Earnings Conference Call Transcript

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Bharti Infratel Limited First Quarter Ended June 30, 2014

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PRESENTATION

Shareena – Moderator

Good afternoon, ladies and gentlemen, I am Shareena the moderator for this conference. Welcome to the Bharti Infratel Limited first quarter ended June 30th, 2014 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. Present with us on the call today is a Senior Leadership team of Bharti Infratel Limited. Before I handover 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 risk that we face. I now hand over the call to our first speaker of the day, Mr. Akhil Gupta. Thank you and over to you Mr. Gupta!

Akhil Gupta – Executive Chairman - Bharti Infratel Limited

Thank you, a warm welcome to all of you and thank you for joining us on this earning call of Bharti Infratel for the Q1 ended June 30th, 2014. Clearly the results and the fate of the tower companies and the tower industry is intricately linked to the prospects of the operators.

Let me first talk to you about the state of the telecom industry as I see it. A few facts, I think three major improvements which we see, the first one as most of you would have noticed is that the realized Voice rates for the operators are going up. Very clearly if I can take Airtel's example these are from their published quarterly reports, the realized rate has gone up from 0.35 paise per minute last year to Rs.37.07 in the quarter ended March 31, 2014. Idea and Vodafone has the same situation so obviously for the industry as a whole this is a very positive development.

The second big development on the Indian telecom industry is that the data which of course earlier the world has seen, India is witnessing the same kind of super growth and again to take some figures from Airtel's quarterly report and Idea's quarterly report the published data, between March 2013 and March 2014 the year-on-year comparison in the data growth in both the cases as per published results has been over 100%. So this is hyper growth which we had witnessed earlier in voice is being replayed.

The third big factor which leads to improvement is also the S&D expenses or the sales and distribution expenses which are getting rationalized and that is very evident from its significant reduction in churn for instance in case of Airtel it has come down to 2.4% from 3.2% in a year. Now that automatically results into a massive saving on the selling expenses.

Now as a result of these three big changes - there is better profitability, the return on the capital employed is improving and obviously the confidence is returning with the operator plus with the fact that the operators have invested $30 billion since 2010 in spectrum which going forward is to be used mainly for data network.

Now that these two factors to my mind very clearly indicate that there is a massive potential for tower companies because the operator would have to rollout network. Very clearly I think for the last couple of years the operators have gone very soft on network rollouts. The data rollouts also were slow mainly because the financial health was not very good and second because the handset penetration was not very strong. But the current situation is very different. What we are seeing is that the rollout is accelerating and I will just give you one data point which is there in the quarterly reports so you can take it out from there.

As per the Airtel report their 3G sites went up from 24000 to 31000 in one year. In case of Idea they went up from 17000 to 22000 in .one year so very clearly the acceleration is evident. For Bharti Infratel in Q1 of year 2013-2014 we had incremental tenancies of 1430. In Q1 of this year as per the report that is available to you it has jumped to 3180, on a like-to-like basis the tenancies have doubled as compared to last year and I think that is very clearly a very good sign.

I must point out that while we obviously cannot give out specific information pertaining to any operator, this quarter does include some contribution from Reliance Jio with whom we had announced a signing of the MSA sometime back. As a result of this our sharing factor has moved up from 1.91 a year back to 2.02 thereby crossing what is generally in tower parlance seen as a very critical milestone of 2.

In terms of our financial performance hopefully, you have had ample time to have a look at the quarterly report which we released last evening. I am not going to take you through the figures because you have them before you, but I just want to point out once again about the robustness of the business model that has emerged for the tower industry. In our case if you see the results, we had a revenue growth of 8%, these are year-to-year figure. A growth in EBITDA of 13%, growth in profit after tax of 29%; so there is this escalating effect which is a hallmark of the business model for sharing of infrastructure. The return on capital employed, which was at 11.5% in Q1 of 2013-2014 has gone up to 17.2% in Q1 of 2014-2015. I think the needles are in the right direction and quite clearly that gives us a lot of confidence and lot of optimism going forward.

One of the issues I want to touch upon is our capital structure. This is something which has been a concern for most investors and for us but before I tell you what we intend to do I think very clearly our philosophy is - first of all like any good company that we must utilize cash which we have or the capital which we have in the most efficient manner.

