

Conference Call Transcript

Event: Transcript of Bharti Airtel Limited Second Quarter Ended September 30, 2023 Earnings Conference Call

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Transcript of Bharti Airtel Limited Second Quarter Ended September 30, 2023 Earnings Conference Call

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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 second quarter ended September 30, 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 click 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 up on screen and start asking the question post introduction.

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

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

Thank you Vaidehi, good afternoon and welcome everybody to this earnings call for quarter two FY2024. With me on the call is Soumen, our CFO, Harjeet Kohli and Naval.

Let me start by giving you a quick update on our business, but let me start with the ESG.

During the quarter, we received the Golden Peacock Award for sustainability for the year 2023, and just to spell out a few initiatives that we have undertaken towards our ESG agenda. On diversity, we had a target to achieve at least 20% women participation in our workforce by 2025 as compared to 11% in FY2023. This is tracking very well through structural changes brought in along with introduction of differentiated employment models, focused on balanced slate hiring, and bespoke four programs to grow our women talent. On environment, we have taken significant steps at each level of our business towards environment friendly procurement. From the next quarter, for example, most of our SIM cards will be sourced from recycled plastic materials. DTH boxes will also come with compostable packaging material.

Before I go any further and talk about our business, I just want to lay out our experience on 5G. Airtel took a very bold position to go with NSA and as I explained a year ago, the power of this strategy which was predicated and I mentioned this, I think about six quarters ago, was predicated on better coverage, better experience, lower power and lower capex. This has been proven in the marketplace. As a company, we have invested very smartly and designed our network based on very sound network engineering, resulting in incredible coverage over 5000 cities and about 20000 villages. We are now delivering decisively the best experience for customers on 5G. In fact, open signal results have awarded almost all the category awards to Airtel. So whether it is video streaming experience on 5G as well as overall, live video experience on 5G as well as overall, gaming experience on 5G as well as overall, voice experience on 5G as well as overall, or upload quality, Airtel is a standout winner. Specifically, on 5G experience, of the six awards, we are number one for five. This is why Airtel has been consistently gaining on quality customers, continues to have the highest ARPU in the industry, and the highest active users in the industry.

There have been some reports that one of the players in the industry has seen higher share of more than Rs.20000 phones on their network. I would like to point out that given the reset in prices of entry-level smartphones, this is indeed an industry wide trend in the last 18 months. So, if overall price of smartphones have gone up with this growth of more than 20000 smartphones generally in the marketplace the share of more than Rs. 20000 smartphones has increased on all networks. The real number to look is the relative market share growth of high end phones on 3P platforms, which is a third party platforms, which is platforms there are other OTT platforms, and from our understanding Airtel in the last 12 months has added close to 100 basis points of market share of high end

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phones reflecting the consistency of our strategy and the strength of our brand. As regards standalone versus non-standalone architecture, Airtel will switch to standalone when it is required and only when there are additional benefits. This is certainly not the case at present, as you see this has been borne out by both open signal and by what is happening across the world where more leading networks are on NSA. Airtel has added advantage unlike other players in India on mid band spectrum which allows us to work with NSA, deliver a better experience and with lower capex.

We also believe that merely throwing more capex and installing more radios is not a race, as radios are in an abundant supply and keep getting better with every version. Airtel will keep a step ahead of the market and customer needs, but will not put unnecessary capex to make a claim of a largest rollout. Instead, we will focus on where the market is and deliver the best experience to our users.

On tariffs, we have been very clear that we do not believe in a higher 5G tariff. But we will continue to strive for overall hike in tariffs while keeping our service most affordable and delivering high quality service. We also understand the different needs of segments of customers and really do not believe in one-size-fits-all. For the telecom industry to continue to invest and deliver the digital vision of India, the industry needs to be viable and cross subsidization therefore using the power of the balance sheet is not a sustainable proposition at the end. Vibrant competition, affordable tariffs and financial viability of the industry can all go hand-in-hand.

Lastly, I just want to make a mention of satellites. Airtel like Jio is a mere distributor of third party satellite constellations. Airtel uses SES for its DTH business, Hughes for VSAT and will now use the latest and highest technology based OneWeb solutions to serve the Indian market. Airtel also benefits that its promoter group entity, Bharti has the highest stake in Eutelsat OneWeb which owns both Leo and Geo constellations.

Let me now with that switch to our financial performance. Overall, I would say we delivered a satisfactory performance. Consolidated revenues of just above 37000 crores was impacted by a full quarter flow through of currency devaluation in Africa where the Naira was devalued. India continues to grow steadily by 2.3% sequentially, delivering a little over 27000 crores. EBITDA margins came in at 53.7%. This was an expansion of 0.3% from the last quarter. Mobile and homes delivered sustained performance while the Airtel business saw some moderation, which I will explain in a moment.

