



Bharti Hexacom Limited provides fixed-line telephone and broadband services to customers in Rajasthan and North East telecom circles in India. The company's top line increased at a CAGR of 19.5% from FY 21. The company's ARPU for mobile services have increased by 18% which is better than peers. The company's return ratios are also better. For FY23, ROE and ROCE are 13.00% and 10.50%, respectively. For FY23, the EBIDTA and PAT margins are to be 43.90% and 8.2%, respectively which is in line with peers. The company's P/E is valued at 51.91x for FY23 and annualized P/E for FY2024 stands at 75.80x which is in line with peers. We recommend to subscribe for listing gains.



## About Company

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 ₹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.

## Issue details

Price Band (in ₹ per share)	542-570
Issue size (in ₹ Crore)	4065-4275
Fresh Issue (in ₹ Crore)	NIL
OFS (in ₹ Crore)	4065-4275
Issue open date	03-04-2024
Issue close date	05-04-2024
Tentative date of Allotment	08-04-2024
Tentative date of Listing	12-04-2024
Total number of shares (lakhs)	750.00
No. of shares for QIBs (75%) (lakhs)	562.50
No. of shares for NII (15%) (lakhs)	112.50
No. of shares for S-HNI (1/3rd)	37.13
No. of shares for B-HNI (2/3rd)	75.38
No. of shares for retail investors (10%) (lakhs)	75.00
Minimum order quantity	26 Lot
Face value (in ₹)	5.00
Amount for retail investors (1 lot)	14092-14820
Maximum number of shares for Retail investors at lower Band	364 (14 Lots)
Maximum number of shares for Retail investors at upper band	338 (13 Lots)
Maximum amount for retail investors at lower Band- upper band	197288-192660
Minimum number of shares for sHNI (2 Lakhs) at upper band	364 (14 Lots)
Maximum number of shares for sHNI (10 Lakhs) at upper band	1742 ( 67 Lots)
Minimum number of shares for bHNI at upper band	1768 (68 Lots)
Shareholder Reservation (in lakhs)	NIL
Exchanges to be listed on	BSE, NSE

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## Promoters

- BHARTI AIRTEL LIMITED

## Objective of the Offer

- Offer for sale of 75000000 equity shares by the promoter
- Achieve the benefits of listing the Equity Shares on the Stock Exchanges

**Brief Financials**

PARTICULARS (Rs. Cr)*	December 23	FY23	FY22	FY21
Share Capital	250.00	250.00	250.00	250.00
Net Worth	3978.80	3972.20	3573.20	1898.70
Revenue	5420.80	6719.20	5494.00	4704.30
Profit/(Loss) After Tax	281.80	549.2	1674.6	(1033.90)
EPS (in Rs)	7.52^	10.98	33.49	(20.68)
Net Asset Value (Rs)	88.32	84.19	73.21	39.72
P/E	75.80	51.91	NA	NA
P/B	6.45	6.77	NA	NA

Source: #calculated at upper price band \* Restated consolidated financials ^annualised EPS

**Industry Review****An overview of global macroeconomic conditions****Review and outlook of economic and inflation trends in key countries**

India's economic growth is also being supported by investments in the telecommunications sector. Between Fiscals 2017 and 2024, the government's budget allocation towards the Department of Telecommunications (DoT) logged a CAGR of 22.3%, led by higher allocation towards the Universal Service Obligation Fund (USOF) and DoT projects, which include allocation towards domestic industry incentivisation schemes (such as PLI) and wireless planning and coordination. For Fiscal 2024, ₹ 975.8 billion was allocated to the telecommunication ministry, which is approximately 2% of the overall budget and up 19% year-on-year. Of this, ₹ 530.0 billion was capital infusion in BSNL.

**Digital payments growing at rapid pace:**

Rapid digital transformation has been fundamentally reshaping the Indian economy. At the crux of this advancement is the Digital India initiative launched by the government in July 2015 to transform the country into a knowledge-based economy and a digitally-empowered society. Encapsulating the vision of digital infrastructure as a core utility for citizens, governance and services on demand, and digital empowerment of citizens, the initiative has deepened digitalisation in rural areas, fuelling the digital economy. Fast and dependable mobile communication networks are helping the government achieve Digital India's targets. Technological upgrades have facilitated essential digital services such as the Unified Payment Interface (UPI)/digital payments and incorporated several e-governance services in government-to-business (G2B) and government-to-citizen (G2C) applications, leading to citizen empowerment.

