

27 October 2023

India | Equity Research | Q2FY24 results review

**Indus Tower**

Telecom

**Cash collection stable reducing risk of rise in provisioning**

Indus Towers' (Indus) Q2FY24 performance was good on two counts: **1)** tenancy addition accelerated with net add of 5,583 despite 840 exits; and **2)** there was no large provisioning that had marred EBITDA previously. However, rising single-tenancy towers are continuously diluting margins and RoCE, and VIL has to significantly recover to increase visibility on rising tenancy sharing over medium term. We don't see immediate collection risk for Indus, however going concern status may still be at risk for VIL in medium term. We have cut our EPS estimates by 2-5% over FY24E/FY25E. However, our revised DCF-based target price is INR 178 (earlier: INR 155) as we rollover DCF-based valuations to FY25E. We upgrade our rating to **HOLD** (from Reduce) on improving near-term performance.

**Rental/tenant dips 1.4% QoQ to INR 40.9k**

Reported rental revenue was down 9.3% YoY / flattish QoQ to INR 43.4bn in Q2FY24; YoY decline was due to one-off gain of INR 5.5bn. Rental/tenant, adjusted for one-off, dipped 1% YoY and 1.4% QoQ to INR 40.9k. This has been partly impacted by renewal discount of INR 500/month on 1/3<sup>rd</sup> tenancies and also due to non-recognition of certain revenue pending recognition clarification. Lean towers have grown to 8.6k, up 789 in Q2FY24 while rental/towers stand at INR 12.9k, down 1.3% QoQ.

**Net tenancy addition strong at 5,583**

Indus' net tenancy was hit by 840 exits (from renewal portfolio). Tower addition was strong at 5,928. Tenancy addition was lower than tower growth due to exits. Tenancy sharing ratio stood at 1.74x (vs 1.77x in Q1FY24), hence, the proportion of single-tenancy towers is rising. Tower addition should have benefited from faster 4G rollout by Bharti in rural locations. Indus expects tenancy net addition rate to accelerate or at least sustain at H1FY24 levels.

**EBITDA down 1.7% QoQ to INR 34.2bn in Q2**

Indus' revenue rose 0.8% QoQ / down 10.5% YoY to INR 71.3bn (base had INR 11bn one-off gains) in Q2FY24. Energy revenue grew 1.9% QoQ / down 12.2% YoY to INR 28bn. Cash EBITDA grew 26% YoY to INR 25.5bn (down 4.5% QoQ) due to lower provisions as VIL has made the payment due for Q2FY24 in Oct'23. Provisions in Q2FY24 stood at INR 1.3bn vs INR 17.7bn in Q2FY23. EBITDA loss from energy was INR 618mn. Net profit stood at INR 13bn (vs INR 8.7bn in Q2FY23). Capex stood at INR 22.9bn (32% of revenue) in Q2FY24 due to higher macro tower rollout, and loading expansion for 5G.

**Financial Summary**

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	277,172	283,818	289,139	306,888
EBITDA	149,007	96,686	142,302	151,965
EBITDA Margin (%)	53.8	34.1	49.2	49.5
Net Profit	63,731	25,328	53,162	59,218
EPS (Rs)	23.6	9.4	19.7	22.0
EPS % Chg YoY	28.1	(68.0)	160.6	11.4
P/E (x)	7.2	22.5	8.6	7.7
EV/EBITDA (x)	4.2	6.7	4.6	4.0
RoCE (%)	18.5	8.2	14.2	13.7
RoE (%)	33.5	11.7	22.4	20.1

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**Market Data**

Market Cap (INR)	459bn
Market Cap (USD)	5,510mn
Bloomberg Code	INDUSTOW IN
Reuters Code	INUS BO
52-week Range (INR)	206 /135
Free Float (%)	24.0
ADTV-3M (mn) (USD)	20.4

Price Performance (%)	3m	6m	12m
Absolute	(5.8)	19.0	(9.0)
Relative to Sensex	(0.8)	13.2	(16.5)

ESG Disclosure	2021	2022	Change
ESG score	47.7	51.4	3.7
Environment	29.6	38.2	8.6
Social	34.7	37.3	2.6
Governance	78.6	78.6	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	0.2	0.7
EBITDA	(0.5)	0.1
EPS	(4.5)	(2.2)

