

## Grading Rationale

August 14, 2024 | Mumbai

### Bharti Airtel Limited

The 'CRISIL GVC Level-1' grading assigned to Bharti Airtel Limited ('Bharti Airtel' or 'Company') indicates its corporate governance practices and value creation for all its stakeholders are at the 'highest' level.

## Key grading drivers and detailed description

### Strengths:

- **Competent and effective Board**

Professionals with rich corporate governance background and expertise across telecommunications, consumer products, marketing, law, technology, human resource, finance, ESG and accounting helm Bharti Airtel's Board. It has adequate oversight of the management, devotes sufficient time to its responsibilities and participates effectively to Company's decision making. Under the Board's supervision, the Company has grown its market share over the past five fiscals despite the heightened competition in the Indian telecom industry.

- **Sound corporate governance practices and institutionalized management practices**

Bharti Airtel has a robust corporate governance system and has continuously improved its processes in line with the increasing complexity of its businesses.

The Board maintains oversight of the Company's business performance, strategy, processes, systems, audits, risk management framework, compliance, and disclosures. It is ably supported by its various committees that are composed of members with requisite skillset and competence. Independent directors drive the successful functioning of these committees and are involved in the Company's decision-making framework. The management carries out frequent operational reviews with circle CEOs and respective business teams to follow up on the implementation of the growth strategy.

Bharti Airtel has a strong architecture to arrive at key decisions around aspects like investments, fund raising, and strategic alliances. It has focused sub-committees of Board comprising directors (including independent directors) and the management, which ensure high level of director involvement and Board oversight in decision-making processes. The Company provides timely, detailed and relevant information/ documents to the members before the meetings, which renders the deliberations and review efficient.

The Board Committees of Bharti Airtel ensure high degree of involvement of independent directors in their overall functioning. During the year, the Company has done a seamless transition of the chairmanship of the Audit Committee ('AC') and the HR & Nomination Committee ('NRC'). However as per best practices the key committees of audit and nomination and remuneration should be fully independent.

The Company's Audit Committee, which reviews internal control processes, financial reporting process and disclosures, auditor report, and related-party transactions has majority independent directors as members. Audit Committee usually holds conference calls a week prior to every quarterly meeting. This arrangement facilitates detailed focused discussions on internal audit findings and helps Audit Committee to effectively perform its other key functions, if any.

The HRC has a robust framework to evaluate the performance of the Board, Board committees and directors. To ensure the evaluation is transparent and unbiased, an independent consulting firm is engaged to facilitate the evaluation process. Recommendations arising out of the evaluation process are then deliberated upon to optimise the overall effectiveness of Directors, Board and its Committees. The HRC also monitors the Company's Human Resources strategy on key issues like succession planning, talent acquisition, employee wellbeing, diversity & inclusion, and Learning & Development (L&D).

Bharti Airtel has in place an ESG governance structure in line with global best practices. This structure effectively delineates the roles & responsibilities between the Board, ESG Committee, ESG Council, Corporate Sustainability Function and ESG functional champions.

- **Strong disclosure standards on corporate, financial and operations front**

Bharti Airtel has strong standards of disclosures for dissemination of corporate, financial, and operational information to all its stakeholders. The section on the Management Discussion and Analysis ('MDA'), as a part of Quarterly Report and Annual Report, carries adequate detail on economic and industry overview, segmental information, risk & mitigation framework etc. It also carries qualitative comments on the outlook for its business operations. The quarterly reports submitted by the Company to stock exchanges, also provide detailed information on the operational and financial parameters for each business segment of the Company.

All the necessary information about governance, financials, and operations is easily available on the Company's website. It also promptly publishes on its website full transcripts and video recordings of quarterly earnings calls and other investor meets. The regulatory filings with stock exchange are also made in a timely manner.

- **Management has demonstrated effective operational capabilities and strategic foresight**

Robust corporate governance and management practices have helped the Company consolidate its position of strength in the industry. In the past fiscal, its overall market share continued to grow with its subscriber market share rising to 33% as on March 31, 2024, from 32% as on March 31, 2023, and its active subscriber market share remaining almost flat during this period. Company's Average Revenue per User (ARPU) has also seen a steady increase during the corresponding period and stood at Rs.209/- in the quarter ended March 31, 2024, which was higher than the industry average.

