

Conference Call Transcript

Event: Transcript of Bharti Airtel Limited Second Quarter Ended September 30, 2020 Earnings Conference Call

Event Date/Time: 28th October, 2020 at 1430 hrs.

Transcript of Bharti Airtel Limited Second Quarter Ended September 30, 2020 Earnings Conference Call

CORPORATE PARTICIPANTS**Gopal Vittal**

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

Badal Bagri

Chief Financial Officer – India & South Asia - Bharti Airtel Limited

Harjeet Kohli

Group Director, Strategy & Business Development

Nakul Sehgal

Corporate Chief Financial Officer - Bharti Airtel Limited

Komal Sharan

Head - Investor Relations - Bharti Airtel Limited

Arpan Goyal

Investor Relations - Bharti Airtel Limited

PRESENTATION**Komal Sharan - Head of IR - Bharti Airtel Limited**

Good afternoon and thank you for joining us on this webinar to discuss Bharti Airtel's Q2 FY2021 Results. Before I hand over to Gopal for his opening remarks, I quickly wanted to highlight that we will be conducting a question and answer session for all the participants on the call. Participants who wish to ask a question can send their question using the "Moderator Chat" option on their BlueJeans interface. With this I hand over to Gopal for his opening remarks. Over to you Gopal!

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

Thank you, Komal. Good afternoon, ladies and gentlemen. Thank you for joining us today for this webinar to discuss our results for the second quarter ended 30th September 2020, which we announced yesterday. Present with me on this webinar today are Badal, Harjeet, Nakul and Komal.

Last month marked the 25 year anniversary for Bharti Airtel. It has been a very eventful journey– from laying a strong foundation in telecom in the early years, to rapid growth and now to the shift of us becoming a powerful digital service provider.

This year, in particular, has been truly unprecedented. The outbreak of COVID earlier in the year changed everything. Yet we continued to serve our customers and the nation brilliantly. I am particularly proud of how our teams went above and beyond the call of duty to serve our customers. The real reason we were able to recover so quickly was because of our people and our investments in Digital over the last few years. We were able to respond with agility, re orient many parts of our business model and focus on what matters – serving our customers. This is why our performance in the quarter was strong – we showed healthy growth across revenues, margins and customers.

Our consolidated revenues grew sequentially by 7.7% while The India business grew by 6.6% in a quarter that is normally weak because of seasonality. Growth was broad based across the portfolio though the star segment was Mobile at a growth of 7.4 percent. With operating leverage also kicking in, we reported an overall EBITDA margin of 46.0%. Let me now turn to each of our business segments:

Let me start with our Homes business. I believe that the broadband category is at a cusp in terms of growth. With Covid as the trigger point, we are seeing a rapid increase in work from home, in online education and in streaming services. All of these need reliable high speed broadband. We are therefore doubling down on broadband through four things; first is the rapid expansion of our own coverage by adding 1 million home passes in the cities we cover in Q2. Second, acceleration of our LCO partnership model. During the quarter we expanded to 29 new cities. Third bringing the full power of Airtel services as well as our partner services to deliver an integrated converged offer encompassing connectivity, entertainment and more. Our Airtel Xstream Bundle now combines the power of Airtel Xstream Fiber, Unlimited Data, the first of its kind Airtel Xstream Android 4K TV Box and access to an intuitive customer interface which is delivered seamlessly across screens. Finally, an adjustment in entry prices due to competitive reasons towards the end of the quarter. As a result, we saw growing momentum across the quarter while adding close to 130k customers.

Our DTH business added 549 K customers in the quarter. One of the reasons for acceleration has been the distribution synergy we were able to get through leveraging the larger mobility sales system. We are now doubling down on this capability.

Let me now turn to Airtel Business which grew by 2.3%. I believe that this is one business that has incredible promise and the growth of this business is frankly limited by our own imagination. When we talk to our Enterprise customers we hear them asking us

Transcript of Bharti Airtel Limited Second Quarter Ended September 30, 2020 Earnings Conference Call

for three things. The first thing they ask us is to ensure we raise the quality of our services, strengthen network resilience while helping them bring down their cost. To meet this ask, we added almost 7.6 Tbps capacity in our transport network. While this serves all our needs across homes, mobile and Enterprise we are one of the few players that can do this so efficiently. We also made investments in strengthening customer experience through the launch of the state of the art Work Force Management Solution platform for handling customer complaints while moving hundreds of enterprise connectivity links to our highly resilient MPLS backbone. To help lower cost, we launched several solutions. Airtel Work @Home that meets all the B2B needs of employees working from home. Airtel Blue Jeans offers a reliable, secure way to have meetings wherever your employee or customer is. Airtel Office in a box is our effort to provide a single touch, seamless and holistic service to help startups and companies seeking to enter India for the first time. We also launched Airtel Cloud by signing a multi-year, Strategic Collaboration Agreement with Amazon Web Services (AWS) to deliver a comprehensive set of innovative cloud solutions to customers in India. This collaboration brings AWS, the world's leading cloud platform, together with Airtel's deep reach and proven expertise in handling network, data centers, security, and cloud as an integrated solution. We also have a rapidly growing Nxtra, our Data centre business that allows customers to store their data in India. Each of these products lower costs for our customers, take away the hassle of dealing with multiple partners and meet the gold standards of security and reliability that matters to our customers.

