Earnings Conference Call Transcript

Event: Bharti Infratel Limited Second Quarter Ended September 30th, 2014 Earnings Call

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Bharti Infratel Limited Second Quarter Ended September 30, 2014 Earnings Call

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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 second quarter ended September 30, 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 the senior leadership team of Bharti Infratel Limited. Before I hand over the call, I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risks that we face. I now hand over the call to our first speaker of the day, Mr. Akhil Gupta. Thank you and over to you, Mr. Gupta!

Akhil Gupta - Chairman - Bharti Infratel Limited

Thank you and a very warm welcome to all our investors and other friends on this call for the results of Bharti Infratel for Quarter ended September 30, 2014. Quite clearly the state of telecom tower companies is linked to how the telecom industry performs. It is very obvious to everybody that the growth in telecom, world over is currently led by data. In turn the data growth is being fueled with innumerable applications and utilities, which are coming on data networks and I think India is absolutely no exception.

Just to give you some major points - for Airtel, the traffic on data grew from 28.4 billion MBs to 55.6 billion MBs in one year. That is a 96% growth. Number of 3G customers in one year grew by 101%. For Idea and these are the figures which are reported: for September 30,2014 their data growth was 125% year-on-year and number of 3G customers grew by 114%. So we are seeing this phenomenon, all across without any exceptions and data is growing at a very, very rapid pace.

You would also recollect that the operators in India since 2010 have invested over $30 billion in spectrum auctions; obviously most of that spectrum will be used for data going forward. The rollouts have just about started but we are already seeing the trends and that is also being aided by the fact that the handset penetration particularly of 'smart phones' is rapidly increasing in India like of course in every other part of the world.

You should also be seeing that the rollouts by operators have accelerated. This is clear from the fact that Airtel added 9000 new sites in the last one year, Idea added 7000 new sites and quite a few of them or a bulk of them are obviously being done for data. So the rollouts have accelerated. They are picking up and what we are experiencing is that this momentum is now catching on.

As a result of this in this quarter we have 3950 new co-locations as compared to 1958 collocations in the second quarter for 2013-2014, which is double of the earlier one, exactly 102% of what we did last year. You would recollect that even in the previous quarter the growth in the co-locations was more than 100% so this is a trend which we are seeing is sustainable and all of us are absolutely convinced that we will see this momentum not only being sustained but getting accelerated as we go along.

I would also like to remind that during this quarter Indus also signed the agreement with Reliance Jio and their tenancies I can confirm have started to come for Indus. Infratel of course had already done that in the previous quarter and this figure of new co-locations also include the Reliance Jio co-locations.

One of the problems which we have repeatedly discussed and the various investor friends have pointed out and we completely acknowledged is a bit of an issue is our capital structure. This was mainly on two accounts. One is of course you know the excess cash which we had, which I will talk about and the second was the lack of liquidity in our stock in the market.

Let me take up the second one first and then come to the cash situation. As you would have noticed, Bharti Airtel, the promoter of Infratel during this quarter did an offer for sale for approximately 4.5% stake in Infratel, a very successful OFS. The issue was very well received and oversubscribed and various investors from all over the world from US, Europe and Asia participated in that OFS.

As a result of this OFS, I am really pleased to report that not only have we now fulfilled the criteria of having 25% as the minimum float, more importantly our daily trading volumes have jumped. They have gone up from roughly 0.75 million, prior to this OFS, to an average of 1.42 million shares per day in this quarter. So that is a 100% growth in the volume and we see that these volumes are steadily increasing.

Coming to the cash, as you know we do have excess cash on the balance sheet, we have been doing various things to make sure that the capital structure is right. The first one as you would recollect is a very robust dividend policy that we announced. I am pleased that in the last quarter approximately 2000 crores were returned to the shareholder by way of regular and interim dividend for the year, this naturally reduced the net cash which we have on hand. Also this has resulted in the shareholders funds coming down which resulted in the return on equity going up from 7.2% last year to 10.1% this quarter, which means an incremental ROE of this quarter at approximately 38%.

The other things which we have been working on and which we discussed last time is definitely inorganic opportunities. We had made it clear last time also and I would like to reiterate that Africa is not under consideration at all so Africa is out of the purview, but certainly we would like to see Bangladesh and Sri Lanka opportunities. There are some regulatory issues which we are trying to sort out so that remains a possibility. This would have to be a completely arms length transaction, it would have to meet the requirement on valuation and other terms both at Airtel and at Infratel in a very independent manner so must not be taken for granted but definitely we would keep that in mind.

We are, as stated earlier also, very interested in Vodafone and Idea towers in the seven Infratel circles. We remain interested, at this point, there is nothing which I can confirm or report but I do hope that over a period of time this is something which could fructify, we would certainly keep on reminding Vodafone and Idea, as and when they are ready, we would certainly like to have a look at these.

