indus
TOWERS

February 2, 2023

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai-400001

The National Stock Exchange of India Limited
Exchange Plaza, C-1, Block – G, Bandra Kurla Complex,
Bandra (E), Mumbai-400051

Ref: Indus Towers Limited (534816 / INDUSTOWER)

Sub: Transcript of the Earnings Call for the third quarter (Q3) and nine months ended December 31, 2022

Dear Sir/ Madam,

Please find attached the transcript of earnings call conducted on January 25, 2023 for the third quarter (Q3) and nine months ended December 31, 2022.

Kindly take the same on records.

Thanking you,

Yours faithfully,
For Indus Towers Limited
(formerly Bharti Infratel Limited)

SAMRIDHI
RODHE

Digitally signed by SAMRIDHI RODHE
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Samridhi Rodhe
Company Secretary

Encl: As above

Conference Call Transcription

Event: Transcript of Indus Towers Limited Third Quarter Ended December 31, 2022 Earnings Conference Call

Event Date/Time: Jan 25, 2023/ 1430 hrs IST

CORPORATE PARTICIPANTS

Mr. N Kumar
Chairman and Independent Director - Indus Towers Limited

Mr. Prachur Sah
Managing Director and Chief Executive Officer - Indus Towers Limited

Mr. Vikas Poddar
Chief Financial Officer – Indus Towers Limited

Mr. Tejinder S Kalra
Chief Operating Officer – Indus Towers Limited

Mr. Dheeraj Agarwal
Head Investor Relations - Indus Towers Limited

CORPORATE CALL PARTICIPANTS

Mr. Kunal Vora
BNP Paribas, Mumbai

Mr. Sanjesh Jain
ICICI Securities, Mumbai

Mr. Mitul Shah
Reliance Securities, Mumbai

Mr. Siddharth Gupta
Voyager Capital, Mumbai

Mr. Sachin Salgaonkar
BofA Securities, Mumbai

Mr. Giriraj Daga
K M Visaria Family Trust, Mumbai

Mr. Arun Prasath
Spark Capital, Chennai

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, 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 are the Chairman and Independent Director of Indus Towers Mr. N Kumar, along with the senior leadership team of Indus Towers, Mr. Prachur Sah, MD and CEO; Mr. Vikas Poddar, CFO; Mr. Tejinder Kalra, COO; 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. N Kumar. Thank you, and over to you, Mr. Kumar.

N Kumar — Chairman and Independent Director – Indus Towers Limited

Thank you, Vandana, and good afternoon, everyone. A warm welcome to all of you today afternoon. Thank you for joining us on the earnings call of Indus Towers for the quarter ended December 31, 2022.

As you all may be aware, Mr. Prachur Sah has joined Indus Towers as Managing Director and Chief Executive with effect from 3rd January this year. He brings with him vast experience of about 22 years, spread across business domains including Operations, Strategic Planning, Oil and Gas management among various other strengths he has. He is also known for building a culture that is value-driven and encourages innovation, while maintaining highest levels of safety, sustainability, and governance. In his last role, he served as the CEO for the Oil and Gas vertical of Vedanta, and I have great pleasure in welcoming him to the Indus family and wish him all the success in the future.

I would also like to take the opportunity to thank both Tejinder Kalra and Vikas Poddar for leading the Company commendably during the period from September till Prachur Sah joined us.

I would now like to hand over the call to Prachur to take you through the key highlights of our quarter Q3 FY2023 and brief you on all question-and-answers. Over to you, Prachur.

Prachur Sah — Managing Director and Chief Executive Officer – Indus Towers Limited

Thank you, Mr. Kumar, and a very warm welcome to all the participants on the call. Joining me today are my colleagues Mr. Vikas Poddar, CFO, Mr. Tejinder Kalra, COO, and Mr. Dheeraj Agarwal, Head Investor Relations.

I would like to express my delight as having joined Indus Towers, the largest passive infrastructure company in India and one of the largest globally. I believe this is an exciting time to be in the telecom space with India marching towards digitalization and the ongoing transition to 5G being a key enabler of the journey. Along with my leadership team, I strive to realize Indus Towers' mission of enabling connectivity in every part of India.

Before I begin our agenda today, I would like to take a moment to recognize the contribution of our field force and its relentless efforts towards our vision of enabling Pan India connectivity. During this quarter, we installed six new mobile towers along the Kedarnath trek in Rudraprayag, which is one of the most popular religious places in India. These towers enable communication from Gaurikund to Kedarnath temple at an altitude of 12,000 feet. The connectivity is helping in transforming lives of locals, connecting pilgrims with their families, and also making it possible to summon help during an emergency. We will continue with these feats of installing towers in remote and difficult terrains to enable digital inclusion.

Moving on to key themes I would like to discuss today. On the industry front, the government continues to take measures to aid the swift deployment of telecom infrastructure across the country. To this end, it is working with cross sectors like NHAI, Ministry of Road Transport and Highways, Indian Railways to align their Right of Way policy with central notified policy for faster utilization of land, building available with them. Indian Railways have amended their policy and allowed IP1 infrastructure players to deploy telecom infrastructure on their land/property. Given the scale of railways and other institutional infrastructure, such actions would benefit in rapid rollout of telecom infrastructure, especially for 5G.