The company has aggressively rolled out 5G Plus services across the country. During the year, the company has improved operational and financial performance despite high capex on account of 5G roll out and rural expansion. This has ensured the Company's leverage ratios remain within acceptable limits and its operations are de-risked from any challenges. The Company has achieved a significant milestone of successful listing of its subsidiary, Bharti Hexacom Limited on NSE and BSE.

The management has maintained focus and momentum on the Company's ESG initiatives. During the year, the management has driven efforts on environmental front to reduce waste generation, energy consumption and GHG emissions. On the social front, it has ensured improvement in gender diversity in the Company's workforce.

## Areas of focus:

- **Return ratios though modest, have seen improvement**

Bharti Airtel's return on capital employed (RoCE), though modest due to one of the lowest tariffs globally, highly competitive intensity, and capex-intensive nature of its business, has been on an improving trajectory in the recent fiscals. The recent revision in the mobile tariffs across the industry is aimed to improve the average revenue per user (ARPU). Even after the recent tariff increase India will remain at the bottom of the pyramid as compared to global peers. However, the tariff repair will partially address the continued capex investments, especially towards 5G rollout.

Additionally, Company's stock price has outperformed the benchmarks in recent times on account of revenue growth, strong operating performance, market share wins across the businesses, sustained cash operating cashflow and prudent capital structure management. The Company's strategy to deploy globally accepted 5G network architecture at the lowest cost of ownership to create long term shareholder value is well acknowledged as company was able to save huge amount of money by not acquiring sub-GHz spectrum. Going forward, flow through of tariff increase, unwinding of capex after peak spending in FY24 would support strong cash generation and sustained deleveraging, resulting to better return ratios.

- **Attrition rate remains cause of concern**

Bharti Airtel is among the top employers with over 19,000 on-roll employees in India operations as on March 31, 2024. During the year, the overall attrition rate in the Company was at 22.2% vis-à-vis 28.5% for fiscal year 2023. To ensure that this trend of reduction in attrition continues and to bring Airtel below the industry benchmark, it has taken long strides to build robust processes around key HR strategic initiatives like building internal careers, fair performance management, learning & development, diversity & inclusion etc. Moreover, health & safety initiatives for employees have taken a high priority throughout the year, to ensure the overall wellbeing of employees touching their physical, financial, emotional and social aspects of wellbeing.

- **Composition of board committees**

Although, the company has strong board with diverse skill sets and experience, the key committees of audit and nomination and remuneration also have some non-independent director representation.

## About the company

Headquartered in India, Bharti Airtel is a global communications solutions provider, serving over 550 Mn. customers in 17 countries across South Asia and Africa. The Company ranks amongst the top three mobile operators globally and its networks cover over two billion people. It is India's largest integrated communications solutions provider and the second largest mobile operator in Africa. Its retail portfolio includes high-speed 4G/5G mobile broadband, Airtel Xstream Fiber that promises speeds up to 1 GBPS seamlessly converging linear and on-demand entertainment, streaming services spanning music and video, digital payments and financial services. For enterprise customers, Bharti Airtel offers a comprehensive suite of solutions ranging from secure connectivity, cloud and data centre services to cyber security, Internet of Things (IoT), Ad Tech and cloud-based communication.

As on March 31, 2024, the Company had ~40.6 Crore subscribers in India and ~15.2 Crore in Africa.

In fiscal year 2024, the Company's consolidated net profit stood at Rs.7,467 Crore and consolidated revenue at Rs.149,982 Crore, compared to a net profit of Rs.8,346 Crore and revenue of Rs.139,145 Crore during the previous fiscal year.

## Key GVC indicators

Particulars	Unit	Details as on March 31, 2024
No. of Board members	Nos.	10
No. of non-executive directors (incl. independent directors)	Nos.	8
No. of executive directors	Nos.	2
No. of independent directors	Nos.	5
No. of non-executive non-independent directors	Nos.	3
No. of employees (India)	Nos.	19,000+
Total customer base (global)	Nos.	~56 Cr.
Wireless Subscriber market share (India)	%	33
Active Subscriber market share (wireless)	%	36
Operating revenue (Consolidated)	Rs.	149,982 Cr.
Profit after tax (Consolidated)	Rs.	7,467 Cr.

**Note:** Above numbers are adjusted for CRISIL's analytical treatment and may not represent the numbers reported by the Company.

## For further information,

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