Conference Call Transcript

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PRESENTATION

Vaidehi Sharma – Moderator

Good afternoon, ladies and gentlemen. I am Vaidehi Sharma, the moderator for this webinar. Welcome to the Bharti Airtel Limited's third quarter ended December 31, 2023 Earnings Webinar.

Present with us today is the senior leadership team of Bharti Airtel Limited. 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. Post the management opening remarks, we will open up for an interactive Q&A session. Interested participants may click on "Raise Hand Option" on zoom application to join the Q&A queue. The participants may also click on this option during the management opening remarks itself to ensure that they find a place in the queue. Upon announcement of name, participants to kindly click on "Unmute Myself" in the pop screen and start asking questions post introduction.

With this, I would now like to hand over to Mr. Gopal Vittal for his opening remarks.

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

Thank you and very warm welcome to the earnings call for quarter three FY2024. With me on the call, I have got Soumen, Harjeet, and Naval.

Let me briefly start with a telecom bill for 2023. It was a forward-looking and progressive bill as I have mentioned before and it was really in continuation of the reforms that was announced by the government in September 2021. The highlights of the bill are that it simplifies the currently complex system which includes various types of licensing into a more cohesive and efficient authorization based regime. It also ensures predictability and availability of spectrum covering aspects such as refarming, harmonization, trading, leasing and sharing. A very welcome move is graded and proportionate penalty regime which will bring in ease of doing business and compliance while increasing the enforcement rate. The RoW reforms seeks to streamline approvals across the country however there still are challenges in some states as regards with RoW.

A quick update on ESG and let me start with our smaller business which is a large power guzzling business which is data centres. We are taking a number of initiatives in Nxtra. First on the environment, Nxtra has adopted the 3R approach of reduce, reuse, and recycle to minimize waste across all their centres and attain a 100% landfill diversion rate in the next two years. All newly constructed data centres will be LEED certified either platinum or gold or an equivalent certification. Nxtra is the first data centre operator in India to install solid oxide fuel cell based captive power plants and to deploy fuel cell technology. A new campus in Mumbai is designed for zero discharge. Over the past five years, Nxtra has seen a remarkable 20% improvement in power usage effectiveness with a further target to reduce 10% by 2025. Airtel as a whole we have seen the number of women employees grow one and a half times as compared to last year. Another notable feature is the fact that 84% of all our site infrastructure managers at edge sites are ex-servicemen. On governance, we take great pride in our disclosures, in our transparency and our code of ethics.

Let me turn to our financial performance. Overall, we have delivered a satisfactory performance. Consolidated revenue of about 37,900 crores was impacted by currency devaluation in Africa, particularly the Naira and Malawian Kwacha. India continues to grow steadily by 3% sequentially delivering over 27,800 crores. EBITDA margins came in at 53.9%. Mobile and homes delivered consistent growth while Airtel Business saw moderation on account of the slowdown in the global business, this I mentioned already in the last quarter. We remain on course with our strategy to focus on quality customers deliver for them a brilliant experience, put digital at the core of all we do and strip out waste. The company generated operating free cash flows of just under 7250 crores for India despite a front loaded capex. Capex for the quarter was 7750 crores and as I have mentioned our investments are focused on 5G, rural expansion, fiber deployment, and data centres. Given our strong cash generation, net debt to EBITDA for India continues to improve every quarter and now stands at 2.91 versus 3.08 in Q2. We paid another tranche of 8325 crores of high cost DoT debt. In this fiscal we prepaid over 16349 crores of high cost DoT debt.

A quick update on each of our segments. In mobility 4G net adds momentum was strong at 7.4 million, postpaid net adds was steady at 0.9 million, the third consecutive quarter of more than 25% of total net adds. ARPU was at Rs.208 versus 203 in Q2 2024 that is Rs.5 rupees increase and this improvement is really due to three key drivers that continue to kick in - feature phone to smartphone upgrades, prepaid to postpaid upgrades, and rising share of wallet through a combination of data monetization and international roaming. Our premiumization agenda to upgrade customers to higher value plans has been working well and contributing to ARPU growth in the absence of tariff hikes. Our 5G coverage expansion is on track despite no monetization. Growing 5G shipments are reflected in our rapidly growing 5G base as well. Finally, we continue to deliver strong competitive growth further increasing revenue market share, a key barometer of our performance in the marketplace.

