

Issue Details		
Issue Opens	April 03, 2024	
Issue Closes	April 05, 2024	
Issue Size (Rs. Cr)	4,065 – 4,275	
Issue Size - OFS (Gr. Shares)	7,50,00,000	
Authorized Shares	50,00,00,000	
Issued, Subscribed and Paid Up Sh. Pre offer	50,00,00,000	
Face Value	Rs 5	
Lot Size (Sh)	26	
Price Band	Rs 542 – Rs 570	
Issue Type	Book Built Issue IPO	
Book Value (As On 31/12/23)	88.32	
BRLMs	SBI Caps, Axis Capital, BOB Caps, ICICI Securities, IIFL Securities	
Registrar	KFin Technologies Ltd	
Listing Venue	BSE, NSE	
Finalization of Allotment	On or about April 08, 2024	
Initiation of refund	On or about April 10, 2024	
Credit to Demat Account	On or about April 10, 2024	
Listing	On or about April 12, 2024	
Issue Structure		
Categories	Allocation	
QIBs	Not Less Than 75%	
Non-Institutional	Not More than 15%	
Retail Portion	Not More Than 10%	
<b>Total</b>	<b>100%</b>	
Shareholding Pattern		
Categories	Pre issue	Post Issue
Promoter & Promoter Group	70%	70%
GOI (TCIL)	30%	15%
Public	-	15%
<b>Total</b>	<b>100%</b>	<b>100%</b>
Recommendation		
<b>SUBSCRIBE</b>		

### Company Background

Bharti Hexacom Ltd (BHL) is a wholly owned subsidiary of Bharti Airtel Ltd and was incorporated on April 20, 1995. Its' principal activities is into telecommunication business in Rajasthan and North East Circle and has the distinction of having the largest telephony services in these regions. It also is the provider of fixed line and broadband services in Rajasthan

### Objects of the Issue

- To carry out the Offer for Sale of up to 7,50,00,000 Equity Shares by the Selling Shareholder.
- Achieve the benefits of listing the Equity Shares on the Stock Exchanges.
- BHL shall not receive any proceeds from the Offer and all the Offer Proceeds will be received by the Selling Shareholder.

### Key Points

- Bharti Airtel Limited holds 70% of the equity share capital of the Company and Government of India through Telecommunication Consultants of India Limited hold the remaining 30%.
- BHL has got a major presence across Rajasthan, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland and Tripura.
- As on 31st December, 2023, BHL has a presence in 486 census towns with approximately 27.1 Mn customers along with 616 distributors and 89,454 retail touch points.
- The wireline internet density across India is 8.9%, while in Rajasthan and North-East circles it is reported to be at 4% and 3% respectively, thus giving BHL an opportunity to expand and cement its presence further. It has increased the number of fixed-line telephone and broadband customers from 70K as on March 31, 2021 to approximately 289K as on March 31, 2023.
- BHL leverages on the robust telecom infrastructure of its parent, Bharti Airtel and its investment in Indus Towers. Its spectrum portfolio comprises of a varied pool of mid band spectrum (1800/2100/2300 MHz bands) along with spectrum holdings in 900 MHz, 3500 MHz and 26 GHz bands.
- None of BHL's existing spectrum expires before the year 2030, the validity of the spectrum pool ranges between the years 2030 and 2042.
- There are high entry barriers for a new telecom player in India on account of the regulation of spectrum and requirement to purchase it through DoT auctions. The capital investment required is also immense. This provides a cushion for established players like BHL.

