

Bharti Infratel Limited Second Quarter Ended September 30, 2016 Earnings Conference Call

Conference Call Transcript

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CORPORATE PARTICIPANTS

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Bharti Infratel Limited Second Quarter Ended September 30, 2016 Earnings Conference Call

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PRESENTATION**Kamaldeep - Moderator**

Good afternoon ladies and gentlemen. I am Kamaldeep, the moderator for this conference. Welcome to the Bharti Infratel Limited Second Quarter Ended September 30, 2016 Earnings Call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question-and-answer session will be conducted for all the participants on this call. In case of a natural disaster, the conference call will be culminated post an announcement. Present with us on the call today is the senior leadership team of Bharti Infratel Limited. Before I hand over the call, I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risks that we face. I now hand over the call to our first speaker of the day Mr. Akhil Gupta. Thank you and over to you Sir!

Akhil Gupta - Chairman - Bharti Infratel Limited

Dear friends, a very warm welcome to all of you on this earning call for the quarter and half year ended September 30, 2016 and thanks for joining us today. First of all, I apologize that due to a bad throat, I am seeking your permission to request Harjeet to read out my opening remarks, but before I hand it over to Harjeet, let me take this opportunity to wish you and your families a very happy and prosperous Diwali.

Harjeet Kohli - Chief Financial Officer - Bharti Enterprises

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Bharti Infratel Limited Second Quarter Ended September 30, 2016 Earnings Conference Call

Thank you, Akhil. Adding my own warm welcome to all of you to the earnings call for the second quarter ending September 30, 2016. The Indian telecom industry has been witnessing strong growth in data traffic and the events in the quarter gone by also point to further acceleration in the data traffic in the near future.

First obviously was the successful completion of spectrum auctions where we saw 960 MHz of data spectrum being sold across the bands - 1800, 2100, 2300 and also for the first time 2500 MHz band. A sum total of Rs.66,000 crores has been committed by the operators on this auction. If you recall basis the past few auctions, the cumulative investment adding this Rs.66,000 crores in the last 5 or 6 years will be over Rs.358,000 crores.

Clearly based on that we expect the operators to use all of this additional spectrum acquired to not only just enhance the existing coverage and capacity but also add new technology to augment capacities in the country. Second event was the long awaited launch of 4G mobile services by Reliance Jio, and that happened earlier is September, last quarter. We believe this will further enhance the 4G roll out by operators and lead to an accelerated development of the 4G ecosystem in the country.

Reliance Jio has also reported data usage of 1 gigabyte per subscriber per day which is exponentially higher than the industry average of 700 megabytes per subscriber per month. Whilst this usage is currently under free promotional offers, we believe that these trends point to the ever increasing data demand in the country and as the leading infrastructure provider in the country, we also believe we are well poised to gain from the incremental network rollouts and the growth as data penetration increases in the coming quarters and years.

In addition to the above, the consolidation theme is also continuing to play out and we have seen the news of Reliance Communications announcing their merger of the wireless business with Aircel. This along with some selective participation from operators in the recently closed auctions again auger towards industry moving towards may be three, four or five operators in the long run.

We have always maintained that from a tower company's perspective the financial health of its end users, the operator industry, the operators, is far more important than the number of operators itself, that allows for a more cogent roll out of networks and a stable counter party or a customer set to deal with. Thus we continue to believe this consolidation will lead to stronger operators with the ability and desire to grow by rolling out data networks fairly quickly.

Coming to the results for the quarter, the total tower base stood at 89,791 witnessing a year on year growth of 3% and the co-location growth was at 5.4% year on year and we ended the quarter with 198,795 co-locations inching fairly close to the coveted 200,000 co-location mark.

The closing sharing factor went up to 2.21 from 2.2 last quarter. Consolidated revenues for the quarter were at Rs.3,292 crores witnessing a year on year growth of 8%. EBITDA for the quarter came at Rs.1,454 crores and grew at about 10% as compared to the same quarter last year.

Profit after tax for the quarter was at Rs.774 crores witnessing a 31% year on year growth. The net additions in this quarter have been somewhat lower on account of possible holdback of rollouts due to the impending spectrum auctions. However, with the auctions now behind us, rollouts should increase as operators look to use the spectrum acquired and yield out of it faster.

We are also pleased to note that during the quarter, on another major Government of India initiative by way of Smart Cities, the consortium led by Bharti Infratel has been awarded the Letter of Award by Bhopal Smart City Development Company Limited for implementing the smart city project. We, as a company, continue to evaluate similar opportunities and explore adjacent new business areas such as transmission business and also believe that with our credentials and resources, we can prosper in these segments as well. So on the overall, trying to keep the initial remarks slightly short, mindful of the fact that Idea also has its earning call at 03:30, may I then request Kamaldeep to open up for Q&A.