Turning to broadband we saw some moderation in net adds to 3.6 lakhs. This was on account of the peel back of the entry level plan at Rs.199 so we have discontinued that plan and that had some impact which is a healthy impact because the ARPUs on the acquisition side are now improving. We are now present in 1267 cities up from 1140 cities last year in the same quarter. We added almost 1.5 million home passes given the momentum we are seeing in this business. Airtel Black, our converged offering is seeing strong momentum in fact 47% of net adds are now on Airtel Black plan. This converged plan helps us offer customers more than one service of Airtel, it reduces churn, gives a fillip to average revenue per account. We continue to strengthen our content partnerships and make Xstream a main stay with more than 20 OTT apps on a single platform. We recently added aha, ALT Balaji, Fan Code, and Play Flix on XStream Play. XStream Play crossed 5 million paid customers and continues to be the fastest growing OTT aggregator in the country.

On the DTH business, we added 388,000 customers. This is the highest net adds that we have seen in the last 12 quarters. Revenue growth was driven by both customer adds and ARPU increase. Our strategy to focus on key markets of South, Maharashtra and Bengal combined with our pivot to convergence creates a solid differentiation for our DTH business in the market.

Turning to Airtel Business, revenue growth was 1.7% sequentially. The global segment continues to be soft while domestic is seeing acceleration. One of the big growth drivers in the domestic segment is IoT. We recently signed two big deals one was a strategic partnership to power up 20 million smart meters with IntelliSmart and offer end to end IoT solutions. This partnership marks Airtel's foray into high-end applications such as advanced metering infrastructure and meter data management systems along with a cloud platform and analytics layer. Second, we won an exclusive connectivity deal from Adani Energy Solutions to power an additional 20 million smart meters across various states.

Turning to the payments bank, our monthly transacting users now stands at 58.6 million. Deposit growth has remained robust at 51% over last year and the annualized revenue run rate now stands at just under 1900 crores. We are as I have mentioned one of the few fin tech players who is profitable in this segment.

Turning to the digital businesses, we are now delivering an annualized revenue run rate of just under 1750 crores. Our focus remains on CPaaS, financial services, IoT, security, and cloud. Airtel Finance is scaling up well; we are now disbursing loans at the run rate of 620 crores per quarter versus 550 crores in Q2. Our focus is on building a high quality book using our proprietary credit model. Our focus remains on large ticket loans which is reflected in our average loan amount of Rs.1,10,000. On cards, we are continuing at an annualized run rate of 280,000 cards. We plan to scale this business by adding more products including gold loan and embedded insurance.

A quick update on our strategy and how we see Airtel. As I mentioned one of our critical strengths is a diversified portfolio, Africa now accounts for 27% of revenues, India mobile 57% and India non-mobile the balance. This makes us a resilient business. Africa continues to perform well on an underlying basis with 6% sequential revenue growth in constant currency terms. We are also incubating the fast growing digital businesses within our portfolio that come at very high margin and low capex.
Our second strength is our consistency in winning quality customers and let me quickly update you on what I have spoken about earlier and let me start with the high value segment which is really focused on the top 150 cities across both B2C and B2B. Within B2C, the top 60 million homes in these 150 cities account for over 35% of the industry revenue. The unique advantage that we have is the fact that we already have a relationship with these homes from Airtel. Broadband penetration in this segment is about 37 million and growing. Here our focus is to continue our roll out, grow our partnership with the local cable operator and launch fixed wireless access as a complement to fibre, second to drive convergence and lock customers in. As I have mentioned, our ARPA, which is average revenue per account, quadruples with convergence. The third key area of focus is to raise our sales and marketing effort to break inertia and switch these users onto our converged plan, which is Airtel Black. This is where our digital capabilities are coming to use. Finally postpaid, our family proposition is now developing critical scale and is powering our growth of postpaid coupled with our deep digital understanding and spread of our small format stores this segment is seeing strong momentum. Within B2B as I mentioned the top 500 companies account for almost 70% of industry revenue and we have very deep relationships with them. We are doing three things here, first stepping up investments in transport with our fiber strategy to ensure we keep ahead of their needs while building resilience for both our mobile and homes business. As a result, we have laid just under 69000 kilometers of fiber in the last six quarters, second we are revitalizing our whole account management to raise capabilities for solution selling and finally we are stepping up investments in product and SI integration across CPaaS, IoT, cloud, and security.

