

## Suspending coverage on VIL uncertainty...

**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 189392 towers and 339435 co-locations (as on Q3FY23) and a nationwide presence covering all 22 telecom circles.

### Q3FY23 Results: Weak operating performance.

- Revenues came in at ₹ 6765 crore, down 15% QoQ as rental revenues came in at ₹ 4175 crore, down 12.7% QoQ (down 5% YoY). **Like to like core rental revenues were down 1.4% QoQ**
- Reported EBITDA at ₹ 1163 crore, was down 68.6%YoY, with margins at 17.2% (down 36 percentage points YoY) The company provided against doubtful debts of ₹ 2298 crore against dues from Vodafone Idea (VIL). Adjusted margin was 51.2%**
- The company reported a loss of ₹ 708 crore vs. expectations of ₹ 1475 crore PAT, largely owing to provision for doubtful debt of ₹ 2298 crore and exceptional charge of ₹ 493 crore

**What should investors do?** Indus' share price has been down ~40% over the past five years owing to concerns over its key tenant's (VIL) survival.

- The growth challenges as well as visibility on business profitability remain uncertain owing to dues from VIL and lack of clarity on the same. **Till clarity on the same emerges, we advise investors to avoid the counter**

**Target Price and Valuation:** We **suspend our coverage** on the stock.

### Key triggers for future price performance:

- Key trigger would be VIL's dues recovery, which hinges on latter fund raise
- In the medium to long 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

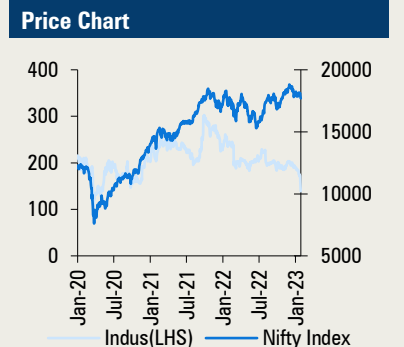
**Alternate Stock Idea:** Besides Indus Towers, we like Bharti Airtel in telecom space.

- A play on consolidation of sector and better realisations
- BUY with target price of ₹ 960



Particulars	
Particulars	Amount
Market Capitalization (₹ crore)	37,459
Total Debt - FY22 (₹ crore)	5,487
Cash & Inv - FY22 (₹crore)	2,632
EV (₹ crore)	40,314
52 week H/L (₹)	269/ 137
Equity capital (₹ crore)	2,694.9
Face value (₹ )	10.0

Shareholding pattern				
	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	67.5	68.8	69.0	69.0
DII	2.7	2.6	2.9	2.8
FII	28.2	26.6	26.5	26.6
Other	1.6	2.0	1.6	1.6



### Key risks

**Key Risk:** (i) Any quick resolution to VIL; (ii) Stronger than expected tenancy demand in 5G

### Research Analyst

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Key Financial Summary								
(Year-end March)	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	FY25E	3 yr CAGR (FY22-25E)
Net Sales (₹ crore)	14,647.2	25,672.9	27,717.2	NA	28,390.9	28,428.1	29,433.6	2.0
EBITDA (₹ crore)	7,350.0	13,096.9	14,900.7	NA	9,669.3	14,096.3	14,638.5	(0.6)
Net Profit (₹ crore)	3,298.7	4,975.1	6,373.1	NA	2,448.5	5,379.0	5,607.3	(4.2)
EPS (₹)	17.8	18.5	23.6		9.1	20.0	20.8	
P/E (x)	7.8	7.5	5.9		15.3	7.0	6.7	
Price / Book (x)	1.9	2.4	1.7		1.5	1.6	1.6	
EV/EBITDA (x)	6.0	4.2	3.7		5.4	3.7	3.5	
RoCE (%)	18.1	21.7	23.3		10.2	19.3	20.1	
RoE (%)	24.4	31.3	28.1		22.4	22.4	23.5	

