

**Bharti Infratel Limited Second Quarter Ended September 30, 2017 Earnings Call**

## Conference Call Transcript

Event: Bharti Infratel Limited Second Quarter Ended September 30<sup>th</sup>, 2017 Earnings Call

Event Date/Time: October 31<sup>st</sup>, 2017 at 1430 hrs.

<b>Bharti Infratel Limited Second Quarter Ended September 30, 2017 Earnings Call</b>
--

**CORPORATE PARTICIPANTS****Akhil Gupta**

Chairman - Bharti Infratel Limited

**Devender Singh Rawat**

Managing Director and CEO - Bharti Infratel Limited

**Pankaj Miglani**

Chief Financial Officer – Bharti Infratel Limited

**CORPORATE CALL PARTICIPANTS****Manish Adukia**

Goldman Sachs/Mumbai

**Parag Gupta**

Morgan Stanley/Mumbai

**Vivekanand Subbaraman**

Ambit Capital/Mumbai

**Rajiv Sharma**

HSBC Securities/Mumbai

**Sunil Tirumalai**

Crédit Suisse/Mumbai

**Kunal Vora**

BNP Paribas/Mumbai

**Aliasgar Shakir**

Motilal Oswal Securities/Mumbai

**Srinivas Rao**

Deutsche Bank/Singapore

**Anirudh Gangahar**

Nomura Securities/Mumbai

**Pranav Kshatriya**

Edelweiss Securities/Mumbai

**Himanshu Shah**

HDFC Securities/Mumbai

---

**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<sup>th</sup>, 2017 Earnings Call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question-and-answer session will be conducted for all the participants on this call. In case of a natural disaster, the conference call will be culminated post an announcement. Present with us on the call today is the senior leadership team of Bharti Infratel Limited. Before I hand over the call, I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risks that we face. I now hand over the call to our first speaker of the day, Mr. Akhil Gupta. Thank you and over to you, Mr. Gupta!

---

**Akhil Gupta - Chairman - Bharti Infratel Limited**

Thank you, and a very warm welcome to all of you to the earning call of Bharti Infratel for second quarter ending, September 30, 2017.

Last year has been a transformational year for Indian telecom. As you all know, with the entry of Reliance Jio, it has led to a level of consolidation that could not have been imagined even till last year. Some of the highlights, just to recap. Number one, the Voda-Idea

---

Republished with permission. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Bharti Infratel Limited.

## Bharti Infratel Limited Second Quarter Ended September 30, 2017 Earnings Call

merger and the subsequent clearance by Competition Commission; exit by Videocon by selling spectrum to Airtel; exit of Telenor by merger with Airtel; exit of Tatas, again, by way of merger with Airtel; exit of MTS by way of merger with RCom; announcement by Reliance Communication of shutting down their 2G, 3G operations, and taking a 4G-focused approach along with Jio; cancellation of merger between Aircel and RCom.

With these developments, I think the battle lines are now clearly drawn. The three very large and financially strong private sector operators, government-owned BSNL and MTNL and possibly Aircel and other niche players on the private side.

I would like to reiterate what we have maintained all along that in the long run, what is going to benefit the tower companies is not a very large number of financially weak players. But a few strong players who are willing, as well as capable of large-scale rollout of networks in all parts of the country to meet the ever-growing data demand of Indian consumer.

The gross adds that is the co-locations for the quarter on a consolidated basis was 4398, which are higher than 2579 in second quarter of 2017, but much lower than 8843 last quarter, which we believe of course was an aberration. However, the net additions were lower at 1687 versus 2393 last year. We believe that the reasons for lower net adds during this quarter are as under: number 1, exit of co-locations of some of the operators, as pointed out above, has resulted in higher consolidated churn of 2711 co-locations versus only 186 last year. These also include sites of operators that have announced their decision to shut down the operations, which we have treated as exits as a way of the conservative presentation, even though formal notices have not yet been received. For all such sites, revenue also from such sites has been derecognized.

Number 2, with consolidation of spectrum pool as a result of the developments, we believe the operators are finalizing their rollout plans, especially due to rollouts on multiple bands and 3, the monsoon during the quarter traditionally led to some slowdown.

Meanwhile, India's data story, as you all know, continues to unfold. The data consumption per user is more than doubling quarter-on-quarter. This is as per the last reported numbers by leading listed operators. We are also witnessing increasing smartphone penetration, as every operator and handset manufacturer is increasing its focus on affordable 4G smartphones, as well as feature phones.

At the same time, the content and digital services ecosystem is flourishing, with greater availability of videos, particularly high-definition videos, including live TV channels on sports, movies and entertainment, along with the push for services, such as e-commerce, banking, digital payments, mHealth and so on.

As a result of the massive increase in data consumption, the operators are already announcing much higher capex plans for the coming years. With clarity now emerging with respect to consolidation of both - operations and spectrum, we remain confident that the rollouts will continue to be at a fast pace in years to come. This is particularly so as new investments have been made by the operators for various acquisitions.

On the tower side too, there have been some significant developments, starting with ATC acquiring Viom a couple of years back, and the reported possibilities of Vodafone and Idea-owned towers being sold, which will result in consolidation in the supplier's space as well. I believe that with such consolidation in financially strong hands, the telecom infrastructure sector will not only continue to see healthy competition, but would open avenues for these companies to evaluate and plan for acquiring and building adjacent infrastructure, like optic fiber, Wi-Fi and IBS.