Our financial performance for the quarter, I hope you have had a good chance to go through it. It has been very steady and very encouraging. We had a revenue growth of 9% year-on-year and EBITDA growth of 13% which led to a profit after tax growth of 68%. You would also note that ROCE in Q2 2013-2014 for the last 12 months was at 12.2%, this year it has gone up to 17.4%. I would like to point out, this is the nature of the business model, against revenue increase of 9% EBITDA increase is faster and PBT and PAT increase even faster, because we are sweating out the existing assets.

In summary, before we take up your questions, I would say that the prospects for the telecom industry are looking very promising. I am sure the upcoming February 2015 auctions will bring more investment into spectrum, which will propel the telecom operators into rolling out the networks even faster particularly the data network and that clearly augurs extremely well for the tower companies. We, as a leading tower company, with a approximately 150,000 towers between Infratel and Indus are absolutely and fully geared up to take up the challenge of these faster rollouts by the various operators particularly on the data side and we are sure that we will be the major beneficiaries of the sustained growth in the towers and the co-locations. Thank you.

Shareena - Moderator

Thank you 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 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 Mr. Sachin Salgaonkar from Bank of America, Mumbai. Mr. Salgaonkar you may ask your question now.

Sachin Salgaonkar - Bank of America - Mumbai

Thank you for the opportunity. I have two questions. First question is while obviously data is picking up, but when we look at the Telcos' CapEx numbers, it is not getting reflected out there and in fact several Telcos do claim that the 2G data is growing fast. So the question out here is, is this something which may lead to slower growth of tenancies going forward i.e., in terms of standalone tower deployments although the co-location growth might remain strong? And second question is one of the smaller tower companies is deploying low-cost single tenancy towers and so is Reliance Jio, so do you see in the industry incremental number of towers to be these kind of towers in future? Thanks.

Akhil Gupta - Chairman - Bharti Infratel Limited

That is not correct that the 2G data is growing faster obviously 3G data's growth is significantly faster and it is only to my mind a matter of time that there could be nothing like a 2G data in the market place so it is absolutely incorrect that the tower rollout or the CapEx by the operators is slowing now, it's actually accelerating, so I do not think there is any worry on that front at all. As far as we know some of the tower companies are coming out with macro cells and so on, that is normal industry evolution which every tower company will be doing, so nothing significant about one particular player wanting to do anything on this front. As further data penetration happens many-many more towers will be needed, most of them for a player like us who have got 150,000 towers between us and Indus would be on our existing towers but surely I think as data spreads there will be more macro cells needed and I think the entire tower industry would be also catering to that. DS would you want to add something to that?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Just want to add the fact that we are in a business of sharing and every tower that we as Infratel build is with the clear objective that they should be shared with as many operators as we can accommodate in that specific area. On economics of a single tower a tower being built for a single operator, if the economics are in favor of a IP1 company to build such towers and get a rental rate which is going to pay up for interest and depreciation, then I do not see reason why operator himself would not be looking at rolling out some of these towers. I have not seen the absolute numbers of what you are saying but I have heard this from some of the other friends too, we believe that on the towers which are sharable the current economic model that we offer is very attractive where at one tenancy when an operator does a build versus buy the decision they will find us to be attractive and that is why operators do not rollout towers on their own anymore in the market place.

Sachin Salgaonkar - Bank of America - Mumbai

Okay. Just one follow-up question. When we look at the Top 3 operators or to that matter any operator in Indian Telco, the CapEx to sales is actually falling if not flat. So when could be the inflection point where we could see from an operator perspective CapEx increasing and hence tower companies like you benefiting because of that?

Akhil Gupta - Managing Director & Vice Chairman - Bharti Infratel Limited

Well, I think I do not have all the data but CapEx to sale I think is not really, really important because obviously telecom industry in India is now a very developed market but clearly the fact that our co-locations have gone up by 100% is a very clear proof that their CapEx is increasing because they are not taking co-locations on my tower just for fun they are obviously putting their equipment on it, so I think quite clearly the co-locations growing by 100% is a clear indication that their CapEx is increasing overall.

Sachin Salgaonkar - Bank of America - Mumbai

Thank you and all the best.

Harjeet Kohli Group Treasurer - Bharti Airtel Limited

So the other difference which DS also pointed out and what Akhil is saying is that essentially the CapEx is a broad proxy of how all the telecom rollouts are going but specifically for data the CapEx on tower has shifted to the tower company it is not in the CapEx numbers of the operators, they are only doing non-tower related CapEx, which we are generally believe is a good proxy but that is not the only thing. So as we increase the co-locations the CapEx which has shifted to the tower company is yielding revenues but that CapEx is not showing in the books of the operator. The CapEx to sales ratio data is not necessarily the brightest proxy in the current situation where the model of tower sharing is prevalent in India.

