Conference Call Transcription

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CORPORATE PARTICIPANTS

Mr. Gopal Vittal
Managing Director & Chief Executive Officer, India & South Asia

Mr. Harjeet Kohli
Group Director, Strategy & Business Development

Mr. Kamal Dua
Financial Controller, India & South Asia

Mr. Rajiv Sharma
Head, Investor Relations

PRESENTATION

Rajyita - Moderator

Good afternoon, ladies and gentlemen. I am Rajyita, the moderator for this conference. Welcome to the Bharti Airtel Limited Second Quarter Ended September 30, 2021 Earnings Webinar. Present with us on the call 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 the option during the management opening remarks itself to ensure to find a place in the queue. Upon announcement of name, participants may kindly click on "Unmute Myself" in the pop up 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 & Chief Executive Officer - India & South Asia, Bharti Airtel Limited

Good afternoon, ladies and gentlemen. Thank you for joining this webinar to discuss Bharti Airtel's results for the Quarter ended 30th September 2021. Also present with me on this webinar are Harjeet Kohli, Kamal Dua and Rajiv Sharma.

Let me start with a quick review of recent events that have impacted the industry. As you are aware, the government announced seminal reforms that will help preserve cash flows and enable the industry to drive investments. There have also been substantial steps taken to simplify the way we do business by cutting back on several needless approvals and easing the customer on-boarding processes. We welcome these steps and remain committed to meeting the vision of a powerful Digital and connected India.

The second important event this Quarter has been our rights issue. We have had a very encouraging response. Our issue saw a subscription of approx. 1.44 times, overbid by both public and promoters. We thank all our investors for believing in the Airtel story. Airtel is well poised to benefit from the huge growth we are seeing in Digital adoption across 4g/5g, home broadband, Data Centers, digital services, Payments and much more.

Now to our performance. Our overall portfolio of India mobile, enterprise and homes in India and Africa has delivered strongly this quarter.

Our consolidated revenues for the Quarter grew by 5.5% sequentially to reach 28,326 crores and our EBITDA margins improved over the last quarter from 49.1% to 49.5%.

Let me now touch on each of our businesses.

In our **Broadband business** we have seen strong customer growth of close to half a million, a level of net additions that is the highest ever in a single quarter. Our overall customer base is now at 3.8 million.

The focus on high quality urban homes, our Local Cable Operator partnership model and Airtel Black continue to drive our strategy around home broadband. We expanded our infrastructure in the quarter and added over 1.1 million home passes. Our innovative digital partnership model with the local cable operator has been a game changer for us. Our presence has now expanded to 436 towns. In order to accelerate growth and improve the experience at our stores we have now started to insource all our retail stores. You may recall that 1400 of the 2000 odd stores were earlier on a franchise model. We hope to conclude this process by the end of this fiscal year.

We believe Fiber to the Home is a very large opportunity and will continue to step up investments to take our network to 2000 towns across India with 35 million home passes in the next 3 years.

In **DTH**, we now have a presence in 18 million homes with an ARPU of INR 148. Private DTH players are seeing users particularly in the Hindi belt move to Free Dish—some of the Hindi General Entertainment channels with very good content are now being offered for free and have impacted our performance. Yet, we are positive about the DTH business from a medium term perspective. The opportunity to convert from cable is massive. There is also a massive opportunity to leverage the advent of OTT content and deliver a unified and connected experience through Airtel X Stream. Our go to market efforts by bringing in all Airtel services through the unique and differentiated Airtel Black will allow us to create value for customers and drive growth.

Let me turn to the **Enterprise business**

For the Quarter, Airtel Business clocked revenues of 3,995 crores, a sequential growth of 5.4% on revenue and 8.4% on EBITDA. Our margins improved to 39.9% this Quarter. I am personally excited about our Enterprise product portfolio which allows us to capture future growth opportunities. I will talk more about this later today. Last time I spoke to you about our focus on going both wide and deep. Wide to tap into the 80 percent of customers who account for only 20% of our revenues. And deep in the accounts we have solid presence in so that we can sell many more products and raise switching costs. As a result, our focus on new product acceleration continues. We are also excited about the data centre business and intend to step up investments to 5000 crores in the next few years. Our unique ability to differentiate by providing resilient connectivity coupled with our strong relationships with customers across both domestic players as well as hyper scalers gives us a solid competitive advantage.

Let me now finally comment on the **Mobile business**

Our performance here in this Quarter has been strong. Despite a substantial tariff increase at the lower end of the market, we were able to grow our mobile net additions at 2.2m and 4G customers at 8.1m. This underscores the strength of our strategy to focus on quality customers. Given that bulk of the tariff increase has flowed through into revenue, our ARPU improved to 153, an increase of Rupees 7 in a single quarter.

Our revenue market share at the end of Quarter one was well over 35.6%, a lifetime high. We continue to believe that the mobile industry ARPUs are not sustainable and should improve to 200 in the near term and 300 in the longer term.

