

IPO Note: Bharti Hexacom Ltd.

Industry: Telecom

Date: April 02, 2024

Issue Snapshot		Issue Break up		
Company Name	Bharti Hexacom Ltd.	QIB ex Anchor	30%	2,25,00,000
Issue Opens	April 03, 2024 to April 05, 2024	Anchor Investor	45%	3,37,50,000
Price Band	Rs. 542 to Rs. 570	HNI<Rs. 10 Lakhs	5%	37,50,000
Bid Lot	26 Equity Shares and in multiples thereof.	HNI>Rs. 10 Lakhs	10%	75,00,000
The Offer	Public issue of 7,50,00,000 Equity shares of Face value Rs. 5 each, (Comprising of OFS).	RII	10%	75,00,000
Issue Size	Rs. 4275.0 Crore	Total Public	100%	7,50,00,000
IPO Process	100% Book Building			
Face Value	Rs. 5.00	Equity Share Pre Issue (Nos. Cr.)		50.0
Exchanges	NSE & BSE	OFS Share (Nos. Cr.)		7.5
BRLM	SBI Capital Markets Ltd., Axis Capital Ltd., BOB Capital Markets Ltd., ICICI Securities Ltd., IIFL Securities Ltd.	Equity Share Post Issue (Nos. Cr.)		50.0
Registrar	Kfin Technologies Ltd.	Market Cap (Rs. Cr.)		28,500.0
		Stake Sale by OFS		15.0%

Objects of the Offer

Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling Shareholder. (up to 75,000,000 Equity Shares By Telecommunications Consultants India Limited)

Company Highlights

- Bharti Hexacom Ltd. (BHL) 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. The company offers its services under the brand 'Airtel'. It has a distinct strategy to premiumise portfolio by acquiring and retaining quality customers and deliver an experience to them through its Omni channel approach and use of data science.
- The company has a gamut of digital offerings to enhance customer engagement and differentiated customized offerings through family and converged plans under Airtel Black proposition, which has resulted in the continuous improvement of its revenue market share during the last three Fiscals. BHL undertakes prudent cost optimization measures to improve profitability and maintain an efficient capital structure with a comfortable leverage position. The company continuously invests in network expansion, technology advancement and judicious spectrum investments. As of December 31, 2023, BHL had invested Rs. 206 billion in capital expenditure in its future ready digital infrastructure. It also derives significant synergies from its relationship with Promoter, Airtel, through the expansive digital infrastructure, digital experience and the digital services it provides to its customers.
- As of December 31, 2023, BHL were present in 486 census towns and had an aggregate of 27.1 million customers across both the circles. Its 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. (Source: CRISIL Report). It has 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. (Source: CRISIL Report). 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 data consumption per customer per month stood at approximately 23.1 GB during the nine months ended December 31, 2023.
- The company relies on a robust network infrastructure with a mix of owned and leased assets. As of December 31, 2023, it utilized 24,874 network towers, of which the company owned 5,092 towers, and the remaining 19,782 towers were leased from tower companies. It has 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. (Source: CRISIL Report). This has enabled BHL 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.

- The company has an extensive distribution and service network across the regions it operates in and during the nine months ended December 31, 2023 and the last three Fiscals, it has set up 51 retail outlets and 24 small format stores to reach 90 cities, as of December 31, 2023. As of the said date, its distribution network comprised 616 distributors and 89,454 retail touchpoints.

