

Bharti Infratel Limited Second Quarter Ended September 30, 2013 Earnings Call

Earnings Conference Call Transcript

Event: Bharti Infratel Limited Second Quarter Ended September 30, 2013 Earnings Call

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Bharti Infratel Limited Second Quarter Ended September 30, 2013 Earnings Call

CORPORATE PARTICIPANTS

Akhil Gupta

Deputy Group CEO & Managing Director of Bharti Enterprises & Director of Bharti Airtel Limited

Devender Singh Rawat

Chief Executive Officer - Bharti Infratel Limited

Pankaj Miglani

Chief Financial Officer - Bharti Airtel Limited

CONFERENCE CALL PARTICIPANTS

Sunil Thirumalai

Credit Suisse - Mumbai

Srinivas Rao

Deutsche Bank - Mumbai

Reena Verma

DSP Merrill Lynch - Mumbai

Rajiv Sharma

HSBC - Mumbai

Suresh Mahadevan

UBS - Singapore

Gaurav Malhotra

Citi Group - Mumbai

G. V. Giri

IIFL Capital - Mumbai

Rahul Singh

Standard Chartered Securities - Mumbai

Janaki Raman

Franklin Mutual Fund - Chennai

Himanshu Shah

HDFC Securities - Mumbai

Vikas Mantri

ICICI Securities - Mumbai

Sanjay Chawla

JM Financials - Mumbai

PRESENTATION

Shareena - Moderator

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Good afternoon ladies and gentlemen, I am Shareena the moderator for this conference. Welcome to the Bharti Infratel Limited, second quarter ended September 30, 2013 Earnings Call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for all the participants on this call. Present with us on the call today is the senior leadership team of Bharti Infratel Limited. Before I hand over the call, I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risks that we face. I now handover the call to our first speaker of the day Mr. Akhil Gupta. Thank you and over to you, Mr. Gupta!

Akhil Gupta- Deputy Group CEO & Managing Director of Bharti Enterprises & Director - Bharti Airtel Limited

Thank you and a very warm welcome to all participants to the investors call of quarter and half year ended September 30, 2013 results of Bharti Infratel.

We had once again a very satisfying quarter. While I would be requesting subsequently our CEO Mr. D.S.Rawat to give you highlights of the quarter's performance, I intend to bring to your attention the following major aspects vis-à-vis the industry and our company.

The first one is about the state of the telecom industry in India, which is vital for the growth of tower companies. The regulatory environment as many of you would have noted for the telecom industry in India seems to be stabilizing. This is primarily led by a big recent event where the TRAI in a very pragmatic move recommended lowering of the reserve prices for spectrum auctions for 900 and 1800 megahertz. These auctions hopefully will take place sometime in January 2014. It is also reported that there is likelihood of auction for 3G spectrum in 2.1 gigahertz band as well. The other major recommendation of TRAI is about stringent rollout obligations on license fees which would be very positive for tower companies as new operators would have substantial rollouts over the next few years to meet these obligations.

On the industry performance there are a few major positives. Firstly, as you would have noted the realized rates have been going up which brings financial stability to the operator. Second, the data revenues led by 3G have been rising at a fairly phenomenal rate of almost 20% to 25% quarter-on-quarter sequentially. Encouraged by this growth the operators are now seen as preparing for speeding up 3G rollouts. The fresh auction of 3G spectrum would enable large operators to complete their 3G footprint, something which they could not do in the auctions which took place in 2010 and this we believe would further accelerate these rollouts.

Thirdly, the sales and distribution cost on new acquisitions for operators have been coming down quite significantly. These three big factors are improving the operators profitability and cash flows which are good news for tower companies as the operators are feeling now more confident about making fresh investments in network roll-outs and augmenting the capacities going forward. As a result of the above, we are already seeing some early signs of the operators starting stronger roll-outs of data network for larger coverage. We feel that the telecom industry in India is now at an inflection point vis-à-vis major network investments particularly on data and we feel confident that going forward this momentum would accelerate. We also expect that TRAI's recommendations on rollouts will be accepted and that would further result in increased sharing of our infrastructure in future.

The other major issue for Bharti Infratel as you are aware pertains to the fact that the company has significant cash in hand and in addition based on the current growth has meaningful free cash flow on recurring basis. As stated earlier it is the company's philosophy that any surplus funds after meeting the acquisition opportunities and other growth opportunities for the business should over time be returned to the shareholder. On acquisition, the company feels that as a first step we would like to evaluate opportunities in India and Indian subcontinent, for example Bangladesh, Sri Lanka and so on. Accordingly, the company has taken an important decision by deciding not to pursue acquisition of

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towers from Airtel or any other operator in Africa. We intend to evaluate the opportunities in India and Indian subcontinent by the end of the year and also simultaneously evaluate the legalities with respect to return of surplus cash to shareholders in different possible ways, for example dividend, buyback of equities, reduction of capital or any other mode as may be legally permitted and make necessary recommendations to the Board for appropriate decisions in this regard by the end of the year. In summary, we look forward to stronger growth going forward and all of us at Infratel are excited about the prospects for increased sharing particularly due to very strong data growth in India.

