

## Earnings Conference Call Transcript

Event: Bharti Infratel Limited Fourth Quarter and Year-End March 31<sup>st</sup>, 2013 Earnings Call

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**Pankaj Miglani**

Chief Financial Officer – Bharti Infratel Limited

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UBS – Mumbai

**Vinay Jai Singh**

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**Rahul Singh**

Standard Chartered Securities – Mumbai

**Srinivas Rao**

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**Kunal Vora**

BNP Paribas - Mumbai

**Sanjay Chawla**

JM Financials - Singapore

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**PRESENTATION**

**Shareena – Moderator**

Good afternoon ladies and gentlemen, I am Shareena the moderator for this conference. Welcome to the Bharti Infratel Limited Fourth Quarter and Full Year ended March 31, 2013, 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. 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.

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**Akhil Gupta - Vice Chairman & Managing Director of Bharti Infratel Limited**

Thank you. A very warm welcome to all of you on our second Earning Call post listing. As you would know we have declared our financial results for the quarter and the year ended March 31, 2013 and as we showed the quarterly report, hope you have had some time to go through that and hopefully we will be able to take up any questions that may arise out of that.

Before I touch upon our performance for the year, I am very happy to tell you that the business model that we had envisaged in 2007 when we spun out the 50,000 towers from Bharti Airtel into Infratel, it's something, which has worked out very well. We are really pleased that this industry has taken a good shape. Today practically no operator makes any more towers. They freely share towers with the tower companies, our own tower companies, Infratel and Indus have every operator as its customers. So this model is very well settled on a sustainable basis.

Our highlight for the year of course was the IPO, which happened in December 2012. Then we raised about 4000 odd Crores for a 10% float. As you are aware and just to remind you we have emerged as a premier tower company globally, up with a 42% interest in Indus and 35,000 towers of our own, we have now between us 1,45,000 towers on a proportionate basis we have over 82,000 towers with a sharing factor of 1.91. As you are aware, as you might be aware since its listing, a script has been included in the FTSE Global Equity Indices large cap and also w.e.f. April 2013 in Group A category for BSE.

Coming to the industry in the year gone by, quite clearly this was a year when we saw a bit of a subdued and muted activity by the operators, not surprising looking at the uncertainties in the regulatory environment be it on account of cancellation of licenses by Supreme Court or all the talk about excess Spectrum key renewal, refarming, etc. etc., there were plenty of uncertainties. The financial health of the industry has not been in the pink and I think both those factors did take a psychological toll on the operators and their rollouts were obviously a bit strained. What we have lately seen are a few, namely four very positive trends. Number one it's very heartening to note that data story in India it is truly taking off. If you look at the results of IDEA which they have posted for this quarter, look at the results of Airtel for the last quarter, they would be coming out with their quarterly results on 2<sup>nd</sup> of May, Vodafone for last quarter, one thing is clear, data is going at a very good pace. We have practically across the board a 25% quarter-on-quarter growth on data traffic and that obviously augurs very well for the tower industry, more important within data, I think 3G is taking off very quickly and while it is still a small base, 3G customers are increasing at roughly 20% - 25% quarter-on-quarter. So I think that is the first real positive sign for the tower companies of looking at more business.

The second very positive point is that the pricing power and the profitability on account of low sales and distribution cost seem to be returning to the Indian telecom operators. We have seen these in the latest results that have come out and from whatever we have seen in the market, it looks like that some realized rate improvements for the coming quarters would take place. The third positive trend, which we have seen now, is the focus of the existing operators, in terms of rationalizing their footprint. We have seen a very concerted effort on their part to try and look at footprints where they had very low revenue sites, replacing them with more tenancies but in more profitable areas. They are even willing to give some exit fees for those, so I think in terms of the quest for profitability this is something very welcome for an overall long-term growth of the tower industry. And finally in terms of the new operators whose licenses were cancelled particularly Uninor, MTS what we have seen is a very focused approach in terms of which circles they want to go in, wherever they are going in they are going with their deeper dive, they are determined, it seems, to rollout more and I think all these factors augur well for the growth of the tower sharing in the coming years.

As I said not the best of the years in terms of the pace of rollouts but I think overall financially the year has been quite satisfying and that to some extent is the benefit of the model that we pursue, which has predictable revenues and profitability. We emerged as a very robust company financially with revenues of about 10,000 Crores, EBITDA of about 3800 Crores, net profit is sitting at 1000 Crores and operating free cash flow of over 1808 Crores for the full year. As a result of this very strong financial performance the board in its meeting held earlier today has recommended a dividend of Rs. 4 per share which includes an interim dividend of Re.1, which has been paid earlier. The total dividend for the year would amount to over Rs.740 Crores.

