

Conference Call Transcript

Event: Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2022 Earnings Conference Call

Event Date/Time: May 18, 2022/1430 hrs.

Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2022 Earnings Conference Call

CORPORATE PARTICIPANTS**Gopal Vittal**

Managing Director and Chief Executive Officer, Bharti Airtel Limited

Soumen Ray

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

Harjeet Kohli

Group Director, Strategy & Business Development, Bharti Airtel Limited

Arpan Goyal

Senior Manager, Investor Relations, Bharti Airtel Limited

PRESENTATION**Rajyita– Moderator - Bharti Airtel Limited**

Good afternoon, ladies and gentlemen. I am Rajyita, the moderator for this webinar. Welcome to the Bharti Airtel Limited, Fourth Quarter ended March 31, 2022 Earnings Webinar. Present with us today is the senior leadership team of Bharti Airtel Limited.

I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risks that we face. Post the management opening remarks, we will open up for an interactive Q&A session. Interested participants' may click on raised hand option on Zoom Application to join the Q&A queue. The participants' may click this option during the management opening remarks itself to ensure they find a place in the queue. Upon announcement of name, participant to kindly click on unmute myself in the popup on screen and start asking the question post introduction.

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

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

Thank you, Rajyita. Good afternoon, ladies and gentlemen. Thank you for joining this webinar to discuss Bharti Airtel's results for the Quarter and year ended 31st March 2022. Also present with me on this webinar are Soumen Ray, Harjeet Kohli and Arpan Goyal.

As you are aware, TRAI recently announced the long-awaited recommendations for reserve prices for the next spectrum auction. The industry had hoped for a massive reduction in prices. While there has been a reduction, it has not been adequate and is in that sense disappointing. I will not comment on our strategy and approach since it is dependent on the final reserve price finalized by the government.

I now turn to our performance for the Quarter.

Overall, this has been another quarter of solid execution for Airtel. We have seen consistent growth across the portfolio. Our consolidated revenues for the Quarter grew sequentially by 5.5% to hit 31,500 crores and our EBITDA margins improved over the last Quarter by 88 bps to reach 50.8%

Let me now briefly touch on each of our businesses.

In our broadband business, we continue to see 10% sequential revenue growth, driven by continued strong customer additions. Our roll out is gathering pace and we clocked 1.85 Mn new home passes this quarter. Our innovation through the digital Local Cable operator partnership model has enabled us to be now present in 847 cities, an addition of 175 cities this quarter. We believe that this category will grow to over 40 million homes by 2025 and we are well poised to gain significant share of this growth.

The DTH business, continues to see headwinds. While the category continues to see a significant long term opportunity for upgradation from cable, it is also a classic case of an industry that has been brought to its knees due to excessive regulation. Let me explain

The New Tariff order brought about by TRAI a few years ago mandated every miniscule aspect of pricing in an industry which was managed very simply through forbearance prior to the event. This created a mind boggling amount of complexity for the DTH

Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2022 Earnings Conference Call

players and even more importantly for the customer with no benefit to any stake holder. The second aspect of skewed regulation is to do with the very same content being made available for free (This is what happens on Free to Air) or being available on the same screen through a broadband pipe at unregulated prices – this is what happens on OTT platforms. As a result, the DTH industry has been crippled. We are glad to see that TRAI has just come out with a new consultation paper on tariffs and we hope that at the end of this consultation, regulations will be lightened so that we can focus on what we do best – keep things simple and serve customers.

Let me turn to Airtel Business. This is a jewel in our portfolio and has been consistently delivering growth. We had another quarter of double digit growth. Net of voice which is declining this business is growing all other segments either in high teens or even faster. Our portfolio comprises of connectivity, CPaaS, IoT, Cyber Security, Cloud and Data Centres. We continue to outperform our peers in each of the segments and expand market share. As I have mentioned before, our entire go to market organization has been retooled so as to enable them to go both Wide (To expand our presence in accounts where our market share is low) and Deep (To accelerate penetration of those parts of our portfolio where our customers have still not chosen us). We have also enhanced our capacity on SMW6 and 2 Africa by 100 Tbps in order to future proof our capacities.

Now a few comments on the Mobile segment. During the quarter, we witnessed a healthy flow through of prepaid tariff hikes implemented at the end of November 2021. Despite a quarter with 2 fewer days, the revenue grew sequentially by 9.5%.

Our ARPU as a consequence is now Rupees 178. This is a strong move towards our first goal post of 200 and our eventual target of 300 ARPU.

The industry has seen relatively lower net additions in this quarter due to two reasons. First, some SIM consolidation at the lower end. Second, some moderation on 4G net adds primarily due to shortages in semi-conductors and rising costs of these chip sets. As a result, several OEM's have placed greater emphasis on prioritizing higher priced smart phones. Despite these trends, we have been able to add 5.2 million 4G customers and crossed the 200 million milestone.

On postpaid, we added 2 lakh customers further strengthening this segment and getting to decisive leadership. With less than 4% penetration of postpaid in India and a reduction in postpaid to prepaid price ratios, we believe that postpaid is a very promising opportunity for us going forward.

In sum, Q4 was another quarter of consistent performance and gives us great confidence in the execution capability of our simple strategy – Win quality customers by delivering the best experience for them. Do this by leveraging digital technologies and tools while being ruthlessly focused on eliminating waste.

At this point, I also thought it may be a good idea to step back and look at the year that has gone by and give you three reasons as to why I feel confident about the future.

