

Conference Call Transcription

Event: Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2023 Earnings Webinar

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Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2023 Earnings Webinar

CORPORATE PARTICIPANTS

Mr. Gopal Vittal

Managing Director & Chief Executive Officer, Bharti Airtel Limited

Mr. Soumen Ray

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

Mr. Harjeet Kohli

Joint Managing Director, Bharti Enterprises

Mr. Naval Seth

Head, Investor Relations, Bharti Airtel Limited

PRESENTATION

Vaidehi – Moderator

Good afternoon, ladies and gentlemen. I am Vaidehi, the moderator for this webinar. Welcome to the Bharti Airtel Limited fourth quarter ended March 31, 2023 earnings webinar. Present with us today is the senior leadership team of Bharti Airtel Limited. I must remind you that the overview and discussions today may include certain forward looking statements that must be viewed in conjunction with the risks that we face. Post the management opening remarks, we will open up for an interactive Q&A session. Interested participants may click on raise hand option on your zoom application to join the Q&A queue. The participants may click this option during the management opening remarks itself to ensure they find a place in the queue. Upon announcement of name, participants to kindly click on unmute myself in the popup screen and start asking the questions post introduction. With this, I would now like to hand over to Mr. Gopal Vittal for his opening remarks.

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

Thank you very much. Welcome to the earnings call for Airtel. With me on this call are Soumen, Harjeet and Naval. This quarter's earnings call will be very focused on the full year 2023. In addition, I will underscore yet again why we are so well positioned for the future.

Let me start with a quick update on our business and let me do that with ESG. During the year we have received multiple accolades with the Golden Peacock Global Award, the ICSI National Award for Excellence in Corporate Governance and CRISIL GVC Level-1 rating, which is the highest rating on governance. We have received rating upgrades from MSCI and CDP. Finally, we have received the ESG excellence award at the inaugural edition of the Dun & Bradstreet ESG Leadership Summit 2023. We take great pride in our governance, the diversity of our board and the quality of transparency of disclosures. Equally, the environmental impact of our business operations has now been embedded deeply to the business and I do believe while the road ahead is a long one, I want to give you a few examples of some work that has happened in the quarter. We started construction of our 25 megawatt data centre. This is the first in Kolkata which will operate fully on green energy. A large part of our rural site expansion now has solar energy access. Airtel 5G plus network as you know is also kinder on the environment because of its special power reduction solutions. We have also joined the WEF initiative alliance of the CEO Climate Leaders of India. This alliance enables to serve with a higher level platform for business leaders. This is the concrete plan and ideas to step India's climate action and green transition efforts.

Let me turn to our performance and let me do that with a quick roundup on the full year 2023 results. I will start by underscoring the simplicity of our strategy. Our focus is to drive quality customers, give them a great experience, we want to be digital at the core and use these digital capabilities to build new streams of revenue and do this while we are stripping out waste. We have delivered strong revenue and operating margins across portfolio during the year. On the overall free cash flow which is EBITDA minus capex as we look at it is about Rs.23000 Crores for the India business in full year 2023. This was despite heightened capex, rural expansion, and very low meaningful tariff hikes. Our net debt now is at 3.4x. This is at the India level. It is at a comfortable level in India and overall at the consolidated level is 2.8x. Our performance is based on solid execution. We have delivered a strong growth in postpaid for the year. We have delivered a strong growth on 4G net adds and we have seen sustained growth in both homes and B2B. There has been a historic movement on the network. We added almost 37,500 sites in a year, 37,492 to be precise and about 33,650 km of fiber. One of the interesting things that we are doing is to leverage FTTH which is fiber to the home to wire up our towers and this has been a huge game changer for us in terms of wiring up our towers on a very smart and efficient basis. In fact our smart investments and obsession with experience resulted in us staying out of the expensive 700 megahertz band because we bolstered our mid band holdings over a four year period. It was a bold decision to go with NSA which is non standalone architecture of 5G. This is already giving us better coverage, lower capex, lower carbon footprint and better experience. At the same time, standalone architecture which is SA is also ready for enterprise. We have already had it ready in our environment and today on 5G we are in about 3500 cities and towns of the 7000 that we have in India. We are adding almost 35 to 40 cities every single day and we believe we will conclude our urban coverage this year and some of the key rural pockets as well.

Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2023 Earnings Webinar

Let me turn to a quick update on our performance for the quarter. We have delivered a consistent and competitive performance despite two lesser days in the quarter. Our consolidated revenues grew by just under 1%, 0.6% to be precise sequentially to over Rs.36000 Crores. Our EBITDA margins were at 52.2%. We have seen continued efforts on war on waste. In fact, one of the most interesting deliveries that we are very proud of is our network opex for India. It went up just by 7.5% in full year 2023 despite serious cost headwinds in terms of energy as well as rollouts. In the mobility business we added 7.4 million 4G net-adds. We had strong momentum on postpaid with net additions of 663,000. Our reported ARPU came in at Rs.193 but do remember that this quarter had two lesser days so on a normalized basis if I do not take the two days but take a one day basis on a normalized basis we are already at a 195. This was led by smart phone upgrades, data monetization efforts, and a modest flow through from the increase tariff on the entry plan where we took pricing up from Rs.99 to Rs.155. On the broadband business we had a strong end to the year with 4 lakh net-adds. The full year impact is at 1.6 million. Today we are present in just under 1200 cities up from 847, but we are now reaching the tail end of the cities because we are seeing bulk of the growth coming from the key cities the top 200 to 300 cities. In the DTH business, we lost 39,000 customers in the quarter but this was largely due to seasonality. Cricket as you know has an impact on DTH and if you strip out the cricket viewers out of the customer base which we do now in a very scientific basis this results in the core business looking strong or looking better let me put it that way. We do expect this to play out in the coming quarter. In fact, April and May have been strong in terms of net additions and I do want to say that our strategy of conversions which is bringing the aggregation of all video content and linear content along with broadband is working and we believe we are now outperforming the DTH industry by a margin.

On the Airtel business, revenue in the quarter was flat sequentially, but we did let go of some low margin deals and therefore I do want to say that the underlying business remains strong. This is reflected in the margin expansion of 1.3% in Q4 and for the year as a whole we have delivered just under 16% revenue growth, the highest in the last decade. Our connectivity market share has moved up by 220 basis points and is now at 34%. Our IOT market share is now close to 53% and new businesses such as cloud and IOT are now growing at well over 50%.

Let me turn to the digital businesses, our payments bank saw strong momentum. Our monthly transacting users were up by 14.5% sequentially to just under 55 million. Deposit growth is growing at 58%. Annualized revenues are now at Rs.1516 Crores 18% up over the last quarter actually more like 19% up over the last quarter. Digital businesses now are at well over Rs.1100 crores annualized.

Let me now turn to the future of Airtel and let me talk about the five critical areas that I would say make us really well positioned. The first is our portfolio. This is now growing in strength. Africa is now at 31% of the overall portfolio and continues to do well. India wireless is at 54% where we still have significant upsides on smartphone upgrades and a reset on tariff. The homes and enterprise business constitute the balance at 25% and here there is a momentum that we are seeing led by structural changes in the market with growth coming at the top end. Growth of broadband and convergence as well as increased digitalization of businesses are the tailwinds in the homes and enterprise space. All of this play to our strengths and therefore investments are now being stepped up in line with where the growth is to drive this portfolio and make it even more resilient. The second reason I would say we are well positioned is a brutal focus on quality customers and today what I want to do is to take a geographical cut on these quality customers. The first lens or the first cut that we look at geographically is rural. I mentioned last quarter that we have an opportunity to expand into 60,000 odd high potential villages to win a greater 4G share of net additions. This expansion is in line with our plan and early results have been encouraging. As a result, we are now at a lifetime high in terms of revenue market share at just under 39%, 38.7% on a comparable basis. I say comparable because our reporting reflects segmental performance unpeeled for mobile, broadband, DTH and B2B. The second lens of this geographical cut is the top 150 cities. These cities account for almost 40% of the overall telecom market in India and they are growing rapidly. Specifically, 80% of the market for postpaid, broadband, converge homes and in fact on B2B it is more like 95% is concentrated in these 150 cities. Our focus is to win these cities bringing the full power of the Airtel Network, our channels and all power using digital tools. Let me explain this in a little more detail. Let me start with postpaid. As I said 80% of the market is in 150 cities. 5G is the pivot around which postpaid performance can truly accelerate. Today almost 32 mn of the 335 million users we have already have a 5G handset, but for postpaid users this number is as high as 33% so while for the aggregate it is a little under 10%. The structure of families in these top cities is also changing. There are more and more nuclear families and this is the reason for our 599 plan launch in postpaid which locks a nuclear family let us say a husband and a wife into one plan. Homes, again 75% of the market for broadband is in the top 150 cities. We have a renewed focus on fast rollout. We are rolling out almost 1.6 million home passes every single quarter and as I mentioned convergence is the route around which we are entering the home. Broadband plus linear content and Xstream where we are aggregating over 20 of the 35 odd OTT apps are all provided in the form of one plan. Another area is channels. All high value channels are predominantly focused on these 150 cities. Our own stores, our installation teams, our digital marketing focus and the 30 million existing high value of homes who use one or more of the services that we offer are already in these cities. Our channels are now therefore fully integrated on an Omni Channel basis. 30% of our high value acquisitions are now starting online and are integrated Omni Channel. Every one of our people across our own employees as well as our partners, 60,000 of them are integrated on Airtel work. As a result, we see massive synergies in the delivery of sims, installation of broadband, and installation of DTH. The store which is our own store is the fulcrum around which all of this revolves and this is one of the reasons why we are expanding our low cost single seater stores across the key cities in the neighborhood catchments to reach the customer directly and lastly let me talk about B2B. As I said, 95% of the B2B market is in the top 150 cities and within this the top 500 businesses are growing disproportionately. Account management brilliance is what we want to drive in these accounts. For every account, we are mapping the key decision makers, understanding their needs and the problems they are trying to solve across a range of areas and then bringing up full suite of solutions to them. We have seen early successes. 50 of our top accounts grew by 300% versus 25% growth seen in the overall top 500 account segment. The third area that I want to talk about is an obsession with customer experience and this is another reason why I want to say that we are well positioned. We have renewed our focus on improving experience. The whole company is focused only on one metric and we call these interactions so we want to drive down interactions. Every interaction we believe is an underlying fault or a lack of understanding where we have not been able to ensure with our customers and these interactions go across all our channels whether it is call centers, stores, it is the web, it is the app or it is on social media. To solve this what we are

Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2023 Earnings Webinar

now doing is building four critical platforms buy, build, pay and serve so buy is about customers buying anything. Bill is really all about billing so any kind of bill that is done whether it is a bill or an act to bill pays about paying from any channel through any mode whatsoever and serve is both self-serve as well as assisted care. Each of these platforms is exposed through a common channel layer which is integrated Omni channels and underlying all of this is our foundational layer which is our data layer which is all about our unified customer master. The fourth reason I would say we are well positioned is really all about building our digital businesses which leverage our platform. As I mentioned before we see Airtel in three parts. The bottom layer is our digital infrastructure which includes our data infrastructure. The layer on top is our digital experience which I have just spoken about and the layer on top which allows us to actually build these services on top of these underlying platforms is really the digital services. Our digital services now span CPaaS, Airtel IQ, cloud, SD-WAN and ads. Ads business is now being pivoted to put dramatic focus on Airtel finance. We have partnered with Axis Bank, NBFCs such as DMI Finance through these API integrations on the Airtel Thanks App to offer loans and credit cards to our customers. By leveraging an industry first proprietary machine learning and AI led model combined with an end-to-end digital experience Airtel Finance is offering instant loan dispersals, flexible EMI options and a major post purchase experience on Airtel Thanks. Our cobranded credit card with Axis Bank comes with various offers on telecom utility, various offline and online payments. Within a few months of launch, this part of our business has served more than 2.8 lakh customers. We have already hit about Rs.1200 Crores of annualized lending run rate and 2.4 lakhs of annualized credit card insurance run rate. As you can see the power of this platform enables us to participate across the value chain by leveraging core strengths. Finally, the fifth reason that I want to underscore on why we are well positioned is a war on waste. We have relaunched our war on waste program to bring renewal energy behind it. Four big areas we are looking at. First is network costs. We have started relocating high cost sites. About 66,500 sites have been identified for specific actions around energy, rental as well as re-engineering the site. This is seeing good traction which is why network opex has been well controlled despite massive rollouts. Second area is sales costs where we are taking actions to lower the reliance on inefficient channels that either have a high cost per gross edition or higher early churn. Massive data science is being deployed to identify the early churn right down to a single outlet in a retailer level. The third area is on capex. We have stopped all capacity investments into 4G since we are now seeing traffic offload of up to 30% in a site where 5G has been launched. Finally, we are seeing a war on failure and interactions which will also lower cost. So to sum up I think I would say we have had a satisfactory performance as we close the year with share gains across our businesses. We are building a future proof Airtel that is bringing renewed focus on execution around a simple and cohesive strategy. We are financially in a stronger place and operating cash flows are expected to more than meet capex needs while reducing leverage as well. Yet our concern on return on capital employed remains. At 8.5% this is way too low and we hope some sense will prevail in the industry to move up tariffs sooner rather than later. With that let me hand over for questions.

Vaidehi – Moderator

Thank you very much sir. We will now begin the Q&A interactive session for all the participants. Please note that the Q&A session will be restricted to analyst and investor community only. Due to time constraints, we would request you if you could limit the number of questions to two per participant to enable more participation. Interested participants may click on raise hand option on Zoom application to join the Q&A queue. Upon announcement of name, participant to kindly click on unmute myself in the pop-up screen and start asking the question post introduction. The first question comes from the Mr. Kunal Vora. Mr. Vora you may please unmute your side, introduce yourself and ask your question now.

Kunal Vora – BNP Paribas

Thanks for the opportunity. This is Kunal from BNP Paribas. So my first question is on postpaid? On postpaid Sir you have seen an acceleration in customer addition? Is this being led by 5G and can you talk about how the postpaid ARPU is trending versus prepaid and have you seen any increased aggregation by any of the peers?

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

So yes, as I mentioned earlier we are using 5G as a pivot to accelerate postpaid. We have also launched our 599 plan targeted specifically at nuclear families. That is also seeing some good traction. As far as ARPU is concerned you know that the pricing of postpaid has a significant premium over prepaid and so clearly the ARPU is much stronger than what you would see on prepaid.

