

**Bharti Infratel Limited First Quarter Ended June 30, 2017 Earnings Call**

## Conference Call Transcript

Event: Bharti Infratel Limited First Quarter Ended June 30, 2017 Earnings Call

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**Bharti Infratel Limited First Quarter Ended June 30, 2017 Earnings Call****CORPORATE PARTICIPANTS****Akhil Gupta**

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Managing Director and CEO - Bharti Infratel Limited

**Pankaj Miglani**

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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 First Quarter ended June 30, 2017 Earnings Call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question-and-answer session will be conducted for all the participants on this call. In case of a natural disaster the conference call will be culminated post an announcement. Present with us on the call today is the Senior Leadership Team of Bharti Infratel Limited.

Before I hand over the call, I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risks that we face. I now hand over the 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, 2017 Earnings Call

### Akhil Gupta - Chairman - Bharti Infratel Limited

Thank you. Welcome to all of you on the earnings call of Bharti Infratel for the first quarter ended 30 June 2017.

Well, all of you are aware and would have been reading about the telecom sector on virtually, a day-to-day basis. The telecom industry in India has undergone an extremely challenging time over the last one year, particularly with the introduction of services by Reliance Jio in September 2016. The result has been a huge consolidation in the industry with various players having either folded up or merged into bigger players or entities. The latest and the biggest, of course, is the Voda-Idea merger, which we are glad to note is progressing well with reports of clearance by Competition Commission of India. The battle lines seem to be now very clearly drawn, with a few but strong entities remaining.

Now it is obviously inevitable that this consolidation and the mergers, particularly between Voda and Idea, would result in reduced number of tenancies and one-time rationalization of tenancies for the tower companies. However, we do believe that this will be more than offset by increased revenues as well as the exit charges, which will be applicable on such exits. What is more important is our belief that this kind of consolidation is actually positive for the tower industry in the medium to long term, as it leads to few but strong and willing participants vis-à-vis a very large number of smaller unwilling operators with no financial muscle or passion to invest in data network rollouts.

We are also very pleased to note the recent industry development where, on one hand, the Government of India, after detailed consultations with various stakeholders, seems to be on the threshold of announcing certain measures to ease the financial pressures on the telecom companies. On the other hand, Reliance Jio has now started charging for their services and the period of free promotions and offerings seems to be over, which I think augurs very well for the telecom industry in the long run.

The quarter gone by saw a very healthy network rollout as we have been anticipating, with Infratel as well as Indus both witnessing very strong co-location additions during the quarter, with the highest-ever new co-locations of over 4,000 and 8,900 at Infratel and Indus respectively during the quarter.

As of June 30, 2017, the consolidated tower base stood at 90,837, a growth of 1.7%, while the consolidated co-locations were at 218,401, growing by a whopping 11.2% year-on-year, and the co-location factor reached 2.40 at the closing as on June 30, 2017.

The financial performance for the quarter was strong and very steady. The revenues for the quarter were at Rs.3,524 Crores, a year-on-year growth of 10%. EBITDA was at Rs.1,575 Crores, a growth of 12% year-on-year. Profit before tax was at Rs.1,095 Crores up 10% year-on-year. And the ROCE pretax for the quarter improved to 32.1%, up from 26% last year.

Our Bhopal Smart City project is now being rolled out as we speak. We would be looking for other Smart City opportunities with the experience, very valuable experience that we are gaining at Bhopal.

To summarize, we continue to witness strong rollouts of data networks by operators. We believe the government's push for Digital India and the increase in data demand, increasing affordability with the introduction of feature phones, the Jio feature phone being the latest one, will provide further opportunities for growth and potentially new revenues for business of passive infrastructure industry. At Bharti Infratel and at Indus, we are extremely well placed to capitalize on the huge big opportunities, which are emerging very quickly.

Thank you all for joining the call today. The management will take your questions now.

### Kamaldeep - Moderator

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

### Sachin Salgaonkar - Bank of America - Mumbai

Thank you for the opportunity and congratulations for a good set of numbers. I have two questions. First question is regarding your tenancy growth. Now if we look at the standalone Bharti Infratel tenancy, growth was 14% YoY this quarter, Indus was 9%. I just wanted to understand the dynamics between an Infratel standalone and Indus. What is making growth come faster at Infratel? Now I am noticing the exit or the average sharing factor at Infratel and Indus are not too far away from each other? Second point, going back again to the point about what is the optimal gearing structure for someone like Bharti Infratel? And this is more from a point of view about some of the media articles, which came where Bharti Infratel is looking to buy Vodafone-Idea stake. Just wanted to know your thoughts on how we should look at it and if Infratel indeed is open for an equity dilution, if the need arises to buy the full stake of Vodafone and Idea in Indus? Thank you.

