indus TOWERS

May 04, 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.: <u>Indus Towers Limited (534816 / INDUSTOWER)</u>

Sub.: <u>Transcript of the Earnings Call on the Company's performance for the fourth quarter (Q4) and Financial Year ended March 31, 2023</u>

Dear Sir/ Madam,

Please find attached the transcript of Earnings Call conducted on April 27, 2023 on the Company's performance for the fourth quarter (Q4) and Financial Year ended March 31, 2023.

Kindly take the same on records.

Thanking you,

Yours faithfully,

For **Indus Towers Limited**

SAMRIDHI RODHE

Digitally signed by SAMRIDHI RODHE
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Samridhi Rodhe
Company Secretary & Compliance Officer

Encl.: As above

Conference Call Transcription

Event: Transcript of the Indus Towers Limited Fourth Quarter and Year Ended March 31,2023 Earnings Conference Call

Event Date/Time: Apr 27, 2023/1430 Hrs IST

Transcript of Indus Towers Limited Fourth Quarter and Year Ended March 31, 2023 Earnings Conference Call

CORPORATE PARTICIPANTS

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

Mr. Vikas Poddar
Chief Financial Officer – Indus Tower Limited

Mr. Tejinder Kalra
Chief Operating Officer – Indus Towers Limited

Mr. Dheeraj Agarwal
Head Investor Relations – Indus Towers Limited

CORPORATE CALL PARTICIPANTS

Mr. Sanjesh Jain
ICICI Securities, Mumbai

Mr. Kunal Vora
BNP Paribas, Mumbai

Mr. Mitul Shah
Reliance Securities, Mumbai

Mr. Arun Prasath
Avendus Spark, Chennai

Mr. Nikhil Deshpande
Axis Bank, Mumbai

Mr. Vivekanand S
Ambit Capital, Mumbai

PRESENTATION

Vandana – Moderator

Good afternoon, ladies and gentlemen. I am Vandana, the moderator for this conference. Welcome to the Indus Towers Limited fourth quarter and year ended March 31, 2023 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 terminated post an announcement.

Present with us on the call today is 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. Prachur Sah. Thank you and over to you, Mr. Sah.

Prachur Sah — Managing Director & Chief Executive Officer — Indus Towers Limited

Thank you Vandana and a very warm welcome to all participants on the call. I am pleased to present our business performance for the quarter and the year ended March 31, 2023. Joining me today are my colleagues Vikas Poddar, CFO; Mr. Tejinder Kalra, COO, and Mr. Dheeraj Agarwal, Head Investor Relations. In my first full quarter at Indus, I am delighted to see the 5G and new tower roll outs occurring in full swing, which bodes well for the telecom space as a whole and is in line with the Government's drive towards digitalization.

Before I begin our agenda today, I would like to reiterate Indus Towers' commitment towards enabling Pan India connectivity including some of the most challenging and remote locations. Our team of bravehearts installed four mobile towers in Gurez Valley in Jammu and Kashmir which is located at an altitude of 8,460 feet. Working in the extremely harsh weather conditions in the months of November and December, the team managed to enable connectivity across 15 villages in the valley. This demonstrates the excellence in customer focus that is part of our day-to-day execution activities. The commitment of employees reflects in the accolades we continue to win for being employer of the choice. For the 10th consecutive year, we have won the Gallup Exceptional Workplace Award and Indus is one among the four global companies this year to have won this award for 10 years or more.

Now coming to the key themes, I would like to talk about today. With regards to the industry, the Government remains committed towards facilitating rapid deployment of telecom infrastructure across the country and is repeatedly taking steps to that end. A couple of quarters back, the RoW rules were amended allowing licensees to deploy telecom infrastructure over a private property without requiring approval from the concerned Government authority. Licensees are only required to intimate the local authorities. In the quarter gone by, many states have proceeded to notify this RoW policy which is an encouraging development. As more and more states follow suit in the future, the deployment of telecom infrastructure is bound to become easier and faster which is crucial for the swift 5G rollout.

Talking about the 5G rollout, the deployment of 5G infrastructure and rollout of 5G services have been progressing rapidly. The top two operators have launched 5G services in more than 500 cities and are planning to complete the urban coverage in India over the next three to six months. More than 140,000 5G Base Transceiver Stations or BTS have been deployed across the country with the average weekly run rate increasing from 5,000 BTS in December to 7,000 in March.

