

VIL dues continue to haunt...

About the stock: Indus Towers was formed by the merger of Bharti Infratel and Indus Towers. This combined strength makes Indus one of the largest telecom tower companies in the world.

- It has 186474 towers and 336382 co-locations (as on Q1FY23) and a nationwide presence covering all 22 telecom circles

Q1FY23 Results: Weak operating performance.

- The company reported net addition of 591 co-locations vs. 685 co-location addition in Q4 and much lower than our expectations of 1400 tenancy addition. Revenues came in at ₹ 6895 crore, down 3.1% QoQ with rental revenues at ₹ 4223 crore, down 11% QoQ. On an adjusted basis, like to like core rental revenues were up 0.6% QoQ
- EBITDA was at ₹ 2262 crore, down 44% QoQ, with margins at 32.8% (down 24 percentage points QoQ) owing to provision for doubtful debts of ₹ 1233 crore, against dues from Vodafone Idea. On adjusted basis, EBITDA was at ₹ 3495 crore, down 0.6% QoQ and margins of 50.7%, down 284 bps QoQ. PAT was at ₹ 477.3 crore (down 66.3% QoQ) largely owing to provision

What should investors do? Indus' share price has been down ~13% over the past five years owing to concerns over its key tenant (VIL) survival.

- We await traction of potential growth in the adjacent areas such as small cells/ in building solutions etc. Despite, Vodafone Idea (VIL) survival, near term growth challenges remain with competitive renewals as well as delays from VIL for dues. We downgrade from HOLD to **REDUCE**

Target Price and Valuation: We value Indus at ₹ 195 i.e. 5x FY24E EV/EBITDA.

Key triggers for future price performance:

- In the medium term, opportunities in adjacent areas (viz. small cells/smart cities/in building solutions/active network sharing) will drive growth along with overall tenancy demand from 5G transition
- Normalisation of VIL stress, which is stretching working capital

Alternate Stock Idea: Besides Indus Towers, we like Bharti Airtel in telecom space.

- A play on consolidation of sector and better realisations
- BUY with target price of ₹ 860

Key Financial Summary

(Year-end March)	FY20	FY21	FY22E	5 yr CAGR (FY17-22)	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales (₹ crore)	14,647.2	25,672.9	27,717.2	NA	27,452.7	28,467.6	1.3
EBITDA (₹ crore)	7,350.0	13,096.9	14,900.7	NA	12,694.4	14,557.1	(1.2)
Adjusted Net Profit (₹ crore)	3,298.7	4,975.1	6,235.2	NA	4,555.7	5,797.4	(3.6)
Adj. EPS (₹)	17.8	18.5	23.1		16.9	21.5	
P/E (x)	11.6	11.2	8.7		12.2	9.6	
Price / Book (x)	2.8	3.5	2.5		2.5	2.5	
EV/EBITDA (x)	8.5	5.6	4.9		5.7	4.9	
RoCE (%)	18.1	21.7	23.3		18.4	22.9	
RoE (%)	24.4	31.3	28.1		20.9	26.4	

Source: Company, ICICI Direct Research; Indus and Infratel merged in FY21 and thus prior period numbers are not comparable.



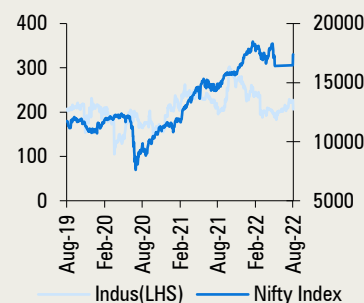
Particulars

Particulars	Amount
Market Capitalization (₹ crore)	55,609.3
Total Debt (₹ crore)	5,486.8
Cash & Investments (₹ crore)	2,632.3
EV (₹ crore)	58,463.8
52 week H/L (₹)	333/ 181
Equity capital (₹ crore)	2,694.9
Face value (₹)	10.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	69.9	69.9	67.5	68.8
DII	2.4	2.8	2.7	2.6
FII	26.8	26.1	28.2	26.6
Other	0.9	1.2	1.6	2.0

Price Chart



Key risks

Key Risk: (i) Better than expected dues recovery; (ii) Stronger than expected tenancy demand in 5G

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Key performance highlight and outlook

Tenancy addition remain modest...

