

**Bharti Infratel Limited Second Quarter Ended September 30, 2018 Earnings Conference Call**

## Conference Call Transcript

Event: Bharti Infratel Limited Second Quarter Ended September 30, 2018  
Earnings Conference Call

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<b>Bharti Infratel Limited Second Quarter Ended September 30, 2018 Earnings Conference Call</b>
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Ambit Capital - Mumbai

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Nomura Securities - Mumbai

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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, 2018, 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!

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

Thank you. Thanks for joining us on this earnings call for the quarter ended September 30, 2018. One of the big highlights of the quarter for the Indian telecom industry was the approval granted by the Union Cabinet to the National Digital Communication Policy 2018. This, as you would have noted is a forward-looking policy, which provides a good roadmap for the next level of growth and development of the Indian Telecommunications sector.

For companies engaged in telecom infrastructure, the policy has a number of positive developments, such as enhanced scope of IP-1s to offer active infrastructure, according telecom infrastructure the status of critical and essential infrastructure at par with what is given to the electronic telecom infrastructure, facilitating Fiber-To-The-Tower program to enable connecting at least 60% telecom towers on fiber and promoting collaborative models for provision of shared duct infrastructure.

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These will further incentivize industry participants to share infrastructure and help us transition from largely a towerco to a broad-based telecom infrastructure provider. With the Government's commitment to 5G as mentioned at NDCP, and at various international forums, these developments augur very well for infrastructure providers like us.

A key development for the company as given in the press release this quarter has been that subsequent to the completion of Vodafone-Idea merger, both Infratel and Indus Towers have now received exit notices, which have resulted in exits of approximately 28,000 co-locations on a consolidated basis for Infratel and approximately 55,000 overall. Now this very clearly puts this uncertainty behind us.

While the exact details are being worked out, on a consolidated basis, the exit penalties from the ongoing operators should be in the vicinity of about Rs.1500 Crores, which we would endeavor to settle in a combination of cash, which should be a significantly portion and the balance by way of committed future revenues under a combination of either new co-location commitments in the next 9 to 12 months or extension of contracts by another 5 years.

We hope to finalize these and close before the end of the current quarter. With other operators who had exited earlier, we are pursuing the matters legally. As I mentioned the uncertainty on exits now has been laid to rest; with the consolidation in the sector behind us, the stage is now set for rapid rollout of 4G. For instance, you would have noted, media reports on Voda-Idea getting ready to place large orders on the equipment vendors. The Government has also indicated that the spectrum auction for 5G could take place in 2019-20. Introduction of 5G would further enhance demand on new sites, which would be in very large numbers due to higher bands of spectrum for 5G.

The merger process with Indus Towers is proceeding satisfactorily. We have already got permission from Competition Commission of India (CCI) and Securities and Exchange Board of India (SEBI) and have filed the first motion petition before National Company Law Tribunal (NCLT). We do hope to close this by around March 2019.

Coming to operational parameters, the consolidated tower base on September 30 stood at 92,123 with co-locations declining by 20.7% year-on-year with a co-location sharing factor of 1.89 at closing. Against the backdrop of this massive 21% drop in co-locations, our financial performance has been quite robust. For instance, service revenue, declined only by 6% year-on-year. EBITDA by 8%, EBIT declined by 9% and net profit declined only by 6% year-on-year to Rs.6 billion. The ROCE pre-tax and ROE post-tax remained healthy at approximately 34% and 16% respectively.

The Board yesterday declared an interim dividend of Rs.7.50 per share for the financial year 2018-2019.

To conclude, we remain optimistic on the tower industry and the demand in future. We believe the structure in the industry is now right, network densification is the need of the hour and as the operators focus on delivering high-speed and high-quality 4G services across the country, we believe the demand for both above and below ground infrastructure and the further demand coming by way of 5G by 2020, will make the overall demand a robust proposition. This will, of course, entail bigger initial investments, which will necessitate collaboration and sharing, which is the backbone of our business model.

With the uncertainty about loss of co-locations behind us, we are looking to some robust and strong growth henceforth. Before I hand the call back to the moderator and open the floor for questions, I would like to introduce S. Balasubramanian, popularly known as Bala, who has recently taken over as CFO from Pankaj Miglani. Thank you.