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### Akhil Gupta - Chairman - Bharti Infratel Limited

On tenancy growth, I think DS can jump in. But my feeling is that why the percentage growth in Infratel vis-à-vis last year is higher is that in the initial phase, the big rollouts were in the Indus circles, and therefore, they already last year had bigger rollouts and therefore the percentage growth is lower. In our case at Infratel, I think the number of that rollout came a little later, but that is why the percentage growth looks high. But I guess now the stage has come where the operators are going to be firing on all cylinders, in all circles, and so we expect that both at Indus and at Infratel, the rollout should be pretty strong. On Infratel gearing, I am actually very wary of giving any answer because I do not want to start any speculation as if there is anything about acquisition of Indus stake in the offing. But yes, as you can imagine, for a company, which makes regular profits and cash flow, there is scope for gearing for Infratel. And even for very conservative people like us who generally like to keep leverage low, I would say something like 2.5 to 3x net debt-to-EBITDA is something which should be, from what I have discussed with the financial community is generally seen as acceptable for the tower companies. But again, I would like to point out that please do not read that as any indication of anything which could be in the offing's vis-à-vis Indus acquisitions.

### Sachin Salgaonkar - Bank of America - Mumbai

Okay, got it and one small follow-up. I mean, on the ground, we are I mean, I am not sure how true it is, but generally, you sometimes get a sense that, obviously, Jio is spending a lot more. But judging at the capex investments from an Idea and Vodafone, their investment has slowed down a bit. Is that a fair assessment? Maybe things will change after the merger gets closed. But for the next few quarters, should the momentum be largely from few operators or is that across the base from all large operators?

### Akhil Gupta - Chairman - Bharti Infratel Limited

There are only a few operators. So that question about all the operators, and they are all large now. But as you can imagine, as a tower company I am sworn to secrecy, vis-à-vis my customers, so I am sure we cannot comment on individual customers and their rollouts.

### Sachin Salgaonkar - Bank of America - Mumbai

I understand that. Thank you Akhil.

### Kamaldeep - Moderator

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

### Manish Adukia - Goldman Sachs - Mumbai

Good afternoon and thank you for taking my questions. My first question is a clarification on the earlier question that was asked on the call. Now on your tenancy additions, very, very strong numbers, this quarter for both Infratel and Indus. So is there any meaningful contribution from the top 3 telcos or is it all being driven by Jio as far as this quarter is concerned? And as far as Jio's tenancies are concerned, for how many quarters would you say there is visibility for Jio's growth, let us say, at least for the next three to four quarters you see that this high tenancy growth number will be sustained? And my second question is, this quarter again, Indus had some exits as far as tenancies are concerned, but Infratel did not. So are these exits being driven by rationalization of tower footprint of Idea and Vodafone? If you can provide any color on that, that will be great. Thank you.

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

Manish, this is DS Rawat this side. Akhil did mention earlier we have confidentiality with our customers and that is one of the reasons why we do not give customer-specific numbers. But I stand by the word that we said earlier, too, Jio is now becoming meaningful part of our new additions that we do, given that they are coming in as full-blown tenancies. Having said that, the leading three operators are also continuing to add 4G base stations and 3G base stations on the existing sites, and we do see continued loading impact as you must have seen also on our realization quarter-end that you have seen in Indus and Infratel. So from that angle, we cannot give you more information than that, but we see healthy growth from all the operators towards preparing themselves for data. On Jio's forecast, I think that question is better answered by Jio. So we cannot right now comment on what their future outlook is. We are happy to scale up to whatever rollout requirements that are from the operators. And as of now, we see that we continue to have healthy growth for the last two quarters, and we hope that this momentum continues. As for their own public statement, they want to go up to about 200000 sites is what they have made in the public domain, and we continue to get large part of that business, too. On Indus and then the exits that you see in the last quarter, there are certain permitted exits, which

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are a small percentage, and that is what we have seen some operators exercise on account of either low utilization or recalibrating their network and that is a convenience that is there as part as the master service agreement, which customers do exercise from time to time.

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**Manish Adukia - Goldman Sachs - Mumbai**

Sure. That is very helpful. Just a follow-up on that when you mentioned that the existing operators are adding loading on existing towers in some of the base stations, etc., is this true for all the top existing operators and not just one of them or one or two of them, right?

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

This is true for all the operators pretty much, including Jio.

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**Manish Adukia - Goldman Sachs - Mumbai**

Sure. Okay, that is very helpful. Thank you and all the best.

