Earnings Conference Call Transcript

Event: Indus Towers Limited Third Quarter Ended December 31, 2023 Earnings Call

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Transcript of Indus Towers Limited Third Quarter Ended December 31, 2023 Earnings Conference Call

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PRESENTATION

Vandana – Moderator

Good afternoon, ladies and gentlemen. I am Vandana, the moderator for this conference. Welcome to the Indus Towers Limited Third Quarter ended December 31, 2023, Earnings Call. For the duration of the presentation all participant lines will be in the listen-only mode. After the presentation the question-and-answer session will be conducted for all the participants on this call. In case of a natural disaster the conference call will be terminated post an announcement. Present with us on the call today is the senior leadership team of Indus Towers. Before I hand over the call, I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risks that we face. I will now hand over the call to our first speaker of the day, Mr. Prachur Shah. Thank you and over to you Mr. Sah!

Mr. Prachur Sah – MD & CEO- Indus Towers Limited

Thank you Vandana and a very warm welcome to all participants. Joining me today are my colleagues, Mr. Vikas Poddar, CFO, Mr. Tejinder Kalra, COO and Mr. Dheeraj Agarwal, Head Investor Relations on the call. I am pleased to present our business performance for the quarter ended December 31, 2023.

This month marks the completion of my first year at Indus and I am truly honored to be a part of such a great organization and contribute to its commitment towards 'Putting India First'.

Coming to the quarter, in line with the trajectory of the previous few quarters, we are proud to have delivered the highest ever tower additions in our history. This momentum continues to be underpinned by strong demand from one of our major customers, especially in rural areas. Another update is that the collection from one of our major customers slightly improved in Q3 with some collection against the past overdue.

Before I apprise you of the developments within the key facets of business, I would like to take a moment to acknowledge and appreciate the contribution of our field force, as they continue to work relentlessly towards Indus' goal of enabling Pan-India connectivity. During the quarter, our teams on the ground overcame formidable geographical challenges to install 13 solar-powered towers in Ladakh's Zanskar Valley. Being situated at 7,700 meters above sea level, the team enabled connectivity along the entire 250-kilometer-long route.

Moving to the regulatory landscape, the Government continues to take steps to help accelerate the rollout of telecom infrastructure in the country, while being cognizant of the environmental aspect. During the quarter, the landmark Telecommunications Bill was passed in Parliament, and we are optimistic that its progressive provisions will help maintain a robust telecom network. The recognition of telecom infrastructure as Critical Telecom Infrastructure ensures network security with punitive consequences for damage, which is a commendable aspect. Additionally, we remain hopeful that this bill will play an important role in eliminating the burden of multiple levies, taxes, and Right of Way (RoW) challenges, while ensuring uniformity across the diverse landscape of India and promoting ease of doing business.

After the Green Open Access policy was notified in the September quarter by the Ministry of Power, the same has been adopted by Karnataka, Madhya Pradesh, Maharashtra, Punjab and Uttarakhand. Additionally, the composite billing scheme for multiple power connections, which was introduced a couple of quarters back has been adopted in Madhya Pradesh and select DISCOMs of Rajasthan and Uttar Pradesh amongst others.

Moving on to 5G, rollouts by the top two operators continue to proceed at an accelerated pace with 5G services now available to customers located across the country. The industry-wide total number of 5G Base Transceiver Stations or BTS deployed stands at almost 400,000 with more than 7,000 BTS being deployed per week in November. Therefore, we continue to see good traction in our loading revenues. We expect the 5G loading revenues to be gradually supplemented by a demand for new sites once a certain penetration level is achieved to aid the network decongestion. Given our expertise in the passive infrastructure space, we believe that we are well placed to capitalize on these opportunities.

The swift deployment of 5G infrastructure is expected to be complemented by a rapid uptake of 5G by the end consumer as well, as per statistics mentioned in the Ericsson Mobility Report. As per the report, the 5G subscriptions are expected to reach 860 million in India and over 5.3 billion globally by 2029. During the September quarter, global 5G subscriptions grew by 163 million compared to the 110 million additions in the corresponding quarter of the previous year, and have touched 1.4 billion.

The rapid uptake of 5G in conjunction with the ongoing migration of users from 2G to 4G is providing a boost to data consumption within the country. For the top three operators, the total data consumption grew by 23% year-on-year in the September quarter and the average data consumed per user per month grew by 14% year-on-year to 23.6 GB in the same period. The robust data consumption story coupled with the swift uptake of 5G is expected to spur the demand for passive infrastructure, and we remain well positioned to address this demand.

In terms of the operational performance for Q3, we are excited to have recorded the highest ever tower additions in our history as I alluded to earlier. Please note that during Q3 FY2024, we increased our macro tower and co-location additions more than five times compared to our additions in Q3 FY2023. We managed to add 7,563 macro towers and 7,217 corresponding co-locations underpinned by robust demand from one of our major customers coupled with our efforts towards significantly increasing our share in the business of this customer. Total macro towers and co-locations at the end of Q3 stood at 211,775 and 360,679 respectively, each growing by 11.8% and 6.3% on year-on-year basis. Our industry-leading tenancy ratio stands at 1.70.