Moving on to the quarterly performance for the first time this quarter saw the EBITDA going beyond 1000 Crores, 1008 Crores to be precise. Our revenues and EBITDA on a year-to-year basis have shown a double-digit growth. CapEx in the last quarter has increased which does support our view that we are seeing more rollouts taking place this year. We have seen continuous improvement in return on capital employed. Just to give you an idea, it has gone up from 8.6% to 10.7% in the four quarters, but we still feel there is a long way to go.

We added over 3000 towers and 6700 collocations during this year and now the average sharing factor as of March 31 is at 1.91 times. From a network perspective there is significant improvement in up time delivery and in the month of March we saw all SLA's being met in all the circles. That is something, which is really commendable.

The other major movement during the year is that we have moved practically all our customers to a rate card based contract for energy billing, which has the objective of driving initiatives to drive down diesel consumption on a per BTS basis in the network. I think this has given the flexibility to deploy CapEx and the OpEx solutions that use diesel consumption. We today have over about 1200 solar installations across the network and we are taking major steps to ramp up these requirements.

As you can see we have a special focus on energy management and we are sure that in conjunction with the operators with Ministry of Renewable Energy and DOT and as an industry we should be able to show significant improvements in diesel consumption and carbon footprint.

As I had mentioned earlier the good news is that the government does recognize our efforts. They do recognize this industry has important infrastructure and looking at that the cabinet committee on infrastructure has planted infrastructure status to tower industry.

Association has been in touch with the various ministries and we are hopeful that in this year we should be extended some concession, both fiscal and operational.

In summary before I take up along with my colleagues your questions, let me summarize, that while the year gone by was a little soft in terms of rollouts, I think we did well. Our performance has been very solid. We do expect faster rollouts in the coming years, largely on account of data growth and the factors that I pointed out earlier. As you can see the company is financially extremely strong with steady revenues and cash flows and I believe it is poised for rapid growth in the coming years both organically and inorganically. Thank you.

**Shareena - Moderator**

Thank you very much Sir. We will now begin the question and answer interactive session for all the participants' who are connected to the audio conference service from Airtel. Due to time constraints we would request if you could limit the number of questions to two to enable more participation, hence management will take only two questions to ensure maximum participation. Participants' who wish to ask questions may press "\*" "1" on their touchtone enable 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 Ms. Reena Verma from Merrill Lynch, Mumbai. Ms. Verma you may ask your question now.

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**Reena Verma - Merrill Lynch - Mumbai**

Good afternoon everyone and thank you very much for the call. Just a couple of questions, firstly can you please confirm, if there is a new formal dividend policy because clearly you have pleasantly surprised with the payout for fiscal year 13. So I just wanted to know if 70% is the new floor that we should assume going forward. My second question is with regard to the balance sheet that you have posted with the stock exchanges, where I just wanted to understand why there is a big swing in the short-term provisions in your current liabilities both in the standalone and in the consolidated accounts? I guess my final question is there was a court attributed to Mr. Gupta that you are looking to make an offer to Reliance Jio for tower sharing. Does this mean that there has been no discussion so far and you are now going to initiate the process or do we already know something in terms of the status of this client relationship or potential relationship? Thank you.

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**Akhil Gupta - Vice Chairman & Managing Director of Bharti Infratel Limited**

Thanks Reena. Let me take up the question regarding the dividend policy and the talks with Reliance Jio and Pankaj if you can take up the question on balance sheet, I could fully understand that.

On the dividend policy I think the official policy remains what we had, which is higher of the dividend received from Indus or 30% to 50% of the net profit on the standalone basis. You are right I think we like to surprise on the positive side. So I won't change the policy at this point, but let us see how things go and we should be surprising a little more regularly. On Reliance, well, like any customers as I mentioned the very purpose of our forming this company was to share the infrastructure with everybody and that is where have we do believe that like every other operator we are in touch with Reliance. We have offered them the same master service agreement, but yes at this point there is no agreement on that with them, but we will like to pursue them as they firm up their plans for rollout.

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**Reena Verma - Merrill Lynch - Mumbai**

Sorry Mr. Gupta if I may just follow up Sir firstly 70% is the payout ratio for fiscal 13 right?

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**Akhil Gupta - Vice Chairman & Managing Director of Bharti Infratel Limited**

Yes, slightly more than that.

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**Reena Verma - Merrill Lynch - Mumbai**

Okay and why are you hesitating to say that, that is the new floor?

**Akhil Gupta - Vice Chairman & Managing Director of Bharti Infratel Limited**

Because I am not too sure this year how what kind of the opportunities come our way. I mean to give a little more than what is the policy is never a problem but to explain if I make that as a new policy and I have to give a little less tomorrow will be a serious problem so we will see how it goes. I do not think that there is any real urgency to modify this policy today.

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**Reena Verma - Merrill Lynch - Mumbai**

Thank you and just a quick follow up on Reliance Jio I could not hear you very well in terms of what you are saying?

