

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

Conference Call Transcription

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PRESENTATION

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

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

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

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

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

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

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

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

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

Now to our performance.

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

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

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

Let me start with Airtel Business.

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

To tap into this opportunity, we are re-tooling our channels as well as our product portfolio. We are doing four things. First, in sourcing our entire SME sales force, which was earlier outsourced. This will lead to upgradation of our SME channel capabilities helping us gain share. Second, we are building our omni-channel digital capabilities. Today, more than 95% of the new orders for the product lines where we have begun this effort are coming through digital channels. This will also help us also expand reach and gain share. Third, we have entered adjacent areas so we can go deeper with our customers to farm more effectively. These new areas include Data Centres, Airtel secure, Airtel IQ and Airtel Cloud. All of these are building traction and are helping us grow share of wallet. This quarter, we also launched Airtel IoT. Airtel IoT is an integrated and end-to-end platform with the capability to connect and manage billions of devices and applications in a highly secure and seamless fashion on Airtel's 5G ready network. Finally, our teams have now been given differential and separate targets and incentives for both hunting and farming. This will also allow us to meet our twin objectives of growth in share and growth in share of wallet.

Now to our Homes business.

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

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

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

Let me now turn to Mobile.

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

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

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

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

Now to our Digital platforms.

We have reached a significant milestone at 200 million MAU. WYNK has 72.5 million. Airtel Xstream has 37.5 million. And Airtel Thanks has 96.3 million.

As I have said before, we have a 3 pronged digital fly wheel. First, it allows us to get more efficient and deliver a better omni-channel experience on the core business. Second, it allows us to build new revenue streams on our core foundational strengths of Data,

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Payments, Distribution and Network. Finally, it allows us to create an ecosystem of powerful partnerships that leverage these foundational strengths. A quick word two of our digital businesses.

Airtel Payments bank is now rapidly gaining scale. We already have 54 million active users and a monthly throughput of around 22000 crores. Our distribution footprint is across 290000 outlets. There is great synergy between the bank and Airtel – after all customers who have an Airtel Payments bank account with us see a lower degree of churn. On a standalone basis, we are on the road to profitability and we expect to achieve that in the next year.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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days. These definitions, we believe, are stringent, they are directly linked to revenue and they allow you to make a transparent assessment of our performance.

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

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

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

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

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

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

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

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

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

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

Yes, definitely. I would agree with that. I think we did see an increase in competitive intensity particularly when it came to things like sales, incentives and plan of commission in the best to attract more customers. This is actually not a big and healthy development. It was what happened with a lot of customers to tend to buy a SIM and throw it, but having said that I think our effort continues to be really razor-sharp in terms of customers to acquire and their requirement them of course with the onset with the pandemic in April we saw moderation in that competitive intensity because many of the states were not seeing varying stages of lockdown, so in the quarter, Q4 we did see some increase in the competitive intensity not in tariff but more on acquisition and channel checks.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

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

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

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

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

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

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

I think if you look at the equation may be Badal can have a little bit more, but if you look at the sequential growth in operating expenses, the operating expenses, the operating expenses on the face it looked little higher in terms of sequential growth that has been coming on account of two reasons; one is the massive rollout of network that we did, we rolled out almost 8300 sites in Q4 and about 7400 in Q3. Now these 8300 obviously we have a knock off impact in terms of cost. The second is increase in prices of diesel, but having said that remember this quarter also 2 days less and what happens most of the costs, is that we have monthly costs that have done whereas prices on the prepaid side typically 28 days, so they are not really typically a month, which is why if you look at the revenue it is understated by 2 days, so the cost is almost over booked by 2 days, so that is the way I would look at the underlying opex. The real question to ask is what is the marginal EBITDA from the incremental revenue that we had delivered and that in the ballpark of 45% to 47% we would have been happier for it to be around 55% to 60%, but that as I mentioned in an account of the diesel increase as well as the flow through impact the network cost. Other cost have less been under control. Badal is there anything else or I have covered most of the issue?