Kamaldeep - Moderator

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

Gaurav Malhotra - Citigroup - Mumbai

Good afternoon every one and thanks for the opportunity. Just a couple of questions. One is that, you mentioned in the opening remarks that with spectrum being allocated to these operators, one should expect accelerated rollout. Would that be like a 4Q phenomenon or may be it is going to more of an FY18 kind of rollout from the spectrum which they have bought, that is first; second Idea Cellular, in their conference call had mentioned about using equipment which can handle multiple bands for 2300-

Bharti Infratel Limited Second Quarter Ended September 30, 2016 Earnings Conference Call

2500 in one go. I just wanted to hear your thoughts on that how much of impact on tenancy would that kind of equipment and technology result in. Thanks

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

Hi Gaurav, Rawat this side. First, from a spectrum standpoint, you heard earlier Rs.66,000 crores investment committed. Obviously, operators are all speaking to us. We are looking forward to an aggressive rollout in the second half of the year clubbed with Jio's launch which is also something which continues to roll out as we speak. We see this happening immediately with immediate effect for the operators to see that their leading circles where they are not present with their 3G, 4G offerings those are their priority gap circles, which they are trying to fill up. So, there are two aspects to it, the first one is clearing coming in as loading on existing sites and the second one which I said from Jio coming in as full blown tendencies. In the circles where 3G is already launched, we continue to see healthy growth there and wherever in-fill sites are required, that is something that is getting rolled out in the leadership circles.

Second question about technology and multiple bands that you mentioned. Single RAN as a technology as it is called has been there now for some time in the market and all leading operators, as we speak, continue to buy equipment depending on their spectrum holding and the technologies that they wish to offer, typically buy the latest generation equipment.

This is like your laptop or mobile phones. When you buy a mobile phone today, clearly you would like to have a phone which supports, 4G, 3G and these are invariably backward compatible and they work with those technologies but most often, the way operative deployment happens in this is that all the new deployments are with the latest technology and in areas where you are having an existing technology already deployed you deploy the new technology by bringing in new equipment or alternately, you do a forklift where you deploy a compact new generation equipment, take out the older equipment and redeploy it in other areas where you do not need those technologies at the current instance of time. So, net total, I see that pretty much all the operators buy whatever is the latest technology available in the market to see that they optimize on power, space and also in terms of the number of boxes that they need in each of the sites. So, it is a phenomenon and of course Idea being as leader in their respective circles, also uses a single RAN technology there. For us, in sites, particularly the roof top sites, where we do see constraint of space in terms of the building and other areas able to take a more load, we actually go in and request operators to use some of these sites as these are small percentage where we request operators to deploy this single RAN equipment.

Gaurav Malhotra - Citigroup - Mumbai

Sir, just one follow up, on single RAN, I thought single RAN generally works for multiple technologies on a particular spectrum band, but Idea seems to be talking about using the same equipment across multiple bands of spectrum, is that something new or it also has been there for some time now?

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

Programmable radio again as a technology; different vendors are at different stage of progression of that too, a question which probably operators can answer better, I will be speculating in terms of their market readiness of what they are selling right now in the product. I was aware of single RAN where you rightly said, for a given frequency, you could use, irrespective of which technology you wanted to use, programming it against multiple bands is something which was in the horizon, I am not sure if the products are already available there, so it is for the active people to comment or may be the suppliers to give you that input.

Gaurav Malhotra - Citigroup - Mumbai

Thank you so much.

Kamaldeep - Moderator

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

Rajiv Sharma - HSBC - Mumbai

Just a couple of questions from my side. First is, Idea Cellular had hosted a call immediately after auctions and talked about active sharing and possibly with one, some other incumbent telco, so how do you see that playing out and impacting the prospects and the tenancy outlook? The second is, the telecom space is going through significant or meaningful tariff declines. Idea numbers, we have seen data tariff is declining by 11% QoQ and such declines are likely to continue. How will you, as a tower company, ensure that you're not vulnerable to the tariff decline in the telecom space? Are you really isolated; are you not

Bharti Infratel Limited Second Quarter Ended September 30, 2016 Earnings Conference Call

seeing telcos coming and asking for some kind of incremental discounts after the escalation, which you gave away? And lastly, on the smart city opportunity, how do we modulate it, would like some color from your end? Thank you.

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

Hi Rajiv, let me take the first one on active sharing and second one, in terms of tariff decline. Active sharing firstly as a technology has been there for some time, we have not seen very high adoption of that too. In the current round of spectrum auction, of course, when I look at the footprint now post auction, the leaders are pretty much secured 3G, 4G spectrum in their leadership circle and Airtel, of course has secured 3G, 4G across the country, clearly trying to ring fence their high end customers from where they stand too.

From also the spectrum auction, clearly 2500, Harjeet emphasized that in the beginning, two operators; Idea and Vodafone have secured 2500 in terms of footprint, where the ecosystem is slightly nascent. To us active sharing is a good starting point for greenfield deployment where two operators can actually reach out on coverage far more faster, if two operators are doing active sharing, you would expect a 2X kind of rollout from them which would obviously for us come in as loading on existing sites, thereby accelerating the pace of 4G ecosystem development in terms of handsets and also in terms of healthy competition and creating a service differentiation.

