Conference Call Transcription

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PRESENTATION

Rajiv Sharma – Head Investor Relations

Good afternoon, everyone. Warm welcome to Bharti Airtel Limited Third Quarter Ended December 2021 earnings webinar. I must remind you that discussions today may include certain forward-looking statements that must be viewed with the risks we may face. Present on this call is the senior leadership team of Bharti Airtel. Post the opening remarks, we will open the floor for Q&A. Please use "Raise Hand" option to join Q&A queue. With this I would like to hand over to Mr. Gopal Vittal, M.D. and CEO India and South Asia for opening remarks. Thank you.

Gopal Vittal – Managing Director & Chief Executive Officer - India & South Asia, Bharti Airtel Limited

Thank you Rajiv. Thank you. Good afternoon ladies and gentlemen. Thank you for joining this webinar to discuss our results for the quarter ended December 31, 2021. Also present with me on this webinar are Soumen, our new CFO, Harjeet Kohli and Rajiv Sharma.

As you know the government announced several reforms in September last year these have really infused confidence in the industry, as far as we are concerned we have chosen the moratorium on spectrum and AGR dues rather than equity conversion of interest on these dues.

In addition, as part of our commitment to financial prudence we have decided to prepay the high cost spectrum debt liability of over 15000 crores. This has allowed us to clear deferred liabilities for the spectrum acquired in 2014. This will also save us interest and enhance cash flows. While the reforms are game changing more needs to be done and we look forward to the next round of measures planned by the government in particular the high levies on the industry need rationalization. Equally the reserve prices for 5G spectrum must be lowered so that it is viable for us to purchase spectrum.

An important event this quarter has been the strengthening of the partnership with Google with a commitment to invest up to US $1 billion through a combination of US $700 million of equity and up to US $300 million in creating a corpus to drive mutually agreed commercial objectives.

As a part of the first commercial agreement both companies will work to scale Airtel's offerings across three areas of device, cloud and networks. I do want to underscore through this investment a very strong validation of Airtel's role in being a leading pioneer of India's digital revolution.

A third event in this quarter was the successful conclusion of the Airtel VSAT business with Hughes to become the largest VSAT company in India.

Let me now turn to our performance for the quarter. Overall this has been another quarter of solid execution for Airtel that has seen broad-based growth across the entire portfolio. Our consolidated revenues for the quarter grew by 5.4% sequentially to get to a 29867 Crores and our EBITDA margins improved by 40 basis points over the last quarter from 49.5% to 49.9%.

Let me briefly touch on each of our businesses.

In our broadband business we are seeing very healthy customer additions driven by the increased demand of fiber to the home we have now hit a milestone of going past the four million customer homes mark. Sequential growth has been strong at 11.8% this quarter. Our very innovative Uber-like digital model with the local cable operator as a partner as also the acceleration in the rollout of our own fiber in the top 100 cities are the pivots around which our home broadband strategy revolves.

Our overall presence has now expanded to 672 towns and has enabled us to add 1.1 million home passes on the quarter. We believe fiber to the home is a massive opportunity for us. We will continue to step up investments to take our network to 2000 towns across India with 35 million home passes in the next three years.

In the DTH business we have a presence in 18 million homes with an ARPU of Rs.146. We recently changed the box pricing and reduced channel commissions. These are expected to move the industry towards a more sensible business model by lowering the gross additions in the category while focusing on net additions. That said free dish continues to disrupt the business model as good content continues to be offered for free in vast waves of the country.

At the same time the irony is that the opportunity to convert and upgrade from cable is massive. There is also a huge opportunity to monetize OTT content and deliver a unified connected experience through Airtel Xtreme. To address this we have developed a compelling proposition for customers which will be launched in February.

Let me now turn to Airtel Business; Airtel Business clocked another quarter with double-digit year-on-year revenue growth with revenues touching 4106 Crores up 13.4% year-on-year. We continue to outperform our peers and expand market share. We have a solid portfolio of services spanning connectivity, cyber security, data centers, IoT and CPaaS in each of these areas. We are now the leading player and in security we are already amongst the top ten. Our CPaaS business has again outperformed the market and grown at very strong double-digits.

Our strategy as I mentioned earlier revolves around going both wide and deep wide to tap into the 80% of customers who account for only 20% of our revenues and deep in the accounts we already have a solid presence in so that we can sell many more products and raise switching costs. Our emphasis on new product acceleration therefore continues.

Now on to the mobile business mobile revenue has grown by 5.9% sequentially driven largely by improved pricing and modest 4G upgrades. ARPU has risen to Rs.163 an increase of almost Rs.9. We are again at a lifetime high in terms of revenue market share of almost 37% validating our strategy of winning with quality customers.

Early signs of the tariff increase have been encouraging and the full flow through is expected to be felt in quarter four. At the same time we have seen some SIM consolidation leading to some moderation in customer additions as customers make decisive choices in favor of their preferred brand we expect this consolidation trend to correct from here on.

In the post paid segment we are seeing good momentum at 320000 net ads as we drive our premiumization agenda with a significant retooling of our overall customer experience. As a consequence we now have decisive leadership in this segment. We are very bullish on the future of this segment.

In sum we are seeing consistent growth across our overall portfolio. This applies across all our core businesses, homes, mobile and enterprise. Last quarter I talked of the MOAT that we are building. Let me provide a little more texture to this.