This quarter we have launched our second version of the Mera Pehla Smartphone cash back programme. This program is applicable across 175 devices with a price of less than Rupees 12000. While this will certainly create buzz and preference for the Airtel brand in the market place, our experience suggests that this will not have a meaningful dilutive impact on ARPU or profitability, something that we have thought about carefully as we designed the contours of the program.

I would now like to step back and share my excitement at the four critical moats that Airtel has.

The first Moat is around Payments and our Airtel Payments bank.

Today, Airtel Payments Bank has a customer base of 115 million with a monthly transacting user base of over 31million users, an annualised GMV of over USD 17 billion and a merchant base of over 8 Million. Revenue is close to INR 1000 crore on an annual basis and we are now EBIDTA and PAT positive this quarter. One reason we believe this business is a strong moat for Airtel is that when a customer's bank account number is also her Mobile number, there is much lower churn.

Our monetization model for the Payments bank can be broken down into three broad categories: First, Transaction income driven by our ability to participate across the value chain. Second, interest income. Finally, Fee income which originates from our ability to cross sell. Let me elaborate on these.

Unlike other players in the market, we think of the India opportunity through a multi segment way across 3 different parts. Tier 3 and beyond markets, Digital users particularly in Urban areas and finally the B2B segment.

Let's start with Tier3 and beyond markets.

Here, our strength is the ability to leverage our distribution and, with 0.5m Business Correspondents, we are well ahead of any one else in the market. To put this in context, our total payment bank distribution is 2 times that of the total ATMs and bank branches in the country. I believe that we have not just a first mover advantage but an only mover advantage that allows us to offer our customers a full stack digital account here. It is this advantage that has enabled us to get to leadership in the Remittance market.

Remember that this market is growing rapidly and estimated to grow at 70% over the next few years. A second big opportunity here is Aadhar enabled Payment systems which allows customers to use Aadhar authentication for various banking activities. This segment is expected to grow upwards of 45% CAGR over next 4 years. We are also driving financial inclusion by being a key player in the distribution of various government sponsored schemes.

The second opportunity is the Digital user. Here we are well placed as we can leverage the 180million+ customers we have across our Digital assets. We offer a plethora of services such as lucrative interest rates, gift cards, digital gold, fastag, telecom recharges, payments and debit cards. Our large merchant base of more than 8 million allows us to drive both engagement and monetisation. This is one area that is now seeing solid traction and you will hear more about this in the coming quarters.

The third segment is B2B. With the growth of e commerce and the need for cash management across a very distributed geographical foot print we have a unique advantage through our large retail foot print. 100 billion USD in cash is digitised monthly and cash management charges are estimated between 0.5%-1.0% of the collection amount.

As a result of this multi segment view of the market, a critical metric we focus on is what we call the take rate. This rate is the conversion from GMV into Revenue. On the take rate we are at 0.74% which is amongst the highest in the industry. This shows our relentless prioritization of monetization over what we believe can otherwise become a mindless attempt to grow GMV through discounts and cash backs.

As you can see, we are just getting started and with the bank breaking even, we believe that the realization of this massive opportunity is now a natural right given our strengths.

The second exciting moat I see is around our enterprise business with its robust future proofed portfolio which I referred to earlier. The reason this business is such a strong moat for Airtel is the tremendous stickiness that we have with customers for our services. The fact that customers trust us with their data, the enormous respect they have for our governance and privacy are all intangible but priceless sources of competitive advantage.

As of date, we have only disclosed the broader revenue numbers for this segment. Today, let me provide a little more color to allow you to understand the robustness of our overall portfolio. Our Revenue in the enterprise business has three component parts.

The first component of Revenue is voice services. This part of our portfolio has been under pressure. And this is the same for all players in the industry. Our profitability is at par with the industry here and our focus is to continue to grow market share given our relationships with customers while preserving profitability so as to generate cash.

The second revenue component is Connectivity and Connectivity related solutions. This includes all our services around connectivity, data centres, Airtel Secure, SD WAN, IoT and connectivity based partnerships such as bundled routing solutions. Here there is healthy double digit growth and our margins are better than any of our competitors.
In this segment, we have a 31.7% market share in data market and a 44% market share in the mobility market. We believe that we are very well poised to see further consolidation of customer spends in Enterprises as we move towards 5G.

The third component of Revenue is CPaaS (Communication Platform as a Service). This part of our business has been the fastest growing part of our portfolio at very strong double digits. In this segment, our profitability here is well above the industry average. This part of our business has now become meaningful and accounts for almost 15% of the total enterprise business.

Our CPAAS business plays to our strengths of combining our network and digital strengths. With the launch of Airtel IQ we are very well poised to win this rapidly growing market. We plan to sharpen our offers and focus on bespoke solutions to accelerate share. We also now want to expand this across the globe through our wide coverage of our sales teams located in all parts of the world.

The Third moat is our Quality customers and high value homes. We say this because our portfolio plays squarely to the premiumization that will continue to unfold in India.