Kunal Vora – BNP Paribas

Gopal my question was on the change, the delta? If I look at like last six months to one year how is the postpaid ARPU trending versus prepaid? Is it like similar trend or postpaid is declining or any of that?

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

No it is broadly around the same.

Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2023 Earnings Webinar

Kunal Vora – BNP Paribas

Okay and my second question I just want to get some sense on how you are looking at AI? Do you see the rapid progress since the launch of Chat GPT in the last few months? How do you see AI impacting your business and are you seeing any cost rationalization, customer experience upgrade, revenue growth opportunities whatever any thoughts on how AI will impact the business in the longer term?

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

Yes, that is a great question. I think we have a full team now assessing the impact of these on our business. Yes, you are right, there are opportunities in go to market. There are opportunities in analytics. There are also opportunities in prediction of upgrades of where the devices which devices will move up so across our businesses there are opportunities. There are also attendant related risks around cybersecurity and things like that so all of that is being studied. There are some experiments that we have begun in small areas and nothing very meaningful to report back but we really are looking at this very closely and we have been working on how we can bring in some of these technologies into our core business.

Kunal Vora – BNP Paribas

Thanks and just one last question if you can share thoughts on the capex for FY2024 and FY2025?

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

So I think the quarter's capex was Rs.9000 Crores is a little elevated, but if you take the full year's capex it is about Rs. 28,500 crores for the full year. As I mentioned before if you take a three year view we will be broadly in that same ballpark of what we normally do and we have reason to believe that the full year capex for 2023-2024 will be in the same ballpark as what we had in the current year in that broad ballpark.

Kunal Vora – BNP Paribas

Understood FY2025 would you expect a reduction in capex considering that rural expansion will be behind 5G urban expansion will be behind and rural 5G might not really be happening so would it fair to expect that in FY2025 there will be a decline in capex?

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

Yes, I would imagine that our 4G rollout is more or less has been completed. I think there will be a few places very small rollouts in a few circles but broadly that would be completed. We are not investing anything more in 4G capacities as I mentioned. Transport investments will continue as we wire up towers. We are also investing in some of our other businesses, businesses like data centers. Homes will continue to see strong investments and so on. Wireless capex on 5G will certainly come down relative to what we would have seen in this year because we would have completed the urban coverage more or less during the course of this year and we will start hitting some of the sort of village's as well top villages. How far that will then go into 2024-2025 is something that we will assess. This is a modular business as you know. Wireless is modular. You can string a set of radios on the tower based on where the traffic is, where the devices are coming up so we will be tracking that closely. I think one of the things that we have seen on devices is that shipments are slowing down. I am sure Kunal you have seen it as well. This is happening all over the world because I think replacement cycles are extending and that also entry level smartphones prices have moved up so to that extent if that trend continues that will also give you some relief on the amount of capex that will be needed in rural areas as we get into 2024-2025.

Kunal Vora – BNP Paribas

Understood. Thanks Gopal. That is it from me.

Vaidehi – Moderator

The next question comes from Mr. Piyush Chaudhary. Mr. Chaudhary, you may please unmute your side, introduce yourself and ask your question now?

Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2023 Earnings Webinar

Piyush Chaudhary – HSBC

Good afternoon. Thanks for the opportunity. This is Piyush from HSBC. I had two questions. On the 5G subscriber could you share some color on how the behavior is against a 4G subscriber like data usage, use of applications, now since we are in the Q2 and can I just confirm how much customers in postpaid were on 5G I missed that number?

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

So the second question on the second one about, 32% of our postpaid users already have a 5G handset. On 5G I think that today what is happening is that 5G on an existing plan is being given away free so it is unlimited data on a 5G device. Not everybody has opted for it because you do need to get on the Airtel Thanks App to take it for a period of recharge or you cycle exits so not everybody has taken it but where people have taken it obviously they are using a lot more. I think the broader point Piyush is that this is one of the first times that I think the telecom industry is moving well ahead of the rest of the ecosystem. If you look at the telecom industry what is 5G. 5G is not just a radio technology anymore. In my view 5G is a supercomputer. It is a supercomputer that is connected to the cloud because it is able to dramatically change things in terms of not just speeds which we are delivering. You see 400 mbps to 500 mbps speeds. It also gives you significantly lower latency because the compute will now move towards the edge and it allows you to have 100x the number of devices in a given square kilometer of area relative to 4G so it is a supercomputer. Now if on a supercomputer the applications that you need on a supercomputer are very different from your regular applications. The applications today that most people use are the same application messaging, video, and browsing so if you are getting a supercomputer and you are using this for basically for Microsoft, excel or word then you are not using the supercomputer in its entirety and this is where I feel that the rest of the ecosystem needs to catch up with the telecom industry. The rest of the ecosystem across devices, across applications, and content all of that needs to change and we hope that over the next coming years this ecosystem will flourish because industries have been built on 4G networks, ridesharing was built on it, food delivery was built on it, ecommerce has been built on it, and payments has been built on it so this is a time around which more applications need to come but the telecom industry is right now well ahead of the rest of the ecosystem.