We have stopped thinking of our business as a telecom business but increasingly think of our business as a digital business end to end. At the core of our business is our digital infrastructure. Over these past five years we have invested about 46 billion dollars in creating the finest digital highway over which 40% of India's economic and digital activity takes place.

A large part of the heavy lifting in terms of access be it wireless or wired as also spectrum is done. Massive investments have been made in our transport infrastructure in both domestic fiber and international submarine cables. This is what allows us to be ready for 5G.

Another very critical part of this digital infrastructure is data. We now have a massive data infrastructure, a layer that has actually cleaned, tagged and coded, every one of our 350 million customers. Over 400 data scientists and engineers work on this to lend agility and intelligence for all of Airtel.

Above this digital infrastructure layer sets our digital experience. This runs across every part of Airtel. Our channels, our customer touch points, our network experience, our customer facing applications, our go-to-market capabilities, our stores and even our delivery teams of installation and fault repair are all seen through one customer one Airtel omnichannel view, be it improving the experience, recommending an additional service, collecting payments or simply engaging this digital layer enables all of this.

Our organization structure also reflects this now. We have one mass retail channel that is responsible for all consumer categories; DTH, prepaid and bank. We have one direct to customer channel that serves over 1600 catchments in urban India and is responsible for all consumer categories, postpaid, broadband, DTH and bank.

We have one digital channel that serves all of Airtel's businesses we have one home delivery organization that's responsible for all of Airtel serving the home and we have one B2B channel that uses different levels of customer touch from direct to digital in serving all our large as well as smaller companies and businesses.

It is through this digital experience that we are able to deliver the best experience for our customers and this is really what allows us to win our premiumization agenda and have industry leading ARPUs. It is the same digital experience that allows us to have low levels of churn and raises switching costs for customers.

The third layer is our digital enterprise business this is a key MOAT for Airtel because our customers trust us with their data and want to work with us due to the respect they have for our governance and privacy. This is an intangible but priceless source of competitive advantage. The core of our enterprise digital offer is around connectivity but this rides on the digital infrastructure that serves all Airtel businesses.

We are number one here but what makes it really interesting it is what rides on top of this in cyber security as I mentioned we are already amongst the top 10 players, we are number one in IoT, SD-WAN is another exciting business software defined wide area networks and our recent announcement to acquire a significant stake in Lavelle to develop and build software defined wide area networks will be an important driver of growth in this area.

The fourth layer is digital banking. This has been a business that we have built silently today Airtel Payments Bank has a customer base of 122 million with a monthly transacting user base of over 32 million users. We are decisively winning in small towns and rural areas on the back of our distribution advantages; however, this is a business that has infinite potential and we are ratcheting up the growth of the digitally savvy user.

We think of the opportunity here in the form of a funnel at the base of the funnel at a 100 million Airtel thanks users we want to enable them with an Airtel UPI handle. At the next layer is our bank or wallet user who transact on the app. On-boarding this customer is being enabled across all our channels. This user is exceptionally valuable for a variety of reasons that include the number of transactions that they make as also the deposits they maintain. We are now firing up this proven toolkit to accelerate payments. We already have an annualized GMV of $20 billion and are the only profitable payments player in the fintech space our profitability comes from our biggest strength the low cost of acquisition.

The fifth and final layer is our digital services. We have now tested proven and will scale four exciting new businesses each of which are in very large and growing markets. Airtel IQ is a full suite of cloud communication solutions that spans voice, messaging, video streaming, call masking, virtual contacts center solutions and ultimately even workforce management. This is a large 8000 Crores plus category that is exploding in terms of growth.

Airtel ads is our AdTech platform that leverages all our digital assets. We have 135 plus brands and relationships with all large agencies. The solution here is a consent based privacy safe platform that serves one of the biggest pools of quality customers across multiple screens. We are further strengthening this platform by investing in Blockchain capabilities and developing solutions that address privacy issues and potential regulations around them. Again we are in a very large 12000 crores category. That is growing rapidly.

Nxtra is our data center platform that is already serving hundreds of customers and all hyperscalers. We have added 28 megawatts of capacity in just one quarter across four locations. Our capability in the cloud now allows us to partner the large tech companies on public cloud, help scale private cloud for entities that want data stored in India and edge cloud that enables businesses to provide low latency experiences for customers at the point of consumption.

Lastly our digital marketplace this marketplace on the basis of partnerships for digital services that is what it operates on our focus here is around content, loans and insurance. In the content area we have two models; one is the extreme partnership where we provide a single sign-on unified search, a catalog of compelling content and a great payments experience to our customers. We also have partnerships with the leading content players such as Netflix, Amazon and Disney.

In the lending area we have now developed our own proprietary credit score and have commenced lending on our platform through partners. Our insurance partnerships are also seeing traction. With the 180 million plus monthly active users on our platform through Airtel Thanks, Wynk and Xtreme we believe we can build another meaningful revenue stream here around the digital marketplace.

In sum these five layers of digital infrastructure, digital experience, digital enterprise, digital banking and digital services is what the new Airtel is about. While we do this we are passionate about fiscal prudence. We therefore remain focused on exercising tight control on opex through a multi-year war and waste program. We are also disciplined on capex through tools that allows us to plan and sweat every single tower that we put up.

