

Conference Call Transcript

Event: Bharti Infratel Limited Fourth Quarter & Full Year Ended March 31, 2019 Earnings Conference Call

Event Date/Time: April 25th, 2019 at 1430 hrs.

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CORPORATE PARTICIPANTS**Mr. Akhil Gupta**

Chairman - Bharti Infratel Limited

Mr. Devender Singh Rawat

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Mr. S. Balasubramanian

Chief Financial Officer - Bharti Infratel Limited

CORPORATE CALL PARTICIPANTS**Mr. Manish Adukia**

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Mr. Rajiv Sharma

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Mr. Ravi Menon

Elara Securities - Mumbai

Mr. Sanjay Chawla

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Mr. Himanshu Shah

HDFC Securities - Mumbai

Mr. Viju George

J.P. Morgan - Mumbai

Mr. Samuel Chen

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PRESENTATION**Rajyita - Moderator**

Good afternoon, ladies and gentlemen. I am Rajyita, the moderator for this conference. Welcome to the Bharti Infratel Limited Fourth Quarter and Full Year ended March 31, 2019 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 overviews 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

Thank you, and welcome to all of you on the earnings call of Bharti Infratel for the fourth quarter and the full year ended March 31st, 2019.

As you all know, this was a year of exponential data growth for the Indian telecom industry and also a year when a massive consolidation took place within the operators. This resulted in shutdown of the few operators and a big event of Vodafone and Idea merger. As a result, the tower companies that is Infratel and Indus and indeed all the other tower companies saw very significant exits of co-locations. Roughly 20% of the opening co-locations were lost during the year, translating to about 75,000 co-locations on 100%

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basis and about just under 40,000 on consolidated basis. However, the silver lining in this entire turmoil has been a very favorable industry structure which has emerged. From a peak of 14 operators at one point, we are now stabilized at 4 operators, three private and BSNL and MTNL on the government side. We believe this augurs well for the telecom industry in the long-run.

In the year gone by, we have seen an all-time high 4G BT nodes deployment for operators, but most of them were on the existing towers. We are now seeing healthy gross tower additions, and that is a good indicator of the co-location demand in times to come.

I think an important feature, as I have mentioned, 20% of the co-locations were lost, but the business model has been such that it has only resulted in an EBITDA loss of just about 6% year-on-year for the full year as compared to last year. Profit after tax at Rs.2494 crores was largely flat. And the operating free cash flow at Rs.4237 crores, grew marginally by 1% year-on-year.

When I look at Q4 versus Q4 of last year which is the more important indicator, I see that the EBITDA is down by only 4%. The profit after tax at Rs.608 crores is exactly the same as last year. And the operating free cash flow for the quarter was Rs.1154 crores which grew 14% year-on-year. As a result, the return on capital employed, pretax and ROE post-tax remained very strong at around 32% and 16%, respectively.

I am also pleased to inform that the Board yesterday declared a second interim dividend of Rs.7.5 per equity share for financial year 2018-2019. Thereby, the total dividend for the year is now is Rs.15 per equity share which includes the first interim dividend of Rs.7.50 which was declared earlier in October 2018.

The merger process of Infratel and Indus is on track, and I am hopeful that it should be completed in the next few months.

On the business side, I would say that we do believe that the backdrop of the new policy, which does lay an impetus on sharing infrastructure, coupled with rapidly growing data demand and the future developments on 5G being visible, we believe the future potential is bright. We are fully prepared to exploit this potential.

We also yesterday made an important announcement with respect to DS Rawat who has very ably and successfully led Bharti Infratel for the last nine years. DS informed the Board yesterday that he intends to continue post the merger of Bharti Infratel and Indus Towers, within the Bharti Group in a senior role and accordingly, would not like to be considered for the role of MD and CEO of merged entity. He however has committed to continue in his current role as the MD and CEO till the merger is completed and would be actively engaged in ensuring smooth integration of the two entities.