At Indus Towers, we remain steadfast in our commitment towards facilitating the rollouts by the operators. We are making necessary investments in our network to support installation of 5G equipment on our existing sites. As indicated in our previous earnings call, the loading of 5G equipment has now started to add to our revenues and it should increase further. We expect the 5G opportunity to continue to build in the form of requirement of additional sites as the penetration of 5G services increases and capacity need arises. Given our leadership position and expertise in providing passive infrastructure, we stand to capitalize on the growing 5G opportunity.

The 5G adoption story continues to play out well globally as per statistics mentioned in the Ericsson Mobility Report. The pace of 5G subscription accelerated after addition of 136 million subscribers during the quarter of December 2022 compared to 110 million subscribers in the September quarter. This helped the global 5G subscriptions to cross the 1 billion mark, which are expected to reach 5 billion by the end of 2028 as per the same report. The number of commercial 5G service providers also increased from 228 in September 2022 to 235 in December 2022. The adoption of 5G services is much faster than 4G as 5G reached 1 billion subscriptions two years sooner than 4G. With respect to India, 5G subscriptions are expected to reach the 500 million mark by 2027 with a penetration of about 40% as per the report.

The steady trend of increase in 5G adoption and upgrade from 2G to 4G stand to support the strong data consumption story playing out in the country. The total data consumed across the top three operators combined grew by 17% year-on-year in the December quarter. The average data consumed per user per month across the top three operators stood at almost 21 GB for the quarter ended December 2022 registering a year-on-year growth of 17%. This growth is underpinned by the continued migration from 2G to 4G given 31 million 4G data users were added and upgraded in 2022. As per Nokia India's MBIT index of 2023, data consumption per user per month is expected to grow to 46 GB by 2027. The healthy data consumption supplemented by the rapid uptake of 5G is expected to lead to increased demand for passive telecom infrastructure and we remain well equipped to cater to this demand.

Now coming to our operational performance, I am happy to report that we had a solid quarter wherein our tower addition including leaner towers was one of the highest in our history. During the quarter, we had net additions of 3,482 macro towers and 3,396 corresponding co-locations. A reduction in co-locations churn both sequentially and year-on-year also helped the net additions. Our total towers and co-locations at the end of Q4 were at 192,874 and 342,831 respectively, growing by 4.0% and 2.1% on year-on-year basis. Our tenancy ratio dipped marginally from 1.79 to 1.78 but continues to be industry leading. Our leaner tower additions were at 1,241 in Q4 compared to 1,408 co-locations in Q3. Including leaner towers, our net co-location additions stood at 4,637 in Q4 compared to 2,715 in Q3.

Over the past few quarters, we have revisited our internal processes with the focus on improving the time to market for our products which has been one of our major asks from the customers. The simplification of these processes coupled with aggressive roll outs by the customer has helped us deliver the substantial number of additions. Given our major customer has increased its focus on rural expansion, which is generating a good demand, especially for our macro towers we expect the demand to remain healthy.

I would also like to briefly touch upon the collections from one of our major customers. We are pleased to see progress on that front. Our collections from this customer have improved during the quarter and were close to the invoicing amount. We are constantly engaging with the customer to also clear the past outstanding amount. The Government's decision to convert the interest dues of the said customer into equity is also a positive step and is expected to help ease the financial burden of the customer. We are closely monitoring the development on the customer's fund raise plan.

Now moving on to ESG which is a strategic priority for the organization. We have identified key focus areas within the environment, social and governance dimensions and made medium to long term commitments to work towards them.

Given the scale and large energy footprints of our business, GHG emission is one of the major focus areas for us and we have committed to net zero GHG emissions by 2050 in line with Science Based Targets initiatives. We are driving multiple energy interventions with a focus on reduction in diesel consumption and expansion of renewable energy portfolio. We are constantly reducing our diesel consumption through operational efficiencies and enhancing our storage solutions. Diesel consumption has decreased by about 6% year-on-year in FY2023 despite increase in number of sites and 5G loading. Our efforts are also yielding results through quarter-on-quarter increase in non-DG sites. We are working on building solar sites and also exploring greener technologies. We have recently signed an MOU to run a pilot for Aluminum-Air technology for generation of clean energy.

Responsible handling and recycling of waste is another key area which we have identified. We are working towards 100% recycling of our hazardous waste mainly lead and lube oil through driving a cultural change in our value chain.