Our balance sheet is strong with an improved leverage ratio of 2.67. We expect the tariff hike and operating free cash flows to help further delever the balance sheet.

Finally a quick word on ESG during the quarter we constitute an ESG committee, made up of the board of directors to sharpen our focus on the ESG agenda and on creating value through sustainable business practices. We have an internal ESG committee as well that comprises of management that meets on a far more frequent basis. We have now agreed a clear set of goals and initiatives in this area which we will soon disclose. We also joined the science-based targets initiatives business ambition for 1.5 degrees Celsius campaign and adopted targets to significantly reduce our carbon footprint and emissions from network operations.

We also became the first Indian telecom company to join the UN Global Compact while remaining aligned with the Paris Climate Accord and proactively implementing clean fuel-based power solutions for our towers, our data centers, our switching centers and other facilities. We remain committed to society, our customers and employees right through these harrowing times of the pandemic.

We continue to demonstrate the high standards of corporate financial and operational disclosures. In sum I would say that we have had a very eventful quarter, a much needed tariff increase, the investment by Google, the merger of our VSAT business with Hughes and above all solid execution and sustained performance. Let me hand it back to Rajiv at this point.

Rajiv Sharma – Head Investor Relations

Thank you very much Gopal. We will now open the floor for Q&A. Rajyita, you may moderate the Q&A session now.

Rajyita - Moderator

Thank you very much Sir. We will now begin the Q&A interactive session for all the participants. Please note that the Q&A session will be restricted to analysts and investor community. 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, participant to kindly click on "Unmute Myself" in the pop-up on screen and start asking the question post introduction. The first question comes from Mr. Piyush Choudhary. Mr. Choudhary you may please unmute your side, introduce yourself and ask your question now.

Piyush Choudhary - HSBC

Good afternoon. This is Piyush from HSBC. Congratulations Gopal and team for strong execution. Two questions firstly on the mobile side, you mentioned about the SIM consolidation which is happening in the industry at the moment. Do you think this will still continue given the tariff hikes which have happened and what do you think post like probably a quarter or so where does subscriber growth settles down for the industry? That is the first one. Secondly we have seen growth in ARPU this quarter but EBITDA margin in the mobile business has not expanded. Any specific reason and are there any structural cause over here or we should see a bit of margin expanding going forward?

Gopal Vittal – Managing Director & Chief Executive Officer - India & South Asia, Bharti Airtel Limited

Thank you Piyush. Let me take both and if there is anything to add then maybe Soumen can add on. On the SIM consolidation yes we did see significant SIM consolidation during the quarter that we have been through but remember the level of consolidation that we saw was much lower than what we saw in the in the first round of tariff increase that happened back in 2019. So we were almost flat in terms of overall customer additions and I would say that in relative terms, I think we have come out quite well. January was a very cold month and I think the pass-through of the SIM consolidation sort of continued but I would expect that this will be fully moderated as we go through into February and March and we should hopefully see business back as usual towards the end of this coming quarter and certainly into quarter one. On the growth in ARPU, you are right I think while there were the marginal EBITDA I think went up by around went to about 53%to 54% in that ballpark the fact is that we had headwinds in terms of network costs, we had substantial rollouts, capacity enhancements, rollout of sub-gigahertz that happened in the first half of the year in addition to some increases in channel commissions and sales incentives and I think it was that combination that led to the marginal EBITDA being what it is. In our business as you know we do get operating leverage so if you have revenue growth then a significant part of that flows through EBITDA and I do not see any reason why that should change in the coming quarters going forward.

Piyush Choudhary - HSBC

Got it and just to clarify here the increase in challenge commissions and sales incentives are these sustaining or are these are some kind of one-off promotions?

Gopal Vittal – Managing Director & Chief Executive Officer - India & South Asia, Bharti Airtel Limited

No. I think what has happened is that there is a slightly elevated level of channel commission that is happening for the last few months and perhaps last four or five months and that is continued. Is that totally out of whack? No I would not say that.

Piyush Choudhary - HSBC

Thanks a lot.

Rajyita - Moderator

Thank you very much, Mr. Choudhary. 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

Thank you. First question on the 4G subscriber addition so this is a quarter where we saw record Smartphone sales in the Indian market while the 4G addition for all the operators put together looks like fairly muted versus how the Smartphone sales are happening so what are we missing here? what is what is stopping the 2G to 4G transition which has been fantastic for last three to four years why is this sudden deceleration? That is one question and the connected to that is the data usage per subscriber I have been looking it's been plateauing at 17 to 19 GB a month across the operator and it is hardly inching up does that mean that it is very hard for us to imagine a premiumization or the opportunity for the premiumization where the subscribers jump to a higher part is very limited from here. So this is my first question.

