

Bharti Infratel Limited First Quarter Ended June 30, 2020 Earnings Conference Call

Earnings Conference Call Transcript

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Earnings Conference Call

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Bharti Infratel Limited First Quarter Ended June 30, 2020 Earnings Conference Call

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Managing Director and Chief Executive Officer – Bharti Infratel Limited

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Ms. Surabhi Chandna

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Edelweiss Securities – Mumbai

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ICICI Securities – Mumbai

Mr. Rajiv Sharma

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PRESENTATION**Rajyita – Moderator**

Good afternoon, ladies and gentlemen. I am Rajyita, the moderator for this conference. Welcome to the Bharti Infratel Limited First Quarter Ended June 30, 2020, 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!

Mr. Akhil Gupta - Executive Chairman – Bharti Infratel Limited

Thank you very much. Thank all for joining us on the earnings call of Bharti Infratel for this quarter ended June 30, 2020.

Joining me on the call today are, Mr. DS Rawat MD and CEO; Sachin Naik, COO, Pooja Jain, CFO and Surabhi Chandna, Head of Investor Relations.

We hope that all of you and your families are staying safe and healthy during these COVID times. In the last quarter, as you all know, India like many other countries in the world, underwent the government imposed lockdowns to arrest the spread of COVID-19. During this time, telecom industry, which was classified as essential service, continued to operate as permitted by the authorities. We have witnessed surge in demand for connectivity, changing consumption patterns and very heavy dependence on wireless networks due to work, education and entertainment moving to home for a whole lot of people.

Telecom passive infrastructure companies like ours stepped up to meet the demands of our customers, i.e. the telecom service operators, during this time. After some initial restrictions, with respect to movement of goods and personnel, we have now resumed

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Bharti Infratel Limited First Quarter Ended June 30, 2020 Earnings Conference Call

new rollouts, keeping people safety of course as a top priority. It is indeed a matter of satisfaction for all of us at Indus and Infratel that we were able to rise to the occasion in providing vital connectivity, which has kept the country connected and the businesses continuing despite a very large number of people working from home. My compliments to the entire team in both these companies, particularly those operating in the field in very difficult circumstances, for enabling us to perform this crucial national duty.

Coming to the other sector developments, you would all have noted about the AGR judgment in the Honorable Supreme Court, in its last hearing on 20th of July this month, the Honorable Supreme Court after hearing both parties upheld the demands raised by DoT (Department of Telecommunications), but reserved its order on the issue of the period over which the installments would be allowed or the terms thereof. The next date of hearing is 10th August 2020, and we remain hopeful for a favorable outcome, which will help maintain the current industry structure and competition and thereby help boost long-term investments for operators in their networks.

Coming to the Company updates now, first let me give you an update on the merger process between Indus and Infratel. The Board of Directors, after discussions, had extended the long stop date until August 31, 2020, subject to agreement on closing adjustments and other conditions precedent for closing and with of course, each party retaining the right to terminate and withdraw the scheme. We will continue to apprise the market on any development in this regard.

On the business side, the tower base on a consolidated basis, despite the lockdown, grew 3.4% year-on-year, and the co-location base grew 0.6% year-on-year. As on June 30, 2020 the consolidated tower base stood at 95,801, with the co-locations at 174,216 with a co-location factor of 1.82 at the closing.

Coming to the financial highlights, first of all, as a reminder, let me mention that the Company adopted the accounting standard IndAS 116 on leases from April 1, 2019, that is financial year FY2019-2020, and to aid the transition, had been providing financials for the four quarters, both with and without IndAS 116. Going forward, however, we will be reporting now only the IndAS 116 results. And thus, the financials prior to April 1, 2019 will not any longer be comparable.

For the quarter, we reported consolidated revenues at Rs.3,505 crores, down 6% year-on-year. EBITDA at Rs.1,807 crores are down 7% year-on-year. Operating free cash flow at Rs.1,267 crores was down 5%. And consolidated profit after tax at Rs.704 crores was down 21%.