While doing so I want to spell out our overall objectives. Number one we would always look at the most feasible opportunities which can add to our value. Number two we would like to return any excess cash to the shareholders in a most tax efficient manner, more important we want to do it in a manner that it improves liquidity in the market overtime, which means there should be more shares in the hands of public and the promoter holding would come down, of course it's also mandated that it has to come down by December 2015.

We already have a dividend policy for ongoing profits and regarding buyback I will talk a little more of that, but let me talk about each of steps a little more. One is the inorganic opportunities. You would recollect that we had made a categorical announcement that we would not, as Infratel be participating in any sale process for the towers which Airtel holds in Africa or for any other towers in Africa.

As far as Bangladesh and Sri Lanka where Airtel operates and may be interested in selling their towers we would certainly be interested, provided the valuation is at arm's length being related party of the transaction, I think the onus is even more to ensure that the valuation and the terms and conditions which we work out are such that in a transparent manner they can be acceptable to Airtel board and shareholders and also to our board and our shareholders on a completely arms length pricing.

So we are interested, but at this point there are some regulatory problems both in Bangladesh and Sri Lanka mainly on account of no pass-through of VAT in case of Sri Lanka and no pass-through of the license fee of 5.5% in case of Bangladesh which obviously makes it inefficient as it increases the cost for the operators. In addition in Bangladesh there are some regulatory restrictions in terms of currently transferring the shares of the tower company with the view that the tower company should cease to be a subsidiary of the operating company. The operators in Bangladesh are taking up these issues with the regulators and I hope these two get sorted out. In that case we would certainly like to look at this opportunity.

We had also mentioned earlier that Vodafone and Idea have some 15000 towers approximately, in our seven circles we would be interested it in acquiring them should they be willing to sell them. There is nothing on the table, which I can report today except that we do remain interested in those.

On returning the excess cash - first and foremost is the dividend policy, which you know we have made more liberal. We now have a policy just to recollect that 60% to 80% of our standalone profits or 100% of Indus dividend whichever is higher would be distributed, last year for 2013-2014 our total dividend was Rs.4.40 paise per share which virtually gave out the entire profit including Dividend Tax, for 2014-2015 we have already as you would have noted announced an interim dividend of Rs.4.50 paise per share which represents currently the dividend that we received from Indus. The other area whereby we would like to return cash at the appropriate time is by way of the buyback of shares using the share premium which we had taken from an earlier issuance. There are some company law clarifications which are required. The Company has sought some of those clarifications from the Ministry of Corporate Affairs, whether that premium can be used for buyback and we are awaiting their response. Hopefully since it's a new government this may be a little low down in their priority but hopefully in the next couple of months we expect them to give this clarification.

In summary, I think given that the prospects for the telecom industry certainly look more promising than they have looked in the last several years and it appears that the operators are gearing for much faster rollouts to protect their investment they have already made in spectrum and also encouraged by the positive feedback and experience they are getting on data growth. We as a leading tower company having almost 150,000 towers between in Infratel and Indus where we own 42% and spreading to every nook and corner of this country are fully prepared to meet an increased demand and we also expect that we are in the best position to cater to the operators for what we expect would be their increased demand for towers. Thank you.

Shareena - 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 constraint we would request if you could limit the number of questions to two to enable more participation, hence management will take only two questions to ensure maximum participation. Participant who wish to ask questions may press "*1" on their touchtone enable telephone keypad. On pressing "*1" participants will get a chance to present their question on a first in line basis, to ask a question participant may please press "*1" now. The first question comes from Ms. Reena Verma from DSP Merrill Lynch, Mumbai. Ms. Verma you may ask your question now.

Reena Verma - DSP Merrill Lynch – Mumbai

Good afternoon and thank you for the call. Just two questions from me. Firstly please can you comment a little on the CapEx expectations both for this year and on a more longer term basis, because it so seems that you know your continuously spending much less than whatever we are expecting so I was just hoping for a better understanding there? My second question is with regard to the recent budget announcements for infrastructure for REIT companies, do we have clarity on whether Bharti Infratel can benefit in any manner from the budget announcement in terms of change in structure or you know any tax change that may be applicable? Thank you.

