



August 09, 2023

National Stock Exchange of India Limited

Exchange Plaza, C-1 Block G
Bandra Kurla Complex, Bandra (E)
Mumbai – 400051, India
Symbol: BHARTIARTL/ AIRTELPP

BSE Limited

Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai – 400001, India
Scrip Code: 532454/ 890157

Sub: Transcript of the Earnings Call dated August 04, 2023

Dear Sir/ Ma'am,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015, we are enclosing herewith the transcript of the Earnings Call held on August 04, 2023 in respect of the audited financial results of the Company for the first quarter (Q1) ended June 30, 2023.

The transcript of the call is also uploaded on the Company's website i.e. <https://www.airtel.in/about-bharti/equity/results>.

Kindly take the same on record.

Thanking you,
Sincerely yours,

For Bharti Airtel Limited

Rohit Krishan Puri
Dy. Company Secretary & Compliance Officer

Bharti Airtel Limited
(a Bharti Enterprise)

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Conference Call Transcript

Event: Transcript of Bharti Airtel Limited First Quarter Ended June 30, 2023 Earnings Webinar

Event Date/Time: August 4, 2023/1430hrs.

Transcript of Bharti Airtel Limited First Quarter Ended June 30, 2023 Earnings Conference Call

CORPORATE PARTICIPANTS**Mr. Gopal Vittal**

Managing Director & Chief Executive Officer, Bharti Airtel Limited

Mr. Soumen Ray

Chief Financial Officer, India & South Asia, Bharti Airtel Limited

Mr. Harjeet Kohli

Joint Managing Director, Bharti Enterprises

Mr. Sunil Taldar

Director, Market Operations, Bharti Airtel Limited

Mr. Naval Seth

Head, Investor Relations, Bharti Airtel Limited

PRESENTATION**Deepti - Moderator**

Good afternoon, ladies and gentlemen. I am Deepti, the moderator for this webinar. Welcome to the Bharti Airtel Limited's first quarter ended June 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 their zoom application to join the Q&A queue. 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 their 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 very much, and a very warm welcome for our earnings call for the quarter ended June 2023. With me on the call, are Soumen, Harjeet Kohli, Naval and Sunil Taldar.

Let me start by giving a quick update on our business and I want to start with ESG. During the quarter we were recognized by the Economic Times as well as Business World for our sustainability practices and leading the charter in India. Let me give you a few examples on the progress we have made especially on our green agenda. Nxtra now utilizes renewable energy for 41% of data center energy needs; that is a big jump from 32% a year ago, 43% of our Network sites are now green sites. These sites consume less than 100 liters of diesel in a quarter versus 420 liters on average for other sites. The rural site expansion we have undertaken is leveraging green energy for 35% to 40% of the requirement. Such initiatives have helped us reduce our diesel emissions in the network by almost 48% per terabyte of data, and this is over the last two years. In addition, we continue to double down on our agenda to drive diversity in the workforce as well as make Airtel a safe and secure workplace.

Let me turn to our financial performance. We delivered a strong competitive performance this quarter. Consolidated revenues grew by 4% sequentially to a shade under Rs 37500 Crores to Rs 37440 Crores precisely, powered by a strong India performance. India revenues grew by 4.5% sequentially to Rs 26675 Crores, EBITDA margins are at 52.7%. This is an expansion of 0.5% from the last quarter, aided by the continued momentum on the war on waste program. Let me talk a little bit on this program. This quarter we really focused on our network costs. Our network cost takeout program has been delivering a very strong outcome, network opex for India declined by 0.5%, despite our rollouts. So in effect for the first time in the history of the company, the operating cost per site, per month was actually lower than what it was in prior quarters, and this was done through a combination of identifying very high cost sites I had referred to this a quarter ago, that we have identified over 50,000 sites that are more than a lakh per month in terms of network opex per site. Our teams have visited every one of these sites, we put in place solutions that include either solar solutions or better batteries, sometimes reconfiguring the site, rental negotiations, or indeed even relocating the site, and this is really what has helped us take this cost to set a new baseline on the network opex per site.

The company generated operating free cash flows of Rs 4827 Crores for India, despite the elevated capex. Our capex as I have highlighted earlier as well, continues to be front loaded at about Rs 9300 Crores for the quarter. So while the full year capex is more or less in line with the Rs 28,000 to Rs 31,000 Crore guidance that we have given for the year, you must also remember what this capex is for. It is really for future proofing Airtel, 5G radio rollout, transport infrastructure, broadband rollout, and data centers. Each of these is a massive opportunity for future growth. At the same time despite the elevated capex, our net debt to EBITDA for India is

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down from 3.43 in quarter four of last year to 3.19 in quarter one of this year. In fact, I do want to mention that in addition we prepaid Rs 8,024 Crores of relatively high-cost DOT liability from the 2015 auction. Our growth was broad-based across our segments, mobility homes, and Airtel business. This underscores the simplicity and execution of our strategy, focus on quality customers, delivered a great experience, digital at the core, and strip out waste, more about this a little later.

