

Conference Call Transcript

Event: Transcript of Bharti Airtel Limited Second Quarter Ended September 30, 2022 Earnings Webinar

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Transcript of Bharti Airtel Limited Second Quarter Ended September 30, 2022 Earnings Webinar

CORPORATE PARTICIPANTS**Gopal Vittal**

Managing Director and Chief Executive Officer, Bharti Airtel Limited

Soumen Ray

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

Harjeet Kohli

Joint Managing Director, Bharti Enterprises

Arpan Goyal

Senior Manager, Investor Relations, Bharti Airtel Limited

PRESENTATION**Vandana – Moderator**

Good afternoon, ladies and gentlemen. I am Vandana, the moderator for this webinar. Welcome to the Bharti Airtel Limited Second Quarter ended September 30, 2022 Earnings Webinar. Present with us today is the senior leadership team of Bharti Airtel Limited. I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risks that we face. Post the management opening remarks, we will open up for an interactive Q&A session. Interested participants' may click on raise hand option on Zoom Application to join the Q&A queue. The participants' may click this option during the management opening remarks itself to ensure they find a place in the queue. Upon announcement of name, participant to kindly click on unmute myself in the popup on screen and start asking the question post introduction.

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

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

Thank you. Good afternoon, ladies and gentlemen. Thank you for joining this webinar to discuss Bharti Airtel's results for the Quarter ended 30th September 2022. Also present with me on this webinar are Soumen Ray, Harjeet Kohli and Arpan Goyal.

I want to focus this quarter's earnings call on three things. Our performance and the strength of our portfolio, an update on 5G and why we believe this will in the short term give our business a fillip and finally the opportunity in Rural.

Before I dive in a few words on ESG.

During the quarter, we progressed towards our ESG targets. Nxtra, became India's first data center company to deploy fuel cell technology. The aim is to reduce carbon emissions through a cleaner, hydrogen-ready fuel supply while unlocking cost benefits. Nxtra is committed to achieving 50% of its power requirements through renewable energy sources in the next 12 months. Our core network operations have started experimenting with solar power and diesel elimination and given us confidence on getting to our ESG goals. Our head-quarters at Gurgaon received Gold LEED certification last month. The certification is based on LEED v4.1, a next generation standard for green building design, construction, operations and performance. As a recognition of our ethics and transparency, we received the prestigious Golden Peacock Global Award for excellence in corporate governance 2022.

Let me now turn to our performance and portfolio.

We have had another steady quarter for Airtel.

Our consolidated revenues for the Quarter grew sequentially by 5.3% to reach Rs 34,527crores. In India, our EBITDA margins improved to 51.8%, benefited by continued cost control and the SUC benefits which were part of the seminal telecom reforms of last year. 5G spectrum acquisition optically increased our debt levels while our deleveraging continued on the back of tight fiscal prudence and strong operating leverage. Equally, we continued our War on Waste program to help fuel margin improvements. Despite this performance, our South Asia and India ROCE is at 8.4%.

For a business that takes risk and puts in substantial capex in order to drive digital adoption in India, we believe this level of ROCE is very low. The only to help remedy this situation is a tariff correction.

Let me now comment on our various businesses and why each part of our portfolio creates greater customer stickiness while driving premiumisation.

Let me start with Airtel Payments Bank. Our payments bank has now crossed the milestone of a 50 million monthly transacting users and clocked 25 billion dollars of annualized GMV. Our take rates are now at 0.61 percent, the highest in the industry. This translates into an annual revenue run rate of 1233 crores and we are the only profitable fin tech player in the industry. The interesting and

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unspoken part of this business is that our telco churn comes down by almost 50 percent the moment a customer's bank account number is the same as her mobile number.

Our digital services saw an annualised revenues of Rs 960 crores, up from the previous quarter's run rate growing sequentially at well over double digits. I have mentioned before that these services have been built on some very significant digital capabilities that are helping our core business. We see our business in three parts – the underlying digital infrastructure including the massive data infrastructure we have created; the digital experience layer that follows the customer through their life cycle enabling them to discover, buy, experience, refer; and finally our digital services layer that leverages the foundation to create revenue streams at very low capital outlays. This is what makes our digital play special.

Now on to Airtel Business. This business is a jewel in our portfolio. Over the last many years we have delivered sustained, profitable and competitive growth in this business. This quarter we continued our momentum to deliver strong sequential growth of just under 7 percent. This has helped cement our position in the B2B market by hitting a land mark of being the largest listed player in the B2B space in the country. Based on the results declared of the other players it is clear we have solidified our position and gained revenue market share.

The consistency of our performance can be attributed to four underlying reasons. The trust we enjoy with our customers; the value we place to privacy of data and transparency in dealings; a steadfast focus on emerging businesses including CPaaS, security, data centers, cloud, IoT; and solid execution of our go to market strategy of going wide and deep. Wide to cover more accounts where we are not doing as well and deep to create much more meaningful relationships with our customers by serving them with more and more products and solutions.

Let me now turn to our Homes play.

Our broadband business continued its acceleration on the back of growing need for reliable and consistent broadband in India. We are now present in 1,060 cities through a combination of own infrastructure and the LCO model. This has helped us add 417K customers and report about 7% sequential revenue growth during the quarter.

