

VIL dues provisions impact profitability again!

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.

- The company has 187926 towers and 338128 co-locations (as on Q2FY23) and a nationwide presence covering all 22 telecom circles.

Q2FY23 Results: Weak operating performance.

- Net addition of 1746 co-locations was seen in Q2. Lean towers (not reflected in tenancy count) saw a strong addition of 1535, during Q2 vs. 1021 in Q1. Revenues came in at ₹ 7967 crore, up 15.5% QoQ as it included one-time provision reversal of ₹ 1100 crore in Q2. The reported rental revenues came in at ₹ 4785 crore, up 13.2% QoQ, aided by one-time provision reversal of ₹ 550 crore. Like to like core rental revenues were up 0.3% QoQ**
- EBITDA was at ₹ 2811 crore, up 24.3% QoQ, with margins at 35.8% (up 249 bps points QoQ) as the company provided for doubtful debts of ₹ 1771 crore (vs. ₹ 1233 crore in Q1) against dues from Vodafone Idea. **Adjusted EBITDA was at ₹ 3482 crore, down 0.4% QoQ and margins at 50.7%, flattish QoQ**

What should investors do? Indus' share price has been down ~19% over the past five years owing to concerns over its key tenant VIL's survival.

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

Target Price and Valuation: We value Indus at ₹ 170 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) to drive growth along with overall tenancy demand from 5G transition
- Normalisation of VIL stress, which is stretching working capital

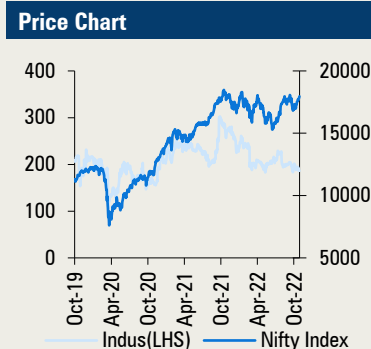
Alternate Stock Idea: Besides Indus Towers, we like Bharti Airtel in telecom space.

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



Particulars	Amount
Market Capitalization (₹ crore)	50,246
Total Debt - FY22 (₹ crore)	5,487
Cash & Inv - FY22 (₹ crore)	2,632
EV (₹ crore)	53,101
52 week H/L (₹)	307/ 181
Equity capital (₹ crore)	2,694.9
Face value (₹)	10.0

Shareholding pattern	Dec-21	Mar-22	Jun-22	Sep-22
	Promoters	69.9	67.5	68.8
DII	2.8	2.7	2.6	2.9
FII	26.1	28.2	26.6	26.5
Other	1.2	1.6	2.0	1.6



Key risks

Key Risk: (i) Recovery in VIL fortunes; (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	28,779.7	29,199.6	30,234.4	2.9
EBITDA (₹ crore)	7,350.0	13,096.9	14,900.7	NA	12,233.2	14,715.2	15,282.8	0.8
Net Profit (₹ crore)	3,298.7	4,975.1	6,373.1	NA	4,251.6	5,966.4	6,218.6	(0.8)
Adj. EPS (₹)	17.8	18.5	23.1		21.1	22.1	23.1	
P/E (x)	10.5	10.1	7.9		11.8	8.4	8.1	
Price / Book (x)	2.5	3.2	2.3		2.3	2.3	2.3	
EV/EBITDA (x)	7.8	5.2	4.5		5.6	4.6	4.3	
RoCE (%)	18.1	21.7	23.3		17.0	22.1	22.7	
RoE (%)	24.4	31.3	28.1		26.4	27.4	27.9	

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 remains modest...

On a gross basis, Indus added 2283 tenancies while gross exits were 546. Consequently, there was net addition of 1746 co-locations vs. 591 co-location addition in Q1, aided by some pickup on account of network rollout. **Lean towers (not reflected in tenancy and tower counts) saw a strong addition of 1535, during Q2 vs. 1021 in Q1. The company has so far deployed ~3100 leaner towers and expects it to accelerate with 5G rollout. The tower addition was healthy at 1452.** 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 364578 in FY25 vs. FY22 co-location count of 335791. We expect reported rentals to witness a muted 1.6% CAGR in FY22-25E to ₹ 18471 crore.

