

Conference Call Transcription

Event: Transcript of Bharti Airtel Limited Fourth Quarter and Full Year FY2021 Earnings Conference Call

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PRESENTATION**Komal Sharan - Head of Investor Relations- Bharti Airtel Limited**

Good afternoon and thank you for joining us on this webinar to discuss Bharti Airtel's Q4 and full year FY2021. Before I hand it over to Gopal, I wanted to quickly highlight that we will be conducting a Q&A session for the participants on this call. Participants who wish to ask questions can send them using the moderator chat option on their BlueJeans interface. With this, I hand over to Gopal for his opening remarks.

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

Good afternoon, ladies and gentlemen. Thank you for joining us today on this webinar to discuss our results for the fourth quarter ended 31st March 2021, which we announced yesterday. Present with me on this webinar today are Badal, Harjeet and Komal.

We are passing through a devastating second wave of COVID as you all know. Our communities and the customers we serve have all been profoundly affected. Within the company too, over the last 45 days, we have seen almost 12 per cent of our people go down with COVID – that is almost 5 times more than what we saw in September 2020. Sadly, we have lost 13 of our colleagues as well.

Yet despite the difficult circumstances, our teams have demonstrated commitment to Airtel's overarching purpose of serving our customers and the country. Nothing makes me prouder than to be leading this amazing team.

Every day I come across inspiring stories. Let me share three:

In Mumbai, when every other service provider refused to install a broadband connection in the home of a COVID positive customer, the team of Manoj and Sanjay from Airtel donned their PPE kits, followed the strictest of safety protocols and did it. And, Sarfaraz, a store executive in Lucknow, didn't just home deliver a SIM but also organised urgently required medicines for the customer's pregnant daughter since the family could not step out. And, Manoj from Mumbai's Fault Management team, to ensure that no customers were inconvenienced, worked on a war footing to repair a site inside a residential society, even though it was a containment zone.

Each of these employees was committed to our purpose. For us, it is a matter of pride that we provide an essential service. In fact, our service is the oxygen for the digital platforms that are enabling customers to work, study, consult doctors, help others and be entertained.

Now to our performance.

In the fourth quarter, we delivered yet another quarter of strong performance. Our consolidated revenues grew sequentially by 2% while the underlying India business grew by 3.4%. Our consolidated EBITDA margins for the quarter were at 48.9 per cent compared to the preceding quarter of 45.9 per cent.

This consistency in performance can be seen across the board in every part of our portfolio. As a result, we have once again grown revenue market share in each of our businesses.

Our business is driven by a simple strategy. A relentless obsession with the customer experience and a razor-sharp focus on quality customers. There are four additional enablers to these choices. The first is digitizing the core to improve the experience and eliminate waste. Second, modularising these capabilities to drive new revenue streams through products and partnerships. Third, bringing together the power of Airtel through a unified customer view and integrated channel approach. And fourth, doing all of this with financial discipline while waging a war on waste. This strategy is the thread that ties all our businesses together and creates alignment and cohesion across teams. Let me now comment on each of our businesses in the portfolio.

Let me start with Airtel Business.

Here we continue to gain market share not just annually but quarter on quarter. In fact, as per Frost and Sullivan from a 23 percent revenue market share in December 2018 we are now at 31 percent share in December 2020. This represents an 8 percent share gain in two years. We have now closed the year with an annual revenue run rate of \$2 billion. The fact is that only 20 per cent of our customers contribute to 80 per cent of our business. So there is a massive opportunity to go both wide to grow share to tap into the 80 percent. There is also a big opportunity to go deep with the 20 percent to gain a higher share of the wallet. So wide through hunting and deep through farming.

To tap into this opportunity, we are re-tooling our channels as well as our product portfolio. here, we are doing four things. First, in sourcing our entire SME sales force, which was earlier outsourced. This will lead to upgradation of our SME channel capabilities helping us gain share. Second, we are building our omni-channel digital capabilities. Today, more than 95% of the new orders for the product lines where we have begun this effort are coming through digital channels. This will also help us expand our reach and gain share in the SME segment.

Third, we have entered adjacent areas so we can go deeper with our customers to farm more effectively. These new areas include Data Centres, Airtel Secure, Airtel IQ and Airtel Cloud. All of these are building traction and are helping us grow share of wallet. This quarter, we also launched Airtel IoT. Airtel IoT is an integrated and end-to-end platform with the capability to connect and manage billions of devices and applications in a highly secure and seamless fashion on Airtel's 5G ready network. Finally, our teams have now been given differential and separate targets and incentives for both hunting and farming. This will also allow us to meet our twin objectives of growth in share and growth in the share of wallet.

Now to our Homes business.