The second thing our customers ask us is to help them engage digitally with their customers so that they can serve them better or get more growth. Our launch of Airtel IQ this week is the first step in meeting this need. Airtel IQ is an Omni Channel Customer Relationship management product, to engage with customers in a safe, secure manner across multiple modes of communication. So whether it is a consumer ordering food through Swiggy and then tracking her order by calling the delivery agent or a customer arranging for a blood sample collection from Lal Path Labs or indeed one of India's largest banks enabling their advisors speak to their customers from a remote location... this entire communication gets orchestrated over Airtel IQ in a seamless, secure and reliable manner all over the cloud. Many of India's biggest brands are already on Airtel IQ. We believe that with Airtel IQ, we are well positioned to become a major player in the billion dollar cloud communication market that is growing rapidly. You will see more and more innovation from us on Airtel IQ over the coming months.

The third thing our customers ask us is to help them protect their data and information from the increased cyber security threats that everyone faces today. Airtel Secure does exactly that. Airtel Secure is a comprehensive suite of advanced cyber security solutions that has been built through the power of best of breed partnerships. Our partners here include global leaders in their respective domains - Cisco, Radware, VMware, and Forcepoint. In addition, we have made a substantial investment in building a world class Security Intelligence Centre which uses AI and Machine learning to do real time monitoring of security threats across all business applications.

So our strategy is no different from the overall Airtel strategy. We will leverage our strengths to provide solutions to our customers either through building products ourselves or through world class partnerships in order to meet the digital needs of our customers.

Let me now turn to the star segment of the quarter – Mobile. Our revenues grew by Rs 955 crores, a sequential revenue growth of 7.4% which enabled us to expand our EBITDA margins by 2.0 percent. This performance was on the back of strong 4G net adds at 14.4 million. In fact, over the last 4 quarters we have added 50 mln 4G customers on the network. We also added 700K net adds in the post paid segment which was one of our strongest performances in recent times. Our customer net adds was at 13.9 million and our churn was at an all time low of 1.7%. Most heartening was that ARPU also moved up from 157 to Rupees 162.

We believe our strategy of being relentlessly focussed on winning quality customers is paying off. Our brand is the most aspirational and trusted brand in the country. Our experience is also the best in the country. In fact, we are consistently seen as the best network by independent, global tests and have won several awards – best network for gaming, best network for video experience, lowest latency and fastest downloads. For every discerning customer in India this matters.

Experience for us is the corner stone of our strategy. We therefore continue to invest in Experience. Last quarter, we added 5047 sites. With this, we are now at above 200,000 physical sites. We have also ramped up densification of our networks through solutions such as adding sectors, adding twin beams, re farming spectrum, experimenting with features that enhances spectral efficiency and adding Massive MIMOs. Our Voice over WiFi solution is now being used by around 13 Million customers who have seen a significant improvement in their indoor coverage. We have invested in several tools in our state of the art Network operating centre at Manesar that is allowing us to diagnose and fix problems in a very granular and real time manner. Our entire company is unified by a single purpose – to deliver a superior experience. One of the important milestones we delivered was the launch of our high speed 4G services in Andaman and Nicobar Islands with the commissioning of the submarine optical cable fibre project.

Today our networks are increasingly future ready. We are one of the leading players in the Open –RAN effort. In fact, during the quarter, we hosted global ORAN plugfest event, the first of its kind event in India for demonstration of interoperability of open interfaces as defined by the ORAN alliance. The quarter also saw our first field deployment of the ORAN based Outdoor small cell, which has been designed by our in house R&D team and supported by several partners.

Let me now turn to the digital capabilities we are building. These capabilities are allowing us to do three powerful things. First, they allow us to acquire quality customers. Second they allow us to drive greater share of wallet and reduce churn – both of which enhance lifetime value of the customer. Third they allow us to eliminate waste. This is what Digital means for us. And we believe this is now impacting our business materially and building what I would call a virtual fly wheel.

The first element of this flywheel is the impact on the core business. Today, 50% of our business is now on line. More than 40% of our high value customer acquisitions are now Omni Channel – Ordered on line and delivered to the home. Every customer journey is being reimaged and delivered in an Omni channel way. And our faults are down by over 50% in the last year saving us substantial cost.

Transcript of Bharti Airtel Limited Second Quarter Ended September 30, 2020 Earnings Conference Call

The second element of this flywheel is the strengths that we have been able to extract and build out digitally. We have four strengths.

First is Data. Today, in addition to our customer base of 294 million mobile customers, 20 million homes and a million offices, we already have 160 million Monthly active users engaged on our digital assets. Wynk is the most popular music app at 59 million. Airtel Thanks is one of the most powerful digital assets with over 82 million Monthly Active Users. The data provided by this scale is incredible and allows us to make personalised recommendations.

Second, Payments. Our Mitra app is now used by over 1 Million retailers to collect cash and perform transactions across Mobile, the bank and soon for DTH. Our payments bank is already at 2.5 Billion USD monthly throughput and growing. This scale allows us to engage our customers and fulfil transactions end to end. Customers will soon be able to make payments online, at our stores or simply add their service to the bill. This is a priceless capability. Therefore whether it is our own services or allying with partners to distribute their services it is this payments capability that allows us to close the loop – from engagement to purchase.

