

HOLD Indus Towers

Your success is our success

Demand outlook positive; Proxy play to any positive news on Vi

Telecommunications ▶ Company Update ▶ November 3, 2023

TARGET PRICE (Rs): 195

Indus Towers' (Indus) stock rallied ~10% last week. This was led by a combination of (i) impressive tower and tenancy additions by Indus in Q2; and (ii) Vodafone Idea's mgmt. emphasizing that equity funding is likely to be closed in this quarter. However, provisioning against receivables from Vi continues for Indus, as there was a provision of doubtful debt of Rs1,335mn in Q2, which impacted EBITDA. We believe Indus is a better proxy to play any news around a fundraise by Vi, as Vi is one of the key clients of Indus. Vi's fundraise will alleviate Indus's concerns on: i) high receivables from Vi and ii) sustainability of long-term demand from Vi. Moreover, Vi has huge pending dues payable to the govt. from FY27, which exposes Vi's investors to equity-dilution risk, if dues are converted to equity. Indus has no such risk.

Indus Towers: Financial Snapshot (Consolidated)

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	2,71,699	2,72,818	2,86,163	2,99,071	3,09,913
EBITDA	1,43,534	85,686	1,39,355	1,47,816	1,55,014
Adj. PAT	57,289	13,755	52,020	55,344	58,118
Adj. EPS (Rs)	23.3	7.6	19.3	20.5	21.6
EBITDA margin (%)	52.8	31.4	48.7	49.4	50.0
EBITDA growth (%)	9.6	(40.3)	62.6	6.1	4.9
Adj. EPS growth (%)	26.2	(67.5)	155.0	6.4	5.0
RoE (%)	30.1	6.4	24.9	28.4	31.9
RoIC (%)	18.0	5.3	14.6	16.1	18.0
P/E (x)	8.9	37.3	9.9	9.3	8.8
EV/EBITDA (x)	4.8	8.2	5.1	4.9	4.5
P/B (x)	2.3	2.4	2.5	2.8	2.8
FCFF yield (%)	(0.4)	1.2	4.5	7.7	10.4

Source: Company, Emkay Research

We see reduced cash constraint for Vi till H1FY26 on promoter's fund infusion

At Q2FY24-end, Indus's trade receivables were Rs61.9bn, mostly related to Vi. Besides this, Indus has already provisioned ~Rs56bn in the last six quarters. We believe the promoter's Rs20bn financial support, when received, will reduce cash constraint for Vi till H1FY26, as bank debt obligation for Vi reduces post-Q4FY24. Vi's bank debt at the end of Q2FY24 stood at Rs79bn and its bank debt will be ~Rs37bn at the end of Q4FY24. From Q1FY25, the company's debt servicing burden is expected to reduce, i.e., Rs5bn in Q1FY25 and Rs9bn in Q2FY25, as per our estimates. We believe Vi's internal accruals will be sufficient to make essential payments till H1FY26, before the moratorium ends (exhibit 9). During this period, we assume capex at Q1FY24 levels (Rs4.5bn per quarter or Rs18bn per year, with no 5G rollout). We also assume refinancing of Rs15bn of debt in FY24E to meet cash shortfall (in case there is no external equity or debt funding). We assume this debt to be repaid in FY25. We have excluded payments related to working capital from our analysis. Any surplus cash generated or funds from investors can be used for repayment for vendors (including Indus) and for 5G capex.

Outlook remains positive for Indus

Demand for new towers from rural expansion and densification in urban areas remains robust. Indus is witnessing good demand from one of its key customers (Bharti Airtel) for rural expansion and densification in urban areas. Further, 5G will require tower densification once the 5G rollout is largely complete, which will add to demand. Mgmt. expects the demand movement to remain healthy for the next two quarters at least, led by rural expansion, densification of urban areas and 5G rollouts. Order book is strong, as per the company. However, we see challenges for Indus, with respect to outstanding receivables from Vi, if Vi fails to raise funds or if there is no tariff hike. We see revenue growing at a muted 4% CAGR over FY23-26 amid limited capex by Vi. Indus also faces competition from other players like Summit Digitel. Our DCF-based TP stands at Rs195/share. We maintain our HOLD rating on the stock.