Having worked very closely with DS, I have to say that I respect his choice, the choice that he is making because I know this choice has been made with the aim and with the view of recreating something which we were able to create, a decade back in this tower company. And I am sure whatever he is going to do within the Bharti Group, he will be able to reproduce the same success and same re-creation as he had done in his present role. I have no doubt that all of you who have had the pleasure of dealing with DS over the years would join me in thanking him for his immense and actually immeasurable contribution to this company which, ever since its inception, has scaled new heights and has set global benchmarks under his leadership over the years. I wish him all the best.

Thank you all. We will take your questions now.

Rajyita - Moderator

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

Manish Adukia - Goldman Sachs - Mumbai

Hi, Good afternoon. Thank you for taking my question. I have two questions. Firstly, if I look at this quarter, Bharti Infratel at the consol level saw a dip in gross tenancy and also a pickup in exits. Now how should we read this, you had talked about gross tenancies picking up going forward. So, should we see this quarter as a one-off? And how do you look at the upcoming quarter in terms of gross tenancy adds and also the exits? And second, in the past, you talked about potential fiber-sharing initiative. Can you provide an update on that? And do you think Jio's plans to lease out towers and fiber creates new competition for you in the space? Thank you.

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Hi, Manish. D S Rawat this side. Indeed, we did see a lesser number of co-locations (gross) as compared to the previous quarter. However, we are seeing an uptake on the new towers built out. We have seen that increase from the first quarter consistently moving up. In case of the standalone Infratel, that is reflected in the tower growth that we are rolling out. However, we have not yet seen Vodafone-Idea rollouts figure in these numbers. We are hopeful that once the equity raise is done, we will see some announcement of that growth coming in as we look forward from here on. So, these numbers are pretty much the numbers that are there without

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Vodafone-Idea's new rollout that is not coming yet into these numbers. The focus still remains from operators to see that 4G rollout completion is done. Exits, too, like you mentioned, you have seen the tailwind of exists still come in again primarily on account of Vodafone-Idea trying to consolidate their network. We hope that this is last of it, but then these are dependent by the operators in terms of how they plan their network. We are happy to support them whenever they want us to roll out either more towers or to come in as co-locations. As I said, currently we are seeing a focus towards making sure 4G is enabled in pretty much all the sites.

Your question on fiber sharing. Yes, that remains. In terms of connectivity we have said for this particular company, connecting the last mile fiber to the tower is an area that we are trying to work on. Nothing significant to report in terms of numbers or revenue right now. These are models that we are trying to discuss with the operators. There has been some traction and interest to say that we should connect the nearest point of presence to all the operators with our towers whereby they could then connect their 4G, 5G sites into the towers itself.

On Jio's announcement, we continue to watch that closely. We are yet to see impact of that on ground or to even assess in terms of what is the likely impact for some of these things because the full picture is not yet emerged on what and how the sharing model is going to work. So, we will wait and watch and play it as it comes down. We have said this in the past that the tower capacity is not fungible capacities and hence we do see that incremental growth in the market will continue given our large footprint of towers. And we are hopeful that there should not be a significant impact from any new tower companies coming up and sharing their towers.

Manish Adukia - Goldman Sachs - Mumbai

Thank you, DS, for your response. A quick follow-up. Akhil in his opening remarks mentioned that the industry is moving towards the favorable structure. Now I mean today operators are not rolling out as many tenancies that they are as they are in the middle of fund raise? So, when do you see them or when do you see this favorable industry structure start benefiting Bharti Infratel? Should we see that happen sometime in the next 12 months? Or is it slightly longer-term out?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

So just to add to that, we said, as a company, we are geared up, given our balance sheet, our ability to roll out, we are all geared up to whatever increased demand there is from the operators, we are hopeful that with the huge amount of data growth that is happening and the pressure on quality of service that we see on operators, with three solid players if they compete on service differentiation, the leads will start to come up immediately. So, we just they are ready with our assurance of operators, saying we are be happy to roll out as and when they want. It is more an operator's call of when they want to expand. As I said, I did see a small uptick on towers built out. We are just hoping that these are initial green shoots that we will see an upsurge from here on.

