SELL (Downgrade from REDUCE)

CMP: **INR 351** Target Price: **INR 260 (INR 200)** ▼ -26%

ICICI Securities

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20 April 2024

India | Equity Research | Company Update

Indus Tower

Telecom

Baking in VIL capex; unfavourable risk-reward still towering

Our valuation for Indus now bakes in the VIL capex. Our recalibrated model envisions Indus' rental revenue/EBITDA/ net profit CAGRs of 9.3%/10.2%/14.4% over FY24–27E. That said, EPS growth will likely plummet to mid-single-digits soon after, succumbing to a more mature tower industry, which will entail incremental requirements drying up and offering limited growth opportunities. We see Indus' FCF generation and dividend story taking shape FY27E onwards. We lower WACC and lift the terminal growth rate for Indus – implies restoring VIL's going concern status that is yet to be established. Our DCF-based TP is now INR 260 (earlier INR 200); however, CMP implies earnings growth of 10% over FY24E–31E – a stretched assumption. Downgrade to **SELL** (from Reduce).

Baking in VIL capex

VIL is seeking to raise capital to the tune of INR 200bn and is also confident of shoring up INR 250bn in debt funding – both of which will allow it to commence with the much awaited capex deployment. This will likely play out favourably for Indus on multiple fronts – 1) VIL shall start paying receivables within due dates, including recovery of past over dues/provisions. 2) VIL has planned large tenancy rollout – will likely boost Indus' rental revenue while higher tenancy sharing improves EBITDA margin. 3) Going concern status for VIL improves visibility on sustainability of revenues/earnings for Indus. We lay out our revised assumptions for Indus, baking in the VIL capex –

1. ***Towers:*** Indus' tower growth to be largely driven by Bharti's site addition, which is expected to moderate as it has crossed 300k total site count. We believe, this saturates the requirement of coverage network in India; and Bharti is in the last leg of its rural rollout. Nonetheless, lower tower rollout should drive better cash flow generation for Indus.
2. ***Tenancy:*** Bharti's tenancy addition will be equal to tower net adds. We consider the entire 61.8k tenancy addition by VIL to come to Indus, which will likely drive tenancy growth of 7.7% over FY24–27E for Indus; tenancy share ratio improve to 1.83x in FY27E, from 1.73x in FY24E.
3. ***Rentals:*** Rentals/tenancy should grow at CAGR of 1.2%, which is diluted due to discount for existing operator from rise in tenancy sharing; negative impact of equalisation and renewal discounts.

Baking in the benefit from the VIL capex, we see Indus' rental revenue/EBITDA/net profit CAGRs at 9.3%/10.2%/14.4% over FY24–27E.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	283,818	287,066	319,277	354,347
EBITDA	96,686	143,160	159,806	177,911
EBITDA Margin (%)	34.1	49.9	50.1	50.2
Net Profit	25,328	49,940	56,153	65,990
EPS (INR)	9.4	18.5	20.8	24.5
EPS % Chg YoY	(68.0)	144.8	12.4	17.5
P/E (x)	46.4	19.0	16.9	14.4
EV/EBITDA (x)	10.3	7.1	6.2	5.5
RoCE (%)	8.4	13.8	13.4	14.3
RoE (%)	11.7	20.9	19.0	19.0

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Market Data

Market Cap (INR)	947bn
Market Cap (USD)	11,352mn
Bloomberg Code	INDUSTOW IN
Reuters Code	INUS BO
52-week Range (INR)	360 /136
Free Float (%)	24.0
ADTV-3M (mn) (USD)	85.4

Price Performance (%)	3m	6m	12m
Absolute	59.5	85.4	157.0
Relative to Sensex	57.1	73.6	134.4

Earnings Revisions (%)	FY24E	FY25E	FY26E
Revenue	0.3	3.7	9.5
EBITDA	0.3	3.3	9.1
EPS	(1.7)	(1.1)	6.5

Previous Reports

25-01-2023: Q3FY24 results review
27-10-2023: Q2FY24 results review

FCF generation and dividend payouts are more back-ended

Indus' capex intensity will likely remain elevated for FY25E and FY26E due to higher tower rollout, strong tenancy addition and rising loading. The company has, in the past, reduced capex per tower factoring in lower tenancy addition; therefore, we expect VIL's tenancy growth to fuel capex for Indus with investments in power back-up and reinforcing tower strength. We estimate capex intensity at 45% and 32% of revenue for FY25E and FY26E, respectively. This means capex will likely remain elevated for Indus at INR 70–90bn p.a., which will likely restrict FCF generation. Capex intensity is only expected moderate from FY27E when growth tapers.

However, Indus will receive FCF tailwinds from the unwinding of receivables from VIL, which will be rather gradual, in our view. But we have normalised receivable days in FY25E itself.

Indus's dividend policy is linked to FCF generation; and it has paid 'nil' dividend in FY23; and is unlikely to pay any dividend in FY24E. We expect the full potential of Indus' dividend play to be back-ended from FY27E.

Risk-reward is unfavourable; downgrade to SELL

We downgrade Indus' rating to **SELL** (from *Reduce*) as we see risk-reward as unfavourable, even after baking in the full benefit of the VIL capex and upgrading VIL to going concern status. In our base case scenario, we have assigned 100% market share to Indus in incremental VIL tenancy expansion. This leaves little room for upside risks from VIL; rather we envisage downside risk to our tenancy assumptions.

Despite baking in VIL's rollout, we expect cash EBITDA CAGR of 10.2% over FY24–27E. Our workings suggest that the CMP is factoring in EBITDA CAGR sustaining till FY31; which is unlikely, considering operators would have completed coverage rollout. Incremental growth will come only from in-fill site; and capacity requirement, which has limited opportunities.

Our DCF-based fair value works out to INR 260 (from INR 200). The rise in fair value is due to increase in EBITDA estimate by 0.3% to 9% over FY24-26E; and reduced cost of capital to 12.1% (earlier 12.9%) as investors show greater risk appetite; accordingly, we consider a higher terminal growth rate of 2.5% (earlier nil).

Risks

Upside: 1) Sustained expansion of tenancies from Bharti and VIL. 2) New business shaping up and adding materially to revenue/earnings, such as fibre leasing etc. 3) Higher-than-expected EBITDA margin and FCF generation.

Downside: 1) Selling by promoters. Vodafone Plc owns 21% stake in Indus, which it can monetise; therefore, significantly increasing liquidity. 2) VIL losing going concern status.

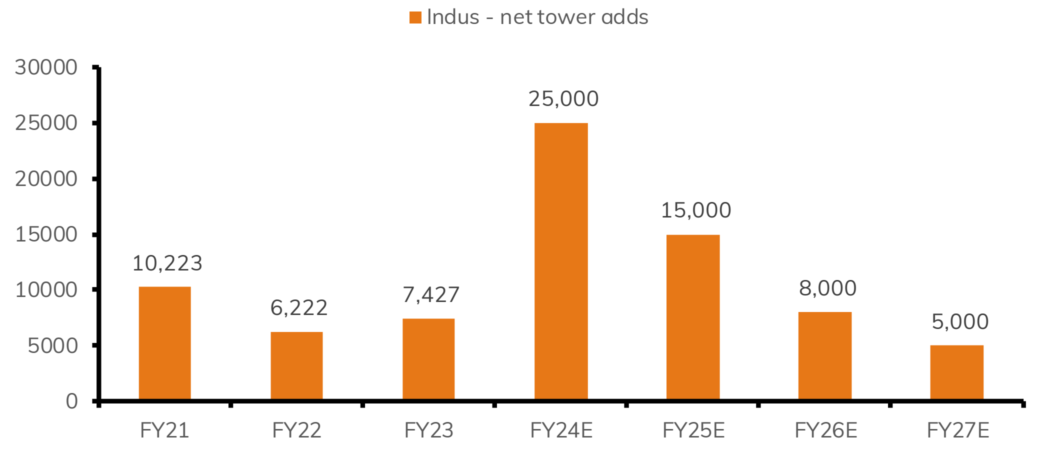
Bharti expansion to drive Indus' tower addition, only slower

Indus' tower addition has been very strong in FY24E with 25k net add vs. average 4.6k addition in past ten years. The significant jump in net adds is due to Bharti's aggression in rolling out 4G services in rural India, which has helped Bharti grab higher incremental revenue market share. Bharti, in its earnings call, has stated that its capex intensity in FY25E will likely moderate as rural expansion decelerates. This means Indus' tower addition will also decelerate in the next few years, gravitating more towards its long-term average, in our view.

