

Recommendation	Subscribe	
Price Band	Rs.542-Rs.570	
Bidding Date	03 – 05 April, 2024	
Book Running Lead Manager	SBI Caps, Axis Capital, BOBCAPS, ICICI Securities, IIFL Securities	
Registrar	KFINTECH	
Sector	Telecom	
Minimum Retail Application- Detail At Cut off Price		
Number of Shares	26	
Minimum Application Money	14,820	
Payment Mode	ASBA	
Consolidated Financials (Rs Cr)	FY22	FY23
Total Revenue	5405	6579
EBITDA	1814	2786
PAT	1675	549
Valuations (9MFY24 Annualised)	Upper Band	
Market Cap (Rs Cr)	28500	
Adj EPS	7.51	
PE	76	
EV/ EBITDA	10.5	
Enterprise Value (Rs Cr)	34728	
Post Issue Shareholding Pattern		
Promoters	70%	
Public	30%	
Offer structure for different categories		
QIB (Including Mutual Fund)	75%	
Non-Institutional	15%	
Retail	10%	
Post Issue Equity (Rs Cr)	250	
Issue Size (Rs Cr)	4275	
Face Value (Rs)	5	
Kavita Vempalli Research Analyst (+91 22 6273 8034) kavita.vempalli@nirmalbang.com		

BACKGROUND

Incorporated in 1995, Bharti Hexacom Ltd (BHL) provides mobile services, fixed-line and broadband services to customers in Rajasthan and North East (NE) circles in India, wherein it enjoys a prominent market share. BHL offers its services under 'Airtel' brand and provides a gamut of digital services in customized plans which has resulted in the continuous improvement in market share during the last three fiscals. Company has 27.1 million customers across both the circles and relies on a robust network infrastructure with a mix of owned and leased assets. The GoI through Telecommunications Consultants India Limited ("TCIL") owns 30% in the company, part of which is offered through the current IPO.

Objects and Details of the Issue:

Total issue size is of Rs. 4275 Cr and it is entirely an OFS of 7.5 cr shares.

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

Investment Rationale:

- Strong Parentage and Established 'Airtel' brand will continue to offer synergies.
- Prominent Market share in the areas of operations and BHL's rural penetration aim with customized services to aid growth.
- Steady improvement in revenues.

Valuation and Recommendation:-

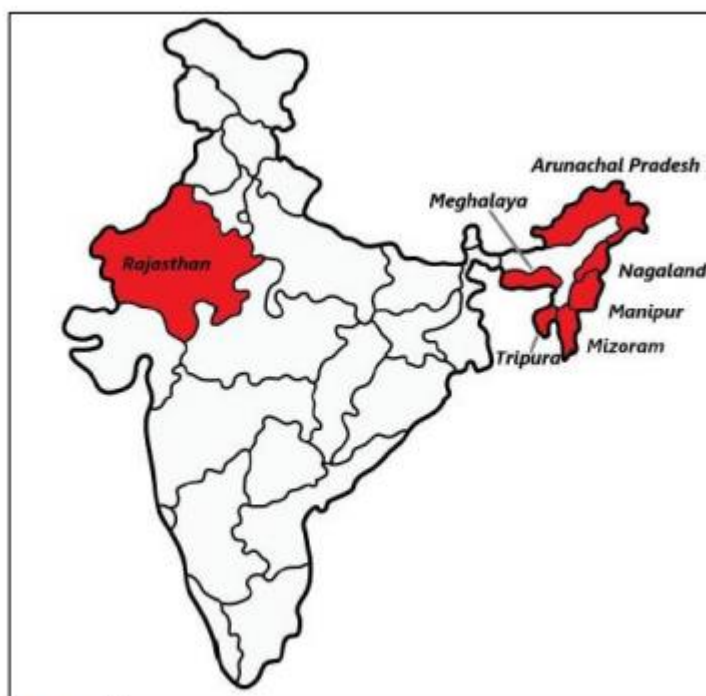
BHL has established prominent position in Rajasthan and is a market leader in North East Circles. The company has successfully improved its ARPU from Rs. 135 in FY21 to Rs.197 in 9MFY24. On the upper price band, the stock is available at 10.5x EV/EBITDA its annualised 9MFY24 earnings which is lower than industry. We believe BHL is rightly placed to tap the growing demand for data consumption in the country on the back of the vast parental fiber connectivity and submarine cable investments. With improving teledensity and continuous synergies unlocking, we believe BHL will continue to maintain its prominence in its areas of operation and recommend 'Subscribe' to the IPO with long term view.

