

Bharti Infratel Limited First Quarter Ended June 30, 2015 Earnings Conference Call

Earnings Conference Call Transcript

Event: Bharti Infratel Limited First Quarter Ended June 30, 2015
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Bharti Infratel Limited First Quarter Ended June 30, 2015 Earnings Conference Call**CORPORATE PARTICIPANTS****Akhil Gupta**

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PRESENTATION**Shareena - Moderator**

Good afternoon, ladies and gentlemen, I am Shareena, the moderator for this conference. Welcome to the Bharti Infratel Limited First Quarter ended June 30, 2015 earnings call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question-and-answer session will be conducted for all the participants on this call. In case of a natural disaster, the conference call will be culminated post an announcement. Present with us on the call today is the senior leadership team of Bharti Infratel Limited. Before I hand over the call, I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risk that we face. I now hand over the call to our first speaker of the day, Mr. Akhil Gupta. Thank you and over to you, Mr. Gupta!

Bharti Infratel Limited First Quarter Ended June 30, 2015 Earnings Conference Call**Akhil Gupta - Chairman – Bharti Infratel Limited**

Thank you and a very warm welcome to all of you and thanks for joining us on this earning call for the first quarter results of Bharti Infratel. Well it is by now crystal clear that the telecom industry's next wave of growth is clearly coming from data and this is the case globally too or let me put it very simply by access to and usage from Internet and Internet related services.

Internet clearly has both positive social as well as economic impact. And for India to have digital India, it is imperative that there is round the clock connectivity and access to reasonably high-speed quality Internet to everybody in India in future. It is also ironical that while India has one of the lowest penetrations in terms of Internet users - by all estimates somewhere between 20% and 22% of the total population would be the Internet users at this time. Of these less than 40% or 45% would be on 3G today maybe even lower.

As per a recent Deloitte report, the Smartphone penetration in the country is just 13.4% and it is expected to grow to 58% by 2020, so naturally the opportunity is huge. However despite all this, India is already the second largest market for social networking giants like Facebook and LinkedIn. It is also the fastest growing in terms of new Internet users, which is no surprise. The drivers of this exponential growth in future will be, A) the expansion of the quality data networks to small towns and rural India, B) increased affordability due to lower-cost Smartphones; and C) availability of content and finally D) ever increasing awareness of the need for Internet.

It is very clear that the data uptake in India is growing exponentially. We are already seeing that all the operators who have declared their results, the data traffic is nearly doubling every year. As per the latest Ericsson Mobility Report, the monthly mobile traffic is expected to grow from 200 petabytes per month to 2800 petabytes per month by 2020, an incredible 14-fold increase and of course looking at the past trends these are likely to be exceeded. This obviously means that telecom operators would need to continuously and rigorously upgrade and expand their telecom network infrastructure and introduce new technologies to leverage on data opportunities.

Now this expansion is particularly needed on account of the fact that bulk of the spectrum for 3G and 4G is on higher bands that is on 1800, 2100, 2300, 2500 or 2600 megahertz. The spectrum investment is leading to acceleration in pace of rollouts. I think one of the big reasons is that the latest round of spectrum auction has given more confidence to the operators. The spectrum is now available for 20 years, which enables them to put a brave foot forward and put in investments. Also the fact that \$50 billion have already been invested in spectrum by the operators in the auctions from 2010 to 2015 and therefore making incremental investments in additional sites to leverage this huge investment already made, is just a very tiny little part of the overall investment. Therefore the return reward ratio by making more investments on the networks is clearly very favorable.

As a result of this the tower and tenancy demand is increasing and would be increasing. The growth in data uptake and the need to monetize the spectrum has already in fact led to a step up in the rollout of data networks by operators. The fact that the number of 3G and 4G deployments on the TowerCo networks by various operators collectively this quarter have nearly doubled on a year-to-year basis and there is every reason to believe looking at the plans that this would be accelerating further during the year. While the first phase of this expansion is obviously by way of loading on the existing towers, which is cost effective for the operators, it is our belief that these will translate to full-blown additional data tenancies in future. This is particularly on account of the technical nature of WCDMA technology where it is well known that the radius of the propagation of the signal shrinks as the capacity utilization on a particular site increases.

Now this wasn't the case in GSM but this is a peculiar feature on data networks and what we have seen is that wherever 3G was deployed earlier, by the operators, whichever cities, we have started to see similar trends of new tenancies being taken up due to increased capacity utilization, which makes it necessary for them to redesign their networks and they need more sites. As per the report by Deloitte, they estimate that India would require about 72000 new sites over the next four or five years for these data network rollouts. Our belief is based on our past experience that this looks conservative and we would not be surprised at all if these get exceeded not just marginally, but significantly especially because of big requirements which we are already seeing of small sites and micro sites going forward.

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Bharti Infratel and Indus are fully geared to leverage this opportunity and we are actively helping the operators to rollout networks at an incredibly fast pace and we continue to maintain highest service quality. Due to these efforts, I am very pleased to announce that we have been continuously gaining market share and as per this report, Infratel and Indus combined have 41% of tower market share and nearly half of the tenancy market share in the country.

