

CMP: ₹ 253

Target: ₹ 280 (11%)

Target Period: 12 months

HOLD

January 29, 2022

Receivables from VIL stretch working capital...

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 184748 towers and 335106 co-locations (as on Q3FY22) and a nationwide presence covering all 22 telecom circles

Q3FY22 Results: Stable operating performance; receivables stretch continued.

- The company reported net addition of 2555 co-locations vs. 3566 co-location addition in Q2, lower than our expectation of 3500 tenancy addition. Revenues came in at ₹ 6927 crore, up 0.7% QoQ with core rental revenues at ₹ 4397 crore, up 3.4% QoQ
- EBITDA was at ₹ 3699 crore, up 2.1% QoQ, with margins at 53.4% (up 70 bps QoQ). Receivables were up by ~₹ 1600 crore QoQ to ₹ 7351 crore, with debtor days at ~97 days vs. ~76 days in Q2 & ~54 days as on FY21

What should investors do? Indus' share price has delivered merely ~9% return over the past five years owing to concerns over its key tenant (VIL) survival.

- Despite improved odds of Vodafone Idea survival, lack of clarity on long term tenancy growth outlook remains. We maintain **HOLD** on the stock

Target Price and Valuation: We value Indus at ₹ 280 i.e. 6x 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
- Normalisation of VIL stress, which is stretching working capital
- Overall tenancy demand from 5G transition

Alternate Stock Idea: Besides Indus Towers, we like Tata Communication in the telecom space

- A play on cash flow generation consistency and growth levers like cloud, edge & security, IOT
- BUY with a target price of ₹ 1775



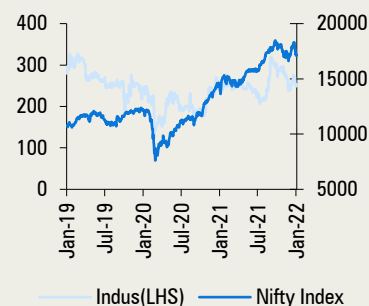
Particulars

| Particulars | Amount |
|---------------------------------|----------|
| Market Capitalization (₹ crore) | 68,207.9 |
| Total Debt (₹ crore) | 6,970.3 |
| Cash & Investments (₹ crore) | 2,285.9 |
| EV (₹ crore) | 72,892.3 |
| 52 week H/L (₹) | 333/ 194 |
| Equity capital (₹ crore) | 2,694.9 |
| Face value (₹) | 10.0 |

Shareholding pattern

| | Mar-21 | Jun-21 | Sep-21 | Dec-21 |
|-----------|--------|--------|--------|--------|
| Promoters | 69.9 | 69.9 | 69.9 | 69.9 |
| DII | 2.3 | 2.5 | 2.4 | 2.8 |
| FII | 27.1 | 26.8 | 26.8 | 26.1 |
| Other | 0.8 | 0.9 | 0.9 | 1.2 |

Price Chart



Key risks

Key Risk: (i) Stressed working capital impacting cash flow generation; (ii) Stronger than expected tenancy demand in 5G

Research Analyst

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Key Financial Summary

| (Year-end March) | FY20 | FY21 | 5 yr CAGR (FY16-21) | FY22E | FY23E | FY24E | 3 yr CAGR (FY21-24E) |
|----------------------|----------|----------|---------------------|----------|----------|----------|----------------------|
| Net Sales (₹ crore) | 14,647.2 | 25,672.9 | NA | 27,427.3 | 28,108.3 | 29,248.2 | 4.4 |
| EBITDA (₹ crore) | 7,350.0 | 13,096.9 | NA | 14,420.1 | 14,549.8 | 15,205.2 | 5.1 |
| Net Profit (₹ crore) | 3,298.7 | 4,975.1 | NA | 6,013.2 | 5,970.4 | 6,361.0 | 8.5 |
| EPS (₹) | 17.8 | 18.5 | | 22.3 | 22.2 | 23.6 | |
| P/E (x) | 14.2 | 13.7 | | 11.3 | 11.4 | 10.7 | |
| Price / Book (x) | 3.5 | 4.3 | | 3.9 | 3.6 | 3.4 | |
| EV/EBITDA (x) | 10.2 | 6.6 | | 6.1 | 5.9 | 5.5 | |
| RoCE (%) | 18.1 | 21.7 | | 24.7 | 24.1 | 25.4 | |
| RoE (%) | 24.4 | 31.3 | | 34.3 | 31.1 | 32.0 | |

