

Healthy tenancy addition but future outlook uncertain

Indus Towers' Q4FY21 performance was driven by continued traction in tenancy addition and lower operating costs, depreciation, which led to beat at the PAT level. Revenues came in at ₹ 6492 crore, down 3.6% QoQ on a like to like basis, with core rental revenues at ₹ 4141 crore, down 4% QoQ. **We highlight that Q3FY21 included exit penalty of ₹ 400.2 crore, which has come down to ₹ 181.6 crore in Q4.** EBITDA came in at ₹ 3413 crore, down 3.9% QoQ on a like to like basis, with EBITDA margins at 52.6% (down 17 bps QoQ). PAT came in higher than estimates at ₹ 1364 crore (flattish QoQ on comparable basis), largely owing to lower depreciation (lower by ₹ 100 crore QoQ) due to a change in accounting policy post-merger.

Tenancy addition robust; future traction key monitorable

On a gross basis, Indus added 5024 tenancies while gross exits were 896. Consequently, net addition of 4128 co-locations was reported, which is robust. The tower addition at ~3715 was also robust, led by both capacity/coverage expansions of telcos. 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 the only tenant expanding at healthy pace. While Vodafone Idea (VIL) fund raising plans have not yet fructified, long term tenancy growth outlook remains uncertain. We expect net co-locations to reach 353509 in FY23 vs. current co-location count of 322438. We expect reported rentals (including exit rentals) to witness 2.8% CAGR over FY21-23E to ₹ 17772 crore. We note that the management expects exit penalty at ~ ₹ 180 crore a quarter in CY21 and ₹ 100 crore/ quarter thereafter in CY22.

Lower costs, depreciation drive PAT beat...

Margins during the quarter were lower owing to lower employee and other costs. Furthermore, lower depreciation due to change in accounting policy also aided the PAT beat. While energy spread was negative in Q4 and FY21, the company continues to engage with telcos to get back to fixed cost model, which, it believes, will be win-win for everyone. We expect margins to remain flattish over FY21-23E at 51.1%.

Valuation & Outlook

The robust tenancy addition for second consecutive quarter is positive but sustainability ahead will be important. The key risk of VIL's survival continues to remain. Moreover, while opportunities in adjacent areas (viz. small cells/smart cities/in building solutions/active network sharing) exist, these may fructify only over the long term. We maintain **HOLD** rating with a target price of ₹ 245/share, implying 5.5x FY23E EV/EBITDA. We will closely monitor the developments of VIL fund raising and survival strategies, before changing our stance.

Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales (₹ crore)	14,582.3	14,647.2	25,672.9	26,570.1	27,831.8	4.1
EBITDA (₹ crore)	6,001.2	7,350.0	13,096.9	13,512.1	14,232.0	4.2
Net Profit (₹ crore)	2,493.8	3,298.7	4,975.1	5,157.9	5,593.0	6.0
EPS (₹)	13.5	17.8	18.5	19.1	20.8	
P/E (x)	18.7	14.1	13.7	13.2	12.2	
Price / Book (x)	3.2	3.4	4.3	4.1	3.8	
EV/EBITDA (x)	11.2	10.2	6.6	6.1	5.6	
RoCE (%)	21.2	18.1	21.7	22.2	23.0	
RoE (%)	17.2	24.4	31.3	30.9	31.2	

Source: Company, ICICI Direct Research *Assumed merged entity numbers from FY21 and for full years FY22 and FY23 estimates. Therefore, not comparable with prior period



Particulars	Amount
Market Capitalization (₹ crore)	67,978.9
Total Debt (₹ crore)	6,970.3
Cash & Investments (₹ crore)	2,285.9
EV (₹ crore)	72,663.3
52 week H/L (₹)	283/ 150
Equity capital (₹ crore)	2,694.9
Face value (₹)	10.0

Key Highlights

- Q4 core performance led by robust tenancy addition of 4128, lowers costs driving EBITDA, PAT beat
- Maintain HOLD with target price of ₹ 245/share

Key risk to our call

- VIL is an anchor tenant and deterioration in its ability to survive will impact Indus negatively
- Stronger than expected tenancy demand in 5G

