

Bharti Infratel Limited Third Quarter Ended December 31, 2019 Earnings Conference Call

Earnings Conference Call Transcript

Event: Bharti Infratel Limited Third Quarter Ended December 31st, 2019
Earnings Conference Call

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Bharti Infratel Limited Third Quarter Ended December 31, 2019 Earnings Conference Call

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Managing Director and Chief Executive Officer - Bharti Infratel Limited

Ms. Surabhi Chandna

Chief Investor Relations Officer - Bharti Infratel Limited

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Ambit Capital - Mumbai

Mr. Pranav Kshatriya

Edelweiss Securities - Mumbai

Mr. Sanjesh Jain

ICICI Securities - Mumbai

Mr. Manish Adukia

Goldman Sachs – Mumbai

Mr. Varun Ahuja

Crédit Suisse - Singapore

Mr. Mudit Kedia

Arpwood Capital – Mumbai

PRESENTATION**Rajyita - Moderator**

Good afternoon, ladies and gentlemen. I am Rajyita, the moderator for this conference. Welcome to the Bharti Infratel Limited Third Quarter ended December 31, 2019 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.

Mr. Akhil Kumar Gupta – Executive Chairman – Bharti Infratel Limited

Thank you very much and thank you all for joining us on this earnings call for the third quarter ended December 31, 2019. The quarter that went by had two very important and unprecedented developments for the telecom industry in India. The first one was, as I am sure you are all following very closely, is the Hon'ble Supreme Court judgment on Adjusted Gross Revenue or the AGR judgement, as it has become popularly known. After rejection of the review petitions, the telecom operators had filed modification petition before the Hon'ble Supreme Court, which reportedly have been directed to be listed for hearing on Monday, February 3, 2020. This hearing will be critical for the industry, and we are hopeful for a positive outcome, which will help in long-term investments in telecom networks.

As a fall out of this AGR blow, the second major development was the tariff hikes by all operators. After years of intense price competition, which has led to significant revenue erosion, I feel this is a much needed and welcome first step towards sustained financial health of this sector.

Coming to the Company updates. First, an update on the merger with Indus Towers. You might recall, the long stop date for this scheme was initially on October 24, 2019. Since the requisite approvals had not been received, and therefore, the conditions precedent could not be completed, the Board of Directors in the meeting on October 24, 2019 extended the long stop date to December 24, 2019. The approvals also did not come by December 24, 2019 and therefore, the long stop date was extended again till February 24, 2020, subject to agreement on closing adjustments and other condition precedent for closing, with each party

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retaining the right to terminate and withdraw the scheme. The approval of the DoT or FDI is still awaited. We will keep you apprised of any development that may arise in this regard.

Moving on to the business side, I am pleased to report that despite massive turbulence and uncertainty on the operators' side, Infratel has reported yet another quarter of improved net additions on both towers and co-locations during this quarter, with the net tower addition being the highest in four years on a quarterly basis. As a result, the Company has been able to largely recover the revenue and profitability that was lost due to large exits of co-locations that it witnessed over the last several quarters, primarily on account of Voda-Idea merger. We firmly believe that an improved financial environment for the operators will only enhance this momentum from here on.

Coming to the financial and operational highlights of the quarter, please note that the results of this quarter are not comparable to last year's corresponding quarter due to, a) impact of Ind AS 116 that is lease accounting, which came into effect from April 1, 2019, and b) reversal of tax provisions and lower provisions this year due to reduction in income tax rate from 36% to about 25% recently.

As on December 31, 2019, the consolidated tower base stood at 94,244 with consolidated co-locations at just over 174,000, with a co-location factor of 1.85 at the closing. On reported basis, the consolidated revenues for the quarter at Rs.3,673 crores were up 1% on Y-on-Y basis; EBITDA at Rs.1,883 grew 24% Y-on-Y; operating free cash flow at Rs.1,181 crore, grew 8% Y-on-Y; and consolidated PAT at almost Rs.800 crores, grew by 23% year-on-year. However, as I stated earlier, excluding the impact of Ind AS 116, revenues, EBITDA and operating free cash flow for the quarter are at more or less the similar levels as compared to last year, while the profit after tax is up 17% year-on-year. The return on capital employed pre tax and the return on equity post tax for the quarter were approximately 26% and 27%, respectively.

