

Transcript of Indus Towers Limited First Quarter Ended June 30, 2021 Earnings Call

Conference Call Transcription

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CORPORATE PARTICIPANTS**Bimal Dayal**

Managing Director and Chief Executive Officer – Indus Towers Limited

Vikas Poddar

Chief Financial Officer – Indus Towers Limited

Kaustav Neogi

Finance Controller – Indus Towers Limited

CALL PARTICIPANTS**Kunal Vora**

BNP Paribas - Mumbai

Sanjesh Jain

ICICI Securities - Mumbai

Vivekanand Subbaraman

Ambit Capital - Mumbai

Pranav Kshatriya

Edelweiss – Mumbai

Arun Prasath

Spark Capital – Chennai

Vishnu K G

JM Financial – Mumbai

Neerav Dalal

Maybank Kim Eng Securities - Mumbai

Rajyita - Moderator

Good afternoon, ladies and gentlemen. I am Rajyita, the moderator for this conference. Welcome to Indus Towers Limited First Quarter ended June 30, 2021 Earnings Call. For the duration of the presentation, all participants' 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 Limited.

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 – Managing Director and Chief Executive Officer – Indus Towers Limited

Thank you. Thank you all for joining us on the earnings call of Indus Towers for the Quarter ended June 30, 2021 and a very good afternoon to each one of you. Joining me on call today are Mr. Vikas Poddar our CFO and Mr. Kaustav Neogi, Finance Controller and currently handling Investor Relations.

Whenever we remember the first quarter of FY22, we will remember the tough times of wave 2 of the pandemic that we all witnessed. At the peak, there were almost 442 live cases in the Indus family who were all well supported by Indus. We did lose some of our brave hearts and each one of them is and will be missed. We are and we will certainly stand by the bereaved families and support them for their wellbeing, true to the purpose of our existence.

The current pursuit is to vaccinate all, and we are encouraging and supporting this activity. This as you know took away a good part of Quarter 1. While we were addressing the challenges presented by the pandemic, we were hit by two cyclones, Tauktae and Yaas. These cyclones were unprecedented in scale in recent times and impacted areas that were not earlier prone. This can be very well seen in the fact that while cyclones in Quarter 1 of financial year 2021 impacted four circles, this time 13 circles bore their brunt. Despite these challenges, the Indus field force enabled connectivity by maintaining the network, which served as a lifeline to the society. There have been several stories, really heartwarming stories of our brave hearts from the field who battled the flooded

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areas amidst the pandemic, armed with boats and their passion to reach the towers on time and make sure that the network does not go down.

I salute their efforts in maintaining the vital connectivity for the larger good of society. While all this was played out on one side, Indus team came together to deliver the critical step towards completion of the merger, which is the integration of IT platforms. I am very happy to share that in a short span of 8 months, the team has brought all the 22 circles to a common platform, tools and systems. We are now truly one company operating with uniform processes, uniform IT platform and uniform ways of working PAN Indus.

On the operational and financial front, this has been a good quarter even though the lockdown brought all the activities to a standstill for a good part of the quarter. We added 1,772 towers and 2,917 co-locations with a healthy year-on-year growth of 7% and 5% respectively and a steady tenancy ratio as well. Our tenancy ratio at the end of the Quarter 1 stands at 1.8.

Let me touch up on the market now starting with the demand. Replicating the first quarter last year, the pandemic again posed significant challenges during the first 2 months of the quarter with June witnessing a much-anticipated pickup in the economic activities with the reopening of the economy. The active subscriber base of our customers has increased by 997 million in April and 986 million in May 2021, up by 2% as compared to the last year. What is interesting is to look at the data growth, India continues to witness a strong data growth trends with an overall data demand growing by an astounding 32% year-on-year, the base itself is fairly large, so this is very respectable growth. This is commendable since data volumes have grown exponentially in last 4 to 5 years. I think the CAGR here is almost 72%. This is a surrogate test for industry like ours and this augurs very well for our industry. Another positive development is 5G wherein trial spectrum was allocated by DoT across various bands including 700 MHz, 3.5 GHz and 26 gigahertz and all the operators are conducting tests trial in various metro and tier 1 cities. The commercial rollout will require investments in infrastructure and we as a company are ready to cater to those requirements of our customers and support them. We saw some activity in IBS space as well, which we believe is the precursor to 5G rollouts.