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Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	Q3FY21	YoY (%)	QoQ (%)	Comments
Revenue	6,491.8	6,746.5	6,306.3	6,736.1	2.9	-3.6	The energy revenues came in at ₹2351 crore, down 3% QoQ, despite higher diesel prices. The rental revenues came in at ₹ 4141 crore, down 4% QoQ.
Other Income	77.2	100.0	84.0	105.6	-8.1	-26.9	
Employee Expenses	177.4	229.0	179.6	224.2	-1.2	-20.9	
Power and Fuel	2,374.5	2,502.3	2,264.9	2,478.6	4.8	-4.2	
Other Expenses	155.2	101.2	271.6	101.6	-42.9	52.8	
Repairs and Maintenance	371.9	490.5	362.2	379.3	2.7	-2.0	
EBITDA	3,412.8	3,423.4	3,228.0	3,552.4	5.7	-3.9	
EBITDA Margin (%)	52.6	50.7	51.2	52.7	138 bps	-17 bps	Higher margins owing to lower costs such as other expenses and employee expenses
Depreciation	1,332.3	1,605.7	1,345.3	1,430.2	-1.0	-6.8	
Interest	361.9	390.0	276.0	390.0	31.1	0.0	
Exceptional Items	0.0	0.0	0.0	0.0	NA	NA	
Total Tax	432.0	385.0	329.9	477.8	30.9	-9.6	
PAT	1,363.8	1,142.8	986.4	1,360.0	38.3	0.3	PAT beat led by lower depreciation costs due to change in accounting policy post merger
Towers (Consolidated)	1,79,225	1,77,265	1,69,002	1,75,510	6.0	2.1	
Tenancy Ratio (x) (Consolidated)	1.81	1.82	1.85	1.82	-2.2	-0.5	
Sharing revenue per tower p.m	77,825	82,153	77,705	82,732	0.2	-5.9	

Source: Company, ICICI Direct Research

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

Change in Estimates

(₹ Crore)	FY22E			FY23E			
	Old	New	% Change	Old	New	% Change	
Revenue	27,300.8	26,570.1	-2.7	28,430.6	27,831.8	-2.1	
EBITDA	13,908.4	13,512.1	-2.8	14,545.8	14,232.0	-2.2	
EBITDA Margin (%)	50.9	50.9	-9 bps	51.2	51.1	-3 bps	
PAT	4,743.9	5,157.9	8.7	5,158.8	5,593.0	8.4	Higher PAT estimates as we lower the depreciation as per new policy
EPS (₹)	17.6	19.1	8.7	19.1	20.8	8.4	

Source: Company, ICICI Direct Research

Proforma merged entity KPI and assumptions

	FY20P	FY21P	FY22E	FY23E	
Towers (No.)	1,69,002	1,79,225	1,88,728	1,96,391	Combined entity proforma assumptions
Tenancy Ratio (x)	1.85	1.81	1.80	1.80	
Total Co-locations (No.)	3,11,111	3,22,438	3,39,638	3,53,509	
Sharing revenue per tower p.m	77,706	76,691	74,816	74,917	
Sharing Revenue (₹ Crore)	15,752.2	16,369.1	16,517.3	17,311.3	

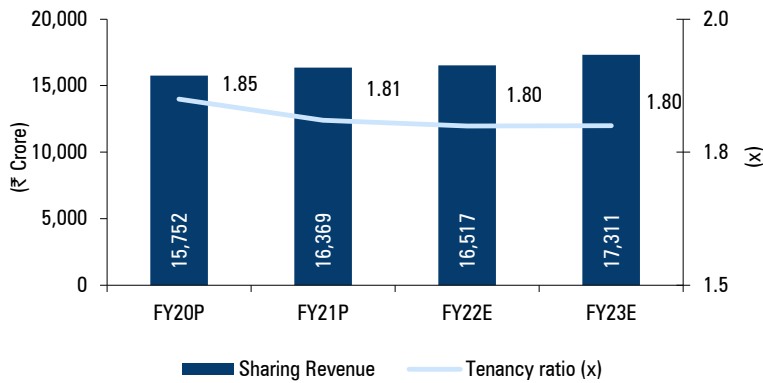
Source: Company, ICICI Direct Research

Other Highlights

- **Renewal:** The management indicated that one-third of the portfolio will be coming up for renewal. They had settled for a win-win situation in the earlier discussion but this remains a negotiation. They indicated that Indus had offered some discounts historically to operators and they responded well with extension of services
- **Exits:** The management said that generally there are more exits in Q4 because of year end decisions by operators. Asymmetric roll outs happen from operators but it could be that one of the operators is finding it difficult to roll out in comparison to the two others. They firmly believe India would be a three player market
- **Energy margins:** The company is engaged with operators and is going towards a fixed energy model. It is very close to rolling out this model with all operators
- **Operating costs:** The company did excess charity provisions till 9MFY21. Hence, charity spends are less in Q4. Also, one off provisions they create and sometimes write back during a quarter creates fluctuations in operating costs
- **Dividend:** Indus paid dividends of ₹ 20.12 per share in FY21 (payout is 110% already)
- **Leverage:** Debt (including lease liabilities) to EBITDA is 1.45x vs. its limit of 3x. The company is comfortable at this level and, going forward, if it needs debt, it has room to raise
- **Impact of satellite broadband:** The company termed it as complementary technology. It will be used in those areas where it is difficult to provide connectivity through terrestrial networks. It reiterated that the current connectivity (through towers) remains one of the cheapest ways of providing internet
- **Depreciation:** There is a policy change after the merger took place and Q4 number is reflection of the same
- **Cost of construction of tower:** Steel has become cheaper and the company is negotiating power with vendors. If the cost comes down, it will have certain benefits. Requirement of large towers is coming down especially in rural areas. It is seeing some design change, which augurs well in terms of efficiency and costs