View

- BHL'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 9MFY24, 9MFY23, FY23, FY22 and FY21, respectively. The company is the number one position in the North East circle during the 9MFY24, FY23 and FY22. In the Rajasthan circle, the market share gap between the company and the market leader has narrowed between FY21 - 9MFY24 and now stood at the second position during 9MFY24. As of 9MFY24, the company has presence in 486 census towns and has an aggregate of 2.7 cr customers across both circles. The customer market share has grown consistently in Rajasthan from 33.1% to 35.0% from FY21 to 9MFY24 and in the North East from 43.6% to 49.8% between the same period. The customer base included 19.14 mn data customers, of which 18.83 mn were 4G and 5G customers, and data consumption per customer per month stood at approximately 23.1 GB during 9MFY24.
- The company operates in the Rajasthan and North-East telecommunication circles in India. As per the CRISIL Report, Rajasthan had 67.0mn telecom customers contributing 5.6% to overall India telecom customers, while the North-East had 12.7mn customers, contributing 1.1% to overall India telecom customers in 9MFY24. Rajasthan's customer base is expected to grow at 1.4% to 1.5% between FY23-28 reaching 69-69.5 mn with a teledensity of ~82% while North-East is expected to grow at 1.0% to 1.5% reaching 13.2-13.5 mn customers with a teledensity of 81- 82%. Further, the gross revenue of the Rajasthan circle was ~ Rs. 127.6bn in FY23 and is expected to reach Rs. 183-185bn in FY28, while the gross revenue of the North- East circle was ~ Rs. 29.6bn in FY23 and is expected to reach Rs. 39 - 41bn.
- 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 FY19-23. These two regions are expected to see improvement in teledensity and adoption of smartphones in rural areas through investments in network infrastructure, growth in digital payments, rise in data consumption and growth in demand for e-education.
- BHL relies on a robust network infrastructure with 24,874 network towers, of which 5,092 are owned and 19,782 are leased. The company a spectrum portfolio with mid-band spectrum (1800/2100/2300 MHz bands) enabling 5G Plus services on the widely chosen non-standalone network architecture and at a low cost of ownership, resulting in significant capital savings. During the 9MFY24, 9MFY23, FY23, FY22 and FY21 capital expenditure was Rs 1,600.3 cr, Rs 2,557.7 cr, Rs 3,051.8 cr, Rs 874.5 cr and Rs 1,576.7 cr, or 30.7%, 52.8%, 46.4%, 16.2% and 34.3% of the revenue from operations, respectively.
- BHL has an extensive distribution and service network across the regions the company operates in. During 9MFY24, FY23, FY22 and FY21 the company has set up 51 retail outlets and 24 small format stores to reach 90 cities, as of Dec'23. As of 9MFY24, the distribution network comprised 616 distributors and 89,454 retail touchpoints.
- Hexacom continues to expand its network coverage across the regions in which the company operates with a focus on key revenue generating cities and high-value catchment areas to increase its customer base and enhance customer experience. Between March 31, 2021, and December 31, 2023, the company has increased its coverage in non-census towns and villages from 63,368 to 66,632, its population coverage from 94.2% to 96.0%, its network towers from 17,188 to 24,874 (of which the company owned 5,092 towers and leased the remaining 19,782 from tower companies), and its total mobile broadband base stations from 56,510 to 77,735. The expansion of the company's rural coverage has won it a share of 4G/5G customers, which is partially reflected in the increase in its 4G/5G data customers from 13,348 thousand as of FY21, to 18,839 thousand as of 9MFY24. During the 9MFY24 and the last three Fiscals, the company has incurred Rs. 71,033 million on expanding its network coverage and infrastructure. As a result of such initiatives, Hexacom has been able to consistently increase its ARPU and market share in its circles.
- The company recorded an increase in its revenue from Rs 4602 crore in FY21 to Rs 6579 crore in FY23 at a CAGR of 19.6%. EBITDA has increased by 62.7% CAGR from FY21 to FY23 while EBITDA Margin increased from 22.9% in FY21 to 42.3% in FY23. Net Profit has turned positive at Rs. 549 crore in FY23 against a loss of Rs. 1034 crore in FY21. For 9MFY24, sales were up by 7.7% to Rs 5220.8 crore. The OPM increased 598 bps to 47.6%, leading to a 23.2% increase in operating profit to Rs 2483.4 crore. Net profit declined by 18.9% to Rs 281.8 crore.
- In terms of the valuations, on the higher price band, BHL demands P/E multiple of 75.9x based on 9MFY24 post issue fully diluted EPS and EV/EDITDA of 10.5x based on 9MFY24 post issue fully diluted EBITDA.

Revenue from Operations - Business Vertical

	FY21		FY22		FY23		9MFY23		9MFY24	
	Amount (Rs. Cr.)	% to Total								
Mobile Services	4,530.0	98.4	5,297.6	98.0	6,424.7	97.7	4,735.4	97.7	5,069.6	97.1
Home & Office Services	72.3	1.6	107.6	2.0	154.3	2.3	111.1	2.3	151.2	2.9
Revenue from operations	4,602.3	100.0	5,405.2	100.0	6,579.0	100.0	4,846.5	100.0	5,220.8	100.0

Areas of Operation

(In Rs. Cr)	FY21	FY22	FY23	9MFY23	9MFY24
Revenue Market Share					
Rajasthan	32.7%	36.7%	39.5%	39.2%	40.4%
North-East	42.0%	48.5%	52.5%	52.4%	52.7%
Customer Market Share					
Rajasthan	33.1%	34.5%	35.3%	34.8%	35.0%
North-East	43.6%	47.2%	48.0%	48.1%	49.8%

