

Bharti Infratel Limited First Quarter Ended June 30, 2018 Earnings Conference Call

Conference Call Transcript

Event: Bharti Infratel Limited First Quarter Ended June 30th, 2018 Earnings Conference Call

Event Date/Time: July 26th, 2018 at 1430 hrs.

Bharti Infratel Limited First Quarter Ended June 30, 2018 Earnings Conference Call

CORPORATE PARTICIPANTS**Akhil Gupta**

Chairman - Bharti Infratel Limited

Devender Singh Rawat

Managing Director and CEO - Bharti Infratel Limited

Pankaj Miglani

Chief Financial Officer - Bharti Infratel Limited

CORPORATE CALL PARTICIPANTS**Sachin Salgaonkar**

Bank of America - Mumbai

Manish Adukia

Goldman Sachs - Mumbai

Rajiv Sharma

HSBC - Mumbai

Kunal Vora

BNP Paribas - Mumbai

Sunil Tirumalai

Credit Suisse - Mumbai

Pranav Kshatriya

Edelweiss - Mumbai

Sanjay Chawla

J M Financial - Mumbai

G V Giri

IIFL Securities - Mumbai

Anirudh Gangahar

Nomura Securities - Mumbai

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, 2018 Earnings Call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question-and-answer session will be conducted for all the participants on this call. In case of a natural disaster, the conference call will be culminated post an announcement. Present with us on the call today is the senior leadership team of Bharti Infratel Limited. Before I hand over the call, I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risks that we face.

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

Akhil Gupta - Chairman - Bharti Infratel Limited

Thank you. Thanks for joining us on this earning call for Bharti Infratel for the First Quarter Ended June 30, 2018. Before I talk about the quarter and the industry situation, let me share a very quick update on the merger process with Indus Towers. To date, the scheme of arrangement has already received approval from the Competition Commission of India and the Bombay Stock Exchange. These are the two major permissions, which are needed for us to go to National Company Law Tribunal (NCLT), which is the formal process for merger. We would be filing our petition before NCLT very shortly and that process will now start. I would say overall the progress has been very well. We are happy with the speed that these approvals have come with and I feel that we are in line with our expected closure before the end of this year that is March 31, 2019. We will, of course, keep you updated on the progress on this by way of formal announcements as well as on our earnings calls.

You are all aware that a massive consolidation is currently underway in the telecom services Industry following the heightened competitive intensity from Jio. For instance, Vodafone and Idea are in the last legs of their merger while Airtel is in the process of

Republished with permission. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Bharti Infratel Limited.

Bharti Infratel Limited First Quarter Ended June 30, 2018 Earnings Conference Call

integrating its acquisitions made over the last year mainly Telenor, Tata and Tikona. Since obviously with different network elements coming, spectrums coming, the network planning based on the new sites added to an existing running network with more spectrum coming in, is a very complex and complicated time consuming exercise. As anticipated, these companies did put the new co-locations on hold for the time being and focused on adding 4G to their existing sites in the meantime. As a result the new co-locations for the quarter continued to be soft as reflected in detailed "Operating Highlights" in the quarterly report; however, we firmly believe that this is only a temporary phase since with only three big players left that is Airtel, Vodafone-Idea combined and Jio and only one public sector player, it is absolutely imperative that they roll out their networks soon, so has not to leave a huge competitive advantage to the others.

In June quarter, we reported churn in co-location of 5657, which represents the last of the small operators to exit the Indian telecom industry. As a consequence on June 30, 2018 the consolidated tower base stood at 91,759 on a consolidated basis with co-locations at over 200,000, declining 8.1% year-on-year with a co-location factor of 2.19 at closing. I may point out that while we record the churn on receipt of exit notice itself, in practice, billing on some of those sites does not discontinue immediately. As on June 30, 2018 on a consolidated basis there were 6672 such co-locations on which billing was continuing.

On many occasions, I have spoken of the robustness of the business model for this tower industry. I am very pleased to point out that this robustness is clearly visible despite these major churns in the last few quarters and the temporary slowdown of co-locations, the fall in overall performance vis-à-vis corresponding period of last year is only marginal. For instance, against the co-location fall of 8.1%, EBITDA reduced only by 3.5%, PAT reduced by 3.9% while the EBIT and very importantly operating free cash flow were the same as last year just under Rs.1000 Crores for the quarter. We continue to have a large free cash flow and our return on capital employed and shareholders' equity remains intact.