I now handover to D.S.Rawat CEO Bharti Infratel to give you the highlights of the performance for the quarter.

Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited

Thank you very much Akhil a very good afternoon to all the participants. Let me talk about the performance of the quarter. Quarter performance, total tower base at 82,476, collocations 160,000, average sharing factor 1.93, Indus has already hit the sharing factor of 2. Our consolidated revenue for the quarter was at Rs.26,837 Million, and a year-on-year growth of 5% and quarter-on-quarter of just under 3%. EBITDA for the quarter came in at Rs.10,759 Million, up 3% quarter-on-quarter, 13% year-on-year. While very minor in the overall scheme of things, from a good governance and disclosure perspective I would like to highlight that there has been a reclassification of the profit from sale of fixed asset hence EBITDA for the prior period has been reclassified. EBIT for the quarter was strong 5,403 Million, up 10% quarter-on-quarter, 34% year-on-year. This quarter the cash deployed in mutual fund had a slight negative mark-to-market primarily because bond yields in India moved adversely following the measures taken by RBI to strengthen the Rupee. The impact was also very minimal and is only really a mark-to-market impact. The good news is, from a business perspective, at a time when almost all companies are reeling under excessive leverage and adverse ForEx exposure, Bharti Infratel has no debt on the books and no ForEx exposure as well, hence, on account of the adverse movement of the interest rates Profit After Tax for the quarter came in at Rs.2774 Million, down 22% quarter-on-quarter and up 12% year-on-year. Remember that last quarter profit after tax was also aided by the merger impact as well as certain income tax refunds we had received, hence, comparing to the underlying PAT of last quarter of about 3000 Million the decline this quarter of about Rs.226 Million of 7% is minor. Operating free cash flow came in strong at Rs.7367 Million up 11% quarter-on-quarter, 109% year-on-year. In a continuing effort to improve and enrich our disclosures and basis investor feedback starting this quarter we have also separately reported the amount spent on our maintenance CapEx similar to how many other global tower companies report and are valued on that basis. Consequently, we have also started to report Adjusted Fund From Operations, AFFO, which is regarded by investors as a more precise measure of residual cash flow to shareholders and thereby a better valuation tool. The AFFO for operations are up 8% quarter-on-quarter and 17% year-on-year to Rs.9374 Million this quarter. In an uncertain Indian macro growth environment, tower companies are insulated from the broader uncertainties, average residual life of all our contracts as of September exit is 7.04 years with committed revenue for the company was strong Rs.493 Billion, almost two times our market capitalization. From this quarter on we have started to disclose this also in our quarterly report as well.

In an industry like this where operating leverage is very high and you are sweating the existing assets and return on capital and return and equity climbed steeply after a certain stage we are already seeing that situation. As of this quarter exit also ROCE continues to inch up and it is in its early teens, already at 12.2% at a time when our overall sharing factors are just under 2 and there is significant incremental growth upside from data as well as voice. At these levels of tenancies we are already hitting the sweet spot for this industry and this is a matter of great pride and further testifies the strength of our vision, operational excellence and execution capabilities. Hence, the underlying strength of the business model remains when tower demand translates into an even higher tenancy demand causing a multiplier effect on revenues, EBITDAs and even higher multiplication on the PBT and cash flow. As an example over the last year towers and tenancies have grown by 2.4% and 3.7% respectively, revenues have grown by 5%, EBITDA by 13%, EBIT by 35% and OFCF by 109%. Our continued effort to be recognized by the

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regulatory authorities as a lifeline installation and a critical infrastructure and mobile communication is endorsed also by uniform guidelines that DOT has issued recently. The company has special focus on energy management and has taken strong steps towards reduction of carbon footprint. The circles where the company operates are particularly poor in terms of grid supply, company is introducing solar power in a significant manner in its network.

To sum up, we have been mentioning over the last few quarters that operator roll out has been soft, however, the operator environment is continuing to improve for the better - both in its operational and financial performance, besides the regulatory clarity and hence the tower industry is also well poised to come up with that. At the same time data outlook is also very positive and provides a favorable upward bias in the tower industry prospects. Already at a very healthy ROCE of 12.2% when tenancy levels are just under 2, the company is well poised and extremely focused to reap the benefit from the growth upside and its associated financial returns. With this I would now like to open the floor for the question and answer session. Thank you.

Shareena – Moderator

Thank you very much sir. We will now begin the question and answer interactive session for all the participants who are connected to the Audio Conference Service from Airtel. Due to time constraints we would request if you could limit the number of questions to two to enable more participation. Hence management will take only two questions to ensure maximum participation. Participants who wish to ask questions may press “*1” on their touchtone 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. Sunil Thirumalai from Credit Suisse Mumbai. Mr. Thirumalai you may ask your question now.

