

# Tata Communications

Estimate change	↔
TP change	↑
Rating change	↔

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Bloomberg	TCOM IN
Equity Shares (m)	285
M.Cap.(INRb)/(USD\$)	426.8 / 5.8
52-Week Range (INR)	1528 / 757
1, 6, 12 Rel. Per (%)	7/37/42
12M Avg Val (INR M)	499

## Financials & Valuations (INR b)

INR b	FY21	FY22E	FY23E
Net Sales	171.0	172.8	195.5
EBITDA	42.6	42.6	49.4
Adj. PAT	13.3	13.9	17.4
EBITDA Margin (%)	24.9	24.6	25.3
Adj. EPS (INR)	46.5	48.6	61.2
EPS Gr. (%)	340.2	4.5	25.9
BV/Sh. (INR)	4.1	52.8	114.0

## Ratios

Net D:E	57.5	3.5	0.7
RoE (%)	-227.9	171.0	73.4
RoCE (%)	19.5	16.1	17.3
Payout (%)	10.6	9.5	7.6

## Valuations

EV/EBITDA (x)	12.1	11.8	9.6
P/E (x)	32.2	30.8	24.5
P/BV (x)	369.5	28.3	13.1
Div. Yield (%)	0.3	0.3	0.3
FCF Yield (%)	3.7	3.6	6.7

## Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	58.9	58.9	75.0
DII	7.4	7.5	1.8
FII	24.0	24.4	17.2
Others	9.8	9.2	6.0

FII Includes depository receipts

**CMP: INR1,498 TP: INR1,380 (-8%) Neutral**

## Recovery playing out slowly and steadily

- Tata Communications (TCOM)'s 1QFY22 revenue/EBITDA was up 1%/-3% on a QoQ basis. It reported an 8% EBITDA miss on lower data traffic, impacted by the lockdown and provisions towards a newly implemented 8% license fee on ISP data traffic revenues. This marked the third straight quarter of EBITDA decline.
- We revise down our EBITDA estimate by 4% for FY23 due to the stock's lower than expected business performance, although we expect a 7%/8% revenue/EBITDA CAGR over FY21-FY23. Maintain Neutral.

## EBITDA down 2.9% (8% miss); flat QoQ, adj for provisions

- Consolidated revenues were flattish at INR41b (up 1% QoQ; 2% miss), led by 5.5% growth in the Voice business, while Data revenue was flat. Usage-based revenues were impacted by the lockdowns affecting collaboration traffic in the Data segment.
- EBITDA declined 3% QoQ to INR9.9b (8% miss), primarily due to the impact of INR330m worth of provisions on account of an 8% license fee newly implemented by DoT on ISP revenues – the new license fee has also impacted Bharti's Homes and Enterprise businesses (charges on pure Internet services, which were allowed as a deduction earlier). Subsequently, the EBITDA margin contracted 90bp to 24%. Normalized for the provision impact, EBITDA would have been flat QoQ at INR10.2b.
- TCOM's PAT was in-line (-1% QoQ) at INR3b, whereas PAT adj for exceptional items stood at INR2.9b (down 3% QoQ; 7% miss)
- 1QFY22 capex stood at INR3.8b v/s INR3.7b in 4QFY21 and FY21 capex at INR14.2b.
- Net debt grew marginally to INR80b (v/s INR77.9b in 4QFY21). The management attributed this to annual employee bonus payouts in 1Q and higher working capital – which tends to be elevated at the start of the year.

## Highlights from management commentary

- **Funnel improves; targeting smaller deals:** The deal funnel improved and is expected to drive revenue. However, it is seeing longer lead times in closing large transformation deals. Hence, it is focusing on smaller margin neutral deals to support growth.
- **Recovery in place, albeit likely to be gradual:** 25% of usage-based data revenue and IoT products are seeing slow traction due to the COVID impact, but witnessed a reversal in trends during the quarter.
- **Capex guidance:** Guidance stood at ~USD250m for FY22, driven by new orders, maintenance capex (2% of revenue), and strategic capex. It may spend higher to tap growth opportunities.
- **EBITDA margin:** Guidance was maintained at 23–25% for the long term.

## Valuation and view

- The recent rejig in business segments and focus on driving larger deals in the digitization-led business advocate healthy growth. Management commentary on deal wins and demand for networking solutions have also been bullish since the COVID outbreak. However, revenues for Data – the key growth driver – have been muted (down 2% YoY). This has dragged down overall EBITDA growth by 2%, even after adjusting for the newly implemented license cost.
- We see limited incremental margin improvement of 40–50bp over FY21–23E, against nearly ~800bp over the last two years. Therefore, deal wins and deal-to-revenue conversions would be the key monitorables over FY22–23 for achieving double-digit earnings growth.
- We revise down our EBITDA estimate by 4% for FY23 on lower-than-expected business performance. We maintain a Neutral rating, with TP of INR1,555 (assigning 10x/3x to EBITDA for the Data/Voice business).

## Cons. Quarterly Earnings Model

(INR m)

