

Transcript of Indus Towers Limited Fourth Quarter Ended March 31, 2022 Earnings Conference Call

Conference Call Transcription

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Eon Investment, Chandigarh

PRESENTATION

Rajyita – Moderator

Good afternoon, ladies and gentlemen. I am Rajyita, the moderator for this conference. Welcome to the Indus Towers Limited Fourth Quarter Ended March 31, 2022 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 culminated post an announcement. Present with us on the call today is the senior leadership team of Indus Towers, Mr. Bimal Dayal, MD & CEO, Mr. Vikas Poddar, CFO, and Mr. Dheeraj Agarwal, Head Investor Relations.

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 now hand over the call to our first speaker of the day, Mr. Bimal Dayal. Thank you, and over to you, Mr. Dayal!

Bimal Dayal – Chief Executive Officer – Indus Towers Limited

Thank you Rajyita. Good afternoon everyone, very warm welcome to each one of you. Thank you for joining us on the Earnings Call of Indus Towers for the quarter and year-ended March 31, 2022. Joining me today are my colleagues Mr. Vikas Poddar - CFO and Mr. Dheeraj Agarwal - Head Investor Relations.

Let me start by taking each one of you briefly back in time. Well, most of you would remember that when we started the year, we were amidst the grip of the delta variant of COVID. There were colleagues and families that were impacted and despite this, true to our values, our field force maintained and also grew the network throughout the quarters, and I am very proud of this fact and very proud of our field force.

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On the business of people and people matrices, I am very happy to share that not only did we consummate the merger in a very good way, we measured our satisfaction score and I am happy to report that our employee satisfaction score has gone up year-on-year from 4.49 to 4.62. This has been recognized through the Gallup best place to work award for the ninth consecutive time, a very proud moment for all of us at Indus. Another very important pillar is our customer. Despite the challenges of the year, we have improved our customer satisfaction score year-on-year, which is always a good measure to keep an eye on. Our score went up from 4.37 to 4.42, really a good measure, which is very directional as well.

On the regulatory side the year gone by was a very eventful year. We saw developments from the government and operators which benefited the industry participants and customers. Announcement of the relief package improved the liquidity situation in the industry and ensured continuity of operations from all major operators. The operators also followed it by taking the tariff hike of about 20% in a consolidated manner to improve the financial health. Promoters of Vodafone Idea infused Rs.45 billion in the company to improve its financial position. These developments have supported the intent of the telecom sector remaining a three-player market. I remember answering those questions during these earnings calls as well, and we also did our bit by working with our customer and supporting its capital raise plans by way of restructuring the pledge. The actions were also in our shareholders interest by addressing the risk of loss of business too. Since the start of this year, I can say that we have made great strides as an enabler of connectivity.

On the demand side our tower network makes it possible for Crores of Indians to use telecom services and access the internet, an essential lifeline in today's world. Data traffic in India remains almost the highest in the world. As per Nokia India MBiT Index of 2022, data consumption per user, per month increased 27% year-on-year to 17 GB in December 2021. The increase is not an anomaly. Data consumption per user, per month is expected to grow further to 40 GB by 2026 with introduction of 5G as per Nokia report. Overall, data traffic also registered a strong growth of 31% in 2021. The growth is underpinned by the continued migration to 4G which contributes to 99% of data traffic. Launch of 5G services will only accelerate this data usage.

On 5G, in view of potential of 5G technology to promote immense opportunities across sectors by accelerating digital connectivity, the Government of India is undertaking all necessary steps towards its faster roll out. Ahead of government's plans to conduct the auction of 5G spectrum in June, July this year, TRAI released its recommendations about a month ago. We believe the recommendations are quite progressive and address the industry requirements. Reduction in reserve price across bands, easing of payment schedule, ample supply of spectrum etc. are vital recommendations, amidst this stretched financial situation of the industry. We are hopeful of a successful auction which will facilitate a rapid rollout of 5G across country. Indus being the leader in tower infrastructure in India will have a major role to play to drive 5G connectivity in the country.

Globally also we are witnessing a faster adoption of 5G services and a constant increase in number of 5G services providers. As per Ericsson Mobility report, global 5G subscriptions grew by 98 million in December quarter which was considerably higher than the increase of 35 million in 4G subscription in the same quarter. Number of commercial 5G service providers also increased meaningfully from 118 in September to 200 in December last year. This is indeed an exciting event we are all awaiting in the industry.

Now let me throw some light on operational and financial performance. From an operational performance standpoint, we had a balanced year in wake of lot of developments and uncertainty in the sector. During the year, we had net additions of 6,222 towers and 13,353 co-locations. Our total tower and co-locations at the end of the year were at 185,447 and 335,791 respectively, each growing by 3.5% and 4.1% on year-on-year basis. During the fourth quarter of the financial year, we added 699 towers and 685 co-locations on net basis. Our industry leading tenancy ratio was stable at 1.81.

