Earnings Conference Call Transcript

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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, 2015 Earnings call. For the duration of the presentation all participant lines will be in the listen only mode. After the presentation the question and answer session will be conducted for all the participants on this call. In case of a natural disaster the conference call will be culminated post an announcement. Present with us on the call today is the senior leadership team of Bharti Infratel Limited. Before I hand over the call I must remind you that the overview and discussions today may include certain forward looking statements that must be viewed in conjunction with the 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 - Chairman – Bharti Infratel Limited

Thank you very much and a very warm welcome to all the participants on this quarterly earnings call for the second quarter ended September 30, 2015. It is very clear for quite some time now that the next phase of growth for not just the Indian telecom but the global telecom is coming from data. I think this debate has been settled absolutely and unanimously. The operators in India continue to witness rapid growth in data traffic and increase in data penetration and encouraged by the success, the pace of 3G and 4G installations has been steadily picking up. I had informed you that in the last quarter such installations more than doubled on a year to year basis. I am very pleased to see that in this quarter the installations have gone up more than three times that of the installations in the previous year in the same quarter. Now this very clearly indicates that the momentum in terms of data network roll-outs is picking up as had been anticipated by us and by all the analysts. As we had mentioned earlier the first phase of this growth had to be obviously by way of loading on the existing sites. However, it is our belief that this is just a precursor to subsequent increase in tenancies for new sites which will be required by these very operators to plug the coverage gaps which would arise due to increased capacity utilization on such sites. As you might recollect we had mentioned about the peculiarity of the WCDMA technology where the radius shrinks, the propagation shrinks as the capacity utilization increases. The early signs of these are already now visible.

I would like to point out two major developments which took place in the last quarter which are as under, number one, you would have all noticed the issues about call drop and therefore the increased emphasis on quality of service and number two, the guidelines for spectrum sharing and spectrum trading that have been announced by the government in the previous quarter. The impact of these developments on the tower industry to our mind will be as under: Number one, obviously the increased emphasis on the quality of service particularly with respect to these call drops, it is bound to lead to some more demand for towers particularly in the main cities, this should result in more tenancies mainly on the existing sites. On the second development regarding spectrum sharing and spectrum trading on the face of it there is and there can be an apprehension that it could lead to lesser demand as these measures if implemented on a wide scale would amount to a consolidation in the industry and practically a fewer number of operators, however it is our belief that in practice the result could be and would be opposite.

Let me first take up the issue of spectrum sharing. The spectrum sharing guidelines are applicable only to operators who have spectrum in the same band and same circle. Now this in itself restricts the scope of spectrum sharing. Even assuming that in some circles the competing operators do end up sharing the spectrum for better spectrum efficiency, we believe it would ultimately lead to faster roll out especially in smaller towns and in rural areas where a single operator would have otherwise found it difficult to roll out quickly and therefore would have to had to defer those plans, so I believe anything which makes the operators healthy is going to be beneficial for the tower industry.

On spectrum trading I certainly believe that the development is going to be a big positive for the tower industry, now the reason for this is that a lot of the spectrum which is currently allotted is largely unused by the entities to which it has been allotted. The trading if it takes place, and I will talk about some of the bottlenecks there separately, would result in ownership of such spectrum in the hands of operators who would then obviously having paid for expensive spectrum need to roll out the network thereon. One of the major problems if we were to look at for the Indian telecom industry has been that the allotted spectrum has not been put to efficient use since the lot of spectrum is with certain operators who do not find it either feasible or possible to roll out the network and make the necessary capital expenditure. It is our belief that these steps taken by the government of India would lead to faster roll outs which is the need of the hour and which clearly augurs well both for the operators and for the tower company. Having said that I think there are some serious practical problems in both spectrum sharing and spectrum trading, these have been highlighted by COAI and AUSPI to the government; some of them are about spectrum caps having not been increased for the individual operators, the excessive license fee particularly in case of trading increase a license fee of both the operators in case of sharing and so on… So I do hope some of them will get streamlined and better spectrum efficiency would come, which would also help and support the tower industry.

One of the major challenges currently faced by the telecom industry and the tower industry is about the availability of premises for putting up new towers, particularly in the top cities of the country. This is on account of mainly two factors. First about the unfounded and baseless fears of EMF radiation fortunately the Honourable Minister of Telecommunications himself has allayed these fears and the industry and DOT are working together consistently to educate the general public in this regard. I must say that the results are now beginning to show, people are more clear that adequate precautions have been taken in India as claimed and as shown by the Government of India. The other big area of concern is the highhanded and irrational attitude adopted by some local authorities with respect to the permissions for installation of towers and or the charges being demanded by them. The tower industry jointly with the telecom operators acting through the associations TAIPA, COAI and AUSPI is addressing these concerns both by way of dialogue with such authorities as well as by legal action wherever it is deemed necessary.