Co-location additions on our leaner tower was the highest in the four quarters at 1,351 in Q3 and the overall base increased to 9,994 co-locations. Including leaner towers, our net co-location additions were at 8,568 in Q3 as against 6,372 in Q2.

Shifting now to a progress update on our four key strategic priorities namely market share, cost efficiency, network uptime and sustainability.

Firstly, regarding the market share, as I had mentioned earlier our quarterly macro and co-location additions increased more than five times over the same period last year. This indicates a significant improvement in our share in the business of our major customer who has been rolling out extensively. The proactive measures we have been taking to cater to this huge demand for tower additions have helped us increase our share. Our robust partner ecosystem coupled with meticulous resource planning and continuous product harmonization has helped us improve the time-to-market of our products further. These efforts continue to be supplemented by digital interventions we have been implementing. We expect our major customer to continue with the rollouts in rural areas in the near future and we are confident of being its preferred and trusted partner for its network expansion.

Secondly, on cost efficiency, our initiatives towards reducing our operating and capital expenses have continued in Q3 as well. Diesel accounts for a large part of our operating costs and we have been constantly reducing diesel consumption despite the increase in energy requirement from the addition of new sites and 5G equipment. We reduced our diesel consumption by 7% year-on-year in Q3 through ongoing measures including use of renewable energy, electrification of non-electrified sites and operational efficiencies. We are accelerating the addition of solar sites every quarter and we added more than 3,300 solar sites in Q3.

Regarding capex, our sharp focus on product standardization and resource efficiency is helping us optimize our spend per site. Negotiating with vendors and reusing existing infrastructure after redesigning it for upgrade activities are also under focus to keep a check on the cost.

Thirdly, on network uptime, which is an important aspect for the customer, we managed to deliver a higher uptime of 99.97% despite challenging weather conditions including cyclones and heavy rains in the areas of Tamil Nadu, Andhra Pradesh and West Bengal. The determination of our field forces coupled with our robust response framework for adversity go a long way towards delivering such performance.

Moving on to ESG, which is a key focus area for the Company. We are pleased to see that we continue to make steady progress within each dimension of ESG.

With regards to the Environmental aspect, our initiatives towards reducing our GHG emissions continue to bear fruit. We have been increasingly using cleaner sources of energy to power our sites. We have significantly increased our solar sites to 6,665 from 1,496 at the beginning of the year. As I mentioned earlier, the continuous reduction in diesel consumption is helping us reduce our emissions. We are also taking steps to promote the use of ecofriendly solutions in our transportation activities and employee travel.

On the social front, our resolute approach towards improving gender diversity is yielding impressive results, given it has increased to 11.3% from 6.3% at the beginning of the year. Our focused hiring programs across levels and locations, policy interventions and a conducive and inclusive working environment are helping us attract and retain female employees.

Ensuring the health and safety of our employees and partners remains at the forefront of our thinking and to this end, we launched an electrical and road safety campaign during the quarter to create awareness for safe practices among our field force. We have also been providing ESG training to our workforce including partners to inculcate a behavioral change among our people.

I would now request Vikas to take you through our financial performance for the quarter ended December 31, 2023, and I look forward to your questions. Over to you Vikas! Thank you.

Mr. Vikas Poddar– CFO – Indus Towers Limited

Thank you, Prachur, and good afternoon everyone. I am pleased to share with you all the financial results for the quarter ended December 31, 2023.

I will briefly touch upon our operational performance before moving to financials, a strong addition of 8,568 co-locations including those on leaner towers have really helped the overall financial performance of the Company.

Coming to the financial performance for Q3 FY2024, total revenues increased by 6.4% year-on-year to Rs. 72 billion wherein the core revenues from rental grew by 7.3% year-on-year to Rs. 44.8 billion. On a quarter-on-quarter basis, our reported gross revenue and core revenue from rentals were up by 0.9% and 3.2% respectively. The core revenue quarter-on-quarter growth was also aided by the base effect of deferment of revenue recognition for a transaction in the last quarter.

In terms of profitability, our reported EBITDA increased by over 2x year-on-year and 4.8% quarter-on-quarter to Rs. 36.2 billion. EBITDA margin increased by 32.8 percentage points year-on-year and 1.9 percentage points quarter-on-quarter to 50.3%. Please note that the EBITDA of Q3 last year was impacted by provision for doubtful debts of Rs. 22.7 billion. With regard to the provision for doubtful debts of Rs. 0.6 billion reported in the current quarter, I would like to explain the transaction with a major customer and the treatment of the same in the books. We have collected and recognized Rs. 3 billion against the past overdue in addition to the 100% monthly collection which resulted in reversal of provision for doubtful debts of the same amount. Additionally, we have adjusted a part of the monthly collection with interest receivable to the extent of Rs. 3.3 billion during the quarter. That has resulted in an increase in interest income in the quarter and correspondingly a similar amount of provision for doubtful debts has been created. The reported provision for doubtful debts in the books hence reflects the net effect of the additional provision created and the reversal of Rs. 3 billion. Normalized for provision for a major customer, EBITDA grew by 5.3% year-on-year and 2.4% quarter-on-quarter.