Last quarter, I spoke to you about our view of the India consumer market opportunity. Let me refresh your memory again.
We see the market in three parts. The bottom segment has about 400 million users comprising of farmers, rural traders etc. who are largely users of feature phones today. They are looking for basic connectivity and a satisfactory experience that is hassle free. This is the segment with the lowest level of ARPU.

The second segment has almost 500 million migrants, gamers, young students, blue collared workers and traders. We call them Aspirers. We see a 2X shift in ARPU when the feature phone user switches to a smart phone. Simultaneously we see a lowering of churn. We have built powerful analytics using data science to drive this switch. We also have honed to a fine science the underlying drivers of churn. Within the company we have what we call the ten commandments of churn each of which is based on a very granular understanding of customer behavior.

Then there are potentially 50 odd million high value homes in India. They comprise of executives, self employed professionals, business men etc. These are customers who want to feel special, desire a simple, convenient experience and are concentrated in the top 25 cities of India. The first point of entry for us is Postpaid. Here again we see a doubling of ARPU when someone switches from prepaid to post paid. One of the lesser known secrets of our business here is our Family proposition. This allows the customer to add a member of their family and share data with them on the same plan. Today a majority of our post paid customers are on the Family plan. Churn here is miniscule and switching cost very high.

Right at the top of the pyramid we see ARPU tripling when a customer moves from a simple Post paid plan to being a part of Airtel Black. The primary benefit of Airtel Black for us is that it raises switching costs for customers and provides genuine value to our customer.

It is this overall focus on premiumization and quality customers that has allowed us to raise our ARPUs even in the absence of tariff hikes over the last 5 quarters. As I said earlier given the natural structure of our portfolio we are in a pole position to win.

The fourth moat is our capabilities in the Digital layer that is riding on our underlying platform to drive meaningful digital services revenue at a negligible capex and opex.

There are four capabilities we have here and I have talked about these in the past. Let me briefly provide some texture to each.

First, Data – We have made significant investments over the last few years in our data infrastructure platforms, in data science and in data analytics. One such investment has been in an integrated CLM which allows us a 360 view of our customers. This is what helps in the premiumization approach I talked of earlier. It also helps us to drive other digital revenue streams.

Second Payments – We are now doubling down on accelerating payments through leveraging the unique strengths of the Telco – authentication, distribution, security and digital scale. We recently launched Airtel Safe Pay and Bank wala Sim. You will see more innovation from us addressing the Urban digital user in the coming months.

Third, Distribution. Today, we have state-of-the-art capabilities in the form of real time messaging, vernacular campaigns and an omni channel view all with real time metrics across our entire portfolio of customers. Our new integrated CLM has replaced the earlier business-led view with a much more cohesive and simple customer view based on clearly identified cohorts. This is what helps drive the next best offer through strong digital intelligence across both our core business as also digital services.

Finally, Network. We have made substantial investment in the digital layer through cutting edge tools that leverages AI and ML. Let me give you an example of one such Tool. This tool provides us with network and customer insights that helps us identify the right site for deployment. In addition it gives us precious insights on where we need to get more customers at an individual site with a clear set of hypotheses on why we have been unable to. It is this very granular understanding that allowed us to get almost 40 percent of incremental 4g net adds in the last 12 months from specific locations that we targeted. A second home grown tool leverages AI and ML to trouble shoot and fix network experience.

It is these four capabilities of Data, Payments, Distribution and Network that is now helping us generate digital services revenues that are now increasingly meaningful. We have two sources of revenue in the consumer side – Subscriptions or Commissions and Ad Tech. On the B2B side our source of revenue is really SaaS led.

Subscriptions/Commissions work off our underlying assets – Wynk music, Airtel Thanks and Airtel X stream.

In Ad Tech we now have integrated all our assets across Digital assets, DTH and Media dark vehicles such as Ring tones. We have over 140 brands already leveraging our platform and growing.

Let me turn to B2B. Our biggest bet here is Airtel IQ which is expected to be a platform for all kinds of cloud communications services. Voice, Video, Streaming and eventually even work force management. Every one of these services is being used by Airtel and we now have over 175 customers on this platform. These customers range across the biggest internet companies, banks and many more.

As you can see, we are increasingly thinking of our business as an eco system. We believe we are at an exciting phase in our digital journey.

In these last few years, I have learnt that moving a business as large as ours from an offline view of the world to an omni channel digital world takes anywhere between 3-4 years. The good news is that we commenced our journey 5 years ago. I have also learnt that you have to be focused on asking the right questions. The three key questions we ask ourselves all the time are (a) what problem are we solving (b) how do we get the right talent to solve this problem and (c) how do we ensure that their paths are clear so that they can get it done.

This is easier than it sounds. It needs leadership resolve, it needs a collaborative culture of inclusion and above all it needs a flat, agile and decisive way of working.

The good news is that all this plays squarely to our strategy of winning the best Quality customer, giving them a brilliant experience and doing this by building compelling digital capabilties.

