

Conference Call Transcription

Event: Transcription of Bharti Airtel Limited Third Quarter Ended December 31, 2020 Earnings Conference Call

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Transcript of Bharti Airtel Limited Third Quarter Ended December 31, 2020 Earnings Conference Call

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

Good morning, welcome to this webinar to discuss Bharti Airtel's Q3 FY2021 results. Before I hand over to Gopal for his opening remarks, I want to remind all the participants that we will be conducting a question and answer session after the opening remarks. Participants who wish to ask a question can type in their question and send it to us using the "Moderator Chat" option on their BlueJeans interface. We will take the questions in a first-line-first serve basis. With this, I hand over to Gopal for his opening remarks, please.

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

Thank you, Komal. Good afternoon, everybody. Thank you for joining us today for this webinar to discuss our results for the third quarter ended 31st December 2020, which we announced yesterday. Present with me on this webinar today are Badal, Harjeet and Komal.

Let me start by saying despite the unprecedented volatility that we have confronted through this year, we delivered another strong performance. More important, this consistency in performance is across every part of our portfolio. As a result, we have grown revenue market share in each of our businesses. I would say that the core drivers of this performance are our agility, the continued reorientation of our business model and our relentless focus on what truly matters: serving our customers.

Let me now turn to our results. Our consolidated revenues grew sequentially by 5.8%, while the India business grew by 5.5% in the quarter. With the benefit of operating leverage, our EBITDA margins grew sequentially from 44.9% to 45.9%. I want to now provide a little more texture to every part of our portfolio.

First, Airtel Business as I mentioned before, I am particularly excited about this business as we pivot our company to becoming a significant player in the B2B space. While we have shown double-digit growth over the last few years, we have also consistently grown market share and are outperforming other listed players in the last few quarters. Our business model is also extremely efficient as reflected in our industry-leading margins of 38.7%. There are three parts to our portfolio of products that we offer in B2B.

At the core is connectivity, which we believe will continue to grow, led by increased requirements of capacity in large businesses, as well as the growing need for connectivity in small businesses. The opportunity for us to grow market share is still immense since a disproportionate amount of our business comes from the top 20% of our customers both in the large as well as small business segments. We are, therefore, revamping our entire go-to-market to provide equal emphasis both to hunting and farming.

The second part of our portfolio is in adjacencies where we are making substantial investments. There are 2 that I want to just briefly talk about at the moment, data centers and Airtel IQ. Our data center business continues to grow with 120 hyper edge data centers, putting us in a leadership position in this space. We also signed a MoU with MIDC for setting up 2 new data center campuses, 1 each in Mumbai and Pune. Equally, we are excited at the prospect of serving hyperscalers.

On Airtel IQ, we have now acquired over 45 customers, large customers. We have a large and dedicated team working to build out state-of-the-art features that go beyond voice to offer a full suite of cloud communications in this billion dollar market.

The third part of our portfolio is a partnership-led model. We have partnerships with players like Cisco to drive connectivity solutions bundled with routing. This is seeing strong traction. Airtel Secure and Airtel Cloud are 2 services that we launched last quarter. We are seeing substantial growth of our order book in both these areas. We will double down on this by ramping up hiring and capabilities.

Our ambition to stitch this entire portfolio, spanning the core adjacencies and partnerships to a digital wrap is now well underway. One of the interesting initiatives we launched during the quarter was our Customer Advisory Board, which gives our customers a preeminent voice in our strategy. The next business I want to talk about is our Homes business. The broadband category is clearly seeing very strong adoption, and I believe the next few years will be the time for scaling this business as the need for high-speed broadband explodes.

Transcript of Bharti Airtel Limited Third Quarter Ended December 31, 2020 Earnings Conference Call

We continue to focus on our core strategy of expansion and experience in this business. We added 1.4 million fiber home passes during the quarter, a scale of rollout that is now at a historic high. In fact, we are also in the process of rapidly upgrading our legacy copper assets completely to fiber. I believe that in a year or so, we will shut down our copper infrastructure and have only fiber-to-the-home. This is a game-changing move that will dramatically raise our experience and lower our cost. Through our LCO model, which is our local cable operator model, we are currently in 120-plus cities and growing rapidly. I had mentioned a few quarters ago that we are on course to get to 1,000 cities in a year or so, and we believe we are very much on course.

We further embellish the power of our proposition encompassing connectivity, entertainment and a unified experience with Airtel Xstream. We are now making steady progress on our bundling of convergence across services. As a result, we have added 215,000 customers in the quarter, a level of growth that has been the highest since we started this business. While our revenues and margins contracted, this was primarily due to the flow-through impact of pricing decisions taken in the last quarter. And this flow-through impact was largely on the base where we had adjusted our pricing, not on the acquisition ARPU that we are getting, which is healthy. We added about 485,000 customers in our DTH segment and registered a sequential revenue growth of just under 5%. In fact, one of the highlights of this business is its competitive and consistent performance. We believe we have outstripped all other players in terms of revenue growth. We also believe that on a like-to-like basis, we are now clearly the #2 player in the DTH industry.