We remain committed to our stated strategy to focus on quality customers, give them a great experience, yet be digital at the core and to really strip out waste, which has become a way of life for us. The company generated operating free cash flows over 6700 crores for India despite the front loaded capex. Capex for the quarter was 7787 crores and these investments are really focused towards 5G rollout, rural expansion, fiberisation covering homes and B2B under one transport strategy and data centers. Of course capex was a little lower this quarter than last quarter, because of the monsoons and some moderation in our ability to deploy. Despite the elevated capex, our net debt to EBITDA for India continues to trend low by every quarter and now stands at 3.08 versus 3.19 in quarter one.

A quick update on each of our segments. In mobility, 4G net adds were strong at 7.7 million, postpaid momentum was even stronger with another quarter of the highest ever net adds, which was shade lower than 1 million, contributing almost 26% of total net adds for the quarter. ARPU was at Rs.203 versus 200 in quarter one. The ARPU improvement as I mentioned before is an outcome of our clear and simple strategy of premiumization and razor sharp execution. What is really driving this? Well, there was one extra day this quarter, the core drivers of ARPU remain intact, feature phone to smartphone upgrades, prepaid to postpaid, data monetization through simple and contextual triggers based on data science and the growth of international roaming. Our 5G network coverage and customer base continues to grow. Though there is no monetization of 5G given the unlimited data plans that run on 5G. We now have about 55 million unique customers on our 5G plus network across the country. On broadband, we added the highest ever quarterly net adds of 4.7 lakhs, now we are present in 1239 cities up from 1060 last year same quarter. We are rapidly expanding the home passes with more than 1.5 million additions per quarter.

Let me give you some insights on the quality of customers we are adding. Customers added on our converged Airtel Black plan has improved more than 500 basis points compared to the last year same quarter and continues to grow into this quarter as well. There is a significant focus on improving sales force productivity to keep the momentum intact. In addition, we are working through a full plan to raise the go to market game using a combination of de-averaging digital marketing and empowering front end with tools based on data science. This will be in place next quarter.

DTH, while we have lost 169000 customers for the quarter, we exited September with increased momentum. Revenue growth was driven by the price increase initiated during the quarter. Having said that, we continue to gain market share and this is driven by our focus on quality acquisitions and simplified pricing. As I mentioned in the last call, our market specific strategy to address the challenges of DTH has started to show some green shoots in Maharashtra and Gujarat.

In the Airtel business, segment revenue growth moderated to 1% sequentially and let me de-average our revenue performance. There are two broad geographic segments, there is domestic business as well as data centers, which is one segment and the second is the global business, which serves carriers and OTT companies for a range of needs including wholesale traffic data and bandwidth and CPaaS. Both these verticals are more or less equal sized. Our domestic business has doubled its growth run rate over the last four quarters and continues to accelerate momentum driven by both connectivity and adjacencies around connectivity, which includes CPaaS, security and IoT. However, our global business has seen a slowdown. This is because large global OTTs have begun to defer their spends and are also optimizing on bandwidth and messaging given the largest slowdown in western markets. This is, by the way impacting telcos around the world and as you can see, it is impacting the broader IT sector in India. Our strategy in this context is to double down on the domestic business, step up investments in our digital adjacencies, and dramatically improve our go to market efficiency. In specific, we are creating a managed services pool in Pune with a focus on IoT, security, cloud and CPaaS. On the go to market side, we have revamped our entire account management plans for the top 200 accounts and

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are using large pools of opportunity that we do not play as much to step up specific capabilities particularly around managed networks. For the global business, we expect the order book to look up in about two to three quarters.

On the payments bank, our monthly transacting users recorded a growth to 7% to reach 58 million. Deposit growth remain robust at 50% over last year, and the annualized revenue run rate now stands at about 1700 crores versus 1600 crores in quarter one. On the digital business, we are tracking well with an annualized run rate of just under 1500 crores. Our focus remain on CPaaS, financial services, security and cloud. A quick update on Airtel Finance, which I talked about last quarter. We have crossed two milestones this quarter, assets under management have now crossed 1000 crores of personal loans and more than 2 lakh co-branded credit cards which were distributed on our platform till date. We are now disbursing loans at a run rate of 550 crores per quarter growing at about 22% quarter-on-quarter. We now have four partners across banks and NBFCs on our loans marketplace.

As I mentioned before, the future of Airtel is based on five core strengths.

The first is resilient portfolios, our portfolio is now diverse with Africa accounting for 28%, India mobility at 57% and India non-mobile at about 15% and growing. The levers for growth across all three parts of our portfolio are very strong. On Africa, the continent continues to perform well on an underlying basis even if there are currency headwinds. Africa delivered 6% sequential revenue in constant currency terms. Non-mobile has strong potential particularly in homes and enterprise. There are range of digital businesses that are growing, and finally intrinsic premiumization and headroom for tariff increases make mobility very attractive.

