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Telecom

Q4FY21 result review and earnings revision

Target price: Rs265

Earnings revision

(%)	FY22E	FY23E
Sales	↓ 0.9	↓ 1.3
EBIT	↑ 1.7	↑ 1.2
EPS	↑ 8.1	↑ 6.3

Target price revision

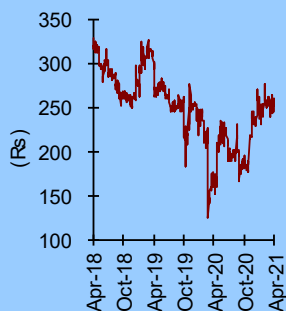
Rs265 from Rs240

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	53.5	69.9	69.9
Institutional investors	45.2	29.4	29.4
MFs and others	0.7	0.5	0.3
FI/Insurance	3.6	2.1	2.0
FIs	40.9	26.8	27.1
Others	1.3	0.7	0.7

Source: NSE

Price chart



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INDIA

Indus Towers

HOLD

Maintained

Gross addition strong; visibility on sustainability low **Rs260**

Indus Towers' (erstwhile Bharti Infratel) pro-forma (post-merger) EBITDA came in 10% higher than expected at Rs34bn (up 19.6% YoY) due to: 1) lower than expected energy losses, which has been unpredictable in past few quarters; and 2) lower other expenses and negligible CSR cost. Net tenancy addition was higher at 4,128 (I-Sec: 3,500) on higher tower adds (3,715). However, we are concerned about the sustainability of strong tenancy adds as Bharti / RJio recently bought huge spectrums, which may impact capacity-led tenancy demand, which indeed drives the sharing ratio. Also, Vodafone Idea's going concern risk has not receded. We have raised our EBITDA estimates by 1-2% for FY22E/FY23E, and DCF-based target price to Rs265 (from Rs240) on roll-forward of valuation to FY22, but increase our WACC to 11.4% (from 11.3% earlier). Maintain HOLD.

Earnings call: Date 23rd April'21 at 2:30PM IST. Please [click here](#) for registration.

- ▶ **Gross tenancy additions strong at 5,024:** Indus' net tenancy base rose by 4,128 on the back of gross additions, which increased to 5,024 (vs 11,327 in FY21). This growth must have come from Bharti Airtel's continued network rollout and has been likely driven by both coverage and capacity requirements, in our view. Tenancy churn rose to 896 (3,800 in FY21) likely utilising annual provisioning. Our concern is on rising single tenancies, which puts pressure on margins. Also, Bharti and RJio have bought huge spectrums in the 2021 auctions, which may impact capacity-led tenancy demand.
- ▶ **Rental per tenant (RPT) dipped 5.3% YoY to Rs42,477.** This can be attributed entirely to lower penalty revenues (Rs1.8bn vs Rs4bn in Q3FY21). The negative impact of equalisation on RPT was likely offset by fall in sharing ratio, while rising loading revenues also helped. Number of tenancies for which exit notice has been issued but equipment not removed, rose to 4,711 (vs 4,474 in Q3FY21).
- ▶ **EBITDA rose 19.6% YoY to Rs34bn:** Indus' revenues rose 2.9% YoY to Rs65bn; within this, rental revenues rose 5.7% YoY to Rs41bn. Energy revenues declined 1.6% YoY to Rs23.5bn. EBITDA had benefited from one-off costs in Q4FY20 while CSR cost was very low in Q4FY21, which together helped EBITDA rise by 19.6%. Other expenses dipped 76% YoY as explained above and has been very volatile. Depreciation normalised QoQ (down 6.8%) as the previous quarter had one-off costs. Net profit rose to Rs13.6bn, up 38.3% YoY. Company has skipped final dividend as it announced a one-time special dividend of Rs17.8/sh in Q3FY21.
- ▶ **Adjusted for Ind-AS 116, EBITDA was down 5.7% QoQ to Rs27bn:** EBITDA (ex-energy) rose 31% YoY to Rs27bn, but was down 6.7% QoQ due to one-off gains in Q3FY21. Rental costs increased 11% YoY to Rs7bn, which will restrict margin expansion going forward. Energy margin was negative for the fourth quarter in a row on lower contribution of fixed energy contracts, but losses have declined.