I want to end with a few words on ESG, Governance and the balance sheet.

The Company remains aligned with the Paris Climate Accord, proactively implementing clean, fuel-based power solutions for our towers, data centres, switching centres and other facilities.

We have remained committed to society, our customers and employees right through the harrowing time of the pandemic. We have always demonstrated the highest standards of corporate, financial and operational disclosures. Our classification of revenue and costs are in line with our best global peers. More importantly, with the additional colour on the Payments Bank this Quarter, we have shown our commitment to maintaining the highest standards of disclosure. At the right moment, we will give you more colour on our Digital Services in terms of disclosure.

A final word on the balance sheet. The balance sheet continues to be robust with healthy and improving cash flows. Our leverage ratio is under 3 and we remain committed to being financially prudent and yet growth focused. An important highlight that I do want to underscore is that in the past quarter we have reduced our bank Debt to Zero. We will continue of course to evaluate all options to maintain a comfortable leverage profile and optimize associated costs.

In sum, our performance for the recent Quarter has been strong because of the resilience and depth of our portfolio. In every one of our businesses we are at a lifetime high in terms of revenue market shares, the most critical barometer of our competitiveness. Our strategy and choices are dictated by our view of the market and the way we can tap into that opportunity. These choices are simple and cohesive. It is these choices that has enabled us to build an Airtel of the future which is well positioned to win.

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. Nicolas Baratte. Mr. Baratte you may please unmute your side, introduce yourself and ask your question now.

Nicolas Baratte - Macquarie

Thanks for taking my question. I have a very broad question about the moratorium, the AGR and spectrum. Moratorium in terms of how could that change the shape of the income statement or the balance sheet in the coming quarters in terms of either cash spectrum fees or other cash expenses or value of the spectrum, capitalize or recognize on the balance sheet? What type of accounting is changing the numbers? Could we expect to see in which quarter because of the moratorium? Thank you.

Harjeet Kohli - Group Director, Strategy & Business Development – Bharti Airtel Limited

This is Harjeet. So I think your question is very valid. So if you look at the moratorium that the industry enjoyed the last two years and that is why this particular quarter close to about 1.2 billion dollars moved from accrued interest which was sitting in other liabilities to debt side because we have not paid that. For the four years that we have as an example if we have Rs.100 which we should have paid every year, each year has a differential amount of interest attached to it. As at the year ends that interest should have been paid but it has not been paid thus it will move to the debt. So all of these four installments, depending upon the yearly cycles a movement of accrued interest which is not paid, will move to debt. The debt which stands outstanding continues to stay there along with the new accrued interest. While it is sounding more complicated but net-net for your purpose the broad thumb rule is as follows: On a yearly basis we have about Rs 85,000 to 90,000 crores of government liabilities, let us say about $11 billion and different interest rates are applying to each tranches of our outstanding, you can take thumb rule of 8% interest rate. So, 8% of $11 billion dollars is the yearly interest kitty that should ideally be into the P&L, amorted out but given that it is not paid it is moved to debt.

Nicolas Baratte - Macquarie

So basically that will only impact capitalized debt on the balance sheet or accumulation of okay at 8% accrual rate? Good my second question is before the September quarter we have had the Indian mobile ARPU sort of fairly flat ex-IUC at Rs.145 per month say and then of course in the September quarter this very nice increase to 153, so is it possible that 153 totally reflects or not totally reflects the various tariff increase that you have announced or affected in the course of the quarter or let us say from June to September, between the low end of the spectrum, the corporate postpaid rate and so forth that is actually changed a number of fee structures there. Is it possible that we do not see or we do see the total impact of that in the 153 ARPU number or should we expect something else something more in December quarter? Thank you.

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

Nicholas I think if you look at the last five odd quarters net of the interconnect charges, which you know have peeled off, we have grown our ARPUs by almost Rs 10-Rs 11. So there has been a secular movement, while it is not much because the big bump in ARPUs will have to come through tariff increases. But having said that, we have seen impact of the premiumization on our portfolio that has translated into ARPU increase over the last five quarters. This quarter obviously, the increase was largely on account of the tariff increase that we put in at the lower end of the market and I would say a bulk of that has now flown through into the quarter because most of these plans are 28 day plans and we began it towards the back end of last quarter so to that extent they have flown through.

Rajyita - Moderator

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

Vivekanand Subbaraman – Ambit Capital

Thank you for the opportunity. This is Vivekananda from Ambit Capital. Gopal thanks a lot for giving additional color on Airtel Business so my specific question here was with respect to the three cuts that you made on the enterprise business, the second segment which is connectivity and connectivity related solutions, you said that you are looking at it now more like a SaaS business and just wanted to understand your thoughts on how we should look at growth here the role of 5G and possible insights on hunting versus farming?