### **Kamaldeep - Moderator**

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

### **Sachin Salgaonkar - Bank of America - Mumbai**

Thank you for the opportunity. My two questions are, number one, Akhil, I just wanted to understand the timing of when this Rs.1500 Crores would hit the P&L in terms of revenue, and will all that impact generally flow to EBITDA or there is a bit of room out there in terms of cost control? Second question, clearly we're seeing data on the ground picking up, and clearly with data the fiber needs also rise. But we are not seeing major sharing in terms of fiber. Any thoughts on just the way you guys created an Indus and Infratel structure of creating a sort of a similar entity at a fiber level?

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

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Let me try and take this. In terms of Rs.1500 Crores, firstly, the revenue recognition principle that we have set in the past for all exits is basis actual payment. We are also looking at seeing if there is part adjustment towards cash and part adjustments towards future business as Akhil mentioned. And if that was to happen, obviously this will get straight-lined over a period of time, and should get recognized as additional revenue and as additional business, as and when that gets settled. From a timing of settlement, we are hoping that we have the settlement before we come back for the next result announcement. So we will have more concrete details then on how exactly and what is exactly signed with the operators.

On your second question of data picking up and fiber, we have, as Indus-Infratel, definitely created Smart Cities where we are looking at interest from various Government authorities and also private operators. On sharing of fiber assets, this is in the operator domain right now and they are competing with each other and looking at a bilateral kind of sharing. So what tower was way back in 2006 and 2007, we see fiber at about the same stage. And there are some bilateral arrangements of sharing, but on a very selective basis between the operators. Will this take up? Yes, going forward there will be. And we also understand that large operators are in the process of hiving off their fiber assets so that they can monetize or create models like Indus.

**Sachin Salgaonkar - Bank of America - Mumbai**

This is helpful. One small follow-up question is, these Idea-Vodafone exits, are these largely behind us? Or we could hear about more exits in next 12 months or at some point in future?

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

So for us, large part of it is already done in terms of exits that were supposed to come between Voda and Idea and both Indus and Infratel.

**Sachin Salgaonkar - Bank of America - Mumbai**

Large part in the sense, there is a small part which may come later?

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

There are permitted exits that are part of the contracts with operators as and when they optimize their network. Minus that, as I said, on account of mergers, a large part that was supposed to happen is already done. And we think with this pretty much all the consolidations related to merger or with operators exiting is all played out in the numbers now.

**Sachin Salgaonkar - Bank of America - Mumbai**

Thank you.

**Kamaldeep - Moderator**

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

**Manish Adukia - Goldman Sachs - Mumbai**

Good afternoon and thank you for taking my question. I have two questions. Firstly, if can you just talk about the gross tenancy addition trends? When do you expect that to start picking up? Do you expect Vodafone-Idea to contribute to that number at all going forward and what about the behavior from other customers like Bharti and Jio? And when does the loading phase in your view end and new tenancies start coming in? That is my first question. And second question is similar to the first question that was asked earlier. Any meaningful role that Bharti Infratel is playing or can potentially play for small cell deployment in other parts of the country and could that be a viable sharing model in your view?

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

On gross additions that we are seeing, if you have looked at the numbers, there is a little bit of uptick on the new towers being built out. There are a few towers also being built under USO (Universal Service Obligation) by the operators. You are also aware of Jio having plans of rolling out aggressively as they move forward. So we do expect things to pick up. In terms of your question of saying how and when Voda-Idea will do that, that is specific to them, they are going through a merger process. We are seeing accelerated pace of 4G deployment as cabinet expansion in our numbers and increasingly that number for the leading operator is trending more

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towards the 90% of their size. For the operators that are trailing, we see them doing a catch up too on account of the big growth that we are seeing on broadband customers and their usage. And these numbers, you can see that there is a small bit of increase and we think from here on it will accelerate. The fact that Jio wants to do close to about 300000 sites is known. Service quality improvement is a focus area, now that most of the consolidation is played out, their major customer gaining strategy would be around service differentiation and for which they will have to add higher number of sites once they have done 4G on their entire existing sites. So we think this will help us gain larger share given our largest footprint that we have between Indus and Infratel across the country. On Voda-Idea as I said post their rationalization and Akhil did mention that there is media news which are talking about their vendor finalization. We do expect once that is done, the merged entity will start to roll out and do the catch up to stay as #1 in areas where they have not rolled out so far.