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**Akhil Gupta - Vice Chairman & Managing Director of Bharti Infratel Limited**

I am saying like we follow all customers we will follow Reliance Industries because they would be hopefully a big customer of ours so we will keep pursuing with them based on our master service agreement but at this moment as I said there is no agreement with them.

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**Reena Verma - Merrill Lynch - Mumbai**

But are the talks on already?

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**Akhil Gupta - Vice Chairman & Managing Director of Bharti Infratel Limited**

I cannot disclose about any of my clients what I really discuss with them.

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**Reena Verma - Merrill Lynch - Mumbai**

Thank you very much.

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

As far the your short-term provision is concerned this amount is nothing but the proposed dividend along with the DDT what you are saying.

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**Reena Verma - Merrill Lynch – Mumbai**

I see, okay thank you Pankaj.

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**Shareena – Moderator**

Thank you very much Ms. Verma. The next question comes from Mr. Suresh Mahadevan from UBS, Mumbai. Mr. Mahadevan you may ask your question now.

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**Suresh Mahadevan – UBS – Mumbai**

Thank you so much for the opportunity. I had a couple of questions. One is I wanted to understand what are the gross new tenancy additions during the quarter and essentially I also want to know given this was the quarter when some of those cancellations would have come through so how many tenancies were like kind of lost and how many were added so that will or an any color on that will be helpful? That is question number one. The second is if I look at the CapEx you have spent at the consolidated level almost 668

Crores and you have added probably around slightly less than 700 I think, 694 towers. So I just wanted to understand how to think about this that is the second question. Finally I think when we look at the Indus numbers reported by Idea versus those reported by Bharti Infratel there seems to be some disconnect or is it something to do with I mean I do not know if you guys have looked at it but I think there seems to be some kind of disconnects? So that is my third question. Thank you.

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

Suresh, Pankaj this side. Let me pickup the question number one and two. So as far as the gross and the net adds are concerned if you actually see page # 18 and 19 of the IR report the gross additions during the quarter 2,923 collocation and net additions were 272 and on a standalone basis that was 1,450 were the gross additions and net additions of 493 and page # 18 carries actually on the yearly basis. So the gap between the gross and net is actually the cancellations, which have happened during the quarter on account of our both licenses cancelled by the Supreme Court during the year as well as they are certain churns which are allowed as per the MSA agreement. We have actually given a disclosure as far as the churns are concerned, we have ended up recovering close to 457 million as a exit penalty, but then disclosed the year on again page #19 under the PBT section adjusted for revenue utilization as well as the provision for dismantling there is a minor positive upside of 22 million, which has been reported in the exceptional line item in the P&L.

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**Suresh Mahadevan – UBS – Mumbai**

So essentially you lost around 2650 tenancies roughly, is that is fair?

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

On a consolidated basis yes it is.

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**Suresh Mahadevan – UBS – Mumbai**

Got it okay.

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

I think the second question so that you had on the CapEx. CapEx for the quarter actually includes, we had revisited estimation for the site restoration obligation and we ended up revising the estimate which led to an increased CapEx of close to approximately 200 Crores which is included in this amount.

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**Suresh Mahadevan – UBS – Mumbai**

Okay.

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**Harjeet Kohli - Group Treasurer – Bharti Enterprises Limited**

Suresh on the fact that Indus reflecting to Idea results and versus others if there is any inconsistency well we take that offline.

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**Suresh Mahadevan – UBS – Mumbai**

Thank you.

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**Shareena – Moderator**

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

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**Vinay Jai Singh - Morgan Stanley – Mumbai**

Thank you so much. Congratulations again on the dividend part of it. I have a couple of questions. Firstly like in last quarter, if I look at the differential between your energy revenues and your pass through cost it is an impressive 525 million more than your incremental EBITDA this quarter. So what is happening on the energy front, how do we model that? I am sure we will have more surprises coming forward but more so how do we model the core business? Is there some kind of pressure on the EBITDA of the core tower business that is my first question? Sir my second question is if you look at your EBITDA and your cash profits for this year is there a planned CapEx for next year, you did mention that you are really excited about the data model and more traffic which means that this year would be muted next year would not hopefully so what are the plans for you to spend in terms of CapEx for the next 12 or 24 months or what are your plans for inching up your tenancies? My third question and the last one if you look at your page four this is the first quarter wherein we have seen the sharing revenues per sharing operator come down. It has inched down. It is nothing to rib about in terms of decline. It is a very small number but after seeing a very impressive 4% growth in this number from June 2012 to now we thought 3G is taking off and customers must be loading higher and higher which is great news for the EBITDA. So why the inch down now is it just a one off because of who has gone and you know incrementally we can expect this number to go up? So these are my three questions Sir.