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

I think we saw about 3 million 4G net additions in the quarter and if I just look at the device shipments October Smartphone shipments was 18 million and November was 13 million; October typically the Diwali kind of shipments. I do not think that that has been a commensurate flow through in 4G net additions in the quarter but mind you Sanjesh at this quarter has been a quarter where tariffs have been increased and as a consequence I think there is a moderation in 4G net additions because of SIM consolidation also that happened. So given this tariff increase we still saw a 3 million increase in our 4G net additions. My sense is that this should moderate now going forward into Q4 and remember the other point to make on the device shipments is that these shipments do not necessarily get into customers hand because they are also part of the inventory cycle that happens within the trade. On the data usage, I think GB per month is a function of the massive allowances that are still happening in industry. I mean today for example at a Rs.299 plan on prepaid you get 42 gigabytes uh in a 28-day period so that is almost 43 gigabytes 44 gigabytes a month people are consuming 17 gigabytes 18 gigabytes and perhaps not being able to completely use it. So this cannot continue to grow infinitely because at some point you know people have to lead their lives as well right. They are already spending four hours a day just looking at the device and in a way it is a good thing if you are seeing a moderation of GB per month because then this has its beneficial capex implications so I am glad to see that it is moderated now uh the fact that there were massive allowances given has actually led to the GB per month rising in previous quarters and that is now beginning to moderate. The overall data consumption growth in the quarter has been soft primarily because what you normally see during a lockdown you remember April, May, June there was a lock down and then it sort of grew rapidly during lockdown you see massive growth in that moderate, people come back, schools open up and so on and so forth so I would not look too much into that part I think the 4G net addition slowdown is a simply triggered by the tariff chain that happened in the quarter and I think that that is expected to moderate as we go forward. The last point is on your premiumization question. I think this has no bearing. The data usage has no bearing on premiumization because premiumization is really the drivers of premiumization is one the feature for the Smartphone upgrade, second the prepaid to postpaid upgrade and the third is the postpaid to the entire home offer that we have through Airtel Black. I think that story is totally intact.

Sanjesh Jain – ICICI Securities

Fair enough Gopal. I was looking at the premiumization where people exhaust their data and try to go for a higher GB consumption I think that that complete premiumization is missing in India and I believe that that was a much larger opportunity for us.

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

That Sanjesh is a function of the pricing structure. If you had a more sensible price architecture in the country where let us say like it happens in many other countries if you look at Indonesia or China or any of these countries, you know for Rs.100 you get x amount of data which is let us say two but for 200 you get five and for 500 you get 10 and 1000 you get 50. That drives a premiumization unfortunately in India the pricing structure is all compressed. So if you buy something for Rs.299 you have everything that you need that is the problem so it is more a price architecture issue more than anything else.

Sanjesh Jain – ICICI Securities

Fair enough. My second question is on the on the free cash flow generation we have been doing this quarter the free cash flow we have generated close to 43 billion after paying all the liability which is a commendable number and I think this will only grow as the benefit of the tariff flows in. I just wanted to understand the thought process on the utilization of this large free cash flow which is coming into the company? Will it be fair to assume that a majority of it will go into repaying the debt particularly the high cost debt and if that is true how should we see the finance cost which was at 33.5 billion this quarter we have paid a significant amount of high costs debt and we are generating free cash flow and there is a return of a guarantee by the government that should have a very large positive bearing so if you can just direct us say a quarter or two down the line how much we will settle this to from 33.5 billion of this quarter?

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

Maybe I will invite Harjeet and Soumen to comment on this?

Harjeet Kohli – Group Director, Strategy and Business Development

Thanks Gopal. I think your comment on the free cash flow is right. There is of course Africa has been free cash flow positive and from a segment perspective they throw up the dividends to us occasionally every three six months India is now free cash flow positive EBITDA less capex less taxes and less the interest cost. That dominant portion of the free cash flow in the shorter term for sure is definitely going to pay down the debt. There is a good debt profile mix that we have as you know, but the higher cost fixed rupee interest rate DoT debt bulk of which as you mentioned we paid of the 2014 installment at the end of December. There is opportunity now the government and the DoT has given us the flexibility to do what we can in terms of cash flow matching repaying when we wish to etc., so some of these free cash flows will go to replace some high cost debt. The second portion of yours was on the interest cost. You are absolutely right the guarantees that have been returned will save between depending upon which guarantee it is 0.5 to 1.2 percent of the guarantee commission that goes into finance charges and you see that in the interest cost line. So you will see savings there and dominance portion of the savings will be of the ten percent interest cost going down to maybe a weighted average five, six, seven percent depending upon the sources of finance. Last quarter we used more than half of the source of finance to be the rights call that we had made so not everything has been debt financed and the sum total of 15 odd thousand Crores that was paid out plus the guarantee saves is in the state of a mathematics is about thousand Crores of interest cost save per annum a little over that but that is what the current situation is, if we get more free cash flows, we have more opportunity to substitute but we will be mindful of maturities, we will not short trade the maturity, mindful of making sure that we have significant market debt capacity continuing to be available and all sources of finance continuing to be diversified and on the table.

Sanjesh Jain – ICICI Securities

So will it be fair to assume that this 33.5 billion will inch towards 25 billion?

Harjeet Kohli – Group Director, Strategy and Business Development

No. I am talking about per annum so you will have to you have to calculate it.

Sanjesh Jain – ICICI Securities

Got it. Let me do that math and I will get back to the team. Just the last bit to Gopal we have been very strong on the war on waste but this quarter and the last quarter as well the network operating cost looks like it's been growing quite sharply can you explain what has driving that cost so sharply. I understand there is addition to the network but on YoY basis it is eight to nine percent well the cost inflation is seventeen and a half percent?