Financials (Rs Cr)	FY21	FY22	FY23	9MFY24
Net Revenues	4602	5405	6579	5221
Growth (%)		17.4%	21.7%	
EBITDA	1052	1814	2786	2483
EBITDA Margin (%)	22.9%	33.6%	42.3%	47.6%
PBT	-989	1841	734	622
Adjusted PAT	-692	-277	549	585
EPS	-13.84	-5.53	10.98	11.70
ROCE	-1.6%	4.3%	13.1%	13.2%
EV/Sales	7.5	6.4	5.3	5.0
EV/EBITDA	33.0	19.1	12.5	10.5
P/E	-41.2	-103	51.9	36.6

Company Background

Bharti Hexacom Ltd (BHL) was originally incorporated in 1995 as 'Hexacom India Limited'. In 2004, it was renamed to 'Bharti Hexacom Limited' when Airtel acquired a majority stake of 70%. The Gol through Telecommunications Consultants India Limited ("TCIL") owns 30% in the company.

BHL provides mobile services, fixed-line telephone and broadband services to customers in the Rajasthan and the North East circles in India. It offers its services under the brand 'Airtel' and is present in 486 towns in the two circles in which it operates with 5,092 owned and 19,782 leased network towers.



(Map not to scale)

Particulars	Unit	As of and for the nine months ended December 31,		As of and for the year ended March 31,		
		2023	2022	2023	2022	2021
Mobile service						
Customer base	000's	26782	25479	25827	24767	24979
Net additions	000's	955	712	1060	-212	2159
Post-paid base	000's	827	680	706	673	668
Monthly churn	%	2.5%	2.8%	2.7%	2.7%	1.8%
ARPU	Rs.	197	184	185	155	135

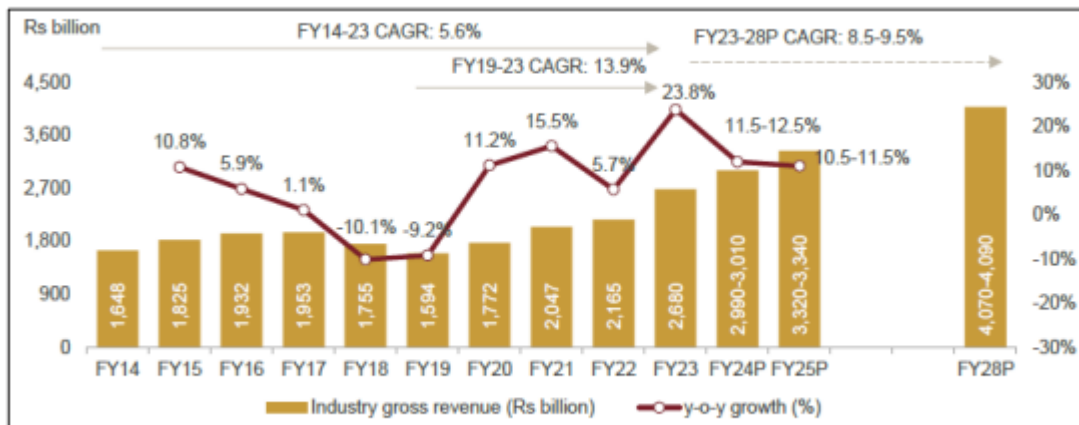
Industry

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.

The Indian telecom industry mainly comprises of wireless, mobile services, and wireline services, or fixed-line services. In India, wireless services accounted for 97.3% of total telecom customers and wireline services for the remaining 2.7% as of the nine months of Fiscal 2024. Telecom sector is characterized by high entry barriers and Spectrum is regulated and available through DoT auction. Telecom players require substantial capital to purchase spectrum through government auctions and establish and maintain their network infrastructure.

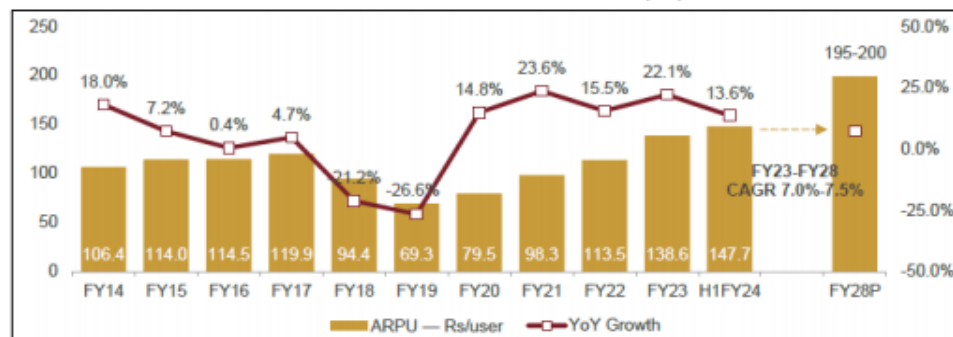
The industry spent ₹ 1,500 billion during the 5G auction in 2022, with Reliance Jio, Bharti Airtel and Vodafone Idea accounting for ₹ 800.8 billion, ₹ 430.4 billion and ₹ 188.0 billion, respectively. Further, Indian telecom operators have spent nearly ₹ 3,000 billion since 2014 to acquire spectrum across various bands.

