

Bharti Infratel Limited Fourth Quarter Ended March 31, 2017 Earnings Conference Call

Conference Call Transcript

Event: Bharti Infratel Limited Fourth Quarter Ended March 31st, 2017 Earnings Call

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Bharti Infratel Limited Fourth Quarter Ended March 31, 2017 Earnings Conference Call**CORPORATE PARTICIPANTS****Akhil Gupta**

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Managing Director and CEO - Bharti Infratel Limited

Pankaj Miglani

Chief Financial Officer - Bharti Infratel Limited

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PRESENTATION**Kamaldeep - Moderator**

Good afternoon, ladies and gentlemen. I am Kamaldeep, the moderator for this conference. Welcome to the Bharti Infratel Limited Fourth Quarter and full year ended March 31, 2017 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, Sir!

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Akhil Gupta - Chairman - Bharti Infratel Limited

Thank you and a very warm welcome to all of you to the earnings call of Bharti Infratel Fourth Quarter and Full Year ended on March 31, 2017. 2016-2017 was a watershed year for the Indian telecom industry, which saw continued growth in subscribers and a significantly higher adoption of data services aided by a spurt in smartphone penetration and deeper coverage of data networks.

During the year, the government also successfully completed the spectrum auction across multiple bands like 1800, 2100, 2300 and 2500. More importantly, we finally saw the launch of services of Reliance Jio that triggered off the much-awaited industry consolidation. While several small players like Videocon and Telenor folded up or merged into larger players; RCom, Aircel and MTS announced mergers amongst themselves. However the biggest surprise was the announcement of proposed merger between Vodafone and Idea, the second and the third largest mobile operators, something that would perhaps have been unthinkable before Jio's entry. As far as the tower industry is concerned while such consolidation especially the Voda-Idea merger, which may still be sometime away if it fructifies, will inevitably lead to short-term and one time rationalization in tenancies; however, as we have always believed the consolidation leading to few but strong and willing participants is good for the tower industry in medium-to-long term vis-à-vis large number of small or unwilling operators with no financial muscle or passion to invest in data network rollouts. In any event, we believe that any reduction in revenue on account of the overlaps as and when that happens will be more than offset by the exit charges as well as the incremental revenue on account of rapid rollouts by all operators.

As anticipated the year witnessed very strong network rollouts as evidenced by co-location additions of over 24,000 between Infratel and Indus, which amounted to 15,571 on a proportionate basis for Infratel. This was the highest in last five years. The fourth quarter total co-locations between Infratel and Indus alone stood at 9,000. The total consolidated co-locations as on 31.3.2017 were at 210,606, a co-location factor of 2.32 at closing. With broadband penetration still under 20% and Government's push for a digital economy, the prospects of mobile broadband in the country remain strong.

Some other highlights for us during the year were - the foreign institutional ownership touched an all-time high of 34.34% as on March 31, 2017 as compared to a mere 8.65% at the time of IPO in December 2012. This includes the 10.3% stake sold by Bharti Airtel to KKR and CPPIB during the year. We have been recognized as Great Place to Work for the first time, which signifies our continued effort at excellence as far as employees are concerned. On a consolidated basis over 38,900 towers or 43% of our portfolio are green and we remain focused on a comprehensive program to move rapidly towards more and more diesel-free sites.

Coming to the results this quarter, the consolidated total tower base stood at 90,646 witnessing a year-on-year growth of 2.1% while the co-location growth was at 8%. As I mentioned earlier the closing sharing factor was at 2.32 up from 2.20 in March 2016.

On financial front, the quarter as well as the year saw a steady progress. Consolidated revenues for the quarter were Rs.3,520 crores up 11% year-on-year while for the full year these were up 9% at Rs.13,424 crores. Similarly the consolidated EBITDA for the quarter was just under Rs.1,600 crores at Rs.1,585 crores up 8% year-on-year while the full year EBITDA at Rs.5,942 crores increased by 9%. However, the net profit for the quarter was Rs.597 crores down 17% on account of lower interest income during the quarter. The full year net profit stood at Rs.2,747 crores up 22% year-on-year. The total dividend for the year was Rs.16 per equity share of face value of Rs.10 each, which comprised of interim dividend of Rs.12 and a final dividend recommended yesterday by the Board of Rs.4 per share.

I am extremely pleased to announce that we are progressing well on the implementation of Bhopal Smart City project that we won last year. Just to remind you we are the only tower company to have bagged a Smart City project. This project is special because it gives us a very unique opportunity to experiment on several new opportunities, which are becoming available for infrastructure sharing in future like optic fiber rollouts, small cells and building solution and Wi-Fi. The Smart City project comprises of all these elements. We hope to pursue these opportunities going forward and we also intend to do more Smart City projects in future.

Thank you all. The management will take your questions.