I must point out that, adjusted for: a) approximately Rs.125 crores, which were the one-off write-backs in June 2019 quarter, which had been duly disclosed to all of you; and b) the fact that approximately Rs.58 crores of agreed exit charges, which were not received during this quarter physically were not recognized as income as per our policy. The EBITDA for the quarter in normal course would have been Rs.1,865 crores instead of Rs.1,807 crores and would have been more or less the same as the normalized EBITDA in the corresponding quarter last year. Similarly, for profit after tax, the fall would have been very marginal. Accordingly, I feel that, on a normal basis, we are back on track and we have largely recovered the losses in revenue and profitability, which had been caused due to large-scale exits that we have seen in the past. The good news is that the ROC pretax and ROE post tax for the quarter were both at approximately 24% despite such turbulences.

The Board of Directors yesterday declared a first interim dividend of Rs.2.30 per equity share for financial year 2021. This largely equates so the Infratel's share of the interim dividend received from Indus which was Rs.420 crores and is in line with our policy of distributing dividends received from associates to our shareholders.

To conclude, the resilience shown by telecom industry during COVID, when most other industries declined sharply, bears extremely well for not only the telecom service providers, but also for the telecom infrastructure providers like ours. New avenues of growth in telecom industry are emerging as work from home or work remotely will now become a widespread norm. The demand and use cases for these services will only increase in the future with the introduction of technologies such as 5G, which will help achieve our aspiration of nationwide digitization while competing head on head on global platforms. Your company is very well equipped and well placed to exploit the full potential of such growth and maintain its leadership position going forward.

Before I hand over this call back to the moderator for question and answer, I would like to inform the investors that Mr. DS Rawat, the current MD and CEO of the Company, would be relinquishing charge on the August 3, 2020 at the conclusion of the Company's Annual General Meeting. You would recall that DS, as he is affectionately called, had on April 24, 2019 informed the Board that he would not want to be considered for the post of CEO in the merged entity. I would like to take this opportunity to thank DS for a wonderful job done in creating a world-class company with extremely high standards of transparency, corporate governance and leadership. I have had the privilege of working very closely with DS for the last 10 years. He joined this company in 2010 and would rate him as not only one of the best managers I have worked with and as a professional, but also a wonderful human being.

Let me give you a few facts to illustrate the achievement which he has been able to have during his stint over the last decade. On the financial performance front, between 2010 when he joined and the year ending March 31, 2020 the revenue doubled from Rs.7,000 crores to Rs.14,647 crores. That's a CAGR of 7.6%. The EBITDA went up from Rs.2,418 crores to Rs.7,442 crores, CAGR of nearly 12%, PAT from Rs.253 crores to Rs.3,300 crores, a CAGR of 29.3%, and the Return on Capital Employed from 3.8% to 24.3%, CAGR of 20% and ROE from 2.1% to 24.3%, CAGR of 28%. This is absolutely remarkable for any company in any sector.

He has also had a very rare achievement all these years, that all these 40 quarters that he is here with this Company, not even once had the Company had to carry forward any unadjusted audit adjustment. This speaks volume of the strong and the clean balance sheet that the Company has. Also, very early on he ensured full quarterly audits, he also spearheaded the IPO of the Company in 2012.

Bharti Infratel Limited First Quarter Ended June 30, 2020 Earnings Conference Call

Besides his extremely commendable achievements on the financial performance front, DS has always displayed a very fine soft side, whether it was in dealing with his colleagues or with his customers or with any other stakeholders. The way he has led his team in times of natural calamities, which we obviously have a few every year, and other crisis, like the ongoing COVID, is not just exemplary, but also reflect the deep care that he has for all the customers and the end users of telecom services. Please join me in wishing DS continued exemplary success in his future endeavors. Sachin Naik, the COO of the Company would be performing his duties in the interim, until either the merger is completed or a new CEO for the Company is appointed, as the case may be. DS, on my request and the Board's request, has kindly consented to continue as an advisor for the next few months, and he would be available to Sachin for assistance and guidance for a smooth transition.

With that, I would like to open the floor for questions and answers and hand over back to the moderator.

Rajyita – 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 question on a first-in line basis. To ask a question, participants may please press “*” “1”: now. The first question comes from Mr. Kunal Vora from BNP Paribas, Mumbai. Mr. Vora, you may ask your question now.