As stated during our earlier earnings call, the reported numbers do not include leaner towers or small cells and the corresponding tenancies. We plan to report these numbers in subsequent quarters to give a holistic view of our product portfolio. In line with our commentary last quarter, we have seen the demand for leaner towers and small cells increase considerably and we have seen traction in our rollouts too. We see this shift to accelerate further with the impending 5G rollout and we are well placed to cater to this demand.

A brief comment on the financial performance, I am sure you all have gone through the reported numbers and the financial numbers. Just a comment here though we had a few one-offs this quarter, our underlying performance remains robust in all parameters including revenue, EBITDA and FCF. Vikas will actually take you through all these numbers in detail.

Couple of more points before I hand it over to Vikas; on MSA renewal I think we have good news to share. With regards to the renewal of our MSAs, we have closed the framework with one of our customers and we are hopeful of closing it with the other customer too. The renewal of contracts has been concluded with a positive outcome for both the customer and Indus. We are benefited by securing a large part of our portfolio for a good 10-year time. We have obtained visibility of revenue through long-term commitment from the customer. We believe that any financial impact on Indus will be offset by incremental revenue from foreseeable future rollouts by the customers for its network expansion, launch of 5G services and other network solutions. We see this agreement in the long-term interest of business and a win-win.

Another important point which I wanted to touch upon and Vikas will take you in detail is the receivables. As part of our endeavor to resolve the receivable situation with our customer in an amicable way, we worked with them in utilizing the security package to reduce the outstanding amount. This was done through Vodafone Plc selling the pledged shares and infusing the proceeds in VIL, and VIL repaying its dues towards Indus. Requisite disclosures were made to this tune as well. It is a reflection of mutual understanding between Indus and its customers. Through this arrangement, we reduced our receivables and the customer secured funds as part of its capital raise. This also strengthened our relationship with the customer and was aligned to our business interest for future operations.

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Now changing topic, let me talk about a very important initiative which we touched upon during the last quarter that is ESG. Reiterating from our last quarter's earning call, we remain committed to a sustainable future for all. Existence of this Company and its operations over a decade is a testimony to its sustainable practices. We now want to take the next step in our ESG journey. To start with I am very happy to report that we have completed materiality assessment by capturing the voice of our stakeholders and identified high priority areas across the environmental, social and governance dimensions. We are now in the process of setting up our targets across these areas. Management is focused on driving initiatives to achieve these targets and we hope to share our progress on key parameters in coming quarters. Our unwavering commitment to this ESG journey will create sustainable business and continue to generate value for all the stakeholders.

I will now request Vikas to take you through our operational and financial performance for the quarter and year-ended March 31, 2022. I look forward to your questions. Over to you Vikas and thank you very much.

Vikas Poddar – Chief Financial Officer – Indus Towers Limited

Thank you, Bimal and a very good afternoon to all the participants on this call. I am pleased to share with you the financial results of the fourth quarter and the year ended March 31, 2022.

I will start with the financial performance for the fourth quarter, and I am happy to share that our reported revenues were up 9.6% year-on-year to Rs.71.2 billion. Our core revenues from rentals grew 14.6% year-on-year to Rs.47.4 billion. We had an impact of one-off provision reversals and tapering off of exit revenue in the fourth quarter, which I will explain after reporting the results. If we adjust for these non-recurring items, the gross revenue and the core rental revenue were up 4.1% and 4.8% year-on-year respectively.

On a sequential quarter-on-quarter basis, our reported gross revenues and core revenues from rentals were up 7.9% and 2.7% respectively. After adjusting for the non-recurring items, the gross revenues were down 1% quarter-on-quarter due to lower energy revenues on account of lower costs that were driven by seasonality and few other initiatives. However, our core rental revenues were up 1.1% quarter-on-quarter driven by the growth in towers and co-locations. Please note that this is also adjusted for the one-off items in Q3 FY22, which I had mentioned in the last quarter's earnings call.

Reported EBITDA grew 19.3% year-on-year to Rs.40.7 billion. EBITDA margin was up by 4.6 percentage points year-on-year to 57.2%. Adjusted for non-recurring items, EBITDA was up 9.9% year-on-year mainly driven by revenue growth and better cost management. Our reported profit after tax was significantly up by 34.1% year-on-year to Rs.18.3 billion. Again adjusted for non-recurring items, our profit after tax was up 17.3% year-on-year.

Coming to the financial performance for full year FY22, our gross revenue grew 8% year-on-year to Rs.277.2 billion. Within that our core revenues grew 7.6% year-on-year to Rs.176.1 billion. Again, adjusted for non-recurring items, gross revenues and core revenues were up 6.7% and 4.8% year-on-year respectively. We saw healthy growth in our profitability metrics with EBITDA growing at 12.7% to 149.4 billion and profit after tax growing 28.1% to Rs.63.7 billion. Adjusted for non-recurring items, EBITDA and profit after tax, were up 10.1% and 21.4% year-on-year respectively.

Our free cash flow for the year was at Rs.30 billion which was impacted by an increase of Rs.32 billion in our trade receivables. Our reported pre-tax return on capital employed and post-tax return on equity were up both on year-on-year and quarter-on-quarter basis to 25.7% and 33.5% respectively.