Some of the highlights of the quarter, the revenues for the quarter at Rs.3673 Crores, EBITDA at Rs.1520 Crores, representing a margin of 41.4%, EBIT at Rs.981 Crores, net profit Rs.638 Crores and operating free cash flow at Rs.992 Crores for the quarter. The ROCE pretax and ROE post tax remained strong at approximately 34% and 15% respectively.

To conclude, with the Voda-Idea merger, we would expect some more cancellations in co-locations in the next few quarters; however, we continued to believe that the 4G loading phase nearing its end, the next round of densification demand in the country should drive further co-locations growth for both, Infratel and Indus in the near-term and with India poised to launch 5G simultaneously with the rest of the world, we believe that the long-term potential for tower and other passive infrastructure companies remains strong, especially as you all know the main 5G spectrum will be in 3.5 GHz band which has significantly low propagation. Thank you all, the management will now take your questions.

Kamaldeep - Moderator

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

Sachin Salgaonkar - Bank of America - Mumbai

Thank you for the opportunity. I have two questions. First question is on some of the comments what Akhil made which is this quarter we saw the impact from last of the small operators. So Akhil does that mean the impact from Tata is behind us or we may see some impact as and how Bharti and Tata close their merger, so that is question one. Question two and clearly it is perhaps a good thing to see that while co-locations declined the impact on EBITDA is not there, but I also remember the math which you guys had shared before which is two times tenancy is roughly 65% margin, three times tenancy 75% margin, basically when the tenancy falls there is an impact in margin and my question is more on the lines of Idea-Vodafone cancellation impact. I remember in the last call you guys mentioned it is a 20000-25000 cancellation tenancy impact. Is that fair to assume on that number roughly a 4 to 5 percentage point impact on EBITDA margin could be seen. Thanks.

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

This is D.S. Rawat this side. First one from a number reporting standpoint, the Tata impact has been taken completely on the numbers; however, Akhil did mention that there are still some revenue paying co-locations which are in service. So numbers that we report on co-locations are basis notices received and all the Tata numbers have been included as noticed received. However, their termination dates have not come in yet, we continue to recognize revenue that is getting paid against these as rentals. So the number that Akhil mentioned in the call was closed to about 6000, those are the numbers for which the revenues are still coming in. Your question on Voda-Idea merger and the model itself, yes the model is that the higher we move up on tenancy ratios, EBITDA tends to improve and the reverse is also true, but we did mention that there are three corrections on the reverse step that we get as an advantage. First one of course being that you expect if two entities merge, a larger amount of electronic equipment deployed which is loading. Number two, when the third operator moves out on the site, the incumbents the one and two, their rentals moves

Bharti Infratel Limited First Quarter Ended June 30, 2018 Earnings Conference Call

up like the way it slides when the third tenant comes in, the reverse happens there too. So those are some of the adjustments that happen to compensate for the revenue loss that happens. So there will be an EBITDA impact, but is that in line with exactly the number of tenancies in terms of percentage, that might not be entirely true. On exact number on EBITDA impact till we do not have exact site-wise details for an operator it is not possible to comment on that and secondly these as we have seen in the past have staggered over a fairly larger time and particularly Voda-Idea merger which is the merger of two large entities, one needs to create capacities before you can start to free-up electronic equipment and redeploy. We are yet to see exact deployment plan from our customers and once we have that hopefully we will be able to get more clarity. The numbers that you said were the numbers that have been given on a consolidated basis 20000 to 25000 on a consol level.

Akhil Gupta - Chairman - Bharti Infratel Limited

Just one thing Sachin, you mentioned about the EBITDA margins going up to 65% with two or three co-locations. The 41.4%, which you see is not comparable to that, this is including the energy charge. Therefore that 65% is only on the service revenue.

Sachin Salgaonkar - Bank of America - Mumbai

Correct, I actually meant on ex-energy basis. Sorry one small follow-up is Akhil you have also mentioned that major permissions have already been gotten I remember when the transaction was announced management expectation was roughly 12 months may be a timeframe when all the approvals could be received. By the looks of it, could we see the decision coming a little bit earlier than those guided 12 months?

Akhil Gupta - Chairman - Bharti Infratel Limited

I do not know. NCLT seems to be very overworked, so I am not too sure how long it will take there, but now the matter will be before NCLT. But I think on a realistic basis, my feeling is that could still takes six, seven months and that is why I say may be before March I am very optimistic it should happen.

Sachin Salgaonkar - Bank of America - Mumbai

Thank you and all the best.