Talking about 5G, we are pleased to see that the 5G rollouts are in full swing as operators are working towards their plan for a Pan India 5G rollout in the next 12 to 15 months. In less than four months of launch of 5G services, more than 50,000 5G base transceiver stations, i.e., BTS have been deployed across the country, with the top two operators together putting up more than 5,000 BTS per week in the current month. This number should increase as the operators accelerate their 5G rollout across the country. As the leading passive infrastructure player in the country, we are committed to facilitate the swift rollout of 5G services. We are seeing increased demand in the form of additional loading of 5G equipment on our existing sites. We remain well-placed to cater to this demand and maximize the opportunity arising out of it. As the network matures with greater 5G adoption, we expect that there will be a need for increased capacity as well, driving the demand for new sites.

With regards to 5G adoption in India, We can draw parallels from the global 5G adoption story, which continues to play out strongly as confirmed by statistics mentioned in both Ericsson Mobility Report and the Deloitte CII report. As per Ericsson, global 5G subscriptions grew by 110 million in the September quarter to 870 million and are expected to reach 5 billion by the end of 2028, accounting for 55% of all mobile subscriptions. Comparatively, global 4G subscriptions increased by only 41 million with 5G expected to reach 1 billion subscriptions two years sooner than 4G. The number of commercial 5G service providers also increased from 218 in June 2022 to 228 in September 2022. As per Ericsson Mobility Report, 5G subscriptions in India are expected to reach 500 million mark by 2027 with a penetration of about 40%.

The formidable 5G adoption journey will further drive the already strong data consumption by the sizable Indian customer base. The total data consumed across the top three operators combined grew by 19% year-on year in the September quarter. The average data consumed per user per month across the top three operators stood at more than 20 GB for the quarter, registering a year-on-year growth of over 18%.

Complementing this growth is the estimate from Deloitte CII report that India is set to lead the smartphone industry with 1 billion devices by 2026. The report from both Ericsson and Nokia have also indicated how India's data usage is among the highest in the world currently, and the average data consumption per user per month is expected to increase to around 40 to 50 GB in the next five years. The rapidly progressing migration to 4G and 5G, supplemented by strong data consumption should continue to fuel the demand for passive telecom infrastructure both in the form of loading on existing sites and installing new sites, and we remain well-positioned to address this demand.

Moving on to our operational performance. We have witnessed steady growth in addition of macro and leaner towers. During the quarter, we had net additions of 1,466 macro towers and 1,307 corresponding co-locations. Our gross co-location addition was healthy at 2,130. However, higher churn at 823 resulted in lower net additions. Our total towers and co-locations at the end of Q3 were at 189,392 and 339,435, respectively, each growing by 2.5% and 1.3% on year-on-year basis. Our tenancy ratio dipped marginally to 1.79 from 1.8, but continues to be amongst the best in the industry. We continue to see good demand for our leaner tower portfolio, adding 1,408 co-locations in Q3 after reporting an addition of 1,535 co-locations in Q2. Including leaner towers, our net co-location addition stood at 2,715 for the quarter. We believe that the need for capacity expansion and new sites will be primarily fulfilled through leaner structures and as a result, going forward, we are expecting a significant growth in the share of our leaner structure portfolio in our overall business.

I would now like to touch upon ESG aspect, which is a key component of our long-term business strategy as a responsible organization. We have started taking necessary actions for achievement of our set targets across Environment, Social and Governance dimensions. I am happy to report that we are making good progress on this journey. To name a few focus areas, we are constantly reducing our diesel consumption despite increase in energy demand at sites. We are bringing a full control over handling and disposal of our waste. Workforce diversity and safety remain key focus areas and new initiatives have been taken to improve them further. A robust business continuity plan is in place to ensure zero or minimal disruption to network with fastest recovery during disasters. We are now extending it to all the critical areas across the organization. We are quite hopeful of our all-round efforts yielding desired results in our ESG journey and we will start reporting on the same in the coming quarters.

I would now request Vikas to take you through our financial performance for the quarter ended December 31, 2022, and I look forward to your questions. Over to you, Vikas. Thank you.

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

Thank you, Prachur, and I am pleased to share with you all the financial results of the third quarter ended 31 December 2022. Before moving to the financial performance, I would like to present our operational performance. The total tower and co-location count was 189,392 and 339,435 respectively, each growing at 2.5% and 1.3% year-on-year basis, and 0.8% and 0.4% on quarter-on-quarter basis. This was supplemented by an addition of 1,408 co-locations in our leaner tower portfolio, taking our lean co-location base to 5,683.

Now coming to the financial performance, our reported revenues declined by 2.3% year-on year to Rs.67.7 billion, of which the core revenue from rentals was down by 5% year-on-year to Rs.41.7 billion. The year-on-year growth numbers were impacted by a combination of tapering of exit revenues, discount on co-location renewal, optimization of site configuration by our customers; and change in revenue recognition pertaining to revenue equalization assets. Normalized for these factors, our gross revenue and core revenue grew by 2.6% and 2.8% respectively year-on-year. On a quarter-on-quarter basis, our reported gross revenue and core revenues from rentals were down by 15.1% and 12.7% respectively. The decline was largely due to the high base effect of previous quarter due to deferred revenue recognition of past settlements. Adjusted for this, gross revenue was down 0.4% and core revenue was up 0.2%, respectively, quarter-on-quarter.

