

Bharti Infratel Limited Fourth Quarter and Full Year Ended March 31, 2014 Earnings Call

Earnings Conference Call Transcript

Event: Bharti Infratel Limited Fourth Quarter and Full Year Ended March 31, 2014 Earnings Call

Event Date/Time: April 24, 2014 at 1430 hrs

Bharti Infratel Limited Fourth Quarter and Full Year Ended March 31, 2014 Earnings Call

CORPORATE PARTICIPANTS**Akhil Gupta**

Executive Chairman – Bharti Infratel Limited

Pankaj Miglani

Chief Financial Officer – Bharti Infratel Limited

Devender Singh Rawat

MD & Chief Executive Officer – Bharti Infratel Limited

CONFERENCE CALL PARTICIPANTS**Shobhit Khare**

Motilal Oswal – Mumbai

Piyush Choudhary

CIMB – Mumbai

Ajinkya Dhavle

Fidelity – Mumbai

Rajiv Sharma

HSBC – Mumbai

Srinivas Rao

Deutsche Bank – Mumbai

Sunil Tirumalai

Credit Suisse – Mumbai

Reena Verma

DSP Merrill Lynch – Mumbai

Varun Ahuja

UBS – Singapore

Rahul Singh

Standard Chartered Securities – Mumbai

Amruta Pabalkar

Morgan Stanley – Mumbai

Sanjay Chawla

JM Financial – Mumbai

Pankaj Suri

Nomura – Singapore

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, 2014 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 risk that we face. I will now hand over the call to our first speaker of the day, Mr. Akhil Gupta. Thank you and over to you, Mr. Gupta!

Akhil Gupta - Executive Chairman – Bharti Infratel Limited

Thank you. A very good afternoon and welcome to all our friends on this earnings conference call for the results of quarter and year ended March 31, 2014. Thanks for joining in. I know for participants from Mumbai particularly this would be a holiday today, which we did not anticipate earlier but welcome all the same. I think very clearly the telecom industry in India with which our company as a tower company is very intimately connected is looking perhaps the most promising for the last several years. I think this promise and this

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

Bharti Infratel Limited Fourth Quarter and Full Year Ended March 31, 2014 Earnings Call

excitement is fundamentally on three pillars. The first is there is a general feeling that the regulatory uncertainties are clearing out or at least settling down. This is mainly coming after the February 2014 auctions on spectrum where even though they were not to the complete liking of the operators at least there is a certainty. There is a certainty about sustainability of business for the next 20 years and the ground rules have been laid.

The second key pillar as you would have noticed is that the realized rates are improving. They are consistently improving and I think it looks that everybody has come to a realization that for a healthy telecom sector it is imperative that the rates do increase. There is an overall acceptance of this phenomenon not only amongst the public and the regime but also among the operators themselves. This is clearly bringing profitability and confidence back into the operators.

The third and perhaps a universal phenomena, which India is also experiencing is the exponential growth which we have seen on data. We can argue that India in terms of its curve is way behind the global curve for data proliferation but what we have seen in the last one to two years or one year particularly, is a consistent more or less 100% usage growth on data despite the fact that it is still in its very early stages and the handsets penetration is not what we expect in months to come.

So I think this is giving a lot confidence to operators. We are seeing they are more confident in terms of more and more rollouts. This naturally has a huge impact and a huge positive impact on tower companies like Bharti Infratel and Indus. Firstly, it is important to note that the operators in India between 2010 and 2013 have invested 180,000 Crores that's \$30 billion in spectrum, bulk of which needless to say would have to be used for the purpose of rollout of data services both on 3G and on 4G. It is obvious and very natural that having made this investment upfront, the operators have now really no choice and in fact it's in their interest to rollout these networks as soon as possible and as deep as possible into the country to safeguard the earlier investment and to rurally exploit on the other hand the massive potential that the Indian telecom industry on data provides.

Please remember that India is a country where fixed line penetration is very low and therefore the only means of connecting the masses or the max customers with internet which is an absolute must in years to come is through wireless. So the potential is massive. We are already seeing the rollouts increasing. We are seeing more and more orders being placed for 3G and some 4G orders are now started.

On the tower company side I think most clearly the model, which we had envisaged of sharing this infrastructure for bringing down the cost and CapEx for the operators in 2007 to 2008 by giving it to all operators on a non-discriminatory basis has been the resounding success. This is very clear from the fact that for all tactical purposes no operator in India makes any new towers on their own. They actually go to all the tower companies including of course our tower companies for their demands of putting base stations. And this has been a great success. This automatically means that our sharing factors are improving. We are very pleased to tell you that in the last quarter at the exit our sharing factor on the consolidated basis was more than two and that as you know in tower industry is a very important landmark. We are also privileged and proud that every operator in this country is our customer and that clearly shows that the non-discriminatory promise which we had is being fulfilled. So we do expect the rollouts to be faster. A lot of emphasis in tower industry all across India and not just our two companies but our colleagues and our contemporaries in the tower industry has been on energy. The efforts are made despite the fact that the prices of the energy and the problems owing to energy, are not our creation and the fact that enough electricity not provided to us. The whole industry has done tremendous work in bringing energy efficiencies at whatever levels possible. For our company, being the leaders, naturally we are also spearheading this part and I am very pleased to say that between Infratel and Indus there are now 30,000 sites where no diesel is consumed at all. We have also been able to bring down the overall costs despite increase in diesel prices by 5% over the last one year.

