

BHARTI HEXACOM LTD.

Sensex	73,766
Nifty	22,351

ISSUE DETAILS

Issue Size (₹ crs)	4,065 – 4,275
Offer for Sale (No. of Shares)	75,000,000
Bid/Issue opens on	03-Apr-24
Bid/Issue closes on	05-Apr-24
Face Value	₹5
Price Band	542-570
Minimum Lot	26

Book Running Lead Managers	Axis Capital Ltd, SBI Capital Market Ltd, BOB Capital Markets Ltd, ICICI Securities Ltd, IIFL Securities Ltd.
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Registrar to issue	Kfin Technologies Ltd
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Listing: BSE & NSE

Indicative Activity	On or about
Finalisation of Basis of Allotment	08-04-2024
Refunds/Unblocking ASBA Fund	10-04-2024
Credit of equity shares to DP A/c	10-04-2024
Trading commences	12-04-2024

	No. of Shares	@Lower (₹ Cr)	@Upper (₹ Cr)	% of Issue
QIB	5,62,50,000	3048.75	3206.25	75%
NIB	1,12,50,000	609.75	641.25	15%
-NIB2	75,00,000	406.50	427.50	-
-NIB1	37,50,000	203.25	213.75	-
RET	75,00,000	406.50	427.50	10%
Total	75,000,000	4065.00	4275.00	100%

Category	Retail Category	NII-Bid between ₹ 2 - 10 Lakhs	NII - Bid Above ₹ 10 Lakhs
Minimum Bid Lot (Shares)	26 Shares	364 Shares	1,768 Shares
Minimum Bid Lot Amount (₹)	₹14,820 [^]	₹2,07,480 [^]	₹10,07,760 [^]
Appl for 1x	2,88,462 Applications	10,302 Applications	20,604 Applications

NIB-1=NII Bid between ₹ 2 to 10 Lakhs; NIB-2=NII Bid Above ₹ 10 Lakhs
Shareholding (No of Shares)

Pre-issue	Post issue
500,000,000	500,000,000

	Pre-Issue	Post-Issue
Promoter & Promoter Group	70	70
Public – Selling Shareholder	30	15
Public - Others	-	15
Total	100.00%	100.00%

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Issue Highlights

- The company was originally incorporated in 1995 as 'Hexacom India Ltd'. In 2004, the name of the company was changed to "**Bharti Hexacom Ltd**" (BHL) when Airtel acquired a majority equity interest in the company. **Airtel owns 70%**, while the **Government of India through Telecommunications Consultants India Ltd (TCIL) owns 30%** of the company's equity share capital.
- **Bharti Hexacom is 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.**
- Bharti Hexacom holds **telecommunication licenses and spectrum in its two circles.** It has spectrum portfolio with **varied pool of mid band spectrum (1800/2100/2300 MHz bands).** **None of the existing spectrum expires before the year 2030,** and the validity of the spectrum pool ranges between the years 2030 and 2042.
- The company's **revenue market share** in the **North-East circle** was **52.7%** and in the **Rajasthan circle** it was **40.4%** during the 9MFY24. In **North-East Circle,** it was **number one** during 9MFY24, FY23 and FY22, while in **Rajasthan Circle** it was at **second position** during the 9MFY24.
- Bharti Hexacom was **present at 486 census towns** and had an aggregate of **27.1mn customers** across both the circles. The company's **customer market share** has grown consistently in **Rajasthan from 33.1%** as of 31 March 2021, **to 35.0%** as of 31 December 2023, and in the **North-East from 43.6% to 49.8%** during the same period.
- The company has **increased its ARPU for mobile services from ₹135** in FY21 to **₹155** for FY22 to **₹185** for FY23 and to **₹197** for the 9MFY24.
- The company utilized **24,874 network towers,** of which it **owned 5,092 towers** and **leased the remaining 19,782 towers,** as of 31 December 2023. Over the years, the company successfully **re-farmed 2100 Mhz spectrum** and deployed it for 4G to enhance network capacity and improve user experience.
- The company has an extensive distribution and service network across the regions it operates in and during the nine months ended 31 December 2023 and the last three fiscals, it has set up 51 retail outlets and 24 small format stores to reach 90 cities, as of 31 December 2023. As of the said date, its distribution network comprised 616 distributors and 89,454 retail touchpoints. As of 31 December 2023, it had 422 full-time employees.
- **BHL currently enjoys +40% market share in Rajasthan Circle and +51% market share in North-East circle and thus enjoys leadership.** The management is confident of maintaining its leadership with user friendly services and modules.
- **According to the management, it is providing a part exit to TCIL - a Government of India enterprise with a view to discover the price and listing benefits.** Perhaps this is the first such IPO where a **Gol body dilutes its holding to establish the enterprise value via OFS mode.** This IPO also indicates that the company is not in the need of any fresh fund inflow to meet its planned growth as of now. The company is having strong parentage of "**Airtel**" group. Its one-time accounting adjustments kept the net profit on de-growth mode, but at the gross level, it marked growth. Based on 9MFY24 earnings, the issue appears fully priced. It enjoys virtual leadership in the telecom circles it is operating and is confident of maintaining the lead. Investors can **SUBSCRIBE** for medium to long term rewards.