Let me now explain the non-recurring items which affected the reported numbers in this quarter. We have been engaging with our customers on resolving the pending reconciliation issues which we successfully settled in this quarter and as per the accounting policy, this has resulted in a positive impact from one time provision reversal of Rs.5.5 billion in the revenue of fourth quarter. In this context, it is also worth noting that there could be an element of revenue from this settlement in future financials as well based on actual collections, for which we would be making adequate disclosures as and when.

Furthermore, as we had indicated in our previous calls the exit revenues have tapered off from Q4. It was Rs.0.3 billion in Q4 against Rs.1.8 billion in Q4 of last year. It is important to take note of these non-recurring items for the purpose of understanding our underlying results better.

Next, I would like to provide an update on our receivables position. Our receivables position improved by Rs.3 billion in the quarter after seeing continuous increase in the previous three quarters. This was a result of modification of the security package whereby we received Rs.33.75 billion from Vodafone in Q4, over and above the minimum monthly commitment. We are in continuous engagement with the customers to expedite the payments. With the positive developments in the industry and the recent equity infusion by the promoters, we expect the financial position to improve, and we continue to keep a close eye on the situation.

In summary, we had a mixed quarter where we made good progress on certain issues with our customers, but the tower and co-location expansion was relatively soft. We are hopeful of improvement in the business activities in the current year.

With that I would like to open the floor for question and answers. Thank you.

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Rajyita - 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 constraint, we would request if you 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 “*” “1” on their touchdown enabled telephone keypad. On pressing “*” “1” participants will get a chance to present their questions on a first in line basis. To ask a question Participant may please press “*” “1” now.

The first question comes from Mr. Vivekanand Subbaraman from Ambit Capital, Mumbai. Mr. Subbaraman you may ask your question now. The next question comes from Mr. Sanjesh Jain from ICICI Securities – Mumbai. Mr. Jain you may ask your question now.

Sanjesh Jain - ICICI Securities - Mumbai

Thank you. Good afternoon. Couple of questions; first on the MSA side renewal; can you help us understand now that we have changed the tariff for one customer. What will be the impact on ARPT because we have mentioned that we have gone for a competitive pricing that also indicates that we have taken some cut in the rentals going forward? What kind of impact that will have on the blended ARPT? That is number one. Number two where does it lead us to, because in 2016 we made a significant change in the way we price the rentals. We introduced the rate card which had two intention one to bring all the operators on the same rental plan. Number two, the renewals in the future become very smooth and it is just a roll forward is what we were thinking. Now that we have corrected the prices for one customer hence the rate card becomes an irrelevant factor. So, what we have done an exercise over last five years, now how is it going to help going forward with the new changes that we are implementing in the tariff plan?

Bimal Dayal – Chief Executive Officer– Indus Towers Limited

Thanks Sanjesh, and I will take this question. Let me start by your second question first where you mentioned what we did in 2016. Look at it from the prevailing conditions when we were operating let us say five years back or six years back to now. I think we should start to look at it from even the customer's perspective and I think we did complete the 10 years of this MSA with almost a flawless performance both from tower companies and from our customers. I think when we did this in 2016 the situation of the operators and I think even the tower companies was way different. I am not even commenting on that structurally we have made any big difference within this newer framework handshake. What I would like to tell you at the moment is that we are in negotiation with one customer and we have closed the framework with the other. Another significant thing maybe you have picked up or not, is that as an infrastructure company, it is vital for us to secure these contracts for long-term and we did mention that we have secured this for another period of 10 years. We have always been hinting about creating a win-win for both customers and us, and we do believe that what we have secured is in favor of both our customers and for us. What I would like to also table that since we are in active negotiations with the second customer, revealing the impact on ARPT at this moment will not be in favor of the negotiations itself and I think we would defer in giving any kind of guidance on what kind of discounts we ended up giving or what would be the framework. We are a company believing in disclosures as well and we have always come and given you the picture transparently, but I believe this time we are amidst this negotiation. I hate to comment on when we would close the negotiation, the moment it is done we would certainly come back with the kind of disclosures on the possible impacts. Only thing I can say is where I stand as the CEO of this Company looking at running this for next decade, I think this is a great win-win which we have secured. Until we pitch up the second customer as well, please hold this for now.

Sanjesh Jain – ICICI Securities - Mumbai

Fair enough Sir. Just one follow-up on that, you also mentioned in your opening remarks that this is a win-win situation wherein customer is talking of expanding the network. Can you give us some understanding as per your discussion or the closing of the MSA, what does the tenancy and the tower growth look like over next two to three years? Do you think there will be a material acceleration in the tenancy and tower expansion by this customer because this quarter looks like a kind of tapering down or a significant deceleration in the growth by the customer because one of the large customers has been talking about completion of a 4G capex for them which also is showing up in the number. Now how should we look at the tower and tenancy growth in the backdrop that we have closed the negotiation?