In terms of potential as I mentioned earlier we are now seeing the orders coming in. We have seen Reliance Jio who has already signed the MSA at arm's length pricing placing a few orders. We expect this will accelerate further. The results have been with you. So I would not go into the details of the financial performance but on the macro basis or full year basis it was a very satisfying year.

The revenue was just under 11,000 Crores and normalized for the IRU and accounting for last year the increase was roughly about 7% odd. EBITDA is 4400 Crores. Profit after tax was 1500 Crores and operating free cash flows that is EBITDA minus CapEx of 2650 Crores.

The growth in the EBITDA was 16% and that resulted in growth in the overall yearly profit after tax and OFCF of approximately 50%. You will remember we had amended our dividend policy to provide for higher payouts. I am pleased that the board has proposed a dividend of Rs. 4.40 paisa per share, which results into a payout of 90% of the profits on the standalone entity. I think I will just point out the dividend is to be paid out of the profits of the standalone entity as per Company's Act. So please look at the figures of the standalone entity for this purpose, but 90% of that profit is supposed to be distributed by way of dividend and dividend distribution tax thereof.

I think before we take up your questions I would like to summarize by saying that this was an extremely good year, more so because during the latter half of the year at least we have started seeing some very positive signs coming from the market, more confidence in the operators to put in more investment into the network rollouts. We do believe that this momentum, this acceleration is going to further gather pace as the year rolls back and in fact not only this year but several years to come and therefore we are all at Bharti Infratel and Indus very excited to be looking forward to this year with a lot of promise, a lot of expectations and lot of confidence.

I do believe that your company along with Indus that they have 42% equity interest. These two companies are the leaders and they have such strong financials and balance sheet that they are absolutely in a terrific position to capture the permanent share or at least a very significant portion of the growth which we are expecting in terms of the rollouts in the coming years. With that I hand over back to the moderator.

Bharti Infratel Limited Fourth Quarter and Full Year Ended March 31, 2014 Earnings Call

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 question may press “*” “1” on their touchtone enabled telephone keypad. On pressing “*” “1” participants’ will get a change to present their questions on a first-in-line basis. To ask a question participants’ may please press “*” “1” now. The first question comes from Mr. Shobhit Khare from Motilal Oswal Securities, Mumbai. Mr. Khare, you may ask your question now.

Shobhit Khare – Motilal Oswal – Mumbai

Sir good afternoon and congratulations on a good set of numbers. First question is on the energy and rent costs, which have shown a Q-O-Q decline this quarter and for energy cost this is the second consecutive quarter of decline. So I think they were certain one-off items in last quarter would be helpful if you could give some color on this? Second is on maintenance CapEx FY 2013 and FY 2014 has been around Rs.4 billion. So I wanted to check if this is the sustainable run rate for maintenance CapEx?

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

Hi Shobhit, this is Pankaj this side. Let me pick up the first one. The energy cost has actually gone down more. It is a seasonal quarter. There is also the lesser number of days which are there in this quarter versus the last quarter hence you will see a decline happening in the energy cost. Specifically, I think Indus had one-off happening in last quarter and that is why you see a decline, bit of a decline in rent.

One-offs, which Indus definitely sees a sequential quarter decline in the rent line item, if you are looking it from a year-on-year perspective, last year we had an impact of unrelated portion of IRU income, which was sitting as the income as well as the cost in the rent line item which have a minimal EBITDA impact normalized for that you will see a rent going up on a year-on-year basis. Shobhit on maintenance CapEx if you see we do expect this rate, because it is marginally up from last quarter.

Shobhit Khare – Motilal Oswal – Mumbai

Thanks.

Shareena – Moderator

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

Piyush Choudhary – CIMB – Mumbai

Good afternoon and congratulations to the management. Couple of questions; firstly on the CapEx. Can you help us with the guidance for the fiscal 2015 and what is the kind of tower rollout, which you are looking at and how is the pipeline for tenancy considering 3G and 4G rollout? Secondly can you help us understand how many diesel fee sites were existing as of last year? Akhil you mentioned that 19,000 sites are as of March 2014. Can we have a comparative number?