The second segment is rural. I have mentioned before that we were under indexed in terms of coverage. Our massive roll out this year of almost 30,000 sites has worked well for us be it customers per site, cost per site or competitive performance, all of this has met action standards. All of this has been possible with extensive use of digital tools and data science and importantly our razor sharp execution. This has now given us the confidence to take it one-step further in the coming quarters. Across India, we have a position of leadership in almost 60% of the country yet in five key circles - Maharashtra, Gujarat, MP, Chhattisgarh, Kerala, and Bengal we have a gap of almost 18% share with the number one player. In these circles, we have almost 25,000 less sites as well leading to our absence in wide parts of these geographies. We intend to step up our coverage in these areas and build a tailwind for our business in the coming quarters.

Our third strength is the obsession to deliver great experience. We have significantly developed our digital capabilities around four key platforms linked to customer journeys, buy, bill, pay, and serve so actually this applies to any business. A customer buys something, you bill him, they pay for it and you serve them so whichever business we are looking at the same platforms work. This is all federated Omni channel and sits on a common data mesh. These platforms have become so fungible that we are now looking to lift and shift it to Africa. Second area of focus on experience is to empower our teams with digital tools, so today the whole country is divided into what we call 1 million grids, grids are really literally 1 kilometer by 1 kilometer each of them has very granular metrics associated with customer experience and provided to our frontline sales teams and our frontline engineers. We believe this way of working will reduce our churn going forward.

The fourth strength is to use the underlying digital capabilities to build new digital services. As I mentioned before Airtel has three parts to its business model, digital infrastructure which includes the network infrastructure and also the data mesh this is the basis on which everything works, the second part of our business model is our digital experience layer that has delivered Omni channel and for all customer journeys be it buying, billing, paying or serving journey. In fact, our serve platform is capable of problem diagnosis, automatic ticket generation, automatic dispatch to an engineer, which is then scheduled and monitored and fed back to the platform for completion. Given the scale that these platforms operate at we believe there is an opportunity to extend them into other telcos around the world. We are starting with Airtel Africa immediately and then progressively look to take these to other carriers. The third part of our business model is our digital services, which ride on the underlying digital infrastructure and digital experience. Our portfolio here includes Airtel IQ, IoT, Ads, Cloud, SD-WAN, and Airtel Finance all of which has been built in-house. Given the scale at which we operate these platforms are industrial grade global standard. I also like to provide some more texture on IoT one of our fastest growing digital services. There are three parts to the IoT business, connectivity is our natural right to play here we have a market share of 55% plus. The market is growing rapidly here with the increased emphasis on digitization. One of the big opportunities is to play a major role in the deployment of 250 million smart meter deployments in the coming year. The second part is then move up the stack by offering cloud and analytics. We have now built this and have already won as I mentioned one large deal. The third part is to install and repair these devices, which can be done by our own delivery fleet since all of them are in our digital tool of Airtel work.

