

One Stop Investment Avenue



GEPL
CAPITAL

IPO Note

BHARTI HEXACOM LTD

April 03, 2024



BHARTI HEXACOM LIMITED



April 03, 2024

Details of the Issue

Price Band	₹ 542 - ₹ 570
Issue Size	₹ 4,275 Cr
Face Value	₹ 5
Bid Lot	26
Listing on	BSE, NSE
Post Issue Mcap	₹ 28,500 Cr
Investment Range	₹ 14,092 - ₹ 14,820

Important Indicative Dates (2024)

Opening	03 - Apr
Closing	05 - Apr
Basis of Allotment	08 - Apr
Refund Initiation	10 - Apr
Credit to Demat	10 - Apr
Listing Date	12 - Apr

Lead Manager

SBI Capital Market Limited
Axis Capital Limited
BOB Capital Market Limited
ICICI Securities Limited
IIFL Securities Limited

Offer Details

Offer Size	₹ 4,275 Cr
Fresh Issue	-
OFS	₹ 4,275 Cr

Type	In Rs Cr	No of Shares (Mn)		% of Issue
		Upper	Lower	
QIB	3,206	56.25	59.15	75
NIB	641	11.25	11.83	15
Retail	427	7.5	7.8	10
Em- ploy.	-	-	-	-
Total	4,275	78.87	75	100

Invest Now**Company Profile**

Established in 1995, Bharti Hexacom Limited offers fixed-line telephone and broadband services primarily in Rajasthan and North East telecom circles within India. By the end of December 31, 2023, the company had invested ₹206 billion in digital infrastructure for future readiness. As of December 31, 2023, Bharti Hexacom Limited served 27.1 million customers across 486 census towns. The distribution network included 616 distributors and 89,454 retail touchpoints.

Regarding data services, the company had 19,144 thousand data customers by December 31, 2023, with 18,839 thousand being 4G and 5G subscribers.

Business Highlights & Services

Company is an communications solutions brand, serves customers in Rajasthan and the North East telecommunication circles of India (Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, and Tripura). Their strategy focuses on acquiring and retaining high-quality customers by delivering a superior omnichannel experience backed by data science. It offer a range of digital services, including family and converged plans under Airtel Black, leading to sustained growth in their revenue market share. It prioritize cost optimization to improve profitability and maintain a strong capital structure. Their investments in network expansion, technology, and spectrum have totaled ₹206 billion by December 2023. Additionally, it benefit from synergies with their Promoter, Airtel, leveraging their digital infrastructure and services.

As of December 31, 2023, they present in 486 census towns and had an aggregate of 27.1 million customers across both the circles. Customer market share has grown consistently in Rajasthan from 33.1% as of March 31, 2021 to 35.0% as of December 31, 2023 and in the North East from 43.6% to 49.8% between the same dates. It have 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.

Company has robust network infrastructure with a mix of owned and leased assets. As of December 31, 2023, it utilized 24,874 network towers, of which they owned 5,092 towers, and the remaining 19,782 towers were leased from tower companies. It have a spectrum portfolio with varied pool of mid band spectrum (1800/2100/2300 MHz bands), which has enabled them to offer 5G Plus services on the widely chosen non-standalone network architecture and at a low cost of ownership. This has enabled them to save a significant amount of capital towards sub-GHz spectrum for 5G roll out and additional capital expenditure required to be spent on network infrastructure to deploy the same. During the 9M ended December 31, 2023 and 2022 and Fiscals 2023, 2022 and 2021, their Capex was ₹ 16,003 million, ₹ 25,577 million, ₹ 30,518 million, ₹ 8,745 million and ₹ 15,767 million, or 30.65%, 52.77%, 46.39%, 16.18% and 34.26% of the revenue from operations, respectively.