Akhil Gupta - Executive Chairman – Bharti Infratel Limited

On CapEx that you know this company does not make even a single site on the perspective basis so it's very modular its purely based on the orders which we receive. We have seen if you see the last quarter is something around 560 odd Crores of CapEx, on a consolidated basis. I would expect that this could be taken as a normal level of CapEx around say 500 Crores a quarter on an average say 2000 Crores but naturally from our point of view the more it is the more orders coming in and it is better for the company. We are obviously prepared for whatever CapEx is required as you know the company is in a position financially to incur that. That is where I mentioned that we are in such a wonderful position to capture the maximum share of the growth, which could come but I would say at this point based on what we are seeing as the orders in the pipeline and the discussion with the customers, I would say instead of 1500 Crores which we spent last year. This year we are looking at least 2000 Crores. On diesel fee I do not have the figures but I would expect it would not be more than 10,000 or something last year but we could come back to you with the figures but I am know for sure that this year there has been a very significant increase in these kind of sites. Mind you these are only the sites where it is nil, no diesel is used. There are of course several 1000 sites where minimal amount of diesel is also used but to your question while I do not have the exact figure I think this year there has been a good improvement.

Piyush Choudhary – CIMB – Mumbai

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

Bharti Infratel Limited Fourth Quarter and Full Year Ended March 31, 2014 Earnings Call

If I may ask one on the use of cash, you had earlier mentioned that by the end of this fiscal, which has passed there, will be one more clarity on the use of surplus cash which we have. So any thoughts over their inorganic growth or distribution to the shareholders?

Akhil Gupta - Executive Chairman – Bharti Infratel Limited

I think we would like to give you a good account of what we are thinking in terms of cash. Firstly, the philosophy that anything which is excess is that we would like to return to the shareholders absolutely remains and it is with that in mind that we increased the dividend policy, which we are following as you can see. For the balance, we have clarified that we are not looking at Africa in that sense therefore this huge CapEx on inorganic growth is out. Now that leaves us for the time being with places like Bangladesh, Sri Lanka, these are, as you know, related parties therefore we have to even be more cautious as to what we could end up paying if at all. There is no certainty whether we would ultimately buy these. We are not ruling them out but these are not very big ticket items in any case, which means even if we do these or some other acquisitions we earlier talked about like the towers belonging to Vodafone, Idea, there still will be excess cash. Those are possibilities though nothing on the horizon at this point of time but despite all that there would be cash and what we are trying to find as there are some complications with respect to company's act whether this balance cash which is primarily on account of the share premium received earlier can be used for share buyback. They cannot be used for the dividend for sure. We are now seeking those clarifications. I think the clarifications have been sought also by the industry chambers in various cases on this. We are just awaiting those clarifications may be they are delayed because of the elections or something I do not know but as soon as those clarifications come we would come back to you with a specific plan.

Piyush Choudhary – CIMB – Mumbai

Great this is very clear. All the best for future.

Shareena – Moderator

Thank you, very much Mr. Choudhary. The next question comes from Mr. Ajinkya Dhavle from Fidelity, Mumbai. Mr. Dhavle you may ask your question now.

Ajinkya Dhavle – Fidelity – Mumbai

Thanks for the opportunity. I just have one question why has Indus not signed the deal with Reliance–Jio yet, could you throw some light on that?

Devender Singh Rawat – MD & Chief Executive Officer – Bharti Infratel

Ajinkya, thank you. This is D S Rawat while Infratel has signed, Indus is still in discussions with Reliance–Jio it's still in the works as and when it is signed they will come back and make that announcement to you.

Ajinkya Dhavle – Fidelity – Mumbai

Okay, but it is just the Indus which is pending and they have signed with Viom and RCOM so just wanted to have your thoughts on that?

Devender Singh Rawat – MD & Chief Executive Officer – Bharti Infratel

Reliance–Jio is engaging with pretty much all the IP1s and they are at different stages of discussion with various people. As I said Infratel was ahead and we started to receive the first flow of the orders. It will happen over a period of time for others also. So those discussions are still on.

Ajinkya Dhavle – Fidelity – Mumbai

Okay from just understanding point of view of given Indus has more exposure to urban and AB kind of circles, Indus should see better accelerations earlier I would say, is that correct?

Akhil Gupta - Executive Chairman – Bharti Infratel Limited

Bharti Infratel Limited Fourth Quarter and Full Year Ended March 31, 2014 Earnings Call

Definitely yes though of course I would expect Reliance–Jio which has taken spectrum both in 1800 band and 2300 band and made investment in spectrum are going to rollout everywhere where they have taken spectrum and not just look at a metro category circle or metros. I think in terms of the Indus, I am sure they are discussing. You have to remember that these are on the same market kind of conditions therefore it may be taking a little long but I do expect it will be just a matter of time.

Ajinkya Dhavle – Fidelity – Mumbai

Thanks a lot that is it. Thank you.

Shareena – Moderator

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

Rajeev Sharma – HSBC – Mumbai

Thanks for the opportunity. I just had a couple of questions. First if you could quantify the impact of Reliance–Jio basically, what kind of tenancies you are expecting 3000, 5000 for the next 12 to 18 months. Some color will be very helpful? Second I also understand from industry checks that there is some kind of pricing pressure companies like Viom or GTL given that there has been slower growth they have been cutting prices. So what is your outlook on the average rentals? Have you seen any demand for new towers coming up for data alone because my worry is that 2G led tenancy demand maybe significantly coming down in the next 12 to 15 months? So some color on these questions would be very helpful.