Operational Metrics

(In Rs. Cr)		FY21	FY22	FY23	9MFY23	9MFY24
Mobile Services						
Customer base	000's	24,979	24,767	25,827	25,479	26,782
Net additions	000's	2,159	-212	1,060	712	955
Post-paid base	000's	668	673	706	680	827
Monthly churn	%	1.80%	2.70%	2.70%	2.80%	2.50%
ARPU	₹	135	155	185	184	197
ARPU	US\$	1.8	2.1	2.3	2.3	2.4
Revenue per tower per month	₹	1,97,751	2,14,169	2,32,448	2,32,878	2,22,958
Voice						
Minutes on the network	million	2,59,566	2,97,114	3,21,744	2,37,484	2,60,674
Voice usage per customer per month	minutes	927	1,002	1,065	1,055	1,099
Data						
Data customer base	000's	13,888	15,382	17,333	16,620	19,144
4G/5G data customers	000's	13,348	15,027	17,006	16,288	18,839
As % of customer base	%	55.60%	62.10%	67.10%	65.20%	71.50%
Total GBs on the network	million GB	2,455	3,498	4,252	3,114	3,719
Data usage per customer per month	GB	16.8	20	21.8	21.6	23.1
Network and Coverage						
Mobile Services						
Census towns	number	486	486	486	486	486
Non-census towns and villages	number	63,368	63,954	65,347	65,143	66,632
Population coverage	%	94.20%	95.00%	95.50%	95.50%	96.00%
Network towers	number	17,188	18,786	21,672	20,753	24,874
Total mobile broadband base stations	number	56,510	61,181	70,057	67,824	77,735
Homes Services						
Cities covered	number	23	54	87	82	90
Homes customers	000's	70	131	219	198	289
Net additions	000's	32	61	88	67	70
ARPU	₹	774	683	598	610	544
ARPU	US\$	10.4	9.2	7.4	7.6	6.6

Financial Statement

(In Rs. Cr)	FY21	FY22	FY23	9MFY23	9MFY24
Share Capital	250.0	250.0	250.0	250.0	250.0
Net Worth	1986.0	3660.5	4209.5	4007.5	4416.1
Long Term Borrowings	3692.6	4807.8	4729.9	6064.9	2692.3
Other Long Term Liabilities	1836.2	2027.0	3171.4	3021.6	3499.4
Short-term borrowings	2282.6	2390.5	1539.4	284.9	3560.7
Other Current Liabilities	5206.1	3788.5	4602.7	4555.0	5434.5
Fixed Assets	10374.4	10297.7	13110.1	12727.2	13874.1
Non Current Assets	12984.0	2354.3	2245.2	2345.7	2002.7
Current Assets	2019.5	4022.3	2897.6	2861.0	3726.2
Total Assets	15003.5	16674.3	18252.9	17933.9	19603.0
Revenue from Operations	4602.3	5405.2	6579.0	4846.5	5220.8
Revenue Growth (%)		17.4	21.7		7.7
EBITDA	1052.4	1814.0	2785.7	2015.7	2483.4
EBITDA Margin (%)	22.9	33.6	42.3	41.6	47.6
Net Profit	(1033.9)	1674.6	549.2	347.3	281.8
Net Profit Margin (%)	(22.5)	31.0	8.3	7.2	5.4
Earnings Per Share (Rs.)	(20.7)	33.5	11.0	7.0	5.6
Return on Networth (%)	(54.5)	46.9	13.8	8.9	7.1
Net Asset Value per Share (Rs.)	39.7	73.2	84.2	80.2	88.3

Source: RHP, Ashika Research

Cash Flow Statement

(In Rs. Cr)	FY21	FY22	FY23	9MFY23	9MFY24
Cash flow from Operations Activities	1517.2	1258.0	5108.4	4353.0	2930.3
Cash flow from Investing Activities	(882.5)	(1382.5)	(2030.9)	(1700.9)	(2275.6)
Cash flow from Financing Activities	(604.2)	183.1	(3111.4)	(2704.7)	(682.4)
Net increase/(decrease) in cash and cash equivalents	30.5	58.6	(33.9)	(52.6)	(27.7)
Cash and cash equivalents at the beginning of the year	(2.8)	27.7	86.3	86.3	52.4
Cash and cash equivalents at the end of the year	27.7	86.3	52.4	33.7	24.7

Source: RHP

Comparison with Listed Industry Peers

Co Name	Net Sales (Rs. Cr.)	OPM (%)	D/E (x)	ROCE (%)	RONW (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)	MCap/Sales (x)	Market Cap (Rs. Cr.)
Bharti Hexacom Ltd.	6579.0	42.3	1.4	23.0	13.0	75.9	6.4	10.5	2.7	28500.0
Bharti Airtel Ltd.	139144.8	51.9	2.1	16.2	17.1	88.2	9.1	11.2	5.0	740622.0
Vodafone Idea Ltd.	42177.2	40.6	-2.7	-4.6	0.0	0.0	-0.7	15.6	1.5	64841.5

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