The Broadband business has grown to 3mn+ customers on the back of strong demand for home broadband. During the quarter we expanded our footprint rapidly to new towns and cities through our unique LCO partnership model, adding 1mn+ home passes. We are now present in 200+ cities.

As a result, our net adds this quarter at 274K have been the highest ever. **In our DTH business**, we have now become a clear Number 2 in the market. From a revenue market share of about 22 percent in December 2018 we are now at 27 percent share in December 2020. We have in fact outpaced all other players in terms of performance consistently over the last 8 quarters.

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With full ownership of the DTH entity, we have even more flexibility to drive this business. As a result, we have now combined our large Mobility distribution system with DTH to create one Mass Retail Channel which will drive all businesses – Mobile, DTH and the Payments bank. This should give a fillip to our DTH business. A second thing we have done is to have a dedicated channel for high-value homes. We believe there are 50 million high-value homes in India and we already have relationships with over 30 million of them through at least one of our services – Post-paid, DTH or Broadband. Bringing the full power of Airtel to the home by bringing all our services together for the customer is an opportunity waiting to be tapped into. As part of this, we now take one view of the customer and have one integrated channel strategy. As a result, we have combined our 2000 retail stores along with our broadband sales organisations and created one integrated Direct to Customer Channel. This channel now delivers and install all Airtel services in the Home. The unit around which this whole channel revolves is our Store, which in effect is the owner of the micro catchment.

Let me now turn to Mobile.

During the quarter, we acquired precious spectrum. We now have a pan-India footprint of Sub Ghz spectrum that will help us cover an additional 90 million customers in India. We have also substantially strengthened our mid-band spectrum bands. This will help us to continue delivering the best network in India as far as customer experience is concerned. In fact, I am pleased to say that within the country we have 33 percent of liberalized spectrum, the strongest holdings in India. Much of this spectrum can also be seamlessly re-farmed for 5G over time. We have also accelerated our coverage footprint in the quarter by adding 8300 sites. We have also substantially strengthened our transport network as we ready ourselves for a 5G rollout.

Based on our estimates for Quarter 4 and we believe we have gained market share and are at a new lifetime high.

This performance is on the back of strong 4G net adds at 13.7 million. In fact, over the last year we have added 43 million 4G customers to the network and 1.9 million net adds to the post-paid segment. This has been driven by our focus on the experience. In addition, we are raising our execution bar by sweating our assets on the ground. We do this through a combination of smart deployment based on data science and Go-to-market efforts that consider our unit of performance at an individual site level.

During the quarter, the reported revenue and thereby ARPU have been impacted by a combination of the move to the Bill & Keep regime as well as fewer days. For ease of comparison, we have reported all numbers on a comparable basis to reflect the underlying trends in the business. Based on this, our mobile revenues grew sequentially by 4.2% and ARPU moved up from Rs 146 to Rs 148 on an equated day basis. While this ARPU is the highest in the industry it also shows the massive headroom for ARPU growth. I say this for two reasons. One is the very low level of tariffs in India. The second is the fact that we have 140 million users on our network who are not on 4G and whose ARPU is less than half that of the average of the business as a whole.

Now to our Digital platforms.

We have reached a significant milestone at 200 million MAUs. Wynk has 72.5 million. Airtel Xstream has 37.5 million. And Airtel Thanks has 96.3 million MAUs respectively

As I have said before, we have a 3 pronged digital flywheel. First, it allows us to get more efficient and deliver a better omni-channel experience on the core business. Second, it allows us to build new revenue streams on our core foundational strengths of Data, Payments, Distribution and Network. Finally, it allows us to create an ecosystem of powerful partnerships that leverage these foundational strengths. A quick word on two of our digital businesses.

Airtel Payments bank is now rapidly gaining scale. We already have 54 million active users and a monthly throughput of around 22,000 crores. Our distribution footprint is across 290,000 outlets. There is great

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synergy between the bank and Airtel – after all customers who have an Airtel Payments bank account with us see a lower degree of churn. On a standalone basis, we are on the road to profitability and we expect to achieve that in the next year.

During the quarter we also launched a first of its kind innovation – ‘Airtel Safe Pay’ to differentiate our bank even further. Airtel Safe Pay leverages Airtel’s core telcos’ strengths to provide the highest level of protection to Payments’ bank users from potential online frauds. We have also announced an attractive 6 per cent interest rate on savings account deposits of over Rs 1 lakh.

This quarter, we also launched Airtel Ads. Airtel Ads is a brand engagement solution that allows brands of all sizes to curate consent-based and privacy safe campaigns to one of the biggest pools of quality customers in India. This is a massive and growing market. In the Beta phase itself, we have worked with over 100 brands and are beginning to clock meaningful revenues.