Total gross revenue of the telecom industry in India, Fiscal 2014 to Fiscal 2028P

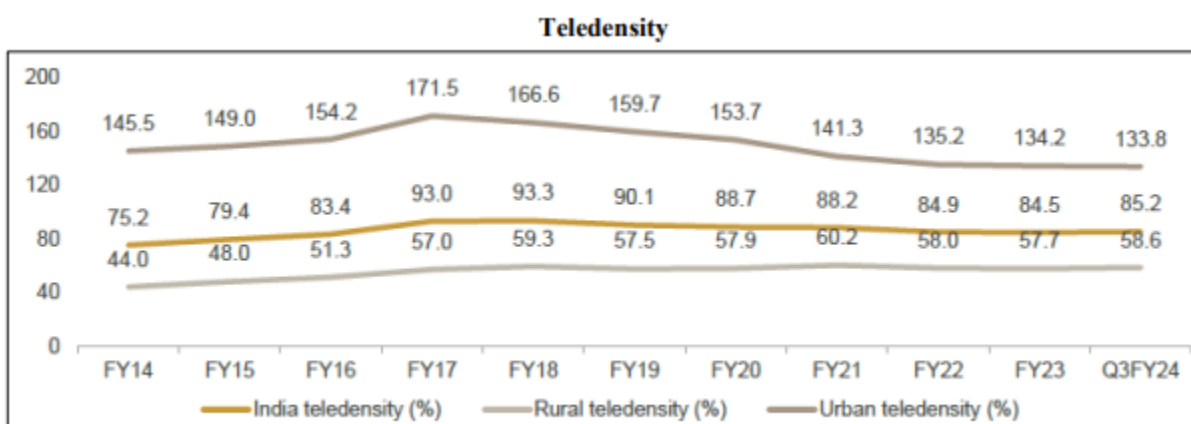


P: Projected; Source: TRAI, CRISIL MI&A

Wireless telecom ARPU in India (Rs)



P: Projected; Note: TRAI reports net ARPU arrived at after adjusting interconnect usage charges and roaming settlement charges divided by average customers during the quarter. There is a difference in ARPU calculated by TRAI and the figures published by operators in their financial statements. Source: Company reports, TRAI, CRISIL MI&A



Source: DoT, TRAI, CRISIL MI&A

Growing need for telecom services, network expansion by telecom operators, and availability of services at affordable prices have been driving customer addition and, in turn, contributing to an improvement in teledensity to 84.5% as of Fiscal 2023 from 75.2% as of Fiscal 2014. Rural teledensity improved to 57.7% as of Fiscal 2023 from 44.0% as of Fiscal 2014, which was led by higher penetration of wireless services, whereas urban teledensity declined to 134.2% from 145.5%, during the same period led by SIM consolidation.

Rural customers grew faster than urban counterparts, due to low teledensity. Notably, rural customers logged a CAGR of approximately 3.6% between Fiscals 2014 and 2023. In contrast, urban customers exhibited a lower CAGR of approximately 1.8%. The difference in growth rates can be attributed to affordability of smartphones and telecom services and continued network expansion by telecom operators. Telcos' concentrated and aggressive expansion strategies in rural areas supported rapid customer-base augmentation in these regions. Telecom revenue growth will be supported by a rise in the customer base, supported by an increase in rural teledensity.