Company has extensive distribution and service network across the regions it operate in and during the 9M ended December 31, 2023 and the last three Fiscals, it have set up 51 retail outlets and 24 small format stores to reach 90 cities, as of December 31, 2023. As of December 31, 2023, their distribution network comprised 616 distributors and 89,454 retail touchpoints.



Market share

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					
<i>Rajasthan</i>	40.4%	39.2%	39.5%	36.7%	32.7%
<i>North East</i>	52.7%	52.4%	52.5%	48.5%	42.0%
Customer Market Share					
<i>Rajasthan</i>	35.0%	34.8%	35.3%	34.5%	33.1%
<i>North East</i>	49.8%	48.1%	48.0%	47.2%	43.6%

Geographical Footprint



Telecommunication licenses and spectrum

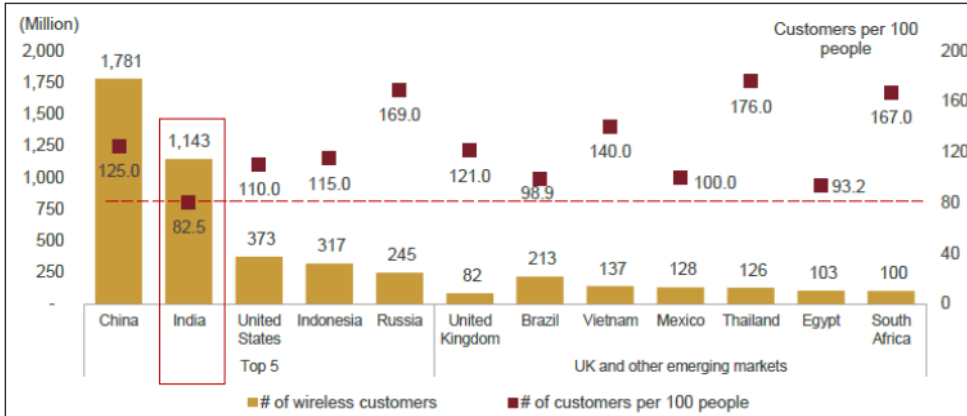
Spectrum	Quantum	Validity
North East Circle		
900 MHz (Paired)	14	8.8 MHz – December 11, 2035 1.2 MHz - April 15, 2041 4 MHz – August 16, 2042
1800 MHz (Paired)	10	7 MHz – September 7, 2034 1.6 MHz – December 11, 2035 1.4 MHz – November 9, 2036
2100 MHz (Paired)	10	5 MHz – August 31, 2030 5 MHz – April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



