Indus Towers

Reduce

DOLAT ANALYSIS & RESEARCH THEMES
IN-DEPTH• PRECISE• ACTIONABLE

Result Update

VIL survivability key for re-rating!

- **Indus Q1FY22 operating performance was marginally better led by higher rentals/tenant and lower opex. Revenue/EBITDA/APAT grew by 2.9/19.6 /38.3% YoY. Energy spread was negative for 5th quarter in a row. Receivables increased sharply QoQ from Rs 38bn to Rs 52bn.**
- **Risk on tenancy loss from VIL has increased materially in absence of fund raise, weak operating performances and lack from relief from SC on AGR liabilities. VIL shutdown may lead to reduction of ~45% of tenancies (partly may be absorbed by competition telcos) but impact on profitability will be severe. Reiterate Reduce with revised TP of Rs 206 (Rs 323 @ 15x Jun-23E EPS for business as usual less Rs 116 for VIL shutdown @ 50% probability). Even if VIL sustains, risk of reduction in rentals/tenant is high as tenancies comes out of lock-in from FY23. A 5% reduction in rentals/tenant impact our TP by Rs 35.**

Key Operating and Financial highlights

Total/Core rental revenue increased by 11.7/8.1% YoY. Core rental growth is led by 4.7% tenant's growth and 4.2% rentals/tenant growth. Revenue includes Rs 1.8bn exit charge revenue vs. Rs 0.6bn YoY. EBITDA increased by 15% YoY. Q1FY21 included bad debt provision and lower other expenses partly led to higher EBITDA in Q1FY22. Energy spread after remaining elevated at 6-8% for trailing five years was negative for 5th quarter. PAT grew by 26.3% YoY largely driven by EBIDTA growth. Tower/tenancy additions were at 1,772/2,971 impacted by Covid.

~75% increase in receivables has been due to financial stress for one of the customers and balance due to timing issues which was resolved in Jul'21. Indus has primary pledge on 190mn shares held by Vodafone Plc in Indus towers towards receivables from VIL and a secondary pledge behind Voda Plc's existing lenders against Indian assets owned by it to the extent of Rs 42.5bn. In addition to risk on survivability of VIL, Indus faces additional risk of reduction in rentals/tenant on renewals as tenancies come out of lock-in in FY23 (similar to energy spread correction in FY21).

Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	67,970	60,859	11.7	64,918	4.7
Total Expense	32,803	30,279	8.3	30,790	6.5
EBITDA	35,167	30,580	15.0	34,128	3.0
Depreciation	13,198	12,681	4.1	13,323	(0.9)
EBIT	21,969	17,899	22.7	20,805	5.6
Other Income	569	339	67.8	772	(26.3)
Interest	3,768	3,205	17.6	3,619	4.1
EBT	18,770	15,033	24.9	17,958	4.5
Tax	4,617	3,827	20.6	4,320	6.9
RPAT	14,153	11,206	26.3	13,638	3.8
APAT	14,153	11,206	26.3	13,638	3.8
			(bps)		(bps)
Gross Margin (%)	61.1	62.8	(176)	63.4	(236)
EBITDA Margin (%)	51.7	50.2	149	52.6	(83)
NPM (%)	20.8	18.4	241	21.0	(19)
Tax Rate (%)	24.6	25.5	(86)	24.1	54
EBIT Margin (%)	32.3	29.4	291	32.0	27

CMP	Rs 222
Target / Downside	Rs 206 / 7%
NIFTY	15,763

Scrip Details

Equity / FV	Rs 26,949mn / Rs 10
Market Cap	Rs 599bn
	USD 8bn
52-week High/Low	Rs 283/ 162
Avg. Volume (no)	3,068,450
Bloom Code	INDUSTOWER IN

Price Performance	1M	3M	12M
Absolute (%)	(7)	(12)	15
Rel to NIFTY (%)	(7)	(20)	(24)

Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	69.9	69.9	69.9
MF/Banks/FIs	2.6	2.4	2.6
FIIs	26.6	27.1	26.8
Public / Others	0.9	0.6	0.8

Valuation (x)

	FY22E	FY23E	FY24E
P/E	10.9	10.5	10.0
EV/EBITDA	5.6	5.5	5.2
ROE (%)	34.0	34.3	35.1
RoACE (%)	18.0	18.0	17.9

Estimates (Rs mn)

	FY22E	FY23E	FY24E
Revenue	266,983	272,297	278,863
EBITDA	138,616	140,837	144,118
PAT	55,106	57,206	60,148
EPS (Rs.)	20.4	21.2	22.3

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Exhibit 1: Actual v/s estimate

RMn	Actual	Estimate	% Variance	Remarks
Total Revenue	67,970	63,850	6.5	Numbers were ahead of estimates led by higher than expected rental/tenant and lower opex.
Rental Revenue	42,113	41,411	1.7	
EBITDA	35,167	33,771	4.1	
EBITDA Margin %	83.5	81.6	195	
PAT	14,153	13,083	8.2	

Source: DART, Company

Exhibit 2: Change in estimates

Rs Mn	FY22E			FY23E			Remarks
	New	Old	Chg %	New	Old	Chg %	
No of Towers	1,87,386	1,88,170	-0.4	1,95,752	1,97,339	-0.8	Our estimates are largely unchanged
Tenants	3,36,880	3,39,874	-0.9	3,52,478	3,58,705	-1.7	
Rental/Tower	76,467	75,581	1.2	74,406	74,158	0.3	
Rental/Tenant	42,519	41,926	1.4	41,354	40,924	1.1	
Rental Revenue	1,68,201	1,66,608	1.0	1,71,046	1,71,530	-0.3	
EBITDA	1,38,616	1,35,063	2.6	1,40,837	1,39,372	1.1	
EBITDA Margin %	51.9	51.6	32 bps	51.7	51.8	-8 bps	
PAT	55,106	52,721	4.5	57,206	56,694	0.9	

Source: DART, Company

Key Takeaways from Concall

Business Update

- Management remains positive on towers and tenancies led by healthy data usage growth on high base. 5G will drive additional demand.
- Management categorically highlighted that in over next 2-3 months it would call-out a detailed strategy wrt growth from 5G and other initiatives like smart cities, small-cells, fiber sharing, charging stations for EVs etc.
- Management continues to work on alignment of energy model which shall help control energy margins. Negative energy charges have also been on account of reconciliation for past periods.

Indus has received notice for exit of 4,535 tenants but actual exit hasn't happened

Exhibit 3: Operating Performance

Particulars	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY (%)	QoQ(%)
Total Towers	**1,69,630**	**1,72,094**	**1,75,510**	**1,79,225**	**1,80,997**	6.7	1.0
Net tower additions	628	2,464	3,416	3,715	1,772		
Total Co-locations	**3,10,627**	**3,14,106**	**3,18,310**	**3,22,438**	**3,25,355**	4.7	0.9
Net Additions	(484)	3,479	4,204	4,128	2,917		
Average sharing factor	1.840	1.830	1.820	1.810	1.800		
Closing sharing factor	1.830	1.830	1.810	1.799	1.800		
Rev/tower/month (Rs)	76,715	78,379	82,732	77,825	77,939	1.6	0.1
Rev/Tenant/ month (Rs)	41,016	42,186	44,845	42,477	42,730	4.2	0.6
EBITDA/tower pm (Rs)	61,638	62,430	69,209	64,585	66,205	7.4	2.5
EBITDA/Tenant pm (Rs)	33,571	34,149	38,040	35,756	36,815	9.7	3.0