On a gross basis, Indus added 1324 tenancies while gross exits were 733. Consequently, net addition of 591 co-locations vs. 685 co-location addition in Q4, lower than last four quarter's average. Net tenancies addition including Lean products was at 1021 (Q4 - 600). The tower addition at ~1027 was driven by lean product as also lower than last few quarters run rate. We note that while Indus is "hoping" for continued healthy traction riding on network transformation due to data usage explosion and competitive coverage, we would monitor tenancy addition ahead. The addition of lean towers/small cells, etc. also need to be monitored for their likely implication for growth. We expect net co-locations to reach 356198 in FY24 vs. FY22 co-location count of 335791. We expect reported rentals (including exit rentals) to witness a muted 0.4% CAGR in FY22-24E to ₹ 17603 crore.

One-off impacts margins; renewals signal rental discounts

Rental revenues came in at ₹ 4223 crore, down 11% QoQ. We highlight that Q4FY22 rental revenues included one-time provision reversal of ~₹ 547.3 crore. Thus, on adjusted basis, core rental revenues were up 0.6% QoQ. Reported EBITDA came in at ₹ 2262 crore, down 44% QoQ, with EBITDA margins at 52.8% (down 24 percentage points QoQ) as the company provided for doubtful debts of ₹ 1233 crore against dues from Vodafone Idea. **Thus, adjusting for provision reversal benefit in Q4 and provision in Q1, EBITDA was at ₹ 3495 crore, down 0.6% QoQ and margins of 50.7%, down 284 bps QoQ.**

Furthermore, the tenancy renewal framework has been agreed with Airtel and VIL. They have agreed to renew colocations for 10 years while retaining the option of exiting up to 9% sites without exit penalty. The company has extended competitive prices (lowering the rentals by ₹ 900/tower/month and ₹ 500/tenancy/month) to customers on the renewed portfolio. The revised pricing is likely to result in marginal reduction in revenue for the company albeit risk of exits remains as there is no liability of exit charge for 9% sites exits.

VIL stress continues to stretch working capital

The company saw a decrease in receivables by ~₹ 809 crore QoQ to ₹ 6250 crore, largely led by provision for doubtful debt. The debtor days is now at ~109 days vs. ~93 days as on FY22 end. **The management indicated that VIL is delaying regular monthly payments (currently paying 50-60% of monthly dues). It has proposed to pay part payment of the due amount billed till December 31, 2022 and intends to start paying the full amount, along with its previous dues over January-July, 2023. We will monitor the same.** While the VIL stress has been there since the last couple of quarter, Indus remains confident of recovery. It expects the telecom package, tariff hikes, and fund-raising plans to improve VIL's liquidity and thus ability to pay on time, going ahead. **We note that major fund raise is necessary for VIL to compete in marketplace and meet its vendors' dues timeline.**

Other highlights

- Capex was a tad higher yet underwhelming at ₹ 760.1 crore during Q1FY23 (vs ₹ 634 crore in Q4FY22)

The tenancy addition momentum has seen some softness for second consecutive quarter post decent traction in last few quarters prior to that. Furthermore, clarity on long term tenancy growth outlook amid 5G rollout along with planned foray in allied activities such as smart cities or fibre etc. are other key things to watch. Vodafone Idea survival odds has improved and thus risk on current tenancy is lower, albeit higher debtors amount has stressed the balance sheet of Indus Towers. We downgrade from HOLD to REDUCE with a revised target price of ₹ 195/share (vs. ₹ 205, earlier), assigning target EV/EBITDA of 5x on FY24 EBITDA.