Third, Distribution. The access to our 294 million customers, 160 million digitally engaged customers, 20 Million homes and a million offices is a scale that is unique. The fact that these customers are the best customers makes it even more attractive. Finally network which allows us to identify location and expose API's provide value added services where relevant. Airtel IQ leverages precisely this capability.

The third element of this fly wheel is partnerships. We have a model of partnerships that follows a powerful concept that is working for us. TEAM. T for Transparent Commercials, E for Ease of Integration, A is for Accelerated Adoption of partners service and M for Mutual growth. This concept has now been created into API's and a model that allows for easy plug and play.

You will see that much of these capabilities are now translating to differentiated products and services that solve real customer problems – Airtel IQ, Airtel Secure and Airtel Blue Jeans have all been launched in the last few months. Our Ad tech platform is in Beta testing. We are gradually beginning to scale our partnerships on selling financial services like insurance as well as content. Every one of these services are being delivered to our customers at almost no capex. They simply ride on the underlying strengths that we have built and are being delivered through the tremendous digital talent base of 1500 people we now have in house. Going forward you will see us building this ever more powerfully.

In sum, the last quarter has been eventful. Our strategy remains the same - win quality customers by giving them an exceptional experience. Do this by building an aspirational brand and in an efficient way. Finally wrap everything we do through Digital – Omni channel, and Scaled. As we do this deliver meaningful services – both our own as well as partner services.

Thank you and with that hand it back to Komal.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thank you, Gopal. The first question comes from Susmit Patodia. He wants to understand what is precursor in terms of competitive outlay and economic environment for a tariff hike from here on.

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

I think the firstly if I step back, we have always said that the ARPU that we have today in the industry is extremely low for the amount of allowances that we provide for the ARPU. At Rs.160 odd if you can get as much data as you need, unlimited calling and some content that is really an extremely low level of pricing. So, we do believe that ARPU as we said must go to Rs.200 and finally to Rs.300 but it is a question really of not whether customers can afford to pay because many customers at the upper end of the spectrum can certainly afford to pay a lot more but the question is the competitive dynamic and the competitive readiness to take a tariff increase and I think I would hope that that would happen at some point but I am not a soothsayer so I cannot tell you when it will happen but I can tell you that at these levels of tariff, it is not a sustainable situation from a long term as far as the industry is concerned. So somebody will have to lead it. We are already at a premium. In fact we have signaled that we want tariffs to go up therefore we will be happy to follow the same day if tariffs were to go up further.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thanks Gopal. The next question is from Parag Gupta. Parag wants to know what kind of growth we can see in the homes business from here on and any goals on subscriber-based, revenue and cities that we can provide.

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

Well we do not give guidance but I can kind of briefly tell you what we are trying to do on homes. I think like I said we have seen a surge in home broadband arising out of all the factors that I have already mentioned, work from home, the streaming growth and,

Republished with permission. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Bharti Airtel Limited.

Transcript of Bharti Airtel Limited Second Quarter Ended September 30, 2020 Earnings Conference Call

online education as also price correction or a price reduction in the broadband segment. This entire price reduction is not yet factored in, in the quarter because it happened towards September so you will see that all flow through only in the next quarter but what I can tell you is that we are seeing traction in broadband the 129,000 customers that we added in September ended quarter was a record that we have seen over several quarters. What are we doing right now? We are doing two things one is that we are rapidly expanding in the cities that we are present in so in this quarter we rolled out a million home passes which is amongst the highest that we have seen in any quarter and secondly we are also we have perfected the LCO model. This model was tested for almost seven-eight months using four or five different approaches in four or five different cities. We have got it right and now we are beginning to scale it so we are already in 48 towns. We have rolled out 29 more towns this quarter and we will continue to drive this rapidly to expand and home broadband.

Komal Sharan - Head of IR - Bharti Airtel Limited

Sure thanks Gopal. The next set of questions is from Eric Liu. Eric wants to understand what is the reason for the sudden increase in net debt quarter on quarter? I will request Harjeet to take that and secondly if there is any change in our capex guidance for the year or our capex run rate for the year side? Harjeet can I request you to take the question?

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

I can take the second question then I will hand it over to Harjeet. On the capex side, we do not give guidance but you would you would see us you know if you take the first quarter the capex was quite modest because of lockdowns and our inability to move equipment. The second quarter was increased primarily because we caught up with what we could do plus we saw a massive surge in data as people worked from home and I think that we will continue to see capex being deployed in order to deliver a really good experience. I think that really matters. We are expanding some of our coverage through physical sites as also bolstering capacity. What we have also said is that the peak levels of capex that we saw for Airtel are now behind us so we are unlikely to see those levels of capex but capex will continue to inform the experience we are able to deliver. Harjeet, you can take the net debt one.

Harjeet Kohli - Group Director, Strategy & Business Development

Thanks Gopal. I think the net debt one is specifically linked to the AGR final judgment and bulk of the increase is on account of final AGR numbers and the Supreme Court order. All of the AGR liability has been accounted for. Operationally though the business as per earlier expectations across Infratel Africa and in India also continues to be free cash flow positive. Over the last two quarters between these three segments there is close to about Rs 3000 crores to 4000 crores of free cash per generation. Operationally continues to be positive. The AGR recognition of the final numbers is what you are seeing as a net debt movement.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thank Harjeet. The next set of questions is from Kunal Vora. Kunal wants to know what is the impact of Jio's new postpaid plans and do we see the need to counter the same and secondly the fact that this quarter the feature phone customer base has been intact so are we gaining 2G customers from the market or from competition?

