

Bharti Infratel Limited Fourth Quarter Ended March 31, 2016 Earnings Call

Earnings Conference Call Transcript

Event: Bharti Infratel Limited Fourth Quarter Ended March 31, 2016
Earnings Call

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Bharti Infratel Limited Fourth Quarter Ended March 31, 2016 Earnings Call

CORPORATE PARTICIPANTS

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Chairman - Bharti Infratel Limited

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Chief Financial Officer - Bharti Infratel Limited

Devender Singh Rawat

Managing Director and CEO - Bharti Infratel Limited

Harjeet Kohli

Group Treasurer - Bharti Airtel Limited

CONFERENCE CALL PARTICIPANTS

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Credit Suisse - Mumbai

Kunal Vora

BNP Paribas - Mumbai

Pranav Kshatriya

Edelweiss - Mumbai

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Piyush Choudhary

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IIFL - Mumbai

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HSBC - Mumbai

Rahul Maheshwari

IDBI Mutual Fund - Mumbai

Abhishek Agarwal

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PRESENTATION

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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, 2016 Earnings Call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question-and-answer session will be conducted for all the participants on this call. In case of a natural disaster, the conference call will be culminated post an announcement.

Present with us on the call today is the senior leadership team of Bharti Infratel Limited. Before I hand over the call, I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risks that we face.

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

Akhil Gupta - Chairman - Bharti Infratel Limited

Welcome to the Earnings Call for the 4th quarter and full year ended on 31st March 2016.

As anticipated, year 2015-16 was a year of growth for telecom sector in India. The industry witnessed data driven growth, increased smart phone uptake and aggressive usage of data with availability of vast variety of applications & content. As you are aware, the operators have made massive investments of over 50 Bn USD in spectrum acquisition between 2010 & 2015. 3G rollouts which started 1 ½ - 2 years back have now picked up and the operators have started going deep into the country with 3G networks as 3G handsets become available at increasingly lower price points across the country. The highlight for the year 2015-16 also was the fact that the operators have now commenced rollout of 4G networks with Airtel taking the lead by covering over 300 cities by 31st March, 2016 and Voda & Idea starting the 4G rollouts selectively.

The data volume growth has been robust over the years, as per the latest NSN MBiT Index the overall data usage in India grew from 26 Petabyte for Calendar Year 2012 to 128 Petabyte for Calendar Year 2015; a growth of ~ 392% over the period of 4 years. The data reported by the operators in their Quarterly Reports mirrors this.

We believe that the expansion of 3G networks deeper into the entire country and more aggressive rollout of 4G networks will be seen in the coming year as all the operators compete to get market share in 3G across the country and simultaneously rollout out 4G though a bit more selectively. The anticipated launch by Reliance Jio of their 4G offering sometime this year would further fuel the 4G rollouts by other operators.

The other important development in the market has been steps towards consolidation amongst the operators supported by clarity in spectrum trading & sharing guidelines :

- Airtel acquiring Videocon and Aircel spectrum and RCOM planning to merge MTS and Aircel with itself are few examples of direct and indirect consolidation.

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- We expect this trend to continue and consolidation among the operators will lead to more efficient utilisation of a scarce and valuable resource like spectrum.
- This shall clearly enable much accelerated rollouts and a more stable operator market structure, thereby to benefit Infratel & Indus as their large customers expand faster.

In the tower industry too, there has been a major consolidation with ATC taking majority control in Viom. We believe this is a healthy development.

While as expected the first flush for these installations have been on the existing sites by the operators, we believe that it is only a matter of time that with the increased capacity utilization, the operators would need new sites for coverage and capacity gaps. We are already seeing this happening in some of the larger cities. Bharti Infratel & Indus Towers being the leaders are fully geared to serve their customers' demand and are in the best position to capitalize on this growth.

Some of the highlights/achievements for the company during the year were as under :

- For the second year in a row, we were recognized as the 'Best Employer' by AON Hewitt.
- Our customer satisfaction scores have continuously improved and we got the highest ever score during this year.
- Approx. 40% of sites operated by Indus & Infratel are now 'Green' i.e. diesel free.
- Bharti Infratel stock was included in MSCI Index and in Nifty during the year and thereby in F&O segment.