Our second strength is our consistent strategy on quality customers. As I mentioned, we look at our opportunity through two key lenses, rural and 150 cities. In rural we are deploying more than 30000 sites under this project to expand coverage in high potential 60000 villages to win our share of 4G net additions. These results are in line with action standards both revenue per site and cost per site ahead of plan. Our rollout is now a very finely honed model based on data science, digital tools at the frontend and exceptional execution by our field teams. The second part is 150 cities, given that more than 80% of our postpaid homes and B2B opportunities here, we have stepped up focus on both one Airtel network planning including transport and go to market. On the transport side, we are now aggregating demand for both homes and offices based on mobile usage data. External sources of data such as GST etc., and we split the country into individual catchments for about 10000 homes and 100 odd offices. All transport planning is done based on this, providing us very interesting insights on how to lay fiber, where to lay and what we can expect. It is also bringing in a new cost model of how we ensure this rollout is viable.

A little texture on each of the three relevant segments within the 150 cities, postpaid, homes and B2B. Our strategy here on postpaid is clearly working with strong momentum on net adds. I want to remind you that these customers give us more ARPU, are locked-in for longer and eventually are an excellent top of the funnel for us to drive broadband and home convergence where we see a massive ARPU upside. The three levers for the postpaid acceleration are really the small format store expansion, our family plans and 5G as a way to drive the aspiration for the brand. On the home segment, we rolled out, as I mentioned, 1.6 million home passes every quarter and we are on track to reach 40 million targeted home passes.

We are squarely focused on driving convergence. Almost 35% of our acquisitions are now on Airtel Black and growing. As regards fixed wireless access for homes, I want to reiterate that fixed wireless access which is Airtel Airfiber will complement FTTH which is fiber to the home and help in bridging the gap in catchments with weak fiber reach. The cost of the equipment has been falling and is likely to fall further with increase in volumes, which will make FWA a good complement of fiber. We have commenced our FWA testing in key cities and we will be rolling out in full by the end of this calendar year. Our preferred choice of device is outdoor and not indoor. The experience from telcos in the US suggests that FWA can cause network congestion over time. So eventually, there has to be a concerted move to fiber, which is why I said FWA will always be a good compliment, but fiber has not yet gone, cannot go. In B2B our focus is on two areas, on the one hand our ongoing go to market retooling to inform our product strategy. As I mentioned, we are doing this retooling across the top 200 accounts to identify in great detail the potential opportunities we are missing in our product suite. One such area where we have begun making investments is a managed services, which throws up an interesting annuity revenue stream, locks customers in for longer and positions us as the partner of choice. We are investing in these capabilities in Pune. On the other hand, we stepped up investment on improving our delivery and assurance. We are digitizing the entire network for lower human dependency, better tracking, process agility and efficiency. All of this will lead to real time visibility of network performance where we will be able to proactively identify issues. There is also significant investment being made on digital tools to improve our delivery processes. Finally, we are making investments in high quality and resilient networks for the growing needs of banks and data centers.

Our third strength is the obsession we have for delivering a brilliant experience because to make fundamental changes at every level of process for structural resolutions to deliver a great experience to our customers. All of this is through platforms focused approach. As I mentioned, we work on four key platforms - Buy, Bill, Pay and Serve. Each of these platforms is powered by the underlying foundational data layer and all exposed on omni channel. Over the quarters, in order to improve customer experience, we have deployed in-house developed AI and ML tools for managing network experience.

Let me give you 3 examples. We do something called intelligent load balancing to manage the different layers of technology that we use, the different spectrum bands. We also mitigate one of the challenges that we face in the environment, which is something called atmospheric ducting, which leads to radio interference. It is all done on the fly. There are also something called sleeping cells which we again rectify on a site which are automatically reset in seconds to improve the experience. During the quarter, we also refreshed our eSIM journey which has a world class customer experience and its benchmark to the best in class. Our workforce management platform Airtel Works is now optimizing and driving productivity for more than 80000 users across our contact centers and on ground fleet to better serve customers. All of this has led to a significant reduction in customer interactions, 20% plus in some of our businesses over the last few quarters.

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The fourth strength that we use is a part of our strength is the underlying digital capabilities to build new digital services. We continue to get better on digital every day. I have already spoken about how we see Airtel at its core as a digital infra layer. The second stack, a part of our stack is our digital experience layer and if we do this well, we have a right to play in digital services. Our digital services portfolio include Airtel IQ, IoT, Ads, Cloud, SDWAN and Airtel Finance.

Let me provide some texture on our Airtel IQ platform, which is now delivering industry specific solutions across communications, security and customer experience. Its the world's first network embedded CPaaS built on top of the robust and reliable telecom network of Airtel. This segment contributes almost 20% of domestic Airtel business and is growing exponentially. I want to talk about three key offerings under the IQ umbrella.