### Recommendation --

**Bharti Hexacom Ltd has got a dominant market share in the Rajasthan and North-East circles through its robust infrastructure and wide retail coverage ably supported by its extensive distribution network. Operation synergies and cost rationalization through its parent Bharti Airtel gives it an operational advantage. The Bharti group has been one of the pioneers in the launching of 5G services across the country and BHL is expected to leverage this advantage. Smart TVs' and advent of OTT platforms has become another focal point. It aims to maintain an efficient capital structure with high balance sheet flexibility. It is vouching to repay its debt obligations through internal accruals as it holds Liquid Investments and Cash worth Rs 2,000 Cr at the end of Dec 31, 2023. We would hence recommend a "SUBSCRIBE" to the issue.**

Financials In INR Crs	9MFY24	FY23	FY22	FY21
Revenue from Operations	5,220.80	6,579.00	5,405.20	4,602.30
Profit Before Interest, Depreciation & Tax (PBIDT)	2,683.40	2,925.90	1,902.80	1,201.50
Profit Before Tax (PBT)	622.30	733.80	1,841.10	-989.10
Profit After Tax (PAT)	281.80	549.20	1,674.60	-1,033.90
EPS	5.64	10.98	33.49	-20.68

Source: Company's RHP, Ace Equity, AUM Research

**Industry Overview**

Countries	Penetration (Per 100 People)				Wireless Customers (Million)		
	Fixed Telephone Customers	Fixed Broadband Customers	Individuals Using Internet	Mobile Wireless Customer	Telecom Customers in 2013	Telecom Customers in 2022	CAGR
China	12.60	41.40	75.60	124.90	1229.10	1780.60	4.20%
Thailand	6.10	18.50	88.00	176.30	93.80	126.40	3.40%
South Africa	2.20	3.30	72.30	167.40	76.90	100.30	3.00%
<b>India</b>	<b>1.90</b>	<b>2.40</b>	<b>46.30</b>	<b>82.50</b>	<b>886.30</b>	<b>1142.90</b>	<b>2.90%</b>
USA	27.10	37.60	91.80	110.20	310.70	372.70	2.00%
Mexico	21.30	19.50	75.60	100.30	106.70	127.90	2.00%
Russia	16.40	23.70	90.40	169.00	218.30	245.30	1.30%
Vietnam	2.40	21.70	78.60	139.90	123.70	137.40	1.20%
Egypt	10.50	9.80	72.20	93.20	99.70	103.50	0.40%
Indonesia	3.10	4.90	66.50	114.90	313.20	316.60	0.10%
Brazil	12.70	21.00	80.50	98.90	271.10	212.90	-2.60%
UK	44.10	41.50	96.70	120.80	78.70	81.60	0.40%

Source: Company's RHP, AUM Research

- **Going Digital:-** Growth in the digital economy has encouraged people to rely more on digital applications for commonplace activities, leading to rise in mobile users and data consumption. Overall mobile customers' growth has been in the range of 2-4% CAGR across regions during the last ten years. However, growth was higher during the pandemic.
- **Catalyst for growth:-** Rise in use of smartphones, viewing of video and OTT content, video calling, e-commerce shopping, use of social media etc are some of the key attributes.
- **Advent of 5G technology:-** After the rollout of 4G services in 2010, many global markets have gradually transitioned themselves to 5G services from 2019. It is estimated that the total number of operators with active commercial 5G services at 249 across 97 markets as of August 2023. **India though is in a nascent stage, yet Bharti Airtel has been one of the first movers in this regard with rollout in various circles.**

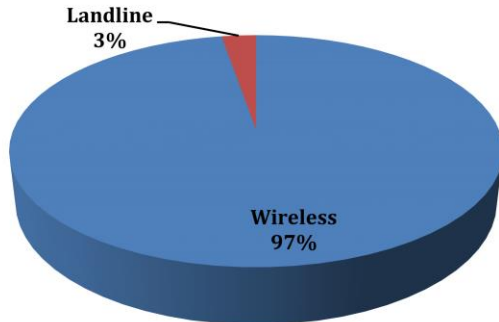
**Wireless access service providers in India**

SL No	Service Provider	Licensed Service Areas	Wireless Customers 9MFY24 (In Mn)
1	Reliance Jio	All India	459.80
2	Bharti Airtel	All India	381.70
3	Vodafone Idea	All India	223.00
4	BSNL	All India (Except Delhi & Mumbai)	92.00
5	MTNL	Delhi & Mumbai	1.90
	<b>Total</b>		<b>1158.40</b>