Akhil Gupta - Chairman - Bharti Infratel Limited

And also, Manish, as you have noted, the rights issue of Vodafone-Idea has already successfully completed. For Airtel it's going to open soon, and I think this augur very well because with these fresh funds, I am sure the uptake in terms of network rollouts will be taking place.

Manish Adukia - Goldman Sachs - Mumbai

Thank you so much, Akhil and DS, all the best for your new role.

Rajyita - Moderator

Thank you very much Mr. Adukia. 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

Hi Srini here, thank you very much. So I wanted to check one first, the issue of your recurring – what you call one time or income which you are getting every quarter of around Rs.900 million which you talked about last quarter. Does that reflect in your P&L directly because that was essentially some kind of financing, so does it show up in your revenues or interest portion shows up in your interest income? If you can help us understand the P&L impact of that that will be helpful. And based on your reporting there is obviously, again, a small one time income this time. So how does that number show up in revenue and then in your absolute P&L? That is my first question. My second question is if you can again help us understand that during the merger process, you did talk about the net debt-to-EBITDA of the merged entity going up to almost 3x on an aspirational level. But do you have greater visibility on how you would be able to achieve the increase in net debt-to-EBITDA? Those are my two questions. Thanks.

Akhil Gupta - Chairman - Bharti Infratel Limited

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So, on exit charges, you mentioned that one time, which comes every quarter, so it is obviously not one time, it is a recurring one. And I would say you must treat it as a regular revenue as far as this company is concerned. The amount is approximately Rs.90 crores per quarter, so that is a regular revenue like any other revenue coming. I do not know, is there something one-off for this quarter, Bala?

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

There has been one from one of the operators where we got an award, but that is a small amount.

Akhil Gupta - Chairman - Bharti Infratel Limited

It is small, I think, Rs.4 crores or something like that. But other than that, the main Rs. 90 crores is what I think you should treat it as a recurring revenue. In fact, some of the research reports which we have seen today have mistakenly taken it as one time. And I think this exit income which we are getting is to be treated as a recurring income, a regular income. On the merger process, well, the aspiration is that with a lot of capital required for linking of the towers on fiber and many other adjacent things which we would plan in the merged company, I think the net debt-to-EBITDA should go up. We will wait to see whether Vodafone-Idea chooses to sell their stake in cash, that should also increase some debt. But it is not going to go to 3 times, in a great hurry but yes that does remain an aspiration that we should have a decent amount of leverage over a period of time since it has a very large EBITDA at disposal, there would be opportunity for this company to raise debts.

Srinivas Rao - Deutsche Bank - Singapore

If I can ask one more question. Akhil, I mean, the issue is in terms of your, as I said, leverage. Since you do not have as of now fiber within the company or any major options of rolling out fiber, I mean besides potentially buying the fiber assets of Bharti or an Idea-both seemed to have obviously indicated they will sell. Are there any even mid-term opportunities to actually seek the EBITDA up, net debt-to-EBITDA up? When I say mid-term, I mean about say two years? That is my first. And the other one I wanted to ask was there is now at least in public domain given the Jio's InvIT structure. There is an implied valuation for Jio's fiber assets. We also have kind of an implied valuation for Bharti's fiber assets again in public domain. Your thoughts on that if at all will be very helpful.

Akhil Gupta - Chairman - Bharti Infratel Limited

Okay. So, on the net debt, I would love to return more money to the shareholders but under the Companies Act there are limitations. We do give the maximum possible dividend. But yes, we do have plans for putting more money into the business, in adjacent spaces, and fiberizing the towers and so on. Too early to give you the exact plan on that. I think there is still some work-in-progress there. On fiber, I think the valuation will be pretty much linked to the EBITDA which you are transferring to the new company. So that is not a rocket science. Whatever is the revenue, there has to be an MSA, and whatever is the EBITDA going there, the valuation would be a multiple of that. Now what that multiple is, I think the market discovery would have to happen.

