we have kind of redeployed some of the assets in the locations, which have come out on account of exits of the co-locations that have happened. Sorry, just to add, with increasing improvement on electricity, we hope that this Capex will trend downwards in the long run.

Kunal Vora - BNP Paribas - Mumbai

Sure. So we should be looking at like a declining trend in maintenance Capex or at best flattish and no further increase from the levels, which we are at right now? Is that understanding right?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Yes.

Kunal Vora - BNP Paribas - Mumbai

Okay. And final question, is there any revenue contribution from Smart Cities and how shall we look at any revenue or operating cost for Smart Cities in fiscal 2020?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

In the current revenue, nothing. We will have, but it is a very small number in the larger numbers that we are trying to look across here. The Smart Cities are just getting into a launch mode right now. So the revenues for the current year could barely be anything that would be visible in this kind of a P&L.

Kunal Vora - BNP Paribas - Mumbai

That is it from my side. Thank you sir.

Kamaldeep - Moderator

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Thank you Mr. Vora. The next question comes from Mr. Sunil Tirumalai from Credit Suisse, Mumbai. Mr. Tirumalai you may ask your question now.

Sunil Tirumalai - Credit Suisse - Mumbai

Good afternoon. Thanks for the opportunity. Just going back to the extensions, which are part of the exit package. Just to understand correctly if there are two operators on a tower who merged, collapsed into one tenancy, that particular tower they have committed that, if the MSA was to expire, let us say, 6 years from now, it will get extended automatically by another 5 years with all escalations and base rate everything intact. Is that correct?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Sunil, firstly, the settlement is not tower-specific about future business. So the first part of the settlement of exit amount computation is on the current rates on the sites that have been exited. So it is not about either consolidation or anything because different operators have had different situation on exits. So it is an exit computation as per the master service agreement that was computed and the numbers that we referred earlier are the numbers that had come out as per that. The settlement, however, on extension is again not tower-specific. Whichever tenancies are coming up in the next couple of years for renewal, operators have assured saying that those many x number of tenancies that will translate into a value over 5 years of 2x of the delta revenues what has been agreed. Now, specifics of that are still being worked out on site-specific basis on sites which would be extended by the operator as part of this understanding.

Sunil Tirumalai - Credit Suisse - Mumbai

Is this different from the disclosure in the presentation end of December that these extensions would happen? Or is this is different from that?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

So at a broad level, yes, it was the same. I think what we've said in the last call was that we will look at opportunities of either new business or extension of existing business. I think it falls in that category itself.

Sunil Tirumalai - Credit Suisse - Mumbai

Okay, got it. Second question is on the rental sharing revenue per tenant per operator. The way you reported now, would that include the exit charges or not?

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

Bala here. It will include the exit charges.

Akhil Gupta - Chairman - Bharti Infratel Limited

So that is a mathematical calculation.

Sunil Tirumalai - Credit Suisse - Mumbai

Right. So if we remove the Rs.550 million for the quarter?

Akhil Gupta - Chairman - Bharti Infratel Limited

That would be the ongoing figure. But then as I mentioned, Rs.900 million every quarter will be coming on account of EMIs.

Sunil Tirumalai - Credit Suisse - Mumbai

Yes, I understood. So if I knock off Rs.550 million, it still shows a sharp 5%, 5.5% quarter-on-quarter jump on the consolidated numbers. It is surprisingly a large number even if you account for loading increases or increase in the rentals for remaining tenants,

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etc. I just wanted to understand is there any one-off or timing issues of exits and coming in of new tenancies or is that the sustainable number for the base?

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

I think other than the one-off, which we already removed, I think you should see it as a sustainable number coming out of new businesses and new tenancies, which are coming through.

Sunil Tirumalai - Credit Suisse - Mumbai

Okay, got it. And sorry, one last question. The energy margin seemed to be in a quite strong at least on our calculation and I think in Infratel, it came to 15% plus for the quarter and 9%, 10% in Indus, unusually high. I mean it is way out of your guided range. What do we make of it? I mean, is it a one-off again? Or what drove this kind of high margin? Thank you.

