

Renewals at competitive rates to restrict FY23 growth

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 185447 towers and 335791 co-locations (as on Q4FY22) and a nationwide presence covering all 22 telecom circles.

Q4FY22 Results: Reported a weak operating performance on adjusted basis.

- The company reported net addition of 685 co-locations vs. 2555 co-location addition in Q2, and much lower than last four quarters. Rental revenues came in at ₹ 4745 crore, up 7.9% QoQ. We highlight that Q4FY22 rental revenues included one-time provision reversal of ~₹ 547.3 crore. This was partially offset by lower exit revenue of ₹ 28.3 crore vs. ₹ 185 crore in Q3. On adjusted basis, rental revenues were down 1% QoQ.
- Adjusting for provision reversal benefit, EBITDA was at ₹ 3515 crore, up 3% QoQ and margins of 53.5%, flattish QoQ. PAT came in at ₹ 1828.5 crore (up 16.4% QoQ), largely owing to provision reversal benefit. Adjusted PAT of ₹ 1418 crore, down 9.7% QoQ was lower

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.

- Despite likely Vodafone Idea survival, near term growth challenges remain with likely competitive renewals terms. We also await further details on potential of growth in the adjacent areas such as small cells/ in building solutions etc. We maintain **HOLD** on the stock

Target Price and Valuation: We value Indus at ₹ 205 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

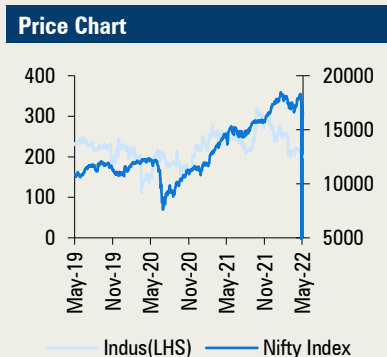
Alternate Stock Idea: Besides Indus Towers, we like Bharti Airtel in telecom space.

- A play on consolidation of sector and improving metrics.
- BUY with target price of ₹ 860



Particulars	
Particulars	Amount
Market Capitalization (₹ crore)	53,601.6
Total Debt (₹ crore)	5,486.8
Cash & Investments (₹ crore)	2,632.3
EV (₹ crore)	56,456.1
52 week H/L (₹)	333/ 192
Equity capital (₹ crore)	2,694.9
Face value (₹)	10.0

Shareholding pattern				
	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	69.9	69.9	69.9	67.5
DII	2.5	2.4	2.8	2.7
FII	26.8	26.8	26.1	28.2
Other	0.9	0.9	1.2	1.6



Key risks

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

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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	27,610.5	28,528.4	1.5
EBITDA (₹ crore)	7,350.0	13,096.9	14,900.7	NA	14,207.1	14,608.6	(1.0)
Adjusted Net Profit (₹ crore)	3,298.7	4,975.1	6,235.2	NA	5,563.5	5,777.1	(3.7)
Adj. EPS (₹)	17.8	18.5	23.1		20.6	21.4	
P/E (x)	11.3	10.9	8.5		9.8	9.4	
Price / Book (x)	2.8	3.4	2.5		2.9	2.9	
EV/EBITDA (x)	8.3	5.5	4.8		5.1	4.9	
RoCE (%)	18.1	21.7	23.3		23.2	24.2	
RoE (%)	24.4	31.3	28.1		29.9	30.9	

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 moderates...

On a gross basis, Indus added 2971 tenancies while gross exits were 416. Consequently, net addition of 685 co-locations vs. 2555 co-location addition in Q3, was much lower than last four quarters. The tower addition at ~699 was 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, competitive coverage, we would monitor tenancy addition ahead. We highlight that key vendor Airtel has indicated it is largely done with 4G expansion, VIL continues to lag in network spends. 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 353579 in FY24 vs. FY22 co-location count of 335791. We expect reported rentals (including exit rentals) to witness 1.1% CAGR in FY22-24E to ₹ 17699 crore.