Having a diverse work force and ensuring the highest safety standards are also something we are striving towards. We aspire to increase our gender diversity five times from the current levels of about 6%. A series of initiatives are being planned to improve the diversity at both field and management positions. With respect to ensuring safety of our people, especially in the field, we are using innovative ways to bring awareness and ensure compliance. This has helped us reduce our field incidents.

As we continue to intensify our actions on ESG, we are also enhancing our disclosures and reporting. An increased disclosure of our non-financial performance in our last year annual report and participation in ESG rating provider's survey have resulted in improvement in our MSCI rating and S&P Global sustainability score. We are quite hopeful of our all-round efforts yielding desired results in our ESG journey and we will keep reporting on the same.

I would not request Vikas to take you through our financial performance for the quarter and year ended March 31, 2023 and I look forward to your questions. Over to you Vikas. Thank you.

Vikas Poddar – CFO – Indus Towers Limited

Thank you, Prachur. I am pleased to share with all of you the financial results of the fourth quarter and year ended March 31, 2023 for Indus Towers. Before I take you through the financial performance, I would like to reiterate our robust operational performance wherein we saw significant uptake in our tower and co-location additions. So as you heard, we added 3,482 macro towers and 3,396 corresponding co-locations in Q4. We closed the year at a total tower and co-locations count of 192,874 and 342,831 respectively, each growing at 4.0% and 2.1% on year-on-year basis and 1.8% and 1.0% on quarter-on-quarter basis. Addition in our leaner tower portfolio remained strong at 1,241 co-locations in Q4, taking our co-locations base for leaner tower to 6,924.

Next, I would like to take you through the financial performance for the fourth quarter. But before that let me remind you that in the previous quarters, there was a one-off provision impact of Rs.5.5 billion from deferred revenue recognition in Q4 FY2022 and a negative impact of Rs.22.7 billion from provision for doubtful debts in Q3 of FY2023. Hence, the Q4 FY2023 performance should be viewed accordingly.

Our reported gross revenue fell by 5.1% year-on-year to Rs.67.5 billion of which the core revenue from rental was down by 10.4% year-on-year to Rs.42.5 billion. Adjusted for the one off, our gross revenue and core revenue grew by 2.8% and 2.4% respectively year-on-year. Please note that the revenue for Q4 FY2023 had an impact of non-recognition of Rs.0.8 billion pertaining to revenue equalization assets for one of our major customers. On a quarter-on-quarter basis our reported gross revenue was down by 0.2% and core revenue from rentals was up by 1.8% respectively. The growth in our core revenue from rental is reflective of the healthy tower and tenant addition and the loading of 5G equipment. Adjusted gross and core revenue grew by 0.1% and 2.2% respectively.

Reported EBITDA was down 15.3% year-on-year and up 190.6% quarter-on-quarter to Rs.34.5 billion. EBITDA margin was down 6.2 percentage points year-on-year and up 33.5 percentage points quarter-on-quarter to 51%. Adjusted for the aforesaid factors, EBITDA declined by 1.8% year-on-year and was up 0.7% quarter-on-quarter. EBITDA had an impact of increase in reported energy losses. Energy margins were lower at -2.2% in Q4 FY2023 due to the impact of certain year-end adjustments in energy billing. On a full year basis and adjusted for one off, energy margin was -1.8% for the year. There is constant focus on improving this based on the initiatives Prachur mentioned in his speech earlier.

Our reported profit after tax was at Rs.14 billion compared to the loss of Rs.7.1 billion in Q3 FY2023 and was down 23.5% on year-on-year basis. Adjusted for the aforementioned factors of one-offs, profit after tax was down 0.8% on year-on-year basis and up 4.7% quarter-on-quarter basis.

I will now move to the performance of full year FY2023. Our gross revenues grew 2.4% year-on-year to Rs.283.8 billion and core revenue was down 1% year-on-year to Rs.174.3 billion. Adjusted for one-offs, gross revenue and core revenue were up 2.1% and 2% year-on-year respectively. On a reported basis, EBITDA declined by 34.6% to Rs.97.7 billion and profit after tax was down 68% to Rs.20.4 billion. Again, adjusted for one offs and provisions, EBITDA and profit after tax were up by 0.5% and down 0.6% year-on-year respectively.

Free cash flow for the year was Rs.14 billion, which was impacted by the shortfall in collections during the year from a major customer. In the Q4, our collections from the customer saw an improvement thereby resulting in a muted impact of provisions for doubtful debts on Q4 financials. We had adopted and continued to follow a stringent ECL computation and accordingly carry a provision for doubtful debts of Rs.54.5 billion relating to the said customer to de-risk our balance sheet. We continue to be in active discussions with the customer to improve the collections further to adjust the past outstanding and are committed to protect the interest of the shareholders.