Kamaldeep - Moderator

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

Manish Adukia - Goldman Sachs - Mumbai

Good afternoon and thank you for taking my questions. I have two questions. My first question is you mentioned that currently the co-location rollouts have been soft as operators are loading new equipment on the existing towers and we are probably reaching a phase where that phase is coming towards an end. If you can give us some sense as to when do you start to see pickup in gross tenancy additions. Would it be in your view an FY2019 phenomenon or would it be an FY2020 phenomenon and a related question to that is, Jio has indicated few times in the past that their preference remains to build own towers. So in your numbers are you still seeing any incremental pickup from Jio or is all the new gross tenancy being given by Bharti Airtel? Thank you.

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

Manish to the first question that you said the softness in operators trying to do 4G rollouts on existing sites, we still continue to see heightened cabinet expansion particularly for 4G in across the network. Even today if you look at the reported numbers there is still some headroom and we believe it is a matter of couple of quarters before 100% of the sites of incumbent operators should be 4G enabled and that is when technically the deployment of new build sites not that that is not happening, the reason it is soft is today we continue to have co-locations coming in from leading operators and also from Jio to your point we do see those roll outs happening. It is just that with Voda-Idea merger around the corner too, it is at a pace which is lower than what it was in the past and we believe once 100% of existing sites are enabled for 4G from there on all additional capacity build will have to come in with building of new sites which will be a full blown co-location or a new site to be build out. Your second question about Jio, yes Jio continues to build sites on their own. We continue to see a little bit of increase on numbers that are coming out. As I mentioned in the previous call too, they were between two phases and we have started to roll out co-locations for Jio, both in Indus and Infratel.

Manish Adukia - Goldman Sachs - Mumbai

Republished with permission. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Bharti Infratel Limited.

Bharti Infratel Limited First Quarter Ended June 30, 2018 Earnings Conference Call

Sure. So as far as Jio is concerned, a quick follow-up on that I mean they have mentioned that for them it works out to be cheaper over a longer term if they build their own towers and Infratel has historically mentioned that the sharing of it must work well for the operators. So in your view with Jio building aggressively its own towers, could that put pressure on your rentals going forward to maybe get Jio on board or retain operators on your towers or are you not seeing any pressure on your rentals at all?

Akhil Gupta - Chairman - Bharti Infratel Limited

We have a standard MSA, which applies to every operator. Every operator comes on the same terms and the same MSA, so we are not seeing anything different for anybody, any particular operator and to this point that their own towers are cheaper, well we know, we do get orders from them, so there must be some merit with us that they give us orders.

Manish Adukia - Goldman Sachs - Mumbai

Sure, fair enough. Thank you and all the best.

Kamaldeep - Moderator

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

Rajiv Sharma - HSBC - Mumbai

Thanks for the opportunity. Just one question which is about post this consolidation phase just trying to understand the medium term growth prospects, so Akhil you pointed about 3.5 GHz spectrum and the quality of the spectrum being bad, but in that case over the next one year or with the current deployments, the operators should be done with their coverage and mostly incremental demand will be about densification which could be met by small cells or pole sites which Jio is already doing and these are single tenancy products. So how do you see medium term growth prospects in this context? Though I am not saying that there will be no demand for macro towers, but they may not find any viability from a business case perspective of telcos, so how should one look at this whole thing?

Akhil Gupta - Chairman - Bharti Infratel Limited

One thing is very certain that going forward as more 4G happens, there will be more co-locations on the traditional towers also both RTTs and GBTs and when 5G comes in, yes there will be micro sites. But I'll be wrong to say they will be single tenant sites. They have designs where we should be able to accommodate two tenants or two operators. So it is not that everybody will make their own micro site. You call it pole, you call it whatever, they will be shared... DS anything you want to add?

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

Just to add to that. The concept of sharing reducing cost for two operators is an obvious concept if you are trying to look at a base scenario of even having base rental and we are presuming that the small cells will come in an area of high footfalls or in areas and buildings where there is a high amount of traffic in demand or the metro cities where the cost of infrastructure, that is leasing of land and of the buildings' rooftop rights itself is fairly expensive. If it is shared between two operators obviously the cost for each operator comes down significantly. So there are benefits of sharing coupled with the benefits of sharing energy and in some cases if you could share transmission too, it could definitely make a viable proposition. Your point of saying operators have their own small cell sites, that has been the case in the past because the difference between the leading operator and others was so huge that they could justify building small cells dedicated to themselves and was a strategic advantage. We believe going forward, these like any other infrastructure could give benefits of sharing given the huge amount of numbers that are needed. 5G pan India people could look at anywhere, millions of site coming up over the next 5 to 10 years and if those sites were to come with fiber connection and if each operator was to build that on his own and pay rentals that would be significant amount of money and if it is shared clearly you know the benefits could be there for all the three parties to win.