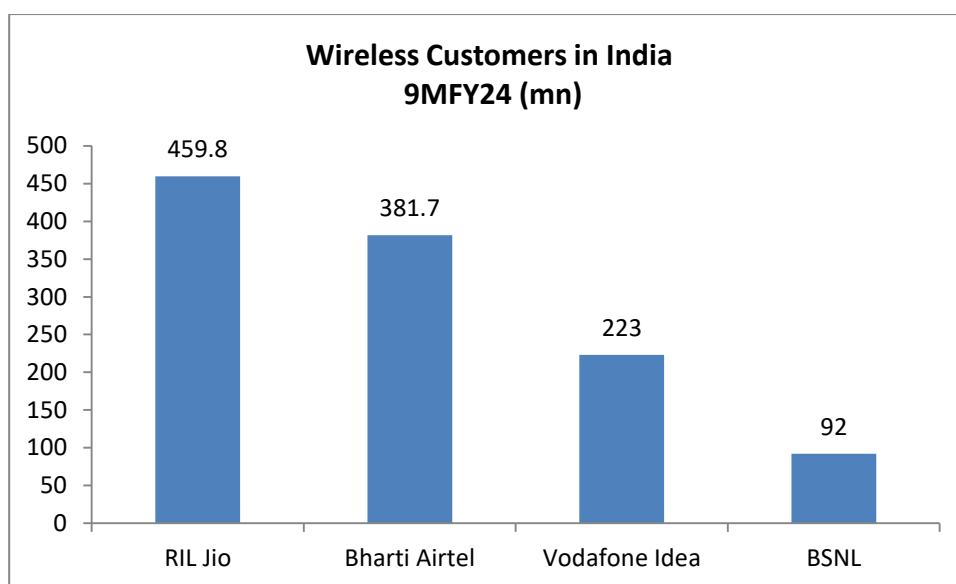
Under-penetrated telecom circles, such as Rajasthan, the Northeast region, Assam, Odisha, West Bengal, Madhya Pradesh, Uttar Pradesh and Bihar will be key areas of growth for telcos.

INVESTMENT RATIONAL

Strong Parentage and Established Brand

Airtel owns 70% stake in BHL. It has over 500 million customers in 17 countries across South Asia and Africa. To cater for the exponential growth in demand for data services and to build global fiber network, Airtel has invested in submarine cables and fiber connectivity across the country. Its optical fiber cable transmission network, which consists of owned and leased with other telecommunication operators, extends to approximately 430,412 Rkms in India, while its global fiber network runs across over 400,000 Rkms and it had seven submarine cable systems. On account of the significant growth in data consumption in India, the need for an extensive fiber network has become critical and BHL's customers would benefit due to relationship with Airtel.

BHL 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.



Source: Company

Prominent Market Share in the areas of Operation

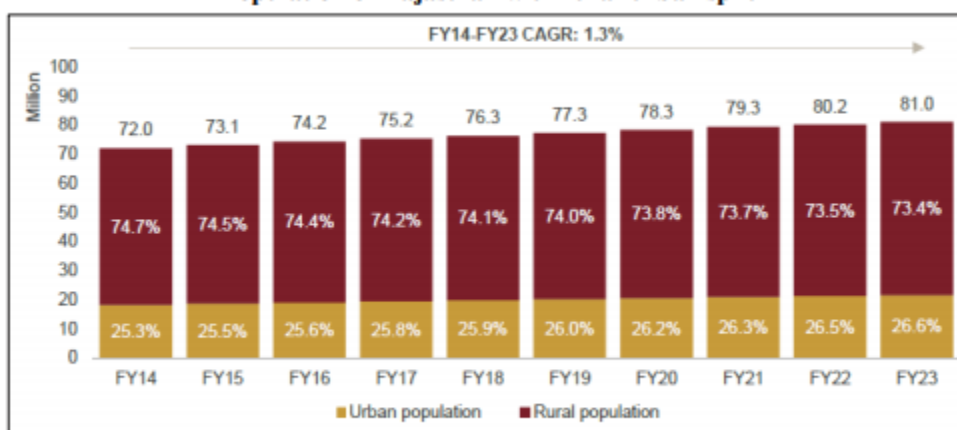
BHL's revenue market share for the Rajasthan circle (2nd position) was 40.4% while that for the NE circle (Market leader) was 52.7% during 9MFY23 respectively. In the Rajasthan circle, the market share gap between BHL and the market leader has narrowed between Fiscal 2021 and the 9MFY23 and stood at the close second position.