The first reason for my confidence is our Execution. Despite tremendous competitive intensity and turbulence caused by repeat waves of Covid, our execution has been strong. During the year, we added 13,440 Crores to the top line and 8,146 Crores of EBITDA to our India business. Beyond these numbers, what was even more satisfying was that we grew competitively. Every part of our business – Mobile, Broadband, DTH and Airtel Business grew market share to reach life time highs. We led the tariff rises where we sensed the time was right. We challenged ourselves to find a way to expand the reach of our Home broadband presence after Covid and cracked an extremely innovative partnership with thousands of local cable operators using our digital prowess. We strengthened our portfolio in Airtel Business through innovations in CPaaS and Airtel Secure. We continued to invest over 20,400 crores into capex across our Network, Data Centres, Submarine cable capacities and digital. Finally, we strengthened our partnerships – the Hughes Airtel JV, the investments into Lavelle for SDWAN, Aquiliz for block chain, Oracle for Data Centers and Google as a strategic equity partner.

The second reason for my confidence is our Future proofed business model. As I have mentioned, Airtel at its core has a three layered business model. The first layer is our Digital Infrastructure. The second layer is our Digital Experience and the third layer is our Digital services. Each layer gives us the right to win and thrive. Let me elaborate and give you a few things we have done this year towards each of these layers.

Our digital infrastructure layer is where we have invested over 46 Billion Dollars to drive much of India's economic and digital activity. I want to call out two major developments here. We are fully ready for 5G. Our core network, our radio network and even our transport network is fully future proofed. In our transport network, the power of our home broadband business is now enabling us to connect more and more towers directly on Fiber which will make our network ready to deal with massive increases in capacity. Our Sub-Ghz foot print across the country now gives us deep indoor coverage. Our expansion of our mobile coverage foot print now allows us to provide broadband connectivity across 795,000 villages and towns of India. Even more quietly we have spent the last 5 years bringing our data together into one massive platform that stores over 100 Peta Bytes of data – this is equal to storing every single movie made in the world on HD. This platform allows us to process 2 trillion events daily which is equivalent to all the searches done globally on the largest search platform of the world. Even more powerfully, this entire platform talks to a very thin Customer 360 platform which can respond in milliseconds to any request or offer to be served to a customer.

Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2022 Earnings Conference Call

Our Digital Experience layer is the one that sits above this Infrastructure layer. Here I want to talk about two milestones this year. Our first milestone is embedding our Omni channel experience approach. Today a customer can search, buy, be on boarded, experience our services and refer our services in any channel – be it off line or online. In sum, whether it is on line or off line for every step of the customer journey we have created the intelligence and tools to meet the customer where he or she wants. It is this sort of thinking and technology that has allowed us to launch Airtel Black, a flexible and powerful convergence platform that sits on top of our billing systems and allows a customer to buy multiple services from Airtel – regardless of whether we offer these services ourselves or in conjunction with our partners. It is the same obsession with experience that has allowed our in-house engineers to develop our own Self Optimizing network which improves the experience for our customers on the fly by managing a myriad number of parameters while also using AI and ML to moderate the use of power and energy on a tower. The second milestone in our Digital Experience layer was the re tooling of the organization. We have made two fundamental changes. The first change is to bring the whole fragmented channel organization under one channel leadership team. Today we have only two channels in the consumer business. A mass retail channel and the Direct to Customer channel. Both these channels serve all our businesses. This change has given our teams bigger roles and simplified our interface with customers. As an added bonus it has saved us cost. The second change is to bring the whole Delivery Organization together. So regardless of whether it is Broadband, DTH or any other consumer business there is one team that goes to the customer home and delivers it. To make this happen, there is tremendous digital capability needed – this is where Airtel work comes in. Airtel Work is our platform for any transaction or work across every part of Airtel – almost 70,000 of our people and associates are on this platform and it has become a way of life within Airtel. Now that the organization is in one place we are driving productivity so that our engineer on the ground can increase the number of jobs per day while being relentlessly focused on improving experience

The layer that sits on top of our Digital Experience is our Digital services. Our digital infrastructure around our data backed by the digital capabilities to deliver an omni channel experience gives us the right to build and grow digital services. Let me give you a few milestones around our Digital Services. Our Payments bank is now developing serious scale. It has a user base of 129.4 million, a Monthly transacting user base of 36.7 million, a GMV of over 133 thousand crores and is the only profitable fin tech player in India in this space. What is even more exciting is that we have 200 Million 4G users most of whom are engaged on one or the other of our own digital assets. The opportunity to convert them onto our bank is very exciting.

A second milestone is the launch of Airtel Digital. We have several growth businesses that operate in large categories here. Airtel Ads is our Ad Tech platform that rides on our digital assets. Airtel IQ is our SaaS platform that rides on our underlying digital infrastructure. The Airtel Market place that comprises of content, loans, insurance and credit cards again rides on our Digital assets and our payments capabilities. Then there is our Data Centre business. Across these businesses of Data Centers, Airtel Digital and Payments bank we are well over 3000 crores of annualized revenue and growing.

The third and final reason for my confidence is our fiscal prudence and governance. Let me give you some texture here.

We are ruthlessly focused on eliminating waste – in the last 4 years we have stripped out 1.2 Billion Dollars of waste in our business making the business leaner and swifter. We do this through applying rigor, leveraging tools and technology and sensible win-win negotiations with our partners. To give you one example of rigor – we track the profit in every one of our 237,500 sites. We know exactly what the problem is – is it that we need more customers in that site or is it that we need a lower cost structure on that site. This allows us to be targeted in terms of intervention – go to market, network improvements or a leaner site with a lower cost structure.

