

# Tata Communications

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	TCOM IN
Equity Shares (m)	285
M.Cap.(INRb)/(USD\$)	262.6 / 3.4
52-Week Range (INR)	937 / 206
1, 6, 12 Rel. Per (%)	4/121/155
12M Avg Val (INR M)	104

## Financials & Valuations (INR b)

Y/E March	FY20	FY21E	FY22E
Sales	170.7	178.3	191.5
EBITDA	32.9	45.2	50.0
Adj. PAT	3.0	14.6	18.8
EBITDA Margin(%)	19.3	25.4	26.1
Adj. EPS (INR)	10.6	51.2	66.0
EPS Gr. (%)	-582.2	384.7	28.8
BV/Sh. (INR)	NM	4.1	70.0

## Ratios

RoE (%)	NM	NM	177.9
RoCE (%)	NM	19.6	18.7
Payout (%)	NM	9.5	7.1

## Valuations

EV/EBITDA (x)	7.3	5.0	4.1
P/E (x)	55.8	11.5	8.9
P/BV (x)	NM	144.0	8.4
Div. Yield (%)	0.7	0.7	0.7
FCF Yield (%)	4.6	7.8	13.1

## Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	75.0	75.0	75.0
DII	1.5	1.8	1.7
FII	17.6	17.2	18.2
Others	6.0	6.0	5.1

FII Includes depository receipts

**CMP: INR 921 TP: INR900 (-2%) Neutral**

## Sharp data margin improvement drives EBITDA growth

- Tata Communications' (TCOM) 2QFY21 revenues were flat (in-line) despite the expectation of increasing data usage due to work from home (WFH). EBITDA jumped 11% QoQ (12% beat), led by sharp data margin improvement, which can be partly attributed to cost cutting initiatives and some portion to one-time COVID-19 cost benefit.
- We have increased our FY21/FY22E EBITDA estimates by 9%/10% due to better-than-expected EBITDA, driven by the cost initiatives. We have built in 23% EBITDA CAGR over FY20-22E with 106% growth for 2HFY21.

## Revenues flat QoQ at INR44b (in-line); EBITDA up 11% (12% beat)

- Consolidated revenues were flat QoQ at INR44b (in-line). Voice segment revenue stood at INR7.6b (5% down QoQ) while Data segment revenue was up a mere 1% QoQ to INR36.4b, despite the narrative of COVID-19 driving data consumption.
- Yet, EBITDA grew 11% QoQ to INR11.6b (12% beat) due to sharp 14% growth in Data EBITDA QoQ, which can be attributed to cost initiatives and continuation of COVID-related SG&A cost reduction along with some costs being pushed to 2HFY21. Adjusting EBITDA for ~INR700m cost, which will be reversed over the next couple of quarters, sustainable EBITDA growth stands at ~4%.
- PAT grew 49% QoQ to INR3.8b, whereas adjusted PAT (for exceptional items) stood at INR4.4b, up 63% QoQ (63% beat) on strong EBITDA growth and 4x jump in other income.
- Capex for 2QFY21 moderated to INR3.2b (v/s INR3.7b in 1QFY21). 1HFY21 capex stands at INR6.9b (v/s 1HFY20 capex of INR7.6b). Net Debt reduced by INR3.8b QoQ to INR86b.
- Data revenue was flat QoQ to INR36b, while Data EBITDA jumped 14% QoQ to INR11b (contributing 96% of total EBITDA) with margin at 30.4%. Revenue was impacted by slower deal conversion due to COVID-19, forex and moderation in growth services, while EBITDA gained due to cost efficiencies. Adjusting for INR700m one-time cost benefits, sustainable data EBITDA growth was 6% QoQ.
- Traditional segment (contributing ~two-thirds of Data revenue) revenue/EBITDA grew 2%/8% QoQ to INR23b/INR10.2b with 250bp margin expansion. While Growth segment saw 2% revenue decline due to moderation in enterprise voice traffic, EBITDA surged 30% to INR1.5b with 420bp margin expansion. Video connect business/Security services/hosting business grew 74%/45%/11% QoQ.
- Transformation segment saw flat QoQ revenue of INR3.3b, however, it turned EBITDA positive to INR40m (v/s EBITDA loss of INR30m in 1QFY21) due to termination of an onerous contract.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Highlights from management commentary**

- **Cost optimization:** TCOM should see more cost rationalization in FY22. Of this, major portion should come from change in the offshore and onshore mix. However, some of the one-time COVID-19 related benefits would see reversal. Thus, overall EBITDA margin should be in the range of 22-25%.
- **Revenue:** TCOM is in process of executing large international deals and expects high revenue/EBITDA growth in the coming years.
- **Growth services:** EBITDA margin has improved due to change in the service mix as more profitable services are contributing a higher portion of the revenue.