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**Kamaldeep - Moderator**

Thank you very much Mr. Adukia. 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**

Thank you very much for the opportunity. Just in the beginning, Akhil, you mentioned about the exit penalties and the interplay between long-run volume commitments. Could you discuss this a bit further now that the Idea-Voda merger seems to be they have received CCI approvals? So have you progressed any further in your discussions with them to understand the extent of rationalization and the kind of exit penalties that you may receive there? That is one. Secondly, in terms of the other initiatives that you were taking, the Smart City projects and also fiber rollouts, any update on that? Thanks.

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

On the exits, we have had no discussions because they will have to come, this is not for us to initiate. So there is nothing on that front as yet. They will have to come back in case they want...We do not know how many would they need to rationalize, they would need capacities, so it is not clear. It may not be material, it could be material, but it is for them to come to us. On the other one, DS?

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

I think on the exit too normally, the discussions only happen when they have finalized the post-merger scenario, which I am presuming the discussions within the organizations or wherever M&As are happening will only start after CCI approvals. So there is nothing right now. And there is a formal intimation that customers send out to us as an exit process, which is part of the MSA requirement, after which we start to invoice and collect that money. On the Smart City front, we do not expect any revenues on Smart City from this year. We are expecting our revenues to kick in starting next year. As we speak, we continue to roll out the first project that is going on in Bhopal. We started to already do a meaningful part of rollout in the circle for both fiber, Wi-Fi and also for the smartphone deployment along with LED in those areas.

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**Vivekanand Subbaraman - Ambit Capital - Mumbai**

Right. Just a small follow-up on the discussions on the exits, so by when should we start getting more clarity in terms of which period or which quarters would you think would we start getting more clarity on the exits and potential volume commitments from the merger of Idea-Vodafone?

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

Difficult for us to comment at this time. As I said, this is the process that is driven by the two companies which are going through the

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merger process. And there are of course, there are regulatory hurdles before they can start to engage and work out a plan from an as is to what they want to be as a network, and that is where the discussions start off. As of now, we are not in any discussions.

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**Vivekanand Subbaraman - Ambit Capital - Mumbai**

Thanks a lot and all the best.

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**Kamaldeep - Moderator**

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

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**Kunal Vora - BNP Paribas - Mumbai**

Thanks for the opportunity Sir. First question on exit penalties. Sir, between Indus and Infratel, there has been approximately 8600 exits over the last one year. For how many of these have you received exit penalty? And how many have been surrendered in normal course with no compensation? So that is first.

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

So the permitted exits have their own provisions in the contract for which operators pay a certain amount of fee depending on what kind of exit it is, and we do collect exit money from operators. There are some exits, which had happened on account of spectrum surrender, and so on and so forth from specific operators, I cannot give the names. We are in discussion with these operators. And some of these are also in arbitration with our customers to see that the legal position is taken on their exits that they have to exercise on these.

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**Kunal Vora - BNP Paribas - Mumbai**

Okay. But have you received any payment right now exit penalty? Is that a meaningful number in the course of last one year or most of these have been in the normal course with no compensation?

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

So most impacts have been permitted exits for which, as I said, the compensation is different in different cases depending on what kind of exit it is. So there were some payments that have come in on account of exit penalties in the past too.

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**Kunal Vora - BNP Paribas - Mumbai**

Sure, okay. Second is, sir, what proportion of Infratel and Indus Towers have been connected with fiber like it could be operator's fiber - but at least a fiberized tower? And are the operators approaching you to fiberize the towers? Any development there?

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

Again, we do not have a specific track because different operators could be having fiber in different sites. From a percentage, this percentage could vary up to about 25% in some of the circles. From an operator-specific demand, yes, there have been a few operators who have in the past requested us to look at an opportunity of fiber. As we said, we are looking at as part of Smart City proposition and also as Smartx to look at least laying the last mile fiber, thereby avoiding multiple operators trying to build fiber to each of our site. And that is part of our plan and that is why we are looking at only interconnecting our sites within the cities with fiber network as we go forward. Because with data, particularly with 3G, 4G rollout, our belief is 1 in 3 or 1 in 4 sites would definitely need fiber. And as they go into small cells, pretty much all our existing sites would be requiring fiber at some time.

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**Kunal Vora - BNP Paribas - Mumbai**

Okay. And just last question. What would be the exposure to operators other than the top three and Jio? The weaker operators what is the exposure now in terms of proportion of revenue or tenancies?

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

Earlier, we had said, I think, it was less than 15%. Now with Jio becoming higher numbers and also BSNL being part of it, I do not know if we have a specific number for the other operators other than the top three, Jio and BSNL. That will probably be less than 10%. But I am guessing right now, so we will have to...

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

So Kunal, largely it could be a single digit now.

### Kunal Vora - BNP Paribas - Mumbai

Thank you very much Mr. Vora.