As on September 30, 2017, the consolidated tower base stood at 90,955, with consolidated co-locations at over 220,000, growing by almost 11% year-on-year, with a co-location factor of 2.42 at closing. The quarter once again saw a strong and steady financial performance, with consolidated revenues for the quarter at Rs.3648 crores, a year-on-year growth of 11%. EBITDA for the quarter at Rs.1634 crores, a 12% year-on-year growth, and representing an operating margin of about 45%. EBIT for the quarter was at Rs.1021 crores, up 15%, and operating free cash flow was Rs.1224 crores, up 31% year-on-year. I am pleased to note that the return on capital employed pretax improved to 33.5%, up from 28.4% last year.

We are very pleased to also announce that Indus has won the bids for Smart City projects of Vadodara and New Delhi Municipal Corporation area. Meanwhile, Infratel continues to proceed well on the Bhopal Smart City project. Accordingly, both Indus and Infratel are getting equipped to exploit the possible opportunities on many more Smart City projects, which are in the pipeline.

To summarize, we believe that both Infratel and Indus are best positioned with very strong balance sheets and management teams to participate in India's growth, driven by digital focus and total data growth in the long run. While we would not like to rule out some turbulence as the tail end of operators' folds up, we believe these will be short term in nature and that the consolidation in Indian telecom industry will lead to rapid rollout of much-needed data networks in years to come.

Thank you for your attention. The management will now take your questions.

### Kamaldeep - Moderator

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

<b>Bharti Infratel Limited Second Quarter Ended September 30, 2017 Earnings Call</b>
--

**Manish Adukia - Goldman Sachs - Mumbai**

My first question is on your announcement regarding a potential acquisition of Indus. Can you give us some more color on what are the kinds of time lines you are looking at? Are you thinking about what proportion of Indus you can potentially acquire? And what are the leverage levels you will be comfortable with? And my second question is just trying to understand the tenancy dynamics a bit better this quarter. Now you did mention 3 impacts that you saw this quarter. And you also mentioned that for some of the telcos, you have recognized exits even though they have not received formal notice. So can I just understand this a bit better that, have you recognized their entire tenancies as exits or you have only recognized a partial exit for them? If you can just throw some more color on that.

**Akhil Gupta - Chairman - Bharti Infratel Limited**

So let me ask DS first to answer the second part and I'll come to the first one then.

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

So thank you, Akhil. In terms of gross additions, we had mentioned that for the quarter, we had 4,398, which was higher than September quarter last year. But on net additions, we had said that the total number was 1,687. And we've recognized for churn of 2,711 on a consolidated basis. One of the operators who's announced exit is the operator that we have recognized all their co-locations as exit, and their revenue accordingly has been provided for.

**Manish Adukia - Goldman Sachs - Mumbai**

That makes sense. Sir, just to confirm, so far, one of those operators who have announced their full exit, you've recognized the entire co-locations as exits already in this particular quarter, right?

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

Yes, on both Indus and Infratel, including their revenue reversal.

**Akhil Gupta - Chairman - Bharti Infratel Limited**

Okay. On the announcement regarding the authorization for acquiring more stake in Indus, I would like to tell you that it is an enabling authorization. There has been a lot of speculation in the media. And we thought that as a responsible company, we must take this matter to the board and get a formal authorization to explore the possibility of acquiring a controlling stake there, thereby, we could then consolidate the results. I must caution that this is just an enabling authorization at this stage. We do not have any agreement, nor can I give you any time lines on any agreement or if at all it could happen. All that I would be able to say is that, should that occur, on your question about leverage, I think our leverage would be quite all right, especially based on the consolidated EBITDA. But at this stage, I have nothing specific, which I am in a position to report.

**Manish Adukia - Goldman Sachs - Mumbai**

Sure. If I can just ask a last follow-up on that, so in the past, you have mentioned that you would be looking to make acquisitions in India for tower assets that can come up. Now in this case and Indus' case, of course, they have very complementary tower assets. So how are you going about evaluating that opportunity with Indus? What are the merits or demerits of this particular transaction? I understand that you have not signed anything, but just in terms of how you're evaluating the positives and negatives of this transaction? If any color, that will be helpful.

**Akhil Gupta - Chairman - Bharti Infratel Limited**

There is absolutely nothing negative about acquiring a controlling stake in Indus or in acquiring a consolidating stake in Indus, or for that matter, making it a wholly owned subsidiary which we are authorized to discuss. Because as you might remember, the circles where Indus operates and Infratel operates are distinct. Indus operates in 15 circles; Infratel operates in the balance 7 circles. Of course, Infratel has a little bit of overlap in 4 circles, there are some towers, but the new towers are built by Indus, therefore they are very complementary, and there is no such evaluation to be done whether the combination of the two is going to be value accretive or not. It's a pretty simple equation there.

---

**Bharti Infratel Limited Second Quarter Ended September 30, 2017 Earnings Call**


---



---

**Manish Adukia - Goldman Sachs – Mumbai**

OK. That's very helpful, thank you and all the best.