While the DTH business saw a decline of 2.6 percent I am glad the outcome of the strategy we put in place a few months ago is showing early signs of having delivered and creating some momentum. Our strategy was simple. Double down on the largest cable markets of the South, Maharashtra and Bengal. Simplify pricing and make it easier for customers to choose their content. Bring the full power of our convergence proposition to win the high value game. In doing so bundle OTT content, linear content along with broadband and mobile. This strategy is now seeing traction. The months of August and September have seen growing momentum. October has been even stronger.

To give you an accurate picture of the business we are now harmonizing the definition of what constitutes a customer with our Mobile business. As a result we are applying the same stringent criteria to the business. A customer will be recognized as such only if he or she is a Revenue Earning customer – this means that the customer has to give us some revenue in a rolling 30 day period. We use the same definition in our Mobile business as well. I am more confident than ever before that we will deliver market beating performance in this business going forward.

Let me now turn to the Mobile segment.

The Mobile business saw sequential revenue growth of 4% on the back of up-trading, continued feature phone to smartphone upgrades and our focus on data monetization based on our digital capabilities to get users to buy extra data on any day within the plan cycle when their allowance runs out. As a result, our ARPU moved from 183 to 190. This was achieved on the back of 5 Mn 4G net adds a recovery from last quarter. Our postpaid segment saw net additions of 300K. With this we are now the decisive leaders in postpaid.

In sum, we delivered steady results to grow our market shares across all businesses. I believe we are very well positioned as a portfolio due to two critical reasons. Each part of our portfolio helps our overall premiumization strategy by moving people up the ARPU ladder. From feature phones to data users to post paid to Broadband and eventually Airtel Black we see a clear doubling of ARPU at every step. We see this ARPU ladder providing us a strong runway for growth. The second reason is that when a customer buys more than one product in our portfolio – be it a digital service, a consumer product or an additional B2B product we see a dramatic reduction of churn. So the way we think of our business objectives when we look at our portfolio is simple. Grow share of wallet on the one hand and drive stickiness on the other.

Let me now turn to the second part of my Opener - 5G.

There are four advantages we offer. 5G that works seamlessly on all 5G devices. All of Xiaomi, Oppo, Vivo and Real Me devices are now ready. Samsung and One Plus will also be fully ready in the next couple of weeks. Apple soon thereafter. This cannot be said with alternate technologies where many devices will deliver either an inferior experience or simply not work on 5G. A second advantage we offer is superior experience. With our anchor band riding on the underlying 4g layer, our 5G band covers an additional 100 meters to provide a compellingly superior experience. The third advantage is that our solution is more power and carbon efficient for India. Finally, the cost of producing a GB in India is the lowest for Airtel.

Now to our plans for roll out.

We have now commenced our Airtel 5G plus launch starting with key cities. By March 2024 we expect to cover all towns in urban India as also key rural areas. As the network starts getting built out we will see a significant part of our existing data traffic on 4G move to Airtel 5G plus. This is important since it will allow us to gradually move more and more spectrum to 5G at the flick of a button. We have also started testing the SA mode on 5G. This mode may be relevant for some enterprise use cases. While these use cases are

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very niche today, we are already doing our trials to serve customers where needed. We are also testing our mm wave spectrum for Fixed Wireless Access. You will hear more about our plans on FWA in the coming months.

Finally the use cases. The use cases for 5G are still nascent outside of high speed broadband. That said, we are working across a large number of companies including start-ups to test out use cases. These use cases span experiential education using Virtual reality, connected ambulances to save lives, productivity enhancements in manufacturing and agriculture, logistics and entertainment. These were show cased recently at the India Mobile Congress. Over time, some of these use cases could potentially be game changing for the country.

At the end while many of these use cases could come into India over the next few years, we believe that there is a serious short term opportunity to grow share and disproportionately win quality customers leveraging the power of 5G. Given the financially pressed situation that one of the players in the Industry is going through, we feel that the moment is ripe for Airtel pulling ahead and being the decisively most aspirational brand in India. With this we hope to take a further lead particularly in the post paid segment.

Let me finally turn to Rural.

In the last ten years we have moved our population under coverage from about 87 percent to 96. Yet we believe there is still head room for expansion and growth. We are now seeing over 40 percent of industry 4G net adds coming from rural areas and believe the time is right to bridge a substantial part of the coverage gap in Mobile against the leading player in the industry. As we do this, we are applying a whole host of lessons that we have learnt. We are using our data science models to determine exactly where to go. At the same time, we are sending our people to the field to determine exactly where the opportunity is. Even more important we have designed and built lower cost sites that will allow us to expand profitably. As you are aware, we take great pride in treating every single network tower as a factory in itself and monitor the revenue and profitability across all 254,000 locations. So our plan to expand rural coverage based on these lessons will lead to sustained competitive performance and be done profitably. With the sub-Ghz foot print we now have, this will provide customers will a very good proposition thereby fueling our growth.

In sum, we are now at an exciting juncture. Our portfolio is deep and resilient. It acts as a virtuous fly wheel for our business, creating greater stickiness and providing opportunities to grow the share of wallet. Our performance consistency is in large measure due to the strength of our simple strategy backed by this powerful portfolio. We are ready and rolling with 5G. While in the short term there may not be too many next gen use cases, we believe Airtel 5G plus will be a strong lever for us to grow quality customers. Finally, rural, where our network coverage is lower is a massive opportunity for us and we will use all the lessons we have learnt to roll out prudently and quickly.