The fifth and last strength is our relentless focus on war on waste as I have mentioned it earlier it is now a way of life for us. We have seen very strong results over the past quarters with reduction in cost per site despite absorption of 5G costs. We believe we still have headroom to optimize through use of AI/ML based solutions, solarization, and optimization of wasteful sales and distribution spends. In addition to this, our bet on NSA has saved a substantial capex and opex over the course of the year. At the same time it has delivered a brilliant experience as it has been borne out in the five of the six awards that we won declared by Opensignal. To sum up, we have had another consistent quarter with improved cash generation. Our prudent capital allocation approach is showing results on ROCE improvement in the absence of tariff hike. We are still at a low level of RoCE at about 9% but have seen improvements over the quarters. Our investments are aligned to build a future ready Airtel with focus on quality customers and obsession for delivering a great experience leveraging our strong digital capabilities and finally to strip out waste. With that let me hand back to the moderator for Q&A.

Vaidehi Sharma – Moderator

Thank you very much Gopal. We will now begin with the Q&A interactive session for all the participants. Please note that the Q&A session will be restricted to analyst and investor community only. Due to time constraints, we would request if you could limit the number of questions to two per participants to enable more participation. Interested participants may click on Raise hand option on Zoom application to join the Q&A queue. Upon announcement of name the participant kindly click on unmute myself in the pop up screen and start asking the question post introduction. The first question comes from Mr. Kunal Vora. Mr. Vora you may please unmute your side, introduce yourself and ask your question now.

Kunal Vora – BNP Paribas

Hi, thanks this is Kunal Vora from BNP Paribas. Congrats for a strong quarter. First I wanted to understand the capex plan, so how should we look at it like couple of years back you were at 15,000 crores capex, last year at 20,000 crores, this year 25,000 crores you indicated that this number should come down but just wanted to get a sense on how low can this be like not only in FY2025 but longer term like say how do you look at capex to sales that is the first question.

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

So, I think we mentioned before Kunal that capex is going to be elevated this year. This is a big year of rollout, vast part of the 5G has been rolled out this year. There is a substantial amount of rural rollout that is taking place this year and then of course the usual investments that we are making in all our other businesses including transport, data centres, B2B, homes, etc. So this was one year where we had indicated would be an elevated year of capex and we continue to stick to that. I think the next year will moderate in terms of capex. We are not giving any specific guidance on this because it is a competitive market and we will wait and watch, but I would say that we are confident that the capex will moderate. Long term what the capex to revenue ratio should be I think it all depends on what happens to the industry in terms of tariff repair and with tariff repair capex to revenue will clearly drop further. You see most global telcos operate at between 15 to 20%. There is no reason for Airtel not to operate at that level in the future.

Kunal Vora – BNP Paribas

Sure. Just on continuing on capex so you crossed 3,00,000 sites now where do you stabilize it looks like you are looking to add another 25,000 sites in the five circles which you indicated.

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

It may not be all the way to bridge the gap because we have to watch very carefully. For us the biggest thing that we focus on is - are we delivering profitability at the site. We measure our profitability, our revenue and our cost in every single one of the 3,00,000 sites so our performance is measured really on a site by site basis because ultimately a site is a factory. Users tend to show up in clusters of sites, so it is not on an island site but in clusters of sites so we have to make sure that the cluster is profitable before we grow. Suffice to say that there will be a significant rollout that will happen in these five circles how many it is I do not know we are still doing the work but clearly there is a gap here which we will need to bridge.

Kunal Vora – BNP Paribas

Okay just one last question if I can which is on 2G like what is the outlook. Jio seems to urge government to shut down 2G network how practical is that and when do you expect 2G to be shut down.

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

Well I think let me just unpack this a little bit. There are different kinds of users with a 2G device. There are users who are illiterate who do not want a smartphone. They are users who have a very low income. There are older people who struggle to use smartphones so it is a combination of various things. The 2G contribution to our business now has become quite small it is in the ballpark of 17 odd percent and in markets like Gujarat, Maharashtra, Kerala, Mumbai, Delhi, they are in single digits, but you still see reasonably higher contribution in markets like Bihar, UP, MP, Chhattisgarh etc. So, I would say that you are seeing every quarter a move towards 2G but there will be a small set of users who will take a little bit longer. My sense is that in the next few years you should start seeing substantial almost disappearing of 2G and at that stage we can decide what we do. At this point in time the amount of spectrum that we use is very limited for 2G, it is used dynamically along with 4G networks and there is only software because it is the same radios that are multi-technology that radiate all technologies.