**Overview of the global telecom industry**

A consolidated industry, driven by economies of scale

The telecom industry is capital intensive and highly competitive. Players undertake mergers and acquisitions (M&As) to not only survive but also upgrade technologically, expand the customer base and widen product diversification. Acquisitions in the sector primarily involve horizontal integration as the companies aim to gain competitive advantage by acquiring competitors. Fewer market players lead to economies of scale and reduction in the overlapping infrastructure. This lowers operational expenses and allows more efficient use of capital investments. In most key countries, 2-5 telecom companies dominate the sector.



### Industry Review

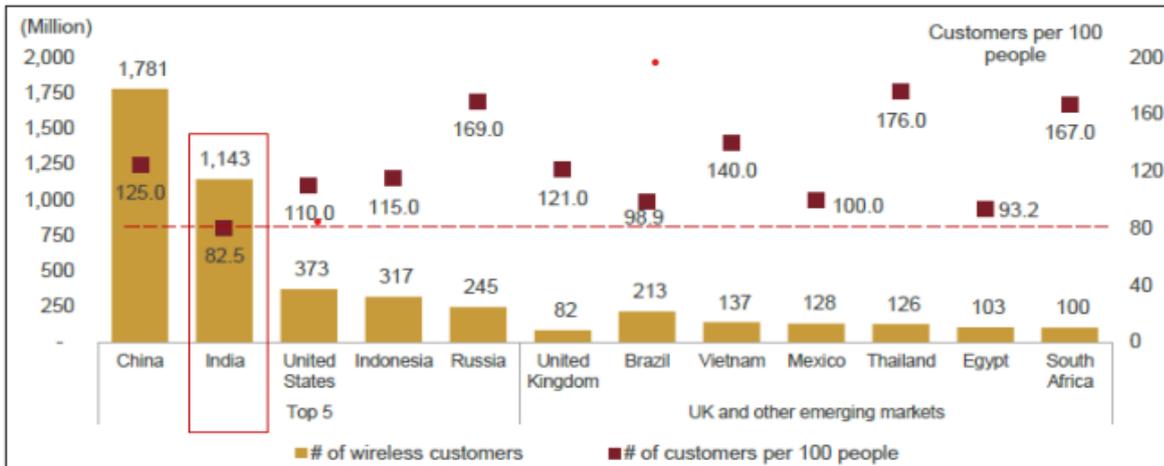
Countries	Top telecom companies
Brazil	Claro, Telefônica, TIM
China	China Mobile, China Telecom, China Unicom
France	Orange, SFR, Bouygues Telecom, Free Mobile
Germany	Deutsche Telekom, Vodafone, O2 Telefónica
Japan	NTT DOCOMO, KDDI Corp, Softbank Corp, Rakuten Inc
Hong Kong	China Mobile Hong Kong, Hong Kong Telecommunications, SmarTone Mobile, Hutchison Telephone, 21 ViaNet
India	Bharti Airtel, Reliance Jio, Vodafone Idea, BSNL, MTNL
Spain	Vodafone Spain, Orange Spain, Movistar Telefónica, Yoiga
United States	Verizon, AT&T, T-Mobile
Middle East	Emirates Telecommunications Corporation, Emirates Integrated Telecommunications Company PJSC, Saudi Telecommunication Company (STC), Etihad Etisalat (Mobily), Zain

Source: Secondary research, CRISIL MI&A

### China and India are the top two telecom markets by customer base

China is the largest telecom market, with 1,781 million wireless customers as of 2022. India follows with 1,143 million wireless customers as of 2022. India has emerged as one of the five fastest-growing wireless telecom markets, with its customer base clocking 2.9% CAGR between calendar years 2013 and 2022. However, at 82.6 as of 2022, India’s wireless customers per 100 people is the lowest among the top five wireless markets as well as among emerging markets, indicating potential for further growth.