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

## Key performance highlight and outlook

### 5G led tenancy/lean towers addition ...

On a gross basis, Indus added 2163 tenancies while gross exits were 856. Consequently, net addition of 1307 co-locations were seen, aided by some pickup on account of network rollout. **The tower addition was healthy at 1466. Lean towers (not reflected in tenancy and tower counts) saw a strong addition of 1408 during Q3 vs. 1535 in Q2. So far, the company has deployed ~5683 leaner towers and expect it to accelerate with 5G rollout.** 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 along with any exits. The addition of lean towers/small cells, etc, also needs to be monitored for their likely implication for growth. We expect net co-locations to reach 364421 in FY25 vs. FY22 co-location count of 335791. We expect reported rentals to witness a muted 0.7% CAGR in FY22-25E to ₹ 17823 crore. **However, all these numbers are contingent on VIL's health.**

### Provisions impact margins again

**Reported rental** revenues came in at ₹ 4175 crore, down 12.7% QoQ (down 5% YoY). **We highlight that Q2 rental revenues included one-time provision reversal of ~₹ 550 crore. Like to like core rental revenues were down 1.4% QoQ.** Reported EBITDA at ₹ 1163 crore, was down 68.6%YoY, with margins at 17.2% (down 36 percentage points YoY) The company provided against doubtful debts of ₹ 2298 crore against dues from Vodafone Idea (VIL). **Adjusted margin was 51.2%.**

### VIL stress continues to stretch working capital

The company saw a decline in receivables by ~₹ 1427 crore QoQ to ₹ 5062 crore owing to provision for doubtful debt. Adjusted for that, debtors were up by ₹ 862 crore QoQ. **The management indicated VIL had proposed to make 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. While it had paid a part of dues till December, 2022, given the lack of fund raise the 2023 payment outlook is hazy, with no new payment plan suggested. Thus, the provision was undertaken along with exceptional charge of ₹ 493 crore as impairment of revenue equalisation reserve for Vodafone idea dues.** The management indicated that majority of old debt of VIL has been provided for. **We note that a major fund raise is necessary for VIL to compete in marketplace and meet its vendors' dues timeline.**

### Other highlights

- **Capex:** The capex was a tad higher at ₹ 1036.9 crore during Q3FY23 (vs. ₹ 793.7 crore in Q2FY23) given the 5G related augmentation and operation momentum for new rollout
- **5G:** The company indicated that 5G rollouts are progressing at a rapid pace with operators working towards their plan for a pan-India 5G rollout in the next 12-15 months. In less than four months of the launch of 5G services, more than 50,000 base transceiver stations (BTS) have been deployed across the country, with the top two operators together putting up more than 5,000 BTS per week in January 2023. The company indicated that initial revenue from 5G will come from 5G loading on existing 4G sites while standalone 5G sites will also be set up eventually when traffic picks up

**Vodafone Idea dues have stressed the balance sheet of Indus Towers. The improvement in collection will be key for cash flows generation. We highlight that without any clarity on VIL fund raise, the stress will likely continue. The tenancy addition momentum has seen some traction on 5G rollout. For the long term, 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. Till clarity on same emerges, we advise investors to avoid the counter. We suspend our coverage on the stock.**

**Exhibit 1: Variance Analysis**

	Q3FY23	Q3FY23E	Q3FY22	Q2FY23	YoY (%)	QoQ (%)	Comments
Revenue	6,765.0	7,042.0	6,927.4	7,966.6	-2.3	-15.1	
Other Income	89.8	65.0	93.9	62.9	-4.4	42.8	
Employee Expenses	200.0	191.0	194.3	195.7	2.9	2.2	
Power and Fuel	2,622.0	2,726.1	2,567.6	2,717.7	2.1	-3.5	
Other Expenses	2,441.0	171.1	128.2	1,908.5	1,804.1	27.9	
Repairs and Maintenance	339.4	336.8	338.6	333.5	0.2	1.8	
EBITDA	3,460.7	3,616.9	3,698.7	2,811.2	-6.4	23.1	
EBITDA Margin (%)	51.2	51.4	53.4	35.3	-224 bps	1587 bps	Lower margins due to one off provision for doubtful debt
Depreciation	1,357.7	1,317.0	1,324.4	1,306.7	2.5	3.9	
Interest	354.0	390.0	379.3	392.4	-6.7	-0.6	
Exceptional Items	492.8	0.0	0.0	0.0	NA	NA	
Total Tax	-243.9	499.7	518.1	303.2	-147.1	-180.4	
PAT	-708.2	1,475.3	1,570.8	871.8	-145.1	-181.2	
Towers (Consolidated)	1,89,392	1,89,429	1,83,462	1,87,926	3.2	0.8	
Tenancy Ratio (x) (Consolidated)	1.80	1.80	1.81	1.80	-0.8	-0.3	
Sharing revenue per tower p.m	73,283	76,781	77,807	84,841	-5.8	-13.6	