Source: DART, Company

Revenue includes Rs 1.8bn exit charge revenue vs. Rs 0.6bn YoY

Exhibit 4: Consolidated Quarterly Financials

(Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
Rental income	38,967	40,176	43,137	41,411	42,113	8.1	1.7
Energy revenue	21,892	23,415	24,224	23,507	25,857	18.1	10.0
Net Sales	**60,859**	**63,591**	**67,361**	**64,918**	**67,970**	**11.7**	**4.7**
Energy Costs	22,621	24,679	24,786	23,745	26,463	17.0	11.4
Employee costs	1,821	1,844	2,242	1,774	1,872	2.8	5.5
R&M expenses	3,121	3,805	3,793	3,719	3,300	5.7	(11.3)
Other expenses	2,109	2,084	460	1,551	1,050	(50.2)	(32.3)
Charity and donation	607	442	556	1	118	(80.6)	11,700.0
Total Opex (Ex-Energy)	7,658	8,175	7,051	7,045	6,340	(17.2)	(10.0)
EBITDA	**30,580**	**30,737**	**35,524**	**34,128**	**35,167**	**15.0**	**3.0**
EBITDA ex energy	**31,309**	**32,001**	**36,086**	**34,366**	**35,773**	**14.3**	**4.1**
Depreciation	12,681	13,088	14,302	13,323	13,198	4.1	(0.9)
EBIT	**17,899**	**17,649**	**21,222**	**20,805**	**21,969**	**22.7**	**5.6**
Other Income	3,205	3,297	3,900	3,619	3,768	17.6	4.1
Finance costs/(income)	339	816	1,056	772	569	67.8	(26.3)
PBT	**15,033**	**15,168**	**18,378**	**17,958**	**18,770**	**24.9**	**4.5**
Tax	3,827	3,861	4,778	4,320	4,617	20.6	6.9
PAT	**11,206**	**11,307**	**13,600**	**13,638**	**14,153**	**26.3**	**3.8**
Energy spread	(729)	(1,264)	(562)	(238)	(606)	**(16.9)**	**154.6**

Source: DART, Company

Exhibit 5: Margin Analysis

As % of Net Sales	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY (bps)	QoQ (bps)
Rental income	64.0	63.2	64.0	63.8	62.0	(207)	(183)
Energy revenue	36.0	36.8	36.0	36.2	38.0	207	183
Net Sales	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	-	-
Energy Costs	37.2	38.8	36.8	36.6	38.9	176	236
Employee expenses	3.0	2.9	3.3	2.7	2.8	(24)	2
Other expenses	9.6	10.0	7.1	8.1	6.6	(302)	(155)
Total Opex (Ex-energy)	12.6	12.9	10.5	10.9	9.3	(326)	(152)
EBITDA	**50.2**	**48.3**	**52.7**	**52.6**	**51.7**	**149**	**(83)**
EBITDA Ex-Energy	**80.3**	**79.7**	**83.7**	**83.0**	**84.9**	**460**	**196**
EBIT Margin	**29.4**	**27.8**	**31.5**	**32.0**	**32.3**	**291**	**27**
RPAT Margin	**24.7**	**23.9**	**27.3**	**27.7**	**27.6**	**291**	**(5)**
Energy Spread	(3.3)	(5.4)	(2.3)	(1.0)	(2.3)	99	(133)
Tax Rate	25.5	25.5	26.0	24.1	24.6	(86)	54