Let me briefly touch upon some of the future areas of growth for the infrastructure companies like ours as we see it. Firstly due to the paucity of the spectrum and the fact that bulk of the data consumption is indoors, the tower companies to my mind have a potential to rollout In-Building Solutions, distributed antenna systems and WiFi within buildings as well as outside for offloading of the data from mobile networks. This would enable the telecom operators to use their spectrum more efficiently.

The other big area where the tower industry and your company could be well placed for future is the huge potential for transmission that would arise due to deployment of data networks. As you are aware the microwaves, which are traditionally used for transmitting the signal from the towers, have limited capacity and once number of operators start generating data on a particular site the collective requirement could only be efficiently met by optic fiber. The potential for the tower companies to connect their towers on optical fiber to the nearest optic fiber transport network whoever it may belong to on one hand and to the nearest buildings having WiFi on the others presents a very big potential for the industry for years to come.

Rapid strides are being taken by the government towards implementation of the smart cities initiative, this could be a game changer and it is clear that a fundamental requirement of all the smart cities will be a very robust telecom infrastructure which is sharable amongst various service providers not just to have the lower cost but also to ensure that the cities are not dug up repeatedly for provision of that infrastructure as has been the case currently and as a result of that we see huge disruptions in the normal city today.

Our company, we believe would be in a very good position to take these contracts and build the infrastructure in the smart cities as we understand these will have to be by way of a bidding process. All of the above requirements in future would obviously require billions of dollars in capital investment. We believe that with our financial strength and availability of funds we would be in a coveted position to take maximum advantage and share all these and thereby further strengthen our market lead.

Before I speak of the results for the quarter, let me share some developments, I am pleased to inform that the company has decided to establish a sponsored Level One ADR program in the United States. The establishment and launch of program is of course subject to all regulatory approvals and clarifications that are required from SEBI and RBI for which various applicants have applied. The ADRs can be traded on the US over the counter. Citi Issuer Services Business, acting through Citibank, N.A., has been appointed as the depository bank for the sponsored Level One ADR program. The purpose of this program is clearly not for raising capital. There will be no new issuance of shares and there will be no dilution for the current shareholders on this account. The actual purpose is to develop new investor base that is expanding the overall investor base by enhancing investor services in the US and broadening the choices of available investment instruments in US capital market. The company expects that sponsored ADR program in US for a quality company like ours will lead to greater name recognition for us across all types of American and global investors.

Coming to the results for the quarter, let me just touch upon some key areas without going into any details as the results have been with you for some time. The total tower base at the end of the quarter stood at 86397 showing a year-on-year growth of 3.1% whereas the co-location or the tenancies' growth was 8.7% with a closing sharing factor of 2.14 per tower. The consolidated revenues were 3016 Crores and witnessed a YOY growth of 6% while the EBITDA for the quarter at 1302 Crores grew at 10% year-on-year. Against this the profit after tax for the quarter was 576 Crores witnessing a 24% year-on-year growth. I am also pleased to note that the return ratios continued to inch up and the return on capital employed for the quarter ended June 30, 2015 came to 20.5% versus 16.3% in quarter ending June 2014.

To conclude, I believe that we are entering an exciting phase and we are eagerly looking forward to guidelines on smart cities from the Government of India. Bharti Infratel aims to be an integrated telecom infrastructure provider. Sharing is as you know is the core of Infratel's business and future. Along with towers, we would be seriously exploring the possibility and feasibility of venturing into fiber backhaul as I mentioned, In-Building Solutions, distributed antenna systems, small cells and WiFi hotspots to cater to the changing network requirement of the operators.

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We continue to be the preferred partner of all the leading operators in India and by virtue of our proven superior performance and expertise as well as extremely strong balance sheet we are fully geared to benefit from this data boom and new emerging opportunities. We will for this purpose of course continue to also re-evaluate various inorganic opportunities as and when they surface, provided they are value accretive to the company. With that let me hand it back for the question and answer session. Thank you very much.

Shareena - Moderator

Thank you very much Sir. We will now begin the question and answer interactive session for all the participants who are connected to the audio conference service from Airtel. Due to time constraints we would request if you could limit the number of questions to two to enable more participation. Hence, management will take only two questions to ensure maximum participation. Participants who wish to ask questions may press “*1” on their touch-tone enabled telephone key pad. On pressing “*1” participants will get a chance to present their questions on a first in line basis. Participants who wish to ask questions may please press “*1” now. The first question comes from Mr. Sachin Salgaonkar – Bank of America – Mumbai. Mr. Salgaonkar you may ask your question now.

Sachin Salgaonkar – Bank of America – Mumbai

Hi, thanks for the opportunity. I have two questions. First question, wanted to understand a bit more about the rationale behind the sponsored ADR. How does it help the company and its stakeholders apart from a good name recognition, as Akhil rightly pointed; and how should we look at the size, pricing, timing, etc? Second question, if we look at the tenancy additions for this quarter, it was a bit soft when compared to last couple of quarters so any reason for that apart from seasonality? And a related question, of course, is with TelCos like Idea looking to raise CapEx, how should we look at the tenancy outlook? Thanks.