Energy margins were at negative 2.7% in Q3 FY2024 against negative 1.2% in Q3 last year and negative 2.1% in Q2 of FY2024. Given the nature of our energy business, we work on reconciliation with our customers. In Q3 FY2024, we had an impact of a settlement for the past period. After adjusting for the impact, the energy margins are similar to Q2 FY2024. Q3 last year had benefits from reversal of certain provisions. As touched upon by Prachur, we continue to work on reduction in our energy expenses.

Our reported profit after tax grew by 19% quarter-on-quarter to Rs.15.4 billion as against a loss of Rs.7.1 billion in the corresponding quarter of the previous year. Q3 FY2023 PAT was impacted by the substantial provision for doubtful debts and an exceptional item relating to impairment of revenue equalization asset. Please note that with regards to pending matters on entry tax before the courts, we have reassessed our contingent liabilities and based on the views emanating from various judicial bodies, we have provided for them in Q3 FY2024. Accordingly, there is an increase of Rs.1.3 billion in depreciation and Rs. 0.5 billion in interest cost.

In addition to the interest adjustment that I explained earlier overall finance income was also aided by cash interest collection on overdue from a major customer. After normalizing the one-off impacts of provision for doubtful debts, entry tax and impairment of revenue equalization asset, our profit after tax increased by 4.6% year-on-year and 15.8% quarter-on-quarter.

The reported pretax return on capital employed and post-tax return on equity for the rolling 12 months were at 19.2% and 24.8% respectively.

In terms of the cash flows, free cash flow for the quarter was at Rs.8.7 billion despite capex remaining elevated at Rs. 26.5 billion. As I had stated in the last earnings call, subsequent collection of delayed payment for Q2 from a major customer aided the free cash flow in this quarter. The capex continues to be high on account of strong tower additions by one of our major customers. We believe that these investments will aid business growth and help us generate long-term value for the shareholders.

Our trade receivables decreased by Rs.1.7 billion due to higher collections from one of our major customers. The full impact of the higher collection is not reflecting due to some timing differences as Rs.3 billion was collected in January. With regards to the past overdue, we remain in constant discussions with the customer for clearance of the same.

To sum it up, we are pleased to have delivered a robust operational and financial performance during the quarter. In addition to the business growth, the financial performance was also aided by unwinding of the past dues. The strong operational performance was underpinned by an accelerated rollout by one of our major customers in rural areas. We expect its network expansion and 5G rollouts to continue to support our business growth in the near future. I would now request the moderator to open the floor for questions and answers please.

Vandana – Moderator

Thank you very much Sir. We will now begin the question-and-answer interactive session for all the participants who are connected to the audio conference service from Airtel. Due to time constraints, we would request if we could limit the number of questions to two to enable more participation. Hence, management will take only two questions per participant to ensure maximum participation. Participants who wish to ask questions may please press "*" and "1" on their touchtone enabled telephone keypad. On pressing "*" and "1" participants will get a chance to present their questions on a first in line basis. To ask a question participants may please press "*" and "1" now. The first question comes from Mr. Sohan Joshi from Mumbai. Mr. Joshi you may ask your question now.

Mr. Sohan Joshi – Individual Investor/Mumbai

I want to ask what is the status of tower fiberization, have we achieved 100% coverage on tower fiberization?

Mr. Tejinder Kalra - COO – Indus Towers Limited

So Mr Joshi the tower fiberization of course is being done by the operators as of now as per the data available from various sources. Typically, the Indian tower fiberization for most of the customers is in the vicinity of about 30% to 35% so there is still a long way to go for tower fiberization, barring one of the operators which has recently, in the last few years, launched the services. The fiberization is at a little higher level but overall there is still quite a gap.

Mr. Sohan Joshi – Individual Investor/Mumbai

So by what duration are we expecting to cover a larger part of the coverage for the fiberization maybe within two to three years?

Mr. Tejinder Kalra - COO – Indus Towers Limited

I would not like to hazard a guess on this because this is something which is being driven by the operators but all we know is that in the advanced markets where 5G has scaled up pretty much, fiberization eventually needs to go to about anywhere between 80% to 90% for good end user experience. So, I am sure the operators are going to be covering the journey quite fast if they have to give a good experience.

Mr. Sohan Joshi – Individual Investor/Mumbai

My second question is if we closely look at the subscribers' data released by TRAI each month there has been a greater addition by Jio each month so are we witnessing demand of more size from Jio or is the growth mainly coming from Airtel side only?

Mr. Prachur Sah – MD & CEO- Indus Towers Limited

I think on this information we will have limited input to this. I think it is probably just answered by the operators themselves. We do not have any inputs on this matter, per se.

Mr. Sohan Joshi – Individual Investor/Mumbai

Thanks a lot, and just one last question if I may ask if it is possible to take one more question. Once the demand for additional sites stops, are we looking at a broader digital space like data center especially on the enterprise and IT side, demand for the 5G will be more for enterprise, are we then looking for it or maybe a couple of quarters later?