The IQ spam shield, which addresses the needs of the BFSI industry. IQ spam shield has designed to combat spam and fraudulent messages. So the spam shield uses AI at a network layer to block suspicious messages that could reach the consumer device. It is currently being used by one of the leading banks in India and the results have been reasonably impressive. There has been a significant drop in fraudulent messages of almost 2 million spam messages that have been blocked daily and this is now being taken across to all banks.

A second product is IQ Reach. This is focused on addressing the needs of SMB customers to generate an ROI based on their marketing investments as they engage with target customers in a cost effective manner with prepaid plans. It is a self-serve product, a one stop destination to empower businesses, especially these small businesses, to have full control of their campaign execution in just a few clicks.

A third product is IQ voice. IQ voice center caters to the increasing demand for CCaaS and UCaaS unified communication tools. So it provides platform software like scalability to voice network and it is compatible with a variety of contact center solutions like Avaya, Genesis, Slash, RBC and Cisco, as well as unified communication suites like Teams, Google Meet and Zoom. IQ voice center uses unifies voice as a service cloud and the best of contact center and unified communication software from leading providers. Through this product offering, we enable enterprises to take advantage of true voice as a service where both software and network are made available in a per user, per month pricing model.

The fifth and last strength I want to talk about is war on waste. This is now ongoing and not a special project to eliminate wasteful expenditure. We have seen meaningful headway in our network opex for sites. We still have headroom to improve on this. Use of data science and digital tools has provided a lot of scope on opex per site improvement. As a result opex per site for rural expansion has been lower than our plan, our decision to stop investing in 4G capacity expansion after the 5G rollout is showing up with traffic offload trends, almost 66% of our 5G sites now offload 4G traffic, and this is one of our key factors in our prudent capital allocation.

To sum up, we had another quarter of satisfactory performance with strong cash flows despite elevated capex. As I mentioned, we are making future Airtel future proof with the simple strategy to focus on quality customers, deliver a superior experience to our customers, continue to leverage our digital capabilities and strip out waste.

With that, let me hand it 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 analysts 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 participants to kindly click on unmute myself in the pop up screen and start asking the question post introduction. The first question comes from Mr. Manish Adukia. Mr. Adukia, you may please unmute your side, introduce yourself and ask your question now.

Manish Adukia – Goldman Sachs

Yes, hi, good afternoon. Thank you so much for taking my question. This is Manish Adukia from Goldman Sachs. My first question is on the subscriber momentum. Clearly you have had a few quarters of really strong subscriber additions, especially at the high end 4G, 5G and postpaid. Now one question here is that where are these subscribers really coming from because competition is also doing well. The number three player does not seem to be losing as many subscribers as they were and smartphone shipments still seem to be weak. So you can just throw some color on where these subscribers are coming from. Are they largely converts from your existing subscriber base? Related question there is we are not seeing the kind of ARPU improvement maybe that we would expect like you called out Gopal this quarter, you had the benefit of extra day. So if I take that out then ARPU did not increase as much as we thought it might given just the high end subscriber increase which would have led to uptake in ARPU. So you can just maybe provide some color on that. Thank you. That is my first question.

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

So Manish, I think, on customer momentum as far as postpaid is concerned, I think there are two fundamental drivers, actually three fundamental drivers. One is the launch of the family plan, which has been a big driver of our growth because as people consolidate

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the SIMs within the family, we do pick up users from either our prepaid base or we pick up users from competition. The second is the densification of stores, I mentioned that we launched the small format store, which is a small 100 to 150 square foot store at a significantly lower cost. We now have about 300 odd stores and there are another 150 to 200 under construction. So this has been again a strong driver of growth, and the third driver of growth is really around the launch of 5G and how that is used to drive us a sense of aspiration for the brand. When it comes to ARPU, I think we have seen a growth of about Rs.3. So, if you strip out the days, which is roughly Rs.1.70 - Rs.1.80, then you still see a growth about Rs.1.20. This growth is really coming on account of the combination of this portfolio that I talked about, which is prepaid to postpaid, data monetization as well as international roaming. You must remember that the entry level plans, now that we have taken it up, the gap between the entry level plan, the smartphone plans has now started compressing because in the past our entry level plan was at 99, now our entry level plan is close to 179, so from 179 to 239 which is the entry level 4G plan. The gap is only Rs.60, so to that extent every feature phone to smartphone upgrade gives you a slightly lower upside when compared to what it was in prior quarters.

Manish Adukia – Goldman Sachs

Thank you. That makes sense and now you have upto 70% of your subscriber base which is on 4G. Not asking for a guidance, but is there like a theoretical upper limit as to what this ratio can get to, let us say in next two or three years?

