

Conference Call Transcript

Event: Transcript of Bharti Airtel Limited First Quarter Ended June 30, 2020 Earnings Conference Call

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

Good afternoon, and welcome to the Bharti Airtel's First Quarter FY2021 Earnings Call, which is being conducted on this Airtel BlueJeans Events. Before I hand over to Gopal for his opening remarks, I must quickly inform all the participants that we will be conducting the question and answer session after the opening remarks. Participants can effectively send their questions using the "Moderator Chat" option in their Airtel BlueJeans app or web browser. Further instructions, to ask the questions, have been sent across in your email. With this I hand over to Gopal for his initial remarks. Over to you Gopal!

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

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

In the next few minutes, I want to talk about three things – First is the extraordinary and continued impact of COVID and our response. Second, our Performance over the last quarter and finally progress we have made towards our Digital Performance.

India was the largest nation to put more than 1.3 billion people under a strict lockdown which had a major impact. Besides the shock to the overall supply chain, many millions were deeply affected from an economic point of view causing stress on demand and consumption. Through this crisis we have been grateful for the opportunity to provide an essential service. We have been the backbone for India and are privileged to have played a part in keeping our customers connected in these uncertain times.

From children having to take their classes on line, to increased digital payments, to businesses finding new ways to keep their employees working, to allowing our customers to have a few moments of entertainment in an otherwise dreary time we have played a critical role in all their lives. I have heard innumerable inspirational stories where our teams have gone above and beyond the call of duty to keep the nation connected.

Having said that, we have had our own set of challenges through this period. Due to the nationwide lockdown, supply chains were disrupted, leading to a sharp drop in smartphone shipments and in turn impacting the pace of 2G to 4G upgrade. Further, a large part of our offline channel partners were closed, including our own retail stores, restricting people's ability to recharge conveniently. Our pace of network deployment also slowed down. In the last earnings call, I had shared with you detailed steps of how we have responded to this crisis – managing our networks remotely, activating new channels such as Grocers, Pharmacies and ATMs as well as accelerating Digital channels. I believe these actions have held us in good stead. With these actions we have begun to see business recover. Smartphone shipments are also back to pre-COVID levels. Most of our stores are now open.

Yes, there is volatility given district level locks and unlocks – but by and large we are on a path to recovery.

In light of this context, our business held well in comparison to many other industries. At an aggregate level we have grown the business by 0.9 percent over the previous quarter. You will recall that Q4 had grown over 12% vs. Q3 and we had reached an all time high in terms of revenue market share. So on that elevated base for us to put in this performance at such a time we feel is satisfying. Let me turn to each of our business segments:

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First, Airtel Business. Being a leader in the Indian Enterprise telecommunication market, we took the lead to help our customers in reducing disruptions in this unprecedented situation. We launched Work@Home which was India's first enterprise grade solution designed to enable employees to operate efficiently and securely from their homes. New products were launched with guaranteed ultra-low latency. We launched our own Video conferencing solution – Airtel BlueJeans in partnership with Verizon. Additional capacity of around 10Tbps was added during the quarter for some of our clients including key OTT players and internet giants.

As a result, airtel business segment grew by 3.7% QoQ. We have also built an exciting data centre business that serves several large Indian and global technology companies as the need for data explodes. We announced the induction of Carlyle as a strategic partner in this data center business: Nxta. Carlyle joins a strong roster of investors in the group that include Singtel, Temasek, Warburg Pincus, GIC and KKR amongst others. Subject to necessary regulatory approvals, Carlyle will invest US\$235 million in Nxta Data Limited, valuing the company at a post-money enterprise valuation of US\$1.2 billion. We believe that the Airtel Business opportunity over the next few years is immense.

Let me turn to our Broadband and DTH Businesses. Broadband is seeing very high traction, given current context. To capitalize on that demand, we accelerated our installation and rollouts. Our business grew by 1.1% qoq, driven by strong gross additions. Part of this growth was hampered by the temporary closure of small offices and shops who chose to turn off their service during the lock down. We believe that these should restore in the coming months. We also believe that there is a massive opportunity in smaller towns across India on the home broadband market. We are therefore doubling down on our partnership with local cable operators in such towns. We are now live in 14 such cities through this partnership model.

The DTH business saw a net addition of 226K customers. Again this was somewhat hampered by disconnections in some commercial offices as well as amongst migrants as they returned to their homes. For both Homes and DTH, we have held a very tight control on cost levers, thereby enhancing our EBITDA margin sequentially.

Let me now comment on our Mobile Business. We saw a minor contraction in revenues. The business faced three head winds – 1) International roaming revenue, a fairly substantial revenue stream fell to Zero. Second, there was SIM consolidation at the bottom end of the pyramid, given the economic challenges that affected a large number of our migrant customers. Finally, we saw a slowdown in 4G Net adds given the supply shock to smart phones. That said we still gained very high share of 4G net adds in the industry. In terms of customers, we saw a dip in our Revenue earning customer base by 4 Million. Do Note that our definition of customer base is very stringent - we treat a customer as a Revenue earning customer only if they have given us revenue in a rolling 30 day period. All of this customer loss is amongst the lower end and concentrated amongst feature phone users. We were of course encouraged by substantially higher engagement amongst our data using quality customers. As a result of all this, our ARPU increased to Rs. 157 (vs. 154 in last quarter).

