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Q4 2020 Bharti Infratel Ltd Earnings Call

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TEXT version of Transcript

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Corporate Participants

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* Akhil Kumar Gupta

Bharti Infratel Limited - Executive Chairman

* Devender Singh Rawat

Bharti Infratel Limited - MD, CEO & Additional Director

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Conference Call Participants

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* Arun Prasath

Spark Capital Advisors (India) Private Limited, Research Division - Research Analyst

* Kunal Vora

BNP Paribas, Research Division - Analyst

* Manish Adukia

Goldman Sachs Group Inc., Research Division - Equity Analyst

* Nitin Shakhder

* Rajiv Sharma

SBICAP Securities Ltd., Research Division - Co-Head of Institutional Research

* Varun Ahuja

Crédit Suisse AG, Research Division - Associate

* Vinay Jaising

* Vivek Ramakrishnan

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Presentation

Operator [1]

Good afternoon, ladies and gentlemen. I'm Rajitha, the moderator for this conference. Welcome to the Bharti Infratel Limited Fourth Quarter Ended March 31, 2020, Earnings Call.

(Operator Instructions) 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 Kumar Gupta, Bharti Infratel Limited - Executive Chairman [2]

Thank you very much. Good afternoon, and we thank all for joining us on the earnings call of Bharti Infratel for the fourth quarter and for the full year ended on 31st March 2020.

Joining me on the call today from their respective locations, as you know, we are all working from home, are the MD and CEO, Mr. DS Rawat; Akhil Kumar, Head of Finance for Bharti Infratel. And since obviously, there is a bit of a conclusion with my name and his, I think we'll address him as Kumar for the duration of this call.

First and foremost, I hope all of you and your families and friends are staying safe and healthy as we fight this very unprecedented pandemic, which has emerged as a very serious crisis of our times. I also want to extend our sincere gratitude to all the medical professionals, other essential workers who are working tirelessly in the front line.

Before I talk about the sector and our performance, let me also update you on how COVID-19 has impacted your company. India, as you know, has been under a lockdown since 24th of March. And that day itself, the Ministry of Home Affairs had notified telecommunication services among the -- as an essential service, which will continue to operate during lockdown. The passive infrastructure as well as the active telecom operators are covered under this notification. And they are actively engaged in fulfilling the surge in demand arising out of the choice exercised by -- I mean, now, no, it's not a choice, but by almost all industries who work from home.

I would like to take this opportunity to congratulate the teams on the ground, who have done an absolutely remarkable job in keeping the services up and running. Initially, there were some glitches, there were some problems, but I think we've been able to address them very, very well. And what I would request is DS to specifically address this in his closing remarks and give a glimpse of the steps that we have been taking as a company during the COVID crisis.

Coming to the sector development. Financial year '19/'20 proved to be a real eventful year for the Indian telecom industry, not every event was, of course, the most desired. The most notable development was the Hon'ble Supreme Court judgment on AGR matter as you all know. Now what has happened, in the last 3 months, the operators made payment based on self assessments once DoT asked them to do so. However, the Hon'ble Supreme Court in its order of 18th March directed that no self-assessment was authorized and dues which were placed before the court has to be paid, including interest and penalty, as affirmed by its judgment dated 24th October 2019.

As part of the same hearing, the Hon'ble Supreme Court also directed that the application filed by DoT with respect to giving a long time and to cease interest after a particular date would be considered on the next date of hearing, which is yet to be listed. As you are aware, immediately after that, COVID and because of the lockdown, Supreme Court has not been able to complete this very, very vital hearing. We do remain hopeful for a favorable outcome as suggested by the government in terms of 20-year payment and so on, which we believe will help maintain the current industry structure and help boost long-term investments by the operators in their respective networks.

The current pandemic also underpins very clearly the significance of these telecom and related passive infrastructure investments. They are, without a doubt, the backbone carrying the remote operations of industries and government alike.

Coming to the company update now. First, let me give you an update on the merger process with Indus Towers. You would recall that the Long Stop Date for this scheme originally was 24th October 2019. And after a couple of extensions because of non-receipt of approvals, it has been finally extended till 24th February 2020 initially. The company then received approval just before that date on 21st February. And since, obviously, the time was not sufficient, the Board had extended the date till 24th of April 2020. (technical difficulty) of COVID and the nationwide lockdown as well as the continuing uncertainty on the AGR matter, the Board of Directors of Infratel in their meeting yesterday have agreed to further extend the Long Stop Date till 24th June 2020, subject, of course, to agreement on closing adjustments and other conditions precedent for closing. And I must remind that under this extension, each party retain the right to terminate and withdraw this scheme at any time they wish. We will continue to come out with all announcements relating to any development in this regard.

Moving on to the business side. I think we have some notable developments for both Infratel and Indus on towers and co-locations.

On a 100% basis, Indus and Infratel reported gross co-location additions of 13,623 in financial year '19/'20. And it's heartening to see that it actually grew by marginally 3% year-on-year. The gross tower additions on a 100% basis for the 2 companies have more than doubled in the last year and have been actually the highest in 9 years. This very clearly signifies the need for more towers and more network as we have been saying, which is now becoming I think true. As on 31st March '20, the consolidated tower base, which includes 42% of Indus, stood at 95,372 and the co-location factor, with almost 175,000 co-locations, was at 1.83.

Coming to the financial highlights for the year and the quarter. First of all, I would like to point out that the reported results for '19/'20 are not comparable to the '18/'19 results due to: a, the impact of Ind AS 116, that is new accounting which came into effect from 1st of April 2019; and two, the reduction in income tax rate from 35.94% in '18/'19 to 25.17% in financial year '19/'20.

For the full year, the consolidated revenues were at INR 14,647 crores, almost flat vis-à-vis last year. However, because of the Ind AS factor, the consolidated EBITDA was at INR 7,442 crores, up 23% year-on-year. The operating free cash flow for the full year was INR 4,315 crores, up 2% year-on-year. And the consolidated PAT was at INR 3,299 crores, up 32% year-on-year.