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**Akhil Gupta - Vice Chairman & Managing Director of Bharti Infratel Limited**

Ok, on energy you know it is a bit seasonal since we are both mainly to the rate cut based energy, which is flat charge across the year but according to the weather in the last quarter that we saw there was some income in the previous quarter there was some loss, I think all I can say is that on an overall basis there would be not be any very significant marginal energy and one should not build that on a sustainable basis. No significant pressures on the EBITDA margins. As far as the sharing revenue is concerned, I think this quarter went down because with some of these exits we had to reverse the revenue equalizations. That resulted into the revenue per operator coming down a little bit..

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

As far as CapEx is concerned I think we had already given a guidance of utilization of the issue proceeds in the RHP and this stage we do not feel there is going to be any change from those set of numbers so I think that should act as a good reference as far as the CapEx is concerned.

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**Vinay Jai Singh - Morgan Stanley – Mumbai**

Sir one last question going back to the energy front whatever we were in this year in terms of the incremental EBITDA coming in from energy this year is that at least a fair number to assume for next year?

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**Akhil Gupta - Vice Chairman & Managing Director of Bharti Infratel Limited**

I would say that you have to assume a nominal percentage of that billing as income at best.

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**Vinay Jai Singh - Morgan Stanley – Mumbai**

Thank you so much Sir.

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**Shareena – Moderator**

Thank you very much Mr. Singh. The next question comes from Mr. Rahul Singh from Standard Chartered Securities, Mumbai. Mr. Singh you may ask your question now.

**Rahul Singh - Standard Chartered Securities – Mumbai**

Good afternoon just on the CapEx again can we have a guidance for next year like we do get in your parent company, number one? And especially because the CapEx I just wanted to understand if you take out the CapEx for the new towers the number is still very high about 1300 – 1400 Crores if you take out 800 – 900 Crores for the new towers? So how much of this is one time, one off site restoration versus pure maintenance, because we were obviously given to understand that the pure maintenance part of it will be probably a lakh per tower per year that is number one? Number two has the annual escalation of 2.5% kicked in, in terms of your billing from 1<sup>st</sup> of April this year. Thanks.

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**Akhil Gupta - Vice Chairman & Managing Director of Bharti Infratel Limited**

Well the CapEx guidance for next year we have at this point of course as you know we do not prospectively make any tower so it is a guess for what the orders come. We are expecting around 2200 odd Crores just like last year full year. On the CapEx incurred last year about 2,150 Crores, Pankaj can you give a broad break-up between replacements, new towers ARO and its own?

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

The ARO out of this is around 333 Crores. This is the ARO churn. The site restoration, obligation which you have asked that is around 330 Crores in the current year CapEx of 2,100 Crores.

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**Rahul Singh - Standard Chartered Securities – Mumbai**

Okay the rest is the maintenance plus growth CapEx?

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

The rest is the new.

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**Rahul Singh - Standard Chartered Securities – Mumbai**

Okay and going forward if the tenancies are not and obviously it might be the slow going tenancy and just a follow-up on that, then why should CapEx be at 2200 crores and do you expect greater amount of site restoration expense in FY'14? I am just a little puzzled by the high CapEx number, which you seem to be guiding towards for next year as well?

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**Akhil Gupta - Vice Chairman & Managing Director of Bharti Infratel Limited**

Of course I think we do expect more rollouts in the next year and therefore I do not think the number is too high but as I mentioned this is purely subject to whatever the orders get placed so this is not something, which we do on a proactive basis we do not build up any site prospectively.

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**Harjeet Kohli - Group Treasurer – Bharti Enterprises Limited**

So Rahul if you see even in the last year and in the prospective years there is a good amount of CapEx, which has result for green energy initiatives also. First of all that amount is about 300 to 400 Crores or slightly higher. Of the balance, the two big components are the CapEx on new rollout of towers and the second big is maintenance CapEx which I think Akhil mentioned in the last call is roughly about as a thumb rule Rs.1 lakh per tower per annum or slightly lesser, it is just about Rs.1 lakh per tower per annum. But it's primarily for towers, which are more than three years of age. The third big component thereby is two sets of incremental CapEx you do whenever you do an incremental loading on a tower or when you actually increase the tenancy from one to two or two to three and the relevant estimates of whether it takes 1 lakh or 3 lakhs so far each kind of a tower is also given the RHP. These are the four or five big categories of the CapEx. Green CapEx is stable and growing. The rollout related CapEx for towers is increasing as Akhil mentioned that I think is outlook wise very strong. The loading and tenancy related things will flow out from your model and maintenance CapEx is Rs.1 lakh into the number of towers really.

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**Rahul Singh - Standard Chartered Securities – Mumbai**



Okay thanks and on the annual escalation of 2.5%?

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**Devender Singh Rawat – Chief Executive Officer – Bharti Infratel**

2.5% is on a per site basis so as and when a site finishes a year the rent escalation on 2.5% is applied. So there is no one particular day on which 2.5 is applied to all the contracts. Every site has an independent contract as and when the operator comes in as a tenant and the day he finishes that one year 2.5% is actually increased on the bill that goes out to him post completion of the one year.