Let me switch to a quick update on each of our segments. In the mobile business we added 5.6 million 4G net ads. Postpaid, this quarter saw a significant acceleration and contributed almost 26% of the overall net ads for the quarter coming in at 833k net ads. The ARPU got to Rs 200 versus Rs 193 in quarter four. This as you know is the first goal post we set for ourselves a few years ago. We are now looking at getting to the next goal post, which is a longer-term goal post of the target of Rs 300 ARPU. The movement in ARPU we have seen reflects the power of our premiumization approach that I have talked about earlier. What is driving this premiumization, feature phone to smartphones gives us an upgrade or feature phone to smartphone gives us an ARPU upside. The 5.6 million 4G net ads is a clear ARPU upside there. Prepaid to postpaid is one area where ARPU pretty much doubles. The third area is data consumption and monetization. This is really driven through a very, very strong mix of contextual targeting, sophisticated data science, and simple digital Journeys. Data consumption by itself gives us again a significant upside, and then there is international roaming where we simplified our journeys dramatically, simplified our pricing dramatically, and we have doubled the penetration of international roaming on the prepaid side. So the combination of all of this, every single lever adds up to this ARPU journey that we have been on, and of course the last part is the movement that we made or the Rs 99 to Rs 155 price point, which has also given us a small upside.

Let me talk about broadband. We have continued momentum there with about 413000 net ads. We are now present in 1225 cities up from 983 last year. There is an intense focus on driving sales force productivity, which has improved significantly by almost 20% through a mix of digitization and execution regard. In the DTH segment, we lost 28000 customers largely due to seasonality led by the pullback of cricket in the Hindi belt. If we de-average the performance our core southern markets continue to do well for us with positive net additions. We have put together a market specific strategy to address this issue as well as stepped up focus on the convergence portfolio, which gives us an ARPU upside with increased customer stickiness, I am specifically referring to Airtel black. Today 25% of our DTH acquisitions are happening through the converged plans. At the same time in the DTH segment we did grow ARPU sequentially aided by our price simplification, and flow through from the market price increase in quarter four. Airtel business has seen a strong performance, we grew sequentially by 5.6% and growth was broad-based across segments, and products. So both the core as well as adjacencies. We are starting to see momentum in adjacencies, we won multiple deals during the quarter in SD-WAN, we won two large multi-year deals from banking customers in the Cloud, we won a multi-year deal from state government for supply, installation, and commissioning, Airtel data service, and migration of existing applications with data. CPaaS continues to look strong and data centers continue to fill out fast even as we ramp up the build out of fresh data centers.

On the Payments Bank, for the first time the bank reached a quarterly revenue rate of Rs 400 Crores, deposit growth remains robust at 48% over last year, annualized revenue run rate now stands at over Rs 1600 Crores versus just about Rs 1500 Crores in quarter four. On the digital businesses, we are now tracking well with an annualized revenue run rate of about Rs 1200 Crores versus Rs 1000 Crores in FY2023. Market tailwinds continue across focus play areas, these are CPaaS, financial services, and I will talk a little bit about this in a moment, our security particularly cyber security, which is a growing threat as you know, and Cloud.

Now let me turn a little bit and underscore what I have said in the past on the future of Airtel. If I look at Airtel today as a company we are already generating an annualized run rate of almost Rs 19000 Crores of operating free cash flow, despite a front loaded and elevated capex. Going forward, we expect this to only improve given ARPU growth, organic customer ads, premiumization, portfolio resilience, our focus on cost, and capex moderation, after the elevated front loading we have today, and this underlying future is really based on five fundamental strengths, and I do want to again underscore these strengths. The first is our portfolio resilience Africa to be accounts a 30% of our business, India mobile is about 54%, and the underlying performance of both continue to be strong and has significant upside. The homes and enterprise business constitute the balance, whose contribution has been increasing steadily over the years with the tailwinds that we have in these markets. Both these businesses have tremendous market momentum. Our investments will be channeled where the growth is making the portfolio even stronger and even more resilient. The second strength that I want to talk about is our brutal focus on quality customers, and like I mentioned last quarter, we see this through the lens of two big geography opportunities, clear segments, one is rural and the other is the top 150 cities.

Let me start with rural. As you know we identified 60,000 high potential Villages for expanding our network to win a fair share of 4G net additions. This expansion continues to be in line, and is delivering as per expectation, in fact it is delivering modestly ahead of expectations both on the revenue per site as well as lower on the operating cost per site, and the reason is that it is really driven by digital tools and data science to plan the network in a precise optimal manner. This coupled with our execution rigor is giving us results.