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

Key performance highlight and outlook

Tenancy addition healthy

On a gross basis, Indus added 2971 tenancies while gross exits were 416. Consequently, net addition of 2555 co-locations was reported vs. 3566 in Q2, which is stable. The tower addition at ~1286 was also decent, albeit lower than last few quarters run rate. We highlight that equity conversion of moratorium interest, government has become a key stakeholder in Vodafone Idea (VIL), owing to which its medium term survival odds have improved. However, long term tenancy growth outlook for Indus remains uncertain. We note that while Indus is “hoping” for continued healthy traction riding on network transformation due to data usage explosion, we would monitor tenancy addition ahead, with Airtel being its only key tenant expanding at healthy pace. The addition of lean towers/small cells etc, also need to be monitored along with their likely implication for growth. We expect net co-locations to reach 365360 in FY24 vs. FY21 co-location count of 322438. We expect reported rentals (including exit rentals) to witness 3.4% CAGR in FY21-24E to ₹ 18121 crore. We note that the management expects exit penalty to taper sharply in CY22 vs. ₹ 185 crore/quarter, currently.

VIL stress continues to stretch working capital

The debtors were up by ~₹ 1600 crore QoQ on account of VIL taking additional time for clearing the dues. While the VIL stress has been there since last couple of quarter, Indus remains confident of recovery and maintained that it has cover of security package of Vodafone shares in Indus. It expects the telecom package, tariff hikes, bank guarantee releases and fund-raising plans to improve VIL's liquidity and, thus, ability to pay on time, going ahead.

Other highlights

- The energy spreads margins were negative 1.5% in Q3. We note that the company has been engaging with telcos to get back to fixed cost model vs. pass through model currently, which, it believes, will be win-win for everyone. However, no major breakthrough/update was given in this regard. We bake EBITDA margins of 52% in FY24 vs. 51% in FY21
- As per the management, commercial launch of 5G in the near-to-medium term will fuel the data consumption (likely to grow 2.7x (to ~40 GB/month by 2026). Thus, demand for mobile infrastructure such as towers and fibres is likely to improve in-tandem with usages and required densities, in-turn, providing huge opportunity to companies like Indus Towers in the long term. In the medium/near term, sizable delta variance in operator size and presence is likely to drive tower/tenancy additions along with need for leaner towers/cell sites etc
- Sharing revenue per tower (RPT) has improved to 2.3% QoQ to ₹ 79,609 per month in Q3, mainly backed by improved tenancy and loading. The RTP increase was also due to non-recurring benefits arising due to billing reconciliations, municipal taxes, etc, contributing to ~1% QoQ increase
- The capex remained underwhelming at ₹ 710.7 crore in Q3FY22 (vs. ₹ 830.2 crore in Q2FY22). Net debt at ₹ 5,079 crore was lower by ₹ 103.5 crore QoQ.

The tenancy addition momentum remains decent. We note that VIL's survival over the medium term has been addressed with the government becoming a stakeholder. However, clarity on long term tenancy growth outlook along with planned foray in allied activities such as small cells, smart cities or fibre, etc, are key things to watch. We maintain our **HOLD** recommendation with a revised target price of ₹ 280/share (vs. ₹ 310, earlier), as we roll over to FY24E and assign target EV/EBITDA of 6x on FY24 EBITDA vs. 7x FY23E earlier.

