SELL (Maintained)

CMP: **INR 397** Target Price: **INR 270** ▼ -32%

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04 July 2024

India | Equity Research | Company Update

Indus Tower

Telecom

CXO 1x1: Vikas Poddar, CFO

We met Vikas Poddar, CFO of Indus Towers (Indus) on 27 Jun'24. Takeaways: **1)** Indus remains excited about growth in the tower industry driven by rural expansion by Bharti, and 4G rollout from VIL. It expects a fair share in VIL's expansion, despite the risk of higher competitive intensity. Indus sees an advantage from its strong tall tower portfolio, good footprint in past VIL radio frequency planning, strong execution track record, and reward for support during challenging times. Nonetheless, it remains cautious on competition. **2)** The company believes it has the core strength in managing space and power; and data center fits well into their ecosystem. However, it has not had a discussion with Bharti on the merger of Nxtra. **3)** Indus expects higher capex intensity to continue in FY25 due to strong tower/tenancy expansion anticipation; however, recovery of overdue from VIL could aid FCF/dividend payout in FY25.

Risks to incremental market share in VIL tenancy rollout

VIL is expected to rollout over 60k tenancies in the next few quarters, which is a lucrative opportunity for the entire Indian tower industry. Indus has been in discussion with VIL – showcasing its footprints; Indus believes it has relevant network footprint, as network designing was built based on requirements for its anchor tenants – Bharti Airtel and VIL – in the past. This puts Indus in a better position vs. peers. Indus has also completed network expansion into deep market for Bharti Airtel, which can also be used by VIL for its rollout with sharing benefits. Indus believes that it has an inherent advantage over peers such as Summit Digitel and others for the following reasons –

- Indus' towers are built for the purpose of sharing – a significant proportion of its towers are ground-based and taller [30–50mts height]. This enables the new tenant to get higher positions, hence better coverage.
- The VIL 4G rollout will initially come as loading, which will help increase operating cost only marginally. Therefore, implying VIL has to rollout 4G on its existing tenancies and shall likely at least help VIL retain its market share. Further, Indus is not completely averse to setting-up a few sites for VIL to meet its network configuration, thereby, providing complete coverage and capacity solution.
- Indus has improved its execution capabilities in the past few years, which has helped Bharti expand its rural footprint effectively in a timely manner. VIL will have to expand its 4G network footprint faster to regain lost ground; thus, Indus' strong track record of execution can come in handy.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	2,83,818	2,86,006	3,18,796	3,54,103
EBITDA	96,686	1,45,566	1,60,649	1,79,035
EBITDA Margin (%)	34.1	50.9	50.4	50.6
Net Profit	25,328	60,362	58,694	69,176
EPS (INR)	9.4	22.4	21.8	25.7
EPS % Chg YoY	(68.0)	195.9	(2.8)	17.9
P/E (x)	52.4	17.7	18.2	15.4
EV/EBITDA (x)	10.2	6.9	6.1	5.3
RoCE (%)	8.4	14.6	14.0	14.9
RoE (%)	11.7	25.0	19.5	19.4

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Market Data

Market Cap (INR)	1,069bn
Market Cap (USD)	12,803mn
Bloomberg Code	INDUSTOW IN
Reuters Code	INUS BO
52-week Range (INR)	398 /157
Free Float (%)	31.0
ADTV-3M (mn) (USD)	138.4

Price Performance (%)	3m	6m	12m
Absolute	31.9	90.9	139.6
Relative to Sensex	23.7	78.8	117.0

Previous Reports

06-05-2024: Sector Thematic
01-05-2024: Q4FY24 results review

- Indus' MSAs are non-discriminatory, which means each of its tenants will have parity in pricing and services. If it provides a discount to one tenant, then it will be applicable to all other tenants on that particular tower(s). This implies, Indus may not participate in pricing competition, in any, with peers. Further, even the IP-1 rule, as recommended by TRAI in its '*Recommendations on Enhancement of Scope of Infrastructure Providers Category-I (IP-I) Registration*' dated 13 Mar'20, has stated in item 2.64b (link) – 'to provide such infrastructure items, equipment and systems on mutually agreed terms and conditions to eligible service provider in fair, reasonable and nondiscriminatory manner.'
- Further, Summit Digitel's anchor tenant is Reliance Jio (RJio), who may not agree to provide steep discounts to competition – VIL; thus, enabling competition to become more effective at the cost of RJio.
- Indus has supported VIL during its tough times, and anticipates equal share, if not, higher in the fresh rollout as well.

Bharti's rural expansion in FY25 means more tower addition

Bharti has guided for 25k site additions, largely to cover the remaining rural locations, and had been excited by good success from its previous expansions in FY24 [46k sites]. Indus believes that it has grabbed higher incremental market share from Bharti's rural expansion, and it will continue to expand towers to meet Bharti's requirements even in FY25. Indus expects its tower addition momentum to sustain in FY25. However, it has cautioned that tower/tenancy expansion has cyclicality, and is now in an upcycle. The tenancy/tower addition may pause, and future expansion will be linked more for data capacity enhancement. 5G is now rolled out as loading, and considering the base band is 3300MHz, and as data capacities rise, 5G will also require infill sites in the future, driving tenancy/tower demand for Indus.

Immediately, Indus is excited with the tenancy opportunity from VIL, as this will boost tenancy sharing ratio, and allow incrementally higher share of revenues to flow to EBITDA/FCF.