Let me now turn to the top 150 cities, which is the second lens through which we look at the quality customer opportunity. In the top 150 cities more than 80% of the post-paid, broadband homes, and in fact 100% of the B2B opportunity is concentrated. Our focus is to win these cities by bringing the full power of the Airtel network, our channels and all powered using digital tools. For the top 150 cities let me provide more color around each of our segments.

Let me start with postpaid. We double our ARPU every time a customer moves from prepaid to postpaid, and we have multiple levers that we look at, one is a proposition lever, which is the family plan almost 65% to 70% of our users now are on family plans with very low churn, 5G is a very strong pivot to actually entice the customer and come and make them come on to our network, and the third part is rollout of more of our own stores into neighborhood catchments, which is where the opportunity is. All of these three levers are continuing to kick in strongly. The second area in the 150 city opportunities is homes, the rollouts here continue, and today there are 25.6 million home passes, a one Airtel transport planning is the focus for rolling out fiber here. We are leveraging data science to estimate demand across all our businesses, our homes business, our mobility business, and our B2B businesses,

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and rolling out in a much more coherent way. This will ensure that there is very, very minimal customer leakage of a situation where there is no network available or no fiber available. In addition to that it ensures very efficient economics. Second part is the convergence continues to be the proposition around which more than a third of a high value homes today are on Airtel Black or Family Plans and as I mentioned the family plans continues to grow. With the increased fiber capacity our focus is now on sales force productivity. The third area of the 150 cities is in B2B, we are doing two things here, first we are setting the go-to-market right for our top accounts, as I mentioned before the top 500 accounts contribute to a majority of industry's growth, and we really start strengthening the go-to-market by allocating our top account managers to these accounts upskilling them strongly engaging with customers leaders to understand their needs better and solving for it. The second part is that in a competitive market experience is a key differentiator, and therefore we are investing behind building and upgrading to things like flapless networks which are very, very high quality, low latency networks that are enterprise-grade in key pockets. We are also simplifying and digitizing our processes as well as shoring up capability of our teams on the ground. The third strength that I want to talk about pan-Airtel and Airtel wide, our obsession with delivering a brilliant experience. As you know quality customers want a quality experience, and so one of the things we have done is we have changed the metric of measurement to interactions because any interaction whether it is happening on social media, on the web, on the app, in the call center, on email or in our store, is a signal for us for a potential fault and this has infused fresh energy with the new leadership that we have announced in the experience side. The focus here is on structural solutions on the network at an architecture level, end-to-end simplification and digitization of processes for more proactive solutions as well as more transparent communication in the channels that matter at the time that matters and in the language that matters to our customers. To enable this, we continue to build and deliver on four key platforms buy, build, pay, and serve. Each of these platforms is exposed in an omni-channel manner across our channels, and is powered by an underlying foundational data layer. Initial results are encouraging with mobility interactions having reduced by 14% over the last two quarters and by the way this also lowers the cost to serve. Broadband and DTH numbers are also tracking well, and the learning from mobility is going to accelerate the rate of decline in these businesses. The fourth strength I want to talk about is digital, which is now deeply embedded across data. As I mentioned we have seen Airtel in three parts, the underlying foundational layer is what we call the digital infrastructure layer, which is really the network that we have, but even more importantly the data infrastructure that we have where we have invested in the last five years. The second part of our stack is digital experience which is a buy, build, pay serve journeys, and the third part of our stack is our digital services. All our digital services right on the two lower parts of our stack, the digital infrastructure and experience, and I have talked about this in my earlier comments on this call. These digital services now that are built on top of these two layers, Airtel ads, CPaaS, Airtel IQ, IoT, Cloud and now SD-WAN as well. But in addition to this we have just recently launched in the last few months, lending in the form of Airtel Finance. Let me try and give you some color to this business, which I am quite excited about. Airtel Finance is just about begun testing what is in the marketplace in the last few months. The interesting thing is that this whole opportunity is only predicated on our underlying data infrastructure. So we are not carrying any balance sheet risk, it is just predicated on the underlying data infrastructure, and we have developed three capabilities, one is a proprietary lending model typically we are reaching out to the right user with the right offer is a challenge that most NBFCs and Banks alike are faced with. What we have done is created an AI and ML model that deciphers over 2000 patterns to help our partners improve their underwriting and fraud detection capability. Additionally, this also helps identify our customer's propensity of taking a credit product, we have built a recommendation engine that uses state-of-the-art models to recommend the best offer to the user in real time. Over the last few months our models have been tested by various Banks and NBFCs and have shown good results. As a consequence our partner banks and NBFCs have started leveraging our models to reduce their portfolio risk. The second part of this capability is a digital lending platform. Extensive and elaborate processes along with heavy documentation makes the lending process extremely cumbersome for users, along with these challenges such as lack of privacy, lack of trust, a fragmented experience, all of this act as a deterrent for customers to access credit products, to solve for this what we are doing is digitally owning the entire customer life cycle starting from discovery to post purchase loan management, and repeat purchase. This platform can quickly onboard multiple partners and product lines. The digital onboarding for consumers and post purchase journeys are built on the platform, which utilizes our data capabilities in real time to always bring the best experience to customers, and the post purchase journey on thanks app means that once the customer has taken a financial product he or she can manage their credit product on Thanks App instead of downloading the bank or NBFC application. This post-purchase journey also helps in driving cross-sell and upsell to existing customers. The third part of this is our collections platform. We are also handling collections, here we utilize features like a pre-call allowance announcement, so just before the call is getting connected there is a reminder for those not paying EMI on time along with leveraging data for early warning signals to decide on collection strategies. Collections done by us for our loans originating through our platform provides a consistent experience to our customers and our performance on first bucket tele-calling collections is more than 96%. Using this in literally the last few months Airtel finance is disbursing loans at a run rate of Rs 450 Crores per quarter this is literally in the last three months and we believe this has enormous potential for growth since we have exposed our offer to a mere 5% of our total user base. We are also distributing credit cards in the platform and are already at a run rate of 260k cards per year, but we have not scaled this yet given some teething problems around experience particularly on fulfillment, and we hope that these will be fixed soon. The notable thing about this is that all this generates a net profit of almost Rs 75 Crores annualized since it involves just 35 engineers working on the data model. So there is just one example of how the data infrastructure comes alive in the form of digital services. On B2B our ongoing investments in Cloud, CPaaS, undersea cable root expansion through partnerships is testament of our confidence in the growth opportunity. The additional stake purchase of 20.6% in level networks will strengthen our presence in SD-WAN market with accelerated growth in the medium-term. The fourth area I want to talk about is war and waste. This is now deeply embedded into the company and we take pride in a frugal culture, but thoughtfully done to attack key areas of waste. I have already talked about the network takeout where we have been able to reduce our Opex per site by 7% in the last few months. A second area is our capex prudence the way we roll out a new site or indeed a 5G site is based on a very granular understanding and data science using multiple data sets as an example we are already seeing 30% offload of data onto 5G networks as devices come in. We hope the device fixed towards 5G changes rapidly to increase this offload. As a consequence, our capacity investments into 4G are now down to zero. The last and perhaps most important strength that we depend on is our culture, and if I were to sum up the culture of Airtel in just one word it is ownership, our people behave like owners, it is their company, and their money. This is a priceless aspect of the ideal culture which makes us unique, and very, very difficult to replicate.