Mobile telecom customers – India is among the largest telecom markets



Source: International Telecommunication Union (ITU), CRISIL MI&A

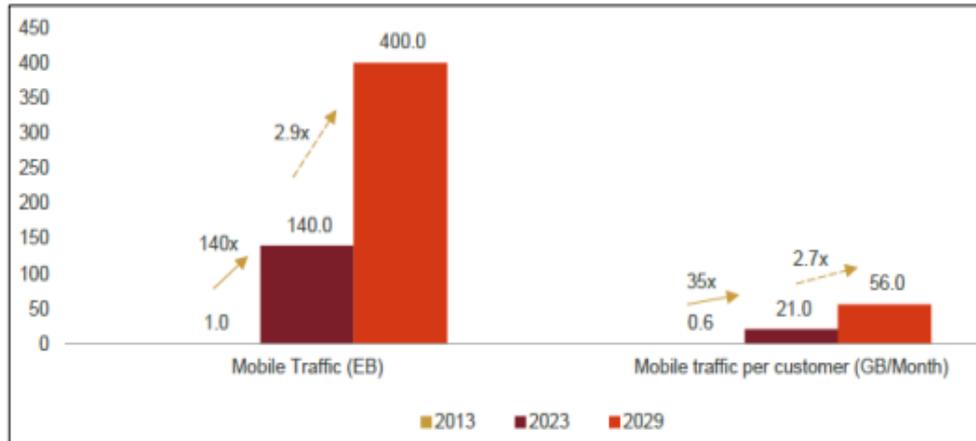
### Mobile data traffic has increased exponentially in the last 10 years

Growth in the digital economy has encouraged people to rely more on digital applications for commonplace activities, leading to rise in mobile users and data consumption. Overall mobile customers' growth has been in the range of 2-4% CAGR across regions during the last ten years. However, growth was higher during the pandemic. Global mobile traffic per customer increased from 0.6 GB/customer/month in 2013 to 21.0 GB/customer/month in 2023, logging 35x growth in data consumption. The Ericsson Mobility Report estimates an increase of 140x in mobile traffic over the past decade as global mobile data traffic increased from 1 exabyte (EB)/month in 2013 to 140+ EB/month in 2023. Factors driving data traffic growth in mobile networks include ever-increasing demand for online digital services, 4G/5G deployment across telecom markets, increased network capacity with new generation of mobile technology, improved quality of experience and affordable plans. In 2023, approximately 73% of the downlink data was consumed for digital video content across platforms. Global mobile data traffic is expected to cross 400 EB/month by 2029, as per the Ericsson Mobility Report 2023. Long-term data traffic growth is driven by rise in smartphone customers and increasing average data consumption per customer, which are fuelled by increased viewing of video and over-the-top (OTT) content, video calling, usage of cloud storage, e-commerce shopping, social media and app consumption, digital financial transactions and e-learning