### Kamaldeep - Moderator

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

### Rajiv Sharma – HSBC Securities – Mumbai

Thanks for the opportunity. Just couple of questions from my side; so Jio talked about population coverage of 99% what does that mean to you in terms of tenancy growth? And second is voice over LTE. That is going to be the next capex activity or network integration, which all telcos will do. Is there any specific read across for tower companies, including you? And I also understand that unlike circuit switch VoLTE takes a much lower bandwidth. Will that have any impact structurally in terms of - in the medium term on tenancy growth and demand? That is it from my side.

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

So first, I think Jio coverage of 99%, there are different ways of achieving the coverage that they are wanting to achieve, including small cells, including various aspects that they would do. Definitely, a big positive in terms of, clearly, the site requirement on the current spectrum would be to the numbers that they have been claiming earlier 200,000. We heard the number of Voda-Idea combined, talking of the numbers close to 2.5 lakh. So those are the numbers that will probably be as a total site requirement. But again, depends on how the operator wants to approach some of these and what kind of data speeds that one is planning to give. Because unlike voice, in data, you can only give better speeds at closer distance to the cell sites, and hence, you would need larger number of sites to give high-speed data to some of these customers. On your question on VoLTE from our standpoint, whether it is VoLTE or circuit switch, it does not make a difference from a tower perspective. And going forward, any which way, when we look at projections from various global companies which make projections on data, they believe that voice will become insignificant part of the entire network and data is going to be the key driver for which networks will have to be dimensioned. India, we have clearly seen the free offerings from Jio that was close to about 25 to 30 GB per customer per month. In that, voice traffic would pretty much be few hundred megabits, so it does not make a difference from our perspective. Because the future networks are being sized more for data and throughputs of data. But yes, VoLTE will also be sensitive because data packets can wait. They can be delivered in a delay if there is a coverage lag in certain areas. But the moment you mount voice on top of that, you cannot have a circuit switched voice or a VoLTE voice getting disconnected and reconnected. So hence your service quality has to be better on your data network to carry VoLTE traffic through and through the network seamlessly, getting handover from one site to another. That would also mean that your densification of network and also your tuning of network has to be better.

### Rajiv Sharma – HSBC Securities – Mumbai

So you believe that, if I get it correctly, that there could be a provision for more capacity sites once incumbent telcos particularly move - start deploying VoLTE with their networks? And will they really be effective because they do not have a sub-gigahertz spectrum to deploy VoLTE. And will that mean anything to you?

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

Again, a hard question for me to say but from the existing technologies that we know of, definitely, to carry voice and to give that seamless user experience that users are used to, you will have to improve your data network in terms of both quality and capacity that you have there. And sub-gigahertz, yes, those are options that are for the operators to choose and how they want to keep VoLTE traffic, whether they want to keep it on a sub-gigahertz network itself or do they want to seamlessly carry it over 23 GHz or even on Wi-Fi in some cases. Those are technology options that are getting evolved, so they will be exercising all these options to

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see that. And voice quality, mind you, is something, which is very palpable and perceived by customers immediately. So from that angle, we think, definitely calls for high quality network on the data side.

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**Rajiv Sharma – HSBC Securities – Mumbai**

That is very useful. Thanks a lot.

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**Kamaldeep - Moderator**

Thank you very much Mr. Sharma. The next question comes from Mr. GV Giri from IIFL Mumbai. Mr. Giri you may ask your question now.

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**GV Giri – IIFL – Mumbai**

My questions, number one, can fiber rollout become a big business for you? What can drive it? Are you trying for it, are you obstructed by any regulatory issues in that like owning fiber, etc.? That is number one. And number two, can you please give an update on the shift to rate cards? Are the MSAs all done on both Indus and Infratel? How much remaining and over what timeframe?

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

Firstly, on the fiber part, to your question, yes, it can be a meaningful part, fiber rollout within the city. Typical cost is about 10 lakh to a kilometer and you can size up some of the cities. Recently, there was a tender for Deoghar for laying duct and that tender for a small city like Deoghar called for close to about 200 kilometers of fiber to be laid. So that is the final sizing may be required. You could then size up for the whole country at an approximate cost of about Rs.10 lakh to a kilometer. We know roughly the size so it could be a meaningful capex converted to opex. It could also mean meaningful revenue. But that would be sometime away depending on how data traffic takes off and how operators plan to backhaul all that traffic on fiber. On your question of MSA amendments, we had mentioned in our last call, I think, 85% of the customers are signed.

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

75%.

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

75% of the customers had signed up for the MSA amendment. Our new tariffs are applicable for all new tenancies that are being offered to the customer. Clearly, MSA amendment had a provision of rental freeze and an extension to the existing contract, so customers who have not chosen to exercise that are continuing to take on tenancies on the new rate card itself.