On your question of small cell, we have already deployed both in Indus and Infratel various types of small cells, including on poles, on Metro railway track and so on and so forth that you might be able to see in metros, primarily towards creating a shared model. We believe there is a sharing model available for small cell, where the ground rental sharing itself could mean meaningful part for the operators, but that is subject to two critical areas: One is availability of power; and second is fiber. We think that will play catalyst role in terms of accelerating small cell deployments in this country. We are working closely with the operators as Smart City is a great opportunity to showcase some of these products where we are using street furniture to provide better coverage to the citizens. We think these shared models of small cell will be the way to grow in a country like India where there is so much of price sensitivity to the end customer and the tariffs are so low. And we think this is a scalable model more in preparation of 5G, more than 4G today, we still think there is macro growth to come on 4G. And before 5G comes in, small cell will be there as a stable product and will cater for the large numbers that 5G is envisaging to cover in those high frequency bands.

### **Manish Adukia - Goldman Sachs - Mumbai**

Thanks so much DS for your detailed responses. A couple of just quick follow-ups. In think in the past you have mentioned that once operators reach or fill the existing towers with loading, they would come out with new tenancies, are you saying that now operators have reached that stage where loading is largely done, so new tenancies should start coming in? Second follow-up question is on Jio when you mentioned, are you still seeing incremental tenancies from them or tenancies in a meaningful manner from them because they have in the past continued to mention that they're building their own towers, but are you seeing them deploy with you also in an aggressive manner?

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

So as I mentioned earlier, we are seeing leading operators in their leading circles to reach those high 90% in terms of 4G deployment on their existing sites heading towards that 100% on all existing sites. Once that is done, we do expect them to start adding sites. And I did mention, we are seeing a small uptick in the new site build out, which was pretty dormant for some time. We expect this to pick up from here on. For the trailing operators and when I say trailing in the particular circle because the 1<sup>st</sup>/2<sup>nd</sup>/3<sup>rd</sup> position changes, there is still a huge amount of headroom in terms of 4G deployment, given that they have not fully deployed all the spectrum brands that they have won for 4G. So we are seeing that still continue. We are in fact seeing still an accelerated pace of 4G base station deployment on the existing sites by all the operators. Your question on specific on Jio, Jio traditionally has built sites on their own. It is a known thing that they declared, whatever sites they are offering for sharing, we think we continue to gain on our market share on whatever is offered for sharing and we continue to focus on whatever is coming in as sharing numbers from Jio.

### **Manish Adukia - Goldman Sachs - Mumbai**

Sure. Thank you and all the best.

### **Kamaldeep - Moderator**

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

### **Kunal Vora - BNP Paribas - Mumbai**

Thanks for the opportunity. First question, have you received any exit penalties in the first half, like Tata, Telenor at least while Vodafone-Idea you might still be in talks with, but for the earlier ones whether you received something? Second, why would you, settle for new business or extension of contract in lieu of exit penalties, why not just insist on cash? That is first question. And second one, I also wanted to understand with rising diesel cost, would the pace of green initiative, electrification of towers increase? And in your energy costs, what will be the contribution of diesel versus electricity? That is it.

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

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On the first one, very clearly, we are in the business of helping our customers grow business. And therefore, from our point of view, if we can get committed business for future that's always a much better proposition than getting some lump sum cash in one go, it does not serve our business interest. But yes, certainly, there will be a combination of the two. And we are very happy making sure that there is more business coming to us. On Tatas, I think it is a small amount, which is being finalized.

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

On your question on green initiatives and on energy costs, the split is very different depending on where you're looking at. Metros, obviously, the grid electricity is better, hence the diesel consumption is low. Rural parts, again, when you go and the grid availability is poor and hence vice versa. There is a continuous focus on the company's side to make sure that on existing sites, we reduce diesel every year and those projects are going on track, both in terms of our green sites that we are trying to build in, diesel-free sites, and in fact, some of the small cell and new products that we are creating are sites without diesel generator itself. And hence, we'll try and continue on that journey of making sure that we are reducing overall diesel consumption in the network. Given the current improvement initiatives that the Government of India has also taken, that will also help in making sure that we accelerate the pace of green deployment in our circles.