One offs aid topline/margins; renewals signals rental discounts

We highlight that Q4FY22 rental revenues included one-time provision reversal of ~₹ 547.3 crore. This was partially offset by lower exit revenue of ₹ 28.3 crore vs. ₹ 185 crore in Q3. On adjusted basis, therefore, rental revenues were down 1% QoQ. We highlight that while the company has not shared details, it indicated that it has completed tenancy renewal renegotiation with one large customer and has offered competitive prices. This implies discount to rates prevalent in FY22 and thus risk of like to like rental decline. It is also in discussion with another operator for renewal of tenancies.

VIL stress continues to stretch working capital

The company saw a decline in receivables by ~₹ 293 crore QoQ to ₹ 7059 crore. The debtor improvement was underwhelming as it was despite ₹ 3375 crore payment made by VIL from equity infusion by Vodafone Plc. While the VIL stress has been there since 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.

Other highlights

- The capex remained underwhelming at ₹ 634.8 crore during Q4FY22 (vs. ₹ 710.7 crore in Q3FY22).

The tenancy addition momentum has seen some softness after decent traction in last few quarter. We await clarity on renewal terms and discounts offered by the company. 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. The clarity on long term tenancy growth outlook along with planned foray in allied activities such as smart cities or fibre etc. are the other key things to watch out for. We maintain our **HOLD** recommendation with a revised target price of ₹ 205/share (vs. ₹ 280, earlier), as we cut earnings and assign target EV/EBITDA of 5x on FY24 EBITDA vs. 6x FY24E earlier, given the lower growth visibility.

Exhibit 1: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	Q3FY22	YoY (%)	QoQ (%)	Comments
Revenue	7,116.3	6,895.4	6,491.8	6,927.4	9.6	2.7	The rental revenues came in at ₹ 4745 crore, up 7.9% QoQ. We highlight that Q4FY22 rental revenues included one-time provision reversal of ~₹ 547.3 crore. This was partially offset by lower exit revenue of ₹ 28.3 crore ₹ 185 crore in Q3. On adjusted basis, rental revenues were down -1%. The energy revenues came in at ₹2372 crore, down 6.3% QoQ.
Other Income	109.0	90.0	77.2	93.9	41.2	16.1	
Employee Expenses	205.9	199.1	177.4	194.3	16.1	6.0	
Power and Fuel	2,400.8	2,612.2	2,374.5	2,567.6	1.1	-6.5	
Other Expenses	103.5	179.3	155.2	128.2	-33.3	-19.3	
Repairs and Maintenance	344.1	341.1	371.9	338.6	-7.5	1.6	
EBITDA	4,062.0	3,563.7	3,412.8	3,698.7	19.0	9.8	
EBITDA Margin (%)	57.1	51.7	52.6	53.4	369 bps	369 bps	Higher margins due to one off provision reversal
Depreciation	1,364.9	1,334.0	1,332.3	1,324.4	2.4	3.1	
Interest	374.7	379.3	361.9	379.3	3.5	0.0	
Exceptional Items	0.0	0.0	0.0	0.0	NA	NA	
Total Tax	602.9	485.1	432.0	518.1	39.6	16.4	
PAT	1,828.5	1,455.3	1,363.8	1,570.8	34.1	16.4	
Towers (Consolidated)	1,85,447	1,86,148	1,79,225	1,84,748	3.5	0.4	
Tenancy Ratio (x) (Consolidated)	1.81	1.81	1.81	1.81	0.0	-0.2	
Sharing revenue per tower p.m	85,445	79,609	77,825	79,609	9.8	7.3	

Source: Company, ICICI Direct Research

Change in Estimates

(₹ Crore)	FY23E			FY24E			
	Old	New	% Change	Old	New	% Change	
Revenue	28,312.6	27,610.5	-2.5	29,460.8	28,528.4	-3.2	Realign estimates
EBITDA	14,716.0	14,207.1	-3.5	15,378.3	14,608.6	-5.0	
EBITDA Margin (%)	52.0	51.5	-52 bps	52.2	51.2	-99 bps	
PAT	6,094.4	5,563.5	-8.7	6,490.2	5,777.1	-11.0	
EPS (₹)	22.6	20.6	-8.7	24.1	21.4	-11.0	