As I have always said – we continue to believe that ARPUs need to move up to 200 and eventually to 300 for a sustainable business model. We also saw solid momentum in our Postpaid segment. While the overall numbers in the quarter were hampered by churn in our corporate customer base due we are seeing strong surge in the retail segment.

There are two critical anchors of our business – Networks and Differentiation. Due to Covid our network has had two impacts – First, there has been a Shift in traffic – From urban commercial centres to outskirts and residential areas in the cities. And from urban to rural areas. This has been caused due to Work from home and Migrants returning home. Second, there has been a massive increase in consumption. Both of these were effectively managed with soft capacities and optimizations. Notwithstanding the lockdown, we continue to expand our access. We added sites, layers, twin beams and sectors across many thousands of sites. We added about 1700 sites during the quarter.. We continue to invest in next-gen technologies. During this quarter we partnered with AltioStar to deploy open virtual radio access solution – What is normally called vRAN We will become the first operator in India to deploy vRAN based 4G network. This solution has 5G ready software and would provide seamless evolution to 5G using the same architecture.

So while we will build 5G solutions in the lab – we also believe that commercial roll out of 5G is still a few years away and needs readiness of the ecosystem – right use cases, device availability, applications and affordable spectrum availability.

The second anchor of our business is Differentiation: We believe differentiation is critical for us to win. We have stepped up our act across three areas. First, Customer experience. Delivering a brilliant Customer Experience has always been a key tenet of our Strategy. To take it to the next level, we launched a new campaign last quarter – Open to Questions. Open to Questions is our commitment to our customers with a simple promise. We are committed to eliminating failures so that our customers enjoy the experience they deserve. As you know, wireless technologies and networks have challenges in delivering an error free experience. This is therefore our acknowledgement of this challenge so that we do not rest till we find solutions. The second area of differentiation is in bringing unique services and solutions that attract customers who matter. We launched two services this quarter. The first was our Payments bank service bundled into the Telecom SIM. Through this we help address the security and economic issues that many of our mass customers face.

We do this by providing banking at a point of proximity, by providing insurance, by providing cash backs into the bank account, interest and of course the best network experience. A second service we launched was targeted at the Affluent professional – Airtel Platinum. Our platinum service brings superior service experience and a whole host of rewards for customers who are willing to commit higher spends on our brand.

Finally, a quick word on Costs. The COVID crisis presented several opportunities for us to reduce our costs across businesses, thus helping us put renewed vigor behind our 'War on Waste' program. With the savings, we were able to expand our Mobile India EBITDA by 134 basis points.

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In our last Earnings call, I had shared with you the strengths of our Digital platform and our approach on how we want to scale it and build new revenue streams. The questions we seek to answer are simple - How do we acquire more quality customers – How do we retain them and create greater lifetime value And How can we strip out waste from the business.

As I have said earlier, at its core, Airtel is a platform with four mission critical strengths. The first is Data – our customers trust us with an incredible amount of data that is consolidated in one powerful and intelligent platform. The second strength is distribution. We have access to over 280 million mobile customers, over 18 million Homes, 2000 large corporates and over a million small businesses. The third is Payments. We are one of the few businesses that has the ability to collect payments from customers be it digitally or in the form of cash. Finally our network and location based understanding which provides us incredible capability to deliver value to partners.

All of these strengths are now being used in three big areas.

The first is to build out an Ad tech platform using our powerful digital assets that have now a unique monthly active user reach of 155 Million. We are well on our way here and are working with many companies to test our platform and have started seeing some revenues flow in, albeit small.

The second area is to build out partnerships across B2B and B2C to help drive business for our partners and in turn commissions for us. We do this by using our data, by solving the payments problem and by leveraging our distribution.

Let me talk about a few examples there. On the B2C side our digital teams have built a converged platform – Airtel X Stream that brings together OTT and content partnerships across Mobile and the Home. We have developed a first of its kind X stream box that brings the power of linear TV and OTT content into one seamless experience on the large screen through a simple and intuitive customer interface. So in addition to linear content, we have built partnerships with Zee, Disney, Amazon, Eros, Curiosity Stream and several others to provide an endless array of entertainment to our Home customers. This product is now seeing solid traction and we have more exciting innovations lined up over time to lower the cost of the box while continuing to improve the customer experience. A second example I want to talk about is on the B2B side where we have partnered with Verizon to launch Airtel BlueJeans in a compelling bundled offer for a Work from Home solution for our customers. We believe that much more needs to be done on Work from Home. The power of what we are doing is that we are able to partner with several companies in a very agile and seamless way. We believe partners are looking for what we call a TEAM mindset. T for Transparent commercials, E for Easy integration – here our engineering team has built integration possibilities through robust API's. A for accelerated adoption of services – this is where the scale of our platform comes into play. And finally M for mutual growth. You will see a sustained stream of innovation in these areas.

The third area is where we will build out our own services and products where we believe we can leverage our four underlying strengths in a unique way to solve a real customer problem. We will talk more about this in the coming times as and when we are ready to.

Before I close, I also want to touch upon the AGR case. The quarter saw several hearings on the AGR matter. Telcos and DoT have asked for relief in form of 15-20 years staggered installments for AGR dues. The Next hearing on the case is expected to be on 10th August. As the order is reserved and awaited, we won't be able to comment anything on that.

All in all – the quarter gone by was a challenging and yet fulfilling quarter.