Our fiscal prudence has made us opt for a moratorium on government payments. Yet we prepaid high cost spectrum debt of over Rs. 24,000 crores. We have raised almost 18 Billion Dollars of funding to strengthen our balance sheet over the last few years. As a result, our leverage has improved substantially from 2.95 to 2.51 this year. Our operating free cash flow is more than adequate to cover all our capex needs and with improved tariffs the operating leverage of our business model will release even more cash.

Our disclosures are industry leading. We have the most stringent definitions of what constitutes a customer. A customer in our definition has to give us some revenue on a rolling 30-day basis. Given that most prepaid plans have a validity of 28 days, that effectively leaves only 2 days to recharge between the time the pack expires and the time our definition kicks in. Our segment reporting gives you the true picture of each of our categories in terms of customers, revenue and ARPU.

Finally, our ESG agenda has been put on a massive priority. There is a board appointed committee in addition to which I lead a management council that works on driving our ESG initiatives. To give you one example, we were able to eliminate 3 million liters of diesel from our tower operations by using AI and ML technologies through switching off power based on our projections of traffic. This tool was built by our own engineers and saves us cost while reducing our carbon foot print. Another example is Nxtra Data Centres, where we are fulfilling 34% of our energy requirement from renewable energy already and will get to 50% very soon.

In sum, the quarter gone by has been satisfying. We have made steady progress across all parts of our portfolio. Our execution has been strong and our performance has been very both consistent and competitive. Even more importantly, we have a business model that is poised well to tap into the growth opportunities in India. Our governance track record has been flawless.

Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2022 Earnings Conference Call

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

Rajyita – Moderator - Bharti Airtel Limited

Thank you very much, sir. We will now begin the Q&A interactive session for all the participants. The first question comes from Mr. Manish Adukia. Mr. Adukia, you may please unmute your side, introduce yourself, and ask a question now.

Manish Adukia – Goldman Sachs

Good afternoon. This is Manish Adukia from Goldman Sachs. Thank you so much for taking my question. Couple of questions from my end; first, Gopal I wanted to get your thoughts on what you mentioned in your opening remarks around semiconductor shortages and just upgrade to smartphones generally slowing down. So you can just maybe provide us some more color on what you are seeing there. Of course, data suggests that smartphone shipments have not been growing over the last couple of quarters while ASPs have been rising. In such a scenario, do you expect generally slowing 2G to 4G upgrades for the industry? Do you think this is structural or just an aberration and how do you think about this over the next few quarters in terms of your own and for the industry level 2G to 4G upgrades, how should we think about that shaping up, and the second question is for your wireless business again, where capex over the last couple of quarters has seen a decline and FCF has been seeing some pretty strong growth. So is the reduction in capex likely to sustain, and if you can provide some qualitative comments around how one should think about free cash flow for the India business, for the wireless business over the next couple of years?

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

Thank you, Manish. Yes, there have been semiconductor shortages and rising chip set prices, and as a result some of the OEMs have put greater focus on higher priced smartphones. So the entry level smartphone, which used to start at about Rs.6000 to Rs.7000 is now almost Rs.10000, and that has led to some softness in upgradation from 2G to 4G across the industry. I believe this is a temporary phenomenon and the reason is that people tend to get used to a new normal, and I think the initial shock is likely to wear off in the next few months. That said, there are obviously headwinds in terms of inflation on commodity prices and energy prices and so on and so forth, and all of that obviously take a toll on consumer's wallets. Let us see how this plays out.

The fact is that consumers understand the value that a smartphone plays in their lives. They see this as a big rite of passage, and this is one of the few aspirational categories where upgradation is a big deal. So even if you go back in time, there used to be a segment of smartphones between Rs 4500 and 5500 but most users would actually go straight to about Rs 7000 to 8000 to buy better quality smartphones. So when people upgrade, they will upgrade to a good device. Therefore, I think this will be temporary, but yes, there is some softness that we are seeing overall in shipments.

On the wireless capex, I think if you look at aggregate company capex, we are broadly trending to about Rs 20,000 Crores to 21,000 Crores, last year that is what we did. We do not expect any significant change or any material change from that number that is what we have maintained. While we do not give guidance, broadly we see that in the same area. Where is this capex going? A significant part of our capex is going on transport infrastructure, into data centers, in broadband. Of course, there will continue to be radio capex, but the contribution of some of these other areas is now beginning to change within the company. As we get into a 5G cycle at some stage and depending on the pace of rollout, you will see a little bit more elevated radio capex, but a lot of the transport infrastructure, we have been creating for the last four years.

Manish Adukia – Goldman Sachs

Thank you, Gopal. Just a couple follow up questions on what you mentioned. So in the first response, when you talked about generally inflationary impact in the economy and a couple of months ago at the analyst day, you mentioned that while of course smartphone prices are moving up, you generally do not expect that to have any impact on tariffs, and of course you have taken one round of tariff increase late last year, that is flown through, but does that still hold true where you think that any potential future price action by Bharti Airtel is unlikely meaningfully impacted by the current inflation of the environment in the economy, and the second follow up question on the second response of yours, on 5G in particular, again, based on your visibility in terms of what you are seeing in device ecosystem, in terms of just generally evolving or developing use cases, do you think there is like enough and more use case over an 18-month period where 5G will, let us see be required to be rolled out on a pan India level or do you still think based on your conversations globally with operators that still let us say maybe like two, three years away from standpoint of India?