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**Rahul Singh - Standard Chartered Securities – Mumbai**

Thanks just one follow up the reason I ask this question is last year in the June quarter there was a one off volume incentive given, which was based on the financial year end rather than on a per site basis. So this year I presume there is nothing of that sort, which is going to impact the quarters going forward?

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**Akhil Gupta - Vice Chairman & Managing Director of Bharti Infratel Limited**

The volume discount is a continuing discount so it would be on the like-to-like basis. There are volume discounts for all operators in the master service agreement depending on how much volume of business they give.

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**Rahul Singh - Standard Chartered Securities – Mumbai**

Okay so nothing seasonal about it I mean nothing in this quarter particularly which should kick in and it is an ongoing thing

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**Shareena – Moderator**

Thank you very much Mr. Singh. The next question comes from Mr. Srinivas Rao from Deutsche Bank, Mumbai. Mr. Rao you may ask your question now.

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**Srinivas Rao – Deutsche Bank - Mumbai**

Thank you, very much Sir. Congratulations on a great set of numbers especially the surprise on dividends. Sir my two to three questions first is you mentioned the benefits from the infrastructure status. Could you just even guide as to what potentially it can be for example there are benefits for backward areas and all. Will towers in certain areas qualify for such benefits? That is number one. Number two within that same infrastructure status, you mentioned viability gap funding. Is that also something which you think and kind of get over a period of time, that's my first question? Second is, you mentioned about the tower designs and the regulator working on that? Will that entail any additional CapEx for you depending on what discussions you are having with the regulator? Finally, sir could you explain, you mentioned the site restoration obligation and the change in estimate because of that. I also notice that in page #27 of your report, there is also a similar number last year. Sir, basically does it arise from the difference in the actual spends versus your estimate, if you can just clarify on that?

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**Akhil Gupta - Vice Chairman & Managing Director of Bharti Infratel Limited**

On the infrastructure one there will be two kinds or could be two kinds of benefits. One is fiscal and other is operational. If you see page #15, we have given some of the benefits, which have earlier been extended to some infrastructural status companies. So I do not know which could be made available to us. TAIPA is taking these up with various ministries and agencies of government, but too early to say, which could be extended to us. On the operational front, I think and that is what it is more important we are looking for a more benevolent treatment at the hands of local authorities and so on as a part of the infrastructure industry. So those are the two, which we would be working on as an industry and hopefully, we will get some good results over this period. Can you answer about the third one?

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

As far as the ARO is concerned, when you are looking at page #27, the number given is one for the quarter and then for the full year. So, it is not that the ARO estimates changed last year, in fact the differences you know the ARO estimate change for Indus in the prior period and it changed for us in the current period and hence the difference.

**Srinivas Rao – Duetsche Bank - Mumbai**

Fair enough, but this is the number, which is likely to be lower going forward. Is that something we can assume?

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

Yes.

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**Srinivas Rao – Duetsche Bank - Mumbai**

Fair enough Sir. Finally could you tell us what the net debt at the standalone level is?

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

Net debt at the standalone level is likely negative. It is net cash situation of about 6000 Crores.

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**Srinivas Rao – Duetsche Bank - Mumbai**

Thank you so much. That is helpful.

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

The IPO proceeds with operational cash flows are sitting there.

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**Srinivas Rao – Duetsche Bank - Mumbai**

Understood. Thanks, Harjeet. This is helpful. Thank you so much.

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**Devender Singh Rawat – Chief Executive Officer – Bharti Infratel**

Your question on the tower design, you had mentioned this new design; actually the regulation comes into effect from 2014. Our towers current ones are also approved from the government agency. There are designs approved from SERC and IIT, comply to the IS codes, hence we do not foresee a major change on tower design, we are however, working with the government agencies to see that the specifications of the tower that we deploy are also included into the approved list for specification. Government is looking at standardizing the tower design through TEC, which is their technical arm of DoT, and we are working with them. We do not foresee any major changes on account of this.

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**Srinivas Rao – Duetsche Bank - Mumbai**

Thank you sir. This was very helpful. Thanks.

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**Shareena - Moderator**

Thank you very much Mr. Rao. The next question comes from Mr. G.V. Giri from IIFL Capital, Mumbai. Mr. Giri, you may ask your question now.

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**G.V. Giri – IIFL - Mumbai**

Hi, everyone. Number one you mentioned that on energy saving spending you are doing about 300 to 400 Crores. That is a significant number. Now is it likely to lead to a 10% or 20% sort of reduction or what percentage reduction in your energy bill. I

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noticed it is about Rs.43,000 or so per month based on this quarter? The second question is can you guide on the next year's tax rate? And did you restate your liabilities or something, which is why the tax went up this quarter?