A very significant and a positive development in this regard has been the DOT initiative in requesting the various Ministries to provide government premises for installation of telecom towers, the Minister has personally written to the various Ministries in this regard. We are also seeing more and more municipal corporations coming out with tenders and guidelines for making the government properties including the lamp post for building micro site which would be required in large numbers in times to come. So I do believe that this real problem over a period of time will get resolved. One significant development which I would like to inform for Bharti Infratel in last quarter was inclusion of the stock in the stocks available for future and option trading with effect from September 28, 2015. Let me quickly point out some of the things on the operational front before we take your questions.

The quarter ended September 30 was again a satisfactory and a good quarter. The total tower base stood at 87,184 as on September 30, 2015. The co-location growth was at 188,636 showing a closing sharing factor of 2.16 and robust 8.2% growth over the previous year. The consolidated revenue was at 3037 Crores a 4% year to year growth but that resulted into an EBITDA of 1308 Crores which was 7% growth year on year. Against that the profit after tax for the quarter was 579 Crores witnessing a strong 24% growth. The return ratios continue to inch up and the ROC for the quarter ended September 30 was at 21%.

In summary the telecom tower industry looks promising and it appears that encouraged by the surging demand for the data across the country the operators would continue to accelerate the roll outs. We continue, both Infratel and Indus, to be the preferred infrastructure partners for telecom operators in India and are fully geared in every which way to serve their rapidly increasing requirements of quality networks. With that I will return it to the moderator for the questions to begin. 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 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. Participants who wish to ask questions may press "*1" on their touchtone enabled telephone keypad. On pressing "*1" participants will get a chance to present their questions on a first in line basis. To ask the questions participants may please press "*1" now. The first question comes from Mr. Sachin Salgaonkar from Bank of America, Mumbai.

Sachin Salgaonkar – Bank of America – Mumbai

Hi! Thank you for the opportunity. I have two questions. First question given some of the points Akhil you mentioned I just wanted to check that could we see the tower deployment growth rate actually pick up from the current average of around 2% to 3% to slightly higher given the focus on call drops and data investments and does that mean mathematically we could see a bit of the general slow down in terms of a tenancy ratio uptake? Second question is regarding EBITDA margin in this quarter, it was flattish to inching down a bit even if we adjust for EBITDA or the energy margin so what lead to this and is it something to watch out for in future as well? Thanks.

Akhil Gupta – Chairman – Bharti Infratel Limited

So I think you are right, there could be some more demand for new towers particularly in the main cities. But I am also seeing a trend where in the main cities particularly as the operators roll out their data networks they are replacing their old equipment with the new ones which we are actively encouraging which leads to the space requirement on some of the towers to come down and we are hoping that most of the requirements will be accommodated on the existing sites. But having said that, there would certainly be new sites which will need to be put up, we are working with the various Ministries, local authorities and so on. So I would say that as far as the sharing factor is concerned we should keep seeing a steady rise as we have been seeing, nothing to be alarmed about because of the new towers going up. On EBITDA margin I would say don't read too much into a little bit up or little bit down by and large the EBTIDA margins are absolutely intact and so if on a quarter to quarter basis there has been a little bit of movement there is nothing which needs to be seen either if it reduces a bit or it increases a bit. I would say the EBITDA margins that we have reached are fairly stable. Pankaj do you want to add anything to that?

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

Yeah, Sachin if you exclude energy, the EBITDA margins are still growing in the similar range of around 2% what we have been seen and hence there isn't much which we should actually look into.

Sachin Salgaonkar – Bank of America – Mumbai

Okay got it. And Akhil one small follow up on the point which you mentioned on new technology, how do you see this SRAN or SingleRAN and the general implications about this for the tower industry?

Akhil Gupta – Chairman – Bharti Infratel Limited

Yeah I think I have heard in our personal meetings with investors and analysts a bit of an apprehension that since the new technologies and the new equipment requires lesser space particularly with common antennas, common microwave etc., will there be lesser demand. The fact is we are actually working with our customers, both at Indus and at Infratel, to proactively encourage them to replace the older equipment with the new equipment particularly in the main cities where they are rolling out more of data networks and the reason is very simple, as you know, and I mentioned it is becoming difficult to acquire more sites, it is not that sites are very, very easily available in main cities and therefore on the existing sites with de-loading we would certainly be able to accommodate at least one more operator and that augurs well for the tower industry. So I see that as a very positive trend. The other aspect which you would have I am sure we mentioned earlier on is the tendency to take equipment out and make it outdoor BTS. That's another factor whereby the load on the existing space comes down. DS would you want to talk about these two aspects?

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

So from a power savings stand point we have been encouraging operators to deploy more outdoor equipment meaning you don't need an air-conditioner to maintain some of these sites that is our effort towards being more environment friendly thereby giving benefits to operators and us in terms of managing a lower power consumption there. As Akhil rightly mentioned roof top sites are invariably constrained in the number of tenants that it can take in. We are encouraging operators wherever we are reaching peak capacities to remove the older equipment and deploy a new generation more compact equipment/deploy in common antennas wherever they can, given that they have clarity of the spectrum. Third importantly lot of this equipment is not the end of life and actually gets displaced from the cities and gets deployed as a full blown tenancy in some of the rural parts and that's why we don't see this as a loss, this is more a substitution in cities where there is a constraint and where there are higher site requirements for data coming in and new technology sites are getting deployed is where SingleRAN is a beneficial solution for us and also for the operator.