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

So I think the postpaid business and I will not comment on competition but I will tell you that you know as far as the postpaid business is concerned we have seen strong traction in the quarter. We saw an addition of 700,000 net adds. This came from I would say two or three things. One is our omni-channel capability, close to 40% of our high value acquisitions are now omni-channel which is being you know where people are ordering online and it is getting delivered straight to the home and we have really perfected that model. The second thing that we have done is actually stepped up acquisition from some of our corporate customers with this on the strength of our experience that we are delivering now we are seeing traction there and the third part is propositions along with the execution at our stores which are really you know something that we are very proud of in terms of the experience that we are broadly able to deliver through our customers who walk into those stores. As far as 2G is concerned I think that you know our net adds that we saw the overall net adds that we saw on 4G as well as at an aggregate level comes through a combination of people coming into 2G people getting upgraded directly from 2G to 4G which is our organic upgrades as well as porting from some of our competitors. So it has been an aggregate story that that plays out.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thanks Gopal. Harjeet the next set of questions are for you. People want to understand what are the timelines and quantum of divestment of the Infratel stake, if any plans at all at the moment?

Transcript of Bharti Airtel Limited Second Quarter Ended September 30, 2020 Earnings Conference Call**Harjeet Kohli - Group Director, Strategy & Business Development**

I think the merger is now formally approved including the revisiting to the deal situation that had to happen between the counterparties, Vodafone plc lender's approval and subsequent to that even the NCLT final approval has been received last week. We expect in the next maybe 10 to 20 days depending upon how the final reconciliations need to happen for closing adjustments the merger to be through. So immediately post that I think this is where we need to evaluate the strategy for what could be the final independent tower co-existence model. In the shorter term as you know ~37% will be owned by Airtel, 28% odd subject to all of these trued up for closing will be owned by Vodafone Plc and Vodafone India will be in cash out for their shareholding in the Indus business. In any case there is a sort of diversified control, senior independence in the way the equity structure will look like as the combination happens, from where the stock price is and all factoring in what the realities of the markets are each sponsor may have their own view on monetizing at which point in time. Thankfully with the overall leverage situation for Airtel as a group which included a lot of equity injections that had happened till last quarter and also some of the equity like instruments that we had done the leverage of global Airtel including Africa is sub 3 at about 2.9 turns all of these segments are relevantly self-financing so the leverage driven monetization trigger is not there. So I think it is more a business decision more also staying true to what the true value of the asset is and as that shapes up we will come back to you on what the timelines for any monetization activities are otherwise the merged entity continues to serve each operator in the market.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thank you Harjeet. Gopal, the next set of questions is around 5G. What is our aspiration in the 5G landscape and if you could provide some more clarity on the news around Bharti developing local 5g gear ecosystem via our own R&D and US Japanese partners?

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

I think that you know we believe that the 5G rollout in India is still a couple of years away for various reasons. Number one is that the ecosystem is still nascent, device prices are still anywhere between \$700 to \$1000, applications are still being developed because what really 5G gives you is incredible speed and a much lower latency and you know low latency applications are really industrial applications and therefore some of these applications are yet to be developed the ecosystem is growing. Second reason is that 5G spectrum prices as far as the reserve prices recommended by TRAI is concerned are very high for us to be able to afford at these levels and therefore there is no business case at these levels of spectrum cost. What we have been doing over the last couple of years is that we have invested substantially in creating our own R&D team based in Bengaluru. This team actually works with partners from around the world, software providers, hardware providers, chipset makers, companies that are based in US and some of the operators as well Japanese operators, European operators as also hardware vendors whether they are in Taiwan or in Japan and software companies and the reason that we do this is really for us to be able to be a part of the O-RAN movement. I think O-RAN is truly game changing for telecoms because in a way what O-RAN does is it strips open the hardware and the software into two disaggregated layers and through that process you would be able to bring down overall cost of capex. The important thing in O-RAN is to have interoperable software between the existing 4G networks and 5G. There are some markets in Europe and the US where through the x2 interface opening up on O-RAN now it has become interoperable. We are examining this closely as I mentioned in my speech that we are part of the O-RAN board. We were the pioneer operators in India to actually run the global O-RAN test, all of this is our effort to really try and understand this ecosystem, be part of it and shape it. As a part of our O-RAN effort we have developed our own 4G small cells, indoor as well as outdoor and commercially deployed them. These are all small cells that we have developed in-house using software provided by AltioStar, using hardware provided by Circom in Taiwan and kind of configured it together to bring together a solution that is plug and play and that can actually operate in any network provided by any equipment provider and I think this is the precursor to what we would like to do even on 5G. So we are studying the space closely that does not mean that our traditional partners like Ericsson and Nokia and the others will not be important, all of them will be as important and we will work with every partner to really move towards O-RAN and open up the interfaces so that we are able to get the able to actually have interoperable networks going forward. That is really what we are trying to do.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thanks Gopal. The next set of questions is around Airtel business may be Badal I will request you to take these questions. Could you provide some color on the YoY EBITDA margin expansion for Airtel business and do you think it is sustainable?