To conclude, despite recent financial turbulence due to the AGR Judgement, based on the expectations of further rationalization of tariffs, which I believe the operators definitely need to do, going forward we remain optimistic on the future of Indian telecom industry and we honestly hope that with the support of the Government, the industry can begin to repair itself and that we can be helpful to the operators to fulfill the Digital India vision and offer world-class telecom services across the length and breadth of this nation. Thank you all. We can now open the floor for questions and answers.

Rajyita - 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. Vivekanand Subbaraman from Ambit Capital, Mumbai. Mr. Subbaraman, you may ask your question now.

Mr. Vivekanand Subbaraman - Ambit Capital - Mumbai

Hi, thank you for the opportunity. I have a few financial questions. One is the quantum of exit charges that were included in the reported results. Can this number also be provided for the standalone entity? Second question is on the energy margins. They seem to be quite low, even if I look at it on a 12-month basis. Usually, second half is seasonally strong, and last quarter, you had discussed about some energy contracts being re-worked. Can you give an update on that? And the last question is on the Capex. It seems as though the Capex intensity has come down despite the incremental towers that have been rolled out in the current quarter. Any reason for that? Thanks

Mr. Devender Singh Rawat - Managing Director and Chief Executive Officer - Bharti Infratel Limited

Very good afternoon to all of you. DS Rawat here. Let me try and answer these questions. Your first question about exit charges on a consolidated basis. This quarter had a number of, approximately Rs.105 crores, as exit charges that has been incorporated. During the quarter, we also had settlement of exit charges till the month of October, November for some operators, all the exits that have come in, and due to that, you will see next quarter number at about Rs.110 crores, so that is on the exit charges for operator, and then on your question on energy margins. This I said last time too, energy margins have to be seen on a full year basis. We are targeting to reach a 3% level on a full year basis for energy margins. We also said this year is lower because some of the long-term contracts did get negotiated in the last quarter, and that is why you did see an impact or negative margins which were lower. On a sequential quarter basis in both the companies, you must have seen improvement of energy margin and that is what I was referring when I talked in the last call that we expect seasonally the third quarter and fourth quarter to be better than what we had in first and second quarter. So on a full year basis, we will still strive to see if we can reach the 3% mark for the energy margins. And some of these are long-term contracts, so we do see an impact whenever they come up for negotiations being played out on the P&L. On Capex intensity, yes, we do see lower Capex, despite a higher number of new tower rollouts that Akhil referred to in the beginning of the call, primarily because the tenancy additions have not been there. Some of the equipment is getting reused whenever there is electronic equipment that is taken out. The maintenance Capex is also down, and that is also seasonally down during these seasons. We do run special projects on maintenance Capex as and when there are adverse weather conditions that are likely to come in. We do advance some of this maintenance Capex, particularly towards battery and upgradation and so on and so forth. So

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to your question, yes, the Capex intensity is lower, and it is also translating because of lower new tenancy addition. While the tower growth is slightly higher, we are not having as much of tenancy growth that we have had in the past.

Mr. Vivekanand Subbaraman - Ambit Capital - Mumbai

Okay. A couple of small follow-ups. Could you please give the exit charges number for the stand-alone entity only in certain standalones?

Mr. Devender Singh Rawat - Managing Director and Chief Executive Officer - Bharti Infratel Limited

I am afraid I do not know if that has been given as a separate number.

Mr. Vivekanand Subbaraman - Ambit Capital - Mumbai

Okay, and one small follow-up on the Capex number. The 3G shutdown that is happening, that might be giving you some vacant cabinet space. Is that also getting redeployed in some cases, helping you save Capex?

Mr. Devender Singh Rawat - Managing Director and Chief Executive Officer - Bharti Infratel Limited

We are technology agnostic as far as we are concerned on the tower side. Spectrum is not being surrendered by any operator. If you see that, obviously, means there is an electronic equipment or a plan to reuse whichever frequencies, whether it is the 2G frequency being reused or a 3G frequency being reused for some other purposes. Increasingly, what we are noticing, and this can be confirmed both by operators, and my own view is that operators are trying to use maximum spectrum for 4G as much as possible, and there is hardly any electronic space that is the tower space or the space associated with radio equipment that is needed or power that we have seen as a reduction on account of any of the 3G being moved either to 4G or being moved because on a net portfolio basis, we still see cabinet expansions being done by operators, and pretty much all the sites there they are trying to switch on 4G on all the bands that they can. So, we still continue to see healthy cabinet additions in our entire network.