Data center – exciting opportunity for Indus; no discussion with Bharti yet

The news articles (link) suggests Bharti will likely look at a mega merger of Nxtra (data center business) with Indus, post Bharti increasing its holding in Indus to 52%. Indus said that the company's core strength is managing real estate space and power supply, the two key ingredients for a data center. However, Indus had no such discussion with Bharti on the Nxtra merger; but it believes, if Bharti is willing, then the business has strong synergies with Indus, particularly for edge data center. Further, the company has a strong cash cow business – tower, which can fund capex for the data center business. Having said that, Indus will not enter any business where they have to compete with promoter – Bharti. Therefore, Indus will evaluate the data center business with potential merger of Nxtra.

Free cashflow and dividend payout

Indus anticipates capex to be higher again in FY25 considering strong tower rollout by Bharti, and company continue to gain share in Bharti's rollout; and likely expansion for VIL. However, Indus anticipates overdue recovery from VIL where it has created provision. Vodafone Plc has ~3% holding in Indus which indeed has been pledged to Indus. Monetisation of Indus stake held by Vodafone Plc can aid partial recovery of overdue. Indus has stated dividend policy that any FCF generated by company will be used to pay the dividend, and VIL overdue recovery should boost FCF in FY25.

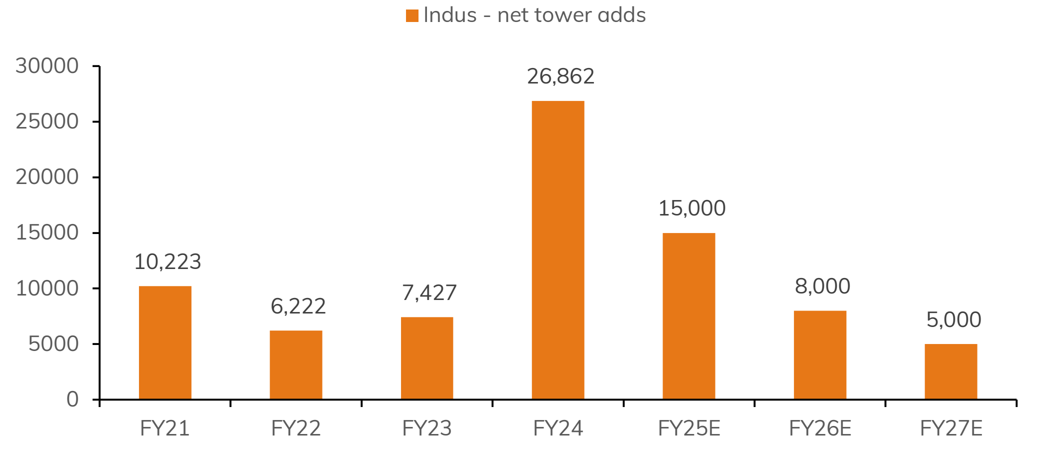
Valuation and risks

We have retained our estimates for Indus, and DCF-based target price of INR 270. Our model assumes Indus' cash EBITDA to grow at CAGR of 7% over FY24–31E; terminal growth estimated at 2.5% and WACC is 12.1%. At target price, Indus' implied valuation works out to 5.4x FY26 EV/adj. EBITDA and 10.5x FY26E EPS. Maintain **SELL**.

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

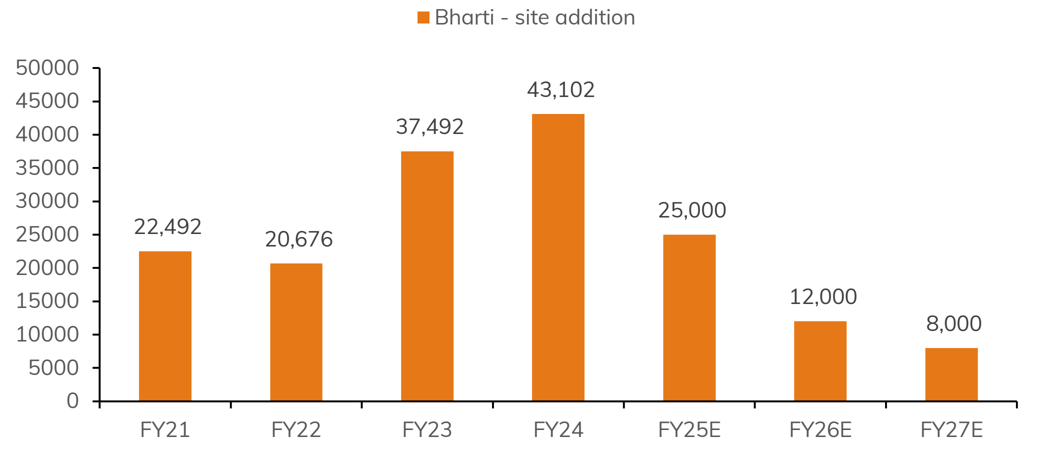
Downside risks: 1) VIL losing going concern status; 2) Higher competitive intensity, and lower-than-expected incremental VIL's tenancy market share.