Y/E March	FY21				FY22E				FY21	FY22E	1Q FY22E	Est Var (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
<b>Revenue</b>	<b>44,029</b>	<b>44,011</b>	<b>42,228</b>	<b>40,733</b>	<b>41,028</b>	<b>42,453</b>	<b>43,905</b>	<b>45,443</b>	<b>1,71,001</b>	<b>1,72,829</b>	<b>42,034</b>	-2
YoY Change (%)	5.6	3.0	-0.1	-7.4	-6.8	-3.5	4.0	11.6	0.2	1.1	-0.6	
Total Expenditure	33,612	32,436	31,767	30,581	31,167	32,058	32,988	34,040	1,28,395	1,30,253	31,347	-1
<b>EBITDA</b>	<b>10,418</b>	<b>11,575</b>	<b>10,461</b>	<b>10,152</b>	<b>9,861</b>	<b>10,395</b>	<b>10,917</b>	<b>11,403</b>	<b>42,606</b>	<b>42,576</b>	<b>10,687</b>	-8
YoY Change (%)	26.2	38.8	37.5	16.8	-5.3	-10.2	4.4	12.3	29.5	-0.1	2.6	-306bps
Depreciation	5,899	5,719	5,570	5,950	5,318	5,373	5,373	5,428	23,139	21,491	5,816	-9
Interest	1,163	1,064	1,044	931	962	925	922	919	4,202	3,728	919	5
Other Income	147	761	82	577	134	243	250	359	1,568	986	240	-44
<b>PBT before EO expense</b>	<b>3,503</b>	<b>5,553</b>	<b>3,929</b>	<b>3,848</b>	<b>3,714</b>	<b>4,341</b>	<b>4,872</b>	<b>5,416</b>	<b>16,833</b>	<b>18,343</b>	<b>4,193</b>	-11
Exceptional (gain)/loss	105	540	114	-12	-56	0	0	0	747	-56	0	
<b>PBT</b>	<b>3,398</b>	<b>5,013</b>	<b>3,815</b>	<b>3,859</b>	<b>3,771</b>	<b>4,341</b>	<b>4,872</b>	<b>5,416</b>	<b>16,085</b>	<b>18,400</b>	<b>4,193</b>	-10
Tax	812	1,153	711	872	793	1,093	1,226	1,363	3,549	4,475	1,055	
Rate (%)	23.9	23.0	18.6	22.6	21.0	25.2	25.2	25.2	22.1	24.3	25.2	
MI & P/L of Asso. Cos.	8	15	12	-5	17	8	8	-2	30	30	-20	
<b>Reported PAT</b>	<b>2,578</b>	<b>3,845</b>	<b>3,092</b>	<b>2,992</b>	<b>2,961</b>	<b>3,241</b>	<b>3,638</b>	<b>4,054</b>	<b>12,505</b>	<b>13,893</b>	<b>3,117</b>	-5
<b>Adj PAT</b>	<b>2,683</b>	<b>4,384</b>	<b>3,206</b>	<b>2,980</b>	<b>2,905</b>	<b>3,241</b>	<b>3,638</b>	<b>4,054</b>	<b>13,253</b>	<b>13,838</b>	<b>3,117</b>	-7
YoY Change (%)	236.9	632.8	447.6	189.1	8.3	-26.1	13.5	36.0	340.2	4.4	432.5	

E: MOFSL Estimates

## Key Performance Indicators

Y/E March	FY21E				FY22E				FY21	FY22E	1Q FY22E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			
<b>Revenue Mix</b>											
Voice segment (%)	18.2	17.2	16.0	13.7	14.4	13.5	12.6	11.9	18.1	13.1	12.9
Data segment (%)	72.1	72.9	74.0	75.8	75.7	76.4	77.2	77.9	81.9	76.8	87.1
<b>EBITDA Margins</b>											
Voice Segment (%)	8.3	6.5	2.8	6.3	4.5	4.0	3.9	3.8	6.1	4.0	6.4
Data Segment (%)	30.1	33.8	32.1	30.1	30.0	30.2	30.4	30.4	31.5	30.3	28.2
EBITDA Margins (%)	23.7	26.3	24.8	24.9	24.0	24.5	24.9	25.1	24.9	24.6	25.4
EBIT Margin (%)	10.3	13.3	11.6	10.3	11.1	11.8	12.6	13.1	11.4	12.2	12.2
Adj. PAT Margins (%)	6.1	10.0	7.6	7.3	7.1	7.6	8.3	8.9	7.8	8.0	7.4

E:MOFSL Estimates

**Segmental highlights**

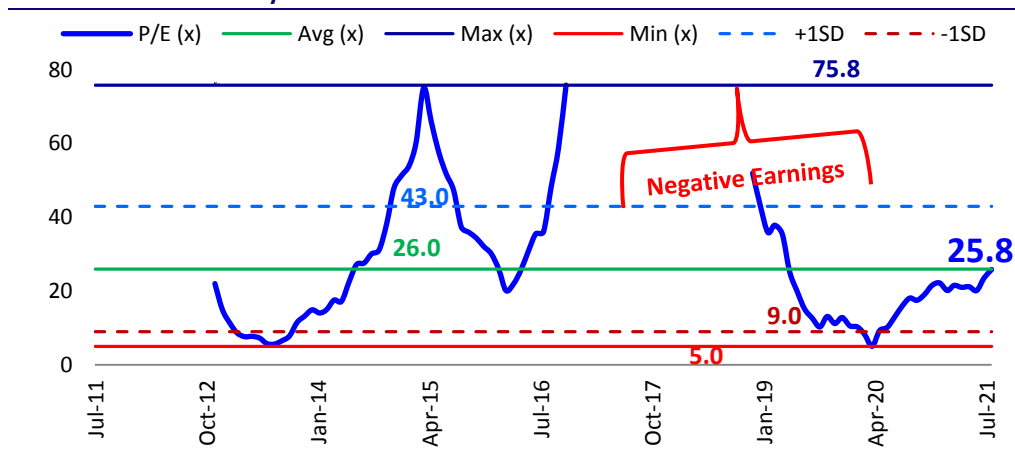
- The company renamed the Traditional/Growth/Innovation business to Core / Digital Platform / Incubation, with some reclassification of revenues. It also transferred the Rental/Transformation/ATM business from the Data segment to the Others division.
- Data revenue/EBITDA remained flat sequentially at INR31b/INR9.3b, with margins at 30%. Revenue was lower QoQ due to moderation in collaboration traffic, which had peaked in 1QFY21. Adjusted for provisions towards the newly implemented 8% license fee on ISP revenues, EBITDA was up 4% QoQ.
- The EBITDA margin for Data remained flat despite the impact of license fee provisions.
- Revenue/EBITDA for Core Connectivity (the Traditional segment) declined 2% QoQ to INR22.3b/INR9.5b. The EBITDA margin remained flat at 42.6%.
- Digital Platform & Services (the Growth segment) – which contributes just 8% to EBITDA – saw 3%/34% revenue/EBITDA growth to INR8.4b/INR751m. The EBITDA margin partly recovered 210bp to 9% (peak of 14–15% in 2Q/3QFY21).
- The Transformation segment saw QoQ revenue decline of 3.2% to INR3.3b; EBITDA slipped in the red after gaining in 4QFY21. EBITDA loss stood at INR60m (v/s EBITDA profit of INR170m in 4QFY21). The Transaction business was impacted by the second COVID wave, while costs remained elevated.
- The Voice segment revenue grew 5.5% QoQ to INR5.9b, while EBITDA declined 25% QoQ to INR264m.
- Revenue/EBITDA for the ATM biz was down 18.2%/20.3% QoQ to INR376m/INR73m – the business continues to be impacted by the second wave.