Akhil Gupta – Executive Chairman - Bharti Infratel Limited

I think on CapEx expectation, look our CapEx is purely dependent on the orders given by the operators, we are absolutely in a position that whatever that be we are fully resourced to do that, but bigger CapEx in our case is actually good because that only means that the growth is tremendous, so I would not be able to quantify as to what we could be spending on this but ultimately this CapEx if incurred automatically means that from day 1 there is extra revenue, so more CapEx if it happens obviously means more growth and therefore a long-term benefit. On the infrastructure status we do not have any clarification I do not think anybody has the clarification as to what are the benefits from a REIT arising of this so called infrastructure status. So at this point of time not possible for us to give you any considered opinion on this whether for Infratel which is already a listed company it makes any sense whatsoever to look at it.

Reena Verma - DSP Merrill Lynch – Mumbai

Sir on the CapEx front what is the number that you are looking at for this year at least and you know longer term then is it logical that if we assume very strong growth in your revenues we should have increase in the number of towers as well?

Akhil Gupta – Executive Chairman - Bharti Infratel Limited

It could be but it is not proportionate that everything which comes is because of new towers, therefore in our business the number of new towers vis-à-vis the total tenancies there will always be a small traction. For instance in the first quarter our number of new towers vis-à-vis the total collocations is just about 10% to 11% so the bigger CapEx is on new tenancies, we do not expect that suddenly all new tenancies will only come on new towers therefore CapEx is not a very significant issue.

Reena Verma - DSP Merrill Lynch – Mumbai

Okay and may I just ask a quick small third question which is on the residual life of contract which you give in your quarterly report you know that has been steadily declining with time. I just wanted to understand whether the Reliance Jio agreement is counted in this number yet or not yet?

Akhil Gupta – Executive Chairman - Bharti Infratel Limited

Whatever has come and we have implemented those are all counted and that is nothing to do with Reliance Jio or anybody, it's common for all operators. That is how we calculate this.

Reena Verma - DSP Merrill Lynch – Mumbai

Okay thank you very much and all the best.

Shareena – Moderator

Thank you very much Ms. Verma. The next question comes from Mr. Srinivas Rao from Deutsche Bank Mumbai. Mr. Rao you may ask your question now.

Srinivas Rao – Deutsche Bank – Mumbai

Sir thank you a very much, just wanted to clarify sir your distributable reserves at this stage will be whatever reserves you have excluding your share premium would that be of correct interpretation? The reason I ask is I mean your ability to give dividend under the current Company Law and otherwise you should be able to distribute your whatever is available in your general reserves and the surplus which kind of amounts to probably around 90-odd billion. Is that a fair number I am looking at or that's not correct?

Akhil Gupta – Executive Chairman - Bharti Infratel Limited

I do not know the exact number but I can tell you that you are right, in the balance sheet of standalone if we have to look at the distributable reserve share premium would get counted, also if you remember on the demerger piece we had a business amalgamation reserve which was there and hence it would be fair enough to remove that from your distributable computation at this point of time.

Srinivas Rao – Deutsche Bank – Mumbai

Okay so the reason I ask is I mean as per your reporting the share premium is about Rs.66-odd billion so your distributable reserves you know what you can distribute to dividend still is about 90-odd Million that is what I just want to understand is that correct or wrong?

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

That does include the capital revaluation, the asset revaluation reserve or maybe we can work out this calculation and send it to you separately.

Pankaj Miglani – Chief Financial Officer - Bharti Infratel Limited

Yes, you should count securities premium and surplus in P&L account.

Akhil Gupta – Executive Chairman - Bharti Infratel Limited

Securities premium the problem is that is what I was explaining it is not distributable as a dividend. It can according to us be used for buyback but there are ambiguities in the Company's Act for which clarification has been sought.

Srinivas Rao – Deutsche Bank – Mumbai

Fair enough Sir. Thank you so much. This is what I wanted to understand.

Shareena – Moderator

Thank you very much Mr. Rao. The next question comes from Ms. Priya Rohira from Axis Capital, Mumbai. Ms. Rohira you may ask your question now.

Priya Rohira – Axis Capital – Mumbai

Yeah Hi! Good afternoon and congratulations to the management team for good set of numbers. My question relates to the tenancies which you are seeing in metros with respect to 3G, I mean are we very close to reaching to full tenancies in these circles or if you could just give some color on the quality of these tenancies more in Metros and circle A?