**Previous Reports**

29-07-2023: [Q1FY24 results review](#)

27-04-2023: [Q4FY23 results review](#)

### Other highlights

1) Industry 5G rollout is 340k BTS and is growing at 7k BTS per week; 2) Bharti rollout in rural areas is likely to continue in H2. The company expects tower / tenancy rollout in H2 to be higher (vs H1) or at least the same; 3) lean towers are more in urban areas for de-congestion of data capacity; 4) Indus expects energy losses to decline as diesel usage drops; 5) depreciation was higher due to change in life for certain power equipment, DG and battery from earlier 10 years to 8 years; and 6) though H1 balance sheet shows trade receivables increased by INR 8.8bn, Indus has received a significant overdue payment in Oct'23.

### Key risks (upside)

1) VIL regaining going concern status; and 2) higher-than-expected benefit from loading charges.

### Exhibit 1: Indus consolidated financial

INR mn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	QoQ (%)	YoY (%)
Rental revenue	47,845	41,748	42,499	43,345	43,389	0.1	(9.3)
Energy & other reimbursement	31,821	25,902	25,030	27,414	27,936	1.9	(12.2)
<b>Total revenue</b>	<b>79,666</b>	<b>67,650</b>	<b>67,529</b>	<b>70,759</b>	<b>71,325</b>	<b>0.8</b>	<b>(10.5)</b>
Power and fuel	27,177	26,220	25,596	28,264	28,554	1.0	5.1
Energy margin (%)	14.6	(1.2)	(2.3)	(3.1)	(2.2)		
% of total revenue	34.1	38.8	37.9	39.9	40.0		
Employee expenses	1,957	2,000	1,950	1,850	1,957	5.8	-
% of total revenue	2.5	3.0	2.9	2.6	2.7		
Repair & maintenance expenses	3,335	3,394	3,409	3,357	3,498	4.2	4.9
% of total revenue	4.2	5.0	5.0	4.7	4.9		
Other network expenses	19,085	24,410	2,245	2,493	3,101	24.4	(83.8)
% of total revenue	24.0	36.1	3.3	3.5	4.3		
<b>EBITDA</b>	<b>28,112</b>	<b>11,626</b>	<b>34,329</b>	<b>34,795</b>	<b>34,215</b>	<b>(1.7)</b>	<b>21.7</b>
EBITDA margin (%)	35.3	17.2	50.8	49.2	48.0		
<b>Cash EBITDA</b>	<b>20,239</b>	<b>3,778</b>	<b>26,635</b>	<b>26,708</b>	<b>25,507</b>	<b>(4.5)</b>	<b>26.0</b>
EBITDA margin (%)	25.4	5.6	39.4	37.7	35.8		
EBITDA margin ex-energy (%)	32.6	9.8	64.0	63.6	60.2		
Depreciation & amortisation	13,067	13,577	13,202	13,741	15,256	11.0	16.8
<b>EBIT</b>	<b>15,045</b>	<b>(1,951)</b>	<b>21,127</b>	<b>21,054</b>	<b>18,959</b>	<b>(10.0)</b>	<b>26.0</b>
Finance cost	4,151	4,481	4,158	4,281	4,586	7.1	10.5
Other income	856	1,839	1,964	1,330	3,094	132.6	261.4
<b>PBT</b>	<b>11,750</b>	<b>(4,593)</b>	<b>18,933</b>	<b>18,103</b>	<b>17,467</b>	<b>(3.5)</b>	<b>48.7</b>
Exceptional item	-	4,928	-	-	-		
Provision for tax	3,032	(2,439)	4,942	4,624	4,520	(2.2)	49.1
<b>Net income</b>	<b>8,718</b>	<b>(7,082)</b>	<b>13,991</b>	<b>13,479</b>	<b>12,947</b>	<b>(3.9)</b>	<b>48.5</b>