With this, I want to open the floor for a Q&A session.

Vandana – Moderator - Bharti Airtel Limited

Thank you very much, sir. We will now begin the Q&A introductory session for all the participants. Please note that the Q&A session will be restricted to analyst and investor community. Due to time constraint, we will request if you could limit the number of questions to two per participant to enable more participation. The first question comes from Mr. Manish Adukia from Goldman Sachs. Mr. Adukia, you may please unmute your side and ask your question now.

Manish Adukia - Goldman Sachs

Good afternoon. Thank you so much for taking my questions. My first question is, Gopal, on the market share dynamics that you talked about as a result of 5G, where you said that especially in the postpaid segment, you do expect that market shares could potentially move up for Airtel. Just wanted some clarification, are you suggesting that you expect your market share trends to accelerate they have already been expanding in the last few quarters as a result of 5G, do you expect that trend to accelerate and a related question to that why should market share dynamics change, the number three player has generally been weak into the balance sheet and free cash flow. So what would change as a result of 5G that you believe your market share could further inch up higher and my second question is on free cash flow. The India business has started generating meaningful amount of free cash flow and with no near-term spectrum payment, the free cash flow is only likely to go up higher. So how do you think about the use of cash over the next 2 or 3 years given spectrum and AGR payments are still some time away? Thank you.

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

Thank you. I think I do not want to comment on whether our market share will accelerate or not. I think you just have to look at our track record, thus far it has been consistent and steady. We have grown market share substantially over the last 8 to 10 quarters. We believe there still is a big runway for competitive growth and this is really around two parts. One is our strategy of going rural, which is where we have a big gap with our leading competitor and we believe that this could be an opportunity for us to recover the ground given that we are not present in many of these villages across the country. The second part is really a high-value game and this is what plays to our strategy. I think our whole strategy is based on quality customers and whatever we do, whether it is the way we drive stickiness through multiple services and bundling it or whether we use our data science models to actually drive greater share of wallet, all of that plays to our advantage. I think 5G in addition to this, is a fillip to actually have a narrative going which actually makes us a very aspirational brand and for us, the reason we are also excited about is that our technology, which is Airtel 5G+, will really work on every single device. Like I mentioned, I think Samsung, there are 27 models of 5G, 16 models are already ready and

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enabled. The rest will happen by early November, so around 10-12 November. OnePlus, all 17 models will work on our network. Vivo, all 34 models will work on our network, Realme, all 24 models will work on our network, Xiaomi, again, all 23 models will work and Oppo also all 14 models work. Apple has 13 models. They will have their release around first week of November and by mid-December, we should have them ready. Now I cannot say the same for our competition because they are choosing a different technology. So for all of these reasons, I think we have a real window of opportunity to really step up our act on customer experience and as you know, Manish, ultimately, customers want experience and that is really where we want to focus. On the free cash flow front, on use of cash, I think we are a prudent company. We will continue to pay down our debt, retire some of our bank debt, make sure that we prudently pay off, again, whatever prepayments are to be done so that will also be done and the third part is really on capex, where we will be looking at rolling out both 5G as well as rural in the coming year and there could be some elevation of capex in the short-term, which is fundamentally an advancement of capex from the following year. So if you take 2023-24, we may have advance some capex from 2024-25 to 2023-24.

Manish Adukia - Goldman Sachs

Thank you. Just a quick follow-up question on the market share response, you also talked about in your opening remarks about a need for tariff repair. So are you suggesting that the increase in market share and tariff repair in the industry can go hand in hand or do you think until the market share dynamics fully play out, there should not be any meaningful tariff, let us say, intervention in the foreseeable future?

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

I hope that our wish would certainly be that tariff repair happens sooner rather than later. Remember, there is a massive investment that is happening today as we speak. At Rs.190 ARPU, while we do have the highest ARPU in the industry. The fact is that this ARPU was actually higher 7 years ago, it was almost Rs.200. Secondly, if you look at the pricing structure today in India, whether it is ARPU or whether it is the rate per megabyte or rate per gigabyte, it is the lowest in the world, lower than sub-Saharan Africa lower than our neighboring countries here, low in Southeast Asia, let alone the developed markets. So every player will want a return on capital. Our belief is that 8.5% return on capital is very low. You do not need to take the risk that we do in putting in all of this investment. This money can be just put in a bond and you can still earn around that level of interest. So the fact is that this return on capital needs to go up and the only way that it will go up is if there is a tariff correction and we are not talking about massive corrections. We are already at Rs.190 ARPU. We need to see one round of correction. When it will happen, I am not at liberty to say because it is not just up to us, right, if we do it and competition does not follow then we have a problem. So we are watching this space and we will see it when the time is right.

Manish Adukia - Goldman Sachs

Thank you so much. I will jump back into queue. All the best.

Vandana – Moderator

Thank you very much, Mr. Adukia. The next question comes from Mr. Piyush Choudhary from HSBC. Mr. Chaudhary, you may please unmute your side and ask your question now.