Finally, I want to touch on three additional pieces of information.

First, on our balance sheet. We are now in a far more improved zone through an optimal capital structure and well-timed fundraises. We raised almost \$12bn in the last few years and have also recently refinanced high-cost debt at attractive rates. Despite the AGR liability, leverage at 2.95 times is comfortable vs. global peers. If we break down the overall debt, DOT and AGR debt itself account for ~56 per cent. In addition, accounting leases contribute to ~19 per cent of the debt. It is also heartening to see that our investments such as Bangladesh and Africa are now becoming attractive. We believe our new corporate structure will also help us sharpen our focus in driving our different businesses – India, International, Infrastructure and Digital.

Second, we have successfully monetised some of our assets including Airtel Money and Tower assets in Africa. In addition, we have also monetised the unutilised 800 MHz spectrum in 3 circles in India by entering into a trading arrangement with Reliance Jio.

Third, let me also provide some updates on our ESG initiatives.

On our environmental impact, we are aligned with the Paris Climate Accord. We have proactively implemented clean fuel-based power solutions for our towers, data centres, switching centres and other facilities. We commissioned a 14 MW captive solar power plant shortly after the quarter ended to meet the energy requirements of our core and edge data centres in Uttar Pradesh. Another similar plant is expected to be commissioned in the coming months.

On the back of all these initiatives, we aim to meet more than half of our FY22 power input through renewable energy sources. In fact, over the last few years, we have reduced our carbon emission per Terrabyte by 78 per cent against a self-imposed target of 80 per cent.

Sustainability is a mission-critical priority for us, especially since we are in the business of delivering an essential service. Every day, throughout this pandemic, along with the Airtel Management board, I personally take stock of the health of each of our employees who have been impacted.

There are several things we have done in the last few months to confront the challenges of the pandemic. We have stepped up both life insurance and medical reimbursement for our employees. . We now have 26 doctors on our in-house panel to allow employees and their families access to medical advice. We provide access to Oxygen concentrators and access to hospital beds where possible through our Covid Care team. We also have stress and mental health counsellors that help relieve people of challenges as they face a new normal. Almost all our support staff work from home. We are also rolling out an extensive vaccination program for all employees and associates/partner employees in partnership with Apollo Hospitals. . Here, our priority will be to first vaccinate our frontline teams – network engineers, installation and fault repair staff, store executives – who are out there helping us serve customers in these difficult times.

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Finally, we continue to raise our standards of transparency in reporting and governance. Let me give you a few examples.

We always restate our numbers in the event of any major changes whether regulatory or otherwise. We do the same when we take any exceptional provisions. This quarter, for instance, we have restated our numbers and in particular, our ARPU given the abolition of the IUC regime. To make the ARPU definition even more stringent, we have eliminated the Inter Connect Revenue and also the inter-license settlements between circles that were related to the historic Inter connect regime.

What it therefore means is that the ARPU is now a true measure of customer revenues of the Mobile business only. Equally, we have given you a like for like comparison with previous periods allowing you to assess our intrinsic performance.

The second example in our standard of transparency is our customer definition. We have a very stringent definition of customers that we use within the company. One of the definitions is Active Customers. Also known as VLR customers. This refers to any customer who is simply latched on to the network regardless of whether she gives any revenue. The Active customers for us in March 2021 stood at 344.4 million. The second definition is Revenue Earning customers. These are customers who actually delivered some revenue to us in a rolling 30-day period – this number was 321.4 million. The Active number of 344 million will always be slightly higher than the Revenue earning customer number of 321 million for obvious reasons. This is due to what I mentioned already – the active number also includes those customers who may be latched on to the network but have not recharged so they don't give revenue. Such customers include those who are latched on to our network but have not yet recharged at the end of their validity period. They could also include international in-roaming customers who may be latched on but don't necessarily give us revenue in the preceding 30 days. These definitions, we believe, are stringent, they are directly linked to revenue and they allow you to make a transparent assessment of our performance.

Third, if you look at our accounting for depreciation or spectrum amortisation, we do it based on globally accepted practices that every top-notch telecom company follows. We would also love to hear your inputs on our transparency standards so that we can continue to raise the bar always.

Finally, a word on our board. We have an exceptionally qualified board with a diverse skillset that includes expertise across public policy, finance, risk, Private Equity and Technology and Telecom. There are three women directors on our board. And there is a clear separation of responsibilities between a promoter Chairman and a professional and empowered Managing Director backed by a highly professional and diverse management team.