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**GV Giri – IIFL – Mumbai**

And this 75% is equally distributed between the two companies or is it more skewed in one company?

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

Giri, it could be – it is higher in Indus vis-à-vis Infratel.

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**GV Giri – IIFL – Mumbai**

Okay, understood. And on the fiber, I just wanted to understand more clearly, as the operators are rolling out their towers and attempting to increase the proportion of towers connected by fiber, does that contract the space for you in developing a fiber business on your own or your attempts on the Smart City and other rollouts might be complementary to the efforts of the operators, and later on, over a period of time, the two might merge? How will it actually play out?

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



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So from our perspective, like the towers, operators were building towers and we created the tower structure. We are open to creating the same thing on fiber. So today, we are not laying fiber where fiber is already present. We are trying to create wherever there is a new demand for fiber. We want to lay that, interconnect to our sites, so that the first tenant who is using fiber thereon, the subsequent tenants can leverage on the same fiber and thereby have a win-win proposition for operators and us. Whether we merge with operator network in the long run, at this stage maybe a little early to even pre-empt. But we continue to build fiber in areas where no one has built fiber today.

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### Akhil Gupta - Chairman - Bharti Infratel Limited

Giri, to your question, I think it is very relevant point about fiber and we do believe that in the long term, fiber is one thing, which actually belongs to infrastructure companies. Whether tower companies will do it, some other companies will do it, I do not know. But ultimately, we do believe that this is not something which the operators should do. So I personally believe that this piece will pass on to the infrastructure companies. And within that space, I think the tower companies, especially a tower company like ours with very strong balance sheet, has the best chance of doing that business. So we continue to explore it. We are rolling out some fiber as a part of the Bhopal city project and that is giving us some really good experience and learning in terms of fiber management. But ultimately, we do believe that this business, which is a very capital-intensive business and therefore, although it is full of revenue, would belong to the tower Industry.

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### GV Giri – IIFL – Mumbai

Sure. It is very clear. Is any of your initiatives targeting potentially home broadband because that used to be too expensive for anyone to attempt? And in recent times, there has been more chatter on that because it is not all going to be underground, some of it might be above ground and aerial, and that reduces the cost and opens an opportunity up for you. Is that part of your target market?

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### Akhil Gupta - Chairman - Bharti Infratel Limited

Well, definitely, home broadband is not a part of our thinking because we do not want to ever compete with our customers. But whether we can provide and lay down the fiber to homes or to curbs, well, maybe over a period of time, yes, why not? That could be a part of our optic fiber plan.

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### GV Giri – IIFL – Mumbai

Sure, understood. Thank you very much. All the best.

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### Kamaldeep - Moderator

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

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### Viju George – JP Morgan – Mumbai

Thank you, I do not know if this question has been asked. But on Reliance 4G feature phone strategy, what are the implications that you draw down the line for tower companies such as yours? You know the aspiration and of peers' attempts to maybe match them on this. Do you sense that the tenancy growth might get a further leg up from this over the next couple of years?

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### Akhil Gupta - Chairman - Bharti Infratel Limited

Well, one thing is very clear that, for us, all operators are equal, and therefore, we do believe that the introduction of the feature phone on 4G, which is something new, ultimately, will force all operators to bring competing phones in some form or the other. More important, with the feature phones being introduced, that clearly means that the 4G market is being expanded deeper into the country. And so you are right, I think from our perspective, the tenancies on our towers should get a leg up. The speed of rollouts of the data network should increase by all the operators.

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### Viju George – JP Morgan – Mumbai

Sure. Thank you. You also did mention that the Smart Cities and fiber will be increasingly components of maybe a more diversified business model for the next may be three, four years. Would that in new way change the capex intensity in the current model? Will it be a little bit more capex intensive? Should we be shifting gears in terms seeing of how capex might trend up?

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

Well, the only reason why infrastructure companies exist is for capex, and that is our job. We would love to have opportunities when we can spend capex. That is really our business model will be such that capex is spent, gives us a good return. We also believe that that is where it is complementary with the operators who are, as we all know, a little challenged in terms of capital. And so I think it is just a perfect fit. We can, as infrastructure companies incur a lot of capex, and therefore, anything, which presents an opportunity of capex spend is something, which is extremely welcome for our companies. Too early to give any projections or talk about what it could be because these are still things, which are developing. These are work in progress. But over a period of time, as DS said, with almost a thumb rule of about a million rupees per kilometer, especially in the cities, this could be a very sizable opportunity.

**Viju George – JP Morgan – Mumbai**

Sure. Thank you. And my last question relates to operating leverage. I think, Akhil, you have told us not to assume operating leverage in the business model as your margins set around these levels itself. I think this time, we saw a little better than expected EBITDA margin performance. If this pace of tenancy adds continues or sustains over the next three or four quarters or thereabouts, would you still want to hold on to that? Or do you think that there is scope for margins to inch up further from here?