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

I think Vivekanand what I was referring to is actually three parts for the B2B business. One is voice services which I said is kind of you know broadly declining, but profitable and we are using it to actually generate cash. The second part is really what you know you referred to which is connectivity and connectivity based solutions. This is not SaaS models. I mean these are basically everything to do with connectivity and different forms of connectivity including thick pipes, thinner pipes, SD-Wan, data centers, bundle routing solutions, Airtel Secure (cyber security SOC model that we have to monitor cyber security threats all over the world coming in and attacking the Indian environment), IoT and so on and so forth. The third revenue stream which is what I call CPaaS which is Communication Platform as a Service is really the parts where we move in more and more towards the SaaS model. This part of our portfolio is about 15%, its growing very rapidly at very strong double digits. We are in a very good position there because we also have a large pool of global salesforce all across the world. For example, we just launched our streaming platform as part of Airtel IQ and by the way we have several conversations running into multiples of tens across the world for the streaming platform. We have Airtel IQ which was a voice based platform. Many internet companies, banks and many more are already on this SaaS based platform. We call all these SaaS based services combined as communication platform as a service. We also have many more things coming there. I referred very briefly about our distributed workforce, currently we have one of the largest distributed workforce almost 50,000 people which we need to manage. Many of them are not even employed on our roles as these people work with our partners and associates but yet we need to make sure that they deliver the best experience. For example, if you order a postpaid sim, we will make sure that it is delivered at your home. Similarly, if you order a broadband connection we will again make sure that the installer shows up in your home and actually delivers it and so on. All of this orchestration of the entire work is the workforce management, routing, scheduling, analytics, real-time information of calling into that customer. All of this is something that we have home built for our own use and we believe this is also part of Airtel IQ that we will finally take to market as well. So that is really what I mean by the SaaS side of the third revenue stream on the enterprise business which is Communication Platform as a Service (CPaaS).

Vivekanand Subbaraman – Ambit Capital

Thanks Gopal. That was quite clear. Just one small follow-up. You have made certain investments in startups like Vahan which are very specialized in nature and can help you supplement your SaaS offering. Is there a thought process of utilizing some part of the group capital into say acquisitions that can be bolstered onto your platform and you know you can monetize better than the startup?

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

I think that option remains. I think the specific example of Vahan is a very good one where actually they have joined our startup accelerator program. Essentially, they try to solve the problem of identifying temporary workers in the gig economy for let's say Ola or Uber or Zomato or Swiggy. They are using our data so that they are able to do a much better job because we pretty much know who a migrant is. We have got a whole bunch of models that can tell you who is a migrant. Currently, we have about 40 million odd migrants on our network. This is identified based on their calling patterns, their usage patterns, and a whole bunch of other things. This helps them actually solve the problem. Also, it gives us a lot more texture on our segmentation which goes back into CLM. So, most of these companies that are joining the accelerator program are those who we see a strategic important to improve what we are doing in our own strategy. At the same time, they see an advantage because it helps them actually get a larger scale and it helps them actually get to accelerate whatever they are doing. These come typically at very very low values because they are seeing strategic significance but the option of actually investing more once we know them well and once we understand them is always something that we can exercise at our end.

Vivekanand Subbaraman – Ambit Capital

My last question is on the recent opensignal report that seems to indicate that your network lead versus peers probably has narrowed versus say six months to a year ago. So Gopal what are the ramifications of this on your network positioning and any thoughts that lead into the capex intensity discussion? Thank you.

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

I think that at the end of the day this is a treadmill and you have to constantly keep getting better. In the recent past, there was more spectrum bought by some of the operators so to that extent some operators would have got relief in terms of the quality of their experience especially as they rolled out large networks. I think the fact is that is a continuous improvement exercise the investments that they are making in capacity solutions. On coverage, we made big investments in specific bands to actually cover through sub gigahertz across the country. This has been a big step in improving experiences in both rural as well as indoor coverage. We are putting a lot of attention on caching at the edge and on the tools to digitize the way that we operate in order to improve the experience. The perception of what drives experience is something that we are increasingly clear on. It is often not just about speeds because if you are doing a browsing session you do not need too much speeds but if you are downloading a big game then you do need speeds. Similarly, if you are playing a game online, you need lower latency. So, there are very different applications that are there and much of that understanding is what we try and use to improve the perception of experience amongst customers.

Rajyita - Moderator

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

Manish Adukia - Goldman Sachs

A couple of questions from me. First question on the smartphone cashback offers that you announced last month please talk about just some initial traction of what you are seeing on this, you touched upon it in your initial remark but some more color on what traction there is and what is the customer segment that this particular product is being targeted at or rather you know what is the objective that you are trying to achieve with this offer and maybe some color you can provide also your competitor's launch last week and your thoughts on that? Second question when the company had announced rights issue in August the Chairman had mentioned that the company believes there is a once in a lifetime opportunity in the industry and that you expect to and that you expect to win market share across all your key segments including wireless. So, does that thought process change at all now given announced relief measures by the government last month or are you still anticipate that you continue to gain market share in your wireless business despite potentially cash flow situation of competitor now becoming better than they would have?

