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Issue Details

Issue Details	
Issue Size (Value in million, Upper Band)	42,750.0
Fresh Issue (No. of Shares in Lakhs)	-
Offer for Sale (No. of Shares in Lakhs)	42,750.0
Bid/Issue opens on	3-Apr-24
Bid/Issue closes on	5-Apr-24
Face Value	Rs. 5
Price Band	542-570
Minimum Lot	26

Objects of the Issue

➤ **Offer for Sale: ₹ 42,750 Million.**

- To carry out OFS of up to 7,50,00,000 equity shares by selling shareholder.
- Achieve the benefits of listing equity shares on stock exchanges.

Book Running Lead Managers	
SBI Capital Markets Limited	
Axis Capital Limited	
Registrar to the Offer	
KFINTECH Limited	

Capital Structure (₹ million)	Aggregate Value
Authorized share capital	2500.00
Subscribed paid up capital (Pre-Offer)	2500.00
Paid up capital (post-offer)	2500.00

Share Holding Pattern %	Pre-Issue	Post Issue
Promoters & Promoter group	70.0%	55.0%
Public	30.0%	45.0%
Total	100.0%	100.00%

Financials

Particulars (₹ In million)	FY23	FY22	FY21
Revenue from operations (I)	65,790	54,052	46,023
Other Income (II)	1,402	888	1,020
Total Income (I+II) (A)	67,192	54,940	47,043
Expenses (B)	37,933	35,912	35,499
EBIDTA (A- B) (III)	29,259	19,028	11,544
Depreciation (IV)	15,533	14,410	12,852
Interest (V)	6,388	5,718	5,166
Exceptional Items (VI)	-	(19,511)	3,417
PBT (C)	7,338	18,411	(9,891)
Tax (D)	1,846	1,665	448
Consolidated PAT (C - D)	5,492	16,746	(10,339)
EPS	10.9	33.5	(20.7)
Ratios	FY23	FY22	FY21
EBITDAM	44.47%	35.20%	25.08%
PATM	8.35%	30.98%	-22.46%
Sales growth	21.72%	17.45%	

Company Description

Bharti Hexacom is a communications solutions provider offering consumer mobile services, fixed-line telephone and broadband services to customers in the Rajasthan and the Northeast telecommunication circles in India, which comprises the states of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, and Tripura. They offer their services under the brand 'Airtel'. The company has a distinct strategy to premium their portfolio by acquiring and retaining quality customers and deliver an experience to them through their omnichannel approach and use of data science. They have a gamut of digital offerings to enhance customer engagement and differentiated customized offerings through family and converged plans under Airtel Black proposition, which has resulted in the continuous improvement of their revenue market share during the last three Fiscals.

The company undertakes prudent cost optimization measures to improve their profitability and maintain an efficient capital structure with a comfortable leverage position. They continuously invest in network expansion, technology advancement and judicious spectrum investments. As of December 31, 2023, they had invested ₹ 206 billion in capital expenditure in their future ready digital infrastructure. They also derive significant synergies from their relationship with their Promoter, Airtel, through the expansive digital infrastructure, digital experience, and the digital services it provides to its customers.

Their revenue market share for the Rajasthan circle was 40.4%, 39.2%, 39.5%, 36.7% and 32.7%, while for the Northeast circle was 52.7%, 52.4%, 52.5%, 48.5% and 42.0% during the nine months ended December 31, 2023, and 2022 and Fiscals 2023, 2022 and 2021, respectively. They were at number one position in the Northeast circle during the nine months ended December 31, 2023, and Fiscals 2023 and 2022. In the Rajasthan circle, the market share gap between them and the market leader has narrowed between Fiscal 2021, and the nine months ended December 31, 2023, and we stood at the close second position during the nine months ended December 31, 2023.

The company has been able to consistently increase their ARPU for mobile services from ₹135 for Fiscal 2021 to ₹155 for Fiscal 2022 to ₹185 for Fiscal 2023 to ₹197 for the nine months ended December 31, 2023. As of December 31, 2023, they were present in 486 census towns and had an aggregate of 27.1 million customers across both the circles. Their 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 Northeast from 43.6% to 49.8% between the same dates.

Valuation

Bharti Hexacom Limited boasts a well-established leadership and a sizable customer base within its operational domain. Delivering consumer mobile services, fixed-line telephone, and broadband services primarily in Rajasthan and the Northeast telecommunication circles of India, the company benefits from strong parentage and brand recognition, with Airtel holding a significant 70% stake in its outstanding equity share capital.

The company's strategy entails bolstering revenue through a dual approach: prioritizing the acquisition and retention of high-value customers while concurrently expanding network coverage.

At the upper price band company is valuing at P/E ratio of 52.3x of its FY23 earnings with a market cap of ₹ 2,85,000 million post issue of equity shares and return on net worth of 13.8%.

We believe that valuations of the company is fairly priced and recommend "Subscribe – Long Term" rating to the IPO.

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 Northeast circle and the second highest in the Rajasthan circle with 23.2 million customers and a VLR market share of 38.7%, as of December 31, 2023. As of the same date, their customer base included 19,144 thousand data customers, of which 18,839 thousand were 4G and 5G customers, and data consumption per customer per month stood at approximately 23.1 GB during the nine months ended December 31, 2023.

They rely on a robust network infrastructure with a mix of owned and leased assets. As of December 31, 2023, they utilized 24,874 network towers, of which they owned 5,092 towers, and the remaining 19,782 towers were leased from tower companies. The company has a spectrum portfolio with a 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 nine months ended December 31, 2023, and 2022 and Fiscals 2023, 2022 and 2021, their capital expenditure 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 their revenue from operations, respectively. The company has an extensive distribution and service network across the regions they operate in and during the nine months ended December 31, 2023, and the last three Fiscals, they 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. The Company was originally incorporated in 1995 as ‘Hexacom India Limited’.