Mr. Prachur Sah – MD & CEO- Indus Towers Limited

As of now it is too early to say. I think but if an opportunity presents itself, we will consider it.

Mr. Tejinder Kalra - COO – Indus Towers Limited

Are you talking about enterprise 5G, is that the question?

Mr. Sohan Joshi – Individual Investor/Mumbai

Yes. Are you looking at a broader digital space once the demand for the additional sites stops, like say data centers and something like that?

Mr. Prachur Sah – MD & CEO- Indus Towers Limited

If you are asking about additional business opportunities, yes we are evaluating that. I will not be specific on this one but we are looking at all the opportunities where we can participate as an infrastructure provider and we will come and let you know.

Sohan Joshi – Individual Investor/Mumbai

Thanks a lot. That is it from my side.

Vandana – Moderator

Thank you very much Mr. Joshi. The next question comes from Mr. Arun Prasath from Avendus Spark/Chennai. Mr Prasath you may ask your question now.

Mr. Arun Prasath - Avendus Spark/Chennai

Good afternoon. Thanks for the opportunity. I have a couple of questions. First of all, the receivables just wanted to understand if the operator is paying, the one with the overdues if he is paying during this quarter will it be first counted towards past pending payments and hence the provisions will be reversed or it will be counted towards the current invoice how do we do that?

Mr. Vikas Poddar– CFO – Indus Towers Limited

As far as the settlement is concerned the payments are basically first accounted towards the old invoices so it basically pretty much largely moves on a FIFO basis.

Mr. Arun Prasath - Avendus Spark/Chennai

FIFO basis, understood. So which means a large part of the reversal on the provisions is because of this accounting type so whatever they have paid in this quarter or this period it is still not crossing certain threshold limit, it is still accounted as a good receivable right?

Mr. Vikas Poddar– CFO – Indus Towers Limited

Yes so, the way we provide is anything which is overdue more than the credit period that is agreed in the MSA is as per our current ECL policy is provided in the books. So if there is any reduction in the receivables because of better collections then that really results in or leads to unwinding of the provisions.

Mr. Arun Prasath - Avendus Spark/Chennai

So if we look at the last I think so far we have provisions close to 5,000 Crores even after reversing of this, so at this point of time what is the kind of levers we have to collect this apart from restricting the access to the operator. Do we have any other levers at this point of time?

Mr. Prachur Sah – MD & CEO- Indus Towers Limited

We are currently working with our customer to see how we can unwind quickly and we have seen some progress now. I think the idea is to see how we can sustain that and unwind the dues. I do not want to talk anything specifically about levers per se but we are working with our customers to make sure that we continuously get paid for what we are doing today and unwinding of the past dues.

Mr. Arun Prasath - Avendus Spark/Chennai

Secondly on the loading revenue because 5G is currently we see most of them are rolling out the 5G but hardly this is reflecting in our sharing revenue data, either on a per operator basis or a per tower basis, this loading revenue is still not reflecting. Is it very insignificant because few quarters before when we asked this question you said that it will take some time to reflect but it is still not reflecting in this. What is your instinct? can you just guide us?

Mr. Vikas Poddar– CFO – Indus Towers Limited

Arun I think the revenue that we report is a sum total of various elements right so there is also the upside coming from the loading, there is upside in terms of the rollouts that we are doing, but at the same time there are few downsides because if you remember in the same quarter last year we had basically taken an accounting position with regard to the lease accounting or the straight lining of lease rentals with regard to one of our customers so we have not recognized those long-term revenues based on the Ind AS lease accounting which obviously is basically a bit of a drag on the revenue line. Apart from that we also have been renewing the towers and the tenancies with our customers with some discount so there is also that sort of drag on the revenue line. So basically there are growths, and I am assuming you are talking at a per tenancy level there are upsides and downsides both and they are sort of offsetting each other.

Mr. Arun Prasath - Avendus Spark/Chennai

Given there are so many variables can you give a little bit more disclosure on this front going forward what we should be assuming it as upside from the loading revenue or this downside will also continue in the upcoming quarters?

Mr. Vikas Poddar– CFO – Indus Towers Limited

Well like we had disclosed in the past I think the upside from the loading revenue is broadly in the range of 5 to 10% depending on how much load is there on account of 5G on each site. So anywhere between 5 to 10% is the sort of upside that we are seeing on account of 5G loading.

Mr. Arun Prasath - Avendus Spark/Chennai

On the downside that you spoke about that some of the downside will also offset this upside going forward?

Mr. Vikas Poddar– CFO – Indus Towers Limited

We had basically made some disclosures with regard to the renewals that was almost a year back so that continues and as and when more portfolio is coming up for renewal although bulk of the renewal was done in FY2023 there is some bit which is happening every year, so to that extent the same sort of renewal discount is reflected in the numbers.

Mr. Arun Prasath - Avendus Spark/Chennai

So, what part of the portfolio is still not yet renewed assuming that will renew at the lower rates, so what part of that is still to renew?

