



BHARTI HEXACOM LIMITED

SMC Ranking

★ ★ ★ ☆ ☆ (3/5)

Issue Highlights

Industry	Telecom
Offer for sale (Shares)	75,000,000
Net Offer to the Public	75,000,000
Issue Size (Rs. Cr.)	4065-4275
Price Band (Rs.)	542-570
Offer Date	3-Apr-24
Close Date	5-Apr-24
Face Value	5
Lot Size	26 Shares

Issue Composition

Issue Composition	In shares
Total Issue for Sale	75,000,000
QIB	56,250,000
NIB	11,250,000
Retail	7,500,000

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	70.00%	70.00%
QIB	30.00%	26.25%
NIB	0.00%	2.25%
Retail	0.00%	1.50%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

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

Book Running Lead Manager

- SBI Capital Markets Limited
- Axis Capital Limited
- BOB Capital Markets Limited
- ICICI Securities Limited
- IIFL Securities Limited

Name of the registrar

- Kfin Technologies Limited

About the company

Incorporated in 1995, Bharti Hexacom Limited provides fixed-line telephone and broadband services to customers in Rajasthan and North East telecom circles in India. The company provides services in states such as Rajasthan and Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland and Tripura. By December 31, 2023, the company has invested Rs. 206 billion in digital infrastructure capital expenditures to be future-ready. As of December 31, 2023, the company has 27.1 million customers across 486 census towns. As of December 31, 2023, there were 616 distributors and 89,454 retail touchpoints in the distribution network. As of December 31, 2023, the company had 19,144 thousand data customers, out of which 18,839 thousand were 4G and 5G customers.

Strength

Established Leadership and Large Customer Base in its area of operations: The Company provides communications solutions to customers in Rajasthan and the North East telecommunication circles in India, which include the states of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, and Tripura. Customers can avail fixed-line telephone, broadband, and consumer mobile services from the company. The company offers its services under the brand 'Airtel'. As of December 31, 2023, the company was present in 486 census towns and had an aggregate of 2.71 crore customers. As of the same date, its 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. The highest number of VLR customers of 6.4 million and a VLR market share of 52.3 % in the North East circle and the second highest VLR customers in the Rajasthan circle with 23.2 million Customers and a VLR market share of 38.7%, as of December 31, 2023. Its strategy for fast paced network coverage expansion, network deployment and having a n asset light business model has been backed by its partnerships with local cable operators (" LCO") in most of the regions it operates. Such arrangements led to faster roll out of fiber home passes, shorten time for go - to-market beyond larger towns and accelerate revenue growth. This has enabled it to provide high speed and reliable broadband connectivity to customers. It has increased the number of cities in which it provides such services from 23 cities, as of March 31, 2021 to 90 cities, as of December 31, 2023.

Presence in Markets with High Growth Potential: The Company operates in the Rajasthan and North East telecommunication circles in India. The industry ARPU for wireless services in the Rajasthan circle grew from Rs. 68 to Rs. 145 at a CAGR of 20.8%, while in the North East circle it grew from Rs. 74 to Rs. 170 at a CAGR of 23.1%, outperforming the national ARPU growth from Rs. 71 to Rs. 142.3 at a CAGR of 19.0%, between Fiscals 2019 and 2023. These two regions are expected to see improvement in teledensity and adoption of smartphones in rural areas through investments in network infrastructure along with factors including the growth of digital payments indicating strong growth potential for telecom and data services, rise in data consumption and growth in demand for e-education. It believes that its established leadership position in these circles may place it well to capitalize on growth opportunities.

Parentage and Established Brand: Being a majority-owned subsidiary of Airtel, a leading telecommunications provider with a vast presence in South Asia and Africa (over 50 crore customers in 17 countries), the company enjoys significant advantages. Airtel's market share in India is substantial (over 36% revenue share in both the latest nine months and fiscal year). This strong affiliation translates into several benefits. The company leverages Indus Tower's infrastructure, national long distance network, and inter-circle roaming

arrangements, optimizing capital expenditure and network efficiency. Additionally, Airtel's size allows the company to secure better deals from vendors and share crucial functions like finance, legal, and HR, leading to cost savings and operational streamlining. Overall, the relationship with Airtel fuels the company's growth, strengthens its competitive edge, and promotes operational efficiency.