Our reported EBITDA declined 68% year-on-year and 57.8% quarter-on-quarter to Rs.11.9 billion. EBITDA margin was down 35.9 percentage points year-on-year and 17.8 percentage points quarter-on-quarter to 17.5%. The decline in EBITDA was mainly due to a provision for doubtful debt of Rs.22.7 billion. The provision for doubtful debts is higher as the customer has indicated challenge in complying with the higher payment plan in future until fundraising materializes. Accordingly, the company has adopted stringent ECL computation resulting in additional allowance for doubtful debts during the quarter. Normalized for these factors, EBITDA grew by 3.5% year-on-year and 1.5% quarter-on-quarter.

Our reported energy margins were at -1.2% in Q3 FY2023 compared to 14.6% in Q2 FY2023. Adjusted for one-off in the previous quarter, energy margins were at -1.2% in Q3 compared to -3.5% in the previous quarter. Our constant endeavor to drive operational efficiency in our energy portfolio, coupled with seasonal benefits have aided the sequential energy margin improvement.

We have reported a loss of Rs.7.1 billion for Q3 FY2023, impacted by the substantial provision for doubtful debts and an exceptional item relating to impairment of revenue equalization asset. As per Ind AS 116 accounting, revenue is recognized based on straight-lining of rentals over the contract period and the corresponding revenue equalization asset is created. The revenue equalization asset of Rs.4.9 billion for the aforementioned major customer was impaired during Q3 FY2023, in addition to the non-recognition of Rs.0.7 billion pertaining to revenue equalization for Q3 FY2023. Normalized for these items, our profit after tax grew by 4.6% year-on-year and by 3.3% on quarter-on-quarter basis.

Our cash flow from operating activities improved from Rs.11.2 billion in Q2 FY2023 to Rs.22.7 billion in Q3 FY2023, and our free cash flow for the quarter was at Rs.6.2 billion. Our reported pre-tax return on capital employed and post-tax return on equity for the past 12 months were at 12.5% and 12.3% respectively, impacted by the provision for doubtful debts and impairment of revenue equalization assets.

Moving on, I would like to apprise you of the receivables situation. Our receivables decreased by Rs.14.4 billion during the quarter to Rs.50.6 billion. Adjusted for the provision for doubtful debt, our receivables increased by about Rs.8.3 billion. The customer paid a part of the billed amount till December as per the agreement. However, with no fundraising in sight, it is likely that the customer will face challenge in complying with the higher payment plan as committed. Accordingly, we have taken measures to de-risk the balance sheet. We continue to watch the developments at the customer's end pertaining to the fundraise plan, which is critical for clearing its old dues with us.

In summary, we had a steady quarter from an operational performance standpoint. Our financial performance is reflective of the collection challenges we faced from one of our major customers. However, the rapid rollout of 5G services across the nation provides a growth runway to the telecom space and we remain optimistic about it.

I would now request the moderator to open the floor for question and answer, please. Thank you.

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 constraint, we will 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 touchtone enable telephone keypad. By pressing "*" "1" participant will get a chance to present their question on a first in line basis. To ask a question participant may please press "*" "1" now. The first question comes from Mr. Sanjesh Jain from ICICI Securities, Mumbai. Mr. Jain, you may ask your question now.

Sanjesh Jain — ICICI Securities — Mumbai

Yes, good afternoon. Thanks for taking my questions. I got a couple of them. First on the 5G loading opportunity. I just wanted to understand purely from the ability to load the 5G equipment on the existing towers. Do we have enough provision for an operator to come and load 5G and if possible, on how many bands can they rollout simultaneously? Or do you think there will be a situation where the operator has to shift to a fresh tenancy for loading this 5G site? How is the situation on the space availability on the tower purely from the 5G rollout perspective? That is number one.

Follow-up on the 5G. In the opening remarks, we did mention that the weekly run rate of 5G site addition is 5,000 per week. We have already done 50,000 of it. At our weekly run rate of 5,000 by next 12 months, we will be rolling out close to 250,000 BTS, which is more than the tower. So when we say BTS, what does it mean at this speed you anticipate a complete 5G loading on the existing towers? How should we see the rollout plans and what are you seeing on the rollout side by the operator? So these are my first two questions.

Tejinder Kalra — Chief Operating Officer – Indus Tower Limited

Yes. Thanks for the question, Sanjesh. First to answer on, whether do we have enough capacities, space and the loading capacity on the existing towers. The answer is most of the towers, yes. So far, whatever rollouts we have done, we have not faced any challenge, where we had to refuse a loading of 5G on any of the existing towers. What typically goes on the tower is the radio and some antenna, in some cases, especially in the areas where, in one of the operator's case, for example, where 700 MHz spectrum for 5G is being rolled out. So some sites, they have to either put up antennas, otherwise, they may have multi-band antennas and therefore, no antennas required there as well. So limitation in terms of space and capacity on the towers is not an issue. Today, 5G is allowed only in 700 MHz and 3.5 GHz band. Should the operator need to refarm the existing frequencies into 5G, those radios are already up on the towers. So they are not going to come in as additional loading on the towers, but it is just a frequency switch from, let us say, 4G to 5G or 2G to 4G or whatever. So limitation none when it comes to the loading capacity on the towers. I think we are good with that, and I do not think the operator would need to go to an additional site for rolling out their 5G requirement there.