Our reported pre-tax return on capital employed and post-tax return on equity for the past 12 months were at 11.0% and 9.4% respectively. The return ratios have been impacted by the provision for doubtful debts and impairment of revenue equalization assets during the year.

In summary, we are pleased with the operational performance we delivered during the quarter and it is a testament to our strengths as a leading player in the towerco space. Our financial performance reflects both our strong operating numbers and improved collection. Our customer's focus on expanding its coverage in rural market and the ongoing fast-paced 5G rollout make us optimistic about the demand outlook in the near to medium term.

So with this I would request the moderator to open the floor for questions and answers please. Thank you.

Vandana – Moderator

Thank you very much sir. We will now begin the Q&A interactive session for all the participants who are connected to the audio conference service from Airtel. Due to time constraint, we would request if you could limit the number of questions to two to enable more participation. Hence, the 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 enabled telephone keypad. On pressing "*" "1" participants will get a chance to present their questions on a first-in-line basis. To ask a question, participants may please press "*" "1" now.

The first question comes from Mr. Sanjesh from ICICI Securities, Mumbai. Mr. Sanjesh, you may ask your question now.

Sanjesh Jain — ICICI Securities - Mumbai

Sir, good afternoon and thanks for taking my questions. First on the 5G rollout and the loading revenue can you give us some direction what is the loading revenue as a percentage of rentals we get on the 5G and how much can it really drive in terms of ARPT growth say over the next few years because this is where we should be banking most of our growth over the next two to three years and considering that the weight of the equipment on the 5G has now significantly come down from 40kg to now about 18kg odd the opportunity on the loading reduces, is that the right assessment?

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

Thanks for the question Sanjesh. I will take the first question and then may be Tejinder take the second part of the question. So in terms of loading revenue, I think we shared earlier that the 5G loading revenue drives roughly anywhere between 5% to 10% growth in the ARPT depending on which towers we are rolling out and who is rolling out because in case of 5G roll out in the two bands the loading is a bit higher than rolling out 5G on a single band. So anywhere between 5% to 10% is the sort of the growth that we see because of the 5G loading.

Tejinder Kalra — Chief Operating Officer – Indus Tower Limited

Sanjesh, just to answer your question on the second portion that yes, the weight of radios on the towers in case of 5G has come down, yes 18kg to 20kg depending upon which is the vendor for the equipment. So from tower loading perspective we are fairly covered. I do not think we will have any issue in terms of accommodating our customers' 5G equipment on our sites. This actually helps us in terms of any additional loading also that may come up, so we are quite secured from that perspective.

Sanjesh Jain — ICICI Securities - Mumbai

My second question is on the 5G rollout. India is in a bright spot probably there but apart from India if you look at what Ericsson and Nokia forecast, it does not look like the world is really sharing this 5G rollout at such an accelerated pace. Do we see any risk of

India also probably say six to eight months down the line significantly slow down the 5G capex similar to what we have seen in the other part of the world? I understand say five-year, eight-year opportunities that there is a significant data that need to be carried and 5G is very important. I am talking more near term say a year or two, can we see a more gradual rollout on 5G than the accelerated pace which we are seeing and just one clarification, in the opening remarks you talked about 5,000 sites going to 7,000 sites in terms of towers. This we are talking about the number of towers right on which 5G is getting rolled out so that is the clarification.

Prachur Sah — MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – Indus Towers Limited

I think that is more of BTS number overall and you talked about the 5,000 to 7,000 BTS.

Sanjesh Jain — ICICI Securities - Mumbai

It is a BTS number, right?

Tejinder Kalra — Chief Operating Officer – Indus Tower Limited

That is the BTS.

Prachur Sah — MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – Indus Towers Limited

It is a weekly run rate. It is a weekly run rate from 5,000 BTS in December to 7,000 in March, that is the weekly run rate that we saw in March.

Sanjesh Jain — ICICI Securities - Mumbai

This is weekly run rate.

