

Bharti Hexacom Limited

March 29, 2024



Bharti Hexacom Ltd., a subsidiary business of Bharti Airtel Ltd. 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. Hexacom offers its services under the brand 'Airtel'. Hexacom'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 and FY23, FY22, FY23, FY22, and FY21, respectively.

Investment Rationale:

Established leadership and large Customer Base in its area of operations:

- The company was at number one position in the North East circle during 9MFY24, and FY23, FY22, FY21, respectively. In the Rajasthan circle, the market share gap between Hexacom and the market leader has narrowed between FY21 and the 9MFY24.
- As of 9MFY24, Hexacom was present in 486 census towns and had an aggregate of 27.1 million customers across both the circles. The customer market share has grown consistently in Rajasthan from 33.1% as of FY21, to 35% as of 9MFY24, and in the North East from 43.6% to 49.8% between the same period. Hexacom 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.
- As of the same date, the 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 9MFY24.

Presence in Markets with High Growth Potential:

- Rajasthan's customer base is expected to grow at 1.4% to 1.5% between FY23 and FY28, reaching 69 million to 69.5 million with a teledensity of 82% to 83% following pan-India trends with rising rural teledensity. Wireless customers are expected to account for approximately 98.5% of the customers by FY28.
- The gross revenue of the Rajasthan circle was approximately INR 127.6 billion in FY23 growing at CAGR of 4.4% between FY14 and FY23. However, its revenue grew robustly at 17% in FY23 in line with the national trend, and the industry is expected to grow at 7% to 8% between FY23 and FY28 to reach INR 183 to 185 billion. The customer base in the North East is expected to grow at 1% to 1.5% between FY23 and FY28, reaching 13.2 to 13.5 million with a teledensity of 81 to 82%.
- Wireless customers are expected to account for approximately 98% of the customers as of FY28. The North East circle telecom industry will grow at ~6% to 7% between FY23 and FY28 to reach INR 39 to 41 billion, supported by rising teledensity, higher internet penetration, and a potential increase in ARPU in the region. The industry ARPU for wireless services in the Rajasthan circle grew from INR 68 to INR 145 at a CAGR of 20.8%, while in the North East circle it grew from INR 74 to INR 170 at a CAGR of 23.1%, outperforming the national ARPU growth from INR 71 to INR 142.3 at a CAGR of 19.0%, between FY19 and FY23.

Expanding Network Coverage:

- 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.
- During the 9MFY24 and the last three Fiscals, the company has incurred INR 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.

Valuation and Outlook: The customer base in the Rajasthan circle is expected to grow at 1.4%-1.5% CAGR between FY23 and FY28, to reach 69-69.5 million, with a teledensity of 82%-83%. By FY28, the number of internet customers is projected to reach 62.5-63 million from 46.9 million in FY23, clocking ~6% CAGR. The customer base in the Northeast circle will grow at ~1-1.5% CAGR between FY23 and FY28, to 13.2-13.5 million, with teledensity at 81%-82%. By FY28, internet customers in the Northeast will reach ~12.5-13.5 million, at a CAGR of 6%-7%. The company has 35% and 49.8% market share in Rajasthan and North East respectively. During the 9MFY24 and the last three Fiscals, the company has incurred INR 71,033 million on expanding its network coverage and infrastructure. While Bharti Hexacom is maintaining competitive pricing with its peers, the company's fibre asset less business model which is helping the company to report industry leading ROCE. The company's revenue from operations was reported INR 65790 million which grew 21.72% YoY. The company's revenue from mobile services reflect-ed 97.65% and revenue from home and office services reflected 2.35% of total revenue. The EBITDA was re-reported at INR 27857 million which grew 53.77% YoY with an EBITDA margin of 42.34%. With ARPU having moved up from ~INR 135 in 2021 to ~INR 195 in Sept 2023, we expect substantial improvement in profitability around similar lines as Bharti Airtel over the next 24-36 months and recommend to subscribe to the issue as a good long term investment.