In 2004, the name of the Company was changed to ‘Bharti Hexacom Limited’ when Airtel acquired a majority equity interest in their Company. Airtel owns 70% of the outstanding equity share capital. Airtel is a global communications solutions provider with over 500 million customers in 17 countries across South Asia and Africa. It is among the top global mobile operators in terms of number of customers and is India’s largest integrated communications solutions provider in terms of consolidated operating revenue as of Fiscal 2023. Airtel’s retail portfolio includes mobile services, fixed-line telephone, broadband services, and Digital TV services. Airtel Xstream Fiber is a one-stop solution for all the high-speed internet and content needs of customers with convergence across linear and on-demand entertainment, streaming services spanning music and video. For enterprise customers, Airtel also offers a gamut of solutions that include secure connectivity, cloud and data center services, cyber security, IoT, Ad Tech and CPaaS (Airtel IQ). Its flywheel of digital services includes the Airtel Payments Bank, Wynk Music, Airtel Ads, Airtel IQ and Nextra by Airtel.

The Government of India through Telecommunications Consultants India Limited (“TCIL”) owns 30% of their outstanding equity share capital. TCIL is an engineering and consultancy company and was set up in 1978 for providing Indian telecom expertise in all fields of telecom and information technology to developing countries around the world. Its core competence is in the fields of switching, transmission systems, cellular services, rural telecommunication, optical fibre-based backbone transmission systems, information technology and networking solutions, application software, e-Governance, 4G/5G, FTTH, VOIP, Wi-Fi surveillance, cyber security and civil construction and project management consultancy services. The following table sets forth certain key information of their company for the periods indicated:

Particulars	Unit	As of and for nine months ended		As of and for nine months ended		
		Dec 31,		March 31,		
		2023	2022	2023	2022	2021
Revenue from Operations	₹ in million	52,208	48,465	65,790	54,052	46,023
Revenue from mobile services	₹ in million	50,696	47,354	64,247	52,976	45,300
Revenue from mobile services as a % of revenue from operations	%	97.1%	97.7%	97.7%	98.0%	98.4%
Revenue from home and office services	₹ in million	1,512	1,111	1,543	1,076	723
Revenue from home and office services as a % of revenue from operations	%	2.9%	2.3%	2.4%	2.0%	1.6%
Total Income	₹ in million	54,208	49,424	67,192	54,940	47,043
EBIDTA	₹ in million	25,764	20,910	28,884	18,985	11,373
EBIDTA Margin	%	49.4%	43.1%	43.9%	35.1%	24.7%
Re-stated Profit/(Loss) for the period	₹ in million	2818	3473	5492	16746	-10339
ARPU for mobile services as per TRAI	₹	211	201	203	168	146
ARPU for mobile services	₹	197	184	185	155	135
ARPU for fixed-line telephone and broadband services	₹	544	610	598	683	774
Customer base for mobile services as per TRAI	million	29.3	27.8	28.4	27.4	27.4
Customer base for fixed line telephone and broadband services as per TRAI	million	0.3	0.2	0.2	0.1	0.1
Customer base for mobile services	000's	26,782	25,479	25,827	24,767	24,979
Customer base for fixed line telephone and broadband services	000's	289	198	219	131	70
Return on capital employed	%	10.7%	7.6%	10.7%	4.1%	-1.6%
Net Debt to EBIDTA	number	2.9	3.8	2.8	4.7	6.8
Net Worth	₹ in million	39,788	39,202	39,722	35,732	18,987

Competitive Strengths

Established Leadership and Large Customer Base in the area of operations.

The company provides consumer mobile services, fixed-line telephone and broadband services to customers in Rajasthan and in the Northeast telecommunication circles in India, which comprises the states of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, and Tripura. As of December 31, 2023, they were present in 486 census towns and had an aggregate of 27.1 million customers. As of the same date, their customer base included 19,144 thousand data customers, of which 18,839 thousand were 4G and 5G customers, and their customers consumed approximately 23.1 GB of data per customer per month during the nine months ended December 31, 2023. The following table sets forth details of their wireless revenue market share and customer market share (as reported by TRAI) for the periods indicated:

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

The company has the highest number of VLR customers of 6.4 million and a VLR market share of 52.3% in the Northeast circle and the second highest VLR customers in the Rajasthan circle with 23.2 million customers and a VLR market share of 38.7%, as of December 31, 2023. VLR data is used to determine the number of active users on a mobile network. VLR is a temporary database of the customers who have roamed into the particular area that it serves. Each base station in the network is served by exactly one VLR, hence a customer cannot be present in more than one VLR at a time.

Presence in Markets with High Growth Potential

The company operates in the Rajasthan and Northeast telecommunication circles in India. Rajasthan had 67.0 million telecom customers contributing 5.6% to overall India telecom customers, while the Northeast had 12.7 million customers, contributing 1.1% to overall India telecom customers in the nine months of Fiscal 2024. Rajasthan had a tele density of 79.5% as of Fiscal 2023, which lags the national average of 84.5% due to its lower rural tele density of 57.2%. Rajasthan's customer base is expected to grow at 1.4% to 1.5% between Fiscals 2023 and 2028 reaching 69.0 million to 69.5 million with a tele density of 82% to 83% following pan-India trends with rising rural tele density. Wireless customers are expected to account for approximately 98.5% of the customers by Fiscal 2028.