Mr. Kunal Vora - BNP Paribas - Mumbai

Thanks for the opportunity. Best wishes to Mr. Rawat. I have two questions. First is telecom operators are likely to see surge in data volumes this quarter while your co-locations do not really reflect it in this quarter, can we expect an acceleration going forward? That is the first question. Second one, I will just go ahead with, is on energy margins. They have come off significantly, if I really look at, compared to FY2018 and FY2019, FY2020 was a weak year and this quarter we have seen a negative energy margin. I believe there is some change from fixed charges to pass-through. Can you explain how do we look at it going forward? Thank you.

Mr. Devender Singh Rawat – Managing Director & Chief Executive Officer – Bharti Infratel Limited

Thank you Kunal firstly for those wishes. Coming back to data volume growth on the operator front, we did see a certain amount of accelerated rollout if you compare it to the first quarter last year. The new site build-out is on the pickup. However, we still continue to see some exits that are coming in from operators and that is why you see a certain amount of reduction on co-locations. Also, there are operators who are seriously revisiting their strategy at this current stage in terms of how they are going to grow from this point on. And that is reflected on the numbers that we see. We continue to see healthy cabinet expansions/4G rollout on our existing sites. From a first quarter standpoint, the numbers look pretty okay. On co-locations, yes, we do see softness because two of the operators are not rolling out meaningfully at this time. On energy margins, we have said this earlier, typically, the first quarter is when energy margins are seasonally down. Secondly, there are contracts which come up for renewal. We've had one such renewal come up. And at the same time, some operators have chosen to move to pass-through. And hence, it is probably fair not to expect the same 3% to 5% guidance that we have been giving on the energy margin. Going forward, it is fair to assume that this will hover between 0% and 3%. Again, this is the beginning of the quarter. By the year-end, we are hopeful that we will reach around the numbers, the target to reach, at least a 3% number on that. Having said this, this is a fixed energy model that we had created was a model, which was a win-win proposition between operators and us. There was incentive on either parties trying to reduce diesel consumption, which was a waste, we continue to engage with operators to see that we take them back into a long-term fixed energy kind of contract where there are incentives for the tower company to put a certain amount of Capex and at the same time reduce diesel, which is a fossil, obviously, everyone would want to reduce, increase our reliance on grid electricity, and this you can do by putting in additional storages, and thereby reducing overall cost. But clearly, this model has to be signed up for a slightly longer duration and there has to be a fair recovery for the Capex that towerco invests. We are having these dialogues. Sachin, who is with us on the call right now is engaging with all the customers who moved into a pass-through model to see that we sign up another long-term contract on a fixed energy basis, after which we should see coming back on the energy margins in the long run to the levels that we have. Clearly, this is an activity which a tower company can do best, given their presence on ground and also the ability to share these benefits between various operators who are occupying the site. And the moment all operators are there on a fixed energy model, the incentive to deploy Capex starts to come in for the tower company to evaluate.

Mr. Kunal Vora - BNP Paribas - Mumbai

Sure. That is very helpful. Is that one of the reasons why your Capex has come off? Or like if I look at like last couple of years, Capex has been low. Is this one of the reasons for that?

Mr. Devender Singh Rawat – Managing Director & Chief Executive Officer – Bharti Infratel Limited

Bharti Infratel Limited First Quarter Ended June 30, 2020 Earnings Conference Call

I would not attribute everything to that. To a certain extent, yes, new deployment initiatives, some of them, especially the replacement Capex that you are seeing in some locations, you do see an impact; however, Capex is also a function of new tenancies and tower rollouts. First quarter, as we said, is normally the softer one. We hope to see buildup on these too happen going forward but to a certain extent, yes.

Mr. Kunal Vora - BNP Paribas - Mumbai

Okay. Perfect. I have a small follow-up for the first question as well. So are you indicating that COVID-19 did not really have any meaningful impact on the pace of additions and the current pace should continue? I was thinking that maybe the gross additions are slightly weaker because of difficulty in rolling out.