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In sum, I would say that companies set up a good momentum, we have delivered yet another quarter of sustained solid growth and competitive performance. The company has already started getting strong cash flows, and we see this improving going forward. We believe we are setting ourselves up for success, a future-proofed Airtel with a resilient portfolio, and a clear strategy of being focused on quality customers delivering a great experience, putting digital at the core, stripping out waste, and all of it backed by a culture of ownership.

With that let me hand over back to the moderator for questions.

Deepti - Moderator

Thank you Mr. Vittal. We will now begin the Q&A interactive session for all participants. Please note that the Q&A session will be restricted to analysts and investor community. Due to time constraint we would request that we could limit the number of questions to two per participant to enable more participation. Interested participants may click on raise hand option on their Zoom application to join the Q&A queue. Upon announcement of name participant to kindly click on unmute myself in the pop-up screen and start asking the question post introduction. The first question come from Mr. Kunal Vora. Mr. Vora you may please unmute your site introduce yourself and ask your question now.

Kunal Vora – BNP Paribas

Thanks for the opportunity. This is Kunal Vora from BNP Paribas. First question is on how do you see the impact of Jio Bharat phone on the feature phone market. Would you look at or you could use a similar device and like if you can share your experience with the devices in the past, like you had one with Karbon few years back.

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

I would say that it is early days, I think that even when it was launched last time we did see an impact, at that point in time the feature phone market was much larger than what it is today. Today the feature phone segment accounts for about 18% of our overall revenues, and more importantly it is only once in four years that a customer chooses to replace the feature phone. The pricing of this device is slightly higher than the cheapest feature phones, it is competitive. So it is early days I would say that our agenda is straightforward we continue to focus on our upgradation from feature phones to smartphones that is where we are doubling down actually doing a lot of bundling doing some modest cash backs in the form of loans to customers with a locked device because we believe that ultimately these feature phone users must upgrade to smartphones. So that is really where our focus is. So we would not be launching any such device, I think our feature phone user is on our 2G network, and our focus really will be on upgrading them to a smartphone.