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

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

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

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

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

I think that is a good question. Just I am clear, one Airtel plan that we launch was in the beta form in the last 6 months and the reason we launched in the beta form was that the different businesses that we have Mobility, Broadband, and the DTH businesses this operate with the different billing strategy and the main underlying complexity at the bottom of the stack. Our engineers have built a platform on top of this stack in order to stitch all of these systems together and go-to-market is an seamless way, but with any beta you will find a lot of bugs, so the reason we went in for a beta is that we were anticipating a lot of bugs and some of that has been corrected in the last 60 to 80 days. We expect that the revised version of this proposition will go to markets in the coming 4 to 5 weeks. Having said that while we report of the numbers we have already seen pretty good traction in fact we are actually slowing down the rollout of the one Airtel plan. We see almost a Rs.500 to Rs.600 ARPU increase for the overall account when a customer comes on from the plan between broadband, postpaid and DTH because they add another significant service and we will have close to half-a-million users to adopt this plan, but like I said we have ourselves gone slow in order to fix the bug within that not to have a broken experience and then when we go back in the next few weeks will go back with the client.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

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

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

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

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

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

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

Yes. So, the ARPU what we reported this quarter is around 684. There is a sequential drop, but this all because of the pricing intervention, which we have taken in early part of Q3 and we feel that the entire impact of pricing has been now fully baked in. For all our new acquisitions, we are not seeing any further ARPU dilution from these levels despite us having a plan of Rs.499 and we think we are the healthy mixture of customers being added across the spectrum of plans, which we have. Rs.799 is one of the most attractive plan, which we have. On home passes, which we have talked about cost of home passes, I think the differential between what the LCO does and what we does will be close to around 25% to 30% from a capex perspective, differential cost of production, they are capex which we shared partially, but overall on the cost of delivering this will be close to 25%.

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

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

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

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

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

First of all if I look at the enterprise business, let me kind of split business into two parts, one is the connectivity business. The connectivity business market price is about Rs 40,000 Crores and this is the business that as I mentioned we have moved market shares from 23% to 31% if we go by Frost & Sullivan over a two years period. Given that 80% of our revenues come from 20% of our customers we think the real headroom here continues to grow market share and move this 31% upwards. But actually the other opportunity is beyond connectivity and if I look that side of it that is another Rs 50,000 Crores and I just talking about the adjacent areas. The margin profile of all these businesses are little different, but let me kind of texture to each of these businesses. There is a cloud communication business, which is where we have entered the Airtel IQ. This is very core to the Telco business, because it is delivering voice, video, messaging, chat and so on through APIs on the underlying telecom infrastructure, but doing that in a completely valued added basis and being able to will actually compete with many of the software companies. The second business is by cyber security, again we feel this is a very integrated business with connectivity side, when we go to home or a business, you do not work us connectivity they also look for secure connectivity. So bungling secure connectivity for SMEs, leveraging the security intelligence for large enterprises, with the trust that people give us in the large enterprises in the second area that is being very effective. The third area is Airtel IoT. This is a connectivity platform or a full end-to-end platform that has been built by engineers. We launched in the last couple of months. We already have a few million customers on it. We think that should be another very interesting opportunity over the next five to seven years. The fourth business is cloud. Now cloud is actually in three parts, one is the public cloud, which is where you are reselling on behalf of larger hyper-scale cloud player, and this is where the margin profile is a

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little lower, but then there is no capex involved. There is also a private cloud, which is our own cloud and our own premises for regulated entities and clients like government and so on and this is where a margin profile is better and then of course there is a telco edge cloud, which is more than 120 MSCs and then of course in some stage you have 500 edge data centers over the next few years when 5G rolls out, which again comes with the good margin profile. So if you look at all of these businesses they are in a very squarely linked with connectivity, but they are adding value and really approaching customers to solve their real problems whether it is cost, whether it is experience or whether it is cyber security and that is really what our strategy is. We have addressed the full addressable market of Rs 90,000 cores. By the way in order to do this there are few enablers, one is the channel and go-to-market capability has to really be strengthened because I have been talking to many of the very well run B2B companies, just a learning experience to see what is it that we can learn from them, what are the things that we need to get right in our go-to-market capability, so our in-sourcing of our own field course, upgradation of channel capabilities, digitizing those capabilities to make sure that solution selling becomes easy it is a very important part. The second part is having product expertise and product specialist that would be able to sell those businesses when we meet a customer. The third is actually building our future sets in the technology in future for example, we take cloud communication or Airtel IQ, we need to build our several features there, today we are in voice messaging, tomorrow we are going to be in video and at some stage we will get into call center space, beyond all of that is the cloud communication piece. These we will need to build out and that is the other part that needs to be focused on.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