Provisions impacts margins again

Reported rental revenues came in at ₹ 4785 crore, up 13.2% QoQ. We highlight that rental revenues included one-time provision reversal of ~₹ 550 crore. Thus, on adjusted basis, core rental revenues were up 0.3% QoQ. Reported EBITDA came in at ₹ 2811 crore, up 24.3% QoQ, with EBITDA margins at 35.8% (up 249 bps points QoQ) as the company provided for doubtful debts of ₹ 1771 crore (vs. ₹ 1233 crore in Q1), against dues from Vodafone Idea. **Thus, adjusting for provision reversal benefit and provision in Q2, EBITDA was at ₹ 3482 crore, down 0.4% QoQ and margins at 50.7%, flattish QoQ.**

VIL stress continues to stretch working capital

The company saw an increase in receivables by ~₹ 249 crore QoQ to ₹ 6499 crore, despite provision for doubtful debt. The debtor days remained elevated at ~108 days vs. ~93 days as on FY22 end. **The management indicated that VIL has 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. We will monitor the same. While the VIL stress has been there for the last couple of quarters, Indus remains confident of a recovery.** It has also not considered taking convertible debt as an alternative payment option as the company is confident about the payment plan given by VIL. 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 raising is necessary for VIL to compete in the marketplace and meet its vendor's dues timeline.**

Other highlights

- The capex was a tad higher, yet underwhelming at ₹ 793.7 crore during Q2FY23 (vs ₹ 760.1 crore in Q1FY23)
- It 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. In the next 18 months, it expects 50-60% of existing sites to have 5G loadings given both operators plans to roll out 5G pan-India
- Energy segment had positive margin owing to ~₹ 550 crore of provision reversal. On a medium to long term basis, it expects it to be net zero margin segment, given the pass through

The tenancy addition momentum has seen some traction. Vodafone Idea's survival odds have improved. Thus, risk on current tenancy is lower albeit higher debtors amount has stressed the balance sheet of Indus Towers. The improvement in collection will be key for cash flows generation. Going ahead, clarity on long term tenancy growth outlook amid 5G rollout along with planned foray in allied activities such as smart cities, fibre, etc are other key things to watch. We maintain our REDUCE rating, with a revised target price of ₹ 170/share (vs. ₹ 195, earlier), assigning target EV/EBITDA of 4.5x on FY24 EBITDA.

Exhibit 1: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	Q1FY23	YoY (%)	QoQ (%)	Comments
Revenue	7,966.6	6,818.2	6,876.5	6,897.3	15.9	15.5	Overall revenues included one-time provision reversal of ₹ 1100 crore in Q2. The reported rental revenues came in at ₹ 4785 crore, up 13.2% QoQ aided by one-time provision reversal of ₹ 550 crore. Like to like core rental revenues were up 0.3% QoQ
Other Income	62.9	70.0	92.7	92.5	-32.1	-32.0	
Employee Expenses	195.7	184.9	184.8	183.4	5.9	6.7	
Power and Fuel	2,717.7	2,605.4	2,651.1	2,691.5	2.5	1.0	
Other Expenses	1,908.5	173.2	83.3	1,423.7	2,191.1	34.1	
Repairs and Maintenance	333.5	338.6	334.0	336.8	-0.1	-1.0	
EBITDA	2,811.2	3,516.1	3,623.3	2,261.9	-22.4	24.3	
EBITDA Margin (%)	35.3	51.6	52.7	32.8	-1740 bps	249 bps	Lower margins due to one off provision for doubtful debt
Depreciation	1,306.7	1,328.8	1,316.1	1,324.4	-0.7	-1.3	
Interest	392.4	380.0	366.5	372.0	7.1	2.2	
Exceptional Items	0.0	0.0	0.0	0.0	NA	NA	
Total Tax	303.2	474.9	474.9	165.8	-36.2	82.9	
PAT	871.8	1,402.3	1,558.5	492.2	-44.1	77.1	
Towers (Consolidated)	1,87,926	1,86,700	1,80,997	1,86,474	3.8	0.8	
Tenancy Ratio (x) (Consolidated)	1.80	1.81	1.80	1.81	0.1	-0.3	
Sharing revenue per tower p.m	84,841	76,067	77,939	75,688	8.9	12.1	

Source: Company, ICICI Direct Research

Change in Estimates

(₹ Crore)	FY23E			FY24E			FY25E	Introduced
	Old	New	% Change	Old	New	% Change		
Revenue	27,452.7	28,779.7	4.8	28,467.6	29,199.6	2.6	30,234.4	Realign estimates
EBITDA	12,694.4	12,233.2	-3.6	14,557.1	14,715.2	1.1	15,282.8	
EBITDA Margin (%)	46.2	42.5	-373 bps	51.1	50.4	-74 bps	50.5	
PAT	4,555.7	4,251.6	-6.7	5,797.4	5,966.4	2.9	6,218.6	
EPS (₹)	16.9	15.8	-6.7	21.5	22.1	2.9	23.1	