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### **Kunal Vora - BNP Paribas - Mumbai**

Okay. So would the energy cost from your towers be very different compared to what Jio might be spending on its towers? Would you be able to comment on that?

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

It is difficult because this data is not on the public domain, but in the circles that we operate for a given load, the energy cost is a function of the load that is there and the grid availability in that particular area. And if they are operating on a similar area, we do not expect these to be significantly different.

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

Yes, they cannot be significantly different. But it depends if something is in a big city versus a remote area, naturally the cost will be different.

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### **Kunal Vora - BNP Paribas - Mumbai**

Sure. And lastly, in your revenue base currently, what will be the contribution of loading? Would you be able to quantify that?

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

Sorry, we have not given that in the public domain yet. So I will not be able to comment on that Kunal.

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### **Kunal Vora - BNP Paribas - Mumbai**

Sure, thank you. That is it from my side.

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### **Kamaldeep - Moderator**

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

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### **Srinivas Rao - Deutsche Bank - Singapore**

Thank you very much, Akhil, and DS. Two questions. First is, if I look at the impact for Infratel on a standalone basis and Indus, separating it out, the impact seems to be much larger for Indus, they seem to have lost approximately 20% of their tenancies, whereas, Infratel has been almost approximately 10%, this is based on your disclosures. And also it seems that Indus has seen an increase in the sharing revenue, which is what you would expect, but Infratel on a standalone basis also. Just trying to understand why is there the divergence in these trends? That will be my first question. Second, Akhil in your opening remarks you mentioned

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something about targeting the critical infrastructure level and that helping the fiber and the IP-1 license being changed, can you just elaborate on that, that will be really very helpful?

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### Akhil Gupta - Chairman - Bharti Infratel Limited

So let me take up the second one first. I think what the National Digital Communications Policy says is that in context of safety of the infrastructure created, they will treat it as essential infrastructure, which is a big thing for us. Because what happens with that is, if that comes through, that all the threat of sabotage and of anybody coming and saying shut this site, that goes. The sudden closures of sites cannot be then done. So it's more with respect to safety rather than any financial incentive.

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

On your first question, I did not get the exact question, in terms of sharing revenue trends on a per tenant basis, I do not see divergent trends on the numbers unless we are seeing some other number.

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### Srinivas Rao - Deutsche Bank - Singapore

You disclosed Bharti Infratel standalone towers and co-location and then you gave Indus numbers also so if I look at for the quarter, on a standalone basis, Infratel sharing revenue per tower per month that number has gone down from 84000 to 82000.

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### Akhil Gupta - Chairman - Bharti Infratel Limited

For both it has gone down.

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

That is per tower, you are referring, it has gone down on both. If your question is more an Indus versus Infratel that is because Voda-Idea had right of first refusal in Indus and that is why you could see a small amount, so the trend is not divergent, it is alike, it is just that the impact is slightly higher in Indus than in Infratel.

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### Akhil Gupta - Chairman - Bharti Infratel Limited

It is more or less on the same lines.

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### Srinivas Rao - Deutsche Bank - Singapore

And the loss of tenancies being relatively higher for Indus is that also?

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

True and hence, the number.

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### Srinivas Rao - Deutsche Bank - Singapore

Thanks. I will come back for more questions. Thanks.

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### Kamaldeep - Moderator

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

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### Vivekanand Subbaraman - Ambit Capital - Mumbai

Thank you very much for the opportunity. The first question is on your core operating margins on rental revenue, excluding energy. That did not decline much, and it stood at 65% despite the revenue and tenancy drop. What were the key factors resulting in

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margins remaining firm? And where should we look at these margins going ahead? Secondly, on fiberization, you mentioned that this is a great opportunity for you and you see that operators are now more amenable to sharing fiber. But as the quarters roll by, Airtel, Jio, they seem to be very aggressive in rolling out fiber. Would not it get more and more difficult to hive off fiber assets, given that in several large urban centers where there is high demand, fiber rollouts will be aggressive? And lastly, did you quantify the exit penalties that you expect to receive in total?