Sunil Thirumalai – Credit Suisse - Mumbai

Hi yes, thank you very much. Sir I have two questions, firstly, from an industry perspective we have seen that one of the key reasons why tower sharing could take off in a big way in India was the fragmented nature of the telecom operator industry and the fact that spectrum was under severe short supply, now over the next two years or so if we see both these improving in the sense that consolidation in the operator segment as well as additional spectrum being released by the government do you see structurally any risks to the tower sharing business model as such and secondly my second question is on the recent media reports on the possible 8% license fee to be imposed on the tower companies, keeping aside whether it will happen or not, if it happens I just wanted to get a sense if this cost can be passed on to the operators and hence the net impact for the telecom industry as such will be neutral. Thank you.

Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited

On the first point that you had raised about fragmented industry and also spectrum being in short supply, one, we think consolidation is good for us, there are serious players, all of them would have commensurate coverage and if you also read at the recent universal license guidelines clearly puts in far more onus on the operators now to reach the hinterlands, they are talking of covering all towns with 5000 population within five years of license and all 2000 population towns in the seven years of license, now if that kind of thing is to happen, clearly the requirement of all four or five operators that might exist in the long run will be to have equal coverage in all these areas. Number two, on the spectrum, it is always a trade off that operators are doing in terms of additional spectrum versus additional sites, yes, to your point, as spectrum goes up the number of sites required to give same amount of capacity actually has kind of stopped, you don't need to add more sites for capacity reasons with more spectrum

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however it is a trade off that operators do between the spectrum price and the number of sites they would like to build. Our own experiences with the current price levels that India has, it is still economical to add on more sites than stacking up more spectrums because the constraint is primarily in certain CBD areas that operators are facing.

Akhil Gupta- Deputy Group CEO & Managing Director of Bharti Enterprises & Director - Bharti Airtel Limited

On the prospects of the position of license fee as you are aware this issue had arisen earlier. The industry, the tower industry led by TAIPA was very ably and successfully able to keep it in abeyance. You would have seen the recent guidelines which came on the unified license again IP1s were omitted out of that but yeah there was always this speculation. We believe we have established our case that any imposition on license fee or trying to bring IP1s under unified license would not be not only legal but is also logically supported because that would amount to double taxation unless this license fee is allowed to be set up against the license fee payable by the operator, so I think at this point this looks like a speculation because to our mind this matter is settled but if it does come up I think as an industry we will be taking it up very strongly with the Ministry once again.

Sunil Thirumalai – Credit Suisse - Mumbai

Yeah thank you very much sir. I have some more questions but I will come back later. Thank you.

Shareena – Moderator

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

Srinivas Rao – Deutsche Bank - Mumbai

Thank you so much sir. First, just wanted to thank you for reporting the AFFO numbers, obviously it is tremendously useful in terms of cross border comparisons, so thank you so much on that. Sir two questions, one on the trend of the sharing revenue per sharing operator on the consolidated basis, that number has been generally trending down a bit over the last four quarter, I mean since December 2012, in a small manner but these are some things which we should be thinking about, the numbers you have reported was about 35000 in December 2012, it is down to about 34 odd, thousand by September 2013, so if you could throw some light on that and secondly in the light of the strong cash flows any thoughts around the dividends for this year?

Akhil Gupta- Deputy Group CEO & Managing Director of Bharti Enterprises & Director - Bharti Airtel Limited

Okay thanks. On the AFFO thing we do believe that in our business it is important, so we decided to include this. On the sharing revenue as you know the business model exerts that with more sharing the cost to the operators does come down and therefore this is not really surprising and the reduction is very minor. As far as the dividend is concerned as I mentioned by the end of this year we hope to evaluate all the possibilities. We did give a large dividend last year and therefore hopefully at the end of this year we would be able to give a dividend which is perhaps more than the stated dividend policy once again.

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Thanks sir this is helpful. Thank you.

Shareena – Moderator

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

Reena Varma – Merrill Lynch - Mumbai

Hi, thank you very much for the call. Just two questions from me, firstly on the acquisition focus on India and Indian subcontinent please can you help us understand why you think it might be worth looking at the Indian subcontinent especially at a time when there are a lot of media reports about your looking at possible exits at a group level from some of these markets. My second question is on your dividend policy, you mentioned that at the end of the year you may evaluate strategies around excess cash usage including possible buyback, would that be possible given where you stand vis-à-vis the listing guidelines and if you could share why there wasn't an interim dividend what was your thought process around that please and just a very small follow up question was on your other income I know Mr. Rawat mentioned that due to MTM hit on the bonds but I thought you know under IGAAP is there an MTM recognition on other incomes if you can share the number please. Thank you.