Sachin Salgaonkar - Bank of America - Mumbai

Thank you Harjeet.

Shareena - Moderator

Thank you very much Mr. Salgaonkar. The next question comes from Mr. Gaurav Malhotra from Citi Group Mumbai. Mr. Malhotra you may ask your question now.

Gaurav Malhotra - Citi Group - Mumbai

Thanks for the opportunity. Couple of questions; firstly on 3G loading. Idea in their conference call had mentioned that bulk of the 3G deployment is going to be loading at least for the next couple of years so any thoughts on whether this is going to be an industry trend or Idea specific? That is one. The second bit is while we know that the contracts for renewal are still sometime away, your rental contracts with the operators, any sense on what kind of pricing is going to be; flat pricing, at a discount, at a premium, etc? Just these two questions, please.

Akhil Gupta - Chairman - Bharti Infratel Limited

So it is correct, I think the first flush of 3G roll out will be by the way of Loading on the existing towers, and as I previously mentioned that we believe that this growth is not just sustainable but will actually accelerate, because you can clearly see that even in the first round when it is mainly loadings, even then the co-locations have increased by 100%. So you can imagine the number of co-locations and new towers needed in future to plug in the coverage holes once the loadings are done within the next one year or one and a half years because in this technology as capacity utilization increases the propagation decreases and therefore we are absolutely certain that in the first phase itself if the increase is 100% in future it will further accelerate. The renewals are very far away so it’s a very hypothetical situation at this point of time.

Gaurav Malhotra - Citi Group - Mumbai

Just on 3G so out of 3950-odd co-locations how many of these co-locations would be say 3G locations?

Akhil Gupta - Chairman - Bharti Infratel Limited

So now onwards obviously anytime anybody is going to put up any new co-location typically they will put up both 3G and 2G equipment, so it’s difficult to say it is pure 3G as most of them will also just add the 2G capacity on that because that incrementally costs very little CapEx.

Gaurav Malhotra - Citi Group - Mumbai

Okay thank you.

Shareena - Moderator

Thank you very much Mr. Malhotra. The next question comes from Mr. Rahul Singh from Standard Chartered Securities, Mumbai. Mr. Singh you may ask your question now.

Rahul Singh - Standard Chartered Securities - Mumbai

Congrats for a good set of numbers. One if I look at the utilization of the IPO proceeds, the up gradation and replacement on existing towers have cost about Rs.684 crores up till September 2014. Can we get little bit more granularity on this because the pure maintenance CapEx per quarter is only about Rs.150 crores on a consolidated basis. How much is really the upgrade CapEx in terms of the actual civil CapEx or upgrade of the towers per se rather than just the replacement of the electrical and battery and stuff like that? That is number one. And number two, the related question to this is that what really is the ultimate kind of full capacity for tenancy on your current portfolio of towers and what is the flexibility of that capacity, whatever it might be 2.75 or 2.6, for it to go up with a little bit of upgrade on the towers itself?

Akhil Gupta - Chairman - Bharti Infratel Limited

As far as the capacity is concerned, the ground based towers can take many more tenancies. So that is not a real problem in terms of how much it can go. On how much CapEx other than maintenance CapEx is on new towers we do not give that breakup but you can assume that off the balance after the maintenance a significant portion is on new builds, but we do not really give that breakup.

Rahul Singh - Standard Chartered Securities - Mumbai

And the earlier thumb rule which you had given for the maintenance CapEx that still holds so I can assume that to be the pure maintenance and the remaining to be on the upgrade of the existing towers? Is that it?

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

Upgrades would be different, but as far as the maintenance one is concerned, you can calculate given the maintenance CapEx which is now disclosed roughly at least for the last quarter it comes in the range of Rs.60000 to Rs.65000 per tower per annum. It has been moving between Rs.60000 to Rs.70000 per tower per annum and just to add to Akhil's point, a bulk of the balance which is overall CapEx minus maintenance is for new sites or upgrades. An upgrade is not a pre-emptive upgrade, it is when a tenancy requirement comes in, you upgrade and you immediately get the yields also for that and even for loading related there might be minor additions, but that is also a return yielding CapEx from day one. So if you see roughly two-thirds of the overall quarterly CapEx going by the last couple of quarters is a yield or growth CapEx rather than maintenance CapEx.

Rahul Singh - Standard Chartered Securities - Mumbai

Okay, fair enough. Thanks, Harjeet. Thanks, Akhil.