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

I think on the first question Manish, it is a bit premature for me to comment because we have just about launched it. The devices are changed once in 18 to 24 months. Given that it just literally happened a couple of weeks ago, there are too few data points for us to really make a meaningful pattern out of it at this stage. So, I would say that I have been traveling to around five or six circles - I have been to Rajasthan, UP, AP, Bengal and I have seen that the buzz in the market amongst the trade is quite high. So there is a sense of excitement about the scheme. A lot of this kind of plays out over the course of the next 60 to 90 days so perhaps it will be able to give you a little more texture of the next earnings call. On the competitive device that was launched, I am not going to comment much but I just suffice it to say that smartphones generally are seeing a lot of input cost pressures as chipset costs have gone up a lot, memory costs have gone up, screen prices have gone up and as a consequence overall smartphone costs and prices have gone up and therefore that's what we have seen in the market. In terms of the competitive launch, it is again early days for us to comment. I do not know whether this is going to be really upgrade feature phones in a massive way but at this point it is too premature for us to see. The second thing that I would say is that the target audience for our intervention is really to upgrade from feature phones. The devices that this offer is targeted at are those which are less than Rs.12,000. These are basically the entry level smartphones, which typically used to range between Rs.6,500 and Rs.9,000 but now given the input cost pressures most of these prices have gone up to around Rs. 9,000 to Rs.12,000. So anything below Rs.12,000, there are about 175 devices where it is applicable for and we hope that it will give us some upgradation. Of course, as I was saying given that the prices generally have gone up let us see what it does.

On the point on the rights issue, I do not think anything changes. I think the fact is that equity raise has been done in order to actually tap once in a lifetime opportunity to accelerate our investments, on networks, on data centers, on home broadband and of course also look at softening our leverage somewhat. So it is combinations of all of that and nothing changes. I think the operating cash flows of the business are strong. We will continue to invest for growth and we will be sort of prudent in how we look at it so I would not say anything changes. I think we see an opportunity like I have talked about in my opener is large. It is exciting over the next few years whether it is premiumization, whether it is the feature phone to smartphone upgrade over 100 million devices (just on our network alone), postpaid which could you know historically has not seen much traction in the last four years given the very depressed pricing on prepaid. Postpaid is now beginning to see some traction in the last few quarters but if you look at markets like Brazil or Philippines, even postpaid tends to be 50%-60% of their business. So, there is no reason why postpaid on a secular basis should keep at the levels that is but it should keep growing and then of course there is the convergence right at the top and all of this adds to the premiumization and the growth opportunity.

Manish Adukia - Goldman Sachs

Thanks so much for that. Another question that I had was just on your free cashflow profiles. Now we are seeing that ARPUs are improving for the business, you have availed moratorium on both spectrum and AGR, which probably means that over next three four years free cash flow profile of the business should look significantly better than what it has in the past even if we assume continue elevated capital levels so where will see the free cash flow largely be deployed when are you looking to increase your return to shareholders or do you foresee any need of cash in the core business that you have?

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

Well look I think firstly one should understand the conditions of the moratorium. As far as the moratorium is concerned, if you choose to take the moratorium which we have, the interest that is payable on the moratorium is converted to an NPV and you have one of two choices, one is to defer the payout at the end of a four-year period or to actually pay it every year in the anniversary period that comes in or to convert into equity. All options are still open. The decision on converting to equity has to be taken in January but the other two decisions are decisions that can be taken every year. The reason I want to make this point is that as at the end of the day we do not want to see this deferment as an opportunity for us to be fiscally not prudent. I think we have to be prudent, we have to make sure that the business continues to be lean, continues to invest where the growth is. We believe there is massive growth in data centers, in broadband, in the enterprise business, in our digital assets and of course in rolling out 5G. At the same time, we are conscious of our leverage profile, we could have easily pulled the plug on the rights issue, we did not do it because we wanted to ensure that despite the deferments we were comfortable on our balance sheet and I think that just tells you how we think. We want to make sure that we have enough cushion and room for growth but at the same time you want to balance that with tremendous fiscal prudence. I think that is the way we are looking at it.

Manish Adukia - Goldman Sachs

Thank you so much. It is pretty much helpful.

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

Harjeet anything to add on this?

Harjeet Kohli - Group Director, Strategy & Business Development – Bharti Airtel Limited

I think you were fairly comprehensive Gopal. The only small quick addition which I can do to your question is globally there will be a free cash flow profile which you can see now the last two three quarters as it keeps growing with India opportunity, the tariff hikes etc., the focus remains to what Gopal said. We have very modular small set of 40-50 installments available in DoT profile whether it is deferred or originally scheduled as a year end etc. Each of these is a potentially pre-payable opportunity so in the near term the focus remains to find a higher cost debt we can repay that lower the overall debt profile. Globally, we are sub 3x but India we are still over 3-3.5x so there is opportunity to work on further reduction, knowing very well that some of the non-routine requirements whether it is 5G whenever it happens and the upfront payments will be rights issue funded in a way because we have got deferred calls available. So, the sum and substance of your question was whether dividends need to be worked through or retire the debt, the immediate term focus is to manage the debt a little more, reduce high cost debt.