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

I think that is a good question Sanjesh. I think we have we are seeing number one is like an aggressive rollout in terms of sites and they know that that is one of the big components of actually increase in network costs second is loading charges because when you sort of deploy additional capacities which you have to do with the rollout of sub gigahertz that again is a headwind on cost and the third headwind is really the rise in the energy prices both diesel which is sort of increased quite sharply during the course of the last six months. So, I think it is a combination of all of this suffice it to say that we are working on a very strong program along with our partners in the tower company and we are looking at a whole bunch of things. We have used a lot of tools in our NOC, we have built some AI and ML tools to actually turn off power and energy on the fly. So, these are being experiments that we are running and these are proven given us some good results. These will be rolled out into the coming quarters. Secondly we are also looking at reducing the complexity on our networks in terms of switch off of certain technologies if the capacities are not utilized during certain times of the day, so that is the second area that is being looked at. The third is a massive conversion from indoor to outdoor so that the energy consumption goes down and the fourth area is also looking at renegotiation on rentals, this of course needs to be done in partnership with the tower companies so all of these levers are being looked at there is a very strong focus and a very strong program that is actually driving all this but yes in the last few months we have seen these headwinds.

Sanjesh Jain – ICICI Securities

Thanks for all the answers. I will get back in the queue for more questions and best of luck for coming quarters.

Rajyita - Moderator

Thank you very much Mr. Jain. 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

How quickly would you deploy the $300 million Google corpus that is targeted at upgrading 2G users to 4G? Do you think that after this tariff hike and your user base already now 62% being on 4G it might be a good idea to deploy this quickly? That is question one secondly how to think about price hikes in let us say calendar year 2022. Now that we are seeing some SIM consolidation and certain digital ecosystem players like Meta platforms even they are commenting that their India user growth seems to be hurt by price hike. How to think about tariff hikes from here on?

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

I think on the $300 million corpus with Google like I mentioned at the last call one of the big levers is really device upgradation, the second is networks and the third is cloud. We are in partnership on the cloud space as well from a go-to-market perspective but let me talk a little bit about devices. I think for us the big opportunity is the upgradation from feature phone to Smartphone. We have developed certain several capabilities, software features that will enable us to actually lock a phone on the fly if an EMI is not paid so these are capabilities that we have developed. There are platforms that we are working with to actually lend into devices in order to bring the unit price to the device down. The second is that you can also give targeted discounts and cash backs into specific devices so that is another area that we are looking at. We will be aggressive in actually driving upgradation at the same time we do it sensibly because as I have mentioned in the past getting into a subsidy type of game is not a great idea in a market like India, actually in any market and in India particularly the P&L in any way cannot absorb it because network costs are so high but having said that we do see a significant increase in the ARPUs when people move from feature phones to Smartphones so in the longer term this upgradation is essential and as a consequence we will use part of this corpus as well as all our capabilities to drive this upgradation. On the price hikes as I have mentioned before we hope that the ARPU of the industry to get to 200 soon preferably in 2022 itself and then kind of settles soon after in the next few years to 300 which is really the modest and a good level of ARPU, which can then turn a return of capital of upwards of 15% which is really a kind of return that should be a respectable return. I do expect and this is now from my perspective I do expect a tariff hike sometime in 2022. I do not think it is going to happen in the next few months for the next three to four months simply because the SIM consolidation and growth needs to come back but I do expect another round of tariff increases of course it is got to be determined by the competitive dynamic and by what happens to the other players but we would not hesitate to lead it just as we have as we have done in the recent past.

Vivekanand Subbaraman – AMBIT Capital

One small follow-up on the tariff hike so this time and last time also it was a broad-based tariff increase across price points right across data allowance limits but when we look at say certain longer duration packs they seem to be very, very aggressively priced versus say the 28-day packs is there any thought process of having a bit more steeper curve in this versus what we have today in the longer duration time?

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

We just took up the packs by around 20% across all our packs and yes there are maybe some slightly higher discounts on longer duration packs but then equally you must remember that on the longer duration packs so let me just pull back on the you know the more compressed your recharge period ,the more you actually can lose revenue and that is because every customer does not necessarily recharge on the very next day that their validity expires so it's actually good business to move people to a longer duration pack because you gain that that incremental revenue in those days when otherwise you may not have recharged and so there will be some discount on the longer duration packs in specific if there are some packs that need to be adjusted that is something that you know we keep looking at those changes but at this point we just moved everything up by 20%.

Vivekanand Subbaraman – AMBIT Capital

Thank you.

Rajyita - Moderator

Thank you very much Mr. Subbaraman. The next question comes from Mr. Pranav Kshatriya. Mr. Kshatriya, you may please unmute your side, introduce yourself and ask your question now.

Pranav Kshatriya - Edelweiss

Thanks for the opportunity. I have a couple of questions. First question is regarding this home process you know you plan to take it to 2000 towns so when we expanded the home pass almost 600 cities and towns, it was done largely in collaboration with the cable operators, should we expect the same model to continue or you expect to roll out your own home passes to a large extent. So that is my first question. Second question is on 5G so how do you see 5G as an opportunity considering it will require significant investment and possibly also will help gain market share on the other side and this is more from a timing perspective that how should we expect the 5G rollout to be I mean would it be more accelerated rollout as soon as the spectrum is available or it will possibly take time considering the 5G ecosystem is not available so some qualitative statement there will be helpful. Thank you.