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

I think in the past, we have repeatedly said that you should see the energy margin on an annualized basis, because there are seasonal impacts, which is coming here, and Q3 is generally a season where there is a lower consumption of diesel and higher energy availability. So you should stay with the guidance, which was earlier given, which is in the range of 5% to 8% on the margin side, full-year on gross basis.

Sunil Tirumalai - Credit Suisse - Mumbai

Thank you.

Kamaldeep - Moderator

Thank you. Mr. Tirumalai. The next question comes from Mr. Pranav Kshatriya from Edelweiss, Mumbai. Mr. Kshatriya, you may ask your question now.

Pranav Kshatriya - Edelweiss Securities - Mumbai

Thanks for the opportunity. Can you please help us understand, so Rs.900 million will be the revenue, which will be booked in every quarter and for next 36 months? Is that how we should pick it? That is my first question. And secondly, how do you see entry of Reliance Jio? They are also talking about sharing their towers and their fiber. So what is your take on that? And do you think that it has a potential to impact the growth in the tenancies given one more strong tower operator could be there with possibly fiber backhaul etc.?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

So the first question, the answer is, yes. Rs.900 million is the kind of revenue for the next 12 quarters that is going to come in. Your second question on Jio, a little premature to right now comment on Jio, which is also our large customer today. They are already hiving off, and the commentary that is available in the public domain is available with you. So we'll have to wait and watch as to how this plays out. As on date, I am not aware of any master service agreements that they have or sharing arrangements that they have with various operators today. Can they do it going forward? They could look at certain opportunities depending on what percentage of their towers are shareable and where they would be keen to share this with now three strong competing operators only being available in the market. So we will have to wait and watch how this plays out. Early for us to make comments on that.

Pranav Kshatriya - Edelweiss Securities - Mumbai

Thank you. That is it from my side.

Kamaldeep - Moderator

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

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Vivekanand Subbaraman - Ambit Capital - Mumbai

Just one question. Why are you calling out contract renewals as a settlement in lieu of site exits? Weren't we expecting these customers to renew their tenancies anyway? Please help me understand how should one look at the contract renewals on those towers as a settlement per se.

Akhil Gupta - Chairman - Bharti Infratel Limited

Well, expectation and certainty are obviously two different things. I would much rather have that certainty that on for Rs.1800 crores of revenue, there is an absolute certainty now.

Vivekanand Subbaraman - Ambit Capital - Mumbai

Okay, but then in any case, you outlined in the analyst meet also that you expected, I mean as a part of the new contract, 1/3 of your revenue, or 1/3 of the sites needed to be rolled over by the customers, Vodafone-Idea and Airtel. And that was anyway on the cards. So why are you positioning this as a settlement? I'm still not clear on that.

Akhil Gupta - Chairman - Bharti Infratel Limited

Because I am saying, if anybody has a choice of renewing or not renewing and you can secure that renewal from a tower company point of view, it is obviously certainly a positive outcome on the settlement.

Vivekanand Subbaraman - Ambit Capital - Mumbai

Okay, thanks and all the best.

Kamaldeep - Moderator

Thank you, Mr. Subbaraman. The next question comes from Mr. Himanshu Shah from HDFC Securities, Mumbai. Mr. Shah, you may ask your question now.

Himanshu Shah - HDFC Securities Limited - Mumbai

Thanks for the opportunity and congratulations on a great set of numbers. Sir, just wanted to check Voda-Idea had alluded in their presentation and analyst meet, they may look for additional tenancy exits. So the settlement that we have done, first of all, is there any potential exit or additional exit that has taken place that alluded a number of 22,000 to 27,000?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

So to your first question, again, we don't want to give operator-specific numbers but there were exits in the current quarter that we have stated there in our numbers that we have declared on a consolidated basis. But on your next question of whether there is -- second question was on?...So balance 22,000, I think that's for the operator. The way they are going here and planning, the first part of what we've declared right now is for all the exits that were given up to the end of August. So that is the settlement that we have referred till up to November, sorry. I stand corrected. So till November, all the exits that have come in have been settled as part of this settlement. Anything beyond November will again carry up on a fresh round of discussion.