Rajyita - Moderator

Thank you very much, Mr. Adukia. The next question comes from Mr. Aditya Bansal. Mr. Bansal you may please unmute your side, introduce yourself and ask your question now.

Aditya Bansal - Nomura

This is Aditya Bansal from Nomura. A couple of questions from my side can you share some color on the traction that we are seeing on the bulk data plans and any plans to transition from daily data usage plan to bulk data with lower monthly usage? Secondly it seems we are seeing healthy net adds even on the B2B subs what would be driving this? Is it M2M on new product launches and how would the ARPU profile differ on different services that we are offering on enterprise?

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

Aditya, on the bulk data plans, the simple answer to your question is that no there is no traction. I think it is at a high premium to the daily plans and so this is not seeing traction. I think we will look at you know rationalizing these plans at the right point, given the very low levels of traction because we believe in actually simplifying the price portfolio and making sure that we have a clean and simple pricing structure in the market. On B2B, we are seeing growth of IoT. I think we are almost at a 44%-45% market share in IoT now based on the Frost and Sullivan but in fact added market share even this quarter. We have built our own M2M platform. We were earlier in conversation with many players around the world to actually use the M2M platform of theirs but we found that it was expensive and not as agile and flexible as we wanted it to do. We spent a bunch of time around 9 to 12 months actually building it out we have a very, very strong platform, meet every single need, actually has releases coming in every two weeks, this platform is getting more and more agile and scalable and we think that this is infinitely elastic to actually pick up any number of customers on IoT, so that is one tailwind that we are seeing. Of course the ARPU for M2M individual devices are low because the amount of data consumption is also low typically they are less than an MB a month so it is large account so you know if you typically have let us say 200,000 M2M connections distributed across the country or maybe half a million M2M connections distributed across the country this could be cars, electric meters and so on and so forth. The other place where we do say traction is our B2B corporate mobility plans where we have a strong reason to win because people really value our privacy, our security, our transparency and essentially trust us with deep relationships and longstanding reputation that we have built over the years. And finally I think the other place we are seeing traction on B2B is on the SaaS based platform which is the communication platforms as a service (CPaaS) both IQ and so on wherein we are now on boarding more and more customers as we speak. I would say most of the tech companies, a number of the banks, some manufacturing entities, this is really like scaling up.

Aditya Bansal - Nomura

Thank you Gopal. Lastly one of our peers is beefing up content through various sports like deals so what are our thoughts here and are we looking at upcoming IPO or something like that?

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

I would say it is premature to talk about that, but from our perspective if you look at our content strategy and I recall having this conversation few years ago also when we were confused about what we wanted to do with content. I personally spent a lot of time, almost four weeks, meeting many content players across producers of content across the industry, in particular in Mumbai, and I think we really had to really take a deep hard look at ourselves and say what did what do you really want to do and i think you come to the conclusion that we are not in the business of actually producing content. We are in the business of aggregating content and monetizing content through the subscription of our digital layer with the scale that we are able to build and that is across screens by the way. So that is really what we will do. The good news in India is that you do have must provide-must carry particularly on the large screen, while on the smaller screen anyone who buys it will ultimately want to monetize it and like we have done with Hotstar we have done a deal with them where we are you know their content is available to our customers and we bundle it with our with our services. So I think we did not see the value, in putting in several thousand crores into producing content in a model that the monetization is always going to be a challenge particularly if the market is only India. If you are doing it globally it is a different matter but if you are focused on India then content monetization through the small screen is not easy and you can see that struggle that all OTT companies in India particularly the long tail are actually going through.

Aditya Bansal - Nomura

Thank you.

Rajyita - Moderator

Thank you very much Mr. Bansal. 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. This is Pranav Kshatriya from Edelweiss. I have a question regarding the capex. So if you look at the you know the capex has been pretty sticky, last quarter the explanation was that since you have used some of the spectrum that has been rolled out for which the capex was high, this quarter it was slightly higher than the previous quarter so how should we see the capex for this year and for FY2023 should the capex trajectory be going up or going down and what is the nature of the capex? Is it more to do with the fiberization or are you preparing for 5G readiness. How what exactly is the nature of this process? Thank you.