In addition, Indus has grabbed higher share of Bharti's site addition from FY24. Bharti's site rollout, resulting in Indus' tower addition, was in the range of 20-45% over FY21-23. This means, every 100 site additions executed by Bharti translated into 20-45 tower addition for Indus. The ratio has jumped sharply to 71% in FY24E; attributable to deeper coverage where other operators had limited reach – the need was met through fresh tower rollout by Indus; and general gain in market share for Indus within Bharti's rollout.

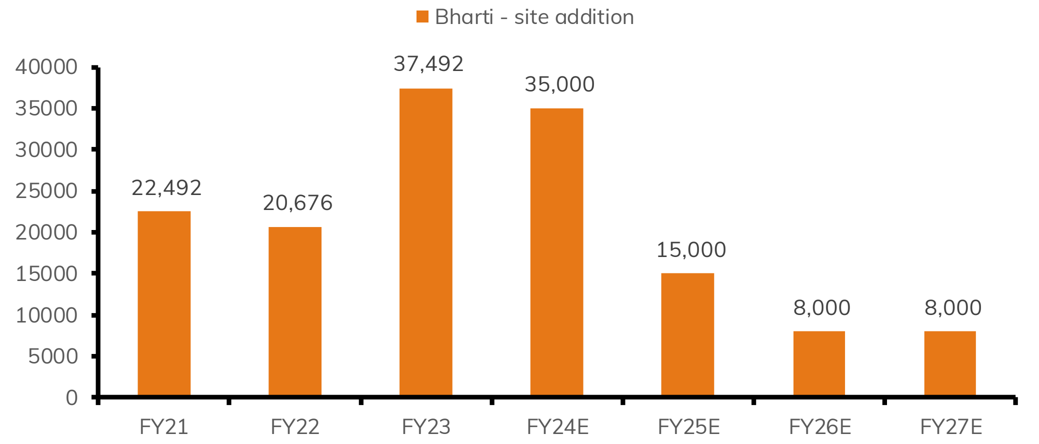
We assume Indus' tower addition to decelerate to 15k in FY25E, 8k in FY26E and 5k in FY27E, closing in on its long-term mean levels – closely linked to Bharti's site additions.

Exhibit 1: Indus' tower addition has been strong in FY24E, but likely to decelerate in next few years



Source: I-Sec research, Company data

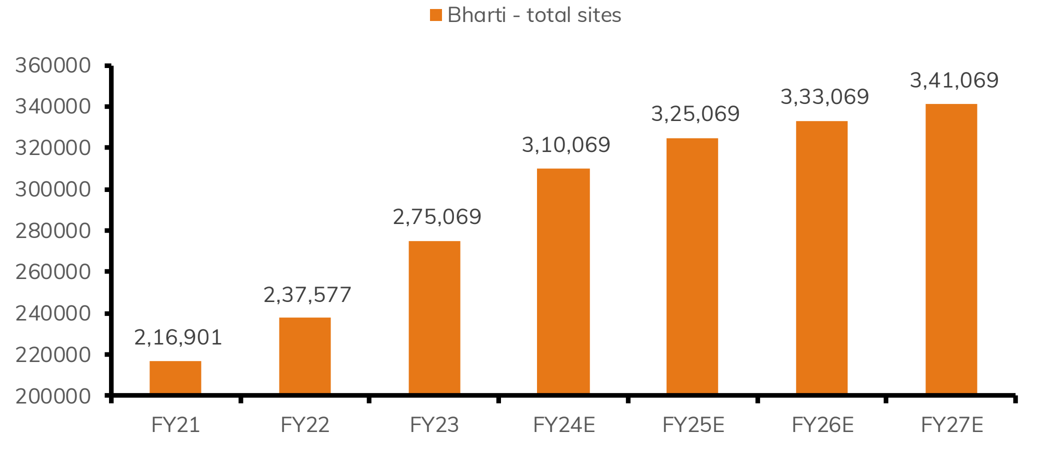
Exhibit 2: Indus benefited from Bharti site additions; also, higher share of incremental rollout



Source: I-Sec research, Company data

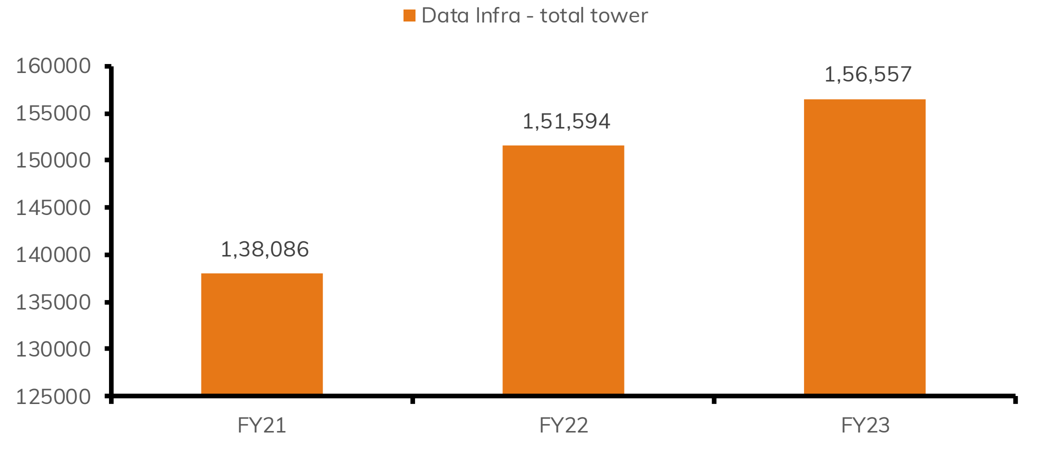
Bharti's total sites has crossed the 300k mark in FY24E. We note, in case of RJio, as total sites count crossed 300k, site expansion significantly decelerated. ~300k site rollout on sub-GHz and mid-band enables operators to provide population coverage of >96%. Further, operators are unlikely to add capacities sites on 4G due to early 5G deployment. 5G site addition increased data throughput capacity by 6x/site vs. 4G, which means operators are creating huge capacity to support data usage growth, resultantly reducing 4G capacity site addition to a negligible number *(refer our earlier note link)*.