Exhibit 1: Variance Analysis

| | Q3FY22 | Q3FY22E | Q3FY21 | Q2FY22 | YoY (%) | QoQ (%) | Comments |
|----------------------------------|----------|----------|----------|----------|---------|---------|--|
| Revenue | 6,927.4 | 6,940.6 | 6,736.1 | 6,876.5 | 2.8 | 0.7 | The rental revenues came in at ₹ 4397 crore, up 3.4% QoQ. Energy revenues came in at ₹2530 crore, down 3.5% QoQ. |
| Other Income | 93.9 | 80.0 | 105.6 | 92.7 | -11.1 | 1.3 | |
| Employee Expenses | 194.3 | 188.4 | 224.2 | 184.8 | -13.3 | 5.1 | |
| Power and Fuel | 2,567.6 | 2,650.4 | 2,478.6 | 2,651.1 | 3.6 | -3.1 | |
| Other Expenses | 128.2 | 100.6 | 101.6 | 83.3 | 26.2 | 53.9 | |
| Repairs and Maintenance | 338.6 | 339.2 | 379.3 | 334.0 | -10.7 | 1.4 | |
| EBITDA | 3,698.7 | 3,662.0 | 3,552.4 | 3,623.3 | 4.1 | 2.1 | |
| EBITDA Margin (%) | 53.4 | 52.8 | 52.7 | 52.7 | 70 bps | 70 bps | Higher margins due to lower charity expenses |
| Depreciation | 1,324.4 | 1,321.9 | 1,430.2 | 1,316.1 | -7.4 | 0.6 | |
| Interest | 379.3 | 370.0 | 390.0 | 366.5 | -2.7 | 1.0 | |
| Exceptional Items | 0.0 | 0.0 | 0.0 | 0.0 | NA | NA | |
| Total Tax | 518.1 | 516.6 | 477.8 | 474.9 | 8.4 | 9.1 | |
| PAT | 1,570.8 | 1,533.5 | 1,360.0 | 1,558.5 | 15.5 | 0.8 | |
| Towers (Consolidated) | 1,84,748 | 1,85,932 | 1,75,510 | 1,83,462 | 5.3 | 0.7 | |
| Tenancy Ratio (x) (Consolidated) | 1.81 | 1.81 | 1.82 | 1.81 | -0.4 | 0.2 | |
| Sharing revenue per tower p.m | 79,609 | 79,363 | 82,732 | 77,807 | -3.8 | 2.3 | |

Source: Company, ICICI Direct Research

Change in Estimates

| (₹ Crore) | FY22E | | | FY23E | | | FY24E | Introduced |
|-------------------|----------|----------|----------|----------|----------|----------|----------|---------------------------|
| | Old | New | % Change | Old | New | % Change | | |
| Revenue | 27,375.0 | 27,427.3 | 0.2 | 28,327.5 | 28,108.3 | -0.8 | 29,248.2 | Realign estimates post Q3 |
| EBITDA | 14,024.5 | 14,420.1 | 2.8 | 14,393.1 | 14,549.8 | 1.1 | 15,205.2 | |
| EBITDA Margin (%) | 51.2 | 52.6 | 134 bps | 50.8 | 51.8 | 95 bps | 52.0 | |
| PAT | 5,529.4 | 6,013.2 | 8.8 | 5,655.4 | 5,970.4 | 5.6 | 6,361.0 | |
| EPS (₹) | 20.5 | 22.3 | 8.8 | 21.0 | 22.2 | 5.6 | 23.6 | |

Source: Company, ICICI Direct Research

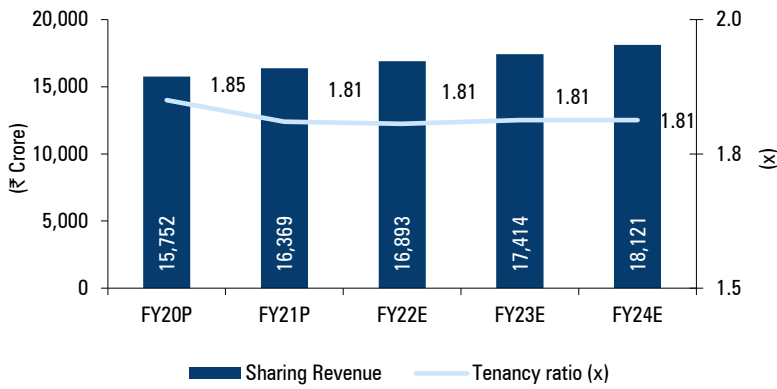
Proforma merged entity KPI and assumptions