Coming to the results, this quarter the total tower base stood at 88,808 witnessing a YoY growth of 3.4%, whereas the co-location growth was at 7.0% and we ended the quarter 195,035 tenancies, with a closing sharing factor of 2.20 :

- Consolidated revenues for the quarter were at Rs 3,162 Cr. witnessing a YoY growth of 7%.
- EBITDA for the quarter came at Rs 1,444 Cr. and grew at 9% as compared to the same quarter last year.
- Profit after Tax for the quarter was at Rs. 662 Cr. witnessing a 19% YoY growth.
- The pretax RoCE has reached healthy levels and was 22% for the quarter ended on 31st March 2016.
- The margins continue to inch up and on a full year basis the reported EBITDA margins expanded by close to 100 Bps as compared to last year.

I am pleased to inform you that the Board has proposed the following distribution to the shareholders:

- a) Dividend of Rs.3/- per share amounting to Rs.569 crores. In addition, there would be a dividend distribution tax of Rs.116 crores.
- b) Buy-back of shares of the company on a pro-rata basis for Rs.2000 crores.

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- c) Accordingly, the total payout including the dividend distribution tax would be Rs.2685 crores, which is close to maximum permitted levels.

Points to Note :

Applicability of Ind-AS accounting standard w.e.f. 1.4.2016

As you are aware, the new accounting standard becomes effective from 1.4.2016. The salient changes due to this standard vis-à-vis the Indian GAAP, by which the company has been preparing its accounts so far, are as under:

- a) In the consolidated statutory accounts, just like in case of IFRS for which the results are already reported by us in addition to Indian GAAP, the profit from Indus Towers, where Bharti Infratel holds 42% equity, would be dealt with on equity accounting basis i.e. only the net profit would be accounted for as against the line by line proportionate consolidation under the Indian GAAP.

However, we would, for continued comparison of the underlying overall business, continue to give proforma results showing the performance incorporating line by line proportionate consolidation of Indus and reconciling the end results with the Ind-AS consolidated results.

- b) The escalations, which under the Ind-AS have to be equalized over the term of the contract known as revenue equalization (in case of revenue) and lease equalization (in case of rents payable by us), would henceforth be accounted for in the normal course based on actual billings.
- c) Like in case of IFRS, under Ind-AS, the investments made by the company e.g. with the debt Mutual Funds would henceforth be valued on mark-to-market basis unlike Indian GAAP where the income on such accretion was recognized only on encashment. This would be a good step and would provide uniformity vis-a-vis other income over the quarters.

The above changes are not likely to have any significant effect on the results of the company going forward vis-à-vis the results as per Indian GAAP.

We believe that in coming times the infrastructure requirement for telecom operators will undergo transformation and will increase manifold to cater to the aspirations of the dynamic Indian population. Our relationship with all the operators and our execution and management strength will help us garner majority of this business.

In addition, we would be closely watching developments on potential new business areas like smart cities and transmission opportunities.

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

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management will take only two questions to ensure maximum participation. Participants who wish to ask questions, may press “*”“1” on their touchtone enabled telephone keypad. On pressing “*”“1” participants will get a chance to present their questions on a first-in-line basis. Participants who wish to ask questions may please press “*” “1” now. The first question comes from Mr. Sachin Salgaonkar from Bank of America, Mumbai. Mr. Salgaonkar, you may ask your question now.

Sachin Salgaonkar - Bank of America - Mumbai

Hi, thank you for the opportunity, I have two questions. First, if you could help us quantify how many tenancy cancellations happened this quarter and wanted to understand if there are any exit penalties for these, and if it so when could we expect these penalties getting reflected into numbers?

Second question, a lot of investor concerns nowadays are on contract renewals. I understand your first set of contracts is coming for renewal around March 2018. So would love to understand your thoughts on how you guys are looking at it? Thank you.

Akhil Gupta - Chairman - Bharti Infratel Limited

Would you take up the tenancy cancellations, Pankaj? How many overall tenancy cancellations happened and we haven't accounted for any exit charge in this quarter?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

We have not accounted for any of the exit penalties, which are recoverable from this. The tenancy cancellations for the quarter were approximately in the range of 500 plus, and we are still in discussions with the operator for recovery of those amounts. And as and when we settle it, we will come back and report the numbers.

Akhil Gupta - Chairman - Bharti Infratel Limited

I think it is important to note that for exit charges we do it on cash basis, we do not pre-book it till it is actually received.

Sachin Salgaonkar - Bank of America - Mumbai

Akhil, based on your previous experience, how many quarters or how many months does it take for these exit charges to get reflected?

Akhil Gupta - Chairman - Bharti Infratel Limited

No, there is nothing certain about it, because in some cases there could be litigation. For instance, on some of the earlier ones the stand taken was this is force majeure so nobody can give any definitive timeframe for these.