Srinivas Rao - Deutsche Bank - Singapore

Understood. Thanks a lot.

Rajvita – Moderator

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

Rajiv Sharma - SBICAP Securities - Mumbai

Thanks for the opportunity. Just a couple of questions from my side. First is, if you can provide some colour on potential tenancy declines which can be there in the next nine to 12 months, in addition to what we have seen over the last few quarters? And second is quite possible that even after the recent fund raise Vodafone-Idea may not add new tenancies, but Bharti may have demand. So will you be fine with building tower for one operator? And that could mean incremental ROEs are lower. So your thoughts on the same.

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Rajiv, first, I think it is difficult for me to say how much more exits in the future. As I said, we believe whatever has to be played out has played out. Incrementally, in a business you do see some amount of readjustment of networks, and that is primarily driven by the operators. So, we think the worst is behind and we hope from here on, we will look at the growth phase from all operators. They are

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only three operators left and a very small exposure for us on BSNL and the growth would primarily come from the three operators as and when they announce their growth plans from this point on. Their plans also keep coming in public domain about how they intend to deploy their capex. We do see them preparing for rollouts, and we are happy to support. Your question on Bharti, we continue to rollout, we believe that the three operators it is only a matter of time when others will do a catch-up on coverage. You cannot have huge differences between 1, 2 and 3 in terms of their coverage in the long run given that the spectrum bands are also now kind of getting distributed uniformly across the three operators in the current market scenarios. So if they want to stay at close to even kind of revenue market share, they will need to have similar kind of coverage. So any rollout for any one of the three leading operators, we are more than happy to build out for them and wait for an opportune time when the number #2 or #3 operator would come down on those sites. So, we are pretty much fine building even if it means building a one-tenant site for some of the leading operators.

Rajiv Sharma - SBICAP Securities - Mumbai

And one last question if I could chip in that quite possible with the new InvIT structure, Jio may not give orders for the next two years or maybe three, what does that mean to your business plan, your growth in the medium-term?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

We have explained the model of sliding scale. We think the construct gives advantage to someone come in as a second and the third tenant of an existing tower. As I said, I do not understand too many details about the InvIT structure if that is locked for a certain number of sites or will that rollout new site requirements for Jio, too. It is not economical for an operator to run a single-tenant site of perpetuity versus other operator trying to share the site. And you said there is that the cost of running the site even on the opex if it is shared by two operators or more, is significantly lower than keeping the site for one operator, both on rent and energy. So, we continue to see demand coming in from Jio. Wherever we have an existing tower, we are happy to accommodate them, and rest is up to their plans if they want to continue and have single-tenant towers to be built adjacent to Indus or an Infratel tower.

Rajiv Sharma - SBICAP Securities - Mumbai

Thank you.

Rajyita – Moderator

Thank you very much, Mr. Sharma. The next question from 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. First question again on Jio, you answered a few, but just one more. Jio has indicated that they have around 175000 towers, like which is a number larger than Indus and Infratel put together. So why would you not see it as competition? Is there any difference you can highlight like in terms of footprint infrastructure, anything which you think is different between the two tower companies. That is one. And second is, receivables seem to have been increasing. You have fiscal 2019 ending around Rs.1500 crores, which used to be about Rs.200 crores, two years back, can you explain what's happening on the receivables? Is it to do something to do with exit penalty?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Let me answer the first one, Kunal. The Jio number of towers, yes, Jio continues to rollout towers. Initially, these towers were meant to be captive. The towers that they build more of the structure at certain places. I do not say they are not a competition if they are going to sell these towers and tenancies on a sharing basis to the incumbent operators. But we think combined both these entities going in for rollouts and operators with their run-up for gaining market share over each other will create service differentiation by trying to be present, if not equal, exceed the others in terms of their coverage and quality that they are able to offer to the customers. And hence, we believe the market is likely to expand, two or three tower companies we have had those in the past too and large scale sites, we have also said that tower capacities are not truly fungible capacities while we might have certain amount of overlap, but wherever there is a demand you will need those towers. From 5G, we believe that the inter tower site systems are going to further shrink from the current levels, too. And that could be an opportunity for tenancies to be grown on the existing towers.