So, we particularly feel that if there is a roaming arrangement which technically is possible from a technology standpoint, it would be very healthy, thereby giving a footprint to both the operators to reach out far more deeper and longer in terms of their reach for 4G and also have commensurate offering to see that 4G data uptake is further accelerated from that point on.

We have said that in the past that we actually look forward to an accelerated rollout on data thereby we see that the follow-on effect, the first part clearly is loading and the second part which is capacity driven will start to come in which will be a full blown tenancy and that is what we like about the fact that leading operators are making investments to see that early 4G ecosystem is built up, the next obvious subsequent steps to that is that as the traffic starts to pick up, as we have seen in Idea's numbers yesterday, a 50% year on year growth on data traffic, we expect this to accelerate further thereby translating also in to full blown tenancies as this moves forward, so we see this as a healthy starting sign to have a quick reach out in the market but eventually like we saw in the case of ICR and 3G, every operator would like to have his own network built to create that service differentiation have his own spectrum acquired at an appropriate time.

Today, the case might not be there for 4G on 2500 MHz where the ecosystem is not very mature but once they reach the required capacity and the subscriber base, I am sure each operator would like to build his own network there. The second one you talked about is in terms of tariff, again we are brick and mortar company in that sense. We are into the infrastructure sector. I would not say we are insulated completely, but yes we are sitting behind the operators in terms of what we do, clearly with pressures on their cost, sharing becomes the way of life, and we have seen now operators are increasingly realizing on sharing and companies like Indus and Infratel which are sitting on tenancy ratios which are north of two, clearly provide a huge benefit to operators now to come in as a third tenant thereby getting advantage of lower rentals and even higher benefit in terms of lower energy cost.

So we think it is a positive win-win, we also see that with this, there is also new opportunities that are emerging in areas of fiber and Wi-Fi which could become potential opportunities for sharing for operators to look at further reducing cost and thereby giving better quality of service to their end customers.

So, in summary, we have already had a recent negotiation that we have done and we have agreed for this base rate that we have corrected as an anomaly that was there in our contracts and we do not see anything from this point on which is required from a negotiation standpoint for what we are doing and we continue to focus on operators' growth areas which is clearly for their early 4G roll out for these spectrums and we are committed in terms of both our capability and our contribution of resources.

Harjeet Kohli - Chief Financial Officer - Bharti Enterprises

DS just to complement a quick couple of points on your active sharing comments, even if we take the intuitive view that active sharing has marginally dipped demand of the underlying tenancies or loading, the fact is the surge of the data rollout networks is far disproportionately strong to be really be irritated by the small intuitive element of demand change. Second is, you really do not have lot of global precedences of this happening, this may be very strongly applicable for some greenfield launches and frankly if that were to happen, it will allow two operators to have their customer bases being served, it will possibly generate more demand than one operator could have generated by itself and then they carry let us say the risk of competitive advantages and ultimately the second operator, if he is doing well, will need to get their own tenancies done. So it actually is a catalyst to let operators continue around and then over time look for its own development of networks. So, in general, this from our perspective is actually a very healthy sign. In areas where you are tentative about whether you should or should not rollout 4G, if active sharing is allowed, it gives operators the ability to take that call quickly, faster and more strongly, so we see a positive takeaway from this active sharing. But it is not that it will change the game either side, it is just that it has been over hyped but from our perspective, we see the overall underlying data rollout of networks growth being the core determining factor for our demand in the near future.

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

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Bharti Infratel Limited Second Quarter Ended September 30, 2016 Earnings Conference Call

On Smart cities, it is too early to comment on the complete facets but it is an integrated project which is going to run on a BOOT model wherein we are expecting the investment phase to happen for the first 12 months post which the monetization opportunities will start emerging. This particular project not only caters to us installing the towers but it also talks about Wi-Fi rollout, fiber and street lighting of poles and command centers, plus there are other monetization opportunities which would be available in the form of advertising which will happen on those poles. So I think in due course, we will come back. Right now we are expecting investment to happen for the next 12 months.

Harjeet Kohli - Chief Financial Officer - Bharti Enterprises

You also need to be mindful this from our perspective, it is an adjacent new line of business but it is a very attractive industry segment, so there is a bit of a competitive and sort of sensitive situation we are in, in terms of how much we can talk about it. It is little too early also frankly, right now it is too small for you to start modelling it in a formal way, allow us also to run through this experience and learn and project back to you what the overall market size could be and as the things unfold, this can become a part of your modeling over time.

Rajiv Sharma - HSBC - Mumbai

Yes, this is useful, just a small follow up, is there any amount which you can suggest in the investment for Smart City, any number you have in mind.

Harjeet Kohli - Chief Financial Officer - Bharti Enterprises

In the overall scheme of things, hardly anything, you would not feel any pinch.

Rajiv Sharma - HSBC - Mumbai

Thank you. It was helpful

Kamaldeep - Moderator

Thank you very much, Mr. Sharma. The next question comes from Mr. Viju George from JP Morgan, Mumbai. Mr. George, you may ask your question now.