Kunal Vora – BNP Paribas

Understood. That is it from my side. Thank you.

Vaidehi Sharma – Moderator

The next question comes from Mr. Aditya Suresh. Mr. Suresh you may please unmute your side, introduce yourself and ask your question now.

Aditya Suresh

Thank you Gopal. I had two questions the first is in terms of tariffs now obviously you have articulated the various levers for the tariff improvement driven by mix. I guess my question was more specific in that all else equal and assuming there is no industry tariff actions over the next say 12 months right would you be able to kind of comment on how much more upside you could see on tariff just on the mix impacts.

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

Well you have seen our track record over the last few years. We have seen improvement in ARPU in the absence of tariff hikes, yes in some quarters it is a little higher some quarters it is lower, but I would not read too much into one particular quarter, if you just take a slightly longer time frame there is clearly a movement up in terms of average revenue per user on an organic basis given the levers that I spoke about feature phone to smartphone, postpaid, data monetization, international roaming, shifting to higher priced plans etc, etc., but this will be a modest improvement, the real improvement will come only if there is tariff repair and as I mentioned before it is not a question of if it will happen it is more a question of when it will happen.

Aditya Suresh

Right then just sticking with the capex question which was asked previously, I appreciate that you have given us a guide here on the three year kind of capex targets. You have spoken about how next year we will see a moderation in relation are you able to speak about any net debt to EBITDA targets which you may have over the next say 12 months to 24 months.

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

I think what you should see is a continuous deleveraging for the business because this business still has head room to grow and I am saying even discounting for tariff increases even discounting for that there is head room for growth. The broadband business is growing rapidly, the B2B business, the domestic segment is growing rapidly, mobility itself there is upside for growth so yes in a business like ours you get operating leverage and we would be disappointed with ourselves if we do not hold modestly keep improving margins as we get incremental revenue and that will obviously go down to deleveraging and improve our net debt to EBITDA ratios.

Vaidehi Sharma – Moderator

The next question comes from Mr. Vivekanand Subbaraman. Mr. Subbaraman you may please unmute your side, introduce yourself and ask your question now.

Vivekanand Subbaraman – Ambit Capital

Hi, I am Vivekanand Subbaraman from Ambit. my two questions the first one being your comments Gopal on the platform solutions, could you elaborate a bit on what exactly are you looking to replicate in Africa that has worked very well for you in India and any initial thoughts on how you can take some of these solutions to other operators globally that is one. The second thing is a framework on capex with respect to the mix of capex across the businesses. In prior analyst interactions you have indicated how your non-mobile businesses have seen improvement in revenue contribution over time and we are seeing that capex also seems to be somewhat lumpy in some of these businesses because of data centre, fiber rollouts, could you give us a sense of what proportion of incremental capex will go to some of these businesses and conversely revenue contribution thank you.