**Exhibit 1: Valuation based on FY23E EBITDA**

<b>India Business</b>	
<b>Particulars</b>	<b>FY23E</b>
EBITDA (INRm)	47,407
multiple (x)	9.9
Voice EBITDA (INRm)	712
multiple (x)	3
Data EBITDA (INRm)	46,695
multiple (x)	10
<b>Enterprise Value (INRm)</b>	<b>4,69,252</b>
Net Debt (INRm)	75,878
<b>Equity value (INRm)</b>	<b>3,93,374</b>
No of shares (m)	285
<b>Equity value/share (INR)</b>	<b>1,380</b>
% Upside(Downside)	-8%
Land Bank (INR)	176
<b>Fair Value (INR)</b>	<b>1,556</b>
CMP (INR)	1497
<b>% Upside(Downside)</b>	<b>-8%</b>

Source: MOFSL, Company

Exhibit 2: TCOM – One-year forward PE



Source: MOFSL, Company



## Management call highlights

### Key highlights

- **Funnel improves; targeting smaller deals:** The deal funnel improved and is expected to drive revenue. However, it is seeing longer lead times in closing large transformation deals. Hence, it is focusing on smaller margin, neutral deals to support growth.
- **Recovery in place, albeit likely to be gradual:** 25% of usage-based data revenue and IoT products are seeing slow traction due to the COVID impact, but witnessed a reversal in trends during the quarter.
- **Capex guidance:** Guidance stood at ~USD250m for FY22, driven by new orders, maintenance capex (2% of revenue), and strategic capex. It may spend higher to tap growth opportunities.
- **EBITDA margin:** Guidance was maintained at 23–25% for the long term.

### Detailed notes

#### Launches and upgrades in Hybrid Connectivity market

- The company is expanding its IZO cloud offerings to remain relevant for customers. It recently launched IZO Financial Cloud, enabling next-gen digital transformation, to service surging customer demand.
- It is shortly launching a cloud communication platform on software layers to seamlessly collaborate with the customer and provide flexibility for business growth.
- It recently deployed a virtual video-assisted solution on media edge cloud to enable remote connectivity for the global sailing championship.

#### Deals and collaborations

- The funnel of orders improved sequentially in 1QFY22 (v/s 4QFY21) and should gradually translate to revenues.
- It has been focusing on larger transformation deals, but is experiencing longer lead times for closings. Hence, it has accelerated smaller deals to drive growth, which is not likely to impact margins.

- Klons Digital signed a large multi-year contract to improve efficiency in a global transformation program.
- It received an order from a central government exchange to offer tailor-made security services.
- The Industrial IoT Solutions business tied up on a contract with Tata Steel for employee efficiency.
- Joint deals with TCS – The focus is on larger deals. Significant engagement is seen at the field level, and the funnel has improved as a result of this. It is also seeing good traction in terms of collaborations, but these have also been impacted by COVID.

#### Business performance

- **Performance:** Revenue growth is slower due to COVID. However, it is keeping a strong lid on costs and has exited loss-making contracts with the Ministry of Finance to protect its profitability.
- **Recovery:** Sequential trends appear to be encouraging after three quarters of weakness. The company is seeing gradual recovery in all segments since the opening up of office spaces. The Cloud and Security, New Gen, and Media businesses have reached pre-COVID levels. However, SIP Trunking is still struggling below pre-COVID levels; nonetheless, the trend is gradually reversing and recovery is expected in this segment.
- **Media business:** The Media business is starting to recover with global events picking up. The Media business grew 82% v/s last year's low base. The segment is back at pre-COVID levels in terms of absolute nos. and should grow faster hereafter.
- **Auto OEMs:** Auto OEMs are facing RM shortages, which is hurting the Move service business.
- **ATM business:** The ATM business has seen improvement in cash/non-cash transactions to INR6/INR17 per transaction (from INR5/INR15).
- **Leverage:** Net debt to EBITDA of 1.9x is well within the guidance of below 2x.

#### Business outlook

- **Capex:** Capex for FY22 is expected to be ~USD250m, largely driven by customer success capex. Maintenance capex stands at near 2% of revenue, while strategic capex is subjective.
- **Next-gen connectivity:** Large network transformation deals are expected, including IZO, SD WAN, and other digitization deals. The underlying trend of leveraging the Internet to digitize the network and capability has not gone away, but dried up currently.
- **Cloud-based collaboration:** It plans to collaborate with companies such as Amazon, Cisco, and Microsoft with cloud offerings. It plans to operate something along the lines of a cloud-based call center, but would add layers of services to provide a wider range of offerings.
- **Focus on IZO and CPaaS:** There is need to continuously innovate in all segments, such as IZO-related products, programmable voice offerings, and CPaaS while ensuring achievement of scale. The company plans to continue to invest in these segments.

- **Pricing:** No change is expected in customer behavior towards pricing due to the lackluster usage-based revenue trends.
- **EBITDA guidance:** It would continue to maintain the EBITDA margin expectation of 23–25% over the long term.
- **Recovery in SIP and Cloud:** On-the-go digital product usage would aid growth in the SIP Trunking business (with the recovery of COVID). The resumption of business post COVID would further drive demand in cloud services.

**Exhibit 3: Quarterly performance**

	Q1FY21	Q4FY21	Q1FY22	YoY(%)	QoQ (%)	Q1FY22E	v/s est (%)
<b>Revenue</b>	<b>44,029</b>	<b>40,733</b>	<b>41,028</b>	<b>-6.8</b>	<b>0.7</b>	<b>42,034</b>	<b>-2.4</b>
Operating Expenses	33,612	30,581	31,167	-7.3	1.9	31,347	-0.6
<b>EBITDA</b>	<b>10,418</b>	<b>10,152</b>	<b>9,861</b>	<b>-5.3</b>	<b>-2.9</b>	<b>10,687</b>	<b>-7.7</b>
<b>EBITDA Margins (%)</b>	<b>23.7%</b>	<b>24.9%</b>	<b>24.0%</b>	<b>37bps</b>	<b>-89bps</b>	<b>25.4%</b>	<b>-139bps</b>
Depreciation	5,899	5,950	5,318	-9.9	-10.6	5,816	-8.6
Interest	1,163	931	962	-17.3	3.4	919	4.7
Other Income	147	577	134	-9.4	-76.9	240	-44.5
Exceptional Items	105	-12	-56	-153.6	388.7	0	NM
<b>PBT</b>	<b>3,398</b>	<b>3,859</b>	<b>3,771</b>	<b>11.0</b>	<b>-2.3</b>	<b>4,193</b>	<b>-10.1</b>
Tax	812	872	793	-2.4	-9.1	1,055	-24.9
Effective Tax Rate (%)	23.9%	22.6%	21.0%			25.2%	
<b>PAT</b>	<b>2,586</b>	<b>2,987</b>	<b>2,978</b>	<b>15.2</b>	<b>-0.3</b>	<b>3,137</b>	<b>-5.1</b>
MI & P/L in Associates	-8	5	-17	114.1	-455.3	-20	
<b>PAT after Minority</b>	<b>2578</b>	<b>2992</b>	<b>2,961</b>	<b>14.9</b>	<b>-1.0</b>	<b>3,117</b>	<b>-5.0</b>
<b>Adjusted PAT</b>	<b>2683</b>	<b>2980</b>	<b>2,905</b>	<b>8</b>	<b>-3</b>	<b>3,117</b>	<b>-6.8</b>