Target Price – 12M	Sep-24
Change in TP (%)	NA
Current Reco.	HOLD
Previous Reco.	HOLD
Upside/(Downside) (%)	2.6
CMP (02-Nov-23) (Rs)	190.2

Stock Data	Ticker
52-week High (Rs)	206
52-week Low (Rs)	135
Shares outstanding (mn)	2,694.9
Market-cap (Rs bn)	512
Market-cap (USD mn)	6,155
Net-debt, FY24E (Rs mn)	1,99,599
ADTV-3M (mn shares)	9
ADTV-3M (Rs mn)	1,695.0
ADTV-3M (USD mn)	20.4
Free float (%)	-
Nifty-50	19,133
INR/USD	83.3
Shareholding, Sep-23	
Promoters (%)	69.0
FPIs/MFs (%)	21.4/6.7

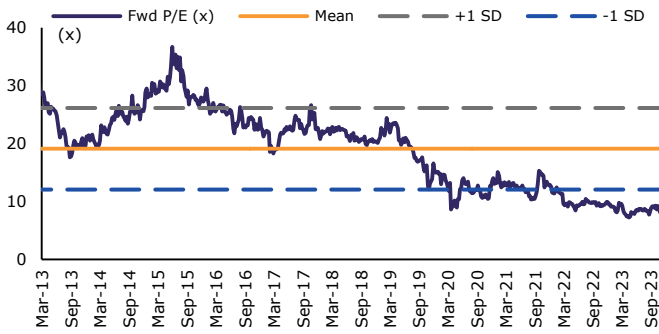
Price Performance

(%)	1M	3M	12M
Absolute	(0.8)	12.0	2.8
Rel. to Nifty	1.8	14.3	(2.9)

1-Year share price trend (Rs)**Santosh Sinha**santosh.sinha@emkayglobal.com
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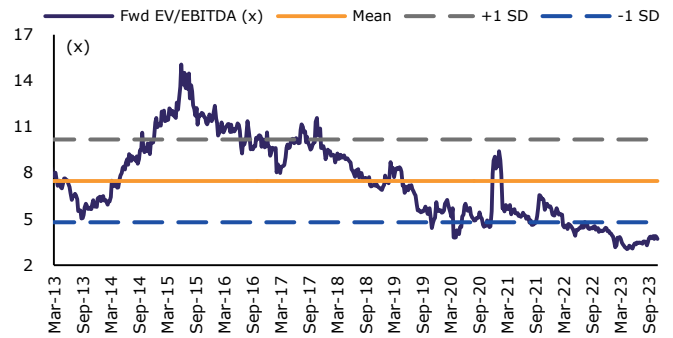
Valuation multiples look attractive

Exhibit 1: One-year forward P/E (x)



Source: Bloomberg

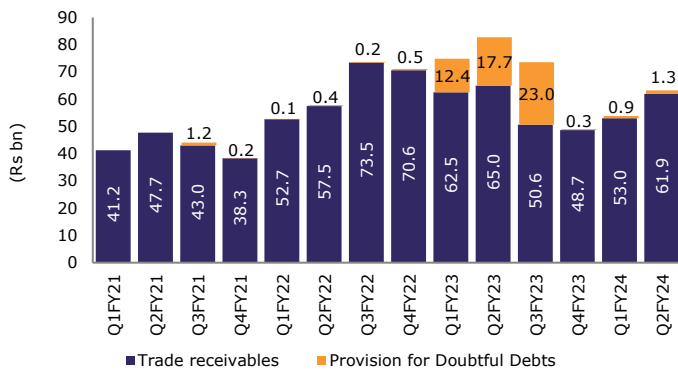
Exhibit 2: One-year forward EV/EBITDA (x)



Source: Bloomberg

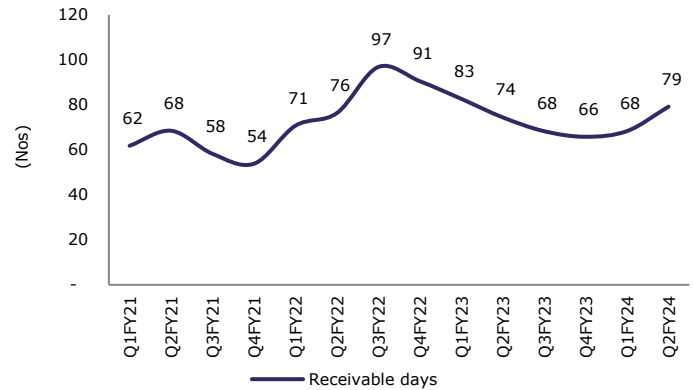
Receivables remain high despite provisioning related to Vi