Sachin Salgaonkar – Bank of America – Mumbai

Okay this is clear, thank you.

Shareena – Moderator

Thank you very much Mr. Salgaonkar. The next question comes from Mr. Rajeev Sharma from HSBC Securities – Mumbai. Mr. Sharma you may ask your question now.

Rajeev Sharma – HSBC Securities – Mumbai

Hi! Thanks for the opportunity. Just a couple of questions from my side, first how do you read this American towers increasing their footprint through Viom and consolidating the space, so this definitely increases competitive intensity, what happens to the pricing because ATC has been discounting in the market by going for single towers with just one tenant so does that increase the pressure so how do you read that and second, I understand that you know today the scenario is that you are not getting much of new sites to deploy towers but let us say this was not there, in that case does SingleRAN take away the additional revenues which come because of loading today, is that the right way to read it if we assume that you know tomorrow let us say local bodies and regulations fall into place, in that scenario how does SingleRAN impact the business model of any tower company? That's it from my side.

Akhil Gupta – Chairman – Bharti Infratel Limited

I think for any industry player in any industry across segments, across the world consolidation of the industry into fewer hands is always a welcome step and to that extent I think one player getting consolidated into an existing player is always good for the competitors. Having said that, the fact is Viom has always been a very well run operation. It is not that there were big huge problems of maintenance and so on with Viom, so it is not that by anybody else taking it over suddenly that quality will increase to an extent that everybody wants to go there, so I would say it's a good positive development for the industry and for us and with American Tower now taking a significant and a sizable scale I think it can only augur well for the industry and for us. On loading I think as we explained that since obviously for an tower operator a new tenancy is always better than the loading in terms of its revenue, what we are proactively working with the operators is to try and see that if they can de-load the towers where we release some little revenue but if because of that we are able to accommodate another operator who wants to put up its equipment on the same tower, naturally our gain is significantly high. And across the country, the trend is especially on roof tops this is bound to happen, that's where most of the multi spectrum or multi-technology installations happen.

Rajeev Sharma – HSBC Securities – Mumbai

Just one small follow up and this is on a separate note on the loading thing, so last time you suggested that we are still 9 to 12 months away from telcos going for towers for pure data, is that timeline changed, are you seeing it getting a month earlier six months earlier any change in your understanding on that?

Akhil Gupta – Chairman – Bharti Infratel Limited

The trend is absolutely intact. Our thesis that over a period of time the early adoption of data networks on the existing sites will lead to more demand is absolutely firm we are convinced about it, now at this point to say that am I maintaining the nine to twelve months to nine to twelve months still, no I would say that what was nine to twelve months away may be six to nine months away as of today. But these things are very difficult to really predict but I would say in the general direction, by about next year we should start seeing that is at least our estimate that these networks which are being put up as they start seeing more loading and more capacity utilizations we would have fresh tenancies coming.

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

Just to supplement what Akhil mentioned right now and on the discussions that you were having earlier on Single RAN, lot of infill base stations that are coming in right now within the cities are actually towards SingleRAN by operators where they are augmenting this by putting in a 3G and 2G combined site particularly for operators who have the spectrum there. So while you do not see as a standalone tenancy lot of these infill sites in the cities that we are building off-late and also some of these demand for government sites that Akhil mentioned in the opening, these are areas which are clearly areas where sites were traditionally not present and operators are looking forward to having data and voice combined sites in these areas, so early signs of those numbers we are already seeing, yes the numbers are very small and some of these are hard to segregate between a pure 2G versus a SingleRAN site that has been built as an infill site in the cities.

Rajeev Sharma – HSBC Securities – Mumbai

And your tenancy has gone up by 17% Q-o-Q versus a decline of similar nature seen in the last quarter so how do you read this improvement and you said that call drop issue will benefit you by deployment of additional equipment on existing sites, will existing site deployment will help any Telco because its more about new sites so do you think in call drop is there something to monetize actually?

Akhil Gupta – Chairman – Bharti Infratel Limited

No, you got it wrong. We didn’t say the same operator deploying more equipment because I am sure capacity wise they would have deployed whatever is to be deployed, what we are saying is that as space becomes vacant on an existing site and a new operator puts up another site there which all the operators will perhaps need to start doing that’s where the call drops will come down because newer capacity gets added.

Rajeev Sharma – HSBC Securities – Mumbai

Okay. And the 17% improvement in tenancy this quarter.

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

We continue to see trends which are positive right now, operator focus is right now towards building 3G 4G networks, particularly the top three operators where they are bringing in this equipment as loading on the existing site but a healthy sign to see that despite their focus on 3G, 4G launches they also continue to have new site additions on as full blown tenancies.