Certain key areas in which it benefit from its relationship with Airtel are as follows:

Brand: The Company offers its services under the brand 'Airtel', which is widely recognized in India, as well as several overseas jurisdictions. It believes that the strength of the 'Airtel' brand helps the company in many aspects of its business, particularly since it engages in direct sales to retail customers.

Service offerings: Airtel and its affiliates have built a comprehensive portfolio with three layers

- digital infrastructure, digital experience and digital services. Their digital services include Airtel Payments Bank, Airtel Xstream, Airtel Thanks, Airtel Wynk (music streaming) and Direct-to-Home (Digital TV).

ESG framework: Airtel considers sustainability as an integral part of its core business strategy with focus on the Environment – greening its network, achieving climate resilience, resource efficiency and waste management; Social – diversity and inclusion, talent development and retention and occupational health and safety; Governance – sustainable supply chain management and corporate governance.

Building a Future Ready Network: The company leverages a strong network infrastructure built through a combination of owned and leased assets. This includes its own network towers alongside those of its promoter, Airtel. Additionally, the company benefits from Airtel's broader infrastructure, including its pan-India network, overseas operations, and fiber connectivity. This mix allows the company to optimize costs and environmental impact while offering robust coverage. By strategically utilizing a mix of owned and leased assets, and by taking advantage of Airtel's resources, the company is able to deliver efficient and environmentally friendly network services. Notably, the company's recent deployment of 5G Plus services utilizes a cost-effective non-standalone architecture, further demonstrating its commitment to efficient network operation. As of December 31, 2023, the company had a significant presence with over 24,000 network towers and its customers enjoyed extensive data usage on the network.

Extensive Distribution and Service Network: The company boasts a comprehensive sales and distribution network spanning both rural and urban areas across its two circles of Rajasthan and North East. As of December 31, 2023, this network included over 89,454 retail touchpoints, 616 distributors, and 75 company-operated stores. This extensive reach is seen as a key advantage, particularly in catering to high-value customers and providing them with a superior experience. The company leverages technology to empower its distribution partners. Airtel's 'Mitra' app, licensed by an affiliate, facilitates mobile recharge transactions, retailer onboarding, and sales of Airtel services through a digital platform. To further strengthen customer engagement, the company offers the 'Airtel Thanks' app. This award-winning platform provides a one-stop shop for customers to manage their accounts, access various Airtel offerings, and contact customer care. With over 11.7 crore monthly active users as of March 31, 2023, 'Airtel Thanks' underscores the importance of digital tools in the company's customer strategy.

Financials of the company: The company experienced a 67.2 percent year-on-year decline in net profit, amounting to Rs 549.2 crore for the fiscal year FY23. This decrease was attributed to a higher base in the previous year, which included exceptional gains of Rs 1,951.1 crore. Despite this decline in net profit, the company maintained a healthy topline and operating numbers. Revenue from operations during the year grew 21.7 percent to Rs 6,579 crore as compared to the previous year.

Strategy

Grow Revenue by Focusing on Acquiring and Retaining Quality Customers: Airtel encourages users to move from 2G to 4G/5G plans, and within 4G plans, to opt for higher data packs. The company also incentivizes prepaid customers to switch to postpaid plans. Airtel uses contextual marketing to offer relevant data plans to users, maximizing their data usage and spending. The

company provides bundled services like Airtel Black which combines postpaid plans with entertainment subscriptions, increasing customer spending. Airtel's "World Pass" simplifies international roaming, potentially leading to more usage and revenue. Airtel Xstream Fiber service combines high-speed internet with OTT subscriptions (music, video) in a user-friendly package, attracting high-value customers.

Expand Network Coverage: Airtel focuses on expanding coverage in high-revenue areas like cities and high-value customer locations. This helps the company acquire more customers and improve its experience. The passage highlights significant growth in network infrastructure between March 2021 and December 2023. This includes increased population coverage, towers (both owned and leased), and mobile broadband base stations. The expansion into rural areas has attracted new 4G/5G customers, evidenced by the growth in data customer base. Airtel's investment in network expansion (over Rs. 7100 crore) has led to a consistent rise in ARPU (Average Revenue Per User) and market share. Beyond mobile services, Airtel offers fixed-line telephones and high-speed broadband, catering to a wider range of customer needs. Airtel leverages partnerships with local cable operators for network deployment, reducing their capital expenditure. Overall, Airtel's network expansion strategy prioritizes high-value areas while making inroads into rural markets. This, combined with their diversified services and asset-light model, has resulted in customer growth and improved financial performance.