Excluding the impact of Ind AS 116, the revenues, EBITDA and OFCF, that is the operating free cash flow, for the full year declined by 2%, 3% and 6% year-on-year, mainly attributable to co-location exits, which continued in a big way during the first half of this year, while the profit after tax on a like-to-like basis grew by 27%, that was mainly due to lower taxation.

For the quarter, the consolidated revenues at INR 3,624 crores were 0.7% up year-on-year. EBITDA for the quarter was at INR 1,721 crores, up 12%; operating free cash flow at INR 847 crores; and consolidated profit after tax at INR 650 crores, that was up 7% year-on-year.

However, again, excluding the impact of Ind AS 116, the revenue and PAT declined marginally, while EBITDA and operating free cash flow declined 13% and 33% year-on-year, respectively.

During the quarter, we have provided for doubtful debts due to delayed payment from some operators that's our customers, which is purely based on our accounting policy. Had the same not been accounted for, I'm referring to the extraordinary provisions, the EBITDA for the quarter, including Ind AS 116, would have been higher by INR 193 crores and grown by 2% and 25% on a quarter-to-quarter and year-to-year basis, respectively, versus the drop of 9% quarter-on-quarter and growth of 12% year-on-year.

The return on capital employed pretax and the return on equity post-tax for the quarter were both at approximately 24%, again, displaying a very healthy overall financial performance.

I'm pleased to inform that the Board of Directors yesterday also declared the third interim dividend of INR 4.10 per equity share in respect of the result for financial year '19/'20. This along with the 2 prior interim dividends of INR 3.75 (sic) [INR 3.65] and INR 2.65 (sic) [INR 2.75], respectively, would result in total dividend of INR 10.5 per equity share for financial year 2019/'20.

I would like to add that this does not include any dividend received from Indus so far. And we do expect that as every year goes by, Indus would also be declaring the dividend. I think 1 of the reasons why they've not declared is because there was (technical difficulty) outstandings to become all right. So we would hope to get some more dividend from there that as per our dividend policy we will be passing on.

To conclude, our outlook on the sector remains constructive in light of the rising demand and improvement in tariffs. As I mentioned earlier, the tower increase, the new tower increase has been quite encouraging, the best in 9 years. And with the expected introduction of new technologies like 5G in the coming years and the need for a better connected nation in the post-COVID world, we can only expect the role of passive infrastructure players like us to intensify.

Thank you very much. And with that, I would like to open the floor for questions and answers.

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Questions and Answers

Operator [1]

(Operator Instructions) The first question comes from Mr. Manish Adukia from Goldman Sachs Mumbai.

Manish Adukia, Goldman Sachs Group Inc., Research Division - Equity Analyst [2]

Hoping that you and your team are staying safe and healthy in these difficult times. I have 2 questions, please. My first question, if you can comment on demand for towers in the last 4 to 5 weeks. I mean, have operators reached out to you to increase network capacity, either in the form of new tenancies or loading? And is the number material for Bharti Infratel?

And my second question, again, a lot has already transpired on the AGR situation since your last earnings call. Have any of your customers communicated to you about a possible further reduction in tenancy plans that they may have for the near-term or maybe better payment terms from you, at least for the short- to-medium term? Any color you can provide on that will be great.

Devender Singh Rawat, Bharti Infratel Limited - MD, CEO & Additional Director [3]

Hi, Manish, DS Rawat. Thank you for that. I just wanted to inform all that as part of my closing speech, I thought I'll cover COVID, but I want to inform that all employees, their family members are all safe so far, and we continue to monitor that on a daily basis. So thank you for that.

Coming to your specific question about demand of towers, in the 4, 5 weeks, I wouldn't comment immediately because at this time, we've actually reduced on our deployment activity. The big focus is to see that networks are up and running. And deployment, wherever there's a critical need, we're supporting operators in terms of building capacity by either software increases or adding on extra TRXs and so on and so forth.

So we continue to do that. We are, as you can see from our results, seeing heightened deployment activity in terms of new site built. That is something that we will continue to do even till the date of breakdown -- in terms of lockdown, sorry. And we hope that once we restore this, we are awaiting government clearances on construction activity being restored. That order right now is applicable for certain government departments. We're trying to get that extended to telecom. Once that happens, we will continue to do even new build rollouts which we were doing earlier for the operators too.

On your second question with AGR, honestly, things are still very fluid. We haven't got any formal request for any change in terms as yet from anyone. I hope that answers.

Manish Adukia, Goldman Sachs Group Inc., Research Division - Equity Analyst [4]

Can I -- yes, sure. Just a quick follow-up on that. I mean, you talked about some increase in provision for doubtful debt that you've made in this quarter. Since the close of the quarter in the last 3 weeks or so, has that been resolved? And can you provide any color if you know what this is in relation to this higher provision on doubtful debt?

Akhil Kumar Gupta, Bharti Infratel Limited - Executive Chairman [5]

Again, I can't give you specific numbers at this stage. What we've given is as per the policy. We have a policy where we provide for doubtful debts based on aging of some of these. And some of the settlements keep moving forward, even if there are disputes or if there are non-payments, we continue to receive payments even after the 31st of March, that is the closing date, we continue to receive payments from most of the customers. So I can't give you specific about any operator trying to reduce out of this specific provisions that we've made because the provisions get unwound the moment a payment is received. These are billed pretty much on an invoice level.

Operator [6]

The next question comes from Mr. Kunal Vora from BNP Paribas, Mumbai.

Kunal Vora, BNP Paribas, Research Division - Analyst [7]

First question is there is some decline in average rent per tenant, especially for Indus Towers. Can you explain what's driving that?