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

Hi Priya. This is Devender Singh Rawat. From a tenancy standpoint we continue to see a similar trend, so in Metros where we are seeing higher amount of loading and also on enablement of 3G, in rural parts we still have distribution of voice layer and also data led tenancies coming in. Specifically in terms of tenancy ratio they are evenly distributed across all the circles so I cannot give you a specific flavor of saying - are the metros having a higher tenancy ratio as compared to the rest of the circles, the answer is No. There are circles where the tenancy ratios are higher and also so is the case with metros too. As I said we are still continuing to see voice led growth in category 'B' and 'C' circles where there is catch up being done primarily by the No.2 and No.3 operators for voice coverage and data is primarily focused in the Top10 to 20 cities where 3G enablement has happened completely and in case of metros of course data has already launched in all the metros.

Priya Rohira – Axis Capital – Mumbai

Sir that is helpful. Could you give us the latest count on the green initiative from your end?

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

So 19,000 was the number that we reported. These are sites where we do not use Diesel, though the generator is available, we do not run the generator on these green sites. The current count is close to about 19000 sites. 19,400 specific numbers there.

Priya Rohira – Axis Capital – Mumbai

Sure thanks that is helpful. May be I will come on with the follow on question.

Shareena – Moderator

Thank you, Ms. Rohira. The next question comes from Mr. Caspar Erskine from New Street Research, London. Mr. Erskine you may ask your question now.

Caspar Erskine - New Street Research - London

Thank you for the call. I was just wondering what percentage of contracts inflation linked in Infratel at the moment? My second question is, is there a significant premium on the 3G and 4G sites compatible to it only.

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

Firstly our contracts are primarily led by this Master Service Agreement that we sign, it is pretty much non-discriminatory and uniform across all the customers, minus the minor changes which are for legal requirements there. So the standard contract is 2.5% annual escalation for every site that they have taken so let say site has been taken on an 'X' date exactly one year from that date the 2.5% escalation is built on that site for the rentals that are paid for those specific sites and from a revenue stand point I want to bring out that we equalize this for requirement of accounting standard this is straight lined in revenue equalization so all the escalation over the period of contract is actually straight lined for reporting purposes, you might not be able to see that in our escalations of revenue every year. Secondly you mentioned about premium. The way we charge for data there is two mechanisms one if an existing operator is enabling 3G or 4G on an existing site that is treated as loading we do not count that as collocation or tenancy, there is a predefined loading charge for all electronic equipment and also for antennas and power requirement in the Master Service Agreement. Typically a 3G base station if it is brought in fresh with three sets of antennas would cost about Rs.3500 to an operator on an existing site where he is already present as a tenant. Number two - if an operator comes in only with 3G equipment into the sites for the first time then he is charged the standard rental rate so if he comes in as a second or a third tenant he will be paying Rs.32000 or Rs.30000 depending on what tenancy level he is entering that site on. The first level of entry is a standard rental rate and from there on there are loading charges applicable. I hope that answers the question.

Caspar Erskine - New Street Research – London

That is absolutely fine. Thank you very much.

Shareena – Moderator

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

Rajiv Sharma – HSBC - Mumbai

Thanks for the opportunity. Just two questions - one is there is been this demand of license fee on tower companies so is the regulator still thinking about it or it is you know completely done away with issue is a status update there and second is what percentage of your incremental tenancies would be coming from pure 3G towers or pure data towers, is that started or is that a very small number and how do you see the trend? Thank you.

Akhil Gupta – Executive Chairman - Bharti Infratel Limited

On the first one, firstly there is no demand, which is pending. That is not something which is in litigation but there was a kind of a discussion whether license fee should be imposed, from TAIPA which is the industry body, which we have been making representation both to TRAI and to DoT and based on those this matter has been put in abeyance. So there is nothing outstanding at this point on this issue there is no demand or any litigation. On the tenancies I do not think in we can give any specific information but D. S.

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

Thanks Akhil. On incremental 3G led site requirement so far we have not seen a site in which there is pure play 3G or 4G equipment. 4G is only in case of reliance Jio where they have come in as a standard tenant depending on the tenancy level that they have come in. 3G operators are typically choosing in to put in 2G plus 3G combined base stations and in locations where they are present and there is a coverage requirement to be plugged in. We have however heard of news where Vodafone has said they wanted to deploy close to about 1700 sites so we are seeing some initial demand but those numbers as I said are small and today they are merged into the 2G numbers that we are reporting together.

Rajiv Sharma – HSBC - Mumbai

That is helpful. Thank you so much.