Coming to the recent AGR ruling, while this was an adverse impact on the sector, our belief in doom and gloom consolidation scenario is relatively less. We believe that telecom sector will continue to remain a three-player market. Recently announced tariff hikes by one customer could end up being a positive for the sector.

With this, I would like to hand over to Vikas to take you through financial results. Over to you, Vikas and I will look forward to this interaction in your question. Thank you. Over to you, Vikas!

Vikas Poddar – Chief Financial Officer – Indus Towers Limited

Thank you, Bimal and good afternoon everyone and thank you for joining this first quarter earnings call for the results of Indus Towers. As Bimal mentioned, despite the challenges of lockdown and the natural calamities in most parts of the country during Q1, we have seen a decent commercial momentum that has translated into a stable Q1 in terms of financial performance. So, I will be covering some of the key financial outcomes for Q1 following which we can move into the question and answers.

We have seen a good growth in revenue and earnings in Q1 both from a sequential as well as from a year-on-year perspective. It is worth noting that the strong year-on-year growth rates in our numbers are relative to Q1 last year and reflects the impact of some of the accounting practices that were aligned post-merger.

So, starting with the revenue, our revenue was up 11.7% year-on-year to Rs.68 billion and within this our core revenue that is driven by rentals was up 8.1% year-on-year. Even on a quarter-on-quarter basis, that is more comparable, our core revenue has grown 1.7%. Our EBITDA was up by 13.1% year-on-year and 3.4% quarter-on-quarter to Rs.35.3 billion and this is with the continued focus on driving operational efficiencies in the areas of rentals, network cost and energy. This was also despite the fact that the energy margin in our business continued to be in the negative territory, as we continue to be in pass through model in Q1. We are still negotiating with our customers to revert to the fixed energy model. Our profit after tax was up 26.3% year-on-year and 3.8% quarter-on-quarter to Rs.14.2 billion.

The company generated OFCF, operating free cash flow, which is defined as EBITDA, less capex, less repayment of lease liabilities of Rs.20.4 billion in Q1, which was approximately 36% higher compared to previous quarter and this was mainly due to lower capex in Q1 and also slightly better EBITDA margins. However, our free cash flow after working capital changes was lower than expected due to increase in trade receivables, which was partly due to some timing issues that have subsequently been resolved in July and then there is one of our customers who is taking additional time to make payments. We are working closely with our customers to ensure that there is right level of support to manage this. Furthermore, we also have the security package and hence we believe it is a timing issue for now.

Our return on capital employed for the quarter based on trailing 12 months financials, stood at 22.9%, which was higher both on Q-o-Q and year-on-year basis. This was based on earnings growth that included the one-off benefits or the adjustments on account of the accounting practice alignment that happened post-merger. The post-tax return on equity on the other hand has been broadly stable at 30.4% in Q1.

So, overall, in summary, a stable Q1 as Bimal mentioned and with this I would like to turn it over to your questions, please. 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 constraints, 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 star 1 on their touchtone enabled telephone keypad. On pressing star 1 participants will get a chance to present their questions on a first-in-line basis. To ask a question, participants may please press star 1 now.

The first question comes from Mr. Kunal Vora from BNP Paribas, Mumbai. Mr. Vora, you may ask your question now.

Kunal Vora - BNP Paribas - Mumbai

Thanks. My question was partially answered, but this spike in receivables from 33 billion to 53 billion, you already have about 2,400 Crores received from VIL, can you explain why the receivables have increased despite this and also regarding the security package, if you are not able to collect the dues, at what point will the corporate guarantee be triggered? So if you can answer this then I will go with the next one.

Bimal Dayal - Chief Executive Officer - Indus Towers Limited

Thanks, Kunal. Vikas, maybe you can take this one.

Vikas Poddar – Chief Financial Officer – Indus Towers Limited

Thank you for the question, Kunal. So, I think as I said in my opening commentary, the receivables have gone up and part of the reason is the timing issue as I was mentioning, which has been subsequently resolved in July and then of course there is some additional time that one of our customers is taking. So, I think currently the fact that there is a bit of financial stress in the sector is well known and that is impacting our situation as well. However, I think we are working very closely with our customers to manage this and we also have the comfort of the security package. Coming to the security package, I think while it is in the best interest of our company and for the sector that we work together with the customers to recover the dues in the normal course of business. I think we are ready to use the security package at an appropriate time in an appropriate manner and it is also worth mentioning that there are conditions embedded in the contract that ensures that the concerns of both the parties are addressed before we resort to any security. So, I think that is where we are, Kunal.