---

**Kamaldeep - Moderator**

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

---

**Parag Gupta - Morgan Stanley - Mumbai**

Good afternoon everyone. So just 2 questions from my side. Firstly, in terms of tenancy addition. So could you just give us a better sense of how do you see the top operators looking at rolling out tenancies going forward? Do you see a bulk of this happening more from a densification perspective? Or do you think it's more from a coverage perspective? And when can we see right now, we're probably seeing one of the operators who is aggressively rolling out tenancies. When can we see some of the others follow suit? So that is my first question. And the second is, Akhil, you talked about revenue or Smart City potential, with more opportunities coming up. Could you just give us some sense of, let us say, over the next 3 years, 5 years, whatever time horizon you would like to look at, how much do you think could be the revenue potential from some of these new initiatives, either as a percentage of revenue or profitability?

---

**Akhil Gupta - Chairman - Bharti Infratel Limited**

So let me take up the Smart City one, and then I will request DS to talk about the tenancies and the potential there. Look, unfortunately, we all expected a lot more on Smart Cities to happen by now, which it has not happened for a variety of reasons. It is a difficult model to settle, and I think the state governments are learning with every new experience of the Smart Cities, which are coming up. The model is getting settled, but at this point of time, I think nobody can predict, definitely not us, as to how many will come up in the next few years and what could be the potential of revenue, because it all depends on how big a portion out of the city is tendered for a Smart City project. So at this point, it would be futile to think in terms of any numbers. When I say that there is a large potential, I am talking more in terms of the need of this country, because the cities will have to turn smart and that does open a big potential for the tower infrastructure or the telecom infrastructure companies to go and tap. But what I would like to caution and clarify is that it should not be built into the models at this stage. That would be perhaps not worthy.

---

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

So coming on to the tenancy addition question. Parag, as mentioned earlier, too, we are pretty much seeing the leading operators trying to create a pan India 4G footprint in the deep rural areas, too. So still we see large amount of 4G cabinet expansions being done by the top 3 leading operators. Of course, Airtel being the leader there had actually done fair amount of rollouts on 4G ahead of Jio launch, but post Jio launch because Jio is only having a 4G offering, all incumbents are also forced to have their 4G offering across their entire geography. So we are in a phase where incumbents are primarily focused on creating 4G by enabling loading on the existing towers. And as you rightly said, Jio was the one who was trying to make sure that their presence -- as they have stated in their press release and also the media that they would like to cover over 95% of the population. We see them going on in that direction. Your question on when will others start to do, while we started to see them fill in the gaps wherever they are found. In terms of big push for the rollout, we hear numbers of 200,000 that have been announced on Jio's side. It is only a question of time before incumbents and also as leaders in their respective market will make sure that they have commensurate offering in terms of coverage and capacity in all these areas. So we hope or as Akhil said at the beginning, is an aberration, both, of course, in terms of a little bit of slowdown on gross additions, but also because of some churn that came in there. We hope that the subsequent quarters, we will see pickup from the incumbents. We've already seen very good uptake on data traffic on the networks, and pretty much that is the next driver now. We hardly see operators talking of voice traffic. The shift is towards data and in terms of consumption on a per customer basis, which is going up. So the trends are positive there too.

---

**Parag Gupta - Morgan Stanley - Mumbai**

Great! Thanks Akhil, Thanks DS.

---

**Kamaldeep - Moderator**

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

---

## Bharti Infratel Limited Second Quarter Ended September 30, 2017 Earnings Call

### Vivekanand Subbaraman - Ambit Capital - Mumbai

Thanks for the opportunity. So the energy margins of Rs. 4 billion over the last 4 quarters, they seem to be at around 8% of energy reimbursement income. This is substantially higher than the past guidance, and I'm talking of the rolling 4-quarters energy margins. I understand that you've clarified multiple times that the energy margin should trend downwards. But how should we look at this? Secondly, the growth capex, which is the total capex minus the maintenance capex, that seems to be substantially higher than the past trends. It's at around INR 2.9 billion, despite the minuscule 118 towers that were added during the quarter. So on a per tower basis, the growth capex seems to be very, very high, and it seems to be escalating for the last 3-4 quarters. What is the reason for this investment? And any thoughts on how we should look at projecting the growth capex? And how we should align it with the tower addition?

### Pankaj Miglani - CFO - Bharti Infratel Limited

This is Pankaj Miglani. So let me pick up the energy margin first. So when you look at an energy margin happening and as a percentage of energy reimbursement while it is looking at 8%, as we have said in the past, margin is something we should not look at on a quarterly basis. We should always look at it on a yearly basis. And then, on a yearly basis, for whether this year or for the past year or even for future, the normal recommendation which we usually talk about, we should hover around somewhere around 4% to 5% or 4% to 6%. Reason being, while this you are looking it at on energy reimbursement, there is still a lot of capex which goes into these initiatives, which doesn't get covered here. So a reasonable return what you should bake in your model should be in the range of 4% to 6% and not beyond that. And back to the point, one should look at it on a yearly basis. Coming on to your next question on capex, when you are asking, capex is not only a function there of towers only. So then for all tenancies, there is a capex amount though marginal which goes in for each incremental tenancy, which is coming in. And plus, there are other capexes related to energy initiatives which also get counted as the growth capex because they lead to a benefit, either in the form of increased rental revenue or improved margin. So if you look at the summation of all, you will find capex to be trending as per the same line.

### Vivekanand Subbaraman - Ambit Capital - Mumbai

Right. Just one small follow-up on the energy margins. So are you highlighting that the energy margins are well within the guidance if we include the capex that you have done for energy initiatives? Is that what you are suggesting?