Devender Singh Rawat – MD & Chief Executive Officer – Bharti Infratel

Hi Rajeev this is D S Rawat. Firstly your question on Reliance–Jio and some guidance on the number of tenancies. I am afraid I will not be able to give. As a policy we do not give guidance. Rajeev, I can tell you given that Indus plus Infratel put together has close to about 38% tower footprints. Anyone who is wanting to do a meaningful rollout and this is purely dependant on operator's own plan of how they intend to cover the entire country, depending on that aggression, the belief is that there will be significant amount of sites which they would find suitable. With this master service agreement, they have access to the information of all our sites and our sales team is working with them to see that these are converted into orders. Obviously there is a priority on which the operator himself is working. So I am afraid I will not be able to give guidance, but as I did mention in the call in the morning we have started to receive the first few orders in Infratel.

Number two your question on pricing we have not seen any pricing pressure. These are established towers, the CapEx's are there and we have pretty much seen everyone sign and in fact some of the press releases that I did have clearly mentioned that this was on arm's length and was at the prevailing market prices itself. So to your second question we do not see pricing pressure.

Third in terms of demand for new towers for data only in the metros there are discussions that are going on with the operators for data only part, but we have not seen the meaningful number to start reporting that anywhere.

Akhil Gupta - Executive Chairman – Bharti Infratel Limited

But I think the issue is not really data only site. The issue is whether new tenancies are coming up for data rollouts, which are happening now. Also you must remember this is a technology where as traffic gets loaded on, the radius of the propagation shrinks and therefore over a period of time even if today there is full coverage, as sites get loaded the coverage would shrink and more sites will be needed. So we do expect that over a period of time there will be demand from new tenancies for putting data networks.

Rajiv Sharma – HSBC – Mumbai

My last question was on the 2G tenancy, what is your feel about 2G–led tenancy behaving in the next 15 months and onwards because as you are rightly pointing out data will be the next incremental area for CapEx. So, will that mean that data will just add up and balance out the tenancy growth or will it be something very incremental?

Bharti Infratel Limited Fourth Quarter and Full Year Ended March 31, 2014 Earnings Call

Devender Singh Rawat – MD & Chief Executive Officer – Bharti Infratel

This is D.S. Rawat again. We still continue to see rollout catch up being done by the number 3 and 4 operator in the circles. If you look today while we look at the national level of 1, 2 & 3 as Airtel, Vodafone, and Idea this position at a circle level is slightly different. What we are seeing is a lot of growth in tenancies on account of the 3 and 4 operator trying to do a catch up with the number 1. Our belief is once there are serious players who are wanting to compete for that first and second position, they will be at least a comparable coverage to the number 1 and 2 given that the later operators have come in 1800 the number of sites required for them just for a comparable coverage is not something they will be able to fulfill in the next few years at least. So we will see the 3, 4 and 5 hopefully coming up and catching up on the coverage with the 1 and 2 and in each of the geographies. So the game is actually being played now on a close circle level where operators are strategizing how to do a catch up and be in the top 3 slots.

Akhil Gupta - Executive Chairman – Bharti Infratel Limited

But I think you are absolutely right that the operators who have invested in data related spectrum, we do expect their rollout of 2G may moderate over a period of time but what they would give as the tenancies or the new rollouts of data related sites should be much, much more.

Rajiv Sharma – HSBC – Mumbai

That is very helpful. Thank you very much.

Shareena – Moderator

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

Srinivas Rao – Deutsche Bank – Mumbai

This is Srinu here. There are two questions. Are we taking the 2.5% annual rent reset this year? Just wanted to confirm on that? Second is could you tell us how many of your towers are fiberized or have a fiber back-haul at this stage?

Devender Singh Rawat – MD & Chief Executive Officer – Bharti Infratel

This is D.S. Rawat. Firstly the 2.5% is not something which we do in a particular time of the year as and when a particular site completes one year period 2.5% automatically kicks in. This annual escalation if I understood that question right is done from an accounting standpoint; however, because there is a revenue equalization you see that shifting from revenue equalization to the revenue side so to your point yes we are seeing the 2.5% when it comes up automatically after the end of the year in the site there.

Number two on fiber while we do not monitor the number of sites we put in fiber today, back-haul is completely done by operators and depending on their plans for 3G/4G or data requirement or throughput, they require fiber. There is nothing restricted. They come in with additional activities which are charged for at loading and they continue to use and deploy fiber induced sites.