Kunal Vora - BNP Paribas - Mumbai

Just wanted a clarification, you already have received advance payment.? So, why is that not being used? Why is an adjustment not being made against that?

Vikas Poddar – Chief Financial Officer – Indus Towers Limited

I think we disclosed this in the previous quarter that the advance payments were fully consumed.

Kunal Vora - BNP Paribas - Mumbai

Understood and my second and last question is on the energy cost. What is the variable cost and what is the fixed cost assuming that instead of two tenants if there is a single tenant, is it fair to assume that there will be no impact on your energy margins and also would the energy cost go down by almost 50% if there is a single tenant on a tower instead of two?

Bimal Dayal - Chief Executive Officer - Indus Towers Limited

Kunal, this is Bimal here. If I understand your question right, you are actually looking at if the tenancy ratio changes, how would the energy cost go up or down? Obviously, here the bigger thing is the actual consumption and an actual set of sites which are going up or down, so using a thumb rule here might not be a right measure. Needless to say that with one tenant going out, obviously substantial portion of the cost also comes down as well, but I do not have a measure.

Kunal Vora - BNP Paribas - Mumbai

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No, I just wanted to get some sense like say currently you have a 2% to 3% negative energy margin. Hypothetically if tenant goes, would that 2% to 3% go up or would that 2% to 3% hold at current level or at least very close to current level?

Vikas Poddar – Chief Financial Officer – Indus Towers Limited

I think the 2% to 3% first of all is basically an aggregate energy margin and in percentage terms, I do not think it will change much unless we move to the fixed energy model. So I would say it is less dependent on the one tenancy or two tenancy. It is more about whether we continue in the pass through or move to fixed energy. What will happen under the fixed energy model is of course there will be more focus on energy saving initiatives and investments, which will then drive the margin in the positive territory.

Kunal Vora - BNP Paribas - Mumbai

But would you be willing to incur the capex in the current situation when there is uncertainty about sustainability of one of the tenants. I mean, fixed model will require capex from your side and you will have to build-in so that certain amount of tenancy will continue?

Bimal Dayal - Chief Executive Officer - Indus Towers Limited

This is Bimal here. If I take this discussion back to the fixed energy regime, I think there we have been saying that this becomes a win-win situation because what we do is, we spend good capex, we bring the energy costs down as well through the capex intervention and we actually share what we save with the customers and for us as well. Hence, irrespective of let us say the tenancy or anything, there is a good opportunity of going into the FEM regime and obviously abating the current negative results as well on the energy.

Kunal Vora - BNP Paribas - Mumbai

That is it from my side. Thank you very much, Sir.

Rajyita – Moderator

Thank you very much Mr. Vora. 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 and good afternoon, Bimal and Vikas. Couple of questions from my side. A little bit more clarification on the receivables. You said that the increase was on account of two count. One is, there was a timing difference and the other one was delay by a customer. So, can you quantify how much was it because of the timing difference, which you said got resolved in July out of the increase we have seen?

Vikas Poddar – Chief Financial Officer – Indus Towers Limited

Thank you so much. I think I would say broadly 25% was driven by the timing difference that has got resolved and the rest was the extra time which is being taken by one of our customers.

Sanjesh Jain - ICICI Securities - Mumbai

Have you also changed the provisioning norms for the receivables in this case because now we have voluntarily allowed them or we are ready to support them in that case, are we changing the policy for the provisioning also in case of receivables?

Vikas Poddar – Chief Financial Officer – Indus Towers Limited

No, the provisioning norms remain the same. So, there is no change, if there is any change in the accounting policy or practice, we will certainly let you know.

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Sanjesh Jain - ICICI Securities - Mumbai

That is helpful. Second on the cost side, this quarter has been quite difficult on the cost side because of the hurricane and all, but it really does not show in your P&L. P&L shows much better situation, our other expenses were down 57%, the increase and repair and maintenance was just 5.7%. What explains this cost movement?

Bimal Dayal - Chief Executive Officer - Indus Towers Limited

I think Vikas can fill in the details, but I think on the support part side, there has been less activity and I think there is some amount of deferment in that cost as well which we would probably see in the coming quarters because I think this was more of a one month of support. I think one of the things which the cyclones have done is increased our costs when it comes to power and fuel. So these are the places where you would possibly see the increase of cost.