### Pankaj Miglani - CFO - Bharti Infratel Limited

I will again repeat, do not look at it on a quarterly basis. They are, but you should look at them on a yearly basis.

### Akhil Gupta - Chairman - Bharti Infratel Limited

The reason is the seasonality.

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

Yes. So the reason why, Pankaj, Sorry this is Rawat. The reason why Pankaj said look at this on a full year basis is there is huge amount of seasonality, particularly when it comes down to the seasons that are in the early summers and so on and so forth. In places where there are snowfalls, we have a reverse trend. In fact, where winters are where we have higher amount of money spent. But to the point that Pankaj said, taking out interest and depreciation for the capex spends on some of these initiatives, we are probably on the ball there.

### Vivekanand Subbaraman - Ambit Capital - Mumbai

Alright, thanks.

### Kamaldeep - Moderator

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

### Rajiv Sharma – HSBC Securities - Mumbai

## Bharti Infratel Limited Second Quarter Ended September 30, 2017 Earnings Call

Thanks for the opportunity. Just got 3 questions. First is, I understand that you've taken a conservative approach and provided for the churns based on exits. What, in your view, will be the full impact of consolidation if you were to plot in for your co-locations today, assuming that there will be no renewal if Bharti's taking Tata or Bharti's taking some other operator. Assuming no renewal by the acquiring operator, what could be the full impact? Second question is, Jio network cost came in at very big discount to incumbents cost. Understand there is a limit of capitalization there but post that or since then, are operators coming to you? They will try to get their network cost lower apart from Idea, Vodafone bringing down tenancies. So what does it mean for you? How are you responding to this new situation? And one of the areas seems to be the lithium-ion batteries. You have got DG sets. They got most of the towers fully running on batteries, they suggest a 30,000. So what could be the potential capex impact for Infratel Indus combined in coming days if the adoption to new technology, new batteries were to be there?

### Akhil Gupta - Chairman - Bharti Infratel Limited

Let me respond to your query about Jio. We are in no position to comment about somebody else's accounts and their results. All I can say is that we have, a master service agreement, which applies in a nondiscriminatory manner to every operator. That includes Airtel, Vodafone, Idea, Jio and even the smaller ones. Beyond that, it's impossible for us to comment on their network cost and it won't be proper also.

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

Rajiv, on your question of lithium-ion batteries, we do deploy selectively in certain areas. We found a use case in which there is a payback for lithium-ion batteries, while from a price point, we want them to be significantly lower if we were to consider replacing all our lead acid batteries with lithium-ion in the long run. Today, on a standard site, the economics of lead acid is still beneficial over lithium-ion. So we keep looking at both from an opex standpoint and also from an energy saving standpoint on deployment of lithium-ion battery. We're following this as a technology very closely, both in Indus and Infratel. On the churn, we've mentioned already that we've taken the impact of one of the operators who's announced the exit and has been more conservative. The real picture will play up as the operators go ahead and plan their subsequent steps and announce that. This is also true on the consolidation scenarios that you've been talking of. A lot depends on the final scenario that the operators, which merge together, come back and announce. It's only possible for us at that stage to come back and say what the potential impact could be. We did mention in our last call that our exposure beyond the top 3 operators and Jio and BSNL was less than 10% in terms of tenancies. So that's the only thing I could share at this time with you. The rest, we will have to see how this plays out operator by operator in each and every geography as they come back and combine this network.

### Akhil Gupta - Chairman - Bharti Infratel Limited

I must add that for the operators who have acquired the operations of some other operators, it's not that suddenly everything becomes duplicate because there are different footprints, there are different spectrums on which the operations are running. So it's very difficult for us as a tower company to get into their shoes and predict as to how many they will exit. I think we'll have to wait and see what they decide.

### Rajiv Sharma - HSBC Securities— Mumbai

Just a small follow-up here. Just on my first question, Akhil, which is related to, are operator's telcos coming to Infratel Indus and saying that given the competition -- even though there has been a small improvement in the tariffs, but given the competition and the competition being much lower on the cost, can you bring down the network cost for us? Is there that debate I mean it's been a constant debate, but has that debate accelerated in the last 2-3 months? And is there something, which can be done about it?

### Akhil Gupta - Chairman - Bharti Infratel Limited

No, but the whole premise is wrong. The competition is not lower than us, because we enjoy the benefit of scale, when people come to us, they get a second or a third tenant rate, which, as you could recollect as a model, there are in-built discounts. Therefore, we don't believe that the competition is in any way cheaper than us. We are very competitive.

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

Rajiv, just to add to Akhil's point. We constantly engage with operators on working common areas where we can cut down cost. And these are some of the initiatives that we've taken up, whether its sites moving towards green, indoor being converted to outdoor sites. Energy is definitely a huge focus area where lot of bandwidth is being put in to see that we reduce overall energy consumption on a per tenant basis. So that drive helps keeps the operator cost low, and we work constantly with them in terms of seeing that we support them on new technology adoption on the towers as much as possible. And finally, as Akhil said, we are offering these services on a nondiscriminatory basis, so everyone gets exactly the same tariff and the same terms if they are at the similar tenancy ratios and the number of tenancies that they have taken on a cumulative basis.