Source: Company, ICICI Direct Research

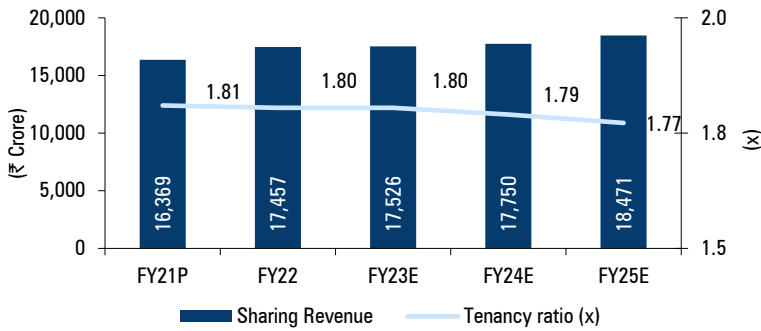
Proforma merged entity KPI and assumptions

	FY21P	FY22	FY23E	FY24E	FY25E	
Towers (No.)	1,79,225	1,85,447	1,90,945	1,98,698	2,06,766	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	3,43,567	3,53,929	3,64,578	
Sharing revenue per tower p.m	77,408	79,784	77,607	75,924	75,924	
Sharing Revenue (₹ Crore)	16,369.1	17,457.0	17,526.3	17,749.8	18,470.5	

Source: Company, ICICI Direct Research

Financial story in charts

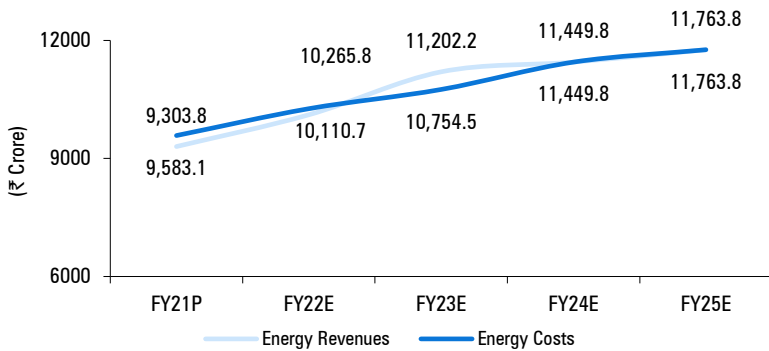
Exhibit 2: Tenancy, sharing revenues



Source: Company, ICICI Direct Research

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

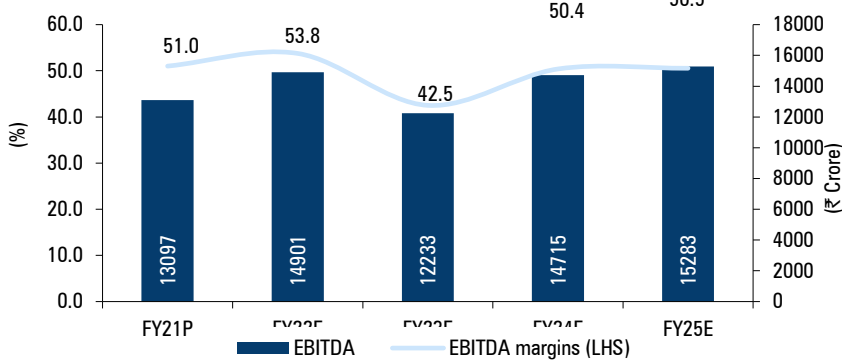
Exhibit 3: Energy revenues, energy cost trends



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)	FY22	FY23E	FY24E	FY25E
Total operating Income	27,717.2	28,779.7	29,199.6	30,234.4
Growth (%)	8.0	3.8	1.5	3.5
Other Income	352.5	285.4	270.0	280.0
Total Revenue	28,069.7	29,065.1	29,469.6	30,514.4
Rent	0.0	0.0	0.0	0.0
Employee Expenses	772.2	760.5	791.0	839.7
Power and Fuel	10,265.8	10,754.5	11,449.8	11,763.8
Other Expenses	431.8	3,684.3	832.2	861.7
Repairs & Maintenance	1,346.7	1,347.3	1,411.4	1,486.3
Total Operating Expenditure	12,816.5	16,546.5	14,484.4	14,951.6
EBITDA	14,900.7	12,233.2	14,715.2	15,282.8
Growth (%)	13.8	-17.9	20.3	3.9
Depreciation	5,325.2	5,275.5	5,438.1	5,658.0
Interest	1,497.3	1,544.4	1,560.0	1,580.0
Other Income	352.5	285.4	270.0	280.0
PBT	8,430.7	5,698.7	7,987.1	8,324.8
Exceptional Items	0.0	0.0	0.0	0.0
Total Tax	2,057.6	1,447.0	2,020.7	2,106.2
PAT	6,373.1	4,251.6	5,966.4	6,218.6
Growth (%)	28.1	-33.3	40.3	4.2
EPS (₹)	23.1	21.1	22.1	23.1