I think the second point, which Sachin you have raised, I am sure is on the top of mind of many investors. It has been on our mind for some time, which is, what happens at the time of renewals, and I think the uncertainty in this regard is obvious, it is understandable, because the uncertainty is at what rate will these tenancies be renewed once the contracts expire and this obviously has been a matter of concern

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for both investors and to us. Just for record, our main renewals are coming up in Indus in 2018. For Infratel, they are very small numbers, but Indus would be quite significant numbers of tenancies coming up for renewal.

So, while we are obviously still away from the said event, we are taking some very concrete steps in this regard, which I would like to tell you, will give you a brief outline of what we are working on. So in order to provide, I think what we have been working on is that this has to be a lasting solution; it cannot just be restricted to renewals in 2018. Whenever a renewal comes, we need a lasting solution, because what obviously is not in the interest of the industry, both the towers and the operators is a time-to-time, case-to-case negotiation on renewal. So what we are working on is a lasting solution to this problem for all times to come, which must be in a fair and equitable manner. And these are the following actions, which we are contemplating:

Introducing a rate card approach for the rates to be charged to the operators whereby the rate card would go up by 2.5% each year on the commencement of each financial year. In other words, on the 1st April of each year the base rates would increase by 2.5% for all the operators on a uniform basis.

For all existing customers whose leases expire in near term, we intend to give an option to extend these leases for appropriate period with suitable rationalization of their existing escalation charges in a manner that the overall effect for them and us would be NPV neutral.

We hope to fine tune and finalize the above changes within this quarter and would be in a position to inform you of the same by the time we meet on our call next quarter.

The result of this exercise would be that if the leases are extended in future, the renewals will be made as per the rate card applicable on that day which will be much higher than the base rates today & more important at the same rate as would be available to any new lease. In other words, there would be uniformity between renewals & new leases for all times in future.

Sachin Salgaonkar - Bank of America - Mumbai

That was very detailed, thanks a lot. Just one small follow-up question. How should we look at the base rate? For example, let's say the contract starts at Rs.33000 there is a 2.5% YoY escalation every year. So is base rate Rs.33000, or at the end of 10 years, whatever is escalated on every year 2.5%, what could be considered as a base rate?

Akhil Gupta - Chairman - Bharti Infratel Limited

The base rate would start at Rs.33000.

Sachin Salgaonkar - Bank of America - Mumbai

Okay, even for the old contracts, which are coming for renewals?

Akhil Gupta - Chairman - Bharti Infratel Limited

Yes. That is the reason why we want that. By the time they come up for renewal, they go to a rate card which would be applicable at that time, Rs.33000 into 102.5% and so on.

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Harjeet Kohli - Group Treasurer - Bharti Infratel Limited

So, Sachin, just to clarify, this is Harjeet here. In your example, Rs.33000 in the current situation stays as is, as the base rate, even if somebody is coming in the year 06 or year 08, and thereby, one could argue that at the time of renewals you will start at Rs.33000. And that is what Akhil explained. Right now and going forward that base rate itself will start escalating, irrespective whether there is a tenancy at that rate or not. And the rate cards will every year be re-benchmarked by 2.5%, such that at the potential renewal time, the whole cash revenue of that particular tenancy should not fall to the base rates.

Shareena - Moderator

Thank you very much Mr. Salgaonkar. The next question comes from Mr. Sunil Tirumalai from Credit Suisse, Mumbai. Mr. Tirumalai you may ask your question now.

Sunil Tirumalai - Credit Suisse - Mumbai

Two questions, one is a follow-up. So just wanted to understand what is the nature of discussions that you have with the operators who are exiting? I mean is it not a part of the contract or the penalty is not a part of the contract and what is the need for a negotiation?

And the second question is, when I look at the cost, especially in Indus, the land rental costs and the employee costs seem to be going up pretty quickly much faster than their rental revenues. So, I mean how are you looking at that, especially the land rental cost, because they also need to be on some contracts and they seem to be going much faster than your rental revenues? Thank you.

Akhil Gupta - Vice Chairman - Bharti Infratel Limited

So, on exit charges, obviously there are contracts, but contracts do not mean that I serve them a notice and their bank sends me cheque. So there will at times be some negotiation, they will ask for some discount and so on. We will see how it goes, but yes, we are sending them the notices as per the contracts. And in most cases we are hopeful that we should be able to recover the exit charges.

On these line by line expenses, I would suggest that if you look at the overall picture, the EBITDA margins are improving, so I would not worry too much about some specific line item. For instance, lease rentals, as there are more tenants coming, at times there could be some escalation, but these are nothing major. Pankaj, you want to add to that?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

No. I think, as Akhil is rightly saying, there is no major change except for when you are looking at a personnel one. There was a change in composition of the mix between employees, which was outsourced, and then we on-rolled them. And hence, it's a mix of normal increments and additional people hired as attenders, and that's what you're seeing it flowing.

