

Earnings Conference Call Transcript

Event: Transcript of Indus Towers Limited Fourth Quarter and Full Year Ended March 31st, 2021 Earnings Conference Call

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Edelweiss, Mumbai

Mr. Sanjesh Jain

ICICI Securities, Mumbai

Mr. Neerav Dalal

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Mr. Chetan Shah

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Mr. Vishnu KG

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PRESENTATION**Ms. Rajyita – Moderator**

Good afternoon, ladies and gentlemen. I am Ms. Rajyita, the moderator for this conference. Welcome to Indus Towers Limited Fourth Quarter and Full Year ended March 31, 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.

Mr. 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 full year ended 31st March, 2021 and a very good afternoon to each one of you. Joining me on the call today are Mr. Vikas Poddar, our CFO, Mr. Vinod Rao, Business Controller, Mr. Kaustav Neogi, Finance Controller and Ms. Surabhi Chandna, Investor Relations.

As a start, I am happy to announce that we have delivered a strong Quarter 4 and a strong full year performance. On a full year basis, we had the largest ever net tower additions of 10,223. If you may recall that Quarter 1 was muted due to lockdown, which signifies massive ramp up of deliveries during these next three quarters. I think it happened around the same time, as you would recall, that we were struggling with the lockdowns previous year.

On the churn side, the churn has nearly halved which augurs well. We ended the year at 179,000 towers, 322,000 co-locations which represent a healthy growth of 6% and 4% respectively. On quarterly basis, we delivered yet another all-time high net

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tower additions of 3,715 towers, our net co-locations increased by 4,128 including churn of 856. This will be reflected in financial results which will be shared with you all soon.

Before I go into any other aspects, I wanted to touch upon the market first and that too starting from the demand side. Well, on the demand side, the industry data volumes continue to grow as you would know and this growth is fairly rapid. We are witnessing once again, a growth of almost 40% year-on-year which is already on a very large base. This is driving and will continue to drive growth. With operators announcing the race towards 5G, makes the infra space even more relevant. We also saw spectrum auctions taking place, which saw participation from all three players, but it was somewhat asymmetric. All in all, we see the space in which we operate is becoming more and more relevant.

On the strategic endeavors within the company, I am very happy to report that integration efforts are in full swing and most importantly, on target. I am also happy to state that we have concluded our mission, vision and values exercise involving pretty much all the employees across the geographies and it is my belief and I think it is fairly well documented that this forms the culture of any organization and as you would know, culture beats the strategy no matter how good your strategy is. So this is an important piece, a base which we touched this quarter involving all the employees.

We have started the process of revalidation of our strategy and in coming quarters we will share the changes and augmentations, if any. Meanwhile, we are aligned to the strategy which was shared with you earlier. I cannot sign off without touching upon the COVID situation.

On the COVID situation, our brave heart field force continues to provide network connectivity basis which India today is fighting this pandemic. As a fact that the call which I am holding or a lot of you would be holding is actually being maintained by a lot of brave hearts, who are actually looking at and making sure that network is alive 24/7 and this forms one of the most important tools of fighting this pandemic.

Our endeavor is to keep everyone safe throughout and we also are making sure that during these times when the uptime is of the highest priority, we are delivering our best operational uptime for our customers as well.

I will be very happy to take questions. With this I would like to hand over to Vikas to take you through the financial results. Over to you Vikas!

Mr. Vikas Poddar – Chief Financial Officer – Indus Towers Limited

Thank you Bimal. A very good afternoon to all the participants on this call. I am pleased to share with you the results of the Fourth Quarter and the year ended 31st March, 2021 for the merged Indus Towers with the full consolidation of the erstwhile Indus Towers and Bharti Infratel.

As stated in the last quarter, we continue to report our numbers on pro forma basis assuming that the merger was effective from the earlier periods. This is to ensure right comparatives for all the periods. I will start with the financial highlights from a full year perspective.

Our revenues grew 0.4% year-on-year to Rs.256.7 billion. Within that our sharing revenue has shown a healthy growth of 3.9% year-on-year. Our EBITDA grew 4.2% year-on-year to Rs.132.6 billion. Our profit before tax was up by about 4% year-on-year to Rs.66.5 billion. Our profit after tax was down by 1% year-on-year at 49.8 billion, but this was mainly due to a one-time impact resulting from the change in tax rate last year. Adjusting for the same, our profit after tax would have been up by about 5% year-on-year.