Exhibit 1: Though we have taken tower addition moderation in FY25E, it may outperform if Indus adds more towers for VIL



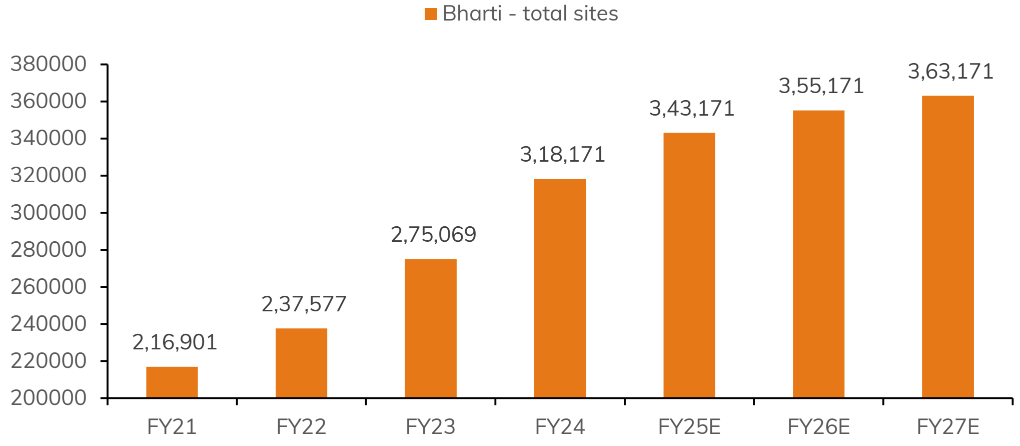
Source: Company data, I-Sec research

Exhibit 2: Bharti's site addition to moderate in FY25, but still high



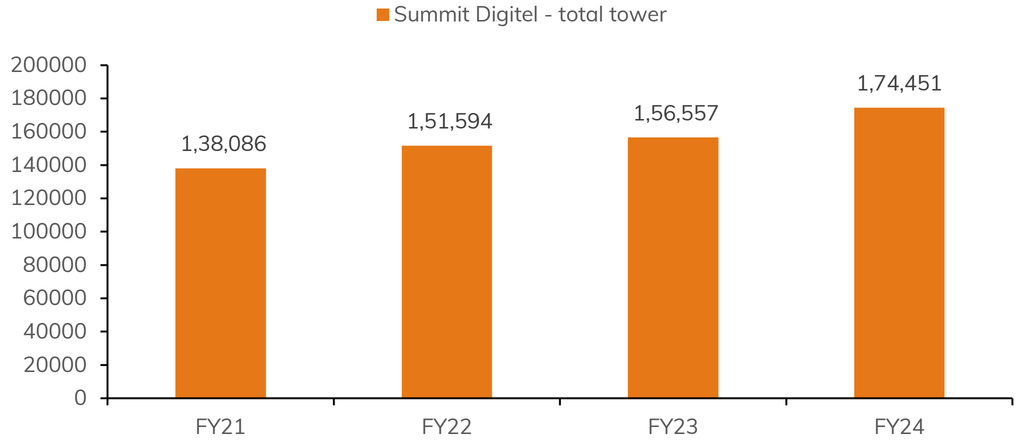
Source: Company data, I-Sec research

Exhibit 3: Bharti is hitting critical site level of 350k in FY26E; post which, site addition is expected to material decelerate



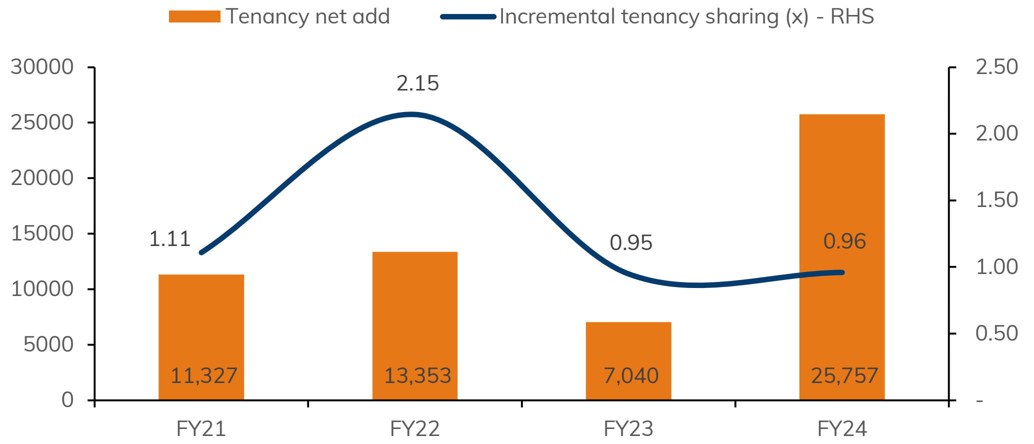
Source: Company data, I-Sec research

Exhibit 4: Summit Digitel has also executed expected tower level of 175k, which means RJio also to slow capex intensity



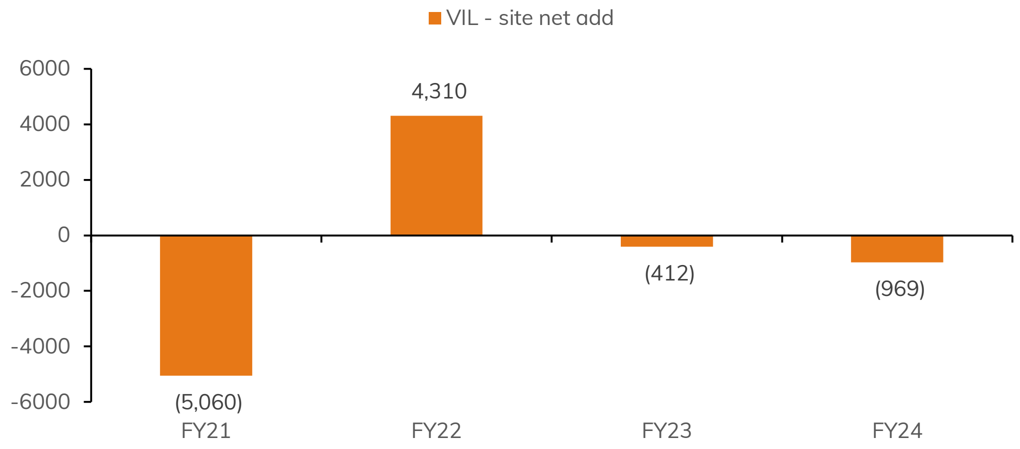
Source: Company data, I-Sec research

Exhibit 5: Indus tenancy addition in past two years was lower than tower net add, which was driving tenancy sharing ratio down