Viju George - JP Morgan - Mumbai

Thank you for giving me a chance. I just had a question on relating to really your tenancy growth. You have hit about 9.4%, five, six quarters back, and since then, it has been on a declining YoY trend so much so that it has now come down to a little over 5%. It is sort of a bit odd when you contrast this with operator's commentary of even increasing the Capex and 4G rollouts, it is not getting reflected duly in your tenancies, I know DS did refer very briefly about the fact that it's probably substantially loading and you might see full-blown sites later on, but is that the only explanation for softening YoY growth of tenancy adds?

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

Hi George. You rightly caught that. We have been telling that from an operator standpoint having paid so much money on spectrum, their obvious first choice was to see that they go ahead and populate the existing sites for 3G, 4G offering. And clearly with Jio launch, we see further acceleration on the 4G part which is also picking up across the other circles, so from an operator stand point, yes you might be hearing the commentary where they have increased the capex, they are rolling out far more number of base stations, they are also rolling out fiber as they speak and that for us is translating a large part of it is into loading and loading is more additive to the end customer, thereby they are able to give 4G user experience to end customers which is very difficult to withdraw, thereby you will see that higher uptake of data happens and thereby multiplier effect as the ecosystem matures for 4G and we believe that will start to translate into far higher number of tenancies in the long run.

In the short run too, while you have commented on immediate quarter numbers yes, they are a little softer, this was also pending the spectrum auction. There was an earlier question from Gaurav about 4G and single RAN, so there is a lot happening on technology domain, from an operator standpoint we sit in the capex cycle and typically these capex equipments are for 7-10 years life. Once they are going through phases where they have to take a call, they would rather like to wait, have clarity on their spectrum holdings and then decide on their firm purchase orders to supply, there is about a 6-8 week lag that comes in to us as tower companies for rolling out. So we have already seen some acceleration in terms of demand, as mentioned in the second half, we are expecting these numbers to look better too. Last year, I think the growth on tenancies was close to

Bharti Infratel Limited Second Quarter Ended September 30, 2016 Earnings Conference Call

about 7% on a year on year basis, but this quarter year yes, I know the first and second quarter has been a little soft. We expect that to pick up. Again, our business is not a quarter on quarter business, you have to see slightly on long term, we have said that in the past that there are cycles when you see an acceleration and at times capex is the first thing easier to hold back for operators too. So, quarter on quarter might not be a right indication but we believe the fundamental tenets of business are intact and we are happy to see the current growth that we are looking at, we will see even the current ones translating, the loadings translating into tenancies too.

Harjeet Kohli - Chief Financial Officer - Bharti Enterprises

Just to complement what DS was saying, the earlier auctions were large enough in terms of spectrum value commitments but lately the 4G data related spectrum commitments that have been made necessitate rollouts as he was mentioning and given that spectrum frequencies are different this will create meaningful holes and there is no choice but in a data service to actually quickly fill all of those holes. So we will see all of that happening with large investments being in place for spectrum as well as on electronics, you have got to fill in these holes for a customer service which is the only differentiation for the operators. Certainly, we also talked about the new tenancies which we are starting to see in terms of our softer order book.

Viju George - JP Morgan - Mumbai

Can I just follow up one more? Is there a timeline we can put to this, I am just trying to figure out, because I think Idea also mentioned in their call that they really are envisaging 2500 MHz rollout maybe only a couple of years from now, so is it a real bump up, if I can put it that way, still a couple of years away or you think you can see this over the next four quarters to six quarters?

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

Without giving guidance, I did mention we are seeing acceleration in the order book as we see second half of the year and we think there will be a catch up from operators in terms of both loading and tenancy growth. Yes, I agree 2500 MHz is a higher frequency spectrum band, clearly would need larger number of sites to give the same coverage. We talked about that earlier too. The higher you move up on spectrum one would require higher number of sites too, but we believe with Jio's launch clearly leading operators will need a 4G offering in their leadership circles to offer to their end customers and that is where we believe rollouts will happen in the immediate future for at least the major cities.

Harjeet Kohli - Chief Financial Officer - Bharti Enterprises

Also, don't think operators really have a luxury to wait as well. If you see, Airtel started disclosing their mobile broadband sites and assuming some of the other operators who have acquired spectrum for 4G rollouts they will need to be at least try and reach some level of same data rollouts and that augurs well in the near term rather than a two or three year phenomena. Because competitive edges are getting formed right now, in terms of early head starts on account of getting access to consumers. In fact we will slowly see with demand coming out from operators on the 2500 ecosystem, we will see how that paces up as well. It will give us the ability to actually allow operators to use 2500 MHz, which also by the way it may have slightly more shrunk radius or throw thereby needing little more number of sites over time.

Viju George - JP Morgan - Mumbai

Sure, thank you. If I can slip in one last one please. I think Reliance Jio they have not probably scaled up a whole lot with you, but you think that over the next three to four years you can get a reasonable share of their tenancies as well the new tenancy build out as well. I do not know whether you can say anything about this, but the extent you can that will be great. Thanks.