Piyush Chaudhary - HSBC

Thanks. This is Piyush from HSBC. A couple of questions. Firstly, on the subscriber trends. We are seeing some tepid growth since last one year and you alluded to rural push now. So in light of that, can you give us like whether Bharti subscriber growth or the industry subscriber growth would remain muted or you think it could accelerate from here going forward? Secondly, there has been a steady and strong execution and market share gains for you. At this point of time, what do you foresee as key risks or challenges to the business and if any, what are the steps taken to mitigate that? Thank you.

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

Well, I think answer to your first question, Piyush, is that, as I mentioned in the last earnings call as well, we have seen pressure on semi-conductor prices over the last 6 to 8 months, since March of 2022, which have pushed up the price of smartphones in the industry. So if you go back in time and look at the entry-level smartphones, they used to be about Rs.6500 vis-a-vis a feature phone, which would be in the ballpark of Rs.1000. Today, an entry-level smartphone is more like Rs.8500 to Rs.10000, a reasonably good phone is about close to Rs.10000. So now imagine a poor customer who has a feature phone and who has made a decision to come into a shop and change to a smartphone and he is in his mind, has been told that the price is about Rs.6500 to Rs.7000. He lands up in the store and finds that it is actually Rs.10,000. He is going to walk back and go away and that is why we have seen across the industry, a 30% odd reduction in feature phone to smartphone upgrades. By the way, it is across the industry.

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Now typically and at least what I have seen in the consumer categories is when you have a period of high inflation, it takes some time for the shock to settle in. So the second time he comes back, he knows it is Rs.10000. When he comes back, he is prepared to pay Rs.10000, so I think it just has to ride it out. We have seen some improvement in 4G upgrades this quarter, as you know. It is not a big improvement. We were at 5 million while previous quarter we were close to 4 million. So there has been some improvement, but it is not good enough and we are hoping that this comes back.

On the second question on risks, I think that there are always risks in this business. I mean there is risk in any business. So we have a robust process of risk and assessing risk within the company, but if you were to pin me down and say what are the big risks? I think I see it more as opportunities, but certainly, there are some risks. Risks are around geopolitical risk on supplier that is now sorted. I think supplies of equipment is one, but the bigger one is really around talent. Attrition generally post pandemic has been high for most industries. We are slightly lower than what I have heard is the attrition across other companies, but it is a continuous process of making sure that we play to our strengths of really the culture that we offer our employees, which is the culture of empowerment, the culture of ownership and that is something that we are going to just keep reinforcing and find ways to get across for every person who joins us.

Piyush Chaudhary - HSBC

Thanks a lot.

Vandana – Moderator

Thank you very much, Mr. Choudhary. The next question comes from Mr. Sanjesh Jain from ICICI Securities. Mr. Jain, you may please unmute your side, and ask your question now.

Sanjesh Jain – ICICI Securities

Good afternoon, Gopal. Thanks for taking the questions. First, from my side is on the ARPU. 3.6% look extremely strong. Can you help us understand what is leading such a strong ARPU growth? You did mention about data monetization but I think that has been a case for a while but why is it such a big inflation in this quarter and also help us understand how sustainable it is? Can this kind of data monetization opportunity can continue for few more quarters where despite no tariff hike, we should be able to achieve 2%+ kind of a sequential growth in the ARPU? That is the first question. Second is on the data digital revenues, I think for the first time we have disclosed that number for the quarter at Rs.960 Crores (annualized) which has grown double digits sequentially. Can you help us understand how much of it is coming from the enterprise of the business, how much of it is coming from the consumer side of the business and within the consumer what is really driving the growth in the digital services? These are my initial two questions. Thank you.

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

Thank you, Sanjesh. I will not comment on what our estimates are for the future and whether they are sustainable. I will just tell you like the reasons why this ARPU has gone up. I think the point number one is that we are now applying a lot more sophisticated understanding of which customer to really go after and the acquisition machinery that we have, while the churn looks on the face of it elevated, we are improving the quality of our acquisitions every week. That is one driver. The second driver is the upgradation from feature phone to smartphone, which is an ongoing thing, as you know, and that is the 5 million that we talked about. The third is the premiumization within prepaid to postpaid. But I think this quarter, we also did what we call data monetization, that you also referred to. In this we use a lot of very contextual and scientific triggers to identify an individual consumer who is blowing through his core data allowance on a given day because most of our prepaid plans are 28-day plans or 56-day plans. So, the moment you blow through that allowance on that given day, we were really able to dramatically improve the experience of buying a 1-day, 3-day or 7-day data top-up for that plan cycle. I think it was a combination of all of this, which led to the ARPU performance.

I think on the digital revenue, we have three streams of digital revenue. One is our marketplace revenue, which is where we use the use content and things like that, and also, we are doing some pilots on financial services where we are distributing credit cards from some of our partners on our platform. In addition, we are trying out some lending based on understanding of our data, along with content. So, that is the marketplace. Second is our advertising part, which is really using our platform to drive advertising revenues, and the third is Airtel IQ, which is our SaaS model, which really solves specific problems using our core network stack. And that are really what the three sort of drivers we have. We are not really disclosing very specifically how each of this add up because these are still nascent, still volatile. So at the right point in time, you can be assured that we will start disclosing more on this.

Sanjesh Jain - ICICI Securities

Thanks, Gopal. Just a couple of book keeping questions. One on the cost inflation, I think S&D expenses have significantly gone up, and this trend has been at least, both the player who have announced the results. This has been a common thing, and the second one is how much SUC is still pending for us, which may accrue as in next quarter? So that is it from my side. Thank you.