Akhil Kumar Gupta, Bharti Infratel Limited - Executive Chairman [8]

On a rent per tower basis, normally, the moment we have heightened new build sites, you will notice that because you're building these as 1 tenant sites, the rental comes down on a per tower basis. Whereas on a rental -- on a per tenant basis, it goes up because there, you're dividing with the tenancy ratio.

Kunal Vora, BNP Paribas, Research Division - Analyst [9]

Rental for tenant has gone down for Indus Towers, however. So what explains that?

Akhil Kumar Gupta, Bharti Infratel Limited - Executive Chairman [10]

So rental per tenant, I said this in the last quarter too, on a quarter-on-quarter basis, you will see certain spikes depending on when exit settlements and for what period you've collected exist settlements too because exit we are recognizing on payments. And that's why you do see a bit of a skew when you look at rental per tenant on a quarter-on-quarter basis. We had said last time, look at that at a 9-month window. Right now, when we look that at a 12-month window between Indus and Infratel, you'll find that both the trends are very secular in terms of year-on-year changes there.

Sure. Second question, some of the tenants are renegotiating their rental contracts across businesses with their landlords. Do you see that as an opportunity? You rent lot of sites. Do you think that rentals can come down post-COVID-19? And any -- like if you can share your thoughts on the cost cuts across the board, like where do you see opportunities to lower cost?

Akhil Kumar Gupta, Bharti Infratel Limited - Executive Chairman [12]

So to your first question, whether we are in discussions, we've been reducing rent if you look at our rent line item over the period. As and when we've had exits that have come out on tenancies, we've managed to reduce rent. But at these times, when our dependence on towers is increasing where the utilization of towers is going up, you would not like to take in anything that dislodges or creates discomfort in that relationship with the landlord.

Having said that, if there is an industry-wide reduction on rentals, we would definitely like to look at opportunities where there is possibility of renegotiation. You understand that we have long-term contracts with lot of landlords and for some of them, this is their only alternate source. So we are trying to use this time to further enhance our relationship with them. In fact, towers, which have been held up or were kind of sealed or not allowed to work because of neighbors or because of some issues, we've managed to actually get some of these opened up at these times of crisis because telecom clearly has become an integral part for everybody, and they're able to see value of telecom more in these times of crisis where most business that is happening in the country now is at the backdrop of telecom networks where people are able to work from home, do transactions and even whatever little economy that is working is at the backdrop of telecom itself. So, so far to your question, it's no. Going forward, we will see what kind of market trends are on rental and if there are huge opportunities, we'll work on that too.

On specific cost reductions, we've been focusing more on efficiency drivers. Right now, as I said, we've seen heightened growth. We are working with our partners to say that they remain an integral part of us in terms of this growth that is coming up on account of higher usage for the operators. And also on the post-consolidation scenario, we'd like to use this opportunity to grow and enhance our efficiency. Efficiency enhancement has been an operational excellence theme that we've been driving across both these companies every year. We have managed to reduce cost on most of the line items. Even on productivity drivers that we look at, we continue to work on each 1 of them too.

One big thing that come up because of COVID is clearly an acceleration on IT and what more could be done in terms of enhancing efficiency by using some of the collaborative tools that now most of the people are using when they're working from home. They're trying to look at what efficiencies we could leverage from these tools going forward too.

Operator [13]

The next question comes from Mr. Vinay Jaising from ENAM AMC, Mumbai.

Vinay Jaising, [14]

Firstly, thanks to the entire telecom sector for helping us work from home in these environments. We really appreciate it, I guess, all of us out here. I have 2 questions out here, sir. The first is tenancy versus towers. We've seen a good growth in towers in this kind of a scenario. So how are we building the towers? With what kind of return on capital objective in the short-term or the longer term? Are we looking at, yes, we have a tenant, let's say, in the case of Airtel, beyond this location and we're doing it? Or as we did earlier,

yes, we have 2 tenants, and we are building it. Maybe it will go to a third one in the future incrementally. But we are starting with 2 tenants. So that's my first question.

My second question is, considering your favorable net debt-to-EBITDA and the stock price, are you by any chance looking at a kind of a buyback of your stock? Two questions at the same time.

Akhil Kumar Gupta, Bharti Infratel Limited - Executive Chairman [15]

Okay. Let me take the first one. Look, we are committed to building the towers for our customers as and when they ask for it. We never and have never put a condition that there must be at least 2 tenants on day 1. Our belief is it is a competitive world out there. If we are able to put a site, the other operator, stroke operators will come and take it over a period of time. But it's never been a condition that we must have 2 tenants for us to build a site. As a tower company, my job is to build a site as and when my customers ask for it. We are very confident that the towers which we are making, and many of them are coming up in cities, which are the smaller towers, certainly will get taken up by way of the second tenant, if not the third, in due course. In fact, I believe it will be taken up faster than what was done earlier. So that means we are very clear that we will make whatever is asked from us.

Vinay Jaising, [16]

Sir, before you go on to the second question, just a small thing on here. Are we seeing incremental tenants coming in, in the last quarter or 2 from, let's say, Vodafone and BSNL MTNL as well or is it just yourself and Jio?

Akhil Kumar Gupta, Bharti Infratel Limited - Executive Chairman [17]

No, unfortunately, I cannot -- we are not allowed, and I would never do that even if we were allowed to give specific customer information. That we won't be ever doing, but yes, as you can see, there are more co-locations coming. And it's not from just 1 customer, that's all I can confirm.

Vinay Jaising, [18]

Understood, sir. On the second question?

Akhil Kumar Gupta, Bharti Infratel Limited - Executive Chairman [19]

Sorry. DS, would you take the second one?

Devender Singh Rawat, Bharti Infratel Limited - MD, CEO & Additional Director [20]

That was about buyback, Akhil. We keep discussing all the options of -- go ahead, Akhil.

Akhil Kumar Gupta, Bharti Infratel Limited - Executive Chairman [21]

Since we do give all the dividends, I don't think we have too much scope for buyback. But yes, I mean, if ever there would be, we will actively consider it.