Harjeet Kohli – Group Treasurer – Bharti Group

Let me take the question on the ADR side. Frankly with the Sahoo committee report and the recommendations that came late 2014, you do not necessarily need to have a sponsored Level One. It could have been established even otherwise by any of the depository banks who have brokerages here in India, which is called an unsponsored Level One, which essentially means gradually it is taking some bit of local rupee shares liquidity and converting them into an ADR and selling that in the US market. Now unsponsored ADRs could mean, there could be multiple small \$50-\$100 million programs running and it ceases to provide any visibility to us. So from a logistics perspective, it is always good to have a sponsored Level one, which in that case means only one program can run. From our perspective, I think, while the equity outstanding remains the same, there is no funding need at our end but it does allow some of the investors who may have had genuine interest in the underlying equity, but may or may not have had the direct registrations for investing in equity directly in India. So this allows over time that a new set of investors could potentially look at this ADR, we'll just need to track the underlying equity. There are some other ADRs which are trading, they may have been of a different program, but that ADR will find its own price level overtime. On the size of that ADR program, we do not know as yet. I think couple of clarifications from the regulators are awaited by the depository banks and as soon as they are out they will need to then file with SEC on the size. It could be something, which has to be relevant, and at the same time, I do not think, it will lead to choke out any liquidity domestically speaking.

Akhil Gupta - Chairman – Bharti Infratel Limited

On the tenancy being slightly soft at least my personal impression is that because of all the spectrum auctions taking place, there was a bit of an uncertainty with the operators as to which circles they should pay attention to and that was the reason why I think in the first quarter it was a little slow, but I would not be alarmed at all because I think from the plans, which we are seeing, the tenancies we believe should be picking up. D.S. would you like to add?

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Just want to add, Akhil to the point that operators have now won spectrum for 3G and 4G in areas where they were relying on ICR. So the first big push that we have seen from operators in the current quarter, which Akhil mentioned earlier was an emphasis to make sure that they build their own 3G networks and 4G networks in the area where they were not having their own 3G network. So we have seen a significant ramp up happen in the first quarter towards building 3G, 4G cabinets on the existing sites, which is nearly the double of what we did last year around the same time. So we expect that momentum to continue till the time you hear of spectrum being allocated to all of them under this new bidding and also they will be ready for a quick launch the moment they get that spectrum and we already see some operators have already done launches on 3G, on 900 and so on and so forth. So we are expecting this to translate into tenancies in the latter half of the year.

Sachin Salgaonkar – Bank of America – Mumbai

Okay, thank you all for the detailed answers. One small follow-up for Harjeet: Harjeet, for all these regulatory approvals might take a month or two, what could be your guess for that?

Harjeet Kohli – Group Treasurer – Bharti Group

I cannot really competently comment on that but what I have been told by the depository banks, I think there are three or four suggestions they have on the taxation side and one or two suggestions on the foreign exchange management act which these are more suggestions. It is not that something cannot run but I think that clarity is important before we move ahead. I would tend to believe it could take one to two months and not more than that, but let us stay tuned to see how that develops overtime.

Sachin Salgaonkar – Bank of America – Mumbai

Okay, got it. Thank you all and best luck for future.

Shareena - Moderator

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

Pranav Kshatriya - Edelweiss Securities - Mumbai

Hi, thanks for the opportunity. My first question is regarding the new growth areas, what you talked about. You said the fiber backhaul could be one of the areas. Are you seeing any deployment, at least on a trial basis at this point of time? If there is any new data point which you can share around the potential areas, you talked about such as In-Building Solutions and WiFi Solutions? That is my first question.

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

Firstly on In-Building and WiFi, yes, there are trial deployments that have happened in quite a few places. Some of them were also in media, but these are purely trial deployments more in areas like airports, and common areas of where there has been bidding, where Infratel has been participating in some of them. On fiber we have not started trials yet, but you must have seen news report of various operators talking about increasing their fiber penetration and we have repeatedly said that we are not looking at long distance fiber, what we are looking at, is to interconnect our sites with the nearest PoP where fiber is already available thereby trying to look at reducing cost for everyone and creating a similar structure like the towers which is shared on a nondiscriminatory basis with everyone. So that is more on the board level discussion right now, nothing on the ground as of yet. Once we do something concrete we will come back and share with everyone on the fiber side.

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Pranav Kshatriya - Edelweiss Securities - Mumbai

A follow-up on that. You have anything, I mean how has been the performance of the trial which has already been done for In-Building Solutions and WiFi? You see it scaling up significantly in the coming time? How should we see it going forward?

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

Again there are global statistics of saying 80% of data is produced indoors and these are high footfall areas where we have done pretty successful trials, operators who are riding on those networks and customers are extremely happy. We see no reason why these will not scale up from here very rapidly. Today, I think, operators were going through the basic coverage phase. Once they start to have capacity, and also service differentiation, now with the current spectrum that is the phase that they will be entering into we believe the requirements for In-Building and for shared WiFi offloading will start to go up for operators too.

Pranav Kshatriya - Edelweiss Securities - Mumbai

Thank you. That is it from my side.

Shareena - Moderator

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

Vinay Jai Singh - Morgan Stanley – Mumbai

Thank you so much for the opportunity. My two questions are, power margins, due to cyclicalities, we did see it coming down to 5%. What do you think should be the trend next one to three years, 5% of sales itself, little higher, little lower, any thoughts there? The second question, I think a more pertaining question here. Akhil did mention 72,000 towers for India based on certain consultant reports in the longer term. Obviously, tenancy is more important than loading. But your loading could have been even better if we do not increase it by approximately 10% per 2G moving up to 3G, 3G moving up to 4G. Any thoughts there of how we can value-add by increasing the ARPU, if I may use that word, per tenant or per tower?