Shareena - Moderator

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

Kunal Vora - BNP Paribas - Mumbai

Sir, two questions. First is, we have seen a fairly strong growth in average rental per tenant this quarter, which I believe is because of increase in 3G, 4G loading. Do you see this as sustainable, say, like around 2% increase, considering that operators will continue to invest heavily? Do you think that 1.5%, 2% will continue? And also how the loading is different for 4G sites excluding, rental revenue which you get for 4G site is different compared to 3G? And on the same line, with Ind-AS coming into place, should we be expecting like, say, if you have 1.5%, 2% increase in average rental, on top of it you also have 2.5%, because earlier because of revenue equalization accounting, it was not appearing in your books, but that cash revenue will also start appearing. For average rental going forward what we should be assuming should it be more than what we have been assuming in the past?

Akhil Gupta - Chairman - Bharti Infratel Limited

So, on the first one you said that the average rent has gone up. Yes, it's on account of loading. Now how it will go forward, we do not give guidance, so I think you will have to make some judgment, look at the past trends. But yes, it is on account of the loading charges that the average rent has gone up.

On Ind-AS, as I said, it is difficult for us to straight away say how much will be the effect, but as I said, overall, we do not expect any significant overall change because of that.

Kunal Vora - BNP Paribas - Mumbai

But in terms of accounting, with Ind-AS, when you will have to start, the revenue number should appear, the growth in average rental should appear higher, right, because so far you've been using revenue equalization accounting and there has been a difference between cash revenue and the revenue which you have been booking. But under Ind-AS, you will be, like the 2.5% also will get added to average rental annually, if I am not mistaken?

Akhil Gupta - Chairman - Bharti Infratel Limited

Yes. But the current also will include the revenue equalization. So, I don't know exactly how much will be the impact, but not too significant.

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

Kunal, even the current sharing revenue per operator includes the revenue equalization component.

Kunal Vora - BNP Paribas - Mumbai

Okay. I will get back on this to get more clarity. And just one last thing. On the rate increase, right now we start with like, say, Rs.33000 of rental and rental goes all the way to Rs.40000, RS.42000 over the period of 10 years. So did you mention that the rate, which will be reset, the rate card will be set at a lower level or is that my understanding right?

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Akhil Gupta - Chairman - Bharti Infratel Limited

No, the understanding should be that if it is Rs.33000 it will keep going up by 2.5% every year.

Kunal Vora - BNP Paribas - Mumbai

No, no, like say, if the contract was signed 10 years back and it was starting at Rs.33000?

Akhil Gupta - \ Vice Chairman - Bharti Infratel Limited

The rate will be same for everybody, which would start from the base rate now and go up by 2.5% every year. So in other words, the renewals will not be at the escalated charge till that point of time, because their claim would have been that it should be in line with the new lease, which is the base rate. So it is a midway of that.

Kunal Vora - BNP Paribas - Mumbai

So does that mean that say, somebody was paying Rs.40000 till yesterday, as the reset happens, he might start paying Rs.30000, is the understanding right?

Akhil Gupta - Chairman - Bharti Infratel Limited

Not Rs.30000, but somewhere in between.

Shareena - Moderator

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

Piyush Choudhary - CIMB - Mumbai

Firstly, could you help us understand what is the rental revenue under Ind-AS for fiscal 2016, if I have to kind of build a pro forma?

Secondly, on Indus Towers, has the Company declared any dividend in fiscal 2016 and if yes, what's the payout ratio and when we could expect the cash inflow?

Akhil Gupta - Chairman - Bharti Infratel Limited

We have not worked out the Ind-AS for 2016. But obviously next quarter when we report Ind-AS, we would also be giving you the corresponding figures. But as I said, don't expect it to be anything very significantly way off from that.

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On the dividend, I think the total dividend declared is Rs.2265 crores or something by Indus. Obviously, we will get about Rs.950 crores. That should come in the next couple of months, when they hold the AGM, I don't know when their AGM is being held. But it will come during this year, approximately Rs.950 crores. That is pretty much I think 80%, 90% of their total.

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

And near to 100% what they have --

Akhil Gupta - Chairman - Bharti Infratel Limited

More or less 100%, including the DDT.

Piyush Choudhary - CIMB - Mumbai

And if I may ask on the dividend, once the Indus dividend comes, there could be interim dividend proposed or could be evaluated as we have done in the past also with this cash?