Akhil Gupta- Deputy Group CEO & Managing Director of Bharti Enterprises & Director - Bharti Airtel Limited

Thanks Reena. On the acquisition focus, you know, the reason why we felt within the management and we informally discussed with other members of the Board also that as a first step of our stepping out it may be better to step out into somewhat familiar territory which is Indian subcontinent, Bangladesh, Sri Lanka and other neighboring countries. The media reports about Airtel wanting to step off from some of these companies are fairly speculative and therefore I would not comment on them except saying in any case as far as the tower business is concerned it's not dependent completely on Airtel being there, so on the acquisition front I think we will first try to evaluate the possibilities and the opportunities in Indian and the Indian subcontinent. On dividend policy, again, we would not like to evaluate by the end of this year as to what is the right way and how much is the amount which we can return. As I mentioned we are going to evaluate, if we can return it from Companies Act point of view and I have mentioned various possibilities which come to our mind which is dividend, buyback, capital reduction and so on, so we are just keeping all the options open and I think just bear with us for sometime before we finally decide on the dividend.

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

As per the Indian accounting GAAP, on current investments they are valued at costs or market price, whatever is lower and hence to that extent the mark-to-market needs to be done which has happened in the current quarter and that has been recorded in the finance expense.

Reena Varma – Merrill Lynch - Mumbai

Sir just two quick follow up questions. Firstly on the interim dividend, when you say you are keeping your options open on dividend policy, do you think the quantum of interim dividend may have interfered

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with that and on the mark-to-market now that you reclassified I guess, Pankaj has investments from current to noncurrent will that change the way we should look at marked-at-market fluctuations going forward?

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

On the noncurrent portion, which we have classified there will be no mark-to-market adjustments required. On interim dividend, well, interim dividend is actually a big administrative hassle and therefore we will take a decision on the dividend at the end of the year like most companies do. Thus we are also be aware that the dividend distribution tax when we declare dividend has to be used by the parent company within the same financial year, which means first of all the parent company will have to decide whether they want to give it in interim dividend otherwise the dividend distribution tax is the company's waste. So considering all that we thought the easiest is to declare the final dividend after the full year results.

Reena Varma – Merrill Lynch - Mumbai

Thank you sir that was very useful.

Shareena – Moderator

Thank you very much Ms. Varma. The next question comes from Mr. Rajiv Sharma from HSBC Mumbai. Mr. Sharmayou may ask your question now.

Rajiv Sharma – HSBC - Mumbai

Thanks for the opportunity. My question is just one on the tower consolidation in India. Do you see that there is scope for the tower industry in India to consolidate and when you say that you will have acquisition focus on India and Indian subcontinent what is having preference? Is it the dividend policy, which is preference and priority in your radar screen or it is acquisition in India or and within acquisition it is the subcontinent or India which has priority there in your radar screen?

Akhil Gupta- Deputy Group CEO & Managing Director of Bharti Enterprises & Director - Bharti Airtel Limited

Well, I think the first priority for any company would be growth and the growth comes from organic as well as inorganic growth. So for us totally the priority is to look at all possible good opportunities both in India and in the Indian subcontinent. I would not hazard a guess, as to which one is dearer to us. Of course whatever opportunity arises that is in India or in the Indian subcontinent we will very carefully evaluate it, take an unemotional decision on that based purely on merits. On your other question about the tower consolidation, on tower consolidation I think some tower consolidation would happen but in the overall scheme of things I would not say it is either a big positive or a negative.

Rajiv Sharma – HSBC - Mumbai

Thanks for the response Akhil but still my problem is that most of the tower companies have tower portfolios, which are very close to each other, a large part of the towers are nearby so it would not make a lot of commercial sense unless you think that these could be dismantled and put into use where new

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towers are required and second they have long term contracts or medium term contracts with some new entrants so that could also come as a hassle. How do you see that?

Akhil Gupta- Deputy Group CEO & Managing Director of Bharti Enterprises & Director - Bharti Airtel Limited

Absolutely right I think whichever company in India one could look at there is absolutely no doubt in our mind that there will be some duplication of the footprint.No question.But two things which we have to consider is one with the data growth, we believe that the number of those towers may not be that significant, so there will be some consolidation and some dismantling but may not be too significant.Secondly each one of those towers come with a contract, as you are going to inherit the contract and whether you dismantle some part, the contract remains alive and therefore maybe dismantling some tower would not too negative, but as we said we are going to very carefully evaluate any possibility that may arise or any consolidation or any acquisition and therefore I would not want any kind of preemption in our mind as to what is good and what is bad.We will evaluate it very carefully.

Rajiv Sharma – HSBC - Mumbai

Thanks.Just one last small question, this enforcement of radiation norms is it, what is the status on that and is it a positive negative or a neutral event for the tower space?

Akhil Gupta- Deputy Group CEO & Managing Director of Bharti Enterprises & Director - Bharti Airtel Limited

I think EMF norms are being followed by the operator because this is not a tower company issue, this is an operator issue and I think this is it is proceeding very nicely.Some of the towers where some EMF issues were coming up the operators are very proactively making sure that they sort it in the remit so overall I think the EMF is proceeding very well.

Rajiv Sharma – HSBC - Mumbai

It is having no bearing on the tower companies in terms of either more tenancy or more tower addition there is no impact there?

Akhil Gupta- Deputy Group CEO & Managing Director of Bharti Enterprises & Director - Bharti Airtel Limited

No.