## Industry Review

### Global mobile data consumption growth

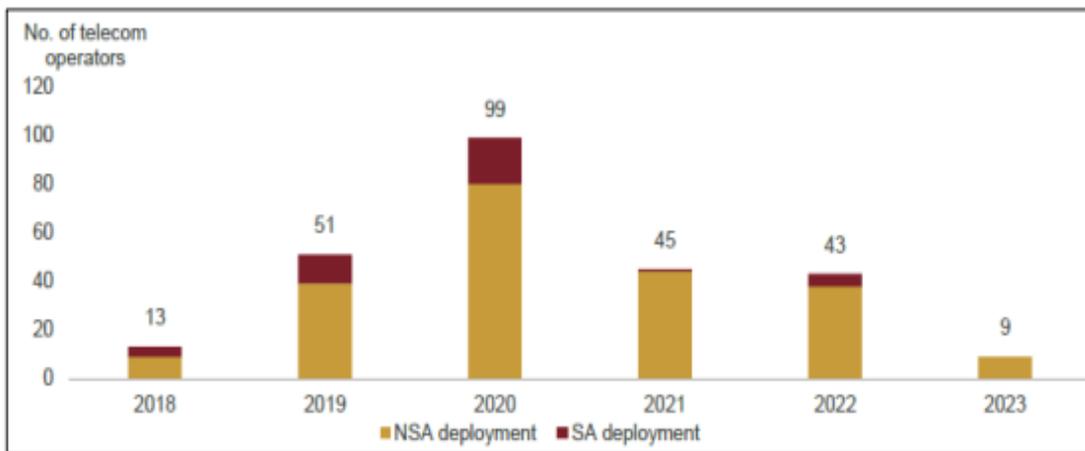


Source: Ericsson Mobility Report 2023, CRISIL MI&A

### Heading towards 5G

The digital world is moving towards 5G data. After the rollout of 4G services in 2010, many global markets have transitioned to 5G services starting 2019, with the total number of operators with active commercial 5G services at 249 across 97 markets as of August 2023. For 5G services, telecom companies have two deployment options — non-standalone (NSA) and standalone (SA). NSA has been the widely chosen network architecture, as approximately 85%, of telecom operators worldwide initiated 5G deployment based on the NSA architecture. However, in select markets such as the US and China, operators are exploring and transitioning to SA. As of June 2023, at least 57 operators in 33 markets worldwide have activated 5G SA networks according to S&P Global Market Intelligence 5G tracker. Other markets, though, are yet to follow, as 5G adoption is limited to few applications. Nevertheless, 5G is still in an infancy stage in terms of monetisation and maturity of use cases.

### 5G deployment – NSA and SA



Source: News articles, company filings, CRISIL MI&A

### Global telecom industry leveraging on 5G to carve out new revenue streams

The mobile telecom industry is now a key cog of businesses following the proliferation of internet of things (IoT) and smart devices. In fact, advances in mobile technologies such as 5G and edge computing will only deepen this link, driving new applications in automotive connectivity and solutions by enterprises, as well as in the consumer retail and financial sectors. Higher bandwidth and gigabit-speed networks have prompted significant changes and introduced opportunities for operators to effectively position their mobile business, even though demand for 5G remains nascent. Operators are, in fact, leveraging 5G to carve out new revenue streams. Private 5G networks, network slicing and edge computing are some of the new technologies enabling this transition. On the demand front, realisation of 5G use cases is expected over time. Voice over long-term evolution, for instance, took almost five years after the commercialisation of 4G — even 10 years in some international markets.



## Competitive Strengths

### Established Leadership and Large Customer Base

They 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 September 30, 2023, they were present in 486 census towns and had an aggregate of 29.1 million customers. (Source: CRISIL Report) As of the same date, their customer base included 18,592 thousand data customers, of which 18,270 thousand were 4G and 5G customers, and their customers consumed approximately 22.8 GB of data per customer per month during the six months ended September 30, 2023.

### Presence in Markets with High Growth Potential

They operate in the Rajasthan and North East telecommunication circles in India. According to the CRISIL Report, Rajasthan had 66.4 million telecom customers contributing 5.6% to overall India telecom customers, while the North East had 12.6 million customers, contributing 1.1% to overall India telecom customers in the first half of Fiscal 2024. The industry ARPU for wireless services in the Rajasthan circle grew from ₹68 to ₹145 at a CAGR of 20.8%, while in the North East circle it grew from ₹74 to ₹170 at a CAGR of 23.1%, outperforming the national ARPU growth from ₹71 to ₹142 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. (Source: CRISIL Report) They believe that their established leadership position in these circles may place them well to capitalize on growth opportunities.

### Strong Parentage and Established Brand

Airtel owns 70% of their 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 six months ended September 30, 2023 and Fiscal 2023, Airtel had a revenue market share in India of 37.1% and 36.1%, respectively, and as of September 30, 2023, it had 377.8 million mobile customers representing a customer market share of 32.8%. Airtel has a net debt to EBITDA of 2.6 on a consolidated basis, as of September 30, 2023. It has a strong financial risk profile aided by strong debt protection metrics and financial flexibilities as per CRISIL's rating rationale and is rated AA+ by CRISIL Ratings as of July 2023. Airtel is a blue chip company listed on the Indian stock exchanges and had a market capitalization of ₹6.4 trillion (including its partly paid shares), as of January 15, 2024. service center's, and pre-owned vehicles showrooms and sales outlets as of December 31, 2023

### Building a Future Ready Network

They rely on a robust network infrastructure through owned and leased assets. They benefit from the telecommunication infrastructure and other digital assets of their Promoter, Airtel and its investment in Indus Towers. Over the years, they have increased use of digital tools, data science and technology to enhance the network efficiency, optimise costs and make their networks more environment friendly. As of September 30, 2023, they were present in 486 census towns in the two circles in which They operate with owned and leased 23,748 network towers. During the six months ended September 30, 2023, their customers spent 173,994 million minutes and consumed 2,415 million gigabytes on their network. They 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, they have followed prudent capital allocation and spectrum acquisition and They chose not to acquire the expensive 700 Mhz band for their 5G network. None of their existing spectrum expires before the year 2030, the validity of their spectrum pool ranges between the years 2030 and 2042 and They do not expect to incur any significant capital expenditure towards spectrum acquisition until the specific spectrum band expires.