Akhil Gupta - Chairman – Bharti Infratel Limited

So, Vinay on the power margin, I think, let me take you back to the origin of the tower industry where what we had worked out was that the energy cost would be a pass through. That was the genesis of the whole tower industry that the operators will be charged whatever it costs and the reason for that was there were so many uncertainties, the power situation was terrible and so on. Over a period of time, as the industry progressed, what we realized that this leads to a whole lot of administrative problems between the TowerCos and the operators in terms of reconciliations, provision of data, the bills which do not come in time and so on and gradually in a pragmatic manner the industry moved towards what is called the fixed energy model where based on the past experience on various circles you fix the charges with the variability in terms of changing it based on the electricity rate or the diesel rate over a period of time. Now naturally the fundamental thing was that this piece was not to be treated as a big profit making opportunity, and the idea was that we will work together with the operators to try and reduce that cost but that is in our interest as a Tower Company because more profitable the operators become the better it is for us. To your specific question this quarter the margin is 5%, it was much higher in the previous quarter and that is why you see the energy margin in absolute term come down. The reason again is that we are basically on fixed energy model, which runs the same every month, but due to weather conditions, the seasonality brings in more cost and therefore the percentage margins could differ from quarter-to-quarter. On a long-term basis, I would say a 5% to 7% is what one would

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expect as the margin up to the EBITDA level, but yes these could differ from quarter-to-quarter, but I would say 5% to 7% is what I would feel can be built in as a reasonable margin.

Vinay Jai Singh - Morgan Stanley – Mumbai

Akhil, the reason I asked this question, talking to people in the industry, I understand there is a big difference in the power cost if you get it from State Electric Boards or solar power and then you move on to DG sets, which is much costlier. So, if you get into efficient form of power, won't we get a bigger reward there? If you keep on making more and more of solar or more and more of making your own investments being Infratel, would that not gain Infratel shareholders as well because the overall power cost would go down for the rest of the people?

Akhil Gupta - Chairman – Bharti Infratel Limited

Yes exactly and that was the fundamental reason why we also wanted to move to fixed energy model because that does encourage the tower companies to make investments in power efficient equipment and CapEx so that their costs can be lowered and that is why I said depending on the quarter this margin could be 5% to 7% which we could of course try and increase over a period of time with more sensible investments in some of the more efficient energy solutions. As far as the increased ARPUs or their revenue from these towers are concerned, we have inbuilt in the MSA various factors like loading charges depending on what they use. In fact we would be very keen and we are keenly working with the operators and asking them to upgrade their equipment, bring in the smaller equipment, leave more space on the towers so that we can actually have more tenancy and we could reduce their loading charge. So it works both ways, ultimately the revenue from a tower comes from the tenancy rentals and loadings and what we would like to over a period of time optimize it by maximizing the tenancies there.

Vinay Jai Singh - Morgan Stanley – Mumbai

Sorry, maybe I should have framed the question the other way around. I can see, India moving from 2G to 3G to 4G based on all the calls, which in my eyes gives me a loading example, moving up by 10% when you move one level and then another 10% when you move to the second level. When do we move to an additional tenant, if you are moving from one band to the other when you mentioned how data would clog the networks and you would by default need more? How do I get a data point of, how would that tenancy increase, because that would be more lucrative for you all, getting an additional tenant as a loading?

Akhil Gupta - Chairman – Bharti Infratel Limited

The loading is not bad. I mean, ultimately it does add to our profitability also, but difficult to point out the exact time gap between loading and emergence of a new tenancy but based on our past experience especially in the big cities like Delhi and Mumbai and so on, I would say that from the moment an operator loads my guess is that within 9 to 12 months there will be requirements for more sites because some of the sites will start getting choked or getting better utilized in terms of capacity. D.S. you would have a view on this?

Vinay Jai Singh - Morgan Stanley – Mumbai

Sorry, sir. In the same technology, you're saying. So those who move from 2G to 3G in a year's time frame?

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

Vinay from an engineering standpoint, that I have asked with some of the friends from the technology side, they say that when the base station starts to reach a utilization of anywhere between 80% to 90% they start to plan to offload and create a neighboring base station and as Akhil earlier mentioned that this is a WCDMA technology where as the number of users go up, the user experience for all the people using that base station tends to come down and to maintain that service quality operators will start to then plan. So much of this also

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depends on data uptake the way it is going to happen. The second good news about data unlike voice which is limited by 400 or 500 minutes of use, data we are seeing that with application and with better phone and better content you realize that the uptake on a per user basis is also disproportionately growing globally. That would mean that on a per base station basis the megabits that they need to produce, that requirement will continue to go up if the number of users are even the same as 2G. So those two triggers will be the key driver and this will happen again as a bell curve depending on CBD areas and gradually moving to the rural parts of the country.

Akhil Gupta – Chairman – Bharti Infratel Limited

But Vinay, what you have to also see is that in India on any particular band there will be practically about 5 MHz available with any operator and therefore for that to start filling up in terms of capacity utilization can be fairly quick. But I would say on a reasonable conservative basis, I would still maintain that maybe within nine to 12 months if not earlier.