Let me now turn to our mobile business that has another consistent quarter of performance. Revenues grew by Rs.947 crores sequentially, a growth of 6.8%. This also enabled us to expand our margins. In fact, our incremental EBITDA margin was about 60%. This growth in wireless was driven by an overall customer net adds of 14.2 million and an ARPU increase from Rs.162 to Rs.166. 4G net adds stood at 13 million.

Our strong performance on postpaid was sustained. We added 700,000 customers in the quarter. As a result, our data usage per month was at 16.4 GB and voice at 1,027 minutes per month. We believe we have gained market share once again. My guess is that we would be at a lifetime high of close to 35% revenue market share. Delivering a superior experience and raising the aspiration of our brand is the cornerstone of our strategy. We are, therefore, obsessed with smart investments and experience. During the quarter, we added another 7,414 sites. We continue to densify our networks through additional sectors, twin beams and refarming of spectrum.

In addition, we have raised the bar in the leverage of digital tools to monitor and improve network experience. We have also conclusively demonstrated last week that our networks are now 5G ready to our test of a 5G network using the existing spectrum brands in the city of Hyderabad. This is a seminal announcement that shows how our existing investments across radio, transport and the core are all future-proofed to consistently raise the experience in its aspiration bar.

Finally, I want to comment on our digital services. As I have said before, our digital flywheel does 3 things. It allows us to get more efficient and deliver a better omni-channel experience on the core business. This increases lifetime value and eliminates waste. Second, it allows us to build new revenue streams on our core foundational strengths of data payments, distribution and network. Finally, it allows us to create an ecosystem of powerful partnerships that leverage these foundational strengths.

There are 4 highlights of the quarter that I would like to briefly touch on.

First, we are consistently growing our share of business online, both payments as well as acquisitions. This helps us lower cost and improve experience. Our capabilities for delivery of a service be it a SIM or installation of a home broadband, are now all stitched together in one seamless omni-channel experience that leverages our underlying Airtel IQ platform. So from search to discovery, to purchase, to on-boarding, to experience, we are moving towards one simple, unified and intuitive experience. This is now happening on the B2C side through our digital assets, as also the B2B side with the rapid adoption of the Airtel Enterprise Hub, which aims to be the one-stop shop for sales and service. Our data science capabilities are now growing in strength. One of the big use cases we are now driving is using machine learning and AI-based network planning that is beginning to ensure that every site we deploy is in the right place and gives us the right level of profitability in just 90 days.

The second part on the digital that I want to talk about is that in this quarter, we also saw the launch of Airtel Safe Pay, India's safest mode for making digital payments that leverage the exclusive strength of the intelligence in our network to provide an additional layer of authentication. Coupled with the Bank Wala SIM that has integrated our payments bank at the heart of the telco, we believe that we have a strong point of differentiation that solves a real customer problem: financial convenience and security.

The third highlight of the quarter was the sustained growth of our digital assets. We now have about 190 million monthly active users. Wynk is now the #1 music app with a MAU base of 67 million users. Airtel Xstream is up to 40 million monthly active users. Thanks is becoming more and more ubiquitous. This scale is critical for us to meet our ambition of realizing significant revenues from digital services.

The fourth highlight of this quarter was the growth in our partnerships. We continued to build momentum on Airtel Secure and Airtel Cloud. We also launched an exclusive first-in-the-world partnership with the Amazon Prime Video Mobile Edition.

In conclusion, I want to touch on two additional pieces of information.

Our Bangladesh joint venture, Robi Axiata, where we hold 28.18% stake, saw an IPO and witnessed a stellar listing on the local bourse. This, again, demonstrates the trust of the investor community in our capabilities. By the way, this investment by itself is

Transcript of Bharti Airtel Limited Third Quarter Ended December 31, 2020 Earnings Conference Call

nearly worth \$800 million to \$900 million today. Besides Airtel Africa, this is another valuable and internationally diversified part of our overall company.

We also saw the merger of Indus Towers Limited and Bharti Infratel, which was completed on November 19, 2020. The combined entity is now called Indus Towers Limited. As a result, the tower entity is no more our subsidiary and the merged entity is treated as a joint venture in accordance with accounting standards. Accordingly, financials of Bharti Infratel are not consolidated in our financials and have been represented as share of joint venture associates for all comparable periods in our IR pack. As a result, we have provided corresponding previous period numbers so as to allow you to analyze the underlying growth of the business.

In fact, on this note, I do want to underscore our high standards of corporate governance and transparency in reporting. Let me spell this out in greater detail: First, our reporting of customer revenues. These are the most stringent in the industry and are based on actual revenue earned by a customer in the last 30 days and not based on whether they are still there in our system as a customer. Second, we provide transparency by segregating results and KPIs for every line of business. We believe this is important for you to assess our relative performance when compared to peers in the most granular way possible. Third, our philosophy of provisions is based on the most conservative view so that you are not surprised. Finally, if you look at our accounting for depreciation or spectrum amortization, we do it on the basis of globally accepted practices that every top-notch telecom companies follows. We would also love to hear your inputs on our transparency standards so that we can continue to raise the bar always.

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

Komal Sharan - Head of IR - Bharti Airtel Limited

Thank you, Gopal. The first question comes from Vivekanand Subbaraman from Ambit Capital. He wants to know that with 4G net adds continuing at a breakneck pace and being matched by aggressive tower add, will we revisit our spectrum renewal plans? And therefore, how should we look at the upcoming spectrum auction for Airtel?