Key Financial & Operating Metrics (Consolidated)

In INR mn	Revenue	YoY (%)	EBITDA	EBITDA %	PAT	EPS	ROE	ROCE
FY21	46023.00	-	10524	22.87%	-10339.00	-20.68	-41.31	-5.26
FY22	54052.00	17.45	18090	33.47%	16746.00	33.49	59.31	25.64
FY23	65790.00	21.72	27857	42.34%	5492.00	10.98	13.96	12.87

Issue Snapshot

Issue Open	03-Apr-24
Issue Close	05-Apr-26
Price Band	INR 542 - 570
Issue Size (Shares)	7,50,00,000
Market Cap (INR mln)	INR 285000

Particulars

Fresh Issue (INR mln)	-
OFS Issue (mln)	INR 42750
QIB	50%
Non-institutionals	15%
Retail	35%

Capital Structure

Pre Issue Equity	50,00,00,000
Post Issue Equity	50,00,00,000
Bid Lot	26 shares
Minimum Bid amount @ 542	INR 14092
Maximum Bid amount @ 570	INR 14820

Share Holding Pattern

	Pre Issue	Post Issue
Promoters	70.00%	55.00%
Public	30.0000%	45.00%

Particulars

Face Value	INR 5
Book Value	INR 84.19
EPS, Diluted	INR 10.98

Objects of the Issue

- Achieve benefits of listing on the stock exchanges

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Investment rationale:

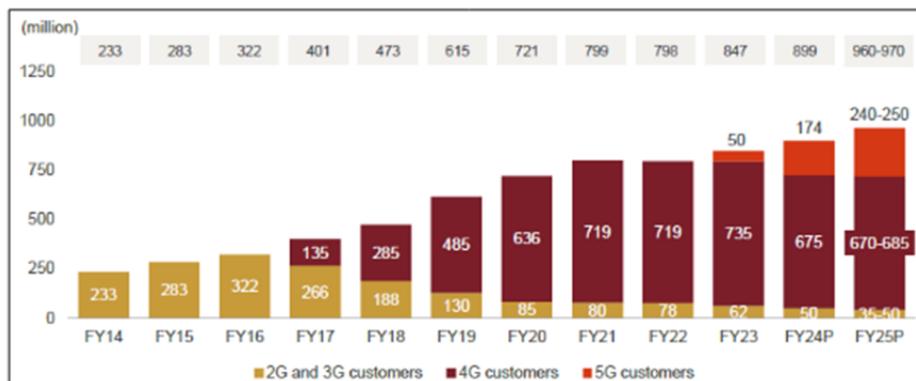
Established leadership and large Customer Base in its area of operations: The company was at number one position in the North East circle during 9MFY24, and FY23, FY22, FY21, respectively. In the Rajasthan circle, the market share gap between Hexacom and the market leader has narrowed between FY21 and the 9MFY24. As of 9MFY24, Hexacom was present in 486 census towns and had an aggregate of 27.1 million customers across both the circles. The customer market share has grown consistently in Rajasthan from 33.1% as of FY21, to 35% as of 9MFY24, and in the North East from 43.6% to 49.8% between the same period. Hexacom 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. As of the same date, the 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 9MFY24. Hexacom has an extensive distribution and service network across the regions it operates in, and during 9MFY24 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 from 23 cities as of March 31, 2021. As of December 31, 2023, Hexacom's distribution network comprised 616 distributors and 89,454 retail touchpoints. Hexacom believes that it has been able to grow its market share by its simple and cogent strategy on acquiring and retaining high-value customers by offering them superior experience at competitive prices. The company's digital infrastructure investments, digital experience, and the digital services it provides along with Airtel and its affiliates have facilitated its growth in market share and catered to the needs of its customers. Customized offerings through family plans and converged plans under the Airtel Black proposition have contributed to improving the company's market share in the post-paid segment. As a result of its strategy, Hexacom has been able to consistently increase its ARPU and market share in its circles. During the 9MFY24 and Fiscals FY23 and FY22, the company reported higher ARPU than its competitors in its two circles. During the 9MFY24 and the last three Fiscals, Hexacom has invested INR 71,003 million in capital expenditure on expanding its network coverage and infrastructure. During the 9MFY24 and the last three Fiscals, the company deployed 9,805 network sites, and it aims to continue to deepen its focus on key revenue-generating cities and high-value catchment areas and expand its coverage in rural areas. The wireline internet density of India stood at 8.9%, while that of Rajasthan was 4%, and the North East was 3% as of FY23. Hexacom increased the number of its fixed-line telephone and broadband customers from approximately 70 thousand as of March 31, 2021, to approximately 289 thousand as of December 31, 2023. The company's strategy for fast-paced network coverage expansion, network deployment, and having an asset-light business model has been supported by partnerships with local cable operators (LCO) in most of the regions it operates. Such arrangements have led to a faster rollout of fiber home passes, shortened time for go-to-market beyond larger towns, and accelerated revenue growth. This has enabled Hexacom to provide high-speed and reliable broadband connectivity to customers.