Piyush Chaudhary – HSBC

Thanks Gopal. The second question is on home broadband, ARPU is coming off? It is down 6% year-on-year? Is it due to price competition or mix change of lower ARPU subs as you are expanding in new cities and what is the outlook of home broadband ARPU?

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

So I think that when you look at the rollout that we are seeing many of the customers who are coming in beyond the top 100 cities are coming on a slightly lower end plans and that is leading to some dilution in ARPU. I am quite relaxed about the dilution of ARPU that we are seeing because this is a profitable business, number one. Number two is revenue is growing strongly and the margins are strong even the costs of doing business in these cities has been done on the basis of a really innovative model which is a partnership with local cable operators where the capex requirements is much lower than what we would have in the top 100 cities, so all in all I think we have got the right business model for accelerated growth in home broadband.

Piyush Chaudhary – HSBC

Got it. Thanks a lot.

Vaidehi – Moderator

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

Sanjesh Jain – ICICI Securities

Good afternoon Sanjesh here from ICICI Securities. I have got a couple of questions. First on the 5G subscriber I know it is a very short period but what is the average usage of a 5G customer versus a 4G customer and have we seen any early signs that these 5G customer upgrading the plans to the higher plan where the data allowances are more? I know we have an unlimited plan but still any signs you think people will stick to this kind of usage once we move them from unlimited to limited and that can benefit ARPU say in FY2024-FY2025?

Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2023 Earnings Webinar

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

You had second question Sanjesh. This is the only one.

Sanjesh Jain – ICICI Securities

I got a few more.

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

So I will take this one and then you can ask your other question. What we are seeing is a growth in usage so if you leave the unlimited, obviously there is a big growth usage there and that is not necessarily monetized because that is unlimited but we are seeing for those who do not take the 5G then they do not sort of go and claim the unlimited on the app. We are seeing a growth, we are seeing lower churn and we are also seeing a growth in consumption and that growth is a direct impact on some revenue because what happens is we have this concept of data breaches which essentially means that on a given day given a daily plan construct the number of days that a customer breaches their allowance for the day and we have a lot of data science and a lot of contextual triggers to buy impulse data packs on the go in a very easy, easy way that revenue stream of data monetization is beginning to see some growth and yes the effort to upgrade them to a higher data plan obviously continues along with that because for those who breach on a regular basis let us say eight or ten times a month clearly they benefit by moving to a higher plan which then gives you an annuity stream of revenue so both those moves we are seeing. At this point this is small because remember that the handsets that are 5G enabled on our network are only about 10% to 11% so to that extent as this grows there should be some impact on ARPU.

Sanjesh Jain – ICICI Securities

Fair enough but on the unlimited pack can you just share the data what is the usage per subscriber there? I know it is not sustainable but still a ballpark number will really help?

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

I think it is early days Sanjesh. Maybe next quarter we will give you a better color on it. It is too insignificant right now because the adoption rates are very low and I suspect they will continue to remain low. They are not going to be anywhere upwards of maybe 15% to 20%. Today they are in the low single digits and so therefore this really does not have material impact but do not forget that the capacities that are there on the on 5G given 100 megahertz tranches spectrum that we have along with the efficiency that the size is like massive so I am not worried about this having any impact on capex for the next five years. The challenge only is that I believe at some stage you need to price in this because the tariffs that are operating, the amounts of allowances that we are giving whether you look at rate per GB or the ARPU that we have in India amongst the lowest they are the lowest in the world and they are the lowest compared to even markets like Pakistan or Sudan or Sub-Saharan Africa let alone markets like Indonesia and Thailand and all that where in many states India is getting towards those income levels so it really does need to move up.

Sanjesh Jain – ICICI Securities

Second on the enterprise side I can see the capex has gone up which indicates that we have now started investing in the data centers? We have told that we will grow by 4x how should we see this revenue coming up? Have we pre-booked this to the hyper scalers so as soon as the capex is completed we will be booking a revenue with this? What does it mean to our enterprise revenue growth?

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

So I think that this quarter's capex is elevated on the enterprise business fundamentally because of some specific deals that have happened. This is a combination of some undersea cables investments and so it is a lumpy cable investments and some bandwidths that needed to be bought to support our network but these are lumpy investments. This will peel off in subsequent quarters. This has not had any meaningful impact on account of data centers. The incremental growth is not an account of data centers. The data center investment continues. The broader answer to your question is that as soon as the data centers are built out we have already typically when we are building for hyperscalers we build in advance so we build it to suit so to that extent we have got the commitment already and as soon as it is ready which typically a data center takes maybe 12 to 18 months to complete. The moment it is done and it is handed over the revenues begin and then those are annuity revenues but if you are building smaller data centers then you need to fill that out. That takes about maybe six months because you get smaller domestic players but the margins are also better. The returns are better. They come in and actually fill out the data center.

Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2023 Earnings Webinar

Sanjesh Jain – ICICI Securities

Got it. My next question is on the 5G opex and the network on the 5G are we are we charging the entire 5G opex or it is capitalized considering that we are to do a commercial launch and Jio shared that they have close to 60,000 sites where are we in comparison to Jio in terms of number of sites presence on the 5G?

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

So as of now the project is still underway so as of now it is capitalized because the rollout is just about to be done and we hope that this will start peeling off in the coming quarters as we start sort of lighting up more and more 5G and meet the central criteria on which we peel that off. As far as your second question was sorry Sanjesh I missed that.

Sanjesh Jain – ICICI Securities

Jio mentioned that they have like 60,000 sites.

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

Yes, so I think one thing that I do want to want to underscore Sanjesh is that we are not in a maniacal rush to compete on the number of sites. The technology we are using is different and SA is fundamentally different from NSA. It gives us more coverage. In fact, I have mentioned to you I think about three quarters ago that from my house in Gurgaon to the office we have about 18 actually 23 sites in that stretch and I was surprised early on to find that six sites that we had put, six sites that we had put was giving almost seamless coverage on 5G from what was needed on 4G so NSA gives you better coverage. I think that is the reality and that is because the mid band is doing the uplink in the 3.5Ghz is traversing much further on the downlink. I have explained that in some detail a few quarters ago so we are not chasing number of sites. What we are instead chasing is coverage where we need it and that we are absolutely we are already there in three and a half thousand cities so to that extent we are not going to be at any disadvantage whatsoever on coverage.

Sanjesh Jain – ICICI Securities

Got it. I am squeezing one last data point question. The SG&A cost in India grew by 36% in FY2023? This is significantly a sharp jump? Can you help us understand what is leading to such a sharp jump in SG&A cost and how should we factor this for the years coming?

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

Maybe Soumen if you can answer this question.

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

Yes, Gopal. I think the SG&A cost is primarily driven by the competitive intensity to acquire customers in the market. We have always held that this is fruitless money being spent and people keep on churning but to remain competitive in the market we need to have terms which are rightful. You would see there is some softening of that in Q4 because we have taken some standard data. We are trying to find out places where we can optimize but in the center of the plate the competition is very stiff and we need to match what other players in the industry are offering in terms of acquiring customers and hence you see that is the increase.

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

I just want to supplement what Soumen said. I really think beyond a point like SG&A, the cost and the commissions and all that are being given by the industry at large unfortunately you have to match it because otherwise you tend to lose is not a healthy practice because it leads to a very high level of early tenure customer churn and that is what shows up in the overall churn number so if you split the churn into first four months churn and subsequent churn. Our subsequent four-month churn after four months the churn is very low. It is the first four months that is high and I hope better sense will prevail. We have in fact started making some moves, lower some channel commissions on SG&A on our own and we are tracking the impact of that over the last 45 days. We hope that this will sustain but we do hope that this better sense prevails.

Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2023 Earnings Webinar

Vaidehi – Moderator

The next question is from Vivekanand Subbaraman. Mr. Subbaraman you may please unmute your side, introduce yourself and ask your question now?

Vivekanand Subbaraman – Ambit Capital

Sir this is Vivekanand Subbaraman from Ambit. So my two questions, the first one is on a millimeter wave spectrum Gopal could you please tell us the plans of utilizing this spectrum? Is it going to be used for enterprises or FWA? Also related to this could you just give us an update on the FWA? You said that you are looking at it what is the update on this and viability of this that is one? Secondly in B2B noted your opening remarks on you are giving up certain low margin business but growth seem to have come off here so how should we think about the FY2024 and FY2025 revenue growth with respect to B2B revenues and I understand that there is some lumpiness with respect to data centers also? Thank you.

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

So I think on the millimeter wave spectrum this is really precious spectrum. It is a large tranche. It has helped us save us the spectrum usage charges as well so to that extent it has paid back by itself that spectrum but the fact is that it is still early days. We have got 5G networks. These are currently empty. We are rolling this out so I think that there is no plan right now to use the millimeter wave. I think we are doing some trials to check the propagation characteristics and so on but those are more for a long term basis of it and when we need it, so at this point there is no plan whatsoever. On the fixed wireless access, the cost of the CPEs are still very high and I have mentioned this before. If you look at the cost per home pass on fiber, cost per connected home pass given our utilization the cost for connected home pass typically is in the ballpark of \$100 to \$120 for connected home pass. In the LCO side it is even lower and if you look at the CPE which is equivalent to a cost of connected home pass because for every corrected home you need a CPE. In any case you need a router which is the same as what you do in a broadband home. The cost of the CPE is more like \$170 to \$180 so it is much higher than the cost per connected home pass and remember fiber gives you consistent experience so you are going to get the same experience every day because it is a dedicated fiber into your home. In the case of fixed wireless access you may get a very good experience when the networks are empty but in five to seven years like we are seeing in the case of T-Mobile in the US already beginning to see challenges on network experience through fixed wireless access so it is at best a technology that can be used to go where fiber is not able to go and then follow that up with fiber. With that said we have a team looking at this. We are working on it because as scale mounts you may see some reduction in fixed wireless access CPE cost. On B2B I would not worry about the growth seeming to come off this quarter as I said it was some lumpy business that we actually chose to walk out of for the right reasons. The underlying growth trajectory seems to be strong and the funnels that we are seeing in the order books which will translate into revenue for this coming quarter. We already know we have finished April and we are into May look strong so I would not read too much into this past one.