Himanshu Shah - HDFC Securities Limited - Mumbai

Okay. Okay. And sir, secondly, in our presentation, we had highlighted that post merger there will be an improvement in EPS depending upon the structure that may take place. Just want to understand -- because earlier, we were understanding it would be more of a cash flow item, savings on dividend distribution tax. So how will it lead to an EPS improvement from P&L perspective?

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

So today the dividend distribution charge is charged into the P&L, right, and tomorrow on the merged basis, this charge is essentially going away and it goes into an appropriation when we pay out to shareholders. So, it will be accretive in terms of the EPS.

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Himanshu Shah - HDFC Securities Limited - Mumbai

Okay. So it will be a reduction in tax outgo?

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

Yes, that is right.

Kamaldeep - Moderator

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

Srinivas Rao - Deutsche Bank - Singapore

First question I had, Indus profitability has kind of trended down a bit more over the last couple of quarters compared to Infratel at least from the way the numbers are reported. Could you help, is there any particular reason for that? Is that the impact of the operator exits has been more on them compared to standalone, what you call, Infratel? Secondly, again, I mean maybe I am asking it again, but if you can help us understand how the rental revenues per tenant has gone up quite materially this quarter than adjusting for the penalty. Is that loading is what has helped? That would be helpful. Finally, just want to understand, in your merger presentation also indicated that net debt-to-EBITDA targets are obviously much larger than what would it will be at inception. Would it be fair to say you will actively look at buying fiber assets from that operator?

Akhil Gupta - Chairman - Bharti Infratel Limited

So let me take up the last one first. I think on fiber, it's a little premature because the operators, that are Airtel, Vodafone-Idea, they are still in the process of demerging that asset and we haven't heard finally what their combined plan would be. We would be open as a Tower Co., but whether there will be a transaction on that, obviously, cannot be said at this stage.

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

Bala here. On the Indus profitability is definitely I think the volume of churn which they have lost tenancies definitely and that is clearly the main reason for the decline, you see the difference on their EBITDA performance. On the ARPT other than exit charges, rest is all from ongoing business.

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

So Srinivas, we have said that in the past that as tenancy ratio kind of goes down, this number also tends to go up besides, of course, the operational performance that is there, most of it is actually coming out of the fact that the number of co-locations have also come down and there were exits and that's also amounting to an increase on average revenue per tenant. Visibly you can see that average revenue per tower had also come down on those areas. And that's why you see that shift. As mentioned by Bala, I think other than the Rs.55 crores, there's nothing more that is exception or one-time.

Srinivas Rao - Deutsche Bank - Singapore

Understood. Just if I can clarify or maybe I am repeating it, 2 questions. There is an absolute rent, which you pay, has come off this quarter. It has been trending down even though your number of towers has generally been stable. So is it you are able to negotiate better rental agreements? Or what is happening there? Secondly is on the comment which is there in your quarterly report that x number of exit notices have been received, I think 2,540. But there are the other 2,744 where you have received notices, but exits have not happened. What is the significance of that? What should we make out of this particular statement?

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

Bala here. On your first question on the rent reduction, definitely post the tenancy exits, we have gone back to the landlords to renegotiate rents and that's why you're seeing the rental reduction. Our escalations are not really large. So you have to see it as a tenancy reductions consequently, there is a renegotiation of landlord rental.

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Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

On the numbers that you said 2,540, these are the same set of numbers. There are on a consolidated basis exits, which are around 2,500 of which revenue continues to be there. These have come to us more at the end of the quarter. So while they are still continuing as tenancies, these numbers have been taken into the number reporting that we do basis the notices from operators.

Srinivas Rao - Deutsche Bank - Singapore

So just to clarify, sir, your reported tenancies include the exits, but the revenue is still accruing from those tenancies. Is that correct what I'm saying?

Akhil Gupta - Chairman - Bharti Infratel Limited

For this quarter, yes.

Srinivas Rao - Deutsche Bank - Singapore

For this quarter, that's the case, right?

Akhil Gupta - Chairman - Bharti Infratel Limited

That is correct. That could also contribute a bit to the revenue per tower, yes.