Bimal Dayal – Chief Executive Officer– Indus Towers Limited

Look Sanjesh first I will talk about the generic growth here and also comment on the quarter numbers as well. I have been saying this in the past as well and now I have evidence to support what I am saying. I think the first point which we need to keep in mind is the so-called parity between the operators has still not been achieved and I think those numbers are still known. There is an operator A who is ahead of others, operator B will do the catching up, operator C will catch up with operator B, and I think there is that inherent growth in our business which is certainly yet to happen. It is no rocket science here. You guys can do your intelligent calculations; this is fairly simple. So this is one business as usual growth which I do believe is still on the table as well. With the data growth coming in, I see no reason why cell splitting and adding more number of sites will not come to the table. I did mention that small cells and the leaner sites, where there is a great amount of traction which we are seeing and sensing and please remember

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we are still in the 4G arena. Come 5G with data growth and the spectrum in which 5G will be rolled out I do believe it will spur another dimension of growth in terms of sites as well. Hence, I have zero problems in saying that when it comes to growth, we will see a good growth coming in, in this year, in subsequent quarters as well. I think when it comes to Q4 I see this as operator probably trying to hold it back because of their own capex reasons. I think this is just a one quarter phenomenon, we do not give guidance going forward, but I do not think we will see muted quarters in coming quarters when it comes to rollout.

Sanjesh Jain – ICICI Securities - Mumbai

Got it. Just one bookkeeping question for Vikas. This Rs.5.5 billion of one-off gain is for this quarter, this is not for the year, right? This reconciliation predominantly covers the entire year or there is some one-off also related to the prior years? Can you give us the understanding for the year as a whole?

Vikas Poddar - Chief Financial Officer – Indus Towers Limited

Yes, sure Sanjesh. So this Rs.5.5 billion one-time provision reversal is relevant for the quarter, the same adjustment for the year would be Rs.6.3 billion. That is the one-time adjustment for the year as a whole.

Sanjesh Jain – ICICI Securities - Mumbai

The entire Rs.5.5 billion adjustment for the reconciliation is done for the period for FY22 and this does not have any reconciliation from the prior year right. For the full year this will not be a one-off right.

Vikas Poddar - Chief Financial Officer – Indus Towers Limited

That is what I said it is quite a mixed scenario here. So, the Rs.5.5 billion one-time provision reversal, is the adjustment that we have done for the quarter and for the year that same amount would be Rs.6.3 billion.

Sanjesh Jain – ICICI Securities - Mumbai

Okay. So, there was some one-off reversal also in the previous quarters gone by and this entire Rs.6.3 billion was for the year before FY2022?

Vikas Poddar - Chief Financial Officer – Indus Towers Limited

Yes, so if you recall we did call out some one time in quarter three as well. So, for the year as a whole that is Rs.6.3 billion.

Sanjesh Jain – ICICI Securities - Mumbai

For next year we will not have the exit revenue as well as this reconciliation amount, which together to the extent will bring down the revenues for next year right?

Vikas Poddar - Chief Financial Officer – Indus Towers Limited

That is right Sanjesh.

Sanjesh Jain – ICICI Securities - Mumbai

This entirely will go from the EBITDA right? So there is no cost attached to these revenues correct?

Vikas Poddar - Chief Financial Officer – Indus Towers Limited

That is right.

Sanjesh Jain – ICICI Securities - Mumbai

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Got it. Thank you and best of luck to all.

Rajyita - Moderator

Thank you very much, Mr. Jain. The next question comes from Mr. Pranav Kshatriya from Edelweiss Securities, Mumbai. Mr. Kshatriya, you may ask your question now.

Pranav Kshatriya – Edelweiss Securities - Mumbai

Thanks for the opportunity. My first question is regarding the MSA. There is a statement which says that the customer intends to renew majority of the co-locations. So, does that mean that some of the co-locations possibly would not be renewed and if you can give some color in terms of the range what you should be looking at that will be useful and second question is regarding capital allocation, are you looking at giving higher dividend or higher buyback to correct the capital structure or what the management is thinking? Thank you.

Bimal Dayal – Chief Executive Officer– Indus Towers Limited

Thanks Pranav. Your first question was around the renewal. Could you repeat your first question Pranav, this was around?

Pranav Kshatriya – Edelweiss Securities - Mumbai

The MSA actually states that the customer intends to renew majority of the co-locations. So, if I basically read between the lines, it seems that some of the tenancies may not be renewed and if you can give some color on that what could be that.

Bimal Dayal – Chief Executive Officer– Indus Towers Limited

Got it. Sorry about this. Look I think we need to take a step back and start to look at it from the customer's perspective. Since these MSAs have possibly lived for 10 years. Over a period of 10, 11 years there has been some amount of sites where inefficiencies have been built in. These inefficiencies could really be the higher rentals, landlord rentals, etc., and I think it is very clear to us that if we are to partner with our customers in a good way, we need to certainly support such initiatives in which they are free to move those sites around along with participation from us as well, and I think we have left a margin for our customers to actually move those sites around. I would like to take you back to the previous earnings call where we had mentioned that I think the churn in this industry does not make sense for any operator or for company like ours as well. I think in my opinion the churn here also would be minimal, but customers are free to exercise a percentage of those sites. As I said we would certainly come back and give you the final contours here, but this is more like addressing the hygiene between us and the operators and giving them this little bit of a leeway to move those sites around and they would possibly move it around with us only and this is a statement which comes with the boilerplate clause, how we would operate in the future with the customers.