Kamaldeep - Moderator

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

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Sachin Salgaonkar - Bank of America - Mumbai

Thank you for the opportunity. I have two questions. Number 1, Akhil clearly there have been public statements by both Idea and Vodafone saying that they are keen to sell their stake in Indus. Just wanted to understand how does Bharti Infratel management look at it i.e., would you be interested in buying that or you are okay if they sell it off to let us say private equity as mentioned in media? Second question is, clearly the number of tenancies were pretty high in this quarter perhaps the second highest in the history, but when I look at the overall core revenue growth, which is adjusted for power and fuel you know it is not as high as what you have seen historically. Just wanted to know your thoughts on that? Thanks.

Harjeet Kohli - Group Treasurer and Chief Investor Relations Officer

Yes, shall I request you to take the second question and then I will come back to the first, the tenancies and revenue growth.

Pankaj Miglani - Chief Financial Officer – Bharti Infratel Limited

In terms of the tenancy growth not fructifying into the revenue growth as you remember this was the year wherein we went in for the MSA amendment and hence the full year impact of that on revenues is flowing through. I mean that is the primary reason why you see that kind of growth not being visible in revenues vis-à-vis tenancy.

Sachin Salgaonkar - Bank of America - Mumbai

Pankaj, when should we be behind this? Are we one year, two year away wherein the revenue tenancy growth will fructify into revenue growth i.e., the full impact of?

Pankaj Miglani - Chief Financial Officer – Bharti Infratel Limited

Core construct of the MSA, as you know we had a freeze going in and till the time the rate parity was achieved and hence we had said over a period of five to six years we will become NPV neutral because of these tenancies, which were maturing in 2018 going off till 2022. So I think it must be a gradual increase, which will happen. So every year we will see a bit of tenancies, the rate parity gets achieved, which then leads to the standard escalation, part of the escalation increase will happen in the current year and it will gradually build up over next one or two years to reach to the standard level.

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

DS this side we have stated this as saying that the first year as Rs.180 crores and then it will come down and year three onwards it will start to become neutral and then onwards we expect this to be an uptrend whereon you will start to see revenue growth, which will be higher and that is also a function of course of loading that is likely to come up on top of the tenancy growth that we see there.

Sachin Salgaonkar - Bank of America - Mumbai

So DS, is the first year impact actually Rs.180 crores given that Idea and Vodafone have not agreed on the MSAs on Bharti Infratel?

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

So we have signed about 75% of operators right now on a consolidated basis and large part of that impact has already come in. Pankaj, do you have the number there?

Pankaj Miglani - Chief Financial Officer – Bharti Infratel Limited

So we have actually recorded, except for a marginal one, the whole amount has actually flown in the current year financial.

Sachin Salgaonkar - Bank of America - Mumbai

Okay, this is clear.

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Pankaj Miglani - Chief Financial Officer – Bharti Infratel Limited

Even if that sign up has not happened, we are still -- we have accrued and we are continuing with that.

Sachin Salgaonkar - Bank of America - Mumbai

Got it, thank you.

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

On the Voda Idea, we have stated earlier saying our interest is known in terms of the portfolio. However, as of now there are no discussions on any of these. These are shareholder matters and are being discussed between the shareholders there. Right now, there is no discussion that we are engaging in.

Kamaldeep - Moderator

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

Manish Adukia - Goldman Sachs - Mumbai

Good afternoon. Thank you for taking my questions. My first question is on the 1300-odd tenancy exits that you saw in this quarter. Can you please tell us which operators contributed to this and what is the impact that you foresee from consolidation over the next six months to 12 months on the company? The second question is on your gross tenancy additions, which at 7000-odd again was probably your highest ever. Was this largely driven by Jio's rollout because they have mentioned that they want to double their tower rollout in the coming months and are you confident that this elevated level of tenancy addition is sustainable over the next three to four quarters? Those are my two questions. Thank you.

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

So first let me try and answer Manish the gross additions that we talked of. As you rightly said, yes, Jio is a meaningful part of our new additions and that is why you see tenancy growths, which are above the normal that we used to have. Jio is continuing to roll out and they find, as we have been stating for a long time now saying any operator who wants to have a pan-India footprint and compete with the leaders would find Indus, Infratel towers to be the most attractive. When we do our internal numbers, we do not have it in the public domain, but when we look at internal numbers, we continue to gain market shares of all the tenancies that Jio has offered for sharing to tower companies and we continue to gain that both in Indus and Infratel.

Pankaj Miglani - Chief Financial Officer – Bharti Infratel Limited

Manish, on the tenancy exits, while we do not give the specific numbers for each operator, I can just share a part of this gets contributed by one operator specifically which has closed down operations in Punjab and other than that, I'll not be in a position to give you the exact numbers for each one because of confidentiality.