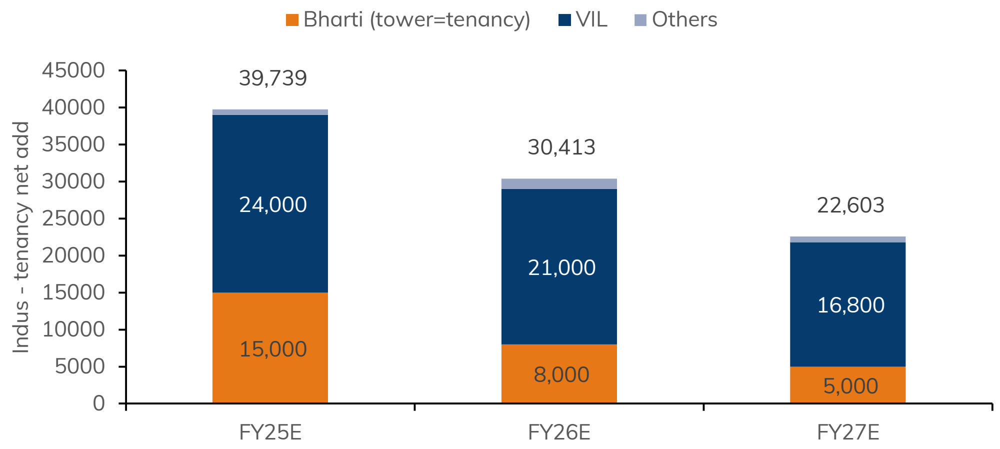
Source: Company data, I-Sec research

Exhibit 6: Underlying tenancy was hurt from net exit by VIL in past two years



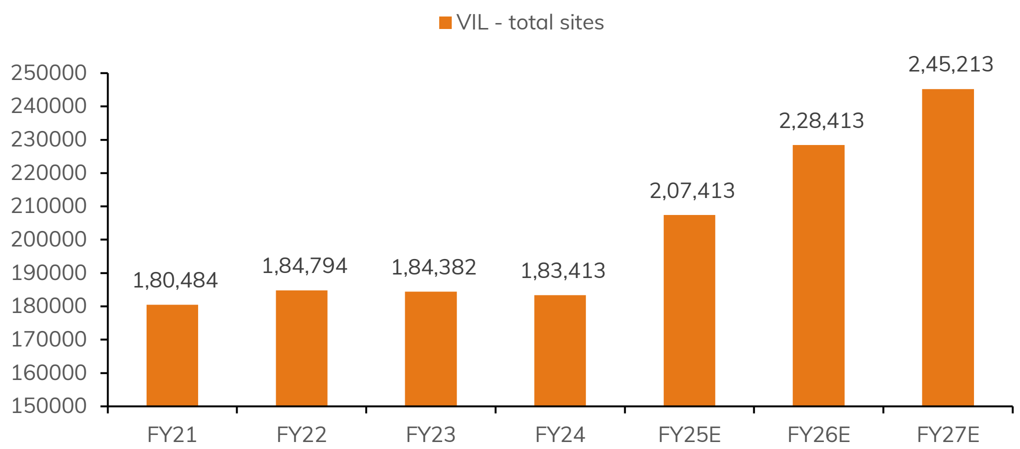
Source: Company data, I-Sec research

Exhibit 7: We are factoring in strong tenancy addition from VIL, which will likely drive net tenancy adds for Indus



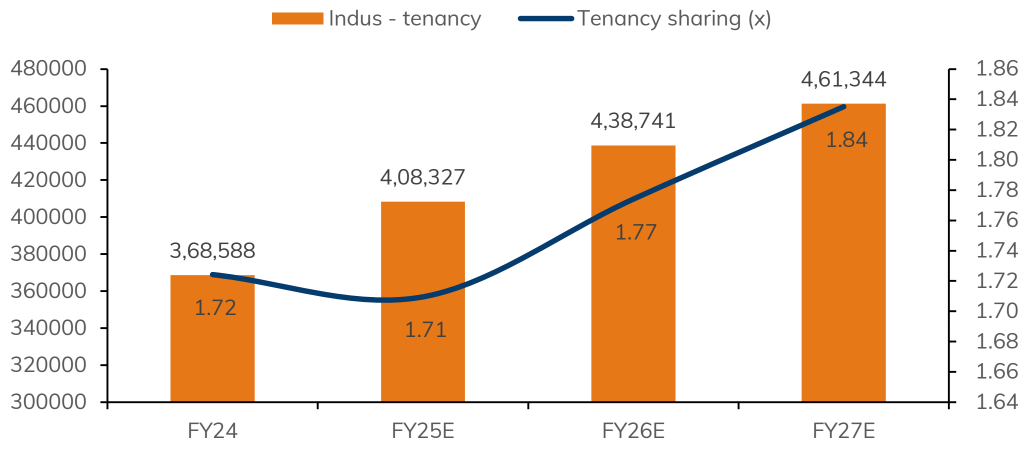
Source: Company data, I-Sec research

Exhibit 8: VIL plans to take total sites to 250k to effectively compete in 4G market