Kunal Vora - BNP Paribas

So why would you not do it, I mean, what do you see a reason to not go for a device like this.

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

Because largely these devices are only used for calling and we do not need to get into this device segment that is already there in the form of a feature phone. If we did not have a 2G network then that user would be excluded then we would look at it, but we all have a 2G network, and we have feature phones in the open market, which even today are getting shipped.

Kunal Vora - BNP Paribas

Second and last question. If you can share your thoughts on 5G monetization, and if you can provide any data on how many users, what kind of usage, what proportion of volumes are on the 5G network now.

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

Like I mentioned Kunal we are seeing about 30% of offload, so in a site where there is both 4G and 5G depending on the devices, and depending on what the traffic is, we see up to a 30% offload of this traffic from 4G networks to 5G networks. It is still early days because the overall installed base is still low it is 14%-15% it is not grown at the rate that we were expecting it to grow. Even today 5G shipments are only about 48% of the total shipments. So it is still moving slowly and it will take time for the full upgradation to happen. The way I think about monetization as I mentioned is at an aggregate ARPU level. So for us the monetization levers is feature phone to smartphone, prepaid to postpaid, data monetization, and finally of course if there is a tariff increase, and that gives you a monetization as well. The capex that we are putting in is largely on 5G we are not putting any 4G capacity capex other than the rollout of rural sites, which is really a coverage related capex. So the way we look at monetization is that the capex that is going

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of course at this point it is elevated Capex because of the front loading that we have done in the first quarter and perhaps in the second quarter, but if you look at it from a more medium-term perspective given the capex will sort of even itself out, the percentage of capex that is going in as a part of revenue needs to be at the level, which can be sustainable and which leads to that monetization at an aggregate ARPU level.

Kunal Vora – BNP Paribas

Thanks Gopal, I will come back in the queue.

Deepti - Moderator

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

Piyush Choudhary - HSBC

Hi good afternoon, this is Piyush from HSBC and thanks for the opportunity. Two questions, in the postpaid segment, could you help us understand what factors are driving subscriber addition, is it new port-in only or your own prepaid subscribers are also migrating to postpaid, and then the outlook for postpaid additions going forward. Second question is on your rural expansion program, can you give us a progress and how has been the response as you roll out new sites there. Thank you.

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

As I already mentioned in my opening comments, I think postpaid we believe is a big opportunity. Today about 6% of our users are on postpaid. If I look at markets like Thailand that number is well past the teens, if I look at markets like Brazil it is almost 40% to 50%. So the upside opportunity in postpaid is clearly high, and I think India over a period of time will start moving more and more towards postpaid that has to happen. The levers of growth for us are number one of course is prepaid and postpaid that is one lever of growth where we see an increase in ARPU, the second lever of growth is switching a user from a competition to us and I think 5G tends to play a role where the early adopters of smartphones were looking for a 5G Network want to prefer us, so that there is an opportunity here because one of the player has not launched 5G, so that is clearly an opportunity, and the third opportunity is really around what we saw with Verizon almost over a decade ago, which is the great success that they had in those years of the family plan and I think over the last six to seven years, we have been quietly working on the family plan, which really helps because once the main member of the family is there the child or the teenager in home comes on to the same plan and invariably that customer may not be an Airtel customer it could be from anywhere, and the last part is the go-to-market where really we are as I said spreading our stores closer to the point of consumption, closer to the catchment, and that helps us actually get more access and as a consequence increase postpaid penetration. In the rural areas I think we are kind of 60% through our rollout now. This has gone very well actually, the revenue per site the action standards we have set for ourselves we have been able to marginally beat it and the cost per site also is lower than what we thought it would be again this is through the ingenuity that we have there are teams have displayed on the ground combination of solar solutions, better batteries, no diesel, diesel completely eliminated to zero in many places, and across the country we see the traction being strong and as a consequence I think we will conclude the rollout perhaps by around November or December.

Piyush Choudhary - HSBC

Got it. If I may ask on the postpaid, is it possible to split let us say not in this quarter only but last three quarters or four quarters what is the port-in contribution.

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

We do not provide that information I think so we do not look at it like that because sometimes whether it is supported or whether it is new customer or whether it is a new addition it really does not matter as long as it becomes the primary SIM where a lot of consumption is happening, and they are pleased with the experience.

Piyush Choudhary - HSBC

Thanks a lot.

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

Sanjesh Jain - ICICI Securities

Thanks Gopal for taking my question. First on the 5G side, one of your peer has said that they are through with the 65% of the rollout and it appears that in the first stage they will be doing 175000 towers. Where are we in comparison as far as the 5G rollout goes. That is number one and associated question is on each side when we deploy the 5G what is the kind of data capacity upgrade we do.