The central and state governments have been implementing various infrastructure development projects to improve air, rail, road, power, and telecom connectivity in these regions. For Fiscal 2024, Rajasthan has earmarked ₹53.7 billion for the Department of Information Technology and Communication. In the Northeast, over 40 projects have been completed between Fiscals 2017 and 2022 to improve air connectivity with 17 operational airports in the region as of Fiscal 2023; 2,011 kms of railway projects are under different stages of planning, approval, or execution; 4,016 kms of roads are under various stages of completion and 3,100 kms of roads have been constructed since Fiscal 2017. To improve telecom connectivity, the government is implementing the BharatNet project in a phased manner to provide broadband connectivity to all gram panchayats in the country and has disbursed ₹6.4 billion between Fiscals 2017 and 2022 for this project in the Northeast region. The government is also implementing the Northeastern Region Power System Improvement Project to improve power connectivity in the region.

Parentage and Established Brand

Airtel owns 70% of their outstanding equity share capital. Airtel is a global communications solutions provider with over 500 million in 17 countries across South Asia and Africa. During the nine months ended December 31, 2023, and Fiscal 2023, Airtel had a revenue market share in India of 37.2% and 36.1%, respectively, and as of December 31, 2023, it had 381.7 million mobile customers representing a customer market share of 33.0%. AIRTEL has a net EBIDTA of 2.5 on a consolidated basis, as of December 31, 2023.

The company derives significant synergies from their 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. Their relationship helps them drive growth, optimize capital efficiency, and maintain their competitive advantage. They are able to obtain better terms from their vendors and other third parties due to the scale of the combined operations. They also derive operational efficiencies by centralizing and sharing certain key functions across their businesses such as finance, legal, information technology, strategy, procurement, and human resources.

Building a Future Ready Network

The company relies on a robust network infrastructure through owned and leased assets. They benefit from the telecommunication infrastructure and other digital assets of their Promoter, Airtel and its investment in Indus Towers. Over the years, they have increased use of digital tools, data science and technology to enhance network efficiency, optimize costs and make their networks more environmentally friendly. As of December 31, 2023, they were present in 486 census towns in the two circles in which they operate with 5,092 owned and 19,782 leased network towers. During the nine months ended December 31, 2023, their customers spent 260,674 million minutes and consumed 3,719 million gigabytes on the network. They have a spectrum portfolio with a varied pool of mid band spectrum (1800/2100/2300 MHz bands) along with spectrum holding in 900 Mhz, 3500 MHz and 26 Ghz bands. Over the years, they have followed prudent capital allocation and spectrum acquisition, and the company chose not to acquire the expensive 700 Mhz band for their 5G network. None of the existing spectrum expires before the year 2030, the validity of their spectrum pool ranges between the years 2030 and 2042 and the company does not expect to incur any significant capital expenditure towards spectrum acquisition until the specific spectrum band expires. While they are present in two circles, their customers benefit from Airtel's pan-India telecommunication network as well as its other infrastructure and overseas operations and network.

As of December 31, 2023, Airtel had 307,663 network towers, which the customers are able to use within both, their circles as well as all other circles in India. As of the same date, Airtel had 905,556 mobile broadband base stations. To cater for the exponential growth in demand for data services and to build a 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 through indefeasible rights of use arrangements with other telecommunication operators, extends to approximately 430,412 Rkms in India, while its global fiber network runs across over 400,000 Rkms covering 50 countries and five continents and it had seven submarine cable systems, as of December 31, 2023. On account of the significant growth in data consumption in India, the need for an extensive fiber network has become critical and their customers experience reduced latency and benefit due to their relationship with Airtel.

Extensive Distribution and Service Network

The company has an extensive sales and distribution network across the rural and urban areas of the Rajasthan and Northeast circles serviced by 616 distributors and 75 stores operated by them, as of December 31, 2023. Their distribution partners are digitally empowered to sell Airtel services through the 'Mitra' app, which has been licensed to them 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 their exclusive retail footprint comprising 89,454 retail touchpoints, as of December 31, 2023, is one of the key differentiators, including for supporting high value customers and providing them superior experience. Their exclusive retail footprint is an integral part of the customer acquisition and engagement strategy, designed to bring the Airtel brand closer to their customers. As of December 31, 2023, they had set up 24 small format low-cost stores, in addition to the 51 retail stores in their two circles to deepen the retail presence and primarily drive the sale of the post-paid, homes broadband and international roaming services.

Their customers also use the 'Airtel Thanks' app, which is a one-stop digital platform where customers can seamlessly access several of Airtel's offerings and contact the dedicated customer care service. The 'Airtel Thanks' app is widely used by Airtel customers, which was reflected in its monthly active users of approximately 117 million, as of March 31, 2023. The platform has been recognized as the most innovative mobile application in the mobile industry at the prestigious ET Telecom Awards 2020.

Strategies

➤ Grow their Revenue by Focusing on Acquiring and Retaining Quality Customers

The company's strategy is to premiumize their portfolio with continuous upgrades from 2G to 4G/5G customers, upgrading customers within their 4G plans for higher data packs, pre-paid to post-paid upgrade, contextual data monetization, and through converged offerings. Their simple and clear strategy helps them drive their ARPU growth agenda in absence of tariff hike, which is reflected in their performance. The company's post-paid acceleration is driven by their family plans offerings and converged offering through Airtel Black. With rising customer needs for telecommunication services, high speed data, and changing content consumption habits, they are witnessing an increased share of wallet for such services. They have a gamut of digital offerings to enhance customer engagement on their network. Data monetization is an important lever for ARPU improvement, which they have been driving through use of contextual marketing. They revamped their international roaming offering and branded it as 'World Pass', which is a single roaming pack for travel across 184 countries, which provided cost effectiveness and flexibility for customers.