Source: MOFSL, Company

**Exhibit 4: Detailed segmental quarterly performance**

Particulars	Q1FY21	Q4FY21	Q1FY22	YoY(%)	QoQ (%)	Q1FY22E	v/s est (%)
<b>Total Revenue</b>	<b>44,029</b>	<b>40,733</b>	<b>41,028</b>	<b>-6.8</b>	<b>0.7</b>	<b>42,034</b>	<b>-2.4</b>
<b>Voice segment</b>	<b>7,993</b>	<b>5,583</b>	<b>5,892</b>	<b>-26.3</b>	<b>5.5</b>	<b>5,417</b>	<b>8.8</b>
<b>Data segment</b>	<b>31,756</b>	<b>30,875</b>	<b>31,045</b>	<b>-2.2</b>	<b>0.6</b>	<b>36,617</b>	<b>-15.2</b>
Core Connectivity*	22,290	22,770	22,307	0.1	-2.0	23,225	-4.0
Digital Platform and Services*	9,592	8,132	8,369	-12.8	2.9	8,514	-1.7
Incubation*	230	366	369	60.4	0.9	426	-13.3
<b>Others</b>							
Transformation Service*	3,325	3,413	3,303	-0.7	-3.2	3,546	-6.9
Tata Payment Solutions*	522	459	376	-28.1	-18.2	506	-25.7
Rental	433	403	413	-4.6	2.5	400	3.2
<b>EBITDA</b>	<b>10,418</b>	<b>10,152</b>	<b>9,861</b>	<b>-5.3</b>	<b>-2.9</b>	<b>10687</b>	<b>-7.7</b>
<b>Voice segment</b>	<b>666</b>	<b>353</b>	<b>264</b>	<b>-60.4</b>	<b>-25.3</b>	<b>344</b>	<b>-23.4</b>
<b>Data segment</b>	<b>9,545</b>	<b>9,282</b>	<b>9,317</b>	<b>-2.4</b>	<b>0.4</b>	<b>10,334</b>	<b>-9.8</b>
Core Connectivity	9,410	9,700	9,510	1.1	-2.0	9,894	-3.9
Margin (%)	42.2	42.6	42.6	41bps	3bps	43	3bps
Digital Platform and Services	1,065	560	751	-29.5	34.0	885	-15.2
Margin (%)	11.1	6.9	9.0	-212bps	208bps	10	-142bps
Incubation	(1,001)	(1,067)	(944)	-5.7	-11.6	-993	-4.9
Margin (%)	NM	NM	NM	NM	NM	NM	NM
Transformation Service	(34)	170	(60)	76.7	-135.4	189	-131.9
Margin (%)	(1)	5	-1.8	-80bps	-682bps	5	-716bps
Tata Payment Solutions	(40)	92	73	-284.3	-20.3	102	-27.9
Margin (%)	(8)	20	19.5	2716bps	-52bps	20.1	-58bps
Rental	281	254	267	-5.1	4.8	250.0	6.7
Margin (%)	65	63	64.6	-39bps	139bps	62.5	207bps

Source: MOFSL, Company

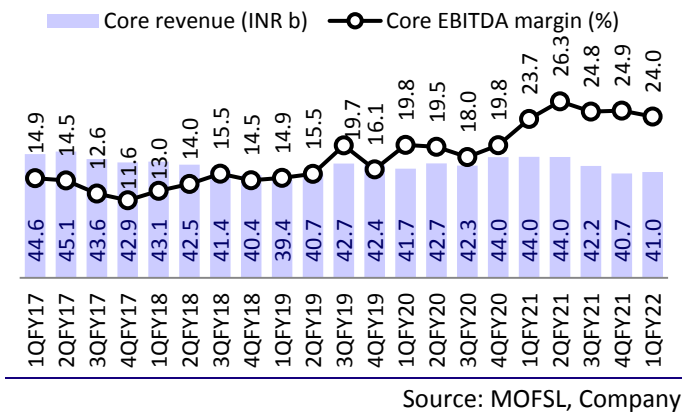
**Exhibit 5: Summary of estimate change (INR b)**

	<b>FY22E</b>	<b>FY23E</b>
<b>Global Voice revenue (INR b)</b>		
Old	20.7	18.4
Actual/New	22.6	20.0
Change (%)	<b>8.8</b>	<b>8.8</b>
<b>Global Data revenue (INR b)</b>		
Old	153.5	173.7
Actual/New	132.8	155.2
Change (%)	<b>-13.5</b>	<b>-10.6</b>
<b>Core revenue (INR b)</b>		
Old	174.2	192.1
Actual/New	155.3	195.5
Change (%)	<b>-10.8</b>	<b>1.8</b>
<b>Core EBITDA (INR b)</b>		
Old	45.2	51.5
Actual/New	42.6	49.4
Change (%)	<b>-5.8</b>	<b>-4.1</b>
<b>Voice EBITDA (INR b)</b>		
Old	1.3	1.1
Actual/New	0.9	0.7
Change (%)	<b>-29.0</b>	<b>-33.5</b>
<b>Data EBITDA (INR b)</b>		
Old	43.9	50.4
Actual/New	40.2	46.7
Change (%)	<b>-8.4</b>	<b>-7.3</b>
<b>Core EBITDA margin (%)</b>		
Old	25.9	26.8
Actual/New	27.4	25.3
Change (%)	147bps	-155bps
<b>PAT (INR m)</b>		
Old	14.4	19.0
Actual/New	13.9	17.4
Change (%)	-3.7	-8.3
<b>EPS (INR)</b>		
Old	50.6	66.7
Actual/New	48.8	61.2
Change (%)	-3.7	-8.3