| | FY20P | FY21P | FY22E | FY23E | FY24E | |
|-------------------------------|----------|----------|----------|----------|----------|--------------------------------------|
| Towers (No.) | 1,69,002 | 1,79,225 | 1,86,134 | 1,93,691 | 2,01,556 | Combined entity proforma assumptions |
| Tenancy Ratio (x) | 1.85 | 1.81 | 1.81 | 1.81 | 1.81 | |
| Total Co-locations (No.) | 3,11,111 | 3,22,438 | 3,37,395 | 3,51,099 | 3,65,360 | |
| Sharing revenue per tower p.m | 77,706 | 77,408 | 77,062 | 76,414 | 76,414 | |
| Sharing Revenue (₹ Crore) | 15,752.2 | 16,369.1 | 16,893.3 | 17,414.3 | 18,121.4 | |

Source: Company, ICICI Direct Research

Financial story in charts

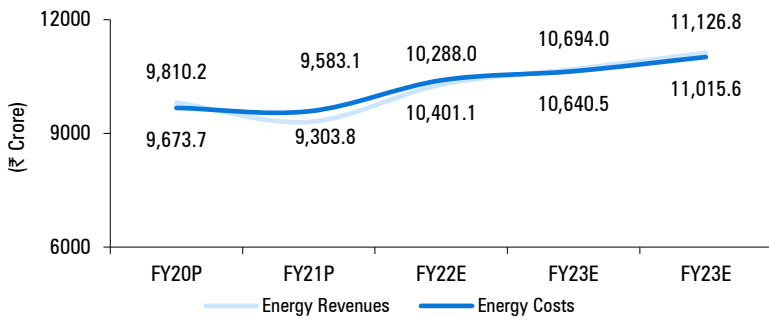
Exhibit 2: Tenancy, sharing revenues



Source: Company, ICICI Direct Research

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

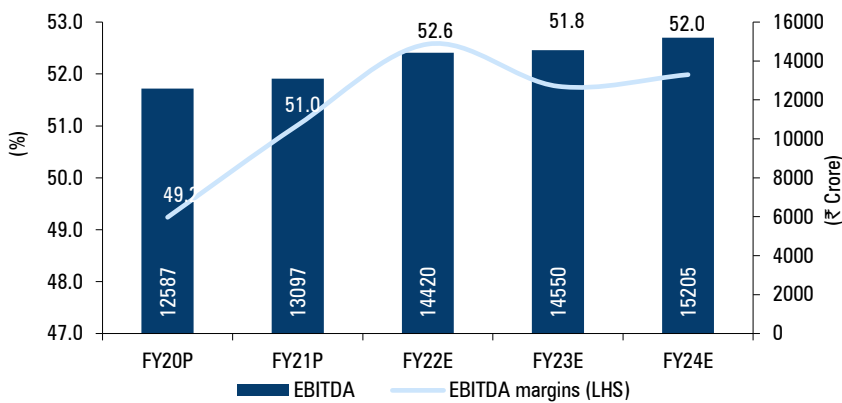
Exhibit 3: Energy revenues, energy cost trends