Your second question was on the 5G BTSs, and 5,000 run rate and the total number of towers they have and so on. In case of one of the operators who is rolling a stand-alone 5G network because they are rolling out in 700 MHz and 3.5 GHz, there is one radio per frequency, and therefore, two for that operator on a particular site. The other operator is only rolling out in the 3.5 GHz, so therefore one radio. The BTS which we refer to is the frequency-specific radio on a site. So if there are two frequencies of one operator and one of another operator on the same site, then there are three BTSs going on the same site. So therefore, the count which you are calculating in terms of number of towers and so on, I think that is the way to look at it.

Sanjesh Jain — ICICI Securities — Mumbai

Fair enough. Now I got a fair idea. Second on the opportunity to further expand the tower footprint and considering that initially 5G will largely come in loading and considering that one operator is using 1800 MHz as an uplink and other operator 700 MHz as an uplink which put me to a thought that we may not see a tower upside from the 5G rollout, it can largely get restricted from a tower company perspective just being a loading opportunity from the 5G. Just wanted to get your thought around the opportunities in the 5G, will it be limited as a loading for us as a tower company? That is number one.

Number two, considering that the capacity creation is happening on the 5G, is it fair to understand that the 4G rollout may see a material slowdown and hence a lot of tenancy slowdown we saw in this quarter is a resultant of that?

Tejinder Kalra — Chief Operating Officer – Indus towers Limited

Okay. So let me answer both the questions one by one. One, when we are talking about whether 5G is going to be primarily a loading opportunity or are there going to be new sites that are going to be required for 5G. Initially when the operators are doing the 5G coverage on their existing network, it is yes, largely going to be a coverage or a loading kind of an opportunity for the TowerCo. But as the data and the capacity utilization is going to build up on the 5G layer, operators will certainly need additional sites to fill up the capacity gaps and the coverage gaps that are going to come up as a result of the data utilization that is going to build up in the 5G layer. So maybe depending upon how quickly they are going to do the 5G rollout in the country or how fast the data capacity builds up in the network could be anywhere between one to two years before new stand-alone sites are required for 5G.

When it comes to 4G, the way the networks are being rolled out because we are currently still not seeing 5G as a blanket coverage layer. You will need a layer of 4G for giving the continuity of data coverage across the geography. So we do not think 4G is going to slowdown. We are actually seeing the opposite, 4G equal amount of loading going up on the existing sites to take care of the data needs and then 5G is being built-up parallelly. So we do not see 4G slowing down. In fact, a lot of rural coverage, the operators are going to be approaching us is initially going to be happening on the 4G space as well. So both are going on parallelly at the moment.

Sanjesh Jain — ICICI Securities — Mumbai

A last set of questions largely to Vikas. One, purely on the accounting side, straight-line method, what we have discontinued, and which has resulted in RTP coming down, is it only restricted to this one operator or as a policy, we have done it for all the operators? That is number one.

And number two, on the Capex, this quarter we have seen an acceleration to a Rs.1,000 Crores. It is just to reinforce the 5G loading and hence to augment the batteries and the DG set capacity, that is the reason why the Capex has gone up? These are my last questions. Thank you.

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

Yes. Sure, Sanjesh. So I think as far as the accounting treatment for the revenue equalization asset is concerned, that is specific to the operator because of the uncertainty that we are facing. The other operators continue to basically be treated under the Ind AS 116 accounting.

On the Capex side, broadly, I think there are two drivers that we had in quarter four. So one of them is, of course, what you mentioned the 5G-related augmentation in our power infrastructure and so on, and the second driver is also the fact that we are basically seeing operational momentum in terms of new rollouts and new builds. So they are pretty much work in progress and we are sort of investing in that area.

Sanjesh Jain — ICICI Securities — Mumbai

Fair enough, Vikas. Thanks for all the questions and best of luck for the coming quarters.

Vandana – Moderator

Thank you very much, Mr. Jain. The next question comes from Mr. Arun Prasath from Spark Capital, Chennai. Mr. Prasath, you may ask your question now.

Arun Prasath — Spark Capital — Chennai

Thank you. Thanks for taking my questions. My first question is on the receivables. I think since this receivable issue started in the early part of the last year, we kind of said that post December 2022, operator has agreed to increase his payout. But now it seems like all the hopes are based on their ability to raise the funds. So my question is, if they are not able to raise the funds, what are the options we will have at our disposal to collect the regular invoice amount plus the pending amount? That is my question number one.