Source: DART, Company

Exhibit 6: Key assumptions

Rs Mn	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Operating KPIs										
Total Towers	1,53,138	1,58,339	1,61,829	1,63,162	1,63,934	1,69,002	1,79,225	1,87,386	1,95,752	2,04,326
Net tower additions	4,225	5,201	3,490	1,333	772	5,068	10,223	8,161	8,365	8,575
Total Co-locations	3,29,332	3,51,638	3,78,176	3,67,073	3,05,824	3,11,111	3,22,438	3,36,880	3,52,478	3,69,323
Net Additions	26,707	22,306	26,538	(11,103)	(61,249)	5,287	11,327	14,442	15,598	16,845
Closing sharing factor	2.15	2.22	2.34	2.25	1.87	1.84	1.80	1.80	1.80	1.81
Financials										
Sharing Revenue (Rs Mn)	1,25,336	1,37,647	1,48,344	1,57,325	1,47,925	1,57,194	1,63,691	1,68,201	1,71,046	1,75,081
EBITDA (Rs Mn)	86,157	94,219	1,01,388	1,08,324	99,890	1,25,867	1,30,969	1,38,616	1,40,837	1,44,118
- Energy Spread	5,583	4,926	5,643	6,892	6,644	1,714	(2,793)	-241	759	778
- EBITDA Ex-Energy	80,573	89,293	95,745	1,01,432	93,246	1,24,154	1,33,762	1,38,858	1,40,078	1,43,340
Margin %										
Energy Spread (%)	7.2	6.2	6.5	7.2	6.3	1.7	(3.0)	-0.2	0.7	0.7
EBITDA Ex-Energy (%)	64.3	64.9	64.5	64.5	63.0	79.0	81.7	82.6	81.9	81.9
Per Unit										
Rev/tower pm(Rs)	69,158	73,653	77,222	80,682	75,373	78,691	78,345	76,467	74,406	72,936
EBITDA/tower pm (Rs)	47,540	50,415	52,778	55,552	50,897	63,009	62,684	63,017	61,265	60,038
Rev/Tenant pm (Rs)	33,055	33,689	33,877	35,184	36,639	42,466	43,062	42,519	41,354	40,427
EBITDA/Tenant pm (Rs)	22,722	23,060	23,154	24,226	24,741	34,003	34,454	35,040	34,050	33,277
Operating KPIs										
Total Towers	2.8	3.4	2.2	0.8	0.5	3.1	6.0	4.6	4.5	4.4
Total Co-locations	8.8	6.8	7.5	(2.9)	(16.7)	1.7	3.6	4.5	4.6	4.8
Financials										
Sharing Revenue (Rs Mn)	8.2	9.8	7.8	6.1	(6.0)	6.3	4.1	2.8	1.7	2.4
EBITDA (Rs Mn)	14.7	9.4	7.6	6.8	(7.8)	26.0	4.1	5.8	1.6	2.3
- Energy Spread	146.6	(11.8)	14.6	22.1	(3.6)	(74.2)	(263.0)	-91.4	-414.6	2.5
- EBITDA Ex-Energy	10.6	10.8	7.2	5.9	(8.1)	33.1	7.7	3.8	0.9	2.3
Margin %										
Energy Spread (%)	401	(91)	22	69	(84)	(458)	(474)	276	99	0
EBITDA Ex-Energy (%)	136	59	(33)	(7)	(144)	1,595	274	84	-66	-2
Per Unit										
Rev/tower pm(Rs)	6.0	6.5	4.8	4.5	(6.6)	4.4	(0.4)	-2.4	-2.7	-2.0
EBITDA/tower pm (Rs)	12.3	6.0	4.7	5.3	(8.4)	23.8	(0.5)	0.5	-2.8	-2.0
Rev/Tenant pm (Rs)	0.6	1.9	0.6	3.9	4.1	15.9	1.4	-1.3	-2.7	-2.2
EBITDA/Tenant pm (Rs)	6.6	1.5	0.4	4.6	2.1	37.4	1.3	1.7	-2.8	-2.3

Source: DART, Company

Exhibit 7: Implied TP of Indus at various target multiples for business as usual

Particulars	A	B	C	D
Target PE multiple (X)	12	15	18	20
Base case FY23E PAT	57,941	57,941	57,941	57,941
Target Mcap(Rs Mn)	**6,95,297**	**8,69,121**	**10,42,946**	**11,58,829**
O/s shares (Mn)	2,695	2,695	2,695	2,695
TP after incorporating decline in rental/tenant (Rs)	**258**	**323**	**387**	**430**