Operating free cash flow has increased by 0.8% year-on-year to Rs.71.2 billion. Our return on capital employed and return on equity post-tax for the quarter were at 22.1% and 29.6% respectively, same as last year.

I will now come to the financials for the fourth quarter. In the fourth quarter, our revenues grew 2.9% year-on-year to Rs.64.9 billion. In the same quarter our EBITDA was up by 17.5% year-on-year to Rs.34.1 billion. Our profit before tax was up by 36.4% year-on-year to Rs.18 billion and our profit after tax was up by 38.3% year-on-year to Rs.13.6 billion. Our operating free cash flows increased by 1.9% year-on-year to Rs.14.9 billion.

As you can see from the figures above, our financial performance has been strong in this year despite the operational challenges forced by the pandemic and the challenges facing the telecom sector. Furthermore, you would recall from the last quarter that we had higher exit revenue as a result of change in accounting practice of recognizing exit revenues on accrual basis due to certainty of receivables coming out of the security package.

The current run rate of exit revenue is between Rs.1.7 billion to Rs.1.8 billion per quarter. Adjusted for this and other one-offs in the last quarter which is Quarter 3, our sequential performance both in top-line and bottom-line remains very healthy.

Our energy margins continue to be negative; however, there is an improvement over last quarter due to sustained efforts by the company in resolving differences with our customers.

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

Ms. 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 2 to enable more participation. Hence management will take only 2 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 participant 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.

Mr. Kunal Vora – BNP Paribas

Thanks for the opportunity. Congrats for a good quarter sir. First is, how do you see the recent spectrum auction impacting the prospects of new tower additions? Do you think that operators will be able to take care of their capacity requirements and there could be moderation in new orders? That is one and second one also I will just post. So of the 3.2 lakh co-locations which you have right now, how many will be coming up for renewal in FY2022 and 2023 and have the discussions on renewal terms already started? Also with one of the operators facing funding issues, would you be open to negotiate a lower rental? Also, earlier we were expecting 2.5% rent escalation annually to start somewhere in FY2023; is that still a fair assumption? So that is it from my side.

Mr. Bimal Dayal - Managing Director and Chief Executive Officer – Indus Towers Limited

I will take this one, this is Bimal here. Kunal, thank you very much for your question. The first one is around spectrum auction and impact of the spectrum acquired by our customers on the rollout. Now, just a little background, I think the auction ended on March 2nd and almost like 77,000 Crores was garnered for 855 MHz. Interestingly all three operators participated and as I mentioned, it was quite asymmetric. Two of those spectrums, the lowest end 700 MHz and 2,500 MHz, both remained unsold. You see I think we need to look at this quite historically while operators acquire new spectrum and will be deployed to alleviate requirements on capacity. We believe for a country like India, this is a very short-term phenomenon. I think data volume continues to grow constantly and this actually drives and makes addition of additional sites an ongoing requirement. If you actually look at what is taking place across some of the cities, I think you will probably realize that a lot of spectrum will be deployed to alleviate the current pent-up demand as well. So, I don't see much impact, which we can kind of talk about. While some of the capacity sites could get addressed with this auction, I think, if you look at the transcripts of some of the announcements made by the operators, I think, intent of operators is very clear to go deep into interiors and have a deeper coverage. Now how do we see this in our breakup of sites which we roll out; we see certainly a site pattern which is 50:50 and I think this continues to be the same. So for 50% of our rollout, it is capacity, 50% of our rollout is for coverage and there is a much bigger pent-up demand for sites at critical locations. As a matter of fact, we are not able to deliver in sites from critical locations as well. I am not too worried about any large scale impact due to spectrum; however, this will generate a very good network related activity as well, which is always a good exercise. This would also generate a high quality when it comes to our network and generally with higher quality, consumption pattern gets positively impacted as well. I think this is answer to your first part, Kunal. Now, the second one is around the renewal coming up as well. I think, by end of this year, a third of our portfolios will come up for renewal and I think if you go back in time, we have if you go back let us say to 2016 or so, when escalation freeze happened, there were similar anxieties but there was a good give and take between the operators and us and I think we settled for a good win-win situation for all. Hence, I am not too worried about this as well, but this certainly remains a negotiation risk, which I would say, we would cross when it comes as well, at this moment there is nothing significant or nothing to report when it comes to engagement. All other things remain on track.

Mr. Kunal Vora – BNP Paribas

Just that the current situation seems a little different compared to last time you faced a similar situation because at least at that time the parents seemed to be financially better off compared to what they are right now, especially considering that a large tenant right now is I mean like might depend on some concessions, even for their viability.