Vikas Poddar – Chief Financial Officer – Indus Towers Limited

Just to add to what Bimal said, Sanjesh, in terms of bit of details and colour, I think the network maintenance cost is lower partly because we have been really focusing as I was saying on the operational efficiency. So, we have been focusing on bringing down the cost in network maintenance plus I think somewhere there is also a bit of timing benefits because of the lower level of activities given the lock down situation. Other expenses is lower mainly because we get most of the municipal taxes towards the end of the year and those were not reflected in Q1 and to your point I think the cost of the cyclone impact, etc., was manifested largely in the power and fuel as Bimal mentioned.

Sanjesh Jain - ICICI Securities - Mumbai

I was looking at other expenses more from Y-o-Y basis that has been sustainably coming down, so in our proforma what we have disclosed for Q1 2021 that was close to Rs.2.7 billion, it came down to as low as Rs.1 billion, but we called off telling that there was a one off in Q3 2021, then again it went to Rs.1.5 billion in Q4, now again Rs.1.2 billion. Just wanted to understand what is the steady state other expenses for us to build in our modeling?

Vikas Poddar – Chief Financial Officer – Indus Towers Limited

Well, in terms of the year-on-year, we also had some bad debt provisions in the same quarter last year, which were captured in the other expenses, so you do see a drop with bad debts coming down, etc. In terms of the steady state, I think it is a steady state, what really makes the difference is the municipal tax bills that we do not get on a regular basis. So, otherwise I think from an underlying business perspective this is pretty much steady state.

Sanjesh Jain - ICICI Securities - Mumbai

Got it. I got two more questions if I can?

Bimal Dayal - Chief Executive Officer - Indus Towers Limited

Well we can revisit Sanjesh, if we have time, if that is okay with you?

Sanjesh Jain - ICICI Securities - Mumbai

Yes, that should be fine with me. Thank you.

Rajyita – Moderator

Thank you very much Mr. Jain. The next question comes from Mr. Vivekanand Subbaraman - Ambit Capital - Mumbai. Mr. Subbaraman, you may ask your question now.

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Vivekanand Subbaraman - Ambit Capital - Mumbai

Thank you very much for the opportunity. If I add the churn of tenancies during the current quarter and the notices received for which exits have not yet happened, I get a number of 4,741 tenancies, which compared to the previous quarter notices received but exits not being recorded of 4,711. So, does it mean that during the current quarter the exit notices for only 30 sites were received?

Bimal Dayal - Chief Executive Officer - Indus Towers Limited

Look, I think these are running numbers and I can only add a high level color to the exits here. We did receive or we did see a lower churn. On the substantiation of this number, maybe I will request Kaustav to give you a little bit of details here.

Kaustav Neogi - Finance Controller - Indus Towers Limited

I think the way to look at it is like a bucket wherein you get fresh churn coming in and at the same time we will have actual churn happening, as you know our practices to report churn on the basis of notice received. So, I think looking at a net movement may not be proper, having said that there are timing issues always here and there. Notices have been received and actual exits have not happened. So, to assume 31 is not right, but the actual churn numbers of this quarter is also low, we can take it offline if you want exact reconciliation.

Vivekanand Subbaraman - Ambit Capital - Mumbai

Sure, just one small followup just to understand this better, directionally where do you see the churn from operators that are currently realigning their networks?

Bimal Dayal - Chief Executive Officer - Indus Towers Limited

Look, I think I would like to answer this question looking back. I think we had major concerns few quarters back when I think churn became extremely significant. I think where we stand we have lowest churn which we are declaring in the last few quarters, what does it tell us about the network. I think large realignments are behind us for now as well and I think there is some amount of stability where we sit. Now drawing a line and saying we would remain at this level might not be right, but I can only say looking at the hindsight yes, the worst of the previous realignment is over and I think we are sitting at a good spot right now. But I would not hazard a guess whether we will remain here going forward.

Vivekanand Subbaraman - Ambit Capital - Mumbai

Alright, thank you.

Rajyita - Moderator

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

Pranav Kshatriya - Edelweiss – Mumbai

Thanks for the opportunity. Lot of my questions has been answered. I just wanted to understand how much time you think it will take for us to get clarity on this energy margin thing. Are we moving to fixed price or pass through model will continue and second is that I just also want to understand, if we move to fixed price will it be more retrospective or we will possibly be looking at prospective?