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

So on your first question on core margins. Yes, there has been some operational initiatives where we have managed to reduce the cost a little bit. And also, if you look at Voda-Idea numbers, there is a 1-month impact as a part of the 3-month that you see there. There is some residual impact that is likely to come incrementally as you move to the next quarter, and there on that will become the new normal. However, as I said, on operational front, there have been some initiatives, which have also yielded some positive results as you can see on the cost line items there. There have been some reductions on both network side and also some stabilization on the personnel costs there. On account of Voda-Idea and others, we expect incrementally anywhere between Rs.45 Crores to Rs.50 Crores per month impact to come in, in the subsequent quarter.

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### Vivekanand Subbaraman - Ambit Capital - Mumbai

Right. Sorry on the operational front, you mentioned that some of these initiatives that you took are lasting. Have they also spilled over to the maintenance capex side? Because I am noticing that maintenance capex has declined to INR 120 Crores from an average of around INR 150 Crores in the last few quarters?

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

Maintenance capex, firstly you need to see that on a full year basis, because there are some seasonal adjustments depending on which part of the country you are looking at. We do prepare for wintery peaks in snow-clad areas and also floods and other things in other areas. So I would suggest for maintenance capex to have a yearly view, there we are not seeing a significant change. But as grid electricity improves, we do expect, because a large part of maintenance capex is towards replacement of batteries and generators. We do expect to trend downwards in the longer run, but in the short run, we are not expecting that to change meaningfully. In terms of initiatives, yes, some of them are sustainable and that will become the new baseline too. But will they continue to yield you EBITDA margin improvements? As I said, as you get down to the levels that we have reached on, increasingly we expect these numbers to be more stable than actually yielding EBITDA margin improvements on the numbers.

Your second question on the fiberization, if I try and answer that. Fiber requirement right now as we still see is pretty huge within the cities. More so, first, is of course interconnecting the towers from the current ratios of 1:4 or 1:5 depending on operators that are connected on fibers. As you move to high spectrum availability to each operator, the only way you can aggregate traffic and take it back, given the large spectrum pools that are available with each operator is through fiber. And we see higher deployment of fiber taking place in each of these areas. As you move to small cells and 5G, this requirement will only go up and that is our belief. Within the cities, the requirement of fiber for FTTH kind of applications, both to the homes and also to interconnect the small cell sites, which would come in millions in the long run, you will need fiber pretty much in every street that one could look at within the cities. And there, we do see increasing deployments by incumbent operators as their traffic is growing and the sharing as I said we see is mostly bilateral. No one is doing proactive building of fiber to sell to somebody, except in the case of Smart Cities that we have built in Vadodara for Indus and NDMC in Delhi and also in Bhopal.

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### Akhil Gupta - Chairman - Bharti Infratel Limited

I think a very fair point is, at this point, we do not know how the operators would deal with the fiber, but we believe the fiber asset like the towers has got to come out and be shared on a non-discriminatory basis. As far as our company is concerned, we would definitely try to see that we can roll out fiber in connecting the tower as the last mile and in rolling out fiber in the Smart City projects, which we win in the tender.

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### Vivekanand Subbaraman - Ambit Capital - Mumbai

Right. And lastly, on the exit penalties.

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

So on exit penalties, for the exits that we have seen, the exit penalty is close to Rs.1500 Crores on a consolidated basis.

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### Vivekanand Subbaraman - Ambit Capital - Mumbai

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Thanks a lot.

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**Kamaldeep - Moderator**

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

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**Sunil Tirumalai - Credit Suisse - Mumbai**

Good afternoon. This is Sunil Tirumalai. I have a couple of questions. Jio right now, out of the estimated 180000 or 200000 sites that they may be having, what is your estimate of their own sites versus what they have rented?

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

Hard estimates for me to give. We do have some information, but we do not give this information in respect of our customers.

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**Sunil Tirumalai - Credit Suisse - Mumbai**

Okay. Of the sites that they are building, are they all only monopolies with no intention to share or do you think there is a threat that they could open up for sharing at some time?

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

Again, I think it is so inappropriate for us to tell you. I think it is best to ask them.

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**Sunil Tirumalai - Credit Suisse - Mumbai**

Thank you very much.