Source: Company, ICICI Direct Research

**Proforma merged entity KPI and assumptions**

	FY21P	FY22	FY23E	FY24E	FY25E	
Towers (No.)	1,79,225	1,85,447	1,90,907	1,98,659	2,06,725	Combined entity proforma assumptions
Tenancy Ratio (x)	1.81	1.80	1.80	1.79	1.77	
Total Co-locations (No.)	3,22,438	3,35,791	3,43,481	3,53,808	3,64,421	
Sharing revenue per tower p.m	77,408	79,784	76,348	73,274	73,274	
Sharing Revenue (₹ Crore)	16,369.1	17,457.0	17,240.4	17,127.1	17,822.5	

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 2: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Total operating Income</b>	<b>27,717.2</b>	<b>28,390.9</b>	<b>28,428.1</b>	<b>29,433.6</b>
Growth (%)	8.0	2.4	0.1	3.5
Other Income	352.5	310.2	270.0	280.0
Total Revenue	28,069.7	28,701.1	28,698.1	29,713.6
Rent	0.0	0.0	0.0	0.0
Employee Expenses	772.2	783.1	803.8	853.3
Power and Fuel	10,265.8	10,641.9	11,301.1	11,611.1
Other Expenses	431.8	5,944.3	810.2	838.9
Repairs & Maintenance	1,346.7	1,352.5	1,416.7	1,491.9
Total Operating Expenditure	12,816.5	18,721.7	14,331.8	14,795.1
<b>EBITDA</b>	<b>14,900.7</b>	<b>9,669.3</b>	<b>14,096.3</b>	<b>14,638.5</b>
Growth (%)	13.8	-35.1	45.8	3.8
Depreciation	5,325.2	5,357.2	5,605.5	5,832.1
Interest	1,497.3	1,508.4	1,560.0	1,580.0
Other Income	352.5	310.2	270.0	280.0
PBT	8,430.7	3,113.9	7,200.8	7,506.4
Exceptional Items	0.0	0.0	0.0	0.0
Total Tax	2,057.6	665.4	1,821.8	1,899.1
<b>PAT</b>	<b>6,373.1</b>	<b>2,448.5</b>	<b>5,379.0</b>	<b>5,607.3</b>
Growth (%)	28.1	-61.6	119.7	4.2
<b>EPS (₹)</b>	<b>23.1</b>	<b>9.1</b>	<b>20.0</b>	<b>20.8</b>

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Liabilities</b>				
Equity Capital	2,694.9	2,694.9	2,694.9	2,694.9
Reserve and Surplus	19,455.6	21,604.2	21,293.4	21,210.9
Total Shareholders funds	22,150.5	24,299.1	23,988.3	23,905.8
Total Debt	5,486.8	5,986.8	6,386.8	6,186.8
Deferred Tax Liability	91.8	91.8	91.8	91.8
Others	14,956.2	14,956.2	14,956.2	14,956.2
<b>Total Liabilities</b>	<b>42,685.3</b>	<b>45,333.9</b>	<b>45,423.1</b>	<b>45,140.6</b>
<b>Assets</b>				
Gross Block	72,335.8	76,335.8	80,335.8	84,335.8
Accumulated Depreciation	52,859.9	58,217.1	63,822.6	69,654.7
Net Block	19,475.9	18,118.8	16,513.2	14,681.1
Capital WIP	178.7	178.7	178.7	178.7
Total Fixed Assets	19,654.6	18,297.5	16,691.9	14,859.8
Right of Use	10,921.0	10,921.0	10,921.0	10,921.0
Investments	1,652.1	1,852.1	2,052.1	2,252.1
Debtors	7,058.6	8,556.2	8,567.4	8,870.4
Loans and Advances	3,476.7	4,273.5	4,707.0	5,360.8
Other Current Assets	244.9	263.4	276.9	301.1
Cash	980.2	3,164.7	4,067.2	4,461.0
Total Current Assets	11,760.4	16,257.7	17,618.5	18,993.2
Creditors	2,129.3	1,944.6	1,947.1	2,016.0
Provisions	1,773.3	1,457.5	1,386.5	1,363.7
Other Current Liabilities	1,379.7	1,342.6	1,277.1	1,256.2
Total Current Liabilities	5,282.3	4,744.7	4,610.7	4,635.9
Net Current Assets	6,478.1	11,513.0	13,007.8	14,357.3
Others Assets	2,550.3	2,750.3	2,750.3	2,750.3
<b>Application of Funds</b>	<b>42,685.3</b>	<b>45,333.9</b>	<b>45,423.1</b>	<b>45,140.6</b>