Bimal Dayal - Chief Executive Officer - Indus Towers Limited

Pranav, two questions from your side, one is around when do we get into the fixed energy model and second whether it would be retrospective. So, I think let me admit that our track record on saying when we would enter and what we have delivered on this one is not too good. We have been pursuing this very passionately with our customers. I think if I go back in time, both the customers I would say went and discovered their baseline and that baselining activity is pretty much over and that is what actually gives us this confidence besides the engagement which we are having. I think some of the events which keep on taking precedence over closure of such activities is also not helping the cause here. Our belief and I think it is quite strong belief that with FEM our cause is very

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clearly aligned and obviously there comes a time wherein you cannot save the energy cost, till such time you actually inject capital and make sure that we put in solutions for the energy cost reduction. Hence we are actually fencing and every quarter we are closer than before as well, but to be honest, it has not happened and our efforts only increase with our customers. So, I don't think I would hazard a guess on this one because we did mention that we were hopeful of signing this in the previous quarter as well. We would continue our efforts. I would certainly say that this could be a month or two retrospective, but I think these things are mostly prospective as well when we sign. So it depends on how this thing goes, but I do not see it largely retrospective, this signing off would be prospective.

Pranav Kshatriya - Edelweiss – Mumbai

Thank you. I will we come back in the queue.

Rajyita - Moderator

Thank you, very much Mr. Kshatriya. 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 for the opportunity. My first question is on the small cells. You also mentioned in the opening comment that IBS, there is some activity happening and passing in that front. So, despite that telcos have rolled out lot of small cells in the last 3 to 4 years, but they have mostly done on their own balance sheet rather than giving orders to the tower co. So, my question is what exactly does Indus need to do differently prospectively for us to capture this opportunity?

Bimal Dayal - Chief Executive Officer - Indus Towers Limited

Arun, thank you very much for this question. If I understand your question right, I did allude to in my opening speech around the 5G activity wherein some of the activity in in-building space has popped up as well which I think is in anticipation of rollout of 5G, but your question is more around small cells and IBS solutions. You are right I think there is a larger rollout which is taking place by the operators themselves, but I think there is traction happening on this side as well though we do not get into how much of small cells we have rolled out, but we continue to increase our expertise and our engagement on this account as well. What is it that Indus can or is doing differently on this account? I think I will link it to two things, we are reorganizing ourselves when it comes to addressing these new adjacent business opportunities as well with extremely focus group within our group as well. However, I would like to park this question and take the focus to something which I have been saying, that while we have managed to tick most of the boxes when it comes to our merger I think there is one box which remains to be ticked is the strategy box and I think when we come and engage with you around this aspect, I think we will reveal not only what we are doing in terms of our focus but also how we will be aligned to gather a bigger piece of cake not only in space of small cells or IBS or the adjacencies, we would address this as a holistic piece as well. I certainly believe that while a lot has happened during this lockdown quarter, I think this is one thing which requires a lot of people to possibly gather, collaborate and agree on the strategy, so if we get very clear 3 months of this quarter, we will certainly come back and give you more color and details. Rest assured that this is very high on our agenda and we would share this with you soon.

Arun Prasath - Spark Capital - Chennai

We will be looking forward to that piece. My second question is that last year Bharti Airtel added close to 20,000 towers, which is one of their best in the recent years. In one sense they still have quite a big gap with Jio. So, considering all this what kind of new tower orders you are looking at say in 2022 and 2023, any color on that?

Bimal Dayal - Chief Executive Officer - Indus Towers Limited

Look I do not think we give the forward on the numbers as well, if let us say our history is any surrogate to the future, I think I have been talking about historical additions during the pandemic, I have been actually talking about the data growth which actually continues, I think I did face the questions here around the spectrum auctions and the impact there of as well and I think some of the answers are coming just within two lines when we actually share the actual rollout numbers as well. So my take is, I think as long as we have this robust demand and in the same breath I did mention what is coming in the horizon which is 5G and a very good competition on both quality and throughput as well in both 4G and 5G, any such network activities really augur well for us as well and you can go into the history as well but I cannot give you any forward numbers here besides this.

Arun Prasath - Spark Capital - Chennai

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Thank you.

Rajyita - Moderator

Thank you very much Mr. Prasath. The next question comes from Mr. Vishnu K G from JM Financial - Mumbai. Mr. Vishnu, you may ask your question now.