Source: DART, Company

Exhibit 8: Sensitivity of EPS and TP to 5% change in rental/tenant

Particulars	Nos
Avg Rental/tenant/month (Rs)	40,000
Avg tenancy (Nos)	3,44,679
EBITDA impact of 5% reduction in rentals (Rs mn)	8,272
PAT impact of 5% reduction in rentals (Rs mn)	6,204
% of FY23E Consol PAT	10.8%
EPS impact of 5% reduction in rentals on Consol EPS (Rs)	2.3

Source: DART, Company

Exhibit 9: Sensitivity of VIL shutdown on TP

No of towers of VIL	1,80,484
VIL tenancies from Indus (assumed @ ~85%)	1,53,411
Rental/tenant (Rs Mn)	40,000
Loss of revenue/EBITDA (Rs Mn)	73,637
Net revenue/EBITDA loss (Rs Mn)	55,228
PAT loss (Rs Mn)	41,697
EPS (Rs)	**15.5**
% of FY23	
- Rental Revenue	32.3
- EBITDA	39.2
- APAT	72.9
- EPS	72.9
EPS impact (Rs)	**15.5**
Target PE multiple (X)	**15**
Impact on TP (Rs)	**232**

Source: DART, Company

Exhibit 10: Indus Towers TP derivation

Business as usual (TP @ 15x Jun-23E EPS)	**323**
- Impact of VIL shutdown (50% probability)	116
Target Price (Rs)	**206**

Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY21A	FY22E	FY23E	FY24E
Revenue	**256,729**	**266,983**	**272,297**	**278,863**
Total Expense	**125,760**	**128,367**	**131,460**	**134,745**
COGS	95,831	99,023	100,492	103,004
Employees Cost	7,681	7,523	7,711	7,904
Other expenses	22,248	21,821	23,257	23,837
EBIDTA	**130,969**	**138,616**	**140,837**	**144,118**
Depreciation	53,394	53,189	54,261	55,354
EBIT	**77,575**	**85,427**	**86,576**	**88,764**
Interest	14,021	14,277	12,417	10,626
Other Income	2,983	2,775	2,885	2,870
Exc. / E.O. items	0	0	0	0
EBT	**66,537**	**73,925**	**77,045**	**81,008**
Tax	16,786	18,819	19,839	20,859
RPAT	49,751	55,106	57,206	60,148
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**49,751**	**55,106**	**57,206**	**60,148**

Balance Sheet

(Rs Mn)	FY21A	FY22E	FY23E	FY24E
Sources of Funds				
Equity Capital	26,949	26,949	26,949	26,949
Minority Interest	0	0	0	0
Reserves & Surplus	131,821	138,132	141,440	147,690
Net Worth	**158,770**	**165,081**	**168,389**	**174,639**
Total Debt	203,822	195,842	199,190	201,102
Net Deferred Tax Liability	23,783	23,513	23,480	23,479
Total Capital Employed	**386,375**	**384,436**	**391,059**	**399,220**
Applications of Funds				
Net Block	**318,002**	**312,483**	**303,465**	**294,694**
CWIP	2,736	2,575	2,597	2,600
Investments	32,401	32,166	32,171	32,170
Current Assets, Loans & Advances	**96,298**	**94,150**	**109,971**	**129,004**
Inventories	0	0	0	0
Receivables	38,285	44,846	45,823	48,300
Cash and Bank Balances	22,859	13,742	29,018	45,616
Loans and Advances	0	0	0	0
Other Current Assets	35,154	35,562	35,130	35,089
Less: Current Liabilities & Provisions	**63,062**	**56,939**	**57,144**	**59,248**
Payables	32,588	34,059	34,363	36,204
Other Current Liabilities	30,474	22,880	22,781	23,044
sub total				
Net Current Assets	33,236	37,211	52,827	69,757
Total Assets	**386,375**	**384,436**	**391,059**	**399,220**

