

## Future tenancy growth outlook still uncertain !

Indus Towers (*erstwhile Bharti Infratel*) reported numbers for the merged entity for the first time in Q3FY21. Therefore, numbers were not comparable to earlier reported numbers of Infratel. Like to like revenues (on a proforma basis for merged entity) came in at ₹ 6736 crore, up 5.9% QoQ led by core rental revenues which came in at ₹ 4314 crore, up 7.4% QoQ. The energy revenues came in at ₹ 2422 crore, up 3.5% QoQ, given the higher diesel prices. **The rental numbers growth is optically higher as it includes exit penalty of ₹ 400.2 crore.** Proforma like to like EBITDA came in at ₹ 3552 crore, up 15.6% QoQ, with EBITDA margins at 52.7% (up 440 bps QoQ) aided by exit penalty and one-time benefit of ₹ 80 crore due to merger. Like to like proforma PAT came in at ₹ 1360 crore (up 20.3% QoQ).

## Tenancy addition robust; future traction key monitorable

On a gross basis, Indus added 4204 tenancies while gross exits were 354. Consequently, net addition of 2116 co-locations was reported, which is robust. We note that Indus is "hoping" for continued healthy traction. Nevertheless, we would monitor tenancy addition ahead, with Airtel being the only tenant expanding at healthy pace now. We build in 353656 net co-locations in FY23 vs. current co-location count of 318310. We expect reported rentals (on like to like basis) to witness 4.1% CAGR over FY20-23E to ₹ 17772 crore, largely aided by exit penalties.

## One-off aids margins in Q3...

The 440 bps margins expansion was led by exit penalty of ₹ 400 crore reported in Q3 on cash basis and one-off costs benefit of ₹ 80 crore due to merger. The management expects exit penalty to taper down to ₹ 180 crore a quarter in CY21 and ₹ 100 crore/ quarter thereafter in CY22. While energy spread was negative in Q3 and 9MFY21, the company remained confident on getting back to fixed cost model, which will be a win-win for everyone. We bake in 200 bps margins expansion over FY20-23E to 51.2%.

## Valuation & Outlook

The robust tenancy addition is positive but sustainability ahead will be important. The key risk of VIL's survival seemed to have eased out after the latter's fund raise plans, albeit form of survival and long term and hence tenancy outlook will key. Furthermore, while opportunities in adjacent areas (viz. small cells/smart cities/in building solutions/active network sharing) exist, these may fructify only over the long term. We note that entity will continue to provide attractive dividend payout given the cash generation in steady state. The company also announced a dividend of ₹ 17.8/share as agreed in revised merger agreement. We maintain our **HOLD** recommendation with a revised target price of ₹ 245/share (earlier ₹ 220), implying 5.5x FY23E EV/EBITDA (vs. 6x FY22E EV/EBITDA, earlier).

### Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales (₹ crore)	14,582.3	14,647.2	20,576.6	27,158.7	28,282.6	NA
EBITDA (₹ crore)	6,001.2	7,350.0	10,538.3	13,854.5	14,488.7	NA
Net Profit (₹ crore)	2,493.8	3,298.7	3,919.8	4,703.6	5,115.9	NA
EPS (₹)	13.5	17.8	14.5	17.5	19.0	
P/E (x)	17.2	13.0	15.9	13.3	12.2	
Price / Book (x)	2.9	3.2	3.7	3.6	3.6	
EV/EBITDA (x)	10.3	9.4	7.6	5.6	5.2	
RoCE (%)	21.2	18.1	17.1	20.5	21.7	
RoE (%)	17.2	24.4	23.1	27.1	29.6	

Source: Company, ICICI Direct Research \*Assumed merged entity numbers from H2FY21 and for full years FY2 and FY23 estimates. Therefore, not comparable with prior period



Particulars	Amount
Market Capitalization (₹ crore)	62,386.9
Total Debt (₹ crore)	3,242.7
Cash & Investments (₹ crore)	3,097.9
EV (₹ crore)	62,531.7
52 week H/L (₹)	275/ 120
Equity capital (₹ crore)	2,694.9
Face value (₹)	10.0

### Key Highlights

- Q3 core performance was led by robust tenancy addition of 4204, and benefits at revenues and EBITDA due to exit penalty and one-offs.
- We maintain HOLD, with a revised target price of ₹ 245/share

### Key risk to our call

- VIL is anchor tenant and deterioration in its ability to survive will impact Indus negatively
- Stronger than expected tenancy demand in 5G, will be the upside risk

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**Exhibit 1: Variance Analysis**