Background

The Company was originally incorporated in 1995 as 'Hexacom India Ltd'. In 2004, the name of the company was changed to 'Bharti Hexacom Ltd' when Airtel acquired a majority equity interest in the Company. Airtel owns 70% of the equity share capital, while the Government of India through Telecommunications Consultants India Ltd ("TCIL") owns 30% of the equity share capital. Bharti Hexacom is 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.

Brief Financial Details*

	(₹ crs)				
	9MFY24	9MFY23	FY23	FY22	FY21
Share Capital	250.0	250.0	250.0	250.0	250.0
Net Worth	3,978.8	3,920.2	3,972.2	3,573.2	1,898.7
Revenue from operations	5,220.8	4,846.5	6,579.0	5,405.2	4,602.3
EBITDA	2,576.4	2,091.0	2,888.4	1,898.5	1,137.3
EBITDA Margin (%)	49.4	43.1	43.9	35.1	24.7
PAT	281.8	347.3	549.2	1,674.6	(1,033.9)
EPS (Basic & Diluted) (FV ₹5)^	5.6	7.0	11.0	33.5	(20.7)
ARPU for Mobile Services (₹)	197.0	184.0	185.0	155.0	135.0
Total Borrowings	6,253.0	6,349.8	6,269.3	7,198.3	5,975.2
Debt Equity Ratio (x)	1.4	1.6	1.5	1.9	3.0
Net Debt to EBITDA (x)	2.9	3.8	2.8	4.7	6.8
Net Asset Value per share (₹)	88.3	80.2	84.2	73.2	39.7
Return on Net worth (%)	7.1	8.9	13.8	46.9	(54.5)
Return on Capital Employed (%)	10.7	7.6	10.7	4.1	(1.6)

Source: RHP, *Restated Statement, ^ not annualised for 9 months ended Dec'23 & Dec'22

Brief Biographies of Directors & Key Managerial Personnel

- **Jagdish Saksena Deepak** is the Chairperson of the company. Prior to joining the Company, he was an IAS officer and served as the Ambassador of India to the WTO, Geneva and Permanent Representative of India at Commerce and Industry, Geneva. He has served as the Secretary in the Department of Telecommunications and the Department of Electronics & Information Technology, Government of India. He has over 38 years of experience in administration services in various Ministries of Government of India.
- **Devendra Khanna** is a Non-Executive Director of the company. Previously, he has been associated with Triveni Engineering & Industries Ltd. He is currently the Joint MD at Bharti Enterprises. He has over 35 years of experience inclusive of over 19 years of experience in the telecommunication sector.
- **Soumen Ray** is a Non-Executive Director of the company. Previously, he has been associated with Bajaj Auto Ltd, Viacom 18 Media Pvt. Ltd and ITC Ltd. He is currently the CFO of Bharti Airtel Ltd and has experience in various sectors including FMCG, telecommunication, automotive manufacturing, and media.
- **Sanjeev Kumar** is a Non-Executive Director of the company. Previously, he has been associated with Mahanagar Telephone Nigam Ltd and Bharat Sanchar Nigam Ltd. He is currently the Chairman and MD of TCIL. He has over 33 years of experience in the telecommunication sector.
- **Surajit Mandol** is a Non-Executive Director of the company. Previously, he has been associated with Bharat Sanchar Nigam Ltd. He is currently the Director (Finance) of TCIL. He has over 28 years of experience in the telecommunication sector.
- **Ashok Tyagi** is an Independent Director of the company. He has over 17 years of experience of practicing as a company secretary.
- **Arvind Kohli** is an Independent Director of the company. He has over 25 years of experience of practicing as a company secretary.
- **Arun Gupta** is an Independent Director of the company. He has been a member of the Bar Council of Delhi since 2011 and has been practicing law for more than 12 years.

- **Nalina Suresh** is an Independent Director of the Company. Previously, she has been associated with Godrej Pacific Technology Ltd, I.G.E. India Ltd, Domino's Pizza India Ltd as the chief-human resources, Grow Talent Company Ltd, Director in consulting SBU at PricewaterhouseCoopers Private Ltd, Mahindra & Mahindra Ltd, and as a senior partner at EMS Partners Ltd. She has experience in various sectors across industries and in consulting.
- **Kapal Kumar Vohra** is an Independent Director of the company. He has been the Executive Director in Reserve Bank of India and has also been associated with various institutions, such as Central Bank of Oman and International Finance Corporation, among others. He was a technical member of the National Company Law Tribunal, New Delhi and Mumbai. He has over 40 years of experience in the banking and regulatory sectors.
- **Marut Dilawari** is the Chief Executive Officer of the company since November 12, 2022. Previously, he was associated with Escotel Mobile Communications Ltd, Bharti Cellular Ltd, Aditya Birla Retail Ltd and Tata Teleservices Ltd.
- **Akhil Garg** is the Chief Financial Officer of the company since November 7, 2023. Previously, he was associated with PepsiCo India Holdings Private Ltd and ECS Ltd.
- **Richa Gupta Rohatgi** is the Company Secretary and Compliance Officer of the company since February 14, 2022. Previously she was associated with Eldeco Infrastructure and Properties Ltd, SRL Ltd, Pacific Development Corporation Ltd and Religare Finvest Ltd.