Mr. Vivekanand Subbaraman - Ambit Capital - Mumbai

Alright understood. Thank you very much for the detailed explanation.

Rajyita – Moderator

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

Mr. Pranav Kshatriya - Edelweiss Securities - Mumbai

Hi. Thanks for the opportunity. My first question is regarding tenancy cancellation. We continue to see almost 1,200-odd tenancy cancellation per quarter. Do you think that in the next 2 quarters, it should get over or it can prolong even further?

Mr. Devender Singh Rawat - Managing Director and Chief Executive Officer - Bharti Infratel Limited

Again, a difficult question for me to answer, better said by the operators. As for me, my own guess and hope is that this is probably the last of it in terms of exits that have to come in, and it also depends on the AGR verdict. If the verdict is supporting operators to come back for growth, we will grow. The early signs of tower growth that Akhil referred to is an indication. I hope that we will have tenancy growth too come in, and operator, instead of using exit as an option will come back for the growth strategies to cater for the growth given that with tariff hikes, they will be in a position to take on a much more aggressive market to compete on quality, and quality definitely means that you would need a large number of tenancies and large electronic deployment by the operators. So, it is more a hope. I do expect that going forward, we should see these numbers, either be the last of it or kind of trend towards zero.

Mr. Pranav Kshatriya - Edelweiss Securities - Mumbai

My second question is on energy margin. You talked about this year it being 3%. So will that be a trend for a longer term? Or it is more aberration for this year and next year, we should revert back to 5%, which is where we were before?

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Mr. Devender Singh Rawat - Managing Director and Chief Executive Officer - Bharti Infratel Limited

Again, we have said this in the past that typically 3% to 5% is what we look for as energy margins, and because there are some long-term contracts that came up for negotiation, we are looking to come back to those run rates. To answer your question, we will still aspire to move that up as we move forward, but we will have to see how this plays out in the coming year too.

Mr. Pranav Kshatriya - Edelweiss Securities - Mumbai

Thank you. That's it from my side.

Rajyita - Moderator

Thank you very much, Mr. Kshatriya. The next question comes from Mr. Sanjesh Jain from ICICI Securities, Mumbai. Mr. Jain you may ask your question now.

Mr. Sanjesh Jain - ICICI Securities - Mumbai

Good afternoon and thanks for the opportunity. One question, a book keeping question, on the financial income. It has been reducing consistently from around Rs.900 million to around Rs.1,000 million a couple of quarters back, now to around Rs.770 million, whereas the cash balance is increasing. So, what are we missing here?

Ms. Surabhi Chandna - Chief Investor Relations Officer - Bharti Infratel Limited

Sanjesh, some of it has to do with the interest rate movements as well. Of course, we have had some treasury movements in the last quarter. I would think that if we continue to maintain the cash balance, considering the macro environment, you will have to see the movement in that context.

Mr. Devender Singh Rawat - Managing Director and Chief Executive Officer - Bharti Infratel Limited

So at Infratel level, we have had some debt, and we have also conserved a certain amount of cash to see in case post merger there is cash call to take on part of the stake from the shareholders, and you do see that while the net debt numbers look similar on account of dividend being paid out from the cash, we have increased a small amount of leverage in Infratel standalone. Indus did pay back a certain amount of their debt. In Infratel, there is a small increase in debt and there is higher cash. Interest rate movement also has seen some move and that is also caused a little bit of treasury income to be lower. So that is a small number.

Mr. Sanjesh Jain - ICICI Securities - Mumbai

No. I was just looking at the cash balance and not actually the net debt number. Cash balance has been more or less increased or remained stable.

Mr. Devender Singh Rawat - Managing Director and Chief Executive Officer - Bharti Infratel Limited

Because we increased our borrowing in Infratel.

Mr. Sanjesh Jain - ICICI Securities - Mumbai

Okay. So how should we look at interest cost -- interest finance income for the full year, at around 7-7.5%? That is what we should assume?

Ms. Surabhi Chandna - Chief Investor Relations Officer - Bharti Infratel Limited

The yields have been coming down, Sanjesh. So very difficult to give that number, but it has been on the downward trend for us.