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

Thank you. On the home passes I think that we are in the top 100 cities, we have our own fiber where we actually go direct. This is what we call our own model and in the rest of the cities we have this partnership with a local cable operator and we will continue to roll out through the local cable operator because the pace of the rollout and the fact that we continue to own the customer but we make sure that the quality of the experience is great actually lends itself very well to that model. So the cost of rollout is lower, the pace is higher and given that we control the experience actually we are very, very satisfied with that model.

Pranav Kshatriya - Edelweiss

If I can ask one follower does that have any implications on the profitability per se considering you will have to shell out a significant commission to the partner?

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

Well you can look at it like that or you can say that look in the last 12 to 15 months we would not have been able to roll out at all if we had not done it. So it is a theoretical question because yes there is a commission payout but then there is an opportunity that we have actually gained through this partnership and so to that extent, we are in the game because of this partnership because if we had not been there to scale this up across the country would have been almost impossible given the extent of investment that would have been required at that very stage. There is also a lot of capability that needs to be built in that kind of a rollout. So I would say that you know all said and done I think it is a very, very good model for us. On the 5G side TRAI is likely to come back with their response probably in March and you have seen the statements made by you know the DoT secretary as also the minister that there could be an auction between May and June. The first question is what happened to the reserve price. The industry has argued for a dramatic reduction in reserve price and I think representations have been made from COI we have made this representation then as I mentioned in the past we will not be able to afford to buy the spectrum at the reserve price that was there when the last auction happened so we are hoping that there will be a substantial reduction in spectrum prices through the reforms the 20-year spectrum has now been made to 30 years we are also expecting a more considerate payment terms for the spectrum which is again something that the industry has asked for. Now coming to your question on 5G, if you look at the shipments, they are gradually growing. They are still in the teens as a percentage of Smartphones so they have not really like flipped over completely but the fact is that if you look at the installed 5G devices on in India today as a percentage of the overall Smartphone still in the ballpark of three to four percent and I would imagine that by March 2023 they will probably get to about 10% to 12% so the real pace of 5G from a consumer standpoint will really be in 2023-2024. The second thing is that if you look at the B2B side and you look at the applications that require 5G these are still globally. They are not too many applications that are really required on 5G. Having said that India needs 5G and I would say that I would imagine that over the next five to seven years you will see rapid growth of 5G networks. So from our side we stand committed to actually making investments into 5G. I think the time has come now to do that. The only question is how much and that is the function of the fact that the access side of the investment which is the radio side of the investment is always modular because remember we have a lot of data to know in every single site, how many devices are there, how many Smartphones are there, what are the number of devices that have a price point of more than 10000, 15000 and that can determine a graded rollout across the country over the next few years. On the other hand when you look at transport infrastructure, you need to get that ready because that has a much longer gestation. So a lot of our investment is going to get is going behind getting our transport infrastructure ready, our fiber to the towers, our electronics, our core networks and so on and so forth because these have longer gestation the rollout of access is really a three to four month again and so the only question is how much do you want to do at what point in time so that you can sweat that asset when you actually put it. That is the way we think about it. So my argument would be absolutely ready for 5G, let us hope for the right reserve prices in terms of lower spectrum price and the like payment terms and then we keep rolling out as and when we see the devices begin to proliferate.

Pranav Kshatriya - Edelweiss

Thank you Gopal for this. Thank you so much.

Rajyita - Moderator

Thank you very much, Mr. Kshatriya. The next question comes from Mr. Sanket Baheti. Mr. Baheti you may please unmute your side, introduce yourself and ask your question now.

Sanket Baheti – GeeCee Holdings

I am calling from GeeCee Holdings. Sir I have a few questions from my side. Sir what are the key reason behind the interest cost increase and depreciation on a quarter-on-quarter basis and can you please quantify the impact of Ind-AS 116 on depreciation and interest was during the quarter?

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

The increase in depreciation is primarily because of two reasons one, we have bought spectrum during this year whose amortization has kicked in. Also there is a rollout of capex which is happening so as and when they are getting capitalized, it is coming and hitting depreciation so those are the primary reasons, why depreciation has gone up. As far as interest is concerned the bulk of the impact is because of forex rate fluctuations. We have had a large impact in both India as well as if you look at the consolidated numbers even in the Africa operations. So the forex revaluation impact of this quarter is significantly more compared last and that has given that hit.

Harjeet Kohli – Group Director, Strategy and Business Development

I will just complement Soumen, just one comment for you Sanket, the net debt figures are snapshot figures so September end to December gives you a snapshot, the interest is a flow figure, the bulk of the net debt repayment was essentially the DoT repayment that that we did probably in the third week of December 20 or December 21, so keep that in mind as you look at the interest flow and secondly as Soumen was mentioning when the spectrum which has been allocated starts getting commercialized as the amortization kicks in so does the interest component on the deferred liability under the same spectrum so that is also gotten some increase in cost but the other way to look at this is as early a question was asked in the interest cost alone line you will have a save going forward for the 15000 Crores that has been paid, which was erstwhile accreting ten percent and now given the sources of finance which is mixed from cash, the rights money and some bit of debt will be substantially lower than 10%. So that I think is the annualized saving which will start from the space.

Sanket Baheti – GeeCee Holdings

So impact of Ind-AS 116 on depreciation and interest cost?

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

You can consider a 70:50 ratio for that.