Particulars	As of and for the nine months ended December 31,		As of and for the year ended March 31,		
	2023	2022	2023	2022	2021
Revenue Market Share					
Rajasthan	40.4%	39.2%	39.5%	36.7%	32.7%
North East	52.7%	52.4%	52.5%	48.5%	42.0%
Customer Market Share					
Rajasthan	35.0%	34.8%	35.3%	34.5%	33.1%
North East	49.8%	48.1%	48.0%	47.2%	43.6%

Presence in Markets with High Growth Potential:

Hexacom operates in the Rajasthan and North East telecommunication circles in India. Rajasthan had 67 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 9MFY24. Rajasthan had a teledensity of 79.5% as of FY23, which lags the national average of 84.5% due to its lower rural teledensity of 57.2%. Rajasthan's customer base is expected to grow at 1.4% to 1.5% between FY23 and FY28, reaching 69 million to 69.5 million with a teledensity of 82% to 83% following pan-India trends with rising rural teledensity. Wireless customers are expected to account for approximately 98.5% of the customers by FY28. Rajasthan's focus on resolving regional imbalances and supporting growth in rural areas will create demand for telecom services in rural areas of the state, driving customer growth. The gross revenue of the Rajasthan circle was approximately INR 127.6 billion in FY23 growing at CAGR of 4.4% between FY14 and FY23. However, its revenue grew robustly at 17% in FY23 in line with the national trend, and the industry is expected to grow at 7% to 8% between FY23 and FY28 to reach INR 183 to 185 billion, supported by a rise in

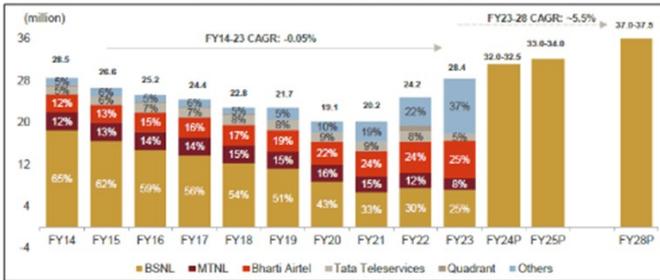
Number of customers across 2G/3G/4G/5G data