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

Well, my sense is that, if you look at markets like for example Gujarat or Delhi or even Kerala, 2G devices now account for less than 7% - 8%, for Mumbai city less than 7% - 8% of the total number of devices on the network. But you still have places like Bihar, UP, Orissa, Rajasthan where you have a reasonable chunk of 2G devices. I think in any consumer category you have a cycle of upgradation or cycle of movement which takes its time. I would imagine that in the next three to five years, all of these 2G users will have switched to smartphones and the sooner they do it, the better it is. Obviously for us to run the 2G network does not cost us very much money because it is just software that is really enabled on a very small chunk of spectrum. But at some stage many of these customers will move and as you recall we were the first to shut off our 3G network. For 3G had to be shut off because all the smartphones that were coming in were 4G ready. But it is just a big barrier for users to move from an Rs.800 or Rs.1000 device to a Rs.7000 device, and that is a right of passage that happens. It will take its time, but it will happen soon enough.

Manish Adukia – Goldman Sachs

Sure. Thank you. The other question was on the capex. You mentioned that this quarter capex was down because of monsoon, seasonality. But just when we think about let us say the near to medium-term, are you still on track to complete most of your rollouts by March 2024 and starting fiscal 2025, we should start seeing a meaningful decline in capex? Maybe I would just end by also asking if you can maybe give us any color on the recent, I think, curative petition that you filed in Supreme Court regarding AGR, is this regarding just the mathematical error, if you can maybe give any color on that will be helpful, that is all.

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

Yeah, I think that second question is in any case in Supreme Court we are yet to a confirmation on when the hearing will be or whether there will be a hearing or how that will be taken forward. The large part of this curative is to do with the errors, the arithmetical errors, the errors of commission and commission that were there. But this matter subjudice, so I will not comment anymore on that. Your second question was on capex. On capex, I think we will pretty much be in the same ballpark that we have indicated earlier on the overall for the year and we do expect to see some moderation of capex in the coming year. We as a company do not give guidance on capex, but the peak year of capex will really be in this fiscal because the source of spend on capex are really a combination of many things. Radio capex is high because of a lot of 5G rollout as well as new 4G sites rollout. That rollout of both 4G and 5G will start moderating as we go into next year. On the other hand, transport capex is high because that is something that just needs to keep getting done every year and that will continue. The data center capex is the third area where we are still in phase of build out data centers, home broadband is another area where we are in the rapid phase of land grab and build out and of course B2B capex continues to be what it is based on the growth of the business. So the real place where capex will cool off will really be around radio and therefore you should see a moderation of capex in the coming year.

Manish Adukia – Goldman Sachs

Thank you for taking my questions. All the 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.

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Hi, good afternoon. Thanks for the opportunity. This is Piyush from HSBC. Two questions. Firstly as you also mentioned 4G subscriber base addition has improved. Would it be fair to assume that consumer sentiment or expectation is reset now to higher level of prices and we can progressively see the pace of 4G migration to continue or accelerate from here and how your rural expansion is helping over there? That is the first question. Secondly, 5G FWA launch, can you share the initial response and as you mentioned the CPE prices are coming down so, how are you looking at the outlook for this product and addressable market? Thanks.

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

So I think the thesis that I mentioned this I think a year ago when the entry-level smartphone prices rose because of semiconductor shortages that there will have to be a reset because you think about it, from a user's perspective. Here is a customer who has made a choice to go and buy a new smartphone, he has got a phone for Rs.800 or Rs.1000. He has been told it costs Rs.5500 to Rs.6000. He lands in the market and finds it is now 7500. He goes back quite shocked, he has not got the money, but that will happen only once. The second time he is back in the market, he has got that extra 1500. So my sense is this slowdown will moderate, I hope that this Diwali, the shipments of devices are actually better than last year, so we will see how that plays out, but it is a matter of time in my view. Rural is a slightly different story because in rural our challenge was that we were historically not covering, about 60000 to 70000 villages and we have done a lot of work to identify which are these villages which really have highest potential and this is the basis on which we have gone out and have said that we will deploy about 30000 sites in the course of this fiscal year. We still see some headroom for expansion of coverage. It is not 30000 sites, it is certainly not, couple of thousand sites will be somewhere in between. But this is a number that we will need to assess based on some more work that will happen over the coming months. On fixed wireless access, what we did was when we initially launched, of course the cost of the CPEs were very high when we did a beta testing. But this was really on an indoor CPE, an indoor customer premises equipment and while it looks very nice and sleek, we are picking up some challenge that users tend to take this device and take it into different parts of the house, maybe take it into their car and travel around to see where they can get, if they are going to some other place, they carry the devices with them and in every place if you do not have 5G then the experience is not good. So I think we have decided now to go with the outdoor CPE that will get launched in the coming months. We have already placed the orders. We are in the process of working through several issues around appropriate digital journeys, training our people and so on and so forth. So all of that will now happen. As regards FWA, the opportunity for FWA, in my view it is just be a compliment. Do not forget that users will need to pay Rs.500 a month on a minimum plan and with GST, that comes to almost Rs.590, given that telecom tends to be about 2% of GDP spend. Users who have a household income of Rs.50000 is what you are talking about because they have one broadband, maybe 2 mobile connections. So that is Rs.50000, that number of homes in India. We believe it is in the ballpark of about 60 million homes. We already have 40 million home passes and we are rolling out 1.5 million homes passes every quarter. So we believe that FWA will be a compliment to fiber for two reasons. One is that the pricing is the same and therefore the experience on fiber will always be better because it is more a guaranteed experience unlike a shared network that you use on mobility and the second of course is that the total addressable market will not certainly be 200 million homes because that many homes will not be able to afford to spend Rs.1000 a month on telecom expenses.