Akhil Gupta - Chairman - Bharti Infratel Limited

You have to specifically, whether there could be, yes, of course there could be, but whether there will be, no comments at this point.

Piyush Choudhary - CIMB - Mumbai

And if I may ask one more thing, on the tenancy growth outlook, considering you will have order book and rollout plans from operators, is the tenancy growth outlook looking better or similar to last year?

Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited

Piyush, this is Rawat this side. As we have said earlier, we do not give guidance on growth from operators. Yes, we are in discussions finalizing our annual plans. So we have some numbers from them, but we do not give that as a guidance going forward.

Shareena - Moderator

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

Pranav Kshatriya - Edelweiss - Mumbai

My first question is regarding energy margins. They seem to have gone up in the quarter and so how should we see this going ahead? Was there any write-back in charges, which led to this margin expansion?

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My second question is relating to the smart city related RFPs, what you talked about. Can you give a little more color on what is the size of these RFPs and at what stage and which cities these RFPs are coming from? Thank you.

Akhil Gupta - Chairman - Bharti Infratel Limited

Pankaj, you take the first one. But on the second one, we do not have the exact details on the RFP. I believe, the first one is coming for Raipur if I am not mistaken, or Kochi, I think the first one is coming, but we do not have the details at this point of time. Pankaj?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

Pranav, coming on the energy margins, as we have articulated in the past, we should be looking at energy margins on a yearly basis and we have spoken about a range of 2% to 5% which should be taken. And if you look at a complete-year margins, it is just a shade higher than a 5% which has happened and that's more primarily from the fact, because there are seasonalities, which happen across quarters. And hence from that perspective, a yearly margin would be a safer bet to assume. So we would still continue to talk about a margin ranging between 2% to 5% on a yearly basis.

Shareena - Moderator

Thank you very much Mr. Kshatriya. The next question comes from Mr. Aditya Soman from Goldman Sachs, Mumbai. Mr. Soman you may ask your question now.

Aditya Soman - Goldman Sachs - Mumbai

Just one question from my side. I think there has been some talk about active infra sharing by the operators. Do you see that as a realistic risk or do you think that given that the competitive scenario in the market today that this is not something that is likely to at least come up in the near-term?

Akhil Gupta - Chairman - Bharti Infratel Limited

Well, our view is that, firstly, spectrum sharing and things like that in a scenario where everybody has very scarce spectrum, may or may not be practically feasible for the large operators. Now, if a small operator is ready to share, I think that's damn good news, because that only means that the bigger operators who would have wanted to roll out will be able to roll out much quicker. Even assuming that two big operators in some areas do spectrum sharing, as tower companies who are very aligned to the interest of our customers, we do see it as positive for a very simple reason that what they would have otherwise taken maybe two or three, or four years to roll out, by doing that spectrum sharing, both of them will be able to roll it out, perhaps in the next one year. And that I think is the positive step here. So from a tower company point of view, we do not necessarily see these as very negative to us, just like we had always stated that this business is not about having too many operators, it is about having a few, but really financially healthy operators. And if spectrum sharing and things like that do make them financially healthy, I think it is really in the interest of the infrastructure companies who are serving them, because what you need is healthy, strong operators who are ready to make investments in networks, who are ready to make investments in spectrum, and not the ones who have spectrum, but are not able to roll out.

Aditya Soman - Goldman Sachs - Mumbai

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I understand that. Just a quick follow-up. I think my question was also on the active infra sharing, so where they are sharing radio networks, could that be something that is a potential negative over a longer term, or do you think it is just not feasible?

Akhil Gupta Chairman - Bharti Infratel Limited

It is too, from our point of view in the same category, because if they do end up sharing, which obviously is not the easiest of things amongst peers competitors. But if they do end up sharing even the active infrastructure, or whatever is permitted, it's not necessarily a negative. I think it will only help faster rollouts. And what this industry is keen to see is quick rollouts, not necessarily by 10 operators, but by 3-4 operators.

Shareena - Moderator

Thank you very much Mr. Soman. 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

Thanks for the opportunity. I have two questions. Firstly on the core margins, that is margins ex-power, could you give us some guidance as to, or maybe based on industry standards, how do you see this inch up, say over next one, or two, three years, when your, say, tenancy ratio moves from 2.2x to 2.3x - 2.4x?

Secondly, on the Smartx Services, how do you think there is revenue potential, or any color you could give us on the potential revenue opportunities and kind of rentals that you seek and demand for these services? Thank you.

Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited

This is D.S. Rawat. First from margin ex-energy, we said that if you do a unitary model, we are expecting margins to go up with tenancy ratios inching up, and we said at about tenancy ratio 3x, you would expect margins to be more closer to 75% in our business, when you are closer to that number and we see the current tenancy ratios at this levels that we are in ex-energy. The margins, ex-energy are comparable to that, somewhere between the ratio of 2x and 2.5x. 2x we said would be around closer to 60% to 65%. Specific where it will be in the next two years, it purely depends as I said on tenancy growth, and where we end up as the tenancy ratio for the entity as a whole.

On Smartx, your second question, we had mentioned earlier on the call that we see smart cities transmission as opportunities which could potentially require licensing or special treatment, and as and when these opportunities come up, we would like to use this Company to participate in these bids and grow the businesses as appropriate at that time.

Shareena - Moderator

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

Bharti Infratel Limited Fourth Quarter Ended March 31, 2016 Earnings Call**G.V. Giri - IIFL - Mumbai**

About your rate resetting rate card, when your base rate changes will it be for clusters as and when they come up for renewal, or will it be at some point in time when you can manage it, all towers simultaneously? That's number one.

And number two, why with 2.5% and why not a higher rate? And at whatever rate, 2.5% or whatever rate, how long will that be set for and when will the rate card itself be re-looked at?

Akhil Gupta - Chairman - Bharti Infratel Limited

First of all, the rate card would be applicable, as we are contemplating for every new tenancy, irrespective of cluster or anything. This would be a general amendment to the Master Service Agreement. And this will be 2.5 % every year increase, till we review it, where there will be no time limit to this in the MSA. So to your question, whether 2.5% is good, well it's traditional, so no point disturbing it, because the argument counter can be why not less than 2.5%. So, I think 2.5% is a good figure, which has been established over the years.

G.V. Giri - IIFL - Mumbai

So, all your towers would have the same rate or similar rate adjusted for?

Akhil Gupta - Chairman - Bharti Infratel Limited

All new leases would have the same rate.

G.V. Giri - IIFL - Mumbai

So the old towers would get re-priced when they come up for renewal at the rate card rate prevailing at that time?

Akhil Gupta - Chairman - Bharti Infratel Limited

That is right, that is the plan.

Shareena - Moderator

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

Rajiv Sharma - HSBC - Mumbai

Just one question I had. So, Akhil, you have mentioned that there is 3G growth, there is 4G growth and you are seeing this whole data growth being robust. So what is preventing or why is not Infratel, Indus getting into fiber sharing, which like the operators started towers for the first five, six years, and they had to ultimately share it. So why not be early on, and I mean the demand is anyways there, operators are

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doing it themselves. So why not be early on in this, because this seems to be a big opportunity? And if you get in there, will there be a license fee and a new license which is required and will it mean that all, you will have to do it in a subsidiary, so that there is no regulatory confusion about double taxation of the existing revenues, your thoughts on this, please.

Akhil Gupta - Chairman - Bharti Infratel Limited

So, I think it is a very obvious question, something, which as a tower company obviously from our point of view, this is as important an infrastructure as the towers. But then traditionally the operators have kept the optic fiber with them. They are adding a little bit to that. I think my personal view is, it is a matter of time that these ideally should be shared in whatever manner, either they share it bilaterally, which always becomes a little more difficult, considering that they compete with each other, or it should come out to entities like tower companies, may or may not be just the tower companies, but any independent company which can share it amongst various operators on a non-discriminatory basis, just like the model we have on the tower.

So, on a broad brush, I would say I completely agree with you and I also believe that this would happen over a period of time, maybe over the next year or so, it should start happening. But let's see. I mean this is something, which the operators will have to take the first steps. And as you know, one of the principal decisions we have or the basis we have is, we will not want to compete with our customers, which is the operator. So if they believe that they should be doing it themselves, so be it. But we do believe it should be like towers be shared.

As far as the licensing and all is concerned, I think as and when it happens we can review all that and if necessary, we'll do it in a subsidiary, but that's something which should not worry any of us.

Rajiv Sharma - HSBC - Mumbai

And what is the kind of, just a small follow-up, what is the kind of saving on the distribution tax with this Rs.2000 crores buyback?

Akhil Gupta - Chairman - Bharti Infratel Limited

There is a distribution tax of 20.3% or 20.4%, if I am not mistaken, on Rs.2000 crores. That would have been the distribution tax, about Rs.400-odd-crores.

Shareena - Moderator

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

Srinivas Rao - Deutsche Bank - Singapore

My one question is will the promoter, which is Bharti also participate in the buyback, do you have any feedback on that?