Rajiv Sharma - HSBC - Mumbai

Thanks for the response. Just trying to follow this up with one more question is the primary purpose for the tower companies was to fund capex for operators, but now with the small cells that per unit Capex will decline and let me ask the question in a different way. Will you be fine doing a service kind of contract for telcos in terms of deploying their small cells assuming they are single tenancy and work on a 10% kind of gross margin and is that the way forward?

Bharti Infratel Limited First Quarter Ended June 30, 2018 Earnings Conference Call

Akhil Gupta - Chairman - Bharti Infratel Limited

Rajiv, let me answer that. First of all the purpose of forming this company was never to offload the capex alone. The purpose was to share the infrastructure, which would give massive savings to the operators in both capex and opex, be there financial resources, manpower resources, mind-share to focus on items which they do best and leave this part to the tower company. On the other hand, from Tower Company's point of view, this was no charity when they took up capex they made sure that they had solid returns, which you have seen for the last seven-eight years continuously. So first of all the premises that this was done to offload capex alone is wrong. As far as the smaller sites are concerned, surely on a per site basis the capex will be lower, but in terms of number of sites required as DS mentioned, it will be many, many times over. Therefore the overall capex outlay situation remains the same. So we are very confident that we would be in a position to share even the small sites amongst the operators.

Rajiv Sharma - HSBC - Mumbai

Okay, that is helpful. Thanks a lot.

Kamaldeep - Moderator

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

Kunal Vora - BNP Paribas - Mumbai

Thanks for the opportunity. I had two questions. First is I wanted to understand the expansion capex better, so if I look at the total amount Rs.368 Crores and if I do a math of about Rs.25 lakh per tower and Rs.2 lakh to Rs.2.5 lakh per tenancy that number comes to about Rs.100 Crores. So like where does the balance Rs.270 Crores get spent and what is the return on investment, which you get on that. If you can explain that and then I will go to the next question?

Pankaj Miglani – Chief Financial Officer - Bharti Infratel Limited

If you look at expansion capex, when you are saying the total expansion, the capex is the composition of the new site then tenancies, electrification, replacement and let us say further loading expansion, so while you are computing one component which is pertaining to the number of towers given would still be Rs.25 lakh then there is a tenancy base which still happens at a marginal rate or may be somewhere around Rs.2 lakh to Rs.3 lakh and then you have got a replacement capex which still continues in the range of approximately around Rs.65000 per tower per year kind of norm. The balance is a mix of one, the energy initiative, which the company takes, as we have articulated in the past and that is also visible in the margins too. There is still a payback happening in around three to four years of that kind of a capex, which then encourages us to put more and more cost around that and balance is a mix of a part minor capex going on loadings plus there is a pre-buying which keeps happening in anticipation of the orders which would vary depending upon whatever is the order book we are having. So the balance piece if you look at a trend on a quarter-on-quarter basis, it is still falling in the same line of let us say pre-buying happening for which we have incurred the capex this quarter.

Kunal Vora - BNP Paribas - Mumbai

Just to repeat this, like my question was that I understand the maintenance capex which is Rs.150 Crores that is done, Rs.100 Crores on towers and tenants that is also okay, but the rest amount is still very sizeable, it is almost Rs.270 Crores, so I just wanted to understand that ROI on that like if it is loading, we are not seeing much of a benefit of that because the average rental has not really moved up meaningfully. If it is energy initiatives, energy initiatives still like maintain that margin, it is not be very high from energy. So I wanted to understand almost 50% of your capex where it is going and why is the ROI not visible on that?

Pankaj Miglani – Chief Financial Officer - Bharti Infratel Limited

Kunal, clearly it is visible. When you look at our energy margin happening in the range of 6% to 7% or going up to 10% every year that is nothing but that margin is flowing in from all energy initiatives taken during the year. As far as you know if you look at and I am saying a substantial chunk of this is also the capital work-in-progress or a future buying which you would have done to take care of your next quarter needs.

Akhil Gupta - Chairman - Bharti Infratel Limited

The fact is when you say a significant fall in co-locations but a lesser fall in EBITDA, that is clearly being made up by those revenues coming from the loadings and so on for which some capex is to be incurred and the return on that capex is very much visible.

Republished with permission. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Bharti Infratel Limited.

Bharti Infratel Limited First Quarter Ended June 30, 2018 Earnings Conference Call

Kunal Vora - BNP Paribas - Mumbai

Sure, okay point taken. Second question Sir on exit penalties, can you share your thoughts on how that will appear in the numbers for fiscal 2019? Will it be like one time or it will like any discussions you had on alternatives like say for Idea-Vodafone if they present some other, some solution would you be open to it instead of exit penalties?