Exhibit 3: Bharti has significantly narrowed the gap vs. RJio; therefore, future rollouts shall normalise



Source: I-Sec research, Company data

Exhibit 4: RJio had limited rollouts post crossing total site count of 300k



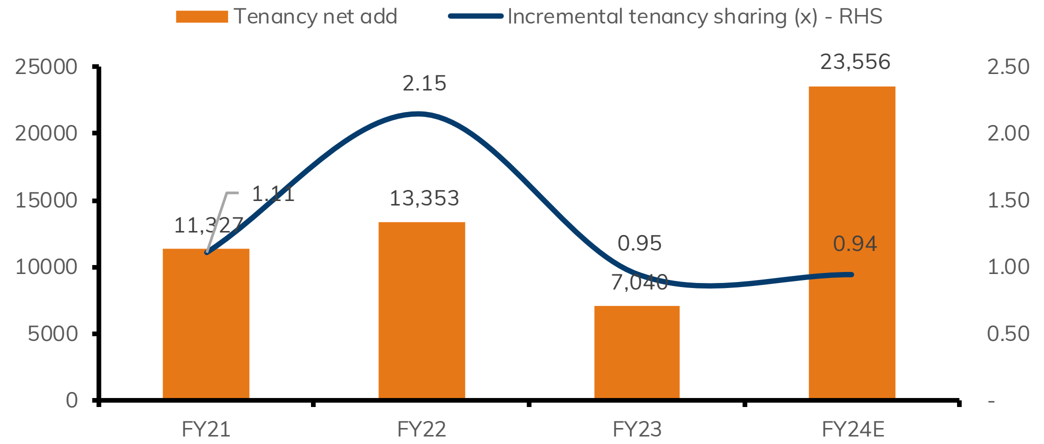
Source: I-Sec research, Company data

Faster tenancy growth with VIL's capex cycle kicking off; tenancy sharing to rise

In the past two years, Indus' tenancy addition has lagged its tower addition. The incremental tenancy sharing was below 1x. This means Indus had a rising share of single-tenancy towers, which had inferior returns on investment. Indus' tenancy sharing ratio dropped from 1.8x in FY21 to 1.73x in FY24E.

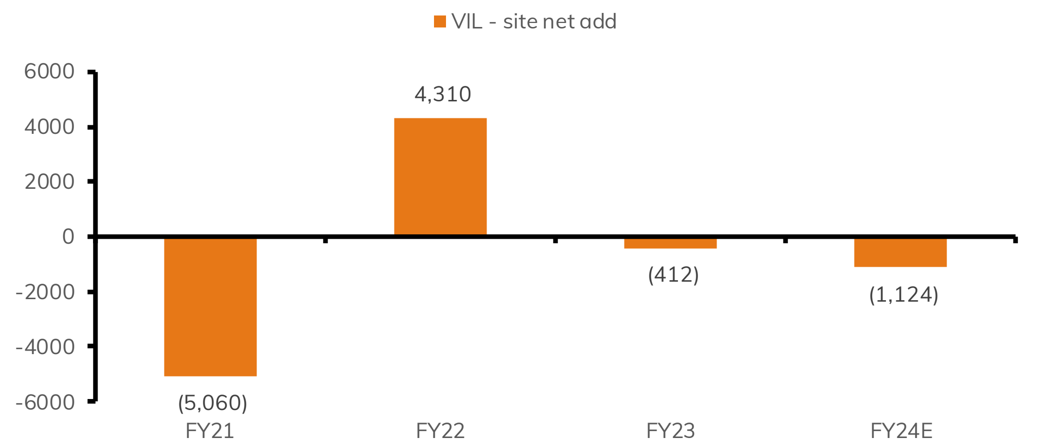
Indus' tenancy addition was impacted by two factors: 1) VIL has been rationalising its site count. VIL had net tenancy exits in past two years. 2) 33% of Indus' tenancy was up for renewal in FY23. As part of renewal agreement, operators were given the option to re-align 10% of tenancies where operators can exit without any penalties. Bharti, in its earnings call, highlighted that it has been stringently evaluating network costs – any tower which has costs of over INR100k/month were either removed or reworked to reduce pay outs.

Exhibit 5: In past two years' tenancy addition has lagged tower; incremental tenancy share was below 1x



Source: I-Sec research, Company data

Exhibit 6: Tenancy addition impacted by VIL exit and general churn from Bharti



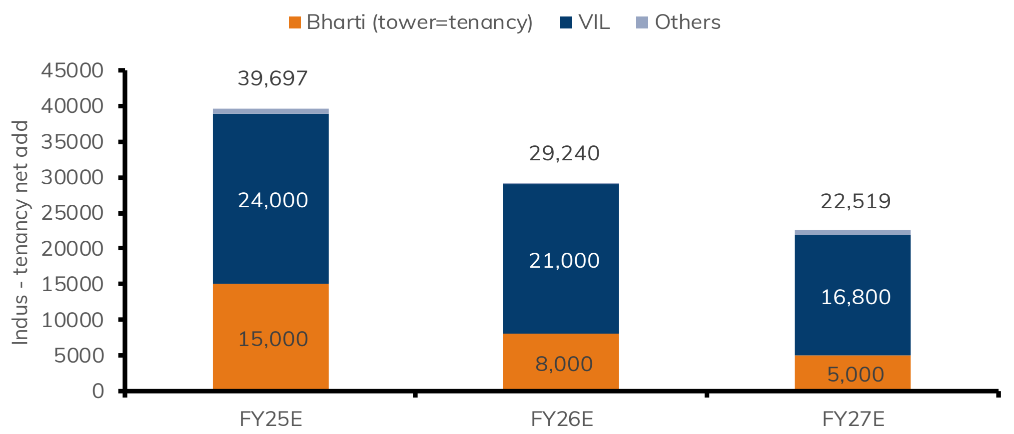
Source: I-Sec research, Company data

We expect tenancy addition to accelerate significantly in the next three years despite Bharti slowing its site addition. Indus will significantly benefit from VIL raising capital. VIL is in process of raising equity capital of INR 200bn from promoter and investors; it is also confident of raising debt of INR 250bn, which will help the company to kick-start its much needed capex activity. VIL in its FPO document has suggested, as per objective of application of fund, to rollout fresh 4G tenancy of 26k over the next two years. The company may use debt to further invest in network expansion beyond targets shared in FPO document.

We have assumed that VIL will give significant proportion (entire) of its new business to Indus, which may result in tenancy addition of 61.8k from VIL over the next three years. We also assume that these sites will come on existing towers. These sites rollout will take VIL's total sites to 245k vs. an ideal situation of 300k total site. VIL has only 17 focused circles vs. 22 circles for Bharti/RJio; and has much lower subs market share, which means 245k total sites should put VIL in good position vs. its peers in its focused circles.

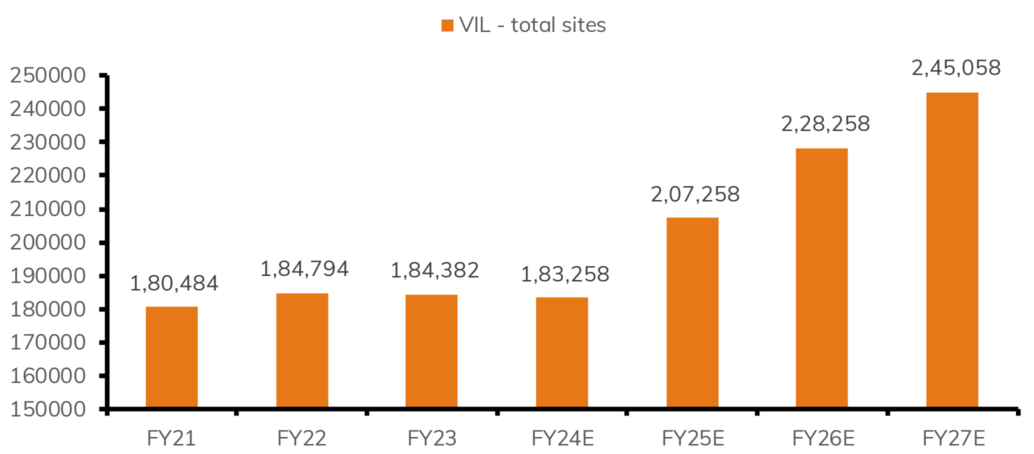
ATC India, which was recently acquired by Brookfield-backed Data Infra Trust, could be aggressive in grabbing VIL incremental tenancy as well. We have taken the best case for Indus, wherein it gets 100% market share in VIL incremental tenancy rollout in our base case assumption.