Piyush Choudhary – HSBC

Got it Gopal, thanks a lot, and if I may just ask on 5G operating expense, is some of it being still capitalized and if you can quantify that. Thank you.

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

Well, I would say that broadly we have a policy in place, which is based on when every circle reaches a certain threshold in terms of its rollout and this is a historical policy that has done for the last two decades for any spectrum that we buy. This you will see that some of the capitalization has hit our P&L this quarter. All of it will unroll I would say Soumen by sometime next year, right. But it is progressively happening every quarter.

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

Yes, in the next fiscal.

Piyush Choudhary – HSBC

Thank you very much.

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Vaidehi Sharma – Moderator

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

Mr. Sanjesh Jain – ICICI Securities

Yes. Good afternoon, Gopal and everyone. Thanks for taking my questions. First question probably first is a small request. Gopal, can you also help us providing more detail on enterprise, at least the geographical mix will be helpful for us to analyze because I think there is a divergence now in the growth and it would be really appreciable if we can have the segregation between how the domestic and international is behaving. That is number one. Second is on the understanding more on what is happening with the enterprise segment, particularly. Have we seen any slowdown in domestic market also or it is largely only international that we are seeing and within international whether it is more a bandwidth kind of a demand which has slowed down or you are seeing it across the portfolio?

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

Yes, thanks for the question. We will certainly consider your ask. I think the tradeoff has got to be one is the geographical segments. The other is I think there has also been some conversation on how much product information we provide. We need to balance all of that and then come back to you. But this is why I thought it will be good to actually just give you a texture of half business on the domestic and half business in global this quarter. Domestic businesses actually seen an increase in growth. So it is not a slowdown, right. It is on the contrary, we actually like rationing up our growth, the top 500 accounts, the top 500 companies in India account for almost 90% of the industry growth and we are seeing strong traction on all lines of business our data centers, our CPaaS, our security, even connectivity where we are growing market share. In the global side, we have seen a slowdown, actually it is a deferment of bandwidth and it is largely from the OTT side. The second move that the OTTs are looking is to see whether they use alternate channels to deliver SMSs and messaging. So some of the OTT companies have started doing some testing on this. There are challenges here on things like phishing and fraud and spam for which telcos are liable and so I think COAI has written a letter I think in the last couple of days to DoT on this move and we will wait and see what DoT does on this. This has not yet started but some of testing has begun. But really the primary place where there has been some deferment is on bandwidth.

Mr. Sanjesh Jain – ICICI Securities

Got it. Thanks for that Gopal. My second question is on more capital allocation and this quarter we have seen prepayment of spectrum dues. Going forward, will this be the way of utilizing the excess capital we will be keep paying or keep bringing down the dues or do we also want to consider more dividend payout what is the outlook on that?

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

Well, let me just quickly comment on it. I will then hand it over to Soumen, I think there was a specific branch of spectrum that was the 2015 spectrum, which was at a 10% interest. So some of that we paid. But like I mentioned last time, I think we are getting to the situation where some deleveraging as we look at it on the balance sheet followed by dividend is really our strategy that we would ideally like to do given where the industry structure now is. Soumen you want to add anything?

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

No, the answer is the same. Sanjesh we have the 10% coupon spectrum of 2015, which we paid though the billion dollars. Going forward we will try to pay down this 2015. We still have about 10000 to 12000 crores left, but that and as our OCFs becomes stronger, it will be a mix of the two what Gopal said.

Mr. Sanjesh Jain – ICICI Securities

Got it. Soumen one follow up again probably on the balance sheet side from last year to this year 1H, we have seen the intangible compound by 1/3rd, which is 33400 crores to 21800 crores on the under development side. So 1/3rd of the spectrum I think on 5G has been put to utilize. So on an exit basis, is it fair to assume that 1/3rd of the cost on the 5G is now getting charged to the P&L broadly on an exit basis?

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

No, it will lag by a month.

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Mr. Sanjesh Jain – ICICI Securities

Month is fine, but that is the right way to look right, how we capitalize the spectrum will be a right indicator to look how we are charging.

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

Yes.