Shareena – Moderator

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

Kunal Vora – BNP Paribas - Mumbai

In the recent call Idea mentioned that they are shifting some of their towers sites from BSNL to Indus Towers. Just wanted to hear your thoughts on like are you seeing a larger trend there, are like the top three operators moving from the site from some of the other tower companies on Indus or Infratel, I also noticed that Idea was giving about 50% of its additional sites to Indus but this quarter it went up to 80% so just wanted to hear your thoughts on that? Second is on your recurring CapEx number it has increased slightly this quarter how do we look at it on a longer term basis? Thank you.

Akhil Gupta – Executive Chairman - Bharti Infratel Limited

On the first issue, we cannot comment on anything specific with respect to our customer or with respect to our competition. We do not like to talk about the competition in any derogatory term at all so on the first one whether Idea is saying and I have not heard it but if they are saying that they are shifting something from BSNL to Indus you should take it at their face value but as Infratel or as representative of Indus on this call we would definitely not want to comment on such matters which involves competition and more important which involves our customers. For the same reason we would not be able to talk about what percentage of business they give to us, firstly there are no specific authentic figures available so we would refrain from that, on recurring CapEx, I think D.S.

Pankaj Miglani - Chief Financial Officer – Bharti Infratel Limited

Pankaj this side. See the recurring CapEx this time has gone up slightly you know one on account of increase in general Corporate CapEx, there is a bit of again a seasonality coming into play in this quarter for replacement. I think on an overall yearly basis we expect this trend to be similar to what we have been seeing till now which should be in a range of around somewhere around 55000 to 65000 per tower per annum.

Kunal Vora – BNP Paribas – Mumbai

Just a follow up on that like I earlier used to guide it about Rs.1 lakh per Tower like what has driven this change from Rs.100000 to Rs.55000 or Rs.60000?

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

This is D. S. Rawat, I know we did mention this. The specific that we had mentioned if we did a theoretical calculation would be close to a Rs.1 lakh for towers which are more than three years old, so that was the qualifying criteria for the first three years you do not replace battery or the generator and hence there is hardly a replacement CapEx required in the case of a site, so when you would look at sites which have been built take that out and also look at the sites where the power situation has improved given our Green site reporting and also you know EB availability, there are cases where the life of battery and generator is higher and hence you see lower requirement of replacement, primarily coming in because of end of life the equipment having already depreciated its full value, so with better EB availability we expect this to go down in long run.

Kunal Vora – BNP Paribas – Mumbai

Okay thank you Sir, very clear.

Shareena – Moderator

Thank you very much Mr. Vora. The next question comes from Mr. Piyush Choudhary from CIMB Mumbai. Mr. Choudhary you may ask your question now.

Piyush Choudhary – CIMB - Mumbai

Good afternoon. Congratulations to the management. Just a follow up on the CapEx side only, just a clarification the Green CapEx like solar etc., is this part of the maintenance CapEx or not? Secondly the year on year rise in maintenance CapEx by 45% you are saying this will get normalized during the year is that correct?

Akhil Gupta – Executive Chairman - Bharti Infratel Limited

So the Green CapEx is not the part of the General maintenance CapEx. It is a separate one over and above that.

Piyush Choudhary – CIMB - Mumbai

This rise in maintenance CapEx, despite being year-on-year 45% increase you are saying this will get normalized, this is nothing abnormal?

Akhil Gupta – Executive Chairman - Bharti Infratel Limited

Yes, exactly despite being higher in this quarter we expect this on a yearly basis I think we should see this again on a yearly basis and we expect that to be in the range of around 55000 to 65000.

Piyush Choudhary – CIMB – Mumbai

Okay got it. Thanks a lot and all the best.

Shareena – Moderator

Thank you very much Mr. Choudhary. The next question comes from Mr. Varun Ahuja from UBS Singapore. Mr. Ahuja, you may ask your question now.

Varun Ahuja – UBS - Singapore

Thanks for the opportunity and congrats on a good set of numbers. I have got two questions, first one on Indus dividend, sir it will be helpful if you can just provide more color how should we look about it, because last year it was around 220 Crores and this time 950 Crores, so what should be your regular kind of a dividend we should expect from Indus? That will be helpful. Secondly on Spectrum sharing guidelines what kind of impact do you think if the operator start sharing Spectrum on 3G front, do you see an impact on demand for towers per se because it will enhance capacities meaningfully because we just wanted to hear your thoughts on that. Thank you.