Manish Adukia - Goldman Sachs, Mumbai

Sure and that is perfectly okay. And just going back to the first question on Jio's rollout, so just wanted to clarify because since they have mentioned that most of their rollout is going to happen in the coming few months. So would it be safe to assume that this elevated level of tenancy rollout that we are seeing is likely to continue at least for the next couple of quarters till the time Jio finishes its network rollout and probably then we should maybe start seeing a gradual slowdown in tenancy addition. Is that safe to assume?

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

Manish, again, we have got the largest tower footprint between Indus and Infratel put together, we have got 40% of country's tower footprint, close to 50% of tenancy footprint. Any operator who is wanting to compete with the leaders, because we have been traditionally building towers only for the Top 3 operators in the past, would find our towers to be attractive. The rollout plans of every operator are pretty internal to them and that is why I will not be able to comment on what their exact plans are, but we strongly believe that anyone who is wanting to have a pan-India footprint and have 95% of population coverage would

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definitely find large part of our portfolio to be attractive and we have seen that historically and also now coming through. So we believe whatever rollout that Jio is going to do, a large part of it would actually be into the territories where Indus Infratel are present and we would continue to gain market share as we move from here on.

Manish Adukia - Goldman Sachs - Mumbai

Great. That is very helpful. Thank you. All the best.

Kamaldeep - Moderator

Thank you very much Mr. Adukia. 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

Thanks for the opportunity Sir. Question on Bhopal Smart City, I was reading a news report in which they said you are deploying some 400 smart poles and 200 kilometers of fiber and about Rs.7 billion will be invested. Can you share some insight, some fine numbers on this like what kind of IRR are you looking at for this investment and what kind of competition, are there more such projects which are being given out and what kind of competition you are facing in winning these projects that is one. And second is, there are various tower portfolios available, acquisition opportunities which are available like Indus share you might be in a position to consolidate and also in FY2017, you returned lot of cash to shareholders. So how do we look at the dividend payout and cash to the shareholders in fiscal 2018?

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

So Kunal, DS this side, let me first take the Bhopal Smart City. This was the first Smart City tender, pretty strategic in that sense of being part of this opportunity to kind of grab footprint and make sure that we create new models around this for monetization of small cells, towers, fiber, Wi-Fi and there are of course LED lights and so on and so forth, which is part of the tender itself as a requirement. This tender actually was a build, own, operate, transfer kind of tender and hence there are no specific values of the project. Some of these are linked to growth and as and when growth happens, you will continue and you will be more than happy to invest. There are certain mandatory requirements, which was changeover to LED lights from the traditional lights where the savings accrue to us. So it is based on a business case and this business case is slightly internal to us. So we cannot give this in public domain. I am aware that there were some paper articles around some numbers floating there. I do not want to say whether the numbers are right or wrong for strategic reasons because we continue to compete with some of our competition in these areas and some of the other Smart Cities that are coming in are on similar models and it will be unfair to actually give away our strategy on a call like this.

From our standpoint, we see this to be a good opportunity to get into the small cell space, into fiber as a monetization model within the city, fiberizing our own towers in these small cell locations that we are likely to build. Wi-Fi network is being built at 100 hotspots there also creating small niche applications around surveillance, weather monitoring and so on, and so forth. Very small numbers, but this is a great learning opportunity and also a great opportunity to showcase what we as infrastructure providers can create, a shared model for all the telecom companies. So we are playing the play in the middle layer where we create this vital connectivity and make sure that our operators, who are all operators who are our customers, get the opportunity to share this asset on a non-discriminatory basis and we are in the process of creating a win-win model.

Coming to IRRs, I think 13-16% that you are looking at these IRRs should be possible. This is again a 15-year game play, by then 4G translating into 5G where 5G is primarily a play around poles and small cells and micro cells, which are going to replace pretty much fiber-to-home as a model. These could be monetized and the upsides of some of these could be really huge as we move forward.

Harjeet Kohli - Group Treasurer and Chief Investor Relations Officer Limited

Kunal, hi, this is Harjeet. There are two parts to your question number one on or the other question around shareholder returns and acquisition opportunities. I think on our intent to ensure that if there were opportunities of consolidation available in the market, we would continue to look at it. That continues to stay very much alive. You are aware of the developments whether it is Voda-Idea merger, any contextual talk around Indus stake from their side as also some standalone towers, some of the operators have, plus independent tower companies having smaller portfolios. So we continue to look at these opportunities. At this stage, nothing of a significant nature, which is sitting on the table, which we need to talk to you about, but that intent, stays alive. At the same time, looking at it from a shareholder return perspective frankly, there is large net cash the Company has and on an ongoing each month each day more or less basis, it is free cash flow positive. So each quarter, you do on a standalone basis generate Rs.300 crores to Rs.400 crores of accruals in Infratel and it also carries a significant debt capacity by itself.