Srinivas Rao - Deutsche Bank - Singapore

Okay, understood. Thank you.

Kamaldeep - Moderator

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

Sanjesh Jain - ICICI Securities Limited - Mumbai

Good afternoon and thank you for the opportunity. I probably have missed on this INR 18 billion of incremental revenue we are seeking. Have we mentioned the time frame in which we are looking at the revenue coming in as 2x of the revenue because INR 36 billion will come in what time frame of period?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

On a 100% basis, Rs.18 billion will be the cash component, which will be paid over 36 months on a 100% basis.

Sanjesh Jain - ICICI Securities Limited - Mumbai

No, that was Rs.11 billion, cash component is Rs.11 billion, for Rs.9 billion we are getting Rs.18 billion of revenue. Now this Rs.18 billion will come...

Akhil Gupta - Chairman - Bharti Infratel Limited

This is over, an extension over 5 years.

Sanjesh Jain - ICICI Securities Limited - Mumbai

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This is expected to come over the next 5 years. Is that the right understanding?

Akhil Gupta - Chairman - Bharti Infratel Limited

Yes. Beyond the date when they were expiring.

Sanjesh Jain - ICICI Securities Limited - Mumbai

Now this is cumulative of the 5 years or this is per annum Rs.18 billion of revenue are we seeking?

Akhil Gupta - Chairman - Bharti Infratel Limited

Cumulative.

Sanjesh Jain - ICICI Securities Limited - Mumbai

That is it from my side. Thank you.

Kamaldeep - Moderator

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

Sanjay Chawla - JM Financial Institutional Securities Limited - Mumbai

Good afternoon, thank you for the opportunity. I missed on the earlier portion of the call. I just wanted clarity on this Rs.553 million amount. You said Rs.900 million is what is expected in a quarter as an installment for the next 12 quarters. On what basis has Rs.553 million been worked out for the last quarter?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

So Rs.550 million was the exit amount for the exit settlements that we've done until a certain date, which we have received as cash money and has been accounted for in this quarter as per our accounting policy to recognize based on payments. So that is the number that Rs.550 million on a consolidated level that's been mentioned in the current quarter. Going forward in terms of run rate, the expectation is of Rs.900 million, which is Rs.90 crores every quarter, which is the EMI portion or equated installment over the next 3 years that we're going to continue on that. And then there is a third component, which is coming on account of extension of the contracts, which will be for a period of 5 years compensating for 2x the revenue that's left off of the exit amount.

Sanjay Chawla - JM Financial Institutional Securities Limited - Mumbai

So Rs.553 million pertains to the 30th November cut-off date prior to that?

Akhil Gupta - Chairman - Bharti Infratel Limited

Before that.

Sanjay Chawla - JM Financial Institutional Securities Limited - Mumbai

Okay. And this Rs.900 million, you said this is in the nature of an installment that includes interest as well. So what is the rate at which the interest is embedded in this?

Akhil Gupta - Chairman - Bharti Infratel Limited

Interest is at the rate of 7%.

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Sanjay Chawla - JM Financial Institutional Securities Limited - Mumbai

Okay. And lastly, just a question on the balance sheet. Your receivables have gone up quite sharply in this quarter. So is it one-off or structural? And how soon could it normalize?

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

This is Bala here. This is more of a timing issue. This money has been subsequently collected in the month of January.

Sanjay Chawla - JM Financial Institutional Securities Limited - Mumbai

So this has already come back, come down?

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

Yes.

Sanjay Chawla - JM Financial Institutional Securities Limited - Mumbai

Okay. Okay. And there is an item called other financial assets also, this has also gone up by Rs.400 crores. What is the nature of this item? And why this has gone up by Rs.400 crores in this quarter?

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

So there are 2 parts to the receivables. One is the billed receivable, the trade receivable which you see in the balance sheet is essentially the billed receivable. The other non-financial assets as per the accounting, unbilled portion would be classified as per other financial. So there were certain pending unbilled, which has not been converted into commercial billing that has gone up. And those are also being since collected.

Sanjay Chawla - JM Financial Institutional Securities Limited - Mumbai

So we need to add these two to look at the overall receivable level?