Operator [22]

(Operator Instructions) The next question comes from Mr. Varun Ahuja from Crédit Suisse, Singapore.

Varun Ahuja, Crédit Suisse AG, Research Division - Associate [23]

Yes. A few questions. Number one, the other expenses have risen sharply for Indus. Is it primarily because of the provisions that you have made? I think I didn't hear the amount correctly. There was a lot of noise. So if you can just give the amount that you have given? And even if you -- I think if I remember, it was INR 193 crores. Even if you do that, still there is a sharp jump in other expenses. So what is driving that? That will be helpful.

Number two, the receivables has come down this quarter on a quarter-on-quarter basis. So is it because you have received more payments? Or has there been write-downs of receivables? Any color on that will be helpful?

And number three, if you look at the tenancies for Indus and Infratel, there has been some divergence. While the tenancies for Infratel has declined, the Indus has increased. So is there any specific thing that is happening there? One of your -- Vodafone, everyone else is scaling back, you have seen more exits during this quarter in the Infratel side or -- versus Indus, that will be helpful.

Devender Singh Rawat, Bharti Infratel Limited - MD, CEO & Additional Director [24]

So Varun, DS this side, let me try and answer the third question first and then hand it over to Mr. Kumar to try and answer the other 2 questions. Firstly, on divergence, again, between the 2 businesses and the geographies that we operate, there is definitely a difference that we've seen at every time in terms of both new site rollout and also in terms of uptake of co-locations that happen in these areas. Clearly, Category C circles, the larger part of that is in Infratel. There's 1 Category B, which is MP circle. And we do see that right now, at the times when there is increased capacity utilization, the focus is to see that the cities are strengthened with infill sites to a great extent, whereas in Infratel circles, there is larger rollout in the rural part, which is where there are still uncovered territories where rollout continues to happen. And that's the reason you do see a divergence. It is also a little bit huge because of exits happening at certain places whereas growth is happening in certain pockets. So operators keep realigning their numbers too. And also, there are some permitted exists which operators tend to exercise towards the year-end, particularly looking at where there are low utilizations and redeploy some of these sites in newer geographies. So some of those do play out in the numbers that we report there.

So on the other income -- I'm sorry, the other expenses that you mentioned, I'll hand over to Mr. Kumar.

Unidentified Company Representative, [25]

Hello, Mr. Ahuja. Akhil Kumar this side. So regarding your first question, other expense increase in Indus is largely on account of provision for doubtful debts. There is no other increase other than this in this line item.

With respect to your second question, with regard to receivables, there is a decrease in receivables in overall basis but there is some increase in other financial assets and that increase in other financial asset represent unbilled revenue. Ideally, if that amount has been billed, it would have come into the other in trade receivables.

Other financial assets increase represent on account of unbilled revenue. Basically, they were due to some technology-related issue, some part of the March month billing was not billed to the operator. Hence that much has been considered in other financial assets.

If we club other financial assets and total receivables, then there is an increase of INR 73 crores on combined basis. Hope I'm able to clarify your question.

Varun Ahuja, Crédit Suisse AG, Research Division - Associate [26]

Okay. Can you also give some color on how much of provisions were made for this quarter?

Unidentified Company Representative, [27]

Provision in Indus is on account of provision for doubtful debts. That increase is attributable to doubtful debt provisions.

Varun Ahuja, Crédit Suisse AG, Research Division - Associate [28]

Sorry, Akhil gave a number of INR 193 crore earlier in the comments. Is this the right number that I heard because this is behind the whole increase you're referring?

Unidentified Company Representative, [29]

Yes, this is the right number.

Varun Ahuja, Crédit Suisse AG, Research Division - Associate [30]

Okay. And the last question, this is for Akhil. Akhil, obviously, there is a lot of uncertainty on Vodafone Idea. I just wanted to hear management view, how will you approach the upcoming meeting whenever it happens if you look at the merger? How do you think the management or the Board can be comfortable with the survivability of Vodafone Idea when the major payments start, assuming whether it's spectrum in fiscal year '23 after 2 years moratorium. So what are the signs that you're looking at before kind of making that decision?

Akhil Kumar Gupta, Bharti Infratel Limited - Executive Chairman [31]

Well, very clearly, Vodafone Idea consists of 2 great partners, Vodafone and the Birla Group. And therefore, obviously, we have no reason to believe the worst. The Government of India has already indicated, I wouldn't say they have declared because that has to be approved by the Supreme Court, but they have

indicated that they're willing to give 20 years as per the reports. And therefore, I do believe that this entity will be around. Surely, they would be under some financial stress because of this AGR demand and the interest and penalty thereon. And I really can't comment as to what would be their response in light of that. One could be that they do decide to regroup and to say that, look, we are going to recalibrate our network. The second is they decide to go full steam and carry on like there were with more capital being put in. But that is something which we will have to wait and see. But I'm very confident that they would be there, they would not only survive, but over a period of time, being a fine company, they will come up and they will bounce back. So when we look at the discussions (technical difficulty) and within us, we do take into account that they are going to be there, it's a great company, it's a great customer for us as a tower company, and that's how we look at that.

Operator [32]

(Operator Instructions) The next question comes from Mr. Rajiv Sharma from SBICAP, Mumbai.

Rajiv Sharma, SBICAP Securities Ltd., Research Division - Co-Head of Institutional Research [33]

My first question is regarding the incremental towers which are being deployed. You said that you're okay with 1 tenant coming in. And in the previous questions, you mentioned that you expect them -- to expect Vodafone Idea to be there. But I'm just trying to understand with what -- what are the financial yardsticks which you are using to deploy single-tenancy towers because Vodafone Idea being in a little bit of mess, it's going to be very difficult for them to be the second tenant. And Jio with its own towers is unlikely to give second tenancy in most cases. So keeping that in mind, what is the financial benchmark? Because from a Bharti point of view, it will come to a question whether it will come -- the towers will come to you or they will do it themselves. So I'm just trying to understand that.