Offer Details

The Offer for Sale by:	Up to 75,000,000 Equity Shares	WACA per Equity Share (₹)
Promoter Selling Shareholders:		
Telecommunications Consultants India Ltd	Up to 75,000,000 Equity Shares	7.08

(~ at lower price band and ^ upper price band) WACA = Weighted Average Cost of Acquisition

Shareholding Pattern

Shareholders	Pre-offer		Offer for Sale Shares		Post-offer	
	Number of Equity Shares	% of Total Equity Share Capital		Number of Equity Shares	% of Total Equity Share Capital	
Promoter	350,000,000	70.0	-	350,000,000	70.0	
Total for Promoter and Promoter Group	350,000,000	70.0	-	350,000,000	70.0	
Public - Selling S/h (Gol through TCIL)	150,000,000	30.0	75,000,000	75,000,000	15.0	
Public - Other	-	0.0	-	75,000,000	15.0	
Total for Public Shareholders	150,000,000	30.0	75,000,000	150,000,000	30.0	
Total Equity Share Capital	500,000,000	100.0	75,000,000	500,000,000	100.0	

(^ at upper price band)

Business Overview

Bharti Hexacom 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'.

The company continuously invests in network expansion, technology advancement and judicious spectrum investments. As of 31 December 2023, the company had invested ₹20,600crs in capital expenditure in its future ready digital infrastructure. The company also derives significant synergies from its relationship with its Promoter, Airtel, through the expansive digital infrastructure, digital experience, and the digital services it provides to its customers.

The company's revenue market share in the North-East circle was 52.7% and in the Rajasthan circle it was 40.4% during 9MFY24. In North-East Circle, it was number one during 9MFY24, and FY23 and FY22. In the Rajasthan circle, it was at second position during 9MFY24. The company has increased its ARPU for mobile services from ₹135 for FY21 to ₹155 for FY22 to ₹185 for FY23 to ₹197 for 9MFY24.

Bharti Hexacom was present at 486 census towns and had an aggregate of 27.1mn customers across both the circles. The company's customer market share has grown consistently in Rajasthan from 33.1% as of 31 March 2021, to 35.0% as of 31 December 2023, and in the North-East from 43.6% to 49.8% during the same period. The company 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 23.2mn customers and a VLR market share of 38.7%, as of 31 December 2023. Further 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 ~23.1 GB during the 9MFY24.

Bharti Hexacom's robust network infrastructure consists of 24,874 network towers, of which it owned 5,092 towers, and the remaining 19,782 towers were leased from tower companies. Further, the company has 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 the company to save a significant amount of capital towards sub-GHz spectrum for 5G roll out and additional capex required to be spent on network infrastructure to deploy the same.

As of 31 December 2023, the company's extensive distribution network comprised 616 distributors and 89,454 retail touchpoints. Further, during 9MFY24, and the last three fiscals, the company has set up 51 retail outlets and 24 small format stores reaching 90 cities.

Bharti Hexacom's Revenues from Operations have grown at a CAGR of 12.65% from ₹4,602.3crs to ₹6,579.0crs between FY21-23. The EBITDA margins have improved from 24.7% to 43.9% during the same period. The company reported a PAT of ₹733.8crs in FY23 vs. a Loss of ₹989.1crs in FY21.

Bharti Hexacom derives synergies from its relationship with Airtel and its affiliates, including through Indus Tower's infrastructure, inter circle roaming arrangements, its national long-distance network and corporate functional support. In addition, Bharti Hexacom has leading positions in the Rajasthan and North-East circles, where its Promoter does not operate for the B2C services that the Company provides. Bharti Hexacom has been granted by its promoter, a non-exclusive, revocable, conditional license for use of 404 registered trademarks including the 'Airtel' brand. Additionally, Bharti Enterprises (Holding) Pvt. Ltd, has issued a no-objection certificate to the company for usage of the "Bharti" brand, trademark, and logo for usage in its business and operations.

Moreover, Airtel Digital Ltd has granted an irrevocable, perpetual, worldwide, non-transferable license to Bharti Hexacom, to use website and domain name for 'Airtel.in' and applications known as 'My Airtel' or 'Airtel Thanks', 'Mitra' and 'Workforce management' or 'Airtel Konnect' or 'Airtel Works'.

Airtel and Bharti Hexacom have entered into a "Cost Sharing Agreement" for common marketing, personnel and administrative expenses incurred by Airtel, in the Rajasthan and North-East circles. Bharti Hexacom is required to pay management fees to Airtel as per the method prescribed under the Cost Sharing Agreement.

Common Cost allocation paid to Airtel

Particulars	9MFY23	9MFY22	FY23	FY22	FY21
Common cost paid to Airtel* (₹ Crs)	91.4	82.2	110.6	75.0	71.8
Common Cost paid as % of revenue from operations	1.75	1.70	1.68	1.39	1.56

*Exclusive of GST

Since Airtel and Bharti Hexacom are in the same line of business, they enter into various business transactions, pursuant to which certain moneys become due and payable by Bharti Hexacom to Airtel. Both the companies have entered into an interest agreement, wherein Bharti Hexacom will pay interest to Airtel on all credits extended after their due dates, at a rate to be determined by the management of both companies on or before the start of the financial year.

Bharti Hexacom has entered into an agreement with Airtel for the collection, carriage, transmission and delivery of national long distance and international long-distance traffic. The agreement sets out the revenue sharing arrangement between Airtel and Bharti Hexacom in relation to the services.