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**Kamaldeep - Moderator**

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

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**Anirudh Gangahar - Nomura - Mumbai**

Thank you. Good afternoon. The first question is that you mentioned Rs.1500 Crores is the typical exit penalties from ongoing operators. This would essentially be Voda-Idea and everything related to Bharti, Tata and Telenor I am assuming. Would you have any such ballpark assessment of what would be the amount for the operators that have exited that you are in the process of recovering via the legal process? That is question one. Second question is on the energy charges and the reimbursement, the margin seemed to be a lot higher on Infratel versus Indus, any reason for that? And secondly, on this topic, is there a possibility that we could go through a pass-through system, given that the telcos are not having the best of health at this point of time? Thank you.

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

So your first question is right. Your understanding is correct there of Rs.1500 Crores being with ongoing operators that we are pursuing exits on. Rest of the cases, the matter of right now subjudice at various stages of legal recourses hence I would not like to give that number away. Just to put that in perspective, these numbers are significantly smaller. We had said that in the past that our exposure to smaller operators was much lower than some of our competition. And hence, these numbers are also proportionately small. But we are not quantifying that at this stage because each of these are individual arbitrations that are in process.

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

And also looking at the status, the chances of recovery do not look too good. And that is why we took a policy earlier on that these things we will recognize only on actual receipt.

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

Your second question related to energy margin, again, category B and C circles, there is a different profile as compared to the metros and cities where there is better grid availability, hence, the opportunity to maximize grid is lower in some cases and your ability to put other green initiatives is also lower. Some of this is also to do with additional batteries and additional capex that have been incurred in these sites and you do see that impact coming in. Also some of the things that you expect on improvement of grid have all played out. And that is why you do see a difference there on energy margins but again, this has to be, again seen on full year basis. There are places, which get impacted in winters as against the summers. The full year impact would be a more fair assessment between Indus and Infratel. Your question of whether operators would like to move to pass-through? Today, operators have seen significant benefits on account of the fixed energy models that have been signed up with them where there are savings and all these initiatives that we're jointly taking have yielded good results for the operators and has also reduced the amount of effort and time required for reconciliation between both the parties. In order to continue to encourage tower companies to make investments towards diesel reduction, we believe this is the model to go forward and will only get improvised from this point on to become more load-oriented rather than base station-oriented as it is today to go forward and become more indexed to the current grid price as against grid versus diesel that is available today.

**Anirudh Gangahar - Nomura - Mumbai**

Right. Just one follow-up to the first question that was asked at whatever termination charges we get, that would be a straight flow through to EBITDA level?

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

Well, our endeavor which we are in discussions is that whatever we get by way of cash, that also we would like to amortize over some period and not take it in the same month, but we are not too sure at this point as to what kind of accounting treatment would be allowed. But yes, to that extent, it goes straight to the EBITDA. There is no related expenditure to that.

**Anirudh Gangahar - Nomura - Mumbai**

Right. So basically, whatever you are going to get in cash, which you will have a better visibility on by the next quarter that also may actually be recognized on an amortized basis actually?

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

We would like to do that.

**Anirudh Gangahar - Nomura - Mumbai**

Thank you.

**Kamaldeep - Moderator**

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

**Sanjay Chawla - JM Financial - Mumbai**

Good afternoon. Thank you for the opportunity. I have just one question. Can you comment on the amount of free reserve that you have on the balance sheet that you can potentially utilize to pay out dividend more than the annual profit or you could also do a share buyback?

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

Right now, we cannot do a share buyback because our merger scheme is in progress. But yes, there is some fair amount, I do not have the figures.

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**S Balasubramanian - Chief Financial Officer - Bharti Infratel Limited**

In terms of distribution we only have a marginal amount. And by and large we have exhausted distributable amounts.

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**Sanjay Chawla - JM Financial - Mumbai**

Sorry, I did not get, you have some marginal amount?

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

Yes. Because we have been declaring most of the dividend whatever profits there are.

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**Sanjay Chawla - JM Financial - Mumbai**

Yes. That is correct. Just one quick question related to the Voda-Idea impact. You said most of the tenancy exits are done, do see any scope for further exits in the sense, the overlapping one has already played out, but ones which are not overlapping because they could have lot of towers or tenancies which are nearby being two of the major legacy operators. Do you see some impact potentially coming as a result of those non-overlapping, but nearby tenancies?

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

The overlapping includes, to our mind, all those towers.

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**Sanjay Chawla - JM Financial - Mumbai**

Overlapping includes the nearby towers as well where they both are not present on this. Okay. Thank you and all the best.