Shareena - Moderator

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

Kunal Vora - BNP Paribas - Mumbai

Thanks for the opportunity sir. Couple of questions; first is on average rental. Average rental per site this quarter was slightly lower on a quarter-on-quarter basis, on a year-on-year basis it is about flattish. I believe like loading is pushing it up while on the other hand, rising tenancies and some discounts are depressing it. On a longer-term basis, how do we see the average rental trend? Do we expect it to be flattish or when the contracts start renewing, we should see the 2.5% starting to reflect in the average rental part? That is question number one. Second is, to what extent is the tenancy addition coming in from the organic or the Top 3 players and would it be possible to give any idea on what the new player is contributing? I believe the contribution will only be in Infratel and in Indus there will be nothing from Jio at this point in time, is that right?

Akhil Gupta - Chairman - Bharti Infratel Limited

I think on average rental by now we have a long track record and you should see it over a period of time, you are right in your observation that the loading revenues increase it, more tenants will decrease it, but if you look at the track record it has been fairly flattish and in future nothing drastically different might happen there. On the renewals as you know the escalation as per the accounting is always built into revenue equalization. So we do not see that changing in a significant manner going forward.

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Your second question on tenancies from the Top 3 operators, I must state again, we do not disclose operator sensitive information to the external world, but as mentioned earlier by Akhil in the opening itself, data is becoming a significant part of our tenancy additions and that includes both 3G and 4G data.

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

In the press release, there is a mention of the fact that the overall tenancies in this quarter are almost the double of the corresponding quarter last year. The incremental 100% growth, bulk of that is actually data tenancies, from there you can calculate what could be contribution from the 4G standalone players.

Kunal Vora - BNP Paribas - Mumbai

Okay. Just follow-up on question number one, it looks like your cash revenue is still lower than the reported revenue and it looks like the revenue equalization asset balance continues to increase. When do we start seeing the reversal of the same?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

Kunal, Pankaj this side. So RE per se is also a function of the new tenancy coming in. So as and when we are getting new tenancies we will expect the RE curve continuously to go up, this then gets offset by the older contracts as they move into the latter half of the contractual period. Hence it would be a function of whatever kind of tenancy or a co-location growth that will happen and the way we are seeing the growth, we can expect similar kind of an RE trend to continue over the next few years.

Kunal Vora - BNP Paribas - Mumbai

Understood. Thank you. My question is answered.

Shareena - Moderator

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

Rajiv Sharma - HSBC - Mumbai

Many thanks for the opportunity. I have just two questions. First question is that the senior management of Idea mentioned in the earnings call that 3G will be more about loading to begin with. It somehow hints to me that there will be demand for more and more towers; but it somehow suggests that that demand will be at lower rentals. So, will Infratel Indus be willing to cut tower rentals to accommodate demand for data towers or data coverage towers? That is question number one. How much will that cut be; 10%, 15%? Will such rental cuts be taken? And second is on 2G BTS demand, the rate at which 2G BTS has been deployed by Bharti and Idea in particular that's on a declining trend. For Bharti, it has been on a declining trend for the last 3-4 quarters. Idea; FY14 was great, but this fiscal the first two quarters have been muted with 2G BTS addition. So should we then assume that going forward maybe three quarters from now, if data is only loading, then where the incremental growth comes from?

Akhil Gupta - Chairman - Bharti Infratel Limited

Well, that is not correct but it is very obvious that for all operators whether it is Idea, Airtel, and Vodafone going forward gradually the 2G deployment will decrease and 3G and 4G deployment will increase. That is a given rule. That is bound to happen but as far as loading is concerned, I already answered the question that despite the fact that bulk of data rollouts in initial phase are coming as loading, we still have seen the co-locations increasing by 100%. We do expect that trend to continue. I also mentioned that what we are experiencing is that most of the demand which is coming for 3G co-locations, bulk of it is being met by our current towers. Again to reiterate, we have 150,000 towers between us and Indus, and there is a likelihood that at least in the coming one or two years any operator who looks for a new location we would have a tower. There is absolutely no plan to cut any rates at this time. These are standard MSAs, they continue. So we do expect that with some adjustment in 2G rollout and 3G rollout, this growth which we are experiencing, we are very confident we will continue to see this in the coming quarters and years.

Rajiv Sharma - HSBC - Mumbai

Just a follow-up, Akhil. Thanks for the answer. So basically should I conclude that the 2G demand you see continuing to be at the same run rate at what we have seen over the last four quarters?

Akhil Gupta - Chairman - Bharti Infratel Limited

I think it's about time that we moved away from 2G and 3G demand because what is happening on even the CapEx and the equipment is that they are getting kind of merged and it is obvious that it is not that the 2G demand has finished or that the voice is not increasing. From now onwards it is more appropriate to really look at the total co-location and not worry too much about how much of that is 2G because these are all getting mixed and it is not really worth it trying to dissect it between 2G and 3G and 4G.