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Now I am not suggesting all of that is available to be used tomorrow morning, but if there are opportunities which need to use both the cash and/or the capacity, that is available. Having said that, if you take a step back and look at last three years or four years, I think Infratel on a standalone basis including some of the dividends they get from Indus would have generated about Rs.9,000 crores of profit after tax. And in these four years, sum total of our dividends whether interim or final and also the buyback that happened last year, we would have paid out about Rs.9,700 crores, which includes dividend tax wherever applicable.

So you can see that whatever is getting generated across a period of three years or four years more than that to the extent it is allowed, is getting paid out and yet the Company sits close to \$1 billion of cash. So I think that has been the nature of the cash generation here. With that respect only, we had kept a formal distribution policy where we have set more or less a floor of 60% to 80% of the profits for the year, which we should continue to distribute. Because the policy is there we should stick by it. To the extent we can do more, we have been doing it and we have to see how this 2017-18 evolves on that count.

Kunal Vora - BNP Paribas - Mumbai

Understood. Just had a follow-up on the first question, which is on Smart City. You have been investing about Rs.2100 crores in Capex annually. Can this consume more Capex? Is there is a potential to deploy more capital and can this number of Capex increase because of the Smart City or it would not move the needle much?

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

Hi Kunal, as of now, I would say it would not move the needle much because it also depends on how other Smart City plans rollout. For the existing Smart City, we are more than comfortable on the Capex that you see there, but if fiber as a business starts to take off and grow, that is an only area where we will start to see some meaningful Capex coming in. As of now, given the pace at which some of the Smart City tenders are going on, we do not foresee that to be any different.

Kamaldeep - Moderator

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

Srinivas Rao - Deutsche Bank - Singapore

Thank you for this opportunity. I have one question. I mean this year you paid Rs.16 of dividend. Is that slightly higher than the EPS or it is 100% of your EPS, because I am just trying to get a sense of, because I would imagine you can only pay 100% payout under the current rules. So that is my first question. Second, just to reconfirm, you can do a buyback after 18 months. Is that correct and when does that period start actually?

Harjeet Kohli - Group Treasurer and Chief Investor Relations Officer

Srini, hi, Harjeet. Your point on amounts is right. The standalone profit for the year is about Rs.2,750 crores, but when you look at the payout, you need to exclude the DDTs. So you will see more or less we are matched up, but for any accruals which may be sitting in the system small or big, I think that is where it is. Your understanding in general is right, but you need to exclude the tax element from this. What was the other question?

Srinivas Rao - Deutsche Bank – Singapore

Buyback.

Harjeet Kohli - Group Treasurer and Chief Investor Relations Officer

Yes, so buyback happened August of last year and the theoretical cool-off and I am not suggesting we are or we are not doing because that is something which the Board has to decide appropriately, but the theoretical cool-off between two buybacks is one year from the closure of the first buyback to start of the next one.

Srinivas Rao - Deutsche Bank – Singapore

Understood.

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Harjeet Kohli - Group Treasurer and Chief Investor Relations Officer

So August might be a time for shareholders and Board to discuss such things and if there is such discussion, appropriate disclosures will need to be made at that point in time.

Srinivas Rao - Deutsche Bank – Singapore

Thanks. This is helpful.

Kamaldeep - Moderator

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

Rajiv Sharma – HSBC Securities – Mumbai

Thanks for the opportunity. Just couple of questions from my side. First one being Vodafone and Idea, there seems to be a sense that they will cut down Capex this year. So what kind of impact you see? I understand Jio is adding. Will that offset or what it means in terms of tenancy addition? And second, some color on how GST could impact the business. That is it from my side.

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

DS Rawat this side, Voda-Idea, we do not see any change right now to run through their process of consolidations. We believe that in the current growth phase of data where there is onslaught, we continue to see 4G deployment by all the leading operators without being specific about Voda-Idea. They continue to roll out 4G pretty aggressively. Our tenancy numbers, we see that momentum continue. Without giving guidance again, we hope that this momentum continues purely on account of high data growth that we have been seeing on the market. Whether Jio will offset? Some amount of bump up this year definitely was on account of Jio. Any acceleration on Jio, we believe we will be a beneficiary of that in terms of gaining a large part of those rollouts into our portfolio.

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

Rajiv, on the GST, while the rates will get firmed up this particular month and eventually get rolled out, at this point of time, we do expect this to be positively contributing. And as a part of our business largely on diesel payouts, they are outside the purview of that, and hence, they do not get impacted. But in terms of the overall Capex and other things, I think we do expect this to be in the positive terrain, though not meaningful.

Rajeev Sharma – HSBC Securities – Mumbai

This is helpful. Thanks a lot.

Kamaldeep - Moderator

Thank you very much Mr. Sharma. The next question comes from Gaurav Malhotra from Citigroup, Mumbai. Mr. Gaurav Malhotra you may ask your question now.