Vinay Jai Singh - Morgan Stanley – Mumbai

Thank you so much. This was very, very helpful, sir. Thank you.

Shareena - Moderator

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

Rajiv Sharma - HSBC - Mumbai

Yes, thanks for the opportunity. Just couple of questions from my side. So, Idea and other operators are getting aggressive on their CapEx spends. So, just wanted to understand what it means for Bharti Infratel? Will your CapEx increase in tandem with operators? Will there be a strong correlation or it can behave differently? Second is, to the previous question, which Vinay was asking on the loading and tenancy thing. So, I do agree, 9 months to 12 months argument, but most operators have 3G spectrum and now also have a 4G spectrum in that circle and they will be segmenting the market, which means they will be decongesting 3G by going to 4G. So in that case, does this 9 months - 12 months changes to 36 months? And the other part is that WiFi is a big component in most markets in terms of data capacity take-up - there are private players like Ozone and others which are gearing up. So, will that have any impact because the operators, they would love to offload on WiFi and hotspots? Will that have any negative demand on the towers and does that say that it is mandatory for you to look up into these other areas with more focus? Yes, that's it from my side.

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

To your first question, Rajiv on CapEx correlation, yes there is a direct correlation in terms of CapEx to a certain extent, the fiber CapEx does not have a direct correlation with us, but the CapEx from an operator goes towards building base station either for a new site or as loading for us. So while the loading correlation is much lower in the sense we need to incur incremental CapEx of just about a lakh or a two for upgrading the site to accommodate loading. The CapEx for new site build-out or tenancies could be higher so the correlation is more towards coverage areas of new site build out where you could see direct correlation. Most of it is coming as a tenancy or loading for us and would not translate into so much of CapEx for Infratel directly. Your second thing about spectrum that point is also true. If you manage to get additional spectrum you can create larger capacity and handle more megabytes on the same base station; however, you have to understand that 3G and 4G also has a bearing on the devices that are available with your existing customers whether they are dongles or Smartphones that are applicable there, there are of course handsets, which can seamlessly move between these technologies and if you manage to get additional spectrum you could optimize between spectrums to handle more number of customers and postpone to a certain degree some of these new site additions if the coverage is comparable on both the frequencies.

Bharti Infratel Limited First Quarter Ended June 30, 2015 Earnings Conference Call**Akhil Gupta - Chairman – Bharti Infratel Limited**

Rajiv to your specific question let me put it this way. All the measures of WiFi and creating hotspots or introducing 4G I think these will all just enhance the uptake of data, provide better speeds to the customer therefore more consumption of data. I do not see that having any negative effect on the demand for wireless data because with the capacities that are being created they are relatively so small as compared to the expected demand, but a 4G handset penetration will be very different in terms of its evolution vis-à-vis 3G therefore the short answer to what you are saying is whether it will go to 36 months absolutely not. Our belief is 9 to 12 months when we say we will be taking into account some of the developments which will start happening.

Rajiv Sharma - HSBC - Mumbai

Right. And if I chip in this one last question and this is a little hypothetical, but just trying to understand. This whole fiber opportunity which is being discussed, and you have been highlighting this for last couple of quarters, what is the kind of investment and what is the kind of upside it can have for the shareholders? So let's say if you can take up an example of some city, not Mumbai where the costs are high for digging fiber, but let's say Delhi, what if you were to wire up full Delhi and what kind of revenue upsides it can mean for you and what will be the investment there?

Akhil Gupta - Chairman – Bharti Infratel Limited

Let me put it the other way around. First of all we are under no compulsion to do it, therefore vis-à-vis the investment if we do not have a business case, we are not going to get into it. Now what it would cost is dependent on the right of way charges by the government or the state governments so it is very difficult at this point to say what it would cost in each city. Secondly, we do not have intention of wiring up the whole city. The thought process here is that a TowerCo could be in a great position to link the tower to the nearest transport network, which are with various operators who have created rings around the cities just link it to the nearest one and link it to the nearest building. So, I guess in terms of a TowerCo that is where the opportunity is, the cost of linking this tower could be relatively lower, much lower, but very difficult to give any estimate city-by-city because right of way charges are not in our hand. Rest of the cost is fairly standard and that is why on this there will not be a standard rate. It will really depend on where you are providing optic fiber connectivity, but what I can simply say is that naturally it should make good economic sense for the Tower Company for us to venture into it.

Rajiv Sharma - HSBC - Mumbai

So in other words, you can maintain the current level of ROCE as and when you venture in a steady state kind of scenario?

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

I would expect that for sure not on day one, but certainly over a slightly longish period of time.

Rajiv Sharma - HSBC - Mumbai

Yes. Okay, that is very helpful. Thanks a lot and all the best for coming quarters.

Shareena - Moderator

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

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Aditya Soman – Goldman Sachs - Mumbai

Thanks for the opportunity, good afternoon. My first question is on Reliance Jio, they have announced that they will launch by December, would you expect a significant bump-up in your tenancy rate in December or do you think it will be more gradual following that launch? And my second question is on your other income. I think the other income for this quarter was significantly higher as compared with the previous quarters. Can you explain the reasons for this?