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

I think that is the second question. I do not have the precise numbers I think Soumen may have the number on the radar capacity upgrade, it is a very substantial increase that happens almost about 5x to 7x but I think Soumen will probably be able to give you a better answer on that. On the first part of your question Sanjesh we are not in any race here. I think I have mentioned before that the non-standalone technology allows us to get a 30% improvement in coverage. So today we are pretty much all across Urban India we are also going into rural, but at the same time we are also very carefully watching with some concern that the impact of 5G is not necessarily moving the experience needle at all because it is not that people even realize that they are getting speeds of 200 - 300 Mbps given the fact that the applications that they use on this little device that we carry in our pockets is really messaging or some video or some browsing, and as a consequence 4 to 6 Mbps is more than adequate and it is at a point of indifference beyond that. So if you get more than 4 Mbps you are at a point of indifference unless you are downloading a heavy file or downloading a heavy game or something like that so I think we are in the game fully and the way we look at the deployment is really to make sure that we are giving a seamless experience regardless of the technology a great data experience right across the city, a great voice experience right across the city, and continue to offload 4G capacity investments into 5G. So that we do not spend a single dollar on 4G anymore and all our investments are geared towards 5G. That is really how we approach this state.

Sanjesh Jain - ICICI Securities

Yes, Soumen any comment on the capacity.

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

Yes. It would be in the range of about 4 to 5 times for similar bandwidth in 4G.

Sanjesh Jain - ICICI Securities

You mean if we deploy all the spectrum that we have bought or the same blocks that we have put it in the 4G.

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

So for the same block or spectrum whatever is the capacity of 4G, 5G would have a capacity which is roughly between 4 to 5 times. Let me try and explain this in a different way Sanjesh. On average we have about 50 to 60 megahertz of spectrum across the country deployed on 4G, and the petabytes that we have on our network. You also know that we are still not a congested network, we still have headroom from further capacity even on a 4G network. So let us assume that the capacity utilization is 60%-65% which means that based on the petabytes that we are pumping out you can see what is the upside on that same tranche of 50 to 60 megahertz. Here you have got a 100 megahertz spectrum. So number one is a double of the spectrum, so you can straight away double that, number two is it is more spectrally efficient. So you get another 50% to 60% increase in that. So therefore I think that there is a long runway for 5G to start filling up. It is an empty network and it will remain so for some time to come.

Sanjesh Jain - ICICI Securities

Is it then fair to assume that once we have enough capacity in the urban area, our capex intensity will significantly reduce, and we may reach the global level of 18% - 19% is that a fair assumption in the medium-term not immediately.

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I do not want to give you a guidance on the capex intensity over the medium-term and we would love to get to those levels that you mentioned, but the fact is that capacity investments once you put out a 5G, radio will be very, very limited, the only requirement will be over time as more and more applications come out. So remember this is a game of application, it is not a game of 5G radios because if you have the same video application the same browsing or chat applications you do not need 5G, 4G suffices, but those applications need to come in and as applications come in you will have more densification of the networks. I think will get capacity investments in the medium term. In the long-term you may have capacity investments coming from millimeter wave for example so that is still many years ago because our ecosystem has not even begun today.

Sanjesh Jain - ICICI Securities

Thanks Gopal. Just continuing on that millimeter side, Reliance Jio has said that they are looking at 4G slicing as a tool which is allowed in the SA, and they want to deploy FWA and they want to accelerate their growth in the fixed broadband and considering that we are on a non-standalone, will that limit our capability to that per year.

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

No, firstly let me disabuse you of that notion. I think there are two parts to the question, one is FWA itself and the other is slicing. I think non-standalone also allows you to do slicing, the 3GPP standards are clear about this. There have been experiments that we have already carried out, it does allow you to do slicing. So if those applications you need 15 different slices at some point in time, yes, you need standalone, but that is nowhere near the horizon at best you will have one slice on FWA or two slices, these kind of slices are totally possible in a NSA network. Second remember the spectrum is unutilized it is a network that is empty so even if you slice it what is the value because it is an empty network so whether you give it, you give a small slice, or you give a whole slice it does not really matter. So I would say that, that is still perhaps in the distant future as the networks fill out that you need to slice and so on and so forth, but technically you can slice even on an NSA network. Second part to your question is FWA. As I mentioned before the economics of FWA are still not attractive because the cost of the CPE, see you need two things you need the router in the home which you need for whether it is fixed or its FWA, then you need a CPE in the case of FWA in the case of fixed unit fiber going there. If you see the cost for connected home pass in our network today it is about \$90 the cost of a fixed wireless access CPE is about \$160 it is almost double of that, which means that it is economically unattractive to go FWA at this point in time. Now can the price of FWA come down, yes, possible, but the real game there is the cost of the chipset which is the one that is really, really, very high right now. The third point I want to make is that we are ready with FWA we are doing our trials we have ordered FWA boxes and we are in fact already launched we have just announced actually yesterday or was it today that we are piloting this in two cities to start with to assess the opportunity.