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

Yes, I think on the tariffs front we are in an essential service and if you look at what has happened, there are actually three trends that are taking place simultaneously. One is a serious explosion at the top end of the market, which is around homes, the 50 million high value homes, whether it is postpaid, it is broadband, convergence, that part is really growing rapidly and I think that is unlikely to change. You see this in multiple categories, where the top end of the categories are growing quite rapidly. In our case, the middle segment, which is the 550 million odd smartphones that you see in India that is very very resilient. We have not seen any SIM

Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2022 Earnings Conference Call

consolidation there. We continue to see usage grow. We continue to see that vibrant and do not forget the ARPUs that we have here are really very modest. We are at the lowest tariffs anywhere in the world, and my view is that at the right point in time moving up tariffs will be very easily absorbed here.

Then there is a third segment, which is at the lower end, which is the feature phone user, which broadly gives us an ARPU about a 100 bucks. There like I said, we have seen some SIM consolidation in the feature phone segment, but the bigger pain is more around the rising smartphone prices, which is actually inhibiting some growth in upgradation that we were earlier seeing. That I feel is a temporary phenomenon because we have seen this in multiple categories. Once you get a price increase or an inflationary impact, a new normal settles in, and people tend to get used to that new normal before they actually come back to their old behavior. So that is how we see it.

The second question on 5G, I do believe that the use cases on 5G are very few and far between. This is true globally. The only use case seems to be the consumer use case, which is really, increased capacities at a lower cost of production. But to my mind, that is still very small because if you look at the total 5G devices in India, as a contribution to the overall smartphone devices, it is less than 4%, and while shipments are going at about 12% to 13% of these devices. If you project this forward into March 2023, it will probably be 5.5% to 6%. It will really be in March 2024, where it will get to about 14%, 15%, 16%.

So I do feel that when you look at some of the other B2B use cases, whether it is private networks, it is things like robotic surgery or driverless cars or augmented reality, or Metaverse, this is still some time away, and we have not seen these any part of the world getting any scale whatsoever. So I would expect a more moderated rollout of 5G in the coming year and perhaps a more accelerated rollout in subsequent years. If you take a three to four-year view, yes, 5G will go in most parts of urban India. But if you take the immediate view of 2022, 2023, I would imagine that this will be a moderate rollout.

Manish Adukia – Goldman Sachs

Thank you, Gopal for taking my questions and all the best.

Rajyita – Moderator - Bharti Airtel Limited

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

Kunal Vora – BNP Paribas

This is Kunal Vora from BNP Paribas, and my first question is on tariffs. How are you thinking about interval between two tariff hikes? So, I mean, instead of sporadic tariff hike, do you believe that industry can get to an annual tariff revision which could also increase the revenue growth visibility for the sector, and how should we be thinking about industry growth, excluding the tariff hikes?

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

Well, I mean that in a sense it would give a sort of guidance in terms of how our overall revenue growth would look like. I think you will have to model it for yourself. My own sense is that we should start seeing some tariff increases during the course of this year, while I cannot commit that. I do believe that the tariffs at the levels they are, are still very low, and I think we have been consistent in saying that the first port of call is to be, to get to Rs.200, which would require at least one round of tariff increase because the gap between where we are, and Rs.200 is about Rs.22, and even though you may see some ARPU increases with the natural upgradation and growth of postpaid that we see in our business, that is not going to be adequate to cover that bridge in the shorter term. So I think one round of tariff increase will take us into the Rs 200 area and then getting to Rs 300 will be over a period of time. So that is really how, how we see it.

Kunal Vora – BNP Paribas

And excluding the tariff hike, how do you see the industry growth?

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

Well, I think let us see how this plays out, because it all depends on multiple factors. One is the upgradation from feature phones to smartphones. That is one source of ARPU increase. You can do the math in terms of what the industry has delivered in the last four quarters and recent trends as well. The second factor is the growth of postpaid. If you look at postpaid today, the ratio between the ARPU ratio between postpaid and prepaid. At the time when postpaid was growing as an industry at about 8%, the ratio used to be 2:1, and then later when prepaid pricing collapsed, this ratio became 3:1 and postpaid growth slowed down to zero. So there was no

Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2022 Earnings Conference Call

growth at all in postpaid. There was no conversion from prepaid to postpaid. But today the ratios are 1.7:1. So we do expect to see some growth in postpaid. Again, you see an ARPU upside when you move from prepaid to postpaid, almost 1.5x ARPU upside.

Then the third source of growth is really the Home segment where the broadband in itself is growing rapidly. There are converged offerings, which bring broadband, postpaid or DTH, or a combination of two or more services. There again, we see a significant upside and we also see a lowering of churn. The other aspect of growth is really bringing more families onto the postpaid platform. So from the moment you bring more families again, you see a significant lowering of churn, even though the ARPU is the same so you start seeing a revenue upside, and then of course there is the B2B side, which is a separate business and is growing quite nicely and there is a tailwind there, which we hope to continue to exploit.

Kunal Vora – BNP Paribas

My second question is on this site addition, this quarter you added about 7000 sites while in case of Indus Towers, we only see about 700 site net additions. Can you help us understand the divergence? Are you using some other tower company, and also if you can help us understand how we should be looking at network costs, which is down marginally quarter-on-quarter this quarter considering the tower contract renewal, how should we look at it going forward?