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

Yes. I think on SG&A, there are multiple initiatives, which is gone into the market. We are driving our homes business GTM team, we are rolling out new outlets, and also, there has been a certain amount of aggression which has continued in the market, which has pushed up the SG&A. As far as SUC is concerned, as you know, it was rolled out mid of August 2022. So, we have realized half of it. Half will be carried forward to the next quarter. So next quarter, we will realize the full quarter benefit.

Sanjesh Jain - ICICI Securities

So will it be in the ballpark number of close to Rs 300 Crores to 350 Crores still coming in the next quarter?

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

No, a little lesser. More in the range of about Rs 250 Crores.

Sanjesh Jain - ICICI Securities

Thanks, Soumen. Thank you very much, Gopal. Thanks for all the answers, and best of luck for the coming quarters.

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

Thank you, Sanjesh.

Vandana - Moderator

Thank you very much, Mr. Jain. The next question comes from Mr. Subhradeep Mitra from UTI Mutual Fund. Mr. Mitra, you may please unmute you side, and ask your question now.

Subhradeep Mitra - UTI Mutual Fund

Yes. Hi, thank you for the opportunity. Just wanted to have your guidance on the tower addition, given that we are now rolling out 5G pan India, so over the next 2 to 3 years, if you can give out what would be the expected level of tower addition, which you are looking or from your sort of the tower company perspective?

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

No, I think the existing 5G technology is basically going on at the existing towers. So, we are unlikely to be in the medium-term, forget about short-term, for the next 2-3 years building more sites on account of 5G. Because, as I mentioned, the propagation of 3.5 gigahertz is a 100 meters more on the downlink. In fact, it is better than the 2.3 gigahertz, the TDD band. Because of the mode that we have applied, which is on Airtel 5G+, you do get a 100 meters more on the downlink and that gives you a phenomenal experience even indoors without any densification. Over time, as the capacity grows, maybe 5-7 years out or 10 years later as the capacity starts growing, yes, there will be some densification. But right now, there is no sign of that. I think the place we are creating more towers, which will be leaner towers will be for rural area, where we are trying to see what we can do to reduce our dependence on diesel and really going for very lean sites. These sites actually come at a much lower cost than the operating cost per month that we are subjected to today on networks on account of fuel and rental.

Subhradeep Mitra - UTI Mutual Fund

Sure. Thank you so much.

Vandana - Moderator

Thank you very much, Mr. Mitra. The next question comes from Mr. Kunal Vora from BNP Paribas. Mr. Vora, you may please unmute your side and ask your question now.

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Yes. Hi, thanks for the opportunity. My first question is on margins. How should we look at EBITDA margin on incremental revenue going forward? With investment in 5G and rural coverage, would the margin on incremental revenue get impacted? Already in the past, you talked about 60%-65% margin on incremental revenue, would that still hold?

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

So I think, Kunal, firstly, as you can well imagine, the 5G will certainly load on additional costs, and unless there is an improvement in tariffs, this will be an additional cost on the P&L. That said, I think we have to work harder on our War on Waste program. We are looking at all kinds of avenues to see what we can do on War on Waste, which includes further elimination of diesel, use of solar to reduce the overall energy bill particularly in rural areas where we have space to put up solar solutions. We are looking at further digitization of our business to bring down cost of serving customers. I think in the short-term, there has been an elevation in sales and distribution costs because of competitive intensity on account of channel commissions. We look for using a lot more sophisticated techniques to see how we can be even more efficient in what we offer channels to acquire the right quality customers. So there is a whole bunch of things. I think we just have to work harder and stay in the same place, and that is our effort right now.

Kunal Vora - BNP Paribas

Sure. Sure. That is helpful. Just a follow-up on the first question on churn, like the churn rate remains fairly elevated, 3.3% monthly, almost 40% annual. When do you see that stabilizing?

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

Yes. I think the churn, as I mentioned, is elevated, and we are not happy with the level of churn. The large reason for the churn is less churn of tenured customers who have been with us more than 9-12 months, but really poor quality of acquisition. And this is why I said that we are really trying to see what we can do to improve the quality of acquisition so that we can get a control all this churn. This is finally happening in the market because fundamentally, there is an arbitrage in pricing where a new SIM is available for probably a lower price given the channel commissions than what you would play for an existing plan. That leads to arbitrage. It is something that is a menace in this industry. It has been there for many-many years. It has gotten worse in the last few months. But I think we just have to find a way to get more clever, more sophisticated about what we do. There are many pilots that we have done in the last 30-40 days, and we are hoping that some of these will rollout now in the coming weeks and months.

Kunal Vora - BNP Paribas

Thanks. My second question is, if I observe, like IoT and M2M connections almost doubled over the last 1 year. Can you help us understand the potential size of this market? What are the main use case? What are the customers really doing, the growth trajectory which we can expect? And also, what kind of ARPU you are making on these IoT and M2M connections?

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

Yes. I think that historically, what we have done is like I think about 3-4 years ago, we moved this M2M business under the B2B reporting because it is really a B2B business. But the reason we called it out in our investor pack this time as part of postpaid is because we wanted you to get a fair comparison of what really is our postpaid business when compared to our competitors because when they report postpaid, they report it along with M2M and IoT. This is why we disclosed it as we wanted you to get a true and fair representation of what is happening.