	As of and for the nine months ended Dec'23		As of and for the year ended Mar 2023		
	2023	2022	2023	2022	2021
Revenue Market Share					
Rajasthan	40.4%	39.2%	39.5%	36.7%	32.7%
NE	52.7%	52.4%	52.5%	48.5%	42.0%
Customer Market Share					
Rajasthan	35.0%	34.8%	35.3%	34.5%	33.1%
NE	49.8%	48.1%	48.0%	47.2%	43.6%

Source: Crisil

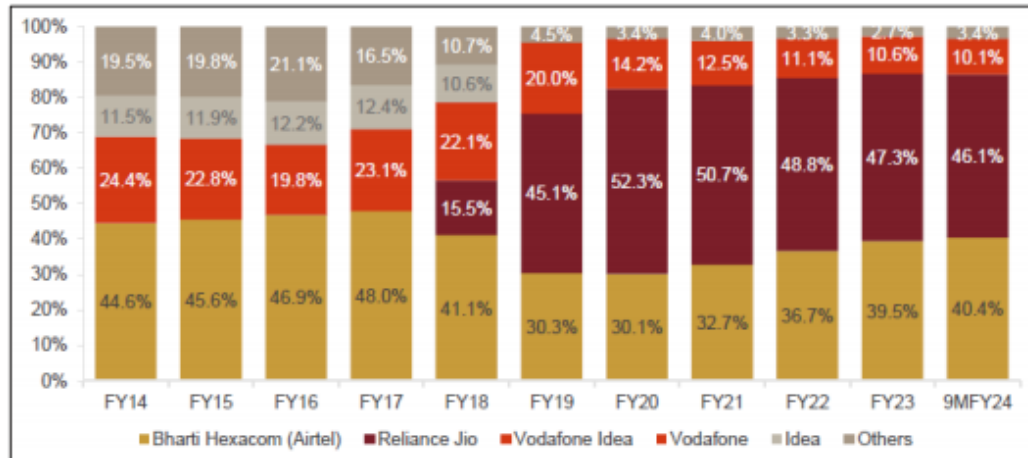
The internet customer base in Rajasthan has grown significantly from 12.5 million in FY14 to 46.9 million in FY23, logging a CAGR of approximately 15.8% (pan-India CAGR of 14.9%). As of FY23, approximately 73.7% of all wireless customers of Rajasthan were data customers compared with just 17.6% as of Fiscal 2014. Despite the growth, internet penetration in Rajasthan remains lower at 57.9% as of Fiscal 2023 than the national average of 63.6% due to lower rural internet density.

Population of Rajasthan with rural-urban split



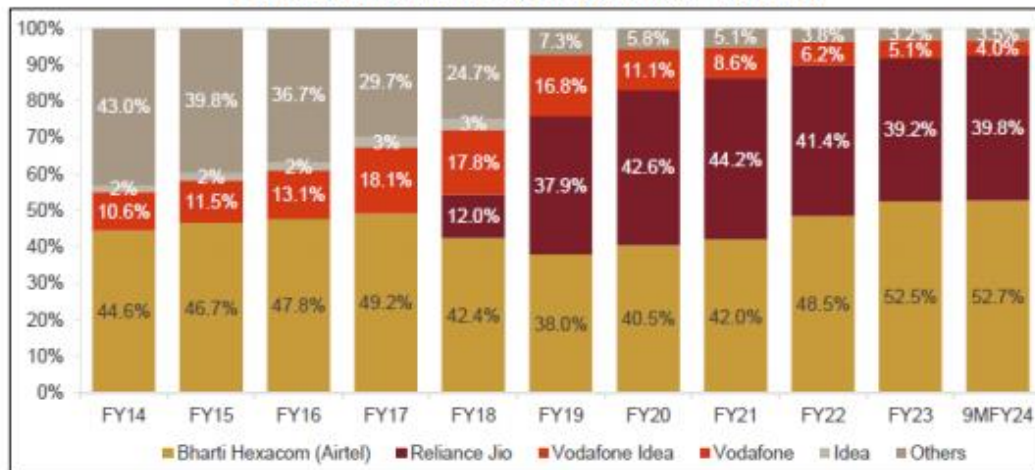
Source: MoHFW, CRISIL MI&A

Telecom Rajasthan RMS (AGR) (wireless + wireline)



Note: RMS is calculated based on adjusted gross revenue reported by wireless operators to TRAI. Others include BSNL, Airtel, Tata Teleservices and Sistema in Fiscal 2014 to list a few; others include Reliance Communications, MTNL and BSNL in Fiscal 2023. 9M represents cumulative revenue for nine months of the respective fiscal.