Akhil Gupta - Chairman – Bharti Infratel Limited

On Jio front, the phase I of their deployment they are already doing the build-ups, continue to take those tenancies. They are more focusing on getting their electronic equipment up and running for the launch in December. As and when they announce their phase II of the rollouts we will start to see more tenancies starting to kick in. So we see steady flows on that one. In terms of other income, I will leave that on Harjeet.

Harjeet Kohli – Group Treasurer – Bharti Group

Other income primarily includes the treasury income we have on the large cash that is sitting on the balance sheet. Till last quarter, we were dominantly focused towards the mutual funds and under the IGAAP financial records process we have to put other income only as and when realized rather than MTM. Over the last three four months, we have shifted some of the investments to fixed deposit portfolio and the fixed deposits accruals have also started to come in. So having said all of that till last quarter I would say the income was under recognized from a pure economic basis because realizations were not for the full portfolio. Now slowly it is accruing more or less at the portfolio rate. So about 140 to 150 Crores is roughly the accruals on account of the underlying investments made in the fixed deposit and fixed income market domestically.

Aditya Soman – Goldman Sachs - Mumbai

Okay. And sir, going forward, so this is the sort of rate we should look at?

Harjeet Kohli – Group Treasurer – Bharti Group

You can easily see the cash on the balance sheet. If you see 7000-odd Crores lying in the end of the last quarter obviously some dividend will happen this quarter so whatever cash assumptions you have on that you take the government of India yield at 8% to 8.5% odd divided by four, I think that roughly should give you more or less the kind of other income you are seeing now.

Aditya Soman – Goldman Sachs - Mumbai

Understand. Thank you very much.

Shareena - Moderator

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

Piyush Choudhary – CIMB - Mumbai

Yes, thanks a lot and good afternoon, everyone. Sir, in your assessment, what percentage of installed 2G sites in the country could see 3G or LTE loading over the next two to three years? That is number one.

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Secondly, if you could help us understand what's the average CapEx to make the tower ready for a loading and same thing for making that tower ready for tenancy? Thanks.

Akhil Gupta - Chairman – Bharti Infratel Limited

I think on the first one as to what percentage of our existing 2G sites would turn into 3G or 4G either as loading or tenancies over the next two to three years, my personal belief is that over the next at least three to four years if not two to three years this percentage should be anything north of 80% of the sites having at least a 3G or a 4G which also maybe a bit conservative. There is no reason why the entire network as it exists today will not turn into a 3G network, I am just being a little cautious in saying at least 80% over the next three to four years if not earlier.

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

Loading, depending on the state of the tower it can vary from Re.0 to about Rs.3 lakhs. It is a fair average to take this to more closer to about Rs.2 lakhs on loading or on new tenancy depending on how much of loading is already done on the tower.

Piyush Choudhary – CIMB - Mumbai

Even for new tenancy, I remember earlier you had mentioned a figure of 250,000 to 300,000 during the IPO time?

Akhil Gupta - Chairman – Bharti Infratel Limited

Yes, it will keep coming down a little because as the replacement CapEx happens on a site we naturally allow preparing it for much more loading and another tenancy. So gradually this amount should be coming down because wherever there is a replacement of the existing DG or battery bands, we naturally take into account more and more tenancies which are coming through.

Piyush Choudhary – CIMB - Mumbai

Great, this is very helpful. And lastly, if I can ask your plan for inorganic growth in Bangladesh and any update which you can share? Thanks.

Akhil Gupta - Chairman – Bharti Infratel Limited

The plans remain, but there is nothing on the horizon as yet.

Piyush Choudhary – CIMB - Mumbai

Is it still the kind of clarities on the tax rate that you are looking and some regulatory?

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

Yes, Bangladesh in particular I think, in terms of their policy on towers, the guidelines, there is still a lot to be desired. They have come out with some with draft guidelines, which are just not appropriate. So the work is going on. All the operators and the prospective TowerCos are meeting the government and talking to them, but I would say it is not in a shape which encourages anybody to go and take towers there at this point.

Bharti Infratel Limited First Quarter Ended June 30, 2015 Earnings Conference Call**Piyush Choudhary – CIMB - Mumbai**

Great. All right, thanks a lot and all the best.

Shareena - Moderator

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

Vivekanand Subbaraman – HDFC Securities – Mumbai

Yes, Hi, thanks for the call. I have two questions. One is on the new deployments that operators are making. So, yesterday, Idea mentioned that they are focused on making dual-band radio rollouts, which imply that when they upgrade from say 2G to 3G, they would just have to incur CapEx on the software side rather than any incremental hardware equipment. So that and the fact that the newer equipment, which is being deployed is much lighter and would essentially command a lower rental. So how do these two parameters impact the business case for us? And secondly, on the energy CapEx side, Rs.440 Crores odd is pending utilization towards green initiatives that are at tower sites, which is as per our IPO utilization proceed details. So is that an outlay that we should assume towards green initiatives in the next year or so. Thanks.

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

First from a technology standpoint smaller base stations, lesser power consumptions, smaller antenna sites these are all good news for a tower company like ours and as I said, there is a menu card on which we charge. These three components whether it is extra power, extra space or extra antenna loading if the operator is not doing anything, in that case, we could accommodate more tenants in that location and hence it is a good news for both of us in terms of operator winning and we winning too. That is something, which Akhil mentioned earlier that we are encouraging operators to move down and bring in new technology equipment which is far more efficient in locations where they can bring in these equipments.