Gaurav Malhotra – Citigroup - Mumbai

Thank you for the opportunity. Just following up on the Idea-Vodafone merger and its impact, now companies have given a pretty aggressive synergy guidance number, and I presume most of it will be on account of the network rationalization. So, any sense on how big an impact it could be? That is the first question.

The second question is, while right now, the co-location growth has been pretty strong, the 4G deployments are also quite aggressive, but the kind of pressure on the profitability which we are seeing on the operators and this includes all the top three

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operators, would not do you think at some point in time, if this trend were to continue, it would start also impacting their Capex plan? Thank you.

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

From Voda-Idea, I think Akhil mentioned in the opening speech there, a) it has some distance, sometime away before this happens. b) Whatever impact of exits that is likely to come up to us, there is a provision in the contract for exit provisions, which operators can use, which would probably mean higher revenues for all of us. In our MSA, the provisions are you could pretty much have 35% of unpaid amounts paid upfront as exit fees c) I also hear from the disclosure that net between the combined entity, the new normal expected for the coverage is about 2,25,000 tenancies or so, which also bodes well in terms of growth that is likely to come in purely on account of data. So all this put together, we believe while near term there might be an impact of the merger on tenancies, but that should get offset with the growth that we are likely to see in the times to come.

On your question of profitability, our business model is more a model where we deploy a large part of the Capex upfront and monetize this over a longer period of time. And clearly, this is a win-win proposition between operators and us, where we make sure that on a build versus buy, we are significantly lower when an operator does this math to see that he finds it economical to come in into a sharing model. But the downside is, obviously the contract is tied up for a longer duration there and we expect the operators to be honoring their part of the contract to see that they fulfill their commitment. On whether they would like to negotiate downwards, I am sure every operator would want their cost to come down. But these are like the lease arrangements where operators are expected to pay for the 10-year period.

We expect to work with the operators closely on areas where we can cut down on cost, particularly areas of energy that we work with them to see how we can further rationalize and reduce cost. We create higher value by sharing whereby their cost too comes down without operator having to do much on those sites. We will continue to look at shaving off areas, which are likely to work as a win-win proposition between operator and us.

Towards some of the growth areas, we are also trying to get in into in-building small cells as areas where we are creating smaller products which can cater for capacity solutions, thereby, improving operator coverage in the long run.

Gaurav Malhotra – Citigroup - Mumbai

Thank you.

Kamaldeep - Moderator

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

Pranav Kshatriya - Edelweiss Capital - Mumbai

Hi, thanks for the opportunity. Firstly, I just want to know if there is any first right of refusal available to Bharti Infratel for any sale in Indus Tower if it happens from Idea or Vodafone.

My second question is, if you look at the tower addition, we were comfortably doing 700 or 800 tower addition for the Company. And even if you look at the Deloitte report which you have cited 3-3.5% kind of a growth rate on the tower, was looking like a sustainable trend. But, it seems that the tower addition has slowed down in the last two quarters. So would you see this reverting back to the growth rate to what we are seeing in the tower, or this is a new normal?

And lastly, if we look at, you had talked about the standalone data site coming up at some point of time when the data actually becomes a driver of growth. Are we anywhere close to that, are you seeing that happening currently? Those are my three questions. Thank you.

Harjeet Kohli - Group Treasurer and Chief Investor Relations Officer

Pranav, Harjeet. I will just take the first one. Any shareholder agreement between three large constituents is pretty entrenched in law of rights and ways of working between the operators, or the shareholders in that case. I cannot comment basis the confidentiality that we have signed, but I can guide you to, under approval of the other shareholders, whatever we had put up in the IPO prospectus. So you can get some color from there. Unfortunately, today, I can't comment anything more.

Pranav Kshatriya - Edelweiss Capital - Mumbai

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Sure.

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

On the tower additions, we have primarily seen operator focused towards loading 3G, 4G on the existing sites having paid close to \$50 billion on spectrum alone for 3G, 4G and also because of the launch of Jio. What we have seen is the top three operators primarily focusing on making sure that the 3G footprint and the 4G footprint is enhanced in their respective geographies, and hence, you see lesser focus on new tower addition per se that we have seen in this. Your second question of saying whether we have seen standalone sites coming up for data, the answer is yes, but that is very selective at the top metros as of now.

We believe with the current data growth that has happened and with Jio starting to charge when the traffic starts to pick up, that is when these infill sites will start coming in for pure 4G requirements or for pure 3G requirements from an operator perspective. Whether 700-800 is the new normal that probably time is going to tell. 2% to 3% tower growth is something, which we have been seeing in the past, and we are hovering around those numbers. Current focus in terms of base station additions, the operators are doing significantly higher base station addition, but that is coming as loading to us in a big way. Once that loading is done, we believe all the sites that are presently on 2G, will eventually get down to 3G and 4G availability on them in the next couple of years depending on the handset penetration and other ecosystem developing faster. But after that, they will have to continue like they continue, to add 2G sites to infill in areas where there are capacity constraints. Operators will need 3G-only or 4G-only sites to fill in for data capacity.