Market Cap	Rs702bn/US\$9.4bn
Reuters/Bloomberg	BHRI.BO/INDUSTOW IN
Shares Outstanding (mn)	2,694.9
52-week Range (Rs)	277/152
Free Float (%)	30.1
FII (%)	27.1
Daily Volume (US\$/'000)	28,782
Absolute Return 3m (%)	15.9
Absolute Return 12m (%)	73.1
Sensex Return 3m (%)	(1.5)
Sensex Return 12m (%)	54.9

Year to Mar	FY20	FY21E	FY22E	FY23E
Revenue (Rs bn)	146	257	268	279
Net Income (Rs bn)	33	50	52	55
EPS (Rs)	17.8	18.5	19.2	20.4
% Chg YoY	33.4	3.5	4.0	6.3
P/E (x)	14.6	14.1	13.6	12.8
CEPS (Rs)	33.8	38.3	39.8	41.7
EV/E (x)	7.7	7.3	6.8	6.2
Dividend Yield (%)	4.0	9.4	2.6	2.8
RoCE (%)	17.0	14.7	15.1	14.9
RoE (%)	23.5	25.8	24.7	22.6

Table 1: Q4FY21 result review (consolidated)

(Rs mn)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ (%)	YoY (%)
Rental revenue	39,178	38,967	40,176	43,137	41,411	(4.0)	5.7
Energy & other reimbursement	23,885	21,892	23,415	24,224	23,507	(3.0)	(1.6)
Total revenue	63,063	60,859	63,591	67,361	64,918	(3.6)	2.9
Power and fuel	22,649	22,621	24,679	24,786	23,745	(4.2)	4.8
Energy margin (%)	5.2	(3.3)	(5.4)	(2.3)	(1.0)		
% of total revenue	35.9	37.2	38.8	36.8	36.6		
Employee expenses	1,796	1,821	1,844	2,242	1,774	(20.9)	(1.2)
% of total revenue	2.8	3.0	2.9	3.3	2.7		
Repair & maintenance expenses	3,622	3,121	3,805	3,793	3,719	(2.0)	2.7
% of total revenue	5.7	5.1	6.0	5.6	5.7		
Other network expenses	6,460	2,716	2,526	1,016	1,552	52.8	(76.0)
% of total revenue	10.2	4.5	4.0	1.5	2.4		
EBITDA	28,536	30,580	30,737	35,524	34,128	(3.9)	19.6
EBITDA margin (%)	45.2	50.2	48.3	52.7	52.6		
EBITDA margin (excl energy, %)	69.7	80.3	79.7	83.7	83.0		
Depreciation & amortisation	13,453	12,681	13,088	14,302	13,323	(6.8)	(1.0)
EBIT	15,083	17,899	17,649	21,222	20,805	(2.0)	37.9
Finance cost	3,797	4,036	3,746	4,504	4,106	(8.8)	8.1
Other income	1,877	1,170	1,265	1,660	1,259	(24.2)	(32.9)
PBT	13,163	15,033	15,168	18,378	17,958	(2.3)	36.4
Exceptional item	-	-	-	-	-		
Provision for tax	3,299	3,827	3,861	4,778	4,320	(9.6)	30.9
Net income	9,864	11,206	11,307	13,600	13,638	0.3	38.3

Source: Company data, I-Sec research

Table 2: Q4FY21 EBITDA (ex-energy, adj for Ind-AS 116) down 6.7% QoQ

(Rs mn)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ (%)	YoY (%)
Rental revenue	39,178	38,967	40,176	43,137	41,411	(4.0)	5.7
Energy & other reimbursement	23,885	21,892	23,415	24,224	23,507	(3.0)	(1.6)
Total revenue	63,063	60,859	63,591	67,361	64,918	(3.6)	2.9
EBITDA (adj for Ind AS 116)	22,027	23,656	23,881	28,540	26,921	(5.7)	22.2
EBITDA margin (%)	34.9	38.9	37.6	42.4	41.5		
of which							
Energy EBITDA	1,236	(729)	(1,264)	(562)	(238)		
Energy margin (%)	5.2	(3.3)	(5.4)	(2.3)	(1.0)		
Rental EBITDA	20,791	24,385	25,145	29,102	27,159	(6.7)	30.6
Rental EBITDA margin (%)	53.1	62.6	62.6	67.5	65.6		