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**Devender Singh Rawat - Chief Executive Officer - Bharti Infratel**

On the energy CapEx of 300 to 400 Crores that you talked off, yes these are planned on various initiatives on the green side and also on saying that we do diesel reduction. The exact amount of savings is something, which we do not release to the public. These are confidential and we would like to keep that to ourselves. The basic thing that we are looking at and some of these investments is to see that at least the interest and depreciation is recovered, from the savings vide these initiatives.

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

As far as the tax rate is concerned, the net tax rate would be 33.99%.

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**G.V. Giri – IIFL - Mumbai**

So, this quarter it went up to a little higher level because of?

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

This quarter as the finance, the bill had proposed the increased rate on the deferred tax liabilities and increased rate due to the surcharge increase so that deferred tax liability that hit has been taken into account in this quarter and hence you see the increase.

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**G.V. Giri – IIFL - Mumbai**

Thank you very much.

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**Shareena - Moderator**

Thank you very much Mr. Giri. The next question comes from Mr. Hari Ravishankar from Janchor Partners, Hong Kong. Mr. Ravishankar, you may ask your question now.

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**Hari Ravishankar– Janchor Partners – Hong Kong**

Thank you and Congratulations on a great quarter and for the increased dividend. I have two questions. First following up on what Vinay asked on the EBITDA margin for energy. Could you be a little more specific? If you look at the standalone and the consolidated it actually looks like Indus makes most of the incremental margins on the energy while our own difference between top line and power & fuel expenses is much more minimal at a standalone level. So, could you help us understand is what Indus doing today? What we aspire through our green spend? Second question is could you give us an update on what your latest thinking is in terms of debt at the company leveraged on the balance sheet and also what opportunities you are looking at qualitatively in terms of where you are looking at, is it Africa, or is it other places of the world? Thank you.

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**Akhil Gupta - Vice Chairman & Managing Director of Bharti Infratel Limited**

Well I think very clearly neither Infratel nor Indus would be making too much of money on energy. In different quarters there could be slightly different movements for both of them, but I think on an overall basis, let me say that both sides would be happy to get away with this small margin that they make on a full year basis. So, it would be wrong to assume one better or worse than the other and both will hopefully be able to recover the entire energy and make a very small margin, but nothing significant about it.

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**Hari Ravishankar– Janchor Partners – Hong Kong**

Thank you.

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**Harjeet Kohli - Group Treasurer - Bharti Enterprises Limited**

If I understand correctly your question is what are the kind of opportunities we are evaluating and vis-à-vis what is the kind of leverage target that we have in the medium-term?

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**Hari Ravishankar– Janchor Partners – Hong Kong**

Right. You have talked about it at IPO. I was just wondering if there is an update in terms of what is your latest thinking is on both of those.

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**Harjeet Kohli - Group Treasurer - Bharti Enterprises Limited**

On that we without meeting to suggest that the board adopted optimum leverage targets. It does not mean that at this stage but what we do believe is over time this strong long-term contractual nature of cash flows that the business has, has easy leveragability without meaningfully increasing the risk of about two times net debt to EBITDA. Today, as you know taking into account the consolidated position, which Indus has is about 1.4, 1.5 net debt to EBITDA. So some bit of room there on leverage that exists. But clearly use of funds will need to then be more primary driver of how do we actually get that leverage on. That user funds stands same against statement of intent that wherever there are opportunities which allow us to be able to take some tower portfolios of either domestic operators and/or even overseas markets, we would like to carefully evaluate that and the evaluation has to be in terms of what competency from an operational perspective we could add to that situation and our sharing and also more importantly what the value we pay off to get that future value in our favor. So I think that will need to be evaluated. We also did mention that maybe a couple of years as we go by and we are really not able to see such opportunities come by, if such opportunities do come by, but they are not meaningful in size. Hence the cash flows continue to stay on the balance sheet. In that situation, we would like to use the opportunities of using special dividend around the free reserves the company would have to be able to pay the built up capital back to the shareholders to the extent possible.

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**Hari Ravishankar– Janchor Partners – Hong Kong**

Are you currently evaluating any such opportunities?

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**Akhil Gupta - Vice Chairman & Managing Director of Bharti Infratel Limited**

We are presented some opportunities from time to time. Now whether there is a stage where I can say I am really evaluating something at a serious note, not at this point, but yes keeping our eyes and ears open and I am sure during the year we may have quite a few opportunities come in our way.

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**Hari Ravishankar– Janchor Partners – Hong Kong**

Thank you.

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**Shareena - Moderator**

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

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**Rajeev Sharma – HSBC - Mumbai**

Thanks for the opportunity. I have just a couple of questions. First is on these talks with Reliance Jio. So is it only at the Infratel level or is at both the Indus and Infratel level that these discussions are going on and will Indus also take a step forward into this? Second is on the pricing. Will you be willing at the Infratel standalone level and at the Indus level give them a sharp discount or it will be with the MSA, which prevails for the rest of the clients today? Second is Akhil, you mentioned about data growth. Are you seeing a trend where data growth is resulting in new tenancies or it is still 100% loading? And when do you expect a trend reversal there?