Vivekanand Subbaraman – Ambit Capital

That is helpful. Just one small follow-up with respect to FWA so since you are thinking about your DTH business from a converge homes lens perspective which is linear TV plus non-linear in the same box is there a possibility of you bundling FWA with perhaps the high value DTH homes that you are currently offering and potentially some innovation on the cost side here thank you?

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

That can be done because that box works on Wi-Fi so that can obviously be done.

Vivekanand Subbaraman – Ambit Capital

Okay and thoughts on whether this is viable for the higher value customers? I mean I understand that the reliability is not great?

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

It is not the reliability, it is also the economics.

Vivekanand Subbaraman – Ambit Capital

Okay got it. Thank you.

Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2023 Earnings Webinar

Vaidehi – Moderator

The next question is from Aliasgar Shakir. Mr. Shakir you may please unmute your side, introduce yourself and ask your question now?

Aliasgar Shakir - Motilal Oswal

Thanks for the opportunity this is Aliasgar from Motilal Oswal. Gopal I had just one question on the 5G capex trends, so I hear your thoughts in terms of the point that we have for the first time telecom operators are ahead of the curve in terms of 5G investments. I just want to understand in terms of typical trends of how a new technology rollout happens with initially focus on coverage then densification and then moving back to your from probably NSA to SA reforming? How these trends will follow? Do you think unlike 4G this will be a prolonged 5G rollout or it will be probably between three to five years and based on these factors how the trends of capex will follow? Do you think things could probably make you postpone some of your capex how are you thinking about this?

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

So Aliasgar I think let me sort of just say this through a couple of things. Number one is that while disproportionately shipments that are happening in India smartphone, there are still almost 25% or 30% of shipments that are coming in on feature phones so when the world has moved to 5G there are still customers out there who are buying 2G phones because they simply cannot afford it and India is as you know a disparate society right so that people who are very rich and high end homes with a big middle which is a smartphones and then there is also bottom which needs to think about every rupee that they spend. The second trend that you are seeing is the device replacement cycles have started extending and if you are carrying a phone remember we have 10% odd 5G devices in our base the total shipments that are coming in about 30% of new phones are already 5G enabled 35% or so because these phones are over Rs 20,000 all 100% are 5G enabled. Above Rs 50,000 is smaller and below that it is even smaller so as people upgrade if the device replacement cycle is in itself extending then the movement to 5G will be also a little more limited so that is the second thing. The third thing to look at is the structure of the network. Any network has 20% of sites which have very high utilization. The next 20% is slightly lower and the bottom 20% is almost very, very low. If your utilization of your sites of the 275,000 sites let us say 70,000 to 80,000 side are very, very low in terms of utilization. The existing spectrum that you have the existing technologies that there are, are already delivering fabulous experience. I mean they are giving you 20 to 30 Mbps and likely more for the applications that use these devices 3 to 4 Mbps is more than adequate so I think this is going to be initial heavy rollout like we have seen in or like we are seeing in FY2022-FY2023. There will probably be continued rollout in 2024-2025 so 2023-2024 heavy rollouts and 2024-2025 continued rollout and then some moderation and over a period of time as all of these devices start shipping out and moving up to 5G you will start seeing operators beginning to refarm spectrum. We have plenty of mid-band spectrum. We have 2300 Mhz spectrum. All of that can slowly be refarmed towards 5G and once we have got the mid band spectrum really refarmed to 5G. Maybe one or two cities may move faster than other cities. Delhi could move faster. Mumbai could move faster. These cities will move to SA first. That is the way that you have to think about it but I do not have any reason to believe that the elevated levels of capex that you are seeing in the short term will continue for forever in the medium term. It cannot be like that.

Aliasgar Shakir - Motilal Oswal

Understood. This is very, very helpful so one question on the digital avenues that we are targeting? I see about a decade back where telcos were a dump pipe? Today we have so much more to offer to the customers how big do you think this can become over a five-year period? Can this really become a reasonable contributor to your revenue?