Akhil Gupta – Executive Chairman - Bharti Infratel Limited

On Indus well, the reason why dividend was higher because they did not declare the full year final dividend last year, this is what has come as a cumulative figure but obviously we cannot straightaway say what their specific plan on this would be but I would say they will be in a position to declare most of the net profit as dividend that is what we expect going forward. Harjeet would you say something on Spectrum?

Harjeet Kohli - Group Treasurer - Bharti Infratel Limited

Look on Spectrum sharing frankly if you see the direction of the evolution of the guidelines and suggestion, of course the direction is very, very right, but specifically if you look at some of the fine print of how this gets implemented I do think that it may be this time there are couple of hurdles for the operators to work by, one is the SUC incremental charge of 0.5% to the operators if they end up sharing will lead to pay on their entire revenue on this spectrum. There are spectrum caps involved between two large operators so it is not very conducive as it looks today but overtime we are sure that this will evolve into something which will be beneficial to the industry on an overall basis. From a tower company perspective really, we do not think there is an immediate change but as and when the change over happens it actually should benefit the tower companies, today what happens for an incremental tenancies you do try as an operator to take up a call on whether you need to take a tenancy or not, based on the traffic availability of voice and data, so you do have the lot of sunk costs, which operators may not be taking today but if there is an ability of two operators combing for a base station there will be an incremental pickup for tenancies which we will see overtime. Thirdly from a data perspective the tenancies are far shallow. Akhil talked about some numbers of how Airtel has grown over the last one year but despite all of that still there about just 30% of the sites covered on 3G, so if there is an element of spectrum sharing as an example across different frequency bands you will be able to see a faster tenancy rollout. Having said all of this I think this is too early. Regulations need to be more clear and some of the bottlenecks need to be removed, but in general a very positive step both for the operator and the Tower company as an industry.

Shareena - Moderator

Thank you very much Mr. Ahuja. The next question comes from Mr. Sanjay Chawla from JM Financial, Mumbai, Mr. Chawla you may ask your question now. Sir, Mr. Chawla’s line has got disconnected. We are taking the next question. The next question comes from Mr. Srinivas Rao from Deutsche Bank, Mumbai. Mr. Rao you may ask your question now.

Srinivas Rao – Deutsche Bank – Mumbai

Sir just wanted to continue on that question on the balance contract life. It has kind of come down broadly from seven years to six and a half years in the last nine months, which it seems to be equal to the passage of time. Just wanted to understand two things, this number will continue to trend down if you do not sign fresh contract. That is one. Number two if you sign a loading kind of a scenario that would not constitute a fresh contract, just wanted to clarify these two things.

Pankaj Miglani - Chief Financial Officer – Bharti Infratel Limited

Hi Srinivas, Pankaj this side. So you are right on the first one. With the passage of time this number keeps on coming down and incrementally we need to do more numbers to either keep this as constant or increase this. Second loading is not a part of this contract, because loading sits on the original contract for the original tenancy taken and hence on account of loading this does not increase.

Akhil Gupta – Executive Chairman - Bharti Infratel Limited

But having said that I mean it is definitely a mathematical exercise that when these old contract get renewed obviously the figures keep coming back and whenever a new contract for the new tenancies or new sharing comes obviously this figure again goes up but nothing to worry here because this does not mean that it ends at that period, most of these contract obviously being critical for the operators still get renewed.

Srinivas Rao – Deutsche Bank – Mumbai

Absolutely I mean assuming this is happening because a large number of your contracts would have got signed in a very short period of time in the past and hence that is the reason why this number will continue…..

Akhil Gupta – Executive Chairman - Bharti Infratel Limited

Right because if you see even in 2007 we formed this company, towers was signed on one shot but over a period of time that is anomaly gets sorted out after that we should see it only going up overtime.

Shareena – Moderator

Thank you very much Mr. Rao. Participant who wish to ask question may please press "*1" now. The next question comes from Mr. Sanjay Chawla from J. M. Financials, Mumbai. Mr. Chawla you may ask your question now.

Sanjay Chawla – JM Financial - Mumbai

Good afternoon. Thanks for the call. Sir my first question is just wanted some understanding of Indus liquidity and leverage position. Indus had cash and cash equivalent of 1400 Crores and it has generated over 500 Crores in the quarter as free cash flow so total of 1900 Crores but it just paid out a dividend of 2700 Crores including dividend tax so that should mean the borrowing should have gone up by 800 Crores, but what I see now consolidate cash flow is that borrowings have been repaid actually so am I missing something here if you could just help me understand this? Second question is you know you have significant amount of cash and cash equivalence what should be the average yield in what range one should assume the average yield on these cash and liquid instruments?