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

On the receivables, it is more of a temporary phase. We have been collecting the money subsequently, and we have realized some of them.

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Kunal Vora - BNP Paribas - Mumbai

Just one last question. Indus Towers' tower base has gone down by about 500 towers. Is it something to do with Voda-Idea being the sole tenants on certain towers and then exiting?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Yes, please.

Kunal Vora - BNP Paribas - Mumbai

That is it from side. Thank you.

Rajyita – Moderator

Thank you very much Mr. Vora. The next question comes from Mr. Ravi Menon from Elara Securities, Mumbai. Mr. Menon, you may ask your question now.

Ravi Menon - Elara Securities - Mumbai

Thank you for the opportunity. You spoke about some new tower tenancies, the additions that you are starting to see. So is this more for rural coverage? Or is this for increased capacity in urban areas?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Ravi, we are seeing a mix of both. We are seeing improvement of capacities in the towns or in the CBD areas where there is congestion during the busy hours. At the same time, we are also seeing rural reach being increased by leading operators to cover geographies that have not been covered. So, it is a fair mix as of today, in big cities of course these are purely capacity led. Rural, we still see that there is coverage sites that are being built, some of these of course operators, are building as part of the USO project, but this will continue to have demand for sites to be build in rural India.

Ravi Menon - Elara Securities - Mumbai

Would it be fair to say that in your estimate as a tower company based on your footprint would population coverage still be within 90%, 95%, not really much higher than that?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

In terms of population coverage is also a function of what frequency bands, what I am looking, at 900, yes, you would say with reasonable, certainty they are covering north of 90% of population, but if you are saying 2300, I would have my doubts if that is the kind of population that is covered today. But again, this is something that is not my matter of expertise operators would be in a better position to say what population coverage that they are covering, and it is also a function of what capacity that you are able to load in a given area. So hard for me to say what percentage population is being covered.

Ravi Menon - Elara Securities - Mumbai

Sure. Get that. Just trying to see if there is some headroom for more towers to come up in place in case operators decide to increase the population coverage.

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

I did mention that we are seeing an uptick on rollout of towers that is clearly something that is coming in. It is purely a function of what service quality you want to render. You need a higher densification of towers if you want to give good quality coverage across even village, rural or urban of what kind of coverage you want inside buildings decides. So, you could keep going and increasing towers given that in the past of saying if China Mobile had more than 1.2 million towers that they have built. India, given our size, definitely, has room for far more number of towers to come in.

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Akhil Gupta - Chairman - Bharti Infratel Limited

But I also believe that looking at the trend that the data consumption in rural areas is very good. It is just a matter of time that all operators have got to go really deep into this country. You cannot leave some portions and some population percentages to just one operator. So, I definitely believe there will be more demand for towers coming because of expansion of footprint.

Ravi Menon - Elara Securities - Mumbai

Thank you. Best of luck.

Rajyita – Moderator

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

Sanjay Chawla - JM Financial - Mumbai

Good afternoon. Thank you for the opportunity. Just a follow-up question on the working capital, bit of the receivables, so just confirming that there is no permanent increase in payment terms of receivable days, that we are seeing because of the churn and consolidation which has happened. And that is first question. Secondly, post-merger on the consolidated balance sheet after the merger and after the cash payments are made to Vodafone in providence, how much cash would you ideally want to maintain on the balance sheet? That is the second question.

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

Sanjay, on the receivable, I think it is more temporary. I do not think we have made any changes to the terms at this point of time.

Sanjay Chawla - JM Financial - Mumbai

So, we expect them to come back to Rs.2 billion on a sustainable basis from Rs.15 billion currently?

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

I do not know when it will come, but definitely, we are working towards that.

Akhil Gupta - Chairman - Bharti Infratel Limited

It won't be that much, I do not know what the level is. Why don't you check up and find out what would be a sustainable level.