Deliver Brilliant Customer Experience through an Omnichannel Approach and Extensive Use of Data Science: The company prioritizes exceptional customer experiences by revamping services with cutting-edge technology and digital tools. This creates a smooth and enjoyable user journey. Its strategy considers every touchpoint, emphasizing simplicity and efficiency throughout the entire customer experience cycle, from searching and discovering to purchasing, onboarding, and beyond. To measure success, it has shifted its focus to "interactions." Every interaction, be it on social media, web, app, call center, email, or in-store, is seen as an indicator of customer satisfaction. It has made significant structural changes to address customer needs, including architecture upgrades, process simplification and digitization for proactive solutions, and transparent communication. A platform-based approach streamlines key areas: Buy (consistent purchasing across channels), Bill (simplified, unified billing), Pay (intuitive payment options), and Serve (complaint resolution across channels). These platforms are accessible through all channels and supported by a central data layer. This omnichannel strategy allows customers to engage anytime, anywhere, and seamlessly switch between channels. These platforms not only enhance customer experience but have also led to a decrease in interaction volume. Additionally, physical stores offer another touchpoint for customer interaction.

Improve Its Cost Efficiencies: Airtel is taking a multi-pronged approach to improve profitability. Its "war-on-waste" program utilizes digital tools to eliminate unnecessary spending, optimize network efficiency, and reduce environmental impact. The company leverages data science for network expansion, ensuring optimal resource allocation without compromising service quality. This focus on cost efficiency extends to managing operating expenses and capital allocation across network upgrades. Airtel prioritizes green initiatives, like solar power in network sites, and climate-resilient infrastructure to minimize outages. To combat weather disruptions, the company developed a data-driven, AI-powered model that predicts and mitigates the effects of atmospheric ducting. This model optimizes network performance through automated actions like cell adjustments and load balancing. Prudent capital allocation remains a key focus, reflected in both spectrum and non-spectrum spending. Their 5G Plus service utilizes a non-standalone architecture on the acquired 3500 MHz band. This approach offers wider coverage at a lower cost by leveraging existing 4G infrastructures alongside 5G, resulting in lower capital expenditure, reduced environmental impact, and wider adoption globally. Additionally, Airtel aims for a healthy capital structure with flexible financing options. They manage borrowing costs through cost-effective financing structures, including repayment terms and a balance between fixed and floating-rate instruments. Their strong credit history, improved ratings, and conservative risk management practices enable access to cost-effective debt financing. Overall, these initiatives prioritize profitability while maintaining a strong financial position and commitment to environmental responsibility.

Risk factor

- The company derives its revenues from providing mobile telephone services in Rajasthan and the North East circle and any unfavourable developments in such regions could adversely affect its business, results of operations and financial condition.
- A large part of its passive infrastructure is not owned by the company and it relies on third party providers for such infrastructure.
- The company relies significantly on its information technology systems for its business and any inadequacy or security breach in such systems could adversely affect its business, financial condition and results of operations.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Bharti Airtel	148392.3	8401.0	20.9	59.2	8.8	140.4	5.0	1235.8	731484.2
Vodafone Idea	42508.4	-29982.7	0.0	0.0	-0.7	-18.7	10.0	13.3	64890.2
Bharti Hexacom Limited**	6953.30	483.70	9.67	58.92	6.45	88.32	5.00	570.00	28500.00

*Peer companies financials are TTM based

**Bharti Hexacom Limited financials are based on TTM

Valuation

Considering the P/E valuation on the upper price band of Rs.570, EPS and P/E based on TTM are Rs.9.67 and 58.92 multiple respectively and at a lower price band of Rs. 542, P/E multiple is 56.03. Looking at the P/B ratio on the upper price band of Rs.570, book value and P/B are Rs. 88.32 and 6.45 multiple respectively and at a lower price band of Rs. 542 P/B multiple is 6.14. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital.