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

I think since the auction is around the corner, I will not be able to give you too much detail on our spectrum auction strategy. But suffice it to say, and I think we mentioned this before in prior quarters, the first thing that we would love to have is a full footprint of sub-gigahertz spectrum across the country. I think for us, this will be important in order to give our customers deep indoor coverage as well as cover deeper rural areas and as you know, there are many circles, particularly in the West, in some parts of the North UP, West Haryana and then, of course, in the Western India like Gujarat, Maharashtra, MP, Kerala, where we do not have sub-gigahertz spectrum, so we would love to actually have that. There are some renewals coming up on the 1800 band. There is also some capacity spectrum available on the 2300 band, where we have already got deployed equipment and a combination of capacity or renewal, we will look and balance it and make sure that we kind of optimize what we do. So that is really broadly how we are thinking about it.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thanks, Gopal. The next question is from Kunal Vora who wants to understand what are our thoughts on tariff hikes, specifically the strong subscriber addition and market share gains, would we prefer a status quo on tariffs or would we like them to be hiked in the near term?

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

Yes, Kunal, thank you. That is a question that comes up every quarter, so let me take that. I think like we have mentioned before, we would love to see tariffs go up. I think this is obviously something that the industry needs. ARPUs have to get to Rs. 200 and finally, ultimately to Rs. 300, which is something that, as an industry, we deserve in order to generate a reasonably good return on capital employed, this is what would be required for the business model to succeed. Having said that, as you know, pricing is a competitive issue and it is based on competitive dynamics. So, I cannot comment on when pricing will go up. I do believe that we will be ready to take up tariffs if and when any player actually moves tariffs given that we are already at a premium.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thanks, Gopal. The next set of questions are from Ashwin Jain, ICICI Pru AMC and a few others who want to understand what is the outlook on the home broadband business? And the gap between Airtel and Jio on the home broadband business has narrowed from more than 2 million to less than 1 million now. So therefore, is there any structural cost advantage or disadvantage that we have? And what is our general outlook or any projections that we can share on this business?

Transcript of Bharti Airtel Limited Third Quarter Ended December 31, 2020 Earnings Conference Call

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

I think I have already touched on that in my opening remarks, but let me provide a little more texture to this. I think the home broadband category is at a cusp in terms of growth and ever since COVID and the growth of work-from-home as well as a study-from-home, there has been an explosion in home broadband. The increased penetration of streaming services has also resulted in an acceleration of home broadband. We were available in about 100 cities and if you look at these 100 cities, we have added historic high in terms of home passes that we have deployed in this quarter. In addition to this, we have also rolled out the local cable operator (LCO) model. I think this is a breakthrough model that we have now got hundreds of local cable operators in over 120 cities and planning to get to about 1,000 cities in a year. So we believe that we will leave no stone unturned to invest in home broadband through a combination of where we can do our own rollouts in the top cities and partner with our cable partners for the last mile in the smaller cities. I just want to add one more point, which is that I think the home broadband business also gives us an opportunity to have a deeper relationship across the entire portfolio of mobility and entertainment. And we have seen that where we are able to bundle services with an integrated suite of products across entertainment, mobility and broadband, we see a dramatic reduction in churn. We see an increase in what we call ARPA, which is average revenue per account, which is our average revenue per home and that is a very, very interesting proposition. So one of the things that we are doing is relooking at our entire go-to-market and our digital model, which will bring together the entire suite of products and make it available in an omni-channel perspective to really power this. You will hear more about this in the coming quarters as we unveil our plans.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thank you, Gopal. There are separate questions on the DTH business as well. What is the outlook on the business, specifically given that, in the U.S., AT&T has taken a \$15 billion write-off in this business. Are we continuing to be excited about this business in India? Or is this also prone to technological disruption?

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

I think broadly, every business is prone to technological disruption. So I don't think we can be complacent about not being prone to it. But having said that, I think the structure of the DTH industry is still such that it is attractive in the medium to long term mainly due to two reasons. Number one is that the price structure in India on the linear television side is very, very low when compared to most of the markets. I mean even if you look at a market like Philippines, let alone the U.S., for an average consumer, you end up paying about \$15 per month for 15-20 channels. In India, you can get for about \$4 to \$5 pretty much 200 channels per month. So the cost of actually having linear entertainment in the home is pretty cheap in India. That is one factor. The second factor is that if you look at the DTH industry, it is a tiny fraction of the total industry that consumes a total set of customers that consumes linear entertainment. There is still a very large and fragmented cable play that operates in India. And if you know, cable players tend to have poorer experience, poorer quality of response and challenges that customers face. So wherever we find we are able to actually go in deeper, we are able to convert from cable. So the upside opportunity to convert from cable is high. The price structure is such that it is a small amount to pay to get channels that you may still want to consume along with streaming services. Finally, streaming is still a niche industry in India, given that the cost structure of streaming is contingent on more broadband penetration as also then the payment for the content. So for all these three reasons, I think the DTH segment continues to hold promise in the medium term.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thank you, Gopal. Harjeet, the next set of questions are for you. The question is from Derek from DSP Mutual Fund who wants to know how do we expect a debt profile to move over the next two years and would there be any possibility of deleveraging from here on?