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Mr. Sanjesh Jain - ICICI Securities - Mumbai

Ok. Thank you that's it from my side. Best of luck.

Rajyita – Moderator

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

Mr. Manish Adukia - Goldman Sachs – Mumbai

Hi Good afternoon and thanks for taking my question. Just a couple of questions. Of your two largest customers, one of them is under a lot of balance sheet pressure, which could get further aggravated, depending on how the AGR situation plays out. Have your customers started to have any discussion with you regarding either longer payment schedules for the rent they pay to Infratel or negotiating for lower rentals that they pay on the towers? And my second question is on your tower build out, it is been a bit elevated the last couple of quarters. Would it be safe to say that these towers at this point in time are being built for just one customer, with little to no visibility on a potential second tenant on these towers? Thank You

Mr. Devender Singh Rawat - Managing Director and Chief Executive Officer - Bharti Infratel Limited

So to your first question, again, we keep discussing with customers on various opportunities and growth areas that we can work on, particularly towards newer technologies, particularly towards in building new products that we can create for the future. Those discussions are on. If your question is about payment terms changes, we are not discussing any change in payment terms from where we are right now with any of the operators. Your second question on tower build out. Yes, we are seeing an increased build out, going out from operators into areas where they were not there, and some of these are also towards catering for capacity for the operators. To us, that is a healthy sign, a leading operator in a leading circle, increasing tower base. It is only a question of time before subsequent operators will come back and fill in on those. So we are choosy about where we are building these towers. We do that analysis to see that there is a potential for a second tenant to come in, at least in the towers that we are trying to build as we move forward.

Mr. Manish Adukia - Goldman Sachs – Mumbai

Thank you so much for that and just a follow-up on the first question. So, I mean, given the financial stress in your customer segment, do you think, if they come to you and if there was a situation where you had to, for the near term, negotiate on lower rentals? Would that be something you will be okay with? Or is that absolutely a no-go area for you?

Mr. Devender Singh Rawat - Managing Director and Chief Executive Officer - Bharti Infratel Limited

Again, this is a hypothetical situation, right, now for me to be conjecturing on a call like this. We keep working on cost-saving measures jointly, and one of the big areas that we work on is energy, which is a pretty meaningful part of an operators' opex, and that is jointly what we work on. What you see is energy and the drop in revenue that we saw for us is kind of co-created with operators to see that we have a win-win proposition, and nobody is kind of going really out of pocket, and we are also becoming more and more environment friendly. You see our green tower disclosures. You look at the solar sites that we are building. So these are initiatives that we try and co-work with our operators, and also, as I said, we keep working on co-creating new products for the future, whether it is small cells, whether it is in other solutions, in-building solutions, going into high footfall areas. So, we are working on those solutions to see how we can create a win-win opportunity between operators and us. Every time there is a new policy opportunity, we have been working towards the regulator also to see that sharing becomes the norm for most of the people, and there, we have seen a huge support from the government too in the last quarter in terms of increasing or looking at enhancing the scope of IP-1s to take on larger sharing, and you will appreciate that any sharing that you do, whether it is in fiber, whether it is in-building or whether it is in a small cell there is definitive saving and it is a win-win proposition for all three of us. So those are areas we would rather work on to focus, the newer areas of growth and see how we can create a win-win proposition between all of us.

Mr. Manish Adukia - Goldman Sachs – Mumbai

Thank you for your answer and all the best.

Rajyita - Moderator

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Thank you very much, Mr. Adukia. The next question comes from Mr. Varun Ahuja from Crédit Suisse Capital, Singapore. Mr. Ahuja, you may ask your question now.

Mr. Varun Ahuja - Crédit Suisse - Singapore

Hi, Thanks for the opportunity. I have got a couple of questions. First, I want to understand the sharing revenue per sharing operator. This has been showing some different share trend over the last couple of quarters. So, this quarter for Bharti Infratel, this is down. Last quarter, it was up, and for Indus, it is up 6%; when last quarter it was down. So just wanted to understand what is happening there. Are there any one-offs in last quarter? So I appreciate your comment on that, and secondly, I do not know if you can share something, but it is been almost 6-7 months, more than that, the approval is still pending on the merger. Is there anything that you have captured? What is leading to such a delay in that approval process? Thank you.