Akhil Gupta - Executive Chairman – Bharti Infratel Limited

This is Akhil. I think it is a very important point which has risen about fiber induced site because whilst so far it was the operators who were putting up the fiber and connecting some sites it were mainly either the BSE sites or the hub sites where the traffic was merging. What we expect is that going forward as more and more operators put 3G and 4G and there is more traffic, I think the need for back-up on the transmission network will be fixed and that is why we internally are looking at the prospects whether it would make a good business case to start putting fiber and connecting our sites to the nearest transport network, work is going on on that and in case we do find it feasible in consultation with the operators assessing their demand, this could be some area which would like to explore.

Srinivas Rao – Deutsche Bank – Mumbai

Understood sir. This is really helpful. Thank you. Finally just wanted to confirm you said I mean the payout is 90% of the parent company's profits. So this is theoretically the maximum you could say right now. Am I correct on that?

Bharti Infratel Limited Fourth Quarter and Full Year Ended March 31, 2014 Earnings Call

Akhil Gupta - Executive Chairman – Bharti Infratel Limited

We could technically pay 100% but why we did this because there is still a little doubt for the 10% reserve where we have to transfer, not to transfer we were in the opinion we do not have to transfer but I thought content cost will be retained at 10%. It is in the retained profit accumulated profit line.

Srinivas Rao – Deutsche Bank – Mumbai

That is it. Fair enough. Understood. Thanks.

Shareena – Moderator

Thank you Mr. Rao. The next question comes from Mr. Chunky Shah from Credit Suisse, Mumbai. Mr. Shah you may ask your question now.

Sunil Tirumalai – Credit Suisse – Mumbai

This is Sunil Tirumalai from Credit Suisse. I had actually two follow-up questions to the previous fellow had asked. On the energy reimbursement so when we look at the energy cost on the expense line and the energy in reimbursement on the revenue line, normally there used to be a 2%, 2.5% gap. But for last quarter there was a bigger gap and for the March quarter actually it has gone to about almost 10% gap. Just trying to understand how should we look at this number because this has implications on your margins?

Pankaj Miglani– Chief Financial Officer – Bharti Infratel Limited

This is Pankaj this side. On energy, the best way to look at it is to see this on a yearly basis. There is a play of seasonality which can happen and hence the right method is to look on a complete year basis and another thing which you will have to clearly remember is that while we look at this margin difference between the revenue and the cost, there is also a certain recovery of CapEx which we incur on the various initiatives. Hence you are right as you suggested and internally we also look at margin growing in the range of 3% – 3.5% which we feel is reasonable after the recovery of our CapEx's.

Sunil Tirumalai – Credit Suisse – Mumbai

I am sorry. So you said 2% to 2.5% is a reasonable number that you look at?

Pankaj Miglani– Chief Financial Officer – Bharti Infratel Limited

I am saying between 3% and 3.5%

Sunil Tirumalai – Credit Suisse – Mumbai

Okay, got it. And secondly, just coming back to the deal with Reliance Jio, so the deal was signed in early March were there any revenues booked and also you mentioned that they have started giving orders. So have revenues already started coming in if not for the quarter, after the quarter?

Devender Singh Rawat – MD & Chief Executive Officer – Bharti Infratel

As I said earlier still we started receive orders. Typically it is a 21-day period by when we offer the site back to them, as of last quarter we started to just receive orders in so we do not have anything on the revenues yet.

Sunil Tirumalai – Credit Suisse – Mumbai

Got it. That was helpful. Thank you very much.

Shareena – Moderator

Bharti Infratel Limited Fourth Quarter and Full Year Ended March 31, 2014 Earnings Call

Thank you very much Mr. Tirumalai. The next question comes from Ms. Reena Verma from DSP Merrill Lynch, Mumbai. Ms. Verma you may ask your question now.

Reena Verma – DSP Merrill Lynch – Mumbai

Hi thank you very much for the call. My first question is on your dividend policy. Just wanted clarity on why are you benchmarking the payout only to the standalone entity's profits and if you could give us some insight into Indus dividends or what we should expect there. And then I will ask the remaining questions, please?

Akhil Gupta - Executive Chairman – Bharti Infratel Limited

The dividend policy it is not our choice. It is as per the Company's Act where the dividend is to be determined for the company as a standalone entity. So we do not have any choice. It has to be linked to the net profit of the standalone entity. On Indus, well they would have a similar policy. They have not declared the dividend for the last year but hopefully they will declare something as interim in the coming year which means in the current period. So that would also automatically come into our accounts as and when that is declared.

Reena Verma – DSP Merrill Lynch – Mumbai

So, will it be possible for you to share what is the kind of disposable cash flow Indus might have generated in fiscal 2014? Our number seems to suggest that that could be a very, very substantial amount?

Akhil Gupta - Executive Chairman – Bharti Infratel Limited

No, the issue is not about cash. We have plenty of cash because their leverage is still very low and as you know we have given the results of Indus. Their profit after tax is 648 Crores attributable to us that 42% so it is already 1500 something. So 1500 Crores is approximately their net profit and cash is not an issue at all.