Mr. Sanjesh Jain – ICICI Securities

Got it. Gopal one last question probably on 5G, it has been now a while in few cities, can you help us understand the user behavior? I know it is still free, but there has been a hypothesis on the 5G that there will be a significant increase in the usage of 5G per customer and hence will lead to a significant upgrade in the ARPU. Is that trend visible today in the usage pattern behavior that we have seen?

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

Well, let me step back a little bit. I think the challenge on 5G is that the experience that the real use case on 5G is today only speed. So on your small device that you carry in your pockets you may get 400-500 mbps speeds. But the fact is for the application that you use on that device which is typically messaging or video or some e-mail. You really do not need more than 4 to 7 mbps speed. So users are actually are oblivious whether they have 5G or 4G, they are looking for a good data experience. So the broad point I am going to make is you need more applications to be written on 5G networks which really use the benefit of this technology, which unfortunately is not the case, not just in India, but in no market anywhere in the world. So with the exception of some private 5G networks and some B2B use cases which have modest revenue streams associated with it, fundamental use cases are still not there. That said, I think the reason the usage on 5G is today much higher simply because it is free. So it is the data is corrupted by the fact that it is free. So once if it is not free, then the real usage is what we will be able to study. But as of now we are not able to study how much is the incremental usage. For a couple of months it was not free. We did see for the particular user who had moved from 4G to 5G, about a 5% to 8% increase in usage. But at that point it is still very early days. The network had not rolled out, the 5G was not everywhere. So it was very, very early days. So I am afraid I do not have more insight than that because everything is free right now.

Mr. Sanjesh Jain – ICICI Securities

Fair enough. But do you get worried looking at globally, the 5G rollout has significantly decelerated?

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

No I am not worried I am glad because I think everybody is realizing that this is a long haul which is why I started by saying we are not in any race to beat our ground to say that look we have the largest roll out fastest roll out we will go where the device probably go where it make sense for us where we can get an offload from 4G so that we do not have capacity investments going on in 4G and as a consequence our overall capex profile, while it may be elevated right now starts to moderate and looks more or less sensible for a business model like us.

Mr. Sanjesh Jain – ICICI Securities

Fair enough. Thanks. Thanks for answering all my question and I wish best of luck for the coming quarters.

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

Thank you for the opportunity. I am Vivekanand from Ambit Capital. My two questions, the first one is on the Supreme Court disallowing the license spectrum usage royalty from deduction for tax purposes. So just want to understand is there any legal recourse here and on a related note the provisions that Airtel has taken during the current quarter, was that validated by the Income

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Tax department or was it Airtel calculation and of course I want to understand how likely or how confident are you that this is the provisions that were made cover the total legal or total impact of the Supreme Court, October order. So that is question one. The second one is on some recent ongoing consultation of the TRAI on regulating OTT services. Gopal from your vantage point, how plausible is it for the regulator to enable a move where there could be a violation to net neutrality and of course I know that the government is thinking about this from a monetization of the telecom investment standpoint and the returns being too low for the industry, but just want to hear your thoughts on this subject.

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

So yes, the legal case has been decided by the Supreme Court as far as further recourse is concerned, the standard procedure is reviewed and curative, we are evaluating our options along with the very merits of judgment. In terms of whether the provision was validated, you would appreciate that the order came on 16th of October and after that there was very little time for the Income tax department to raise the demand. So yes, this is a calculation which has been done by the company whether they were accurate or not, I would like to believe that we would not put an inaccurate calculation in our financials if it gives you any confidence, it has been vetted by our auditors also and they also concur with our calculations. Of course, such calculations can have a little bit of 1%-2% here or there. But directionally, the auditors are aligned in terms of the calculations.

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

On the second question, firstly I want to debunk this obfuscation that what the consultation that TRAI put out is anything to do with net neutrality, I mean, net neutrality has nothing to do with this. Let me explain. Let us take DTH on the one side and let us take messaging on the other side. For broadcast content, we are only talking about linear broadcast content which is put on any one of three pipes, it is either on the DTH pipe, or it is on the cable pipe, or it is on a delivered through a broadband pipe in the form of an OTT app. But again, we are only talking about linear content, so let us assume there are three homes all living next to each other. The DTH home, the provider of DTH is subject to price regulation, is subject to cross holding restrictions where the player cannot have any investments in the content company, and is subject to a license fee. If you are delivering the very same content to a second home on cable, you are subject to price regulation, you are not subject to cross holding restrictions and as a consequence only one of these things applies to you. If you are delivering the very same content through a broadband pipe in the form of an application into the same screen as a neighbor, you are subject to nothing, no regulation whatsoever. So our limited point is please subject everybody to the same rules. Let us not have regulatory arbitrage determine the course of technology and industry. I think that is the first ask. The messaging ask is the same because as a telco there is a lot of discussion and debate and as you know phishing, fraud, spam, this has become a menace today and we are liable through the license, so a lot of requirements to make sure that this is phishing and fraud and spam, we have given penalties on this from the regulator. But at the same time if this was delivered to an alternative technology which is over the air on any one of the messaging apps, then there is no regulation. So again always saying is have the same regulation either you do not have regulations for us or you have regulations for everybody. This is an archaic situation that India operates in today because new technologies are coming, but regulation has not kept pace. So always saying is regulation should keep pace with the advent of technology since business models are determined not on the basis of technology but on the basis of the business model. So whichever technology you use let the most efficient technology wins but let the rules be the same.