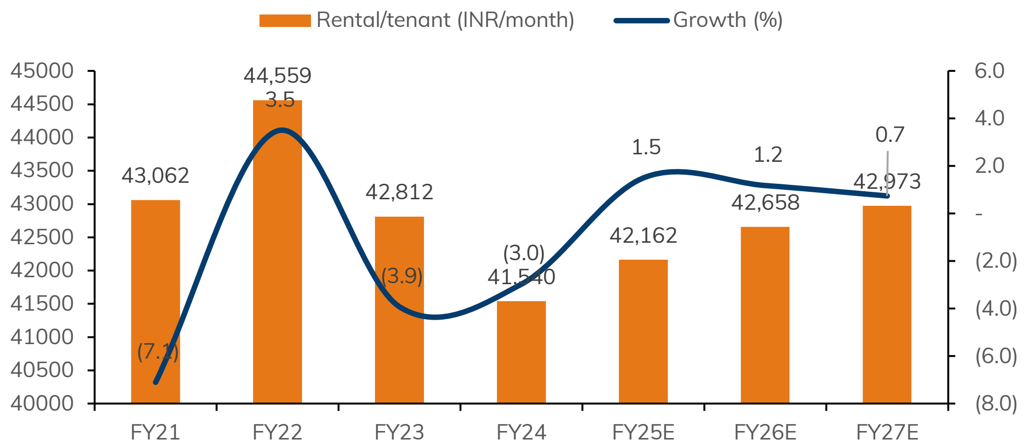
Source: Company data, I-Sec research

Exhibit 9: Indus tenancy sharing ratio expected jump to 1.84x in FY26E



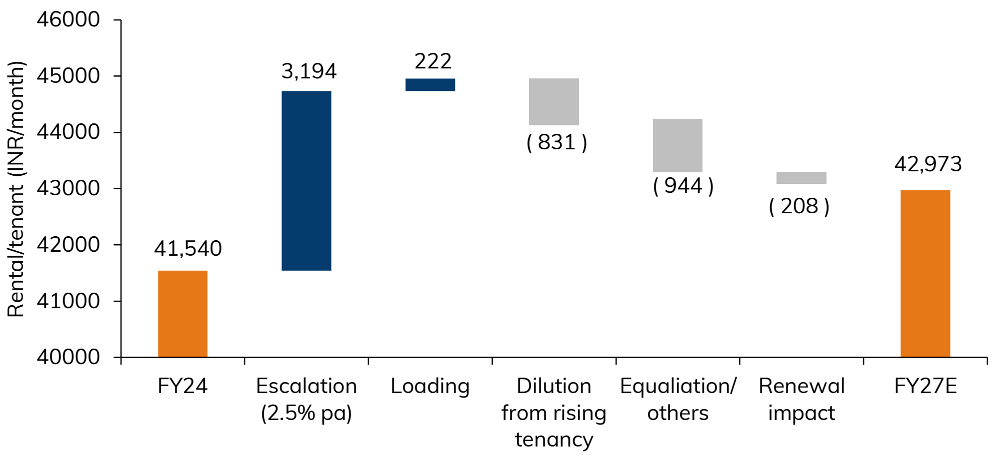
Source: Company data, I-Sec research

Exhibit 10: Rental/tenant will grow slow, at a CAGR of just 1.1% over FY24–27E



Source: Company data, I-Sec research

Exhibit 11: Rental/tenant is dragged by equalisation, renewal and higher sharing factor



Source: Company data, I-Sec research

Exhibit 12: Indus' cash EBITDA expected to grow at CAGR of 9.7% over FY24–27E

INR mn	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	CAGR (%) FY24-27E
Revenue								
Rent	1,63,691	1,76,065	1,74,317	1,77,314	1,96,536	2,16,804	2,32,078	9.4
Rent *(excl one-off)*	1,56,646	1,70,268	1,68,000	1,77,261	1,96,536	2,16,804	2,32,078	
Growth (%)		*8.7*	*(1.3)*	*5.5*	*10.9*	*10.3*	*7.0*	
Reimbursement	93,038	1,01,107	1,09,501	1,08,692	1,22,260	1,37,298	1,50,268	11.4
Total	**2,56,729**	**2,77,172**	**2,83,818**	**2,86,006**	**3,18,796**	**3,54,102**	**3,82,347**	**10.2**
Growth (%)		8.0	2.4	0.8	*11.5*	*11.1*	8.0	
EBITDA	**1,30,969**	**1,49,007**	**96,686**	**1,45,566**	**1,60,649**	**1,79,035**	**1,92,708**	**9.8**
Cash EBITDA	1,02,998	1,20,510	66,408	1,10,832	1,20,861	1,35,561	1,46,264	9.7
EBITDA margin (%)	40.1	43.5	23.4	38.8	37.9	38.3	38.3	
Growth (%)		17.0	*(44.9)*	66.9	9.0	12.2	7.9	
of which								
Rental EBITDA	**1,05,791**	**1,22,062**	**62,815**	**1,13,639**	**1,23,410**	**1,37,742**	**1,47,911**	**9.2**
Margin (% rental rev)	64.6	69.3	36.0	64.1	62.8	63.5	63.7	
Growth (%)		15.4	*(48.5)*	80.9	8.6	*11.6*	*7.4*	
P&F - losses	**(2,793)**	**(1,552)**	**3,593**	**(2,807)**	**(2,549)**	**(2,182)**	**(1,647)**	**(16.3)**
Depreciation	53,394	53,252	53,239	60,599	67,752	72,014	73,474	6.6
EBIT	**77,575**	**95,755**	**43,447**	**84,967**	**92,898**	**1,07,021**	**1,19,235**	**12.0**
Finance cost	16,392	16,033	16,704	18,638	19,324	19,435	19,292	1.2
Other income	5,354	4,585	5,778	14,895	4,895	4,895	4,895	(31.0)
PBT	**66,537**	**84,307**	**32,521**	**81,224**	**78,469**	**92,481**	**1,04,838**	**8.9**
Tax	16,786	20,576	7,193	20,862	19,774	23,305	26,419	8.2
ETR (%)	25.2	24.4	22.1	25.7	25.2	25.2	25.2	
Net profit	**49,751**	**63,731**	**20,400**	**60,362**	**58,694**	**69,176**	**78,419**	**9.1**
EPS (INR)	18.5	23.6	9.0	22.4	21.8	25.7	29.1	9.1
Growth (%)		28.1	(62.0)	149.0	(2.8)	17.9	13.4	