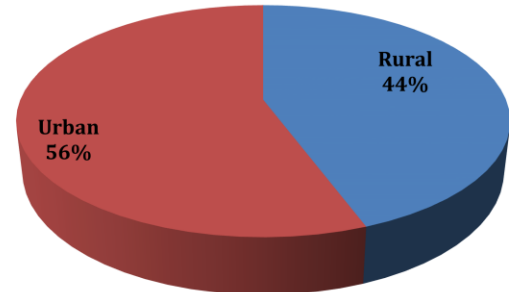
Operators	ARPU			
	FY21	FY22	FY23	9MFY24
BSNL	97	105	254	130
Bharti Airtel	197	205	229	233
Vodafone Idea	163	159	184	200
Reliance Jio	162	165	192	296

Source: Company's RHP, AUM Research

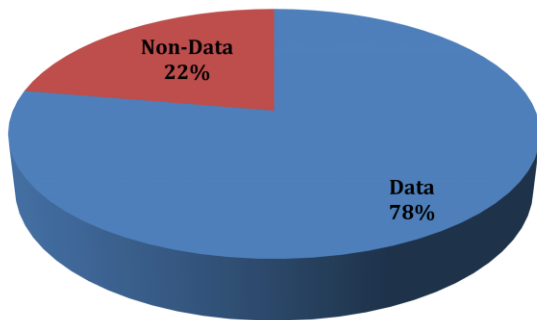
Wireless & Landline Customers



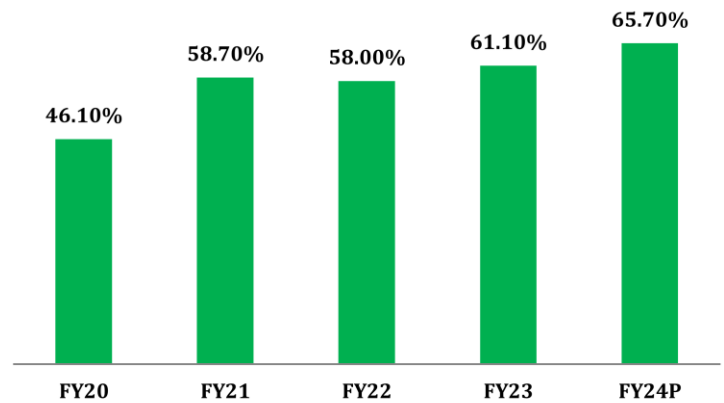
Rural & Urban Customers



Data & Non-Data Customers In Wireless Customer Base



Wireless Internet Penetration In India



Source: Company's RHP, AUM Research

- **Rise in telecom penetration to drive revenues of telcos:-** Growing need for telecom services, network expansion by telecom operators and availability of services at affordable rates have led to an increase in customer base.
- **Rise in 5G smartphone penetration:-** It is estimated that smartphones constitute about 64% share of overall phone customers at around 945 Mn at the end of FY23. This figure is expected to rise to 70% by the end of FY24. It is estimated that there are around 120 Mn 5G enabled smartphones at the end of 9MFY24, constituting about 10%-15% of the total mobile phone base in India.
- **Advent of Smart TV to aid demand of high speed internet:-** Smart TVs' constitute around 80% of colour TV sales at around 14.4 Mn units. This is expected to grow at a CAGR of 5%-6% to reach 17.4 Mn units by FY27.
- **Telcos have to incur huge capex to stay competitive:-** The telecom industry as a whole is highly capital intensive. Technological changes as 5G technology lead to huge investments. It is estimated that the industry capex might be to the tune of Rs 600-700 Bn in Fiscal 2024 and 2025.