Akhil Gupta - Chairman - Bharti Infratel Limited

I think Kunal, a little premature because ideally we would want to see that the exit penalties, which we receive, should be amortized over some period rather than one time, but these are some accounting standard issues, which we are trying to work out with the auditors, and hopefully by next quarter we should be very clear on this.

Kunal Vora - BNP Paribas - Mumbai

Sure and the last question Sir on your cost excluding energy I think very good cost control there, so wanted to understand like some initiatives which you have taken to rationalize that cost like ex-energy the cost is actually down year-on-year, going forward should we be looking at inflationary cost increase or will it be lower?

Pankaj Miglani – Chief Financial Officer - Bharti Infratel Limited

Kunal that is more of a competitive information which we may not want to share, obviously as a company we are committed and we look at the cost optimization measures at all points of time as we are driving which gets visible in the results, but beyond that specifics I am will not be able to share.

Kunal Vora - BNP Paribas - Mumbai

Okay that is it from my side. Thank you Sir.

Kamaldeep - Moderator

Thank you very much Mr. Vora. The next question comes from Mr. Viral Shah from Credit Suisse Mumbai. Mr. Shah you may ask your question now.

Sunil Tirumalai - Credit Suisse - Mumbai

Hi Sir, congrats on good numbers, this is Sunil from Credit Suisse, my questions have been answered. Thank you and all the best.

Kamaldeep - Moderator

Thank you very much Mr. Tirumalai. 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 can you share some detail on how is the rent revenue on a quarter on quarter basis, on a per tenant basis because if I adjust for the tenancy cancellation, it seems there is an increase of around 2% in this quarter on a QoQ basis, is that correct or how should we look at it? That is my first question.

Pankaj Miglani – Chief Financial Officer - Bharti Infratel Limited

Pranav, when you look at that increase, the increase is primarily happening and it is more of a technical stuff because when we reported the last quarter the Aircel numbers, we had an Aircel churn for which while the revenue was not recognized and since we take a 2 point average, we had the Aircel co-locations still appearing as a denominator while computing that and because of that anomaly close to 1.5% plus kind of an increase in revenue per tenant actually is pertaining to last quarter. Adjusted for that we should be somewhere around 1% plus on the current quarter ARPT growth vis-à-vis the last quarter.

Bharti Infratel Limited First Quarter Ended June 30, 2018 Earnings Conference Call

Pranav Kshatriya - Edelweiss - Mumbai

Second question is on we have seen closed to 30,000 tenancy cancellations over last two years and a little more, any cancellation revenue you can quantify, which has been coming and which has been booked so far?

Pankaj Miglani – Chief Financial Officer - Bharti Infratel Limited

So exit revenues, there is not any exit revenue which has been recognized.

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

Pranav just to give a colour of this, some of the initial exits that we had recorded in terms of numbers where the ones were either operator has completely shut down or has kind of closed down operations there and either they are in NCLT or in some other shape and form, we have been in courts with some of these people at different stages of recovery of exit penalty and as was mentioned earlier too, as an abundant caution, we recognise the revenue only when we actually receive the money, so we have not had the recovery so far we do have a few favourable court orders where courts have told these companies to set aside certain amount of money towards exit penalty. The recent exits that are happening because of merger with a larger entity those we are just getting into discussions with as we speak.

Pranav Kshatriya - Edelweiss - Mumbai

My last question is again on the capex, so capex has been like a black box for us, it is very difficult to quantify how it is moving ahead or if you can give some breakdown of how the capex has been in terms of the site capex, loading capex, etc., it will be helpful and second my observation is if I look at the capex productivity which you report in last five quarters it has gone down from 30.4% to 28% odd, so you did mention that the capex is optimally utilized and the return ratios on that are intact, but that does not seem to be the case as per that?

Akhil Gupta - Chairman - Bharti Infratel Limited

Well it actually is, because with tenancy or co-location exits naturally your assets remain the same and that is the beauty of this model, but since we are sweating out the same asset, the fact is the moment it is in the reverse, some productivity will fall. On capex breakup, I think these allow us to just discuss it internally to see whether we can give some of the sensitivities out or not, but we will come back to you on this.

Pranav Kshatriya - Edelweiss - Mumbai

Thank you very much Sir. That is very helpful.

Kamaldeep - Moderator

Thank you very much Mr. Kshatriya. 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. My question was on capex, you have given very good pointers to what the capex is like for towers, tenancies, energy also, what is the incremental capex that you incur for providing a loading to a customer and how has it changed, has it significantly increased over the last one year or so?