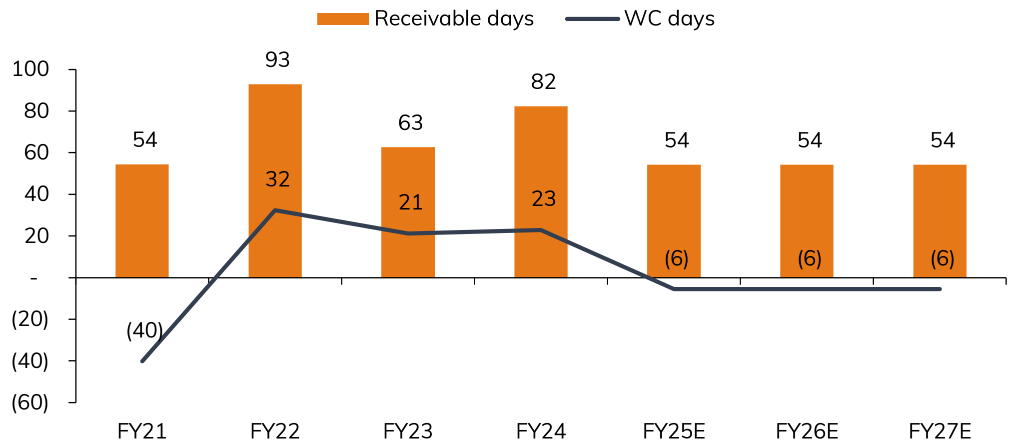
Source: Company data, I-Sec research

Exhibit 13: Indus cashflow will gradually improve with moderation of capex on lower tower net add

INR mn	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	CAGR (%) FY24-27E
CFO	1,20,317	1,25,108	1,23,096	1,20,009	1,37,162	1,53,475	1,65,800	11.4
Change in WC	16,452	(33,896)	(44,048)	(15,938)	7,228	(7,147)	(5,855)	
Lease liability	(27,971)	(29,768)	(30,962)	(34,734)	(39,788)	(43,474)	(46,444)	
CFO after WC	**1,08,798**	**61,444**	**48,086**	**69,337**	**1,04,601**	**1,02,854**	**1,13,501**	**17.9**
Capex	(38,846)	(32,885)	(36,224)	(95,778)	(77,186)	(60,989)	(39,470)	
FCF	**69,951**	**28,559**	**11,862**	**(26,441)**	**27,416**	**41,864**	**74,031**	

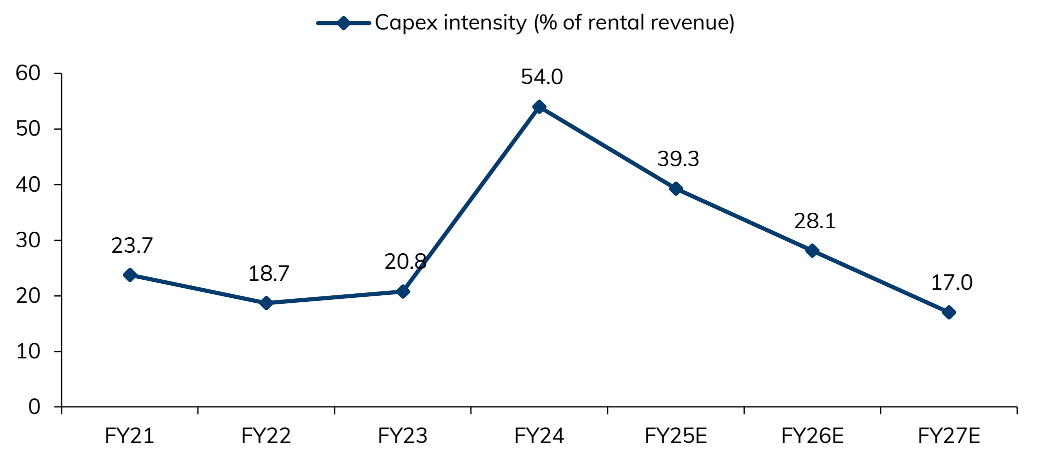
Source: Company data, I-Sec research

Exhibit 14: Working capital days to remain stable at normalised levels, as VIL is paying 100% of billed invoice