**Spectrum Holdings MHz**

Operators	FY21	FY22	FY23
BSNL	786.80	704.00	704.00
Bharti Airtel	2,107.10	2,092.10	22,027.70
Bharti Hexacom	202.00	202.00	2,010.00
Vodafone Idea	1,768.40	1,768.40	8,005.20
Reliance Jio	1,732.00	1,732.00	26,768.00

Source: Company's RHP, AUM Research

**Company Overview**

- **Operations:-** Consumer mobile service, fixed-line telephone and broadband service.
- **Presence:-** Rajasthan, North-Eastern parts of India comprising of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland and Tripura.
- **Coverage:-** 486 census towns with around 27.1 Mn customers. 70% of this was data customers availing 4G and 5G services.
- **Infrastructure:-** As on Dec 31 2023, BHL had 24,874 network towers, of which 5,092 were owned and 19,782 were leased from tower companies.
- **Spectrum:-** 1800/2100/2300 MHz bands enabling BHL to offer seamless 5G services.
- **Retail reach:-** 51 retail outlets and 24 small format stores to reach 90 cities in the last 3 fiscals. As on Dec 31, 2023 BHL has a distribution network comprising 616 distributors and 89,954 retails touch points.

**Services offered**

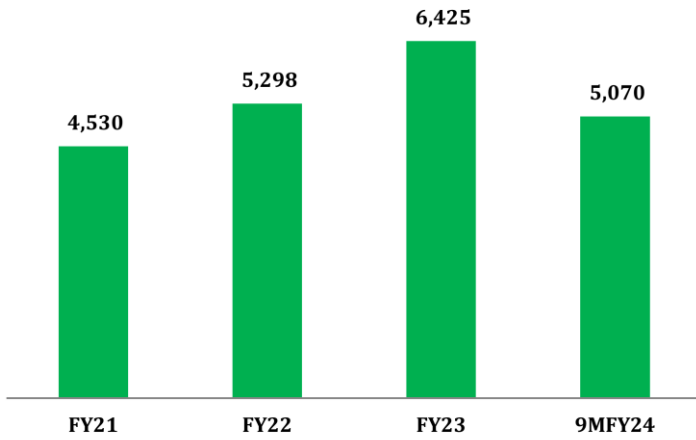
- **Mobile Telephone Services:-** BHL offers pre and post-paid wireless voice services and data communication services (including 2G, 4G and 5G offerings), international roaming of voice and data services
- **Fixed Line & Broadband Services:-** .BHL offers fixed-line telephone and broadband services to households in partnerships with local cable operators. The services include broadband internet, local, national and international long distance telephone services provided through wire-line connectivity to customers.

Mobile Services	Unit	9MFY24	FY23	FY22	FY21
Customer Base	000's	26,782	25,827	24,767	24,979
Net Additions	000's	955	1,060	-212	2,159
Post-Paid Base	000's	827	706	673	668
Monthly Churn	%	2.50%	2.70%	2.70%	1.80%
ARPU	Rs	197	185	155	135
Revenue/Tower/ Month	Rs	2,22,958	2,32,448	2,14,169	1,97,751
<b>Voice</b>					
Minutes On The Network	Mn	2,60,674	3,21,744	2,97,114	2,59,666
Usage/Customer/ Month	Minutes	1,099	1,065	1,002	927
<b>Data</b>					
Data Customer Base	000's	19,144	17,333	15,382	13,888
4G/5G Customers	000's	18,839	17,006	15,027	13,348
As % Of Customer Base	%	71.50%	67.10%	62.10%	55.60%
GBs On The Network	Mn GB	3,719	4,252	3,498	2,455
Usage/Customer/Mo nth	GB	23.10	21.80	20.00	16.80