Exhibit 7: Next three years' tenancy addition should be supported by rollout by VIL



Source: I-Sec research, Company data

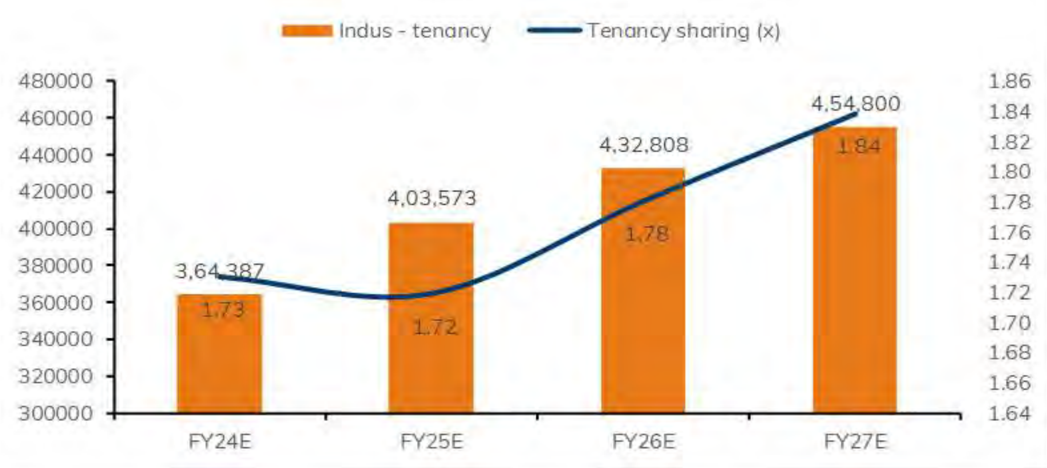
Exhibit 8: VIL has 17 focused circles and lower market share; therefore, its immediate target will be to reach site count of 250k



Source: I-Sec research, Company data

Our assumption, above, implies Indus' tenancies is likely to grow at CAGR of 7.7% to 458k over FY24-27E. Tenancy sharing is likely to improve from 1.73x in FY24E to 1.83x in FY27E.

Exhibit 9: Tenancies CAGR at 7.7% over FY24-27E; tenancy sharing to improve



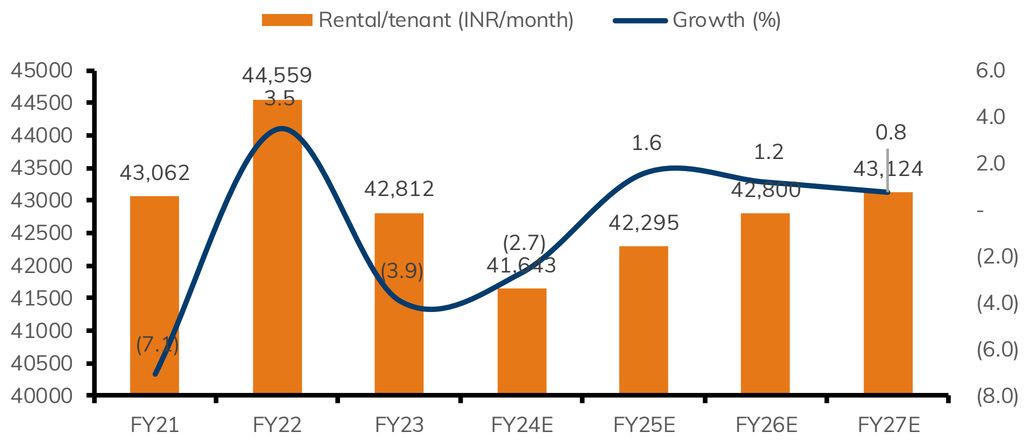
Source: I-Sec research, Company data

Rental/tenant (INR/month) to grow moderately; rising tenancy sharing will drive discounts

Rental/tenant has been volatile in the past few years due to one-offs and penalty revenues. We expect rental/tenant CAGR of 1.2% to INR 43,124 over FY24–27E. MSA allows Indus to take rental increase of 2.5% p.a., which is the biggest factor in rise in rental/tenant for Indus. Another factor that aids rental/tenant growth is the rising loading, particularly with rollout of 5G. However, incremental rental from loading is just 5% in case of non-standalone 5G. Bharti/VIL are rolling out non-standalone 5G, which limits benefit on rental from 5G rollout.

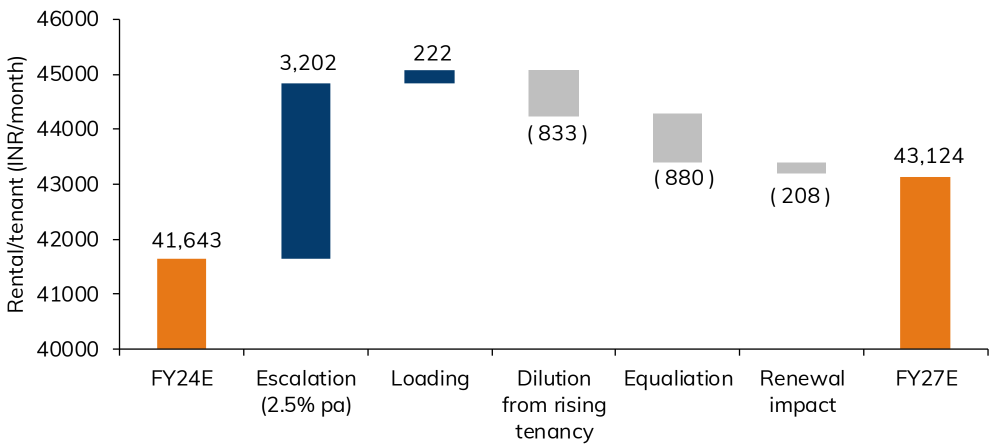
Rental/tenant will see drag from three factors – 1) discount to existing tenant from rising tenancy sharing. An increase in tenancy sharing from 1x to 2x implies rental/tenant drop by 10% for each operator. 2) Equalisation will likely drive negative growth for Indus which is more accounting impact; and 3) Indus is likely to have 10% tenancy coming for renewal in FY25E and FY26E where rental/tenant on renewal will have one-time discount of INR 500/month.

Exhibit 10: Expect rental CAGR at 1.2% over next three years



Source: I-Sec research, Company data

Exhibit 11: Discounts on rising tenancies, equalisation and renewal impact may weigh on rental



Source: I-Sec research, Company data

At best, Indus' cash EBITDA CAGR at 10.2% over FY24-27E

Our detailed workings on Indus' rental revenue implies 9.3% CAGR to INR 231bn over FY24-27E. This implies cash EBITDA CAGR of 10.2% to INR 146bn during FY24-27E. EBITDA from rental will grow at CAGR of 9.7% while we expect losses from reimbursement to drop. Rental EBITDA margin (% of rental revenue) to increase to 64.2% in FY27E, up 70bp in the next three years. Expect net profit CAGR at 14% to INR 75bn over FY24–27E.