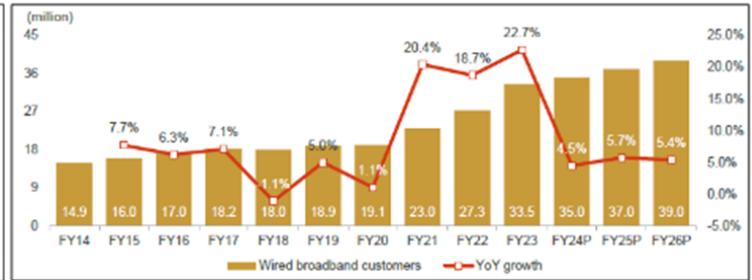
teledensity in the region, especially in rural regions, higher tariffs, and an increase in internet penetration in the state. The North East circle had a teledensity of 79.7% as of FY23, with a majority of its telecom customers being wireless due to the limited penetration of wireline services on account 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. The government is implementing various schemes, including a 4G saturation project for the provision of 4G mobile services across all 24,680 uncovered villages of India, including in the North East. The customer base in the North East is expected to grow at 1% to 1.5% between FY23 and FY28, reaching 13.2 to 13.5 million with a teledensity of 81 to 82%. Wireless customers are expected to account for approximately 98% of the customers as of FY28. The gross revenue of the North East circle was approximately INR 29.6 billion in FY23, growing at CAGR of 3.1% between FY14 and FY23, lower than the pan-India telecom industry CAGR of approximately 5.6%. However, the North East circle telecom industry is expected to grow at 6% to 7% between FY23 and FY28 to reach INR 39 to 41 billion, supported by rising teledensity, higher internet penetration, and a potential increase in ARPU in the region. The industry ARPU for wireless services in the Rajasthan circle grew from INR 68 to INR 145 at a CAGR of 20.8%, while in the North East circle it grew from INR 74 to INR 170 at a CAGR of 23.1%, outperforming the national ARPU growth from INR 71 to INR 142.3 at a CAGR of 19.0%, between FY19 and FY23. 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.

We believe that the company's established leadership position in these circles may place Hexacom well to capitalize on growth opportunities. Rajasthan's gross state domestic product (GSDP) stood at INR 7,994 billion as of FY23 growing at a CAGR of 5.7% from INR 4,862 billion in FY14, while the GSDP of the North East stood at INR 1,440.4 billion as of FY22, growing at a CAGR of 5.6% from INR 928.3 billion in FY14. An established physical infrastructure is needed for the overall development of these states, which will play a crucial role in generating employment opportunities supporting the growth of per-capita income. In the era of digitization, IT and communications sector will be among the key sectors that will play a critical role in boosting the overall economy of the states, creating new milestones for online information flow. We believe that Hexacom benefits from strong growth potential in such regions. The central and state governments have been implementing various infrastructure development projects to improve air, rail, road, power, and telecom connectivity in these regions. For FY24, Rajasthan has earmarked INR 53.7 billion for the Department of Information Technology and Communication. In the North East, over 40 projects have been completed between FY17 and FY22 to improve air connectivity with 17 operational airports in the region as of FY23; 2,011 kms of railway projects are under different stages of planning, approval, or execution; 4,016 kms of roads are under various stages of completion, and 3,100 kms of roads have been constructed since FY17. To improve telecom connectivity, the government is implementing the BharatNet project in a phased manner to provide broadband connectivity to all gram panchayats in the country and has disbursed INR 6.4 billion between FY17 and FY22 for this project in the North East region. The government is also implementing the North Eastern Region Power System Improvement Project to improve power connectivity in the region.

Wireline telecom customers in India



Wired broadband customers



Expanding Network Coverage: 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 INR 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.

Improving Cost Efficiencies: Hexacom is undertaking prudent cost optimization measures to improve profitability. The company's war-on-waste program aims to eliminate wasteful expenditure through the use of digital tools, making the company's networks more environment-friendly, and revisiting its cost structures on a regular basis. Hexacom utilizes digital tools and data science to plan its network expansion in an optimal manner. The company seeks to achieve its cost efficiency objectives without compromising on the quality of its services, network, and people. Cost efficiency initiatives are reflected in Hexacom's approach to managing its operating expenses as well as prudent capital allocation in its network expansion strategy. Over the years, the company has been making its network greener with solar access on network sites and climate-proofing of its infrastructure to reduce outages during natural calamities. To mitigate the effect of atmospheric ducting, Hexacom has built a data-driven, AI-enabled predictive model that takes inputs from various satellite sources and internal network data to predict the impact of ducting, proposes bulk actions to be performed, and brings the network to the steady optimum state once the ducting ceases. Multiple actions involving tilt changes, load balancing, real-time cell locking, and unlocking are performed to mitigate the impact. One of the company's key focus areas is prudent capital allocation and improving ROCE, which is reflected in its capital expenditure on both spectrum and non-spectrum spends and lack of ownership of fiber assets which are extremely price intensive. Hexacom's 5G Plus services are deployed on the recently acquired 3500 MHz band in non-standalone mode with dual connectivity. The non-standalone network utilizes dual connectivity of 5G and 4G spectrum to extend the 5G coverage for a given service level without the need for dedicating sub-GHz spectrum in 5G, thereby providing higher coverage at a lower cost. Non-standalone network deployment has lower capital expenditure requirements, low cost of ownership, reduced environmental impact due to lower overall power consumption on account of fewer 5G radios, and has been the widely chosen network architecture with approximately 85% of telecom operators worldwide initiating 5G deployment based on such architecture.