Our strategy of going after quality customers and offering them a brilliant experience has helped us tide over the COVID-19 disruption. We have seen the business recover month on month. June was more resilient than May and May was more resilient than April.

We see a silver lining to this disruption as we are hopeful that the importance of telecom sector has now been emphatically understood by all. Ensuring robust health of the sector to make it more sustainable is now also recognised.

With this, let us open up for Q&A.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thank you, Gopal. I think in the interest of time, I will bunch up multiple questions on similar topics as we receive them.

The first pool of questions is about revenue growth. Many of our investors and analysts want to understand what was the impact of COVID in terms of just revenues across the mobile and the non-mobile businesses? What was the impact on account of closure of our outlets and recharge points through the last quarter? Many investors also want to know that have we gone back to the level of our daily acquisition rate that we were before COVID came in. Have we arrested the loss of customers? And with this, what is the outlook going forward into Q2?

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It is a lot of questions, but let me kind of try and give a perspective on that. I think on the mobile side, as I mentioned, there were several headwinds. One was that the international roaming revenues fell to 0, and we do not see that recovering in a hurry. Secondly, we saw a massive amount of SIM consolidation at the bottom end, and this is largely at the bottom end feature phone users consolidating their SIM or perhaps getting away dropping their SIM altogether.

We have also seen challenges in our outlets. April was particularly bad as recharge points were more or less closed. We were able to activate several alternate channels, including chemists and grocers and, of course, our digital channels. And through May and June, we continued to see a couple of days of lockdown here and there. For example, Bengal has had a pretty stringent lockdown. There are parts of Maharashtra that are having a stringent lockdown, some districts in Karnataka. So this is almost done at a district-by-district level. And typically, Saturday, Sundays used to be pretty poor for us on recharges, generally a little lower, but now it has become very poor because of lockdowns that are much harsher on the weekends. Having said that, just to finish off mobile, like I said, I think June was more resilient than May and May was more resilient than April. And as we exited June, I would say we've certainly seen an arrest of any customer erosion. The erosion that we saw was largely in April and May on the lower end, but that has not completely stopped. And we expect that we should start seeing some customer growth from here.

The other side now is coming on to the other businesses. Broadband, we have seen a massive surge in installations in our home segment, but at the same time, we saw a lot of temporary closures, safe custody, people saying, take my connection away, I just want to keep it going at a very, very low price or maybe just get rid of it altogether, as shops and offices have been closed.

On the enterprise side, we saw a very large increase in the need for capacities and bandwidths, but at the same time, we have seen some pressure in the small and medium enterprise area again, where people have tended to postpone their purchases. On the enterprise side, the other big trend is that we are seeing a lot more growth of work from home, a lot more growth of conferencing solutions, a lot more demand on data centers, a lot of conversations going on in cyber security, on cloud services. So it has been a mixed bag, I would say. There have been some ups and downs, but on the balance, I think, given the portfolio of our businesses and the portfolio of our customers, we've had a reasonably resilient quarter.

Komal Sharan - Head of IR - Bharti Airtel Limited

Sure. Gopal, the next set of questions are around expectations of any further tariff hikes in the wake of a COVID environment in India?

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

I think we have always said that ARPU's need to get to Rs 200 and finally to Rs 300. The organic increase in ARPU's, as you saw this quarter, a couple of rupees, if you do not do it in the context of price increase, then the organic increase is modest and is only a function of the 2G to 4G upgrade or some growth in our postpaid business. And therefore, I think tariffs have to go up. The question really is the right timing for it. We believe that at some stage, we should be ready for it. I can't comment on specifics on when.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thank you, Gopal. I think the next set of questions is around costs. Many investors want to know, firstly, on a year-on-year basis, looking at our annual report we have seen a sharp decline in many cost line items, including content, SG&A and marketing. And a lot of that is also reflected in this quarter's EBITDA margin expansion, and operating leverage is playing out well despite a revenue degrowth. So investors want to understand what are the cost levers which we are using and what are the cost levers left available with us? And how should they be thinking about margins going forward?

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

I think one thing that I am quite proud of as a team that we did pretty early on, and I think I did mention in the last earnings call that we looked at our business through three lenses. We looked at our business through the lens of business continuity, which is really about holding onto our business through activating alternate channels, managing the networks remotely, managing our people remotely. Overnight, we had to have 15,000 people work from home. So all of that was what I would bucket under the area of business continuity and as a leadership team, we had a daily huddle every single day, 7 days a week, between 12 and 12:30, just reviewing business continuity. So that is part one.

Part two was, we simultaneously had a separate team looking at how do we plan for recovery because we knew that when districts opened up, we needed to get in there, get our deployment acts together, make sure that our people were out there in the field actually identifying opportunities, micro marketing opportunities to get growth back. So that was the second lever.

The third lever, while this was happening, as a leadership team, we went together literally two weeks into the lockdown, this was probably early April, where we said, how can we relook at our business model to strip out further waste because what COVID is teaching us is that there is, obviously, a lot of waste in our business.

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I think that has been a pretty liberating exercise. I would say there are many things that have worked for us. Number one is the acceleration to digital channels has improved the margin because the commissions that you pay on the digital channels is much lower than off-line channels.

Number two, we looked at every line item of cost. So for example, we renegotiated rentals in many of our stores. We looked on the marketing cost. There was no need to actually go out and do a lot of marketing given the current peculiar circumstances. So that probably is a one-off.