I think the M2M business is driven by multiple use cases, fleet management, SIMs are going into cars, ATMs, meters. Seeing large plans by governments to move to electronic metering based on IoT devices. GSMA did a study few years ago where they were talking about few billion machine-to-machine devices over the next few years. So this is something that certainly is a big growth opportunity. The individual ARPU of an individual SIM is very low. I am not at liberty to disclose specific number, but it is very low, but remember also the consumption on these SIMs are also very low. As it is a corporate paid connection, so to that extent, you are not being paid per SIM, instead you are being paid for, let us say, 50000 or 100000 or maybe 0.5 million SIMs where you have 1 billing and you are getting the money. The place we have spent a lot of our time is creating this M2M platform of ours. Our own engineers have built it. This platform is amongst the best in the world. We offer all kinds of flexibilities where a customer is able to provision a SIM on the fly, can do it by themselves does not need to actually even contact Airtel. SIM is just delivered to them and they can decide where to use it and when to use it. They can take it off. They can get all kinds of analytics with it. So these are the use cases that we are actually building on top of this, which is exactly what our customers are looking for.

Kunal Vora - BNP Paribas

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But like this number has almost doubled to almost 13-14 million in last 1 year. What kind of...

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

Yes, it is growing fast.

Kunal Vora - BNP Paribas

What kind of growth would you expect going forward? Do you think this kind of growth is sustainable?

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

Well, I hope so. Again, I am not giving you a target or a forecast. But as more and more automation comes in across many-many industries, as more and more efficiency is being sought through using the power and information, then yes, these are opportunities that everybody is going to look for. It is actually much lower in terms of cost than sending people to do with the metering. For example or a truck that is on the highway, you want to know what is the speed at which it is going. Is it over-speeding, is it traveling at the wrong time, is it moving in the right direction that we wanted it to? All of this is possible with this. Otherwise, it is not possible to even look at some of this. So, many customers find this extremely because it adds value.

Kunal Vora - BNP Paribas

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

Vandana - Moderator

Thank you very much Mr. Vora. The next question comes from Mr. Vivekanand Subbaraman from AMBIT Capital. Mr. Subbaraman, you may please un-mute your side and ask your question now.

Vivekanand Subbaraman - Ambit Capital

Thank you for the opportunity. I have two questions. So, firstly, Gopal, you have been highlighting how the non-mobile revenue streams are becoming more and more important, and we have been seeing strong growth traction both in B2B and homes. So, just wanted to understand from you in terms of your vision for the non-mobile businesses, how do you see the contribution trend in the next few years? So, that is question one. Secondly, any thoughts on the substantial headcount addition that you have done in the last nine months and in this quarter in particular. Anything you want to call out here? Thank you.

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

Okay. Thank you for that. I am very excited about our entire portfolio outside of wireless. I think that every part of our portfolio is important. Within this, B2B as a jewel in the portfolio, it has done consistently well, and I explained to you all the reasons. I do believe that we are operating in a Rs 40,000 Crores connectivity market. But there is also an adjacent market to another Rs 40,000 Crores to 50,000 Crores which comprises of CPaaS, cloud, cybersecurity and data centers. All of these play to our strengths and our advantage. And this is where we are now building a stronger portfolio. So, I see a runway for B2B over a period of time as we expand forth from our connectivity to beyond-connectivity.

In connectivity itself, there is a big opportunity. So, let me give you a few examples here. We have a customer in Bangalore, who is a large Internet company. By going deep in the B2B space, we were able to double the revenue within a six-month period. We have a customer in Delhi, who is a financial service player, and we were able to quadruple the revenue by actually going deep, which is really offering a full portfolio of B2B solutions. So, when you look at these case studies, and I think a few quarters ago, I did mention another customer, a bank or a financial service in Mumbai, where we were able to go almost 4x. So, when you look at these examples, whether it is in banking, it is in technology space, there is an IT&S. These are opportunities which are particularly exciting for our field teams, and we have got to make this into a tool kit, which becomes a consistent way by which it is replicated in more and more accounts.

The other part I do want to comment on is in our homes business, because here, again, is a very interesting business. Broadband market, as you know, is exploding and we are right there really at the forefront of trying to drive this. DTH has been a drag. But I think with the recent strategy that we put in place, I am hoping that next quarter we will be able to report a better outcome.

On headcount, Soumen, do you want to talk about that?

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Yes. So, in our SME segment, we have channel partners who have deployed their forces. We believe that the SME segment needs to be attended to in a much more standardized and elevated method, so that the width and the depth can be achieved what Gopal referred to. So, we have in-sourced more than 1000 people on that account who were earlier so-called off-roles. So, that is why you see a significant jump in the headcount.

Vivekanand Subbaraman - Ambit Capital

Okay. The headcount point is very clear. Gopal, one small follow-up on the enterprises business, so, has voice become that insignificant that the growth trends in enterprise segment now will be materially different from, let us say, what we are delivering in FY2020, FY2021, because now we are consistently growing at double digits on the revenue side year-on-year?

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

Sorry, I missed that question. Can you just repeat that?