Rajiv Sharma - HSBC - Mumbai

No, the reason why we dissect it is that it is very clear that 3G is entirely loading, that is the reason for dissecting it. That incremental tenancy is only coming from 2G that is how we look at it.

Akhil Gupta - Chairman - Bharti Infratel Limited

While I cannot give specific details as to which operator is rolling out, as a tower company, I am not supposed to give out that information. But it is a myth that 3G is all loading that is not correct. What typically happens is obviously any operator will want to first put it on the tower that they occupy as loadings but this is also a fact that these are technologies where as the traffic increases you need more and more towers for the same coverage which it was able to do earlier. So we are seeing the demand for new towers for 3G itself.

Rajiv Sharma - HSBC - Mumbai

Okay. And is indoor coverage also a growth area for tower companies like Indus Infratel and are you having some color on that in terms of how much it can drive growth or it will be more strategic to operators and they would not get into sharing there?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

This is D. S. Rawat. Both Infratel and Indus have already started doing in-building solutions in buildings where there are high footfalls, in airports and in hotels wherever we are able to build this. Clearly as I said earlier too, the only thing that we keep in mind is sharing perspective the more we can share better it is, so we are building solutions which cater for the entire frequency band so that all operators who want to get into that building get one single point of connect where they can just bring their equipments and plug it in. We already have started to work on in-building solutions in all the circles across Indus and Infratel.

Rajiv Sharma - HSBC - Mumbai

Okay. Thanks a lot. Very helpful.

Shareena - Moderator

Thank you very much Mr. Sharma. The next question comes from Mr. Shobhit Khare from Motilal Oswal Securities, Mumbai. Mr. Khare you may ask your question now.

Shobhit Khare - Motilal Oswal Securities - Mumbai

Thank you so much for the opportunity. I have two questions. One is there has been a significant cut in the diesel prices recently so wanted to understand how would the economics work for you on this? Should we expect any improvement in the energy margins, etc? Second is a follow-up on the tenancy demand from data network rollouts so just wanted to get some color. Is it largely coming from metros or even from Tier 2, 3 cities? What kind of acceleration do we expect in the next one year and have we started seeing new tenancy demand for 4G as well?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Firstly we had said while we have moved to rate card based contract on energy with all our major customers, these rate cuts are all indexed to the diesel and EB price. So from the day the diesel price either goes up or goes down, these are directly passed on to the customers. So this in effect has no impact on us in terms of profit or loss that we are likely to incur on account of diesel price hikes or reductions thereof. Number two, you asked about this tenancy, we have said this and Akhil reiterated that bulk of the tenancies that we have added over last year are actually on account of data and we also said that data tenancies are both 3G and 4G. We all are aware Jio is rolling out pan India and that is why data tenancies are spread across the entire country, the first part of the focus is primarily in the cities. So we are seeing the top 5 to 10 cities in each circle pretty much active when it comes to rolling out data sites or data tenancies.

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

Just to add, the announcement on the MSA which Indus signed with R Jio was in later part of the quarter. So bulk of what you see in form of additions which R Jio may have provided as of now are from the Infratel circles.

Shobhit Khare - Motilal Oswal Securities - Mumbai

Okay, that is helpful. Thank you so much and all the best.

Shareena - Moderator

Thank you very much Mr. Khare. The next question comes from Mr. Pankaj Suri from Nomura, Singapore. Mr. Suri you may ask your question now.

Pankaj Suri - Nomura - Singapore

Thanks for the opportunity. Two questions from me. First is, given the kind of cash you have on the balance sheet, can we expect that you are probably looking to diversify into other segments of passive infrastructure as well? For example, some of the tower companies are doing things like fiber rollout and basically even fiber to telecom companies. Can we expect something of that sort on the radar for you? That's one. Second thing is can you let us know what are the regulatory developments that we should be looking forward to? I know you have given a good summary in the quarterly report, but anything else that you are currently discussing with the regulators? These two questions from me.