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

So, here we do not give operators specific numbers, but I did say that second half we are looking at acceleration of demand. We also said in the earlier calls, if I recollect where we said Jio was originally planning sites based on Reliance Infratel towers. Pretty much most of the towers taken from thereon, they have also build a few towers on their own. After that, given that we have close to about 42% of tower footprint between us and Indus, anyone who is wanting to compete with the leaders would find Indus Infratel towers to be the most suitable and when I do my intelligence internally, we find that we are getting fair share of Jio's tenancies which are going outside of their own build or of RCom network and we see that only accelerate going forward as I said, we have built towers with leaders, meaning in every circle which ever was the leader operator we have built towers for them. Thereby anyone who is wanting to compete for those leadership positions, will find our towers to be the most suitable to come in as a tenant. Clubbed with the fact, I mentioned the higher tenancy ratio, which gives them an advantage in terms of cost both of rental and also on energy. We clearly see that happening already for the tenancies that are offered for sharing by Jio, we get a fair share of those tenancies in both Indus and Infratel circles.

Bharti Infratel Limited Second Quarter Ended September 30, 2016 Earnings Conference Call

Viju George - JP Morgan - Mumbai

Thank you and all the best.

Kamaldeep - Moderator

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

Srinivas Rao - Deutsche Bank - Singapore

Thank you very much Sir. My question is on your buyback. Can you just clarify, you have mentioned that the buyback has been completed. What is the percentage of reserves ultimately which have been used? And secondly, what are the rules around for you to say announce a follow-on buyback, what is that cool-off period and the amount which you can again do? Thank you.

Harjeet Kohli - Chief Financial Officer - Bharti Enterprises

Buyback that got concluded last quarter, a total amount of Rs2000 crores along with the dividend that the company declared excluding the dividend distribution tax would have taken care of more or less the accrual reserves for the last financial year that we have. But we do accrue reserves A) every quarter that is part #1, but apart from accrual reserves, we have earlier discussed there are reserves sitting in the balance sheet on account of security premium that got created in two rounds of equity that got done for the company and subject to the clarifications that we have discussed with you earlier, those can be used for buyback. In terms of regulation, the cool-off between two buybacks has to be one year, so one does need to wait for 12 months to announce another one.

Srinivas Rao - Deutsche Bank - Singapore

Thanks. This is helpful. Just one more question on the power cost, at least just want to understand the trajectory. I know it is a pass through to a large extent, but it does not seem to mirror, the YoY number does not seem mirror the fall or rise in diesel prices, which the government announces. Is there is a lag between what you record in your statements versus what says the spot price of diesel or electricity? Just trying to get a sense of the volatility there.

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

Hi Srini, Pankaj this side. As far as the diesel rate hikes are concerned, I think there is from an accounting there is no lag between the two numbers. Depending upon in a quarter whether the rates are going up or going down, there is an impact which flows into this and when you look at a cost other than the diesel one, there are also the grid power EB rate hikes which happen. We actually bill them in the same respective periods the way we recognize revenue, cost is also accounted for that in a similar manner.

Srinivas Rao - Deutsche Bank - Singapore

Understood. So, there is no lag between the spot diesel and whatever is the EB rates for power.

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

No.

Srinivas Rao - Deutsche Bank - Singapore

Okay understood, thanks this is helpful. Thank you.

Kamaldeep - Moderator

Bharti Infratel Limited Second Quarter Ended September 30, 2016 Earnings Conference Call

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

Kunal Vora - BNP Paribas - Mumbai

Thanks for the opportunity sir, two questions. First is, how are you seeing the entry of well-funded overseas companies into Indian tower market. We already had American towers and now Brookfield also is looking to get into the space. Like both these companies will be looking to expand they would also look to increase the tenancies. Does that increase the competitive intensity in the market and in similar lines; there is one more tower asset, which might be available GTL infrastructure. Are you looking at inorganic opportunities that is one?

Harjeet Kohli - Chief Financial Officer - Bharti Enterprises

May I request DS to complement on the operations side as he sees the competitive tower companies, but just one point before I request that, if you see an anxious operator or a tower co situation versus owned by a stable return on capital oriented owners whether it is strategic owner or a financial sponsor, it is actually a better situation for this business, which fundamentally is a return on capital business and what is that you are producing, how much capital does it need, and how you are yielding out of it by sharing it across with different operators and that said may be I request the DS to talk about how he is seeing the intensity.

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

Two things, I think first you have to understand the tower capacities are not fungible capacities, meaning if somebody has already built a tower, you know it is always better for an operator standpoint to go in as a third or fourth tenant. We said we already have a tenancy ratio 2.2. Anyone who is coming is more close to a tenancy ratio of 3 thereby getting lower rental and even better energy cost. This is not something that you can actually buy a tower at premium and afford to give and still afford to have ratios that we have as business ratios. That is the basic challenge anyone who is trying to acquire that. B) Even our relationship with the top three operators, I think that is the second thing that gives in as these are operators who are rolling out meaningfully in the current market today. That is the second advantage that we have. We do not see any pricing pressure in the market in terms of pricing because that is not a differentiator in our line of business where operators are actually looking at more stability and are looking at stable partners with whom to share these towers. Their revenues are a far bigger multiple of what they pay us as rental in these towers and hence they would like to have better service and the tower which is strategically located in the right location that they would have wanted to be there.