Rajeev Sharma – HSBC Securities – Mumbai

Okay. That's very helpful. Thanks a lot and all the best for coming quarters.

Shareena – Moderator

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

Piyush Choudhary – CIMB – Mumbai

Yeah, thanks a lot for the opportunity. Couple of questions, firstly the subsidiary, the 100% subsidiary which you have formed to tap the fiber backhaul opportunity and Wi-Fi, anything which you can elaborate on the business model how much capital you are looking to deploy here, what's the pay-back period with one operator and two operators, any timeline when you will start this operation, anything over there will be helpful. And secondly on Jio roll out since they are going to use now 850 as integral part of their launch would you think the potential tenancy from Jio phase II roll out will reduce against your earlier estimate?

Akhil Gupta – Chairman – Bharti Infratel Limited

So let me take up the one on SmarTx. Well, we have formed the subsidiary because we believe that when the smart cities come up and that's work-in-progress as you know a whole lot of efforts are going in for this smart city projects, 98 cities have been already identified work is going on and we believe it's only a matter of time that the specific RFPs and tenders will start coming out for telecom infrastructure so at this point is just an enabling one to have this company intact, because this might also involve some aspects which could be under the unified license so we wanted to keep it in a separate company but to your specific point about business plan and investment and so on nothing in mind at this particular point of time.

Akhil Gupta – Chairman – Bharti Infratel Limited

So Jio we know that they have acquired 850, they are continuing to use this on the existing site that they had planned, their original plan was built around a 2300 MHz later on with the 1800, we do see some deployments happening on 850. Yes we all know that the coverage that you get from 850 is higher so the requirement of sites from a Jio stand point for the initial part of roll out would definitely help in terms of reduced number of sites that would be needed for them. Having said this, 800 is not available in all circles so it's in few circles and I do not know how are these some of the issues regarding license fee and all are being dealt with, so let's wait for that to fructify.

Piyush Choudhary – CIMB – Mumbai

Sure. And Akhil on your point for this SmarTx, this would only be to tap opportunities in this new smart cities because earlier you had mentioned you would like to connect the towers which you have to the nearest point of connect through the fiber.

Akhil Gupta – Chairman – Bharti Infratel Limited

Right, so it could be for all of those businesses which require license. So all the licensing activities could come under this. At this point is an enabling one we will see what all can be or would be done under this.

Piyush Choudhary – CIMB – Mumbai

Sure and just a follow up. If Indus is also going into that direction because we didn't see any disclosure for Indus?

Akhil Gupta – Chairman – Bharti Infratel Limited

Yeah, not yet. I think they are just watching as to how these things develop.

Piyush Choudhary – CIMB – Mumbai

Sure, thanks a lot and all the best.

Shareena – Moderator

Thank you very much Mr. Choudhary. The next question comes from Mr. Suresh Mahadevan from UBS Singapore. Mr. Mahadevan you may ask your question now.

Suresh Mahadevan – UBS – Singapore

Yeah, good afternoon, thanks for the opportunity. I had a couple of questions. One is I mean obviously just wanted an update on how we are thinking about capital structure because obviously after every quarter the net cash keeps going up so just wanted to understand any recent update in terms of how the management is thinking about this? This second question is related to data clearly as I think Akhil started the presentation by saying data being the big growth driver, I mean if that is indeed the case and with potential RJio launch sometime in calendar year 2016 I assume now, are we going to see a big pick up in towers, tenancies for the sector as such and specifically for Indus and Infratel, so because you know I do think that obviously you are still growing but may be the data boom gives you an additional step up at some stage which obviously hasn't happen yet but I mean may be there is a possibility of that happening so just wanted to hear your thoughts on this. Thank you.

Akhil Gupta – Chairman – Bharti Infratel Limited

Suresh let me first take the data related question. Look, in terms of our DNA we do not unnecessarily want to paint a very, very rosy picture for future, I think time will tell as things happen the results will be visible to all. It is very clear that as data growth happens certainly the tower companies will get more tenancies. Now whether that growth which is 7%-8%-9% in terms of the actual colocations today will it jump to 20% I don't think so because what you have to also keep in mind is that first of all the data growth also takes time, putting up infrastructure, putting up active equipment takes time. Thirdly as our base grows in terms of percentage growth also there will be always some limitations I would say it may not be, we would not want to ever give an impression that suddenly by next March or next April when Jio launches the demand for towers will just go through the roof, I think this is an industry which is a very steady industry this is not prone to sudden ups and sudden downs and therefore I would say looking at the nature of this industry expect a steady growth, of course there could be some accelerations but still on a steady basis. On capital structure I guess this is something which we have been grappling with for some time, there is certainly an issue about excess cash, we are as you know waiting for some clarifications, they have not yet come but there have been some interesting developments on the buy-back front which I would request Harjeet to talk about and we are looking at those possibilities but we are waiting, some of clarifications are still required on those front. So I would say at this point of time unfortunately I have nothing very specific to report on this, the situation is a little status quo, there is not something which I would like to, as I have had mentioned, do some inorganic acquisitions, they are not there at this moment in view, so this capital structure and the excessive cash hopefully as there is more and more demand for organic growth some of this will be used up there but nothing which I can specifically tell at this point of time.