Sales and distribution costs went down because acquisition was not able to happen. Again, that is a bit of a one-off. But all other line items that we looked at, customer service cost, let me give you an example, we found that our customers were unable to reach us because we did not have enough advisers at our call centers, and what we did was we completely got our digital teams to revamp our IVR and revamp our apps. So, today when the call centers are open, we are still not receiving the same number of calls. We have seen a significant reduction in calls because most of these issues are being addressed from the IVR and app. So across the board, we looked at several line items. And I think we were able to actually pull out some extra savings through eliminating waste in the quarter, and most of this, we believe, will flow through in the subsequent quarters.

Komal Sharan - Head of IR - Bharti Airtel Limited

Sure. Thank you, Gopal. The next set of questions is around our enterprise business. What is the overall market opportunity in the enterprise segment? What are the various segments within that business that we are playing in? And therefore, what is the outlook of that business to your mind?

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

I personally feel that this is one of our most exciting businesses. I think the opportunity in the enterprise space is limited by, quite frankly, our own imagination, and I think that is in two parts. One is in the connectivity space where we still have a big opportunity to reach out and connect many more businesses. That is our core business, as you all know, both in the enterprise side. We will see continued surge in capacities and requirements as businesses grow and become more digital.

There is also a big opportunity to connect and wire up more businesses in the small and medium enterprise space. India, as you know, is largely a small enterprise country, and so there is a big opportunity for connectivity. So that is a given. And I think there are synergies there between mobility, broadband and enterprise to actually go out and wire up more and more offices. But the other part is really where the opportunity is large, and this is why I say it is limited by our own imagination.

Our strength is that we have deep relationships with 2000 large enterprises. We have deep relationships with hundreds and thousands of smaller companies. And if we can become the one-stop shop to actually like bring them a range of solutions in adjacent categories, be the front for many of their problems that they are trying to solve in categories that are linked to telecommunication in some way, I think we have a very, very big opportunity. So whether it is conferencing and collaboration services, which are, I believe, a large opportunity. Cybersecurity, we are one of the largest users of cybersecurity ourselves, we work with 7,8 partners. We've now set up our own cybersecurity practice.

Cloud, we have a private cloud. We have our public cloud, which is our partners with people like AWS and Google. And of course, we have the edge cloud with hundreds of MSEs right at the edge, where your latency reduces dramatically. And these three, between the private, public, and edge cloud, are compelling assets because a private cloud is required for data to be stored in India; public cloud is much more agile; and, of course, the edge cloud delivers a unique benefit. So that is another area of opportunity.

Data centers is a very big area of opportunity as the growth of data expands, more and more hyperscalers coming into India and more and more businesses requiring data to be stored. And with Nxtra, I think we have a very big opportunity. We also believe that there are partnership opportunities. For example, we have partnered with Cisco who bundle routing solutions and offer that consolidated into connectivity. And this has done quite well in the last nine, 10 months. So when you look at the battery of things we can do, I think the way we have got to structure it is no different from what we are doing on the B2C side. Our strengths are the same. It is the data of our customers, the ability that we have to collect payments, the access to our customers and the fact that we have network assets. If we can use these four assets to actually partner with a range of companies, then the enterprise space becomes very, very interesting. And when you have these conversations beyond connectivity, the conversations with our enterprise partners elevates beyond to a CXO level because these issues around cybersecurity, cloud, data centers, collaboration are more CXO-level issues. And I think that embeds a deeper relationship with our B2B customers.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thank you, Gopal. The next set of questions is around our digital strategy. Investors want to know that we have predominantly been a telecom company so far. While some of our competition is entering into multiple partnerships across their value chain and straddling the entire value chain really. So to your mind, how do you think this will change the overall telecom landscape? And how does it impact our strategy going forward?

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

Yes. I will not comment on the competitive positions of our competitors and the way they look at life. I think the way we look at the market is that we look at the market as the need for us to really go deep, to win with a great experience and pick up the best quality customers and do that in a lean and efficient way. If we can do that, then the fact that we have got the best quality customers, if you are able to build these digital assets on top of that pipe, which is our 155 million monthly active users across Wynk, Xstream, our Airtel Thanks app, Mitra app, which is used by over 1 million retailers that combines our Payments Bank as well as our Airtel telco recharges into one unified kind of payments use case. When you are able to use all of those assets, then I think our real opportunity then is to do those three things that I talked about, which is how do you use those assets to build new streams of revenue, partnering with everybody in terms of advertising. The second is how do you build new streams of revenue by actually partnering across the board on bringing digital services to our customers, whether it is in B2C or B2B. I have given you some examples of that. And the third opportunity is then how do you build out products and services yourself, which are more unique, but we are still playing off those same strengths, and there are two or three very interesting services that we're currently working on, which we will comment on at the right point in time. But these, we believe, leverage our core strengths and solve a real problem and that can translate into revenues quite quickly. So our digital strategy is very simple. It is to answer one of three questions. Are you able to get more customers? Are you able to keep those customers for longer and get a higher lifetime value? Or are you able to rip out waste and eliminate cost? If we can do one of those three things, then I think technology and digital makes a lot of sense to build on top of our pipe. So that is really the way we see. In a nutshell, I would say, our strategy is to really go deep.

Komal Sharan - Head of IR - Bharti Airtel Limited

Sure. Related question, Gopal, on this one is, any plans to monetize Airtel Thanks in the near future? And what is going to be our strategy in the ad-tech space?