Pankaj Miglani – Chief Financial Officer - Bharti Infratel Limited

Sanjay one, the capex, it is a minor capex because most of the equipment on the passive assets on the site, once you build up a site, most of the stuff is there. As and when the loading comes there is a marginal capex, which we incur, it normally ranges somewhere around Rs.60000 to Rs.70000 per loading and that's it on which we have already told we have talked about the kind of returns we get. Because of certain size depending upon the equipment load of the capex coming in as equipments are changing, there is a bit of incremental electrical stuff for an upgrade which needs to happen, so that is the normal range of this capex.

Bharti Infratel Limited First Quarter Ended June 30, 2018 Earnings Conference Call

Sanjay Chawla - JM Financial - Mumbai

Sir I remember few years ago, two, three years ago this number used to be close to 1.5 lakhs per loading, so that would imply this number has significantly fallen, but that does not seem to be reflecting in the capex trend?

Pankaj Miglani – Chief Financial Officer - Bharti Infratel Limited

When we talked about that, between a full blown tenancy coming in and a loading coming in that is a difference out there, so that number of 1.5 still continues to be around a tenancy and I am only talking about the incremental loading here, which is just a cabinet expansion, which needs a much lower capex for upgrade.

Sanjay Chawla - JM Financial - Mumbai

May be I will take it offline. Thank you and all the best.

Akhil Gupta - Chairman - Bharti Infratel Limited

No. I think it is important Sanjay the capex is for new towers and what he was talking about was loading, for co-locations typically it would be in the range of 1-1.5 or something like that, but loadings will be a little lower.

Sanjay Chawla - J M Financial - Mumbai

Yes as it should be, okay, all right. Thank you so much. All the best.

Kamaldeep - Moderator

Thank you very much Mr. Chawla. The last 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

Can you help quantify how much are the gross additions for consolidated basis this quarter?

Pankaj Miglani – Chief Financial Officer - Bharti Infratel Limited

838, Sachin.

Sachin Salgaonkar - Bank of America - Mumbai

Okay, got it and second, wanted a little bit more clarity on exit penalties. Now one school of thought was perhaps the operators may not give full exit penalties, but you know in return end up giving business over a period of time, which I thought that perhaps that was always the case, but how do you look at the exit penalties, any update on penalties from some of the operators who exited earlier like the likes of RCom and others?

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

Sachin, I just mentioned in the previous question that came in that operators, which have kind of shut shop or who have not paid penalty in the past are the operators with whom we are in different stages of legal recourses of recovery. Contracts are pretty clear in terms of these recoveries to happen from the operator and this is also now backed by some of the orders, the initial orders that have come in, which we have challenged at subsequent courts too and has been upheld was to set certain amount of money aside to pay towards these penalties, so we continue to work on them. The recent exits that have happened and that is what I was mentioning are the exits, particularly the ones in the last one and two quarters that we have seen the current and the last one are towards merger with a larger operator and some of them continue to be revenue paying still, so while technically an exit notice has come, we are seeing revenues come for them because operators are planning to switch off and shift the traffic to the other location there we are in discussion with operators to see how this exit money would be recovered, while in principal there is an

Bharti Infratel Limited First Quarter Ended June 30, 2018 Earnings Conference Call

understanding that yes these exit amounts are applicable, rest about what options are there on the table and what are the ones what we are choosing, there was an earlier question which said if we could amortize this money over a longer period, we are in a business where recurring revenues are the means of major item for revenue, if you would want if there are offers of that nature we are happy to discuss and conclude with the operators to see that there is a win-win proposition, particularly the ones operators that are now going to stay after this post the merger scenario.

Sachin Salgaonkar - Bank of America - Mumbai

Okay, got it. Thank you.

Kamaldeep - Moderator

Thank you very much Mr. Salgaonkar. We have one question from Mr. G V Giri from India Infoline, Mumbai. Mr. Giri you may ask your question now.

G V Giri - IIFL Securities - Mumbai

This is about various large operators extending rural coverage. In the times gone by my perception is that you know usually a tower company could depend on more than one operator and therefore it was frequently feasible to take the order from the first operator whom I had ventured out into a new location and put the tower in and reasonably expect the second operator also to follow over time, but now some differences are cropping up between the three large operators in terms of how they might extend themselves and their balance sheets in extending rural coverage and it may not be any more possible it seems to be me for anyone to depend on two operators always being there in one location, so if that were to be a reasonable way to think would it change the way you accept orders from an operator to roll out a site in a rural area or in an area where there is not one in the first place and can you be any longer confident that two operators will come and charge the first operator rental only or will you have to up the rental, do you have that freedom contractually to cover yourself on the first tenant itself or are there ways in which to roll out lower cost towers that you have historically done?