Reena Verma – DSP Merrill Lynch – Mumbai

And in terms of the South Asia bid that you had put in for Bangladesh towers, is that now a closed chapter or is that still live, please? And if you can just comment on your M&A ambitions in that regard?

Akhil Gupta - Executive Chairman – Bharti Infratel Limited

We have not put any bid at this point whether it is still open, that is being still discussed at Airtel level. So, no bids yet hence it is an open issue. There is no compulsion to buy it. We would evaluate it on a strictly arm's length basis as and when we are invited to put in a bid.

Reena Verma – DSP Merrill Lynch – Mumbai

Finally, my last question is I just wanted some understanding possibly from DS on what happens if we were to leapfrog from where we are in the metro straight on to LTE deployment at least in the Top 100 cities or so. Would that mean that your new tenancy demand from data would actually fall in the short term?

Devender Singh Rawat – MD & Chief Executive Officer – Bharti Infratel

Firstly there is not enough spectrum for everyone to go LTE. In fact the way you look at the last option when people have picked up contiguous 5 megawatts spectrum possibly in areas where they do not have 3G or they have actually added up to the existing 10 circles that they are present on. So from the current way looking at operators share, we think because ICR has been stopped and 3G offering is not there with all the top three operators, the first target would be to complete data offering commensurate to them, whether it happens in 3G or FDD-LTE, that is clearly an operator strategy at this stage for them to execute. We do not foresee that to have any impact on our tenancy forecast that we are looking at. In fact, the expectation with LTE which was earlier happening later would get fast forwarded for the operators who got 5MHz contiguous spectrum.

Akhil Gupta - Executive Chairman – Bharti Infratel Limited

Bharti Infratel Limited Fourth Quarter and Full Year Ended March 31, 2014 Earnings Call

Sorry, Reena, I did not understand your question are you saying that if the operators decide to leapfrog into 4G rollouts, then would it affect our tenancies, obviously if they rollout 4G it is not that they will stop rolling out 3G because 3G will be for masses. 4G, with the handset penetration being what it is, it is only for a very niche category of customers to begin with therefore this only can be an add-on into our tenancies and to our revenues. It is not going to take away the normal rollout of 3G.

Reena Verma – DSP Merrill Lynch – Mumbai

That is very helpful. My worry was that if you have so much capacity if you are going to do mass deployment of LTE, then you really do not need a 3G network?

Akhil Gupta - Executive Chairman – Bharti Infratel Limited

No, it is actually not correct, you may not technically need a 3G network but for LTE, particularly for handset which supports both FDD-LTE and TDD-LTE the number of handsets available are far and few at the very top level therefore there is no conflict between 3G rollouts and 4G rollouts at all.

Reena Verma – DSP Merrill Lynch – Mumbai

Sir, thank you. That was very clear. Wish you the best for next year.

Shareena – Moderator

Thank you very much Ms. Verma. The next question comes from Mr. Varun Ahuja from UBS, Singapore. Mr. Ahuja you may ask your question now.

Varun Ahuja – UBS – Singapore

Sir thanks for the opportunity. Sir a couple of questions. First on sharing revenue per operator. It has been falling every year for the last I think two, three years so just wanted to check on that front what is happening on that. Is it just mathematics? Because if you look at standalone Infratel and Indus, it has improved; but on a consolidated basis, it has fallen? Secondly, in terms of the total tenancy demand that you are seeing, is it more on 3G data right now or 2G? I know you answered that you're seeing coverage of Number 3, Number 4 operator; but if you look at overall, is it the 3G demand which is leading to more tenancies for you and is it more about coverage or the capacity of demand which is coming up for you? Thank you.

Pankaj Miglani– Chief Financial Officer – Bharti Infratel Limited

This is Pankaj this side. Let me take the first question. As far as the sharing revenue per operators goes if we are looking on a year-on-year basis as I explained earlier last year even in the revenue we had uneliminated portion of IRU which was showing in the sharing revenue per operator and hence you will see a decline happening from there. But even in the normal course as tenancies go up, you will see the sharing revenue per operator increasing with the extent of loadings coming in which gets offsetted by the number of tenancies increasing. As we get more and more tenants, the average revenue per tenant will fall and hence you will end up seeing a decline.

Devender Singh Rawat – MD & Chief Executive Officer – Bharti Infratel

We did mention earlier that the construct of MSA is such that when you move from one tenant to two tenants while our revenue realization moves from 35700 to 64000 where both operators pay 32 technically when the tenancy ratio moves up we are expecting on a per tenant basis this value to be lower which is what is reflected. Plus with loading which is coming in on account of 3G, 4G and other electronics you may see that jump up in some of the quarters and also as Pankaj mentioned if you see that number on a per tower basis it is going up consistently and in the last year because of Indus merger you see that one off impact that is coming in which is an aberration otherwise you will see that the trend is by and large uniform. Your second question on the demand for 3G versus 2G lot of tenancy additions are still 2G. 3G is primarily being loading on existing sites from the operators even where operators needed a 3G site to be added for coverage reasons, you would notice that they choose to bring in combined equipment of 2G and 3G so, so far most of the rollout are being 2G led to your point.