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

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

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

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

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

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

Thanks, Komal. I think the big question you ask is, what is the debt underlying trend both what we are seeing and what we have visibility of. If you see the last 12 months, I think our net debt has increased by about \$3 bn odd and our AGR liability itself which we have accounted for as debt it is more than \$3 bn and we have also did about Rs 18,000 Crores under the AGR liability upfront payment. So really the core ex of AGR despite our spectrum upfront load has actually gone down. It is because of the AGR upfront payment and also the new spectrum load that has come up, the net debt seems to have increased. The upfront payment of Rs 6000 Crores was done in March and is factored into the March net debt. That reflects the underlying business growth in Africa by itself, which is being reflected through the dividend policy and the free cash flows they have. Also now we are building free cash flow pool in India. This will continue clearly two to three reasons, Gopal mentioned briefly while the composition of the capex is changing, the capex has peaked out so in a way the EBITDA is growing, those to net adds and also expansion for upgrading, etc., and obviously non telecom businesses growing, Africa is growing, so there is a free cash flow pool in India, which we will continue to grow. There are dividend paying subsidiaries including like Airtel Africa and Indus Towers. That reflects that the debt should continue to go down from where we are and obviously if there is anything non-routine, which we are happy to talk about that is more as per then moment in a decision point whether it is 5G or something else. Minor increases that we have seen over the last one year is also despite some bit of acquisition of new stake into Tower company, if we wind that off there will be more debt reduction. The other piece in leverage essentially how the core EBITDA is performing, I think if you see in a dollar billions sense about \$1.7 billion of EBITDA in this quarter for the company, which is about may be close to \$7 billion odd of annualized run rate and at that what is the current net debt is fairly comfortable in terms of overall leverage ratios. Gopal mentioned sub 3x and frankly if you peel off some of the DoT and AGR related areas, which are not traditional debt pools, neither the FLOs. We will see the ratio is even more better. By the way in India, which is dominant DoT & AGR pool is so we have 105000 Crores of little more of DoT plus finance lease obligation and our debt is more like 120000 Crores, essentially it is only \$2 million of any dollar bond debt etc, that we have got. So leverage is comfortable, free cash flow pool there and growing, dividends from the subsidy is continuous, there is an annuity growth there, capex stabilized to marginal reduction as we go through and core leverage ratio is comfortable and within the leverage ratios the debt composition is really not much towards external debt and that is why I think the rating agencies are fairly comfortable. There is

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no pressure that we are seeing from any of them, in fact all our efforts are always been in them and we will continue to say that what we see as this AGR and DoT is more of debt like item rather than debt. Thereby some of the rating agencies are seeing that. So that said current situation we need to go through the fundamentals of the country, fundamentals of the industry, overall situation for our country's economic growth and our own country rating, etc., but I do not see any large substantial fall out in the rating, but there is no reason on the rating side for us to be really worried on in terms of any adversity on that.