Harjeet Kohli – Group Treasurer – Bharti Airtel Limited

The only other point I think is worthy to add to what Suresh mentioned, each quarter we keep adding more free cash flow, that is a matter of three to four quarters as our dividend comes by and the full accruals for the year more or less currently including the dividend distribution tax get passed back to the investors. This particular quarter which we ended right now in September if you see the net cash has actually gone down because including the tax the company paid about 1500 Cr of dividend and tax so net cash stock has come down. But I think the original goal, both some bit of IPO cash which is left and the other historical cash that we are carrying that we will need to see the buy-back opportunities as in and both the clarifications sort of combined as also some of the enabling taxes which have over the last two three months enabled some bit of buyback propositions more strongly, so actively looking at it at this stage but I think regulatory will lead little bit of more work at our end, we will keep you updated on how that goes.

Suresh Mahadevan – UBS – Singapore

Okay thanks a lot and all the best.

Shareena – Moderator

Thank you very much Mr. Mahadevan. The next question comes from Mr. Vinay Jai Singh from Morgan Stanley Mumbai. Mr. Jai Singh you may ask your question now.

Vinay Jai Singh – Morgan Stanley – Mumbai

Thanks for the opportunity. I have two quick questions; most of them are partly answered. You did mention on smart services the initiative wherein you have incorporated a new company, if I were to look forward to two to three years is there something you can give us in terms of CapEx guidance you could spend on that, that's my first question. My second question is we are getting close to the first round of rentals renewals coming into picture so how should we think of that, should we think of that, that you know over the 12 year period the weighted average price would have gone up by about 15% - 20% and then you again compound it for the next 12 years by about 15%-20% so it would be somewhere in between those prices so you would get a step up in the revenues or the revenue per month when these rentals come up for renewals, these are my two questions thank you.

Akhil Gupta – Chairman – Bharti Infratel Limited

Look on the smart cities and the CapEx guidance for the next two three years our stand is very clear Vinay, we are in a business where we love to spend CapEx, you know capital expenditure is our lifeline, it is an infrastructure company the more CapEx we spend the more income and cash flows and growth we have. So the fact is we would love to do as much CapEx as is required, we have all the resources, we have the money so we would love to do that. Now at this point can we give any meaningful guidance actually no, for a very simple reason a huge amount of this CapEx besides the organic growth on the tower side could go into smart cities for instance. Now as you know smart cities have been under discussion, a lot of work is happening on the government front and with the various state governments but as you can see still work-in-progress we haven't really seen light of the day for any of the smart city projects as yet and therefore it is a little premature to try and put some figures around this at this stage. On rental renewals at this point actually there is not too much of clarity and argument can be that as more and more demand happens and people get more dependent on the network that they have created there could be scope for increase in these rentals but I would not really want to look into that possibility at this stage, I don't think that we are here to really increase the cost for the operators, we want healthy telecom industry and so at this point of time I would not want to build in or any expectation that the tariffs or the rentals could really be going up. Similarly I don't think them to be coming down because of the renewals coming up because naturally the demand is strong, there are networks running on these towers, so let us see, I think as we approach that which is still sometime away these things will unfold.

Vinay Jai Singh – Morgan Stanley – Mumbai

Akhil just a small question on the second part of it. Even if I were to look at low increase if I were to look at the way the formula works is, it is a 2.5% escalation clause and a simple average let us say Rs.35000 for the first tenant is charged which means at the end of the 12th year it would be about Rs.41000-odd per month, so where do we look at it? Do we look at low increase being Rs.41000 or no increase being Rs.35000 for the next 12 years?

Akhil Gupta – Chairman – Bharti Infratel Limited

I really wouldn't be able to answer that at this stage Vinay because a lot of things are going to happen in terms of the rental constructs in-between how that shapes up will determine what that could be. Even if assuming there is some decline at that point the fact remains that by then the renewals will be for another 10 years so that kind of makes up for that decline but it I think at this point purely surmises and conjectures and I think we have to wait for it how the industry shapes up during this period.

Vinay Jai Singh – Morgan Stanley Mumbai

Sure. Thank you so much.

Shareena – Moderator

Thank you very much Mr. Jai Singh. The next question comes from Mr. Sahil Kedia from Barclays Mumbai. Mr. Kedia you may ask your questions now.

Sahil Kedia – Barclays Mumbai

Thank you for the opportunity. I have two questions Sir, one you mentioned about small cell and micro sites can you just help us understand what you think could be the opportunity in that. Secondly of your existing sites how much 4G loading are you seeing and how is that changing, just help us understand how operators are rolling out 4G, that would be useful Sir?