Lastly as I said, since we are rolling out for the leaders, subsequent operators normally trail and follow the same footprint in terms of high end customers being available there and we have noticed that our towers are equally attractive to anyone who is wanting to go there. Indus Infratel put together close to about 42% tower footprint close to about 50% tenancy footprint is clearly a proof point there.

Investors being there, lesser tower companies is more sane in terms of business and we expect that obvious consolidation to happen. It will happen where smaller tower companies given especially what Harjeet mentioned in the opening of saying we expect 5 to 6 players in the long run. Some of them have larger exposures to smaller players. Clearly, we would like to look at these as opportunities to exit and thereby create larger entities. With larger entities particularly who are coming in investor focused would like to have return ratios which are commensurate and hence would like to actually scale up tenancies. Dropping prices in a B2B business will have a huge connotation where you realize that the drop that you give for incremental business actually hurts your overall topline with your existing operators who are also where you have the highest amount to your current billing. So these are the factors where we realize that we have not seen pricing changes in the market as often as you would probably see on the B2C side where there is far more opportunity based pricing. In B2B and with long-term contract operators and particularly tower companies would ideally like to look at steady cash flows and steady pricing mechanisms between operators.

Lastly on GTL, again right now we are not engaging with anyone, will probably be sharing if there is an engagement going on, but if there is an opportunity available at a right price, we would be open to looking at that.

Kunal Vora - BNP Paribas - Mumbai

Sure, that is very elaborate and helpful. Our second question sir, on the finance income that seemed fairly high for the cash level, which the company holds right now. Was there an element of mark-to-market gain like say bond yields had declined during the quarter? So was there some mark-to-market gain and in the same lines considering likely Rs.5,000 crores kind of net cash, should we be assuming more like Rs.100 crore kind of finance income going forward or anything besides that also?

Harjeet Kohli - Chief Financial Officer - Bharti Enterprises

Bharti Infratel Limited Second Quarter Ended September 30, 2016 Earnings Conference Call

You are right, the last quarter did see the bond yields going down and there is an element of mark-to-market gain. If you recall till last year, we were under I-GAAP where we were not taking these mark-to-market gains and it was coming on realized income, but post Ind-AS movement we have to follow the Indian Accounting Standards and on that we need to work with MTM gains as well. Last quarter, we did see some exceptional income on account of yields going down and mark-to-market benefits of those.

Having said all of that, I think on an average you do see fixed income yields of the portfolio that we have between 8% and 9% depending upon what is the composition of duration that we are holding. Currently, you can see the cash in the books is about Rs.7,100 crores, so as it adds up given ex- or post the dividend and/or repatriation events, you will need to then modulate to 9% on that on a recurring basis.

Kunal Vora - BNP Paribas - Mumbai

Sure, would you able to quantify the MTM gains for this quarter?

Harjeet Kohli - Chief Financial Officer - Bharti Enterprises

Normally the yields for the portfolios as I said 8% to 9% and this time, it was about 13.5%. So based on that, you can reverse calculate the slightly extra value that may have been there.

Kunal Vora - BNP Paribas - Mumbai

Understood, thank you very much.

Kamaldeep - Moderator

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

Manish Adukia - Goldman Sachs - Mumbai

Hi, good afternoon and thank you for taking my question. I have a couple of questions for you. Firstly, if you can just provide us an update on the new master services agreement that you had implemented starting April of this year. Last quarter call you mentioned that your customers it is an option that you have given to your customers and not all of them have yet signed up. So after the end of 2Q, have most of your customers now signed up for these new MSAs, that is my first question? My second question is on exits that you saw, I think this quarter also you saw a few exit significantly down versus last quarter, but still I think about 200 in numbers. Can you please tell us which operator does this relate to and also would you be able to give us any color on how the recently announced Aircel and RCom merger may impact your near term tenancies, if I may say so? Thank you.

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

On the MSA side, we have signed the MSA amendment with pretty much all the leading operators. There is a tail bit that is left in terms of what we are still in discussions with. We are hoping by next quarter we will be able to give you a full confirmation on the operator choices that have been made there. Most of them have obviously opted for the option that we talked of as option 1 where we have given the freeze.

In terms of exit, last quarter exits that were there from specific operator, we did mention that which was kind of one-off, otherwise there are permitted exits that are there and operators also for their operational reasons do exit some sites based on their own analysis and that is the number that you see as exits in the quarter that you see on. That is the exit on business as usual that keeps coming in depending on operator plans and you could probably see numbers move up and down a little bit there.