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

Well, firstly while we have a significant stake in Indus, we work with all the tower companies. I think that is one thing that, I must underscore. That said, Indus does get a disproportionate share of the new towers that we put up and that number varies between 50% and 60%, depending on the quarter. I have not seen any inconsistency in that even in the recent quarter. So I am not able to fully understand the number that you are referring to.

There is, there are various types of sites that are full macro sites. There are also ultra-lean sites, which are in urban areas where the operating cost of that site is less than Rs.30,000 a month versus a macro, which is more like Rs.70,000 to Rs.80,000 a month. I do not know whether Indus has reported the ultra-lean sites in their mix, but if I look at all of those ultra-lean and macro sites, the market shares that we have added, do not seem to vary significantly over prior periods. That is on the first point.

The second question was on network Opex. We are running a strong program on War on Waste where we are working with the tower company to drive down energy costs, as well as rental costs at every tower. We have made some traction. We are also using our own AI and ML tools to bring down the energy consumption, predicting patterns of traffic, and actually switching off some power in the site and that has saved us some money. But the fact is that, what we are seeing in recent weeks is a serious headwind in terms of rising energy prices. We are also continuing to deploy and that is a headwind that we will need to deal with. We will continue to drive a strong War on Waste program working with the tower company, but this is one of the headwinds that we are currently confronting.

Kunal Vora – BNP Paribas

But should we see some impact because of the tower contract renewal, which you were saying?

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

Well, I think, we have agreed a broad framework on the tower contract renewal, but we have not yet inked the deal. So I think there is still some conversations going on and some issues to sort of iron out. So it is a bit premature for us to comment on that. Over these next few weeks, by the end of this quarter, I think we should definitely have that done. So next time we will be able to give you a better sense of where we are.

Kunal Vora – BNP Paribas

Sure, that is it from my side, thank you.

Rajyita – Moderator - Bharti Airtel Limited

Thank you very much, Mr. Vora. The next question comes from Mr. Sanjesh Jain. Mr. Jain, you may please unmute your side, introduce yourself and ask your question now.

Sanjesh Jain – ICICI Securities

Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2022 Earnings Conference Call

Yes, good afternoon, everyone. I am Sanjesh Jain from ICICI Securities. Few questions from my side, first on the enterprise side of the business, a solid performance at 12%-13% kind of Y-o-Y, despite the declining voice, and as Gopal mentioned, high teens to higher than 20% growth in few category. Now Gopal can you help us understand, what is driving such a strong growth? How much of it is because of underlying industry growth and how much it is coming because we are taking market share and what is that we are doing so right to drive such a phenomenal growth in a service which has been traditionally growing at 5% to 6%? So that is on the enterprise part of the piece. I have a few questions on the financial. I will come after this.

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

Sanjesh, thank you for that question. I think our B2B business, as I mentioned, is a real jewel in our portfolio and I think the team there has done a really really awesome job. I would say that if you look at this market, it is a very large market. Till about a few years ago, we used to look at this market as a market of about maybe Rs 35,000-odd Crores, which is really connectivity market, but you should add another Rs 35,000 Crores because there is a much larger market out there which comprises of CPaaS, data centers, cybersecurity, cloud and so on.

I think that we have now got a very strong portfolio. On the CPaaS side where we are making very strong gains. We are growing this very strongly at well over the teens. We are seeing solid performance in our data center business. On connectivity itself, there is a big opportunity because our market shares have been in the ballpark of 30%. So we have been growing market share consistently there. One of the things that we have learned in this business is that, this is a business where customers value relationships and trust. Obviously you have got to be competitive on pricing that goes without saying, but once you acquire a customer and once you have a relationship with a customer, that measure of trust is a real moat because it is very, very painful for a customer to switch out from you onto somebody else. For the customer, it is painful for various reasons as it disrupts the business, but it is also painful because then you got to set up a whole set of new relationships.

I think the channel reconfiguration that we have done, which is diving up the go-to-market system between what we call hunting, which is going wide and expanding the number of accounts and going deep, where we are actually driving more and more products & services into an account has been a very good story for us. The second thing we have done on the go-to-market is on the SMB segment, we have actually in-sourced what was earlier being distributed through channels. So we had a channel operation. We would give channel commissions. We have actually done away with the channel and we have taken the field force into our own company, and that is improving the quality of the sales work, the quality of the go-to-market work and at the same time, we have greater control on things like productivity and training and tools. The last thing that we have done is used our digital model to open up leads. This is actually a new incremental growth to our business, almost 13% to 14% of leads now in the SME side, are coming directly through the digital model. So I think, I would say it is for a combination of all of these reasons that the business has been doing well. The fact is that this is one business that we have been growing share consistently.

Sanjesh Jain – ICICI Securities

Are we worried that the competition, one of the large competitor in the mobile, now he is aggressively talking about expanding their footprint in the enterprise side. Do you think that could be headwind in the near term for us?

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

No, I think the market is very large and we have massive opportunity to grow. I must say that, my discussions always with the B2B teams are that we are not satisfied with where we are. So while the performance has been good, I think we can do much more given this large size of this market and given the very, very tiny market shares we have in some of these new adjacent categories that we have entered into.

Let us take cloud for example. It is a very large market but we are very very small. We have got a combination of the reselling of the public cloud. We have got the private cloud, where we have our own data centers and we have an edge cloud. For example, we have won a big deal with one of the largest content players in India, where we are actually built for them, our own content delivery network at the edge, and that is actually moving up the value chain beyond connectivity.