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

Absolutely, yes.

Sanjay Chawla - JM Financial Institutional Securities Limited - Mumbai

Thank you and all the best.

Kamaldeep - Moderator

Thank you very much, Mr. Chawla. We have a follow-up question from Mr. Srinivas Rao from Deutsche Bank, Singapore. Mr. Rao, you may ask your question now.

Srinivas Rao - Deutsche Bank - Singapore

Thank you very much. This one question I had. Are now all the towers or is it fair to say the majority of towers are now on the rate card model, which means all the operators would be at a similar level of cost per tenancy?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

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Yes, Srinivas.

Akhil Gupta - Chairman - Bharti Infratel Limited

We have this master service agreement, which applies to everybody on a completely non-discriminatory basis. The only difference between operators is based on their volumes for which they get volume discount, which is also non-discriminatory.

Srinivas Rao - Deutsche Bank - Singapore

Yes, understood. No, the reason I am asking about where we were transitioning from the earlier one where because of the different timings at which someone would have come on a tower were lead to different prices on the same tower, and the company was transitioning into what you have always called a rate card model, which is irrespective of the time that you come that will be a rate for that year or at that time and that's what you were transitioning everyone. So just wanted to check if that's now the case?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Srinivas, as mentioned, all new business we are doing on the new rate card basis only, if that answers your question. Historical things, they are gradually correcting themselves. There was, if you remember, I think a freeze that was applicable, which was meant to correct this over a period of time. That continues. I think the final normalization would reach somewhere around 2022 or something. By then, all would probably come to the point that you were referring earlier, will all be on the same rate card. Then the only difference would be depending on the tenancy ratio in which a particular operator is sitting on a particular site. They should all come down to the same levels then. But today all new business continues to be on the new rate card itself.

Srinivas Rao - Deutsche Bank - Singapore

Understood. Okay. This is helpful. Just one final question. There was news too around some favorable tax judgment, which came in your favor. Is there anything more we should need to know on that? Or does that change the merger time line at all?

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

Bala here. So that was never actually it was a favorable order because there was no actual demand on the company. It was just a notice and we filed a writ petition in the High Court and that got in our favor. Actually, there was no financial demand on us.

Akhil Gupta - Chairman - Bharti Infratel Limited

So the writ petition was relating to the notice for reopening of the assessments which were made earlier and what we had contended was that since all the points had been already taken into account and viewed by the department, the High Court ruled in our favor that anything which has already been considered cannot be a part of reopening of assessment.

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

So there is one more point, which I want to clarify. This is Bala here. We also got a favorable order from again Delhi High Court on the CENVAT, which relates to the treatment of towers as an immovable property. So this was a matter which was pending in the high court, and we got a favorable order and so that something that we won in this quarter.

Srinivas Rao - Deutsche Bank - Singapore

Okay. This is helpful. So just to double-check that the merger timeline broadly which has been indicated still is valid, right?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Yes. Q1 is what we've said most likely depending on how government approvals go from here on.

Kamaldeep - Moderator

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Thank you. Mr. Rao. The next question comes from Mr. Aliasgar Shakir from Motilal Oswal, Mumbai. Mr. Shakir, you may ask your question now.

Aliasgar Shakir - Motilal Oswal Securities Limited -Mumbai

Just a very quick clarification on this Rs.900 million. This is consolidated number, correct, with 42% consolidation of Indus? And if that's the case, can you give me a separate number for how much of this portion, if at all we take 100% Indus and Infratel separately would be?

Akhil Gupta - Chairman - Bharti Infratel Limited

100% would be approximately Rs.150 crores (Rs.1,500 million) a quarter.

Aliasgar Shakir - Motilal Oswal Securities Limited -Mumbai

Okay. This includes also Infratel?

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

Yes.

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

We are losing your voice, Aliasgar, maybe you'll have to repeat what you said because we lost you in between.

Aliasgar Shakir - Motilal Oswal Securities Limited -Mumbai

Okay. I am just checking, out of Rs.150 crores, how much will be Bharti Infratel's standalone number?