Data unlike voice is not limited by how much two people can talk and that is why you do not see an upper cap on minutes of use like you had in the voice applicable for data. Data can grow 10x on a per user basis too over a period of time depending on the applications and availability, plus machine-to-machine will also increase the number of users. So it's neither capped on number of users, nor is it capped on a per user usage, which was the case for the voice networks that were built traditionally.

So, we believe, we will start to see a significant amount of data-only sites. Towards that we have prepared some small cells also as an offering, some in-building solution offerings towards our customers so that we are prepared to take on, as and when this growth happens - a large part of this growth into our network.

Pranav Kshatriya - Edelweiss Capital - Mumbai

Okay, thank you so much. That is it from me.

Kamaldeep - Moderator

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

Vivekanand Subbaraman - Ambit Capital - Mumbai

Yes, hi. Thank you so much for the opportunity. I have two questions. One is, can you please explain the reason for the high growth in tower rental expense? Even on a per tower basis, this line item is growing at double digits and it has been observed all through FY2017. Is it because we pass on a share of loading based income to the landlords? Is that the reason?

Second question is on the market share that we are achieving on tenancies across operators in FY2017, is it higher than the 50% that we and Indus have combined today, or lower than that?

Pankaj Miglani - Chief Financial Officer – Bharti Infratel Limited

Yes. Vivek, Pankaj this side. So let me take the first question. Rent is a function of two things for us. One, the existing agreements wherein there are periodic escalations which happen, which range between somewhere around 9% to 15% after every three years to five years. So that is one piece, which keeps on happening depending upon the stipulated time.

Second, it is also a function of new tower and tenancy additions. So it is not as if there is a certain loading revenue which gets paid out to a rental, but in case of any tenancy coming into play, there is an incremental rent, a small portion which we end up paying to the landlords. It is largely the volume driven stuff which happens on this line item.

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

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So coming to the market share. Firstly, I have to apologize that there is nothing in the public domain that I can refer to and tell you whether we are gaining or not. We do the statistics internal. We believe we continue to gain market share during these times, but we will have to wait for one of those reports that are independent and published in the public domain to refer and come back and tell you exactly how much gains are. We do this as an internal document and we continue to monitor operator-wise, in terms of what we are gaining on tenancy footprint. We believe we are continuing to gain market share over the number that you have mentioned there.

Vivekanand Subbaraman - Ambit Capital - Mumbai

And just a small follow-up on the rental point, how are the economics on small cells and in-building solutions, particularly with respect to the rental that you charge from operators and also the rental that you have to pay out? Are they similar to what you have in your base business, the GBTs and RBTs, or is there any difference?

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

Again, we are in the process of working various models with our customers, but the belief is because there is no fix, there could be high footfall buildings where the rentals could be very high versus some government properties where the rentals could be very low. We are in the process of fixing that with various operators. But the model that we are trying to work on is rent in large part of these cases, would be a pass-through, meaning, unlike a threshold that we have on our current rentals for towers, we are not looking at having thresholds on some of these newer models that we are creating for small cells and also for in-building solutions.

Vivekanand Subbaraman - Ambit Capital - Mumbai

The MSA's won't have anything hard-coded with respect to these aspects of the business right, small cells, and in-building solutions and so on?

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

So, these would be new amendments to the MSA or new MSAs being signed for specific new lines of businesses that we are looking at.

Vivekanand Subbaraman - Ambit Capital - Mumbai

So, you would be signing separate, the MSAs for these rollouts would be separate, is it?

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

If there are towers or small cells which are relevant to our existing business, they would be. If it is fiber, Wi-Fi and new areas that we're getting into where there are different conditions and different requirements, definitely those would be new MSAs that need to be signed up.

Vivekanand Subbaraman - Ambit Capital - Mumbai

Right. So, thank you so much for the clarification. All the best.

Kamaldeep - Moderator

Thank you very much Mr. Vivekanand. The next question comes from Archit Singhal, Nomura, Mumbai from BNP Paribas Mumbai. Mr. Singhal, you may ask your question now.

Archit Singhal – Nomura - Mumbai

Thanks for the opportunity. Sir, just one question. Wanted to check if there is any update on the entry tax and property tax?

Pankaj Miglani - Chief Financial Officer – Bharti Infratel Limited

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Yes Archit, property tax, the status quo remain same. The Supreme Court in the last week had remanded back the entry tax matter for the seven to eight circles back to the State High Courts on account of discrimination, which was visible. And we are now supposed to go and file fresh appeals in each of the respective courts. So other than that there is no other update for this quarter.