Exhibit 3: Provisioning for doubtful debt and trade receivables is again up in Q2FY24 for Indus



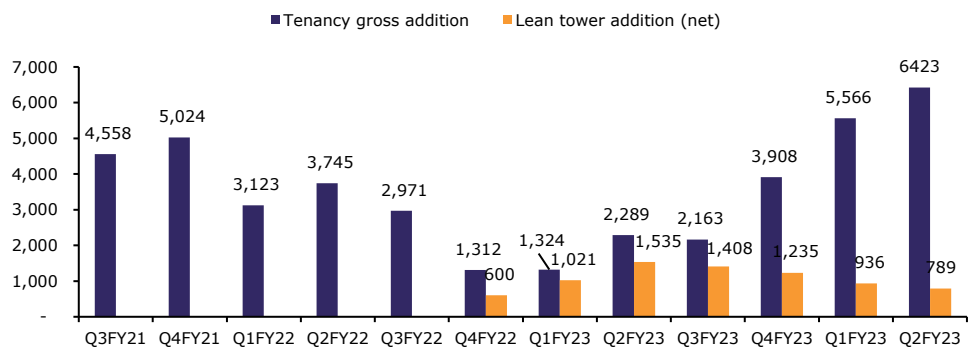
Source: Company, Emkay Research

Exhibit 4: The number of receivable days increased despite provisioning



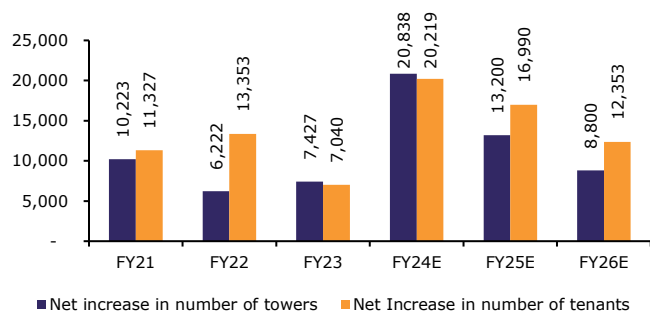
Source: Company, Emkay Research

Exhibit 5: Tenancy gross addition has picked up pace for Indus



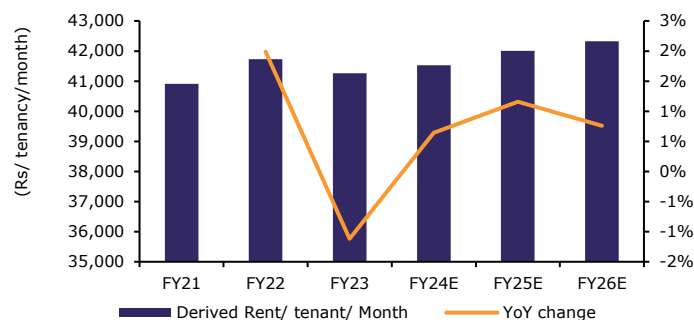
Source: Company, Emkay Research

Exhibit 6: Our forecast of tower and tenancy additions for Indus



Source: Company, Emkay Research

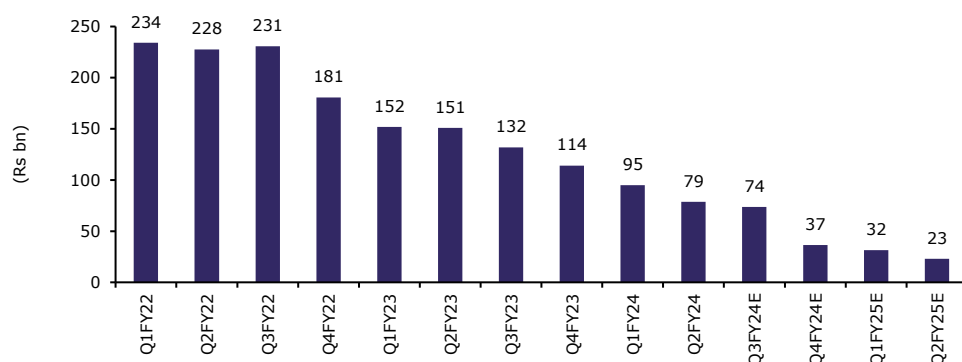
Exhibit 7: Rent per tenant per month



Source: Company, Emkay Research

Bank debt declining for Vi; promoter fund infusion to reduce cash constraint

Exhibit 8: Bank debt burden decreasing for Vi



Source: Company, Emkay Research

Exhibit 9: Cash position to improve for Vi, post funding by the Promoter

(Rs bn)	FY24E	FY25E	H1FY26	FY24-H1FY26
Reported EBITDA	169	183	102	453
Adjustment for IndAS-116	82	86	45	213
Cash EBITDA	87	96	57	240
Infusion by promoters*	20			20
Payment for spectrum dues	(18)	(18)	(18)	(55)
Bank debt repayment	(77)	(37)	-	(114)
Assumed refinancing	15	(15)		-
Interest repayment on bank loan	(7)	(2)	0	(10)
Capex (annualizing Q1FY24 capex)	(18)	(18)	(9)	(45)
Cash surplus (shortfall)	1	6	29	36

Source: Company, Emkay Research; Note: *Still awaited

Indus Towers: Consolidated Financials and Valuations

Profit and Loss					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	2,71,699	2,72,818	2,86,163	2,99,071	3,09,913
Revenue growth (%)	5.8	0.4	4.9	4.5	3.6
EBITDA	1,43,534	85,686	1,39,355	1,47,816	1,55,014
EBITDA growth (%)	9.6	(40.3)	62.6	6.1	4.9
Depreciation & Amortization	54,221	53,812	60,858	62,877	64,895
EBIT	89,313	31,874	78,496	84,939	90,119
EBIT growth (%)	15.1	(64.3)	146.3	8.2	6.1
Other operating income	0	0	0	0	0
Other income	3,525	3,613	3,200	3,600	4,000
Financial expense	14,973	14,539	11,746	14,580	16,453
PBT	77,865	20,948	69,950	73,960	77,667