Vivekanand Subbaraman - Ambit Capital

Sure. So Gopal, my question was on the B2B side, has voice revenue within the B2B revenue become so insignificant that we are now consistently able to deliver double-digit growth led by connectivity and the other service revenue streams. Is that how one should look at it? The reason I am asking is this segment was stuck in a rut over FY2017 to FY2021.

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

Obviously, it has become smaller in terms of its relative contribution. It is still reasonable, and yes, this is the one part of the business that is not growing. To that extent, the underlying growth is actually faster. But this is why with Airtel IQ and with all the CPaaS offerings, we are trying to move a lot of this on to the cloud. So, we are trying to approach it in a different way. But yes, that was one of the headwinds in the business. But outside of that, all the other parts of the portfolio are growing. The connectivity part, we are gaining share because of the expansion that we are able to do, and all the non-connectivity that is beyond connectivity, all the adjacencies, these are virgin markets where every deal we win is an incremental revenue and incremental market share to us.

Vivekanand Subbaraman - Ambit Capital

Alright. Very clear. All the best.

Vandana - Moderator

Thank you very much Mr. Subbaraman. The next question comes from Mr. Nicolas Baratte from Macquarie. Mr. Baratte, you may please un-mute your side and ask your question now.

Nicolas Baratte - Macquarie

Thank you. Slightly complicated question maybe. But looking at your mobile ARPU or mobile tariff for India. You discontinued a number of very low ARPUs maybe nine months ago, and then you restructured your ARPU pyramid maybe six months ago. I got the dates wrong probably, and your ARPU keeps increasing, right? So, do you think that the change in the pricing structure and in the pyramid that you have done over several quarters is still leading to further tariff growth today, meaning that it takes some time for consumers to decide to upgrade from a feature phone to a smartphone. It takes time to decide to spend that kind of money that there is probably some substantial increase in tariff levels for some consumers. Do you think there is some rippling effects, some delayed effect or long-lasting effect of the change in your pricing structure?

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

No. I think that the shedding of customers that we did and if I remember right was almost 2 years ago. I think, where we shed close to 49 million customers in a few months, and I think that served us very well because it de-clogged our networks. It focused our organization to chase the right quality customers and really simplified our business. So, that is the reason we did it, and it is worked very well for us in hindsight. At that point, it was a risky decision. There was a lot of concern whether it will work or not, but we did some pilots, and then we rolled it out. I think ever since then, the drivers of ARPU increase are either tariff, we have had two rounds

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of tariff increase, or its feature phone to smartphone upgradation or its monetization of data or it is the movement from prepaid to postpaid and so on and so forth. So, those are the four drivers, and those stay intact, and that has not changed in the last few years.

Nicolas Baratte - Macquarie

So, that is what I meant Mr. Vittal, the two rounds of tariff increase, do you think this still plays a part in the increase in ARPU that we still see this quarter?

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

No. That is all done. That typically gets done in three months, so no.

Nicolas Baratte - Macquarie

Okay. Understood.

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

The last tariff increase, I think happened in somewhere around November 2021.

Nicolas Baratte - Macquarie

Understood. Within your mobile revenue in India, very clearly, voice minutes are going down and data volumes are going up, right? How much does that explain the increase in EBITDA and EBIT margins?

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

No. It has nothing to do with EBITDA and EBIT margins. We are in the business of actually getting customers and getting ARPU. Those are the two drivers of our business. Customers into the ARPU that you get is really the revenue that we generate. The reason that people buy data packs is because they see a lot more value. Yes, voice minutes have declined in this quarter. That could be on account of the seasonal factors or just the fact that maybe we have reached a point where people do not see the value in continuing to speak more and more and more, and they have other things to do. So, I think the real driver for our business is the movement from feature phone to smartphones and the moment they get onto a smartphone, getting on to data and consuming data so that you get the full ARPU that they are capable of returning to you.

Nicolas Baratte - Macquarie

So, you would say, therefore, that EBITDA, EBIT margin on voice and data are similar?

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

Well, we do not kind of report it in that manner. So, you have just looking at the whole business, yes. We do not give it the way your are asking.

Nicolas Baratte - Macquarie

Understood. Last thing for me, sorry for being long. You talked about Capex. When do you see and over which time period do you see peak Capex?

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

Well, I think that the following year is a year we are going to be able to both roll out 5G as well as rural, and like I have mentioned, I think our Capex has been moderately around the Rs 23,000 Crore to 24,000 Crore number per year. There could be some advancement of Capex from the following year, which is the 2024-25 into 2023-24. But we will keep it very flexible. We will see how the uptake is. We will watch the space on rural. We will make sure that we are trying to see the power of our data science models and see if it is actually translating into revenue. We do the same thing on 5G. So, this is a modular business, and especially on radio

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investments, you can turn them in and off or off and on, literally in a matter of 30 days to 60 days. So, just the timeline required to actually shift the material from the factories into the warehouses. So, this is highly modular, and we will wait and watch how it plays out to determine what the ultimate level of Capex will be for the following year.

Nicolas Baratte - Macquarie

Have you decided how to price, how to sell 5G?

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

I think that right now the plans that we have offered are the same. So, both 5G and 4G is at the same price. So to that extent, data is data. If you have got a 5G device, your data will work on 5G. Right now that is the way how it works.

Nicolas Baratte - Macquarie

Thank you.