Key Charts

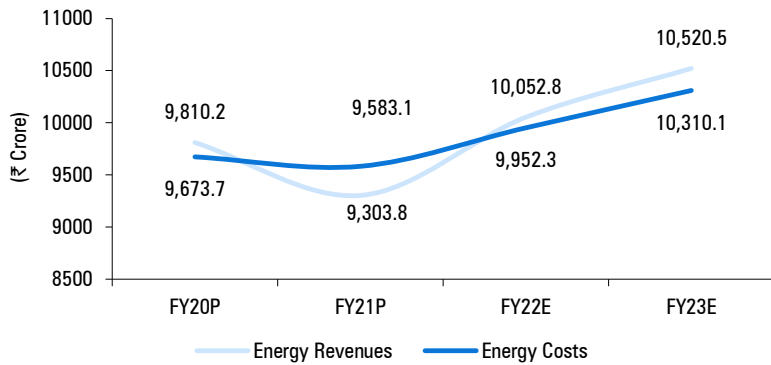
Exhibit 2: Tenancy, sharing revenues



Source: Company, ICICI Direct Research

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

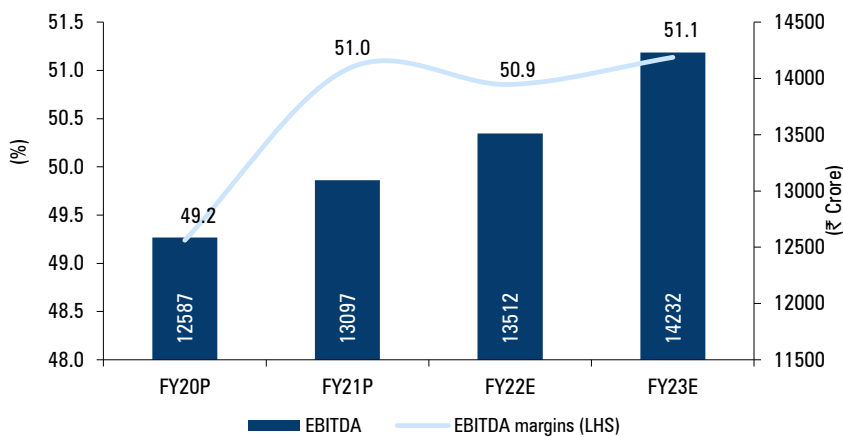
Exhibit 3: Energy revenues, energy cost trends



Source: Company, ICICI Direct Research

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

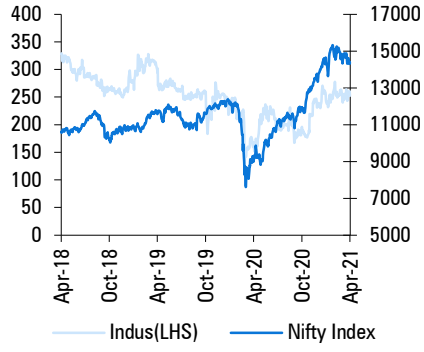
Exhibit 4: EBITDA and EBITDA margin trend



Source: Company, ICICI Direct Research

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

Exhibit 5: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	14,647.2	25,672.9	26,570.1	27,831.8
Growth (%)	0.4	NA	3.5	4.7
Other Income	191.2	298.3	340.0	360.0
Total Revenue	14,838.4	25,971.2	26,910.1	28,191.8
Rent	0.0	0.0	0.0	0.0
Employee Expenses	500.1	768.1	775.3	818.2
Power and Fuel	5,436.0	9,583.1	9,952.3	10,310.1
Other Expenses	655.4	781.0	783.8	848.9
Repairs & Maintenance	705.7	1,443.8	1,546.6	1,622.6
Total Operating Expenditure	7,297.2	12,576.0	13,058.0	13,599.8
EBITDA	7,350.0	13,096.9	13,512.1	14,232.0
Growth (%)	22.5	NA	3.2	5.3
Depreciation	2,957.1	5,339.4	5,556.5	5,814.8
Interest	500.7	1,402.1	1,400.0	1,300.0
Other Income	191.2	298.3	340.0	360.0
PBT	4,083.4	6,653.7	6,895.5	7,477.2
Exceptional Items	0.0	0.0	0.0	0.0
Total Tax	784.7	1,678.6	1,737.7	1,884.3
PAT	3,298.7	4,975.1	5,157.9	5,593.0
Growth (%)	32.3	NA	3.7	8.4
EPS (₹)	17.8	18.5	19.1	20.8