Varun Ahuja – UBS – Singapore

Bharti Infratel Limited Fourth Quarter and Full Year Ended March 31, 2014 Earnings Call

Thank you. Coming back, I think you made a comment that if you do a fiberization of a site, you put up some equipment and you charge for that. So if I am doing a 3G and if I am also doing a fiberization, those loading at two different entities or you are going to have a single component for that?

Devender Singh Rawat – MD & Chief Executive Officer – Bharti Infratel

There are such loading charges that are pre-agreed for space, power that they are going to use in every site and as per that it gets multiplied depending on the 19" racks they need to put in in these spaces whether it is indoor whether it is outdoor and how much power it is going to consume. But as per the timeline is concerned as and when if you choose to do it obviously there is a separate task for transmission based on the actual flow of traffic per site.

Varun Ahuja – UBS – Singapore

Thank you.

Shareena – Moderator

Thank you very much Mr. Ahuja. 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, I just had one question on the proposed construct for the tenancy for 4G. Will it follow the similar principles of 3G and are the dynamics any different in terms of the amount of space that will be required for 4G versus what is required for 3G and hence, can we expect higher collocation rentals and so on?

Devender Singh Rawat – MD & Chief Executive Officer – Bharti Infratel

First it is not different for us whether it is a 3G or a 4G equipment that comes in. We said that the construct if an operator goes in for the first time whether he goes only for 3G or 4G he is treated like a full-blown tenant and depending on which tenant number that he is making entry on he gets that tariff to pickup. So we do not see that changing right now.

Rahul Singh – Standard Chartered Securities – Mumbai

Thank you.

Shareena – Moderator

Thank you very much Mr. Singh. The next question comes from Ms. Amruta Pabalkar from Morgan Stanley, Mumbai. Ms. Pabalkar you may ask your question now.

Amruta Pabalkar – Morgan Stanley – Mumbai

Good afternoon sir. One question I had was on BTS and the data traffic. Would there be any ballpark number which we can have as to what is the data MB per BTS for an industry? So we are trying to gauge with 20% volume growth QOQ, what kind of BTS or growth one should look at?

Devender Singh Rawat – MD & Chief Executive Officer – Bharti Infratel

This megabyte calculation is normally done by the operators. I am afraid, I do not have the number to give there in terms of how this would translate into number of BTS on a data per mega byte. I am afraid I am not the right person to answer the exact question that you are looking for.

Amruta Pabalkar – Morgan Stanley – Mumbai

Secondly, on the depreciation front, we have seen a slight fall in the Indus depreciation while Infratel have been flattish. So would we expect the similar trend or is there anything else we need to look at?

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

Bharti Infratel Limited Fourth Quarter and Full Year Ended March 31, 2014 Earnings Call

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

There is not anything specific again. I think it is more to do with the seasonality. Again depreciation is computed on a per day basis this quarter has a lesser number of days and hence we are seeing a decline there is not anything significant.

Amruta Pabalkar – Morgan Stanley – Mumbai

Thank you very much.

Shareena – Moderator

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

Sanjay Chawla – JM Financial – Mumbai

Good afternoon. Thank you for the call. Just a quick clarification, I was looking for. You talked about 3% to 3.5% being the sustainable margins on energy revenues and you also mentioned there is a certain CapEx recovery portion so this 3%, 3.5% includes that CapEx recovery portion? How does one model that or look at that? That is one. Secondly on depreciation, I noticed that there are some 220 Crores of dividends given by Indus this year and there is no subsequent dividend. So, the effective dividend payout ratio from Indus has been just about 33%, 34%, whereas we were under the impression that Indus is substantially going to payout its profit probably close to 90%, 100% of profits as dividend. So why have this payout ratio not been achieved this year by Indus?

Akhil Gupta - Executive Chairman – Bharti Infratel Limited

On the margin of energy we cannot say whether it is quite sustainable but what is definitely desirable is that the tower company to our mind should certainly make 3% to 3.5% margin after discounting for the depreciation and interest on the energy saving equipment that we invested. On Indus I think last year they have given an interim dividend and then a final dividend. Last year was the final dividend, 220. So Sanjay no dividend has been declared by Indus for the current year, the dividend what you are seeing in the current year is dividend what they are declared out of last year's profit.

Sanjay Chawla – JM Financial – Mumbai

So this year effectively the payout has been zero, do you expect dividend from Indus to be 90%, 100% whenever they announce their dividend?

Akhil Gupta - Executive Chairman – Bharti Infratel Limited

Yes, for the time being they have not declared a dividend, but I think they will perhaps be doing that as an interim in this current year.

Sanjay Chawla – JM Financial – Mumbai

So would you be revising your standalone profits as a result of dividend payout from Indus for FY 2014?