Mr. Bimal Dayal - Managing Director and Chief Executive Officer – Indus Towers Limited

I will certainly not deny what you are saying, Kunal and you are absolutely right. The situation is stretched for our operators as well. If you once again go back in time, we managed to give certain concession which was escalation freeze. However, what we got was extension, which I think was a very good win-win situation for both operators and us as well and as a result, I think, we are sitting with these renewals which would take place in 2022, which could have happened way earlier as well. I am certainly not denying that there would not be any negotiation but we believe that we do hold cards and it won't be one-way street here. So I hope that answers your question.

Mr. Kunal Vora – BNP Paribas

Sure yes, and just on the 2.5% rent increase annually, is it a fair assumption or right now we still need to wait and see how the negotiations go?

Mr. Bimal Dayal - Managing Director and Chief Executive Officer – Indus Towers Limited

Well, once again, I do not think we are going to back off on anything but all this would form our entire package here as well and we will keep you posted as it progresses. At this moment, suffice to say that we do hold good cards. We have a very amicable good relationship in which we can come up with a good win-win solution, which we have done in the past. I think it has been the track record of this company, so let me assure you, moment this happens we will certainly share.

Mr. Kunal Vora – BNP Paribas

Understood Sir, Thank you. That is it from my side.

Ms. Rajyita - Moderator

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

Mr. Pranav Kshatriya - Edelweiss

Thanks for the opportunity. My first question is a little near-term. You have seen tenancy cancellation rising in this quarter and there was a secular decline in the previous quarters, but just wanted to know why that has kind of come up. Secondly, how should we see the tenancy ratio sort of declining because increasing tenancy ratio is very crucial to maintain a solid return profile, but because the tower additions are pretty high and because of which the tenancy ratio is sort of getting impacted. So how does company think about it considering the number of players also are not as much in the ecosystem as there were earlier. What are your thoughts on that?

Mr. Bimal Dayal - Managing Director and Chief Executive Officer – Indus Towers Limited

Thank you, Mr. Kshatriya, for your question. Let me answer on the exit part. Exits need to be looked at from a timing perspective and I think I remember, last time we did flag it that generally there is a bump-up of exits in March which is when the financial year ends and operators do take this as a closure, hence it comes up. So, the Q4 is more like end of year exit drive, so I would not lose my heartbeat on it. I think important thing is the year-on-year exits, which certainly have halved and we did mention earlier that as well that we are seeing plateauing on the exits part as well. Now on the tenancy ratio, I think, the way one needs to look at it is that we continue to build our portfolio with the fresh tower additions as well. In our industry, more towers you add I think you build a portfolio for the second tenant to come in and to that extent you are right. At this moment, there is an asymmetric roll-out which is taking place amongst the operators and the question certainly goes into the fact that we will be seeing three operators fighting amongst each other or three plus one you can call it or we would see two operators competing amongst each other. I did flag it last time as well that look at it from regulator's perspective, look at it from chronology as well, we do believe that somewhat penny is falling towards three robust sound operators competing with each other which essentially means the third one get a straight take off strip through these additional towers which are being rolled out and we believe that I think second tenant would be lucrative for the third operator to come in. I completely am aware that the struggles which let us say VIL is facing currently as well but once again chronology tells us that where they are and where they were maybe around the last year, I think they have managed to do quite a lot of things and from a tower company perspective we certainly believe that it would be a three-player market. So once again wherever we sit we have the industry best tenancy ratio. We believe it would be a three-player market and obviously we will be offering this portfolio to the third player and that is when I think the tenancy ratio would start to bump up. Thank you Kshatriya.

Mr. Pranav Kshatriya - Edelweiss

Thank you. That is it from my side.

Ms. Rajyita - Moderator

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

Mr. Sanjesh Jain - ICICI Securities

Good afternoon and thanks for taking the questions. A couple of them from my side. First on the energy margin side, we had indicated in the opening remark that we have seen disputes coming down and hence the losses coming down and we mentioned in the previous call that we are engaging with the operator and negotiating to see if they can move to the fixed energy margin again. So where are we in terms of negotiation and is the worst behind in terms of energy margin? Should we assume that henceforth we will be making no losses or minimal losses? Is that the right way to think about the energy margin? That is one. Number two on the operating cost. We have witnessed volatility in last two quarters and just wanted to understand what is the steady state full year operating cost, which is other expenses, repairs and maintenance, charity and donations all put together. I think this quarter charity and donations have been abnormally low. What is the steady state opex adding all the three together and on the last one, can you update us on the dividend policy, how should we see dividend? This year we have skipped the final dividend. Earlier we had a policy of 60% to 80% b