Akhil Gupta - Chairman - Bharti Infratel Limited

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Well their Board meeting is going on, so I think their Board has to take a decision. I cannot preempt that. So at the appropriate time, we will have to perhaps disclose. Harjeet, any thoughts on that? What are the rules on this?

Harjeet Kohli - Group Treasurer - Bharti Infratel Limited

So Akhil you are right. At this moment, the Bharti-Airtel Board meeting will take a call on what they need to do as an intention. Whenever we come out with the shareholder notices, because this amount of buyback in Infratel will need shareholder approval and shareholder notices for the said approval will have to carry the intention to purchase by the promoter.

Akhil Gupta - \ Chairman - Bharti Infratel Limited

So, about a week or 10 days?

Harjeet Kohli - Group Treasurer - Bharti Infratel Limited

Yes, I think 6 to 10 days, right.

Akhil Gupta - Chairman - Bharti Infratel Limited

We would come out with the shareholders' formal notices and all. And there we have to give whether the promoters intend is to participate or not.

Srinivas Rao - Deutsche Bank - Singapore

Sir, one more question. The down streaming, which now happens, of dividends from Indus to Infratel that also presumably will attract the same provisions of the changed dividend tax. So is there a thought of buyback at Indus level also, or that's not something to be considered?

Akhil Gupta - \ Chairman - Bharti Infratel Limited

There is no changed dividend tax. The dividend distribution tax is what it was. And it does not make a difference, because that is not a listed entity. So there is no capital gain exemption when it is done through the stock exchange. So there it practically makes no difference.

Srinivas Rao - Deutsche Bank - Singapore

So, it is basically more for the listed entity and the quantum of dividends, which is in a dividend income, that is the only issue, am I right?

Akhil Gupta - Chairman - Bharti Infratel Limited

Dividend distribution tax is what it was, there is no change in that.

Bharti Infratel Limited Fourth Quarter Ended March 31, 2016 Earnings Call**Srinivas Rao - Deutsche Bank - Singapore**

And sir, my second question on the smart cities, where you mentioned RFPs are coming out. Are there specific portions of the RFP, which talk about infrastructure build out and that's the portion which you will be looking at?

Akhil Gupta - Chairman - Bharti Infratel Limited

Yes. We will only look at the infrastructure portion, yes. Not any service directly to the end customer. We would be purely in a B2B business, so whatever portions we will look at, as a tower company will be infrastructure.

Srinivas Rao - Deutsche Bank - Singapore

So you will essentially I mean, someone basically will take the contract and then you will construct the infrastructure for that customer?

Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited

The consortium and partnerships are being formed, depending on each and every smart city bid that's coming in. As Akhil said, our focus is infrastructure and that to the telecom piece especially in this, because a lot of this smartness will not work without the underlying infrastructure and that is the area that our core expertise concern. We will have to partner with multiple parties and it depends on how the final RFP comes out. If someone wants the whole thing to be front-ended by one large entity, then you will have to form consortiums. But if there are broken down RFPs, clearly earmarking telecom, as an independent company we will be participating in that portion of the bid only. But every state is right now in a formative stage of forming these RFPs, so we are party in some of these and discussions with various state governments to see how they want to bring this out as their own blueprint.

Akhil Gupta - Chairman - Bharti Infratel Limited

But having said that, it is still in a bit of a state of flux. I think these are being formed, and as the year progresses, I am sure we will have more clarity on how these states are coming out with the various RFPs. But two principles remain. One, we will look at only telecom infrastructure. Two, we are not going to do anything where we compete with our customers, that is the telecom operators.

Shareena - Moderator

Thank you very much Mr. Rao. The next question comes from Mr. Abhishek Agarwal from Macquarie Group, Mumbai. Mr. Agarwal, you may ask your question now.

Abhishek Agarwal - Macquarie - Mumbai

Thank you for the opportunity. Just wanted your views on what impact there could be by the incremental shift of the industry towards deploying Single RAN solutions?

Bharti Infratel Limited Fourth Quarter Ended March 31, 2016 Earnings Call**Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited**

We have talked about this earlier too. We actually actively encourage operators to deploy Single RAN, thereby keep electronic and also antenna requirements to the minimum. Single RAN as a technology has been there for some time and every operator, his new purchases of electronic equipment is invariably the latest, this is analogous to the laptops that you buy or the tablets that you buy, you normally buy the latest, which has features and backward compatibility of 2G, 3G and so on and so forth. Similarly, all electronic equipment from operators that they would purchase today would be Single RAN; depending on what frequencies he has got clarity of, in terms of acquisition. However, the traditional equipment that is there that also needs to be upgraded to support new technologies like 3G and 4G. Invariably these are equipment, which are not thrown out, these are moved out into more rural parts where the new technology benefits are not being used.