Akhil Gupta - Chairman - Bharti Infratel Limited

We don't give a standalone. The consolidated out of this will be Rs.90 crores.

Aliasgar Shakir - Motilal Oswal Securities Limited -Mumbai

Okay. So Indus is Rs.90 crores?

Akhil Gupta - Chairman - Bharti Infratel Limited

No. Consolidated Infratel standalone plus 42% amounts to Rs.90 crores.

Aliasgar Shakir - Motilal Oswal Securities Limited -Mumbai

Rs.90 crores, got it. And if you take 100% as Indus then it is Rs.150 crores?

Akhil Gupta - Chairman - Bharti Infratel Limited

That's right.

Aliasgar Shakir - Motilal Oswal Securities Limited -Mumbai

Okay, perfect, That's it.

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Kamaldeep - Moderator

Thank you Mr. Shakir. We have a follow-up question from Mr. Vivekanand Subbaraman from Ambit Capital, Mumbai. Mr. Subbaraman, you may ask your question now.

Vivekanand Subbaraman - Ambit Capital - Mumbai

Thank you very much for the follow-up. So the operating expenses, excluding power and fuel, they are steadily declining, if I notice it, for the last 2-3 quarters. You explained about the rental cost declining and that being sustainable. What about other expenses? What are we doing there to ensure that this is recurring? Or is there any non-recurring one-off there?

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

So Bala here. So there is nothing, no one-off here. It is basically cost drive that we will be doing in terms of various cost initiatives, which as a program we run in the company.

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

But going forward, to your question, do we expect similar kind of reductions? I would probably be a little skeptical on that. We are reaching pretty much the bottom in terms of where we can drive operational excellence. IT is now the next tool that we are trying to leverage to see how we can get better synergies and better cost in terms of what we operate on. If you look at our manpower numbers and those costs that have been disclosed, pretty much all line items have remained a focus area too. Some of that was also aided by the rent reduction that Bala referred to and we answered to the earlier question. So whether it will be recurring in a similar manner, we expect to continue working on operational excellence but the results might not be as steep as you have seen in the current quarters.

Akhil Gupta - Chairman - Bharti Infratel Limited

In any case, I must point out, this business is not about some minor saving in cost. It is about revenues. And that we are pretty confident that from now onwards we should see a revival of that.

Vivekanand Subbaraman - Ambit Capital - Mumbai

Great. And Akhil, on revenue, you had mentioned about non-operator revenue, Smart Cities and small cells and other initiatives. Anything to report there? Any contribution, meaningful contribution of non-Telecom revenue in this current quarter? And how do you see things there?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Rawat this side. I have mentioned this to an earlier question where I had said, nothing in this quarter at all, but going forward there will be small but that is really small as compared to the P&L that we're trying to look at for the company, because some of the Smart Cities projects are getting into a launch phase now. We have started to get acceptances from the various authorities. And we think there will be small amount of revenue, but then there's a larger pie of revenue, not something which is noticeable too at this stage. As we start to grow this and expand from this point on or if we get into a big way in fiber, et cetera, maybe early next year is when you could start seeing some kind of revenues being reported against these. Till then, this is too small to be coming up on this reporting scale.

Vivekanand Subbaraman - Ambit Capital - Mumbai

Alright, thanks. Best wishes.

Kamaldeep - Moderator

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

Bharti Infratel Limited Third Quarter Ended December 31, 2018 Earnings Conference Call**Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited**

So thank you. As Akhil mentioned, the consolidation phase is majorly behind us and data will be the driving factor for future expansions. We continue to see an increase in 4G roll out. Furthermore, this quarter, we reached settlement on exit charges for the exited tenancies with our large customers. Despite the consolidation impact, we closed the quarter with robust operational performance with consolidated revenue of Rs.3640 crores, EBITDA of Rs.1513 crores and PAT of Rs.648 crores, up 11% year-on-year. We've already started to see an uptick in towers and tenancy rollouts. With the increasing data consumption and need for better quality of service, there would be a focus on both coverage and capacity rollouts. With our pan India coverage and strong operational performance, 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 entire Bharti Infratel team, I thank all of you for continued support, and we wish you all a very Happy New Year 2019. 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.