In sum, this quarter has demonstrated yet again our strong execution across the entire portfolio. Our digital capabilities are now formidable. Our experience continues to be the best in the industry. And our brand remains the most aspirational brand in India. With this, we open up for Q&A.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thank you Gopal. The first question comes from Kunal Vora from BNP Paribas. He has two questions. I will take them one by one. The first one is that Airtel has added almost 16,000 towers in the second half of FY2021, which is the highest addition in the six months period, Airtel has also enhanced its spectrum holding. With these investments, will we be able to lower our capex in FY2022 and if you could also share your thoughts on capex in the medium term? I will ask the second question maybe after you answer this one.

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

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If I look at the overall capex profile, I have mentioned that our peak capex was in FY2018 and since then it is kind of hovering around the same number and this means that FY2022, we will see capex around the same level as FY2021. The composition of the capex is however beginning to change. There is more and more money being spent on transport. Larger amounts of capital allocation are being done towards our broadband business, towards our enterprise business, which includes our data center business, etc. There is a rollout of sub gigahertz spectrum that we need to deploy first which will involve radio capex and then of course there is transport capex. Now, why is this all important? The transport capex is important in the era of 5G, equally the non-wireless portfolio is important and it is going to get more and more meaningful over time and needs to be funded well. The 4G radio capex, I think we will begin to moderate and having said that this year we need a rollout of sub-gigahertz spectrum, which is linked with 4G radio as well as additional deployments to fill our entire coverage across the country particularly in rural areas.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thank you, Gopal. The next question from Kunal is that his checks seem to indicate that competition to acquire customers has increased in the market specifically with the operators offering attractive incentives, so he wants to know has there been any increase in competitive intensity in the marketplace as far as Q4 is concerned?

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

Yes, definitely. I would agree with that. I think we did see an increase in competitive intensity particularly when it came to things like sales, incentives and commissions in a quest to attract more customers. This is actually not a big and healthy development. In the past when this happened you saw a lot of customers buy a SIM and simply throw it away, but having said that I think our effort continues to be really razor-sharp in terms of quality customers to acquire. With the onset of the pandemic in April we saw a moderation in that competitive intensity because many of the states were seeing varying stages of lockdown. In Q4, we did see some increase in the competitive intensity, not in tariff but more on the acquisition and channel.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thank you, Gopal. The next question is from Vivekanand Subbaraman from Ambit. He also has two questions, the first question is what is the reason for 1.4% Q-on-Q ARPU growth adjusted for the number of days versus the 2.5% to 2.7% growth that we have seen in the previous quarter. Did the 4G upgrade not result in ARPU growth similar to previous quarters? Secondly, he also wants to understand what is causing the operating expenditure to grow by about 9% to 10% year-on-year on the mobility and Airtel business side?

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

We saw a much bigger ARPU jump in Q2. If I recall we almost saw a Rs.5 jump in ARPU in Q2 and that came on an account of the opening of the lockdown, which happened towards June 2020. We saw a stronger Q2. In Q3, we saw about Rs.3.5 ARPU increase and in Q4 we are seeing Rs.2-3 ARPU increase. As you see ARPU is an outcome of several inputs and outcome of the mix of customers, customer additions, so I would not really read too much in the one rupee difference. The underlying trajectory of the upgrade that we are seeing on to our 4G base continues to be solid. We have another 140 million users in our own network that need to be upgraded to 4G and that will happen over a period of time plus of course, there is an opportunity to bring in / upgrade users of other networks on 4G; some of them could be 2G customers so I would not read too much into the Re.1 differential between Q3 and Q4. Sorry, Komal I missed the second part of the question.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

The second part of the question Gopal is what is causing the operating expenditure in Airtel business and mobile to grow by 9% to 10% revenue?

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

I think if you look at the question and maybe Badal can add a little bit more, but if you look at the sequential growth in operating expenses, they looked a little higher in terms of sequential growth that has been coming on account of two reasons; one is the massive rollout of the network that we did, we rolled out almost 8300 sites in Q4 and about 7400 in Q3. Now, these 8300 obviously we have a knock off impact in terms of cost. The second is the increase in prices of diesel, but having said that remember this quarter also 2 days less and what happens is that most of the cost is undertaken for the full month. This is why if you look at the revenue, it is understated by 2 days, so the cost is almost overbooked by 2 days, so that is the way I would look at the underlying opex. The real question to ask is what is the marginal EBITDA from the incremental revenue that we had delivered and that is in the ballpark of 45% to 47%. We would have been happier for it to be around 55% to 60%, but that as I mentioned in on account of the diesel increase as well as the flow-through impact of the network cost. Other costs have broadly been under control. Badal is there anything else or I have covered most of the issues?