Aircel-RCom again we have not quantified those numbers in terms of what it means, but we take this merger as two entities who would definitely like to expand and grow their footprint and we think this is also for our long-term standpoint a positive where it will create a serious player with double digit market share clearly sustainable and also looking at growth whatever overlap that is there between both these operators we believe that will get redeployed to see that there is a coverage match with the leading operators, which will bode well for us as Indus-Infratel because then these will come in as full blown tendencies in these new locations with obviously an extended life of 10 to 15 years that they would like to choose. So we see Aircel-RCom merger as a positive long run, short run we will have to see as and when there is formal exit that come in from operators you will see that as part of our quarterly numbers, so we do not expect that number to be huge because we see lot of them to be overlap and only the overlap region is what will probably call for redeployment. Unlike the earlier exits where operators that completely exited the business and that either sold the spectrum to someone else or had actually decided as part of license cancellation where we had a larger number impact. We expect these to be lesser because here only the common area where there is overlap of both

Bharti Infratel Limited Second Quarter Ended September 30, 2016 Earnings Conference Call

the operators is likely to get re-deployed in third area and we believe we could look at a growth opportunity out of this and reach an amicable settlement instead of trying to struggle to claim your exit amounts with these operators.

Manish Adukia - Goldman Sachs - Mumbai

Thank you that is very useful and wish you a wonderful Diwali

Kamaldeep - Moderator

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

Amruta Pabalkar - Morgan Stanley - Mumbai

Hi, thanks for the opportunity. Just a follow up on the previous question asked. You mentioned that you have signed the MSA with most of the operators now. So does this quarter's revenue or the sharing revenue per tenant reflect this rationalization impact or we should expect more in the following quarter? Are there any changes to your Rs.1.8 billion number that you mentioned in the last call?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

You are right. As far the current quarter is concerned, the revenue per tenant takes into account the overall change of MSAs which has happened and last quarter we had actually talked about an amount of Rs.180 crores which was supposed to happen. So on an H1 basis, we are getting a run rate of around Rs.11 crores, which you have already taken that into account and we expect the balance amounts to flow in the subsequent period.

Amruta Pabalkar - Morgan Stanley - Mumbai

So of the total Rs.180 crores, Rs.11 crores is in your numbers and the balance would be accounted in the 2H?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

We are saying against a run rate of Rs.15 crores which we had last quarter said the overall yearly impact was Rs.180 crores, so monthly impact being Rs.15. In H1, we have already considered Rs.11 crores per month as the impact in the numbers.

Amruta Pabalkar - Morgan Stanley - Mumbai

Okay, understood that is helpful, thank you.

Kamaldeep - Moderator

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

Pranav Kshatriya - Edelweiss - Mumbai

Thanks for the opportunity. Most of my questions have been answered except one. Just wanted to know the rent expense per tower has increased in a double-digit after a very long time. So, is it more structural? Should we look at this, because many of your towers, older towers will be coming up for renewal in this period? And should we expect this trend to continue or it will normalize to high single digit as we were seeing earlier?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

Pankaj this side, as far as the rent is concerned, last year since we were following the Ind-GAAP, I-GAAP that used to have the rental composition which was the rent was equalized over the period. Pursuant to the movement to Ind-AS we will now see the

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Bharti Infratel Limited Second Quarter Ended September 30, 2016 Earnings Conference Call

increase in the rentals happening, as and when either the renewals are coming up or as when the time-based escalations come into play. Other than the fact that the rental goes up as a pursuant to the new volume additions, which happen. So if you see on a yearly basis, even last year we had a double-digit, early double-digit kind of a growth and we do expect these numbers to be similar trending around high single digit or the double-digit growth, which will happen on a year-on-year basis.

Pranav Kshatriya - Edelweiss - Mumbai

Thank you so much.

Kamaldeep - Moderator

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

Vivekanand Subbaraman - Ambit Capital - Mumbai

Thanks for the opportunity. I had a couple of quick questions. One was with respect to the in-building solutions. So, there is obviously a regulatory consultation going on in respect to this subject. And what I wanted to understand was, is there any benefit or is there a scope for infrastructure sharing to happen in the in-building deployments? And secondly, also on a connected subject, there is also a consultation going on with respect to Wi-Fi rollouts. So, here, you have outlined that you want to independently rollout Wi-Fi hotspots. So, can you outline the thought process behind the response that you have given to the consultation on the Wi-Fi rollouts? Thanks.

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

Firstly, I think as Tower Association, we have given our representation on both these positive developments from the government and we have given our feedback as an association. Our analysis shows that globally data is consumed more indoors, 80% idea from CISCO report and other reports will say 80% of data is indoor, and indoor is where some of these high frequency signals are weak. So we believe in building small cells these are some of our future growth opportunities and areas of high footfalls are areas where we are trying to secure land leases and building leases to see that we create shared infrastructure for in-building solutions. So some of the airports, some of the buildings, malls are areas where we continue to build this as a shared infrastructure for all the operators and clearly sharing has its own inherent benefit instead of every operator building on his own, we are able to create a similar tower like model there and thereby bringing all operators, reduce their time to market and also have reduced cost for them having better returns for us when sharing starts to happen in those two. Before I go to Wi-Fi, these numbers are small today, as these numbers grow we will start to disclose that as a separate number both on small cells and in building. Post this consultative paper we expect a favorable policy from the government thereby you will see certain amount of acceleration and particularly with data uptake this acceleration is likely to happen in the coming years as we move forward. On Wi-Fi again, this is an area we have again done pilot deployments in some locations, and as part of Bhopal Smart City we are building these Wi-Fi hotspots. We believe given our relationship with all the operators we can create a Wi-Fi offload mechanism for operators. We are not keen on doing B2C Wi-Fi business that is an operated domain or an ISP domain. We are looking at creating an offload network for operators who are clearly using spectrum for the outdoor, for some of these hotspots and areas where there are high footfalls we could create a shared network where operators can offload their customers for having better data usage experience, clubbed with fiber this could actually become a business revenue stream going forward and that is why we are participating in this consultative process with the government too.