And second question is, I joined the call late, and I don't know about the update on the merger deal. But given that the approvals are pending and the situation, the way things are, is there any reason for you to take a step back from this deal because there could be a cash payout? Is there anything for you to revisit this transaction, the Infratel-Indus merger, given that Vodafone is under pressure?

Akhil Kumar Gupta, Bharti Infratel Limited - Executive Chairman [34]

Okay. So let me take the first 1 first. I think right from the beginning of the tower industry which we conceptualized and we brought into being, 1 thing has been very clear. That one, we will not refuse if somebody wants to come and said, oh, first of all, get your twin or your cousin also on the site. I mean, if somebody wants a tower, we'll make it for him.

The second philosophical criteria we have always had is that we have got to know where we have got to disarm the operator, which means that on a single payment side, the tariff the guy can offer has to be such that it is better than what he can get with his own capital and if he builds it himself. Having said that, all I can confirm is that even on the single tenant, we don't lose money. We do make return. But sure, as per the design of this whole business model, the big return come when the second tenant comes in.

So that's where our philosophy is in terms of a single-tenant rent that it must not encourage the operators to go back and start building their own towers. That's a fundamental, but of course, it's not a loss-making proposition. The big profits come with your second tenant. Is that...

Rajiv Sharma, SBICAP Securities Ltd., Research Division - Co-Head of Institutional Research [35]

Yes, Akhil, that's very helpful. But is that return going to be much more than your hurdle rate or cost of capital or it's going to be near about that?

Akhil Kumar Gupta, Bharti Infratel Limited - Executive Chairman [36]

No, look, this business is not about on a tower-by-tower basis. This business is all about the whole portfolio. And every tower which you bid in has got a life of 20 years, 25 years. Therefore, if I have to start looking that in 2 months' time, if I don't get a second tenant, will I shut this out, it doesn't work this way. Fortunately, our base is of 95,000-odd towers on a consolidated basis. Therefore, a few more new towers are not going to make a big change to our return. And as you can see in our quarterly report, we report the return on capital employed and the return of equity. And therefore, I can confirm that while on a tower-by-tower basis, I will not comment, but on an overall basis, this is not going to be detrimental, and in fact, is the lifeline of the company because we are all about making new towers.

On your second question about the merger. Well, I don't -- as I mentioned, we do believe that they would be there. Very clearly, a bit of stress on all telecom operators, not only them because of the AGR, is very visible. But I don't think that warrants something to write them off. And that is why we are looking at this merger like we merge those (technical difficulty). Yes, surely, there may be some more discussions on a couple of specific points, but that would be about it. I don't think that we are really looking at a situation that we will look at this merger only if this happens or that happens. Because please do remember that in any circumstance, they will be in Indus anyway with about 53% shareholding.

Operator [37]

The next question comes from Mr. Vivek Ramakrishnan from DSP Mutual Fund, Mumbai.

Vivek Ramakrishnan, [38]

My question is as follows. This is actually inverse of an earlier question in terms of share buyback. You made roughly INR 1,600 crores of cash flows after exited investments. And you paid out roughly -- this year, there is no dividend distributed in tax, but you still have about INR 3,000 crores last year in terms of the cash flow. So the first question I wanted to ask is, what is your financial policy going to be in terms of leverage, and you've been very conservative in the past and whether you'll continue that in the future and combine these financial point of view is leverage policy also in terms of liquid investments on the balance sheet.

The second question would be in terms of -- you could have looked at the merger and put a ratings on rating (technical difficulty) with negative implications. Would the rate -- maintaining a certain high rating be one of the key consideration in keeping your financial policy?

Akhil Kumar Gupta, Bharti Infratel Limited - Executive Chairman [39]

Well, I think our leverage policy is, first of all, determined from the fact that we have a very strong dividend policy.

Devender Singh Rawat, Bharti Infratel Limited - MD, CEO & Additional Director [40]

Akhil, it looks we've lost you.

Akhil Kumar Gupta, Bharti Infratel Limited - Executive Chairman [41]

No, I'm so sorry.

Devender Singh Rawat, Bharti Infratel Limited - MD, CEO & Additional Director [42]

Yes, you're back now. You're back.

Akhil Kumar Gupta, Bharti Infratel Limited - Executive Chairman [43]

Let me, let me. So I said our leverage policy, first of all, starts from our dividend policy. And the dividend policy, as you would have noted over last several years is because we make enough cash, we have been giving out maximum possible dividend as per The Companies Act. There is, as you know, in India, unlike some of the western countries, there is a limitation on how much dividend you can actually give out. So we give the maximum dividend.

Now the fact is that the companies are run nicely, they've performed very good performance, they generate a lot of cash. And therefore, there is absolutely no need for me to borrow more money. And you would agree that while I would also want to have more leverage, but unfortunately, because of the circumstances in the last couple of years, the capital deployment has also been a little muted or less than what I would have liked to do. But that's why there is absolutely no purpose for us to borrow and keep cash with us.

But yes, we would be -- we would like to be a little more levered. Right now, at Infratel level, we're a net cash, and on an overall level, with Ind AS, FLO liabilities, we have some net debt, but that's certainly low.

But having said that, I think what has been shown in the recent times, I think gone are the days when companies could be very liberal in terms of leverages. At least for the next few years, as a finance person, I would be a little cautious about how much leverage a company should be taking. As things settle down, maybe a little more. But for the time being, I would be cautious. Of course, in context of the tower company, even if I want to, I can't have leverage because I've more cash on hand.

On the ratings front, I don't think with merger, there is any impact on ratings because both the companies are very, very healthy in terms of their cash position and the leverage.

Operator [44]

The next question comes from Mr. [Karan Agarwal] from (inaudible) Capital, Mumbai.