Revenue from Operations

Particulars	9MFY23		9MFY22		FY23		FY22		FY21	
	Revenue (₹ Crs)	%								
Mobile Services	5,069.6	97.1	4,735.4	97.7	6,424.7	97.7	5,297.6	98.0	4,530.0	98.4
Home & Office Services	151.2	2.9	111.1	2.3	154.3	2.3	107.6	2.0	72.3	1.6
Revenue from operations	5,220.8	100.0	4,846.5	100.0	6,579.0	100.0	5,405.2	100.0	4,602.3	100.0

Business Operations and Services

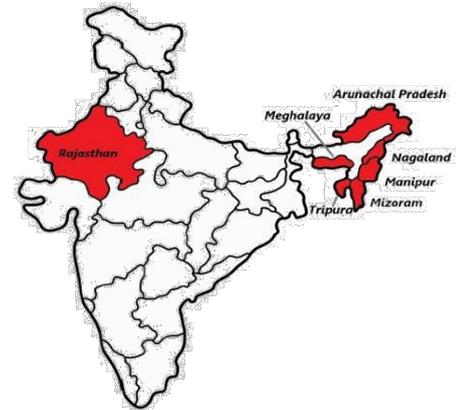
The company offers its services under the brand 'Airtel' in Rajasthan and in the North-East circles in India, which comprises the states of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland and Tripura. Bharti Hexacom was present at 486 census towns and had an aggregate of 27.1 million customers across both the circles

Services: Bharti Hexacom provides consumer mobile services, fixed-line telephone and broadband services to customers.

Mobile telephone services: The company offers pre-paid and post-paid wireless voice services and data communication services (including 2G, 4G and 5G offerings), international roaming of voice and data services.

Fixed line and broadband services: The company offers fixed-line telephone and broadband services to households, including through its partnership with local cable operators. The product portfolio comprises high-speed broadband with speeds of up to 1 Gbps offered as Airtel Xstream Fibre. These services include broadband internet and local, national, and international long-distance telephone services provided through wire-line connectivity to customers. The end-user equipment is connected through Fiber to the Home ("FTTH") from main network equipment (i.e., MSAN/OLT) to the customer's premises and fixed telephone lines and broadband (via FTTH) services are provided to homes.

'Airtel Black', which is an all-in-one solution for households that combines mobility, broadband, fixed line and digital TV services under one umbrella, is provided by the company along with Airtel and its affiliates.



Operational Metrics of Service offerings

Particulars	Unit	9MFY23	9MFY22	FY23	FY22	FY21
Mobile Services						
Customer base	000's	26,782	25,479	25,827	24,767	24,979
Net additions	000's	955	712	1,060	-212	2,159
Post-paid base	000's	827	680	706	673	668
Monthly churn	%	2.5	2.8	2.7	2.7	1.8
ARPU	₹	197	184	185	155	135
ARPU	US\$	2.4	2.3	2.3	2.1	1.8
Revenue per tower per month	₹	2,22,958	2,32,878	2,32,448	2,14,169	1,97,751
Voice						
Minutes on the network	million	2,60,674	2,37,484	3,21,744	2,97,114	2,59,566
Voice usage per customer per month	minutes	1,099	1,055	1,065	1,002	927
Data						
Data customer base	000's	19,144	16,620	17,333	15,382	13,888
4G/5G data customers	000's	18,839	16,288	17,006	15,027	13,348
As % of customer base	%	71.5	65.2	67.1	62.1	55.6
Total GBs on the network	mn GB	3,719	3,114	4,252	3,498	2,455
Data usage per customer per month	GB	23.1	21.6	21.8	20	16.8
Network and Coverage						
Mobile Services						
Census towns	number	486	486	486	486	486
Non-census towns and villages	number	66,632	65,143	65,347	63,954	63,368
Population coverage	%	96	95.5	95.5	95	94.2
Network towers	number	24,874	20,753	21,672	18,786	17,188
Total mobile broadband base stations	number	77,735	67,824	70,057	61,181	56,510
Homes Services						
Cities covered	number	90	82	87	54	23
Homes customers	000's	289	198	219	131	70
Net additions	000's	70	67	88	61	32
ARPU	₹	544	610	598	683	774
ARPU	US\$	6.6	7.6	7.4	9.2	10.4

Source: RHP

Intellectual Property: The company's promoters have 432 trademarks, which are also used by Bharti Hexacom, out of 432 trademarks 404 are registered and 28 are pending registration at various stages. However, Bharti Hexacom does not own any of these trademarks. Under a trademark license agreement dated January 16, 2024, Bharti Hexacom has been granted a non-exclusive, revocable, conditional license for use of 404 registered trademarks including the 'Airtel' brand. Further, Bharti Enterprises (Holding) Pvt. Ltd, has issued to the company for usage of the "Bharti" brand, trademark, and logo for usage in the business and operations.

Network Infrastructure: The company utilized 24,874 network towers, of which it owned 5,092 towers and leased the remaining 19,782 towers, as of December 31, 2023. Over the years, the company successfully re-farmed 2100MHz spectrum and deployed it for 4G to enhance network capacity and improve user experience. Further, the company rolling out 5G Plus services by deploying non-standalone network architecture, fiberizing the network and building device and partner ecosystems.