**Valuation and view**

- TCOM's cumulative EBITDA growth of 52% over the last three quarters led by the stellar data margin improvement of 960bp has exceeded our expectations. However, this may not be a recurring phenomenon as management has guided for 22-25% EBITDA margin against prevailing EBITDA margin of 26%. Data revenue growth despite the WFH model has been a modest 1% due to some COVID-19 impact and delay in execution of some deals. Incremental earnings growth necessitates healthy data revenue growth.
- We have assigned EV/EBITDA multiple of 7x/2x to data/voice business on FY22E EBITDA to arrive at a TP of INR900 (earlier INR790). The increase in TP is primarily on earnings revision owing to its improving margins and management's focus on profitable growth. Further, improvement in FCF generation led by EBITDA growth has seen some deleveraging. However, the stock's sharp rally from INR230 in Apr'20 to INR920 currently (3x growth), leaves limited upside. **Maintain Neutral.**

**Cons. Quarterly Earning Model**

Y/E March	FY20				FY21E				FY20	FY21E	2Q FY21E	Est Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
<b>Revenue</b>	<b>41,686</b>	<b>42,728</b>	<b>42,287</b>	<b>43,979</b>	<b>44,029</b>	<b>44,011</b>	<b>44,742</b>	<b>45,473</b>	<b>1,70,680</b>	<b>1,78,254</b>	<b>44,150</b>	-0.3
YoY Change (%)	5.7	5.0	-1.0	3.6	5.6	3.0	5.8	3.4	3.3	4.4	3.3	
Total Expenditure	33,430	34,391	34,679	35,291	33,612	32,436	33,185	33,823	1,37,790	1,33,056	33,782	-4
<b>EBITDA</b>	<b>8,256</b>	<b>8,337</b>	<b>7,608</b>	<b>8,688</b>	<b>10,418</b>	<b>11,575</b>	<b>11,556</b>	<b>11,649</b>	<b>32,890</b>	<b>45,198</b>	<b>10,369</b>	12
YoY Change (%)	40.7	32.3	-9.7	26.8	26.2	38.8	51.9	34.1	19.8	37.4	24.4	1448bps
Depreciation	5,522	5,583	5,605	6,867	5,899	5,719	5,756	5,651	23,577	23,026	5,818	-2
Interest	1,157	1,157	1,161	1,232	1,163	1,064	1,054	1,054	4,707	4,336	1,095	-3
Other Income	88	95	140	373	147	761	225	214	697	1,347	135	463
<b>PBT before EO expense</b>	<b>1,666</b>	<b>1,692</b>	<b>981</b>	<b>963</b>	<b>3,503</b>	<b>5,553</b>	<b>4,970</b>	<b>5,158</b>	<b>5,302</b>	<b>19,184</b>	<b>3,591</b>	55
Exceptional (gain)/loss	65	59	0	3,781	105	540	0	0	3,905	644	0	
<b>PBT</b>	<b>1,601</b>	<b>1,632</b>	<b>981</b>	<b>-2,818</b>	<b>3,398</b>	<b>5,013</b>	<b>4,970</b>	<b>5,158</b>	<b>1,397</b>	<b>18,540</b>	<b>3,591</b>	40
Tax	852	1,107	406	-98	812	1,153	1,292	1,341	2,267	4,599	898	
Rate (%)	53.2	67.8	41.3	3.5	23.9	23.0	26.0	26.0	162.3	24.8	25.0	
MI & P/L of Asso. Cos.	-18	-14	-9	30	8	15	-3	-31	-11	-11	3	
<b>Reported PAT</b>	<b>766</b>	<b>539</b>	<b>585</b>	<b>-2,750</b>	<b>2,578</b>	<b>3,845</b>	<b>3,681</b>	<b>3,848</b>	<b>-860</b>	<b>13,950</b>	<b>2,696</b>	43
<b>Adj PAT</b>	<b>796</b>	<b>598</b>	<b>585</b>	<b>1,031</b>	<b>2,683</b>	<b>4,384</b>	<b>3,681</b>	<b>3,848</b>	<b>3,011</b>	<b>14,596</b>	<b>2,696</b>	63
YoY Change (%)	NM	NM	NM	-479.8	NM	NM	NM	273.3	-582.2	384.7	NM	