Badal Bagri - Chief Financial Officer – India & South Asia- Bharti Airtel Limited

I would say that it is very important to look at the Airtel business on a sequential basis. If you look at the last four quarters our EBITDA margins have been hovering around 37% and it has been fairly consistent to mind. If I were to look at YoY one of the key challenges which we see in the first initial first two quarters is on account of bad debt, which we have been able to manage substantially better in the current environment in the current year. So I would say that the current level of EBITDA margins and EBIT margins are fairly sustainable for Airtel business.

Transcript of Bharti Airtel Limited Second Quarter Ended September 30, 2020 Earnings Conference Call

Komal Sharan - Head of IR - Bharti Airtel Limited

Thanks Badal. The next set of questions are from Vinay Agarwal. Two things that he wants to ask, firstly Gopal why cannot we take the lead on tariff hikes and secondly what are the top three things that you know you are spending most time on at the moment?

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

I have already mentioned that you know we have already in a way taken the lead because we are at a premium so if you know we see we see movement of other operators getting to you know levels that are equal to us we will again take a premium and that will be a good way to you know for us to take it up so we would not want to do anything to jeopardize our intrinsic competitiveness. I think in the telecom space you can have a premium especially if you are delivering a better service and if you are an aspirational brand but beyond a certain point the premium will become unsustainable and we think we have got a sweet spot so we do not want to risk any slowdown in momentum by moving pricing at a time when it is uncompetitive. So we want to be competitive but we would welcome a change in tariff and we will follow immediately. What was the second part to the question Komal?

Komal Sharan - Head of IR - Bharti Airtel Limited

Gopal, the question was what are the top three things that you are spending your time?

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

The first thing that I am spending time on is really spending a lot of time on a digital approach particularly driving an integrated approach to thinking omni channel an integrated approach to thinking one home. One of the things that we have launched recently for example is a one Airtel plan which brings all our services, mobility, postpaid, DTH and broadband into a single build with a dedicated relationship manager in a much more convenient way and we have just rolled this out across towns now. We are seeing some solid traction. The only reason we have been able to pull that off is because we are thinking about the journeys in a completely digital and omni-channel perspective and I think these capabilities are very important to see where Airtel goes in terms of its digital ambitions to truly build many more digital services which can deliver us meaningful revenues. So I think that is one area I am spending a lot of time on. The second area, I spend a lot of time on some networks to really because that is the core of our experience so when I say network networks I mean I am using that as a shorthand for customer experience so networks as well as non-network experience in order to just get that right it is not that we are perfect, we make a lot of errors, there are structural issues, it is a day-in-day-out job to really get our networks better. And the third part that I spend a lot of time on is on our people. Really making sure that the capabilities are built, we are getting the right person, in the right place, training them properly, making sure that they are supported, smoothing out the fracture lines that typically happen in any organization and making sure that these fracture lines are bridged. I do believe that as the leader of the team one of my critical roles is to smoothen out the fracture lines and smoothen out the bridge so that we can move faster as a company to serve customers. So those are the three areas that I spend time on.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thanks Gopal. The next set of questions are from Rajeev Sharma. Your net debt is 2.9 times net debt to EBITDA. What are the plans to bring it down? Secondly why are we not keen to have a global tech player as equity or a strategic partner? Lastly thoughts on any 5G spectrum auctions?

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

I will take the other two first. I have already talked about the 5G spectrum so it is you know we do believe that the spectrum price that has been indicated by TRAI when it comes to the reserve price is highly unaffordable for us and therefore we would hope that these prices come down and at this stage of these prices we would not be able to afford it. When it comes to you know a global tech player let me kind of just pull back a little bit. Firstly I want to underscore that you know for us our partnerships are crucial, we work with everybody we work with all the leading OTT players and not just the leading OTT players. We worked with like you have seen on Airtel Secure alliances with Cisco Radware VMware Forcepoint these are companies who are outstanding companies in their own right we are working with Verizon to actually pull together Airtel BlueJeans we have a lot of partnerships with Google, we have worked with Amazon to actually do AWS, so partnerships is something that comes to us naturally and we will work with everybody. The second question then is the role of capital from a partner. I think the role of capital is a different is an independent decision and delinked from the role of how we work with partners. So, when we wanted to raise money we did go out and actually come to many of you and raise \$8 billion over a year through a combination of a rights issue, a perpetual bond, FCCB and a QIP and so when we need capital we know how to raise capital but equally we know how to work with partners and we believe that it is a win-win for us to work with partners because the business that we are in is an ecosystem business we have to work with partners. So that is really the way I see. Harjeet over to you.