Mr. Bimal Dayal - Managing Director and Chief Executive Officer – Indus Towers Limited

Thank you, Sanjesh. I will take a shot at a couple of those and then hand it over to Vikas as well. Let me go in the order, so energy margins, I think your question was, is the worst over? So let me back off, last quarter we did mention that we are engaged with our operators. I did mention that I think there is a whole lot of alignment which we have on going towards fixed energy model and I continue to maintain that and obviously I think this alignment is yielding better understanding of where we sit and the pain points on both sides as well and I think when Vikas was alluding to a better quarter, I think this was the result of it as well. As much as we wanted to announce the closure of FEM with one of our operators, I think the whole thing spilled away as well and we remain very hopeful that if not in a month, we should be able to complete FEM soon. Now that would possibly put a very good alignment between us and operators and I think this is where we are actually banking a lot and we are very confident that we will be able to close FEMs with all our customers. We are very close. Then next one is whether the worst is over? I would say some, if you only look back I think we have only bettered ourselves. What happens in the near future is that we will be putting our best efforts on that account and I am really hopeful that we will be able to deliver a better energy margin quarter or even come back and announce FEMs with our customers. I will keep the operating cost and the steady state question for Vikas and maybe Vikas you could possibly take that one. On the dividend, I just wanted to clear the air a little bit. If you look at us as a company, we are in still the sixth month of a relatively large merger and we continue to proceed with this integration exercise. We remain quite comfortable with the payouts in financial year 2021, which incidentally, if you actually look at, was all-time high. A substantial portion was paid out in Q4 and not only in Q4, I think almost 30 days back as well. We will certainly assess the dividends in due course and in line with the policy, come back to you again; however, we remain where we are right now. With this, Vikas would you like to add?

Mr. Vikas Poddar – Chief Financial Officer – Indus Towers Limited

Thanks Bimal. Hi Sanjesh. I will probably just touch upon the dividend point first in continuation with what Bimal said. I think first of all, the company has a very strong track record of paying dividends. So if you look at the history, we have a history of assessing this many times during the year, specifically on FY 2021, the board has reviewed the dividend payouts and it aggregates to Rs.20.12 per share. This includes the first interim that we did in Q1 which was Rs.2.3 per share and then the one which we did as a special dividend of Rs.17.82 just a couple of weeks back and together this constitutes about Rs.20.12. Now in terms of the payout ratio, you were talking about 60% to 80%. If you really look at FY2021 payout, this would aggregate to roughly 110% of the cash flow. So we have done much better than what we have done historically. I mean, this is perhaps one of the highest rupee dividend we have ever paid out in our history and just a couple of weeks back we did that large payout and as Bimal was saying, like we have done in the past, we will continue to endeavor to return the excess cash to our shareholders and our policy with regards to dividend remains the same. So we will continue to pay dividend based on our free cash flow. Coming to your, the second question which is on the operating cost and the volatility. I think the way I would like to put it is, I think in our business, sometimes these volatilities and fluctuations because of the nature of the business. So, for example if I look at the charities and donations, we already did some excess till Q3 and as a result, we did not really spend much in Q4. As per the statute, we were not required to spend more and secondly the nature of the business is such that we do see technical one-off provisions being created and then sometimes reversed in the next quarter. This really creates fluctuations quarter-on-quarter. To the extent all these are material, we certainly call out and we disclose these things in our calls and our reports but otherwise pretty much on a long-term basis, if you look at year-on-year, things really look very stable, things do not really show much fluctuation. So I hope this answers your questions Sanjesh.

Mr. Sanjesh Jain - ICI Securities Limited

Thanks Bimal and thanks Vikas for the elaborated answer. Couple of follow-ups on that. Is a full year representative for the operating cost?

Mr. Vikas Poddar – Chief Financial Officer – Indus Towers Limited

Well again, I would basically say even on a full year basis sometimes we do have these fluctuations because of the technical provisions. Again given the nature of the industry and the nature of the business, last year we did have some extra provisions. Similarly in Q3 if you recall, we did call out some provisions on account of policy alignments and so on. To that extent, I think, year-on-year probably at an overall level would be quite stable, but we will need to go deeper to really answer the specific question. So, maybe we could take it offline Sanjesh in case if there is anything specific you are looking for.