Mr. Devender Singh Rawat - Managing Director and Chief Executive Officer - Bharti Infratel Limited

So, Varun, firstly, the ARPT trend, yes, it does look a little wavering between Indus, Infratel, when you do that analysis. But if you add that up on a 9-month basis, and compare that to the previous 9 months, there is a secular 10% increase across both the companies on the ARPT. Second, exit discussions have been going on with operators and depending on the settlement, you do see a little bump up on the quarter that some of these exit settlements are reached. In the current quarter, there is an impact on Indus, which is in the order of about Rs.20 crores that is showing up on the exit income, and that is causing Indus numbers to be slightly elevated there because the day you finally reach an agreement, there are previous couple of quarter payments that are also simultaneously made and that gets recognized, and that is why you do see a little bit of difference there. I would say, look at that on a full-year basis. I have also addressed it in the previous question and given a guidance of where this number of ARPT on a consolidated level will move. It is currently at Rs.105 crores, and because of the recent settlement, next quarter it is likely to move to Rs.110 crores. So that is a number that should inch up, and you will see, as I said, on a longish horizon depending on where the settlements have happened, and these are two independent companies. So, their discussions are at different points of time and they get signed off. The moment you sign, you settle from the day you have started the discussion on. Your question about approval. The last information that I have, and that is something that I can share is that it is still waiting for the Department of Telecom's (DoT's) Foreign Direct Investment (FDI) approval to come in, and I do not have any further details than that at this moment to share.

Mr. Varun Ahuja - Crédit Suisse - Singapore

Thank you

Rajyita - Moderator

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

Mr. Kunal Vora - BNP Paribas - Mumbai

Thank you for the opportunity. On the new towers, it is likely that you will have only one tenant. And is the pricing any different because with single tenant, you might not even cover the cost of capital?

Mr. Devender Singh Rawat - Managing Director and Chief Executive Officer - Bharti Infratel Limited

Kunal, we have a standard MSA for all the operators, which we offer on a non-discriminatory basis. Every tower when we build, rarely is it the two operators simultaneously tell us to build towers. That happens in the cases where we go for joint bidding or when simultaneously an airport or a government building is opened up for all the operators to build sites in an area where normally we were not getting permission. So, we look at this on a portfolio basis, there is a standard MSA. Operators can choose to roll out on that. It makes it easy for the operators to choose the type of product that they want. We build a tower, which is meant for sharing, and that is what I was referring to in my earlier answer to one of the questions where I said, we do evaluate the opportunity of subsequent operators coming into the tower when we build them. I agree that on a single tenant tower, the returns are significantly lower, and that is why we look at this on a portfolio basis to see as we roll out new towers, which is actually capturing the ground in terms of being there early and that is a strategic advantage for us to reach out in areas where others are not present. As and when there are capacity or coverage catch-up that is being done by subsequent operators, we start to see that move up on the tenancy ratio. At two tenants, these are at the levels that we come down on in terms of our returns too.

Mr. Kunal Vora - BNP Paribas - Mumbai

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Sure. But considering that there is a change in situation now and the possibility of getting a second tenant in many of these towers will be very low, would you consider a change in Master Service Agreement (MSA) or no such thoughts?

Mr. Devender Singh Rawat - Managing Director and Chief Executive Officer - Bharti Infratel Limited

Right now, nothing to answer to that question. Again, I do not see a problem in terms of getting a second tenant to come in most of these towers, and why I say that is for a particular reason, and this is something we have been saying that if there are stronger three or four players that are left in the market, you do not expect a huge difference in coverage or the kind of quality that both of them render and they will run at about 33% market share each. We have been saying that they will run for the market share, and they will have to give similar or if not better services to gain in the market even marginally, and that is where we think, even if there are two or three strong operators, once the leader goes in, it is only a matter of time before the second and third comes in. Today, there is not a huge gap between the #1 and #2 in any circle that we look at. In the past, it was true that the leader was leading by a huge margin, they were north of 50% Revenue Market Share (RMS) in some circles and the trailing operators were sub 20% in which case, the opportunity for a second tenant was lagging by a huge time line. Today, with most of the operators having similar, if not exactly the same spectrum bands, all going after the 4G high-end customers, all having close to about 10GB/month/user kind of utilization. I do not foresee this to be a challenge to get a second tenant as long as we are not building a tower very next to an existing tower. That I agree, yes, in theory there. But you know the MSA does not encourage customers to ask someone to build a tower next to an existing tower. It is cheaper for them to go there both in terms of rent and energy to an existing tower, whether it is my competitor's tower or whether it is my own tower. Given our scale and size, I get the benefit of that. But we do not stop operators too, despite our right of first refusal to go into an existing tower if there is one.