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Liabilities				
Equity Capital	2,694.9	2,694.9	2,694.9	2,694.9
Reserve and Surplus	19,455.6	18,826.0	19,102.6	19,631.4
Total Shareholders funds	22,150.5	21,520.9	21,797.5	22,326.3
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
Total Liabilities	42,685.3	42,555.7	43,232.3	43,561.1
Assets				
Gross Block	72,335.8	76,335.8	80,335.8	84,335.8
Accumulated Depreciation	52,778.3	58,053.8	63,491.9	69,149.9
Net Block	19,557.6	18,282.0	16,844.0	15,185.9
Capital WIP	178.7	178.7	178.7	178.7
Total Fixed Assets	19,736.3	18,460.7	17,022.7	15,364.6
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	8,673.3	8,799.9	9,111.7
Loans and Advances	3,476.7	4,332.0	4,834.7	5,506.6
Other Current Assets	244.9	267.0	284.4	309.2
Cash	980.2	108.9	1,303.0	2,107.5
Total Current Assets	11,760.4	13,381.2	15,222.0	17,035.1
Creditors	2,129.3	1,971.2	2,000.0	2,070.8
Provisions	1,773.3	1,477.5	1,424.1	1,400.8
Other Current Liabilities	1,379.7	1,361.0	1,311.8	1,290.3
Total Current Liabilities	5,282.3	4,809.6	4,735.8	4,762.0
Net Current Assets	6,478.1	8,571.5	10,486.2	12,273.0
Others Assets	2,550.3	2,750.3	2,750.3	2,750.3
Application of Funds	42,685.3	42,555.7	43,232.3	43,561.1

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	6,373.1	4,251.6	5,966.4	6,218.6
Add: Depreciation	5,325.2	5,275.5	5,438.1	5,658.0
Add: Interest Paid	1,497.3	1,544.4	1,560.0	1,580.0
(Inc)/dec in Current Assets	-2,383.0	-2,492.1	-646.7	-1,008.6
Inc/(dec) in CL and Provisions	-2,590.5	-472.7	-73.8	26.2
CF from operating activities	8,222.1	8,106.8	12,243.9	12,474.2
(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
CF from investing activities	-4,129.8	-4,400.0	-4,200.0	-4,200.0
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	-4,581.3	-5,389.8	-5,389.8
Interest Paid	-1,497.3	-1,544.4	-1,560.0	-1,580.0
Others	1,544.3	1,547.5	100.0	-500.0
CF from financing activities	-3,126.6	-4,578.2	-6,849.8	-7,469.8
Net Cash flow	965.7	-871.4	1,194.1	804.4
Opening Cash	14.5	980.2	108.9	1,303.0
Closing Cash	980.2	108.9	1,303.0	2,107.5

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	23.6	15.8	22.1	23.1
Cash EPS	43.4	35.4	42.3	44.1
BV	82.2	79.9	80.9	82.8
DPS	15.0	17.0	20.0	20.0
Cash Per Share	3.6	0.4	4.8	7.8
Operating Ratios				
EBITDA Margin (%)	53.8	42.5	50.4	50.5
PAT Margin (%)	22.5	19.7	20.4	20.6
Debtor days	93.0	110.0	110.0	110.0
Creditor days	28.0	25.0	25.0	25.0
Return Ratios (%)				
RoE	28.1	26.4	27.4	27.9
RoCE	23.3	17.0	22.1	22.7
RoIC	38.2	26.0	35.6	38.0
Valuation Ratios (x)				
P/E	7.9	11.8	8.4	8.1
EV / EBITDA	4.5	5.6	4.6	4.3
Market Cap / Sales	1.8	1.7	1.7	1.7
Price to Book Value	2.3	2.3	2.3	2.2
Solvency Ratios				
Debt/EBITDA	0.4	0.5	0.4	0.4
Debt / Equity	0.2	0.3	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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