Exhibit 12: Indus cash EBITDA CAGR at 10.2% over FY24-27E, but to significantly decelerate to mid-single-digit post FY26E

(INR mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	CAGR (%) FY24-27E
Revenue								
Rent	1,63,691	1,76,065	1,74,317	1,77,206	1,96,029	2,16,072	2,31,100	9.3
Rent (excl. one-off)	*1,56,646*	*1,70,268*	*1,68,000*	*1,77,153*	*1,96,029*	*2,16,072*	*2,31,100*	
Growth (%)		*8.7*	*(1.3)*	*5.4*	*10.7*	*10.2*	*7.0*	
Reimbursement	93,038	1,01,107	1,09,501	1,09,860	1,23,248	1,38,275	1,51,184	11.2
Total	**2,56,729**	**2,77,172**	**2,83,818**	**2,87,066**	**3,19,277**	**3,54,347**	**3,82,284**	**10.0**
Growth (%)		8.0	2.4	*1.1*	*11.2*	*11.0*	7.9	
EBITDA	**1,30,969**	**1,49,007**	**96,686**	**1,43,160**	**1,59,806**	**1,77,911**	**1,91,295**	**10.1**
Cash EBITDA	1,02,998	1,20,510	66,408	1,08,972	1,20,788	1,35,262	1,45,722	10.2
EBITDA margin (%)	40.1	43.5	23.4	38.0	37.8	38.2	38.1	
Growth (%)		17.0	*(44.9)*	64.1	10.8	12.0	7.7	
of which								
Rental EBITDA	**1,05,791**	**1,22,062**	**62,815**	**1,12,561**	**1,24,197**	**1,38,397**	**1,48,399**	**9.7**
Margin (% rental rev)	64.6	69.3	36.0	63.5	63.4	64.1	64.2	
Growth (%)		15.4	*(48.5)*	79.2	10.3	11.4	7.2	
P&F - losses	**(2,793)**	**(1,552)**	**3,593**	**(3,590)**	**(3,409)**	**(3,135)**	**(2,677)**	**(9.3)**
Depreciation	53,394	53,252	53,239	62,863	70,892	75,720	77,485	7.2
EBIT	**77,575**	**95,755**	**43,447**	**80,297**	**88,914**	**1,02,191**	**1,13,810**	**12.3**
Finance cost	16,392	16,033	16,704	19,309	19,814	19,939	19,806	0.9
Other income	5,354	4,585	5,778	5,777	5,971	5,971	5,971	1.1
PBT	**66,537**	**84,307**	**32,521**	**66,765**	**75,071**	**88,222**	**99,975**	**14.4**
Tax	16,786	20,576	7,193	16,825	18,918	22,232	25,194	14.4
ETR (%)	25.2	24.4	22.1	25.2	25.2	25.2	25.2	
Net profit	**49,751**	**63,731**	**20,400**	**49,940**	**56,153**	**65,990**	**74,781**	**14.4**
EPS (INR)	18.5	23.6	9.0	18.5	20.8	24.5	27.7	14.4
Growth (%)		28.1	*(62.0)*	*106.0*	*12.4*	*17.5*	*13.3*	

Source: I-Sec research, Company data

FCF generation, despite normalisation of working capital, will likely lag due to high capex intensity. We expect capex intensity (% of rental revenue) to be 58.7% in FY24E, and only slightly moderate to 45.4% in FY25E to support the growing demand for towers and tenancies; and gradually drop to 20% only in FY27E. This means FCF generation will remain below normal, as growth capex on tower/tenancy remains high.

We have assumed receivable days to drop to 54 days, from 85 days in FY24E, as VIL will likely make timely payments. VIL's cash flows will likely benefit from capital raise, upcoming tariff hike, restricting subs loss and moratorium on government dues.

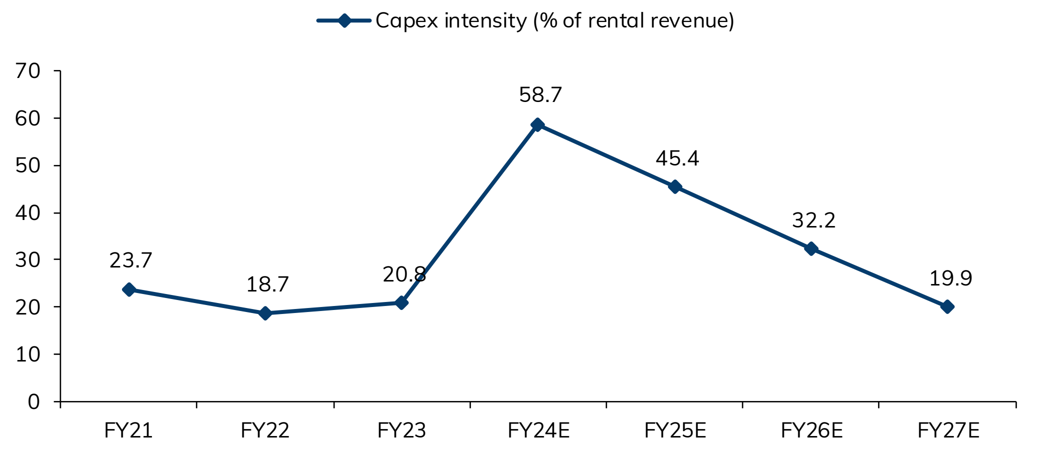
Our analysis suggest FCF as % of EV will be below 4% for Indus for next two years at least. Lower FCF generation means lower dividend payout. Indus dividend policy is linked to FCF generation. We don't see Indus declaring any material dividend in FY24E, and will see gradual rise over next two years before reaching to full potential payouts from FY27E only.

Exhibit 13: FCF generation to lag as capex intensity rises to support growth

INR mn	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	CAGR (%) FY24-27E
CFO	1,20,317	1,25,108	1,23,096	1,21,606	1,37,143	1,53,382	1,65,554	10.8
Change in WC	16,452	(33,896)	(44,048)	(19,843)	17,942	(6,552)	(5,332)	
Lease liability	(27,971)	(29,768)	(30,962)	(34,960)	(39,900)	(43,613)	(46,602)	
CFO after WC	**1,08,798**	**61,444**	**48,086**	**66,803**	**1,15,185**	**1,03,217**	**1,13,620**	**19.4**
Capex	(38,846)	(32,885)	(36,224)	(1,04,074)	(88,917)	(69,641)	(46,097)	
FCF	**69,951**	**28,559**	**11,862**	**(37,271)**	**26,268**	**33,576**	**67,523**	