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	6,373.1	2,448.5	5,379.0	5,607.3
Add: Depreciation	5,325.2	5,357.2	5,605.5	5,832.1
Add: Interest Paid	1,497.3	1,508.4	1,560.0	1,580.0
(Inc)/dec in Current Assets	-2,383.0	-2,312.8	-458.2	-981.0
Inc/(dec) in CL and Provisions	-2,590.5	-537.6	-134.0	25.2
<b>CF from operating activities</b>	<b>8,222.1</b>	<b>6,463.7</b>	<b>11,952.3</b>	<b>12,063.6</b>
(Inc)/dec in Investments	619.3	-200.0	-200.0	-200.0
(Inc)/dec in Fixed Assets	-4,500.0	-4,000.0	-4,000.0	-4,000.0
Others	-249.1	-200.0	0.0	0.0
<b>CF from investing activities</b>	<b>-4,129.8</b>	<b>-4,400.0</b>	<b>-4,200.0</b>	<b>-4,200.0</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	868.8	0.0	0.0	0.0
Dividend paid & dividend tax	-4,042.4	0.0	-5,389.8	-5,389.8
Interest Paid	-1,497.3	-1,508.4	-1,560.0	-1,580.0
Others	1,544.3	1,629.2	100.0	-500.0
<b>CF from financing activities</b>	<b>-3,126.6</b>	<b>120.8</b>	<b>-6,849.8</b>	<b>-7,469.8</b>
Net Cash flow	965.7	2,184.4	902.5	393.8
Opening Cash	14.5	980.2	3,164.7	4,067.2
<b>Closing Cash</b>	<b>980.2</b>	<b>3,164.7</b>	<b>4,067.2</b>	<b>4,461.0</b>

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	23.6	9.1	20.0	20.8
Cash EPS	43.4	29.0	40.8	42.4
BV	82.2	90.2	89.0	88.7
DPS	15.0	0.0	20.0	20.0
Cash Per Share	3.6	11.7	15.1	16.6
<b>Operating Ratios</b>				
EBITDA Margin (%)	53.8	34.1	49.6	49.7
PAT Margin (%)	22.5	19.1	18.9	19.1
Debtor days	93.0	110.0	110.0	110.0
Creditor days	28.0	25.0	25.0	25.0
<b>Return Ratios (%)</b>				
RoE	28.1	22.4	22.4	23.5
RoCE	23.3	10.2	19.3	20.1
RoIC	38.3	16.3	33.4	35.8
<b>Valuation Ratios (x)</b>				
P/E	5.9	15.3	7.0	6.7
EV / EBITDA	3.7	5.4	3.7	3.5
Market Cap / Sales	1.4	1.3	1.3	1.3
Price to Book Value	1.7	1.5	1.6	1.6
<b>Solvency Ratios</b>				
Debt/EBITDA	0.4	0.6	0.5	0.4
Debt / Equity	0.2	0.2	0.3	0.3
Current Ratio	2.0	2.8	2.9	3.1
Quick Ratio	2.0	2.8	2.9	3.1

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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