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 | 27,427.3 | 28,108.3 | 29,248.2 |
| Growth (%) | NA | 6.8 | 2.5 | 4.1 |
| Other Income | 298.3 | 333.5 | 280.0 | 280.0 |
| Total Revenue | 25,971.2 | 27,760.8 | 28,388.3 | 29,528.2 |
| Rent | 0.0 | 0.0 | 0.0 | 0.0 |
| Employee Expenses | 768.1 | 763.5 | 789.1 | 821.1 |
| Power and Fuel | 9,583.1 | 10,401.1 | 10,640.5 | 11,015.6 |
| Other Expenses | 781.0 | 499.0 | 725.2 | 760.5 |
| Repairs & Maintenance | 1,443.8 | 1,343.7 | 1,403.7 | 1,445.9 |
| Total Operating Expenditure | 12,576.0 | 13,007.2 | 13,558.5 | 14,043.0 |
| EBITDA | 13,096.9 | 14,420.1 | 14,549.8 | 15,205.2 |
| Growth (%) | NA | 10.1 | 0.9 | 4.5 |
| Depreciation | 5,339.4 | 5,294.3 | 5,328.0 | 5,461.2 |
| Interest | 1,402.1 | 1,501.9 | 1,520.0 | 1,520.0 |
| Other Income | 298.3 | 333.5 | 280.0 | 280.0 |
| PBT | 6,653.7 | 7,957.5 | 7,981.8 | 8,504.0 |
| Exceptional Items | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Tax | 1,678.6 | 1,944.2 | 2,011.4 | 2,143.0 |
| PAT | 4,975.1 | 6,013.2 | 5,970.4 | 6,361.0 |
| Growth (%) | NA | 20.9 | -0.7 | 6.5 |
| EPS (₹) | 18.5 | 22.3 | 22.2 | 23.6 |

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 | 14,853.0 | 16,481.0 | 17,152.2 |
| Total Shareholders funds | 15,877.0 | 17,547.9 | 19,175.9 | 19,847.1 |
| Total Debt | 6,970.3 | 6,470.3 | 5,970.3 | 5,470.3 |
| Deferred Tax Liability | 70.3 | 70.3 | 70.3 | 70.3 |
| Others | 14,153.3 | 14,153.3 | 14,153.3 | 14,153.3 |
| Total Liabilities | 37,070.9 | 38,241.8 | 39,369.8 | 39,541.0 |
| Assets | | | | |
| Gross Block | 67,740.9 | 71,540.9 | 75,540.9 | 79,540.9 |
| Accumulated Depreciation | 47,471.8 | 52,766.1 | 58,094.1 | 63,555.3 |
| Net Block | 20,269.1 | 18,774.9 | 17,446.9 | 15,985.7 |
| Capital WIP | 273.6 | 273.6 | 273.6 | 273.6 |
| Total Fixed Assets | 20,542.7 | 19,048.5 | 17,720.5 | 16,259.3 |
| Right of Use | 10,211.0 | 10,211.0 | 10,211.0 | 10,211.0 |
| Investments | 2,271.4 | 471.4 | 1,171.4 | 1,871.4 |
| Debtors | 3,828.5 | 6,762.9 | 6,930.8 | 7,211.9 |
| Loans and Advances | 4,009.2 | 5,568.1 | 6,277.0 | 6,531.6 |
| Other Current Assets | 559.5 | 717.3 | 771.8 | 843.3 |
| Cash | 14.5 | 30.5 | 842.4 | 1,262.6 |
| Total Current Assets | 8,411.7 | 13,078.9 | 14,822.0 | 15,849.3 |
| Creditors | 3,258.8 | 3,231.2 | 3,311.4 | 3,445.7 |
| Provisions | 1,614.7 | 1,601.0 | 1,558.7 | 1,540.8 |
| Other Current Liabilities | 2,999.3 | 1,922.6 | 1,871.8 | 1,850.3 |
| Total Current Liabilities | 7,872.8 | 6,754.7 | 6,741.9 | 6,836.8 |
| Net Current Assets | 538.9 | 6,324.1 | 8,080.1 | 9,012.5 |
| Others Assets | 2,186.8 | 2,186.8 | 2,186.8 | 2,186.8 |
| Application of Funds | 37,070.9 | 38,241.8 | 39,369.8 | 39,541.0 |