<b>Bharti Infratel Limited Second Quarter Ended September 30, 2017 Earnings Call</b>
--

---

**Rajiv Sharma – HSBC Securities – Mumbai**

OK, thanks a lot. This is very helpful. Thank you so much.

---

**Kamaldeep - Moderator**

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

---

**Sunil Tirumalai - Crédit Suisse - Mumbai**

Hi, thank you very much for the opportunity. My first question is again going back to what you announced as enabling resolution for exploring Indus. Assuming, hypothetically, you do take over Indus as a wholly owned subsidiary, I am trying to understand what kind of above-the-EBITDA synergies are possible at all, given that you're operating in mutually exclusive Circles?

---

**Akhil Gupta - Chairman - Bharti Infratel Limited**

Well, in our business, the people at the ground are practically in terms of per tower. Therefore, that's not a big synergy. This synergy, big one is that we'll be able to consolidate the results of Indus. But that part about synergy maybe very far off. That can only happen when the 2 companies merge. At this point, we do not know how much, if at all, will we be in a position to acquire.

---

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

If we cross beyond 51%, then the loss on account of DDT that we are having today when Indus is paying dividend, that's definitely a plus.

---

**Akhil Gupta - Chairman - Bharti Infratel Limited**

Yes.

---

**Sunil Tirumalai - Crédit Suisse - Mumbai**

Okay. Understood. And I mean, can we okay, what I want to know is, we also know that Vodafone and Idea are probably looking to sell their own tower assets, where there is a good overlap with your standalone business. Any plans I mean, I was surprised that, that was not part of this enabling resolution?

---

**Akhil Gupta - Chairman - Bharti Infratel Limited**

No.

---

**Sunil Tirumalai - Crédit Suisse - Mumbai**

So no plans to look at that?

---

**Akhil Gupta - Chairman - Bharti Infratel Limited**

This enabling was only for Indus.

---

**Sunil Tirumalai - Crédit Suisse - Mumbai**

Okay. Understood, thank you. And the last question is, these tenancy exits that you have booked, supposing, let's say, a month later, you actually receive notification from that tenant. How easy is it to go back to the other tenants on that tower and push up the rentals as per the contract? I mean, has there been any past precedence of tenancy rentals going up when people exit?



## Bharti Infratel Limited Second Quarter Ended September 30, 2017 Earnings Call

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

Sunil, that's a standard contract application as in when there are exits that happen from time to time, whether it's permitted or because of these one-offs, the incumbent tenancies' rates are actually rolled back to the new tenancy ratio that the site has as the ratio there. So it is a standard application as and when you have a formal exit, you start to do that, what Akhil and Pankaj mentioned earlier. What we've done is more from being more prudent in terms of accounting as where we've taken these numbers off, but we will continue to work with the operators. If they want us to service them, we'll be happy to service them and continue to bill them and collect that money. From an exit recognition perspective, there again, we've stated earlier that the policy is as in when we collect the exit monies is when we recognize exit amounts.

---

### Sunil Tirumalai - Crédit Suisse - Mumbai

OK, got it. Thank you very much.

---

### Kamaldeep – Moderator

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

---

### Kunal Vora - BNP Paribas - Mumbai

Thanks for the opportunity. My first question is on receivables. Over the last 6 months, we have seen some increase from INR 2.2 billion to INR 3.2 billion. Is it because of collection issues faced with weaker operators? That's one. Second question, on average rental, how do we see that moving in the next few quarters? There are various factors, tenants will come out of rental freeze. There will be some exits, which can result in push-up of rentals. There will be more loading coming up. So do you expect some growth because it's been flattish in the past, average rental, if you can talk about that? And lastly, on energy, are you seeing increase in grid connectivity driven by government's rural electrification drive? And does any part of that benefit accrue to you?

---

### Pankaj Miglani - CFO - Bharti Infratel Limited

So, Kunal, let me pick up the question on the receivables piece. I'm sorry, let me first pick up the question on average rentals. On rentals, as you know, rentals is a factor of the increase happens on account of predominantly loadings happening and gets offset by tenancy factors coming into play. And this particular quarter, what you are seeing is this number going down is primarily driven by tenancy factor. And then there is a bit of a revenue impact, which has happened on account of churn what we have taken because it was still there in the opening base, which has led to rentals going down. And these two impacts, we do expect will continue for future. Plus, there was something incremental which happened, was primarily driven by this being a seasonal quarter and in certain parts, we had floods happening across the country, which led to certain higher-level service credits being given. To that extent, there would be a bit of a normalization, which happens from them, but the other two impacts largely will continue. On your next question of the energy increase in grid tower, yes, we are seeing that even in rural areas, but that increase is not that drastic. But there is definitely an uptrend, which we are seeing, which is happening there.

---

### Kunal Vora - BNP Paribas - Mumbai

Okay. Does any part of benefit accrue to you, either as a tower company, as grid connectivity improves?

---

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

A slight bit of improvement with the fixed energy contract of course, some part of that comes in to lower diesel consumption. But the better the grid is, we've noticed that our uptimes on the sites are better. And also is a lot of maintenance capex is actually going towards things like batteries and generators, which have moving parts. The lesser they are used, they have a longer life. So there is a benefit of grid improvement in the long run. But we're talking about significant improvements there where you could pretty much switch off the generator. Those would be of our interest. But short term, nothing very specific.