So these are the kind of things that we are looking at on the cloud area in order to add share. So obviously, our market is competitive and we see that every day in and out. But the fact is that this is an exciting market because it is such a large market and it just got so much promise.

Sanjesh Jain – ICICI Securities

Got it. Gopal, one question on the non-business front, and there is again news in the market that one of the promoters is looking to sell its stake, what is the philosophy of each of the promoter and how are they committed or what is their communication with the management on how do they look at the company and sticking with it for a longer period of time?

Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2022 Earnings Conference Call

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

No, firstly I must say that both our significant shareholders have stood behind the company and through thick and thin. Even during the worst times that this company has seen, the promoters have stood behind us. Look at the amount of funding that has been put into the company. The reason for our healthy balance sheet today is the tremendous commitment that our significant shareholders have had in the company. I think the specific question on what you are asking about is a shareholder matter. I think, I am not placed to answer that question. I think it would be best directed to the shareholders.

Sanjesh Jain – ICICI Securities

Fair enough. But do you think there is a probability or are there any discussion with the promoters looking to monetize ?

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

I think this question is best directed to the shareholders.

Sanjesh Jain – ICICI Securities

Got it Gopal. Few questions on the numbers. One on the finance cost, I thought we had done a tremendous job on finance cost and finance cost has already declined by 300 Crores quarter-on-quarter. We have done a large amount of refinancing. We have BG coming back. Is that all the benefit built into our finance cost or what should be a steady-state number once all the finance cost saving is there? So that is the first one, second on the exceptional gain and what it is flowing through the minority shareholders, I could not understand why the significant portion of the exceptional gain is accrued to the minority shareholder, while the shareholding is very small? I mean help us understand these good things. That is it from my side. Thank you.

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

Yes. So, I will go with the exceptional items. There were certain exceptional items which had minority interest and some did not have minority interest. So, just to put it in a nutshell, which can help put it in the perspective. If you look at exceptional items, net of minority interest and tax at a consol level, that number is about Rs 147 crores. India-South Asia is Rs 68 to 70 Crores, and the balance is Africa. So you should look at it in that way, that overall it is about Rs 150-odd Crores, about Rs 68 to 70 Crores of gain in India and South Asia put together, Africa is another Rs 80 crores. So that is as far as the exceptional items are concerned. Harjeet, would you like to take the finance cost one?

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

Yes, sure. Thanks, Soumen. Sanjesh, your observation on finance cost is right. Gopal mentioned in his opening commentary that over Rs 24,000 Crores of DoT debt has been pre-paid. Also if you go back and see last 12 months, cash flows from the business itself have served some repayments, some equity proceeds had come in and some debt refinancing at a much cheaper rate has also happened. So there is a significant benefit on that Rs 24,000 Crores. Some residual benefit portion of that needs to flow back to. There is at least about a Rs 100 Crores of annual bank guarantee commission, which you noted very well, which will also get slowly coming back to the overall P&L. So between all of these initiatives, our assessment says that on an annualized basis, we should see a little over what you see as Rs 300 Crores * 4 is roughly Rs 1200 Crores right now. It should be maybe Rs 1600 Crores or Rs 1700 Crores as overall benefit of initiatives taken. You will start seeing that as the quarters go by.

Sanjesh Jain – ICICI Securities

Fair enough. Harjeet just one follow-up, now we are generating close to Rs 7000 Crores plus kind of a free cash flow adjusting for the working capital, which is Q4 is more of a seasonal one, but I think we are hitting a 7000 Crores of free cash flow after all the liabilities, which is analyzed close to 28,000 – 30,000 crores. So that kind of debt reduction on a net debt basis are adjusted for the dividend payout. That is a possible thing from 2023, right?

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

Subject to no other unknowns coming in the picture. Of course, one of the things which you should expect to happen in the next few months is the 5G auctions.

Some of all of those, and by the way, 5G also you recall that it is a partly paid rights instrument plus hopefully with approvals coming through, the Google proceeds should also come in. So there is a more or less mitigated situation there, subject to how the overall outlays are. But your broad directional output on the free cash flows, net of any non-routines is fairly correct, Sanjesh.

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

Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2022 Earnings Conference Call

Sanjesh Jain – ICICI Securities

Great. Thank you. Thank you for answering all my questions even best of luck to you all.

Rajyita – Moderator - Bharti Airtel Limited

Thank you very much, Mr. Jain. The next question comes from Mr. Pranav Kshatriya. Mr. Kshatriya, you may please unmute your side, introduce yourself and ask your question now.

Pranav Kshatriya – Edelweiss Securities Limited

Yes. Thanks for the opportunity. I have a couple of questions. Firstly, Gopal you talked about 15% of the handset being a 5G handset in the next two years. What we have seen is that the chip shortages have sort of persisted for a fairly long period of time, and also the 5G ecosystem as you articulated has not really seen any meaningful traction. So do you think that, that may warrant further tapering down of the 5G rollout and 5G rollout happening a little more staggered way. Is that a real possibility, and how do you as a management sees the 5G timeline? Do you want to get the 5G ecosystem and be an enabler for it, or you will wait for the ecosystem to develop? So that is my first question.