Source: I-Sec research, Company data

### Exhibit 2: Rental EBITDA dips 5.2% QoQ in Q2FY24

INR mn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	QoQ (%)	YoY (%)
Rental revenue	47,845	41,748	42,499	43,345	43,389	0.1	(9.3)
Energy & other reimbursement	31,821	25,902	25,030	27,414	27,936	1.9	(12.2)
<b>Total revenue</b>	<b>79,666</b>	<b>67,650</b>	<b>67,529</b>	<b>70,759</b>	<b>71,325</b>	<b>0.8</b>	<b>(10.5)</b>
<b>EBITDA (adj for Ind AS 116)</b>	<b>20,239</b>	<b>3,778</b>	<b>26,635</b>	<b>26,708</b>	<b>25,507</b>	<b>(4.5)</b>	<b>26.0</b>
EBITDA margin (%)	25.4	5.6	39.4	37.7	35.8		
of which							
<b>Energy EBITDA</b>	<b>4,644</b>	<b>(318)</b>	<b>(566)</b>	<b>(850)</b>	<b>(618)</b>		
Energy margin (%)	14.6	(1.2)	(2.3)	(3.1)	(2.2)		
<b>Rental EBITDA</b>	<b>15,595</b>	<b>4,096</b>	<b>27,201</b>	<b>27,558</b>	<b>26,125</b>	<b>(5.2)</b>	<b>67.5</b>
Rental EBITDA margin (%)	32.6	9.8	64.0	63.6	60.2		

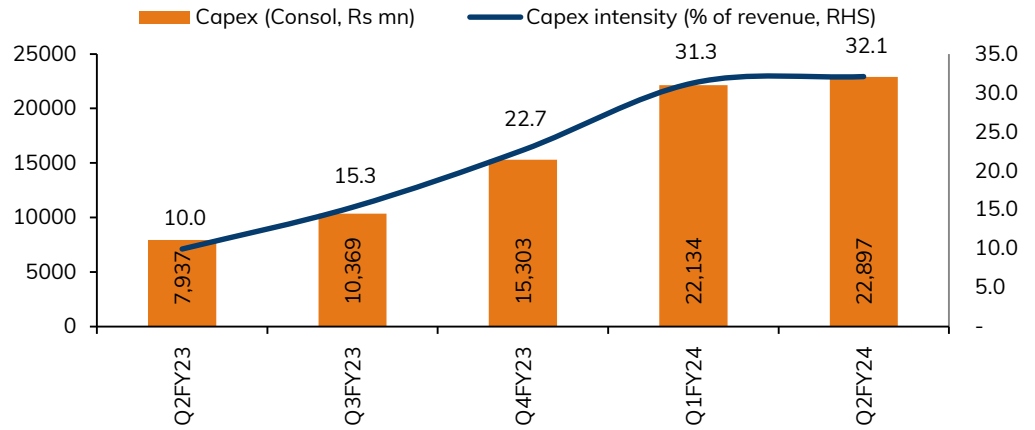
Source: I-Sec research, Company data

**Exhibit 3: Tower addition continues to grow faster than tenancy**

	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	QoQ (%)	YoY (%)
Towers	1,87,926	1,89,392	1,92,874	1,98,284	2,04,212	3.0	8.7
Net addition (QoQ)	1,452	1,466	3,482	5,410	5,928		
Tenancies	3,38,128	3,39,435	3,42,831	3,47,879	3,53,462	1.6	4.5
Net addition (QoQ)	1,746	1,307	3,396	5,048	5,583		
Average sharing factor (x)	1.80	1.80	1.78	1.77	1.74		
Rental/tenant (INR /month)	47,093	40,810	41,201	41,503	40,940	(1.4)	(13.1)