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

So let me take the answer to the second question first. I think as I have mentioned the radio capex in itself is a large capex and that is going through a big roll out as we speak and that is the one that I mentioned will have an elevated year of capex in this year which is 2023-2024 and see moderation. Transport capex is less lumpy in that sense because we work on a blueprint, we have got a three year blueprint for transport as we speak and this requires a combination of laying fiber which has higher gestation to lay the electronics component on lighting up these fiber and all of that which is a sustained level of capex that we see and this I would say if you look at most global telcos you will find that as you move more and more towards the data world you do see this on sustained basis. The core itself is a small part of the capex while it contains a lot of the intelligence generally from a capex standpoint that is a low contribution to the overall capex. Then there is the non-wireless portfolio within this we have got home broadband where we have a big roll out that is currently happening almost a million and a half home passes per quarter and the capex here is the cost of the home pass in addition there are costs of routers that you light up as you get those homes and we treat that as capex so that is the second part. The same applies for DTH. B2B is a third part of the capex this is where it is a bit lumpy so if there are some cables that are being invested in, there is some data centres that are being built as we speak or some land that is being purchased for data centers this is where it tends to get a little lumpy but the overall contribution of non-mobility has been consistent, it is just that in a year where radio capex is much higher it does not mean that non-mobility also goes up so in absolute terms non-mobility with the exception of data centres which is a bolt on has been reasonably steady. The second question that you had was on the platforms, the way we think about it so let me kind of pull back a little bit. In the past we used to operate our digital products in a product organization and one of the challenges in a product organization is or one of the advantages is that it gives you a lot of speed and agility but the disadvantage is that you end up having a lot of efficiency so you get the illusion of speed but actually you lose velocity simply because you are rewriting the code again and again for each line of business so about a year and a half ago or a year and a half two years ago we said we are going to disband the product organization and really move to what we call a platform organization and we had to spend a lot of time trying to really understand what are the platforms that we were trying to build and this is what led us back to how customers deal with us. A customer deals with us to either buy something. We bill it. They pay for it and we serve them. All of this if you think about customers, a customer is not online or offline, the customer is omni channel so the customer is on the web or the app or the call center or the store and he or she wants to be seen as one across all those channels and all of this needs a data mesh or a data infrastructure below so we spent the last six seven years at building a strong data infrastructure. Omni channel is the way customers deal with us and what we focused on is actually building these platforms, but what we have done is the way we built it, it was built in a modular manner so that it just needs administrative rights for any business to use it, it is not necessarily linked to our business alone, it is built in a more abstracted form and it has several APIs which come from the underlying billing stack and so we have not changed any of the billing stacks because if you change billing stacks it becomes very complicated. Now if you look at most telcos and most businesses struggle with this because they have got this complexity, they have not abstracted out the platforms and therefore are not able to deliver a truly Omni channel experience and that is the opportunity we feel that can be extended. We are ready with two platforms that we can take straightaway which we are going to lift and shift into Africa.

One part is the way any of these show up in the channels which is Omni channel. The other part is again on the serve side all the fleet that is actually 70,000 people in our company today work of Airtel work anything that happens in the company whether it is installation, fault repair or network maintenance in a site or indeed a sim that has to be delivered to the house works of Airtel work that is another platform that is part of the serve platform that can also be extended so I think we are now at least well on our way here and to lift and shift this is literally a few months it is not many years which is what most companies would then tend to do so this is something that we are keen to test waters. We are going to start with a few countries in Africa to start with and then we will progressively look to see how we can extend this.

Vivekanand Subbaraman – Ambit Capital

Gopal your answers as usual are very, very informative. Just one follow-up have you had any business development conversations with any external telco to provide some of these plug and play solutions.

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

It is a bit premature Vivekanand to answer that question. I would not want to answer it right now because the proof of the pudding is finally in the eating so at this point it is what I have mentioned, we having number of conversations but at this point I will not report anything unless we see action.

Vivekanand Subbaraman – Ambit Capital

Thank you and all the very best.

Vaidehi Sharma – Moderator

The next question comes from Mr. Piyush Chaudhary. Mr. Chaudhary you may please unmute your side, introduce yourself and ask your question now.

Piyush Chaudhary – HSBC

Hi, thanks this is Piyush from HSBC. Congrats on great set of numbers two questions, firstly on 5G could you update how many subs have 5G handsets now on your network, how is the pace gathering and when do you expect to launch commercial 5G packages and start monetizing that 5G data traffic. Secondly with rising free cash flow and it could improve further with tapering down of capex, can you share your thoughts on dividend outlook and how are you thinking about framing a sustainable dividend policy. Thank you.