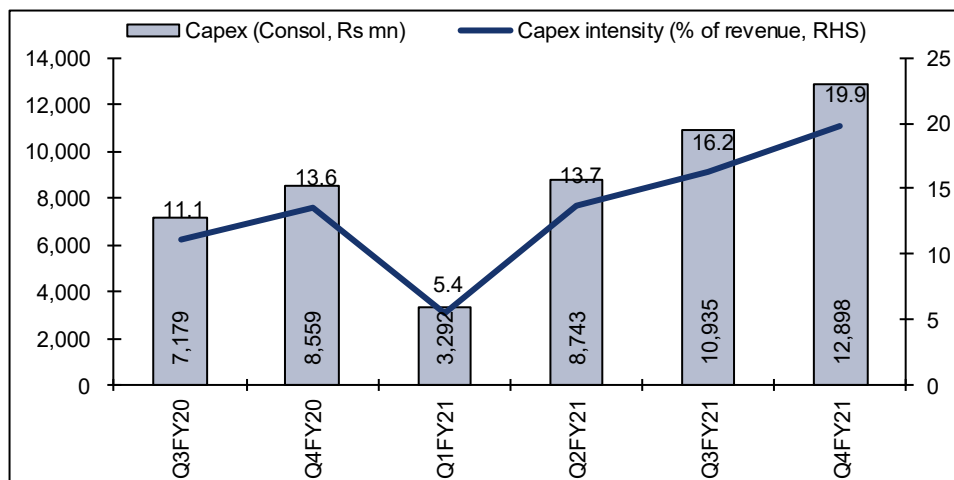
Source: Company data, I-Sec research

Table 3: Key performance indicators – number of tenants rose 2.1% YoY

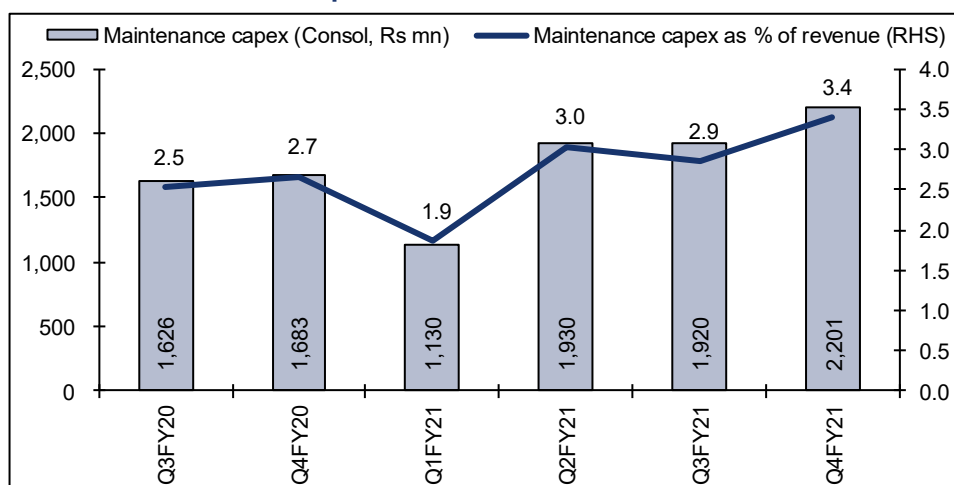
(Rs mn)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ (%)	YoY (%)
Towers	1,69,002	1,69,630	1,72,094	1,75,510	1,79,225	2.1	6.0
Net addition (QoQ)	1,882	628	2,464	3,416	3,715		
Tenancies	3,11,111	3,10,627	3,14,106	3,18,310	3,22,438	1.3	3.6
Net addition (QoQ)	1,865	(484)	3,479	4,204	4,128		
Average sharing factor (x)	1.85	1.84	1.83	1.82	1.81		
Rental/tenant (Rs/month)	41,373	41,016	42,186	44,845	42,477	(5.3)	2.7
Net tenancy addition	1,865	(484)	3,479	4,204	4,128	(1.8)	121.3
Tenancy cancellations	2,804	1,837	713	354	896		
Gross tenancy addition	4,669	1,353	4,192	4,558	5,024	10.2	7.6

Source: Company data, I-Sec research

Chart 1: Capex intensity stood at 19.9% of revenues

Source: Company data, I-Sec research

Chart 2: Maintenance capex was at 3.4% of revenues

Source: Company data, I-Sec research

Table 4: Earnings revision

(Rs mn)

	Revised		Earlier		% change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
KPIs						
Towers	1,89,225	1,97,225	1,88,502	1,96,502	0.4	0.4
Tenants	3,34,397	3,44,821	3,34,874	3,47,304	(0.1)	(0.7)
Rental/tenant/month (Rs)	43,076	42,951	43,410	43,237	(0.8)	(0.7)
Financials						
Revenue	2,68,149	2,78,811	2,70,670	2,82,387	(0.9)	(1.3)
EBITDA	1,38,107	1,45,073	1,35,855	1,43,302	1.7	1.2
EBITDA margin (%)	51.5	52.0	50.2	50.7		
PAT	51,761	55,027	47,861	51,717	8.1	6.4
EPS (Rs)	19.2	20.4	17.8	19.2	8.1	6.4

Source: I-Sec research

Financial summary

Table 5: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Income (Sales)	1,46,472	2,56,729	2,68,149	2,78,811
Operating Expenses	72,972	1,25,760	1,30,042	1,33,737
EBITDA	73,500	1,30,969	1,38,107	1,45,073
% margins	50.2	51.0	51.5	52.0
Depreciation & Amortisation	29,571	53,394	55,520	57,327
Net Interest	8,642	16,392	14,588	15,382
Other Income	5,547	5,354	1,200	1,200
Recurring PBT	40,834	66,537	69,199	73,565
Add: Extraordinaries	-	-	-	-
Less: Taxes	7,847	16,786	17,438	18,538
- Current tax	7,847	16,786	17,438	18,538
- Deferred tax	-	-	-	-
Less: Minority Interest	-	-	-	-
Net Income (Reported)	32,987	49,751	51,761	55,027
Recurring Net Income	32,987	49,751	51,761	55,027