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	Q4FY22	YoY (%)	QoQ (%)	Comments
Revenue	6,897.3	6,949.5	6,797.0	7,116.3	1.5	-3.1	The rental revenues was at ₹ 4223 crore, down 11% QoQ. On adjusted basis, like to like core rental revenues were up 0.6% QoQ.. The energy revenues came in at ₹2675 crore, up 12.8% QoQ. due to higher diesel prices
Other Income	92.5	90.0	56.9	109.0	62.6	-15.1	
Employee Expenses	183.4	210.0	187.2	205.9	-2.0	-10.9	
Power and Fuel	2,691.5	2,603.0	2,646.3	2,400.8	1.7	12.1	
Other Expenses	1,423.7	106.3	116.8	103.5	1,118.9	1,275.6	
Repairs and Maintenance	336.8	346.7	330.0	344.1	2.1	-2.1	
EBITDA	2,261.9	3,683.5	3,516.7	4,062.0	-35.7	-44.3	
EBITDA Margin (%)	32.8	53.0	51.7	57.1	-2429 bps	-2429 bps	Lower margins due to one off provision for doubtful debt
Depreciation	1,339.3	1,384.5	1,319.8	1,364.9	1.5	-1.9	
Interest	372.0	370.0	376.8	374.7	-1.3	-1.3	
Exceptional Items	0.0	0.0	0.0	0.0	NA	NA	
Total Tax	165.8	508.8	461.7	602.9	-64.1	-72.5	
PAT	477.3	1,510.2	1,415.3	1,828.5	-66.3	-73.9	
Towers (Consolidated)	1,86,474	1,86,374	1,79,225	1,85,447	4.0	0.6	
Tenancy Ratio (x) (Consolidated)	1.81	1.81	1.81	1.81	-0.1	-0.1	
Sharing revenue per tower p.m	75,688	80,746	77,408	85,445	-2.2	-11.4	

Source: Company, ICICI Direct Research

Change in Estimates

(₹ Crore)	FY23E			FY24E			
	Old	New	% Change	Old	New	% Change	
Revenue	27,681.7	27,452.7	-0.8	28,533.2	28,467.6	-0.2	Realign estimates
EBITDA	14,352.5	12,694.4	-11.6	14,634.8	14,557.1	-0.5	
EBITDA Margin (%)	51.8	46.2	-561 bps	51.3	51.1	-15 bps	
PAT	5,705.5	4,555.7	-20.2	5,809.2	5,797.4	-0.2	
EPS (₹)	21.2	16.9	-20.2	21.6	21.5	-0.2	

Source: Company, ICICI Direct Research

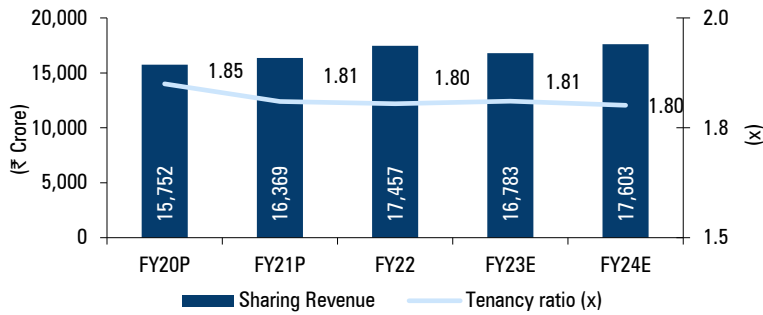
Proforma merged entity KPI and assumptions

	FY20P	FY21P	FY22	FY23E	FY24E	
Towers (No.)	1,69,002	1,79,225	1,85,447	1,90,985	1,98,740	Combined entity proforma assumptions
Tenancy Ratio (x)	1.85	1.81	1.80	1.81	1.80	
Total Co-locations (No.)	3,11,111	3,22,438	3,35,791	3,45,800	3,56,198	
Sharing revenue per tower p.m	77,706	77,408	79,784	74,305	75,282	
Sharing Revenue (₹ Crore)	15,752.2	16,369.1	17,457.0	16,782.5	17,603.5	