Prachur Sah — Managing Director and Chief Executive Officer – Indus Towers Limited

Arun, thanks for the question. I think the situation is a little bit dynamic. So we are working with them to understand the funding situation and our actions will be based on what we receive. So, as Vikas mentioned, we have done a derisking of the balance sheet in the interest of the company’s shareholders, and we will continue to look at the situation on how the payments come and we will make calls accordingly.

Arun Prasath — Spark Capital — Chennai

So I was asking, as per your MSA and under the contractual terms, what are the options you have at your hand to collect in case they continue to prolong this delay?

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

So I think, Arun, as Prachur also mentioned, We are working closely, we are fully engaged with the customer, there are options that we are evaluating. We will certainly consult and take the guidance of our board eventually. So all those things are basically currently being evaluated. So it is very difficult, because it is a dynamic situation, it is changing every week, every month. so it is very difficult to really talk about any specific action right now, but certainly, I can assure you that there is a lot of focus from the senior management, as well as the board members to get to a solution on this one.

Arun Prasath — Spark Capital — Chennai

Okay. My second question is on the tower addition in the last one year. It seems that one of the anchor tenant added more than 25,000, 30,000 towers in, say, calendar year 2022, whereas in our case, of that, we have just got around close to 4,000 to 4,500 towers, so basically a market share of less than 15 percentage, whereas in the previous year, almost close to 45 percentage to 50 percentage. So how should we look at this from the market share perspective? Is it in some way related to our inability to invest because of the ongoing receivable issue? Or is it generally that we have been losing market share in the open market?

Prachur Sah — Managing Director and Chief Executive Officer – Indus Towers Limited

I mean, in general, this question can be answered in two parts. I think when you look at the market share, when it comes to macro sites, we are currently doing about 53% of the new builds. Where we started late in the game is probably the leaner towers, which we are starting to catch up now, and we believe we will be competing equally very soon. So I think that is what I would like to speak.

Anything else you want to add, Tejinder?

Tejinder Kalra — Chief Operating Officer – Indus Towers Limited

I think the volume wise, as Prachur rightly said, scale up of the macro towers is happening. Obviously, in some cases, if the operator has a sharing opportunity on a nearby tower, that always becomes their first preference because of the speed-to-market sometimes and obviously from a cost perspective, duplication of assets is avoided. But nevertheless, we are now scaling up the numbers and also trying to see how we can reduce the TAT for building up the sites as well and fit the demand towards the operator. So that scale-up is currently ongoing.

Arun Prasath — Spark Capital — Chennai

So going forward, can we assume similar kind of steady-state additions even if your anchor tenant does much more than, or continues with the current pace?

Tejinder Kalra — Chief Operating Officer – Indus Towers Limited

Our run rate in the coming quarters should increase given the requirement that we see from the operators and the way they are expanding the network.

Arun Prasath — Spark Capital — Chennai

Okay. Thank you, and as a follow-up to the fall in Capex question raised by the previous participant. The current Capex will continue to be higher than the Q2 we were, in the coming four quarters as well? The increase in this is close to around Rs.250 Crores to Rs.300 Crores on a quarterly basis. So that means annually there is a Rs.1000 Crore increase in the Capex.

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

Arun, unfortunately, we cannot give you any forward-looking view or outlook here. But pretty much like I explained the higher quarter three Capex spend is largely driven by the 5G augmentation and basically the increase in the momentum that we are seeing in our rollout. So, I think this sort of a stable business-as-usual investment is clearly that we see going forward.

Arun Prasath — Spark Capital — Chennai

Thank you. That is it from me.

Vandana – Moderator

Thank you very much, Mr. Prasath. The next question comes from Mr. Mitul Shah from Reliance Securities, Mumbai. Mr. Shah, you may ask your question now.

Mitul Shah — Reliance Securities — Mumbai

Thank you for giving me the opportunity. Sir, first question is on this exceptional item of Rs.4.9 billion. Sir, can you give some details on this?

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

Yes. So, as per the Indian Accounting Standard 116, which is on the lease accounting, basically the long-term revenue contracts have to be recognized on a straight-line basis over the contractual period and accordingly, there is a revenue equalization asset that gets created. Now, in the case of this particular customer because there is a challenge that is clearly visible to us, it is very uncertain that those long-term contractual revenues will be collected, so there's that element of uncertainty because of which we have impaired that revenue equalization asset pertaining to this customer, and that amounts to Rs.4.9 billion on our balance sheet, which we have impaired. So that is the exceptional item that we have disclosed in this quarter.

Mitul Shah — Reliance Securities — Mumbai

Any visibility over near-term in terms of similar amount or similar item could be repeated in coming quarters, or it is almost done?

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

So specific to this customer we have impaired the entire revenue equalization asset. Along with that, we have also stopped recognizing the revenue equalization-related revenue in this quarter, which is the Rs.0.7 billion I spoke about, and to that extent, obviously, we will follow a very consistent practice going forward.

Mitul Shah — Reliance Securities — Mumbai

Okay. Sir, second question is on provisioning- the Rs.22 billion-plus provision. Do you see now it is more or less done and the quantum could be much lower in coming quarters? Or still there is uncertainty on that side?