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

How big it will be I do not know. I think the core business because we are in an annuity business. We still have a lot of headroom for growth particularly in homes even on wireless with tariffs having to go up, etc., is still high. B2B has a lot of headroom for growth as I have already mentioned not just on connectivity, but also on the digital services and adjacencies around connectivity things like cloud, cyber security, IOT, then data centers that we spoke about, CPaaS etc., and these digital businesses include all of these as digital business so I think it could be quite big but I think it will never be in the same sort of ballpark as what you have on the large mothership but the good news is all of this is very capital efficient because it sits on an existing infrastructure and like I talked I think it rides on the underlying data infrastructure that we have built over the last five years and that makes it incredibly efficient. Let me give an example of the lending part which we spoke about earlier. I said that we are doing about Rs.100 Crores of lending and we started this literally a couple of months ago. By the way it is only 15 people who are working on it because these 15 people are really building the machine learning and AI lead algorithms which are credit profiling an individual customer and we have 16 million users on our network who are pre-credit approved who are ready to be offered alone that power of our data infrastructure I think very few companies will have and very few industries and that is the advantage that we bring and it costs nothing because the infrastructure is already there. It is just now intelligently looking at what that means and how you can use it.

Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2023 Earnings Webinar

Aliasgar Shakir - Motilal Oswal

Got it. I think this will probably also move more users to our sticky customer base?

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

Absolutely without doubt because we also had other value besides of course a native journey on the app where you can lend. You have got the credit model. We are also able to remind for collection and use our outreach to actually collect the money on behalf of the bank so to that extent that is another powerful value added service that we can offer and that is what gives us a margin on the disburse without carrying any of the balance sheet risk of actually or the book of the lender.

Aliasgar Shakir - Motilal Oswal

Got it. This is very helpful. Thank you so much.

Vaidehi – Moderator

The next question is from Gaurav Rateria. Mr. Rateria you may please unmute your side, introduce yourself and ask your question now?

Gaurav Rateria — Morgan Stanley

This is Gaurav Rateria from Morgan Stanley. A couple of questions from my side. First Gopal what is your view on the pricing differential between consumers on the higher end of the data consumption bucket versus lower end? You think it is an appropriately priced right now and can this change when 5G becomes more ubiquitous? The second question is on the capital allocation what would be the right capital structure post which the free cash flow a bulk of it will be used to return to the shareholders and lastly any reiteration of what is strategic versus non-strategic from a core assets perspective which you can look to monetize over time and where does Indus Tower fit in the scheme of things thank you?

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

I think that the structure of pricing and I have spoken about this earlier. I feel in India is unfortunately broken because you have a one size fit all pricing approach. It is not the way that any industry works, any consumer industry. You will typically have people who are able to pay more, get a lot more for the upgrade, people who pay less get a lot less. In our case our plan starts at Rs.240 or Rs.250 gives you one and a half gigabytes of data a day plus unlimited calling plus 100 text messages. There is very little reason for them to actually buy a higher plan unless they are unique users at the margin who are actually like blowing through their allowances using a lot more so to that extent I think it is not the right price architecture which we need in a market like India and you look at other markets forget about even Western Europe which also operate like this but look at even markets like Indonesia or Thailand or Philippines I mean all of them have these kind of price structures so ideally you should have Rs.100 you get very little. Rs.200 you get more and let us say for Rs.1000 you get huge amounts. Now that would actually maximize the ARPU, but the other alternative to raising ARPU that everybody pays a little bit more that is really what has been happening in the Indian context so I think the price architecture is a little bit wonky. I think on our capital allocation we are very clear that we will continue to invest in the business for competitive growth and then we would like to leverage down our balance sheet and then the time will come we will be able to return money to shareholders. I think at this point in time we want to get our debt down to come even more comfortable levels. It is not that we are uncomfortable but it just gives you a lot more headroom to maneuver to do things that the business needs to do to sustain growth. On the strategic versus non strategic assets I would say all our businesses whether it is B2B, home, mobility and you can see the way I articulated it rural 150 cities all our business is coming together and channels coming together. It is one relationship. It is one business. It is riding on existing infrastructure so all of this is core. The infrastructure business is never core to us to that extent. I am talking about infrastructure I am not talking about fiber. I am talking about data centers and towers, which is why we have Carlyle for data centers. That is why we set up a joint venture with Vodafone Idea on Indus Towers but the fact is that the tower business is our heartbeat so we cannot afford to have that in any ways face volatility so if it is means in a short term to prevent volatility because one player could have challenges if we have to creep up and actually take control we will but if that business is stable there is no intention for us to actually put any capital. In fact, I would do contrary to actually may be even dilute our stake but that is I would say a theoretical version because at this point in time we just need to have Indus be a strong tower company. That is the way how we look at it.

Gaurav Rateria — Morgan Stanley

Thank you.

Transcript of Bharti Airtel Limited Fourth Quarter Ended March 31, 2023 Earnings Webinar

Vaidehi – Moderator

With this I would now like to hand over the proceedings to Mr. Gopal Vittal for his closing remarks.

Gopal Vittal — Managing Director & Chief Executive Officer, Bharti Airtel Limited

I want to thank you again for very engaging discussion. I think we had rounds of questions around all areas. I think we have had as I said a satisfactory end of the year and a competitive performance, consistent performance and a profitable performance. We hope to continue this into the coming year as well.