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**Kamaldeep - Moderator**

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

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**Himanshu Shah - HDFC Securities - Mumbai**

Thanks for the opportunity. So just on exit penalty, the Rs.1500 Crores number that is for Infratel, plus 42% of Indus, right? Or is it for Infratel plus 100% of Indus?

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

No. As you said, 42% of Indus.

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**Himanshu Shah - HDFC Securities - Mumbai**

Okay. So, what would be the full number because we are going to merge with Indus, so Infratel plus Indus, if you can help to quantify?

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

I do not have the calculation there, but I think next time when we give the complete details, we will talk about that.

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**Himanshu Shah - HDFC Securities - Mumbai**

Sure, Sir. And second question on the overlapping tenancy part, as Vodafone-Idea probably starts to removing their equipment, should we assume some more impact on the revenues on account of that, the 55k tenancies for Infratel plus 100% of Indus that

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they have exited? In case they start removing the equipment, could there be further impact? And have they already started doing that?

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

So as Akhil mentioned, firstly, we do not expect anything beyond the numbers that have already come in. In terms of redeployment equipment, if paper articles were to be believed they are finalizing vendors for them to redeploy probably equipment within the circle or between circles. So we will get to know once they have that plan announced to everybody.

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

But we do not expect their ability to remove too much of the equipment because they will need large capacities. And therefore, they will have to leave most of the equipment on the site as loadings.

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**Himanshu Shah - HDFC Securities - Mumbai**

Thank you. Thanks a lot. That is it from my side.

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**Kamaldeep - Moderator**

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

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**Srinivas Rao - Deutsche Bank - Singapore**

Just on the dividend, the interim dividend which you have paid, that is almost Rs.1400 Crores and then there will a dividend tax on that. That would mean you would still be accruing cash, right? Because your cash flows are ultimately running higher than that. Is that a fair comment?

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**S Balasubramanian - Chief Financial Officer - Bharti Infratel Limited**

Yes, you can assume that.

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**Srinivas Rao - Deutsche Bank - Singapore**

So I mean, still by the end of the year, you will still I mean, even if you pay your full even the payout reaches, you will still be accruing cash for the year, right?

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

More or less equal.

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**S Balasubramanian - Chief Financial Officer - Bharti Infratel Limited**

Yes.

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**Srinivas Rao - Deutsche Bank - Singapore**

We have not seen the NCLT filings. Is there any chance that your free reserves could increase post the merger? Is there the merger, what we call documentation, envisage free reserves getting created?

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

I do not know. We have not looked at the post-merger accounting. I really would not know.

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**S Balasubramanian - Chief Financial Officer - Bharti Infratel Limited**

Post-merger, we have not finalized the accounting. And it depends upon how the accounting treatment of the merger will determine that. As of now, I don't think we have anything to share beyond that.

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

Srinivas, to your earlier question, if you go to Page 23, if you look at the depreciation and amortization figures, they are pretty much in line with the capex figures. And therefore, the cash flow is more or less the same as the net profit.

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**Srinivas Rao - Deutsche Bank - Singapore**

Thank you.

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**Kamaldeep - Moderator**

Thank you very much Mr. Rao. At this moment, we do not have any further questions from participants. I would now hand over the call proceedings to Mr. D.S. Rawat for the final remarks.

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

Thank you. With Vodafone-Idea merger, the negative impact due to operator consolidation is completely incorporated in our tower tenancy portfolio. Despite the consolidation impact, we closed the quarter with consolidated revenue of Rs.3668 Crores and EBITDA of Rs.1506 Crores, profit after tax of Rs.600 Crores. With the worst behind us, we have started to see some increase on the new tower build out with three large and strong private operators competing for growth, along with the Government operator, we are seeing strong 4G cabinet expansion. With increasing focus on service quality, we expect the catch-up will also reflect in tenancy additions going forward. As Akhil cited, the new forward-looking NDCP with Government's commitment towards Digital India augurs very well for infrastructure providers like us. With our pan India coverage and strong operational performance, we believe that we are ready to capitalize on emerging opportunities of sharing on a non-discriminatory basis. On behalf of the entire Bharti Infratel team, I thank you all for your continued support and we wish you all a very happy Diwali. Thank you.

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**Kamaldeep - Moderator**

Thank you Sir. Ladies and gentlemen 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.