Mr. Kunal Vora - BNP Paribas - Mumbai

Okay, last question is how do we look at the average rental? You already explained a little bit. But I just wanted to hear your thoughts on the 2.5% annual escalation, which should start kicking in, like in the next couple of years. When do we start seeing that?

Mr. Devender Singh Rawat - Managing Director and Chief Executive Officer - Bharti Infratel Limited

So 2.5% increase on the base rate is going on every year. So, it is not something that we have stopped. Yes, there was a freeze given to migrate to this new scheme, and that gets unfrozen as and when the particular operator reaches that threshold. Let us say, a site, which is 2 years old, it would have got unfrozen after 2 years of freeze, and so it is a gradual process where unfreezing continues to happen to all the sites. If your question is when will the entire 2.5% play out, I will have to check and come back to you on the exact year.

Mr. Kunal Vora - BNP Paribas - Mumbai

But my understanding was that in 2022 or 2023, you will have a bulk of the towers or tenancy getting de-frozen and for all towers you should be getting escalations?

Mr. Devender Singh Rawat - Managing Director and Chief Executive Officer - Bharti Infratel Limited

Yes, should be around that time. But as I said, I do not have it right away, but it is also a process. 1-year-old tower would have got unfrozen in exactly 1 year, 2-year-old would have got unfrozen in 2 years. And in 5-6 years, the expectation was pretty much all the towers will probably get into an unfreeze stage.

Mr. Kunal Vora - BNP Paribas - Mumbai

Sure. That's very helpful. Thank you sir.

Rajyita – Moderator

Thank you very much, Mr. Vora. The next question comes from Mr. Mudit Kedia from Arpwood Capital, Mumbai. Mr. Kedia, you may ask your question now.

Mr. Mudit Kedia – Arpwood Capital - Mumbai

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Thank you for the opportunity. One business question was with respect if one were to look at the unit economics of a single tower, say, with 2 co-locations, 2 loading, no space further to add and 2.5% escalation, how do you really arrest your EBITDA margins going forward, given a rental increase would be a bit higher than what your escalations that you offer to the telcos?

Mr. Devender Singh Rawat - Managing Director and Chief Executive Officer - Bharti Infratel Limited

Sorry, could you repeat the question, I missed something in between? You wanted the unit economics of a 2-tenant tower?

Mr. Mudit Kedia – Arpwood Capital - Mumbai

A 2-tenant tower, sir, with no loading further possible on that tower given that the escalation is freezed at 2.5% and your other costs, for example, your rentals or employees that you would have employed or have assigned would grow at a higher rate than what you have on an escalation front. So how does an EBITDA margin or the EBITDA gets arrested in that case?

Mr. Devender Singh Rawat - Managing Director and Chief Executive Officer - Bharti Infratel Limited

So again, a little hypothetical question. In terms of what we see really in the operator domain happening is that there are newer technologies, and you continue to add more electronics, you continue to consume more power, you continue to use larger utilizations per customer. Otherwise, this is like saying growth, entire industry comes to a halt. Nothing happens. So, in reality, we started off with a small spectrum way back in 1996 and today you will see 50, 60 megahertz. I look at 5G as a road map. People talk about 100, 200 and 300 megahertz of spectrum there. That is the kind of growth that is likely to come in. So, in theory, there is nothing like loading is going to stop. Newer technologies, meaning there is more loading. There is a bigger opportunity for business growth to happen. But on a unit economics, we are today at 1.84, 1.85 tenancy ratio. That is what you see the number on a portfolio basis. EBITDA margins and returns are where they are, that you can see there, too. Yes, we continue to drive operational excellence to see what we can do to reduce cost to get to 60-70% core EBITDA margin, depending on which company you are looking at. Your cost is about 30-35%. That is where we are. As long as it meaningfully recovers the cost that your escalation recovers at least the increase in cost, we are net on a positive there, and we would rather grow the portfolio from that point on and support customers in their growth strategies, which should translate into better loading for us. We would continue to have northwards movement, though at a smaller pace. The initial big jump is, obviously, with tenancy enhancement from 1 tenant to 2 tenants, whether is the EBITDA or return ratios that you are looking at. But from there on too, every incremental loading is not a negative for us. Our marginal cost of supporting those is lower, and you are able to keep your EBITDA levels at the levels as it is, and we continue to drive on the operational cost side, too, to make sure that our costs are kept optimal and the productivity levels continue to improve with the interventions and other things.