Secondly, there is a good increase in number of cities catered for the home broadband segment, and you had highlighted that this is largely because you are tying up with the cable operator. Should we see this leading to a fairly strong growth in the capex for this segment because I guess, the home pass addition, will be pretty fast, and can you highlight if there is any color on the churn because you are adding subscriber quite fast, how is the churn in this segment? These are my two questions. Thank you.

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

Thank you. Firstly, like I did mention that the ecosystem of 5G will change the way data is consumed and a whole bunch of applications will be built on 5G technology over the years. Will that happen tomorrow morning? No, it would not. It will take time and it is not happening anywhere else in the world as well. So this is going to change the world, but it will take time.

The beauty of our business is that we are in a modular business. We know in every one of our 240,000 towers, we know the number of devices that are there. We know the price of those devices. We know how many devices are smartphones and how many are feature phones. We also know how many smartphones of over a certain price point, let us assume the 5G price today, the average selling price, the lowest 5G price is about Rs 15000 to 16000 and most 5G phones are in the ballpark of Rs 25000 to 30000. If you cut these devices by number of devices that are more than Rs 15000 on a given site, maybe it is 5G or 4G, these are the first sets of devices that will switch to 5G. So we know all of that.

The second thing that we know is that, if we want to light up a site, you can do it in 90 days because all you need to do is to order equipment and hang the radios on the site. The 5G networks are ready, the core networks are ready, the transport networks are ready, and you just need to hire and put on those radios that are of that particular band that will potentially be auctioned and bought by any operator. You just need to put that onto the site.

So I would say that this is going to be a modular rollout. Is this going to be an aggressive rollout in the short term? The economics do not suggest that it can be, simply because the ecosystem is still very nascent. So, I think it is a game that we are going to wait and watch and see how it plays up.

Now, coming to your home broadband point, if you look at the rollout that we are doing and excluded the cable operator partnership, our capex would be much higher than where we are. The fact is that while the capex has increased, it is not as elevated as it ought to have been because we have found a very very economical way to actually roll out using the cable operator as a last mile provider of access.

The second thing that we have done is that the access even on our own cities, which is our top hundred cities where we roll out our own network, we have fine-tuned the cost of capex and the cost of rollout quite substantially over the last couple of years. In the larger scheme of things, this is a very very important business for us and it will never be deprived of capex. Our current objective is to roll out rapidly and pick up as many customers as we can, because it is a market that is poised for acceleration.

The churn in this category is very very low. So once you get a customer, that customer does not leave you, and the reason is quite simple, they will leave you only if you make a mistake, your experience is lousy or your pricing is totally off, then yes they will leave you. Remember for anybody in the home to have a person come into the home, rewire the home, put another piece of cable, connect up your routers there is a very painful exercise, and so we have seen that the churn here is very very low, and therefore I feel that this is a business that has the tailwinds, and like I said, we will not hold it back in any way and form to not be able to exploit the growth opportunity that is presented.

Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2022 Earnings Conference Call

Pranav Kshatriya – Edelweiss Securities Limited

Just a small follow up if I can. So you said that this business will not be deprived of capital, but does that mean that from a directionally, we should see the capex for this business going up because at least...?

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

Yes, we are investing everything we need to already, and we have been doing that for the last few quarters.

Pranav Kshatriya – Edelweiss Securities Limited

And the churn question is specifically I understand that churn in this business is low, but has there been any higher churn because, the overall additions are fairly high. So does that sometimes basically drive incremental customer who does not want the service and that is why the churn get, so has it trended upwards or downwards any color on that?

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

It is not trended upwards or downwards, it is rock steady and very very low sub 1%.

Pranav Kshatriya – Edelweiss Securities Limited

Great. Thank you so much. That is it from my side.

Rajyita – Moderator - Bharti Airtel Limited

Thank you very much, Mr. Kshatriya. The next question comes from Mr. Aliasgar Shakir. Mr. Shakir, you may please unmute your side, introduce yourself and ask a question now.

Aliasgar Shakir – Motilal Oswal Securities Limited

Yes, thanks for the opportunity. This is Aliasgar Shakir from Motilal Oswal. Couple of questions, first on the tariffs, so after two rounds of tariff hike how do you see the possibility of moving from unlimited plans to usage based plans? I mean, how is the industry intent? Should, should we expect Bharti to take the lead, I mean, similar to the last couple of tariff hikes? I mean I am coming from the point of view that, as this would kind of allow us to see a more linear ARPU improvement along with volume growth instead of taking this yearly tariff hikes. Yes, that is my first question.

Second question is on your 4G improvement. So we now have almost two-thirds of our total subscribers as 4G something about 200 million as customers, can you just share some color in terms of the opportunity out 32 Crores customers? How much more can we add here? Is that also a factor that has led to moderation in our monthly 4G adds? If you can just share some color there. Thank you.

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

So I think, to your first question, I wish that we moved away from these unlimited plans to more simpler and a more logical price architecture the way it is in most other countries. Unfortunately, everything is not in our own hands. We are in a competitive market, and so we have to see what the different players' outlook is, how they have historically behaved, what is their business model, how are they likely to behave and make some educated moves, which will not backfire needlessly? So I think this is something that I wish were to happen, but at this point in time, this is not the way the industry is, and I am not sure whether we will get there. In postpaid, for example, that is exactly how we operate, because that is a segment that we can dictate the terms, but in prepaid, given the competitive nature of the market, we are unable to do it unilaterally.