E: MOFSL Estimates

**Key Performance Indicators**

Y/E March	FY20				FY21E				FY20	FY21E	2Q FY21E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
<b>Revenue Mix</b>											
Voice segment (%)	21.4	20.5	19.1	18.3	18.1	17.2	16.8	16.4	19.8	17.1	17.9
Data segment (%)	78.6	79.5	80.9	81.7	81.9	82.8	83.2	83.6	80.2	82.9	82.1
<b>EBITDA Margins</b>											
Voice Segment (%)	10.0	9.3	5.8	5.7	8.4	6.6	6.8	6.7	7.8	7.1	7.4
Data Segment (%)	22.5	22.1	20.9	22.9	27.1	30.4	29.7	29.3	22.1	29.1	26.5
EBITDA Margins (%)	19.8	19.5	18.0	19.8	23.7	26.3	25.8	25.6	19.3	25.4	23.5
EBIT Margin (%)	6.6	6.4	4.7	4.1	10.3	13.3	13.0	13.2	5.5	12.4	10.3
Adj. PAT Margins (%)	1.9	1.4	1.4	2.3	6.1	10.0	8.2	8.5	1.8	8.2	6.1

E:MOFSL Estimates

**Financials**

- TCOM reported exceptional items of INR118m toward interest for the unpaid provision of licensee fees (for which the company made provisions of INR3.4b toward the DoT demand in the AGR case in 4QFY20 and additional INR105m in 1QFY21) and INR1,095m toward staff optimization cost. Further, TCOM recorded INR674m from gains on sale of assets held for sale.

**Segmental highlights**

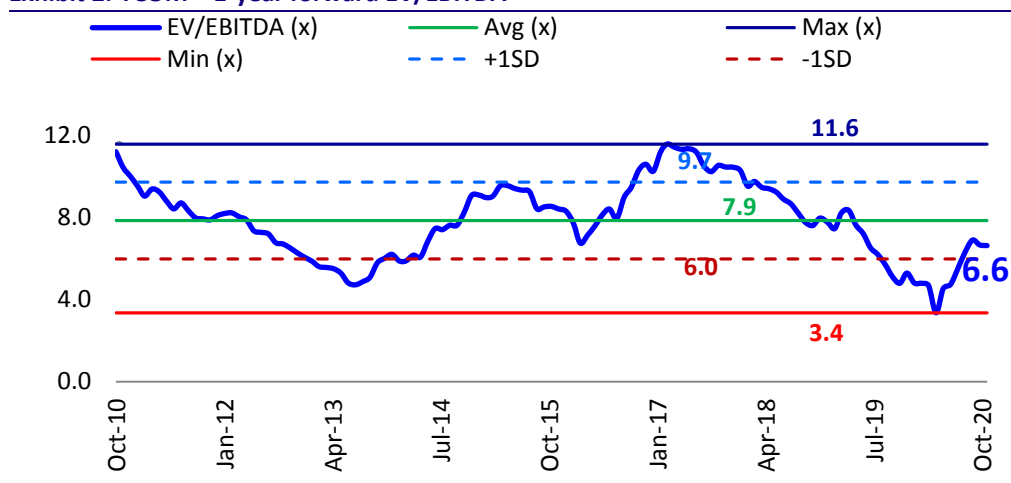
- Innovation segment's revenue grew 57% QoQ to INR360m and EBITDA loss fell to INR800m (v/s loss of INR1b in 1QFY21).
- Voice segment revenue declined 5% QoQ to INR7.6b along with 25% fall in EBITDA to INR500m.
- Payments solution segment revenue was up 12% QoQ to INR580m and EBITDA loss stood at INR40m (flat QoQ), affected by the lockdown as average transactions came down to 64 in 2QFY21 (v/s 84 in 2QFY20).

**Exhibit 1: Valuation based on FY22E EBITDA**

Particulars	FY22E
EBITDA (INR m)	49,988
multiple (x)	7.0
Voice EBITDA (INR m)	1,860
multiple (x)	2
Data EBITDA (INR m)	48,129
multiple (x)	7
<b>Enterprise Value (INR m)</b>	<b>3,48,751</b>
Net Debt (INR m)	92,236
<b>Equity value (INR m)</b>	<b>2,56,515</b>
No of shares (m)	285
<b>Equity value/share (INR)</b>	<b>900</b>
% Upside(Downside)	-2%
Land Bank (INR)	176
<b>Fair Value (INR)</b>	<b>1,076</b>
CMP (INR)	921
<b>% Upside(Downside)</b>	<b>17%</b>