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**Akhil Gupta - Vice Chairman & Managing Director of Bharti Infratel Limited**

As far as Reliance Infra Industry or Reliance Jio is concerned, I think both Infratel and Indus it is their job to present their MSAs and offer their towers to all operators. Reliance Jio is obviously one of them and they would continue to offer our towers to them. Whether we will give them any sharp discounts, I do not think so because we have a master service agreement. We are committed to being non discriminatory. I cannot start giving selective discounts to one operator. So, I think it is master of this agreement will bring them inbuilt discounts as people increase the tendency on a tower and we believe that our tariffs in the industry and for the whole industry are very favorable for the operators. So any sharp discount is completely ruled out. Data growth Primarily at this point, it is more in

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terms of loading. But we are seeing some early signs of new tenancy requirements for 3G but too early to really say that that is a trend.

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**Rajeev Sharma – HSBC - Mumbai**

What kind of rentals do these new tenancies attract when it is 3G? It is like any other new tenancy or it is differentiated?

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**Akhil Gupta - Vice Chairman & Managing Director of Bharti Infratel Limited**

New tenancies are like any other tenancy. On loading it could be between 3000 and 4000 extra.

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**Rajeev Sharma – HSBC - Mumbai**

Lastly, there is a sense that operators are cutting down on their CapEx guidance namely Bharti Airtel is cutting down on the CapEx for next year. So how do you see that effecting your tenancy growth in the next 12 months?

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**Akhil Gupta - Vice Chairman & Managing Director of Bharti Infratel Limited**

I would not say anything for Airtel. They are still to come out with their quarterly results. I think the board meeting is on May 02, 2013 they will come out. Therefore I cannot comment about their CapEx guidance, but what we have seen of the other operators like Idea came up, I think their rollouts could be faster than last year.

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**Rajeev Sharma – HSBC - Mumbai**

That is very helpful. Best of luck for the next coming quarters.

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**Shareena - Moderator**

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

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**Piyush Choudhary – CIMB - Mumbai**

Good afternoon gentlemen. Thanks for the call. Most of my questions have been answered. Just one clarification. The tenancy loss, which happened during the quarter for Indus around 4,034 tenancies and for BIL standalone around 957, so want to understand is the whatever loss has to happen is it already booked or there is some left to coming quarters? Based on our exit loss, is there some a likely recovery from these tenants?

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**Akhil Gupta - Vice Chairman & Managing Director of Bharti Infratel Limited**

Let me give you a full picture on this. You are right because which we have disclosed in our quarterly report around 4,000 for Indus and 957 for BIL, out of which for license cancellations, so on a consolidated basis it comes out to about 2,651, out of this 1,733 are on ground of license cancellations of various operators and 918 on account of rationalization. Now against these we have received exit penalty of some 46 Crores. We have written off the RA reversal, IRU charges and depreciation amounting to roughly 44 Crores and therefore this has resulted into an exceptional income of just about 2 Crores. So, it is well matched. We would have a total rental impact on all this for about 7 to 8 Crores a month, which we in terms of our agreements and discussions with them we will more than make up because they would be giving us most MNAs than what we are losing. So over a period of time we will certainly make those up.

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**Piyush Choudhary – CIMB - Mumbai**

Fair enough. Thanks a lot. Good luck for the forthcoming quarters.

**Shareena - Moderator**

Thank you very much Mr. Choudhary. 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. While the net additions number for the quarter has disappointed I think the gross adds number looked pretty strong. If I look at Bharti Infratel standalone it looks as if 32% of new tenancies for the year have come in the last quarter. So, are you seeing some pickup from the operators in terms of site rollouts? Idea obviously did very good numbers? So just some thoughts on how you are looking at next year on that part?

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**Akhil Gupta - Vice Chairman & Managing Director of Bharti Infratel Limited**

Like I had mentioned certainly we are seeing more traction, we are seeing more aggression, but it is little early to say because I would be making prediction on behalf of operators, but certainly the trends which we have seen particularly in the last quarter do seem to suggest faster rollout.

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**Kunal Vora – BNP Paribas - Mumbai**

Sir, any thoughts on the intra circle roaming side while you mentioned that it is positive for the industry in the long run, do you believe it can depress the tenancy potential for the industry like maybe not directly not exactly for Bharti Infratel and Indus but overall for the industry?

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**Akhil Gupta - Vice Chairman & Managing Director of Bharti Infratel Limited**

Not really, because if you see 3G ICR for instance in any case the rollout is to be done by the person having the spectrum. So in many ways if there is ICR anybody would feel more confidence in rolling out straight away that site start becomes profitable. So, I would expect that actually the rollouts this ICR on an overall basis would rise, because anybody rolling out the network is virtually assured of whatever it is spending and therefore can rollout at a faster pace.