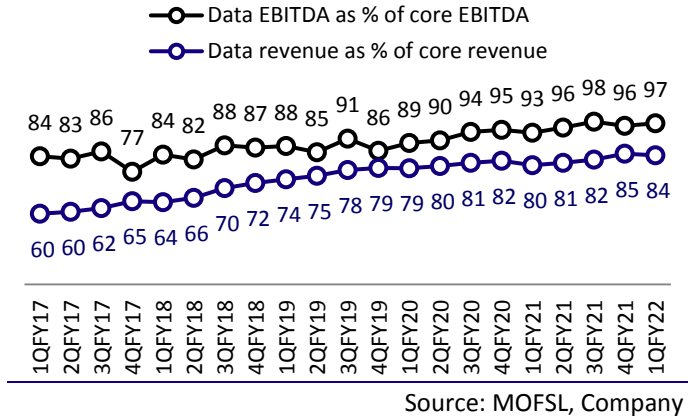
Source: MOFSL, Company

## Story in charts

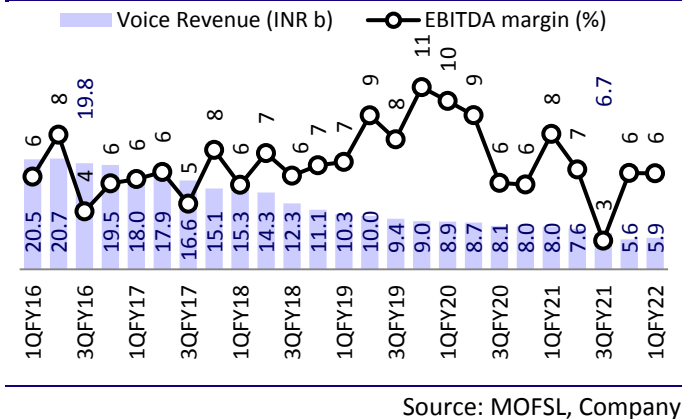
**Exhibit 6: Core EBITDA margin at 25%**



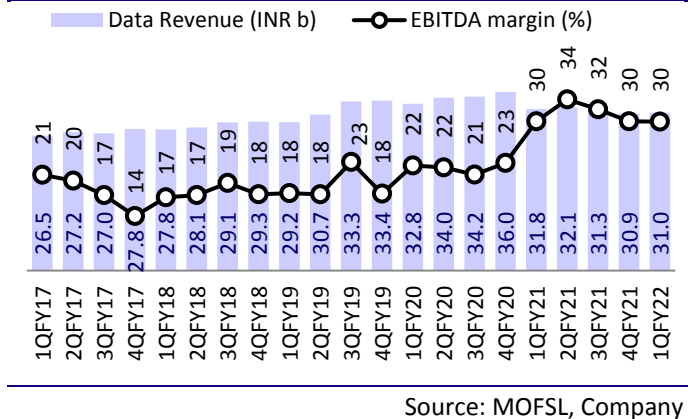
**Exhibit 7: Data biz revenue and EBITDA contribution**



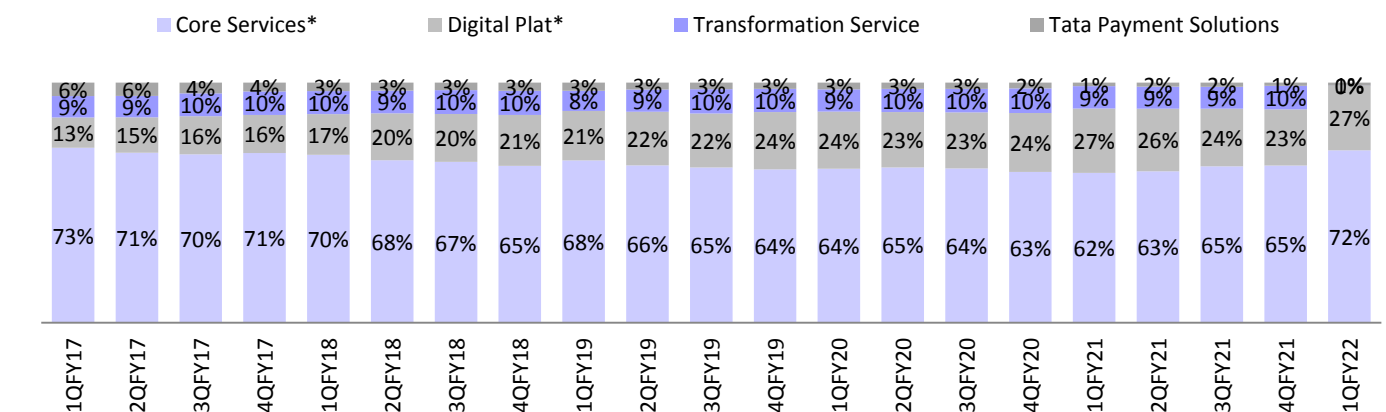
**Exhibit 8: Voice revenue improves (INR b)**



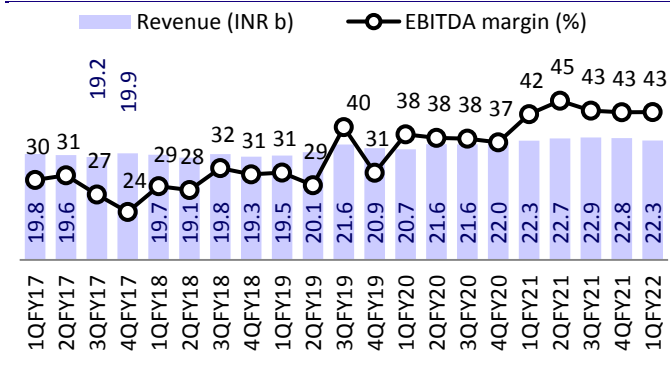
**Exhibit 9: Data revenue up marginally, with stable margins (INR b)**



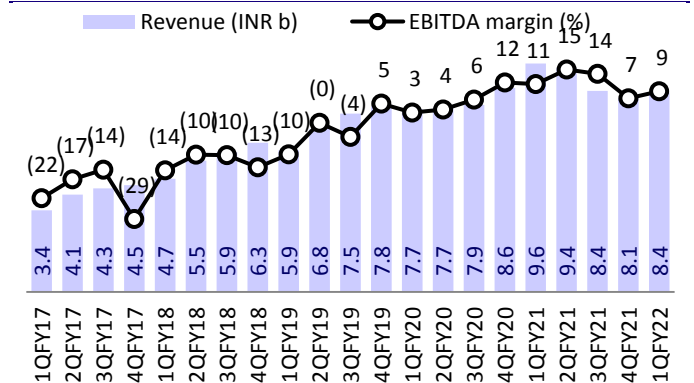
**Exhibit 10: Revenue contribution from segments in 1QFY22 (%)**



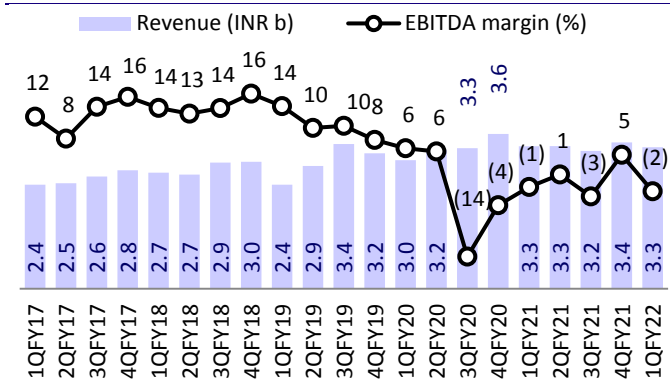
\*revised as per new reporting structure. Source: MOFSL, Company