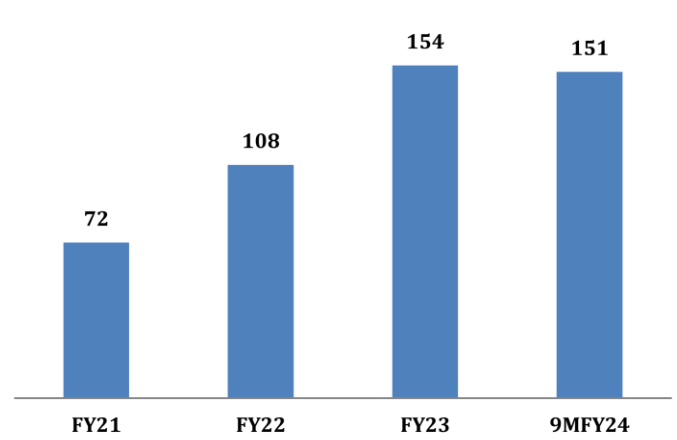
<b>Network &amp; Coverage</b>					
Mobile Services	Unit	9MFY24	FY23	FY22	FY21
Census Towns	No.s	486	486	486	486
Non-Census Towns & Villages	No.s	66,632	65,347	63,954	63,368
Population Coverage	%	96.00%	95.50%	95.50%	94.20%
Network Towers	No.s	24,874	21,672	18,786	17,188
Mobile Broadband Base Stations	No.s	77,735	70,057	61,181	56,510
<b>Home Services</b>					
Cities Covered	No.s	90	87	54	23
Homes Customers	000's	289	219	131	70
Net Additions	000's	70	88	61	32
ARPU	Rs	544	598	683	774

Source: Company's RHP, AUM Research

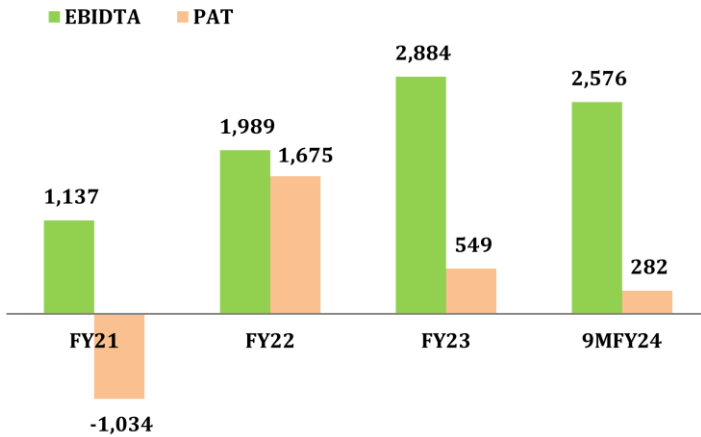
Mobile Services Revenue In INR Cr



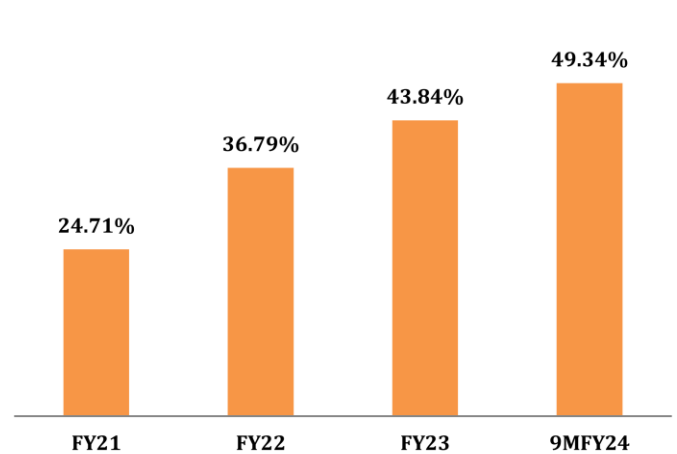
Home & Office Services Revenue In INR Cr