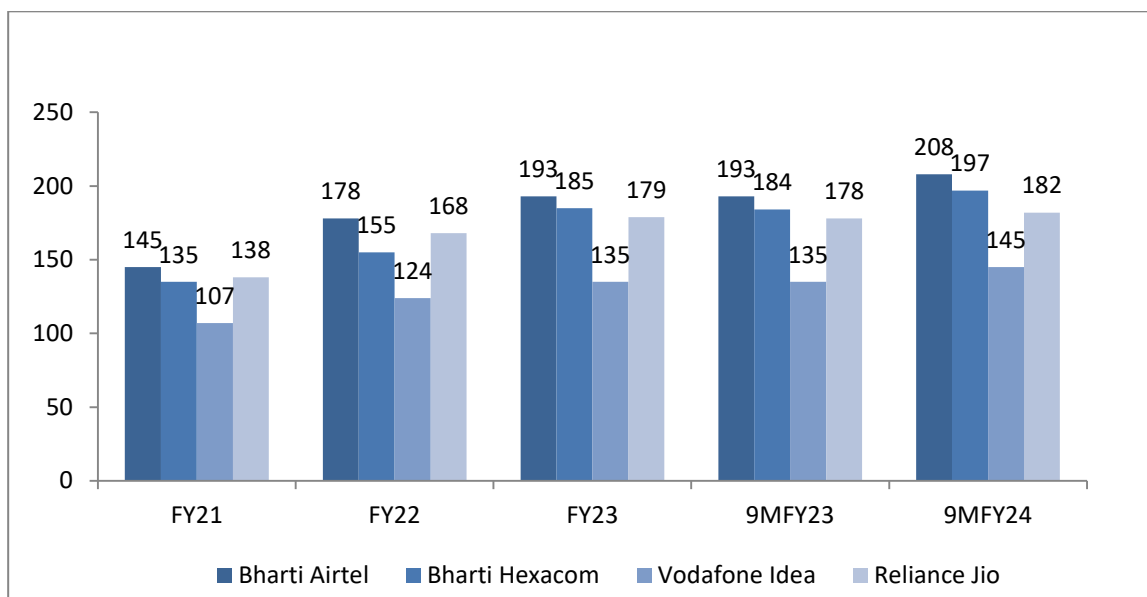
Telecom Northeast RMS (AGR) (wireless + wireline)



Note: RMS is calculated based on adjusted gross revenue reported by wireless operators to TRAI. Others include BSNL, Airtel, Tata Teleservices and Sistema in Fiscal 2014 to list a few; others include Reliance Communications, MTNL and BSNL in Fiscal 2023; Source: DoT, TRAI, CRISIL MI&A.

ARPU growth is steady

BHL have been able to consistently increase its ARPU for mobile services from ₹135 for Fiscal 2021 to ₹197 for 9MFY24, a CAGR growth of 10% during that period. This is very competitive as compared to its peers in the industry.



Source: Company

Risks to Investment

- HCL derives revenues from Rajasthan and the North East circle and any unfavorable developments in such regions could adversely affect the company’s business.
- There are outstanding legal proceedings against the company and promoter, amounting to Rs 2405.5 crore and Rs 37,004.4 crore, respectively. Any adverse outcome in any of these proceedings may adversely affect the company’s financial condition.

Valuation and Recommendation

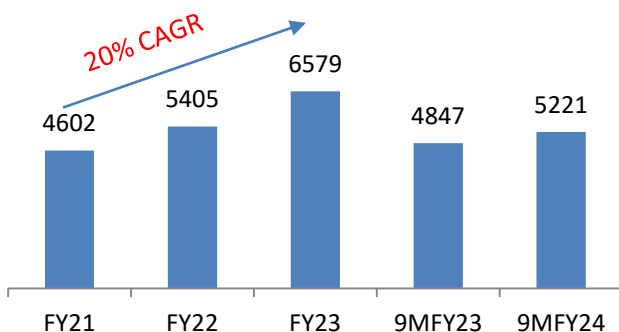
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<i>FY23 Figures</i>	Bharti Airtel Ltd.	Vodafone Idea Ltd.	Average	Bharti Hexacom Ltd.
Revenue	1,39,145	42,177		6,579
CAGR (FY21-23)	17.6%	0.3%	8.9%	19.6%
EBITDA Margin	51.2%	39.7%	45.5%	42.3%
Asset Turns (x)	0.3	0.2	0.3	0.4
Wkg Cap Days	-155	-204	-180	-180
ROCE (%)	12.3%	-3.8%	4.2%	13.1%
ROE (%)	12.0%		12.0%	13.0%
Debt/Equity	2.9	-3.2		1.5
EV/EBITDA	13.0	18.2	15.6	12.5
P/E	63.4		63.4	51.9