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**Kunal Vora – BNP Paribas - Mumbai**

Last question on the normalization. You mentioned that about 900 tenancies have been lost, like X the license cancellation. So, can you just elaborate on what kind of numbers are the operators allowed to discontinue any given year?

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**Akhil Gupta - Vice Chairman & Managing Director of Bharti Infratel Limited**

Well, not 900, 1700 odd are on account of license cancellations.

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**Kunal Bora – BNP Paribas - Mumbai**

The balance part. So, X license cancellations what is the number?

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**Akhil Gupta - Vice Chairman & Managing Director of Bharti Infratel Limited**

I would expect that whatever we have lost, between 1.5 to 2 times the tendencies we should be getting in the coming years only.

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**Kunal Vora – BNP Paribas - Mumbai**

Great. Thank you Sir.

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**Shareena - Moderator**

Thank you very much Mr. Vora. The next question comes from Mr. Sanjay Chawla from JM Financials, Singapore. Mr. Chawla, you may ask your question now.

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**Sanjay Chawla- JM Financials - Singapore**

Good afternoon. Thank you for the call. I have three questions. First is your FY'12 CapEx you have reported as 1,410 Crores. So what is the component on account of change in the ARO obligation estimate in FY'12? Second question is what was the service level credit that you had to incur in the fourth quarter FY'13 and also if you could give the number on a full year basis FY'13? Lastly I just wanted to understand your thought process on the green energy if Akhil could help us understand that. You are incurring 300 to 400 Crores on account of green energy, and Harjeet mentioned that is going to be steady going forward on an annual basis. Now the energy margins you are also guiding to a very nominal kind of margins on the energy and also you mentioned that probably you are looking at covering interest and depreciation on account of this incremental CapEx. So my question is why are we looking at kind of subsidizing the mobile operators on this account? Why are we not looking at may be 10% to 12% return on equity targeting that kind of a return on this incremental CapEx?

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

As far as the ARO is concerned, as far as the Asset Retirement Obligation is concerned the current year CapEx for the full year on this count is 332 Crores, which is what we have actually disclosed on page 27.

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**Sanjay Chawla- JM Financials - Singapore**

This is for FY'13, right?

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

This is for FY'13.

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**Sanjay Chawla- JM Financials - Singapore**

Could you give a similar number for FY'12?

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

This is while we are talking of this number, this is the change in the estimation and then hence it is the incremental number, which is shown in the current year.

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**Sanjay Chawla- JM Financials - Singapore**

Then the FY'12 number will become zero accordingly?

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

It will be much, much smaller Sanjay.

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**Devender Singh Rawat - Chief Executive Officer - Bharti Infratel**

From our customer perspective, the one big differentiator for any customer to choose us over someone else is energy cost and the uptime that we provide. Service level of course we have had a good year. So the service level credit are on an all time low. Incidentally we do not disclose that so I am not giving that separate number. The second differentiator is energy cost. In the previous model, the lacuna was there was no incentive for anyone to drive down energy cost and hence that meant the relationship was actually getting spoilt on a day-to-day reconciliation and hence we move to this model where there is an incentive for someone to at least put CapEx initiatives and reduce energy cost. So we took a conscious decision and it worked as a big differentiator for us compared to some of our competition. When the OpCos see that they are able to see a reduced energy cost and also meet the green obligations which the government of India is trying to put on the operators in terms of reducing the carbon footprint overtime. So, as I said earlier too, what we look for as a simple method to put on initiatives there as to recover at least the interest and depreciation of the CapEx that we have deployed there. Beyond that if we make a small margin it is fine to keep and if the margins are beyond a certain level obviously we would be giving that as discounts to the operator on the energy bill.

**Akhil Gupta - Vice Chairman & Managing Director of Bharti Infratel Limited**

I think energy, let me add is a very important initiative, strategic initiative, which we are taking. We do believe that the diesel rates could keep going up over a period of time, and therefore our strategy is that anything, which we can replace whereby we can at least recover the interest cost and the depreciation, is going to be good for us in the long run. So we are taking this call. That obviously means we say 9% to 10% minimum return to begin with, clubbed with that the fact that there is accelerated depreciation of 80% allowed on this equipment, automatically starts giving a very decent return.

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**Sanjay Chawla- JM Financials - Singapore**

Thank you very much.

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**Shareena - Moderator**

Thank you very much Mr. Chawla. At this moment, I would like to hand over the call proceedings back to Mr. **Devender Singh Rawat** for the final remarks.

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**Devender Singh Rawat - Chief Executive Officer - Bharti Infratel**

I would like to thank everyone for joining us on the call. As Akhil mentioned in the very beginning, we are happy to have robust performance despite having a subdued market. As was also indicated from the Q4 CapEx and also from the rollout numbers on the gross, we hope that this trend continues and we are able to see a much more stronger growth as we move forward in the next year. Thank you very much for joining in the call. Thanks to each one of you.

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**Shareena - Moderator**

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