Valuation and outlook: The customer base in the Rajasthan circle is expected to grow at 1.4%-1.5% CAGR between FY23 and FY28, to reach 69-69.5 million, with a teledensity of 82%-83%. By FY28, the number of inter-net customers is projected to reach 62.5-63 million from 46.9 million in FY23, clocking ~6% CAGR. The customer base in the Northeast circle will grow at ~1-1.5% CAGR between FY23 and FY28, to 13.2-13.5 million, with teledensity at 81%-82%. By FY28, internet customers in the Northeast will reach ~12.5-13.5 million, at a CAGR of 6%-7%. The company has 35% and 49.8% market share in Rajasthan and North East respectively. During the 9MFY24 and the last three Fiscals, the company has incurred INR 71,033 million on expanding its network coverage and infrastructure. While Bharti Hexacom is maintaining competitive pricing with its peers, the company's fibre asset less business model which is helping the company to report industry leading ROCE. The company's revenue from operations was reported INR 65790 million which grew 21.72% YoY. The company's revenue from mobile services reflect-ed 97.65% and revenue from home and office services reflected 2.35% of total revenue. The EBITDA was re-reported at INR 27857 million which grew 53.77% YoY with an EBITDA margin of 42.34%. With ARPU having moved up from ~INR 135 in 2021 to ~INR 195 in Sept 2023, we expect substantial improvement in profitability around similar lines as Bharti Airtel over the next 24-36 months and recommend to subscribe to the issue as a good long term investment.

Peer Comparison

(Figures in million)	Bharti Hexacom Ltd.					Bharti Airtel Ltd.					Vodafone Idea Ltd.				Reliance Jio Infocom Ltd.					
	9MFY24	9MFY23	FY23	FY22	FY21	9MFY24	9MFY23	FY23	FY22	FY21	9MFY24	9MFY23	FY23	FY22	FY21	9MFY24	9MFY23	FY23	FY22	FY21
Revenue	52,208	48,465	65,790	54,052	46,023	8,11,801	7,26,137	9,78,640	8,21,318	723,83	3,20,449	3,16,453	4,21,772	3,85,155	4,19,522	7,41,600	6,73,920	9,07,860	7,69,770	6,98,880
EBITDA	25,764	20,910	28,884	18,985	11,373	4,37,157	3,76,544	5,10,570	4,09,738	3,28,280	1,27,902	1,26,067	1,68,170	1,60,361	1,69,457	3,91,440	3,47,190	4,70,340	3,78,570	3,14,610
EBITDA Margin	49.35	43.14	43.9	35.12	24.71	53.85	51.86	52.17	49.89	45.4	39.91	39.84	39.87	41.64	40.39	52.78	51.52	51.81	49.18	45.02
ARPU	197	184	185	155	135	208	193	193	178	145	145	135	135	124	107	182	178	179	168	138
Customer Base for mobile services (In thousands)	26,782	25,479	25,827	24,767	24,979	3,45,570	3,32,244	3,35,412	3,26,043	3,21,374	2,15,200	2,28,600	2,25,900	2,43,800	2,67,800	4,70,900	4,32,900	4,39,300	4,10,200	4,26,200