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

Gopal you have broadly covered. The 45% which you talked about is for mobile services, this is adjusted for the two days, and overall at a portfolio level at India our reported number is around 40% incremental EBITDA margin and if you adjust for the two days definitely it will be north of 55%. So one also has to look at the entire portfolio together and as far as Airtel business is concerned if you look at the margin profile, it has been consistently stable and increasing

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thanks, Badal. Gopal, the next question is from Ankur Rudra of JP Morgan. He wants to ask that can you just share any early implication of success of the One Airtel strategy and packages in terms of its penetration within the existing customers and how are we trying to expand this? He also has the second question, maybe I will ask after you answer?

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

I think that is a good question. Just so I am clear, One Airtel plan that we launched was in the beta form in the last 6 months and the reason we launched in the beta form was that the different businesses that we have Mobility, Broadband, and the DTH each operate with a different billing stack and the main underlying complexity is integrating the stack. Our engineers have built a platform on top of this stack to stitch all of these systems together and go-to-market is a seamless way, but with any beta, you will find a lot of bugs, so the reason we went in for a beta is that we were anticipating a lot of bugs and some of that has been corrected in the last 60 to 80 days. We expect that the revised version of this proposition will go to markets in the coming 4 to 5 weeks. Having said that while we report the numbers, we have already seen pretty good traction. Infact, we see almost a Rs.500 to Rs.600 ARPU increase for the overall account when a customer comes on from the plan between broadband, postpaid and DTH because they add another

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significant service and we will have close to half-a-million users on such plans. But like I said we have ourselves gone slow in order to fix the bugs so as to not have a broken experience and then when we go back in the next few weeks will go back with the improved version.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thanks, Gopal. The second part of Ankur's question is that it is great to see the scale across digital assets, but does the recent carve out of digital asset indicates that these are asset scale whether they are ready to be monetized and if you can share any plans of monetization or at what scale would this become enough to be monetized?

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

I think when you talk about monetization we are talking about unlocking value, but the way we are looking at monetization is on what revenues, I think fundamentally each of the businesses now needs to start delivering revenues and if you look at the digital business across B2B and B2C, we are now in a position where we are beginning to deliver the sequential growth of anywhere between 15% and 20% every quarter and we are now pleased with the trajectory. There is still a lot of work to be done and it is still very modest compared to the overall scale of the telecom business, but this is a business that requires very low capital, the marginal EBITDA of these businesses are very attractive because the real cost is really around people, the engineering talent and the product talent that we need or the data science talent and that is where we have made all our investments. We have about 1600 people working on the digital side across the core and digital services. We also have an interesting model to build these digital businesses, we incubate them to start with, they are very small and run by an empowered team and then once we get to a certain scale we are now beginning to actually separate those teams, create a little more capacity in those teams, a little more investment in those teams so that the stage we are in right now. I think, we will share with you as we progress on our digital business in terms of revenue and so on we will do that when we feel the time is right.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thanks, Gopal. The next set of questions are from Aditya Bansal from Nomura. The first set of questions are around home broadband and maybe I will ask them together. Firstly, do we have any medium-term targets in terms of home passes that you want to achieve? Secondly how much of the sequential ARPU decline can be attributed to down trading versus new users coming in at the Rs 499 price point and what is the difference in capex per home pass between Bharti connecting it versus the LCO model?

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

Yes. So, the ARPU that we reported this quarter is around 684. There is a sequential drop, but this is all because of the pricing intervention, which we had taken in the early part of Q3 and we feel that the entire impact of pricing has been now fully baked in. For all our new acquisitions, we are not seeing any further ARPU dilution from these levels despite us having a plan of Rs.499 and we think we have a healthy mix of customers being added across the spectrum of plans, which we have. As an example, Rs.799 is one of the most attractive plans, which we have.

On home passes, the differential between what the LCO does and what we do will be close to around 25% to 30% from a capex perspective, differential cost of production, they undertake capex which we share partially, but overall on the cost of delivering this will be close to 25%.

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

The other question on home passes, I just pick that up. I think we expect that in another couple of years with the combination of our own rollout as well as the LCO rollout we would like to see ourselves in about 20 to 25 million home passes.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thanks, Gopal. The other set of questions are around the enterprise business. What do you think is the market potential for the enterprise segment and are we seeing any impact of Jio's launch in this space?

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

First of all, if I look at the enterprise business, let me kind of split the business into two parts, one is the connectivity business. The connectivity business market size is about Rs 40,000 Crores and this is the business that as I mentioned we have moved market shares from 23% to 31%, if we go by Frost & Sullivan benchmarks over a two year period. Given that 80% of our revenues come from 20% of our customers, we think the real headroom here continues to grow market share and move this 31% upwards.