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

I think Pranav, taking the last part of your question first I think we had given a broad guidance about our capex for the year. I think that pretty much stays. We did see a bump up on capex because some of the 900 band spectrum that we had, there were material shortages in quarter one and a lot of that actually started coming in into quarter two. So we did see a bump up. The contours of this capex are actually across three or four areas. There is a substantial amount of money that is going on to transport. This is really to ready for 5G, fiberizing our towers, making sure that we put enough fiber on the ground. The second part is really modular capex on the radio side where a lot of it has really been on the 900 band - new radios that we had to buy, some capacity bolstering but largely on the new on the 900 band because with this traditional spectrum we did not need as much of radios on the capacity side. The third part is core obviously just grows with whatever you would be growing but that is a modest amount of capex that goes there and we have not seen as much data growth because with the lockdown we saw a big jump but as the lockdown started easing and people went back some of the usage actually dropped. Then of course there is the non-wireless side of the portfolio which is our data centers, our home broadband, our enterprise business all of that also consumes capex. So I do not think the overall numbers change. I think it is just a question of a little bump up but that said I think we are watchful and you know one of the reasons that we mentioned that we have raised money through the rights issue is that we do not want to hold capex back for growth. I think we are very clear that we want to grow market share and so if we find that that opportunity is there, we will we will put in the requisite capex but at this point in time our sense is that the numbers will stay in line with the guidance that we have provided and for next year we have not yet provided any guidance.

Pranav Kshatriya - Edelweiss

A small follow-up for that, so if we are looking at 5G, what is your view on 5G? I mean are we looking at a more staggered rollout of 5G considering you know the spectrum auction will happen sometime possibly early next year, will considering the 5G device penetration is still low although incrementally we are hitting 15%-20% mark now overall basis I think it is still much smaller proportion so should we see a more staggered 5G rollout or you know it can be more like how it happened for 4G which was you know almost across the length and breadth of the country?

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

I think it is a bit early for me to comment on it for various reasons; firstly, I think we have been indicating to the regulator that because this matters right now with TRAI and TRAI needs to give out a recommendation to DoT which is after which they will kind of finalize and our recommendation has been to make sure that they look at all the spectrum bands, not just one spectrum band, because you know you need to look at all spectrum bands to see what is the totality of spectrum that will be available in India, much of it is sitting with the defense so that has to be unlocked, to make sure that we are able to as operators understand what should our spectrum strategy be. This would be spectrum in the 600 band, in the 700 band of course the spectrum was very high price, we had three failed auctions, those need to get substantially moderated in terms of price, then there is 3.5 gigahertz where a lot of the spectrum is lying with defense, how much spectrum is going to be available is another question then of course there is a millimeter wave. So all of this spectrum needs to be put on the block and I do not know whether that can happen soon. I think it will take some time as I understand it but we will wait and see you know when that when that consultation gets concluded then it comes to DoT and then of course the spectrum will be put on the block. DoT in the recent reforms as has suggested that every year they will keep auctioning spectrum.

The second thing I want to say to you is that the 4G and 5G in the short term, and when I say short term in the next let us say two years to three years, will be a little different from the way 3G and 4G were. In the case of 3G, the difference between 3G and 4G was dramatic - dramatic In terms of experience and by the way because you could run voice on 4G where the capacities are much lower the fallback going on to 3G was always going to be a poorer experience for customers because you fall to 3G then come back and so on and so forth and of course the capacity is on 3G are much lower because of the nature of the technology. In the case of 5G, there are two ways you can run it - one is what is called non-standalone and another is called standalone. Most networks across the world have moved to non-standalone. Non-standalone basically uses the 4G layer as the uplink and the 5G layer as downlink. So 5g comes as an overlay on 4G and that changes the experience and gives you a great experience. Now we all know that the nature of the mobile industry is modular. We know where the customers are, we know where the devices are and so you can decide where to actually deploy based on that approach. So, I think there are many moving parts. We will have to see how this actually plays out, one in terms of timing, the spectrum auction and finally what is the uptick on devices. In the next three to four years you will see 5G more or less on a ubiquitous basis or more or less in most key cities but in the immediate short term I do not know, we will have to see what happens and when the auction happens.

Pranav Kshatriya - Edelweiss

Thank you so much Gopal for the elaborate answers. Really appreciate it.

Rajyita - Moderator

Thank you very much Mr. Kshatriya. The last question comes from Mr. Tarang Agarwal. Mr. Agarwal you may please unmute your side, introduce yourself and ask your question now.

Tarang Agarwal - Old Bridge Capital

Good afternoon this is Tarang here from Old Bridge Capital. Just wanted to understand as you grow your enterprise data center business, is there a preference to any particular source of power and how are your customers looking at it? Is there a preference there or some sort of an apprehension from the point of view of the source of power that is being used?

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

I think this is a good question. I think we have we have almost all of the hyperscalers now in our portfolio as customers on data centers and we are very clear that based on the Paris Climate Accord that we have signed up that more and more of the energy that we use has to be green energy. Most of the large data center units are already green for us. We have invested in back-to-back power arrangements using solar powers to drive those data centers and this is something that is only getting better and you know we intend to disclose this as well as part of our sustainability initiatives in the coming quarters.

Tarang Agarwal - Old Bridge Capital

Thank you.

Rajyita - Moderator

Thank you very much Mr. Agarwal. With this I would 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

Well I just want to thank you for dialing in and for all the participants wishing Happy Diwali. Thank you very much for being with us.

Rajyita - Moderator

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