Vivekanand Subbaraman – Ambit Capital

OK, got it. So you are saying that there is no demand or rather there is no case here that the TRAI consultation and the industry demand of improved monetization basically getting the OTT players to pay for bandwidth that is not the primary issue. These are the ones that you outline the broadcast content and messaging, those are the main issues, right.

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

Yes, those are the main issues.

Vivekanand Subbaraman – Ambit Capital

Alright, thank you. All the best.

Vaidehi Sharma – Moderator

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

Transcript of Bharti Airtel Limited Second Quarter Ended September 30, 2023 Earnings Conference Call**Kunal Vora – BNP Paribas**

Yes, thanks. This is Kunal Vora from BNP Paribas. The first question is on spectrum auction. Can you share your thoughts on the next option which might happen in FY2024 itself, and do you see a need to renew like so if you buy 700 megahertz spectrum as well as your thoughts on the renewal of your spectrum which is coming up for renewal

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

Well, I have already made our position quite clear even in the past that we have sub-GHz spectrum between 900 and 850 Mhz of anywhere between 5 and 10 megahertz in every circle and we have already made that investment. 5 or 10 megahertz of spectrum gives you basically coverage. It does not give you great capacity and so if you buy another 700 megahertz of spectrum or you may pay 30000-40000 crores, but it is again giving you only small modest coverage, no capacity, giving coverage. So we already have the sub-GHz spectrum, we have massive mid band holdings anywhere between 20 and 30 megahertz of spectrum in all circles which through NSA we are getting 30% greater coverage, greater reach and propagation of that NSA band and then of course we have the workout spectrum of 3300 and 3.5 gigahertz, the 100 megahertz plus millimeter wave of 800 megahertz. So in a sense, I would not imagine that the company needs any further spectrum for some time to come. The only place where some small chunks of spectrum may be needed is renewal spectrum in some of the circles. There is very few circles, three or four circles where some spectrum may expire. But that is a function of what the traffic patterns are. How much do we need? Do we need it at all? I think those discussions are still underway and as and when the spectrum auction is announced, we will have a strategy here.

Kunal Vora – BNP Paribas

But fair to say that there will be very little spending on spectrum, at least in the next couple of years.

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

Oh yes, absolutely.

Kunal Vora – BNP Paribas

Secondly, is what I observe is, there is a large difference in investment which the three operators have been making, but if I look at the revenue growth differential that seems to be narrowing. What explains this and when do you start seeing the benefits of the kind of investments which are being made?

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

I think like I said, I think the large investments that are going on 5G are more for perception and so on and so forth. It is really, there is very limited monetization on 5G as I mentioned already, I think we are clearly seeing the benefit of our rural expansion that we are doing on our 4G coverage. These 30000 sites that we are now in the process of launching, we have two action standards. One is a revenue per site that is monitored on a cannibalized basis based on a cluster that is defined. There is also an operating cost per site on both those parameters we are well ahead of our action standard and this is the reason that we continue to gain market share.

Kunal Vora – BNP Paribas

Lastly, any thoughts on tariff hike timing, quantum of tariff hike, how should we think about tariffs in near to medium-term and factors that you would consider while looking at raising tariffs?

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

I think that I have already mentioned that this is not all in our hands. Tariffs are very low in India, both the average revenue per user as well as the rate per GB. If you plot both of those on 1 and 2 axis, then we are right at the bottom on both. I think tariffs do need to go up, the industry needs to become viable. But it is not all in our hands. Let us say, I would just say wait and watch. The question is not whether it will happen. It is just when it will happen. We have already seen two rounds of tariffs increase since the launch of Reliance and hopefully it will happen at some stage, not in the distant future, but I cannot give you specific timeline on that.

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Kunal Vora – BNP Paribas

But what is stopping you from taking the lead right now or what factor would you watch out for before raising tariff.

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

We may do that at some stage. At this point we are already trying to see like for example we took up the prices of the entry level plans, we did that unilaterally. We did not see the competition follow, but we did it. We have also been making some adjustments on some other smaller plans. So we are looking at that there is an ongoing exercise that keeps happening. At some stage we may well do it. So you just have to time it and do it when we think and then of course if it does not happen then you roll back and its business as usual.

Kunal Vora – BNP Paribas

Thanks. That is it from my side.

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

Again, thank you very much for joining us this afternoon. It has been great of you and thank you for all the questions. I look forward to seeing you at the next earnings call. Thank you.

Vaidehi Sharma – Moderator

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