---

### Akhil Gupta - Chairman - Bharti Infratel Limited

But on another issue as a tower company, I always gain when my customers' cost on energy comes down, without it going out of my pocket. So we are very keen to see that the grid power supply improves. The energy cost to the operators comes down, so that their financial health improves. And so to that extent, I think higher grid power definitely favors us.

## Bharti Infratel Limited Second Quarter Ended September 30, 2017 Earnings Call

### Pankaj Miglani - CFO - Bharti Infratel Limited

And Kunal, coming back on your first question of receivables while you might see a bit of an increase happening on from June. I think June was a quarter where in on account of the pre-GST rush, there was receivables which each of the OpCos were trying to liquidate. So there is a marginal increase which has happened from June, but that's the normal run rate. So if you compare from March numbers, and you find the numbers to be in line, not that there is a drastic. There isn't anything worrisome which is leading to an account of a ramp-up in receivables. That's not the case.

### Kunal Vora - BNP Paribas - Mumbai

Understood. And just a follow-up on my question on average rental. So how many tenancies will come out of freeze in fiscal 2019, fiscal 2020? So I was just trying to get some view on how I should be looking at average rental per tenant going forward. And it was more of a forward-looking state, a comment if you can make instead of what happened during this quarter. Whether you should be looking at a flattish average rental per tenant or whether we should be building in some improvement? Any insights, which you can provide, will be of use.

### Pankaj Miglani - CFO - Bharti Infratel Limited

So looking at the inherent nature of the business, normally, revenue per tenant ideally would come down, and so I will presume we should have a flattish to a slightly declining kind of a trend happening.

### Kunal Vora - BNP Paribas - Mumbai

Understood. That's very useful. Thank you Sir, that's it from my side.

### Kamaldeep - Moderator

Thank you very much Mr. Vora. The next question comes from Mr. Aliasgar Shakir from Motilal Oswal, Mumbai. Mr. Shakir, you may ask your question now.

### Aliasgar Shakir - Motilal Oswal Securities - Mumbai

Thanks for the opportunity. I had two questions. The first question is on the tenancy and tower growth. Now for the past quite a few quarters, growth has largely been led by tenancy and actually loading. But given that now in the near future, there will only be 3 operators, and our tenancy factor is probably closer on 2-2.4. I was just wondering, I mean growth from here, should it more be tower-led? Or how I should see that? Basically, that's point number one. And second is just, this quarter, we've seen an increase in other expenses, so they're quite significant, so if you could throw some light over there?

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

Hi Ali, As you rightly said, yes, there are 3 or maybe with BSNL 4 operators, Akhil mentioned, maybe there could be one, fifth Aircel, those are the operators that we're looking at. But in reality, today, we are sitting at a tenancy ratio of 2.41, there's headroom to go to 3. We will see lot of new sites being added from this point on. You saw announcements from various operators that they're talking north of 200,000 sites per operator. When we do analysis on operators like China Mobile, which adds close to over 1 million sites to one operator there. Clearly, there is a lot headroom for even sites to come in. It is also a factor of spectrum, so slightly hard to draw that line today, but we believe there will be a time when site requirements will also start to go up along with the tenancy growth requirements there. And also areas of small cell could be a huge multiplier in terms of creating capacities in point areas where technologies like 5G talks of intra site distances being a few hundred meters. Where we could look at huge numbers of small cells getting created. Today, those numbers are more pilot-based and we are not disclosing them as separate numbers, but we will start to when they start to become a meaningful part of our new rollouts.

### Pankaj Miglani - CFO - Bharti Infratel Limited

And then coming on to your question around other expenses that's primarily driven by the certain time-based provisions which we account for, as per the company's policy. That increase is on account that is on account of the age-based, we have got an age-based policy for providing of receivables, so the increase for this quarter is actually being led by that. And depending upon the collections that it eventually reverses. So it's a timing difference the way I see it.

## Bharti Infratel Limited Second Quarter Ended September 30, 2017 Earnings Call

### Aliasgar Shakir - Motilal Oswal Securities - Mumbai

Got it. Just a follow-up on this tower growth. So, I think there are 2 factors, I'm just trying to understand how I should look at, so one point that you mentioned is the indoor cells. So is it the way going forward, is that probably more data consumption will be indoors, and therefore, the higher growth probably will start coming indoors, and therefore, probably tower growth sort of should be lower? Or else I mean, we are expecting a very significant increase from the tower adds about probably about close to what about 200, 300 on a run-rate basis that we are seeing to something like probably quite a few thousands maybe? So and if that does happen, so then does that have a bearing on our EBITDA margins given that operating leverage will be low on that higher tower-led growth?

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

I would like to disagree on that, Ali. It's, the main reason why we think that's going to be different, historically, India grew in terms of leading operators having built their networks early and subsequent ones coming at later amounts of time, we did see a gap. Now with 3 formidable players and all running in for data with a similar 4G technology, with pretty much similar sets of frequency bands, our expectation is as and when these small cells and sites that get created now for infills and capacity reasons, you might pretty much see all operators wanting to be in that site immediately from day 1. So because now there is a service-level differentiation battle that's likely to come in besides just the coverage battle that we saw in the past, this could mean that towers will probably have tenants moving in quicker than we've seen historically in the past.

### Aliasgar Shakir - Motilal Oswal Securities - Mumbai

OK, got it. That's very helpful, Thank you.