Mr. Vikas Poddar– CFO – Indus Towers Limited

Well, I think back in FY2023 we had renewed almost one third of our portfolio and thereafter we did not have any major bulk renewal in the subsequent periods, but I would say probably anywhere between 50 to 60% portfolio will be coming up for renewal in the forthcoming years.

Mr. Arun Prasath - Avendus Spark/Chennai

Understood. Lastly on this leaner tower can you just give me some indication of what is the cumulative capex we have spent on this leaner tower?

Mr. Vikas Poddar– CFO – Indus Towers Limited

I think we will have to really take it offline Arun. We will basically need to compute that separately because I do not have that number readily at hand.

Mr. Arun Prasath - Avendus Spark/Chennai

No issues. What I am trying to understand is that from the operators' perspective, is a small cell more advantageous as compared to leaner tower and from a tower company that is from our perspective which is more beneficial, obviously we will be working on ROCE but from an operator perspective how it differs so that is what we are trying to understand?

Mr. Tejinder Kalra - COO – Indus Towers Limited

The operators depending on their networking needs and their network plan will decide whether a small cell will fit the need or whether a leaner side will fit the bill because of them have different coverage characteristics and load taking capacity, so depending upon the network plan of the operator they clearly decide. I do not think each is replaceable by the other. It is more from a network demand perspective as a solution fitment that will go in there, so I do not think the operators are also blindly trying to put in small cells or the lean sites because they are more cost efficient.

Mr. Arun Prasath - Avendus Spark/Chennai

We do not have small cell portfolio right?

Mr. Tejinder Kalra - COO – Indus Towers Limited

First of all the structure that we provide is given loading capacity that the operator has asked us. In some cases the operators may be putting up high powered small cells or high power BTSs. It is again as I said the type of the structure is what we provide to them, what they are putting on top there into those sites is depending upon their network requirement.

Mr. Arun Prasath - Avendus Spark/Chennai

You spoke about the lean tower co-locations, is the tenancy ratio very different from our macro tenancy ratio or is it more towards one in the leaner portfolio?

Mr. Vikas Poddar– CFO – Indus Towers Limited

Well, the lean tower currently is more towards a single tenancy, and they are like we had explained in the past also they are modular structures, so as and when the second tenant comes with a very small probably investment, we will be able to enable the second tenancy also.

Mr. Arun Prasath - Avendus Spark/Chennai

Understood and this is geographically spread or is it more consolidated in urban areas?

Mr. Prachur Sah – MD & CEO- Indus Towers Limited

It is geographically spread around.

Mr. Arun Prasath - Avendus Spark/Chennai

Thank you very much. All the best.

Vandana – Operator

Thank you very much Mr. Prasath. The next question comes from Mr. Sanjesh Jain from ICICI Securities Mumbai. Mr. Jain, you may ask your question now.

Mr. Sanjesh Jain – ICICI Securities/Mumbai

Good afternoon. Thanks for taking my questions. First again on the leaner towers we have still got a lot of regional players who have become quite aggressive in the leaner towers and in my discussion with them, they suggested they are more agile. They can put up the tower and deliver it in a much lower lead time than the established players. How do we want to protect our market share in the leaner towers markets where a lot of regional players are cropping up?,You know the geography better you can deliver the structure faster, how are we placed in that market?

Mr. Prachur Sah – MD & CEO- Indus Towers Limited

Sanjesh thanks for the question. I think leaner towers when the portfolio started we probably started a little bit slower but we have caught up. I think both our commercial offering and execution abilities are as competitive as anybody else and I think we have ramped up our TSP third party infrastructure as well to support that, so in all the markets we are quite competitive and as you can see from our results we have been increasing our leaner portfolio year-on-year and we are equally present geographically for them and at the end of the day one of the things that we offer is the better uptime to the customers, which is a differentiation that the customers have started seeing. So I believe we will remain competitive, agile, and will continue to grab the market share even in the leaner portfolio.

Mr. Sanjesh Jain – ICICI Securities/Mumbai

Apart from the leaner portfolio, power is less of a problem because we are talking of more like an urban infrastructure and I do not think these towers come with a power solution. will uptime really give a differentiation there?

Mr. Prachur Sah – MD & CEO- Indus Towers Limited

I think it is a combination of things. As I said, if you are commercially competitive, if you are able to deliver on time and you can provide uptime, I think that is the best solution that a customer can get.

Mr. Sanjesh Jain – ICICI Securities/Mumbai

Fair enough. Second question on the tower tenancy addition, which looks phenomenally strong. now again going by what are the operators are commenting on their side it appears that FY2024 could be peak of capex and then we may see a material moderation in the addition and then tenancy will take some time from the 5G to prop up we will have a period more of a loading growth do you agree with this thought process?

Mr. Prachur Sah – MD & CEO- Indus Towers Limited

Sanjesh I do not want to forecast on behalf of anybody else. I think what we are looking at is we currently have an order book that we are executing. I think we expect the order book to remain strong for the coming quarters and if there is any moderation we will deal accordingly, but as of now for the next two to three quarters I do not see a reduction in the order book, so we will address that if there is any change or reduction from the operators accordingly.