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

I would not count on it because, obviously, there are pressures on rental increases and so on. I think the EBITDA margin, which we have, is a pretty decent margin, and I would personally not look at a big growth in that margin over a period of time.

**Viju George – JP Morgan – Mumbai**

Sure. Thank you and all the best.

**Kamaldeep - Moderator**

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

**Pranav Kshatriya – Edelweiss – Mumbai**

Thanks for the opportunity. My first question is regarding the tower additions. So there is a quite dramatic reduction in the tower additions for the company. Is this driven by more focus by telecom operator on the small cells or there is some other reason to it? This question is basically what we were expecting that as companies roll out more 3G and 4G network with using single RAN solution, they will redeploy that equipment at newer places, and hence, the tower additions should remain reasonably good. So just wanted to know what happened there. And my second question is regarding the capex. So despite slower tower additions, the capex has remained pretty high. So how should we see this going forward? Is there a significant portion of capex related to Smart City? If you can quantify, that is it from my side.

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

So on the first part of tower addition, yes, we are seeing a slowdown, but clearly, operator focus is right now on launching 4G services. And all the leading operators that we have known, they have secured pretty expensive spectrum in the last two rounds and they are continuing to roll out both 3G and 4G very aggressively. And we can see that on our loading numbers that we see internally there. And clearly, before the Jio launch in any of these areas, operators would want to make sure - the incumbents would want to make sure that they have deployed 4G. So the big focus has been, first, making sure that 4G is enabled in as many towns as possible. And thereafter, whatever capacity requirements that they have, particularly for 4G, is the one that they are critically looking at to infill. And that is why you do see a little bit of slowness. But you have to also understand, with the large base of towers that we have, there is this opportunity of entering in into the sites as a tenant rather than coming in and requesting for a new tower to be built. So we are also seeing operators using each other's towers where they were not traditionally present and the other operator was present being used for tenancy, and that is why the bump up that you see on tenancy additions there. On your question on capex, Pankaj, can you take that?

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

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Yes. On capex, while you are comparing that with the number of tower additions, which have happened, capex is also a function of the overall tenancies what we get, and hence, there is a part increase that is attributable to those tenancies. Plus, there is also the last quarter where you compare the capex was lower. That was primarily because you end up planning your capex cycle, then you do a lot of pre-buying. And from that perspective, we had done a certain pre-buying, which was there in Q3, which effectively led to a lower capex. Plus, on a similar trend, this quarter also has got a certain amount of pre-buying, which has happened. Hence, you see that moment happening in that particular fashion.

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**Pranav Kshatriya – Edelweiss – Mumbai**

Okay. If I can just ask some follow-up on the first question so are we saying that structurally tower growth should taper down going forward or the small cell and other data capacity-led moment will happen over a period of time, and hence, it will come back to this level over, let us say, next two to three years?

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

As far as small cells are concerned, we will be actively participating in that space as a tower company. As far as capex is concerned, I think the variable part of the capex is new towers, new tenancies, and to some extent, loadings that happen. And there is one element, which is the maintenance capex on our existing towers, which is, between us and on a consolidated basis, about 90,000. There is a maintenance capex, which happens in any case. So I would say our capex looks pretty steady, but it would be varying depending on the number of tenancies, and of course, new towers.

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**Pranav Kshatriya – Edelweiss – Mumbai**

Okay. Thank you. That is it from my side.

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**Kamaldeep - Moderator**

Thank you very much Mr. Kshatriya. The next question comes from Mr. Aliasgar Shakir from Motilal Oswal Mumbai. Mr. Shakir you may ask your question now.

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**Aliasgar Shakir – Motilal Oswal – Mumbai**

Thanks for the opportunity. I just wanted to understand the defined clause in the MSA relating to tenancy or loading. I am coming actually from this Vodafone-Idea merger point of view. What I am trying to figure out is so as for the defined clause when the Vodafone-Idea merger does happen, does it turn the tenancies into loading given that both will have a parallel network, to a large extent, so once tenancy may get converted to loading when they both become one, your thoughts on that, please.

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

It is a possibility in some cases. First of all, it is not that the entire network is parallel. They would have some overlaps, which, obviously, they would be able to identify how many are really overlapping. But it could happen on some sites that they could have loading. But again, then it would depend whether on that particular site there is more space for loading. So all these are something, which theoretically one cannot be looking at. I think they will have to look at the specifics, come back to us and I think we will work together with them to make sure that is a win-win situation.