Pre-paid customers in the Rajasthan circle accounted for a dominant share of the wireless segment and stood at 95.1%, higher than the share of pre-paid customers for the overall India market at 91.9%, as of Fiscal 2023. The share of prepaid customers in the Rajasthan circle has been reducing marginally, moving towards post-paid since Fiscal 2020, due to better post-paid bundled tariff offerings by the telecom players. Similarly, in the Northeast circle, pre-paid customers had the dominant share in wireless services and stood at 97.1% as of Fiscal 2023. The share of pre-paid customers in the Northeast circle is reducing marginally and moving towards post-paid since Fiscal 2016 onwards, due to better post-paid bundled tariff offerings by telecom players. The company intend to capitalize on such opportunities and increase the share of post-paid customers, which will result in an increase in their ARPU. For broadband services, Airtel Xstream Fiber is a one-stop solution for all the high-speed internet and content needs of the customers. It provides high speed internet with convergence of on-demand entertainment, streaming services spanning music and video. The experience is enhanced with single sign-on and universal search across all forms of content at home, which has helped us cater to high value homes by providing such competitive and bundled services.

➤ Expand their Network Coverage

The company continues to expand their network coverage across the regions in which they operate with a focus on key revenue generating cities and high value catchment areas to increase their customer base and enhance customer experience. Between March 31, 2021, and December 31, 2023, they have increased their coverage in non-census towns and villages from 63,368 to 66,632, the population coverage from 94.2% to 96.0%, their network towers from 17,188 to 24,874 (of which they owned 5,092 towers and leased the remaining 19,782 from tower companies) and their total mobile broadband base stations from 56,510 to 77,735. The expansion of the rural coverage has won them their share of 4G/5G customers, which is partially reflected in the increase in their 4G/5G data customers from 13,348 thousand as of March 31, 2021, to 18,839 thousand as of December 31, 2023. During the nine months ended December 31, 2023, and the last three Fiscals, they have incurred ₹71,033 million on expanding their network coverage and infrastructure. As a result of such initiatives, the company has been able to consistently increase their ARPU and market share in the circles. They offer fixed-line telephone and high-speed broadband services with speeds of up to 1 Gbps, ensuring both fast internet connectivity and reliable voice services. Their strategy for fast-paced network coverage expansion, network deployment and having an asset light business model, has been backed by their partnerships with local cable operators in most of the regions they operate. Such arrangements have enabled them to speed up the roll out of fiber home passes, shorten time for go-to-market strategy beyond larger towns and accelerate revenue growth. They have increased the number of cities in which they provide such services from 23 cities, as of March 31, 2021, to 90 cities, as of December 31, 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 their services through innovative technology and digital tools, creating a seamless and delightful user experience. Their holistic approach focuses on every step of the customer journey, emphasizing simplicity and efficiency across the search-discover-purchase onboard- experience flywheel. To enhance customer experience, they now focus on 'interactions' to gauge quality of experience for customers as they believe that any interaction, whether on social media, on the web, on their application, in the call centre, on email or in their store, is a signal of customer grievance. They have focused on structural resolve across the customer journeys and are making fundamental changes around it - at an architecture level, end-to-end simplification, and digitization of processes for more proactive solutions as well as transparent communication with their customers. They have adopted a platform focused approach with four key platforms: Buy – the ability to buy any product on any channel with a consistent experience; Bill – a simple, converged bill across Airtel services; Pay - for any service on any channel in an intuitive manner; and Serve - raise a complaint and get resolution for any product on any channel. Each of these platforms is exposed in an omni-channel manner across their channels and is powered by an underlying foundational data layer. By adopting an omnichannel strategy, they enable customers to engage with them anytime, anywhere, seamlessly transitioning between channels. These platforms help improve customer experience and they have witnessed a decrease in the number of interactions. The company's retail outlets and small format stores also help their customers interact with them.

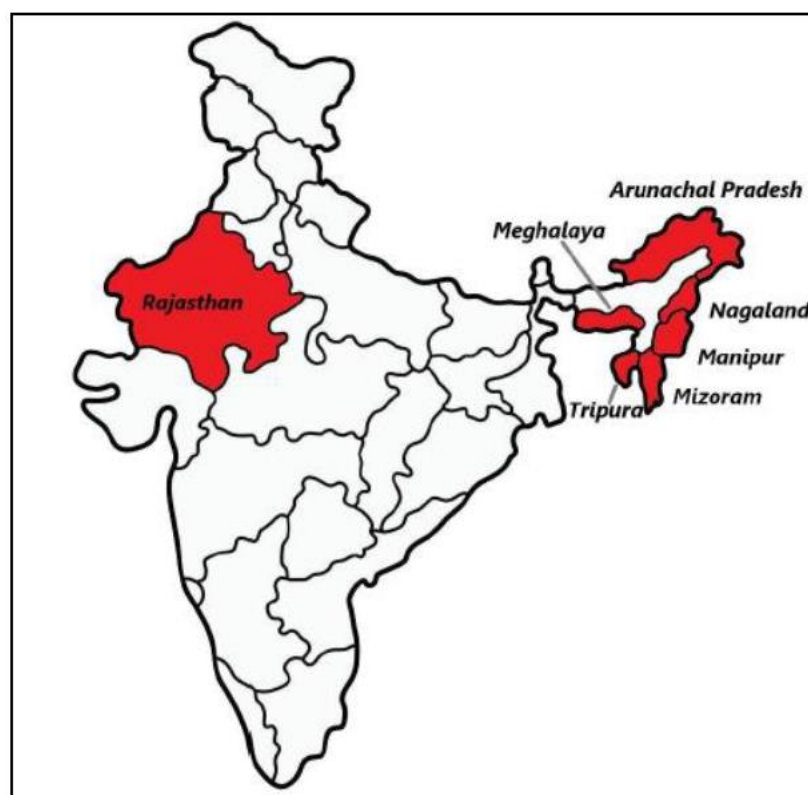
➤ **Improve their Cost Efficiencies**

The company is undertaking prudent cost optimization measures to improve profitability. Their war-on-waste program has been leading to eliminating wasteful expenditure through use of digital tools, making their networks more environmentally friendly and revisiting the cost structures on a regular basis. The company uses digital tools and data science to plan their network expansion in an optimal manner. They seek to achieve their efficiency objectives without compromising on the quality of the services, their network, and the people. The company's cost efficiency initiatives are reflected in their approach to managing operating expenses as well as prudent capital allocation in their network expansion strategy. Over the years, they have been making their network greener with solar access on network sites and climate proofing of their infrastructure to reduce outages during natural calamities. To mitigate the effect of atmospheric ducting, Airtel built a data-driven, AI-enabled predictive model that takes inputs from various satellite sources and internal network data to predict the impact of ducting, proposes bulk actions to be performed and bring the network in the steady optimum state once the ducting ceased. Multiple actions involving tilt changes, load balancing, real-time cell locking and unlocking are performed to mitigate the impact.