Pranav Kshatriya – Edelweiss Securities - Mumbai

Sir, if I can just have a small follow-up on that. The 600 odd cancellation or some cancellation what we are seeing off recently, is it sufficient to say that most of the cancellations are pertaining to this issue or there could be other issues that some operators are still consolidating their position and hence may not want to have sites at a certain location and that is the reason.

Bimal Dayal – Chief Executive Officer– Indus Towers Limited

No this is business as usual; these are operators exercising their 3% leeway within the MSA itself and it has no bearing on what I just mentioned for now.

Pranav Kshatriya – Edelweiss Securities - Mumbai

On my second question on capital allocation, I just want to know how management is thinking about capital allocation going forward.

Vikas Poddar - Chief Financial Officer – Indus Towers Limited

Yes, sure. Hi! Pranav. So on the capital allocation I just want to remind you that our dividend policy as you know is linked to the free cash flow generation of the Company and as I mentioned we have generated free cash flow of Rs.30 billion in FY22 and as a result

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we have basically declared dividends of Rs.11 per share based on 100% payout of the free cash flow. So going forward, I mean, of course we will stick to the policy, we will continue monitoring receivables and free cash flow and again I think we would certainly follow the policy and pay the dividends accordingly.

Pranav Kshatriya – Edelweiss Securities - Mumbai

Sure, thank you. That's it from my side.

Rajyita - Moderator

Thank you very much, Mr. Kshatriya. The next question comes from Mr. Peter Miliken from Deutsche Bank, Hong Kong. Mr. Miliken, you may ask your question now.

Peter Miliken - Deutsche Bank - Hong Kong

Thank you. Good afternoon everyone. My question is about the new contract and whether you are making any changes that might make it more attractive for users outside of Bharti and Vodafone Idea to come onto your current network because it seems to me that it is increasingly important that you grow your user base and I am interested in any plans you have to help make that happen. Thank you.

Bimal Dayal – Chief Executive Officer– Indus Towers Limited

Peter thank you for your question on the newer contracts. I think our current focus is to ensure that one-third of our portfolio which is coming in for renewal comes under the ambit of a fresh new contract. These contracts are more to do with the existing telecom cellular operators and not hitting at any other lines of business. One thing I would also like to say that as we close with the customers, we would certainly reveal the contours of this, but this is not hitting at or even facilitating let's say newer players to come on our towers.

Peter Miliken - Deutsche Bank - Hong Kong

Right, I think do you have any other plans that might make it or even might accelerate the take-up of other operators?

Bimal Dayal – Chief Executive Officer– Indus Towers Limited

Yes, I think, I have been talking about the strategy for Indus and I think I have given in the past my own views about the possibilities which exist to further monetize these assets which are so scattered and absolutely valuable. But since in last two quarters, the last quarter the focus definitely was to make sure that we address the situation of receivables through restructuring of the security package I think a lot of bandwidth of pretty much everybody went in that direction and I think we have achieved a very good result in which we have seen a reversal of our receivable and that trend was very, very discomfoting for us in the management. So I think good time went there and now I think our time is certainly going in the direction of securing the business as usual for this company for the next 10 years. I think we would certainly come back on and with a renewed strategy which has been eluding us for a couple of quarters now due to these large-scale opportunities which we are closing one after the other.

Peter Miliken - Deutsche Bank - Hong Kong

Yes, I think that all make sense. Thank you.

Rajyita - Moderator

Thank you very much, Mr. Miliken. The next question comes from Ms. Falguni Dutta from Jet Age Securities Private Limited, Kolkata. Ms. Dutta, you may ask your question now.

Falguni Dutta - JetAge Securities Private Limited – Kolkata

Sir, I just wanted to know about exit revenue that is all. Since this is the first time I am attending this call so pardon me for this.

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Bimal Dayal – Chief Executive Officer– Indus Towers Limited

No, please you are free to ask. So, Vikas exit revenue.

Vikas Poddar – Chief Financial Officer – Indus Towers Limited

Hi Falguni, basically I guess your question is what is exit revenue.

Falguni Dutta – Jet Age Securities Private Limited – Kolkata

That is right.

Vikas Poddar – Chief Financial Officer – Indus Towers Limited

So in the tower business because there are initially very high capital outlays in building towers, and usually our lease tenure is 10 years. If an operator decides to exit a tower before the end of the lease tenure there is always a risk which the towerco carries and as a result to compensate for that risk there is an exit revenue which the operator needs to pay to the towerco in case there is any premature exit. So the exit revenue that we were discussing was in the context of the industry consolidation that happened around three, four years back when many operators either exited or they merged into single entities and as a result there were some bulk exits that happened and as a result we were entitled to exit revenues.

Vikas Poddar – Chief Financial Officer – Indus Towers Limited

Does that help Falguni?