Akhil Gupta – Executive Chairman - Bharti Infratel Limited

Sanjay for the first question Indus by itself has a lot of free cash flow. On a quarterly basis their cash flow is probably far in excess of what they have paid out in this particular instance as dividend, it also includes I think this dividend what is that dividend disbursement dates Pankaj.

Pankaj Miglani - Chief Financial Officer – Bharti Infratel Limited

This came in June.

Akhil Gupta – Executive Chairman - Bharti Infratel Limited

So I can see the gross debt numbers they have actually come down because they use their cash to payout the gross debt. On a net debt basis they were slightly down, between the Indus and Infratel there was also a historical one time loan which got settled for all the three operators and this was prior to the merger whereby there was a loan entry between Infratel and Indus and so between the other sponsors and Indus, which also gets settled via this particular transaction.

Sanjay Chawla – JM Financial – Mumbai

So it was just settlement of liability from Bharti, Voda, Idea happened in the June quarter itself?

Akhil Gupta – Executive Chairman - Bharti Infratel Limited

That is right.

Sanjay Chawla – JM Financial – Mumbai

Thank you so much for this. On the average yield question?

Harjeet Kohli – Group Treasurer – Bharti Infratel Limited

Average yield, Sanjay between Indus and Infratel, it depends on what is the level and longevity of investment. Indus usually is the debt borrowing entity, so their longevity of investments is only via liquid funds and liquid funds are yielding anywhere from 8% to 8.5% depending upon the quarter. Between Infratel you have IPO funds available which have slightly higher longevity and we have taken accordingly duration fund. The duration funds over the last two, three quarters have been yielding about 9% to 9.5% but by the way they also went in a negative MTM situation June of last year, its recall that there was a interest rate, negative supply in the market, but that said the portfolio yield at Infratel level is about 10.5% to 11% today. That is because of the capital movement on the duration funds, which for us really technically should not impact us because we have longevity of holding them and as the interest rate trend down we will be able to recoup the so called MTM losses of the above one during the holding period.

Sanjay Chawla – JM Financial – Mumbai

That is quite useful. Thank you very much and all the best.

Shareena - Moderator

Thank you very much, Mr. Chawla. The next question comes from Mr. Pulkit Singhal from Treeline, Hong Kong. Mr. Singhal you may ask you question now.

Pulkit Singhal – Treeline – Hong Kong

Thanks for taking my question. I am not sure if you are allowed to disclose this, but what is the amount of fiber connectivity to the towers for the industry as the broad range and also where do you think is going to be the weak link going ahead in case data uptake keeps continuing such a fast pace, is it going to be more on the spectrum requirement or is it going to be first on the spectrum requirement going up or is it going to be first requiring connectivity at the back end and thirdly what is Bharti Infratel's position on laying down fiber and a common fiber for all the players and whether the players are interested in that?

Akhil Gupta – Executive Chairman - Bharti Infratel Limited

As per the towers which are available with Infratel and Indus, I do not have an exact percentage, but I guess the overall would not be more than 7% to 8% of the towers on which there is a fiber by any operator, but we can of course checkup this figure and tell you. Theoretically speaking it may be even practically speaking if you take a longer term duration of five, seven or eight years, I think a stage will come, the way data is increasing that every tower will have to be connected on fiber unless the microwave technology takes such a dramatic leap in terms of capacity that all the increased traffic of all the operators on a side can be accommodated in microwave. It does not look likely despite the fact that microwave technology has been improving. Ultimately, we believe that with the kind of traffic, which we are seeing increasing virtually every site or at least most of the sites would have to have fibers, so this is something which from a long-term perspective is definitely a big ticket item. It would involve a lot of CapEx. Currently or till date, most of this fiberization or practically 100% has been done by the operators itself, but we believe that going forward this like the towers will also need to be shared because no operators will be able to afford it exclusively. That is where as Infratel and as Indus we keep looking at this very closely as and when an opportunity arises and we find that the customers apart on the towers meet that transmission, we would definitely evaluate the feasibility of going for connecting our towers on optic fibers with the nearest transport network to whoever it may have launched. So very clearly Indus and Infratel may not be looking at long distance fiber, but would certainly like look at some stage about the feasibility of connecting their towers on fiber to the nearest transport network.