Network Partners: Bharti Hexacom's network partners include active network partners, passive infrastructure services partners and IT partners. The active network partners supply, implement, integrate, and deploy the mobile network. The passive infrastructure services partners provide and maintain passive infrastructure at sites such as towers, shelters and other equipment needed to provide energy to the mobile equipment. IT partners provide services related to the customer-facing and internal IT requirements.

Licenses and Regulations: Bharti Hexacom holds telecommunication licenses and spectrum in its two circles. None of the existing spectrum expires before the year 2030, the validity of the spectrum pool ranges between the years 2030 and 2042.

Spectrum	Quantum	Validity
North-East Circle		
		8.8 MHz – December 11, 2035
900 MHz (Paired)	14	1.2 MHz - April 15, 2041 4 MHz – August 16, 2042
		7 MHz – September 7, 2034
1800 MHz (Paired)	10	1.6 MHz – December 11, 2035 1.4 MHz – November 9, 2036
		5 MHz – August 31, 2030
2100 MHz (Paired)	10	5 MHz – April 15, 2041
		20 MHz – September 28, 2030
2300 MHz (Unpaired)	40	10 MHz – November 9, 2036 10 MHz – April 15, 2041
3300 MHz (Unpaired)	100	100 MHz – August 16, 2042
26 GHz (Unpaired)	800	800 MHz – August 16, 2042
Rajasthan Circle		
		5 MHz – April 21, 2036
900 MHz (Paired)	6	1 MHz – December 11, 2035
		8.2 MHz - September 7, 2034
1800 MHz (Paired)	10	1.8 MHz – September 29, 2037
		10 MHz – August 31, 2030
2100 MHz (Paired)	15	5 MHz – November 9, 2036
		20 MHz – November 18, 2030
2300 MHz (Unpaired)	40	20 MHz – April 15, 2041
3500 MHz (Unpaired)	100	100 MHz – August 16, 2042
26 GHz (Unpaired)	800	800 MHz – August 16, 2042

Amount of spectrum in mentioned in MHz and GHz

Competitive Strengths

Established Leadership and Large Subscriber Base

Bharti Hexacom provides 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 31 December 2023, the company was present in 486 census towns and had an aggregate of 27.1 mn customers.

	9MFY23	9MFY22	FY23	FY22	FY21
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%

Bharti Hexacom was at number one position in the North-East circle during 9MFY24, and FY23 and FY22, while it was in second position in the Rajasthan circle during 9MFY24. The digital services that the company provides along with Airtel and its affiliates have facilitated the company's growth in market share. During 9MFY24 and FY23 and FY22, the company reported higher ARPU than its competitors in its two circles. During 9MFY24 and the last three fiscals, the company has invested ₹7,100crs in capital expenditure and deployed 9,805 network sites, as the company plans to focus on key revenue generating cities and high value catchment areas and expand the coverage in rural areas.

Presence in Markets with Growth Potential

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% 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 ~ ₹127.6bn in FY23 and is expected to reach ₹183-185bn in FY28, while the gross revenue of the North-East circle was ~ ₹29.6bn in FY23 and is expected to reach ₹39 - 41bn.

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 ₹142.3 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.

Strong Parentage and Established Brand

Airtel a global communications solutions provider with over 500 million in 17 countries across South Asia and Africa, owns 70% equity share capital of Bharti Hexacom. The company derives significant synergies from its relationship with Airtel and its affiliates, including through Indus Tower's infrastructure, inter circle roaming arrangements, its national long-distance network and corporate functional support. The company also derives operational efficiencies by centralizing and sharing certain key functions across the businesses such as finance, legal, information technology, strategy, procurement, and human resources.

Key areas where they benefit from relationship with Airtel

- **Brand:** The company offers its services under the brand 'Airtel', which is widely recognized in India, as well as several overseas jurisdictions. The company believes that the strength of the 'Airtel' brand and advertising campaigns have contributed significantly to the growth of its market share and have helped the company fortify its market position.

- **Service offerings:** Airtel and its affiliates have built a comprehensive portfolio with three layers – digital infrastructure, digital experience, and digital services. digital services include Airtel Payments Bank, Airtel Xstream, Airtel Thanks, Airtel Wynk (music streaming) and Direct-to-Home (Digital TV). These service offerings have encouraged 2G customers to migrate to the 4G and 5G Plus services and pre-paid customers to upgrade to post-paid services, all of which resulted in a sustained ARPU improvement for Bharti Hexacom.
- **ESG framework:** Airtel considers sustainability as an integral part of its core business strategy with focus on the Environment. Bharti Hexacom implement various ESG initiatives across the Company and operations as well.

Building a Future Ready Network

As of 31 December 2023, Bharti Hexacom was present in 486 census towns in the two circles in which it operates with 5,092 owned and 19,782 leased network towers. During 9MFY24, its customers spent 260,674mn minutes and consumed 3,719mn gigabytes on their network .

The company has 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. Following prudent capital allocation and spectrum acquisition, the company has chosen not to acquire the expensive 700 MHz band for its 5G network. None of the company's existing spectrum expires before 2030 and the validity of the company's spectrum pool ranges between the years 2030 and 2042. Further the company does not expect to incur any significant capex towards spectrum acquisition until the specific spectrum band expires. The company's 5G Plus services are deployed on the recently acquired 3500 MHz band in non-standalone mode with dual connectivity. Non-standalone network deployment has lower capex requirements, low cost of ownership, reduced environmental impact and has been the widely chosen network architecture with ~85% of telecom operators worldwide initiating 5G deployment based on such architecture.