Extraordinary items	5,473	6,645	0	0	0
Taxes	20,576	7,193	17,930	18,616	19,549
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	62,762	20,400	52,020	55,344	58,118
PAT growth (%)	26.2	(67.5)	155.0	6.4	5.0
Adjusted PAT	57,289	13,755	52,020	55,344	58,118
Diluted EPS (Rs)	23.3	7.6	19.3	20.5	21.6
Diluted EPS growth (%)	26.2	(67.5)	155.0	6.4	5.0
DPS (Rs)	11.0	0.0	5.0	6.0	6.0
Dividend payout (%)	47.2	0.0	25.9	29.2	27.8
EBITDA margin (%)	52.8	31.4	48.7	49.4	50.0
EBIT margin (%)	32.9	11.7	27.4	28.4	29.1
Effective tax rate (%)	26.4	34.3	25.6	25.2	25.2
NOPLAT (pre-IndAS)	65,712	20,929	58,376	63,560	67,436
Shares outstanding (mn)	2,694.9	2,694.9	2,694.9	2,694.9	2,694.9

Source: Company, Emkay Research

Cash Flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	77,865	20,948	69,950	73,960	77,667
Others (non-cash items)	0	0	0	0	0
Taxes paid	(20,576)	(7,193)	(17,930)	(18,616)	(19,549)
Change in NWC	(53,399)	(890)	(2,070)	(2,723)	(2,130)
Operating cash flow	51,281	69,162	93,897	97,614	1,02,070
Capital expenditure	(53,531)	(61,146)	(64,060)	(45,907)	(35,569)
Acquisition of business	6,193	13,765	0	0	0
Interest & dividend income	585	585	585	585	585
Investing cash flow	(43,813)	(43,768)	(60,860)	(42,307)	(31,569)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(6,564)	(4,709)	21,018	10,732	10,736
Payment of lease liabilities	8,273	3,033	1,018	732	736
Interest paid	(14,973)	(14,539)	(11,746)	(14,580)	(16,453)
Dividend paid (incl tax)	(29,644)	0	(13,475)	(16,169)	(16,169)
Others	1,41,836	(8,938)	(10,387)	(14,799)	(14,799)
Financing cash flow	90,655	(28,186)	(14,590)	(34,816)	(36,685)
Net chg in Cash	98,123	(2,792)	18,447	20,492	33,816
OCF	51,281	69,162	93,897	97,614	1,02,070
Adj. OCF (w/o NWC chg.)	(2,118)	68,272	91,827	94,891	99,940
FCFF	(2,250)	8,016	29,837	51,707	66,501
FCFE	(16,638)	(5,938)	18,676	37,713	50,633
OCF/EBITDA (%)	35.7	80.7	67.4	66.0	65.8
FCFE/PAT (%)	(26.5)	(29.1)	35.9	68.1	87.1
FCFF/NOPLAT (%)	(3.4)	38.3	51.1	81.4	98.6