The company aims to maintain an efficient capital structure with high balance sheet flexibility. They seek to continue to manage their borrowing costs with a focus on cost effective financing structures, including their repayment tenors and the balance between fixed and floating rate instruments. They are adequately capitalized and endeavor to repay their borrowings primarily through internal accruals. They believe that they have been able to access cost-effective debt financing due to their stable credit history, improving credit ratings and conservative risk management policies.

BUSINESS OPERATIONS:

The company offer their services under the brand 'Airtel' in Rajasthan and in the Northeast circles in India, which comprises the states of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, and Tripura. Set forth below is a map indicating their area of operations:



Services

The company provides consumer mobile services, fixed-line telephone and broadband services to customers. Mobile telephone services: They offer 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: They offer fixed-line telephone and broadband services to households, including through their partnership with local cable operators. Their product portfolio comprises high-speed broadband with speeds of up to 1 Gbps offered as Airtel Xstream Fibre, ensuring both fast and reliable internet connectivity along with voice services. 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. The Truly Unlimited plans offer unlimited data and voice calls within India to their customers across price ranges to grow the homes services business beyond key towns and have focused on investing in their partnerships with local cable operators in such regions. The following table sets forth certain operational metrics of their service offerings for the periods indicated:

Particulars	Unit	As of for the nine months ended December 31,		As of for the nine months ended March 31,		
		2023	2022	2023	2022	2021
Mobile Services						
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	%	0.025	0.028	0.027	0.027	0.018
ARPU	₹	197	184	185	155	135
Voice						
Minutes on the network	million	260674	237484	321744	297114	259566
Voice month	minutes	1099	1055	1065	1002	927
Data						
Data customer base	000's	19144	16620	17333	15382	13888
4G/5G data customers	000's	18839	16288	17006	15027	13348
As % of customer base	%	0.715	0.652	0.671	0.621	0.556
Total GBs on the network	million GB	3719	3114	4252	3498	2455
Data usage 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	66632	65143	65347	63954	63368
Population coverage	%	0.96	0.955	0.955	0.95	0.942
Network towers	number	24874	20753	21672	18786	17188
Total stations	number	77735	67824	70057	61181	56510
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

Engineering and Information Technology Platforms

The company is a highly digitally oriented organization with a deep emphasis on using technology to provide a brilliant customer experience and deep insights for their business. A large part of the technology that they leverage is through Airtel’s in-house developed digital initiatives and technology platforms. They have deployed artificial intelligence, machine learning technologies and automation tools which ensure proactive and preventive decisions using bigdata driven insights and help reduce the number of interactions by reducing overall service disruption time with faster identification and rectification of issues, prevent service degradation and faster resolution of issues. For instance, A-SON helps predict degradation and proactively makes changes in the network to enhance customer experience, while VISION provides unified customer analytics and improves service resilience and availability.

Network Infrastructure

The company relies on a robust network infrastructure with a mix of owned and leased assets. They utilized 24,874 network towers, of which they owned 5,092 towers and leased the remaining 19,782 towers, as of December 31, 2023. As of the same date, Airtel had 307,663 network towers, which their customers are able to use within both, their circles as well as all other circles in India. Towers comprise the non-active components of a wireless telecommunications infrastructure network, including the tower structure, shelters, industrial air conditioners, diesel generators, batteries, switch mode power supplies and voltage stabilizers. Over the years, they successfully re-farmed the 2100Mhz spectrum and deployed it for 4G to enhance network capacity and improve user experience. The company is rolling out 5G Plus services by deploying non-standalone network architecture, fiberizing their network, and building device and partner ecosystems. Airtel continues to step up backhaul readiness and capacities on sites with increased fabrication and capacity expansion of their transmission backbone and internet to cater to additional data load.

Industry Snapshot:

A consolidated industry, driven by economies of scale.

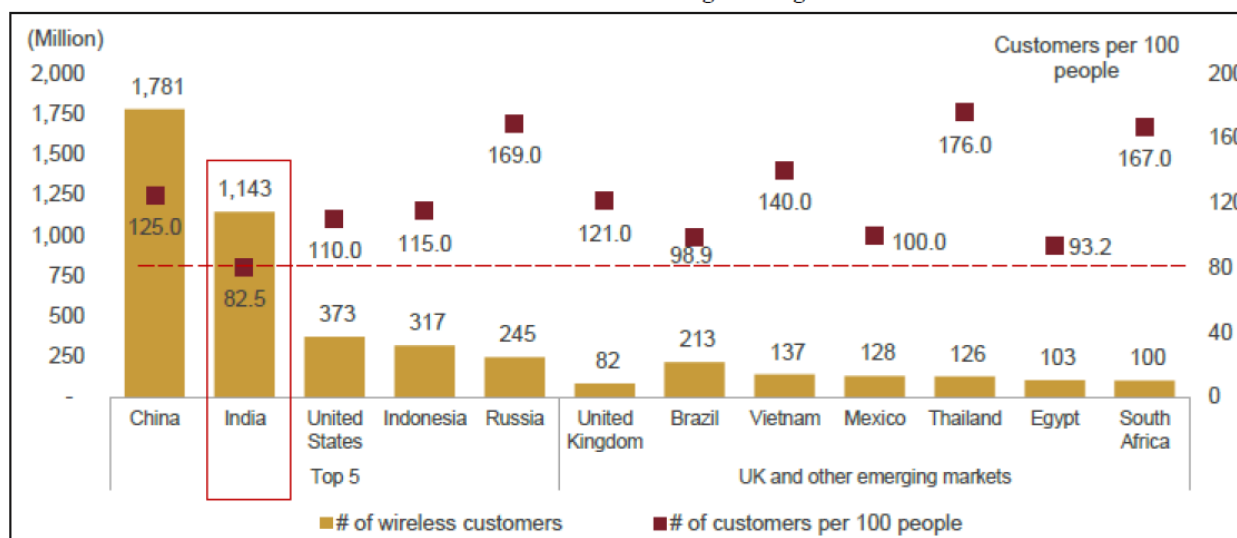
The telecom industry is capital intensive and highly competitive. Players undertake mergers and acquisitions (M&As) to not only survive but also upgrade technologically, expand the customer base and widen product diversification. Acquisitions in the sector primarily involve horizontal integration as the companies aim to gain competitive advantage by acquiring competitors. Fewer market players lead to economies of scale and reduction in the overlapping infrastructure. This lowers operational expenses and allows more efficient use of capital investments. In most key countries, 2-5 telecom companies dominate the sector.