Archit Singhal – Nomura - Mumbai

And for the property tax, I understand the tower industry had filed a review petition. So, that also stands as it is?

Pankaj Miglani - Chief Financial Officer – Bharti Infratel Limited

Yes.

Archit Singhal – Nomura - Mumbai

Thank you Sir.

Kamaldeep - Moderator

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

Sunil Tirumalai - Credit Suisse - Mumbai

Good afternoon. This is Sunil Tirumalai. Thank you very much for the opportunity. My first question is to DS. Sir, the recommendations for the mandatory sharing of infra for in-building solutions, etc., I am wondering how that will actually play out on the ground. I mean, do you expect license to be, some additions to the actual license that makes this mandatory and will operators do it on their own, or how will tower infrastructure providers like yourself get involved. I mean is this, I mean what kind of an opportunity or a threat is this?

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

So Sunil, firstly, mandatory sharing of infrastructure, there are different connotations and different papers that are going on. A, there is a paper which is coming in where they are talking of revising the building course and allowing them to allow people to wire up the buildings and this could be for fiber to home, this could be in-building solutions, and so on and so forth, which is definitely a very positive move by the government to see that they treat telecom like any other utility infrastructure, like water, power and gas that you see today.

That means you get easy access to now getting it into homes in a more systematic manner with lesser dispute. Our own learning of the past is, traditionally, these societies or buildings or houses that people or complexes that people want to get in into, these are commercial arrangements more between landlords, and of course, the telecom operator or a tower company, someone like us who creates this infrastructure on a shared basis.

We believe those commercial models will still remain between various entities. However, these rules could be very good for government buildings and government infrastructure, where there was no provision in the past to allow these to be shared for telecom purposes for operators. We are happy to do that, we believe if there is a requirement from operators and if this asset can be shared, we can get in into these models and evaluate them.

Whether there will be a license fee right now there's no mention about that in terms of any specific license fee, but if there is one, that is likely to come in, and if the economics still works out in the benefit of sharing, we would be keen to look at all those options. As of now, we continue to look at acquiring government buildings and government areas to provide both in-building solutions and also to deploy small cells or deploying traditional macro sites on some of these government buildings.

Sunil Tirumalai - Credit Suisse - Mumbai

Got it. And my second question is on Airtel's stake sale to KKR and CPPIB. So firstly, is there any Board seat that they get with this stake that they have bought? And secondly, the quarterly report uses this term single largest public shareholder block. I mean is there any reason for you to call it as a single block? I mean is there any legal connotation to that? Thank you.

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Harjeet Kohli - Group Treasurer and Chief Investor Relations Officer

Yes Sunil, hi this is Harjeet. So KKR plus CPPIB have come in together and this was a consolidated discussion with them. And between the two, they have one Board seat, and KKR India CEO Sanjay has come on board. Beyond that, I cannot talk about -- much on the discussions, which is more a shareholder matter, which Airtel has with the investors.

The other thing from a single largest block perspective, because this was a one conduit at sale. At the back, there may be some ratios between KKR and CPPIB, which we know of and they are part of the filings as we have done. But the negotiation was one trade entry between the two and the shares were inter-se decided by them, rather than we clubbing it.

Sunil Tirumalai - Credit Suisse - Mumbai

This is very helpful. Thank you very much.

Kamaldeep - Moderator

Thank you very much Mr. Tirumalai. The next question comes from Gabor Sitanyi, Charlemagne Capital, London. Mr. Sitanyi, you may ask your question now.

Gabor Sitanyi - Charlemagne Capital - London

Thank you very much. Just wanted to follow up on the potential sale of the stake in Indus by Vodafone and Idea, and also the sale of the respective towers. When you were saying earlier that you are not in discussion with them, does that mean that they are not in discussion with anyone, that these discussions simply haven't started, or they are just not in discussion with you?

And the second question relating to that. What should be the timing -- any estimates you can give when the stake in Indus or indeed the internal towers these companies hold will come to the market?

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

Hi, this is DS this side. Firstly, we have said that from an Indus standpoint, this is also a shareholder matter clearly being discussed between the shareholders. When I said we are not in discussions at this stage, obviously means that, at this moment of time we are not. As and when there are developments, we will come back and share with all the respective shareholders and stakeholders. Our interests are known.

Rest in terms of timing, timing is purely dependent on Vodafone-Idea in terms of when and how they want to decide on some of these things. That would be the appropriate time at which engagements from all the levels will happen. Beyond that, as I said, I'm not in a position because these are some of the discussions that keep going on both in Indus Board, where Infratel also has the Board seats there, and of course, Vodafone and Idea too. So these are discussions, which are still going on within the shareholders itself of Indus.