Akhil Gupta – Chairman – Bharti Infratel Limited

Well, on 4G I wouldn't be able to give you any specific information because that's my customer's privileged information and especially on 4G because you know all operators are not rolling out so certainly for 4G we can't give you any specific information. On micro site DS, your comments.

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

So small cell and micro site in terms of opportunities it could run into Millions depending on how this market shapes up for micro site, so far there are none. In data developed markets too we are seeing micro sites and small cell requirement come up, it's also linked to the way some of these plans of government in terms of building smart cities and other things works out because an important ingredient to small cells is availability of power and how we can get right of way to reach to some of these smaller sites that get created. But as I said earlier I think we are creating these trial sites and trial deployments and we continue to work to see wherever we get an opportunity to deploy, we will be deploying these sites and thereon look at opportunities to scale. This will also be dependent on how the spectrum shapes up, the tighter the spectrum requirements are or the lesser spectrum is with operators higher is the expectation of small cells and it is also to do with the quality of service that they are wanting to give in-site building or areas of high footfall. So this will shape-up over a period of time, it is hard to put a speculative number there. From a readiness as a tower company we are ready to see wherever the operators want us to head in that direction so we are working on creating products and we have said this earlier too that we will come back and start disclosing this when we think this has started to become more material in terms of numbers there.

Sahil Kedia – Barclays Mumbai

Sir just to reconfirm you are right now doing some testing of these with operators correct?

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

Yes we are building pole sites and some of these sites that we are trying to create for small cells in areas of high foot fall.

Akhil Gupta – Chairman – Bharti Infratel Limited

And that is where if we were to link this to the earlier question of SingleRAN and smaller equipment what is looking very encouraging is that what we could not have imaged a few years back in terms of any of the pole sites or lamp post sites to accommodate two operators that starts looking like a very decent possibility now because of the small size of the equipment.

Sahil Kedia – Barclays Mumbai

Alright Sir, this is useful thank you so much.

Shareena – Moderator

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

Pankaj Suri – Nomura – Singapore

Hi! Thanks for the opportunity I have around four questions. First of all on the 3400 tenant adds for the second quarter I mean this is down from 3.9 around 3900 in second quarter last year, the question is what actually was missing, I mean on year on basis we were expecting it to be somewhat flat, what happened in this quarter that it actually went down. Second question is based on some of the media articles some sites have been dismantled for Infratel as well as for Indus any update on that, any numbers would be helpful. Third question is what is latest on the ADR when is it expected to go live the fourth question is just I mean just now you mentioned about the small cells, if you can give us some numbers around economics of this segment that would be quite helpful probably it is kind of a premature to talk about the rents but at least some numbers around CapEx and even the cost structure and that would be helpful. And these four questions from me.

Akhil Gupta – Chairman – Bharti Infratel Limited

Okay, Harjeet could would you take up the ADR and then DS could take up the operational ones.

Harjeet Kohli – Group Treasurer – Bharti Airtel Limited

No specific update on the ADR side as we mentioned last time this needs some clarifications on the tax and the foreign exchange management act enablement under the statute that is already out and the statute directs both of these nodal agencies in the respective sites to come out with clarifications, unfortunately the way I understand is now the banks who are working with us it might slip into the new calendar year but these things are actively getting discussed both from an industry association perspective to get these ironed out as well as the banks and the brokers who are working to get this taken care of. No specific meaningful movements since the last time though.

Pankaj Suri – Nomura – Singapore

Can I just confirm Harjeet, Infratel was it going to be the first company with this kind of ADR or do we have previous examples?

Harjeet Kohli – Group Treasurer – Bharti Airtel Limited

From India I think there are couple of other companies who have announced similar intents but obviously whatever is the guidelines that will apply to all of such possibilities I hear Axis bank to my mind has done that announcement. So a couple of others who would have announced, nobody has started because they can't, given the guidelines issue, but globally Pankaj there are more than 2000 such companies who do what is called as level 1 ADR which is basically an export of liquidity of the domestic market to the overseas US market. You have FMCG majors; you have auto majors around these programs globally.

Pankaj Suri – Nomura – Singapore

Okay understood. Thanks for that.

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

Pankaj this is DS Rawat this side, your question around the numbers last year same quarter being 3950 versus 3421 small change but as Akhil mentioned in the beginning the big focus from operators is towards building their own data networks for 3G and 4G. So a lot of our teams are right now working in seeing that the cabinet expansions that they need to be put into bring in this 3G 4G networks is what operators' large part of the investment and time is going in and we have seen roughly three fold increase on the number of cabinet expansions that we are doing primarily led by of course data which is on 3G where operators are rolling out their own network. So that is one of the reasons but the good sign also is that when you look at the number of towers, the tower additions from 526 have gone up to 788 so there is a healthy balance that is going on and it is higher than the last quarter that we look at so we will see the trend to be definitely positive. Once this 3G 4G launches are over we definitely hope to see more of in-fill sites and more of coverage led sites to come in which will drive the tenancies from thereon. On site dismantle I didn't see anything; nothing unusual, nothing in the Infratel circles firstly to mention about, Indus also I haven't heard so there must be nothing material obviously it has not come here. You do hear about sites getting sealed but that's what 50-100 sites that you see in the network to a specific municipality where this also keep going on and off particularly with 100-odd sites switched off ADRs can't live without that coverage hence it gets switched on in a day or two so that's the newspaper article that you read around sites which some municipalities have been playing a little high ended game which I am presuming is getting handled on a day to day basis so nothing material to respond to there to. On small cells I think this is in terms of how much will it cost and so on is the competitive information we would not want to discuss that at this stage.