Sanjay Chawla - JM Financial - Mumbai

On your cash, how much cash do you want to keep?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Given now that we have announced the dividend too, and if Idea wants to exercise, I do not think we will be sitting on cash in this company, but we will have to see how this plays out.

Akhil Gupta - Chairman - Bharti Infratel Limited

Assuming Voda-Idea chose to take it in cash, we would have some debt in Bharti Infratel standalone as well. In Indus, there is already debt.

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Sanjay Chawla - JM Financial - Mumbai

Thank you. All the best!

Rajyita - Moderator

Thank you very much, Mr. Chawla. The next question comes from Mr. Himanshu Shah from HDFC Securities, Mumbai. Mr. Shah you may ask your question now.

Himanshu Shah - HDFC Securities Limited - Mumbai

Thanks Sir. Thanks for the opportunity. Sir, if just for the exit penalties which would be part of revenue and therefore, rental per tenant, then rentals have actually declined on a sequential basis, what could be the reason for this decline?

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

Are you referring to the ARPT?

Himanshu Shah - HDFC Securities Limited - Mumbai

Sorry?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Are you referring to the average revenue per tenant?

Himanshu Shah - HDFC Securities Limited - Mumbai

Yes, average revenue per tenant.

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

Yes, it has gone up.

Himanshu Shah - HDFC Securities Limited - Mumbai

Yes, it has gone up, but if we adjust for the incremental exit penalty versus last quarter and if we adjust for the same, and then there would be a decline in rental per tenant.

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

Last quarter, in Q3, we had one-off in Indus.

Akhil Gupta - Chairman - Bharti Infratel Limited

And as the tenancies increase, there will be some adjustment downwards.

Himanshu Shah - HDFC Securities Limited - Mumbai

But this quarter, actually the tenancy has also declined, and there was net negative addition?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

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It would very marginal, and I do not think it is of any real relevance because overall it has gone up. And as far as exit thing is concerned, please treat it as part of the revenue.

Himanshu Shah - HDFC Securities Limited - Mumbai

Sure. No issues. Secondly, Vodafone-Idea besides approximately 70000 overlapping tenants, they are also guided for another 20000, 25000 exits. So, are we seeing and the tenancy decline could be on account of that this particular quarter? And do we foresee that as a risk at least for by June 20 when they fully look to integrate their networks?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Himanshu, the first set of exits, were the ones that came in, I think, sometime in Q2, the large exits that we saw on account of Vodafone-Idea. That was the first lot. Subsequent to that, in the last two quarters, also we've seen some amount of exits come in. We believe we have got the fair share of the 20000 that was made on the press announcement. We will have to wait and watch if there is going to be any more tail bit of this likely to come in. We hope that this is probably the last of it. But let us wait and see what one that means for us going forward.

Himanshu Shah - HDFC Securities Limited - Mumbai

Sure, sir. Just two more small questions. Can you provide some guidance like what would be the number of tenancies that will be expiring over next couple of years, maybe two to three years that will be coming out of the lock-in period?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

We do not give guidance as a company, and I am sorry, that I will not be able to guide specific on tenancies that are coming up for renewals. But I will give you a broad colour as we say that we do have tenancies that were extended in terms of their tenure till 2022. Most tenancies, so large chunk of our tenancies as part of the settlement that we did in 2016 we had extended large part of the tenancies till 2022. So even if there are, that would be a small number that we might see coming up for renewal.

Akhil Gupta - Chairman - Bharti Infratel Limited

Which is part of the exit.

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

As part of the exits, yes.

Himanshu Shah - HDFC Securities Limited - Mumbai

Okay. And Sir, lastly, any guidance on capex for FY 2020?

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

There is no guidance. Generally, we do not give guidance. This year, we have spent roughly around Rs.1800 crores that is linked to the level of business activity that we do.

Akhil Gupta - Chairman - Bharti Infratel Limited

I explained by and large it should be in the same vicinity, a little more perhaps. That is because we expect more business.