Countries	Top telecom companies
Australia	Telstra, Optus, TPG Telecom, Superloop, Macquarie Telecom Group
Brazil	Claro, Telefônica, TIM
China	China Mobile, China Telecom, China Unicom
France	Orange, SFR, Bouygues Telecom, Free Mobile
Germany	Deutsche Telekom, Vodafone, O2 Telefónica
Japan	NTT DOCOMO, KDDI Corp, Softbank Corp, Rakuten Inc
Hong Kong	China Mobile Hong Kong, Hong Kong Telecommunications, SmarTone Mobile, Hutchison Telephone, 21 ViaNet
India	Bharti Airtel, Reliance Jio, Vodafone Idea, BSNL, MTNL
Spain	Vodafone Spain, Orange Spain, Movistar Telefónica, Yoiga
United States	Verizon, AT&T, T-Mobile
Middle East	Emirates Telecommunications Corporation, Emirates Integrated Telecommunications Company PJSC, Saudi Telecommunication Company (STC), Etihad Etisalat (Mobily), Zain

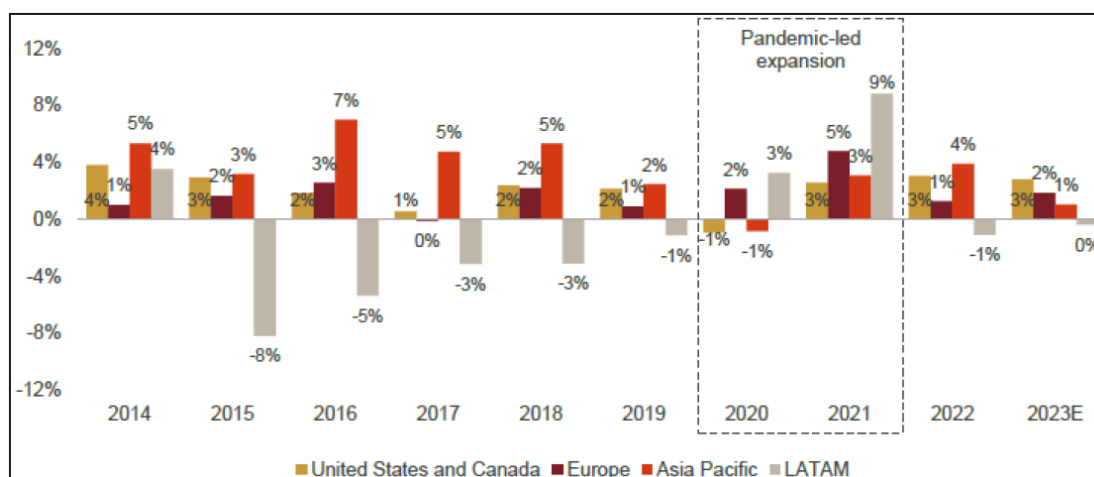
China and India are the top two telecom markets by customer base.

China is the largest telecom market, with 1,781 million wireless customers as of 2022. India follows with 1,143 million wireless customers as of 2022. 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.

Mobile telecom customers – India is among the largest telecom markets



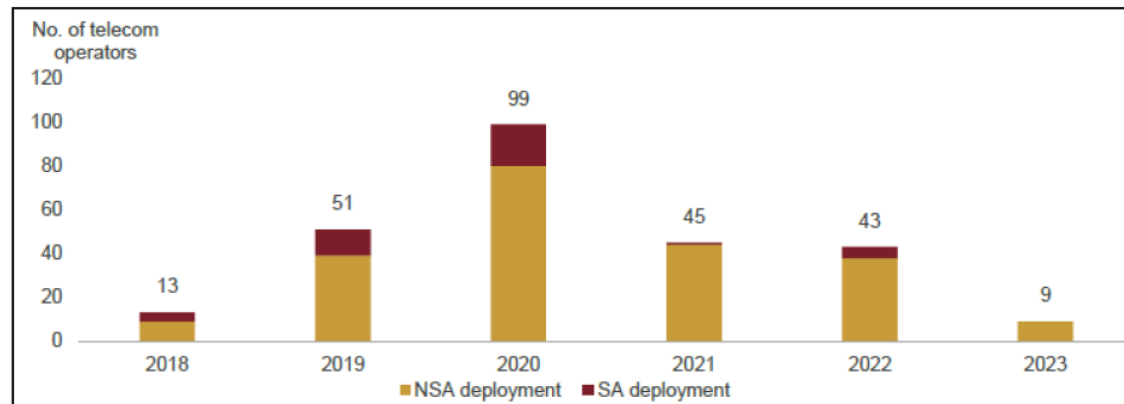
Global mobile customers' year-on-year growth