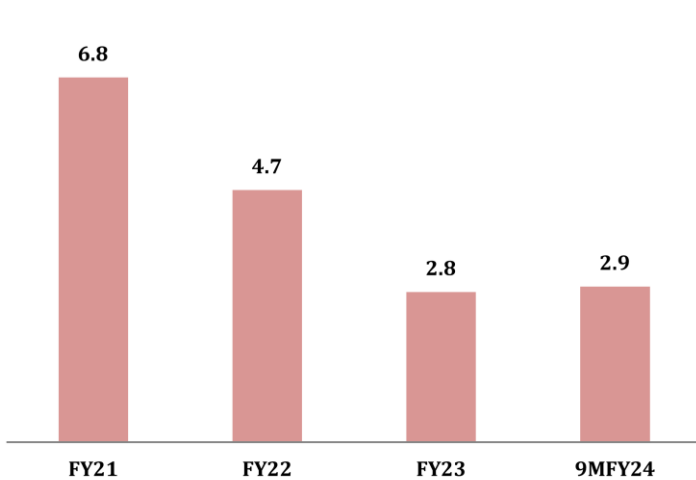
EBIDTA & PAT In INR Cr



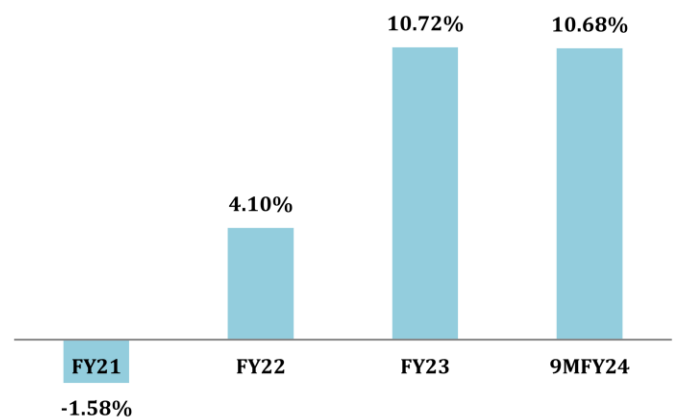
EBIDTA%



Net Debt To EBIDTA



ROCE%



Source: Company's RHP, Ace Equity, AUM Research

## Rationale For Investment

### 1) Established leadership position in its area of operations

Revenue Market Share	9MFY24	FY23	FY22	FY21
Rajasthan	40.40%	39.50%	36.70%	32.70%
North East	52.70%	52.40%	48.50%	42.00%
Customer Market Share				
Rajasthan	35.00%	35.30%	34.50%	33.10%
North East	49.80%	48.00%	47.20%	43.60%

Source: Company's RHP, Ace Equity, AUM Research

- **No.1 position in North East Circle:-** BHL held the No.1 position in FY22, FY23 and 9MFY24 in this regions.
  - **Second position in Rajasthan Circle:-** In the Rajasthan circle, the market share gap between BHL and the market leader has narrowed between Fiscal 2021 and the nine months ended December 31, 2023 and BHL stood at the close second position during the nine months ended December 31, 2023.
- ### 2) Presence in markets with high growth potential
- **Scope to increase its reach further:-** A report by CRISIL states that , Rajasthan had 67 mn 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%.
  - **Better ARPUs' than national average:-** The industry ARPU for wireless services in the Rajasthan circle grew from Rs 68 to Rs 145 at a CAGR of 20.8%, while in the North East circle it grew from Rs 74 to Rs 170 at a CAGR of 23.1%, outperforming the national ARPU growth from Rs 71 to Rs 142.3 at a CAGR of 19.0%, between Fiscals 2019 and 2023. These two regions are expected to see improvement in teledensity and adoption of smartphones in rural areas through investments in network infrastructure along with factors including the growth of digital payments indicating strong growth potential for telecom and data services, rise in data consumption and growth in demand for e-education.
- ### 3) Synergies from its parent Bharti Airtel
- **No competition clause with its parent:-** BHL has a leading position in Rajasthan and North-East circles where its parent Bharti Airtel does not operate for the B2C Services that it provides. BHL has been granted by its promoter a non-exclusive, revocable, condition license for use of 404 registered trademarks including the "Airtel" brand.
  - **Cost sharing agreement:-** BHL and Bharti Airtel have entered into a "Cost Sharing Agreement" for common marketing, personnel and administrative expenses incurred by Airtel, in the Rajasthan and North-East circles. BHL is required to pay management fees to Airtel as per the method prescribed under the Cost Sharing Agreement.
  - **Inter-business transactions:-** Since BHL and Airtel are in the same line of business, they enter into various business transactions, pursuant to which certain moneys become due and payable by BHL to Airtel. Both the companies have entered into an interest agreement, wherein BHL 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. BHL has also 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 BHL in relation to the services.
- ### 4) Strong network infrastructure
- BHL's network partners include active network partners, passive infrastructure services partners and IT partners.
- **Active network partners:-** The active network partners supply, implement, integrate, and deploy the mobile network.
  - **Passive network partners:-** 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:-** IT partners provide services related to the customer -facing and internal IT requirements.
- ### 5) Licenses and regulations
- **Validity till 2030 to 2042:-** BHL 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.
  - **Varied spectrum band:-** BHL 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. BHL does not expect to incur any significant capex towards spectrum acquisition until the specific spectrum band expires. BHL's 5G Plus services are deployed on the recently acquired 3500 MHz band in non-standalone mode with dual connectivity.