Harjeet Kohli - Group Director, Strategy & Business Development

Look, I think there are 2-3 factors driving all of that debt profile. Clearly, the core operational free cash flow is the strong driver. On the Mobile India side, which faced acute heat on the EBITDA and free cash flow 2-3 years ago, the repair has been ongoing and Gopal's commentary talks to you about how that is evolving. That is a significant factor in the evolution of how the free cash flows and leverage will play out. But clearly, India business by itself is free cash flow positive. As the upgrading and other core business drivers perform, there will be more FCF at hand subject to tariff hikes and other strategies that we are separately discussing. The other piece is really around some of the monetization activities. I think that is more even paced. Historically, we have talked about what it would mean for leverage if there was, as an example, tower monetisation or if there is any other monetization like the ones, which we did for data center in our equity structure by bringing Carlyle in. Some of those activities have been done, some are in play, but they are not deleveraging triggers. There are triggers by the business by itself to do what is required. And over time, we will, as a corollary benefit on deleverage. Tower side, you would have seen what the company acquired additional stake of 5%, while in a shorter term, that probably means a marginal uptick in terms of the cash deployed and leverage. But that is more of a financial decision. The stock price was where it was. It reflects our understanding of the implicit value in its stock price. Incidentally, we invested about Rs. 3,000 crores to acquire 5% stake. And our understanding is with the dividend that Indus has declared last week, Rs. 2,000 crores will be our share of that dividend. So essentially, it is a play around what the value implicit in that share is. The company continues to be independent, and we will evaluate our strategy around how this stock needs to be held over time. And

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Transcript of Bharti Airtel Limited Third Quarter Ended December 31, 2020 Earnings Conference Call

the last piece is around the free cash flows and upstreaming that happened from Africa business. I think Africa business has posted their results last week, you would have seen that. They have a formalized dividend policy on a progressive basis. So of that, also, there will be certain share that will come by our way. And as Airtel Africa translates their own strategy of deleveraging or FX deleveraging around asset sales, all of that will also count towards input on the India overall consolidated leverage. From where we are, we are well within 3x net debt to EBITDA. We have historically guided for staying between 2x and 3x and that continues as our strategy. Staying conservative is more strongly our bias. We have preemptively done the deleveraging by including equity infusions and dilutions at our end. At this stage, fairly comfortable, both with the business profile, the expected events and from where we are in terms of overall leverage cushion.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thanks, Harjeet. Gopal, the next set of questions around 5G and capex. These are from Pranav Kshatriya of Edelweiss. The first question on 5G is what will be the time line for a meaningful 5G launch, which is 50% of the population or so considering we have already demonstrated the technology? And the second question on the capex is, what should be the capex trend going forward given the fact that we had said it will continue to trend down from here on?

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

Yes. I think that is a good question. I think, firstly, if I just talk on 5G, the ecosystem is still nascent. But if I look at devices coming into India now, about 4% to 5% of device shipments coming into India in the month of December are already 5G compatible. They are operating on the NSA mode with the 3.5 gigahertz enabled on it. So to that extent, I think you are seeing some movement on 5G. And this number compared in October was 2%. And if you compare it to September, it was almost nothing. So there has been a change in some of the shipments coming in. Having said that, the use cases are still nascent, but the fact is that some of these handsets are now beginning to show up. And I would say, in the next 12 months, you should start seeing more and more shipments potentially coming in with 5G. I think what we have tried to demonstrate through our Hyderabad test is to show the power of our network and demonstrate conclusively that our infrastructure is ready. So whether it is our radio network, our radios on the mid-band are all ready for 5G. And if you know whether it is dynamic spectrum sharing, the DSS mode, or whether it is the alternate mode, which is where you use the anchor band for the uplink and the big capacity band on the sub-6 or any other bands on the downlink, both of these will need an overlay of 4G. And you will need the radios to be compatible with this, and this is why we demonstrated that our radios are pretty much ready on the 1800 band. We also believe that, going forward, all spectrum bands will be 5G ready. So to that extent, like we did on 3G, you can kind of refarm spectrum. And this is why I am talking about the next 3 to 5 years, we will be able to refarm spectrum. The last point I do want to make is on the capex. Our understanding is that while 5G is a new technology that will come in, the capex requirements, given the overall readiness of the network, will only be to the extent of the additional radio units that are deployed on any new spectrum band that is deployed. But a lot of the other parts of the capex, which is whether it is the transport network, whether it is on the core side, where you are just sort of moving it on a linear basis as you variabilize growth and you get additional growth are all modular and all very, very linear or not linear, are flat in terms of their growth rate. So as a consequence, the sum and substance of it is that we do not believe that with a 5G introduction that whenever it comes, we are going to see any material change in the capex profile because, remember, that as you invest in 5G, you will stop investing in 4G because the capacity creation will be done on 5G, which will obviously be a lower cost of producing a gigabyte, given that you have much higher spectrum in those bands.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thanks, Gopal. The next question is from Parag Gupta, Morgan Stanley. Parag wants to know that with you likely to come up with a new device strategy sometime this year, how we are thinking about strategically increasing our market share going forward.