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

Giri to answer that question, we normally build towers only for the leading operators that was our stance in the past and now those are the only surviving operators that you see. We are happy to build tower if a leading operator sees a business opportunity given the hyper competition that the market is going on we believe it is only a matter of time before the subsequent ones come in. To answer the second question, you are saying are there provisions in the contract to build a site exclusively for an operator? There are provisions in the contract where we can build a site for single tenant with decent returns for us to have there and run that as an operation while it is slightly more expensive to do that, operators have not chosen very many of those sites, so we do not think that would be requirement.

Akhil Gupta - Chairman - Bharti Infratel Limited

That will be an option with the operator. He could say that I wanted it as a strategic site, which I do not want you to share with anybody then we do recover what we would from two tenants. Nobody goes for that.

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

There are very rare circumstances where people wanted a site in a particular place for connectivity and other reasons as when they would have asked us to build those sites to connect in a rural location. Lastly there are USO base sites that operators are building in some of the rural area where clearly there is no viability of business and Government of India is funding part of that, there we are happy to either rollout for the operators and maintain that given our scale and strength and our presence there, it kind of increases our scale too towards the partners, so we have shown our willingness to roll out and also to maintain some of these sites which are coming in under the USO basket going really deep and rural in the geographies that we are respectively present there, so we believe that sum total of these three should be able to cover and most of the growth that is happening on data will primarily mean building more sites in existing areas where there is high density of people living and that is where you will need far higher number of sites and we look at all these things on a portfolio basis, so far it has been very positive for us building sites for leading operators and that is why the impact that you see of exits is significantly lower in the case of Infratel compared to some of our competitors.

G V Giri - IIFL Securities - Mumbai

Right and if you were to take that single tenant example you should not really have a problem in building a site, which costs less than your usual ground based towers in the rural which are built for multiple tenancies right?

Republished with permission. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Bharti Infratel Limited.

Bharti Infratel Limited First Quarter Ended June 30, 2018 Earnings Conference Call

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

Yes.

G V Giri - IIFL Securities - Mumbai

Right, understood. Thanks a lot.

Kamaldeep - Moderator

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

Anirudh Gangahar - Nomura Securities - Mumbai

Thank you. Two questions actually, the first is on your MSA whereby some of your tenancies were locked and it is a beginning of the new financial year, is it possible to give us some colour out of the total 200,000 odd tenancy that you have now, how many of them are now still in a freeze and how many are now going to be having this escalation? That is question one and second is any colour that you can provide in terms of competitive intensity from American Tower or over the of the last quarter or so, has there been any change that you are seeing on the ground, those are my two questions?

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

On the first one it is slightly more tricky for us to give out this information, but rough sense is the number of co-locations that we would have added during the previous year would indicate how many would come out of the freeze too. The freeze was given to extend the contract till 2023 for the benefit of everyone and they are gradually getting unfrozen, specific number because these are operator specific are not giving out so far, so it continues to come into unfreeze and I think by 2023 everything comes out of the freeze. The entire thing comes out of the freeze by 2023, but you could work backwards if you have the numbers of tenancies that we would have added in every year as you move backwards that would give a sense of how many you are going to get unfreeze too. On competitive intensity, we have not seen big changes there on ground. We have said that in the past that we are not the cheapest. There are towercos who are wanting to take market share, try to price themselves to a 5-7% lower than us to gain market share in some of these areas and we have also said that tower capacities are not fungible capacities, where we have a tower, we still continue to gain our business. From an operator standpoint yes they continue to look at opportunities to reduce cost and our focus is to see that we bring in significant savings on energy and pass on those as benefits to the operator thereby being competitive plus the higher tenancy ratio that we enjoy also gives us an advantage over our competition because anyone who comes to us is more likely to come as a third or a fourth tenant instead of being a first or second tenant with my competitor where not only the rental benefits, the ground rent beyond threshold is also shared that reduces the cost further and energy in some cases can be very significant that is shared and thereby overall total cost of ownership we believe, is significantly better for operators to stay with Indus Infratel over our competition.

Anirudh Gangahar - Nomura Securities - Mumbai

Right. Thank you Sir may I slip in one other question, has there been any material conclusion on any of your particularly the Bhopal Smart City project because it was a little bit behind, but are we going to get something meaningful by the end of this year on the numbers and the business model?