But actually, the other opportunity is beyond connectivity and if I look at that side of it that is another Rs 50,000 Crores and I just talking about the adjacent areas. The margin profile of all these businesses are a little different, but let me kind of touch upon each of these businesses. There is a cloud communication business, which we have entered- the Airtel IQ. This is very core to the Telco business, because it is delivering voice, video, messaging, chat and so on through APIs on the underlying telecom infrastructure, but doing that in a completely valued-added basis and being able to actually compete with many of the software companies. The second business is by cybersecurity, again we feel this is a very integrated business with connectivity side, when we go into a home or a business, what is asked from us is not just plain connectivity but secure connectivity. So bundling secure connectivity for SMEs, leveraging the security intelligence for large enterprises, with the trust that people give us in the large enterprises is the second area that is being very effective. The third area is Airtel IoT. This is a connectivity platform or a full end-to-end platform that has been built by engineers. We launched in the last couple of months. We already have a few million customers on it. We think that this should be another very interesting opportunity over the next five to seven years.

The fourth business is cloud. Now cloud is actually in three parts, one is the public cloud, which is where we are reselling on behalf of a larger hyper-scale cloud player, and this is where the margin profile is a little lower, but then there is no capex involved. There is also a private cloud, which is our own cloud and our own premises for regulated entities and clients like government and so on and this is where a margin profile is better and then of course there is a telco edge cloud, which is more than 120 MSCs and then of course at some stage you will have 500 edge data centers over the next few years when 5G rolls out, which again comes with the good margin profile.

So if you look at all of these businesses they are very squarely linked with connectivity, but they are adding value and really approaching customers to solve their real problems whether it is cost, whether it is experience or whether it is cybersecurity and that is really what our strategy is. We have addressed the full addressable market of Rs 90,000 cores.

By the way, in order to do this, there are few enablers, one is the channel and go-to-market capability which has to really be strengthened because I have been talking to many of the very well run B2B companies, just a learning experience to see what is it that we can learn from them, what is the things that we need to get right in our go-to-market capability. So what we have done is that we in-sourced our own field course, upgraded channel capabilities, while digitizing those capabilities to make sure that solution selling becomes

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easy. The second part is having product expertise and product specialists who would be able to sell those businesses when we meet a customer. The third is actually building our future sets of technology, for example, take cloud communication or Airtel IQ, we need to build out several features there. Today, we are in voice messaging, tomorrow we are going to be in the video and at some stage, we will get into call center space, beyond all of that is the cloud communication piece. These we will need to build out and that is the other part that needs to be focused on.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thanks, Gopal. The next question is from Tarang Agarwal. His question is that on the ex IUC basis our ARPU has been about 145 to 150 and actually going for the last many quarters. Subs addition has been strong and significant, but price increase remains elusive specifically in the background of 200 or 300 ARPUs in the long-term, in this context we believe that lack of pricing growth has more to do with industry dynamics or more in an account of underlying subscribers affordability?

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

No, I think I have mentioned this before that we have seen markets where we have had periods of even price wars in markets with three players, and markets with two players like the Philippines, or three players in Thailand or Indonesia and some parts of the country have 5 or 6 players and many other parts they are just one or two players. So, it is about the relative ambitions and the relative aspirations of each players so there is the industry dynamic really at play here. Having said that, I think the good news is that as you know we are down to a three player market, which in the large market like India is great. At some stage, the pricing has to improve because this is the only way in which you can return a reasonable return on the capital employed.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thanks, Gopal. The next set of questions are on the debt and balance sheet and may I request Harjeet to take those. Firstly, how does the management see the debt reduction plan for Airtel over FY2022 to FY2023? Is it fair to say that the debt has peaked out? Secondly, what are the conversations that we are having to credit rating agencies and thirdly is there a plan to raise fund via QIP or pref issue?

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

Thanks, Komal. I think the big question you ask is, what is the debt underlying trend both what we are seeing and what we have visibility of. If you see the last 12 months, our net debt has increased by about \$3 bn odd and our AGR liability itself which we have accounted for as debt it is more than \$3 bn and we have also did about Rs 18,000 Crores under the AGR liability upfront payment. So really the core debt ex of AGR despite our spectrum upfront load has actually gone down. It is because of the AGR upfront payment and also the new spectrum upfront load, the net debt seems to have increased. The upfront spectrum payment of about Rs 6000 Crores was done in March 2021 and is factored into the March 2021 net debt.

The organic debt reduction reflects the underlying business growth in Africa by itself, which is being reflected through the dividend policy and the strong free cash flows they have.