Tejinder Kalra — Chief Operating Officer – Indus Tower Limited

Yes. The operators are significantly scaling up the 5G rollout. Just to give you a sense while you raise the concern on the data offtake happening and with 5G giving much higher data capacities, I think the rate at which data consumption is growing in India and globally, at least our expectations, I am sure the operators can answer this better, we do not see the rollout slowing down at any given point in time. If you look at Ericsson Nokia projections as well from 21 GB per subscriber per month consumption they are projecting this to go up to about 47 GB, which essentially means more than doubling in the next two to three year timeframe and given that the cost per MB of data in 5G is significantly lower compared to 4G or other technologies, I think the operators will have all the incentive to roll out 5G more if they have to feed that kind of a data demand so we do not see that risk for now at the moment at least neither in the next couple of years.

Sanjesh Jain — ICICI Securities - Mumbai

Got it. Fair enough and thanks for answering those questions and best of luck for the coming quarters.

Vandana – Moderator

Thank you very much Mr. Sanjesh. 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. Congrats for collecting the current dues from Vodafone Idea. How are you thinking about the past dues now? Do you think it makes sense to continue the service till the time they keep clearing the current dues or do you think collection of past dues is a must in the coming quarters?

Prachur Sah — MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – Indus Towers Limited

Kunal I think if you look at what has happened in the quarter, there have been some positive developments. The Government decided to convert the interest into equity that is a positive development. Given the fact that we made collections. I think we are closely watching the situation and engaging with the customer to make sure - first their debts do not increase, and we can expedite the collection of the past receivables. So I think while there have been some positive developments, I think we will have to monitor the situation. I can't tell you exactly when this is going to happen, but we believe this positive development does enforce that there is a possibility that this may happen, and we will be making sure that we do as much collection as possible for us. So as of now that is the plan I can share with you.

Kunal Vora — BNP Paribas - Mumbai

So for now fair to assume that as long as the current dues are getting collected it is fine. I mean like while you will be pushing the customer but for now if current dues keep getting collected you are okay?

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

Yes.

Kunal Vora — BNP Paribas - Mumbai

Second is you saw strong tower additions in the fourth quarter what would be the ROI you will be making in these towers assuming we remain single tenant and is the capex and rental on these towers similar to the older towers or there is any difference to the terms?

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

Let me answer the second part first then I will ask Vikas to comment on the ROI. See over the period of time I think there has been considerable improvement in the capex per tower right. So I think what used to be the capex per tower 5-10 years ago compared to what it is now is a much lower capex so from a capex profile it has changed. Vikas you want to add something to the ROI side.

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

So Kunal on your ROI question I think first of all there are obviously lot of variants of towers that we do and each variant has a different investment profile and different return profile and so on. But at a broad level if I were to sort of give you a sense, I would say at single tenancy first of all the return profile is not negative. It is a positive return that we generate and depending on whether it is a GBT or an Eco site these are different variants. It could range between let us say high single digit to a low double digit sort of thing at single tenancy profile, but it is all positive.

Kunal Vora — BNP Paribas - Mumbai

But single digit will be below your cost of capital so it should be double digits right to cover the cost of capital.

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

Yeah, so usually these are very long-term assets and over the life of the asset we obviously see loading coming in and we also see the tenancy build up and so on. So obviously the return profile is never constant. As the loading increases and as the usage increases the return profile also improves over the life of the asset.

Kunal Vora — BNP Paribas - Mumbai

Understood. And just one last question your thoughts on dividend going forward.

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

Well on the dividend as you can see, we have not announced it. So obviously as per our policy the dividend continues to be linked to the free cash flow. During the year we generated Rs 14 billion of free cash flow as you would have seen in the result. However, in this decision we are also sort of supposed to consider the working capital requirement of the Company. We are tracking the development on the receivable and working capital very closely so we will continue to review the situation time to time and take a decision on the dividend distribution in the coming period as we progress. But as of now I think we basically need to watch a few more quarters and be comfortable on the cash flow.

Kunal Vora — BNP Paribas - Mumbai

But why not distribute the free cash flow which you did generate this year.

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

So like I said I mean somewhere there is in the working capital evaluation a bit of stress that we see and we need to really see the free cash flow generation for some quarters to be able to sort of be comfortable with the working capital situation. So most of the working capital for the year was generated towards the second half. We were struggling in the first half because of the receivable situation and lower collections and so on. So I think one or two quarters probably is a very short time frame. We really need to be confident for some more quarters.

Kunal Vora — BNP Paribas - Mumbai

Okay that is it for me. Thank you very much.

Vandana - Moderator

Thank you very much, Mr. Vora. 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 the opportunity. Sir, first clarification on collection from VI. Can we safely assume that during Jan, Feb, and March this current quarter we collected sizeable or nearly say 90 to 100% of the current collection?