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Firstly on the cash, I think, Akhil did mention about trying to return cash back. We have excess cash. We have also stated earlier repeatedly that two times EBITDA is the target leverage that we would like to have for a company like Infratel. Towards that we are looking at inorganic growth opportunities. Having said that, on businesses within the same area and with the same customers, I did mention earlier that in-building is an area where we have already started to make some initial deployments though small to start with. We are looking at fiber very closely and especially fiber within the city, we are not looking at long distance fiber, and if we are convinced about the business case, we will come back and share firstly with our board and then go ahead and start to look at fiber deployment on a sharable basis for operators. We are not looking at going and selling bandwidth to retail or any other customers. We believe our strength is in our relationship with all the operators in the country and we have established ourselves to be a nondiscriminatory player. Again, fiber investments we do not expect that to be very big, it will not use up all the cash that we are sitting on and this will not happen overnight too. There will be a lead time and a gestation and this will be progressively required in the circles where we operate, so we continue to look at that. You should be aware that there are also regulatory challenges before we start doing that. Clearly today as a passive infrastructure provider, which Infratel is, we are only allowed to lay down dark fiber. To do an active fiber we will have to then go back into the licensing regime that the government has for some of the active service providers there. While I said that Wi-Fi is another opportunity, we could provide shared Wi-Fi hotspots to our customers, which is something which we keep deliberating on internally. As I said, once the board approves of it we will be communicating that widely and going ahead and rolling out. On your question regulatory, we have put that in the quarterly report. There was this talk again of license fee. We had met the regulator and his team in an open house where we had articulated our point of view. They seem to be again convinced about the rationale that this will amount to double taxation and after that we have not heard back from them. So we are waiting to see what the regulator comes back with. There was a discussion regarding the AGR, which is the gross revenue on which license fee is charged to the operators. Other than that there are not any significant regulatory developments. Most of these are applicable to the operator side and I see besides tower association which I and Akhil are member of, Akhil is the Chairman of Tower Association of India. We also closely work with COAI which is the Cellular Operator Association and also AUSPI to see that common areas of interest are represented in solidarity with the common voice towards the regulator and so far we have been fairly successful in that.

Pankaj Suri - Nomura - Singapore

That is very helpful, thanks a lot. If I may follow-up with just one more question. Can you suggest how should we look at CapEx for the second half of the year and also if you can give us some color for the next fiscal year that would be very helpful?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

I think as we have reiterated in the past the CapEx forecast for the next year continues to be at the same level. We are expecting CapEx to be in the range of 2000 Crores for the current year.

Pankaj Suri - Nomura - Singapore

Okay, got it. Thanks a lot.

Shareena - Moderator

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

Srinivas Rao - Deutsche Bank - Singapore

Thank you very much Sir. I have just two questions. One, you mentioned your ongoing strategy to correct the capital structure, would you like to share anything, is there anything particularly which we should look out for? That is number one. Second, your cash flow statement and the schedule of net debt reflect total cash and equivalents of about Rs. 62.5 billion. I just wanted to understand where that number is reflecting in the balance sheet. I mean of course there is cash and short-term investments, but where is the rest of the cash on the balance sheet?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

Let me take your second question first. So on balance sheet this is segregated into non-current investments and current investments. While you might be looking at the current investment piece there is a component of non-current investments also of 3500 Crores.

Srinivas Rao - Deutsche Bank - Singapore

Okay. And that non-current investment would largely be?

Pankaj Miglani - Chief Financial Officer - Bharti Infratel Limited

We have the investment in mutual funds. So depending upon the utilization pattern, you segregate your total investment portfolio into current and non-current as per the accounting guidelines.

Srinivas Rao - Deutsche Bank - Singapore

Understood.

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

And while investments are the same, basis the company's intent and expected utilization for the next 12 months, the next 12 months portion is categorized as current and the balance is categorized as non-current. Put together they are similar counter parties debt mutual funds both in the liquid state, liquid plus state or the income fund space. So that is the nature of investment, which is conservative, but that is the investment policy the company has had.

Srinivas Rao - Deutsche Bank - Singapore

Understood. My second question on the capital structure?

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

Srini, I think, Akhil did give a preface around that. The strategy from our perspective continues to find means beyond the operational returns and optimize the capital structure itself. There are two parts to it, they are serial events, and we need to use up cash in the balance sheet. The use of cash of course comes from organic CapEx, which if you recall that the answer was given by Pankaj earlier, that it is going at a pace which going forward could accelerate because the operators are trying to rollout networks faster, but the cash in hand is far in excess of what that could use over the coming 12 months. So the second opportunity for us is the established dividend policy. This you very well know that the policy has been increased to distribute including the dividend distribution almost all of the profit after tax the company has, which is allowed as per law. As of September 30, 2014 the distributable reserves in the company is probably less than $200 to $300 million, so which means the bulk of what we thought we could distribute out using that dividend policy we have a dividended out. That should continue. Having said which, the cash generation is more than the profit after tax and we will need to still find solutions for the balance cash, one, which is the stock which we are carrying in balance sheet and second which we generate more than the PAT. And for that we're working on two parallel initiatives one is the inorganic opportunities that space Akhil talked about earlier, nothing meaningful sitting on the table, which needs to be implemented ASAP but there are opportunities which the company is considering both in South Asia as in Bangladesh or Sri Lanka for the Airtel towers and within the country whether it be some of the other leading operators towers which are housed in their balance sheet. Not an opportunity which will close in an immediate hurry because these are not at the boiling point right now, but that is something which we continue to look at. Beyond that there is a clarification, which the company has sought from Ministry of Corporate Affairs, which is essentially related to using the share premium account of our 2008 Private Equity Round of funding. We want to use share premium account as the set off for the cash, which we can dividend out or can do a share buyback. Dividend prima facie is ruled out because that may not be something which the guidelines allow, but a share buyback scheme under the clarification that we have sought in our belief that could be approved but we need to get a firm confirmation on that. That is still WIP. It has been WIP although for the last three to six months, but we are hoping that this should get resolved soon. Assuming that gets resolved about 3500 to 3600 Crores of share premium account related to that round of funding can find a tax efficient way of going back to the shareholders. So these are the things which we are working on, all sorts of balls in the air as of now but the intent is to be able to find a solution between them.