Unidentified Analyst, [45]

I just wanted to check how do you anticipate your provision for doubtful debts panning out in the future? More specifically, second follow through is, what is your total outstanding from pool of clients for which you've written out INR 193 crores in the current quarter? And what percentage of those outstandings are overdue beyond, say, 180 days or maybe 200, 220 days?

Devender Singh Rawat, Bharti Infratel Limited - MD, CEO & Additional Director [46]

So based on -- sorry, go ahead, Akhil.

Akhil Kumar Gupta, Bharti Infratel Limited - Executive Chairman [47]

No, sorry, you go ahead.

Devender Singh Rawat, Bharti Infratel Limited - MD, CEO & Additional Director [48]

So first, I wanted to you tell you that in terms of doubtful debts we don't expect this to change. These are provisions that we have. As per our policy, we provide for doubtful debts after a certain period lapse on our customers. And as and when those are settled, we go ahead and reverse those two. So there are entries that keep coming back. These are provisions that are build for delayed payments.

To your point about 200 days and 180 days, typically, there isn't anything that goes beyond 210 days in terms of provisions. Most of that would have been build into a provision anywhere between 90 days to 210 days as for the policy for the customers do. So we don't expect provisions to go up, but yes, we're seeing a little bit increase in our account receivable.

Number two, operator-specific and also percentage of doubtful debt as a percentage of any operator-specific, we do not give that in the public domain. Our complete accounts receivable that must be there as part of the balance sheet. I can get Surabhi or Mr. Kumar to kind of answer that. But operator-specific, we wouldn't give that specific number out.

Unidentified Analyst, [49]

Okay. Fair enough. I just have a second question. I just wanted to know that when setting up a tower, what is the CapEx differential in setting it up for a single tenant or for more than 1 tenant? Will there be a substantial CapEx differential?

Devender Singh Rawat, Bharti Infratel Limited - MD, CEO & Additional Director [50]

At a very high level, if you're talking about a ground-based tower, you could expect anywhere between INR 1.5 lakh to about INR 3 lakh depending on the tower as I said and also the kind of terrain that you're building in, that would mean everywhere between 7% to about 10% of the total CapEx of the tower.

Operator [51]

The next question comes from Mr. Nitin Shakhder from Green Capital, New Delhi.

Nitin Shakhder, [52]

Congrats to the management on this steady quarter. And also gratitude for looking at the essential services and maintaining network services. My question is related, which I think (technical difficulty) answered before but I like to probe further just on the point of (technical difficulty) shareholder value. First question is now the merger between Indus Towers and Bharti Infratel seems to be hanging -- has been an overhang for company and the business in terms of 3 quarters and seems to be delayed for a variety of reasons. Are you seeing some sort of a closure in the next quarter or 2, so that we clear out the situation? That's one.

And my second question pertains to, which has been discussed before, is there a case for the company to reduce dividend so that we can deploy certain free cash flow into the buyback mechanism and sort of other more balanced equations considering the valuation of the company at this point in time?

Akhil Kumar Gupta, Bharti Infratel Limited - Executive Chairman [53]

Okay. On the first one, I think on merger, I think you are absolutely right. I think this has been an overhang on the company. And none of us, I particularly, like this kind of an overhang. But the circumstances have been such that the uncertainty created thus forced us to defer it a bit and carry forward the Long Stop Date. But I think, with a fair degree of confidence, I can say that this would be the last extension. And within this 2-month period, where we have done that for 2 months just to account for any procedural lapses, within this 2 months, this thing will be decided 1 way or the other. Hopefully, we should be able to complete the merger.

On reducing dividend, well, I thought since the company doesn't have the dividend distribution tax now, that would have been the best way to return money to the shareholders and the easiest. Without any hassles, straight away, you can now give, as you know, interim dividend. You don't even have to wait for the AGM. So that was the most efficient way that we could think off. But I'll my ask my tax people, if they feel that buyback is a better option, we have no problem. I mean, our theory is that whatever is extra, we would like to return it to the shareholders, be it by way of dividend or buyback. So we will have a look at it in case. And if you think there is any specific thing you have in mind, if you can please tell Surabhi, we'll certainly take that into account.

Nitin Shakhder, [54]

Sure. That further clarifies my answers. And I hope you can considerably reduce (technical difficulty) dividend payouts. There is a case also to control the dividend payout and increase the buyback because that's how you add further value going ahead over the next 3 or 4 years.

Akhil Kumar Gupta, Bharti Infratel Limited - Executive Chairman [55]

Just 1 thing I would want to add to what [Karan] had asked in the last one about the difference between single payment and 2 payment tower. I just want to clarify that every tower which we make, we definitely keep the provision of a second tenant, because it's our inherent belief that most of these towers will get a second tenant over a period of time. And at later of a point, it may not be possible to prepare them for a second tenant. So for a minor small difference in CapEx, we don't make a tower which is only capable of 1 tenant. Back to you, please.

Operator [56]

The next question comes from Mr. Arun Prasath from Spark Capital, Chennai.

Arun Prasath, Spark Capital Advisors (India) Private Limited, Research Division - Research Analyst [57]

I think my question was mostly on the single tenant and most of it is already answered. Just one additional detail I would request. So in the case of single tenant, if the tower remains a single tenant for a very long period of time, and is there any clause in the contract which provides for higher escalation on the rent in the later period of the contract?

Devender Singh Rawat, Bharti Infratel Limited - MD, CEO & Additional Director [58]

Arun, DS this side. The answer is no. In fact, rarely do you have a situation where there is only 1 operator who's going to have coverage in that geography or in that area. The contract doesn't differentiate on towers. There are provisions about building strategic sites. So if somebody wants a tower in a god forsaken place where you think there is no opportunity for anyone else to come in or for strategic reasons that they're going to reconnect some sites from thereof in the far locations, there is a provision to build what is called a strategic site where the return ratios are higher on a single-tenant tower. So that provision is there.