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

In the case of advertising, I think, first and foremost, we got to be respectful of privacy. So I think that is something that we are very, very conscious of. But in many ways, we have both a supply side because we have got a very, very strong array of digital assets with over 155 million monthly active users. And there is enough demand out there. And the reason demand exists is that demand is more focused on identifying who is a good quality customer that can actually translate into some kind of revenue or transaction. And this is where, I think, our platform has strength because we have good quality customers. And this is where, when we worked with several companies on our digital assets over the last four to five months to create modest amounts of advertising revenue. But we are learning a lot in this period. And I think that if we can get our supply going through the scale of our digital assets, which today are 155 million and, hopefully, this will keep growing over time, and the demand that is really focused on not just getting any customer but getting a quality customer and translating that into some kind of transaction purchase because we are also solving the payments problem, then I think it starts getting very interesting, and your cost per thousands or your cost per millions can actually start going up. So that is the thesis as far as the advertising side is concerned.

Arpan Goyal – Investor Relations – Bharti Airtel

Next question is about the AGR dues. So investors are asking that the provision which we have taken in this particular quarter, is it the final provision for the AGR? And what will be the impact on ratings of Bharti Airtel as well as any funding plans which we have for AGR dues?

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

I will just take on the amount of provision. Yes, we have taken an incremental provision of around Rs.10700 Crores. This is pursuant to the final judgment or the order which has come by the Supreme Court. This, to our mind, is almost full and final because as per the order, this cannot be challenged or recalculated or reassessed. So as far as we are concerned, this should be the closure of the provision, which possibly we need to make. Harjeet, do you want to talk about the rating?

Harjeet Kohli - Group Director, Strategy & Business Development

Yes. Sure. Thanks, Badal. There are two parts to the question. I think one is the funding exercise related to the current situation on the AGR outcome, and the other is any impact on ratings. I think on the funding side, it is quick and easy. If you are following, you know that Airtel had deposited about Rs.18000 crores as their partially assessed position. From our perspective, incrementally, all of the balance has to be, hopefully, paid over time and that we wait for Supreme Court's final order. So financing wise, it is not necessarily required to do anything. We are having some cash on the books. There are no liquidity access issues, and there is no immediate requirement to add more to the payment.

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On the rating side, clearly, the incremental potential AGR liability is an incremental deferred spectrum liability as debt. It will come on the books of accounts. At the same time, I do not want to preempt any rating agency's views, but clearly, what is happening in the operating side, both in India and Africa, as also both in mobile and non-mobile, is giving the right impetus to the EBITDA increases. Capex is more or less, as Gopal was mentioning, while there are quarterly changes, but in the guidance range as we had earlier communicated. So what that means is the cash flows are accreting, and there is a bit of a deferred spectrum liability load. Within that paradigm, we expect no significant stress, but we will not be preempting what rating agencies think. At this stage, we feel comfortable that bulk of the debt, which today sits as finance lease obligation and the AGR liabilities, market debt is very small and reasonably backed by cash in hand and growing positive operating environment.

Arpan Goyal – Investor Relations – Bharti Airtel

Thank you, Harjeet. We have the next question on the home broadband business. In Q1, the broadband growth has been largely led by the customer additions. So how the things are looking in the Q2? Are we seeing growth in the ARPU also because of the higher demand on the home side? And what type of customer addition we are seeing? Also, there is a sudden spike in the EBITDA margin for the home business, so what exactly is leading to that?

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

The spike in EBITDA margin, which you have seen, we should expect an EBITDA range of approximately 55%, give or take 3 or 4 basis points on an average on a quarterly basis. So to just talk about the EBITDA margin, we have had certain IFRS leases, which we have capitalized in the current quarter, thereby our operating expenses is slightly on the lower side and depreciation on the higher. So if you look at an EBIT percentage level, it kind of gets evened out, and it's in the range of 26%, 27%, which should be a consistent way of looking at it.

On account of homes broadband, yes, we had 34000 customers, which got added onto our portfolio. We have had a stable ARPU of close to over Rs.800 in the current quarter. We expect the ARPU to remain at these levels because the customers who are coming are coming at this range. We did see some customers going into safe custody. The commercial segment did impact the customer additions in the quarter. We expect that to come up in the coming quarters, and we expect the customer additions to be far more robust than what possibly we have seen in the current quarter. ARPU will remain in this range.

Komal Sharan - Head of IR - Bharti Airtel Limited

Sure. Badal, Gopal, the next question is on CapEx. What is our sense on how CapEx will pan out over this year and maybe the next few years? And on an associated piece, how will FCF of the company look like over the next few years?

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

I think that the CapEx, we have given a broad guidance this year. We are not giving specific guidance anymore. This quarter's CapEx was moderated, partially on account of the fact that our teams are not able to get out and actually deploy sites. So it was, I would say, artificially suppressed. I think our overall CapEx will be perhaps in line with the guidance that we have given. And from here on, I think the answer to your question is also about what happens to ARPUs because CapEx I think you have got to think about CapEx now as a percentage of revenues and ARPU needs to start climbing for CapEx to continue.

Komal Sharan - Head of IR - Bharti Airtel Limited

Sure. The next set of questions is around 5G. I think many investors want to know that would we take the first-mover advantage in rolling out 5G services in the country? Should we not actually do that? And what is the kind of equipment ecosystem that we are working with? We announced a partnership with Altostar. We also work with Google on the cloud side. How does that help us build out an overall 5G ecosystem for ourselves in the country?