On your second question, I think it is related broadly to the same point that I was making, which is on the upgrade from the feature phone to the smartphone. See the current user is already having the feature phone, and he is giving us whatever ARPU that he is giving us. But the upside of the 2x jump that you see in ARPU is only if they move from a feature phone to a smartphone and that comes back to all the issues that I described on semiconductor shortages, smartphone prices and of course the natural cycle of upgradation.

Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2022 Earnings Conference Call

I mean, it is, if you have got a 100 million customers, they are not going to all upgrade tomorrow morning, but there will be a cycle of upgradation that happens on every month or every quarters basis, based on the natural flow of the curve from leading edge customers, all the way to through to what is called laggards, which is the S-curve of the adoption that happens in every category.

So that is going to happen over a period of time. At this point in time, there is a headwind, or there is some increase in smartphone prices, but like I said, I think that is temporary because people will make their adjustments over a period of months.

Aliasgar Shakir – Motilal Oswal Securities Limited

Got it. This is very helpful. Thank you.

Rajyita – Moderator - Bharti Airtel Limited

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

Vivekanand Subbaraman– Ambit Capital

Hi, thank you very much for the opportunity. I have a couple of questions. So first of all, Gopal congrats on your reappointment. I just wanted to ask a few, the big picture goals that you will pursue over the next five years across businesses. We are seeing that your capex is increasingly directed towards non-mobile businesses. So how should one think about your priorities and the growth trajectory that Airtel will achieve? That is one. Secondly, can you please give us some color on the B2B business, the size and growth of the non-voice segments, particularly I am interested in the contribution that CPaaS & cloud are making to current revenues of B2B and how is traditional connectivity growing, how big is it as a percentage of the total B2B business? Thank you.

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

So if you look at the next five years while we do not like to sort of give any forecasts and targets, I would simply say that the contribution of the non-mobility side to the overall portfolio has to get larger and larger. I think our B2B business must become a force to reckon with. Our broadband business is to become very large, and then of course, using tools like convergence, we should get very very low churn at that top end of the 50 million pool that there is in the industry.

Our digital businesses must come of age, today between Nextra, Airtel Digital and Payments Bank we have an annualised run rate of about Rs 3000 Crores. These are all growing rapidly and these should become very, very substantial over the next five years because that is where a lot of our emphasis will be, and thirdly, our ARPUs on mobility should be close to Rs 300, in fact it should be around that level in the next five years. So I think that is really how I would see this business over the next few years. I think on the B2B side, while we have not given you a breakdown of different parts, I think it is a good input for us to think about as to what additional disclosures we may want to give over time. I will have a separate conversation with the team and we will come back on any changes we wish to make.

Suffice it to say that CPaaS is substantial now and CPaaS is in two parts. One is just value-added messaging, but also there is IQ, which is the SaaS play that sits on top of this. CPaaS is growing at, not teens, but very strong growths. We are a very strong player in the market, and this is a major area of focus. It is also a profitable business. Non-connectivity led businesses are also growing faster than our connectivity business because that part of the market is also growing faster.

In our connectivity business, we are growing much faster than the market and adding market share. The only drag on the business is on voice. Our global business, which has also led out of data and data centers, which again, most of the decision makers of the companies that are looking for data center needs, particularly the hyperscalers and some of the global players are all sitting in the United States largely. So that is another very meaningful business and it has done very well.

So I would say if you take the B2B business, there is a global component, there is a domestic enterprise component and there is a small and medium business component. That is the way that we typically cut up the business, and then there are these products that I have talked about, all of which, outside connectivity, are growing much faster and close to between 20% and 50%, depending on what segment you are looking at. Connectivity in itself is growing fast because we have been able to add share, but then that market is growing much slower as you know and as said voice is the drag.

Vivekanand Subbaraman– Ambit Capital

Yes, Gopal. Thanks a lot for the crystal ball gazing. Just one small follow up. So currently, if I look at the split of capital employed 85% of the India capital employed is in wireless. Would this change significantly at the end of this five-year period, given the capex strategy that we have been seeing in the last two years which has been directed more towards the non-mobile side?

Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2022 Earnings Conference Call**Gopal Vittal - Managing Director and Chief Executive Officer, Bharti Airtel Limited**

I would not agree with you because you have loaded all the transport capex onto mobility and that is the way we put it out because that is the way the factory is operating. But actually, the transport infrastructure is created for the entire business. It is created for our B2B business above all and then of course, it is priced out to the B2B side. It is also created for the mobility business. The same fiber backbone is also created for the home broadband business. So fiber, transport and transport infrastructure is a substantial part of our overall capex.

Radio is an expensive part because of the distributed nature of the country we have. In broadband, we have been able to drive down cost per home pass. That business is getting everything that it needs for putting in capex. We are also putting substantial monies behind data centers, that capex has now got elevated over the last few years because that is a market on fire. So that part is also getting significant capex. Our digital businesses do not need capex. It is largely a talent game, which is riding on our infrastructure.

Vivekanand Subbaraman – Ambit Capital

Great, thank you very much and all the best.

Rajyita – Moderator - Bharti Airtel Limited

Thank you very much, Mr. Subbaraman. In the interest of time, I will now hand over the proceedings to Mr. Gopal Vittal, for closing remarks.

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

Well, firstly, thank you for all your questions. I think it has been a good discussion and we have touched on various issues. As I mentioned, we are overall very excited about the positioning and where we are placed as a company across the entire portfolio and the track record that we have had. I look forward to engaging with you in the coming months. Thank you very much.

Rajyita – Moderator - Bharti Airtel Limited

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