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**Aliasgar Shakir – Motilal Oswal – Mumbai**

All right. Thanks. Let us assume on one tower, there is a Vodafone tenancy and an Idea tenancy. Does that get converted into one when they merge together or that again is subjective?

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

No. If we want to leave one tower they will have to give us an exit notice. There will be exit charges. And then on the other if they want to bring the same equipment there, there will be loading charges. These will be two different actions by anybody.

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

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MSA does not allow an automatic conversion happening. So if they are coexisting, then in that case if they have to exit or convert into a loading then effectively the exit moneys would have to be paid.

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**Aliasgar Shakir – Motilal Oswal – Mumbai**

Got it. Thanks. That is very helpful.

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**Kamaldeep - Moderator**

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

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**Sanjesh Jain – ICICI Securities – Mumbai**

Thanks for the opportunity. One question on active infra sharing. Have you seen any activity in terms of active infrastructure sharing between the operators? That is one. Number two, have we also evaluated any business opportunity in participating in this active infrastructure because this equipment already lies in your place, which are owned by operators?

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

The first question, we have not seen any activity on active infrastructure sharing. Second, from we evaluating, triggering this or doing it on ourselves there are stringent conditions from DoT whereby active equipment has to be owned by operators themselves. And IP-1 cannot own active infrastructure equipment and that is why that is not something that we have looked onto.

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**Sanjesh Jain – ICICI Securities – Mumbai**

Okay, but that subsidiary can be created for it and can be looked at, right? So the main regulatory hurdle is if you can explain a little bit on that side?

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

Yes. I think this is a completely new line of activity. And at this point of time, we are focusing on passive infrastructure. It is not on our horizon at this point.

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**Sanjesh Jain – ICICI Securities – Mumbai**

Okay. Thank you.

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**Kamaldeep - Moderator**

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

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**Anirudh Gangahar – Nomura – Mumbai**

Thank you for the opportunity. Two questions, please. One, the EBITDA margin, on the core EBITDA margin, that if I look at Indus and Infratel, while Infratel has seen a year-on-year rise in EBITDA margin, Indus seems to have seen a decline in core EBITDA margin. I was wondering if there is any rationale behind that because the organic growth has been very good in both these segments. And secondly, just noting that the energy EBITDA margin for Infratel is 8% for the quarter. Usually, we start and we reset our bases and that has been seen in Indus, but not in Infratel. So is there something of a lag? If you can just throw some light on it that is one question on margins. And the second question is just on the exits of Indus. Last time, we had 2000-odd exits in the last quarter and that was largely on account of an operator shutting shop in Punjab. This time, the number is again 2000 and you mentioned there are certain permitted exits. Now should we consider this as permitted exits, is there is a limit to it and this number seems to be a bit high now or if it is this number could really well be in the same range and the exits are available every quarter or every year. If you can just help us understand that. Thank you.

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

On the first two ones, a part of, I think the second one answers partly the first one. So the EBITDA margin this particular quarter for Indus has been relatively lower that leads to the overall margin being less there on a Y-on-Y basis, what you see in Infratel. And another factor which you will have to keep in mind, on account of the MSA, the freezing impact, what we had, Indus had a higher share of that, and hence, the overall EBITDA margin is also subdued on account of that MSA freeze which had happened last year. In terms of energy margin, we have to look at the overall at a consolidate level, I think we should still go with the overall margin of somewhere around 3% to 5%, because this margin should be seen on a yearly basis rather than us having to see this on a quarter-to-quarter basis because there can be variations.

**Anirudh Gangahar – Nomura – Mumbai**

So that 8% number that we saw, this could very well normalize over the period of time because last few quarters every year, we have seen a rising trend every quarter progressively. So this would be a bit of a one-off?

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

No, no. See, it can vary subject to quarter-after-quarter. Hence, as I said earlier, we should try and see this on a yearly basis. But the overall guidance still continues to be at a consolidated level. We should have this between 3% and 5%.

**Anirudh Gangahar – Nomura – Mumbai**

All right.

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

On your number of exits, I think we did see lesser number of exits in this quarter than we had last, so I do not know if, for Indus too, this number was slightly lower. But from a run-rate, this is again purely driven by operators in terms of when and how they are trying to consolidate on some of their positions and also trying to reiterate some of their portfolio. So it is very difficult for us to say what is the run-rate, but these numbers are obviously linked also to the future growth of business that comes in with these operators, so it is not that it is not limited to a certain number. The exits that you saw in the last quarter however, was one-off and that is why it was stated explicitly that there are an operator shutting shop in Punjab.

**Anirudh Gangahar – Nomura – Mumbai**

Just have a one small follow-up on this. Is there a certain percentage of permitted exits in any MSA with any operator?

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

It is a small percentage. We have not given that specifically. It is also linked to the new volume of business and so on and so forth.

