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IPO Report

02nd April '24

Snapshot

Bharti Hexacom Limited is a communications solutions provider offering consumer mobile services, fixed-line telephone and broadband services to customers in the Rajasthan and the North East telecommunication circles in India, which comprises the states of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland and Tripura. Company offer its services under the brand 'Airtel'. As of December 31, 2023, company had invested ₹ 206 billion in capital expenditure in its future ready digital infrastructure. Company also derive significant synergies from its relationship with company's Promoter, Airtel, through the expansive digital infrastructure, digital experience and the digital services it provides to its customers

VALUATION

Company is bringing the issue at price band of Rs 542-570 per share at p/e multiple of 52x on FY23 PAT basis.

Company has established leadership and large customer base in its areas of operation , presence in markets with high growth potential. Therefore company with strong parentage and established brand is building a Future Ready Network .Company with its extensive distribution and service Network & experienced Management Team is looking a decent destination to deploy the funds in.

Hence ,looking after all above we recommend "Subscribe" on issue.

Price Band (Rs./Share)	542-570
Opening date of the issue	03rd April '2024
Closing Date of the issue	05th April '2024
No of shares pre issue	500,000,000 Eq Shares
Issue Size	Rs 4065-4275 Cr
Offer For Sale	Rs 4065-4275 Cr
Offer For Sale	7,50,00,000 Eq Shares
Face Value (Rs/ share)	Rs 5/share
Bid Lot	26

BIDDING DETAILS

QIBs (Including Anchor)	75% of the offer (Approx 56250000 Eq Shares)
Non-Institutional	15% of the offer (Approx 11250000 Eq Shares)
Retail	10 % of the offer (Approx 7500000 Eq Shares)
Lead managers	Axis Capital Ltd, SBI Capital Markets Ltd, BOB Capital Markets Ltd, ICICI Securities Ltd, IIFL Securities Ltd
Registrar to the issue	Kfin Technologies Ltd

WHAT WE LIKE

Established Leadership and Large Customer Base in its area of operation

Company provide consumer mobile services, fixed-line telephone and broadband services to customers in Rajasthan and in the North East telecommunication circles in India, which comprises the states of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland and Tripura. As of December 31, 2023, company was present in 486 census towns and had an aggregate of 27.1 million customers. As of the same date, company's customer base included 19,144 thousand data customers, of which 18,839 thousand were 4G and 5G customers, and its customers consumed approximately 23.1 GB of data per customer per month during the nine months ended December 31, 2023.

Presence in Markets with High Growth Potential

Company operate in the Rajasthan and North East telecommunication circles in India. According to the CRISIL Report, Rajasthan had 67.0 million telecom customers contributing 5.6% to overall India telecom customers, while the North East had 12.7 million customers, contributing 1.1% to overall India telecom customers in the nine months of Fiscal 2024

Strong Parentage and Established Brand

Airtel owns 70% of company's outstanding equity share capital. Airtel is a global communications solutions provider with over 500 million customers in 17 countries across South Asia and Africa. During the nine months ended December 31, 2023 and Fiscal 2023, Airtel had a revenue market share in India of 37.2% and 36.1%, respectively, and as of December 31, 2023, it had 381.7 million mobile customers representing a customer market share of 33.0%. Airtel has a net debt to EBITDA of 2.5 on a consolidated basis, as of December 31, 2023. It has a strong financial risk profile aided by strong debt protection metrics and financial flexibilities .



COMPANY BACKGROUND

Company's revenue market share for the Rajasthan circle was 40.4%, 39.2%, 39.5%, 36.7% and 32.7%, while for the North East circle was 52.7%, 52.4%, 52.5%, 48.5% and 42.0% during the nine months ended December 31, 2023 and 2022 and Fiscals 2023, 2022 and 2021, respectively. Company was at number one position in the North East circle during the nine months ended December 31, 2023 and Fiscals 2023 and 2022. In the Rajasthan circle, the market share gap between company and the market leader has narrowed between Fiscal 2021 and the nine months ended December 31, 2023 and company stood at the close second position during the nine months ended December 31, 2023. Company have been able to consistently increase its ARPU for mobile services from ₹135 for Fiscal 2021 to ₹155 for Fiscal 2022 to ₹185 for Fiscal 2023 to ₹197 for the nine months ended December 31, 2023.