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

Again, that is a bit forward-looking, Mitul. So I would only say that, we have basically derisked our balance sheet to a large extent recognizing the uncertainty as far as the collections are concerned. Clearly, the higher payment plan that I was talking about in previous quarter, is dependent on the funding which has not materialized yet. So there is a higher uncertainty that we are facing. So accordingly, we have derisked the balance sheet by providing the Rs.23 billion roughly on account of the customer, which takes care of a large outstanding sitting on our balance sheet. Going forward there might be more provisions, but it is difficult to quantify at this stage, because like Prachur said, it is a dynamic situation, and a lot will depend on how the payments are received or the collections happen going forward. So, we will see how it goes.

Mitul Shah — Reliance Securities — Mumbai

Sir, in terms of revenue breakup, can you give approximate number, this customer's contribution currently?

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

Mitul, again, I mean, we really do not give customer-wise information because of the confidentiality that we have with the customer. So, unfortunately, I cannot help you with that.

Mitul Shah — Reliance Securities — Mumbai

Sir, last question on this earlier discussion that you were indicating that 4G is still ramping-up despite 5G already launched and we also indicated in one of the report that by 2027 40% would be the 5G penetration. So whatever could be the penetration maybe 20%, 30%, 40%, by what level of penetration of 5G you think that 4G will slow down or will go reverse.

Tejinder Kalra — Chief Operating Officer – Indus Towers Limited

So, Mitul, I think this question operators can obviously answer better. But what we are seeing from the scale of rollout the operators are doing, they are almost trying to get to, let us say, more than 90% of the sites with 4G coverage, and that means, all existing sites and we are also seeing a trend of fresh stand-alone 4G sites being set-up as well. Because of the handset penetration, probably, I do not think 4G is slowing down at the moment and 5G penetration of handsets all of us know where it is, at this moment. So we clearly do not see 4G stopping. Depending upon the geographic coverage and what strategy the operators would like to take on rolling out 5G and which cities and rural, how they want to handle it. Currently, the visibility which we see is still 4G expanding for some more time before we can say 5G is the only technology growing. We see both happening for now.

Mitul Shah — Reliance Securities — Mumbai

Thank you and all the best.

Prachur Sah — Managing Director and Chief Executive Officer – Indus Towers Limited

Thank you.

Vandana – Moderator

Thank you very much, Mr. Shah. The next question comes from Mr. Kunal Vora from BNP Paribas, Mumbai. Mr. Vora, you may ask your question now.

Kunal Vora — BNP Paribas — Mumbai

Thanks for the opportunity. My first question is on the receivables. So is it fair to assume that most of the old receivables are now provided and the receivables which you have now are mostly for the current quarter? And also, this quarter, the receivables increased by about Rs.8 billion excluding the provisions. Going forward, is that a trend which you can look at? And what is the payment understanding you have now from the customer from whom you are not receiving payments?

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

Yes. Thanks, Kunal. So, I think a substantial part has been derisked with this provision that we have created in this quarter, and as far as the payment understanding is concerned, like we said earlier, the discussions are ongoing. We have not received any sort of new payment plan or a revised payment plan. So pretty much, we are still hoping for the current payment plan to sort of guide us as far as the future is concerned. So we are in discussions and if there is any update, eventually we will let you know. But right now there is no revised payment plan that we have.

Kunal Vora — BNP Paribas — Mumbai

Sir, just to understand, like October to December whatever billing you have done, what proportion of that you would have collected?

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

I think, I would say basically, a significant part was collected, but certainly it was less than 100%. So because these percentages do vary, I really do not want to peg a percentage here, but rest assured that we are collecting a substantial part, but there is still a part that remains uncollected, which is why our receivables are going up, and we are working on this.

Kunal Vora — BNP Paribas — Mumbai

Sure. Sir, my second question is on the advantages and disadvantages of leaner towers. Would you consider shutting some of the macro towers and replacing them with leaner towers? Are there any Opex advantages and if you can talk about the Capex, Opex economics for the leaner towers? Incrementally should we expect mostly leaner towers getting constructed?

Tejinder Kalra — Chief Operating Officer – Indus Towers Limited

See, leaner towers both from a Capex spend perspective, as well as from an Opex perspective for the operator are definitely economical and depending upon the rural or the urban requirement because for urban if densification is to happen, there are very few possibilities of setting up these macro big towers, and a lot of rural and lean sites are now getting into the rural densification of the network.

When it comes to the rural coverage, still there are certainly ground base sites that need to be set-up, but those structures are also becoming leaner and therefore, Capex wise economical and Opex wise economical as well.

Coming to whether we will be shutting down any of the towers, I do not see that happening, unless otherwise in some cases where because of the operator network orientation reasons they choose to exit any site, and if a tower is becoming vacant, we will, obviously, in that case hold up the tower and kind of exit there. But other than that, we do not see anything like that coming to us from the operators for now, where they want to close down the bigger towers and go to the smaller ones. The new ones are certainly being set-up as the leaner structures to a large extent.

Kunal Vora — BNP Paribas — Mumbai

Sure, and the leaner towers, what is your return expectations? Assuming that there is a single tenant, what kind of return on capital would you expect for these towers?