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

I think we have always maintained that the price of the spectrum on 5G or the 3.5 gigahertz band has been indicated. While the reserve prices have not yet firmed up, the indicated reserve prices that TRAI had come out with are very, very expensive, and we will not be able to afford it at those levels. We do not believe there is a business case at those levels.

Secondly, the ecosystem that is there for 5G is still very nascent, both in terms of applications and devices. I do want to underscore that if you look back in our history, you will find that invariably most technologies or most new technologies, we have been pretty much out there first off the block, so to speak, whether it was 3G or even 4G. Fact is that we need to be ready when the ecosystem is ready. But there is no point in being too ahead of the game. So we believe that this will be at least a couple of years out before 5G has any meaningful significance in India.

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We are working with several partners. We work with our leading partners on our equipment side, on radio, on our core and as well as on our optics. We are also working with several smaller partners, whether it is partners like AltioStar, partners like Mavenir, many hardware vendors, people like Xilinx, Sercomm. We have actually developed our own small cell solutions, which we have now started deploying in partnership with AltioStar, Sercomm and Xilinx. And we have an R&D team, which we have now invested in, which is basically tasked with an objective to work, we are also part of the ORAN community. So we are part of the Board of ORAN. We are part of the Board of GIPHY, which is with Facebook. We are scouting around to see what is happening in this whole space. And the purpose of this R&D team, as I mentioned, is to really work with disruptive partners looking at developing best-of-breed solutions, disaggregating software from hardware so that overall CapEx is able to come down over time. And I think that is something that we are committed to continue to do. And we will continue to work with all of these disruptive partners to bring some of those solutions.

Komal Sharan - Head of IR - Bharti Airtel Limited

Sure. Related question, Gopal, is on the 5G device ecosystem. Do we see that there is a risk of pricing on the device side falling abruptly and, therefore, should we be prepared for that?

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

Yes, we are watching it quite closely. I think it is still some time away. I think the fundamental issue really is that at these levels of ARPU and with what 5G has to offer, 5G will offer basically higher speeds and lower latency. If you have more spectrum of 4G without any deployment of radio, you can still get higher speed. So the issue is not 5G versus 4G, it is an issue of how much spectrum is loaded onto a particular site and how much capacity is consumed out of the spectrum that's loaded onto that site.

I think the fundamental issue on 5G is that the cost of the spectrum at Rs.50,000 crores for 100 megahertz is just way over the top for any kind of business model to work because the CapEx cycle would still have not even begun before you actually shelled out Rs.50,000 crores. So I think the cost of the spectrum needs to come down, and the ecosystem needs to evolve. So I think it is still early days. That said, I think device prices are still high for 5G, and overtime, they will keep coming down, but right now we do not see it crashing in a hurry.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thanks, Gopal. A related question, again, is on the Chinese vendors. Do we work with Chinese vendors today? What is their presence across our network? And what will be the impact, both in terms of rollout as well as our cost structure, if any of the Chinese vendors will get banned potentially by the Indian government?

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

I think we do work with all partners. We work with Chinese partners, European partners, American partners across all our domains, radio, optics and core. We have a portfolio of partners. We respect all our partners. Many of them bring solutions that are unique. We also look at the right commercial models, which matter in a market like India. We got to have the right cost structures for partners, and some partners are able to meet those costs better than others. So therefore, we are committed to continue to work with all our partners. That said, if there is any government notification that emerges, then we will abide by the law of the land. So beyond that, there is really nothing more to say on that.

Komal Sharan - Head of IR - Bharti Airtel Limited

Sure. Gopal, one of the questions is around our investments in the digital space over the next couple of years. What is the kind of investment that we are planning to do on the digital side of business over the next few years?

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

I think the beauty of the business model that we have built is that these underlying strengths that we have built, which is with the investments we made on the telecom side, these underlying strengths of data distribution, payments and network are always there. We have a large digital team now, about 1500 people in the company, working on using these strengths to translate into one of those three revenue streams, which I said, which is on advertising. It is on alliances and partnerships. And the third is building some of our own products and services. So we will continue to do this, and this will be across B2B and B2C, homes, the entire business and plane. We will continue to do this. And I believe that wherever there is an opportunity that we believe we have a unique advantage to solve a particular customer problem and use our strengths then we will put more investment there and go out and actually drive it. So I cannot comment on an investment number, but we will do what it takes within the way that we are actually operating.

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Komal Sharan - Head of IR - Bharti Airtel Limited

Sure. Gopal, the next question is around our LCO model. If you could elaborate a little bit more on how that is playing out and what is the role that we have seen at the back of the LCO model on the home broadband side?

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

I think this is a model that we are very excited about. We have built it in an entirely digital way. So we have a standard toolkit where we are able to go out and actually work with the local cable operator in a particular town. And we give them a revenue share for basically laying the last mile fiber, maintaining it, and everything else that is done on it, whether it is the router, it is the billing system, it is the plan, it is the customer relationship, all of it is managed by Airtel. The last mile fiber is managed by the local cable operator, for which he gets the revenue share. We have, like I said, a standard blueprint around and there have been several lessons that we have learned over the last nine to 12 months on how to actually master that blueprint to onboard these partners in a digital way so that they can get going and build their business.