**Exhibit 11: Core Services (Traditional business) – revenue/EBITDA margin trend**

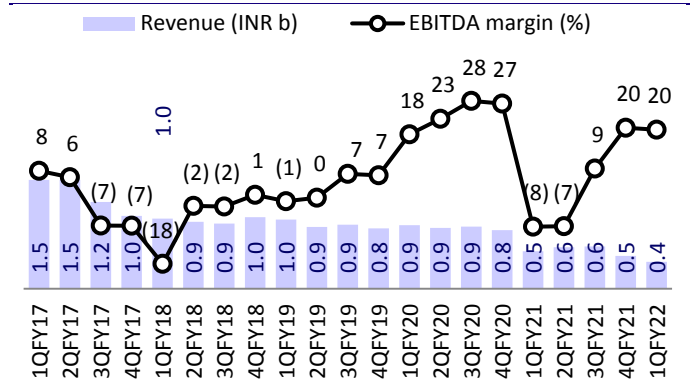
Source: MOFSL, Company

**Exhibit 12: Digital Plat & Services (Growth business) – EBITDA margin decline**

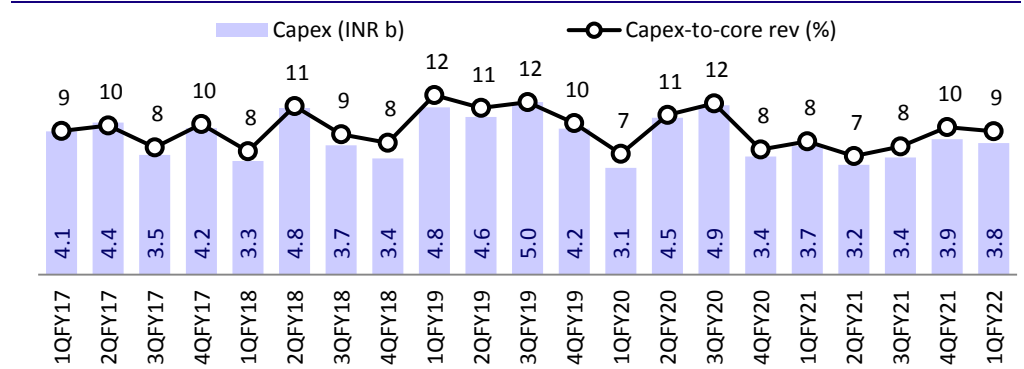
Source: MOFSL, Company

**Exhibit 13: Transformation biz – impacted sequentially**

Source: MOFSL, Company

**Exhibit 14: Payment Solutions biz turns profitable**

Source: MOFSL, Company

**Exhibit 15: Quarterly capex trend**

Source: MOFSL, Company

**Exhibit 16: Core segmental mix (INR m)**

	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>
<b>Revenues Segments</b>							
Voice	67,581	53,113	38,703	33,764	27,908	22,557	20,048
<i>growth</i>	-16.1%	-21.4%	-27.1%	-12.8%	-17.3%	-19.2%	-11.1%
<i>as a % of core</i>	38.4%	31.7%	23.4%	19.8%	18.1%	13.1%	10.3%
Data	1,08,619	1,14,603	1,26,546	1,36,920	1,25,993	1,32,772	1,55,210
<i>growth</i>	2.5%	5.5%	10.4%	8.2%	-8.0%	5.4%	16.9%
<i>as a % of core</i>	61.6%	68.3%	76.6%	80.2%	81.9%	76.8%	79.4%
Others*	0	0	0	0	0	17,500	20,266
<i>growth</i>	0.0%	0.0%	0.0%	0.0%	0.0%	NM	15.8%
<i>as a % of core</i>						10.1%	10.4%
Core Revenues	1,76,200	1,67,716	1,65,249	1,70,684	1,53,901	1,72,829	1,95,524
<b>EBITDA Segments</b>							
Voice	4,140	3,437	3,359	2,634	1,703	913	712
<i>margin</i>	6.1%	6.5%	8.7%	7.8%	6.1%	4.0%	3.5%
<i>growth</i>	-16.6%	-17.0%	-2.3%	-21.6%	-35.3%	-46.4%	-22.1%
<i>as a % of Core EBITDA</i>	17.5%	14.2%	12.2%	8.0%	4.1%	2.1%	1.4%
Data	19,459	20,685	24,089	30,258	39,728	40,200	46,695
<i>margin</i>	17.9%	18.0%	19.0%	22.1%	31.5%	30.3%	30.1%
<i>growth</i>	-12.5%	6.3%	16.5%	25.6%	31.3%	1.2%	16.2%
<i>as a % of Core EBITDA</i>	82.5%	85.8%	87.8%	92.0%	95.9%	94.4%	94.6%
Others*	0	0	0	0	0	1,463	1,974
<i>margin</i>	0.0%	0.0%	0.0%	0.0%	0.0%	3.4%	4.0%
<i>growth</i>	0.0%	0.0%	0.0%	0.0%	0.0%	NM	35.0%
Core EBITDA	23,599	24,122	27,448	32,892	41,432	42,576	49,382
<i>margin</i>	13.4%	14.4%	16.6%	19.3%	26.9%	24.6%	25.3%
<i>growth</i>	-13.3%	2.2%	13.8%	19.8%	26.0%	2.8%	16.0%