Mr. Devender Singh Rawat – Managing Director & Chief Executive Officer – Bharti Infratel Limited

To a certain extent, yes, new rollout was impacted. We have been adapting our business models or our ways of working, I should say, in every geography because now the containment areas are getting defined by geography. While on maintenance side, we have not seen any impact on our uptime. We are managing to give the levels that we have typically given in these seasons. However, on new rollout, because you have to get some specialist manpower to move into geographies and because of lockdown restrictions, we did see a certain amount of impact. While the impact is not material in terms of financial numbers, that means a delay of a few weeks because people are being asked to quarantine in some areas. By the time we can grant access to our partners that gets impacted to that level. However, we are seeing numbers pick up in the sense that the ways of working between government authorities, TAIPA (Tower and Infrastructure Provider Association) as an association which helps us work at the central level and our own interactions with the state authorities. There is increasing realization that telecom connectivity is saving a lot of people from getting out in the street. And hence, we have seen far more supportive nature from the state authorities to make sure that telecom is prioritized as an essential service. Our teams are leveraging that. In fact, there are some locked sites which operators have now managed to get them opened up just because of the COVID situation, where there were for some reason, some of the sites that had gone into a lockdown situation.

Mr. Kunal Vora - BNP Paribas - Mumbai

That is very helpful. Thanks and best wishes.

Rajyita - Moderator

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

Mr. Pranav Kshatriya - Edelweiss Securities - Mumbai

Thanks for the opportunity. My first question is in this quarter, we have seen a meaningful increase in receivables, so any color there? How should we see this for the next quarter or the quarter after that? My second question is, this quarter we also have some dip in the exit charges revenue. The run rate was Rs.90 crores to Rs.100-odd crores per quarter that has come to Rs.50-odd crores in this quarter. So what exactly is the reason for that? These are the two questions from my side.

Ms. Pooja Jain – Chief Financial Officer – Bharti Infratel Limited

This is Pooja. Trades receivables movement, you need to see together with the movement of other financial assets, which is primarily the unbilled revenue. In the last quarter, the unbilled revenue, as stated in the last call, was higher due to a technical glitch. We see a drop there and consequently increase in the trade receivables. If we look at both of them combined, there is only a marginal increase in the quarter. Definitely, there is no reason we should see a significant increase on a quarter-on-quarter basis. On exit charges if DS can take that question.

Mr. Devender Singh Rawat – Managing Director & Chief Executive Officer – Bharti Infratel Limited

Just to add on specific receivable, we did say earlier that we are seeing some delays in payment and as Akhil rightly mentioned in the very beginning, there is a shortfall of Rs.56 crores on exit charges. It got delayed. We are hopeful that it will be collectible in the coming months, but we continue to work that situation on receivables, too.

Mr. Akhil Gupta - Executive Chairman – Bharti Infratel Limited

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Bharti Infratel Limited First Quarter Ended June 30, 2020 Earnings Conference Call

Yes. I think, if you recollect, we had declared that, as a policy, exit charge is one item which we will only recognize when we actually receive it. Now these are the exit charges where everything has been agreed, amounts are agreed, but the payment did not come, and we wanted to stick to our policy that we will only recognize when it is physically received. But hopefully, these payments should be coming shortly.

Mr. Pranav Kshatriya - Edelweiss Securities - Mumbai

Sure. Thank you. That is it from my side. And all the best for your future endeavor, Mr. DS.

Rajyita - Moderator

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

Mr. Vivekanand Subbaraman - Ambit Capital - Mumbai

Thank you for the opportunity. All the best, Mr. Rawat, for future opportunities. My two questions are, one, pertains to the active sharing of infrastructure that the TRAI seems to be very supportive of. What do you think the DoT's position is likely to be on this subject? And how will the telcos look at active infrastructure sharing? And how big can this opportunity be for you? That is question one. Second is, your annual report has quite a bit of discussion on the non-telco revenue streams like Smart Cities. I understand that Indus has won the Dehradun Smart City project in addition to New Delhi and Vadodara. Can you give some more color on how scalable this opportunity is, given that you now seem to have developed some expertise in this? Thank you.

Mr. Akhil Gupta - Executive Chairman – Bharti Infratel Limited

So let me take up on the active sharing. In the telecom policy, the National Digital Communication Policy, this was one of the items. We have been following up with DoT. But as you can imagine, COVID has put a bit of a setback to some of these initiatives. TAIPA has been in regular touch. Hopefully, we will be able to get these formalities and the processes completed. This can be a pretty significant opportunity, to my mind, over a period of time. Because on many of the elements which IP-1s (Infrastructure Providers) will be allowed to offer as part of the active equipment, a lot of operators will find it, I am certain, very feasible to say that these could be shared and thereby costs could be reduced. So I am very hopeful that over a period of time this could emerge as a good revenue stream and something as a win-win situation between the operators and the IP-1s.