Vishnu K G from JM Financial - Mumbai

Thanks for the opportunity, Sir. So, just on the security package, could you remind us what are the security packages currently available because if I remember rightly we had a primary pledge of Rs.40 billion worth of shares and secondary pledge is on top of it. Given the changes in share prices is there any clause to top up these shares as and when required. If you could update on that, it will be helpful?

Vikas Poddar – Chief Financial Officer – Indus Towers Limited

Thank you, Vishnu. So, I will probably just recap on the security package that we had shared with everyone in Q3. So, I think at the first layer we have a primary pledge of 190 million shares, which are owned by Vodafone Group in Indus Towers and then in the second layer we have a secondary pledge owned by Vodafone Group and these are basically pledge which ranks behind the Vodafone's existing lenders who had lent against its Indian assets and the maximum liability cap under the secondary pledge that we have is Rs.42.5 billion. So, the first pledge is basically shares that is obviously dependent on the market value and then we have the secondary pledge. So that is basically broadly the security package that we have. In terms of the top up, there is no provision for any top up beyond this security pledge, but as we mentioned in the beginning, the security pledge currently adequately covers Indus Towers for any exposure.

Vishnu K G from JM Financial - Mumbai

Thanks, this is really helpful, and my second question is the consultation paper by TRAI on sharing of active infra. Could you please update on the process on the consultation papers and when do you see this being completed? Thank you. That will be it.

Bimal Dayal - Chief Executive Officer - Indus Towers Limited

You mean the active sharing part, and would it be in light of what Indus Towers is doing on that, could you be little clear with your question, Vishnu?

Vishnu K G from JM Financial - Mumbai

Sure, Sir. I was looking more from a macro regulatory perspective. So, my understanding is that in active sharing there was discussion on taking it forward at an industry level. So, could you please update on what are the regulatory challenges and what is the exact regulatory process on that?

Bimal Dayal - Chief Executive Officer - Indus Towers Limited

Well, I would possibly turn this towards where we let us say Indus Tower stands as well. I do not think I would like to get into the regulatory aspects of it. I do believe that if past is something to be called out, I think the success factor of let us say active sharing has been fairly time bound and fairly low. We have actually seen this played out in our markets as well in the past. So, I would possibly not lose my heartbeat to start with on this one; however, with the current proposition on the table, I think it changes things a little bit, which I would certainly like to keep it as the whole story unfolds. So, I would not like to comment any further on active sharing, Vishnu.

Vishnu K G from JM Financial - Mumbai

Thank you. That's it and all the best.

Rajyita - Moderator

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

Neerav Dalal - Maybank Securities – Mumbai

Thank you for the opportunity. Just on the outlook going ahead, how do you see the tower addition panning out and in terms of margins we have seen smart improvement on margins ex of energy. How should one look at that going ahead?

Bimal Dayal - Chief Executive Officer - Indus Towers Limited

Neerav, thank you for this question. You know if you go back in time, Neerav, I think we have been answering this question through our performance during these times as well. I think in last two quarters we are having highest ever net addition of towers. I think this from a new tower rollout, it is completely unprecedented. I think if you look at the pace of our rollout, this quarter is certainly not skewed as it used to be, which will give you certain clues around the broad basing of our rollout, which I think allays some fears around just a single tower. Now as the exits taper off we certainly believe that more and more broad basing rollouts will take place and we do believe that the data requirement or data consumption continues with this kind of CAGR, I do believe that requirement can be certainly extrapolated as well. For how long, I think this is a question which no one can answer at this moment. With 5G on cards, the newer trials coming in and new used cases which are being pumped in, I do believe that we have a healthy participation when it comes to growth of our infrastructure. Please pardon me Neerav but I do not think there is any forward numbers that can be shared in the growth, but I am very optimistic around continuing march towards both.

Neerav Dalal - Maybank Securities - Mumbai

Right, so should we assume that the momentum of the current quarter with some impact coming in from COVID not being there, we should be able to maintain?

Bimal Dayal - Chief Executive Officer - Indus Towers Limited

Let me put it this way, I do not think I can comment on the forward but I do not see any hump or impediment at this moment, which I should be sharing with you.

Neerav Dalal - Maybank Securities - Mumbai

Sure, and then on the margin side anything?