Falguni Dutta – Jet Age Securities Private Limited – Kolkata

Yes Sir. This exit revenue is same as exit penalty.

Vikas Poddar – Chief Financial Officer – Indus Towers Limited

Yes, it is the same thing. It is penalty for the operator, revenue for us.

Falguni Dutta – Jet Age Securities Private Limited – Kolkata

Yes. Just to understand suppose somebody ends the contract at end of 10th year. So he has to pay a lump sum amount at that year or it is paid over a period of time.

Vikas Poddar – Chief Financial Officer– Indus Towers Limited

No, so if someone ends the contract in the 10th year then it is pretty close to the termination anyway.

Falguni Dutta – Jet Age Securities Private Limited – Kolkata

No I said eighth year. Let us say fifth year. Let us say somebody ends this contract midway in the fifth year. So he has to pay a lump sum money in form of penalty at that point in time or is it over the quarters or over the years that he has to pay?

Vikas Poddar – Chief Financial Officer– Indus Towers Limited

It is a lump sum that needs to be paid at the time of exit not in installments.

Falguni Dutta – Jet Age Securities Private Limited – Kolkata

So whenever we report some exit revenues every quarter that means some exits have happened during that quarter.

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Vikas Poddar – Chief Financial Officer – Indus Towers Limited

Yes, so there is a bit of a nuance that needs to be explained, usually the terms are that exit penalty needs to be paid at the time of exit. However, because I said this was basically a lump sum exit that happened at time of consolidation, the amount of exit was very, very high and as a result we had turned this into an installment and we were getting that installment till December 2021 after which the contract ended.

Falguni Dutta – Jet Age Securities Private Limited – Kolkata

Okay understood Sir, and Sir your view on exit penalties, I do not know whether it is possible to get a number for FY2023, I mean anything that is pending that could come in.

Vikas Poddar – Chief Financial Officer– Indus Towers Limited

I am sorry Falguni, we do not give any forward-looking numbers or statements.

Falguni Dutta – Jet Age Securities Private Limited – Kolkata

Okay fine Sir. Thank you. That is all from my side. That is very helpful.

Rajyita - Moderator

Thank you very much, Ms. Dutta. The next question comes from Mr. Viral Shah from Credit Suisse, Mumbai. Mr. Shah, you may ask your question now.

Viral Shah – Credit Suisse - Mumbai

I just had one clarificatory question. In the opening remarks you mentioned that the receivables declined by Rs.3 billion quarter-on-quarter based on the funding that VIL has received. And the Rs.33.75 billion that is being infused by PLC will be used by VIL to pay Indus Towers. And this is over and above the monthly commitments that you have secured, is that right.

Vikas Poddar – Chief Financial Officer– Indus Towers Limited

Yes, so Viral this Rs.33.75 billion is in addition to the minimum monthly commitments, yes.

Viral Shah – Credit Suisse - Mumbai

The minimum monthly commitment which will aggregate up to Rs.30 billion by July 15, 2022 essentially it is Rs.63.75 billion.

Vikas Poddar – Chief Financial Officer– Indus Towers Limited

That is right.

Viral Shah – Credit Suisse - Mumbai

Okay.

Rajyita - Moderator

Thank you very much Mr. Shah. The next question comes from Mr. Neerav Dalal from Maybank Securities, Mumbai. Mr. Dalal you may ask your question now.

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Neerav Dalal - Maybank Securities - Mumbai

Thank you for the opportunity. I just wanted some understanding in terms of the small cells or the leaner towers. How is the business model, similar or different to the macro towers? Some explanation on that and what would be the current share of this to the overall revenues?

Bimal Dayal – Chief Executive Officer– Indus Towers Limited

Neerav, I think I would possibly defer the last part of your question for later to give you a little bit extra peek into our split of the product. However, we have been actually talking about the overall shift which is taking place in our product contours. I think both small cells and these leaner towers are the ones which are in demand and the customers are certainly looking at rolling out these towers. Now this also goes with the presence of fiber. If you actually look at this is slight bit of and I am talking about small cell, slight bit of unorganized sector as well because I think wherever you can actually take the fiber, the small cells get activated as well and I think there was a notification, I think it was in April that the Government recognized, let's say the aerial fiber as well. Hence from a small cell perspective we are seeing traction and a very good growth from our side. On demand for let's say leaner towers as well we are seeing a very good substitution and these leaner towers actually occupy lesser space, they are less in the tonnage and from a return profile give us reasonably good return. Now we are actually looking at coming to a substantial number before we can actually give you a split of these small cells and the leaner towers and as I mentioned, in the coming quarters we would possibly give you more details on these two products, but we are very gung-ho about increasing these numbers in coming quarters and maybe this year itself.

Neerav Dalal - Maybank Securities - Mumbai

Got that, and the second question is regarding the operating performance. In the last couple of quarters, we have seen towers and tenancies slow down. Obviously in the longer-term as you said there are multiple drivers of growth, but in terms of the near-term how should one then look at a pickup in these numbers so some light on that?