Mr. Sanjesh Jain - ICI Securities Limited

Sure. Thank you. Just one last question from my side, again related to dividend policy and capital structure. Do we intend to maintain this debt for our financial leverage because we have always talked about improving our capital structure and hence positively impacting our return ratios? So to that extent, is it fair to assume that we will maintain this debt level on a balance sheet and we will try to distribute maximum cash flow? Is that a fair assumption?

Mr. Vikas Poddar – Chief Financial Officer – Indus Towers Limited

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Well, I think it is a fair assumption. Basically because if you look at our leverage ratio, it is at about 1.45 which is quite healthy and well within our debt covenants. So I think it is a fair assumption given our profile and we are comfortable with our leverage and going forward we will be within our covenants and the dividend payout as per the policy, should be well maintained.

Mr. Sanjesh Jain - ICICI Securities Limited

Great. Thanks for all the answers. Best wishes.

Ms. Rajyita - Moderator

Thank you very much Mr. Jain. The next question comes from Mr. Chetan Shah from Abakkus AMC, Mumbai. Mr. Shah you may ask your question now.

Mr. Chetan Shah - Abakkus AMC - Mumbai

Good afternoon and thank you for this opportunity. One basic and technical question. The way broadband penetration is happening and lot of technology changes in the form of what different companies are talking about; satellite based data connectivity and all, I am just trying to understand what level of number of towers we would be happy to and at what level we will stop adding more number of towers, if you can give some sense on that?

Mr. Bimal Dayal - Managing Director and Chief Executive Officer – Indus Towers Limited

Yes, I will take this one. Thank you Mr. Shah for asking this question. If I just link the two things which you have said. On one side broadband penetration, on the other side you also mentioned satellite companies making a headway into broadband. Your question apparently is would it impact the number of towers that would be needed in the future hence assuming this as a question I would kind of like to answer this. Look, I think I will go a little bit historic and also into some kind of physics here as well. Now, if you go back in time, I think time will tell us that Iridium, Thuraya, and Global Star, I think there were lots of companies who were actually trying to provide either the LEO, NEO or as they call it the GEO satellites as well. Now, I think with physics really playing a role, you do need a lot of low noise amplifiers on one side and second, that technology catering to the time delays which takes place with lowest is with the LEO and highest with the GEO stationary satellites as well. This physics itself makes it a little bit cumbersome and I am sure the technology is kind of overcoming all this as well as we go forward, but ubiquitous commercially comparable alternate to broadband which current technologies or terrestrial technologies are providing, I do not see that as a competition. On the contrary, this would be looked at as a complementary technology to what is being done as well. Hence areas where it is very difficult to connect terrestrially will be used, this technology would certainly be used as it was used in the past as well. So when we do, let us say, the threats to the industry, I do not see this as a threat; earlier if you actually want to bring in a parallel the Loon project as well. I think, we all are aware of what happened to Loon. I am not saying that in the horizon there will not be a technology coming in which could kind of disrupt and as a company we should always be mindful of where we are heading and what is on the horizon as well, but at this moment, I think commercially and otherwise this remains one of the best, cheapest and more inclusive option of providing the broadband to the masses as well.

Mr. Chetan Shah - Abakkus AMC – Mumbai

Thank you for such an elaborate answer. The whole context to understand and reason behind that is to get a sense that eventually at what level we can pick out as one, as a tower and second the utilization of tower in terms of the tenancy ratio, but this gives a good flavor of the business metrics. Thank you sir. Thanks a lot.

Ms. Rajyita - Moderator

Thank you very much Mr. Shah. The next question comes from Mr. Vishnu KG from JM Financial, Mumbai. Mr. Vishnu you may ask your question now.

Mr. Vishnu KG - JM Financial - Mumbai

Thanks for the opportunity. Could you please throw some light on what are the 5G related activities that have been going on in the market and if you could throw some light on the company's strategy to participate in 5G, especially on the small cell and the non-tower side of the business? Thank you.

Mr. Bimal Dayal - Managing Director and Chief Executive Officer – Indus Towers Limited

I am sorry. I missed your question Vishnu, if you can be little slow and repeat your question, apologies.

Mr. Vishnu KG - JM Financial - Mumbai

I was just asking like the operators have announced their intention to roll out 5G in the near-term, so what are the kind of activities if you could broadly throw some light on the kind of activities that is happening in the market and if you could throw some light on Indus Tower's strategy to participate in 5G, especially on the non-tower side of the business, that's the small cells and the other aspects? That would be really helpful.