Source: MOFSL, Company

Exhibit 2: TCOM – 1-year forward EV/EBITDA



Source: MOFSL, Company



## Management call highlights

### Key Highlights

- **Cost optimization:** TCOM should see more cost rationalization in FY22. Of this, a major portion should come from change in the offshore and onshore mix. However, some of the one-time COVID-19 related benefits should see reversal. Thus, overall EBITDA margin should be in the range of 22-25%.
- **Revenue:** TCOM is in the process of executing large international deals and expects high revenue/EBITDA growth in the coming years.
- **Growth services:** EBITDA margin improved due to change in the service mix as more profitable services are contributing a higher portion of the revenue.
- **Tax rate:** It should be in the range of 28-30% from FY22E; however, management is looking to keep it in the range of 25-28%. Overseas accumulated losses should help TCOM in remaining tax efficient.

### Operational performance

- **Enterprise business:** It grew 9.9% YoY led by 5.1% growth in India and 16% growth in International market.
- **Forex impact:** Data revenue should have grown by 1.7% QoQ, excluding the forex impact.
- **COVID-19 impact:** TCOM is witnessing delays in deal closure; however, its pipeline and funnel addition remains strong.
- **Growth services:** EBITDA margin improved due to change in service mix as more profitable services are contributing a higher portion of the revenue. Voice traffic has seen moderation in 2QFY21 while strong growth was seen in other services.
- **Seasonally weak quarter:** Second quarter of the financial year is generally weak due to vacations.
- **Data services:** The segment witnessed third consecutive quarter of double-digit EBITDA growth. One-off COVID-19 related cost benefit stood at INR430m in 2QFY21. Of the overall cost savings in 1HFY20, INR500m is due to one-time COVID-related benefit and INR1.9-2b should be due to structural realignment.
- **Transformation business:** It is on track and has turned profitable with a strong international pipeline.

- **Payment solutions:** It remained impacted by COVID-19 with reduction in the average number of transactions. However, management expects transactions to increase in the future.
- **Return ratio:** Average cost of borrowing stood at 2.8% for 2QFY21 due to reduction in LIBOR rates. RoCE was at 17.3% v/s 11.6% YoY.

#### Outlook

- **Cost optimization:** More cost rationalization could come in FY22. However, some of the one-time COVID-19 related benefits would see reversal. Thus, overall EBITDA margin should be in the range of 22-25%. Major portion of these cost savings should come from the change in onshore and offshore mix, which currently stands at 61:39 and should change to 57:43.
- **Tax rate:** It should be in the range of 28-30% from FY22E; however, management is looking to keep it in the range of 25-28%. Overseas accumulated losses should help TCOM in remaining tax efficient.
- **Revenue:** TCOM is in process of executing large international deals and expects high revenue/EBITDA revenue growth in the coming years.
- **Innovation service:** Net foundry has started to pick up. It has strong pipeline and should see major growth in FY22. India IoT business is growing and should continue to grow. The segment should reach break-even with annual revenue of USD125m.
- **Asset monetization:** TCOM is looking at all options for asset monetization including real estate and other assets.
- **Leverage:** The company will utilize incremental FCF to reduce its leverage.

#### Exhibit 3: Quarterly performance

	Q2FY20	Q1FY21	Q2FY21	YoY(%)	QoQ (%)	Q2FY21E	v/s est (%)
<b>Revenue</b>	<b>42,728</b>	<b>44,029</b>	<b>44,011</b>	<b>3.0</b>	<b>0.0</b>	<b>44,150</b>	<b>-0.3</b>
Operating Expenses	34,391	33,612	32,436	-5.7	-3.5	33,782	-4.0
<b>EBITDA</b>	<b>8,337</b>	<b>10,418</b>	<b>11,575</b>	<b>38.8</b>	<b>11.1</b>	<b>10,369</b>	<b>11.6</b>
<b>EBITDA Margins (%)</b>	<b>19.5%</b>	<b>23.7%</b>	<b>26.3%</b>	<b>679bps</b>	<b>264bps</b>	<b>23.5%</b>	<b>282bps</b>
Depreciation	5,583	5,899	5,719	2.4	-3.1	5,818	-1.7
Interest	1,157	1,163	1,064	-8.0	-8.5	1,095	-2.8
Other Income	95	147	761	697.7	416.3	135	463.1
Exceptional Items	59	105	540	811.3	414.3	0	NM
<b>PBT</b>	<b>1,632</b>	<b>3,398</b>	<b>5,013</b>	<b>207.1</b>	<b>47.5</b>	<b>3,591</b>	<b>39.6</b>
Tax	1,107	812	1,153	4.2	42.0	898	28.5
Effective Tax Rate (%)	67.8%	23.9%	23.0%			25.0%	
<b>PAT</b>	<b>525</b>	<b>2,586</b>	<b>3,860</b>	<b>635.0</b>	<b>49.3</b>	<b>2,693</b>	<b>43.3</b>
MI & P/L in Associates	14	-8	-15	-209.4	94.9	3	
<b>PAT after Minority</b>	<b>539</b>	<b>2578</b>	<b>3,845</b>	<b>613.2</b>	<b>49.1</b>	<b>2,696</b>	<b>42.6</b>
<b>Adjusted PAT</b>	<b>598</b>	<b>2683</b>	<b>4,384</b>	<b>633</b>	<b>63</b>	<b>2,696</b>	<b>62.6</b>