Bimal Dayal – Chief Executive Officer– Indus Towers Limited

Neerav, firstly go back to the first quarter of the financial year with the Covid situation when we were all in almost like a desperate situation, we ended up sharing with you that we did north of 3,000 odd towers in a quarter. We accelerated in quarter two. We came to 2,900 in the previous quarter and this quarter I just mentioned the number north of 1200, 1300 odd. If you actually look at the CAGR of our growth has always been 2, 2.5%. Even for a full year performance we bucked this trend and we have grown in this year as well. Your sharp question is around Q4, I do not think the Q4 trend will continue in the near future itself. We would buck this trend for sure because we do believe that this happened for a reason and the reasons are possibly in the public domain as well, but I can only tell you this that this is only going to accelerate and there is no stopping in the near future.

Neerav Dalal - Maybank Securities - Mumbai

Got that, and just lastly in terms of a strategy into adjacencies any take on that.

Bimal Dayal – Chief Executive Officer– Indus Towers Limited

Well, I do not want to repeat my excitement and my views on this as well. I think that remains one thing which I certainly would like to share with you the moment this is anchored both with the board and the shareholders. I think all I can say is these active discussions going on to close all the possible opportunities and the moment that is done, we will come back and possibly share this with you all. So please hold the space until then.

Neerav Dalal - Maybank Securities - Mumbai

Sure. Thank you for the opportunity.

Rajyita - Moderator

Thank you very much Mr. Dalal. The next question comes from Mr. Satinder Singh from Eon Investment, Chandigarh. Mr. Singh, you may ask your question now.

Satinder Singh - Eon Investment - Chandigarh

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Thank you for the opportunity. I have got two questions. One is for Mr. Vikas and the other for Mr. Dayal. Vikas, this is about receivables. So our understanding is that we have received Rs.33.75 billion from Vodafone as of March 31, 2022 itself. Now if that is the case, we see a very small drop in the trade receivables. The trade receivables correspondingly have fallen only by Rs.3 billion from 73 to 70 as a result of which the receivables continue to be quite high and that has also negatively impacted the dividend because of the cash flow. So could you help reconcile this piece?

Vikas Poddar – Chief Financial Officer – Indus Towers Limited

Thank you for the question, Satinder. I think your observation is absolutely right. The receivables have declined by Rs.3 billion. Now the movement in receivables is a function of collection and also billing. So we basically have been billing for the January, February, March quarter and also bear in mind the onetime provision reversals that I was talking about is currently sitting in the debtors as well as in the receivables and we will be collecting those in the due course. So net-net I think billing plus the provision reversals etc., minus the collection is the Rs.3 billion that you are seeing on the balance sheet.

Satinder Singh - Eon Investment - Chandigarh

So does this mean there will be some slack on collections this quarter even if you add just Rs.5 billion that makes it Rs.3 billion plus Rs.5 billion now to Rs.8 billion. So they are still above Rs.25 billion of excess receivables that have gotten built up over and above the existing?

Vikas Poddar – Chief Financial Officer – Indus Towers Limited

First of all I think if you look at the trend for three quarters, we were seeing increase in receivables because of the delay in payments which we all know the reasons for, which are the liquidity issues that the industry is facing and so on. Now first of all I think it is a very good news that we got this Rs.33.75 billion as a one-time lump sum collection and this was basically monetizing our security. So this has really arrested that trend to some extent at least in Q4, we have seen for a change no increase in receivables but actually some improvement. Now does this mean that there is no problem anymore? I am not saying that. There is still work to be done and as I said earlier we are in constant engagement to manage our receivables very actively to expedite the payments. We are watching the situation every week, every month, and trying to make it better and better. We really hope that this will improve gradually, I do not expect things to improve in a month's time or something in the short-term, but we are working towards gradually improving the situation. So certainly the Rs.3 billion is not really a substantial great improvement, but at least it is a movement in the right direction.

Satinder Singh - Eon Investment - Chandigarh

Mr. Dayal, regarding this while there has been a great announcement by the government, but the reality is that Vodafone continues to lose customers at a fairly fast click and their fundraising still has a question mark. So in such a case, I just wanted to understand how do we mitigate the risks of losing a large customer like this should that eventuality finally turn out? And a related question to this, wherever we have a co-location, my understanding is that each of the operator pays the lower rental. In case one of the operators were to go out of business and their co-location becomes the single location, does the rental reverse to a higher figure for the residual operator?