Akhil Gupta - Executive Chairman – Bharti Infratel Limited

The dividend would come in the current year. Also dividend is a cash flow event so the profits have been declared at pro-rata at 42%. So on an overall consolidated perspective it is fine.

Sanjay Chawla – JM Financial – Mumbai

But why I am saying this is because we were under the impression that Indus will payout 100% dividend that is why your standalone profits would be fairly high, similar to your consolidated profit effectively which has not happened this year, so that's why this question?

Bharti Infratel Limited Fourth Quarter and Full Year Ended March 31, 2014 Earnings Call

Akhil Gupta - Executive Chairman – Bharti Infratel Limited

Right, but the dividend payment has to be determined in accordance with the net profit for the standalone entity as per Company's Act. That does not change but yes in the coming years whenever dividend is paid we get 42% of that and our dividend policy is very clear that that would pay that much amount or 60% to 80% of the profit which is obviously high.

Sanjay Chawla – JM Financial – Mumbai

Just a related question on the return of surplus cash, you mentioned that you may be looking at share buyback potentially. My question is, are you also not looking at special dividends being paid off the free general reserves where there may not be any constraint?

Akhil Gupta - Executive Chairman – Bharti Infratel Limited

The special dividend as per company's act cannot be paid out of the general reserves that is the technical part of it. The accumulated profits can be but we believe it may be more tax efficient for the shareholders as well as the company to look at share buyback. On this I think at this point, I can only say that please wait for some more time hopefully in the next couple of months we should get this clarification and come back to you with the specific plan.

Sanjay Chawla – JM Financial – Mumbai

Thanks for that. Just, if I could squeeze in just one more question. Your other operating expenses have gone up substantially this quarter on a sequential basis. So are there any one-offs there or is it due to seasonality? What is the impact of seasonality? What could be the sustainable level of this OpEx item going forward?

Pankaj Miglani– Chief Financial Officer – Bharti Infratel Limited

So yes the OpEx has gone up this quarter primarily led by two things. One this quarter we normally end up preparing for the next quarter which is the summer preparedness and I think that is why we have incurred this cost and second is actually we have talked about certain off court settlements because of which there was a recovery which had happened in the PD line items which in this quarter is giving a negative thing, so coupled with the two you see the OpEx going up.

Sanjay Chawla – JM Financial – Mumbai

So, how should one look at the sustainable or normalized number on the other expenses side?

Pankaj Miglani– Chief Financial Officer – Bharti Infratel Limited

I think the best way to look at it is I think we need to club this along with the energy and then to knock off the two and once we knock off the two we do not see there is going to be any major or significant difference on the current set of numbers.

Sanjay Chawla – JM Financial – Mumbai

Thank you very much.

Shareena – Moderator

Thank you very much Mr. Chawla. At this movement we will take one last question from Mr. Pankaj Suri from Nomura, Singapore. Mr. Suri you may ask your question now.

Pankaj Suri – Nomura – Singapore

Both my questions are on cost. First on CapEx, you indicated that CapEx for this year is going to be around 2,000 Crores. Just wanted to check with you what kind of uptick in tenancies are you expecting, any ballpark number would be helpful here? Second question is on operating cost, any more levers that the company can pull for it to record further margin expansion?

Akhil Gupta - Executive Chairman – Bharti Infratel Limited

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

Bharti Infratel Limited Fourth Quarter and Full Year Ended March 31, 2014 Earnings Call

On CapEx we do not give any guidance, the figure of 2000 is vaguely based on the fact that we added close to 4000 tenancies in 4th Quarter and rolled out 555 new towers. But this is no guidance that we would like to give.

Devender Singh Rawat – MD & Chief Executive Officer – Bharti Infratel

Operational excellence is the key we drive in the organization. We constantly keep looking at it, the big ticket ones, we have achieved already. We will keep looking at innovating further to see how we can keep our costs under control. For the big ticket ones yes are of course now behind us we did focus a lot and achieved in the last year which translated into some good results.

Pankaj Suri – Nomura – Singapore

Thank you.

Shareena – Moderator

Thank you very much Mr. Suri. At this moment I would like to hand over the call proceedings to Mr. D.S. Rawat for the final remarks.

Devender Singh Rawat – MD & Chief Executive Officer – Bharti Infratel

Thank you very much. I will take this opportunity to thank all of you for your support. Just to sum it up we have seen more regulatory clarity, data uptake clearly is an encouraging sign. Operators have invested close to now \$30 billion on the license alone and will really be looking at monetizing this investment. This bodes well for us. The last quarter's numbers where we added 3832 collocations which was 1.5 times larger than we did in the year is also a positive sign so we are seeing early green shoots of recovery, which is also translated into good set of numbers. I want to thank each one of you for your support and look forward to a great year ahead too. Thank you very much.

Shareena – Moderator

Ladies and gentlemen this concludes the conference call you may now disconnect your liens. Thank you for connecting to audio conference service from Airtel and have a pleasant evening.