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

Yes. I think this well, I cannot comment on what our competition will do. We have seen reports about a potential subsidized device and smartphones. In fact, in the last few years, we have seen subsidies in India on the feature phone side with the VoLTE device that was launched by one of our competitors. And we stayed away from that simply because we believe that a subsidy game is quite a value-destructive game, especially at the lower end of the market. India is already a challenged market in terms of its overall financial stretch and business model given the low levels of ROCE. And to actually add a subsidy on top of that, I think, will be pretty disastrous for the industry. So this is why we stayed away from it. And the challenge here or the issue here is that when the subsidy expires or when the customer is ready to up-trade, there is no necessity that the customer stays with the operator that has actually provided the subsidy, so they make their own choice. And that is something that we did see in the last 6 to 9 months. As far as the device subsidy on the smartphone is concerned, we cannot comment much on it until we know what it is about. But suffice it to say that we will deploy different levers. We have got a full plan in terms of how we can deal with it to make sure that we do it smartly, to make sure that we do it in a value-accretive way and to make sure that we continue to remain competitive in the marketplace.

Komal Sharan - Head of IR - Bharti Airtel Limited

Transcript of Bharti Airtel Limited Third Quarter Ended December 31, 2020 Earnings Conference Call

Thanks, Gopal. Badal, the next set of questions are for you. There is a question from Eric who wants to understand a little bit more on the exceptional items that we have booked in the quarter.

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

The exceptional items can be broadly classified in 3 or 4 broad categories this quarter. Now the first one, the biggest one of them is because of Indus and Infratel merger, which got consummated in the current quarter, which was discussed in detail by Gopal. Subsequently, the holding, which we had on Bharti Infratel, which was being carried on a cost basis, had to be fair valued and there is a gain which has been booked on that account. The second item would be in the third quarter typically every year; we reassess our tangible and intangible assets, including DTA for impairment. That is done, this is a forecast of 10 years for various lines of business in the legal entities, and we have carried out that activity in the current quarter. Business losses have a shelf life of 8 years. Depreciation losses have an unlimited life. Part of the business losses we will not be able to consume within the 8 years. And the DTA, which had been created historically on those business losses, have been reversed in the current quarter, which is a normal process which we follow every year. As also mentioned by Gopal, we are upgrading our homes network, which was partially running on legacy, which is the copper network. We have taken an accelerated charge due to technological obsolescence of that particular business asset and a charge has been taken in the current quarter. Over and above, we regularly assess our tax levies, our contractual obligations, regulatory levies on a quarterly basis, looking at various developments and the situations overall, whether it is for us or for competition. And on that account, we have taken certain charges in the current quarter. So net-net, all this put together, we have a gain of Rs. 1,000-odd crores in the current quarter. It is a combination of all these 4-5 items.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thanks, Badal. The next set of questions, Gopal, are from Ankur from JPM. He wants to know, has there been any change in Airtel's distribution strategy that is driving significant success on gross and net adds versus peers? And secondly, how much of our network is already prepared for a 5G sort of a rollout or an upgrade?

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

So I think there are 2 questions there. I think the question more broadly that you are asking, Ankur, is what have been the drivers behind our execution. And I would say that there are 3 or 4 things that have driven this. Number one is our relentless focus on experience. Our faults are down by almost 60% in the last 15 months. Our network faults are down by around 35% to 40%. Our non-network faults are down by a much larger number. And this has been made possible by a lot of investment in digital tools. Secondly, investment in smart capacity creation, wherever required. So I think this is one part, which is experience. The second part is around the brand. We continue to be the most aspirational brand and we are constantly looking to ways to differentiate ourselves to whether it is a Bank Wala SIM or whether it is Airtel Safe Pay, all of these are kind of ways by which people feel that Airtel is a more differentiated brand. The third is a very simplified way to go-to-market, which really focuses every single one of our on-role and off-role people on just 3 metrics, and no more than 3 metrics, all of which are tracked at a very, very granular level, which is down to a site level, down to an outlet level. In fact, we have ways of computing our revenue market share at every single retail outlet across the million outlets that we serve. So that is the third part, which is measurement and metrics. And the fourth part that I would say is really around micro marketing, which we have elevated to a next level. There was a time when we would look at our performance only by a circle. So we have 20 operating units. You would look at our performance by each unit. Today, we look at it by 700 then we started looking at it by 700 districts. Now we look at it by tehsils. And in fact, in our circle teams, they look at it at every site level. So there are about 210,000 sites every single site has a certain number of customers that are being served. We look at the customer market share by site.. And we have got surrogate ways to actually capture that through the traffic that actually comes on to our site. So an incredible level of analytics and granular understanding of what is required to drive performance. Based on this, there are every quarter; there are 1 or 2 major programs that are run, where the entire organization is aligned to actually drive a simple go-to-market agenda. So that is really behind what is happening on the execution. The second question was on, Komal, on what? There was a question on 5G or something.

Komal Sharan - Head of IR - Bharti Airtel Limited

Yes. How much of a network, which is in the backhaul core really was already prepared for 5G?

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

Yes. So I think the transport network is fully future-proof. The core network is future-proof. The radio network, a very large part of it is completely future-proofed. So I would say a disproportionate part of our network is future-proof.