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

So Mitul, I think certainly we have seen improvement versus what we were collecting in the past and yes I think pretty much we are in the range of 90 to 100% collection in this quarter. I mean it has been a good quarter for us as far as collection is concerned.

Mitul Shah — Reliance Securities — Mumbai

Just want to again confirm that this Rs 4,900 Crores kind of receivable, so again major portion will be from this client and this pertains to entirely historical period right.

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

No, so receivables of course we have more than one customer. So the receivables represent the outstanding that we have from all our customers. Unfortunately, we cannot disclose specific numbers for our customers.

Mitul Shah — Reliance Securities — Mumbai

Yes Sir, I understand. My point is that in past when situation was normal, roughly we used to have Rs 300 to 500 Crores kind of receivable at the end of year, Now it has reached to Rs 4,900 Crores so that is nearly 85 to 90% receivable seems to be from this major customer or maybe near about those ranges. So that pertains to past period that is what I want to just confirm.

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

There is certainly past period receivable sitting in this number, but I do not think we have ever had Rs 300 Crores of receivable. I mean usually we have a certain credit period with our customers and our receivables are sort of representing those outstanding net of provision. So we have basically the bad debt provision of almost Rs. 54 billion which is netted off in that number.

Mitul Shah — Reliance Securities — Mumbai

Sir, last question on this leaner tower related revenue. Is it because of that we are not factoring that into the number of tower or revenue per tower is slightly increased on a Q-on-Q basis?

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

Sorry could you repeat that question Mitul.

Mitul Shah — Reliance Securities — Mumbai

In our reporting number of towers, we are not calculating leaner tower, all these are macro tower.

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

Yes, that is right.

Mitul Shah — Reliance Securities — Mumbai

And our revenues are increasing from the leaner tower also so is that a key reason, one of the reasons, major reason for the Q-on-Q improvement in revenue per tower.

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

Well, when comes to the revenue per tower metric they are representing the macro segment only so while we are rolling out leaner towers but the number of leaner towers as well as the revenue from those towers are not very material at the moment to be reported as a separate segment so the KPI represents the revenue per tower for macro segment only.

Mitul Shah — Reliance Securities — Mumbai

Okay Sir thanks.

Vandana - Moderator

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

Arun Prasath — Avendus Spark— Chennai

Thank you for the opportunity. Apologies if the question is repetitive, I joined late. This capex per tower in this year seems to be at least 25% higher than the previous year. Any specific reason for this Sir?

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

No Arun. I mean there is in fact from last year in terms of the metal prices and all we have seen softening, so I do not know really which number you are picking up and where you have picked this up from.

Arun Prasath — Avendus Spark— Chennai

So how I am doing is I am taking the total capex and removing the maintenance capex. So on the remaining growth capex I am just dividing it by the number of additional towers so I get the number around close to Rs 4.5 million in this year as compared to around Rs 3.5 million last year, but directionally it looks little higher.

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

No you need to bear in mind that it is not a homogenous tower that we roll out. I mean we have many variants in our towers. So there is always a mix effect of whether we are doing roof top or ground based or macro or lean or so on. So depending on the mix the averages could vary.

Arun Prasath — Avendus Spark— Chennai

I think unless and until we are doing some expensive GBM based towers or GBT towers, this 25% increase in a deflationary scenario seems to be very high.

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

No but Arun I think some of this capex is also related to the upgrade capex that is being spent. I do not know how you calculated it but this must be including the 5G rollouts and the upgrades as well. So I do not think it is purely on tower. What we can confidently say is that the cost per tower is not increasing. In fact we are seeing an improvement in the per tower capex. So I think the number needs to be looked at from a holistic point of view in terms of how many 5G rollouts have been done, how many sharing has been added and how many new sites have been added. So I think there is a mix play here which may be giving you an impression like that because you know last year there was no 5G rollout. This year there was significant 5G rollout so that is what is sitting in the capex as well that you are probably not factoring in.

Arun Prasath — Avendus Spark— Chennai

In an answer to your earlier participant, you said this 20, 23 kg of additional loading from the 5G base stations. Before that I thought that could be the reason but anyway I will take it offline. My second question is on the free cash flow generation. We are not able to pay dividend this year. Shouldn't we be taking a pause in our growth capex so that we are comfortable in paying out the shareholders unless and until we get compensated higher when you are rolling out for a single tenant? What is the urgency for doing capex at this pace especially given the bleak outlook from the second tenant? So obviously at this point of time it looks like gaining market share at the tower business seems to be counterintuitive. Have we considered that option and what is our thought process going forward with this?