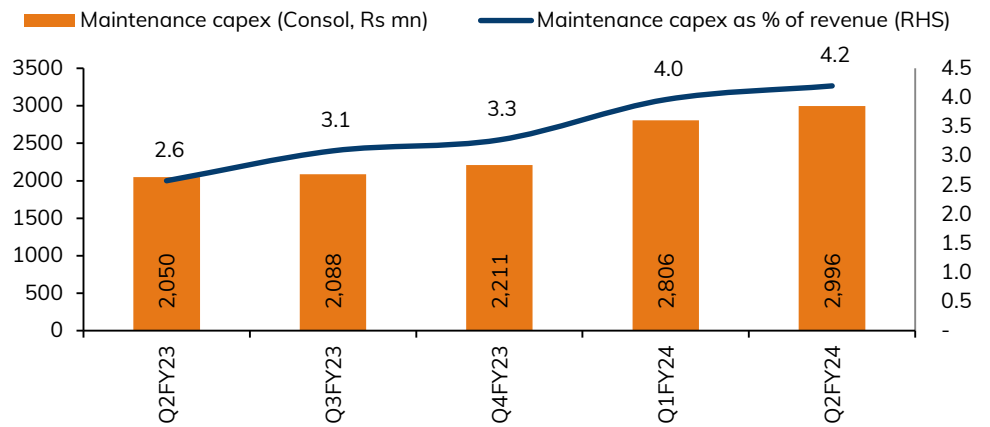
Source: I-Sec research, Company data

**Exhibit 4: Capex stands at 32.1% of revenue**



Source: I-Sec research, Company data

**Exhibit 5: Maintenance capex also increased at 4.2% of revenue**



Source: I-Sec research, Company data

**Exhibit 6: Earnings revision**

INR mn	Revised		Earlier		% change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
<b>KPIs</b>						
Towers	2,07,374	2,10,874	2,00,374	2,02,874	3.5	3.9
Tenants	3,57,816	3,63,294	3,50,816	3,59,166	2.0	1.1
Rental/tenant/month (INR )	41,617	42,953	42,199	43,589	(1.4)	(1.5)
<b>Financials</b>						
Revenue	2,89,139	3,06,888	2,88,671	3,04,863	0.2	0.7
EBITDA	1,42,302	1,51,965	1,42,999	1,51,848	(0.5)	0.1
EBITDA margin (%)	49.2	49.5	49.5	49.8		
PAT	53,162	59,218	55,659	60,527	(4.5)	(2.2)
EPS (INR )	19.7	22.0	20.7	22.5	(4.5)	(2.2)

Source: I-Sec research, Company data

**Exhibit 7: Shareholding pattern**

%	Mar'23	Jun'23	Sep'23
Promoters	69.0	69.0	69.0
Institutional investors	29.1	28.5	27.9
MFs and others	0.3	2.3	3.8
FI/Insurance	2.1	2.2	2.7
FII	26.7	24.0	21.4
Others	1.9	2.5	3.1

Source: Bloomberg, I-Sec research

**Exhibit 8: Price chart**

Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 9: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	277,172	283,818	289,139	306,888
<b>Operating Expenses</b>	<b>128,165</b>	<b>187,132</b>	<b>146,837</b>	<b>154,924</b>
EBITDA	149,007	96,686	142,302	151,965
<b>EBITDA Margin (%)</b>	<b>5,376.0</b>	<b>3,406.6</b>	<b>4,921.6</b>	<b>4,951.8</b>
Depreciation & Amortization	53,252	53,239	59,228	61,586
EBIT	95,755	43,447	83,074	90,378
Interest expenditure	16,033	16,704	18,165	17,587
Other Non-operating Income	4,585	5,778	6,164	6,377
Recurring PBT	84,307	32,521	71,073	79,169
<b>Profit / (Loss) from Associates</b>	-	-	-	-
<b>Less: Taxes</b>	<b>20,576</b>	<b>7,193</b>	<b>17,910</b>	<b>19,951</b>
PAT	63,731	25,328	53,162	59,218
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	(4,928)	-	-
Net Income (Reported)	63,731	20,400	53,162	59,218
<b>Net Income (Adjusted)</b>	<b>63,731</b>	<b>25,328</b>	<b>53,162</b>	<b>59,218</b>

Source Company data, I-Sec research

### Exhibit 10: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	124,448	103,323	131,382	169,880
of which cash & cash eqv.	9,802	224	7,539	38,824
Total Current Liabilities & Provisions	52,823	57,063	60,645	62,716
<b>Net Current Assets</b>	<b>71,625</b>	<b>46,260</b>	<b>70,737</b>	<b>107,163</b>
Investments	16,521	2,756	2,756	2,756
Net Fixed Assets	320,048	327,382	363,423	367,541
ROU Assets	-	-	-	-
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	-	-	-	-
Other assets	18,659	20,045	27,856	31,885
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>419,683</b>	<b>390,726</b>	<b>458,989</b>	<b>503,208</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>197,260</b>	<b>191,849</b>	<b>206,849</b>	<b>191,849</b>
<b>Deferred Tax Liability</b>	<b>918</b>	<b>(12,218)</b>	<b>(12,218)</b>	<b>(12,218)</b>
Provisions	-	-	-	-
Other Liabilities	7,170	5,717	5,783	6,138
Equity Share Capital	26,949	26,949	26,949	26,949
Reserves & Surplus	194,556	184,146	237,410	296,629
<b>Total Net Worth</b>	<b>221,505</b>	<b>211,095</b>	<b>264,359</b>	<b>323,578</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>419,683</b>	<b>390,726</b>	<b>458,990</b>	<b>503,209</b>