Himanshu Shah - HDFC Securities Limited - Mumbai

Thank you. Thanks a lot. All the best Sir. That is it from my side.

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Rajyita - Moderator

Thank you very much, Mr. Shah. The next question comes from Mr. Viju George from JPMorgan Mumbai. Mr. George, you may ask your question now.

Viju K. George - JP Morgan - Mumbai

Thank you for the opportunity. I just wanted to get a question on operating leverage. Despite a fair bit of rationalization in the tenant side, your margins have held up relatively better. But do you think that one could see the reverse of operating leverage, which means the tenancy ratios would it decline a little bit further from here over the next 6 to 12 months? Do you think you still have enough in your model to hold up the margins? So do you think the margin should give away, just a reverse of operating leverage that kicks in when your tenancy ratio improves?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

So, we did see large amount of exits and if we still managed to hold on to our EBITDA. The reverse operating leverage was much more intense when only a tenancy goes away. If you are referring to tower additions causing margins to dip, of course, we see there is good investment to be made. As I said earlier, we do expect once we built a tower for the leaders the subsequent tenants to come in much more rapidly and come back to our tenancy ratio of 2, which is what brings us to the current kind of returns that we are targeting on all towers. We consciously look at all these as part of our investments, so we continue to work, operational efficiencies that have come in, some of course is on account of energy margin that you saw, but mostly operating efficiencies that we had have been played in. Some of course will come in as part of the merger as we get into a larger merged entity as one Infratel. But we will continue to work and see how we can reduce both our maintenance capex and also see that we reduce our opex on an ongoing basis. So, we hope to hold on to the current levels unless, of course, we believe that most of the exits that had to play had played out, we should be able to hold on for the margins at the current level there.

Viju K. George - JP Morgan Chase - Mumbai

Thanks. And one other question was on Reliance Jio's rentals. I think they had indicated at their analyst meet that the kind of structure they are looking at for the InvIT in terms of their opex or rentals to the InvIT would be kind of sort of comparable with the rents that they are paying right now. The ones that they have got arranged, for instance, with the RCom. So, I think that is significantly below the average rentals that you have. Do you think that that is going to be the new benchmark to get external tenants than the operators that you have right now may be induced more on that side, particularly if they have sold down stake in Indus substantially to become minority investor?

Akhil Gupta - Chairman - Bharti Infratel Limited

When we say sale and lease back you can actually lease it at any amount that you want, it has nothing to do with the market rates because that is accordingly the amount you will get. For other operators, I have a very serious doubts that they would actually want their competitors to get it below cost. It does not really stack up. So, I do not think this is going to happen.

Viju K. George - JP Morgan Chase - Mumbai

Thank you. All the best.

Rajyita - Moderator

Thank you, very much Mr. George. The next question comes from Mr. Samuel Chen from Sanford C. Bernstein Hong Kong. Mr. Chen, you may ask your question now.

Samuel Chen – Sanford C. Bernstein – Hong Kong

Thanks for your time. Just a couple of quick questions. The first thing is about the new accounting standard or the Indian accounting standard 116. I am wondering if the management can quantify the impact or just an outlook on the impact. Second question is on the employment structure between Infratel and Indus. I notice that Infratel only supports about 33 towers per employee versus Indus who can support 53 towers per employee. That is quite a big of a gap. I am wondering if there is a fundamentally different operating structures between the two companies. And post the mergers, perhaps Infratel can improve and actually merge towards the Indus operating structure? Thank you.

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S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

On the Ind AS 116 which is the new accounting standard on leases which will come on to effect April 1, 2019, we are still working out the numbers and the approach that we would like to take in terms of how the treatment, the standard provides three different alternate methods to do the treatment. And we are still evaluating internally, which approach we should take. Hence at this point of time, we are not able to quantify it. But what it essentially means from an overall impact levels is that you will not find the rental expenditure on the operating expenditure line; however, you will see a higher depreciation from the lease assets and high interest charges on the leased obligations. However, at the PBT and PAT level, probably it will neutralize vs. the current financials what you are seeing.