Mr. Bimal Dayal - Managing Director and Chief Executive Officer – Indus Towers Limited

Thank you Vishnu. I think your question if I understand it right is what kind of activities are taking place in the 5G domain amongst the operators and how is Indus Towers participating or collaborating in those? Then I think your color is around or your qualification is around let us say small cells etc. So firstly if you go back in time, I think, it would be very interesting to see what kind of announcements that have been made and if you look at the transcripts of what was announced last quarter between the operators, it certainly makes everybody believe that 5G race is on. Let us say from Jio's perspective you have probably seen the announcement of indigenous and a collaborative approach towards rollout of 5G. I think Airtel went ahead and I think there were some interesting questions around bragging rights of 5G which Airtel certainly hogged by demonstrating a live demo in Hyderabad. Now these are very symbolic moves which have been made and cannot be rolled back in any form, which essentially means that the race is on. From here on I think the next step that would take place is the spectrum auction, garnering of money for the 5G race. It would be interesting to see who all participate because not participating might not be sustainable for any operator. Is it needed? Is it something that will be good for the industry and for the end users? I think no doubt about it. If you go deeper into the technology, I am a firm believer that this is a technology which is way different, it is constructed way differently as well and provides hits on not only capacity and speed but also latency which gives rise to a lot of interesting use cases and obviously the contribution in my opinion of 5G to the GDP is going to be very, very high as well. Now I think I will just extrapolate this question on what kind of activities which are taking place for preparation of 5G. I think one interesting thing I would like to point out is of iBus acquiring 100% stake in UBICO networks to provide neutral IBS and DAS space and if you actually read the announcements, this is more like providing neutral IBS and DAS in preparation of 5G as well and since 5G will be rolled out in higher bands, I think this is one thing that will be important and interesting besides the backhaul. For us, I think there is only one way and we have learnt this, we have done it, we have proven it as well for any new technology which comes in, to work very closely with the customers, very confidentially with the customers as well, see what kind of strategies they are adopting because as you would know, infrastructure comes ahead of technology and I think even if the whole thing will be rolled out initially on the existing sites, I think we will certainly be standing ahead of our customers and making a shorter of the time to market as well. I do not think I can get into any further specifics here besides the fact that whatever we are doing currently in 4G domain is an advanced preparation for 5G as well but I certainly believe we need to watch this space closely. Thank you.

Mr. Vishnu KG - JM Financial - Mumbai

That is really helpful. Thank you and all the best.

Ms. Rajyita - Moderator

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

Mr. Neerav Dalal - Maybank Securities - Mumbai

Thank you for the opportunity, I was on mute last time. I have three questions. First is on the depreciation. We saw depreciation lower on Q-on-Q basis this quarter. What would be the steady state going ahead? That is number one. Number two is that telcos have acquired spectrum in the last auction. Any benefits for us when this spectrum is deployed? That is number two. Number three is there was this announcement some time back that the telecom department is allowing sharing of tower backhaul infrastructure and Wi-Fi equipment. Anything for us in this? Thank you.

Mr. Bimal Dayal - Managing Director and Chief Executive Officer – Indus Towers Limited

Thanks Neerav for these questions, I would leave the first question to be answered by Vikas. I will take the second and third post his answer. Over to you Vikas!

Mr. Vikas Poddar – Chief Financial Officer – Indus Towers Limited

Neerav, I think as far as the depreciation is concerned, there was a policy change that happened in the current year post merger as a result of which we have a year-on-year impact. Does that answer your question Neerav?

Mr. Neerav Dalal - Maybank Securities - Mumbai

Going ahead in terms of steady state how should one look at depreciation?

Mr. Vikas Poddar – Chief Financial Officer – Indus Towers Limited

I think the current quarter is after the policy change so pretty much I would say it is a steady state.

Mr. Neerav Dalal - Maybank Securities - Mumbai

Thank you.