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

So 5G we have about 65 million users on our network today and this is growing. The total contribution of 5G users to overall smartphones is still lower, it is about 15 to 16%. We expect that by March 2025 the industry will see about 25% of smartphones which are 5G enabled and if you look at shipments coming into India about 60% to 80% depending on the price point on an average are 5G enabled new devices that are coming in. On the free cash flow, I think we have again mentioned this before the first port of call is to deleverage. We need to reach a point of comfort on that and then of course at some stage this company will look to pay dividend. We have not framed a dividend policy as of yet.

Piyush Chaudhary – HSBC

Thanks but just on the first point when do we expect to start monetizing the 5G traffic like what is timeline you are looking at.

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

I apologize well unfortunately 5G has become really about free data today in India so there is no real monetization on the consumer side, yes fixed wireless access will give you some ability to monetize, but it is really modest in the overall scheme of things given the capex that has gone behind 5G. There is also private 5G networks for enterprises. We are working with a large auto ancillary manufacturer in the south. We have got a big handset player in the south of India and we have got big player in the west in industrial equipment that we are also working with. So, some of these companies are looking to deploy private 5G networks. We have indeed have deployed about four or five of such projects but again you will appreciate that this is a smaller part of the overall monetization. So when you look at monetization this is not meaningful in any sense of the term. I do not believe at the same time that 5G should have differential pricing because as I have said this before if you have 100 users and this is just simple consumer behavior. If you have 100 users you offer something to and you offer something to them at a slightly higher price so if you have got a price of X and X plus 5% or 10% higher, then the percentage of users who will take that higher price will invariably be less than 10% which means you do not really get monetization because you do not really get revenue since you are getting a fraction of those users so I think monetization is about overall tariff repair, but free data on 5G is obviously a headwind on any sort of monetization as far as 5G is concerned.

Piyush Chaudhary – HSBC

Right thanks and just on that dividend. I appreciate that first will be deleveraging what is the level of India net debt to EBITDA where you will be comfortable in then framing a dividend policy.

Harjeet Kohli – Joint Managing Director, Bharti Enterprises

I think Gopal also earlier mentioned to your question and to the earlier one that clearly in the near few quarters the focus continues to be deleveraging. If you see the consolidated leverage this is about 2.5 right now. India has now come down to below 3. Historically we have maintained closer to 2 is nearly a good comfort target. We are still away from that. Ideally, both the business units should have that. Africa as you know is much less than 1.5, it is probably 1.35 today. So I would say next four to six quarters more to zeroing on that, cash flow should hopefully go to drive that and then target what exactly is a good comfortable level knowing very well three things, number one bulk of this debt is in India, number two within India bulk of the debt is AGR/DoT roughly about 50 to 55% of the Indian debt is that and number three is 30 odd percent is finance these obligation. So focusing on really the true external debt as a risk parameter and then formulate something. So in the shorter-term look towards reaching closer to two at consolidated, closer to two and a half or below for India, use cash flows to deleverage and then formulate the next strategy.

Piyush Chaudhary – HSBC

Got it thanks a lot very clear.

Vaidehi Sharma – Moderator

The next question comes from Mr. Ankur Rudra. Mr. Rudra you may please unmute your side, introduce yourself and ask your question now.

Ankur Rudra – JP Morgan

Thank you this is Ankur from JP Morgan. So just maybe the first question, Gopal we have seen very impressive cash conversion helped partially by very nicely maintained capex just wanted to understand the capex for the last two or three quarters we have seen the headline tower and the broadband base station roll outs remaining elevated and almost consistent for the last three quarters, but the capex sort of dropped since 1Q could you maybe help us understand what drove the decline clearly not BTS or tower lead. Second is if you can elaborate on the capital allocation side you highlighted how you will think about dividends but also if you could clarify what are the plans for the uncalled for amount on the rights issue given it is probably callable over the course of this year and number three if you could give us a sense of you know you mentioned handset penetration should rise to 25% in a year's time how should we think about in the medium term the timing of incremental rollouts for (a)network densification in urban and metro areas as that 25 to 30% happens, (b) in expanding to other areas in your modular approach and (c) from a long-term perspective how far is the glide path towards SA from NSA on a multi-year basis. Thanks.