As of December 31, 2023, company was present in 486 census towns and had an aggregate of 27.1 million customers across both the circles. Company's customer market share has grown consistently in Rajasthan from 33.1% as of March 31, 2021 to 35.0% as of December 31, 2023 and in the North East from 43.6% to 49.8% between the same dates. Company have the highest number of Visitor Location Register ("VLR") customers (6.4 million) and a VLR market share of 52.3% in the North East circle and the second highest in the Rajasthan circle with 23.2 million customers and a VLR market share of 38.7%, as of December 31, 2023. Company's customer base included 19,144 thousand data customers, of which 18,839 thousand were 4G and 5G customers, and data consumption per customer per month stood at approximately 23.1 GB during the nine months ended December 31, 2023. Company rely on a robust network infrastructure with a mix of owned and leased assets. As of December 31, 2023, company utilized 24,874 network towers, of which it owned 5,092 towers, and the remaining 19,782 towers were leased from tower companies. Company have a spectrum portfolio with varied pool of mid band spectrum (1800/2100/2300 MHz bands), which has enabled it to offer 5G Plus services on the widely chosen non-standalone network architecture and at a low cost of ownership. This has enabled company to save a significant amount of capital towards sub-GHz spectrum for 5G roll out and additional capital expenditure required to be spent on network infrastructure to deploy the same. During the nine months ended December 31, 2023 and 2022 and Fiscals 2023, 2022 and 2021, company's capital expenditure was ₹ 16,003 million, ₹ 25,577 million, ₹ 30,518 million, ₹ 8,745 million and ₹ 15,767 million, or 30.65%, 52.77%, 46.39%, 16.18% and 34.26% of its revenue from operations, respectively.

Company have an extensive distribution and service network across the regions company operate in and during the nine months ended December 31, 2023 and the last three Fiscals, company have set up 51 retail outlets and 24 small format stores to reach 90 cities, as of December 31, 2023. As of December 31, 2023, company's distribution network comprised 616 distributors and 89,454 retail touchpoints. Company was originally incorporated in 1995 as 'Hexacom India Limited'. In 2004, the name of Company was changed to 'Bharti Hexacom Limited' when Airtel acquired a majority equity interest in Company. Airtel owns 70% of its outstanding equity share capital. Airtel is a global communications solutions provider with over 500 million customers in 17 countries across South Asia and Africa. It is among the top global mobile operators in terms of number of customers and is India's largest integrated communications solutions provider in terms of consolidated operating revenue as of Fiscal 2023.

Airtel's retail portfolio includes mobile services, fixed-line telephone, broadband services and Digital TV services. Airtel Xstream Fiber is a one-stop solution for all the high-speed internet and content needs of customers with convergence across linear and on-demand entertainment, streaming services spanning music and video. For enterprise customers, Airtel also offers a gamut of solutions that include secure connectivity, cloud and data center services, cyber security, IoT, Ad Tech and CPaaS (Airtel IQ). Its flywheel of digital services include the Airtel Payments Bank, Wynk Music, Airtel Ads, Airtel IQ and Nxtra by Airtel. The Government of India through Telecommunications Consultants India Limited ("TCIL") owns 30% of company's outstanding equity share capital. TCIL is an engineering and consultancy company and was set up in 1978 for providing Indian telecom expertise in all fields of telecom and information technology to developing countries around the world. Its core competence is in the fields of switching, transmission systems, cellular services, rural telecommunication, optical fibre based backbone transmission systems, information technology and networking solutions, application software, e-Governance, 4G/5G, FTTH, VOIP, Wi-Fi surveillance, cyber security and civil construction and project management consultancy services.