Mr. Sanjesh Jain – ICICI Securities/Mumbai

That is good. Just on the growth side, the growth in the rental revenue is almost 7% plus, volume wise 5%, is that the large single tenancy towers is moderating the growth on the EBITDA side versus the revenue growth and what we are seeing?

Mr. Vikas Poddar - CFO – Indus Towers Limited

Of course, tenancy ratio certainly has an impact on the profitability Sanjesh, if there is higher tenancy ratio then given that we have a very high operating leverage that would certainly boost the EBITDA but I think talking specifically about this period I think apart from the revenue flowing into EBITDA there are other factors. So there is basically the provision for doubtful debts that we create which also has a bearing on the EBITDA and then there are some seasonality-related things, for example Q3 has certain impact from higher rates and taxes, which we recognize on cash basis as and when we get those property and municipal tax bills and so on. Otherwise I think if you look at the underlying performance both revenue and profitability are pretty much in tandem.

Mr. Sanjesh Jain – ICICI Securities/Mumbai

Got it and this last question on the reimbursement margins which continues to remain negative, you have said this earlier also that we are making efforts towards reducing these losses do you see this materially reducing in FY2025 or do you think it will take more time than that?

Mr. Vikas Poddar - CFO – Indus Towers Limited

So maybe I will just give some color first of all on the operational side, as you heard Prachur saying I think there is a lot of focus Sanjesh on reducing the diesel consumption in this year we have already achieved a pretty sizable efficiency as far as our diesel costs are concerned. Now when it comes to energy margin in a pass through regime we basically have a lot of these reconciliation issues with our customers because of several factors. Sometimes there are basically higher costs related to weather disturbances, there are sometimes timing differences in the electricity bills and so on. So we do see these fluctuations impacting our quarterly energy performance and hence when it comes to energy margin I think it is better to really look at the longer period. I think going forward all the efforts that we are putting in terms of driving efficiency and lower energy cost will eventually start reflecting in our energy P&L also at some stage. So, we are currently working on it and hopefully at some point they will translate into better energy P&L.

Mr. Sanjesh Jain – ICICI Securities/Mumbai

Got it. Thanks Prachur, thanks Vikas for all those answers and best of luck for coming quarters.

Vandana – Operator

Thank you very much Mr. Jain. The next question comes from Mr. Pradyumna Choudhary from JM Financial/Mumbai. Mr. Choudhary you may ask your question now.

Mr. Pradyumna Choudhary - JM Financial/Mumbai

More on the dividend side how should we really understand, like now the payments have been regular from your customer, so should we expect a good regular dividend payout or would it also depend on the future outlook for the customer?

Mr. Vikas Poddar - CFO – Indus Towers Limited

So Pradyumna I think we have clarified this on the earlier calls also. I think our dividend policy if you look at the policy it is linked to the free cash flow of the company at the end of the financial year. Now within our free cash flow because of the elevated capex cash flows that we are seeing, which is in a way good for the business because we are also then generating long-term revenues, long-term cash flows and value for the company, but at least within the financial year it is putting some pressure on the free cash flow, but at the same time there are many other variables within our free cash flow. So there is basically the focus on collection of the old overdues, the leverage, etc., so at the end of the year we will take stock of all these things and we will see where we land on the free cash flow and we will evaluate the possibility of dividend together with our Board members and come up with a decision around that time, so as of now, I think suffice to say that the policy is intact there is no change in our policy.

Mr. Pradyumna Choudhary - JM Financial/Mumbai

Alright so basically just a bit of clarity here. As long as we are able to generate positive free cash flow and the payments from our customers is regular then there should be a dividend right?

Mr. Vikas Poddar - CFO – Indus Towers Limited

That is the policy Pradyumna that is the policy yes.

Mr. Pradyumna Choudhary - JM Financial/Mumbai

Alright. Thank you.

Vandana – Operator

Thank you very much Mr. Choudhary. The next question comes from Mr. Nikhil Pradip Deshpande from Axis Bank, Mumbai. Mr. Deshpande you may ask your question now.

Mr. Nikhil Pradip Deshpande – Axis Bank/Mumbai

Yes, good afternoon, Sir. We have taken a provision of Rs 649 million during the quarter on bad debts, so this is a net provision or is this a new provision?

Mr. Vikas Poddar – CFO – Indus Towers Limited

Well, this is a new provision Nikhil. So, we have reported the additional provision on the basis of whatever has been received. So, I had explained this in my comment earlier. So, there was basically there were two effects, there was recognition of the additional 3 billion that we received because of which there was a reversal of the provision for doubtful debts and at the same time there was an adjustment with the interest which resulted in creation of the provision, so as a result we have roughly Rs 0.6 billion of addition provision in the quarter.

Mr. Nikhil Pradip Deshpande – Axis Bank/Mumbai

So what would be the reversal can you quantify that?