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

Yes. Typically, I think we have shared this in the past also, Kunal. I think for leaner towers, because they are Capex light, Opex light sort of structure, our return profile is better than the macro towers at a single tenancy level. So typically, we get somewhere, let us say, high-single-digit to a low-double-digit sort of a return profile from the leaner towers. But again, it depends on geography, on the circle, various other factors, but broadly, high-single-digit to low-double-digit.

Kunal Vora — BNP Paribas — Mumbai

Sure. Sir, I have one last question, which is even as we saw the growth Capex increase, we did not see any increase in rental revenues. So would that happen with a lag?

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

Yes, certainly. I mean, the growth Capex that you see is basically, like I said, a lot of it could be work in progress as well. So certainly, the revenue will happen with a lag. But like I said, I mean, when I explained the sequential growth and the year-on-year growth, there are other factors also because of which you do not see that in the numbers yet.

Kunal Vora — BNP Paribas — Mumbai

Okay. That is it from my side. Thank you very much.

Vandana – Moderator

Thank you very much, Mr. Vora. The next question comes from Mr. Siddharth Gupta from Voyager Capital, Mumbai. Mr. Gupta, you may ask your question now.

Siddharth Gupta — Voyager Capital — Mumbai

Good afternoon, sir. I must express my disappointment with the evasive answers with regard to the operator that we are not naming because, I mean, it is quite obvious that the Board is cognizant of the fact, and they will be engaging with the Company. My question is twofold. Firstly, do we again fixed sort of payment like you are negotiating on a payment plan, do we have any security from the operator in terms of one of their foreign promoters stake in our existing companies left with us? And if yes, does the Board have a contingency plan as to when would this be encashed against their particular payment? Because this is clearly hurting the company on a very, very deep level, and the security being shares of our own company, the market cap of which is eroding rapidly. It is a major cause of concern for all investors. If the management could shed some light and that would be great. Thank you.

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

Yes. Sure, Siddharth. So, I fully acknowledge the concerns that you have raised, I think clearly, like we said earlier, all of us are working on this particular issue. It is a serious issue we realize. As far as the payment plan and the security is concerned, if you look at the history, we were certainly secured to a large extent through the primary pledge from the promoters, and that was sort of monetized through a deal back in the quarter four of last fiscal, and we did receive the proceeds of that in the month of March and subsequently some more in the month of May and June. So we did manage to control our receivables with the security that we had. Subsequent to that, we do hold some secondary pledge on some more shareholding of one of the promoters. But because that is a secondary pledge, we do not think there is much value left in it based on the market share price today, etc. So pretty much the trade receivables that we have with the customer are largely unsecured at this point of time, and as I said earlier, we are working towards the resolution. But there is no sort of revised payment plan or an update on the payment plan yet.

Siddharth Gupta — Voyager Capital — Mumbai

Okay. So, does the Board have a tentative mindset as to by when do we call it quits and we drag the Company towards being, say, the IBC or till when do we negotiate with the Company at within a timeline, like even if it is a broader one that could be presented to the investors?

Prachur Sah — Managing Director and Chief Executive Officer – Indus Towers Limited

Yes. Siddharth, I think to be honest, currently, we are discussing with the Board as well. I think we are engaging with the customer. So as Vikas is also mentioning, as we move forward and depending on the payments that we get, we will enact that plan and will share with you. But as of now, our intention is to keep working with the customer, and we are all fully cognizant of what needs to be done as well. So, we are working on that.

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

I just want to add, Siddharth, that until December the payment plan basically envisaged the part payment of the dues and that plan has been met. So January is pretty much the first month wherein a higher payment plan needs to materialize and we are watching that situation very closely.

Siddharth Gupta — Voyager Capital — Mumbai

Okay. Thank you so much.

Vandana – Moderator

Thank you very much, Mr. Gupta. The next question comes from Mr. Sachin Salgaonkar from BofA, Mumbai. Mr. Salgaonkar, you may ask your question now.

Sachin Salgaonkar — Bofa Securities — Mumbai

Hi. Thank you for the opportunity. Couple of questions. I think in your press release you guys indicated that there are challenges with one of the operators to comply with your higher payment plan in the future. So the question now here is, if one operator can't pay higher payments, then what incentives do other operators have to comply to that higher payment? Because anyways you guys are not taking any significant action against that operator, right? You are not shutting down their towers, you guys have no secured amounts from that. So, I mean, at some level other customers of yours are forced to pay slightly higher, which, one of the operators is not doing. So how do you resolve this issue between all three operators?

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

You are raising a very interesting point, Sachin. I think first of all, we need to understand that as per the MSA, if there is any delay in the payment, the MSA provides for the interest to be charged for the delayed payment. So, it is a very important point because the customer who is delaying payment is basically charged interest. So if the other customers adopt a similar way to delay payment, then there will be an interest cost involved. So that is one factor.

The second important factor for us to realize is, it is not the same situation with all customers. I mean, our customers are at different stages. We have one customer with a very difficult financial situation, very stretched financial situation as we all know, whereas the other two customers are that way healthy. So, I do not think, simply because one of the customers has less ability to pay should really put a question on the ability of the other two customers. So currently we are not seeing that situation, and I hope we will sort of continue to see cooperation from other customers.