Source: Company, ICICI Direct Research

| Exhibit 6: Cash flow statement | | | | |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | ₹ crore | | | |
| (Year-end March) | FY21 | FY22E | FY23E | FY24E |
| Profit after Tax | 4,975.1 | 6,013.2 | 5,970.4 | 6,361.0 |
| Add: Depreciation | 5,339.4 | 5,294.3 | 5,328.0 | 5,461.2 |
| Add: Interest Paid | 1,402.1 | 1,501.9 | 1,520.0 | 1,520.0 |
| (Inc)/dec in Current Assets | -278.5 | -4,651.1 | -931.4 | -607.1 |
| Inc/(dec) in CL and Provisions | -268.1 | -1,118.1 | -12.8 | 94.9 |
| CF from operating activities | 11,170.0 | 7,040.2 | 11,874.2 | 12,830.0 |
| (Inc)/dec in Investments | 1,666.8 | 1,800.0 | -700.0 | -700.0 |
| (Inc)/dec in Fixed Assets | -3,586.8 | -3,800.0 | -4,000.0 | -4,000.0 |
| Others | -1,395.7 | 0.0 | 0.0 | 0.0 |
| CF from investing activities | -3,315.7 | -2,000.0 | -4,700.0 | -4,700.0 |
| Issue/(Buy back) of Equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Inc/(dec) in loan funds | 1,196.5 | 0.0 | 0.0 | 0.0 |
| Dividend paid & dividend tax | -6,565.4 | -4,042.4 | -4,042.4 | -5,389.8 |
| Interest Paid | -1,402.1 | -1,501.9 | -1,520.0 | -1,520.0 |
| Others | -1,350.3 | 520.1 | -800.0 | -800.0 |
| CF from financing activities | -8,121.3 | -5,024.2 | -6,362.4 | -7,709.8 |
| Net Cash flow | -267.0 | 16.0 | 811.8 | 420.2 |
| Opening Cash | 282.5 | 14.5 | 30.5 | 842.4 |
| Closing Cash | 15.5 | 30.5 | 842.4 | 1,262.6 |

Source: Company, ICICI Direct Research

| Exhibit 8: Key ratios | | | | |
|-----------------------------|------|-------|-------|-------|
| (Year-end March) | FY21 | FY22E | FY23E | FY24E |
| Per share data (₹) | | | | |
| EPS | 18.5 | 22.3 | 22.2 | 23.6 |
| Cash EPS | 38.3 | 42.0 | 41.9 | 43.9 |
| BV | 58.9 | 65.1 | 71.2 | 73.6 |
| DPS | 20.1 | 15.0 | 15.0 | 20.0 |
| Cash Per Share | 0.1 | 0.1 | 3.1 | 4.7 |
| Operating Ratios | | | | |
| EBITDA Margin (%) | 51.0 | 52.6 | 51.8 | 52.0 |
| PAT Margin (%) | 19.4 | 21.9 | 21.2 | 21.7 |
| Debtor days | 54.4 | 90.0 | 90.0 | 90.0 |
| Creditor days | 46.3 | 43.0 | 43.0 | 43.0 |
| Return Ratios (%) | | | | |
| RoE | 31.3 | 34.3 | 31.1 | 32.0 |
| RoCE | 21.7 | 24.7 | 24.1 | 25.4 |
| RoIC | 37.3 | 36.4 | 37.4 | 41.1 |
| Valuation Ratios (x) | | | | |
| P/E | 13.7 | 11.3 | 11.4 | 10.7 |
| EV / EBITDA | 6.6 | 6.1 | 5.9 | 5.5 |
| Market Cap / Sales | 2.7 | 2.5 | 2.4 | 2.3 |
| Price to Book Value | 4.3 | 3.9 | 3.6 | 3.4 |
| Solvency Ratios | | | | |
| Debt/EBITDA | 0.5 | 0.4 | 0.4 | 0.4 |
| Debt / Equity | 0.4 | 0.4 | 0.3 | 0.3 |
| Current Ratio | 1.1 | 1.9 | 2.1 | 2.1 |
| Quick Ratio | 1.1 | 1.9 | 2.1 | 2.1 |

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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