Komal Sharan - Head of IR - Bharti Airtel Limited

Transcript of Bharti Airtel Limited Third Quarter Ended December 31, 2020 Earnings Conference Call

Thanks, Gopal. The next sets of questions are from Surya Negi. He wants to know that our base of wireless data customers has gone up from 45% to 55% in the last year alone, and where do we expect this number to be in the next 2 to 3 years? And secondly, how much more of our networks will be impaired? So how much more value is still left to be impaired in our financials?

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

No, Surya, I think we had taken impairment of 3G close to 6 quarters back, 6 or 7 quarters back. And it was an accelerated charge, which we have taken over a period of 5 quarters where we were kind of shutting our 3G network and migrating the entire network to 4G. The entire charge of 3G network has been taken already in those 5 quarters. In fact, this 5 quarters finished a couple of quarters back. So there is no incremental charge on account of 3G, which needs to be taken in our books of accounts.

Komal Sharan - Head of IR - Bharti Airtel Limited

Sorry, Gopal. There was a question on where do we expect the mobile data subs to be over the next 2 to 3 years?

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

I think it is difficult to put out a forecast like that. I mean even if I had one, I would not want to share it because the next thing you will start holding me to a report card against that target. I have that with my boss. So I will stay without giving a forecast.

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

On a serious note, I think there still is a large opportunity to upgrade feature phones. If you look at the total number of feature phones in India still there are potentially about 300-odd million feature phones that still can be upgraded. While these 300 million feature phones are a relatively lower level of ARPU in terms of their customer profile, the fact is that many of these phones will get upgraded over the course of the next 3 years. I would imagine that if you take a 5-year view, most of these 2G customers would have been upgraded. And I would say a disproportionate part of that revenue would be upgraded in the next 2 to 3 years itself.

Komal Sharan - Head of IR - Bharti Airtel Limited

Gopal, the next set of questions are from Rohit Chordia. Firstly, he wants to commend the company on setting and raising the bar on governance and disclosure. And his question specifically is on 5G. Would we like to go for bragging rights, which is the first network, the largest or fastest? Or would be financially prudent looking for reasonable payback periods?

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

I think, Rohit, the fact is that the reason that we wanted to demonstrate this test in Hyderabad, you could say it was for bragging rights, but I would say it was more to actually prove to ourselves and get our engineers to prove to themselves that our network is fully ready because we have been hearing about this, but we worked on it for about a year to make sure that actually we were able to, on a live commercial network in Hyderabad, deliver close to 300 Mbps speeds on an existing 4G spectrum band, which is the 1800 band where we have 15 megahertz of spectrum. I think that going forward, what that tells us is that given our transport network, our core network and our radio networks are more or less 5G ready, the incremental capex that we put in will in no way actually go up simply because of 5G. I think it will get offset from some of that 4G. And we are always going to be very smart and prudent about where we deploy our capex. We have been doing that right through. And I would say that if you go back and look, let us say, 2 to 3 years ago, we took a big jump in capex. In fact, at one stage, our capex as a percentage of revenue was almost 45%. And at that stage, we just could not avoid it because the consumption was going through the roof and we had to balance the fact that we were going to deliver a customer experience that people desired in order to hold on and grow our market share. I think we have passed that now. And we are back to being really prudent and sensible about where we deploy our capex. The interesting thing about the nature of the consumption in wireless is that you will always have the bottom 40%-50% of sites that have very low levels of consumption. And therefore, this is a modular type of industry where we look at every single tower in every single site as a factory, which has to be sweated and where utilization has to be maximized.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thank you, Gopal. A related question on 5G is that whenever we are bidding for the spectrum auctions for 5G, would we like to go for Pan-India or would we actually choose and evaluate on a circle by circle basis? And could we theoretically have a scenario where only a couple of circles have 5G to begin with and rest of the country follows through?

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

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Transcript of Bharti Airtel Limited Third Quarter Ended December 31, 2020 Earnings Conference Call

I think it is a theoretical question at this stage because we are still far away from it. But suffice it to say that in the long term, you will have 5G everywhere. I mean if you look at 4G, I think it we would have shown you go back from 2G to 3G to 4G. It is actually surprising, if you go back, let us say, 12 to 15 years, it was surprising to see the adoption of voice and mobile telephony in places like Bihar and UP, especially in rural areas. The same is now being seen in 4G. So I think at the end of the day, this is now an essential service which is in the hands of people and already impacts their lives in every way and form, whether it is today, whether it is in the form of payments or productivity or entertainment or working from home or studying from home. So my own sense is that, finally, in any technology that we use, in the long term, we will need to be a Pan-India national player. In the short term, if you want to optimize the pace of rollout and the pace of adoption, yes, obviously, it will start in urban areas. Any new technology typically starts in urban areas because the price of the device is the constraint and those tend to be higher in the early years and slowly start getting massified. So that is the modular type of investment that I referred to earlier.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thanks, Gopal. There is a follow-up question from Ashwin Jain of ICICI Pru AMC. He wants to know that in the past couple of quarters, Jio had relaunched its postpaid plans. What impact did we see on our postpaid customer base, both in terms of customers or in terms of the ARPU there?