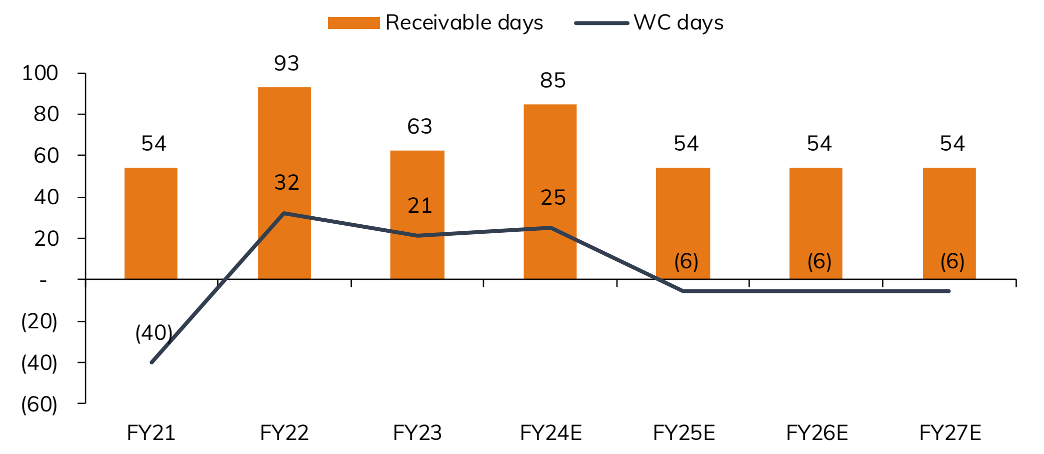
Source: I-Sec research, Company data

Exhibit 14: Capex intensity to remain elevated for next two years



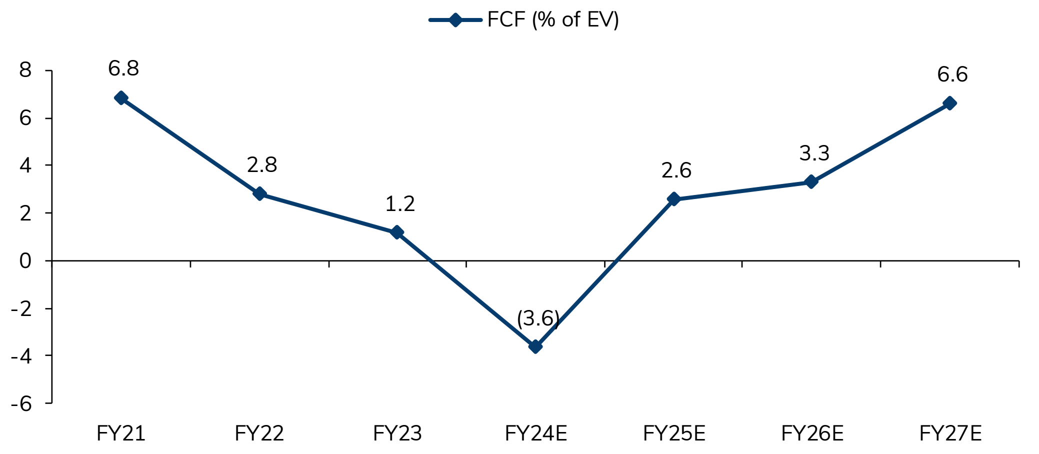
Source: I-Sec research, Company data

Exhibit 15: Working capital to improve as VIL's cash flow gets support from fund raise, and moratorium for government dues



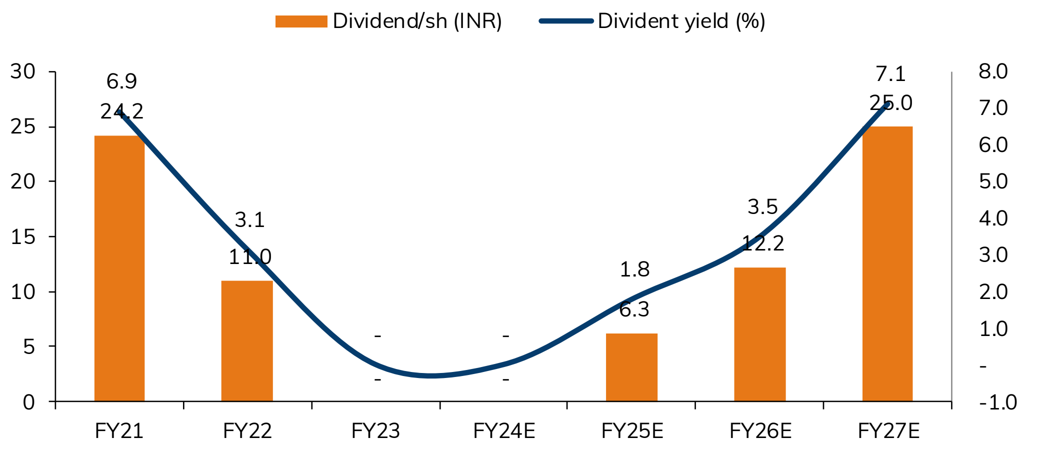
Source: I-Sec research, Company data

Exhibit 16: FCF generation to be inferior through the next two years



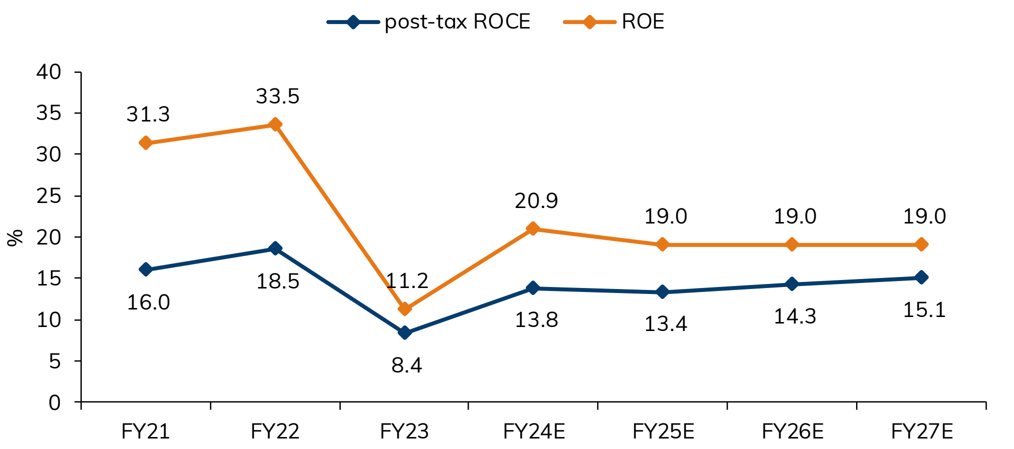
Source: I-Sec research, Company data

Exhibit 17: Dividend payout to also grow gradually, which is linked to FCF generation



Source: I-Sec research, Company data

Exhibit 18: Return ratios are stable, and healthy



Source: I-Sec research, Company data

Valuation: CMP implies FY24–31E cash EBITDA CAGR of >10%, which is steep

We downgrade Indus' rating to **SELL** (from *Reduce*) as we see risk-reward unfavourable, even after baking in the full benefit of the VIL capex, and upgrading it to going concern status. VIL is in the process of raising equity capital of INR 200bn, which increases visibility for the company commencing its capex cycle that will likely benefit Indus as its tenancy will rise; more importantly, it will likely boost tenancy sharing ratio.

In our base case scenario, we assign 100% market share to Indus in incremental tenancy expansion by VIL. This leaves no room for upside risk from VIL; rather we see only downside risk to our tenancy assumption.

Despite baking VIL expansion, we expect cash EBITDA CAGR of 10.2% over FY24-27E with our generous assumption. Our workings suggest that the CMP is factoring in EBITDA CAGR sustaining till FY31; which is unlikely, considering operators would have completed coverage rollout. Incremental growth will emerge only from in-fill site and capacity requirement, which has limited opportunities.

Our DCF-based fair value works out to INR 260 (from INR 200). The rise in fair value is due to increase in EBITDA estimate by 0.3% to 9% over FY24-26E; and reduced cost of capital to 12.1% (earlier 12.9%) as investors show greater risk appetite; accordingly, we consider a higher terminal growth rate of 2.5% (earlier nil).