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

Okay thanks Ankur many, many questions there. On cash conversions, I guess it because it is a high operating leverage business and our overall bet on NSA has worked very well, delivering better experience, lower cost and of course our war on waste program coupled with revenue growth has really led to that. Just in terms of capital allocation, we do not have any real need to call for the rights at this point in time so we will keep a watch but at this point in time there is real no need for calling for the rights. On the densification question, well India historically if you look at our cities they are actually amongst the most densified cities so if you compare Indian cities with most other cities around the world you will find India actually has much higher density of size and that is account of the population density but also on account of historically limited amount of spectrum and therefore there has been a densification because the only way you can get more capacity is either by more spectrum or by repeating the spectrum in shorter loops. We believe that the increased densification in metros on overall in terms of towers yes there will be some opportunity to put up some sites as cities expand so for example if you look at Delhi NCR it is expanding rapidly so as you get to the periphery there will be opportunities to put on some sites, but within the core city other than some very very dense areas where we may have had coverage gaps in the past generally the need for densification is low, this is at a broad level. 5G, given the fact that we are operating on NSA in any case is using mid band for the uplink and using 3.5 for the down link where as I have mentioned about four-five quarters ago you get almost 100 meters extra propagation so you do not need any more densification for 5G coverage and it is empty network at this point in time we got lots of spectrum so for the consumable future I do not see any opportunity to densify. At some stage we will definitely move from NSA to SA we are already experimenting with SA so for example the launch of our fixed wireless access network will be on SA because we believe that the experience on a device that does not move will lend itself to good SA. I remember SA and NSA can work together. I mean they can work together so in some factories in plants we may actually deploy SA this is in the short term but in the more medium term as more and more traffic shifts from 4G networks to 5G networks as more and more devices come in we will take our existing spectrum bands refarm it to 5G and then move to an all SA network. We are already in the midst of a trial in one town in the north, there are about 30 sites on an all SA network just in order to learn and see some of the challenges. There are some issues that need to be dealt with, but I would say over the next few years you will start seeing a gradual move from NSA to SA and over a period of time you will see more and more of that 4G spectrum being refarmed to 5G so that is really the road map. You just do not need to do it ahead of time. You just have to follow how the traffic is and keep moving there. In terms of experience as we have seen now and it has been proven I remember there were a lot of question earlier quarters on SA versus NSA. Actually, NSA we are delivering a better experience and you can see that in all the awards that we won.

Ankur Rudra – JP Morgan

Just one clarification Gopal if I may. On the first question basically I was asking that you know the capex has dropped from 1Q to 2Q and 3Q which has been sort of stable despite the fact that headline towers and base station additions continue to be elevated so could you highlight where that capex was in the 1Q which has not repeated because we thought that pace will determine what the capex is. Thank you.

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

I would not read too much into it. I mean Soumen can have a better answer to this but I would imagine that actually there was a lot more 5G deployments in first quarter which lowered. Some of it was also on account of materials and so on and so forth, it will all catch up so the guidance that we have given on an elevated level of capex for this year stays. So I would say that is really the only difference. Soumen if you want to add anything.

Soumen Ray – Chief Financial Officer, India & South Asia, Bharti Airtel Limited

I think there was a lot of inwarding of 5G radios which happened and typically Q2 there is a problem of deployment which is why while some of those radios was deployed it was lesser. It has got picked up in Q3, so do not look at the quarterly movements and try to annualize it for the full year, look at YTD that should give you a picture.

Vaidehi Sharma – Moderator

With this, I would now like to hand over the proceedings to Mr. Gopal Vittal for his closing remarks.

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

I want to thank you all for having joined this earnings call and thank you for all your questions. I look forward to speaking with you soon in the next quarter. Thank you.

Vaidehi Sharma – Moderator

Thank you everyone for joining us today. The recording of this webinar will also be available on our website for your reference. Have a good day ahead.