Mr. Devender Singh Rawat – Managing Director & Chief Executive Officer – Bharti Infratel Limited

Just to add to what Akhil said, fiber sharing is, in a way, active sharing. If you are referring to spectrum and other areas, that is some time away from where we stand today, but the government intent clearly looks as if they are looking at whatever asset that can be shared or can be leveraged for more than one person, it should be leveraged. It lowers the cost and at the same time creates an opportunity for businesses like us to get in and create shared infrastructure. So that is an area that we continue to watch closely. And as Akhil said, he is also the Chairman of TAIPA. We continue to work closely with the government to see that whatever can be shared between operators and can be optimized should be done and also create a viable business out of this. On Smart City, yes, it was actually a great proof point to establish that infrastructure can be shared between telcos, between government, the utilities and also create the overall city smart and clearly, at times of COVID, the need for such thing is even further accentuated. However, these are things where there is a huge amount of cross-department work that needs to be done. But from our own standpoint and I can give you an example of Infratel, where in the city of Bhopal, where it won the first Smart City, in case of Indus, of course, you rightly said the three states, they continue to roll out in these areas, build the infrastructure, demonstrate our capability, not just to the operators, but also to the authorities. In case of Bhopal, our project is just typically between Rs.100 crores to Rs.125 crores in terms of Capex investment. That had gone live. It has started to generate revenues. Glad to say that it is broken even right now. Here, we are creating a shared model of fiber, which is laid down, not only for the public utilities or government to monitor the cameras real time, but we have also managed to sell that fiber to operator so they are also leveraging the same fiber. Clearly, the quality of uptime is very satisfactory. We are now looking at scaling these to other locations too and this is just the beginning of the project. If we have broken even now, there are other revenue streams which are yet to kick in. And hopefully, as we establish this model and get more closer to technologies like 5G, where inter-cell site distances were to shrink significantly, small cell kind of solutions are going to come up meaningfully. We hope that these revenues will start to kick in, in a meaningful way, and we will start to disclose that at an appropriate time when it starts to become a meaningful part of our revenue. To your question, was this scalable, these are proof point again, this is, again, for the government to decide. Right now they are approaching it city by city. We hope that after six to eight months or a year that government realizes the benefits that they have accrued. They could pretty much look at scaling. From our standpoint, we have got the capital. We have also got the capability that we have demonstrated. We will be happy to participate in creating a win-win proposition. Clearly, a 5G kind of technology where there is a huge investment required going forward, these will have to be the model where public-private and all these bodies are kind of sharing a common infrastructure to create a world-class telecom network experience for the end customers.

Bharti Infratel Limited First Quarter Ended June 30, 2020 Earnings Conference Call

Mr. Vivekanand Subbaraman - Ambit Capital - Mumbai

Right. This was very helpful. Just one small follow-up. If I look at the tower sharing opportunity, that was a meaningful part of the operator Capex before tower sharing kicked in. And in active sharing, if you can help us understand better what proportion of operator Capex in their active network do you think is the low-hanging fruit that can be shared? You gave a very exact example of spectrum sharing being some time away. But what about the other components of the active network where you think that sharing can happen very quickly, let us say maybe in the next two-three years?

Mr. Akhil Gupta - Executive Chairman – Bharti Infratel Limited

Well, it is difficult because I think we need to see what all elements are finally allowed like antennas, microwave, etc., and depending on that, my guess is that at least 8% to 10% of the Capex on electronics can very easily be shifted on to the tower companies. But at this point of time, in the absence of specific details, this is a mere guess. But to my mind, that is definitely achievable. And I am not talking about fiber. That is separate.

Mr. Devender Singh Rawat – Managing Director & Chief Executive Officer – Bharti Infratel Limited

That could be bigger.

Mr. Akhil Gupta - Executive Chairman – Bharti Infratel Limited

That is very big.

Mr. Devender Singh Rawat – Managing Director & Chief Executive Officer – Bharti Infratel Limited

So your question low-hanging is fiber. That could be really big. Active, sometime away. We will have to see how much and how much they are willing. See again, active sharing globally, if you look at, has not been a hugely successful model because operators think that is a strategic asset that gives them huge market advantage. So I have not seen that happen. But as and when it happens, we are happy to look at that.