So in a way, it is an opportunity for entrepreneurs to continue to earn money with us and, at the same time, for us to be able to go out and serve customers. And by the way, we do it at a much lower cost because the nature of the geographies that we cover outside the top 50 cities, are very different. The buildings and the housing is more flat beds and more distributed. And so for us to do it ourselves, would require a lot more investment, and it would be a far more challenged business model. But with this business model at a much lower investment, we are able to get a very good traction. So we have seen actually surprising offtake in about 12, 13 towns that we've already gone into. We are now accelerating this quite rapidly because we believe that we have cracked the model, so it will start expanding over the next six to 12 months.

Komal Sharan - Head of IR - Bharti Airtel Limited

The next question is to understand what is our thinking in terms of bringing a strategic partner in if that is needed at all? And what is the path of deleveraging from here on, especially if the AGR dues also need to be paid?

Harjeet Kohli - Group Director, Strategy & Business Development

I think there are two parts to this. Part one is a little more holistic, but we can, from a perspective of liquidity, very safely say that it is not necessarily required to bring in investors to fund for equity participation in the company. But I think partnerships go these days beyond operational and equity nature. Operationally, the teams are very well engaged. Gopal talked about multi-partners across the global set, the regional set and the local set that we are engaged with. That will continue. I think any of those partnerships at a time when it makes sense for both the sites to create a win-win equity partnership can happen over time. It is not a necessity by virtue of a liquidity need or by virtue of an operational delivery that needs to be done.

On path of deleveraging, I think it is a combination of two or three things. One is CapEx, which the business needs. CapEx has two parts, the routine CapEx, which we are doing each quarter. Gopal mentioned while we are not pinning a number, but broad guidance has been there. We are more or less within that guidance range.

Africa gives a very formal guidance, and they are also within that guidance range. Africa is free cash flow positive. India is also free cash flow positive, if you see the last quarter. The FCF for the global consolidated operations for Airtel would be roughly about \$400 million. So \$300 million to \$400 million is free cash flow generated. At the current EBITDA levels, current guided CapEx levels, no non-routine events of in or out.

Then come the possibilities of monetization, not by virtue of creating liquidity, but by virtue of our business demands. Data center deal Gopal talked about earlier. Carlyle shall be investing about \$235 million. So that money shall come in, in the next few weeks and months. We have, of course, a path to tread on the merger possibility between the two towercos that is sitting on the table for a while. Historically, we have stated that we will stay agile to what we need to do to that shareholding, and that could mean monetizing it overtime as we think when it is the right time or decide what the strategy there is. It is a bit early. There are deleveraging possibilities by virtue of liquidity accessed from equity-like instruments.

Historically, we have done a convertible bond, we have done a perpetual bond, and there is nothing which stops us to think about some of those opportunities. And then we are left with a block in the fiber company that has been well formed over the last few months. It is an asset, which is available with us. We are building an operating model behind that. Airtel is a tenant to its own subsidiary, to that extent. And that, I think, is a possibility overtime we should stay agile to how we monetize. Both of these things around monetization, EBITDA accretions and, I would say, triangulated by the CapEx profile will result in a national path of deleveraging. EBITDA is accreting. Free cash flows are adding. Debt should go down. No non-routine event happening. Some monetization is coming in. There is a natural path to deleverage. And the last piece, I think, which I mentioned earlier is, most important, about 75%, 80% of our debt portfolio is about finance lease obligation and deferred spectrum liability. Only the balance piece, which is dominantly funded by global bonds, domestic bonds is what is the market debt, very safely manageable. That's the overall profile. We feel very comfortable around these events that on these counts, nothing to worry.

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

Gopal, the next set of questions is around, again, tariffs. Firstly, people want to understand whether the December tariff hikes have been fully baked in or fully priced in into our financials? Secondly, what are the indicators that we would wait to watch before taking a further round of tariff hike? And thirdly, in this environment of work from home, are there any tools or are there any levers for us to be able to monetize the higher data usage that is happening on the mobile network today?

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

Yes. That is a very good set of questions. I think the tariff increase is more or less flowed through because it is now six months since then and most of our plans are between one and three months, so you can do the math from there. In fact, bulk of the flow-through actually happened in March quarter itself. I think it is very unfortunate that today's pricing is such that there is such large amounts of data allowances being given for such low levels of ARPU. And one of the things that you have seen in this quarter is that we saw a 16% jump in data consumption. Most of this data consumption that we saw came on the back of very few 4G net adds. So it was barely 2 million 4G net adds. In previous quarters, we used to get anywhere between 10 million and 20 million 4G net adds. So given that we just got 2 million 4G net adds, to continue to grow data consumption 16% clearly meant that existing users were using a lot more data at homes, and they were still not kind of flowing through their full allowance, which is being given in a very generous form given the current pricing structure in this market. And therefore, I think at some stage, the price architecture in India needs to get more sensible with an opportunity to upgrade as you consume more or as you use more data. That is currently not the case. And I hope that at some point we will be able to make that shift. But right now it is not the case and, therefore, the simple answer to your question is that increased consumption for an existing user has not necessarily translated into more revenue. It has in the margin because there have been people who have bought more extra data packs, but not in a meaningful way.

Komal Sharan - Head of IR - Bharti Airtel Limited

Sure, Gopal. Next set of questions is around 2G migration to 4G. By when do we believe that our entire 2G customer base would have upgraded to 4G? And what are our thoughts around the handset strategy to ensure that when that happens, customers stay on our network?