Mr. Bimal Dayal - Managing Director and Chief Executive Officer – Indus Towers Limited

Thank you Vikas. I will go to the second question. In a way actually I have answered this question, but I think your question is around any benefit around this? I think firstly there will be a large-scale network transformation activity which would take place and I think whenever a network transformation activity takes place, it is always beneficial. Can I quantify the benefits? No. I think the benefit certainly would be that the quality of network would certainly go up. Now I hope we all understand what operators or our customers are going through and the complexity of all migrating traffic as well. Now if you remember last year around this time we were, we came to a grinding halt when it comes to our economic activity. We certainly got into lockdown. What does lockdown mean? I will just take Gurgaon example or maybe Mumbai example. A lot of you guys are from Mumbai. BKC traffic came crashing down because people stopped traveling to BKC. However, the traffic generation let us say on the high rises and condos really went up. Now managing those spikes really generates a network transformation and operators started to run in that direction and all of us were trying to manage that traffic and traffic growth as well. Then came Q2, Q3 when things started to ease off as well and now suddenly, we are also seeing some semblance of lockdowns as well. So it is not as though you can port capacities from one place to the other overnight as well. Hence when additional spectrum comes in, such pent-up demand is clearly addressed, quality of these networks become very good. You will be able to do things from the dark spots as well, you will get capacities on time and hence you would end up consuming more which only starts the spiral of more requirement of additional sites as well. Can I quantify the benefits? No I do not think I can quantify the benefits here as well but it generally augers well when the network activity goes up, for companies like ours. The third question you had was around DoT coming up with sharing of infra. All this as I said is a good thing. We as IP1 registration provider have certainly been looking at those things including, I think, there has been a lot of noise, lot of action around PM wani as well but I must remind you that we are still looking at our strategy of keeping an eye on those things as well and I think as a company as we evaluate this, we would certainly come back to you with what is it that we would like to go, which direction and we would be certainly sharing this with you. With the current development I think the auctions become a lot more loud and clear to us. Thanks Neerav.

Mr. Neerav Dalal - Maybank Securities - Mumbai

Thank you.

Ms. Rajyita - Moderator

Thank you very much Mr. Dalal. The next question comes from Mr. Vivek Ramakrishnan from DSP Mutual Fund, Mumbai. Mr. Ramakrishnan, you may ask your question now.

Mr. Vivek Ramakrishnan - DSP Mutual Fund - Mumbai

Thank you. You talked about debt covenants. I just wanted to know what the debt covenants are in terms of the total net debt to EBITDA that you can go to and you said you are comfortable at these levels. If the covenants are at a higher level, what would push you to go to a higher level? Thanks.

Mr. Bimal Dayal - Managing Director and Chief Executive Officer – Indus Towers Limited

Vikas you may like to take this one?

Mr. Vikas Poddar – Chief Financial Officer – Indus Towers Limited

I will take this. I think the debt covenants, so first of all thank you Vivek for the question. So the debt covenants currently are at about 1.45 against our limit of 3.5, so as you can see we are at a very comfortable level. Well, technically one could say, we can go up to 3.5 because that is our limit and what would take us to higher debt levels is of course basically when we start thinking about investing in other growth areas which could possibly take us up but currently that is really not very clear in terms of the numbers. So, we are quite comfortable and basically going forward, we will see if we need more debt.

Mr. Vivek Ramakrishnan - DSP Mutual Fund - Mumbai

Thanks a lot. That was my only question. Thank you.

Ms. Rajyita – Moderator

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

Mr. Kunal Vora - BNP Paribas - Mumbai

Thanks for the follow-up opportunity. A couple of questions; one are you seeing any inflationary pressure on cost of constructing towers because certain commodities like steel has seen a spike and also have there been any major design changes such that cost of constructing a tower site, like I mean over the last four or five years, have you seen any changes in the structure so that you can actually lower the cost of constructing tower?

Mr. Bimal Dayal - Managing Director and Chief Executive Officer – Indus Towers Limited

Thank you Kunal. I think it is a very pertinent question. Yes, I think these inflationary pressures keep on coming. I think we saw steel becoming cheaper and now the whole thing is going way different as well; however, in our scheme of things we do have a reasonable amount of negotiating power with our partners as well which I think keeps this entire thing within check and control as well and it does not kind of show up. I think the interesting question is which actually has a bearing on your first question. Do we make design changes and how things have changed over a period as well? To answer your question, yes and you would be witnessing in your cities as well, the kind of towers which used to come up let us say ten years back, to the towers which actually came up five years back, to the towers which are coming in now as well, and I think the current set of towers are certainly a different product, different genre as well when it comes to their load bearing capacity as well and even the way they are built, so I think from a foundation perspective, to the tower perspective, to the steel used, to the design, I think everything has gone through a change and it continues to evolve and now let us say with higher spectrum being rolled out and a greater percolation of fiber and connected towers specifically in cities, requirement of large towers is certainly coming down and we are getting into very different kind of towers and the cost per tower obviously has impacted in a good way. For let us say rural, I think we also have evolved the design as well and I think those towers if we compare, what we used to make are way more efficient than what used to be rolled out let us say 10 years back. So this is an evolving thing and now we have lots of solutions and products for our customers as well for their rollout and I think this is something that we are very proud of with our scale, with our experience, I think all this plays very well in our favor. Hope this answers your question?