Heading towards 5G

The digital world is moving towards 5G data. After the rollout of 4G services in 2010, many global markets have transitioned to 5G services starting 2019, with the total number of operators with active commercial 5G services at 249 across 97 markets as of August 2023. For 5G services, telecom companies have two deployment options — non-standalone (NSA) and standalone (SA). NSA has been the widely chosen network architecture, as approximately 85% of telecom operators worldwide initiated 5G deployment based on the NSA architecture. However, in select markets such as the US and China, operators are exploring and transitioning to SA. As of June 2023, at least 57 operators in 33 markets worldwide have activated 5G SA networks according to S&P Global Market Intelligence 5G tracker. Other markets, though, are yet to follow, as 5G adoption is limited to a few applications.

5G deployment – NSA and SA



Assessment of the Indian telecom industry

Telecommunication has been playing a pivotal role in a country's economic growth. It is the backbone of many industries, including e-commerce, media and entertainment, finance, information, and technology (IT), healthcare, transportation, and logistics. The sector facilitates seamless movement of data worldwide through wired or wireless channels and significantly influences economic progress. The telecom market is constantly evolving with integration of cutting-edge technologies over the years. This has widened the coverage of telecom services globally and made them an indispensable part of the daily lives of consumers. Telecom proved to be an essential service, especially during the Covid-19 pandemic, by enabling people to remain connected amid worldwide lockdowns. The telecom industry mainly comprises wireless services, or 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.

The telecom sector is characterized by high entry barriers.

A regulated environment, high capital requirements and dominance of existing players in a consolidated market deter new players from entering the telecom industry.

Spectrum is regulated and available through DoT auction.

In India, spectrum auctions are held for 22 telecom circles and a telecom company needs to acquire spectrum in each circle to provide comprehensive coverage to its consumers. Operators also need to acquire a unified license with authorizations for access services in each circle before they participate in auctions. So, if a new telecom company plans to launch services in a particular region, it will have to buy both spectrum and a license for the entire circle. Further, it would have to either wait for spectrum auction or acquire a telecom company with a spectrum portfolio. Currently, acquisition costs are prohibitive given significant consolidation in the domestic industry.

High capital investments are vital for sustaining telecom services.

Telecom players require substantial capital to purchase spectrum through government auctions and establish and maintain their network infrastructure. Further, the telecom industry remains susceptible to rapid technological changes, necessitating fresh investments or significant overhaul of existing networks. 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. The telecom sector has a low average asset turnover ratio of 0.3 times (Fiscals 2020-23), indicating high capex requirements on a sustained basis. Capex intensity is high and estimated at approximately 30% of total revenue in Fiscal 2023 and approximately 25% in Fiscals 2024 and 2025. Even network opex was 25-30% of revenue based on data collated for industry players over Fiscals 2021-2023. Thus, the telecom industry's high capital intensity acts as a strong entry barrier for new entrants.

Indian wireless telecom market is consolidated in line with global peers.

In Fiscal 2014, 14 players — Bharti Airtel, Idea Cellular, Vodafone India, BSNL, MTNL, Reliance Communications, Reliance Telecom, Tata Teleservices, Tele wings Communications Services, Aircel Cellular, Sistema Shyam (MTS), Videocon Telecommunications, Loop Mobile and Quadrant (HFCL) — had cellular mobile service license from the Department of Telecommunications (DoT). The price war in the telecom industry, which started in late 2016, led to a sharp reduction in data tariffs along with voice calls being nearly free. Small players were the worst hit, given their limited financial strength, forcing them to either exit or merge with large players. As of the nine months of Fiscal 2024, there were five service providers in the Indian telecom market, of which two were public sector units (PSUs) — Bharat Sanchar Nigam Ltd (BSNL) and Mahanagar Telephone Nigam Ltd (MTNL). The top three players — Bharti Airtel, Reliance Jio and Vodafone Idea — held approximately 92% customer share in

the Indian wireless telecom market, leading to an oligopolistic industry (the share of the two PSUs is meagre), in line with the global trend. China, Germany, and the UK have just three telecom players each.

S. no.	Service provider	Licensed service areas	Wireless customers (9MFiscal 2024) (million)
1	Reliance Jio Infocom Ltd	All India	459.8
2	Bharti Airtel Ltd	All India	381.7
3	Vodafone Idea Ltd	All India	223
4	BSNL (PSU)	All India (except Delhi and Mumbai)	92
5	MTNL (PSU)	Delhi and Mumbai	1.9
6	Reliance Communications Ltd	All India (except Assam and Northeastern states)	0

India has potential to further deepen telecom penetration.

India is the second largest telecom market globally, with 1,143.9 million wireless customers in Fiscal 2023, behind China with 1,781 million wireless customers in 2022. India has emerged as one of the fastest growing wireless telecom markets among the top five and other emerging global markets. The number of wireless telecom customers in the country increased at a CAGR of approximately 2.6% between Fiscals 2014 and 2023 to 1,143.9 million (2.9% CAGR between 2013 and 2022). In Fiscal 2023, at 82.5 customers per 100 people, India's wireless teledensity is the lowest among the top five wireless markets in the world as well as among emerging markets. Even India's telephone and fixed broadband customers at 1.9 and 2.4 per 100 people, respectively, are much lower than those in other large economies. The under-penetration of telecom services implies potential for growth, especially in rural areas, supported by projected growth of the Indian economy and per capita income. In urban areas, data consumption beyond mobility is driven by an increase in connected home devices, connected automobiles and other Internet of things (IoT) applications, further supporting both wireless and wireline broadband customers.

Potential for price increases given under-indexation of Indian players versus global peers.