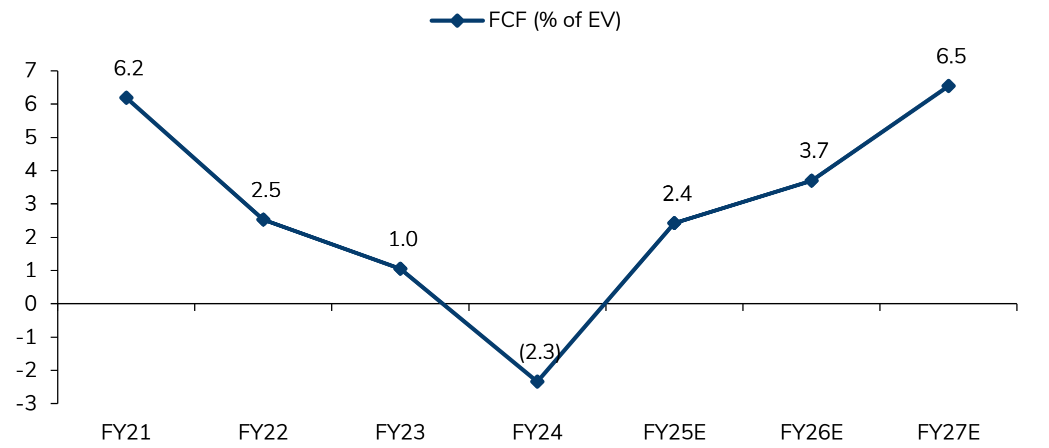
Source: Company data, I-Sec research

Exhibit 15: Capex intensity to materially normalise only in FY27E



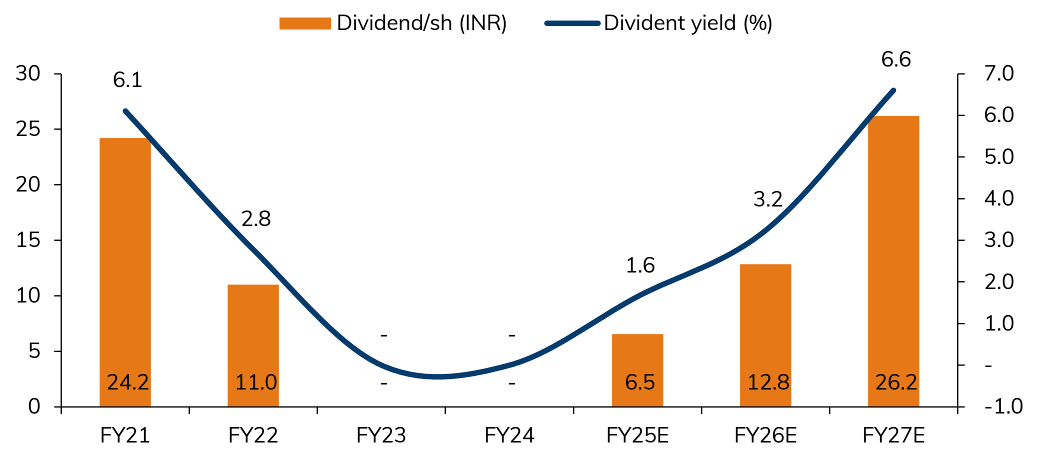
Source: Company data, I-Sec research

Exhibit 16: Full-blown FCF seen only by FY27E



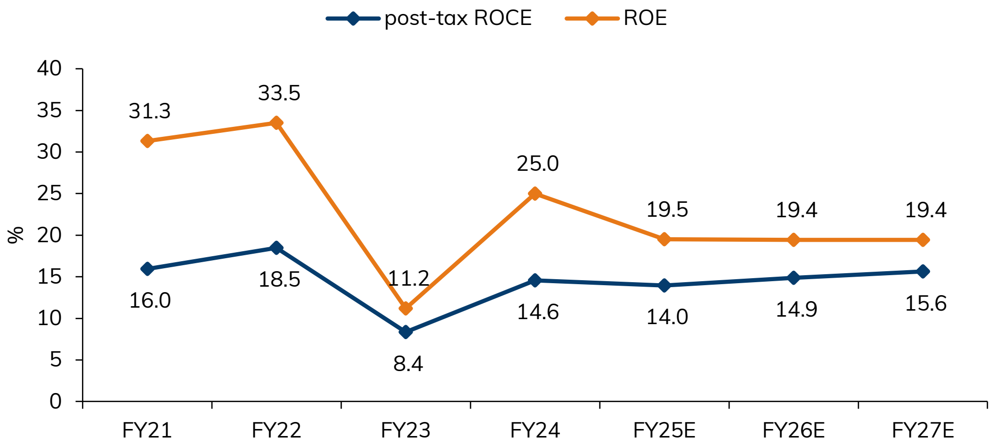
Source: Company data, I-Sec research

Exhibit 17: Dividend also to improve with FCF generation



Source: Company data, I-Sec research

Exhibit 18: Return ratio are expected to be stable



Source: Company data, I-Sec research

Exhibit 19: 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 20: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 21: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	2,83,818	2,86,006	3,18,796	3,54,103
Operating Expenses	**1,87,132**	**1,40,440**	**1,58,146**	**1,75,068**
EBITDA	96,686	1,45,566	1,60,649	1,79,035
EBITDA Margin (%)	**3,406.6**	**5,089.6**	**5,039.3**	**5,056.0**
Depreciation & Amortization	53,239	60,599	67,752	72,014
EBIT	43,447	84,967	92,898	1,07,021
Interest expenditure	16,704	18,638	19,324	19,435
Other Non-operating Income	5,778	14,895	4,895	4,895
Recurring PBT	32,521	81,224	78,469	92,481
Profit / (Loss) from Associates	**-**	**-**	**-**	**-**
Less: Taxes	**7,193**	**20,862**	**19,774**	**23,305**
PAT	25,328	60,362	58,694	69,176
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(4,928)	-	-	-
Net Income (Reported)	20,400	60,362	58,694	69,176
Net Income (Adjusted)	**25,328**	**60,362**	**58,694**	**69,176**