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	1,849.6	2,694.9	2,694.9	2,694.9
Reserve and Surplus	11,688.4	13,182.1	13,997.6	15,248.2
Total Shareholders funds	13,538.0	15,877.0	16,692.5	17,943.1
Total Debt	4,011.1	6,970.3	6,470.3	5,970.3
Deferred Tax Liability	770.7	70.3	70.3	70.3
Others	6,964.5	14,153.3	14,153.3	14,153.3
Total Liabilities	25,284.3	37,070.9	37,386.4	38,137.0
Assets				
Gross Block	36,648.5	67,740.9	71,540.9	75,540.9
Accumulated Depreciation	24,483.0	47,734.1	53,290.6	59,105.4
Net Block	12,165.5	20,006.9	18,250.3	16,435.5
Capital WIP	154.6	273.6	273.6	273.6
Total Fixed Assets	12,320.1	20,280.5	18,523.9	16,709.1
Right of Use	5,129.8	10,211.0	10,211.0	10,211.0
Investments	5,438.3	2,271.4	2,271.4	2,271.4
Debtors	2,068.3	3,828.5	3,962.3	4,346.3
Loans and Advances	2,150.1	4,009.2	4,149.3	4,476.7
Other Current Assets	295.3	559.5	579.1	636.9
Cash	242.8	14.5	3,650.5	5,434.1
Total Current Assets	4,756.5	8,411.7	12,341.2	14,894.1
Creditors	1,843.0	3,258.8	3,372.7	3,431.3
Provisions	210.4	1,614.7	1,671.1	1,615.2
Other Current Liabilities	1,237.7	2,999.3	3,104.1	3,088.9
Total Current Liabilities	3,291.1	7,872.8	8,147.9	8,135.4
Net Current Assets	1,465.4	538.9	4,193.3	6,758.6
Others Assets	930.7	2,186.8	2,186.8	2,186.8
Application of Funds	25,284.3	35,488.6	37,386.4	38,137.0

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	3,298.7	4,975.1	5,157.9	5,593.0
Add: Depreciation	2,957.1	5,339.4	5,556.5	5,814.8
Add: Interest Paid	500.7	1,402.1	1,400.0	1,300.0
(Inc)/dec in Current Assets	-686.6	-278.5	-293.5	-769.3
Inc/(dec) in CL and Provisions	-193.1	-268.1	275.1	-12.5
CF from operating activities	5,876.8	11,170.0	12,096.1	11,925.9
(Inc)/dec in Investments	-641.0	1,666.8	0.0	0.0
(Inc)/dec in Fixed Assets	-2,441.6	-3,586.8	-3,800.0	-4,000.0
Others	436.9	-1,395.7	0.0	0.0
CF from investing activities	-2,645.7	-3,315.7	-3,800.0	-4,000.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-401.4	1,196.5	0.0	0.0
Dividend paid & dividend tax	-2,885.4	-6,565.4	-4,042.4	-4,042.4
Interest Paid	-500.7	-1,402.1	-1,400.0	-1,300.0
Others	663.5	-1,350.3	781.3	-800.0
CF from financing activities	-3,124.0	-8,121.3	-4,661.1	-6,142.4
Net Cash flow	107.1	-267.0	3,635.0	1,783.6
Opening Cash	135.7	282.5	15.5	3,650.5
Closing Cash	242.8	15.5	3,650.5	5,434.1

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	17.8	18.5	19.1	20.8
Cash EPS	33.8	38.3	39.8	42.3
BV	73.2	58.9	61.9	66.6
DPS	13.0	20.1	15.0	15.0
Cash Per Share	1.3	0.1	13.5	20.2
Operating Ratios				
EBITDA Margin (%)	50.2	51.0	50.9	51.1
PAT Margin (%)	22.5	19.4	19.4	20.1
Debtor days	51.5	54.4	54.4	57.0
Creditor days	45.9	46.3	46.3	45.0
Return Ratios (%)				
RoE	24.4	31.3	30.9	31.2
RoCE	18.1	21.7	22.2	23.0
RoIC	29.1	37.8	42.3	47.4
Valuation Ratios (x)				
P/E	14.1	13.7	13.2	12.2
EV / EBITDA	10.2	6.6	6.1	5.6
Market Cap / Sales	4.6	2.6	2.6	2.4
Price to Book Value	3.4	4.3	4.1	3.8
Solvency Ratios				
Debt/EBITDA	0.5	0.5	0.5	0.4
Debt / Equity	0.3	0.4	0.4	0.3
Current Ratio	1.4	1.1	1.1	1.2
Quick Ratio	1.4	1.1	1.1	1.2

Source: Company, ICICI Direct Research

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