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	55,934	1,27,400	1,51,372	1,76,777
of which cash & cash eqv.	2,039	23,397	48,784	70,528
Total Current Liabilities & Provisions	38,898	65,571	67,355	69,000
Net Current Assets	17,036	61,830	84,017	1,07,777
Investments	54,383	-	-	-
of which				
Strategic/Group	-	-	-	-
Other Marketable	54,383	-	-	-
Net Fixed Assets	1,74,499	3,22,440	3,25,501	3,25,591
Goodwill	-	-	-	-
Total Assets	2,42,209	3,93,621	4,27,045	4,52,578
Liabilities				
Borrowings	1,07,218	2,03,160	2,03,160	1,93,160
Deferred tax liability	(389)	(2,266)	(2,266)	(2,266)
Minority Interest	-	-	-	-
Equity Share Capital	18,496	26,949	26,949	26,949
Face Value per share (Rs)	10.0	10.0	10.0	10.0
Reserves & Surplus	1,16,884	1,65,778	1,99,202	2,34,735
Net Worth	1,35,380	1,92,727	2,26,151	2,61,684
Total Liabilities	2,42,209	3,93,621	4,27,045	4,52,578

Source: Company data, I-Sec research

Table 7: Quarterly trend

(Rs mn, year ending March 31)

	Jun-20	Sep-20	Dec-20	Mar-21
Net sales	35,047	35,047	36,952	64,432
% growth (QoQ)	(5.6)	1.6	4.5	2.9
EBITDA	17,672	17,672	18,168	32,724
Margin (%)	50.4	50.4	49.2	50.8
Other income	988	988	831	1,456
Add: Extraordinaries	-	-	-	-
Net profit	7,036	7,036	7,326	13,308

Source: Company data

Table 8: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Cashflow	64,464	1,09,557	1,17,856	1,25,065
Working Capital Changes	(20,640)	(11,824)	(2,163)	(2,229)
Capital Commitments	(18,278)	(38,896)	(39,239)	(36,318)
Free Cashflow	25,545	58,837	76,454	86,517
Cashflow from Investing Activities	(863)	22,137	1,200	1,200
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	8,003	22,423	(19,342)	(31,098)
Dividend paid & Others	(32,017)	(82,040)	(32,925)	(34,875)
Chg. in Cash & Bank balance	668	21,358	25,387	21,744

Source: Company data, I-Sec research

Table 9: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (in Rs.)				
Recurring EPS	17.8	18.5	19.2	20.4
Reported EPS	17.8	18.5	19.2	20.4
Recurring Cash EPS	33.8	38.3	39.8	41.7
Dividend per share (DPS)	10.5	24.4	6.8	7.2
Book Value per share (BV)	73.2	71.5	83.9	97.1
Growth Ratios (%)				
Operating Income	0.4	75.3	4.4	4.0
EBITDA	22.5	78.2	5.5	5.0
Recurring Net Income	33.4	50.8	4.0	6.3
Diluted Recurring EPS	33.4	3.5	4.0	6.3
Diluted Recurring CEPS	32.6	13.2	4.0	4.7
Valuation Ratios (x)				
P/E	14.6	14.1	13.6	12.8
P/CEPS	7.7	6.8	6.5	6.2
P/BV	3.6	3.6	3.1	2.7
EV / EBITDA (adj)	7.7	7.3	6.8	6.2
EV / Operating Income	3.2	2.9	2.7	2.5
EV / Operating FCF	18.2	12.8	9.5	8.0
Operating Ratios				
Other Income / PBT (%)	13.6	8.0	1.7	1.6
Effective Tax Rate (%)	19.2	25.2	25.2	25.2
NWC / Total Assets (%)	4.4	8.5	8.3	8.2
Inventory Turnover (days)	n.a.	n.a.	n.a.	n.a.
Receivables (days)	51.5	60.0	59.0	58.0
Payables (days)	92.2	95.0	95.0	95.0
Net Debt/EBITDA Ratio (x)	(0.2)	0.4	0.2	(0.0)
Capex % of sales	12.5	15.2	14.6	13.0
Profitability Ratios (%)				
Rec.Net Income Margins	22.5	19.4	19.3	19.7
RoCE	17.0	14.7	15.1	14.9
RoIC	22.8	15.7	16.5	17.3
RoNW	23.5	25.8	24.7	22.6
Dividend Yield	4.0	9.4	2.6	2.8
EBITDA Margins	50.2	51.0	51.5	52.0

Source: Company data, I-Sec research

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