Sanket Baheti – GeeCee Holdings

One more question Sir how much content of the high cost that that we are willing or can repay in the coming quarters so as to further reduce because we will be generating huge amount of free cash from the proceeds released from Google and the cash flow that we will be generating so how much high cost that we can keep in coming quarters?

Harjeet Kohli – Group Director, Strategy and Business Development

I will take that Sanket. The total debt profile for India has now literally zero net bank debt. So we have financially obligation which will continue these are accounting long leases that we have signed up nothing needs to be done. On the DoT liabilities there are various rounds of spectrums and there are various attached interest costs there we have as low as 7.5%, 8% and as high as 10% also available so with the flexibility the government and the DoT has provided to the operators and the industry to pay as and when they think it is fine for them to re-substitute this. I think that is an opportunity. Free cash flow in the shorter term should go to replace this high cost debt. There may also be an opportunity to substitute a lower cost of debt from the market given that we actually are zero net bank debt right now as the opportunities rise some of these combination of free cash flow and substituted debt should go towards paying down the high cost DoT liabilities. We have over 20000 Crores of 10% interest rate DoT liability still existing in the profile on the 2015 spectrum.

Sanket Baheti – GeeCee Holdings

Thank you Sir. Thank you so much.

Rajyita - Moderator

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

Kunal Vora – BNP Paribas

First question you have already discussed a bit about it but just wanted to go a little deeper on the SIM consolidation so what has the extent of dual SIM subscriber in the market now as we have seen consolidation happening over the years and what is your assessment of unique users in the market and the potential to add over the next two three years?

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

Well, I think that if you look at it you know while there are a billion odd SIMS and if you go back and look at it let us say over a 12-month period against a billion SIMS I would imagine that there would probably be 20% to 25% percent in consolidation so potentially the real number of SIMS would have been 700 million, 750 million and with any round of tariff increase you do see some consolidation. There still will be some dual some customers even after this round and so my sense is that each shock of tariff increase or each trigger for tariff increase is some is there is a tendency for customers at the margin to reassess whether they should put their preference behind one brand or the other. That will keep diminishing as we go forward. The exact estimate of what is the level of SIM consolidation I do not think it is 30%, I do not think it is zero. It is somewhere in between now and if there is another round of tariff increase you will again see some consolidation but that is just a short-term phenomenon which then equalizes and normalizes as people get adjusted to a new normal. I mean the fact is that our pricing in India is abysmally low. We are amongst the lowest in the world for the allowances that we gave and the ARPUs that we have the rate per gigabyte of data, this is really amongst the lowest anywhere in the world and even if you compare to Sub-Saharan Africa or Bangladesh or any market Indonesia you will find us amongst the lowest. So that coupled with the fact that this is now an essential service and is so important to everything that you do on your economic activity I think you know will get absorbed finally.

Kunal Vora – BNP Paribas

Just to follow up on that like I mean with minimum charge being Rs.100 now should we expect that it will mostly be serious customers left in the category and we are on the last leg of SIM consolidation?

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

Well like I said there will still be some consolidation I mean there will still be some dual SIM customers still around and we will see what happens whether if tariffs were to go up again whether there will be a little bit more SIM consolidation, I would imagine there could be.

Kunal Vora – BNP Paribas

Second question on the home broadband, what has the potential you see over the next two three years can the subscriber base double considering that you are going from 600 towns to 2000 towns and how do you see the ARPUs as customers come into like lower entry points and on the 35 million home pass which you are talking about what should be the conversion we should expect like because industry standard has been about 20% is that something which is inching up?

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

In our case we see we are we are higher than 20%. We do not declare those numbers but I can confirm that we are substantially higher than 20%. We have a strong program of something called Start Green which is really putting the entire effort of our direct to customer channel through micromarketing in the catchment in order to actually grow the utilization in the early stage. We also have a one CLM across the company where we look at the customer as one across all our businesses and that enables us to really target a customer very efficiently. I do believe that this is a very, very exciting business I think the fact that we are going to roll out as much as we are and I do not think it is enough we need to roll out even more rapidly, just shows you how excited we are about this business and how much growth potential it has. So I think that this business will certainly see substantial growth over the next three years.

Kunal Vora – BNP Paribas

okay and lastly on digital TV just one last question churn level has been consistently inching up. You did talk about free dish being a problem but is it also because of the viewership shifting to mobile and cord cutting happening because of that reason and like churn level is still high despite the original content being back so just wanted to understand why you are seeing this annualization of 25 basis points in DTH?

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

I think that you know there are two things that I would say one is that we have had box prices being quite low and so there is some rotation in industry in terms of people buying new boxes to basically consume content and then replacing that with another new box that has been corrected because we have moved up the pricing of the box substantially, we have lowered the channel commission so we are already seeing the impact of that in terms of more quality new customer additions so i think that is the first pass. The second structural issue that is happening in industry is the free dish. I think if you if you travel to the North of India particularly the Hindi belt and this is across whether it is Bihar, UP, MP even places like Gujarat, you will see a substantial amount of penetration of Doordarshan free dish and this is good content with windowing of less than 12 to 18 months and as a consequence because it is free we are seeing people make choices away from paid subscriptions towards free dish. I think there is a structural issue. We have taken this up with the broadcasters. We have also talked to the regulator to see how we can deal with it. On the cord cutting side I do not see much of an impact yet because this is largely a very urban phenomenon and remember to cord cut you really do need to pay a substantial subscription. Netflix is at Rs.299 a month. Amazon is at Rs.1499 a year so these are not particularly and the subscriptions that they have are not large enough to meaningfully displace the opportunity on linear. That said I think one of the big call outs for us is to use our digital marketplace capabilities to monetize these OTT subscriptions. So we have dramatically improved the payments experience. Today you get a QR code on the screen you can just flash it pay for it and get on to subscription. We are already seeing rapid growth on our side in terms of OTT subscriptions on our large screen. So this we will continue to drive and we do get commissions then from our OTT partners but the real structural issue in the market is free to air. The more short-term issue has been the correction and channel commissions which I think is actually done well to reduce this rotation and therefore minimize churn.