Exhibit 19: Earnings revision

	Revised			Earlier			% change		
(INR mn)	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
KPIs									
Towers	2,17,874	2,32,874	2,40,874	2,15,874	2,23,874	2,26,874	0.9	4.0	6.2
Tenants	3,66,387	4,06,084	4,35,324	3,64,387	3,73,906	3,79,108	0.5	8.6	14.8
Rental/tenant (INR/month)	41,643	42,295	42,800	41,658	42,905	44,210	(0.0)	(1.4)	(3.2)
Financials									
Revenue	2,87,066	3,19,277	3,54,347	2,86,317	3,07,856	3,23,492	0.3	3.7	9.5
EBITDA	1,43,160	1,59,806	1,77,911	1,42,731	1,54,684	1,63,144	0.3	3.3	9.1
EBITDA margin (%)	49.9	50.1	50.2	49.9	50.2	50.4			
PAT	49,940	56,153	65,990	50,812	56,795	61,937	(1.7)	(1.1)	6.5
EPS (INR)	18.5	20.8	24.5	18.9	21.1	23.0	(1.7)	(1.1)	6.5

Source: I-Sec research, Company data

Exhibit 20: Our DCF-based model implies cash EBITDA CAGR of 7.3% over FY24-31E

INR mn	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E
Cash Revenue	2,82,125	3,15,532	3,52,049	3,81,737	4,05,628	4,25,364	4,43,975	4,59,514
Growth (%)	1.6	11.8	11.6	8.4	6.3	4.9	4.4	3.5
Cash EBITDA	**1,04,031**	**1,17,042**	**1,32,964**	**1,45,175**	**1,54,242**	**1,61,133**	**1,67,178**	**1,70,020**
EBITDA margin (%)	*36.9*	*37.1*	*37.8*	*38.0*	*38.0*	*37.9*	*37.7*	*37.0*
Growth (%)		12.5	13.6	9.2	6.2	4.5	3.8	1.7
Depreciation	40,383	45,236	47,677	47,519	46,836	46,255	45,881	47,486
EBIT (adj Ind AS)	**63,648**	**71,806**	**85,287**	**97,656**	**1,07,406**	**1,14,878**	**1,21,298**	**1,22,534**
Growth (%)		*12.8*	*18.8*	*14.5*	*10.0*	*7.0*	*5.6*	*1.0*
Adj. tax	14,717	18,095	21,492	24,609	27,066	28,949	30,567	30,879
CFO	89,314	98,947	1,11,472	1,20,566	1,27,175	1,32,184	1,36,611	1,39,142
Chg in WC	(19,626)	17,942	(6,552)	(5,332)	(4,390)	(3,795)	(3,667)	(3,796)
CFO (after WC)	**69,688**	**1,16,889**	**1,04,920**	**1,15,233**	**1,22,785**	**1,28,389**	**1,32,944**	**1,35,346**
Capex	(1,04,074)	(88,917)	(69,641)	(46,097)	(40,692)	(41,027)	(42,510)	(45,951)
FCFF	**(34,386)**	**27,972**	**35,279**	**69,137**	**82,093**	**87,362**	**90,434**	**89,395**
% of revenue	*(12.2)*	*8.9*	*10.0*	*18.1*	*20.2*	*20.5*	*20.4*	*19.5*
Growth (%)			*26.1*	*96.0*	*18.7*	*6.4*	*3.5*	*(1.1)*

Source: I-Sec research, Company data

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Exhibit 21: Indus fair value works to INR 260

INR mn	FY25E
Terminal value	
FCFF for FY 2031	89,395
WACC (%)	12.1
Perpetual growth rate (g) (%)	2.5
Terminal value FCFF/(WACC-g)	**9,50,415**
Discounting factor (%)	50.3
PV of terminal value	**4,77,889**
Fair value	
Sum of PV of FCFF	2,78,855
PV of terminal value	4,77,889
Enterprise value	**7,56,743**
Less: Net debt	49,800
Equity	**7,06,943**
Share (mn)	2,695
Value/sh (INR)	**260**

Source: I-Sec research, Company data

Street's BUY thesis, and our view on each argument

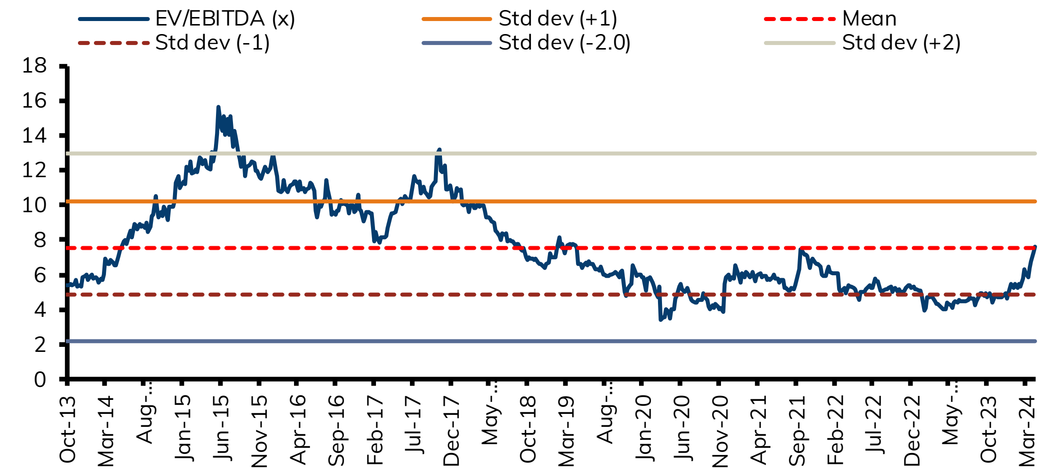
- **VIL expansion and 5G rollout to drive significant growth:** We have baked in the entire benefit of the VIL expansion, and assigned disproportionate market share in our base case assumption. 5G rollout has been limited to loading, wherein the benefit on revenue is only 5% of base rental. 5G adoption and monetisation has been below expectation, therefore aggression on network rollout has noise-dived globally. 5G use case is more enterprise oriented, and we do not see it requiring significant rollout of public network coverage.
- **Small cell rollout by operators provide new growth avenue:** Indus' rollout of lean towers has been slower than our base expectation, and regional players have been more aggressive vs. Indus.
- **Indus is available at a significant discount to global peers:** Indus has always traded at significant valuation discount to global peers due to: 1) conflict of interest – promoter being the largest customer; 2) the higher dividend potential, tower companies have traded at an inverse relation to bond yields. India's cost of capital makes yield play less attractive compared to developed market; and 3) Indus' inferior capital structure. Global players are listed as REITs, and have efficient capital and tax structure.
- **Dividend play:** India's equity market is a popular arena for high growth while broadly being unfavourable for low-growth, but decent dividend/ FCF yield stories. This is for the obvious reason of higher cost of capital. Further, Indus' dividend story will likely be weak for the next two years, which implies a protracted gestation period before one buys the stock for dividend as well.
- **Relatively attractive valuation:** Indus is available at an implied EV/cash EBITDA multiple of 7.2x on an FY26E-basis, which appears relatively quite attractive. As discussed, in India low growth stories are awarded measly multiples. On an FCF yield-basis, it is not cheap on FY25E and FY26E; and needs to wait it out till FY27E. In the meantime, growth would have moderated to mid-single-digits. On a PEG-basis, India mobile service providers are relatively cheaper on FY27E; which means mobile operators will furnish higher returns over a longer duration.