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

I think we have already disclosed to you that we added close to 700,000 customers in postpaid. Last quarter, we added close to 700,000 customers. So really, in 6 months' time, we have added about 1.5 million customers on postpaid, which is potentially amongst the highest that we have seen perhaps in a decade. So I will not be in a position to comment on what our competitor is doing, but our momentum on postpaid has been very strong in the last 6 months.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thanks, Gopal. The next question is from Varun Ahuja from Credit Suisse. He wants to understand that the total customer addition of 14.2 million that we saw this quarter, where are these customers coming from? Are they migrating from other networks? Are these new customers coming on to telephony? And what are the trends that we expect on customer addition and 4G net adds over the next 2 to 3 quarters?

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

I think it is a combination of factors as it normally happens in such cases. There are upgrades from our own 2G base. There is movement from competitors, a little bit of porting that happens. And there is some set of customers who are also coming new into the category. And particularly with COVID, there is also been an extension of the life of a device. And that is an interesting thing that we have seen on our network. The increase in shelf life of a device has almost gone up by around 5.5 to 6 months during COVID. And what we are seeing is the same device is being handed down to somebody else, either in the family or somebody that is known. It could be a poorer person who a person knows where the phone is handed. And that is also being seen. So we are seeing a combination of all of these factors.

Komal Sharan - Head of IR - Bharti Airtel Limited

The next question, Gopal, is from Sanjesh of ICICI Securities. He wants to know as far as our digital business is concerned, are these revenues being booked separately at the moment? What is the contribution of the digital businesses in the overall revenue scheme? And what is driving the digital business revenues? Is it more partnership? Is it more ads? Is it more commissions?

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

I think like I said on our digital strategy, I think the flywheel really has 3 parts to it. One is the impact on our core business. I think there is a very material impact on improvement in customer experience and reduction in cost. So today, almost 50% of our acquisitions on broadband are online. About 25% of our postpaid acquisitions are online. And these are all incremental over and above what was happening off-line. So that is been a strong driver. Secondly, more than 50% of our payments and collections are online, that lowers our cost as well. And thirdly, many of our complaints and customer interactions are shifting online. We have invested in small startups that have given us speech recognition technology that is frankly as good as the best in the world, where we are able to interact with customers through bots, and that is also lowering costs. So that is one part, which is about lowering of costs and improving experience. The second part is actually products that we are building ourselves. I talked about Airtel IQ. We have just a shade under 50 customers already literally in the last few months. These are amongst the largest companies like Swiggy, companies like HDFC all on our platform of Airtel IQ. And we are adding logos as we speak every single week. And then, of course, there are partnerships, which are things like Airtel Secure, Airtel Cloud, could be our content side where we are now starting

Transcript of Bharti Airtel Limited Third Quarter Ended December 31, 2020 Earnings Conference Call

to monetize through subscriptions, Wynk subscription service. In fact, we have just launched subscription service with Wynk, which is bundled together with a data plan, as also partnerships, for example, with Amazon or Zee or Hotstar on the content side, on the B2B side with Cisco and so on. So I think it is a combination of 3 things. One is the impact on the core business, which is material the new products that we are building, where we are seeing serious traction and will get material over time. And the partnership part, which is the commission side, where I think, frankly, it comes at a very no capex, it is just, let us say, topping on the top of your existing platform where we have access to one of the 4 strengths, data, payments, distribution or network. At this stage, we are still not ready to disclose or provide revenues of the entire digital piece, but we do believe that we will at some stage and we believe also that this will start getting more and more material over the next few quarters.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thanks, Gopal. So the next set of questions around the AGR matter. Is there any status or any update on the revision of AGR deals that we can provide to the investors?

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

I think it is still very early to say. We have filed an appeal in the Supreme Court and this appeal is predicated on the errors apparent that were there, both in terms of calculation errors, omission errors, some basic clerical errors. And our submission is to not challenge so much the principle of the AGR, which the Supreme Court has already decided, but really request the court to direct the DoT to look at these errors and consider these errors, which are simply basic clerical errors. The matter has not yet been listed for hearing. So we are not in a position to comment anything beyond that.

Komal Sharan - Head of IR - Bharti Airtel Limited

Yes. Thanks, Gopal. Harjeet, the next set of questions are around dividend. Samuel from Bernstein wants to know if there is any dividend guidance that we can provide.

Harjeet Kohli - Group Director, Strategy & Business Development

I think Airtel has historically maintained a small dividend-paying track record. Over the last few years, for a variety number of reasons, the leverage has been on the slightly higher side. We discussed that earlier. So for now, the guidance is that the dividend receipts that Airtel will get from our tower company, Airtel Africa, any small dividends coming from our Hexacom joint venture they should predominantly be used to reduce leverage. That probably is the best use. That said, I think a small amount, token that has been historically continuing, the Board continues to review that and I am hoping that can continue. But in the shorter term, leverage reduction is the larger, should I say, agenda of the underlying dividend receipt.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thanks, Harjeet. In the same vein, there are a few questions around asset divestments. Are there any plans to reduce or monetize stake in Airtel Africa? And same for Indus Towers, what is the plan from here on?