Sanjesh Jain - ICICI Securities

That was clear. One last question, I know it is the third one, I apologize for that. On the network opex one of the reason why our network opex on an overall basis is low that we are still not charging for the 5G cost whether it is a power cost or a rental cost is that the fair assumption and once those costs start showing up in a P&L what kind of...

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

No, not the 5G cost.

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

Yes, so Sanjesh we have started as the rollout is happening progressively more and more circles will come and get charged out, the process has already started from this quarter, and because it is an NSA it is put on the same infrastructure the incremental costs are very low started already from this quarter.

Sanjesh Jain - ICICI Securities

Soumen just to clarify what you are telling is that some of the 5G related Opex cost has already been booked in the P&L in this quarter.

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

Yes. We will go by circle, circle as we roll out but it has already started coming in this quarter.

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As well as amortization and interest cost.

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

Well, yes, as I said progressively they will come, but some of it has started coming in this quarter.

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

Just to clarify we have a policy of as we have reached a certain threshold or rollout we will, start bringdown the P&L, a few circles have already reached that level and more and more will keep reaching that level.

Mr. Sanjesh Jain - ICICI Securities

Thanks Gopal and Soumen for answering all my questions and best of luck for the coming quarters.

Deepti – 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 so much for the opportunity. I have two questions. So the first one is on the mobile operations, so despite churn declining steadily on a quarter-on-quarter basis for the last several periods we are seeing at the SG&A cost remains high and it seems so as spiked up in the current quarter. So one an explanation for that. Second key question is on the balance sheet priorities and potential uses for the uncalled rights meaning given that now you are generating ample amount of free cash flow and in this answer if you could also discuss about the targets in terms of balance sheet leverage that you would like to maintain that will be helpful. Thank you.

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

SG&A we have presently around B2B business there is a seasonality involved in Q1 if you look at trends you will see that season Q1 typically spikes you would see a normalization of this in Q2, Q3, Q4 nothing new in this year, it will keep on happening but one of the major reasons is certain things which happened in the B2B business. On the rights bit I think we are currently adequately sufficient in terms of cash requirement as a matter of fact as Gopal mentioned in his opening call we have already generated about Rs 4500 Crores of operating free cash flow. Harjeet if you would like to add on the leverages bit.

Harjeet Kohli - Joint Managing Director, Bharti Enterprises

Thank you Soumen. I think leverage wise we are at about 2.6 - 2.7 as Gopal and Soumen mentioned on the consolidated basis. We have actually now this time given also the segmental leverage if you see performance at a glance, where you will see consol and also India I would say. In the shorter term I think clearly the leverage in India is above 3 overall leverage is 2.6, India is generating free cash flows Gopal mentioned about the last few quarters, but at the same time if you see last year we did spend about Rs 43000 Crores in buying spectrum for 5G and some fortification. So I think cash flow should go to reduce leverage. Historically we have stayed conservative on leverage, it demanded us to go where we were about few quarters and now materially coming down, I think our target is not very hard-coded, but still are closer to two on an overall consolidated basis not closer to three. So in the short to medium-term the use of cash is essentially to de-lever also create granularity of sources of financing and reduce the cost of financing. So not a very hard-coded target the direction is clear, use cash to de-lever materially, some bit of returns are there in the market through dividend, in the shorter term there is no necessity to call for rights residual money, but that is a very fabulous available line of equity that is available to us.

Vivekanand Subbaraman – Ambit Capital

Just one follow-up from the first answer. So Soumen the SG&A cost for the mobility business are you saying that it could have moderated in the current quarter despite the India SG&A cost rising sequentially is that what you are saying.

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Yes, it would have been almost at same levels sequentially.

Vivekanand Subbaraman – Ambit Capital

Okay great. Thank you so much and all the best.

Deepti – Moderator

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

Aditya Suresh - Macquarie

Good afternoon. This is Aditya Suresh from Macquarie. Gopal for a strong execution and follow through on your clearly articulated strategy. My first question actually is a fairly basic one. Now as you follow through on your premiumization path. I am keen to understand how you think about your ARPU trajectory going forward. Do you see it more like a steady compounding profile I appreciate you may not be able to get specific numbers, but any qualitative comments on the profile would be great.