Industry Outlook

The customer base in the Rajasthan circle is expected to grow at 1.4%-1.5% CAGR between Fiscals 2023 and 2028, to reach 69.0-69.5 million, with a teledensity of 82%-83%. By Fiscal 2028, the number of internet customers is projected to reach 62.5-63.0 million from 46.9 million in Fiscal 2023, clocking a CAGR of approximately 6.0%. The customer base in the Northeast circle is expected to grow at 1.0-1.5% CAGR between Fiscals 2023 and 2028, to 13.2-13.5 million, with teledensity at 81%-82%. By Fiscal 2028, internet customers in the Northeast are projected to reach 12.5-13.5 million, at a CAGR of 6.0%-7.0%.

Outlook

BHL is a "Airtel" group arm providing communications solutions in north east regions. The brand "Airtel" enjoys place in top five most valuable brands. In the recent three fiscal years and the nine months that ended on December 31, 2023, it has spent Rs.7103.30 crore on increasing its network coverage and infrastructure. It has continuously been able to grow its market share and average revenue per user (ARPU) in its circles as a consequence of these measures. However, the company derives its revenues from providing mobile telephone services in Rajasthan and the North East circle and any unfavourable developments in such regions could adversely affect its business, results of operations and financial condition. A long term investor may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	03-April-24
BID/ISSUE CLOSES ON	05-April-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	08-April-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	10-April-24
Credit of Equity Shares to Demat Accounts of Allottees	10-April-24
Commencement of trading of the Equity Shares on the Stock Exchanges	12-April-24

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Dec-23 (9 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Revenue from operations	5220.80	6579.00	5405.20
Total expenditure	2737.40	3793.30	3591.20
Operating Profit	2483.40	2785.70	1814.00
OPM%	47.57	42.34	33.56
Other Income	200.00	140.20	88.80
Total Net Income	2683.40	2925.90	1902.80
Interest	478.70	638.80	571.80
PBDT	2204.70	2287.10	1331.00
Depreciation	1279.40	1553.30	1441.00
Re-stated Profit / (Loss) before exceptional items and tax	925.30	733.80	-110.00
Exceptional items (net)	303.00	0.00	-1951.10
Re-stated Profit / (Loss) before tax	622.30	733.80	1841.10
Tax	340.50	184.60	166.50
PAT	281.80	549.20	1674.60

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Dec-23	As on 31-Mar-23	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	4263.20	4070.80	3840.00
Capital work-in-progress	1057.10	456.30	64.10
Right-of-use assets	2806.60	2639.00	1632.40
Intangible assets	4198.20	4464.30	4761.20
Intangible assets under development	1549.00	1479.70	0.00
Financial assets			
- Investments	0.00	0.00	0.00
Other financial assets	479.40	529.00	446.30
Income tax assets (net)	203.80	324.90	305.20
Deferred tax assets (net)	808.90	762.90	947.40
Other non-current assets	510.60	628.40	655.40
Total non-current assets	15876.80	15355.30	12652.00
Current asset			
Financial Assets			
- Investments	1835.80	1046.00	49.00
- Trade receivables	231.60	148.90	2095.80
. Cash and cash equivalents	24.70	55.50	88.50
. Other bank balances	34.20	33.20	32.40
- Other financial assets	974.30	911.90	878.70
Other current assets	625.60	702.10	877.90
Total current assets	3726.20	2897.60	4022.30
Total Assets	19603.00	18252.90	16674.30
Non-current liabilities			
-- Borrowings	2692.30	4729.90	4807.80
- Lease liabilities	2763.50	2545.10	1530.30
- Other financial liabilities	78.70	0.00	0.30
Deferred revenue	634.80	602.90	474.60
Provisions	22.40	23.40	21.80
Total Non- Financial liabilities	6191.70	7901.30	6834.80
Financial Liabilities			
Borrowings	3560.70	1539.40	2390.50
Lease Liability	415.70	389.20	339.80
Trades Payable - MSME	5.60	2.60	2.00
Trades Payable - MESE	1629.10	1438.00	1493.20
Other financial liabilities	1001.20	1026.10	376.00
Deferred revenue	495.50	474.90	416.60
Provisions	1174.60	1103.20	1025.60
Current tax liabilities (net)	620.80	62.40	62.40
Other Current liabilities	92.00	106.30	72.90
Total Financial liabilities	8995.20	6142.10	6179.00
Total	15186.90	14043.40	13013.80
Net worth represented by:			
Equity Share Capital	250.00	250.00	250.00
Other equity	4166.10	3959.50	3410.50
Net Worth	4416.10	4209.50	3660.50

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★★
EXCELLENT	★★★★★

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