Harjeet Kohli - Group Director, Strategy & Business Development

Well, I think Airtel Africa by itself is doing what it is doing. Their results are out in public. Airtel India, through our Mauritius subsidiaries, holds 56% of Airtel Africa. Over time, do we have more room to be able to divest? Theoretically, yes. At this stage, there is no certain plan of anything like that. It continues to be a large revenue and/or growth plus profitability engine for the overall Airtel equity that all of you hold. On the tower side, we briefly mentioned. Clearly, the short-term decision of having increased the stake was more financial in a way, also reflective of our understanding of what the intrinsic value of that particular per share is. As I mentioned earlier, 66% of our investment has come or will come back shortly in the next 10 days as a dividend receipt. Otherwise, I think as the operator ecosystem evolves and reflects out in the tower co business model, what happens to the other operators in terms of their strategy and overall evolution, including footprint and thereby tower tenancies, plus also how the price response to that will determine how Airtel should think on that. Strategically, the independence of the tower company is not getting questioned. I think that is how the teams have been built there. Chairman is independent. They are driving their combined business strategy, both across Infratel and Indus. I think that stays as is. And clearly, the operator ecosystem, how that responds, what the tenancy profile is, how the price response, our strategy will be determined by that. The good news is, historically, we may have been, shall I say, dependent on this monetization decision for our leverage management. Today, that dependency has gone. So it allows the flexibility of deciding what the best strategy to own, control, manage, drive this asset, which I think Airtel has now.

Komal Sharan - Head of IR - Bharti Airtel Limited

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Transcript of Bharti Airtel Limited Third Quarter Ended December 31, 2020 Earnings Conference Call

Thanks, Harjeet. Gopal, the next question is from Hari Shyamsunder from Franklin Templeton. He wants to know that after falling for to a low last quarter, mobile churn, again, seems to have picked up. Any insights into why?

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

Yes. The margin eventually it is around 1.9%, a marginal pickup from 1.7%. But if you look at a long-term perspective, mobile churn has always been on the north of 2.2%, 2.3%, 2.5%. That has been the range of mobile churn. So these short-term movements here and there are just pure market dynamics. There is nothing much to read into it.

Komal Sharan - Head of IR - Bharti Airtel Limited

Gopal, the next question is from Srinivas. He wants an update on the One Airtel plan. So what proportion of our customer base has moved to the plan and what is the impact on ARPU and churn?

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

Yes. I think it is still early days, Srinivas. I do not think we are in a position to disclose right now how many customers we have, but it is quite material. We are seeing an upside in ARPU as well. We are seeing additionally, at least once, extra service come in. And at the home level, the upside in ARPU is close to Rs. 500 to Rs. 600. So as this expands in its presence, this could become a very interesting play. And like I mentioned, I think we will talk more about this in the coming months.

Komal Sharan - Head of IR - Bharti Airtel Limited

Gopal, there is a follow-on question from Kunal Vora, who wants to know what are your thoughts on the satellite broadband and whether it has the potential to disrupt mobile telephony in the long term.

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

I think the satellite technologies will always be a complement to existing wireless and wired technologies. And the reason for that is that the spectrum that is available and the backhaul that is needed to actually deliver through satellite will never ever compare to terrestrial networks. I think that you have to be very clear about that. Therefore, it is only a complementary approach. Our own view is that the satellite kind of technologies will be usable in very remote locations where wireless or terrestrial technologies have not been able to reach. It could be the high seas. It could be on remote forests or in mountains. It could also be in places where there is a need for ubiquitous connectivity, particularly when there is very, very low levels of data consumption. For example, machine-to-machine applications, it could be a fleet management where trucks are going from remote locations and coming back into cities. And so in order to actually have seamless connectivity where the consumption is a few KB, these are the kind of technologies that we will add. So I think you have to see satellite technologies, given the current characteristics of the physics, the spectrum and the backhaul that is needed, that these will be really complementary technologies.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thanks, Gopal. In the interest of time, I will take one last question. This is from Soumit Sarkar. He wants to know that despite the strong net adds, both in DTH and Homes revenue has not increased substantially. And what is the outlook on these businesses?

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

Yes. So as it was mentioned by Gopal, that we have taken certain pricing correction in the Homes broadband business. And the adoption of the downward revision was done in the current quarter majorly and there will be some flow-through that is going to happen in the next quarter. And that is the only reason we are seeing a slight pressure on the broadband business. DTH business on a sequential basis has actually grown by 3.4% and it will continue, and that is just the base flow-through, which continues to happen.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thank you. With this, I would like to hand back to Gopal for his closing remarks, please.

Transcript of Bharti Airtel Limited Third Quarter Ended December 31, 2020 Earnings Conference Call

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

Thank you, Komal. As I have said before, our strategy is the same: win quality customers by giving them an exceptional experience; do this by building an aspirational brand and in an efficient way; finally, wrap everything we do through digital, omni-channel and with scale. As we do this, deliver meaningful services to our customers, both the ones we build as well as those we offer through partnerships. Thank you very much, and look forward to seeing you next quarter.

Komal Sharan - Head of IR - Bharti Airtel Limited

Thank you, Gopal. Thank you, everyone, for joining this call. With this, we will end the event now. Thank you.