Rajiv Sharma – HSBC - Mumbai

Thank you very much and all the best for coming quarters.

Shareena – Moderator

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Thank you very much Mr. Sharma. The next question comes from Mr. Suresh Mahadevan from UBS Singapore. Mr. Mahadevan you may ask your question now.

Suresh Mahadevan – UBS - Singapore

Thanks a lot for the opportunity and congrats on a good set of numbers on revenue and EBITDA. I have two questions; the first question is clearly, I think we have seen Idea numbers, I think for two quarters we have seen a pickup in their revenue per minute, realizations which is great I think around 7%. Now this coupled with potentially lower prices per spectrum in the auction, which could be December – January, I mean how does it impact your business? Does it mean operators are going to roll out more given I think some pricing power they are enjoying? Secondly I think probably they were all worried about the regulatory payments so I think and I just wanted to hear your perspective on this? The second question is related to more generic question, if we look at the tower companies in Indonesia as well as the US, I think they seem to be enjoying a much better return on capital employed. I think this may be something to do with the structurally more competitive nature of the mobile industry in India and you know potentially this could again change over a period of time. So I mean if you think pricing power comes back for the next couple of years, I mean are we in any position looking at slightly better returns because you know I think at 1.93 you are in a position in terms of return on capital employed to probably earn some economic returns just now but whereas as Indonesian Company probably earns a 12% return on capital with just one tenant. Here we are closer to two so I think while this may be a function of the competitive nature of the underlying telecom business, but if that gets a little bit more profitable are we going to enjoy some fruits of that as well. Thank you.

Akhil Gupta- Deputy Group CEO & Managing Director of Bharti Enterprises & Director - Bharti Airtel Limited

Thanks Suresh. Very clearly, I think the fate of the tower companies or the passive infrastructure companies are linked to the performance and the financial health of the operating companies. There is no question about that and that is why we have always maintained that you do not need too many operators to make a success of the tower business, you need few, but financially very heavy operators. As you have noticed for two quarters Idea whose second quarter results are out, Airtel would be coming out with the results day after tomorrow. Idea has shown that for the last two quarters there is realized rate increase and this is good news for the tower companies because when the operators are healthy and they see their current cash flow as well as the projected cash flows are becoming robust that is when their focus on rollout of the networks is very strong. Clubbed with that the fact that the data has taken off very nicely, some could argue it's still early days but I think having so much of experience in this industry you know when you see a good thing coming. I think data without a doubt will be a big success in India and we are already seeing 20%-25% growth quarter after quarter. That is not small by any standards at all and I think when you look at all this and the fact that the operators would be spending money on spectrum, ultimately the moment an operator commits money on spectrum he is also mentally committing a lot of network expenditure, CapEx expenditure on network rollouts because who would want to just keep a spectrum by the very definition an operator would need more and more rollouts to cover the amortization of the spectrum charge. So overall because of that as I mentioned in my opening remarks, I think it is good news that the operators are looking healthy, their cash flows, their profitability is improving and we are already seeing some early signs of more excitement and more confidence at their end for rollout particularly of the data networks.

On ROCE, like everything else the market in India is very competitive. The prices for the tower sharing in India are very attractive and very competitive too. You can see that our ROCE is already now over 12% and the nature of this business as DS explained is that every time you add more revenue, the bulk of it does flow to the bottom-line, because you are sweating the existing infrastructure more and more. We do believe that as the rollout by the operators accelerate we should be seeing some very strong

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incremental ROCE and thereby resulting into strong return on equity going forward, but if you look back at the few quarters, this has already been improving quarter after quarter quite nicely.

Suresh Mahadevan – UBS - Singapore

Thank you so much.

Shareena – Moderator

Thank you very much Mr. Mahadevan. The next question comes from Mr. Gaurav Malhotra from Citi Group Mumbai. Mr. Malhotra, you may ask your question now.

Gaurav Malhotra – Citi Group - Mumbai

Good afternoon everyone. Thanks for the opportunity. Most of my questions have been answered just one over from the finance part which is where you mentioned that the MTM losses have been taken in the finance cost but even the other income seems to have gone down quite substantially, almost 100 Crores in the quarter. Could you just let us know the reason why?

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

If you would recollect last quarter the finance income we had one-offs happening on the account of the merger stuff and it is primarily on account of that reason what you are seeing is a drop happening in the other income. There is no other reason. So last quarter we had one-offs both for merger as well as there were certain income tax refunds, which no longer exist in this quarter and hence the drop.

Gaurav Malhotra – Citi Group - Mumbai

Thank you.