Source: Company, ICICI Direct Research

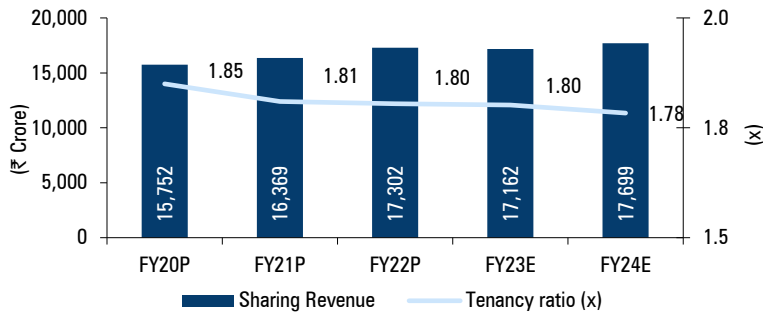
Proforma merged entity KPI and assumptions

	FY20P	FY21P	FY22P	FY23E	FY24E	
Towers (No.)	1,69,002	1,79,225	1,85,447	1,91,453	1,99,227	Combined entity proforma assumptions
Tenancy Ratio (x)	1.85	1.81	1.80	1.80	1.78	
Total Co-locations (No.)	3,11,111	3,22,438	3,35,791	3,43,219	3,53,579	
Sharing revenue per tower p.m	77,706	77,408	79,075	75,889	75,504	
Sharing Revenue (₹ Crore)	15,752.2	16,369.1	17,301.8	17,161.6	17,698.8	

Source: Company, ICICI Direct Research

Financial story in charts

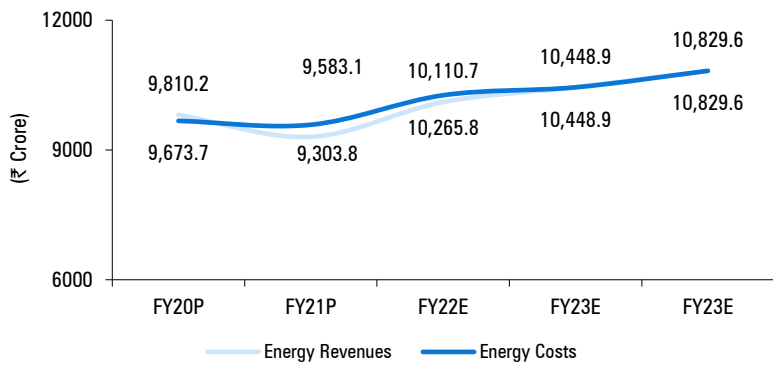
Exhibit 2: Tenancy, sharing revenues



Source: Company, ICICI Direct Research

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

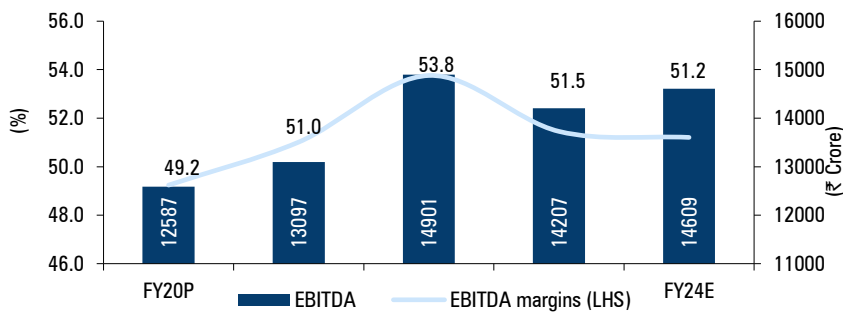
Exhibit 3: Energy revenues, energy cost trends



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	27,610.5	28,528.4
Growth (%)	NA	8.0	-0.4	3.3
Other Income	298.3	352.5	280.0	280.0
Total Revenue	25,971.2	28,069.7	27,890.5	28,808.4
Rent	0.0	0.0	0.0	0.0
Employee Expenses	768.1	772.2	832.2	870.6
Power and Fuel	9,583.1	10,265.8	10,448.9	10,829.6
Other Expenses	781.0	431.8	712.3	741.7
Repairs & Maintenance	1,443.8	1,346.7	1,409.9	1,477.8
Total Operating Expenditure	12,576.0	12,816.5	13,403.4	13,919.8
EBITDA	13,096.9	14,900.7	14,207.1	14,608.6
Growth (%)	NA	13.8	-4.7	2.8
Depreciation	5,339.4	5,325.2	5,529.2	5,645.2
Interest	1,402.1	1,497.3	1,520.0	1,520.0
Other Income	298.3	352.5	280.0	280.0
PBT	6,653.7	8,430.7	7,437.9	7,723.4
Exceptional Items	0.0	0.0	0.0	0.0
Total Tax	1,678.6	2,057.6	1,874.3	1,946.3
PAT	4,975.1	6,373.1	5,563.5	5,777.1
Growth (%)	NA	28.1	-12.7	3.8
EPS (₹)	18.5	23.1	20.6	21.4