Extensive Distribution and Service Network

Bharti Hexacom has 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, as of 31 December 2023. The company's distribution partners are digitally empowered to sell Airtel services through the 'Mitra' app, which has been licensed to the company by one of Airtel's affiliates, and which facilitates mobile recharge transactions between distributors and retailers and supports onboarding of new customers.

The company believes that its exclusive retail footprint comprising 89,454 retail touchpoints is one of the key differentiators, including for supporting high value customers and providing them superior experience. As of 31 December 2023, the company had setup 24 small format low-cost stores, in addition to the 51 retail stores in its two circles to deepen the company's retail presence and primarily drive the sale of the post-paid, homes broadband and international roaming services.

Experienced Management Team

The company's operations are conducted by an experienced management team that has significant experience in all aspects of business operations. The management team has been involved in the telecom industry in India for a long period. Their expertise in the industry is reflected in the company's ability to maintain its leading position despite significant competition and new entrants in the market. The company believes that it is well positioned to capitalize on future growth opportunities, benefiting from the experience of its Board of Directors and the dynamic management team.

Key Business Strategies

Grow Revenue by Focusing on Acquiring and Retaining Quality Customers

The company's strategy is to premiumise its portfolio with continuous upgrades from 2G to 4G/5G customers, upgrading customers within its 4G plans for higher data packs, pre-paid to post-paid upgrade, contextual data monetisation, and through converged offerings. The company has revamped its international roaming offering and branded it as 'World Pass', which is a single roaming pack for travel across 184 countries, which provides cost effectiveness and flexibility for customers.

As per CRISIL Report, India had ~8.1% post-paid customers in FY23, significantly lower compared to United States (69% to 70%) and Germany (54%); while Thailand had 30% and Brazil had 57% post-paid customers, (including point of sale and machine to machine). This shows a significant potential for post-paid uptake in India. Further, India has the lowest price for mobile telecom at \$2.0 among peers such as China, Thailand, and Vietnam with tariffs of \$6.2, \$10.7 and \$2.3 respectively, indicating headroom for improvement in ARPU in India with growth in per capita income. As per CRISIL, the pre-paid customers of wireless segment in Rajasthan circle and North-East Circle stood at 95.1% and 97.1% in FY23, higher than the overall India share of 91.9%. The share of pre-paid customers in both the circles is reducing marginally due to better post-paid bundled tariff offerings by telecom players. The company intends to capitalize on such opportunities and increase its share of post-paid customers, which will result in an increase in the company's ARPU.

Expand Network Coverage

The company continues to expand its network coverage across the regions in which it operates with a focus on key revenue generating cities and high value catchment areas to increase its customer base and enhance customer experience. Between 31 March 2021, and 31 December 2023, the company has increased its coverage in non-census towns and villages from 63,368 to 66,632, its population coverage increased from 94.2% to 96.0%, and network towers increased from 17,188 to 24,874 (of which they owned 5,092 towers and leased the remaining 19,782 from tower companies) and the total mobile broadband base stations increased from 56,510 to 77,735. The company has increased the number of cities in which it offers fixed-line telephone and high-speed broadband services, with speeds of up to 1 Gbps from 23 cities, as of 31 March 2021 to 90 cities, as of 31 December 2023.

Deliver Brilliant Customer Experience through an Omnichannel Approach and Extensive Use of Data Science

The company is focused on delivering a brilliant customer experience by transforming its services through innovative technology and digital tools, creating a seamless and delightful user experience. By adopting an omnichannel strategy, the company enables its customers to engage with them anytime, anywhere, seamlessly transitioning between channels.

Airtel's in-house network and digital engineering team has developed artificial intelligence and machine learning ("AI/ML") driven digital platforms. These platforms are a comprehensive set of technologies that provide enhanced touchpoints for customer interactions, improve network performance, and provide efficient customer experience.

Bharti Hexacom has been working on elevating its network experience by identifying certain high priority geographic catchments to improve its mobile network experience and expanded its network coverage and capacity by adding more network sites. For broadband services, they have undertaken fundamental network design changes for long term resolve. The company continuously invests in its network infrastructure to ensure a superior customer experience.

Improve its Cost Efficiencies

Bharti Hexacom is undertaking prudent cost optimisation measures to improve profitability. One of the key focus areas is prudent capital allocation and improving return on capital employed, which is reflected in the capital expenditure on both, spectrum and non-spectrum

spends. The company has deployed 5G Plus services on the 3500 MHz band in non-standalone mode, which has lower capex requirements and low cost of ownership.

The company aims to maintain an efficient capital structure with high balance sheet flexibility. It seeks to continue to manage the borrowing costs with a focus on cost effective financing structures, including the repayment tenors and the balance between fixed and floating rate instruments. The company is adequately capitalized and endeavors to repay its borrowings primarily through internal accruals.

Competition

In FY14, there were 14 players that had cellular mobile service licenses from the Department of Telecommunication. In 2016, there was a price war in the industry that forced certain entities to exit or consolidate with larger players. As of 31 December 2023, there were only 5 service providers, of which two are public sector units – **Bharat Sanchar Nigam Ltd and Mahanagar Telephone Nigam Ltd**. The top three players – **Airtel, Reliance Jio Infocomm Ltd and Vodafone Idea Ltd** hold approximately 92% customer share in the Indian wireless telecom market as of December 31, 2023.