Mr. Kunal Vora - BNP Paribas - Mumbai

Yes, that is very helpful. Just one last question if I may, can you talk about any new initiatives that you are pursuing. Sometime back there were like few reports that Indus is considering hosting EV charging stations and creating that kind of infrastructure. Also, you talked about fiber in the past. Anything that you can highlight? Also on the EV part, anything that you have done and any feedback that you can provide?

Mr. Bimal Dayal - Managing Director and Chief Executive Officer – Indus Towers Limited

Once again Kunal, I think I personally remain extremely passionate about all that you just mentioned and in fact I shared what I had to last time on EV. Some of you who follow the EV sector, I think, you could possibly have a rub off of excitement on that because that also happens to be a location business. Unfortunately, I would like to take you to the strategy and the closure of the strategy and would kind of come back and reveal what we intend doing in various places and what we intend possibly playing in or not playing into as well. One thing I can say is that yes, initial pilots were done and I think it is quite possible to have, let us say, a marginal cost upgrade for our charging equipment to provide the charging for EV vehicles; however, depends on the size, depends on the solution as well. So do not take my wide brush statement here; however, it remains a very, very good possibility.

Mr. Kunal Vora - BNP Paribas - Mumbai

We will watch out for that. Thank you sir.

Ms. Rajyita – 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. Bimal Dayal for the final remarks.

Mr. Bimal Dayal - Managing Director and Chief Executive Officer – Indus Towers Limited

Thank you very much. I think this was a great session; however, before I give my closing remarks, I just have an announcement to make. Surabhi Chandna who is our Investor Relation Head, she is the one who has been holding this portfolio for more than five years, seen ups and downs along with this company, has been answering all your queries 24/7, has been a rock-solid pillar here, has decided to move on and in as much we wanted to continue to have her with us, she is going for some purple pastures as well. With this, I certainly wanted to tell Surabhi what a great job she has done so far, how she along with others built this company as well, so I just wanted to wish all the very best, inform all of you as well about this change and Mr. Kaustav Neogi will be standing in until we come back to you with who would be taking over this portfolio. Before I give my closing remarks, I will hand it over to Surabhi to certainly say a few words on her journey and be a little nostalgic about her association as well. Over to you Surabhi!

Ms. Surabhi Chandna - Chief Investor Relations Officer - Indus Towers Limited

Thank you Bimal. Thanks for your very kind words. Honestly it has been a real pleasure to be part of this organization in both avatars for the last five years. First as Bharti Infratel and now as a larger organization as Indus Towers. So it has been a really fulfilling personal and professional journey for me. Since we have the larger group, I can just take this opportunity. I would also want to thank the analysts and the investor community who have been giving their insights and engaging with us and feedback over the last five years. It has obviously helped me personally and professionally. We have always been able to try to take it up to management for the feedback. So I think, I would really appreciate that they continue to extend the same support to the management and the Indus Investor Relations going forward and personally I can say I hope to stay connected and wishing everybody the best. Thank you.

Mr. Bimal Dayal - Managing Director and Chief Executive Officer – Indus Towers Limited

Thank you very much Surabhi. I am sure you will do well no matter where you are. God bless you. For now, for my closing remarks, generally I sort of give some pointers as well. Just a reiteration here; we did manage to deliver a strong quarter and a full year which is the previous year. Demand side actually looks strong with heavy data growth, which really augurs well. New spectrum as we discussed and touched upon as well will be deployed and great network activity that takes place, which in my opinion is generally very good. Next quarter remains an interesting, important quarter not only from the foundational quarter for the next financial year but I think from merger related activities as well it is a very important quarter in which we wanted to finish off all important and deeper integration stuff including the platforms. The fifth bullet I wanted to touch upon was, we have discussed a lot of business and lot of parameters here but when it comes to safety versus business, I think certainly the safety takes priority so I certainly wanted each one of you to please keep yourselves safe and your family members as well because this is an unprecedented situation of wave two of this pandemic. We are experiencing all this across all our geographies and territories as well and really dabbling between difficult choices, as they say between life and business, obviously life certainly takes priority. With this let me wish each one of you being safe and your families too as well. God bless. Thank you very much.

Ms. 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.