Source: Company, ICICI Direct Research

Financial story in charts

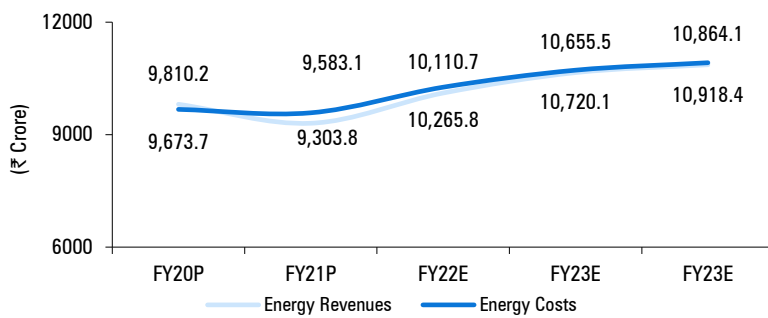
Exhibit 2: Tenancy, sharing revenues



Source: Company, ICICI Direct Research

*Proforma merged entity figures for prior period for like to like comparison

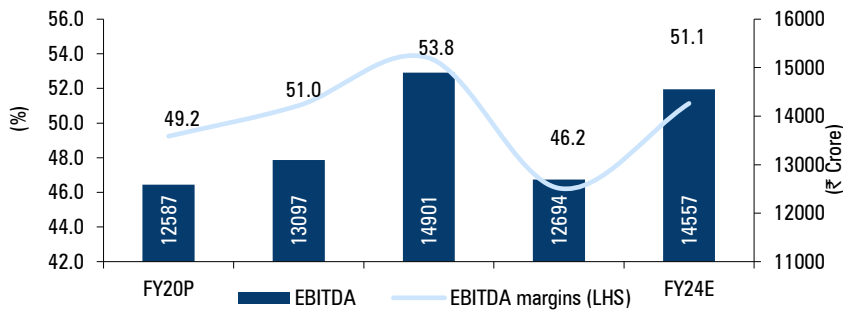
Exhibit 3: Energy revenues, energy cost trends



Source: Company, ICICI Direct Research

*Proforma merged entity figures for prior period for like to like comparison

Exhibit 4: EBITDA and EBITDA margin trend



Source: Company, ICICI Direct Research

*Proforma merged entity figures for prior period for like to like comparison

Financial Summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Total operating Income	25,672.9	27,717.2	27,452.7	28,467.6
Growth (%)	NA	8.0	-1.0	3.7
Other Income	298.3	352.5	302.5	280.0
Total Revenue	25,971.2	28,069.7	27,755.2	28,747.6
Rent	0.0	0.0	0.0	0.0
Employee Expenses	768.1	772.2	728.2	764.5
Power and Fuel	9,583.1	10,265.8	10,720.1	10,918.4
Other Expenses	781.0	431.8	1,943.8	797.1
Repairs & Maintenance	1,443.8	1,346.7	1,366.3	1,430.4
Total Operating Expenditure	12,576.0	12,816.5	14,758.3	13,910.5
EBITDA	13,096.9	14,900.7	12,694.4	14,557.1
Growth (%)	NA	13.8	-14.8	14.7
Depreciation	5,339.4	5,325.2	5,389.5	5,556.2
Interest	1,402.1	1,497.3	1,512.0	1,520.0
Other Income	298.3	352.5	302.5	280.0
PBT	6,653.7	8,430.7	6,095.4	7,760.9
Exceptional Items	0.0	0.0	0.0	0.0
Total Tax	1,678.6	2,057.6	1,539.8	1,963.5
PAT	4,975.1	6,373.1	4,555.7	5,797.4
Growth (%)	NA	28.1	-28.5	27.3
EPS (₹)	18.5	23.1	16.9	21.5