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

Yes, I think it is a good question, a big increase in ARPU can only happen with a reset of the tariff table, and as you know we are at the lowest levels of the world both in terms of rate per GB on data as well as average revenue per user on both. If you go to plot rate per GB of data on the X-axis and average revenue per use on the Y-axis, India will be at the bottom left-hand corner relative to all the other markets in the world including markets in South Asia or sub-Saharan Africa or anywhere in the world. So the big increases will really come from a tariff reset, but within the confines of the challenges that we operate with in a competitive market we have seven levers like I mentioned I think prepaid or feature phone to smartphone you get a ARPU upside, the entry level feature phone price plan is at Rs 155, the entry level smartphone pricing where you offer meaningful amounts of data is Rs 239. So you do see a almost a 50% jump as people move from a feature phone to a smartphone, and that is a function of how many users moved in a certain quarter so you could do the math and arrive at what ARPU you can get. The second source of growth is prepaid to postpaid and there again you see almost a 50% to 60% jump in ARPU actually more than that probably 75% jump in ARPU and if we can drive the postpaid net additions up from the 833k number that we have done this quarter to even higher than that, then again you see a shift in ARPU. The third source of ARPU is data monetization and I did mention this in the past where the moment the data allowance runs out on an impulse basis we offer a GB of data, 2 GB of data, 5 GBs of data, if you are at multiple price points. So just imagine at 10 o'clock in the night or 6 in the evening you run out of data you get a message right there at 5:58 knowing that you want to run out of data to buy a pack on impulse this has become a very meaningful source of ARPU increase for us. So that is the third lever. The fourth lever is international roaming, as we drive the penetration of prepaid particularly because postpaid international roaming penetration aside prepaid was very low penetration in the last three months we have doubled it there is a tremendous emphasis and focus on this to simplify journey, simplify pricing, we have one plan basically one price plan across the world it is called a one-word plan and it is blended across different countries because we have bilateral deals with these operators around the world, but we blend it to arrive at a simplified pricing with use a lot of digital channels, digital mediums, including our app, WhatsApp and all of that to offer messages on a very customized basis at the point when the customer lands in the airport to actually buy that particular plan and so on and so forth. So all of these levers really are being driven hard and on postpaid like I said once you get a family on then you get sometimes users coming from competition as well again there is an ARPU upside so all of these levers actually help us get some organic movement in ARPU, I think this quarter has been good at Rs 7 of course it was a day extra which is about Rs.1.5 but even organically we did see a significant amount of ARPU upside on account of all of these levers that are playing out.

Aditya Suresh - Macquarie

Well that is good it is a steady increases each quarter, as these levers play at the background rather than being step changes which generate headlines. That is clear. Thank you for that. The second question is on operating leverage. Now with your comments around your focus on network operating expenses and your comments now on APRU and that steady increase is going forward should we expect a higher state of incremental EBITDA margins over the next couple of years and maybe it is a supplement and then this ties back to your comment around three cash flows as well which I agree with any comments on what this means for your return on invested capital. Thank you.

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

Well I think this business is largely a fixed cost business so we love to see the operating leverage kick through. At this point in time I think our cost program will continue very aggressively, we still have a way to go and room for stripping out further cost in the Rs 75000 to Rs 1 lakh category of sites opex per site, per month. So we are looking at some of that. If there is a tariff increase of course almost all of it flows through outside of taxes into the bottom-line barring some of the capacity investments that get made there is the strong operating leverage particularly in the case of where you have an unutilized network the rural expansion you have cost because you are rolling out side, you are also getting revenues. So to that extent I would not think that it would be a bit that accretive, but the operating leverage is a whole business must kick-in, I cannot give you a number, I cannot give you a guidance because we do not do that, but I would say that we would be doing a job that we would not be satisfied with, if we do not get operating leverage from the incremental revenue that we generate that is a target that we look at very, very closely.

Aditya Suresh - Macquarie

Thank you.

Deepti - Moderator

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

Yungjuen Yeoh - A R capital

Thank you for the opportunity. I was just curious on the ARPU. Just if you can give us a bit more color on the medium-term outlook for ARPU Rs 300 obviously is the longer-term plan now it is Rs 200 with all the levels that you have described with postpaid and what you have just said, how should we think of the next few quarters in terms of our ARPU. Thanks.

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

I am afraid, I would not be able to give you a number there, but I think that like I said suffice it to say that we would be disappointed in ourselves, if we do not see some improvement in ARPU equating for days and all of that on an organic basis every few months. So I just leave it at that.

Yungjuen Yeoh - A R capital

Right, and in terms of that post-paid subscriber ads the 800k this quarter that is higher than the last two I think it was 700k last two is that a new level that we can expect or we feel that, that actually can increase quarter-on –quarter.

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

I think that this has been the highest post-paid net addition that we have done ever. I would say July has begun strongly, so I hope that we continue to keep this going.

Yungjuen Yeoh - A R capital

Okay thank you.

Deepti - Moderator

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

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

Again thank you very much for the engaging questions, as I mentioned I think it has been a good competitive performance this quarter and I look forward to seeing you in the coming quarter. Thank you very much.

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Deepti – Moderator

Thank you everyone for joining us today. The recording of this webinar will also be available on our website for your references.