Vivekanand Subbaraman - Ambit Capital - Mumbai

Thanks for the elaborate response. All the best and Happy Diwali to you and your team.

Kamaldeep - Moderator

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

Sanjay Chawla - JM Financial - Mumbai

Good afternoon. Two questions. One is on the tenancy. DS, when you said that you are seeing acceleration, are you suggesting pickup in the YoY tenancy growth rate in the second half from the 6% level that we have seen in the first half, that's a clarification that I am looking for? And second question is on your revenue per tenant. We have seen it going up for Infratel and going down

Bharti Infratel Limited Second Quarter Ended September 30, 2016 Earnings Conference Call

for Indus sequentially. So, is this rental adjustment pursuant to the MSA amendment scheme? Is this also impacting or going to impact Infratel rentals or will it impact Infratel rentals with some lag?

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

Sanjay, I think without giving guidance, we have said acceleration meaning what we were doing in the current quarter. We see the pace picking up now both in terms of loading and also for new tenancies as we move into the second half. We are hopeful that the second half numbers will be better than the first half from the current trends. That is the only thing that I can share today. Whether that will be higher YoY from last year or not I think it is unfair for me to comment at this stage. On revenue per tenant, Pankaj you want to take that.

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

Sanjay on revenue pipeline, revenue per tenant obviously has an impact of the MSA change which has happened and between the two companies, in the percentage terms as well as from an amount perspective Indus has got a slightly higher impact and the phasing of this particular MSA impact, the amount which you have to give is also different and hence we see a higher decline so to say happening in this quarter versus what we have in Infratel.

Sanjay Chawla - JM Financial - Mumbai

So, it is already reflecting in the Infratel rentals as well, the amendment? The amendments are already reflecting in the Infratel rentals as well?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

Yes, the amendments are already effecting but in terms of percentage and absolute amount the number is higher than Indus versus what is there in Infratel.

Sanjay Chawla - JM Financial - Mumbai

Just another clarification, a quick one, you mentioned in the first half; you have seen a run rate of Rs.11 crores per month to get to Rs.180 crores on a full-year basis, Rs.1.8 billion. Are we going to see a run rate of Rs.19 crore per month in the second half, is that the way to look at it?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

19 Crores.

Sanjay Chawla - JM Financial - Mumbai

11 crores you have seen for six months, that is Rs.66 crores?

Harjeet Kohli - Chief Financial Officer - Bharti Enterprises

So the idea is Rs.15 crores was a guidepost figure, Sanjay, we had given to tell you that once everybody accepts and all these things are well embedded, every month for whatever we would have otherwise gotten, we would get Rs.15 Crores less. So that is the steady state average. You may take two, three, six months to reach that. So it is not that you will breach that to make it for the year Rs.180 crores.

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

It will be more than 11. It will reach 15. So to reach 15 on an average we will have a higher amount happening. You are right Sanjay.

Sanjay Chawla - JM Financial - Mumbai

Bharti Infratel Limited Second Quarter Ended September 30, 2016 Earnings Conference Call

Thank you. All the best.

Kamaldeep - Moderator

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

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

Thank you. As Harjeet mentioned Telecom sector saw a lot of activities this quarter, spectrum auction, Reliance Jio commercial launch and RCOM-Airtel merger. We saw an accelerated adoption of 4G by leading operators. Jio launch, and recent spectrum auction will further act as a catalyst to the data growth in the market. The data spectrum strategy was visible in the recent spectrum auction post which the top three operators have secured 3G and 4G spectrum across their leadership circle with Airtel having 3G and 4G spectrum across all circles. Now there is a strong need for operators to monetize the huge investments they have made in this phase hence they will focus on more rollouts to ensure coverage and capacity in near future which bodes well for tower companies like us. During the quarter the robustness of the business model was established once again with towers growing at 3%, tenancies growing at 5.4% and revenue growing by 8%, EBITDA growing at 10% and profits growing at 31% on a year-on-year basis. I am also pleased to mention that we have had a good start in Government of India's Smart City initiative with Bhopal Smart City authority awarding us the Letter of Award. The project is expected to kick off during Q3 FY2017 and we already have a dedicated team in place for execution. We are best placed to play a key role by building and sharing vital infrastructure solution with all customers on a nondiscriminatory basis. We are ready with all the necessary capability and commitment to meet the increasing demand and capitalize on various opportunities. On behalf of entire Bharti Infratel team, I thank you all for your continued support. I would also like to take this opportunity to wish you and your family a very Happy Diwali. Thank you.

Kamaldeep - Moderator

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