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	20,137.9	20,225.2
Total Shareholders funds	15,877.0	22,150.5	22,832.8	22,920.1
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	42,367.6	41,454.9
Assets				
Gross Block	67,740.9	72,335.8	76,335.8	80,335.8
Accumulated Depreciation	47,502.7	53,031.9	58,561.1	64,206.3
Net Block	20,238.2	19,303.9	17,774.7	16,129.6
Capital WIP	273.6	178.7	178.7	178.7
Total Fixed Assets	20,511.8	19,482.6	17,953.4	16,308.3
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	7,035.0	7,268.9
Loans and Advances	4,009.2	3,476.7	4,156.0	4,723.6
Other Current Assets	559.5	244.9	256.2	277.9
Cash	14.5	980.2	2,743.1	2,467.9
Total Current Assets	8,411.7	11,760.4	14,190.2	14,738.2
Creditors	3,258.8	2,129.3	2,118.1	2,188.5
Provisions	1,614.7	1,773.3	1,675.7	1,644.9
Other Current Liabilities	2,999.3	1,379.7	1,305.7	1,281.6
Total Current Liabilities	7,872.8	5,282.3	5,099.5	5,115.0
Net Current Assets	538.9	6,478.1	9,090.8	9,623.2
Others Assets	2,186.8	2,550.3	2,550.3	2,550.3
Application of Funds	37,070.9	42,685.3	42,367.6	41,454.9

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	5,563.5	5,777.1
Add: Depreciation	5,339.4	5,325.2	5,529.2	5,645.2
Add: Interest Paid	1,402.1	1,497.3	1,520.0	1,520.0
(Inc)/dec in Current Assets	-278.5	-2,383.0	-666.9	-823.2
Inc/(dec) in CL and Provisions	-268.1	-2,590.5	-182.8	15.5
CF from operating activities	11,170.0	8,222.1	11,763.0	12,134.6
(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	-1,520.0	-1,520.0
Others	-1,350.3	673.7	1,171.8	-1,300.0
CF from financing activities	-8,121.3	-3,997.2	-4,929.5	-8,209.8
Net Cash flow	-267.0	95.1	2,633.5	-275.2
Opening Cash	282.5	14.5	109.6	2,743.1
Closing Cash	15.5	109.6	2,743.1	2,467.9

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	18.5	23.6	20.6	21.4
Cash EPS	38.3	43.4	41.2	42.4
BV	58.9	82.2	84.7	85.0
DPS	20.1	15.0	17.0	20.0
Cash Per Share	0.1	3.6	10.2	9.2
Operating Ratios				
EBITDA Margin (%)	51.0	53.8	51.5	51.2
PAT Margin (%)	19.4	22.5	20.2	20.3
Debtor days	54.4	93.0	93.0	93.0
Creditor days	46.3	28.0	28.0	28.0
Return Ratios (%)				
RoE	31.3	28.1	24.4	25.2
RoCE	21.7	23.3	21.1	22.3
RoIC	37.4	38.6	36.0	38.5
Valuation Ratios (x)				
P/E	10.9	8.5	9.8	9.4
EV / EBITDA	5.5	4.8	4.8	4.6
Market Cap / Sales	2.1	2.0	2.0	1.9
Price to Book Value	3.4	2.5	2.4	2.4
Solvency Ratios				
Debt/EBITDA	0.5	0.4	0.3	0.2
Debt / Equity	0.4	0.2	0.2	0.2
Current Ratio	1.1	2.0	2.2	2.4
Quick Ratio	1.1	2.0	2.2	2.4

Source: Company, ICICI Direct Research

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