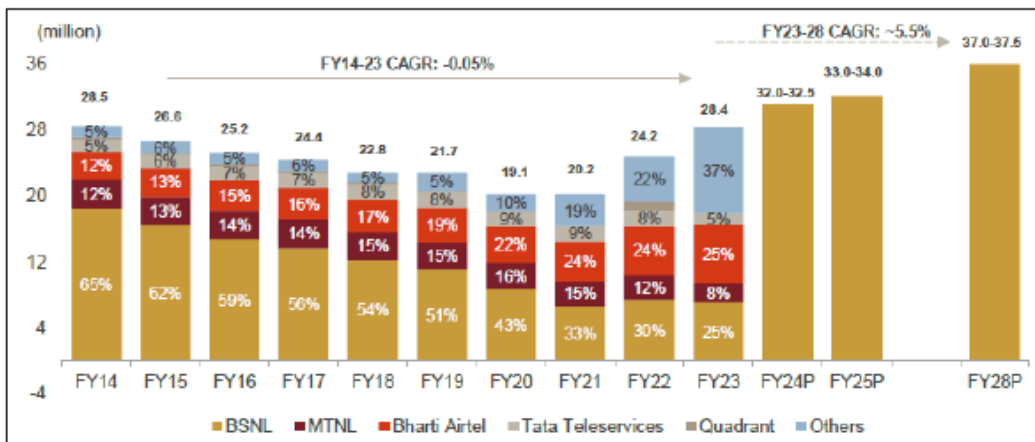
Industry Outlook

Wireline phones in India saw a decline from 28.5 million users in Fiscal 2014 to 19.1 million in Fiscal 2020, losing ground to mobile phones. Urban areas were the primary focus, with limited growth in SME clients. Initially led by BSNL and MTNL, private players like Airtel and JioFiber gained market share, especially during the pandemic. This shift to wired internet for WFH and online education stabilized wireline users at 20.2 million in Fiscal 2021, growing to 31.8 million by the nine months of Fiscal 2024 due to converged offerings bundling broadband, mobile, OTT content, DTH, and wireline services. The segment will see moderate demand in Fiscals 2024 and 2025, with a projected 5.5% CAGR from 2023 to 2028, supported by converged services and broadband. CRISIL forecasts a 5.0%-5.5% CAGR for broadband customers from 2023 to 2026.

Mobile telecom customers – India is among the largest telecom markets



Wireline telecom customers in India



Peer Comparison

Name of the company	Type of the financials	Face value (₹. per share)	Closing price as on March 11, 2024 as per BSE data (₹)	Total Revenue (in ₹ million)	EPS (₹)		NAV (₹ per share)	P/E	RoNW (%)
					Basic	Diluted			
Company	Standalone	5	NA	65,790	10.98	10.98	84.19	NA	13.83
PEER GROUP									
Bharti Airtel Limited	Consolidated	5	1,197.10*	1,391,448	14.80	14.57	136.72	82.16	15.84
Vodafone Idea Limited	Consolidated	10	13.75	421,772	(8.43)	(8.43)	(15.28)	(1.63)	NA*
Reliance Jio Infocomm Limited**	Standalone	10	NA	907,860	4.05	1.07	48.00	NA^	8.43



Companies Competitive Strength :

- Established Leadership and Large Customer Base in their area of operations.
- Presence in Markets with High Growth Potential.
- Strong Parentage and Established Brand.
- Building a Future Ready Network.
- Extensive Distribution and Service Network.
- Experienced Management Team.

Key Strategies Implemented by Company

- Grow their Revenue by Focusing on Acquiring and Retaining Quality Customers.
- Expand their Network Coverage.
- Deliver Brilliant Customer Experience through an Omnichannel Approach and Extensive Use of Data Science.
- Improve their Cost Efficiencies.

Particulars (INR Cr)	6MFY24	FY23	FY22	FY21
Equity Share Capital	250.0	250.0	250.0	250.0
Reserves	4,166.1	3,959.5	3,410.5	1,736.0
Net Worth as Stated	4,416.1	4,209.5	3,660.5	1,986.0
Revenue From Operations	5,220.8	6,579.0	5,405.2	4,602.3
Revenue Growth%		22%	17%	
EBITDA	2,039.9	2,741.3	3,687.4	767.9
EBITDA Margins%	39%	42%	68%	17%
Net Profit/Loss for the Period	281.8	549.2	1,674.6	(1,033.9)
Net Profit/Loss %	5%	8%	31%	-22%
EPS (Rs)	12.58	90.82	1154	543

Valuations and Recommendation:

- Based on annualized FY24 earnings to post-IPO paid-up equity capital of the company, The issue is priced at a P/E of x 75.85. Thus the issue appears priced compared to peers.
- The company provides fixed-line telephone and broadband services, with a strong presence in Rajasthan and the northeast region of India. However, it lacks a significant presence in major states like Delhi and Maharashtra, where its competitors have well-established businesses. This geographic concentration poses a risk to its revenue diversification. Despite having decent financials, the company reported a net loss of Rs 1,033.9 in FY21. While it claims to have recovered from this loss, its profitability has been on a declining trend primarily due to high finance costs. Over the FY21-23 period, the company's borrowing has increased significantly, given the capital-intensive nature of its operations. This growing debt burden could potentially lead to financial distress in the future. Hence, we recommend an "Avoid" rating for the issue.



Notes

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