### Kamaldeep - Moderator

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

### Srinivas Rao - Deutsche Bank - Singapore

That's Srin here. I have 2 question. First, do you need any resolution like the one in Indus if you are going to consider the purchase of the tower portfolios of Idea, Vodafone or that of GTL, which we understand is also going through some kind of an auction process? That's my first question. Second is, a portfolio like GTL, would it be of interest and how would you look at it if you are going to evaluate for a potential purchase? And these are my first 2 questions. I'll come back for more.

### Akhil Gupta - Chairman - Bharti Infratel Limited

So I think as and when we want to finalize anything, we definitely need the Board's approval. But we wouldn't be able to comment on any specific opportunity. They are running a process we believe, and therefore, it would be unfair for us to comment either way.

### Srinivas Rao - Deutsche Bank - Singapore

Understood, sir. But a portfolio like GTL would which has probably a low tenancy and a fair overlap in terms of sites to Indus and Infratel, is that something which would still have some significant interest? And just want to understand the logic behind it. That's all.

### Akhil Gupta - Chairman - Bharti Infratel Limited

Well, all again, I would say that since they are reported to be running a process, it would be unfair for us as a tower company to comment either way at this stage.

### Srinivas Rao - Deutsche Bank - Singapore

Understood, sir. And one final question. The provisioning, which you have taken for, a potential exits as announced, does that also assume an increase in the rental for the existing tenants, which is as per your agreement?

### Akhil Gupta - Chairman - Bharti Infratel Limited

## Bharti Infratel Limited Second Quarter Ended September 30, 2017 Earnings Call

That hasn't been taken as yet.

---

**Srinivas Rao - Deutsche Bank - Singapore**

Understood. This is helpful, thank you very much.

---

**Kamaldeep - Moderator**

Thank you very much Mr. Rao. The next question comes from Mr. Anirudh Gangahar from Nomura, Mumbai. Mr. Gangahar, you may ask your question now.

---

**Anirudh Gangahar - Nomura Securities - Mumbai**

Thank you and good afternoon. Two questions, one slightly long winded. It actually stems from the fact that we've seen roughly about 3,000 towers added in FY 2016, 1,800 towers that you added on a consolidated basis in FY 2017. We are very, very low as compared in the first half of this year. And I know that the direction has been that 1% to 2% tower growth and 9% of co-location growth. Are we definitely going to see some pickup in this? And relating to this is my question is that how should we look at the capex for the company for this year and next year? That's question one. Second question would be on the TRAI's recommendations on sustainable telecommunications. Does it, in any manner, impact the sort of and potentially impact the margins that we make on the energy reimbursements that we do?

---

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

So, Anirudh, to the first question, yes, we were seeing slowdown on tower build-out, and I mentioned the reasons, the top 3 operators who are pretty much the operators contributing to new site build-outs where the operators focused on enabling 4G on the existing sites with onslaught of Jio, and of course, the huge data uptick that was coming up. So the low hanging fruit clearly was the focus towards that, despite that we have still seen them build new sites and do certain amount of rollouts there. Some of the new rollouts were also being done by Jio where we've also seen certain amount of slowdown. Going forward, will it pick up immediately in the upcoming quarters, I'm not sure if I'm in a position to comment. But we definitely think in the long run, this is going to pick up. These rates are definitely lower than what we've anticipated. We hope that this picks up sooner than later from an operator standpoint. On the capex guidance, I don't think we've seen any need for revision in capex guidance. We'd think capex will be in line with what we've been spending traditionally because we've seen higher uptick on co-locations than on the towers, and part of that has also gone in to fill in for the co-location capex as was mentioned. However, I think the current quarter, we did see a little bit of slowdown on account of one-offs in Indus there on the capex that we've seen. But for the full year, I don't think we expect capex to be significantly different than what we've done. On your question on TRAI sustainability, it is a positive document. In the past there were rules that were set out, but this document was primarily meant for operators in the past. Yes, for their obligations, we had to do certain works because large part of their electronic is housed in IP-1 location. So we were working closely with them. Government has understood the rationale and has come out with a very positive, I should say, comments as recommendations. And we hope that this gets endorsed, and we continue to work towards a sustainable telecom network. Whether it will impact our margins positively or negatively, again, nothing to comment at this stage. There's nothing material that changes for us from our standpoint. We were already doing things towards the sustainability, the green numbers and the solar sites that we report as part of our quarterly report, were things which we have taken even without regulations forcing us to do any investments there. Going forward, we'll still continue to see wherever there is value in converting our sites green, we will continue with that focus in both Indus and Infratel. Pankaj, anything on the capex that you want to add?

---

**Pankaj Miglani - CFO - Bharti Infratel Limited**

No, I think, Anirudh, the capex, while we don't give the exact numbers, but I think in this current year the number would be in a similar range as last year, so we don't want to expect anything materially to change.

---

**Anirudh Gangahar - Nomura Securities - Mumbai**

Just one clarification. No termination charges materially had been booked in this quarter on account of any of the past exits as well?

---

**Pankaj Miglani - CFO - Bharti Infratel Limited**

No material charges have been booked.

---

**Anirudh Gangahar - Nomura Securities - Mumbai**

Republished with permission. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Bharti Infratel Limited.