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	2,694.9	2,694.9	2,694.9	2,694.9
Reserve and Surplus	13,182.1	19,455.6	19,130.0	19,237.6
Total Shareholders funds	15,877.0	22,150.5	21,824.9	21,932.5
Total Debt	6,970.3	5,486.8	4,486.8	3,486.8
Deferred Tax Liability	70.3	91.8	91.8	91.8
Others	14,153.3	14,956.2	14,956.2	14,956.2
Total Liabilities	37,070.9	42,685.3	41,359.7	40,467.3
Assets				
Gross Block	67,740.9	72,335.8	76,335.8	80,335.8
Accumulated Depreciation	47,502.7	52,892.2	58,281.7	63,837.9
Net Block	20,238.2	19,443.6	18,054.2	16,497.9
Capital WIP	273.6	178.7	178.7	178.7
Total Fixed Assets	20,511.8	19,622.3	18,232.9	16,676.6
Right of Use	10,211.0	10,921.0	10,921.0	10,921.0
Investments	2,271.4	1,652.1	1,852.1	2,052.1
Debtors	3,828.5	7,058.6	7,897.4	8,189.3
Loans and Advances	4,009.2	3,476.7	4,132.2	4,713.5
Other Current Assets	559.5	244.9	254.7	277.3
Cash	14.5	980.2	501.8	104.8
Total Current Assets	8,411.7	11,760.4	12,786.1	13,284.9
Creditors	3,258.8	2,129.3	2,106.0	2,183.8
Provisions	1,614.7	1,773.3	1,578.5	1,555.0
Other Current Liabilities	2,999.3	1,379.7	1,298.2	1,278.9
Total Current Liabilities	7,872.8	5,282.3	4,982.6	5,017.7
Net Current Assets	538.9	6,478.1	7,803.4	8,267.2
Others Assets	2,186.8	2,550.3	2,550.3	2,550.3
Application of Funds	37,070.9	42,685.3	41,359.7	40,467.3

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	4,975.1	6,373.1	4,555.7	5,797.4
Add: Depreciation	5,339.4	5,325.2	5,389.5	5,556.2
Add: Interest Paid	1,402.1	1,497.3	1,512.0	1,520.0
(Inc)/dec in Current Assets	-278.5	-2,383.0	-1,504.1	-895.8
Inc/(dec) in CL and Provisions	-268.1	-2,590.5	-299.7	35.1
CF from operating activities	11,170.0	8,222.1	9,653.4	12,012.8
(Inc)/dec in Investments	1,666.8	619.3	-200.0	-200.0
(Inc)/dec in Fixed Assets	-3,586.8	-4,500.0	-4,000.0	-4,000.0
Others	-1,395.7	-249.1	0.0	0.0
CF from investing activities	-3,315.7	-4,129.8	-4,200.0	-4,200.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	1,196.5	868.8	0.0	0.0
Dividend paid & dividend tax	-6,565.4	-4,042.4	-4,581.3	-5,389.8
Interest Paid	-1,402.1	-1,497.3	-1,512.0	-1,520.0
Others	-1,350.3	1,544.3	161.5	-1,300.0
CF from financing activities	-8,121.3	-3,126.6	-5,931.9	-8,209.8
Net Cash flow	-267.0	965.7	-478.5	-397.0
Opening Cash	282.5	14.5	980.2	501.8
Closing Cash	15.5	980.2	501.8	104.8

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	18.5	23.6	16.9	21.5
Cash EPS	38.3	43.4	36.9	42.1
BV	58.9	82.2	81.0	81.4
DPS	20.1	15.0	17.0	20.0
Cash Per Share	0.1	3.6	1.9	0.4
Operating Ratios				
EBITDA Margin (%)	51.0	53.8	46.2	51.1
PAT Margin (%)	19.4	22.5	16.6	20.4
Debtor days	54.4	93.0	105.0	105.0
Creditor days	46.3	28.0	28.0	28.0
Return Ratios (%)				
RoE	31.3	28.1	20.9	26.4
RoCE	21.7	23.3	18.4	22.9
RoIC	37.4	38.4	28.8	36.5
Valuation Ratios (x)				
P/E	11.2	8.7	12.2	9.6
EV / EBITDA	5.6	4.9	5.7	4.9
Market Cap / Sales	2.2	2.0	2.0	2.0
Price to Book Value	3.5	2.5	2.5	2.5
Solvency Ratios				
Debt/EBITDA	0.5	0.4	0.4	0.2
Debt / Equity	0.4	0.2	0.2	0.2
Current Ratio	1.1	2.0	2.5	2.6
Quick Ratio	1.1	2.0	2.5	2.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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