Shareena – Moderator

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

G. V. Giri - IIFL Capital - Mumbai

The first question for D.S. You have said a couple of calls back that the maintenance CapEx is about 1 lakh per tower per year. That should come to about 820 Crores over four quarters for 82,000 towers average, but it seems to be only about 340 Crores in the last four quarters. So my question is which number is likely to move towards the other number? That is the first question. The second question is for Akhil. Akhil you had said about an year back that you know there are various estimates floating around about achievable tenancies in the industry ranging from 2.4 to 2.6 and that you do not disagree with those ranges, how has that outlook changed in the last 12 months given that more spectrum is likely to come on stream and for the next couple of years, and telco profitability has improved on the other hand

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and thirdly there are cheaper and better handsets so all of these put together how has your outlook over the long term achievable tenancy in this industry changed?

Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited

This is D.S. Rawat. First part on the maintenance CapEx what we had mentioned during the road shows is more of a thumb rule, which we said if you want to factor in for maintenance CapEx typically it would be Rs. 1 Lakh for all towers, which are more than three years old. Now that was basis that every third year we are replacing battery and this is more true for Infratel circles where we replace the battery in roughly about three years and the generators have a life between 5 and 7 years. When you do consolidation Indus circles have better power and electricity and that is why the reported numbers that you see today is actually a consolidated number between Indus and Infratel for the maintenance CapEx there. Your question of which one will go up, we could see a marginal increase on this number depending on the grid availability, if the grid availability improves you will see further reduction in this maintenance capital because this is primarily towards the replacement of batteries and generators, which is where this is required, other than it is depreciation of electronic equipment towards rectifiers and other commodity. So in theory if you were to do that for a site where you are running generators for about 12 to 15 hours you will see that this CapEx comes to a Rs. 1 lakh for any site which is more than three years old.

Akhil Gupta- Deputy Group CEO & Managing Director of Bharti Enterprises & Director - Bharti Airtel Limited

On tenancies as you know we do not give any guidance. Secondly our outlook is really dependent on what the operators do, what the operators do and what they plan to do as you are also aware depends a lot on the external environment, the regulatory and so on. As far as the estimation tenancy is concerned at the time of the IPO, I think we had quoted from the Analysys Mason reports and broadly we had mentioned that the methodologies that we had adopted in coming to the tenancy factors over the next few years we, by and large, agree with that. We still believe that as a data revolution unveils in this country and for that we do believe also that what we are seeing is already a very strong growth which is the tip of the iceberg and so if that is going to happen, I have no doubt that the tenancy factors as a dimension will lose exports, we would see them happening over the next three or four years.

G. V. Giri - IIFL Capital - Mumbai

Thank you very much.

Shareena – Moderator

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

Rahul Singh – Standard Chartered Securities – Mumbai

Good afternoon. I just have one question left, rest of my questions are answered. On the CapEx guidance and the CapEx for the first two quarters at 600 Crores seems to be on the lower side relative to what we were discussing about two quarters back so would you say that the current run rate of the total CapEx is 300 Crores per quarter is something which will continue in the next 12 months or do you see anything which was constraining it and you see a pickup in that run rate going forward?

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Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

This is Pankaj this side. Looking at the current rollout and CapEx spend, which has happened in the last two quarters and you know the EBITDA for muted growth what we have seen, I think we now expect we would be ending the year somewhere around 1500 Crores on the CapEx front.

Rahul Singh – Standard Chartered Securities – Mumbai

Thanks.

Shareena – Moderator

Thank you very much Mr. Singh. The next question comes from Mr. Janaki Raman from Franklin Mutual Fund, Chennai. Mr. Raman you may ask your question now.

Janaki Raman – Franklin Mutual Fund - Chennai

Good evening gentlemen. If you look at the quarterly increase in the number of collocations for the Bharti Infratel consolidated it has increased by about slightly less than 2000 whereas Idea itself had a fairly significant much higher increase in terms of number of sites for this quarter. So Indus with Bharti Infratel why is there hesitation to accommodate to meet this higher requirement from the telcos or the other tower companies are they actually offering the telcos a lower rate?

Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited

I do not think there is any kind of price war going on in this industry. So I did not see the number of sites which Idea added, but please remember that our figures have only 42% of the additions of Indus. So you cannot just export that figure of the Idea addition straightaway here. Secondly, it is quite possible that the three JV partners of Indus, two go to some other tower operators for some of their need for a very simple reason that if there is a tower which is scalable with somebody else in a particular location, which Indus does not have I think there is absolutely no objection on their going to that tower because they save on the energy charge, they get the second tenant rate and from Indus point of view, if they were to put up a new tower, firstly they would have to charge more to the operator because their electricity or energy charge will be high. So it is a lose lose situation for both, that operator and Indus, so some of them will go to the others. No question about that but by and large of course the bulk does come to Indus and to Infratel.

Janaki Raman – Franklin Mutual Fund - Chennai

You mentioned that data will be the big growth opportunity as I understand right now as far as 3G tenancies are concerned what Bharti Infratel or Indus what they charge us some kind of a loading charge only so to what extent from a tower company's perspective to what extent will this loading cap the upside potential from the data opportunity?

Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited

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I think we look at it actually the other way round because if you remember when we formed the tower companies right from the beginning, we have been saying that this model has to be done on a basis that it is a win-win situation for the customers as well as the supplier and I think that has been very nicely captured in the MSA and the construct of the MSA. So now what we are talking of the loading to our mind that is really the trigger, which enables an operator to rollout 3G very quickly because they would first rollout it out on the towers that they have already occupied but the nature of the 2.1 gigahertz spectrum on the 3G operates today and their current 2G footprint is such that having exhausted the initial towers where they are and seeing the uptake of the data revenues and the data traffic, they have no choice but to go and cover more because otherwise very soon with more traffic, firstly they will need more capacity for which they will need more sites, second there will be some coverage gaps for which again they will have to take more tenancies. Having said that loading is not a dirty word because that also gives us extra revenue and that very clearly goes towards the incremental profits of the company. But we are what we are seeing now is perhaps the beginning of the demand for some new tenancies for data requirement and the data network requirement of the operators.

Janaki Raman – Franklin Mutual Fund - Chennai

Thank you.

Shareena – Moderator

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

Himanshu Shah - HDFC Securities – Mumbai

Is it possible to get the gross tenancy addition numbers for Bharti Infratel standalone and Indus separately for the quarter?

Himanshu Shah - HDFC Securities – Mumbai

Secondly, if I see on a Y-o-Y basis the sharing revenue per tower or per operator has gone up for both Infratel standalone and Indus towers but when we look at the consolidated number there is actually a decline. I am not able to understand this particular thing on a Y-o-Y basis?

Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited

If you are seeing from a September perspective the consolidated number includes the erstwhile BIVL and the revenues which were there on IRU, which have been eliminated starting the June quarter.

Himanshu Shah - HDFC Securities – Mumbai

Sir just taking forward previous question Idea has added around almost 2000 tenancies at Indus level and the overall tenancy additions for Indus on the net basis also slightly higher than that is contributed by Idea. So is it that the larger telcos basically they are more or less through with their network expansion as far as voice goes?

Bharti Infratel Limited Second Quarter Ended September 30, 2013 Earnings Call**Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited**

That is not entirely correct. I think you are seeing some of the operators were coming to the circles, definitely having very strong rollouts. Idea being one of them and it's not entirely correct that for voice there are no more rollouts.

Himanshu Shah - HDFC Securities – Mumbai

Thanks a lot.

Shareena – Moderator

Thank you very much Mr. Shah. The next question comes from Mr. Vikas Mantri from ICICI Securities Mumbai. Mr. Mantri you may ask your question now.

Vikas Mantri – ICICI Securities – Mumbai

Thank you for the opportunity. Just two questions the energy cost per tower per month, can you give us a trend on that and how is it based on the exit month or so whether the latest diesel prices is peaked into that? Second question is more on the recent recommendation, which are lower spectrum price and also the 900 megahertz refarming, 900 megahertz price along with possibility of spectrum sharing and trading. Post this recommendation is it likely that it will be better for operators to go in for more spectrum as a trade off rather than more cell sites?

Akhil Gupta- Deputy Group CEO & Managing Director of Bharti Enterprises & Director - Bharti Airtel Limited

I think Pankaj or D.S. you can answer on the energy cost question, I did not fully get it. But as far as the second part is concerned, it is not that spectrum which is being provided in the auctions is going to be completely unlimited. There is still going to be some limited offering of the spectrum in the auction. Second, even with the lower reserve prices the spectrum price are thus expensive really expensive so it is not that anybody can just go and take as much of spectrum as you want. Second there are obviously restrictions on the total amount of spectrum which you can hold in a particular band and the overall net circle. So, it is not that people will just go and as D.S. had explained earlier, it is not completely substitutable that we have lots and lots of spectrum and you do not get any tower. You still need towers. It is just that you may need slightly lower number of towers but the spectrum availability is not that it is unlimited.

Vikas Mantri – ICICI Securities – Mumbai

Sir just a follow up on that in case we see operators going aggressively and bidding for spectrum and may be even marginally higher at the reserve price, would it be fair to say they are being irrational again?

Akhil Gupta- Deputy Group CEO & Managing Director of Bharti Enterprises & Director - Bharti Airtel Limited

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No, it is not that. It is very hypothetical to say at what price they take it but we are very clear if the operators are very bullish on taking spectrum, I think the future of the tower companies is very bullish too because once an operator invests a lot of money in spectrum there is no choice but to spread out the networks very quickly because if he does not then the costs that he has spent on the spectrum is a complete waste. As you are aware, the spectrum costs have to be advertised 5% per year plus it carries an interest cost of 10% to 12%. So the moment an operator takes the confidence and puts a lot of money in spectrum he is obviously mentally preparing for a faster rollout, which is good for the tower industry.

Vikas Mantri – ICICI Securities – Mumbai

Thank you sir and on the energy cost.

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

The energy trend is there on page No.30 and you know as you would be knowing there are two variables which impact this one this quarter had a day, one day more than the last quarter and the other factor, which impacts is the energy grid and the diesel rate hike which keep on happening quarter after quarter.

Vikas Mantri – ICICI Securities – Mumbai

So is it trending up wards, the later diesel price and the grid prices?