But mostly, towers, as Akhil said, are built on a portfolio basis. Invariably, a leader would go in early into the deep rural pockets or in areas where he needs for capacity reason. It's only a matter of time when subsequent operators who want to compete with them will come in.

Now with 3 strong operators staying and fighting around that 33% mark on market share, it will not be possible to have a huge gap on coverage between #1 and #2. So our belief is that strong operators once they repair their balance sheet, they will be able to have similar, if not exactly the same coverage in most, even rural parts of the country.

Unless for strategic reasons, somebody wants to not operate in a certain area, we don't foresee situations where there'll be a tower needed only for 1 tenant. And as Akhil said, we normally make sure that at least there is capacity for accommodating 2, if not more.

Arun Prasath, Spark Capital Advisors (India) Private Limited, Research Division - Research Analyst [59]

My second question is on -- you said that a lot of new tower infrastructure in the line is coming upon the second tier or three tier -- third tier cities. Within the top 10 cities or metro cities, do you see any demand for the -- from the operators on the in-building solutions or the small builds. How is the situation like on the micro -- macro I understand. On the micro side, sir, how is demand coming from?

Devender Singh Rawat, Bharti Infratel Limited - MD, CEO & Additional Director [60]

To answer that question, firstly, there is capacity requirements coming more in the city. And rural, you're finding them more kind of increasing reach into the deeper parts of rural there. In the urban cities, wherever there is in-building coverage problems, we've seen more on high footfall areas where operators are asking for in-building solutions. There are a small number of small cells also deployed in a few areas. But these are not large meaningful numbers that we've seen. Most of these are also exercising for capacity reasons on some existing towers.

But going forward, as we see now, particularly with COVID kind of situations, operators are looking at some of these solutions much more closely to see that they are able to reach closer to the customer and give better user experience, at the same time add significant capacities in places of high footfall.

Operator [61]

The last follow up questions comes from Mr. Rajiv Sharma from SBICAP Securities, Mumbai.

Rajiv Sharma, SBICAP Securities Ltd., Research Division - Co-Head of Institutional Research [62]

Just a quick question on those similar lines about this new demand coming from residential complexes. Is that a big opportunity for tower companies because you were building towers or telcos were building towers keeping in mind that data will be consumed in offices. But now that's moved to residents. And it's going to be a medium-term trend. So you think there is a huge gap there? Or you think telcos are well placed and there won't be big CapEx there?

Devender Singh Rawat, Bharti Infratel Limited - MD, CEO & Additional Director [63]

I do not want to comment about what kind of CapEx would be needed. It's also a function of volume. Small cell deployment in the country was low. In-building, as you rightly said, was mostly on places of high footfall, which were commercial establishments like airports or malls or offices. I'm sure that with increase of 4G and 5G, the anticipation was large number of small cells will get deployed.

If you look at operators like Crown Castle and others, they have shown that in markets where there is high utilization and service differentiation between operators, small cell can play that important role in making sure that your end customers get seamless user experience. Mostly these are mobile-led and because mobility aspect of mobile itself, a user is at home at a certain time and at office at certain other times. Clearly, anyone who is able to give them a seamless user experience to make sure that calls like this or video sessions which people are doing nowadays on Zoom, if you're able to do on a full mobile solution, obviously, those operators would grab most of the high-end customers. So we believe that going forward, with 4G and increasingly with 5G, the requirement of these will grow exponentially, and we are well positioned for that. As and when -- these are calls that operators have to do and as and when they start competing on service quality neck-to-neck with each other, when basic coverage aspects are met, these become the points of differentiation, and we at both Indus and Infratel are here for it having won quite a few Smart City deals between each of us.

Akhil Kumar Gupta, Bharti Infratel Limited - Executive Chairman [64]

Yes, I think your question was more about residential versus commercial, right?

Rajiv Sharma, SBICAP Securities Ltd., Research Division - Co-Head of Institutional Research [65]

Yes. So if I wanted to understand that if the new demand is 100 in residential, let's say, or it goes up to 150 tomorrow, where do operators, telcos stand in terms of tower deployments? Are they at 50, 60? Means, what's the gap in your view and in terms of capacity as well?

Akhil Kumar Gupta, Bharti Infratel Limited - Executive Chairman [66]

So first of all, Rajiv, let's look at it this way. Telecom in India, the cellular mobile is about 25 years old. And therefore, over a period of time, there has been lot of coverage and the telecom operators have actually

not gone about saying, oh, I'll cover residential areas or commercial areas. It is both. And typically, there are very few places where you can say it's only residential or it's only commercial, both exist. The difference what is going to be caused is that the need for connecting from both the office and the home will become paramount now after this experience. And that means that people who could live with a normal 4G connection from residence are going to need more capacity and faster speeds even at home.

Now what this obviously means is that the operators will need to provide more capacity in places where they did not need that much of capacity earlier. So it's bit of recalibration of the capacity between the pure offices space and pure residence space could take place, but normally, nobody will reduce the capacity wherever it has been put. What would be done is that more capacity will be added, where now people will start demanding better speeds from their residences. And that is where, as a tower company, we believe that over a period of time, more and more small cells will come because they are not meant for big coverage, they're meant for creating those capacities and bringing the signals much closer to the customer wherever he or she is. So that will, to my mind, definitely gets accelerated. We were expecting that, that will take a very, very big leap when 5G comes. But quite clearly, 4G has proven to be the lifeline of the country in this crisis. And therefore, this phenomena will take place now with 4G at a much enhanced speed is what we absolutely believe in.

Rajiv Sharma, SBICAP Securities Ltd., Research Division - Co-Head of Institutional Research [67]

Yes, Akhil, thanks for clarifying this. Just a follow-up there. Is small cell a similar product for you as it has been the traditional telecom tower in terms of return profile, margin profile? And second, small cells will also need that you put up underlying fiber. So will it -- will the returns will be significantly towards the end of the cycle of the product? And will it make you also capable to offer FTTH offerings to telcos which are not investing directly there?