Mr. Mudit Kedia – Arpwood Capital - Mumbai

Okay, and just one follow-up. With respect to any new tenancy that you add on a tower, what sort of a typical discount that an earlier tenant gets, if you could explain this?

Mr. Devender Singh Rawat - Managing Director and Chief Executive Officer - Bharti Infratel Limited

That is typically about Rs.2,000 on standard MSA rates. So Rs.35,700 rent becomes Rs.32,000 at the second tenant, from there on, it turns to Rs.30,000, and this is a typical ground-based tower rentals per month that are applicable from 1, 2 to 3T (*Rate card based on 2016 numbers, 2.5% p.a. annual escalation to be applied thereon*).

Mr. Mudit Kedia – Arpwood Capital - Mumbai

Understood. Ok. Really helpful. That's all from my side. Thank you

Rajyita - Moderator

Thank you very much, Mr. Kedia. The last follow-up question comes from Mr. Vivekanand Subbaraman from Ambit Capital Mumbai. Mr. Subbaraman, you may ask your question now.

Mr. Vivekanand Subbaraman - Ambit Capital - Mumbai

Thank you for the follow-up opportunity. Just wanted to check, are there any one-offs in the depreciation line item, because if I look at the numbers in 1H and the 3Q numbers, they seem to be very different? And second question is on the other expenses line item.

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That number also has been quite volatile over the three quarters of fiscal 2020. Is there any one-off there to keep in mind or any other factor that is affecting or resulting in very high volatility there?

Mr. Devender Singh Rawat - Managing Director and Chief Executive Officer - Bharti Infratel Limited

Depreciation, there is a one-off. Exact details, I probably have to request Surabhi to send that across if that is all right with you. There is also a little bit of IndAS 116 impact that plays into depreciation. So, I am sorry, that I will not be able to give you the exact numbers in the call straight away, but there are one-offs that are there on the depreciation that comes in. Second, on the other expenses that you are seeing again, there too, there are impacts of some provision for doubtful debts, which we provide for as per the policy beyond 90 days of non-collection is provided for. So you do see times when the money is collected, it gets written back too, but there is a quarter-on-quarter impact. Last quarter, there is an increased Provision for Doubtful Debts (PDD), increase on provision for doubtful debts on account of some of the smaller operators not having paid within the 90 days.

Mr. Vivekanand Subbaraman - Ambit Capital - Mumbai

Okay, and would it be possible to quantify if there is any number or any residual receivable outstanding from smaller operators that is yet to be charged off?

Mr. Devender Singh Rawat - Managing Director and Chief Executive Officer - Bharti Infratel Limited

No, as I said, the policy is very clear. Beyond 90 days, we provide for it. Less than 90 days, we have seen some improvement on the payments that are coming from them. So, I cannot tell you specific about the operators. But these are very small players in our case. But there have been some payment delays that we have seen from them.

Mr. Vivekanand Subbaraman - Ambit Capital - Mumbai

Ok. Thank you very much. All the best

Rajyita – Moderator

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

Mr. Devender Singh Rawat - Managing Director and Chief Executive Officer - Bharti Infratel Limited

Thank you very much. As Akhil cited, the quarter that went by had some important and unprecedented update for the Indian telecom industry. The hearing on AGR on February 3 will be critical for entire telecom industry, and we expect a positive outcome. With the positive net tower and co-location addition during this quarter, we remain optimistic on the future of Indian telecom industry. We believe that an improved financial environment with the support of the government for the operators will put the telecom industry on the much-needed growth path. On behalf of entire Bharti Infratel team, I thank all of you for your continued support. We are fully committed to make the most of the opportunities that are coming before us. I take this opportunity also to wish all of you a very Happy New Year. Thank you very much.

Rajyita - Moderator

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