Bimal Dayal – Chief Executive Officer– Indus Towers Limited

Thank you, Satinder, for your question. I wish I had the crystal ball but let me go back and probably give you some of the discussions which we were all exposed to. I think the news articles were a year back or a year and a half back were actually talking about shutting down of companies as well and I think they were near death experiences when it comes to our existing operators as well. We were talking about Supreme Court judgments etc., and we were all exposed to those, and I think those were absolutely nail-biting. Even then you can go back in time, we had been consistently saying that this market will remain a three-player market as well. We did not read the signs from the government even then that they had been very vocal about supporting a three-player market as well. As the time has gone by, their support has been very overt now and you know that next time you would probably want to ask this question you might ask this question from the government but that is on the lighter side. But I think from us supporting the customers, we have been extremely supportive, I think VIL has been a great customer having great assets on ground and they have a very good track record in the past, and hence I think it is a merger of two very good companies who have been very good customers to Indus. I think in last couple of years we are sensing this blip in our receivables and the business, but we being a customer-centric organization we have been supporting them in the ways we can. Now one of the things which we did very recently was providing them with this leeway with their security package and it helped not only them but the industry and it helped us in bucking the trend as well and I think there cannot be a bigger testimony and an answer to your question as to what are we doing to help them in the current situation. Now in my opinion it is only the tariff which when dealt with in a right manner will actually improve the situation of the industry and obviously I think there is some momentum in improvement when it comes to the ARPUs as well. I think operators have said that in the near future they would like to see Rs.200 and plus Rs.200 as well. I think when we reach situations like these, we will see easing off of the situation which VIL is in right now. I think some of those your questions could go

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directly to them and I would love to listen to their answers on all this, but these are our views. We do believe that as Vikas mentioned over a period this situation would certainly ease off and we will certainly see three healthy operators whether it will take one year or several years we don't know but we do believe in that scenario.

Satinder Singh - Eon Investment - Chandigarh

And the second part Mr. Dayal, in case an operator vacates a site, so the incumbent or the residual operator does his rate go up in that case?

Bimal Dayal – Chief Executive Officer– Indus Towers Limited

Yes, that's correct. That's how the MSAs are structured that if you are benefited by a tenant, when the tenant goes the whole thing gets reset and the higher rental will be paid by the tenant who is actually left behind.

Satinder Singh - Eon Investment - Chandigarh

Yes, thanks. Mr. Dayal you are running a great business which throws up a lot of cash and debt equity is 25%. Is Indus Towers looking at the possibility of buying back part of the stake that Vodafone Plc is offering because the prices currently are very attractive. Your share price is quite low and it will help the interest of all shareholders. So is that an idea on the table or not?

Bimal Dayal – Chief Executive Officer– Indus Towers Limited

Satinder, we take your suggestion and maybe we will revert to you on this but I do not think I can comment on this at the moment.

Vikas Poddar – Chief Financial Officer – Indus Towers Limited

I would just like to add that from the regulatory framework perspective we cannot make any buyback offer to any specific shareholders. So, if at all we have to think of any such thing it has to be basically a wider and to almost everyone.

Satinder Singh - Eon Investment - Chandigarh

Thank you very much. Thank you Vikas, thank you Mr. Dayal. All the best.

Bimal Dayal – Chief Executive Officer– Indus Towers Limited

Thank you, Satinder.

Rajyita - Moderator

Thank you very much Mr. Singh. The next question comes from Mr. Saurabh Handa from Citigroup, Mumbai. Mr. Handa you may ask your question now.

Saurabh Handa - Citigroup - Mumbai

Sir, thank you for the opportunity. Actually, my question was pertaining to receivable, so that has been answered. Thank you so much.

Rajyita - Moderator

The next question comes from Mr. Pratik Agarwal from HSBC, Mumbai. Mr. Agarwal you may ask your question now.

Pratik Agarwal – HSBC - Mumbai

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I just wanted to ask about the capex guidance, if you can just provide because we have seen that the capex has declined for 2022 and in Infrastructure Companies, when the capex declines the demand is something which also gets affected. So I just wanted to know what capex, management is looking for 2023 and 2024, if you can just give a kind of idea about the capex.

Vikas Poddar – Chief Financial Officer– Indus Towers Limited

Pratik first of all, I think as far as FY2023 or 2024 is concerned, like I said we do not normally give any forward-looking guidance or any outlook. As far as FY 2022 capex is concerned the decline versus last year that you are seeing is largely driven by the lower deliveries. So our rollouts as you know for Q3 and Q4 have been a bit soft and as a result that has basically reflected in the form of lower capex that is I think one of the biggest reasons that we have. Otherwise pretty much the capex is in line with the trajectory.

Pratik Agarwal – HSBC - Mumbai

Can you just give us the delivery trend for kind of April and early May or how it is going?

Vikas Poddar – Chief Financial Officer – Indus Towers Limited

I am sorry Pratik. I do not think we can share anything with regard to the current quarter.

Pratik Agarwal – HSBC - Mumbai

Okay thank you, thank you for your answer.

Rajyita - Moderator

Thank you very much Mr. Agarwal. At this moment there are no further questions from participants. I will now hand over the call proceedings to Mr. Bimal Dayal for the final remarks.

Bimal Dayal – Chief Executive Officer– Indus Towers Limited

Thank you all for your questions and patiently listening to this earnings call. To sum up we can look back upon the year gone by with satisfaction given the volatile environment during the year. We believe that there are sufficient levels for growth in the telecom industry underpinned by supportive and progressive government initiatives. We believe that this will stand us in good stead for the future and help us create value for all our stakeholders in a sustainable way. Thank you very much for listening and good luck to us. Thank you.

Rajyita - Moderator

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.