E – Estimates

Important Ratios

Particulars	**FY21A**	**FY22E**	**FY23E**	**FY24E**
(A) Margins (%)				
Gross Profit Margin	62.7	62.9	63.1	63.1
EBIDTA Margin	51.0	51.9	51.7	51.7
EBIT Margin	30.2	32.0	31.8	31.8
Tax rate	25.2	25.5	25.8	25.8
Net Profit Margin	19.4	20.6	21.0	21.6
(B) As Percentage of Net Sales (%)				
COGS	37.3	37.1	36.9	36.9
Employee	3.0	2.8	2.8	2.8
Other	8.7	8.2	8.5	8.5
(C) Measure of Financial Status				
Gross Debt / Equity	1.3	1.2	1.2	1.2
Interest Coverage	5.5	6.0	7.0	8.4
Inventory days	0	0	0	0
Debtors days	54	61	61	63
Average Cost of Debt	12.3	7.1	6.3	5.3
Payable days	46	47	46	47
Working Capital days	47	51	71	91
FA T/O	0.8	0.9	0.9	0.9
(D) Measures of Investment				
AEPS (Rs)	18.5	20.4	21.2	22.3
CEPS (Rs)	38.3	40.2	41.4	42.9
DPS (Rs)	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0
BVPS (Rs)	58.9	61.3	62.5	64.8
RoANW (%)	52.2	34.0	34.3	35.1
RoACE (%)	28.6	18.0	18.0	17.9
RoAIC (%)	37.5	23.3	23.6	24.8
(E) Valuation Ratios				
CMP (Rs)	222	222	222	222
P/E	12.0	10.9	10.5	10.0
Mcap (Rs Mn)	598,537	598,537	598,537	598,537
MCap/ Sales	2.3	2.2	2.2	2.1
EV	779,500	780,637	768,709	754,023
EV/Sales	3.0	2.9	2.8	2.7
EV/EBITDA	6.0	5.6	5.5	5.2
P/BV	3.8	3.6	3.6	3.4
Dividend Yield (%)	0.0	0.0	0.0	0.0
(F) Growth Rate (%)				
Revenue		4.0	2.0	2.4
EBITDA		5.8	1.6	2.3
EBIT		10.1	1.3	2.5
PBT		11.1	4.2	5.1
APAT		10.8	3.8	5.1
EPS		10.8	3.8	5.1

Cash Flow

(Rs Mn)	**FY21A**	**FY22E**	**FY23E**	**FY24E**
CFO	120,018	109,479	123,544	125,797
CFI	(75,497)	(47,545)	(45,302)	(46,587)
CFF	(63,869)	(71,052)	(62,966)	(62,612)
FCFF	37,477	48,411	50,592	54,748
Opening Cash	42,207	22,859	13,742	29,018
Closing Cash	22,859	13,742	29,018	45,616

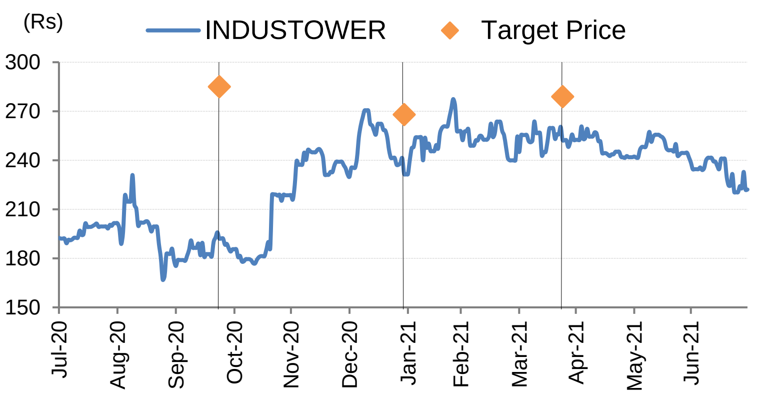
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Oct-20	BUY	285	192
Jan-21	Accumulate	268	232
Apr-21	Reduce	279	252

*Price as on recommendation date

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