Exhibit 22: Global peer valuation snap-shot

Company	Country	MCap (US$bn)	CAGR (%) - CY24-26E			EV/EBITDA (x)		P/B (x)		ROE (%)		FCF yield (%)	
			Revenue	EBITDA	Profit	CY24E	CY25E	CY24E	CY25E	CY24E	CY25E	CY24E	CY25E
American Tower Corp	US	80	1.2	1.0	35.3	18.5	18.3	17.7	18.2	70.2	75.2	0.8	3.7
Crown Castle Inc	US	41	(0.3)	1.8	(7.8)	16.8	17.1	7.4	8.9	21.6	36.5	0.6	2.2
Sba Communications	US	21	1.9	7.6	9.4	18.6	18.0			(11.3)	(15.1)	1.0	3.9
Tower Bersama Infra	Indo	2	4.0	7.6	9.3	11.4	10.9	3.2	3.0	13.2	14.9	-	4.8
Sarana Menara	Indo	2	4.9	7.5	7.8	8.2	7.8	2.1	1.8	20.0	18.0	-	5.4
Median			**1.9**	**7.5**	**9.3**	**16.8**	**17.1**	**5.3**	**5.9**	**20.0**	**18.0**	**0.6**	**3.9**
			CAGR (%) - FY24-27E			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Indus Towers	India	11	10.0	10.1	14.4	8.2	7.2	2.9	2.5	19.0	19.0	3.2	3.9

Source: I-Sec research, Bloomberg

Exhibit 23: One-year forward EV/EBITDA



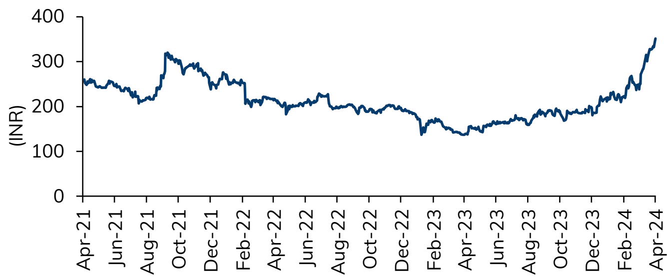
Source: I-Sec research, Company data, Bloomberg

Exhibit 24: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	69.0	69.0	69.0
Institutional investors	27.9	27.8	26.3
MFs and others	3.8	4.0	6.6
FI/Insurance	2.7	3.0	3.2
FIIs	21.4	20.8	16.5
Others	3.1	3.2	4.7

Source: Bloomberg, I-Sec research

Exhibit 25: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 26: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	**283,818**	**287,066**	**319,277**	**354,347**
Operating Expenses	187,132	143,906	159,471	176,436
EBITDA	**96,686**	**143,160**	**159,806**	**177,911**
EBITDA Margin (%)	3,406.6	4,987.0	5,005.2	5,020.8
Depreciation & Amortization	53,239	62,863	70,892	75,720
EBIT	43,447	80,297	88,914	102,191
Interest expenditure	16,704	19,309	19,814	19,939
Other Non-operating Income	5,778	5,777	5,971	5,971
Recurring PBT	**32,521**	**66,765**	**75,071**	**88,222**
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	7,193	16,825	18,918	22,232
PAT	25,328	49,940	56,153	65,990
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(4,928)	-	-	-
Net Income (Reported)	**20,400**	**49,940**	**56,153**	**65,990**
Net Income (Adjusted)	**24,328**	**49,940**	**56,153**	**65,990**

Source Company data, I-Sec research

Exhibit 27: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	103,323	121,100	117,802	130,876
of which cash & cash eqv.	224	(2,100)	9,569	12,900
Total Current Liabilities & Provisions	57,063	60,165	63,462	67,004
Net Current Assets	**46,260**	**60,935**	**54,340**	**63,872**
Investments	2,756	2,756	2,756	2,756
Net Fixed Assets	327,382	390,964	434,644	456,608
ROU Assets	-	-	-	-
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	-	-	-	-
Other assets	20,045	27,854	32,566	35,915
Deferred Tax Assets	-	-	-	-
Total Assets	**390,726**	**476,767**	**517,920**	**552,064**
Liabilities				
Borrowings	**191,849**	**221,849**	**206,849**	**191,849**
Deferred Tax Liability	**(12,218)**	**(12,218)**	**(12,218)**	**(12,218)**
Provisions	-	-	-	-
Other Liabilities	5,717	5,741	6,386	7,087
Equity Share Capital	26,949	26,949	26,949	26,949
Reserves & Surplus	184,146	240,188	296,341	345,485
Total Net Worth	**211,095**	**267,137**	**323,290**	**372,434**
Minority Interest	-	-	-	-
Total Liabilities	**390,726**	**476,767**	**517,920**	**552,064**

Source Company data, I-Sec research

Exhibit 28: Quarterly trend

(INR mn, year ending March)

	Mar-23	Jun-23	Sep- 23	Dec- 23
Net Sales	67,529	70,759	71,325	71,990
% growth (YOY)	(5.1)	2.6	(10.5)	6.4%
EBITDA	34,329	34,795	34,215	35,840
Margin %	50.8	49.2	48.0	49.8
Other Income	1,964	1,330	3,094	6,017
Extraordinaries	-	-	-	
Adjusted Net Profit	13,991	13,479	12,947	15,405

Source Company data, I-Sec research

Exhibit 29: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	**123,096**	**121,606**	**137,143**	**153,382**
Working Capital Changes	(44,048)	(19,843)	17,942	(6,552)
Capital Commitments	(36,226)	(104,074)	(88,917)	(69,641)
Free Cashflow	**42,822**	**(2,311)**	**66,168**	**77,189**
Other investing cashflow	**18,926**	**5,777**	**5,971**	**5,971**
Cashflow from Investing Activities	18,926	5,777	5,971	5,971
Issue of Share Capital	-	(1)	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(29,638)	-	-	(16,846)
Others	(41,688)	(11,789)	(60,470)	(62,983)
Cash flow from Financing Activities	(71,326)	(11,790)	(60,470)	(79,829)
Chg. in Cash & Bank balance	**(9,578)**	**(8,324)**	**11,669**	**3,331**
Closing cash & balance	224	(8,100)	9,569	12,900

Source Company data, I-Sec research

Exhibit 30: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	7.6	18.5	20.8	24.5
Adjusted EPS (Diluted)	9.0	18.5	20.8	24.5
Cash EPS	27.3	41.9	47.1	52.6
Dividend per share (DPS)	-	-	6.3	12.2
Book Value per share (BV)	78.3	99.1	120.0	138.2
Dividend Payout (%)	-	-	30.0	50.0
Growth (%)				
Net Sales	2.4	1.1	11.2	11.0
EBITDA	(35.1)	48.1	11.6	11.3
EPS (INR)	(68.0)	144.8	12.4	17.5
Valuation Ratios (x)				
P/E	46.4	19.0	16.9	14.4
P/CEPS	12.9	8.4	7.5	6.7
P/BV	4.5	3.5	2.9	2.5
EV / EBITDA	10.3	7.1	6.2	5.5
EV / Sales	3.5	3.6	3.1	2.8
Dividend Yield (%)	-	-	1.8	3.5
Operating Ratios				
Gross Profit Margins (%)	-	-	-	-
EBITDA Margins (%)	34.1	49.9	50.1	50.2
Effective Tax Rate (%)	22.1	25.2	25.2	25.2
Net Profit Margins (%)	8.9	17.4	17.6	18.6
NWC / Total Assets (%)	11.8	12.8	10.5	11.6
Net Debt / Equity (x)	0.2	0.3	0.2	0.1
Net Debt / EBITDA (x)	0.5	0.5	0.3	0.2
Profitability Ratios				
RoCE (%)	8.4	13.8	13.4	14.3
RoE (%)	11.2	20.9	19.0	19.0
RoIC (%)	8.7	13.9	13.5	14.7
Fixed Asset Turnover (x)	0.9	0.7	0.7	0.8
Inventory Turnover Days	-	-	-	-
Receivables Days	62.6	84.8	54.3	54.3
Payables Days	41.4	59.8	59.8	59.8

Source Company data, I-Sec research

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