Mr. Vikas Poddar – CFO – Indus Towers Limited

So the reversal is the amount that we have collected as part of the backlog overdue and that has been collected in the month of January, but we have recognized that in our quarterly financials and because that was provided for earlier so that has resulted in the unwinding of the provisions.

Mr. Nikhil Pradip Deshpande – Axis Bank/Mumbai

Can you quantify the reversal?

Mr. Vikas Poddar – CFO – Indus Towers Limited

I have said that it is 3 billion, 300 Crores.

Mr. Nikhil Pradip Deshpande – Axis Bank/Mumbai

In the finance income which is 5 billion, what portion would be due to the payment of backlogs and what would be the normal financial income?

Mr. Vikas Poddar – CFO – Indus Towers Limited

Again, the interest income largely represents the interest that we have collected on the delayed payments by the customer. So broadly our interest accounting is on receipt basis or collection basis, so we keep billing, if there are any delays in the payments, we keep billing to our customers as per our MSA and as and when we collect those interests we recognize them. Most of these interests of course then pertains to the backlog itself because that is where the interest billing is getting generated.

Mr. Nikhil Pradip Deshpande – Axis Bank/Mumbai

Just for clarity this 3 billion is over and above the monthly billing?

Mr. Vikas Poddar – CFO – Indus Towers Limited

Yes, that is right.

Mr. Nikhil Pradip Deshpande – Axis Bank/Mumbai

Thank you. That is all from my side.

Vandana – Operator

Thank you very much Mr. Deshpande. The next question comes from Mr. Aditya Suresh from Macquarie, Mumbai. Mr. Suresh, you may ask your question now.

Mr. Aditya Suresh – Macquarie/Mumbai

Thank you so much. Just one question from my side was on the industry structure can you give us an update here on the industry structure itself and are you seeing any kind of customers migrate towards you, are your tenancy ratios kind of going up because of the third player, their market shares are falling? Thank you.

Mr. Prachur Shah – MD & CEO – Indus Towers Limited

Aditya if I understand your question correctly, I think you are asking from tower industry point of view or a telecom?

Mr. Aditya Suresh – Macquarie/Mumbai

From tower industry perspective, we have Indus, we have Summit, the third player ATC, we have issues at ATC, and I guess the question really was are you seeing migration of tenancies on to Indus?

Mr. Prachur Shah – MD & CEO – Indus Towers Limited

No, I think to be honest I do not think there is anything material per se. I think our main growth is coming from the new towers that we have been rolling out, so I do not think that there is anything material. I think there are occasional cases where there must be some migrations, but it is not material enough to highlight.

Mr. Aditya Suresh – Macquarie/Mumbai

Understood and any further kind of comments which you can provide on the dividend I appreciate that the comment that we need to see a bit more visibility here on your payments and more conviction on your free cash flows but at least based on our modeling, etc., the free cash flow improvement compared to last year seems very tangible so can you speak about the next steps here for the dividend any tangible steps which we can think about?

Mr. Prachur Shah – MD & CEO – Indus Towers Limited

No Aditya I think that as Vikas said I just want to reiterate, I think we have a clear dividend policy along with the Board in conjunction with the policy we will make the decision at the end of the year and we will decide. I do not think there is anything much to add beyond that as of now.

Mr. Vikas Poddar – CFO – Indus Towers Limited

So just to clarify the cash flow point Aditya I think while this quarter we have shown a good positive free cash flow, but if you recall we had a delay in the previous quarter, so to some extent it is basically a rollover effect of that delay in this quarter. Overall if you look at the nine months our cash flow is pretty much being used for the capex deployments, so to that extent I think the pressure continues on the cash flow even though we are collecting the 100%. Well coming to the dividend point as we also explained earlier I think it is largely linked to where we land at the end of the year and we are sort of working on the backlog, we are working on various other things, so we will see where it lands at the end of the year.

Mr. Aditya Suresh – Macquarie/Mumbai

Thank you so much.

Vandana – Operator

Thank you very much Mr. Suresh. The next question comes from Mr. Angad Katdare from Sameeksha Capital, Mumbai. Mr. Katdare**,** you may ask your question now.

Mr. Angad Katdare – Sameeksha Capital/Mumbai

Thank you for the opportunity. Over the past few quarters we are seeing a downtrend in the tenancy ratio, over the long term what do you think is a sustainable tenancy ratio going forward, will it stabilize at this level or can we expect a further fall?

Mr. Prachur Shah – MD & CEO – Indus Towers Limited

So Angad I think that tenancy ratio currently, the reason of the downturn that you are seeing is significant additions that we are currently doing for one of our major customers which is primarily a single tenant that is the effect that you are seeing and as I told earlier on another question I think we will continue to roll out and make sure we get the market share from that customer so you may see an impact of that in the tenancy ratio. I think it is difficult to predict exactly where that could end depending on the rollout but yes I think that is the reason why you are seeing the drop is because of the rollouts currently are happening on a single tenant basis.

Mr. Angad Katdare – Sameeksha Capital/Mumbai

One small question, an observation, the co-location exits during the quarter is 655, but we have not recognized the exit revenues for the press release. Can you throw some light on that?