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

Diesel price is as you are aware they are actually increasing at the rate of 0.50 paisa per liter per month for last few months. As you are also aware that the system of energy cost to us is a pass through system as long as the input costs go up the same day we are also passing through the energy reimbursement that we are getting. That is that number one and the trend will be a juxtaposition of two or three things one is such input costs going up and the other is in general ability to have higher electricity grid connection so with that the diesel costs and the other battery costs also do come down. So it is a combination of all those things including the load shedding, seasonalities that we see in the peak of commerce.

Vikas Mantri – ICICI Securities – Mumbai

No I was wondering from the green equation where we would want to move to a fixed energy price model so incase these increases that are there whether they will impact us positively or negative.

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

That they could be fairly neutral because as per the agreement with the operators on the fixed energy model, every time there is a hike in the Electricity Board rate, which is the EB rate and the diesel rate per liter there is a pre-set, pre-agreed formula whereby this increase is passed on to the operators with that particular formula. So it is not meant to give us extra profit or to give us any loss. It is supposed to be fairly neutral. But yeah you are right to the extent that if the solar CapEx is deployed that will reduce the energy cost, but today, if you see the report talks about 1250 installations which are on Solar, but the

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overall portfolio is still pretty large of over 82000 towers but as of now that particular thing does not show its weight in terms of the trends but it will as you have higher solar enablement.

Vikas Mantri – ICICI Securities – Mumbai

Thanks.

Shareena – Moderator

Thank you very much Mr. Mantri. Ladies and gentlemen, we are in the last five minutes of the conference call. Due to constraints of time we will take one last question from Mr. Sanjay Chawla from JM Financials, Mumbai. Mr. Chawla, you may ask your question now.

Sanjay Chawla – JM Financials - Mumbai

Hi, thank you for the call. I have two questions; one is if you see your operating cost, some of the major operating cost like print and other expenses are down 14% -15% on a year on year basis. My question is how much more margins can one squeeze from these cost efficiencies or what you say are we more or less done the OpEx reduction and now we are at a new base line from where OpEx will only grow based on the tower and tenancy growth? That is one question and second is this coming just back to this issue on 3G loading rental, obviously you are running a decent strong incremental margin on that but still in absolute terms in terms of rental per month this is still much less than what some of your rival tower companies are running. So my question is, is there any hope in the next few years of this loading rental are not going up or is it already been frozen for multiple years based on the MSAs that you have signed?

Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited

Let me take up the second one. I think as per as the loading charges are concerned the industry is fairly aligned. I have not seen difference with various tower companies so it is to my mind incorrect to say that the others have had charges or we are lower charges. It is fairly well aligned more or less at the same kind of levels.

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

As far as the rent fees is concerned again you know a rent had this component, which was primarily there are on account of merger of IRU, so the IRU uneliminated portion was added as a part of an expense there, which had no impact on EBITDA, which no longer exists now from the June quarter wherein the merger has happened and hence you see a reduction in the rent happening on a year-on-year basis. As far as other expenses are concerned I think it is a mix of couple of things where one on account of few of the operational efficiencies kicking in over a period of time plus as far as the current quarter is concerned we had a prepayment happening on account of seasonality in Q1 and hence few of the OpEx had actually shifted their which no longer is appearing in Q2 and hence you see a decline happening.

Sanjay Chawla – JM Financials - Mumbai

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My question was are we at a new baseline in terms of these operating these two major operating costs and from here these costs will only grow with the tower and tenancy growth?

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

For sure on account of IRU this is new baseline but as far as the other OpEx is concerned because of seasonality since we had EBITDA for preponement happening you might see a few of those costs coming back.

Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited

Sanjay bulk of the other OpEx is the repairs and maintenances. Sometimes you cannot necessarily be 100% accurate around how that will behave for the quarter. So there will be some variability there you will need to be watchful on.

Sanjay Chawla – JM Financials - Mumbai

Thank you so much. If I could just squeeze one last question, your effective tax rate in Indus has gone up to 47% from 40%, any specific reason for this?

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

We had one of the assessments getting completed so it is a one-off, which had happened on account of certain permanent differences which got created and hence the rate went up.

Sanjay Chawla – JM Financials - Mumbai

Sir this will fall back to normal corporate tax rate going forward?

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

I think it would be bit of somewhere around 35%-36% should be the effective tax rate, which you should consider.

Sanjay Chawla – JM Financials - Mumbai

Thank you so much.

Shareena – Moderator

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

Devender Singh Rawat - Chief Executive Officer - Bharti Infratel Limited

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I am going to take this opportunity to thank each one of you for joining us on the call. Thank you for your valuable inputs, we have been meeting various investors overtime and some of the inputs that have come to us you must have seen in the enhanced disclosures that you saw today particularly for the first time. So we want to thank you for all the support. We think we are at an inflection point where tenancies are picking up from the last quarter to this quarter. We look forward to your continued support. Thank you very much.

Shareena – Moderator

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.