Type of financials	Total Revenue	EPS (Diluted)	P/E	RONW
Standalone	65,790	10.98	51.91	13.83
Consolidated	13,91,448	14.57	82.16	15.84
Consolidated	4,21,772	-8.43	-	-
Standalone	9,07,860	1.07	-	8.43

Income Statement				Balance Sheet			
Y/E (INR mn)	FY21	FY22	FY23	Y/E (INR mn)	FY21	FY22	FY23
Revenue	46023.00	54052.00	65790.00	Source of funds			
Expenses:				Equity Share Capital	2500.00	2500.00	2500.00
Employee Cost	763.00	764.00	903.00	Reserves	17360.00	34105.00	39595.00
Total Expenses	35499.00	35962.00	37933.00	Total Share holders funds	19860.00	36605.00	42095.00
EBITDA	10524.00	18090.00	27857.00	Total Debt	59752.00	71983.00	62693.00
EBITDA Margin %	22.87%	33.47%	42.34%	Current Liabilities	74887.00	61790.00	61421.00
Interest	5637.00	5718.00	6388.00	Trade Payables	22240.00	14952.00	14406.00
Depreciation	12852.00	14410.00	15533.00	Total Non-Current Liabilities	44122.00	58874.00	71384.00
Other Income	1491.00	938.00	1402.00	Total Liabilities	138869.00	157269.00	174900.00
PBT	-6474.00	-1100.00	7338.00				
PAT	-10339.00	16746.00	5492.00	Application of funds			
EPS	-20.68	33.49	10.98	Fixed Assets	103037.00	102336.00	111741.00
				Capital Work in Progress	707.00	641.00	4563.00
				Cash and Bank	592.00	1209.00	887.00
				Net Current Assets (Including Current Invest-	-54692.00	-21567.00	-32445.00
				Other current assets	9079.00	10418.00	11187.00
				Sundry Debtors	1429.00	20958.00	1489.00
				Total Assets	138869.00	157269.00	174900.00

Cash Flow				Key Ratios			
Y/E (INR cr)	FY21	FY22	FY23	Y/E (INR cr)	FY21	FY22	FY23
Profit Before Tax	-9891.00	18411.00	7338.00	Growth Ratio			
Adjustment	21406.00	20305.00	21963.00	Net Sales Growth(%)	18.80	17.45	21.72
Changes In working Capital	3992.00	-25988.00	21980.00	EBITDA Growth(%)	127.47	58.37	53.77
Cash Flow after changes in Working Capital	15507.00	12728.00	51281.00	PAT Growth(%)	61.94	261.97	-67.20
Tax Paid	-335.00	-148.00	-197.00	Margin Ratios			
Cash From Operating Activities	15172.00	12580.00	51084.00	Gross Profit	98.34	98.59	98.63
Cash Flow from Investing Activities	-8825.00	-13825.00	-20309.00	PBIDTM	26.11	35.20	44.47
Cash from Financing Activities	-6042.00	1831.00	-31114.00	EBITM	-9.24	44.64	20.86
Net Cash Inflow / Outflow	305.00	586.00	-339.00	PBT	-21.49	34.06	11.15
Opening Cash & Cash Equivalents	-28.00	277.00	863.00	PAT	-22.46	30.98	8.35
Closing Cash & Cash Equivalent	277.00	863.00	524.00	Return Ratios			
				ROA	-7.34	11.31	3.31
				ROE	-41.31	59.31	13.96
				ROCE	-5.26	25.64	12.87
				Turnover Ratios			
				Asset Turnover(x)	0.33	0.37	0.40
				Inventory Turnover(x)	0.00	0.00	0.00
				Debtors Turnover(x)	24.80	4.83	5.86
				Fixed Asset Turnover (x)	0.27	0.30	0.33
				Solvency Ratios			
				Total Debt/Equity(x)	3.01	1.97	1.49
				Current Ratio(x)	0.27	0.65	0.47
				Quick Ratio(x)	0.27	0.65	0.47
				Interest Cover(x)	-0.75	4.22	2.15

Analyst Certification:

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