Prachur Sah — MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – Indus Towers Limited

To be honest Arun I mean if I understood correctly you are saying is that why do the capex now. I think from my point of view what I can say is being in an annuity business if you do not make it now, you will probably never make it. So I think it is an important year for growth, so we need to capture it. And on the dividend part Vikas already mentioned, I think we are currently evaluating the situation. I think in the coming quarters we will be considering it based on the funding situation of our customer changes and we will keep reviewing the dividend part. But I think from the capex point of view, we remain committed to the growth because this is something that is going to keep business healthy for a very long time. Vikas if you want to add something.

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

No I think that is it. Certainly, it is a growth opportunity that we have and I do not think we should really let the opportunity go because with this growth in towers we are going to generate cash flows for the next 10 years which is very important. I hope that answers your question Arun.

Arun Prasath — Avendus Spark— Chennai

To an extent I understand. But what I am trying to understand is does our MSA allows to charge incrementally over and above what it is so that you get compensated given that the current situation does not allow you to monetize. All the tower companies hope that eventually the second tenant will come. Given that the uncertainty is there, is there any premium that we will be able to charge to the customer especially now given that one of the large customers is also a shareholder so obviously there is a conflict of interest. So is there a structure in place to manage these? These are all the top of the mind questions that I am trying to understand.

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

Arun to be honest I think you are asking quite a few questions in one question. I will try to simplify. I think as we were answering the earlier part of the question, the overall profile even the single tenant tower has changed in terms of both what we are doing with the capex in terms of return profile and what loading we expect on those towers in the coming years, right. So even if the risk of single tenant remains, as the 5G roll out happens and the loading occurs and with the base profile that we have, we believe it is not the right time to miss this opportunity and of course if the other customer comes along it further improves the margin right. That is what our approach is. And we are looking at many opportunities internally in terms of further operational efficiency. How we can reduce our operating cost and improve the overall profitability for the Company.

Arun Prasath — Avendus Spark— Chennai

Alright thank you. I will get back to you later. Thank you.

Vandana - Moderator

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

Nikhil Deshpande — Axis Bank — Mumbai

Good afternoon Sir. Thanks for giving me the opportunity. My first question was on your energy margin. In the opening remarks you have mentioned that energy margins are negative due to year-end adjustments. What is your outlook on energy margins for FY2024 and the second question is on the total energy cost. How much is the common energy cost and how much operator specific energy cost?

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

Let me answer the first part. Second part I actually did not understand the question. I will ask you again, but on the outlook for FY2024 as you heard Nikhil that there are certain initiatives that we are currently working on to improve our overall profile of the energy operation or the energy cost that we have to take. So our outlook is that the energy margin in FY2024 is going to look better than what it is in this year. We have taken internal targets to make sure that improvement is seen so I believe the outlook remains that the energy margin will improve in the right direction in FY2024. The second question which you asked I probably did not understand it. Most of the energy cost is on a tower and with the operator.

Tejinder Kalra — Chief Operating Officer – Indus Tower Limited

So Nikhil I hope I have understood your question correctly. So typically, if you have an indoor site there is a cost of running ACs on those sites which is obviously a common cost between as many tenants that you have on the site which is the only cost which is kind of common otherwise the cost of energy is dependent upon the load that the operator is running for their particular equipment at our site and that consumption drives the energy cost for that operator.

Nikhil Deshpande — Axis Bank — Mumbai

Okay so the common energy cost which you said what percentage it would be of the total cost of the tower.

Tejinder Kalra — Chief Operating Officer – Indus Tower Limited

It depends on the profile of the site. If it is an indoor site typically 15 to 20%, 25% but it is also getting paid by the operator obviously that common cost is being billed to the customer as well because it is required to run their equipment.

Nikhil Deshpande — Axis Bank — Mumbai

That is all from my side. Thank you.

Vandana - Moderator

Thank you very much Mr. Deshpande. The next question comes from Mr. Vivekanand S from Ambit Capital Private Limited, Mumbai. Mr. Vivekanand, you may ask your question now.

Vivekanand S — Ambit Private Limited — Mumbai

Thank you so much for the opportunity. Could you give us an update on potential consolidation that could happen in the tower space. There are media reports that one of your competitors is perhaps looking to exit and there is obviously distress and misery caused by this weak operator all across the sector.