INVESTMENT RATIONALE

<p><i>Building a Future Ready Network</i></p>	<p>Company rely on a robust network infrastructure through owned and leased assets. Company benefit from the telecommunication infrastructure and other digital assets of company’s Promoter, Airtel and its investment in Indus Towers. Over the years, company have increased use of digital tools, data science and technology to enhance the network efficiency, optimise costs and make its networks more environment friendly. As of December 31, 2023, company were present in 486 census towns in the two circles in which company operate with 5,092 owned and 19,782 leased network towers. During the nine months ended December 31, 2023, company’s customers spent 260,674 million minutes and consumed 3,719 million gigabytes on company’s network. Company have a spectrum portfolio with varied pool of mid band spectrum (1800/2100/2300 MHz bands) along with spectrum holding in 900 Mhz, 3500 MHz and 26 Ghz bands. Over the years, company have followed prudent capital allocation and spectrum acquisition and company chose not to acquire the expensive 700 Mhz band for its 5G network. None of its existing spectrum expires before the year 2030, the validity of company’s spectrum pool ranges between the years 2030 and 2042 and company do not expect to incur any significant capital expenditure towards spectrum acquisition until the specific spectrum band expires.</p>
<p><i>Extensive Distribution and Service Network</i></p>	<p>Company have an extensive sales and distribution network across the rural and urban areas of the Rajasthan and North East circles serviced by 616 distributors and 75 stores operated by company, as of December 31, 2023. Company’s distribution partners are digitally empowered to sell Airtel services through the ‘Mitra’ app, which has been licensed to company by one of Airtel’s affiliates, and which facilitates mobile recharge transactions between distributors and retailers and supports onboarding of new customers. Company’s exclusive retail footprint comprising 89,454 retail touchpoints, as of December 31, 2023, is one of the key differentiators, including for supporting high value customers and providing them superior experience. Company’s exclusive retail footprint is an integral part of company’s customer acquisition and engagement strategy, designed to bring the Airtel brand closer to company’s customers. As of December 31, 2023, company had setup 24 small format low-cost stores, in addition to the 51 retail stores in company’s two circles to deepen company’s retail presence and primarily drive the sale of company’s post-paid, homes broadband and international roaming services.</p>
<p><i>Experienced Management Team</i></p>	<p>Company’s operations are conducted by an experienced management team that has significant experience in all aspects of company’s business operations. Company’s benefit significantly from their expertise, including company’s chairman, J.S. Deepak, its directors Devendra Khanna, Soumen Ray, its Chief Executive Officer, Marut Dilawari and its Chief Financial Officer, Akhil Garg. In addition, company’s Board of Directors includes independent directors who bring significant business expertise. Company’s management team has been involved in the telecommunication industry in India for a long period. During this time, they have developed sector specific knowledge, operational expertise and an in-depth understanding of the key opportunities and risks associated with company’s business. Their expertise in the industry is reflected in company’s ability to maintain its leading position despite significant competition and new entrants in the market. The combination of company’s experienced Board of Directors and its dynamic management team positions company well to capitalize on future growth opportunities.</p>



OBJECTS OF OFFER

The objects of the Offer are to (i) to carry out the Offer for Sale of up to 75,000,000 Equity Shares by the Selling Shareholder; and (ii) achieve the benefits of listing the Equity Shares on the Stock Exchanges.

RISKS

Company derive its revenues from providing mobile telephone services in Rajasthan and the North East circle and any unfavourable developments in such regions could adversely affect company's business, results of operations and financial condition.

Source:RHP

INDUSTRY OVERVIEW

Key performance indicators (KPIs) of Rajasthan telecom market

Wireless ARPU logged double-digit CAGR between Fiscals 2019 and 2023

ARPU of the wireless segment in Rajasthan increased to ₹ 145.0 in Fiscal 2023 from ₹ 68.0 in Fiscal 2019, at a CAGR of 20.8%. The increase outpaced the India average, which rose to ₹ 142.3 from ₹ 71.0, at 19.0% CAGR. The pace of increase highlights the state's potential for continued robust growth of the telecom sector and sustained revenue increase for telecom players.

Rajasthan's figure notably outperformed the national average, showcasing stronger ARPU growth and higher revenue generated per wireless user.

Prepaid customers have the lion's share, but postpaid customers increasing

In the Rajasthan circle, prepaid customers accounted for a dominant share of the wireless segment as of Fiscal 2023, at 95.1% , which was higher than 91.9% in the case of pan-India. The share of prepaid customers in the Rajasthan circle has been reducing marginally, moving towards postpaid since Fiscal 2020, due to better postpaid bundled tariff offerings by the telecom players.