**Anirudh Gangahar – Nomura – Mumbai**

All right. Thank you Sir.

**Kamaldeep - Moderator**

Thank you very much Mr. Gangahar. 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**

Good afternoon. Thank you for the opportunity. Congratulations on a great set of results. I have two questions. One is on Jio. Let us say Jio is targeting 200,000 sites over the next one to two years. So very quickly, their coverage will extend beyond the known tower footprint except maybe BSNL. So my question is, would you be open to or willing to build out a brand-new tower for Jio as the anchor tenant, where the second tenant could be Airtel may not have any plans to come there in the short run? So that is one. Secondly, second question is, how have you been accounting for the exit penalty that we have received so far? I mean, is it like

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one-shot revenue that you book or is it staggered over the remaining life of the tower? Or is it like a one-time exceptional and it doesn't appear in the revenue or the EBITDA line?

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

On your first question on Jio, we will be happy to roll out the Jio in terms of new rollout requirement, but between Indus and Infratel today, we have got 160,000 towers. And you also know that Jio has their own towers and they have taken a few towers from RCom, too. But should there be a requirement to rollout, we believe Jio, the kind of capacity network that they have built and also the kind of tariff plans they have been rolling out, will probably be the first one needing capacity-based towers beside coverage ones and it will only be a matter of time, given that incumbents too have been matching most of these, that they will also have similar traffic and will probably need capacity sites sooner or later. So we are happy building for Jio should they need us to build out towers in newer areas or also for capacity purposes. Your second question?

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**Sanjay Chawla – JM Financial – Mumbai**

There is no resistance to having the tower only for Jio maybe for one or two years because...

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

No, not at all.

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

I think so far what we have been told is that the accounting standard permit is to be taken as a one-time income. We have been talking to the auditors. We would want it spread over whatever was the original period. But so far, there is no clarity on this, as of today it is qualified as one-time.

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

One-time recognition as and when you receive the money.

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**Sanjay Chawla – JM Financial – Mumbai**

Okay. One-time revenue recognition, so it appears in EBITDA?

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

It will as and when it comes, but we account for it only when we actually receive it.

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**Sanjay Chawla – JM Financial – Mumbai**

Okay. Got it. Thank you so much and all the very best.

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**Kamaldeep - Moderator**

Thank you very much Mr. Chawla. 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**

Thanks for a follow-up. Just one question here with respect to the exit penalties. So when your contracts are getting rolled over to the new structure, would the terms of exit, which is the 35% of unpaid amount or the 12 months of rental as the exit penalty, will they remain the same? And will that - will the period also get reset from the day you roll over the contract? Or will the original start point of the contract be considered in computing exit penalties?

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

If I am not mistaken, the exit penalty is with respect to the remaining period of the contract.

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**Vivekanand Subbaraman - Ambit Capital - Mumbai**

Okay. So it does not matter how long you are there on the site. Your exit penalty is the same. Is that what you are saying?

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

I am not too sure. There might be some connection.

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

There is a connection, Vivekanand. This particular clause comes into play when the age on network for one particular OpCo exceeds five years.

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**Vivekanand Subbaraman - Ambit Capital - Mumbai**

Right. And if someone exists prior to five years, then what happens?

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

Then it is the complete set of future rentals, a higher penalty than what you see here.

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

Your question is the contract gets rolled over, Vivekanand. And the second part that you have said, if the contract gets rolled over, it is fresh contract then, for the period of whatever, 10 or 15 years that an operator chooses, at the then prevailing rates. So hence, the new - the exit clauses are exactly the same but the contract period, again, gets reset and restarted from that point on.

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**Vivekanand Subbaraman - Ambit Capital - Mumbai**

Understood, very clear. Thanks.

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**Kamaldeep - Moderator**

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

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

Thank you very much. As Akhil cited, data growth and consolidation remains to be the key themes of the quarter. All operators are accelerating their 3G and 4G rollout to capitalize on the data opportunity. This quarter, we have again surpassed our previous benchmark by adding the highest number of co-locations since IPO on a consolidated basis and highest number of 4G network rollouts. Demand for new towers remained in the range of 2%, while co-locations grew faster by 11% year-on-year. We believe this momentum shall continue as operators would want to benefit from the data consumption and to improve quality of service. This has been a positive quarter with consolidated revenue of Rs.3,524 Crores, up 10% year-on-year, and EBITDA growing faster at 12% year-on-year to Rs.1,575 Crores. We see exciting times ahead in terms of data growth and Smart Cities, opening up new horizons for us. We are fully prepared to capitalize on the increased demand and emerging opportunities. On behalf of the entire Bharti Infratel team, I thank you all for your continued support. We look forward to an exciting year ahead of us. Thank you very much.

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**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.

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