Mr. Vivekanand Subbaraman - Ambit Capital - Mumbai

Thank you very much. All the best.

Rajyita - Moderator

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

Mr. Sanjesh Jain - ICICI Securities Limited - Mumbai

Akhil one question on the renewal now that we are probably less than a year away from the next large renewal. How should we see the renewal? That is the first question. Second, the previous instance when the large renewal came in, we had made this card rate system, and we discussed this in length and you said that this will help you in terms of making renewal process more smooth because the rates we will be dealing from the operator and a card rate will be applicable for all the operators on that particular tower. So given these two things, how should we see the renewal, the upcoming renewal in that?

Mr. Akhil Gupta - Executive Chairman – Bharti Infratel Limited

Yes. I think you rightly recollected that we had made that big change, where, for every operator coming irrespective of the time when he enters, the tower rate would have been the same, which was the flaw in the earlier model, which somehow we did not correct earlier. But now the model is that, irrespective of who comes in, who renews, who is the new tenant coming on to the tower, the rate is exactly the same. Therefore, nobody feels that I am getting it cheaper or somebody else is getting more expensive. Now on the big renewals, obviously, there will be discussions. Operators would want a lower rate. The tower companies in some of the areas, maybe loading charges, may want something more. But I guess what one has to recognize is that there is a whole lot of interdependence between the operator and the towerco. And therefore, one can safely assume that whatever is the outcome, it will be a win-win. For operators, it is easier said than done to say that we will mass shift the towers, go to somebody else. I do not think that is either practical or desirable or even possible. On the towercos, the intention never has been to keep on increasing the rates

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Bharti Infratel Limited First Quarter Ended June 30, 2020 Earnings Conference Call

or anything. It is a very transparent MSA. Everything is laid out. And therefore, I think the discussion on renewals will, I am absolutely certain will lead to a desirable result on a complete win-win situation, which will enable the towercos to keep investing in energy-saving devices, in putting a very large amount of Capex, which will be required for 5G rollout, which obviously cannot be done by any company or a towerco, if it is not financially healthy. So keeping all that in mind and the fact that the operators are going to be constrained for capital, I am very certain that these debates and these discussions will lead to a mutually satisfactory and win-win results.

Mr. Sanjesh Jain - ICICI Securities Limited - Mumbai

Thanks Akhil for that answer, but just want to follow up on this, now can you get a discount offered to a large part of customer, we will be deviating from our earlier stated actions we did wherein, there is uniformity in the prices, that deviation will again start occurring. Is that what you are seeing?

Mr. Akhil Gupta - Executive Chairman – Bharti Infratel Limited

No, no, but you are assuming that there will be a discrimination, absolutely not. We are committed to non-discrimination. If there is any concession given to any operator, it goes to everybody and in fact, that is a big wall because it is not easy to give concession to only one operator because you have to just pass it on to everybody. And so, I think any fear on the account that any one operator, irrespective of his size or his position, will be able to get a discriminatory or a beneficial treatment that is completely unfounded.

Mr. Sanjesh Jain - ICICI Securities Limited - Mumbai

That is fair enough. Akhil thanks for your answer and DS Rawat, best wishes for you.

Mr. Devender Singh Rawat – Managing Director & Chief Executive Officer – Bharti Infratel Limited

Thank you very much.

Rajyita - Moderator

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

Mr. Rajiv Sharma - SBICAP Securities - Mumbai

I hope I am audible this time. Thank you for the opportunity. Akhil my question was that, from a 5-year perspective, we see that Vodafone, if it gets a favorable respite in the AGR case, will still be in a tough spot in terms of doing capex. So what could be, apart from capex coming from Bharti (Airtel), the incremental catalyst for Infratel? And do you think, you talked about a lot of other initiatives like fiber and Smart City, but we have seen that nothing much has happened on those fronts in the last five years. Do you think that 10% to 15% of revenues could come from non-telcos or could come from non-tower items? Is that possible? Second, that Vodafone with spectrum-related dues, AGR dues, similarly case with Bharti (Airtel), there is a case that both may come and ask for reduction in rentals. How should we think about it?