In contrast, in developed markets such as the US and Germany, the share of postpaid customers is higher — 69-70% and 54% as of 2023, respectively. Even in countries such as Thailand and Brazil, the share of postpaid customers (including point of sales and mobile to mobile) is higher than in India – 30% and 57%, respectively, as of 2023. This demonstrates significant potential for postpaid uptake in the country and the circle.

Despite a higher share of prepaid customers than the pan-India market, Rajasthan's overall ARPU is on a par with the pan-India average. Given the potential shifting of customers to postpaid from prepaid, and higher postpaid ARPU, overall ARPU for the Rajasthan market has the potential to outperform the pan-India ARPU growth rate.

MoU for Rajasthan grew faster than pan-India over the last decade

Minutes of usage (MoU) in the wireless segment in Rajasthan clocked a CAGR of 6.5% between Fiscals 2019 and 2023, to 926 minutes per customer per month. In comparison, the national average MoU rose at a higher CAGR of 8.1% to 946 minutes. But between Fiscals 2014 and 2023, Rajasthan's MoU logged a faster CAGR of 12.0% versus the national average's 10.4% on a smaller base.

Telecom customers in Northeast circle grew approximately 3.1% CAGR over Fiscals 2014 to 2023

The number of customers in the Northeast circle rose to 12.6 million in Fiscal 2023 from 9.6 million in Fiscal 2014, at a CAGR of 3.1%. The increase in the customer base was faster than the pan-India CAGR of 2.6%.

Consequently, teledensity in the Northeast circle rose to 79.7% as of Fiscal 2023 (80.2% as of the nine months of Fiscal 2024) from 70.0% as of Fiscal 2014. Still, it lagged the national average, which stood at 84.5% for Fiscal 2023 (85.2% as of the nine months of Fiscal 2024). The lower overall teledensity in the Northeast was because urban teledensity in the circle lagged the all-India average, at 111.0% versus 134.2% as of Fiscal 2023. However, in the case of rural teledensity, the Northeast performed better than the India average, at 63.1% versus 57.7% as of Fiscal 2023. The high rural teledensity in the Northeast can be attributed to high dependence on wireless connectivity. Penetration of wired service / infrastructure in the region is low as reported by industry experts. The heavy dependence on wireless services is because of challenges in laying and maintaining wireline infrastructure, given the region's hilly terrain and extreme weather conditions. The region is also receiving special attention from the government towards infrastructure improvement.



Consolidated Financials

(Rs in Mn)

Financials	FY21	FY22	FY23	9months ended FY24
Total Revenue (A)	46023.00	54052.00	65790.00	52208.00
Total Expenditure (B)	35499	35912.00	37933	27374
EBIDTA	10524.00	18140.00	27857.00	24834.00
EBIDTA Margin	22.87	33.56	42.34	47.57
Other Income	1020.00	888.00	1402.00	2000.00
Depreciation	12852.00	14410.00	15533.00	12794.00
EBIT	-1308.00	4618.00	13726.00	14040.00
Interest	5166.00	5718.00	6388.00	4787.00
PBT	-6474.00	-1100.00	7338.00	9253.00
Exceptional	3417.00	-19511.00	0.00	3030.00
PBT	-9891.00	18411.00	7338.00	6223.00
Tax	448.00	1665.00	1846.00	3405.00
PAT	-10339.00	16746.00	5492.00	2818.00
NPM	-22.46	30.98	8.35	5.40
ROE%	-54.45	46.87	13.83	7.08
EPS	-20.68	33.49	10.98	5.64
Eq Cap	2,500.00	2,500.00	2,500.00	2,500.00
Net Worth	19,860.00	36,605.00	42,095.00	44,161.00

(Source: RHP)

Peer Comparison

Company Name	P/E	Revenue from operations (Rs in Mn)	EPS	NAV	ROE %
<i>Bharti hexacom</i>	NA	65790	10.98	84.19	13.83
Peers					
Bharti Airtel Limited	82.16	1391448	14.57	136.72	15.84
Vodafone Idea Limited	-1.63	421772	-8.43	-15.28	NA
Reliance Jio Infocomm Limited*	NA	907860	4.05	48.00	8.43

(Source: RHP)



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