Also, now we are building free cash flow pool in India. This will continue clearly on the back of two to three reasons as Gopal mentioned briefly. While the composition of the capex is changing, the capex itself has peaked out and at the same time EBITDA is growing on back of net adds, 4G upgrading and growth in non-

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mobile businesses. In addition, there are dividend-paying subsidiaries including Airtel Africa and Indus Towers. All this means that the debt should continue to go down from where we are and obviously if there is anything non-routine, which we are happy to talk about that.

Minor increases that we have seen over the last one year is also due to some bit of acquisition of new stake into Tower company, but if we wind that off there will be more debt reduction.

The other piece in leverage essentially how the core EBITDA is performing, I think if you see in a dollar billions sense, about \$1.7 billion of EBITDA in this quarter for the company, which is close to \$7 billion odd of annualized run rate. At the level of EBITDA, net debt is fairly comfortable in terms of overall leverage ratios. Gopal mentioned sub 3x and frankly if you peel off some of the DoT and AGR related areas, which are not traditional debt pools, neither the FLOs, we will see the ratio is even better. Except for AGR & Dot, essentially it is only \$2 billion of dollar bond debt in India.

So leverage is comfortable, free cash flow pool is there and growing, dividends from the subsidy is continuous, capex stabilized to marginal reduction as we go through and core leverage ratio is comfortable. Also, within the debt composition, not much is towards external debt and that is why I think the rating agencies are fairly comfortable. There is no pressure that we are seeing from any of them. In fact, we will continue to say that what we see as this AGR and DoT is more of debt like item rather than debt. Thereby some of the rating agencies are also seeing that now. Having that said, in the current situation we need to go through the fundamentals of the country, fundamentals of the industry, overall situation for our country's economic growth and our own country rating, etc., but I do not see any large substantial fall out in the rating, but there is no reason on the rating side for us to be really worried on in terms of any adversity on that.

Taking about monetization plans and deleveraging on an inorganic basis. Historically we have maintained our stance that we will be opportunistic on the subsidiaries, we have seen towers payoff for us, last year we saw data centres minority stake monetization which happened with Carlyle and I would say it has to build up. The good news in Africa deals have been signed with Helios Towers to sell the residual towers portfolio. Also, a set of minority investments have been announced from a financial investor, which is TPG and a strategic investor Mastercard in Airtel Money business in Africa. That is also bringing down the debt in Africa thus reducing overall debt over time. More importantly, this also provides the valuation framework for Airtel Money within the Airtel Africa franchise. So I would say while this core is also deleveraging by itself and EBITDA is improving which is giving us debt headroom capacities; there are monetization flows also expected as we do some of these activities.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thanks, Harjeet. The next set of questions are, Gopal, the impact of the second wave of COVID and what are some of the early indicators that we are seeing as far as this wave concerned as well as the next quarter is concerned and do we feel that the impact this time could be much stronger than what it was last year specifically given that the incremental penetration is happening amongst the lower ARPU customers?

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

I think that is a good question. I think we have seen, firstly devastating second wave, we are seeing a lot more fear and insecurity relative to what we saw last time. If you look at the COVID cases, the previous peak that we saw of active cases within the company was in September 2020, which was about 246 cases but in April 2021 we have hit a new high of almost 1400 cases or about 4.5 times jump in the number of cases that we saw. Partly as I said it is fear and insecurity. There are also various stages of lockdown; in fact almost 90% of India is now still in lockdown, the balance 10% is in night lockdown or weekend lockdown, so there has been a reduction in economic activity.

Hence, we continue to see the impact which is both psychological and emotional, which is related to the fear and insecurity amongst customers. The second impact is financial pressures. As migrants go back to villages given their incomes and livelihoods have been destroyed, and some of them are now consolidating their SIMs and using one SIM between the family may be the wife, the child and now using only one SIM. The third impact is of course the acquisitions because of reduced walk into our stores. All of this is having an impact, we showed a similar impact last time and we also did see a sharp recovery in June last year as the markets begin to open. So given all this, we have seen softness in April month. Having said that, we are expecting substantial recovery as we see markets opening up as we saw that strongly coming through in June of last year. This will mean getting ready with our go-to-market and our network. For the time being, there is a lot of emphasis on business continuity. So this is being done through a real focus on alternate channels such as chemists, grocers and online channels which have now become really meaningful, we are 65% of our business going online. Our broadband generally has been pretty good, so at this point of time, people do need a lot of broadband so we saw reasonably good demand while there has been some softness I think broadband is looking strong. The B2B business continues to look strong. The mobility business particularly amongst the lower-income consumer and migrants has been more impacted.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Gopal, the next set of questions are on our digital business, firstly a couple of people want to know that in all of the areas that we operate such as cloud, security, etc., there are very focused domain players who customers would ideally like to prefer, so what is it, which is differential in our offering, which allows us to scale this businesses and a related question is are we getting good talent for these adjacent businesses?