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

Not significant in terms of revenues I might say there but we expecting that things are already put up for acceptance with the authority, in a quarter's time I think the acceptance should be with us and we should be starting to get some revenues on it, but not earthshaking, so these are small deployments in one city similarly Vadodara in the case of Indus and NDMC, there are small amount of revenues that have started in a few cases for them, but these are very preliminary now, on a yearly basis it would not move the needle significantly. These are more solutions to showcase our capability on fiber, on small cell, some of the questions that came in on how you could create an integrated pole solution to share the site and thereby give advantage, the sharing is not just between operators, but also with the municipal authorities, so that there is huge interdependence and a great quality network, which can support the IOT applications and 5G for the tomorrow period and these then we would like to scale them up even without a Smart City contract for instance in the case of fiber and small cells in areas of high footfall.

Bharti Infratel Limited First Quarter Ended June 30, 2018 Earnings Conference Call

Anirudh Gangahar - Nomura Securities - Mumbai

Right. Thank you very much.

Kamaldeep - Moderator

Thank you very much Mr. Gangahar. We have a follow up question from Mr. Sanjay Chawla from JM Financial, Mumbai. Mr. Chawla you may ask your question now.

Sanjay Chawla - JM Financial - Mumbai

Just a question on the Smart City, do the right of way and the right to build out street poles, multipurpose smart utility poles does it come bundled in the case of Smart City projects and have you started building any such sort of street furniture?

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

Sorry I did not get the exact question of what you mean by the word bundling there, if you are referring to exclusive right of way in some cases, some rights are exclusive, some rights which are not in the state municipality powers are not exclusive in this case too. If you could clarify what you mean by bundle I will probably try and answer that question then?

Sanjay Chawla - JM Financial - Mumbai

In the sense this right of way you are getting to build smart multipurpose street utility poles have you started building any such infrastructure in the areas where you have won the project?

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

Yes and that is what I had mentioned to the earlier question saying that that is getting accepted by the state authorities, we have laid fiber in the city of Bhopal and have also built the smart street furniture there, we have also demonstrated and showcased the solutions to the authorities, once they have signed off the acceptances when we will be able to monetise that and as I said hopefully this quarter end we should have that acceptance and we should be able to showcase that to investors and to our customers in a meaningful way.

Sanjay Chawla - J M Financial - Mumbai

What is the potential for shareability of that sort of infrastructure from 4G, 5G point of view, have you started doing pilots on that, are you getting interest from telcos?

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

To answer your question in simple terms is yes, capacities how much it can handle it has a capability of handling up to 9 small cells, if you want to, it could handle one macro base station, but typically for a 12 meter pole it is not advisable to deploy macro based stations in some of these areas. On 5G we are yet to see the hardware. Mostly it will be dependent on the type of hardware and the antennas that have to be deployed, those are the two limiting things otherwise the grid electricity and other things have been supported by the government, so we should be able to technically support more than one operator in all these sites.

Sanjay Chawla - J M Financial - Mumbai

Okay, all right. Thank you.

Kamaldeep - Moderator

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

Bharti Infratel Limited First Quarter Ended June 30, 2018 Earnings Conference Call**Devender Singh Rawat - Managing Director and CEO - Bharti Infratel Limited**

Thank you very much. As Akhil cited there is a huge consolidation underway in the telecom Industry in India following the heightened competitive intensity. We have had our limited share of churn too with this quarter number of 5,657 co-location churn, we have taken all the churn on account of smaller operators and that leaves only the impact of Vodafone-Idea merger yet to come. Despite the churn and muted tenancy additions we close the quarter with consolidated revenue of Rs.3674 Crores and EBITDA of Rs.1521 Crores. Going ahead, we believe all leading operators will try to catch up to capitalize on the ever going data opportunity, they will now focus on both increasing macro coverage and improving capacity through densification leading to strong demand of telecom infrastructure. We are fully prepared to capitalize on these emerging opportunities by playing a key role in building and sharing wider telecom infrastructure with all customers on a non-discriminatory basis. Before we close we would like to take this opportunity to thank our CFO, Mr. Pankaj Miglani for his valuable contribution to Infratel's growth over the last seven years, during which period we surpassed many milestones including the IPO. Pankaj Miglani takes on a larger business role in Airtel. We also welcome S. Balasubramanian, who takes on the CFO role with effect from August 10, 2018. We wish both of them the very best in their new roles on behalf of entire Bharti Infratel Team. I thank you all for the continued support. Thank you very much.

Akhil Gupta - Chairman - Bharti Infratel Limited

Thank you, Pankaj.

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.