Pulkit Singhal – Treeline – Hong Kong

We are looking just at the urban centers, I would assume that the fiber is laid down, but possibly just a last mile connectivity that is the problem? What is the challenge in connecting the towers to fiber? This is what I am trying to understand in the urban centers itself?

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

Based on this two things critically. Firstly the right of way within the cities is expensive. Two digging out cities is not as easy, all these are state specific matters where you need to seek local approvals and operators if you look at their disclosures every quarter they are adding up the last mile fiber as we are using that word that is true that is the limitation right now. There is enough long distance fiber within the cities operators are constantly upgrading their network to increase the number of points or presence in each of the big cities.

Pulkit Singhal – Treeline – Hong Kong

Okay thank you.

Shareena - Moderator

Thank you very much Mr. Singhal. The next question comes from Mr. Michel Sznajer from Silvaris Capital, London. Mr. Sznajer you may ask your question now.

Michael Sznajer - Silvaris Capital - London

Thank you, I have two questions if I may. Can you help us to think about incremental margins from here. Every quarter you are increasing margins, the question is how much more there is and at what point do you think that sort of incremental margins will plateau? The second one is can you help us a little bit understanding what the message was with the interim dividend whether we should think about times two for the full year or more simplistically or there is no indication from the first interim dividend and into the full year dividend? Thank you.

Harjeet Kohli - Group Treasurer - Bharti Infratel Limited

On the margin one maybe I will have to take a step back and explain to you the model. The model, which the tower companies have essentially on a single tower, the first tenant provides roughly 50% to 55% EBITDA margins, ex of energy, we are not talking about energy, which is principally pass-through via the arrangements that we have had with suitable incentivisations with tower company to look at solar and all, but if I decomplicate that on a straight fully electricity fed tower a single tenant could bring 50% to 55% of the margin depending upon which area of the country we are laying the tower on. Once the tenancy becomes two, the margin automatically expands because you get double, almost close to double the receipt on the towers, while incremental OpEx is not very high and it could reach between 60% and 65% or slightly above, again depending upon the location of the tower. As the tenancies continue to increase, the three tenancy towers obviously we are at about two on a portfolio basis, a three-tenanted tower could yield as much as 75 or more percentage of EBITDA margin. So there is a fundamental model based EBITDA expansion that is sitting in this tower industry, beyond that of course the company also has initiatives around the energy process whereby a fixed energy model that has been entered with the operators, gives the incentive to the tower company to try and look at efficiencies in usage of fuel and grid connectivity, basis which they could have small little margins coming back from there, but on the overall as the tenancy increases there should be an EBITDA margin expansion. On your second question an interim dividend just as a policy, I am sure you are aware that Infratel increased their dividend policy earlier last year to 60% to 80% of the standalone company's profit for the year excluding any dividend distribution tax. If you recall last full year we actually paid out close to 90% of the overall profits. The policy is 60% to 80% assuming one were to, I am just giving a theoretical example one more to pay out 80% and add another 17% to 18% of the dividend distribution tax. The idea is to payout as much as the company on a standalone basis is earned as profit after tax. What we did in the first quarter is essentially received a dividend inflow from Indus, which was about 951 Crores and standalone profit for Bharti Infratel itself as about 250 odd Crores, so sum total of that was an available pool, we opportunistically use the interim window because the finance bill presented in July suggested that effective of October 1, 2014 the effective dividend distribution tax would go up from 17% to 20%. So given that the prospectively there was a 3% increase in tax liability, we thought of using this opportunity to be able to declare an interim. This then certainly leaves you the balance towards the dividend policy which is about 80% of the yearly pack which you can simply extrapolate from the first quarter which could be an opportunity for the company and the board to discuss as the year progresses by.

Michael Sznajer - Silvaris Capital – London

Okay thank you very much.

Shareena - Moderator

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

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

Thank you. Let me conclude by stating that the robustness of our business model is once again established by the fact that year-on-year basis towers grew at 1.8%, collocations at 7.8%, translating into a revenue growth of 8.4%, EBITDA growth of 13% and PAT over 29%. As Akhil mentioned we are entering an exciting phase in telecom industry with data playing a significant role in the future of telecom. As a company we are well positioned and extremely focused to capitalize on the growth opportunities given by our pan India network footprint, high quality standard and a strong balance sheet position. I on behalf of Bharti Infratel team thank all of you for your continued support and look forward to an exciting journey ahead of us. Thank you very much.

Shareena - Moderator

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