Srinivas Rao - Deutsche Bank - Singapore

This is really helpful. Thanks, Harjeet. One clarification which I wanted to seek, I mean the Company has been talking about this fiber connectivity and fiber sharing on a non-discriminatory basis for almost I would say now a year and the need for connectivity of fiber to the towers I think is fairly evident, especially if we expect data to grow as the Company itself is expecting? So why is that the business model has not crystallized around laying fiber optic to towers and then sharing it with the operators?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

This is D. S. Rawat this side. First and foremost fiber requirement to the extent that is needed has been already built by operators. If you notice the operators have significant amount of fiber and each operator has fiber in their respective areas. That is first thing. Number two, lot of this fiber requirement and the demand that is likely to go up is linked to 3G and more so for 4G. 3G you could still connect with about 20 to 30 megabytes of backhaul, 4G will need about 80 or 60 to 100 megabytes of backhaul. That is when the true fiber at every site which is what we have been talking of gets into a reality. Number two I also mentioned that there are these AGR discussions going on, which have also got a significant impact on the business case. There is a license fee that is applicable for active fiber to be given. Today as an IP1, Infratel is only allowed to do passive dark fiber, monetization of that or the real model for that is not prevalent in the market. Market is used to selling fiber on a TRAI rate or a government rate that has been laid down. The fiber is a business where the technology changes far more rapidly, we as a tower company are used to changes which come in at a very incremental pace. Towers not having changed in the last 25 years there are a very little changes that have come in this business. So to marry the two businesses and see that our strength are leveraged to the fullest and we are able to take it to the market and create a long-term contract is one of the biggest challenges in fiber business today. Fiber business is actually a business where people have short-term contracts for, it might be long but not really long as tower companies are used to. And those have been the deliberations that have been taking us back and forth. As I said, even regulatory clarity on AGR is an important aspect because there is a license fee linked to it. So we await some of these clarifications and as I said, demand from now on we believe is going to be high. This is the time when we will be looking at this much more closely.

Srinivas Rao - Deutsche Bank - Singapore

Understood. This is really helpful. Thanks, DS.

Shareena - Moderator

Thank you very much Mr. Rao. The next question comes from Mr. K. Patel from IDFC, Mumbai. Mr. Patel you may ask your question now.

K Patel - IDFC - Mumbai
My question was answered about 20 minutes ago. Thank you.

Shareena - Moderator

Thank you very much Mr. Patel. The next question comes from Mr. Viju George from JP Morgan, Mumbai. Mr. George you may ask your question now.

Viju George - JPMorgan - Mumbai

I had this question on 4G loading. Are your loading charges for 4G higher or any different from that of 3G?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

This is DS Rawat. The answer is no. Loading charges as I said are charges that we charge for additional electronic equipment for either space or power or antenna's being loaded on the tower. If the number of electronic equipment or the power or antennas that have been loaded are the same, it is we do not discriminate on basis of technology when it comes to operators using the site.

Viju George - JPMorgan - Mumbai

Thank you.

Shareena - Moderator

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

Sanjay Chawla - JM Financial - Mumbai

Good afternoon Sir. Thank you for the call. There are two questions. One is DS, can you give us a sense of the overall tenancy demand in the market and the kind of market share that you are able to capture, particularly how that market share that you are able to capture on the total tenancies, how that has changed after FY 2013 and particularly in first quarter and second quarter? What kind of a change in market share that you are able to sense? Second question is Akhil, you mentioned about your interest in Vodafone and Idea's towers in the Infratel circles. Obviously it has been some time since you talked about it. Can you give us a sense of what kind of hurdles are there to such a partnership? Is it just valuation or is it also about control of those towers or maybe any regulatory hurdles that you are able to see which is a problem? Clearly, expansion is not a problem from your point of view.