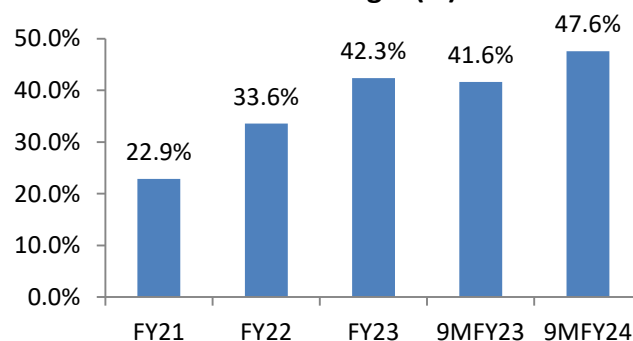
Source: Company, NBRR

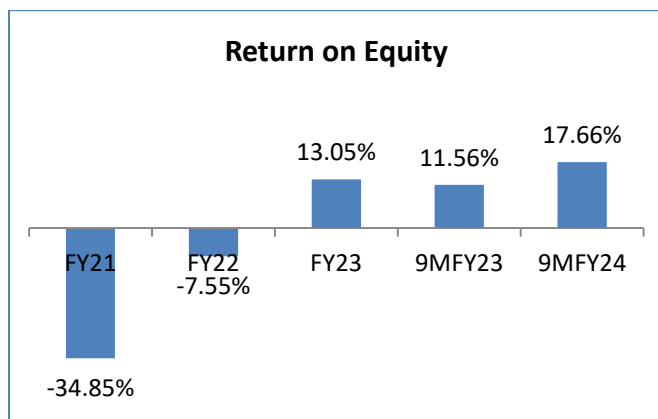
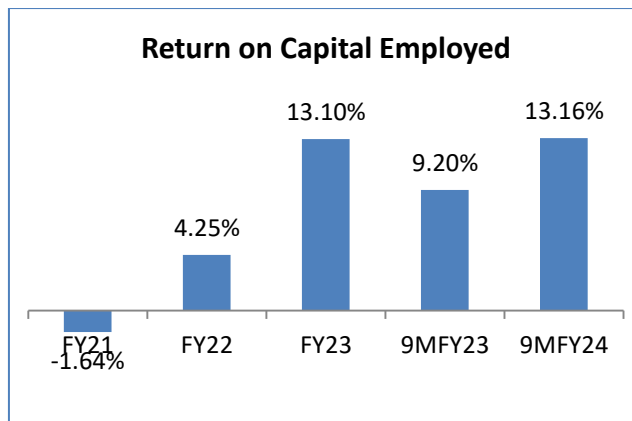
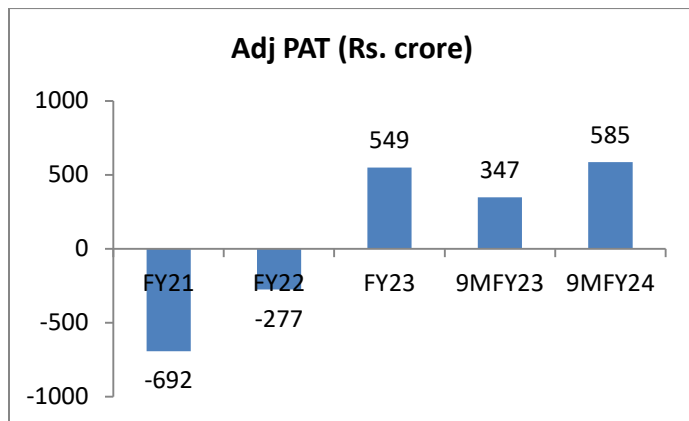
TTM PE

Topline Performance



EBITDA margin (%)