### Extensive Distribution and Service Network

They have an extensive sales and distribution network across the rural and urban areas of the Rajasthan and North East circles serviced by 617 distributors and 59 stores operated by them, as of September 30, 2023. Their distribution partners are digitally empowered to sell Airtel services through the 'Mitra' app, which has been licensed to them by one of Airtel's affiliates, and which facilitates mobile recharge transactions between distributors and retailers and supports onboarding of new customers. They believe that their exclusive retail footprint comprising 88,586 retail touchpoints, as of September 30, 2023, is one of the key differentiators, including for supporting high value customers and providing them superior experience. their exclusive retail footprint is an integral part of their customer acquisition and engagement strategy, designed to bring the Airtel brand closer to customers. As of September 30, 2023, they had setup 8 small format low-cost stores, in addition to the 51 large format stores in their two circles to deepen their retail presence and primarily drive the sale of their post-paid, homes broadband and international roaming services.



## Risk Factors

### Geographical concentration risk

Any adverse developments in the circles They operate in may impact them disproportionately compared to competitors with pan-India operations, owing to their revenue concentration in these regions. The North East circle, in particular, requires extensive network infrastructure to access remote areas. Operations in the North East also require them to set up network infrastructure in difficult terrains and harsh weather conditions may affect their operations. They may also need to incur additional capital expenditure to set up and replace their infrastructure in remote regions, in addition to higher logistics costs.

### Outstanding legal proceedings against company

There are outstanding legal and regulatory proceedings involving their Company and Promoter which are pending at different levels of adjudication before various courts, tribunals and other authorities. Such proceedings could divert the management's time and attention and consume financial resources in their defence or prosecution. The amounts claimed in these proceedings have been disclosed to the extent that such amounts are ascertainable and quantifiable and include amounts claimed jointly and severally, as applicable. Any unfavourable decision in connection with such proceedings, individually or in the aggregate, could adversely affect their reputation, business, financial condition and results of operations

### Risk of highly regulated market

The telecommunications business in India is subject to governmental regulation regarding licensing, competition, frequency allocation, costs and arrangements pertaining to interconnection and leased lines. Changes in laws, regulations or governmental policy, or failure to comply therewith, could result in penalties or sanctions, affecting their business activities, which could adversely affect their business, financial condition and results of operations.

### Dependence on limited number of vendor to supply critical network and equipment

Their principal vendors and suppliers provide network equipment and related services and site infrastructure for their operations. While They have supply and services agreements with key suppliers and vendors, they cannot assure you that They will be able to obtain satisfactory equipment and services as per their expectations. If their contractual arrangements with such vendors expire or terminate, or if They fail to receive the quality of equipment and maintenance services that They require, or if their key suppliers discontinue the supply of such equipment and services due to withdrawal from the Indian mobile telecommunications market or otherwise, they may find it difficult to replace a vendor on a timely basis. Certain contracts may also contain caps on the liability/indemnification obligations and They may be unable to recover sufficient amounts from such suppliers for any breach or noncompliance under the agreements.



### Peer Comparison

Name of the company	Total Revenue (in Rs Cr)	EPS (in Rs)	Return on Net Worth (%)	NAV(Per share Rs)	P/E	P/B
Bharti Hexacom Limited	6579.0	10.98	13.83	84.19	51.91	6.77
Bharti Airtel Limited	139144.8	14.8	15.84	136.72	83.01	8.98
Vodafone Idea Limited	42177.2	-8.43	NA	-15.28	NA	NA
Reliance Jio Infocomm Limited	90786.0	4.05	8.43	48.00	NA	NA

\*P/E Ratio and P/B has been computed based on the closing market price of equity shares on the website of NSE as of March 28, 2024



## Our View

Bharti Hexacom Limited provides fixed-line telephone and broadband services to customers in Rajasthan and North East telecom circles in India. The company's top line increased at a CAGR of 19.5% from FY 21. The company's ARPU for mobile services have increased by 18% which is better than peers. The company's return ratios are also better. For FY23, ROE and ROCE are 13.00% and 10.50%, respectively. For FY23, the EBIDTA and PAT margins are to be 43.90% and 8.2%, respectively which is in line with peers. The company's P/E is valued at 51.91x for FY23 and annualized P/E for FY2024 stands at 75.80x which is in line with peers. We recommend to subscribe for listing gains.



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