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

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

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

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

I think that is a good question. I think we have seen, firstly devastating second wave, we are seeing a lot more fear and insecurity relative to what we saw last time, I think last time within the company, if you look at the COVID cases, the previous peak that we saw of active cases within the company was in September 2020, which was about 246 cases and in April 2021 we hit a new high almost 1400 cases of about 4.5 times jump in the number of cases that we saw. Partly as I said it is pure and insecurity. There is also a various stages of lockdown almost 90% of India is now almost in lockdown, the balance 10% is in night lockdown or weekend lockdown, so there has been a reduction in economic activity. So I think we are seeing some impact of the second wave of COVID. This impact is both psychological and emotional, which is related to the fear and insecurity amongst customers. The second impact is financial pressures. As migrants go back to villages given their incomes and livelihoods have been destroyed, and some of them are now consolidating their SIMS and using one SIM between the family may be the wife, the child and now using only one SIM. Third impact is ofcourse the acquisitions because of reduced walk in to our stores. All of this is having an impact, we shows similar impact last time and we also did see a sharp recovery in June last year as the markets begin to open. As I said, more than 90% of India is now under lockdown, the other 10% is night lockdown or a weekend lockdown, but it is really we are operating in the lockdown situation. So given that softness that we have seen in the month of April we are currently preparing also for substantial recovery as we see markets opening up, we saw that strongly coming through in June of last year. This will mean readying our go to market, readying our network so all of that is underway. For the time being there is a lot of emphasis on business continuity. So this is being done through real focus on alternate channel such as chemists, grocers and online channels which have now become really meaningful, we are 65% of our business going online. Our broadband generally has been pretty good, so at this point in time people do need a lot of broadband so we saw reasonably good demand while there has been some softness I think broadband is looking strong. The B2B business continues to look strong. The mobility business particularly amongst the lower income consumer and migrants has been more impacted, So I would say that the broad situation we are in currently.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

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

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

I think that is a great question. I think we have had a lot of brainstorming on such aspects. I think we have come back to the conclusion that we do not want to be around our cyber security product or our own cloud to compete with AWS or Google or in fact develop our own content for example, and I know that few years ago we were thinking for this strategy I think will come to the conclusion. Like I mentioned I think our strengths are the data that we have with our customers, ability to collect money, payments, the fact that we can access 300 million mobile customers, 20 million home, etc., and of course the network that is the underlying fabric on which a lot can be built which is location and things like that. If you look at these businesses just to come back. Lets take cyber security. Airtel Secure is really in partnership with 5 or 6 top cyber security companies, but we have made our own investment in the security intelligence center. We have almost 100 customers now in this platform, which is enabling us to expand our cyber security offering. In the case of cloud, we are actually partnering with Google and AWS in public cloud, our private cloud we run for

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our own needs. We are able to this same cloud to the regulated entities like the banks, financial services. Third is Edge cloud, which is a unique strength that telcos have because the telcos have the strongest edge infrastructure in the world where more latency application can be delivered at a premium. So that is as far as cloud. When we look at Airtel IQ, this is in the core business because this really about making a call to the food delivery agents on a Swiggy app then the underlying technology that is being powered for that call through API inside the app using call masking feature is Airtel IQ. Our teams know that this is a core of our business, but by the way this actually gives you great stickiness and actually opens up a new revenue stream. That is another example of how or you take Ads, in Airtel Ads, they are using 200 million digital users to actually monetize using advertising is very attractive to the most players in India, so I think the way we see it is, we see it as leveraging our trust, our access, our relationships, our data, our payments capability. The second part is that a lot of this is still needs to be developed with strong emphasis on technology and talent and there I think we made a very strong focus. Some of the talents that we have been able to hire have come from from the world's best companies, combination of startups and large technology and internet company and they come to Airtel for a very simple reason. They come here for a job that they is empowering, they come here because they have a canvas that is large and they can create and solve problems of scale. Today we have about 1600 people, the competition is intense because it is tough to attract talent, but our perception of our capabilities amongst talent has increased dramatically in the last 2 to 3 years and a lot of it is on an account of the leadership team that we have been able to put in place or able to train people at the next line who are as good. So I think that is the cycle that happens when you get on to this. So I think that is really where it is. It is not that our attrition is not high, but I think this is the way it is in this industry we have, the tech industry is high and we will have to deal with it and as long as people who spend more than 18 to 24 months then stay with you and grow with you then you are okay, but some of them may be earlier on because they are young developers who are looking for a higher compensation.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

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

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

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

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

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

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

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

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

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

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

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

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Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

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

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

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

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thank you everyone for joining the call.