Sachin Salgaonkar — BofA Securities — Mumbai

Okay, and what is the probability that you guys might waive off that interest payment from one of the customers who is not paying? Because we are not able to collect the current money and we are also expecting interest to be collected, right?

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

Yes. So, we have collected interest from the customer. So, it is not that we are waiving off, and that is reflected in our finance income in this quarter. So, we did manage to collect interest on the delayed payments.

Sachin Salgaonkar — BofA Securities — Mumbai

Because one of the statements what you guys have also mentioned in your press release is that ability is a going concern of this entity. If that is the scenario, how should we look at that?

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

Well, we have relied on the auditor statement and basically the entity is seen as a going concern, of course, with some dependencies on their lenders and other parties. But I think we sort of maintain that position. If there is any change in that position accordingly, we will do the needful.

Sachin Salgaonkar — BofA Securities — Mumbai

Okay, and when could we get an update? Because for last more than one year, obviously, you guys are engaging with the customer. Your Board is cognizant about that, and I do acknowledge it is an evolving situation. But how far are we away from getting some kind of a resolution, assuming there is no fundraising happening at that operator?

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

I think if you look at it that way, we have been progressing on this. It is not that we have not made progress. So, at different stages in different quarters, we have made progress and we have updated. Like I said, till about March quarter and the June quarter, we had the security, and we were monetizing that security and managing receivables. Thereafter, we did engage with the customer and negotiate a payment plan, and we were sort of working towards that plan, obviously, subject to the fundraising, which has not materialized. So, there are discussions ongoing and we are keeping the investors updated on that, and if there is any further update, we will certainly let you know.

Sachin Salgaonkar — BofA Securities — Mumbai

I know you guys are making progress, but sometimes it looks like one step forward two steps backward, right, because again, we are seeing an additional allowance of doubtful debt, which has been taken again. So I just wanted to understand when we come at a point where we could see a sort of a decent amount of resolution? And a related question is, do you even think about taking a call on shutting down certain towers or sites, or that is not even something which is under consideration?

Prachur Sah — Managing Director and Chief Executive Officer – Indus Towers Limited

So, Sachin, if I may say, I think the question that you have asked is a very pertinent question. I think the question on what actions we take on operations, what actions we take on collection is, it depends on few other things. As Vikas mentioned, there was a payment plan agreed with that customer for the quarter ending December, which they met, and there was a higher plan that was to be met in January. So, we are working very closely to monitor that situation. Depending on how that payment plan gets activated, we will take the appropriate actions.

Sachin Salgaonkar — BofA Securities — Mumbai

Okay. Thank you.

Vandana – Moderator

Thank you. The next question comes from Mr. Giriraj Daga from K M Visaria Family Trust, Mumbai. Mr. Daga, you may ask your question now.

Giriraj Daga — K M Visaria Family Trust — Mumbai

Yes. Hello sir. Again, in the same point on the receivable side of it, just to get some broad things right. As from my understanding, the receivables total outstanding, including the gross up will be closer to Rs.80 billion, 85 billion, and the numbers look scary, because that is the last year PBT also, when I look at last year FY2022 PBT that was Rs.85 billion. So, the point is that, will we continue to make the new receivables which will look outstanding because everybody is asking the same question? How far we will continue to go? In terms of priority ranking we understand you have already given that in terms of unsecured receivables has not been the priority. So is the Board aware about that? Secondly, when we look at it like this, it looks like we are compromising the share of the minority interest shareholder. So that way like, is Board is taking any action? Or will we continue to make new receivables?

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

So, Giriraj, I think we will be belaboring this point a bit. Clearly first of all, the receivables figure that you are computing on a gross basis, I presume that is all customers. So yes, we have a receivables issue, and I can only assure you that we are not compromising. We are working in the best interest of the shareholders. There are various options, and we are basically evaluating those options to ensure that we do not do something which will have a long-term erosion. So, the Board is fully involved, the senior management is fully involved, and rest assured that we will take the right action. Now, simply taking an operating action and as you are envisaging, reducing services, or shutting down services, well, there are those options. But that may not be in the best interest. So, we are evaluating, and we will take the right action when the time comes.

Giriraj Daga — K M Visaria Family Trust — Mumbai

Lastly, any kind of cut-off date?

Prachur Sah — Managing Director and Chief Executive Officer – Indus Towers Limited

To be honest, it all depends on how the payment plan pans out. This is a discussion, and we will keep you updated. I think it all depends on how the payment pans out and the fundraising visibility we get. So, I think based on that, we will take the action.

Giriraj Daga — K M Visaria Family Trust — Mumbai

Okay. Thank you.

Vandana – Moderator

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

Prachur Sah — Managing Director and Chief Executive Officer – Indus Towers Limited

To sum up, I think despite the situation that we have all discussed just now, we remain confident on strong business fundamentals, both on the 5G side and the growth that we are seeing on the towers. The 5G journey that the industry has embarked upon makes this a very exciting phase as I outlined in the beginning of my commentary. We believe there are strong catalysts in the telecom space that will help industry continue to be on the growth trajectory. I thank you all for joining the call. Have a good day. Thanks.

Vandana – 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.