Transcript of Bharti Airtel Limited Second Quarter Ended September 30, 2020 Earnings Conference Call**Harjeet Kohli - Group Director, Strategy & Business Development – Bharti Airtel Limited**

Thanks Gopal. I think the question to net debt to EBITDA is relevant but there are two three underlying drivers we have to see. If you see the overall net debt today if we put together Africa as well about 50% of the net debt is really a DoT deferred spectrum liability which also includes the AGR liabilities that have come over after the judgment came out. Another 20% is entirely the finance lease obligations. I am not saying it is not a debt. It is intrinsically built into your lease payouts for tower companies that are serving you. So between DoT and FLO 70%, 72%, to 73% of our global debt sits so external lenders debt is about 28% to 30% of which 20% percent is global bonds long term dollar, Euro, India, NCDs rupees, really there is a stability of existence there is longer 10 tenure ahead. Only about 8% to 10% thereby is balance bank debt could be short-term across the various countries in Africa, and of course some bit in India. So that is part one. I think the leverage is number one but the breakout of leverage does give you the comfort to be able to feel okay about how to split this, 50% DoTs, 20%, FLO, very broad thumb rule of the balance 30%, 20% is net and 10% in from bank debt. Second piece is net debt to EBITDA as a function of both net debt and EBITDA. I think if you go back six to eight quarters our EBITDA specifically in Mobile India was going through a reasonable stress time and since then life has changed. So, if you put together the combined EBITDA, which is close to Rs 12,000 Crores this quarter, about Rs 6300 Crores, 6500 Crores of 12 14 quarters ago. So that is spread up and if the tenacity of that across the businesses be it Africa be it Mobile India and be it non-mobile India continues whatever the percentages you may impute this will automatically come down thereby. So with that in view there is no specific requirement to have net debt specific initiatives albeit you will have some time or the other further proceeds coming in for Carlyle infusion, you will have some time or the other tower commoditizations. Africa as a unit does send us dividend, Infratel after the merge company will have more dividends coming out. There is some auto deleveraging built in there too.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thanks Harjeet. A related question which many investors have asked us is around the conversations with rating agencies if you could also update in the same vein around the conversations with S&P Moody's and Fitch?

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

Now I think ratings have been stable. The fundamental operations, risk which historically had remained high and a strong regulatory overhang of what really is the outcome of these situations and how is that dealt with the operating unit in terms of debt and equity mix all of that is actually reasonably well taken care of. Of course, given the demands little more in terms of how the sustainability works what could be the increase on tariffs etc., but directionally we just talked about the EBITDA increases, we talked about over the last 12 to 15 months 60000 to 65000 crores worth of capital reorganization around equity, equity likes and some bit of debt refinancing or perpetual so that has actually helped. The stimuli at work are really the India sovereign rating and there was one of the rating agencies actually looked at India's sovereign rating changed the outlook and that has changed something for us but otherwise at this stage we feel we are working towards all of the parameters they have set to stay in the BBB minus category. We should be sustainably sitting there. Africa by the way should overtime if not now before six quarters should have their independent rating and that would also mean independent financing track for themselves. So at this stage fairly comfortable.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thanks Harjeet. The next set of questions are around subscriber addition. Gopal, you will have to take these. So the questions are that was there a support from pent up demand in smartphone availability or porting requests which have helped the 4G addition this quarter? And how do you think about focus on customer acquisitions and market share versus profitability and in the same vein what is the outlook for smartphone shipments and sales looking as far as next quarter is concerned?

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

I think that you know that we saw a big slowdown in shipments in Q1 but in Q2 the shipments have come back. July and August were about 30 odd million shipments and my own sense is that maybe September would have been another 14 to 15 million shipments so it could be 45 to 48 million shipments, smartphone shipments. And so what was an impact in Q1 was clearly something that caught up in Q2. I think that is one thing that that we did see. If I look at our own performance, what I would say is that you know what is it that is actually driving our performance, I think the focus on really going after quality customers and giving them a great experience is the cornerstone of what is helping us deliver what we are doing, come back that with the fact that we have a really aspirational brand and that we are have a strong sales and marketing machine that can that uses data very powerfully to identify those customers who are propensity to switch, upgrade and then target them i think is really the entire menu of things that we that we look at. During the period of the lockdown, the role of the network and the role of the experience that you deliver has become even more important than before and I think in hindsight that has played well for us because we are a business that has always focused on delivering a superior experience and differentiated experience, a better experience on various dimensions and I think that has come home to actually help us through the quarter. So that is the way that that I see that.

Transcript of Bharti Airtel Limited Second Quarter Ended September 30, 2020 Earnings Conference Call**Komal Sharan - Head of IR - Bharti Airtel Limited**

As far as the current quarter is concerned the subscriber addition numbers that we have seen are they coming more from competition or are these new SIM editions in the market itself and secondly you know another question from Varun Ahuja is what will be the impact on financials when integrated goes?

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

What will be the impact on financials?

Komal Sharan - Head of IR - Bharti Airtel Limited

The interconnect charges.

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

I think it has been a combination of things so I think our net adds is firstly our overall revenue earning customers net adds is obviously customers that have come from a combination of switch from competition as well as new customers coming onto the network. I think you know it is both. India has a fairly high penetration of mobility as you know and therefore customers coming into mobility for the first time I would imagine are in the ballpark of 30 to 40 million a year, so we have seen a combination of some customers who are new to the category but also customers who have switched from other from our competitors. What was the second question?

Komal Sharan - Head of IR - Bharti Airtel Limited

The second question was on interconnect charges, Gopal?