India and China have the lowest tariffs in absolute dollar terms compared with other comparable economies. China has the lowest fixed broadband basket price (at least 5 GB) at USD 4.5 per month, while India at \$5.0 per month, offers unlimited data. India has the lowest price for mobile telecom, at USD 2.0, among peers such as China (USD 6.2), Thailand (USD 10.7) and Vietnam (USD 2.3), indicating headroom for improvement in ARPU in India in line with growth in per capita income. In terms of percentage of gross national income (GNI) per capita (PPP), the telecom tariff is around 0.05% for China compared with 0.09% for India. Hong Kong has the lowest telecom price tariffs for mobile data as a percentage of GNI per capita (PPP), at 0.01%.

Countries	Fixed broadband basket (5 GB) (USD)	Data-only mobile broadband basket (2GB) (USD)	Mobile data and voice		For mobile data and voice low-consumption basket (PPP % per capita)
			High consumption basket (140 min + 70 SMS + 2 GB) (USD)	Low-consumption basket (70 min + 20SMS + 500 MB) (USD)	
China	4.5	4.5	10	6.2	0.05%
Thailand	18.6	7.4	15.8	10.7	0.15%
South Africa	21.2	9.6	19	8.6	0.12%
India	5	2	2	2	0.09%
The US	54.4	43.5	43.6	43.6	0.06%
Mexico	17.4	10	10	10	0.08%
Russia	7.5	7.4	7.4	7.4	0.05%
Vietnam	7.8	1.1	2.8	2.3	0.05%
Egypt	7.4	2.7	4.3	2.3	0.07%
Indonesia	21	3.8	5.8	4.4	0.09%
Brazil	20.3	3.7	6.1	6.1	0.07%
The UK	41.4	12.6	12.6	12.6	0.02%
Hong Kong	21.4	5.4	9.5	6.9	0.01%

Indian telecom industry growth is led by wireless services.

At 1,158.5 million as of the nine months of Fiscal 2024, wireless telecom customers accounted for 97.3% of the total telecom customers of 1,190.3 million. The number of wireless telecom customers rose from 904.5 million in Fiscal 2014 to a high of 1,183.4 million in Fiscal 2018 before falling to 1,157.7 by Fiscal 2020 due to closure of inactive SIMs and deactivation of SIMs that were not linked with Aadhaar. Additionally, an increase in base (entry-level plans) tariff rates by telcos made owning multiple SIMs an expensive proposition for customers, leading to SIM consolidation. Also, the number of customers temporarily declined during the first pandemic wave as urban areas lost 18 million customers, while rural areas gained 3 million. As lockdowns eased, the customer base recovered and exceeded pre-pandemic levels, reaching 1,181.0 million by the end of Fiscal 2021. Urban areas contributed significantly to this growth as remote work, e-learning and other online services became widely prevalent. Wireless customers fell to 1,142.1 million in Fiscal 2022, led by SIM consolidation, followed by a modest increase of 0.17% to 1,143.9 million in Fiscal 2023 and 1,158.5 as of the nine months of Fiscal 2024. The impact of SIM consolidation diminished by the end of Fiscal 2023, resulting in a positive upswing in wireless numbers. However, the overall increase was constrained by inflationary pressures.

Comparison of Industry Peer

Name of the company	Type of the financials	Face value (₹. Per share)	Total Revenue (in ₹ million)	EPS	P/E	NAV (₹ per share)	RoNW (%)
Bharti Hexacom Limited	Standalone	5	65,790	10.9	52.3	84.19	13.83
PEER GROUP							
Bharti Airtel Limited	Consolidated	5	1,391,448	14.8	82.16	136.72	15.84
Vodafone Idea Limited	Consolidated	10	421,772	-8.43	-1.63	-15.28	NA
Reliance Jio Infocomm Limited	Standalone	10	907,860	4.05	NA	48	8.43

Key Risk:

- The company derives their revenues from providing mobile telephone services in Rajasthan and the Northeast circle and any unfavourable developments in such regions could adversely affect their business, results of operations and financial condition.
- There are outstanding legal proceedings involving their Promoter, in addition to their Company. Any adverse outcome in any of these proceedings may adversely affect their reputation, business, financial condition, and results of operations.
- As of December 31, 2023, they had contingent liabilities which have not been provided for in their Restated Financial Information and could adversely affect their business, financial condition, and results of operations.
- Reduction in revenue they earn for their telecom services, due to regulatory ceilings on pricing, or owing to pricing pressure, reduction in average revenue per user ("ARPU"), may have an adverse effect on their business, financial condition, results of operations and prospects.
- The company has incurred significant indebtedness, and they must service this debt and comply with any lenders' covenants to avoid defaulting on their borrowings and refinancing risk. Any default may adversely affect their business and profitability.
- The company requires significant capital to fund their capital expenditure and if they are unable to raise additional capital, their business, financial condition, and results of operations could be adversely affected.
- Any change in the company's relationship with their Promoter, Airtel, and its affiliates, may adversely affect their reputation, business, operations, financial condition, and results of operations.

Valuation:

Bharti Hexacom Limited boasts a well-established leadership and a sizable customer base within its operational domain. Delivering consumer mobile services, fixed-line telephone, and broadband services primarily in Rajasthan and the Northeast telecommunication circles of India, the company benefits from strong parentage and brand recognition, with Airtel holding a significant 70% stake in its outstanding equity share capital.

The company's strategy entails bolstering revenue through a dual approach: prioritizing the acquisition and retention of high-value customers while concurrently expanding network coverage.

At the upper price band company is valuing at P/E ratio of 52.3x of its FY23 earnings with a market cap of ₹ 2,85,000 million post issue of equity shares and return on net worth of 13.8%.

We believe that valuations of the company is fairly priced and recommend "Subscribe – Long Term" rating to the IPO.

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