Source Company data, I-Sec research

### Exhibit 11: Quarterly trend

(INR mn, year ending March)

	Dec-22	Mar-23	Jun-23	Sep-23
Net Sales	67,650	67,529	70,759	71,325
% growth (YOY)	(2.3)	(5.1)	2.6	(10.5)
EBITDA	11,626	34,329	34,795	34,215
Margin %	17.2	50.8	49.2	48.0
Other Income	1,839	1,964	1,330	3,094
Extraordinaries	(4,928)	-	-	-
Adjusted Net Profit	(7,082)	13,991	13,479	12,947

Source Company data, I-Sec research

### Exhibit 12: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Operating Cashflow</b>	<b>125,108</b>	<b>123,096</b>	<b>119,722</b>	<b>128,518</b>
Working Capital Changes	(33,896)	(44,048)	(20,026)	(5,320)
Capital Commitments	(32,851)	(36,226)	(73,474)	(41,898)
<b>Free Cashflow</b>	<b>58,361</b>	<b>42,822</b>	<b>26,223</b>	<b>81,300</b>
<b>Other investing cashflow</b>	<b>11,114</b>	<b>18,926</b>	<b>6,164</b>	<b>6,377</b>
Cashflow from Investing Activities	11,114	18,926	6,164	6,377
Issue of Share Capital	-	-	(1)	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	-	(29,638)	-	-
Others	(59,816)	(41,688)	(25,071)	(56,393)
Cash flow from Financing Activities	(59,816)	(71,326)	(25,072)	(56,393)
<b>Chg. in Cash &amp; Bank balance</b>	<b>9,659</b>	<b>(9,578)</b>	<b>7,315</b>	<b>31,284</b>
Closing cash & balance	9,802	224	7,539	38,824

Source Company data, I-Sec research

### Exhibit 13: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Per Share Data (INR)</b>				
Reported EPS	23.6	7.6	19.7	22.0
Adjusted EPS (Diluted)	23.6	9.4	19.7	22.0
Cash EPS	43.4	27.3	41.7	44.8
Dividend per share (DPS)	11.0	-	-	15.4
Book Value per share (BV)	82.2	78.3	98.1	120.1
Dividend Payout (%)	46.5	-	-	70.0
<b>Growth (%)</b>				
Net Sales	8.0	2.4	1.9	6.1
EBITDA	13.8	(35.1)	47.2	6.8
EPS (INR)	28.1	(68.0)	160.6	11.4
<b>Valuation Ratios (x)</b>				
P/E	7.2	22.5	8.6	7.7
P/CEPS	3.9	6.2	4.1	3.8
P/BV	2.1	2.2	1.7	1.4
EV / EBITDA	4.2	6.7	4.6	4.0
EV / Sales	2.3	2.3	2.3	2.0
Dividend Yield (%)	6.5	-	-	9.0
<b>Operating Ratios</b>				
Gross Profit Margins (%)	-	-	-	-
EBITDA Margins (%)	53.8	34.1	49.2	49.5
Effective Tax Rate (%)	24.4	22.1	25.2	25.2
Net Profit Margins (%)	23.0	8.9	18.4	19.3
NWC / Total Assets (%)	17.1	11.8	15.4	21.3
Net Debt / Equity (x)	0.8	0.9	0.7	0.5
Net Debt / EBITDA (x)	1.1	2.0	1.4	1.0
<b>Profitability Ratios</b>				
RoCE (%)	18.5	8.2	14.2	13.7
RoE (%)	33.5	11.7	22.4	20.1
RoC (%)	19.7	8.7	14.9	14.9
Fixed Asset Turnover (x)	0.9	0.9	0.8	0.8
Inventory Turnover Days	-	-	-	-
Receivables Days	93.0	62.6	84.8	84.8
Payables Days	60.6	41.4	59.8	59.8

Source Company data, I-Sec research

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