Akhil Gupta - Chairman – Bharti Infratel Limited

On the energy CapEx you know in the IPO what we had estimated was obviously much larger number of new towers which we did not have to put up because our existing towers could take up most of the load and the tenancies and therefore I would not say that nearly because there is one figure there we will have to necessarily incur that, but yes proactively we keep saying wherever there is feasibility we would not hesitate at spending the energy CapEx. Now whether that entire 440 will be done in one or two years, I cannot say, but we are not going to limit that expenditure if it is making economic sense and feasibility at a particular site.

Vivekanand Subbaraman – HDFC Securities – Mumbai

Just a follow-up on the first question, now when you mentioned that this allows for more tenancies, so where does that take your tenancy Cap in the existing ground based and roof based towers? Is there any sense that you can give us on that?

Akhil Gupta - Chairman – Bharti Infratel Limited

We do not give guidance. The only guidance I can give is we are currently at 2.14 and hopefully that should go up from there, but we really do not give a guidance as to where our tenancy factor could be?

Vivekanand Subbaraman – HDFC Securities – Mumbai

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No, no, not specific to your tenancies but theoretically where would that allow us to go, as and if those equipments are much smaller and could we reach say 5x tenancy, I mean, could a model tower reach 5x tenancy from 4x? Is that the jump that we are looking at because of these upgrades?

Akhil Gupta - Chairman – Bharti Infratel Limited

What is the maximum number of tenants you have on one particular tower, five or six? So it can technically go up to that.

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

Technically they are designed up to six and any amount of deloading you could increase that to more, but that is more hypothetical in some cases.

Akhil Gupta - Chairman – Bharti Infratel Limited

And you also need demand.

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

You need those many operators and demand to come up in all the sites there. So towers typically were designed for three to six tenants on these sites, the lesser the load the more the number of tenants you could accommodate there.

Akhil Gupta - Chairman – Bharti Infratel Limited

But the main issue is on rooftop towers. I think on ground based it is clear that the limitation on tenancies is not that much on account of the load or the design but this is more a problem on the rooftop and that is where if there is deloading by the operators we could get a chance to have one more operator as a tenant.

Vivekanand Subbaraman – HDFC Securities – Mumbai

This is very helpful. Thank you.

Shareena - Moderator

Thank you very much, Mr. Subbaraman. Participants who wish to ask questions may please press “*” “1”. The next question comes from the line of Mr. Pankaj Suri from Nomura, Singapore. Mr. Suri, you may ask your question now.

Pankaj Suri – Nomura - Singapore

Hi, thanks. Two questions from me. Number one, at the standalone level, the CapEx has inched up sequentially a bit, but obviously the tenants and tower additions are slower if I compare it to the previous couple of quarters, so what exactly is driving this? The second question is, I know you have touched upon your M&A in the previous questions, but just wanted to ask you if potentially if you have to do M&A in India, are there any regulatory hurdles that have to be dealt with. And similar question is any other regulatory issues in India that we need to watch out for infrastructure companies? That is it from me.

Bharti Infratel Limited First Quarter Ended June 30, 2015 Earnings Conference Call**Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited**

Hi Pankaj this is Pankaj Miglani. Let me take up the first question. The CapEx at a standalone level is higher primarily on account of you know the increase in inventory, we have done a certain pre-buying looking at the further rollout plan and hence you see the increase which is there in Infratel.

Akhil Gupta - Chairman – Bharti Infratel Limited

On M&A we do not see any hurdles on the infrastructure M&A guidelines or regulations unlike the operating site but yes wherever I assume there is a possibility of any M&A these will be subject to the normal application perhaps to the competition commission and so on, but other than that I do not see any major hiccup in terms of regulation.

Pankaj Suri – Nomura - Singapore

Thanks for that. Any other regulatory things that are probably surfacing now that we should watch out for or is everything like status quo?

Akhil Gupta - Chairman – Bharti Infratel Limited

I think it looks like status quo. TRAI as you know had already given the recommendations in our favor that this industry does not need to be licensed so it remains as a status quo. No adverse findings on any regulatory front.

Pankaj Suri – Nomura - Singapore

Okay great, Pankaj, can I just follow up on the first question. So you said it is because of inventory. Can you elaborate a bit what exactly is this inventory related to, is it related to some deployments you have to do in the near future?

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

Yes, you know, typically you would end up pre-buying one quarter advance of the rollouts whatever is required for the next quarter. So this amount keeps on varying on a quarter-to-quarter basis, so looking at an anticipated demand and by virtue of our planning cycle there was a requirement to stock up the additional materials and that is what we did in this quarter. Also at times when we also look at a bulk buying leads to a certain volume discounts, so you club the two having a mix of looking at the demand as well as the volumes on our planning and that is the way we do order.

Pankaj Suri – Nomura - Singapore

Great. Thanks so much.

Shareena - Moderator

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

Sanjay Chawla – JM Financial - Mumbai

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Hi, good afternoon. Thank you for the opportunity. I have two questions, one is this issue about tenancy versus loading and when do we really see a pickup in full tenancies on account of 3G or 4G. Because on one side, we have operators indicating that 3G coverage is 30 to 35% of their 2G coverage and also some of the TelCos indicating that even for the next two, three years 3G only or data only sites would be in low single digits percentage. So my question is that we are already headed into a phase where inevitably the 2G additions are going to come down. So are we not looking at a situation where that kind of a transition phase, where the tenancy addition could remain subdued maybe for one or two years, that is the first question? Second is, what kind of timeframe are we looking at in terms of your utilization of cash because the cash balance has been sizable for a while now, and it is obviously pulling down your financial returns. Are we looking at a one-year kind of a time frame or two to three years?