Pankaj Suri – Nomura – Singapore

Okay that is great thanks a lot.

Shareena – Moderator

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

Viju George – JP Morgan – Mumbai

Thank you for taking my question. I just have a question with the leverage of the business model, I think over the last five or six quarters we have seen a tenancy rise quite nicely from 2 to about 2.15 I think but the margins have been stuck in a pretty narrow band, how does the leverage and improving tenancy impact margins and should we not see that increase with increase in tenancy ratio?

Pankaj Miglani – Chief Financial Officer – Bharti Infratel Limited

Viju this is Pankaj, so clearly we see there has been a bit of decline which has happened and primarily that is being led by energy if you have to just exclude that I think we see the margins growing at a consistent rate over the past few quarters and there hasn't been much change per se.

Akhil Gupta – Chairman – Bharti Infratel Limited

I think the increase in the tenancies and the sharing factor which you see Viju is obviously not that it's jumping up from 2.12 to 3.12 then certainly we will see a big margin expansion but as it steadily goes up over the last one year there has been some margin expansion and will be so but don't compare it quarter to quarter it's not necessary it will happen but over a period of time yes some margin expansions will definitely happen as per the business model no question about that.

Harjeet Kohli – Group Treasurer – Bharti Airtel Limited

Yeah. I mean just to supplement even if you include energy if you see from our statement of operation last year September we were about 41.6% now it is 43.1% for this quarter which is actually after what Pankaj has mentioning some of these energy related changes which have been done over the last two quarters as we had mentioned the energy margins overtime do come down but it is generally expanding ex-energy.

Viju George – JP Morgan – Mumbai

Yeah, I guess my point is that over the six quarter period so I think it's a long enough period perhaps to strip out quarterly fluctuations, core EBITDA margins ex-energy have may be instead of 80 basis points as per our math here, 65.2 to currently about 66 with the tenancy increase .15 so what is the outlook here, over the next four five quarters if you should have a similar tenancy increase tenancy ratio increase are we going to see margins just similarly trend up so very gradually that's probably what I am trying to get at?

Akhil Gupta – Chairman – Bharti Infratel Limited

Yeah still I think all that we can mention is that it should as per the business model and the whole construct it will go up but don't expect these to jump, this is a steady business as I mentioned and therefore do expect a steady increase.

Viju George – JP Morgan – Mumbai

Just to take this one level more, are there been any elements in the cost side that have seen an unseasonal or unexpected jump vis-à-vis early expectations that we should be tracking?

Akhil Gupta – Chairman – Bharti Infratel Limited

Not really. Nothing to really point out which you should start really worrying about.

Viju George – JP Morgan – Mumbai

Sure. Thank you and all the best.

Shareena – Moderator

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

Sunil Tirumalai – Credit Suisse – Mumbai

Thank you for the opportunity. I have three questions, so the first is you made a comment on CapEx but my query is more specific to this year, we have seen an increase in the CapEx for the quarter just if you could give the, update the guidance for the year please?

Akhil Gupta – Chairman – Bharti Infratel Limited

We don't in this business give any guidance, the CapEx is a fairly steady kind of a figure.

There won't be Sunil I think the only thing which I will comment is it would be a shade higher than what we did last year, there isn't any specific numbers because of higher number of towers which are happening, it will be better to presume from that perspective.

Sunil Tirumalai – Credit Suisse – Mumbai

Okay that's helpful. Secondly going back to the topic of SingleRAN and outdoor base stations etc., I mean you mentioned that you are also encouraging operators because that helps free up space but I am curious to know what is happening to tenancy, the rentals in these cases whether for an existing operator replacing with these base stations or for a new tenant coming in, are the rentals different from what it was earlier?

Akhil Gupta – Chairman – Bharti Infratel Limited

No the rental are the same as per the MSA and therefore as I had mentioned earlier every time there is a de-loading some loading charges come down which is a very marginal figure but the full tenancy if it comes in it gives you the full rental. Certainly a very favorable situation for us wherever that happens.

Sunil Tirumalai – Credit Suisse – Mumbai

Okay. And my last question is if we look at the Infratel exclusive circles the tenancy additions for the last two quarters is actually about 80-82% of what Idea Cellular has reported ex Indus tenancy or their tower rentals and we are just talking about only one operator in these circles and obviously Idea is not the only growing operator you also have your parent operator and other operators also who are growing so just wondering what kind of market share does Infratel have in its exclusive circles. Thank you.