Akhil Kumar Gupta, Bharti Infratel Limited - Executive Chairman [68]

Well, from our point of view, anything which our customers want us to invest in, in terms of infrastructure, we will absolutely do. Now whether that is the fiber-to-the-home, whether that is connecting the small cells on fiber, we would absolutely be ready to do that. We have the wherewithal, we have the experience, especially with the Smart Cities. That certainly is something which we have always mentioned is the adjacent space which rightly belongs to tower companies. And you're right, I think with the advent of the small cells, there microwave may not be accommodated. Therefore, the only connectivity is optic fiber. I think that time would be coming or has come now. So that is definitely there.

In terms of the return profile, absolutely. The small cells will take lesser CapEx. (technical difficulty) but I can confirm that in terms of the return profile, it would be following what we have been always doing.

Rajiv Sharma, SBICAP Securities Ltd., Research Division - Co-Head of Institutional Research [69]

But they will not be multiple tenancy products, they'll be generally single tenants?

Akhil Kumar Gupta, Bharti Infratel Limited - Executive Chairman [70]

No, as we mentioned, we believe that wherever these things will come up, they will start with 1 tenant because 1 operator will ask for them. But our belief is that at least the second tenant would come very quickly because these will be very prime areas where lot of revenue is sitting.

Operator [71]

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

Devender Singh Rawat, Bharti Infratel Limited - MD, CEO & Additional Director [72]

Thank you. Thanks. And let me first talk about the pandemic and the steps that the company has taken. The unfortunate outbreak of pandemic COVID-19 has brought the world to a grinding halt. Of whatever is working, it's on a base of telecom network, the importance of which has only got accentuated in this crisis. We, at Bharti Infratel, are supporting all operators to ensure that the vital telecom connectivity is maintained during this crisis too.

Site uptime is maintained across all the circles. We also wanted to report, which I said earlier, that all employees, associates and their family members are safe across Infratel. Safety remains our prime focus for our own staff and also for the people and the environment in which we are working.

From a company standpoint, we do have a Business Continuity Plan and Disaster Recovery Plan, which is invoked invariably at the times of crisis. The realization was pandemic was not part of this. However, having that document helped to a great extent, and we have figured that at least a week before the actual lockdown started. And that, in a way, helped us gearing as a company to see that seamlessly we were able to work from whichever locations people were in and of course, the field staff continuing to work closely to maintain those sites.

Excellent relationship with the central and state governments also helped making sure that there were necessary access for people to either come to our tower operating centers from where we are operating for nearly a week after which even that was moved to the respective staffs operating from their house.

Also, our association, TAIPA, for which Akhil is the Chairman, and I'm also an Executive Member, was another forum which we leveraged very effectively to quickly reach out to the state and central authorities to come up with clarifications and guidelines to make sure that telecom, infrastructure particularly, because most people understand telecom as operators and they understand only Bharti and Jio and Vodafone as brands, and they think that is only telecom. TAIPA did a good job in making sure that in all those orders, IP1 providers like us, Bharti Infratel and Indus, are all included. And thereby, we could manage to get active passes for our critical people who had to move resources to make sure sites are up and running.

The robust systems, process and excellent collaborations between the teams helped to make sure that we had a timely year-end book closure and a seamless audit completion for this Board meeting which was held exactly on the scheduled dates that were planned.

As a company too, on the CSR front, we've been doing our bit. INR 25 crores was deposited in PM-CARES Fund in the first week of April itself after we called for a CSR approval on that one from the Board. We also announced voluntary contribution for employees for the PM-CARES Fund with a matching contribution from the company side, wherein most employees have voluntarily given away a day's salary towards this.

Individual act of kindness is terms of respective people in their areas trying to serve food to the needy people and the marginalized people who couldn't move and get their regular source of food were also serviced by some of the people purely on their own voluntary basis.

With COVID came our own share of learnings too, and a few opportunities. Clearly, we realized that there is an opportunity to enhance our position with the customers, with employees, with partners and the society at large. What COVID has brought is it has brought telecom to the forefront and increasingly a realization with each 1 of them in terms of the critical role that they were playing to support the larger community to stay connected and work from home.

Most critical systems were already in cloud for Infratel, though it's a private cloud that we manage with a VR in a different location. What we did was to also move the noncritical things across to the location or also into the cloud wherever possible. Clearly, there's an opportunity to now look at software as service and other IT implementations for us going forward.

Collaboration tool softwares like Zoom, Microsoft Teams, these are some things that we quickly got them working, and we are now trying to explore and see how we can leverage some of these to really enhance the efficiency of the company to the next level.

Of course, I said this earlier that pandemic is now added to our BCP DR process in the sense that now we are trying to work out situations in which we could have certain types of lockdowns or areas where there is super lockdown, as it's being called, implemented as to how we're going to make sure that restoration of the network is done. Having said that, we continue to be cautious and watch the situation emerge and prepare for the worst while hoping for the best while ensuring safety and compliance on whatever we do on this front.

We will keep everyone posted about the developments from here on. So far, we've managed to, as I said, maintain network uptimes at the levels that we've maintained throughout the year. If situation remains in the current form, we hope there is nothing worse from here. And in that situation, we should have no impact as a company on any of our financials.

Now coming to the closing, as Akhil said, there's been major sectoral developments in the quarter and the year gone by. We hope for a positive outcome in the Supreme Court's hearing. With a strong trend on power bill, an improving co-location trend in the year, we remain constructive on the future of Indian telecom industry. We firmly believe that an improved financial environment with the support of government for the operators will put the telecom industry on growth path.

On behalf of the entire Bharti Infratel team, I thank all of you for your continued support. Wishing for you and your loved one, health and safety at this time while our teams and technicians continue to work tirelessly in the field to make sure that all of you stay safe and stay home. Thank you very much.

Operator [73]

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.