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	26,949	26,949	26,949	26,949	26,949
Reserves & Surplus	1,94,556	1,84,146	1,79,390	1,56,138	1,53,960
Net worth	2,21,505	2,11,095	2,06,339	1,83,087	1,80,909
Minority interests	0	0	0	0	0
Deferred tax liability (net)	918	0	0	0	0
Total debt	1,97,260	1,92,551	2,13,569	2,24,301	2,35,037
Total liabilities & equity	4,19,683	4,03,646	4,19,907	4,07,388	4,15,946
Net tangible fixed assets	3,19,696	3,27,151	3,29,834	3,12,580	2,82,970
Net intangible assets	352	231	750	1,034	1,318
Net ROU assets	1,09,210	1,09,210	1,09,210	1,09,210	1,38,153
Capital WIP	1,787	3,546	3,546	3,546	3,546
Goodwill	352	231	750	1,034	1,318
Investments [JV/Associates]	16,521	2,756	2,756	2,756	2,756
Cash & equivalents	9,802	224	11,214	12,941	48,695
Current assets (ex-cash)	1,33,305	1,35,362	1,42,659	1,48,418	1,53,098
Current Liab. & Prov.	59,993	62,078	67,305	70,341	72,891
NWC (ex-cash)	73,312	73,284	75,354	78,077	80,207
Total assets	4,19,683	4,03,646	4,19,907	4,07,388	4,15,946
Net debt	1,70,937	1,89,571	1,99,599	2,08,604	1,83,587
Capital employed	4,19,683	4,03,646	4,19,907	4,07,388	4,15,946
Invested capital	3,91,573	3,97,120	4,02,392	3,88,145	3,60,949
BVPS (Rs)	82.2	78.3	76.6	67.9	67.1
Net Debt/Equity (x)	0.8	0.9	1.0	1.1	1.0
Net Debt/EBITDA (x)	1.2	2.2	1.4	1.4	1.2
Interest coverage (x)	0.2	0.4	0.1	0.2	0.2
RoCE (%)	23.7	8.6	19.8	21.4	22.9

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	8.9	37.3	9.9	9.3	8.8
P/CE(x)	4.1	6.8	4.1	3.9	3.7
P/B (x)	2.3	2.4	2.5	2.8	2.8
EV/Sales (x)	2.5	2.6	2.5	2.4	2.2
EV/EBITDA (x)	4.8	8.2	5.1	4.9	4.5
EV/EBIT(x)	7.0	20.3	8.4	7.9	7.1
EV/IC (x)	1.6	1.6	1.6	1.7	1.8
FCFF yield (%)	(0.4)	1.2	4.5	7.7	10.4
FCFE yield (%)	(3.6)	(1.3)	4.1	8.2	11.0
Dividend yield (%)	5.8	0.0	2.6	3.2	3.2
DuPont-RoE split					
Net profit margin (%)	21.1	5.0	18.2	18.5	18.8
Total asset turnover (x)	0.7	0.7	0.7	0.7	0.8
Assets/Equity (x)	2.1	1.9	2.0	2.1	2.3
RoE (%)	30.1	6.4	24.9	28.4	31.9
DuPont-RoIC					
NOPLAT margin (%)	24.2	7.7	20.4	21.3	21.8
IC turnover (x)	0.7	0.7	0.7	0.8	0.8
RoIC (%)	18.0	5.3	14.6	16.1	18.0
Operating metrics					
Core NWC days	98.5	98.0	96.1	95.3	94.5
Total NWC days	98.5	98.0	96.1	95.3	94.5
Fixed asset turnover	0.6	0.6	0.6	0.5	0.5
Opex-to-revenue (%)	47.2	68.6	51.3	50.6	50.0

Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
26-Oct-23	170	195	Hold	Santosh Sinha
28-Jul-23	174	185	Hold	Santosh Sinha
05-May-23	152	160	Hold	Santosh Sinha

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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