Vandana - Moderator

Thank you very much Mr. Baratte. The next question comes from Mr. Rohit Kothari from GeeCee Ventures. Mr. Kothari, you may please un-mute your side and ask your question now.

Rohit Kothari - GeeCee Ventures

Hi Gopal, congratulations on a fantastic set of numbers. Just delving into your financials. This quarter, I saw that we generated a free cash of close to Rs 3500 Crores. Am I wrong to see even with elevated Capex, next year, a free cash flow between Rs 20,000 Crores and 25,000 Crores. That is number one. That is the first question. The second question is on the 5G pricing. Given such elevated Capex is happening on 5G, we believe that there would be Rs 75 to Rs 100 premium on the 5G pricing. So, could you highlight what are your thoughts on that? And third is on the home broadband. We have close to 5 to 5.5 million subscribers, and I heard somewhere or some statement that eventual goal is to reach a 20 million homes, and what is the timeframe we should expect that to happen?

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

Thank you, Rohit. Thanks for your comments. I think on the free cash flow, we are not at liberty to share forecast for the next year because what you are asking us is the guidance of the entire business model. I think it is suffice to say that we are comfortable as far as the operating cash flow is concerned to fund all our Capex requirements even if it is elevated and pulled forward from the following year. This is in addition to paying down some debt and paying down some of our spectrum dues. So, to that extent, we are in a comfortable position there.

On the 5G pricing front. Look, we have seen and assessed what is happening in other markets. In some markets, what operators have tended to do is price the 5G at a small premium, maybe 10%, 15%, 20%. Thailand has done it, parts of the U.S. have done it, even, originally, Korea had started with it. What we find is that the take rate of that is a fraction of the full base of customers. So, in other words, the ARPU is an illusion because if you are getting a smaller numerator of a larger denominator, multiplied by the ARPU that you were supposedly getting. You are still not getting revenue. So, ultimately, then what we need for monetization is the tariff table in itself to go up. That is the first part. The second part is having put the Capex, you also wanted to be filled out fast because you do not want to invest as much in 4G. You can displace the traffic that is coming from 4G on to 5G and over time refarm the spectrum bands and then use all of it for 5G. So, that is the reason that we are currently at the same pricing. We do not know how that will play out, and of course, we are also right now just building out the network. So, we are still in the construction phase and then we take a decision as to what we do in maybe in six months to nine months.

On homes, I think we did say that the market could potentially be anywhere between 40-45 million homes, and we today are at about 5.2 million homes. We continue to accelerate this business, and we hope that we garner a significant part of that overall opportunity on home broadband.

Rohit Kothari - Geecee Ventures

Yes, and just one more question, Gopal. What would be your aspirational target, what should be the timeframe when our net debt of Rs 1.7 lakh Crores today will touch 1 lakh Crores. So, Rs 70,000 Crore debt reduction, when do you seek to achieve and in by what time?

Transcript of Bharti Airtel Limited Second Quarter Ended September 30, 2022 Earnings Webinar**Gopal Vittal - Managing Director and Chief Executive Officer, Bharti Airtel Limited**

Harjeet, do you want to comment? Again, I do not want to give any targets and guidance on this. Let me just headline it, and I will hand it to Harjeet. I think our focus is to make sure that we run a tight prudent ship, we maximize our operating leverage, we try and find different sources of revenue and generate more and more free cash flow, which will ultimately pay down our debt. The debt that we have, by the way, a large part of this benign debt is just DoT debt, it is government debt. So, in a way it is a lease for spectrum payments. Harjeet, do you want to add anything?

Harjeet Kohli - Joint Managing Director, Bharti Enterprises

Thanks, Gopal. Rohit, your question is fairly valid, but the three or four forward-looking variables there. First is how you project the EBITDA, which of course, depends upon the tariff cycle, 5G utilization etc. Second is the Capex, whether to the extent certain Capex is brought forward or not. The third variable is really the ability or incentive to prepay out some debt, depending upon the interest rate cycles.

So, I would not be able to comment directly on what could be a timeframe. But keep in mind, when you were looking at FCF for the coming year, probably you did not keep into account the finance lease unwinding portion that has to go out to the tower companies. So, as you look at EBITDA less Capex, you should also factor in the finance lease payments to be done to the Indus Towers and the ATC and other tower companies.

Clearly, in next 2.5 years, there is a moratorium on spectrum and AGR payments, so there is some bit of extra cash in the system, which can be utilized to pay down the debt.

The last piece is what happens if something needs to either be changed or relooked at or not on the dividend policy. We have a very meager conservative policy or philosophy rather, of passing through the dividends that we received from our subsidiaries - Airtel Africa and Indus Towers being dominant and a few others. That should stay, of course, but the Board can of course, try and relook at basically the free cash flow profile, both the sustainability of it and also the pool being built up. So, these are the four variables. Arguably, this FCF is building up and is sustainable, confidence is high, but how these variables play out and whether it takes 24 months, 36 months, 48 months, cannot say today.

Rohit Kothari - GeeCee Ventures

Thank you.

Vandana - Moderator

Thank you very much Mr. Kothari. Due to time constraints, I would now hand over the proceedings to Mr. Gopal Vittal for closing remarks.

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

Thank you very much for joining this call and for the engaging discussion. I look forward to seeing you next quarter.

Vandana - Moderator

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