Source Company data, I-Sec research

Exhibit 22: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	1,03,323	1,33,371	1,33,193	1,53,679
of which cash & cash eqv.	224	7,395	19,536	29,717
Total Current Liabilities & Provisions	57,063	58,254	62,071	65,583
Net Current Assets	**46,260**	**75,116**	**71,121**	**88,096**
Investments	2,756	2,756	2,756	2,756
Net Fixed Assets	3,27,382	3,84,829	4,19,897	4,36,882
ROU Assets	-	-	-	-
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	-	-	-	-
Other assets	20,045	22,068	32,485	35,799
Deferred Tax Assets	-	-	-	-
Total Assets	**3,90,726**	**4,76,190**	**5,19,885**	**5,56,452**
Liabilities				
Borrowings	**1,91,849**	**2,16,849**	**2,01,849**	**1,86,849**
Deferred Tax Liability	**(12,218)**	**(12,218)**	**(12,218)**	**(12,218)**
Provisions	-	-	-	-
Other Liabilities	5,717	8,580	6,376	7,082
Equity Share Capital	26,949	26,949	26,949	26,949
Reserves & Surplus	1,84,146	2,44,610	3,03,305	3,54,872
Total Net Worth	**2,11,095**	**2,71,559**	**3,30,254**	**3,81,821**
Minority Interest	-	-	-	-
Total Liabilities	**3,90,726**	**4,76,190**	**5,19,885**	**5,56,452**

Source Company data, I-Sec research

Exhibit 23: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep- 23	Dec- 23	Mar- 24
Net Sales	70,759	71,325	71,990	71,932
% growth (YOY)	2.6	(10.5)	6.4%	7.7
EBITDA	34,795	34,215	35,840	40,716
Margin %	49.2	48.0	49.8	56.6
Other Income	1,330	3,094	6,017	4,454
Extraordinaries	-	-		
Adjusted Net Profit	13,479	12,947	15,405	18,531

Source Company data, I-Sec research

Exhibit 24: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	**1,23,096**	**1,20,009**	**1,37,162**	**1,53,475**
Working Capital Changes	(44,048)	(15,938)	7,228	(7,147)
Capital Commitments	(36,226)	(95,778)	(77,186)	(60,989)
Free Cashflow	**42,822**	**8,293**	**67,204**	**85,338**
Other investing cashflow	**18,926**	**14,895**	**4,895**	**4,895**
Cashflow from Investing Activities	18,926	14,895	4,895	4,895
Issue of Share Capital	-	(1)	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(29,638)	-	-	(17,608)
Others	(41,688)	(16,016)	(59,958)	(62,444)
Cash flow from Financing Activities	(71,326)	(16,017)	(59,958)	(80,052)
Chg. in Cash & Bank balance	**(9,578)**	**7,171**	**12,141**	**10,181**
Closing cash & balance	224	7,395	19,536	29,717

Source Company data, I-Sec research

Exhibit 25: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	7.6	22.4	21.8	25.7
Adjusted EPS (Diluted)	9.4	22.4	21.8	25.7
Cash EPS	27.3	44.9	46.9	52.4
Dividend per share (DPS)	-	-	6.5	12.8
Book Value per share (BV)	78.3	100.8	122.5	141.7
Dividend Payout (%)	-	-	30.0	50.0
Growth (%)				
Net Sales	2.4	0.8	11.5	11.1
EBITDA	(35.1)	50.6	10.4	11.4
EPS (INR)	(68.0)	195.9	(2.8)	17.9
Valuation Ratios (x)				
P/E	52.4	17.7	18.2	15.4
P/CEPS	14.5	8.8	8.5	7.6
P/BV	5.1	3.9	3.2	2.8
EV / EBITDA	10.2	6.9	6.1	5.3
EV / Sales	3.5	3.5	3.1	2.7
Dividend Yield (%)	-	-	1.6	3.2
Operating Ratios				
Gross Profit Margins (%)	-	-	-	-
EBITDA Margins (%)	34.1	50.9	50.4	50.6
Effective Tax Rate (%)	22.1	25.7	25.2	25.2
Net Profit Margins (%)	8.9	21.1	18.4	19.5
NWC / Total Assets (%)	11.8	15.8	13.7	15.8
Net Debt / Equity (x)	0.2	0.2	0.1	0.0
Net Debt / EBITDA (x)	0.5	0.4	0.2	0.1
Profitability Ratios				
RoCE (%)	8.4	14.6	14.0	14.9
RoE (%)	11.7	25.0	19.5	19.4
RoIC (%)	8.7	14.8	14.4	15.7
Fixed Asset Turnover (x)	0.9	0.7	0.8	0.8
Inventory Turnover Days	-	-	-	-
Receivables Days	62.6	82.3	54.3	54.3
Payables Days	41.4	59.3	59.8	59.8

Source Company data, I-Sec research

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