ARPU (₹) Comparison With Industry Peers

	9MFY24	9MFY23	FY23	FY22	FY21
BSNL	NA	NA	NA	NA	NA
Bharti Airtel	208	193	193	178	145
Bharti Hexacom	197	184	185	155	135
Vodafone Idea	145	135	135	124	107
Reliance Jio	182	178	179	168	138

Source: RHP, Blended ARPU as reported by the player; may include wireless and wireline; ARPU numbers are for exit quarter of respective periods

Comparison With Industry Peers (As On 31st March 2023)

Name of the Company	Financials	Face Value (₹)	CMP as on 27 March 2024	Total Income (₹ Crs)	EPS (₹)		NAV (₹)	P/E(x)	RoNW(%)
					Basic	Diluted			
Bharti Hexacom	Standalone	5	NA	6,579.0	10.9	10.9	84.2	NA	13.8
Bharti Airtel	Consolidated	5	1,224.8#	1,39,144.8	14.8	14.6	136.7	82.8	15.8
Vodafone Idea	Consolidated	10	13.3	42,177.2	(8.4)	(8.4)	(15.3)	(1.6)	NA*
Reliance Jio Infocomm **	Standalone	10	NA	90,786.0	4.1	1.1	48.0	NA [^]	8.4

Source: RHP; ** All the information for Reliance Jio Infocomm as disclosed above is based on annual report or quarterly public disclosures. *Vodafone Idea has negative net worth hence RONW not calculated, [^] PE not calculated as Reliance Jio Infocomm is not listed, #Closing price is taken for the fully paid-up equity share capital of ₹5 each.

Comparison Of Key Performance Of Indicators With Peer Group Companies

Particulars (₹ crs)	Bharti Hexacom			Bharti Airtel*			Vodafone Idea			Reliance Jio Infocomm		
	9MFY24	FY23	FY22	9MFY24	FY23	FY22	9MFY24	FY23	FY22	9MFY24	FY23	FY22
Revenue from operations	5,220.8	6,579.0	5,405.2	81,180.1	97,864.0	82,131.8	32,044.9	42,177.2	38,515.5	74,160.0	90,786.0	76,977.0
EBITDA	2,576.4	2,888.4	1,898.5	43,715.7	51,057.0	40,973.8	12,790.2	16,817.0	16,036.1	39,144.0	47,034.0	37,857.0
EBITDA Margin - %	49.4	43.9	35.1	53.9	52.2	49.9	39.9	39.9	41.6	52.8	51.8	49.2
ARPU (₹)	197	185	155	208	193	178	145	135	124	182	179	168
Customer Base (000's)	26,782	25,827	24,767	3,45,570	3,35,412	3,26,043	2,15,200	2,25,900	2,43,800	4,70,900	4,39,300	4,10,200

Note: ARPU and Customer base of peer companies for mobile services is for Exit quarters of the respective periods. *All the financial information for Bharti Airtel mentioned above is India segment operations

Risk Factors

- The Indian telecom sector is one of the highest competitive in the world making it difficult for the operators to maintain its market share. Bharti Hexacom also faces competition from other companies such as Reliance Jio Infocom, Vodafone Idea Limited and BSNL. In the Rajasthan and North East circles, where it is operating, its market shares declined in the past decades.
- The company is operating in a highly regulated telecommunications market. Its licenses and spectrum allocations are subject to terms and conditions, ongoing review and varying interpretations, each of which may result in modification, suspension, early termination, expiry on completion of the term or additional payments that could adversely affect its business due to regulatory ceilings on pricing.
- The company is deriving its revenues from providing mobile telephone services in Rajasthan and the North East circle, and any unfavourable developments in such regions could adversely affect the business operations and financial condition of the company.
- It has a highly working capital- intensive business.
- A large part of its passive infrastructure is not owned by the company.
- It had reported negative cash flows in the past.

Financials

	(₹ crs)				
Restated Statement of Profit and Loss	9MFY24	9MFY23	FY23	FY22	FY21
Income					
Revenue from operations	5,220.8	4,846.5	6,579.0	5,405.2	4,602.3
Other income	200.0	95.9	140.2	88.8	102.0
Total Income	5,420.8	4,942.4	6,719.2	5,494.0	4,704.3
Expenses					
Network operating expenses	1,228.5	1,179.2	1,586.3	1,486.2	1,427.9
Access charges	539.4	720.7	983.3	1,133.1	1,345.4
License fee/Spectrum charges	479.2	482.2	632.9	571.8	437.9
Employee benefits expense	79.4	69.0	90.3	76.4	76.3
Sales and marketing expenses	279.5	226.8	306.7	199.3	141.0
Other expenses	131.4	152.9	193.8	124.4	121.4
Restated profit before dep, amort, fin. costs, tax and exceptional items	2,683.4	2,111.6	2,925.9	1,902.8	1,154.4
Depreciation and amortization Exp	1,279.4	1,158.4	1,553.3	1,441.0	1,285.2
Finance costs	478.7	489.5	638.8	571.8	516.6
Re-stated Profit/(Loss) before exception items and tax	925.3	463.7	733.8	(110.0)	(647.4)
Exceptional items (net)	303.0	0.0	0.0	19,511.1	341.7
Re-stated Profit/(Loss) before tax	622.3	463.7	733.8	1,841.1	(989.1)
Tax expense	340.5	116.4	184.6	166.5	44.8
Re-stated Profit/(Loss) for the period	281.8	347.3	549.2	1,674.6	(1,033.9)
EPS Basic/ Diluted (FY ₹ 5/-)	5.6	7.0	11.0	33.5	(20.7)