	Q3FY21	Q3FY20	Q2FY21	YoY (%)	QoQ (%)	Comments
Revenue	6,736.1	6,443.2	6,359.1	4.5	5.9	Core rental revenues which came in at ₹ 4314 crore, up 7.4% QoQ. The energy revenues came in at ₹2422 crore, up 3.5% QoQ, given the higher diesel prices. The rental numbers growth is optically higher as it includes exit penalty of ₹ 400.2 crore.
Other Income	105.6	56.2	81.6	87.9	29.4	
Employee Expenses	224.2	179.9	184.4	24.6	21.6	
Power and Fuel	2,478.6	2,424.6	2,467.9	2.2	0.4	
Rent	0.0	0.0	0.0			
Other Expenses	101.6	237.2	252.6	-57.2	-59.8	
Repairs and Maintenance	379.3	329.1	380.5	15.3	-0.3	
EBITDA	3,552.4	3,272.4	3,073.7	8.6	15.6	EBITDA growth higher aided by exit penalty and one-time benefit of ₹ 80 crore due to merger.
EBITDA Margin (%)	52.7	50.8	48.3	195 bps	440 bps	
Depreciation	1,430.2	1,247.0	1,308.8	14.7	9.3	
Interest	390.0	301.2	329.7	NM	NM	
Exceptional Items	0.0	0.0	0.0	NA	NA	
Total Tax	477.8	449.6	386.1	6.3	23.8	
PAT	1,360.0	1,330.8	1,130.7	2.2	20.3	
Towers (Consolidated)	1,75,510	1,67,120	1,72,094	5.0	2.0	
Tenancy Ratio (x) (Consolidated)	1.82	1.85	1.83	-1.6	-0.5	
Sharing revenue per tower p.m	82,732	80,412	78,379	2.9	5.6	

Source: Company, ICICI Direct Research

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

**Proforma merged entity KPI and assumptions**

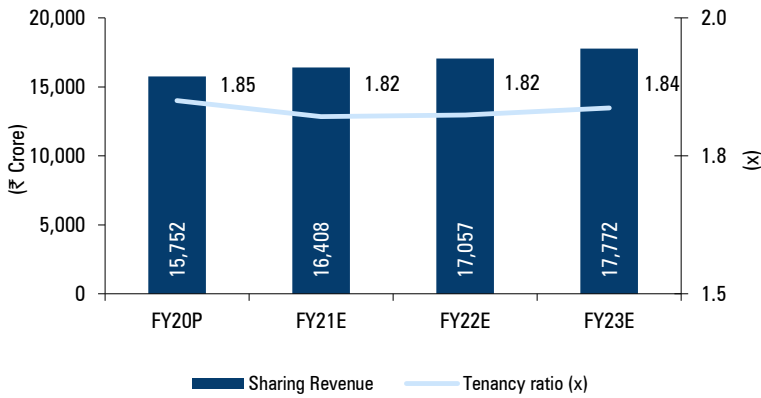
	FY20P	FY21E	FY22E	FY23E	
Towers (No.)	1,69,002	1,77,265	1,84,463	1,91,953	We are showing only the combined entity proforma assumptions
Tenancy Ratio (x)	1.85	1.82	1.82	1.84	
Total Co-locations (No.)	3,11,111	3,21,977	3,37,798	3,53,656	
Sharing revenue per tower p.m	77,706	78,644	78,588	78,688	
Sharing Revenue (₹ Crore)	15,752.2	16,408.0	17,056.6	17,771.7	