Akhil Gupta - Chairman – Bharti Infratel Limited

First one, I think, in terms of percentage of sites, vis-à-vis 2G where 3G is already there this is declared information by Airtel, Idea, which are the listed entities and they are already in excess of 30% to 35%, so it is not obviously going to be restricted to 35%, but what you are talking of is where they are today and that is where the big needs for them going forward, so I think on that front we would not worry as to whether loading will lead to more tenancy. We have already given you a detailed explanation of why we believe that loading is the first step which leads to more tenancy because of uptake of data. The second question

Sanjay Chawla – JM Financial - Mumbai

We have seen that kind of pick up, the 3G loading and the roll-outs are they fairly recent?

Akhil Gupta - Chairman – Bharti Infratel Limited

I think it is fairly recent and therefore it would take some time as I said we expect the time gap to be between 9 and 12 months and so it will have to take a little bit of time, but we are consistently seeing these deployments going up, so on a long-term basis we are quite confident that these tenancies will start picking up.

Sanjay Chawla – JM Financial - Mumbai

So we are not envisaging a situation at all where tenancies would remain subdued or it may start coming down further?

Akhil Gupta - Chairman – Bharti Infratel Limited

I see no reason at this point of time at all. No reason at all.

Sanjay Chawla – JM Financial - Mumbai

All right, all right. That's useful, thank you.

Akhil Gupta - Chairman – Bharti Infratel Limited

There was a second question to answer. On utilization of cash, we have that issue pending with MCA for a clarification that is one part but what I feel is that looking at what the potential could be necessarily it is not a bad thing having some cash resources on hand, that gives you a huge advantage vis-à-vis competition, of trying to go and take the maximum share of the possible future business which would be very capital intensive and therefore companies which have very strong balance sheets would be gaining, but as and when there is a development at the MCA, we will certainly let you know.

Bharti Infratel Limited First Quarter Ended June 30, 2015 Earnings Conference Call**Shareena - Moderator**

Thank you very much Mr. Chawla. At this moment we will take one last question from Mr. Kunal Vora from BNP Paribas, Mumbai. Mr. Vora you may ask your question now.

Kunal Vora – BNP Paribas - Mumbai

Yes, thanks for the opportunity. Sir, just wanted to understand in terms of renewal, what proportion of your contracts will come up for renewal, say next two, three years? I understand it's still some time away, but just wanted to hear your thoughts on how we should be thinking about average rental in the like longer-term, like it has been flattish or despite significant loading which operators have done because it's being offset by increase in tenancy but when we take a slightly longer-term view, how should we be thinking about the average rental?

Akhil Gupta - Chairman – Bharti Infratel Limited

Well we do not see there being any significant turmoil in the rentals because of renewals because this is a well set industry and there will be renewals of some contracts from time to time. So at this point we do not see any reason why there should be a very major difference in the rates of renewals. So there is still some time away, but there is no reason why one could expect a major difference.

Kunal Vora – BNP Paribas - Mumbai

Should we be looking at like say flattish trend or can there be at some point in time a step jump or re-negotiation downwards or should we just be looking at a flat line from here or maybe marginal?

Akhil Gupta - Chairman – Bharti Infratel Limited

It should be assumed at these levels.

Kunal Vora – BNP Paribas - Mumbai

Okay. Thank you, sir. That is it.

Shareena - Moderator

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

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

Thank you. As Akhil articulated the reality of data growth is unfolding. The main mode of communication is clearly shifting towards data particularly in the urban India. To grab this opportunity, market leaders have already announced their plans to cover 60% to 70% of network with 3G/4G over the next couple of years. The quest to offer service differentiation is likely to be an additional boost to tower demand. We are entering a phase of high growth while the first quarter remains seasonally weak in terms of rollout, we expect the momentum to accelerate in quarters to come. The first phase of data network rollout has already started in the form of 3G/4G loadings. As we move ahead this will translate into full-blown data sites, collocations leading to the second phase of growth where the operators will start plugging the coverage gaps. Our efforts towards operational excellence helped us record strong financials in yet another quarter on a year-on-year basis, towers grew by 3%, collocations grew by 9%, EBITDA grew by 10% while profit after tax grew by 24%. The

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Government of India's digital India campaign and smart city program has opened new vistas of opportunity. We are equipped to play a partnering roll in this context by building and sharing vital infrastructure solution with all customers on a nondiscriminatory basis. At Bharti Infratel, we have the capacity, confidence and the commitment to partner India's digital aspirations and create sustainable value for all shareholders. As a company we are extremely focused to capitalize on the growth opportunities and a win-win proposition with the customers. I on behalf of my entire team, thank you all for your continuous support and look forward to an exciting journey ahead of us. Thank you very much.

Shareena - Moderator

Thank you very much Sir. Ladies and gentlemen, this concludes the conference call. You may now disconnect your lines. Thank you for connecting to Audio Conference Service from Airtel and have a pleasant evening.