Source - RHP

	(₹ crs)				
Restated Statement of Assets and Liabilities	9MFY24	9MFY23	FY23	FY22	FY21
Assets					
Non-current assets					
Property, plant, and equipment	4,263.2	3,991.1	4,070.8	3,840.0	3,905.4
Capital work-in-progress	1,057.1	291.1	456.3	64.1	70.7
Right-of-use assets	2,806.6	2,436.7	2,639.0	1,632.4	1,476.1
Intangible assets	4,198.2	4,551.6	4,464.3	4,761.2	4,922.2
Intangible assets under development	1,549.0	1,456.7	1,479.7	0.0	0.0
Financial assets					
-Investments	0.0	0.0	0.0	0.0	0.0
-Other financial assets	479.4	525.7	529.0	446.3	432.4
Income tax assets (net)	203.8	318.7	324.9	305.2	294.6
Deferred tax assets (net)	808.9	831.2	762.9	947.4	1,116.6
Other non-current assets	510.6	670.1	628.4	655.4	766.0
Current assets					
Financial assets					
-Investments	1,835.8	1,031.1	1,046.0	49.0	0.0
-Trade receivables	231.6	147.4	148.9	2,095.8	142.9
-Cash and Cash equivalents	24.7	33.7	55.5	88.5	27.7
-Other bank balances	34.2	32.9	33.2	32.4	31.5
-Other financial assets	974.3	896.1	911.9	878.7	798.8
Other current assets	625.6	719.8	702.1	877.9	1,018.6
Total Assets	19,603.0	17,933.9	18,252.9	16,674.3	15,003.5
Equity and liabilities					
Equity share capital	250.0	250.0	250.0	250.0	250.0
Other equity	4,166.1	3,757.5	3,959.5	3,410.5	1,736.0
Total Equity	4,416.1	4,007.5	4,209.5	3,660.5	1,986.0
Non-current liabilities					
Financial liabilities					
-Borrowings	2,692.3	6,064.9	4,729.9	4,807.8	3,692.6
-Lease liabilities	2,763.5	2,332.4	2,545.1	1,530.3	1,311.9
-Other financial liabilities	78.7	79.2	0.0	0.3	0.3
Deferred revenue	634.8	586.7	602.9	474.6	503.0
Provisions	22.4	23.3	23.4	21.8	21.0
Current liabilities					
Financial liabilities					
Borrowings	3,560.7	284.9	1,539.4	2,390.5	2,282.6
Lease liabilities	415.7	379.0	389.2	339.8	486.4
Trade payables	1,634.7	1,601.1	1,440.6	1,495.2	2,224.0
Other financial liabilities	1,001.2	911.3	1,026.1	376.0	1,003.4
Deferred revenue	495.5	450.9	474.9	416.6	358.0
Provisions	1,174.6	1,082.2	1,103.2	1,025.6	958.3
Current tax liabilities (net)	620.8	62.4	62.4	62.4	69.2
Other current liabilities	92.0	68.1	106.3	72.9	106.8
Total liabilities	15,186.9	13,926.4	14,043.4	13,013.8	13,017.5
Total Equity and Liabilities	19,603.0	17,933.9	18,252.9	16,674.3	15,003.5

Source - RHP

(₹ crs)

Restated Statement of Cash Flows	9MFY24	9MFY23	FY23	FY22	FY21
Restated Profit/(Loss) before tax	622.3	463.7	733.8	1841.1	(989.1)
Adjustments Related to Non-Cash & Non-Operating Items	1,963.7	1,666.3	2,196.3	2,030.5	2140.6
Operating Profits before Working Capital Changes	2,586.0	2,130.0	2,930.1	3,871.6	1,151.5
Adjustments for Changes in Working Capital	348.8	2,236.6	2,198.0	(2,598.5)	399.2
Net cash generated from operations before tax	2,934.8	4,366.6	5,128.1	1,272.8	1,550.7
Income tax paid – (net)	(4.5)	(13.6)	(19.7)	(14.8)	(33.5)
Net cash generated from operating activities	2,930.3	4,353.0	5,108.4	1,258.0	1,517.2
Net cash used in investing activities	(2,275.6)	(1,700.9)	(2,030.9)	(1,382.5)	(882.5)
Net cash used in financing activities	(682.4)	(2,704.7)	(3,111.4)	183.1	(604.2)
Net (dec.) / inc. in cash & cash equivalents during the period	(27.7)	(52.6)	(33.9)	58.6	30.5
Add: Cash & cash equivalents as at the beginning of the period	52.4	86.3	86.3	27.7	(2.8)
Cash & cash equivalents as at the end of the period	24.7	33.7	52.4	86.3	27.7

Source - RHP

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Disclosure of Interest Statement: BHARTI HEXACOM LTD. as on 28th March 2024

Name of the Security	BHARTI HEXACOM LTD
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst:	No
Analyst's Relative: Yes / No	No
Analyst's Associate/Firm: Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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