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

Vivek for us it is very difficult to speculate or comment on the media reports per se and I think we will keep looking at what happens, but our objective still remains to be the market leader and get the market share whatever comes out. It will be the growth aspect so that is where our focus remains and for the media report that you are mentioning, let us see because to be honest we do not have any view on that right now.

Vivekanand S — Ambit Private Limited — Mumbai

Sure and as far as the update I missed a little bit of the initial part of the commentary so I just want to understand from the perspective of these new modular structures that are being built like lean sites and small cells. Are there consolidation opportunities outside of macro towers also for market leaders and large players like yourselves and if you could comment on how you could scale up these potential adjacent revenue opportunities.

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

I think if you are talking about the scale up of deploying more leaner sites I think for sure. I think that is something that we are driving and you will see more and more coming in the next few quarters.

Tejinder Kalra — Chief Operating Officer – Indus Tower Limited

Vivekanand I need to understand. If you can elaborate the first part of your question a little bit. I think it is little unclear as to what you are expecting there.

Vivekanand S — Ambit Private Limited — Mumbai

Sure, my understanding is that macro towers there are only handful of players that are there in that business, but perhaps in the case of small cells or lean towers perhaps there are more players perhaps smaller players also in the market. Is it possible for you to scale up these businesses more aggressively through M&A or is this is something that you will just look to build organically?

Tejinder Kalra — Chief Operating Officer – Indus Tower Limited

All kinds of opportunities of course. We are first of all at our end constantly upscaling the numbers that we rollout every quarter. Of course, we do not do proactive build of the sites. We are always building sites depending upon the operator demand. If there is any variation one sees in a quarter, it is purely because of the demand driven from the customer side. But if one were to say can we scale up inorganically all opportunities we keep on exploring and depending on the evaluation outcome we will take the decisions as appropriate.

Prachur Sah — MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – Indus Towers Limited

But Vivek in general we are quite cost competitive in that space as well. So unless there is a compelling reason, I strongly believe that we should be able to scale up and compete well in that space with our efficiency and second thing is what we offer the customers is beyond the construction of the tower. Our O&M and our uptime is industry leading so what the value we offer is not just in the construction of it, it is the post construction and delivering better uptime to our customers. So I think we remain confident that we have a very strong portfolio in terms of both delivering the tower and then actually doing the O&M of it. So unless there is a compelling reason to do that, I think our first focus remains to get the market share ourselves.

Vivekanand S — Ambit Private Limited — Mumbai

Understood. Last question. Have you and Vodafone Idea agreed upon a payment plan for fiscal 2024. If this has been discussed in the call before, please avoid answering it. I'll look up the transcript.

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

Well, there was a payment plan that was agreed which we shared almost two quarters back. So while there are some challenges in meeting that payment plan, but we are still working with the customer to sort those issues out and basically follow on the payment plan. So there is no fresh payment plan that we have agreed for FY2024. So pretty much we are working on the same plan.

Vivekanand S — Ambit Private Limited — Mumbai

Okay thank you so much and all the best.

Vandana - Moderator

Thank you very much, Mr. Vivekanand. We do have a follow-up question from Kunal Vora from BNP Paribas, Mumbai. Mr. Vora, you may ask your question now.

Kunal Vora — BNP Paribas - Mumbai

So my question was on the minimal lease rental receivable. You have seen a sharp spike this quarter. Was this from extension of contracts. Because purely the new tower addition cannot explain that.

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

Yes, Kunal, so basically the renewals that we signed back in the early part of this year are not really lumpsum. There are renewals which happened every quarter. So for all the towers that came up for renewal in Q4 obviously that has impacted the average lease period and the minimal lease commitment.

Kunal Vora — BNP Paribas - Mumbai

And does this renewal have any impact on average rental per tower or tenants?

Vikas Poddar — Chief Financial Officer – Indus Towers Limited

Well, the impact is same as what we had shared earlier so there is no fresh impact. It is the same framework that gets applied to all the renewals that happen every month and every quarter so there is no fresh impact to talk about.

Kunal Vora — BNP Paribas - Mumbai

Okay fine. That is it from my side. Thank you.

Vandana - Moderator

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

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

Thanks Vandana. Thanks again for your questions. To sum up, our strong operational performance during the quarter is indicative of our strengths. The rural expansion by our major customer and rapid pace of 5G roll \outs are extremely encouraging. There are many levers of growth in this industry, which we are confident of capitalizing upon, and we will be treading this path of growth in a sustainable and inclusive manner. Thank you all for joining the call and have a good day.

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.