In the past, we have been getting operators to actually shift on rooftop sites where we see congestions in terms of space constraints or antenna loading constraints to put in Single RAN solutions. Otherwise, as I said, every operator that we have talked to pretty much is deploying Single RAN solutions as the new base stations which they buy and deploy in the networks. So, we do not see any impact on account of Single RAN per se to us.

Akhil Gupta - Chairman - Bharti Infratel Limited

To quite an extent we do believe, and that is what DS mentioned. We actively encourage them to replace their old equipment with the sleeker, smaller, new Single RAN equipment, because when there is more space on that tower, we will be able to have another tenant. So, it is I think a good win-win situation.

Abhishek Agarwal - Macquarie - Mumbai

Anything in terms of a differential rate between what you would charge for a Single RAN solution versus otherwise vanilla equipment?

Akhil Gupta - Chairman - Bharti Infratel Limited

No, we do not have differential rates. I think we have a Master Service Agreement. We have standard rates, they are non-discriminatory, and we do not distinguish on the basis of technologies. That is I think a fundamental principle on which we as tower companies operate.

Abhishek Agarwal - Macquarie

And my final question is, do you see some amount of cannibalization coming in from the deployment of small cells to probably fill out the network, make it denser?

Akhil Gupta - Chairman - Bharti Infratel Limited

No, the small cells will be needed when the current larger cells are not able to cope up with the capacity so there is no conflict to my mind, unless DS.

Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited

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No, absolutely right, Akhil. So, what we have noticed is the macro networks or the large cell towers that we've deployed are traditionally built for outdoor coverages and there because of data being on a higher frequency that itself is weaker. B) Higher frequencies have weaker penetration inside buildings, so two solutions, one, small cells are typically solutions to offload peak hour traffic in certain small pockets, typically you're talking about less than 50 meter pockets that you are looking at a small cell. C) You deploy small cells into airports and buildings where you have very small area, very scattered area, but large amount of footfalls in a given time. So those are places for which small cell solutions are being built, primarily capacity led, not so much for coverage, unless that is, of course, indoor coverage in some cases.

Shareena - Moderator

Thank you very much Mr. Agarwal. The next question comes from Mr. Rahul Maheshwari from IDBI Mutual Fund, Mumbai. Mr. Maheshwari, you may ask your question now.

Rahul Maheshwari - IDBI Mutual Fund - Mumbai

I have one question that as you earlier said that most of your sites are now turning into green, and that is a new product, where it is a diesel free. So, coming forward how much loss you might be expecting on the energy, which is 2% to 5% of margin which is into energy, because as you move into the new technology and diesel free, so how it may impact the financials?

Akhil Gupta - Chairman - Bharti Infratel Limited

From our point view, if the energy bill becomes zero, we would be so glad to give up that 2% or 3% margin, because the troubles it will save us will be enormous. And therefore, from our point of view, more sites we can make green, where we do not need diesel has so much of benefit to us, even when it is virtually passed on to the operator, because the problems we have in managing diesel is unimaginable. So it's not just a matter of that 1% or 2% margin which is negligible, but I think in terms of the smoothness of operations, we absolutely feel more and more green sites are of great advantage to us.

Shareena - Moderator

Thank you very much, Mr. Maheshwari. I would now hand over the call proceedings to Mr. D.S. Rawat for the final remarks.

Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited

Thank you very much. As Akhil cited, 2015-2016 was a year of positivity and growth. The growth was fueled by data and need of the operators to monetize their huge investments. This is evident by the 3 times growth that we have seen on 3G, 4G loadings on our sites. And it has also helped expediting 3G, 4G launches by various operators across geographies.

Demand for new towers remain in the range of 3% to 4%, while colocations grew faster by 7% to 8%. We expect the positive momentum to continue with increased focus on full colocations, as operator would want to improve service quality going ahead.

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This year has been a positive year with Rs.12300 crores revenue and approximately Rs.2400 crores net profit, which is a year-on-year growth of 20%. In near future, we expect consolidation in the industry. This would lead to stronger players, which would grow for more and faster rollout. As tower infrastructure provider, we expect all this to result in more towers, more colocations and more data rollouts. We believe that we are fully geared to meet customer demands and capitalize on the emerging opportunities.

On behalf of the entire Bharti Infratel team, I thank all of you for the continued support. Look forward to an exciting journey ahead of us. Thank you very much.

Shareena - Moderator

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