April 01, 2024

Financials – Value in Rs. Crs	9MFY24	FY23	FY22	FY21
Gross Sales	5,220.80	6,579.00	5,405.20	4,602.30
Total Income	5,420.80	6,719.20	5,499.00	4,751.40
Total Expenditure	2,737.40	3,793.30	3,596.20	3,549.90
Gross Profit	5,141.40	6,488.70	5,328.80	4,526.00
PBIDT	2,683.40	2,925.90	1,902.80	1,201.50
PBIT	1,404.00	1,372.60	2,412.90	-425.40
PBT	622.30	733.80	1,841.10	-989.10
PAT	281.80	549.20	1,674.60	-1,033.90
EPS	5.64	10.98	33.49	-20.68

Sources of Funds	FY23	FY22	FY21
Equity Paid Up	250.00	250.00	250.00
Reserves and Surplus	3,959.50	3,410.50	1,736.00
Net Worth	4,209.50	3,660.50	1,986.00
Total Debt (Long Term plus Short Term)	6,269.30	7,198.30	5,975.20
Capital Employed	10,478.80	10,858.80	7,961.20
Application of Funds			
Gross Block	20,901.90	18,747.80	17,819.10
Investments	1,046.00	49.00	0.00
Cash and Bank balance	88.70	120.90	59.20
Net Current Assets (Including Current Investments)	-3,244.50	-2,156.70	-5,469.20
Total Current Liabilities	6,142.10	6,179.00	7,488.70
Total Assets	17,490.00	15,726.90	13,886.90
Cash Flow			
Cash Flow from Operations	5,108.40	1,258.00	1,517.20
Cash Flow from Investing activities	-2,030.90	-1,382.50	-882.50
Cash Flow from Finance activities	-3,111.40	183.10	-604.20
Key Ratios			
Debt to Equity(x)	1.49	1.97	3.01
Current Ratio(x)	0.47	0.65	0.27
ROCE(%)	12.87	25.64	-5.26
RONW(%)	13.96	59.31	-41.31
GPM(%)	98.63	98.59	98.34
PBIDTM(%)	44.47	35.20	26.11
PATM(%)	8.35	30.98	-22.46

Source: Company's RHP, Ace Equity, AUM Research

**Aum Capital RESEARCH DESK**

Rajesh Agarwal	Head of Research	033-4057 21221	<a href="mailto:rajesh.agarwal@aumcap.com">rajesh.agarwal@aumcap.com</a>
Pinaki Banerjee	Manager- Research	033-405721221	<a href="mailto:pinaki.banerjee@aumcap.com">pinaki.banerjee@aumcap.com</a>
Shashank Khandelwal	Executive – Research	033-40572121	<a href="mailto:shashank.khandelwal@aumcap.com">shashank.khandelwal@aumcap.com</a>

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AUM Capital Market Private Limited

Registered Office: 226/1, AJC Bose Road, Trinity, 3<sup>rd</sup> Floor, Unit No.3G, Kolkata – 700020;

Phone: +91(33) 40572121; Fax: +91(33) 24760191

Website: [www.aumcap.com](http://www.aumcap.com); Email: [aumresearch@aumcap.com](mailto:aumresearch@aumcap.com)

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