Source: Company, ICICI Direct Research

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

Key Charts

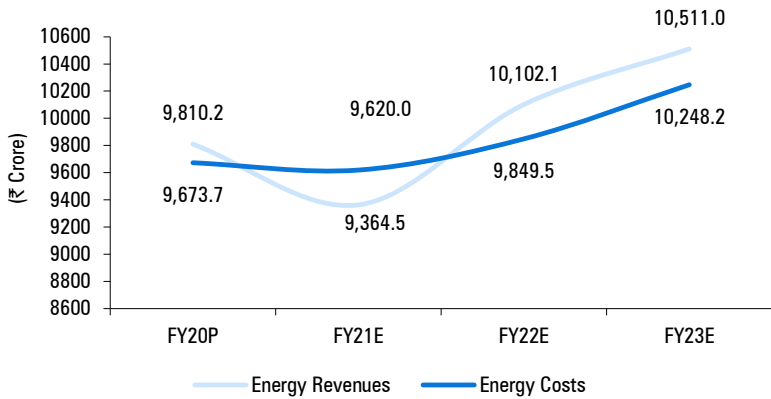
Exhibit 2: Tenancy, sharing revenues



Source: Company, ICICI Direct Research

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

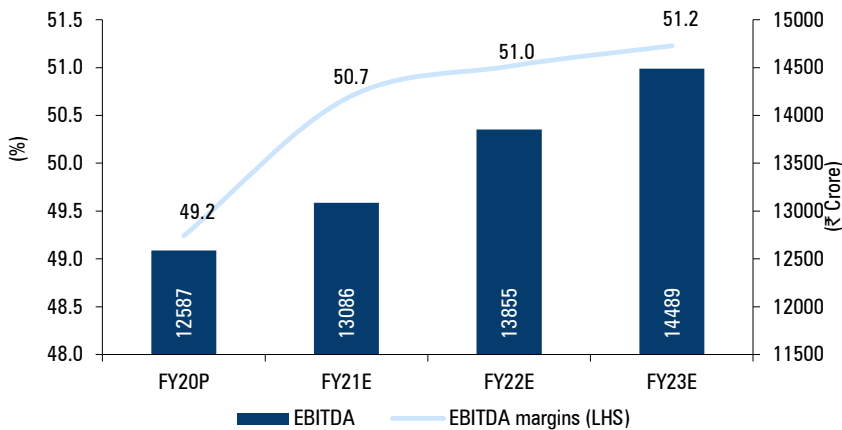
Exhibit 3: Energy revenues, energy cost trends



Source: Company, ICICI Direct Research

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

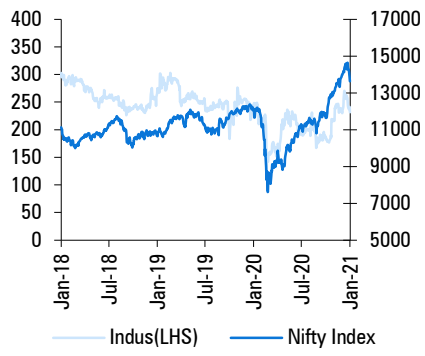
Exhibit 4: EBITDA and EBITDA margin trend



Source: Company, ICICI Direct Research

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

**Exhibit 5: Price Performance**



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total operating Income</b>	<b>14,647.2</b>	<b>20,576.6</b>	<b>27,158.7</b>	<b>28,282.6</b>
Growth (%)	0.4	NA	NA	4.1
Other Income	191.2	276.7	400.0	480.0
Total Revenue	14,838.4	20,853.3	27,558.7	28,762.6
Rent	0.0	0.0	0.0	0.0
Employee Expenses	500.1	713.7	949.1	995.8
Power and Fuel	5,436.0	7,598.0	9,849.5	10,248.2
Other Expenses	655.4	476.5	407.4	339.4
Repairs & Maintenance	705.7	1,250.1	2,098.1	2,210.6
Total Operating Expenditure	7,297.2	10,038.4	13,304.1	13,794.0
<b>EBITDA</b>	<b>7,350.0</b>	<b>10,538.3</b>	<b>13,854.5</b>	<b>14,488.7</b>
Growth (%)	22.5	NA	NA	4.6
Depreciation	2,957.1	4,467.9	6,583.1	6,847.4
Interest	500.7	1,077.7	1,400.0	1,300.0
Other Income	191.2	276.7	400.0	480.0
PBT	4,083.4	5,269.4	6,271.4	6,821.2
Exceptional Items	0.0	0.0	0.0	0.0
Total Tax	784.7	1,349.6	1,567.9	1,705.3
<b>PAT</b>	<b>3,298.7</b>	<b>3,919.8</b>	<b>4,703.6</b>	<b>5,115.9</b>
Growth (%)	32.3	NA	NA	8.8
<b>EPS (₹)</b>	<b>17.8</b>	<b>21.2</b>	<b>25.4</b>	<b>27.7</b>

Source: Company, ICICI Direct Research \*Assumed merged entity numbers from H2FY21 and for full years FY2 and FY23 estimates. Therefore, not comparable with prior period