Vikas Poddar – Chief Financial Officer – Indus Towers Limited

I think, Neerav, basically on the margins of course excluding the energy, the margin does show an improvement and as I was mentioning earlier, I think it is a bit of a mixed bag where we obviously are focusing on operational efficiencies and running a very robust cost efficiency program and on the other hand, we also managed to get some timing benefits because of lower level of activities, etc. So, the margins have improved but as a company we really do not give any guidance for future margins. All I can say is certainly the focus continues, we do intend to maintain healthy level of margins going forward as well, but I think we need to just see how basically the rollout and everything else pans out. But we really do not give any guidance for the future.

Neerav Dalal - Maybank Securities - Mumbai

Sure, and I guess you did mention that in the next three months, there could be some more talk in terms of strategy, but within the strategy, is there a play on fibre and what all adjacencies would you be looking at?

Bimal Dayal - Chief Executive Officer - Indus Towers Limited

Neerav, obviously we said all what you are saying. In adjacencies of course fiber is certainly one, and pretty much all what we also mentioned, the play in IBS, the play in small cells, the services component in and around tower, the diversification opportunities which we sit with and we certainly have a good opportunity. All of this will be played out in our strategy session as well and I think good amount of groundwork has also happened, so I am very hopeful that next time we should be able to not only share this but also I think how part also we would certainly like to come back to you and what is that we would do differently than what we have been saying to capture this market as well and I think that is the trick of conversion lies, so please bear with us.

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Neerav Dalal - Maybank Securities - Mumbai

Sure, thanks a lot. Thank you.

Rajyita - Moderator

Thank you, very much Mr. Dalal. We do have a followup question from Mr. Sanjesh Jain from ICICI Securities - Mumbai. Mr. Jain, you may ask your question now.

Sanjesh Jain from ICICI Securities - Mumbai

Thank you very much for taking my questions again. First is on the gross tenancy addition which though is very stable, but it has come down from what we have done, 5,000 towers in the last quarter. Is it more of an impact of the hurricanes and the natural disturbance or is there an element of operator buying a larger spectrum parcel in the previous auction?

Bimal Dayal - Chief Executive Officer - Indus Towers Limited

I think this is more like, as I said we lost good part of our quarter as well, so I think that should answer your question because we could have done more had we had a good run of three months.

Sanjesh Jain from ICICI Securities - Mumbai

You are telling that we have not seen any major impact from Bharti buying a larger spectrum parcel in the previous auction?

Bimal Dayal - Chief Executive Officer - Indus Towers Limited

Sanjesh, we do not comment on individual operators, but as I mentioned I think a clear run of three months would have been better result.

Sanjesh Jain from ICICI Securities - Mumbai

Fair enough, second question is on the energy margin. We did mention in my previous question that the increase in cost because of the natural disturbance was more captured in power and fuel. Is that one of the reasons why the margins came off quarter-on-quarter or we did larger loss quarter-on-quarter on the energy side?

Vikas Poddar - Chief Financial Officer - Indus Towers Limited

Thanks for the question, Sanjesh. I think power and fuel sort of a negative spread certainly shows a bit of increase and in a pass through model the cyclones' impact does not really impact the margin because the cyclone cost is passed on. So what really impacts the energy margin is largely the fact that sometimes there are disagreements and disputes. So in the last quarter because we are focusing and we did manage to resolve some of the old disputes we had some accounting reversals which gave us some benefit on the energy margin line, which we did not have in this quarter. So those differences are basically what is giving us a slightly higher negative margin.

Sanjesh Jain from ICICI Securities - Mumbai

Got it. That's it from side. Thank you very much and best of luck.

Rajyita - Moderator

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

Bimal Dayal - Chief Executive Officer - Indus Towers Limited

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Thank you very much. I think as we move into our Q2, we carry a very good momentum for Q1 with some kind of scars of the pandemic as well. I think it is a million dollar question, call it a billion dollar question to predict whether we are going to get three clear months of the coming quarter and what we look forward to in the coming quarter is almost the conclusion of the strategy on one side. I do believe that this 5G activity would intensify and our close working with the customers would also increase. I think we will certainly get more clarity around our operators' situation and the industry situation as well. Hence the way I look at what has happened, we have had a very good foundational quarter, which is Q1 for the full year. Q2 is what will give us momentum for the year and certain clarity events are also expected in Q2. So I do believe that it is going to be a very important quarter. I certainly enjoyed this discussion, your questions as well. I look forward to meeting you all in person if this travel starts to happen as well. Until then, please stay safe and take care. Thank you very much on behalf of Indus team today. 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.