Mr. Akhil Gupta - Executive Chairman – Bharti Infratel Limited

Let me first take up about this issue that of Vodafone in particular. Look, I have absolutely no doubt in my mind that after the Union Cabinet of India has cleared the installment proposal of 20 years with a certain rate of interest, I do hope that the Honorable Supreme Court will, in principle, accept it. It could be 20 goes down a little bit or something like that, but I do not really expect, like all the telecom operators would not expect that there will be no installments, which means that, in our assessment, Vodafone will definitely be staying and that means that once it stays and it has got a breathing space for several years, to say that they will always be weak will be not a fair assessment because a lot of things can happen in between. Once they have a good case you know the world is full of capital. There is so much capital available and if it is settled, that they are a viable case, capital could come in, which will enable them to then rollout. Ultimately, it is such a large company. They have a huge presence in the country. I do not think they will easily let that advantage go. So my assessment is they will stay and once they get this breathing space, I am sure, in some form or the other, they would be already thinking of restructuring and getting more capital. I have no doubt that they will stay and stay fairly healthy. To your question that because the operators may be under financial stress they could demand lower, as I have said absolutely, they could, but consider also the fact that, because of that financial stress, their dependence on the tower company also goes up because they would not have the money to invest in that capex of the towers that they are definitely bound to need and that is where I think it is a wonderful win-win situation and equilibrium, where there will be push and some pull, but I have no doubt that, after due discussions, we will come to the solution with the operators on a matter which is win-win. They remain financially healthy.

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Bharti Infratel Limited First Quarter Ended June 30, 2020 Earnings Conference Call

We are able to give them the quality of service that they deserve and we as tower companies, remain financially healthy to be able to invest billions of dollars that we will need to fulfill their requirements. Just imagine the requirements in the telecom industry once 5G hits the road, I mean the number of small cells which will be required is virtually unimaginable and I think both need each other so much that I have absolutely no doubt that we will all come to a good reasonable solution. On the non-towers revenue, yes, fiber and other things have a lot of potential. I do not know it would ultimately depend on what the operators finally have to do with that because they all have fiber, do they want to create their own fiberco separate from towerco or they would want to perhaps partner with the towercos on that. One thing is for sure the towercos will have a big fiber business connecting their towers to the nearest transport network, whoever it may belong to. And from my point of view, that is the piece which towercos like ours should concentrate on, at TAIPA we have discussion on this among the industry. I think all the towercos are going to focus on this huge business opportunity. Because imagine, once 5G is coming in, you can imagine that every tower has got to be connected on fiber. The microwaves may not be able to take the traffic. They will at best be for redundancy, but every tower will have to be connected on fiber. The ideal would be to connect it to the nearest transport network, completely agnostic to who it belongs, and that is a big one. To your specific question, whether those revenues can exceed 10% to 15%, I have no doubt that over a period of time they absolutely will.

Mr. Rajiv Sharma - SBICAP Securities - Mumbai

Thank you so much. That is very helpful. Thanks a lot.

Rajyita - Moderator

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

Mr. Devender Singh Rawat – Managing Director & Chief Executive Officer – Bharti Infratel Limited

Thank you very much. As Akhil mentioned, we are in the midst of unprecedented times. Teams are adapting to the new normal well and we are happy to report that the operational performance of the Company is maintained despite the COVID. New rollouts are coming back to normalcy. We continue to monitor the lockdown situation on a daily basis and adjust our ways of working to ensure business continuity with the highest level of focus on people safety. Moving on to the business side, tower base on a consolidated basis, despite the lockdown, grew 3.4% year-on-year. Co-locations also were up 0.6% year-on-year. On sector development on AGR, as discussed, we remain optimistic on the future of Indian telecom industry. We firmly believe that with an improved financial environment, the operators will put the telecom industry on the growth part.

Lastly, I want to thank Akhil for all the good words. Most of this performance would not be possible without his support and guidance. Since this would be my last earnings call, I also wanted to take this opportunity to thank each one of you for your support extended during my tenure here. I am confident that Bharti Infratel will grow to newer heights even in my absence and you will continue to extend the same support that you have extended to me to my successor in the future. Thank you very much.

Rajyita - Moderator

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.