Exhibit 8: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	1,849.6	2,694.9	2,694.9	2,694.9
Reserve and Surplus	11,688.4	14,273.5	14,634.7	14,599.8
Total Shareholders funds	13,538.0	16,968.4	17,329.6	17,294.7
Total Debt	4,011.1	4,970.0	4,970.0	4,970.0
Deferred Tax Liability	770.7	1,417.5	1,417.5	1,417.5
Others	6,964.5	13,796.0	13,796.0	13,796.0
<b>Total Liabilities</b>	<b>25,284.3</b>	<b>37,151.9</b>	<b>37,513.1</b>	<b>37,478.2</b>
<b>Assets</b>				
Gross Block	36,648.5	68,192.7	72,692.7	77,642.7
Accumulated Depreciation	24,483.0	46,645.4	53,228.5	60,076.0
Net Block	12,165.5	21,547.3	19,464.2	17,566.8
Capital WIP	154.6	235.0	235.0	235.0
Total Fixed Assets	12,320.1	21,782.3	19,699.2	17,801.8
Right of Use	5,129.8	9,960.3	9,160.3	8,360.3
Investments	5,438.3	500.0	1,200.0	2,900.0
Debtors	2,068.3	4,228.1	4,613.3	4,804.2
Loans and Advances	2,150.1	4,302.1	4,826.5	5,026.3
Other Current Assets	295.3	868.6	974.5	1,014.8
Cash	242.8	394.6	2,262.8	3,083.3
Total Current Assets	4,756.5	9,793.4	12,677.0	13,928.5
Creditors	1,843.0	3,382.5	3,348.3	3,486.9
Provisions	210.4	1,522.1	1,339.3	1,394.8
Other Current Liabilities	1,237.7	1,738.7	2,294.9	2,389.9
Total Current Liabilities	3,291.1	6,643.3	6,982.6	7,271.6
Net Current Assets	1,465.4	3,150.1	5,694.4	6,657.0
Others Assets	930.7	1,759.2	1,759.2	1,759.2
<b>Application of Funds</b>	<b>25,284.3</b>	<b>37,151.9</b>	<b>37,513.1</b>	<b>37,478.2</b>

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	3,298.7	3,919.8	4,703.6	5,115.9
Add: Depreciation	2,957.1	4,467.9	6,583.1	6,847.4
Add: Interest Paid	500.7	1,077.7	1,400.0	1,300.0
(Inc)/dec in Current Assets	-686.6	-1,280.1	-1,015.5	-431.0
Inc/(dec) in CL and Provisions	-193.1	-1,497.6	339.3	289.0
<b>CF from operating activities</b>	<b>5,876.8</b>	<b>6,687.7</b>	<b>12,010.5</b>	<b>13,121.3</b>
(Inc)/dec in Investments	-641.0	3,438.2	-700.0	-1,700.0
(Inc)/dec in Fixed Assets	-2,441.6	-4,000.0	-4,500.0	-4,950.0
Others	436.9	272.5	800.0	800.0
<b>CF from investing activities</b>	<b>-2,645.7</b>	<b>-289.3</b>	<b>-4,400.0</b>	<b>-5,850.0</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-401.4	661.4	0.0	0.0
Dividend paid & dividend tax	-2,885.4	-4,796.9	-4,042.4	-4,850.8
Add: Interest Paid	500.7	1,077.7	1,400.0	1,300.0
Others	-337.9	-3,228.5	-3,100.0	-2,900.0
<b>CF from financing activities</b>	<b>-3,124.0</b>	<b>-6,286.3</b>	<b>-5,742.4</b>	<b>-6,450.8</b>
Net Cash flow	107.1	112.1	1,868.1	820.5
Opening Cash	135.7	282.5	394.6	2,262.8
<b>Closing Cash</b>	<b>242.8</b>	<b>394.6</b>	<b>2,262.8</b>	<b>3,083.3</b>

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	17.8	14.5	17.5	19.0
Cash EPS	33.8	31.1	41.9	44.4
BV	73.2	63.0	64.3	64.2
DPS	13.0	17.8	15.0	18.0
Cash Per Share	1.3	1.5	8.4	11.4
<b>Operating Ratios</b>				
EBITDA Margin (%)	50.2	51.2	51.0	51.2
PAT Margin (%)	22.5	19.0	17.3	18.1
Debtor days	51.5	75.0	62.0	62.0
Creditor days	45.9	60.0	45.0	45.0
<b>Return Ratios (%)</b>				
RoE	24.4	23.1	27.1	29.6
RoCE	18.1	17.1	20.5	21.7
RoIC	29.1	25.0	30.8	33.9
<b>Valuation Ratios (x)</b>				
P/E	13.0	15.9	13.3	12.2
EV / EBITDA	9.4	7.6	5.6	5.2
Market Cap / Sales	4.3	3.0	2.3	2.2
Price to Book Value	3.2	3.7	3.6	3.6
<b>Solvency Ratios</b>				
Debt/EBITDA	0.5	0.5	0.4	0.3
Debt / Equity	0.3	0.3	0.3	0.3
Current Ratio	1.4	1.4	1.5	1.5
Quick Ratio	1.4	1.4	1.5	1.5

Source: Company, ICICI Direct Research

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