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Sanjay this is DS Rawat. Firstly market share unlike operator's market share, RMS which is in the public domain, I am afraid I do not have a market share figure, which is in the public domain for towers and tenancies. So that is the first challenge; however, during the IPO we did refer to Analsys Mason report, we said that Indus Infratel put together had about 38% tower footprint and 43% tenancy footprint. We do internal market share computation, which is not in the public domain so you will have to take that with a pinch of salt. Incrementally we are doing more than 50% and that is where we believe that a new survey needs to happen, we would see our new market share figures to look better. So we continue to gain market share clearly for the fact that the top 3 operators have also been the leading operators when it came to growth both related to 2G catch up and also related to the data tenancies that they are doing and we continue to gain large part of their market share.

Sanjay Chawla - JM Financial - Mumbai

DS, just on the direction of this incremental market share just qualitatively, has it been going up over the last three quarters if I look at your incremental market share of tenancy that you are able to capture?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

As I said, we try and do this internally for our own computation and this market share has been going up; there is however been a blip where Jio utilizing towers of RCom and building a few towers on their own. It did cause a blip and this was towards the end of last year early the first quarter or so, after that we have again continued to see that incrementally anything that has been there in the offering, we continue to gain market share on those.

Sanjay Chawla - JM Financial - Mumbai

So basically you are saying ex-Jio deployments and utilization, you are gaining more and more market share over the last few quarters?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Yes. That is to the best our intelligence. We will have to wait for again a certified report which is available in the public domain, which we can refer to as we move forward.

Sanjay Chawla - JM Financial - Mumbai

Sure.

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

Sanjay, this is Harjeet here. On the discussion around Voda and Idea towers, look principally and conceptually it is our belief that it makes sense both for the tower company which has already serving these two customers in a way and also for these operators because it may not necessarily make the brightest sense to have two parallel running architectures of managing towers one in-house and one through a service provider like Infratel. So, I do not think there is any conceptual block or any regulatory block, but you are aware of the fact that while Infratel has been from a stock perspective probably performing a little better over the last three to six months, but bulk of the last financial year or last calendar year in fact the prices were not necessarily the brightest for any relative valuations or any valuation discussions of any meaningful nature. That is aspect number one. Number two, obviously it is a prerogative which the two operators will need to decide. It is from their perspective the priorities they need to set for their business, which will also determine how strongly they would want this process to happen. We believe this will happen over time. In general buzz, there is no current visibility of some immediate next few weeks that this could happen, but we are hopeful of this event overtime.

Sanjay Chawla - JM Financial - Mumbai

Harjeet, obviously you mentioned valuation as an issue, it is a dynamic thing. Is there any issue also around the control of those towers now then which could be a more prominent hurdle to such a transaction?

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

Sanjay more theoretical at this point. There is no formal process. There is nothing of a grand nature which has been signed or anything. It is not right on our part to be able to comment and give anything on those aspects. These will be things when two counterparties will want to discuss when potential transaction will emerge. I may not be able to comment more on that at this moment.

Sanjay Chawla - JM Financial - Mumbai

Great. Thanks. If I could just squeeze in one small question. Can you comment on the typical average capacity of a rooftop tower and this is in the context of the RTT that Indus has?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Sorry I could not get the last part of your question. I heard the rooftop capacity, typically rooftops are built for taking on at least about three tenants, but I did not get the last part of your question, please. Could you repeat that?

Sanjay Chawla - JM Financial - Mumbai

This was in the context of Indus towers so what is the typical capacity of a rooftop tower when we look at let us say Indus?

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Rooftops typically are built for three and there is nothing stopping from building another tower in the same building if the building is strong enough you could take on more than three and strengthen the tower. It depends on the building safety. Normally you would like to restrict that for three tenants. Ground based towers are typically built to handle about five tenants.

Sanjay Chawla - JM Financial - Mumbai

Great, that is quite useful. Thank you very much.

Shareena - Moderator

Thank you very much Mr. Chawla. At this moment there are no further questions from participants. I would now hand over the call proceedings to Mr. DS. Rawat for the final remarks.

Devender Singh Rawat - Managing Director & Chief Executive Officer - Bharti Infratel Limited

Thank you very much. Let me start by reiterating that telecom is witnessing positive developments as Akhil articulated, data is the future of Indian telecom while rural expansion continues primarily in category B and C circles. This quarter performance is a testimony of this. We added roughly 4000 co-locations representing over twice the growth that we saw the same quarter last year. The robustness of our business model once again established by the fact that year-on-year basis, towers grew by 2.2%, co-locations by 8.9% translating into a revenue growth of 9%, EBITDA growth of 13% and a profit after tax growth of 68%. As a company we are well positioned and extremely focused to capitalize on the growth opportunities given our pan India network footprint, high service quality standard and a strong balance sheet position. I on behalf of my entire team thank you all 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.