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

I think that is a great question. I think we have had a lot of brainstorming on such aspects. I think we have come back to the conclusion that we do not want our own cybersecurity product or our own cloud to compete with AWS or Google or infact develop our own content. Like I mentioned I think our strengths are the data that we have with our customers, ability to collect money, payments, the fact that we can access 300+ million mobile customers, 20 million home, etc., and of course the network that is the underlying fabric on which a lot can be built which is location.

If you look at these businesses just to come back. Let's take cybersecurity. Airtel Secure is really in partnership with 5 or 6 top cybersecurity companies globally, but we have made our own investment in the security intelligence center. We have almost 100 customers now on this platform, which is enabling us to expand our cybersecurity offering. In the case of cloud, we are actually partnering with Google and AWS for public cloud, our private cloud we run for our own needs. We are able to use this same cloud for the regulated entities like the banks, financial services. Third is Edge cloud, which is a unique strength that telcos have because the telcos have the strongest edge infrastructure in the world where low latency application can be delivered at a premium.

When we look at Airtel IQ, this is in the core business because this really about making a call to the food delivery agents on a Swiggy app. The underlying technology that is being powered for that call through API inside the app using call masking feature is Airtel IQ. Our teams know that this is a core of our business, but by the way this actually gives you great stickiness and actually opens up a new revenue stream.

There is another example of Airtel Ads. We are monetising 200+ million digital users using advertising. We see it as leveraging our trust, our access, our relationships, our data, our payments capability.

The second part is that a lot of this still needs to be developed with a strong emphasis on technology and talent and there I think we made a very strong focus. Some of the talents that we have been able to hire have come from the world's best companies, combination of startups and large technology and internet companies. They have come to Airtel for a very simple reason, they come here for a job that is empowering,

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they come here because they have a canvas that is large and they can create and solve problems of scale. Today we have about 1600 people, the competition is intense because it is tough to attract talent, but our perception of our capabilities amongst talent has increased dramatically in the last 2 to 3 years and a lot of it is on an account of the leadership team that we have been able to put in place or able to train people at the next line who are as good. So I think that is the cycle that happens when you get on to this. So I think that is really where it is. It is not that our attrition is not high, but I think this is the way it is in this industry we have, the tech industry is high and we will have to deal with it and as long as people who spend more than 18 to 24 months then stay with you and grow with you then you are okay, but some of them may be earlier on because they are young developers who are looking for higher compensation.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thanks, Gopal. The next set of question is around DTH and Badal perhaps you want to take, is what explains the reduction in DTH subs and ARPU. Is it an industry-wide phenomenon?

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

Yes, we did see a softness in the customer base in Q4, but we had a strong recovery in April, so I would discount that a little bit and I would look at it as saying what was it in full year 2019, full year 2020, and full year 2021. We had 1.2 million users that we added in FY2019, we added another 1.2 million FY2020, and we added close to 1.2 million - 1.1 million in FY2021, so the underlying trajectory is not a source of concern. The challenge is the DTH because of regulatory reasons which is now fixed, a lot of the growth has to come from new users and this is why we have made a bold call to actually integrate the channel across both mass retail and the direct to customer and we were expecting to have a really very, very solid quarter one but then the lockdown hit us. I sense that some of these capabilities on the One Airtel plan as well as the mass retail integration give a very strong upside for DTH to gain share from cable and expand its presence.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Gopal, one question is on 5G, what is the view on 5G and its outlook of the timing of show out and any expectations around auctions this year?

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

I think we were earlier under the impression that auctions would happen by December 2021. This is what we were informally informed, not formally but explicitly. We thought this may happen given that today if I look at the last month, 6% of our consumer device shipments are already 5G enabled. So it is beginning to start the move and the price of the device is now Rs 20,000 as well. Having said that this is the pandemic that has hit us and my sense is that this may get delayed by few months whether it happens in this fiscal or the next year is to be seen. We have to wait.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Gopal in the interest of time, I will probably take one last question, are there any plans for any of the promoters to sell any stake in Airtel?

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

No, I think that was surprising speculation that I heard this morning and I want to emphatically state that both the Bharti family as well as Singtel have absolutely no intention of any selling or sell out or any stake sell down or any blocks sale. This is just speculative activity and rumours flying around, I just want to reassure everybody on this call, there is no such intention whatsoever.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thanks. In the interest of time that was the last question. I will hand it back to you for any closing remarks, please.

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

I do want to thank you for this. I think we are in an exceptional time with the pandemic, so my only wish for all of you to stay safe, take care of yourself and hope to see you soon physically sooner rather than later. Thank you very much.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thank you everyone for joining the call.