## Bharti Infratel Limited Second Quarter Ended September 30, 2017 Earnings Call

Thank you sir.

---

### Kamaldeep - Moderator

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

---

### Pranav Kshatriya - Edelweiss Securities - Mumbai

Hi, thanks for the opportunity. My first question is, can you break down, you have basically listed various components for decline in the rental realization? Can you break down how you quantify some of that? My second question is, DS, so you had alluded to around 2% to 3% tower growth and around 7% tenancy growth. Do you think that could be at a risk for current year and maybe for the next year given the consolidation happening in the industry?

---

### Pankaj Miglani - CFO - Bharti Infratel Limited

Speaking of Pranav, on the first question, unfortunately, I can't give you the breakup of the various line items, as I talked about. I think past year's trend or past quarter or yearly trends can actually give a bit of a trending out there. And what I said about how the future looks to be more on account of tenancies and this particular revenue from operator going out, so we do expect you can safely presume at this point of time declining to a constant kind of average rental.

---

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

Pranav, on your questions of growth, as a company, we do not give guidance for way forward. These are historical growths that we've delivered. If you look at a 5-year or a 7-year history back in terms of CAGR, towers have grown at a rate about 2% to 3%, tenancies between 5% and 7%. And going forward, in the long run, again, we hope that these trends continue. As I said, there are changes that we have seen on account of data, small cells and others might come in. Those will fill up for some of these things to see that we continue to grow on those trends. So we hope those trends continue going forward too. But for the current half year that I look on a year-on-year basis, it's probably 11% in terms of co-location growth. So it's actually been very positive on the co-location sides, not as positive on the towers as we discussed earlier.

---

### Pranav Kshatriya - Edelweiss Securities - Mumbai

If I can just follow up with that, any color on how the small cell or IBS is progressing, given that could be the next driver for the growth?

---

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

So the trial deployments, we had mentioned we've done a few, and operators are happy with that. They are getting a feel of that in terms of scale and size. The spectrum scenario is still getting stabilized between for the operators before they start looking at mass rollouts. Also, as I said, the bigger priority for the operators has been to build their macro network. Today, it is not 100%. I think the first target for operators as I see them internally is to build a 100% 4G network across all their existing sites, post which all these small cells and also in building will become the big service differentiator around service quality.

---

### Pranav Kshatriya - Edelweiss Securities - Mumbai

Great, that's it from my side. Thank you so much.

---

### Kamaldeep - Moderator

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

---

### Himanshu Shah - HDFC Securities - Mumbai

Sir, basically question is, as per the M&A, what percentage of churn is allowed annually without any penalty clause?

**Bharti Infratel Limited Second Quarter Ended September 30, 2017 Earnings Call**

---

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

So Himanshu, there are specific clauses in the contract that I don't want to discuss here in general terms. But after reaching a certain volume, there are exits that are applicable, which are a small percentage of the tenancy deployment that they have. But these trigger in after you cross the thresholds of minimum co-locations that you have had with us.

---

**Himanshu Shah - HDFC Securities - Mumbai**

Okay. Okay. And secondly, as the 4G rollouts accelerate, do we foresee a scenario where 3G or 2G network starts getting rolled back? And if it does happen, in that kind of a scenario, how do we see the tenancies evaluate or getting rolled out over the medium to longer term?

---

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

Himanshu, from a tenancy standpoint, we do not expect any change. This is what, in terms of our tenancy reporting, a unique customer in our site is treated as a tenant. And after that, all the electronic changes that he does in the site is loading. We do expect some amount of deloading and loading, but this is part of normal business operations. We've seen that when 2G moved to 3G, 3G to 4G, single RAN started to come in. What we have seen is the operators use these as opportunities to deploy the latest equipment, and this is an ongoing operational business of loading and deloading on the sites. On a net tenancy basis, we don't expect any change or any down revision on tenancies on account of either 3G being switched off or 2G being switched off at some later point in time.

---

**Akhil Gupta - Chairman - Bharti Infratel Limited**

But that too is a far cry as of today. There is, I don't see any possibility of 2G being shut off completely. That's a long time off, but it'll make no difference to tenancy because on each one of those sites, the operators are 3G and 4G. So that wouldn't make any difference.

---

**Himanshu Shah - HDFC Securities - Mumbai**

Okay, fine sir. Thanks, that was useful and all the best. That's it from my side.

---

**Kamaldeep - Moderator**

Thank you very much Mr. Shah. 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 Akhil cited, the telecom industry is undergoing consolidation, and last quarter saw a slowdown in net additions. Nonetheless, all operators have started to capitalize on the growing data opportunity. Consolidation in sector will also lead to stronger and faster rollouts, as it would result in stronger and more stable operators. For the 6 months gone by, demand for new towers remain in the range of 1% to 2%, while co-locations grew faster by 11% year-on-year. We believe that operators would want to benefit from the increasing data consumption, add it with the need for improving quality of service, this will translate into healthy growth for Bharti Infratel. This has been a positive quarter with consolidated revenue at INR 3,648 crores, up 11% year-on-year, and EBITDA growing faster at 12% year-on-year to INR 1,634 crores. We believe that we are ready with the necessary capability and commitment to capitalize on the emerging data opportunities. On behalf of the entire Bharti Infratel team, I thank you for your continued support. We look forward to exciting times ahead. Thank you.

---

**Kamaldeep - 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.