\*added as per latest classification. Source: Company, MOFSL

## Financials and valuations

### Consolidated - Income Statement

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Total Income from Operations</b>	<b>1,99,090</b>	<b>1,81,486</b>	<b>1,76,197</b>	<b>1,67,717</b>	<b>1,65,250</b>	<b>1,70,680</b>	<b>1,71,001</b>	<b>1,72,829</b>	<b>1,95,524</b>
Change (%)	1.5	-8.8	-2.9	-4.8	-1.5	3.3	0.2	1.1	13.1
Network Cost	1,05,543	96,724	88,119	79,032	71,620	67,776	63,333	65,294	73,985
Staff Cost	27,948	27,396	28,394	29,775	29,597	30,391	30,491	33,575	36,324
Operating & Other Expense	35,702	32,949	35,625	34,787	36,584	39,623	34,572	31,384	35,833
<b>Total Expenditure</b>	<b>1,69,193</b>	<b>1,57,069</b>	<b>1,52,138</b>	<b>1,43,595</b>	<b>1,37,801</b>	<b>1,37,790</b>	<b>1,28,395</b>	<b>1,30,253</b>	<b>1,46,142</b>
% of Sales	85.0	86.5	86.3	85.6	83.4	80.7	75.1	75.4	74.7
<b>EBITDA</b>	<b>29,897</b>	<b>24,417</b>	<b>24,059</b>	<b>24,122</b>	<b>27,449</b>	<b>32,890</b>	<b>42,606</b>	<b>42,576</b>	<b>49,382</b>
Margin (%)	15.0	13.5	13.7	14.4	16.6	19.3	24.9	24.6	25.3
Depreciation	21,611	18,643	18,658	19,063	20,676	23,577	23,139	21,491	23,677
<b>EBIT</b>	<b>8,286</b>	<b>5,774</b>	<b>5,401</b>	<b>5,059</b>	<b>6,773</b>	<b>9,312</b>	<b>19,467</b>	<b>21,085</b>	<b>25,705</b>
Int. and Finance Charges	7,508	4,091	3,672	3,445	3,966	4,707	4,202	3,728	3,646
Other Income	4,008	3,966	3,603	2,597	603	697	1,568	986	1,282
<b>PBT bef. EO Exp.</b>	<b>4,786</b>	<b>5,650</b>	<b>5,332</b>	<b>4,211</b>	<b>3,410</b>	<b>5,302</b>	<b>16,833</b>	<b>18,343</b>	<b>23,341</b>
EO Items	-1,052	-1,028	-10,633	-3,755	22	-3,905	-747	56	0
<b>PBT after EO Exp.</b>	<b>3,734</b>	<b>4,622</b>	<b>-5,301</b>	<b>456</b>	<b>3,432</b>	<b>1,397</b>	<b>16,085</b>	<b>18,400</b>	<b>23,341</b>
Total Tax	3,705	2,329	2,364	3,549	2,733	2,267	3,549	4,475	5,875
Tax Rate (%)	99.2	50.4	-44.6	778.2	79.6	162.3	22.1	24.3	25.2
Minority Interest	17	18	-25	193	1,523	-11	30	30	30
<b>Reported PAT</b>	<b>13</b>	<b>2,276</b>	<b>-7,640</b>	<b>-3,286</b>	<b>-824</b>	<b>-860</b>	<b>12,506</b>	<b>13,894</b>	<b>17,436</b>
<b>Adjusted PAT</b>	<b>3,027</b>	<b>973</b>	<b>3,016</b>	<b>331</b>	<b>-624</b>	<b>3,011</b>	<b>13,253</b>	<b>13,852</b>	<b>17,436</b>
Change (%)	-43.2	-67.9	210.0	-89.0	-288.6	-582.2	340.2	4.5	25.9
Margin (%)	1.5	0.5	1.7	0.2	-0.4	1.8	7.8	8.0	8.9

### Consolidated - Balance Sheet

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	2,850	2,850	2,850	2,850	2,850	2,850	2,850	2,850	2,850
Total Reserves	365	-6,484	13,069	2,143	-4,668	-15,634	-1,695	12,199	29,635
<b>Net Worth</b>	<b>3,215</b>	<b>-3,634</b>	<b>15,919</b>	<b>4,993</b>	<b>-1,818</b>	<b>-12,784</b>	<b>1,155</b>	<b>15,049</b>	<b>32,485</b>
Minority Interest	59	69	184	45	58	48	282	282	282
Total Loans	1,30,757	1,51,181	99,516	95,395	1,06,844	81,575	98,011	93,700	92,500
Lease liabilities						39,938	14,351	14,351	14,351
Deferred Tax Liabilities	-2,015	-1,072	71	-477	-887	-2,495	-2,824	-2,824	-2,824
<b>Capital Employed</b>	<b>1,32,015</b>	<b>1,46,545</b>	<b>1,15,690</b>	<b>99,956</b>	<b>1,04,196</b>	<b>1,06,282</b>	<b>1,10,975</b>	<b>1,20,558</b>	<b>1,36,794</b>
Gross Block	2,99,608	3,08,467	2,70,923	2,88,666	1,16,569	1,29,126	1,51,316	1,66,556	1,81,796
Less: Accum. Deprn.	1,56,419	1,67,208	1,61,638	1,80,701	5,006	28,583	51,722	73,213	96,890
<b>Net Fixed Assets</b>	<b>1,43,190</b>	<b>1,41,259</b>	<b>1,09,285</b>	<b>1,07,965</b>	<b>1,11,563</b>	<b>1,00,543</b>	<b>99,594</b>	<b>93,343</b>	<b>84,906</b>
Right to use assets						15,956	13,337	13,337	13,337
Goodwill on Consolidation	3,848	3,246	0	0	863	918	1,103	1,103	1,103
Capital WIP	6,383	7,998	7,509	5,203	4,082	4,466	6,091	6,091	6,091
<b>Total Investments</b>	<b>17,675</b>	<b>18,306</b>	<b>24,340</b>	<b>12,502</b>	<b>14,913</b>	<b>15,631</b>	<b>22,334</b>	<b>22,334</b>	<b>22,334</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>68,841</b>	<b>79,095</b>	<b>69,199</b>	<b>69,425</b>	<b>67,205</b>	<b>72,016</b>	<b>67,773</b>	<b>81,419</b>	<b>1,13,481</b>
Inventory	264	254	192	270	766	730	344	543	614
Account Receivables	24,870	30,189	25,900	28,912	29,685	32,289	26,077	28,410	32,141
Cash and Bank Balance	16,212	19,763	10,793	12,956	8,521	9,091	9,271	19,349	46,180
Loans and Advances	27,495	28,889	32,313	27,288	28,234	29,906	32,081	33,116	34,546
<b>Curr. Liability &amp; Prov.</b>	<b>1,07,922</b>	<b>1,03,359</b>	<b>94,643</b>	<b>95,139</b>	<b>94,429</b>	<b>1,03,248</b>	<b>99,257</b>	<b>97,068</b>	<b>1,04,458</b>
Account Payables	36,697	35,764	35,814	34,716	36,885	38,450	32,395	32,672	34,819
Other Current Liabilities	61,538	61,748	53,142	54,759	51,527	57,252	59,981	60,135	64,818
Provisions	9,687	5,847	5,687	5,664	6,016	7,546	6,881	4,262	4,821
<b>Net Current Assets</b>	<b>-39,081</b>	<b>-24,264</b>	<b>-25,444</b>	<b>-25,714</b>	<b>-27,224</b>	<b>-31,232</b>	<b>-31,484</b>	<b>-15,650</b>	<b>9,023</b>
<b>Appl. of Funds</b>	<b>1,32,015</b>	<b>1,46,545</b>	<b>1,15,690</b>	<b>99,956</b>	<b>1,04,196</b>	<b>1,06,282</b>	<b>1,10,975</b>	<b>1,20,558</b>	<b>1,36,794</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Basic (INR)</b>									
<b>EPS</b>	<b>10.6</b>	<b>3.4</b>	<b>10.6</b>	<b>1.2</b>	<b>-2.2</b>	<b>10.6</b>	<b>46.5</b>	<b>48.6</b>	<b>61.2</b>
Cash EPS	86.4	68.8	76.0	68.0	70.4	93.3	127.7	124.0	144.3
BV/Share	11.3	-12.7	55.9	17.5	-6.4	-44.9	4.1	52.8	114.0
DPS	5.5	4.3	6.0	4.5	4.5	4.0	4.0	4.0	4.0
Payout (%)	13,711.6	64.2	-25.0	-45.4	-181.0	-154.2	10.6	9.5	7.6
<b>Valuation (x)</b>									
P/E	141.0	438.4	141.5	1,288.5	-683.3	141.7	32.2	30.8	24.5
Cash P/E	17.3	21.7	19.7	22.0	21.3	16.0	11.7	12.1	10.4
P/BV	132.7	-117.4	26.8	85.4	-234.7	-33.4	369.5	28.3	13.1
EV/Sales	2.7	3.1	2.9	3.0	3.2	2.9	3.0	2.9	2.4
EV/EBITDA	18.1	22.9	21.4	21.1	19.1	15.2	12.1	11.8	9.6
Dividend Yield (%)	0.4	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3
FCF per share	44.1	11.7	21.0	-8.4	-27.1	36.5	64.5	60.2	106.8
<b>Return Ratios (%)</b>									
RoE	54.0	-464.6	49.1	3.2	-39.3	-41.2	-227.9	171.0	73.4
RoCE	0.1	3.4	9.9	3.8	1.5	-7.2	19.5	16.1	17.3
RoIC	0.1	3.0	9.0	2.1	1.9	-7.5	20.2	21.8	28.5
<b>Working Capital Ratios</b>									
Fixed Asset Turnover (x)	0.7	0.6	0.7	0.6	1.4	1.3	1.1	1.0	1.1
Asset Turnover (x)	1.5	1.2	1.5	1.7	1.6	1.6	1.5	1.4	1.4
Inventory (Days)	0	1	0	1	2	2	1	1	1
Debtor (Days)	46	61	54	63	66	69	56	60	60
Creditor (Days)	67	72	74	76	81	82	69	69	65
<b>Leverage Ratio (x)</b>									
Current Ratio	0.6	0.8	0.7	0.7	0.7	0.7	0.7	0.8	1.1
Interest Cover Ratio	1.1	1.4	1.5	1.5	1.7	2.0	4.6	5.7	7.0
Net Debt/Equity	30.1	-31.1	4.0	14.0	-45.9	-4.4	57.5	3.5	0.7