Kunal Vora – BNP Paribas

So does it mean that price hikes in this category is going to be difficult and you will have to depend on subscriber additions for growth considering that even at current price?

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

I would not say that. I think that you know we will wait to hear what happens on NTO2 and my sense is that there will be some price increase that the broadcasters will also look for and that obviously will then get passed on to customers. We have not seen any price increase in DTH now for two years. So it has been a long time, there is been absolutely no price increase.

Kunal Vora – BNP Paribas

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

Rajyita - Moderator

Thank you very much, Mr. Vora. The last question comes from Arun Prasath. Mr. Prasath, you may please unmute your side ,introduce yourself and ask your question now.

Arun Prasath – Spark Capital

Thank you for the opportunity. This is Arun from Spark Capital. My question I think we already discussed just a little bit more color on the data wireless data traffic stagnation sequentially I think this we spoke about per capita consumption but I am talking at the network level traffic this is the lowest, I think in the last four five years. Question is this supply side issues or some lack of demand from the ground level, otherwise because last time?

Gopal Vittal – Managing Director & Chief Executive Officer - India & South Asia, Bharti Airtel Limited

I do not think you should read too much into this and the reason we should not reach too much into this is that what we have historically seen is when there is a lockdown, there is a massive increase in data consumption and when that happens like I mentioned before you do not see the busy hour traffic going up and remember all our investments go towards investing in the busy hour. When the lockdown starts lifting and as people come get back to offices and kids go back to school and people start coming out you start seeing a lowering of data consumption, but you see the peak beginning to shift right and the busy hour starts actually going back to the earlier days. So this is actually that is what has happened in this quarter as you look at growths. We would be then concerned if you know you do not see any data growth happening in January that is not the case so I would be relaxed about this. I think you are reading too much into this. I think the real question is are you adding 4G customers because if you add 4G customers you get ARPU growth and obviously you get data consumption and I would be more happy with ARPU growth and revenue growth, data consumption is just an outcome where people sort of use because they have got Smartphones so that is that is something that if you get 4G additions and that happens. So I would not read too much into it.

Arun Prasath – Spark Capital

Second we also discussed about the 5G Smartphone where you discussed at a flow level it is probably 20% at a stock level, it is less than 5% but low single digit penetration is at the country level isn't it, at that probably when you are looking at the cluster because the deployment does not happen at the country level, it is more like a state or city or even at the cluster level, probably at the cluster level this number would be much higher of course you cannot buy spectrum for a cluster so probably my question is that user in the threshold level of penetration at a cluster level where you would look to deploy 5G in the existing bands because there will be there are more customers at that cluster and of 5G Smartphones?

Gopal Vittal – Managing Director & Chief Executive Officer - India & South Asia, Bharti Airtel Limited

Well look I think 5% is the average, you are right. It is more like 3.5% to 4%. There is a distribution of this obviously but it is not that it is in some clusters is 30% the distribution is more like from zero to maybe 9% right so that is the sort of variation. Yes we have a lot of heuristics to define at what point you need to trigger this investment, we have done that in 4G and we will do that in 5G and I think one of the determining factors will be that when you put in this 5G investment you want to fill that up so that you do not put any more capex on 4G because 5G will then displace 4G so the overall capex is still around the same level. So I think that is a fine science that we will use to decide where to deploy on a modular basis.

Arun Prasath – Spark Capital

As a follow-up have you completed your deployment across the country or still there are some clusters?

Gopal Vittal – Managing Director & Chief Executive Officer - India & South Asia, Bharti Airtel Limited

More or less, more or less concluded, I think the you know in any network and this is true for all networks across including ours, in every city, in every state you have a normal distribution so you have the top for 50 of sites giving you almost 80% of traffic, the bottom 20% give you nothing and so there is no point actually deploying TDD spectrum in the bottom 20% because you are really got an empty network in any case even on the mid band and your experience is great. So I think we are much more focused on customer experience so that whatever people are doing on the device they are able to do it well.

Arun Prasath – Spark Capital

Thanks Gopal. That is very helpful. All the best,

Rajyita - Moderator

Thank you very much, Mr. Prasath. With this I will now hand over the proceedings to Mr. Gopal Vittal for closing remarks.

Gopal Vittal – Managing Director & Chief Executive Officer - India & South Asia, Bharti Airtel Limited

I think we have had a good solid discussion. Thank you very much for joining in. I would say that we are pleased with our overall the quality of our execution across the portfolio. More importantly, we are building a new Airtel and I think the capabilities that we are building on the digital side are something that are now going across every aspect of our operation and that is certainly going to stand us in good stead going forward. Thank you very much. Look forward to seeing you next time.

Rajyita - Moderator

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