Mr. Vikas Poddar - CFO – Indus Towers Limited

So Angad I think these exits that you see are business as usual, part of the business and they are within the permitted exit that we have in our MSAs, and the exit charges do not apply on these.

Mr. Angad Katdare – Sameeksha Capital/Mumbai

Got it. That is it from me.

Vandana – Operator

Thank you very much Mr. Katdare. We do have a follow-up question from Mr. Pradyumna Choudhary from JM Financial/Mumbai. Mr. Choudhary you may ask your question now.

Mr. Pradyumna Choudhary - JM Financial/Mumbai

Thanks for the follow up, to one of the questions you just said that the declining tenancies is because of the new towers which are being set up primarily for Bharti, so for our existing portfolio are we seeing stable tenancies or even there we are seeing that one of our customers is actually giving up some of the towers?

Mr. Prachur Shah – MD & CEO - Indus Towers Limited

I think it is broadly stable, I think. I think the other portfolio is broadly stable. There is nothing to add.

Mr. Vikas Poddar - CFO – Indus Towers Limited

I mean the exit what we were talking about earlier the 655 is basically from the existing portfolio so it is a very small number compared to the total portfolio, so it does not really impact the tenancy ratio on the legacy portfolio.

Mr. Pradyumna Choudhary - JM Financial/Mumbai

Understood and one was on the return profile for these towers based on single tenant, what would be the exact return profile, a ballpark maybe?

Mr. Vikas Poddar - CFO – Indus Towers Limited

So, ballpark we have shared this. I would say low to mid double digits sort of return profile for most of our new portfolios. In some cases, it could be high single digit as well but broadly low to mid double digit.

Mr. Pradyumna Choudhary - JM Financial/Mumbai

Understood. Thank you.

Vandana – Operator

Thank you very much Mr. Choudhary. The next question comes from Ms. Saloni Shah from Sohum Asset Managers/Mumbai. Ms. Saloni you may ask the question now.

Ms. Saloni Shah - Sohum Asset Managers/Mumbai

I wanted to understand if the telecom operators take a price hike in both voice and data so we as a tower company will benefit from this in terms that will it translate into better tenancy terms for us during renewal?

Mr. Prachur Shah – MD & CEO - Indus Towers Limited

I do not think I want to comment that right now. I think we will see how the commercial situation is and at that time we will make a call. While we remain competitive and make sure the market share remains where we are. I think it is a question that is quite speculative at this point of time.

Ms. Saloni Shah - Sohum Asset Managers/Mumbai

Okay Sir, thank you.

Vandana – Operator

Thank you very much Ms. Sah. The next question comes from Mr. Raunak Himmatramka from Robocapital, Mumbai. Mr Himmatramka you may ask your question now.

Mr. Raunak Himmatramka – Robocapital/Mumbai

I want to ask like how is the effect of Starlink coming to India on our business, is it a threat to us or will it be kind of beneficial and would increase the reach of the towers?

Mr. Tejinder Kalra - COO – Indus Towers Limited

Yes Mr. Himmatramka we said it in the past all this satellite connectivity companies that are coming in whether it is Starlink or the other competitors to them it is only going to provide complementary services to the telecom services that there are and largely as of now to uncovered areas because transmission networks are very difficult to reach out into some of those places and the satellite provides primarily with the call connectivity. So we do not see that as a threat to the tower requirements from the operator at this stage at least.

Mr. Raunak Himmatramka – Robocapital/Mumbai

One more question is regarding the recovery from Vodafone how are we seeing this, like we have taken some recovery in the provision but how we see it going forward?

Mr. Prachur Sah – MD & CEO- Indus Towers Limited

So again Raunak as I have informed in this call earlier as well I think we are working with our customers in terms of making sure that we are getting paid and we have a recovery plan for the past dues, so I think that is the basis of our engagement with our customers and we will see how things go forward but I think payment of 100% and whatever we can recover is the plan that we are currently working on so I think I would expect this to continue.

Mr. Raunak Himmatramka – Robocapital/Mumbai

Got it. Best of luck. That is it from my side. Thank you.

Vandana – Operator

Thank you very much Mr Himmatramka. Due to time constraint I would like to hand over the call proceedings to Mr. Prachur Sah for the final remarks.

Mr. Prachur Sah – MD & CEO - Indus Towers Limited

Thanks, Vandana. In summary, strong operational and financial performances are testimony to our inherent strength as a leading player in the passive infrastructure space. The third consecutive quarter of record tower additions underpinned by network expansion of our major customer and Indus being a successful partner has been a pleasing aspect. We expect the rural expansion to continue in the near term to be supplemented by 5G rollout that will aid both in terms of new additions and loading revenues. We believe there are enough growth levers for us in the near future and we are well positioned to capitalize on these opportunities in a sustainable manner. Thank you all for joining the call. Have a good day.

Vandana – Operator

Ladies and gentlemen, this concludes the conference call. You may now disconnect your lines. Thank you for connecting to audio conference service from Airtel and have a pleasant evening.