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

No I think that this is now we are more or less at an equal footing on interconnect across different operators so we welcome now the move to actually do away with interconnect. I do not think it is going to have any material impact at all. One question sorry there was one question prior that that was about how do we tradeoff between acquisition and profitability? Just to make it clear I personally think that there is really no trade-off. I think this is a business of scale. If you get more customers, if you deliver more revenues you do end up actually having a better shape of the P&L and a more profitable business so that is the nature of telecom as you know in every part of the world, the leading players number one number two typically make more margins than the three four and five players in any market of course India has only three players three private players in a large market like India and therefore it is a very, very good industry structure so I do not think there is a trade-off. Having said that we will obviously not do anything to anything silly in terms of how we look at it because the business also must be seen longer term. What I have learned is that actually it is difficult to gain market share, it is much easier to lose market share and once you lose market share then you start losing scale so I think market share becomes an important barometer to determine ultimate profitability and while we keep a close eye on cost and stripping out waste I think scale is as important.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thanks Gopal. Switching gears a little bit next set of questions are on the non-mobile business the question which is being asked is that the digital TV business has shown muted growth despite high capex when do we expect the growth jump to come? Similarly when do we expect the growth jump to come on the home broadband side?

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

Let me talk about home broadband first. I think the good news on the home broadband front is that we have started adding customers. So there are 129,000 net adds, clearly those businesses are starting to see traction in terms of growth in penetration and like I mentioned September has been a strong month and therefore I think we should see this traction continue going forward given the growth in work from home, growth in online education and streaming as well as an adjustment downward pricing. That said I think the full impact of the price drop is not yet up in this quarters' results and that will come through in the subsequent quarter. I think ARPUs will be a little bit under pressure because of this pricing correction. But we are okay with that because at the end of the day if we want to get more customers, I think that is really where the business needs to be focused and I do believe that the time for home broadband has come in terms of driving penetration. On DTH we have had a strong customer base of 549,000 net adds. It is not entirely showing up in revenue and Badal can explain that in a minute, but again we are pleased with the progress we have made on DTH adding more than half a million customers and primarily that is because of the fact that we have been able to

Transcript of Bharti Airtel Limited Second Quarter Ended September 30, 2020 Earnings Conference Call

synergize our distribution systems between mobility and DTH. Mobility has a distribution systems that is almost 20 times the size of DTH and in places like Bihar, UP, Rajasthan, and many markets we are getting significant synergistic effort by actually finding the right model to synergize on the DTH business.

Badal Bagri - Chief Financial Officer – India & South Asia- Bharti Airtel Limited

To add on what Gopal said, most of the customer acquisitions have come to us on the latter part of the quarter and also historically July and August are softer months typically in terms of reach out, in terms of customers being online, so we are seeing a traction, just come picked up in the month of September and we feel that is going to yield results in the forthcoming quarters.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thanks Badal. Gopal, two sets of questions again. Firstly has there been any further discussion with the regulator as far as floor price of data is concerned and secondly our thoughts on launching affordable low cost smartphone?

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

I think that there is a new Chairman at TRAI. He has just taken over. So we just got to give him some time to settle and take a look at this. I think the industry has through COAI has asked for an intervention on floor price. Let us see where that goes in. I do not want to comment about that beyond what COAI has already said. When it comes to low cost smartphone, I think we have seen the announcement of one of our competitors trying to develop a low cost smartphone. We are studying this space. We believe that the good news in India is that device distribution has remained separate from telecom distribution and I think that is a good thing because the added cost of actually distributing devices to a telco networks is very high. The second good news is that by and large over the last 20 years, Indian Telecom has stayed away from device subsidies by and large and I think that again is a very, very good thing because if you see the P&Ls of some other telcos in other parts of the world subsidy has been quite a bane for most of the industry and now they are beginning to peel back from those subsidies because the incurring cost has stayed pretty much in the same place. The third thing I would say is the current economics of the industry do not permit you to actually do any form of subsidy. All of that said, I think, we are watching this space carefully. We have a team looking at this and we have not quite decided what our approach is but we are studying this very, very carefully to see what is really important for us is that we continue to get traction on converting 2G to 4G. That is a non-star metrics that is very important to us and so we will look at it very carefully.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thank you Gopal. The next set of questions are from Rohit Chordia and a few others. Hypothetically, if a 5G spectrum auction was to happen next year and competition bids aggressively, will that make us change our stance and bid as well? Secondly with data usage per customers showing signs of stabilizing does the pressure on networks is a bit and what does this mean for 4G capacity capex?

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

I think like I said, I think we are hearing from the department that there may be an auction early next year so, anywhere between January to March timeframe. So if in that auction the reserve price of 5G is as high as it is which is close to Rs 50,000 crores for 100 MHz as you need a lot of spectrum on 5G. You need at least 100 MHz to run good 5G networks otherwise you will get, if you have small slumps of spectrum the experience that you will get will be no different from 4G and it does not make sense then to actually to rollout 5G. For many reasons including the devices being what they are, the ecosystem and the applications being nascent and the fact that the spectrum prices where they are, we will not buy at these prices because we would not be able to afford it and so I cannot comment on what others will do, but from our perspective it will not make sense. I think when it comes to data usage the growth in data traffic is a function of both increase in the average consumption per user as well as the number of users that come in. We do believe that we saw obviously this year significant surge in data payloads in Q1 as people work from home. The good news of course was the pattern of the traffic changed somewhat because it was more steady traffic and so the curve that actually flattened out in telecom the investment that you make is for the peak usage of the curve. So if it is a 24-hour data, the investment that is made is for the peak, hour of that day because that is where experience tracks. What we saw in the lockdown was that the curve flattened out and as a consequence we were able to sweat the assets much better because you had more flatter curve. I think as lockdowns have eased the data continues to be at a levels where they are, they came down a bit and started climbing a little bit and not as much as we saw earlier. The curve has begun to kind of move away from that flatter curve to the old historic curve and so there is a need for some capacity investments. We believe however that going forward if the structure of pricing is what it is, then you will still see some people go through their allowances and go all the way to the maximum that you give them and that is what leads to more and more data consumption, but I would say that the impact of the increase in consumption on an average basis is going to be lower now from here onwards than what it was in the past.