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Samuel, to your point, this, on employee productivity that we declare as a KPI there, yes, there is a fundamental difference in the way Indus and the Infratel model works. Infratel finally does most of the work in-house, Indus primarily works on a model called OME where the partners do large part of the rollout. So we are looking at what is an optimal structure. There are pros and cons of both. As a merged entity we will take that call. But this is primarily a difference that comes in on the field staff that is trying to work on a certain ratio whether they are with us or as off-roll and move out. We need to set up the control structure to run operations and to manage these areas. So, we will look at an optimized structure and come back and announce that to the team as and when that happens.

Rajyita - Moderator

Thank you very much, Mr. Chen. We have a follow-up question from Mr. Srinivas Rao from Deutsche Bank from Singapore. Mr. Rao, you may ask your question now.

Srinivas Rao - Deutsche Bank - Singapore

Hi, thank you very much. First, and I just want to say thanks for DS, I am not so sure if this is going to be your last conference call, but the announcement of the merger probably, you can dictate that. So, taking this opportunity to thank you for safeguarding the company. My other actually question is on the rentals, which you believe for your towers to the landlords. Is there any linkage between that and the tenancy of a tower or revenue of a tower, which means does your rental get impacted if the tenancy of the towers go up and down for your portfolio?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Srinivas, firstly, thank you very much. Yes, there is. As mentioned, this earlier in one of calls that whenever a tenant is added to the site, we do increase the landlord rental by Rs.1000, Rs.1500. This is part of the profit share that goes to them. We are able to reverse that in most of the cases wherever there has been an exit. And that is why you do see a drop I think on the rental costs per tower that we are paying. And I did mention earlier too, not on this call, but earlier, there is a threshold beyond which, normally the rentals are passed on and shared by the operators. So as Infratel, we are insulated to a certain level, but we continue to work and see how we are able to keep that minimal in the best interest of operators and us. There is no other direct linkage to revenue or tenancy and sharing potential of a tower nor anything to do with the traffic. Traffic does have loading revenues that come in. and, in those cases, there is nothing that has passed on to the landlord.

Srinivas Rao - Deutsche Bank - Singapore

Understood. I mean the tenancy exits which happen, there is some impact, I mean, some, let us call it the rentals fall, but obviously, it is not proportionate, right? So, is it fair to say that your margins will be impacted a bit, at least till the time the exits flatten out?

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

Srinivas, yes, that is true, because it takes time to go back to the landlord and do the negotiations and rent settlements, so hence there is a time lag between the exit and actually the landlord when you really renegotiate for the rentals.

Srinivas Rao - Deutsche Bank - Singapore

No. I am not asking about the timing difference. What I am saying if the tenancies settle down at a number which is obviously after it falls, but obviously your rentals cannot fall as much as the loss in the revenue, correct? Is that a fairly understanding?

S. Balasubramanian - Chief Financial Officer - Bharti Infratel Limited

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Yes. That is right.

Rajyita - Moderator

Thank you very much, Mr. Rao. 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 & Chief Executive Officer - Bharti Infratel Limited

Thank you. As Akhil cited despite losing 20% of the tenancies due to unprecedented consolidation during the year, we have managed to close the year with consolidated revenue of Rs.14582 crores, up 1% year-on-year and profit after tax at Rs.2494 crores. This establishes the robustness of the business model. The year gone by saw unprecedented consolidation in telecom industry with now only 3 plus 1 operator remaining. The remaining operators are focused on their data strategy ensuring a strong 4G pan India presence. This was visible with the increased 4G rollout throughout the year. Going ahead, we believe operators would want to monetize the ever-increasing data consumption and the need for improving quality of the service. We are best placed to capitalize on these opportunities by playing a key role in building and sharing vital telecom infrastructure with all customers on a non-discriminatory basis. On behalf of the entire Bharti Infratel team, I thank all of you for your continued support. Thank you very much.

Rajyita - 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.