Gabor Sitanyi - Charlemagne Capital - London

Thank you.

Kamaldeep - Moderator

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

Sanjay Chawla - JM Financial - Mumbai

Hi, good afternoon. Thank you for the opportunity. Two questions, one is on margins. Energy margins on your energy reimbursements, last two years of fiscal 2016, fiscal 2017, they have been in the 6% to 7% range and even before that fiscal 2015, they were more than 7.5%. These margins are way more than the 3-4% or 4-5% range, which has been indicated by the management over the last few years. So can you provide some outlook on, any revised outlook on medium-to-long-term energy margins that we should expect?

That is first question. And secondly, has there been any dividend declared and paid by Indus in the first quarter of fiscal 2018?

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Pankaj Miglani - Chief Financial Officer – Bharti Infratel Limited

Well Sanjay, let me pick up on energy margins, as we have talked about in the past that energy margin should be seen on a yearly basis and the expected trend should be in the range of 3% to 5%. We have got fixed energy price contracts and there is the price reset, which happens every year. So on account of that, while you see the margins trending in the range of 5%, 6% or 7%, it would still all efficiencies which happen in one particular year gets passed on as a part of the reset clause what we have. Notwithstanding the same, we would expect that the energy margin would still continue in the range of 3% to 5%.

Sanjay Chawla - JM Financial - Mumbai

But they have not continued in that range in the sense, I was talking about the annual margins, which you have reported over the last two to three years, they've been in the 5% to 7.5% range.

Pankaj Miglani - Chief Financial Officer – Bharti Infratel Limited

Yes, they are in the 5% to 7%, but if you have to model it for you, we will suggest you model it at 3% to 5% because it can vary. There can be seasonality, there can be the energy situation improving. So because of that the margins fluctuate, but hence for the input what you should consider should be in the range of 3% to 5%.

Sanjay Chawla - JM Financial - Mumbai

Okay, all right.

Harjeet Kohli - Group Treasurer and Chief Investor Relations Officer

Sanjay on Indus, while that will be an event of this quarter but Indus has declared a dividend, roughly about Rs.2,400 crores and to that extent, 42% of that which is about Rs.1,000 crores should come into Infratel.

Sanjay Chawla - JM Financial - Mumbai

Okay, thanks for that. Just a small follow-up from one of the earlier points that were made. This is with regard to the MSA amendment impact. You said most of the impact is reflected in FY17 and you also said, year three onwards would be neutral. So we should still expect some impact in year two like fiscal 2018?

Pankaj Miglani - Chief Financial Officer – Bharti Infratel Limited

Not exactly Sanjay, what we are trying to say is the yearly escalation which actually the MSA amendment led to freeze on the amendments, the expectation of what DS had said was over the period of time, the escalation again starts coming back. So every year there'll be incremental stuff and post three years what you would see is the incremental escalations happening on the whole base. So that was the perspective in which DS spoke.

Sanjay Chawla - JM Financial - Mumbai

For fiscal 2018, we should start seeing some improvement in the ARPT growth?

Pankaj Miglani - Chief Financial Officer – Bharti Infratel Limited

Yes, so there will be a marginal increase on account of escalations, which will start kicking in portfolio from FY2018.

Sanjay Chawla - JM Financial - Mumbai

This is also the tenancies coming out of the rental freeze as well as the new tenancies that would add. Is that correct?

Pankaj Miglani - Chief Financial Officer – Bharti Infratel Limited

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Yes, it is the combination of both.

Kamaldeep - Moderator

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

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

Thank you very much. As Akhil cited, year 2016-2017 was an exciting year for telecom sector. We saw 5x data traffic growth for the industry post Jio launch. All operators are accelerating their 3G, 4G rollout to capitalize on the same. We have deployed the highest number of 4G network rollouts and added the highest number of co-locations since the IPO on a consolidated basis. Demand for new towers remained in the range of 2% to 3% while co-locations grew faster by 7% to 8%. We believe this momentum shall continue, as operators would want to capitalize on growing data consumption and to improve quality of service. This has been a positive year with consolidated revenues of Rs.13,424 crores, up 9% year-on-year and net profit of Rs.2,747 crores with year-on-year growth of 22%.

This year also saw a consolidation on operators' domain. We believe this would result in stronger and more stable operators in the long run and in turn will lead to stronger and faster rollouts. On Smart City front, we are gearing towards a successful project delivery of Bhopal Smart City. We are best positioned to build vital infrastructure layer for sharing on a non-discriminatory basis for the Digital India initiative. We see an exciting year ahead in terms of data growth and Smart Cities opening up new horizons for us. We are fully prepared to capitalize on the increased demand and emerging opportunities. On behalf of the entire Bharti Infratel team, I thank all of you for continued support. Looking forward to an exciting year ahead of us. Thank you very much.

Kamaldeep - Moderator

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