Financials

P&L (Rs. Cr)	FY21	FY22	FY23	9MFY23	9MFY24	Balance Sheet (Rs. Cr)	FY21	FY22	FY23	9MFY23	9MFY24
Revenue from operations	4,602	5,405	6,579	4,847	5,221	Share Capital	250	250	250	250	250
% Growth		17%	22%		8%	Other Equity	1,736	3,411	3,960	3,758	4,166
Network operating expenses	1,428	1,486	1,586	1,179	1,229	Networth	1,986	3,661	4,210	4,008	4,416
% of Revenues	31.0%	27.5%	24.1%	24.3%	23.5%	Total Loans	5,975	7,198	6,269	6,350	6,253
Access charges	1,345	1,133	983	721	539	Other non-curr liab.	1,836	2,027	3,171	3,022	3,499
% of Revenues	29.2%	21.0%	14.9%	14.9%	10.3%	Trade payable	2,224	1,495	1,441	1,601	1,635
License fee/ Spectrum charges	438	572	633	482	479	Other Current Liab	2,982	2,293	3,162	2,954	3,800
% of Revenues	9.5%	10.6%	9.6%	9.9%	9.2%	Total Equity & Liab.	15,004	16,674	18,253	17,934	19,603
Employee Cost	76	76	90	69	79	Property, Plant and Equipment	3,905	3,840	4,071	3,991	4,263
% of Revenues	1.7%	1.4%	1.4%	1.4%	1.5%	CWIP	71	64	456	291	1,057
Sales and marketing expenses	141	199	307	227	280	Right of use assets	1,476	1,632	2,639	2,437	2,807
% of Revenues	3.1%	3.7%	4.7%	4.7%	5.4%	Non Current Financial assets	432	446	529	526	479
Other expenses	121	124	194	153	131	Other non Curr. assets	7,099	6,669	7,660	7,828	7,271
% of Revenues	2.6%	2.3%	2.9%	3.2%	2.5%	cash and cash equivalents	28	89	56	34	25
EBITDA	1,052	1,814	2,786	2,016	2,483	Investments+loans		49	1,046	1,031	1,836
EBITDA Margin	22.9%	33.6%	42.3%	41.6%	47.6%	Trade receivables(debtor)	143	2,096	149	147	232
Depreciation	1,285	1,441	1,553	1,158	1,279	Other Current assets	1,849	1,789	1,647	1,649	1,634
Other Income	102	89	140	96	200	Total Assets	15,004	16,674	18,253	17,934	19,603
Interest	517	572	639	490	479						
Exceptional item	-342	1,951		-303		Cash Flow (Rs. Cr)	FY21	FY22	FY23	9MFY23	9MFY24
PBT	-989	1,841	734	464	622	Profit Before Tax	-989	1,841	734	464	622
Tax	45	167	185	116	341	Provisions & Others	2,141	2,031	2,196	1,666	1,964
Tax rate	-5%	9%	25%	25%	55%	Op. profit before WC	1,152	3,872	2,930	2,130	2,586
PAT	(1,034)	1,675	549	347	282	Change in WC	399	-2,599	2,198	2,237	349
Adj. PAT (norm. Tax)	(692)	(277)	549	347	585	Less: Tax	34	15	20	14	5
% Growth		-60%	-299%		68%	CF from operations	1,517	1,258	5,108	4,353	2,930
Adj EPS (Post Issue)	-13.84	-5.53	10.98	6.95	11.70	Purchase/Sale of fixed assets	-1,453	-1,334	-939	-607	-1,558
						Sale/Purchase of Investments	649	-47	-968	-969	-753
						Payment towards Spectrum	-83	-4	-132	-132	-35
						Interest, dividend and other inc	5	3	8	8	70
						CF from Investing	-883	-1,383	-2,031	-1,701	-2,276
						Proceeds from long term borrowin	8,534	6,519			
						Repayment of long term borrowing	-6,470	-5,597	-2,440	-2,250	
						(Repayment)/ proc current debt	-2,080	-110	-3	-3	20
						Payment of lease liabilities	-247	-346	-283	-217	-223
						Dividend paid					-75
						Interest paid	-341	-282	-386	-235	-404
						CF from Financing	-604	183	-3,111	-2,705	-682
						Net Change in cash	30	59	(34)	(53)	(28)
						Cash & Bank at beginning	-3	28	86	86	52
						Cash & Bank at end	28	86	52	34	25

Ratios & Others	FY21	FY22	FY23	9MFY23	9MFY24
Debt / Equity	3.0	2.0	1.5	1.6	1.4
EBITDA Margin (%)	22.9%	33.6%	42.3%	41.6%	47.6%
PAT Margin (%)	-15.0%	-5.1%	8.3%	7.2%	11.2%
ROE (%)	-34.9%	-7.6%	13.0%	11.6%	17.7%
ROCE (%)	-1.6%	4.3%	13.1%	9.2%	13.2%

Turnover Ratios	FY21	FY22	FY23	9MFY23	9MFY24
Debtors Days	11	142	8	8	12
Creditor Days	176	101	80	90	86
Asset Turnover (x)	0.3	0.3	0.4	0.4	0.4

Valuation Ratios	FY21	FY22	FY23	9MFY23	9MFY24
Price/Earnings (x)	-41.2	-103.1	51.9	61.5	36.6
EV/EBITDA (x)	33.0	19.1	12.5	12.9	10.5
EV/Sales (x)	7.5	6.4	5.3	5.4	5.0
Price/BV (x)	14.4	7.8	6.8	7.1	6.5

Source: Company Data, NBRR

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