Akhil Gupta – Chairman – Bharti Infratel Limited

Well there is no a specific reporting in terms of this so I can't give you any external figures. As per the Deloitte report we were at about 50% market share. We gained from the IPO, so clearly shows that we continue to gain market share between both Indus and Infratel.

Sunil Tirumalai – Credit Suisse – Mumbai

Yes, Sir basically, so my question was I mean if we look at specific data points from operators it seems like so the question is coming because Idea Cellular when they reported couple of days back they have shown a really sharp pick up in their tower base station not just on 3G loading but even on 2G and somehow that doesn't seem to be flowing through for the tower companies.

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

Sunil on the tower company side unfortunately you don't get to see the overall installations because Idea may have had let say 100 new base stations may be as an example 60 of them could have been loading which are not separately available here, you are seeing the split of 40 which they gave to the market as tenancies.

Akhil Gupta – Chairman of the Company and Vice Chairman – Bharti Infratel Limited

But to your point I think it's fair to assume that we definitely continue to increase our revenue market share as per the Deloitte report it was around 50% which in itself is healthy but what we are seeing in the market we are increasing our market share both at Indus and at Infratel.

Sunil Tirumalai – Credit Suisse - Mumbai

Okay that was helpful thank you Sir, thank you very much.

Shareena – Moderator

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

Pranav Kshatriya – Edelweiss - Mumbai

Can you quantify what proportion of the new tenancy addition is from Single RAN that has been replaced and operators moving that to rural which is leading to higher tenancy and my second question is with regard to the government saying that they will make their own spaces available for putting up towers so what sort of addition will you be looking at, will it add significant number of towers in the areas where there is congestion.

Akhil Gupta – Chairman – Bharti Infratel Limited

I think on the first one we can't really give any answer as we don't have any specific numbers as to how much of new tenancies came because somebody had put up SingleRAN. On the government premises I think this is a very good development as I had mentioned but naturally it is still to start, I think the Ministries have to take it up internally, what are the guidelines, what are the rules what charges they will take etc., so this would take time and at this point it will be quite impossible or irresponsible to try and put a figure as to how many of these would be available over a time.

Pranav Kshatriya – Edelweiss - Mumbai

Sir if I can just follow up on the first question, can you just give us some idea that you know how many of let us say if the SingleRAN solution is put up are all the BTS from that site are reused or some 50% of that or 20% of that any ballpark number will be helpful.

Akhil Gupta – Chairman – Bharti Infratel Limited

We can't give you any specific, the only thing we can tell you is that in the main cities very clearly on the roof tops there is more and more demand coming so it is fair to assume that wherever there is some space created on a roof top in the top cities it is likely to be taken up pretty quickly.

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

Pranav this question is better answered by operators because they are doing all this de-installation and moving it to rural areas that are planning piece which falls in their domain directly. As we said in the select few sites where we face a challenge accommodating tenant or adding 3G equipment on the existing tower which is loaded is where we go with the specific request and that is a small number given that Infratel only adds about 10% rooftop sites. These are sites where operators have been helpful in deploying new generation equipment and taking out the older equipment. How much gets redeployed is purely their own planning which you will be get an answer from them.

Pranav Kshatriya – Edelweiss - Mumbai

Okay thank you that's it from my side.

Shareena – Moderator

Thank you very much Mr. Kshatriya. At this moment due to constraints of time we will not be able to take any further questions. I now hand over the floor to Mr. DS Rawat for the final remarks.

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

Thank you. As Akhil articulated Indian telecom is rapidly transforming. Future is data. Having made huge investments of over 50 billion in spectrum alone market leaders are ramping up investments on 3G and 4G. Leaders have started their plans to cover 60% to 70% of network with 3G or 4G over the next couple of years. The quest to offer service differentiation will further lead to increased demand for towers. We are already witnessing investments by operators towards expansion of 3G-4G coverage in new locations, while strengthening current 3G presence and as Akhil mentioned roughly about three times the number of 3G 4G cabinet expansions that we saw during the same period earlier. Demand for new towers remains in the range of 3% to 4%, demands for colocation is picking up; on year on year basis colocations grew in excess of 8%. As we move forward, demand for 3G 4G cabinet expansions will translate to full blown data sites colocations as operators will start plugging the coverage gaps. This will define the next phase of growth. We continue our efforts towards operational excellence and records from financials yet another quarter posting profit after tax of 580 Crores with a quarter-on-quarter growth of 25%. At Bharti Infratel we have the capacity, competence and the commitment to address the increasing demand for quality infrastructure service and create sustainable value for all shareholders. As a company we are fully geared to capitalize on the growth opportunity and win with the customer. On behalf of entire Bharti Infratel team I thank all of you for continued support and look forward to an exciting journey ahead of us. Let me take this opportunity to wish you all a very happy Diwali in advance. Thank you.

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.