Komal Sharan - Head of IR - Bharti Airtel Limited

Republished with permission. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Bharti Airtel Limited.

Transcript of Bharti Airtel Limited Second Quarter Ended September 30, 2020 Earnings Conference Call

Thanks Gopal. The next set of questions are from G.V. Giri. How has the SG&A come off despite gross adds being two times quarter-on-quarter? Secondly do you see content being a major player, major differentiator in mobile telecom in the next two years? And lastly on the (inaudible) 01:15:57 is it done and dusted or could there be a possibility of an appeal?

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

On the SG&A the reason the SG&A is looking lower is because simply of the way that we show bad debts, the provision for bad debts on the B2B side where a lot of the collections actually take place in Q2 and therefore you know the underlying SG&A may not be as represented, so that is the primary reason. On the content side, personally I think that content can be a differentiator but it can be a differentiator only one player has a content. I still have not seen compelling evidence to suggest that general entertainment content is a strong differentiator. I have not seen a compelling evidence of that but I have seen in some topical events being a differentiator for example sports. So, I think we will need to actually play this game carefully. One of the things we have done with Disney is that we are bundled together with Disney and Hotstar into our packs, but we priced it up accordingly as well and actually that has worked quite well for us through this quarter. On your last point on AGR, I think the Supreme Court has rendered its verdict. There are a couple of clarifications that we need to seek from DoT in terms of payment terms and things like that, which we are in the process of trying to understand and determine. Beyond that I will not be able to comment anymore because we are still awaiting that clarity.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thanks Gopal. Harjeet, most bit of questions are around the FDI approval, if you could kindly update on the status of the 100% FDI approval for Bharti Airtel and when can these come into effect as far as MSCI is concerned?

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

The process is on. As you know the company Airtel has its full approvals in place, but that also means the subsidiaries below need to have their own approvals and that while we see nothing extraordinarily to worry about but has a process attached to it including our DTH business, Airtel Payments Bank and other subsidiaries. We expect probably in the coming weeks and maybe in few months this should get completed, actively updated.

Komal Sharan - Head of IR - Bharti Airtel Limited

The next question Gopal is on the 2021 spectrum auctions. Is there a need to bid and what will be the potential outlays for the auctions coming due?

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

We believe that there is some need for us to complete our footprint of spectrum in the sub-gigahertz band which has a lot of advantage in indoor areas as well as in deep rural areas. There are some of the 1800 band spectrum that is expiring. We are going to look carefully at whether we need it or not because overtime we are not a spectrum that is being used for 2G is coming down every quarter and then there is of course capacity spectrum on the 2300 band wherever we need it we might look at it but by and large I would say our spectrum holding in the mid band is pretty strong. So, it is the sub-gigahertz and maybe some modest amount of capacity spectrum that we would look to bolster.

Komal Sharan - Head of IR - Bharti Airtel Limited

Gopal in the interest of time, I will take one last question that is there are many questions that are coming through on Ghana and the reasons for our exiting Ghana without making any decent returns on our invested capital? I have taken request Nakul to comment on this?

Nakul Sehgal - Corporate Chief Financial Officer - Bharti Airtel Limited

As you would know that Ghana operations has been in lost for the last many, many quarters. You would also know that we did a merger with Tigo in 2017 which unfortunately did not help in turning around the business. In an effort to curtail the losses and post evaluation of all possible options, the Board of the company decided to approve the conclusion of an arrangement with the Government of Ghana to transfer the business on a going concern basis to them. Now the parties are in advanced stages of discussion for the conclusion of this arrangement and accordingly what we have done is we have taken a voluntary charge of about \$25 million in the books in this quarter. We believe that this is a good thing for the company as this help us curtail our losses that we have already incurred in Ghana for the last many quarters and Ghana as you know it is a 50:50 JV between us and Millicom.

Transcript of Bharti Airtel Limited Second Quarter Ended September 30, 2020 Earnings Conference Call

Komal Sharan - Head of IR - Bharti Airtel Limited

Thanks Nakul. With this I would like to hand it back to Gopal for closing remarks.

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

Thank Komal. Thank you everyone for joining this webinar. As I said, we have had a satisfying quarter. Our strategy of focusing on quality, customers and providing them with exceptional experience remains fundamental to our approach. At the same time, we are maniacal about morphing ourselves into a digital services provider by riding on our core strengths and building this virtual flywheel that I referred to. I see all these coming together to make Airtel more meaningful for customers than ever before. Thank you.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thank you everyone for joining this webinar. A recording of this webinar will also be available on our website. Thank you.