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

I think that we are getting a high share of 4G net adds now with most of our feature phone users, we are still being able to pick up a disproportionate share of 4G net adds, as people upgrade into smartphones. The current pace of 4G net additions in India is anywhere between about 60 million to 70 million in a year. And given that there are still about 400 million feature phone customers in India, which include the Jio Phone this will still take some time unless there is something that happens to actually lower the price of the smartphone dramatically. So as of now, the upgradation is more a secular process. And at some point, the last few customers will also shift, but I still think it will take some time, which is what we have said is that our 4G network and our 2G networks are unlikely to shut in a hurry. We have shut off most of our 3G networks, but at some stage, once that completely tips over and the revenue contribution of these 2G customers becomes very small, then I think the time may be right for us to take a call to switch off 2G networks.

Komal Sharan - Head of IR - Bharti Airtel Limited

Gopal, there is one question around our strategy for the spectrum renewal, if you could talk a little bit about that?

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

I think let us wait and watch. I think there are a few circles coming up for renewal on most of these circles are on the mid-band. We have always said that one of the things that we would like to do is to have a sub-gigahertz leg of spectrum across the country. You know that in Western markets, which are in Maharashtra, MP, Gujarat, Kerala in south and in a few markets in the North, such as Haryana, UP West, etc., we do not have sub-gigahertz spectrum. So we will, at some stage, look to bolster that. Beyond that, I think that our spectrum requirements are few and far between. There could be some incremental capacity spectrum on the 2300 band with an opportunity to use more spectrum for existing radios in key cities, which will come, therefore, at a small cost. So I think we'll have to study all of that and then come to a position on how do we do it. But as far as renewal circles are concerned, we have a lot of spectrum already in the mid-band and most of these circles that are coming up are anyway in the mid-band, which is the 1800 band.

Komal Sharan - Head of IR - Bharti Airtel Limited

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Harjeet, probably you will have to take the next one. This is on Bharti Infratel. What is the status of the merger? And what is Bharti Airtel's thinking around the stake in Bharti Infratel at the combined level?

Harjeet Kohli - Group Director, Strategy & Business Development

Yes. Sure. No, I think I briefly mentioned the merger is still waiting for some finality. The long stop date, which was in June, has been now extended to August 31, 2020. The expectation is that the final bids of closures will happen in the next few days. But till it is happened, it is not happened. So at this stage, we are expecting that to go through in the short period of time. Subsequent to that, I think the combined entity, if supposedly the merger goes through, we will have to evaluate what makes sense in terms of monetization and at what point in time and to what extent. I think those options are open. Given that over the last 12 months Airtel has by choice deleveraged via equity infusions, and I can count at least Rs.60000 crores of equity or equity-like, which has come in the last 12, 13 months, it is not a necessity to look at this monetization in an immediate go so whether it is price, whether it is valuation, whether it is holding out for a better strategy, something which we will have to evaluate. If you see the rights issue, the QIP, the convertible bond, the perpetual bond, the African IPO and the Carlyle deal, they sum total to over Rs.60000 crores of equity infusion. So to that extent, it gives us flexibility to think about how these things will evolve. But at this stage, we have to wait for the merger to happen. We are hopeful, but let us see.

Komal Sharan - Head of IR - Bharti Airtel Limited

Sure. A related question, Harjeet, is given the comfort around balance sheet debt and FCF, when can the company consider some stronger dividends?

Harjeet Kohli - Group Director, Strategy & Business Development

I think this is a good question. As shareholders we have to think about the right balance of what the business needs are, and business needs are what serves today and what also serves tomorrow. And what serves tomorrow has a bit of an evolution, which is happening in the industry. And Gopal has talked about his views around 5G. Some of the questions came about renewal spectrum, virtually up in the air in terms of utilization of business cash itself. So at this stage, I would say, there are at least four or five bigger areas which need to be sort of, in a way, resolved in a balanced outcome. There has been a token small dividend, which the company has always passed through whatever they have received through the subsidiaries. The towercos are dominant dividend providers today. Airtel Africa has started doing that very recently. Those dividends have been passed through. But I think once this CapEx and the resolution around business cash being used for our business models, both here and related, that is when we should look at other venues for dividend enhancement.

Komal Sharan - Head of IR - Bharti Airtel Limited

I think in the interest of time, I will be taking one last question. There are many investors who wish to know that the investment into OneWeb done at the parent level, would that have any synergies with Airtel as far as providing broadband services to the masses is concerned?

Harjeet Kohli - Group Director, Strategy & Business Development

Yes, maybe a little bit too early. I think there is a bit of work to be done at the company level. We are working through that process. As some weeks and some months evolve by and the strategy becomes a little more evident, we can come back on how this could help. But that model, as you know, is universally available to what it needs to serve. And to an extent Airtel can benefit, it should certainly plug itself in, slightly early to comment on that.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thank you, Harjeet. I think with this, I will pass it back to Gopal for closing remarks.

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

Thanks, Komal. Thank you all for joining this call. As I said, we feel that our performance this quarter was satisfactory in the light of the unprecedented circumstances that we faced. Our focus remains simple: win quality customers; do this through differentiation; deliver the best experience through in-market execution; continue to build scale in our digital assets and explore ways to drive monetization; finally, do all this through staying lean and efficient. Thank you very much, and take care.