### Consolidated - Cash Flow Statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>(INR m)</b>									
OP/(Loss) before Tax	3,734	2,626	20,188	456	3,432	-848	12,515	18,400	23,341
Depreciation	21,611	22,194	19,469	19,063	20,676	23,577	23,139	21,491	23,677
Interest & Finance Charges	6,680	7,151	6,875	3,445	3,966	4,707	4,202	3,728	3,646
Direct Taxes Paid	-1,120	-4,238	-7,404	-3,549	-2,733	-2,793	-4,964	-4,475	-5,875
(Inc)/Dec in WC	-1,339	-4,432	-227	2,433	-3,335	-2,513	-5,526	-5,756	2,158
<b>CF from Operations</b>	<b>29,565</b>	<b>23,301</b>	<b>38,900</b>	<b>21,847</b>	<b>22,005</b>	<b>22,131</b>	<b>29,366</b>	<b>33,388</b>	<b>46,947</b>
Others	718	326	-14,965	-8,796	-6,577	3,117	2,433	-986	-1,282
<b>CF from Operating incl EO</b>	<b>30,283</b>	<b>23,627</b>	<b>23,935</b>	<b>13,051</b>	<b>15,428</b>	<b>25,248</b>	<b>31,798</b>	<b>32,402</b>	<b>45,664</b>
(Inc)/Dec in FA	-17,713	-20,287	-17,952	-15,437	-23,152	-14,856	-13,428	-15,240	-15,240
<b>Free Cash Flow</b>	<b>12,570</b>	<b>3,340</b>	<b>5,983</b>	<b>-2,386</b>	<b>-7,724</b>	<b>10,392</b>	<b>18,371</b>	<b>17,162</b>	<b>30,424</b>
(Pur)/Sale of Investments	-1,720	-3,084	7,815	11,838	-2,411	-491	-6,916	0	0
Others	2,550	3,409	10,023	2,597	-260	49	298	986	1,282
<b>CF from Investments</b>	<b>-16,884</b>	<b>-19,963</b>	<b>-114</b>	<b>-1,003</b>	<b>-25,823</b>	<b>-15,298</b>	<b>-20,046</b>	<b>-14,254</b>	<b>-13,958</b>
Issue of Shares	0	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-5,088	7,602	-28,219	-4,121	11,448	-4,044	-8,381	-4,311	-1,200
Interest Paid	-6,285	-5,807	-3,086	-3,445	-3,966	-3,850	-2,515	-3,728	-3,646
Dividend Paid	-1,467	-1,873	-1,424	-1,988	0	-1,508	-1,140	0	0
Others	-1,043	-34	-62	-332	-1,523	23	463	-30	-30
<b>CF from Fin. Activity</b>	<b>-13,883</b>	<b>-113</b>	<b>-32,791</b>	<b>-9,885</b>	<b>5,960</b>	<b>-9,379</b>	<b>-11,573</b>	<b>-8,069</b>	<b>-4,876</b>
<b>Inc/Dec of Cash</b>	<b>-483</b>	<b>3,551</b>	<b>-8,970</b>	<b>2,163</b>	<b>-4,435</b>	<b>571</b>	<b>180</b>	<b>10,078</b>	<b>26,830</b>
Opening Balance	16,695	16,211	19,763	10,793	12,956	8,521	9,091	9,271	19,349
<b>Closing Balance</b>	<b>16,211</b>	<b>19,763</b>	<b>10,793</b>	<b>12,956</b>	<b>8,521</b>	<b>9,091</b>	<b>9,271</b>	<b>19,349</b>	<b>46,180</b>

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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