Source: MOFSL, Company

**Exhibit 4: Detailed segmental quarterly performance**

	Q2FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)	Q2FY21E	v/s est (%)
<b>Total Revenue</b>	<b>42,728</b>	<b>44,029</b>	<b>44,011</b>	<b>3.0</b>	<b>0.0</b>	<b>44,150</b>	<b>-0.3</b>
<b>Voice segment</b>	<b>8,741</b>	<b>7,990</b>	<b>7,590</b>	<b>-13.2</b>	<b>-5.0</b>	<b>7,912</b>	<b>-4.1</b>
<b>Data segment</b>	<b>33,986</b>	<b>36,040</b>	<b>36,420</b>	<b>7.2</b>	<b>1.1</b>	<b>36,238</b>	<b>0.5</b>
Traditional services	21,608	22,290	22,710	5.1	1.9	22,335	1.7
Growth services	7,715	9,230	9,030	17.0	-2.2	9,415	-4.1
Innovation Service	222	230	360	62.2	56.5	230	56.5
Transformation Service	3,236	3,330	3,330	2.9	0.0	3,363	-1.0
Tata Payment Solutions	850	520	580	-31.8	11.5	546	6.2
<b>EBITDA</b>	<b>8,337</b>	<b>10,418</b>	<b>11,575</b>	<b>38.8</b>	<b>11.1</b>	<b>10369</b>	<b>11.6</b>
<b>Voice segment</b>	<b>812</b>	<b>670</b>	<b>500</b>	<b>-38.4</b>	<b>-25.4</b>	<b>585</b>	<b>-14.5</b>
<b>Data segment</b>	<b>7,524</b>	<b>9,750</b>	<b>11,080</b>	<b>47.3</b>	<b>13.6</b>	<b>9,615</b>	<b>15.2</b>
Traditional services	8,170	9,410	10,160	24.4	8.0	9,346	8.7
Margin (%)	38	42	44.7	693bps	252bps	42	289bps
Growth services	277	1,150	1,500	441.5	30.4	1,055	42.2
Margin (%)	4	12	16.6	1302bps	415bps	11	541bps
Innovation Service	(1,498)	(1,010)	(800)	-46.6	-20.8	-999	-19.9
Margin (%)	NM	NM	NM	NM	NM	NM	NM
Transformation Service	182	(30)	40	-78.0	-233.3	50	-20.7
Margin (%)	6	(1)	1.2	-442bps	210bps	1	-30bps
Tata Payment Solutions	192	(40)	-40	-120.8	0.0	-27	49.7
Margin (%)	23	(8)	(7)	-2948bps	80bps	-4.9	-200bps

Source: MOFSL, Company

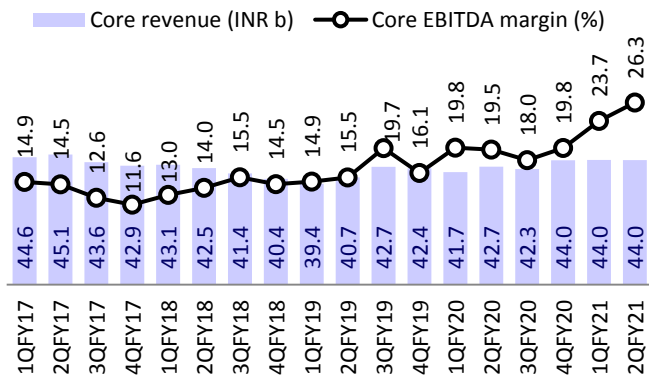
**Exhibit 5: Summary of estimate change (INR b)**

	FY21E	FY22E
<b>Core revenue (INR b)</b>		
Old	178.6	191.9
Actual/New	178.3	191.5
Change (%)	-0.2	-0.2
<b>Core EBITDA (INR b)</b>		
Old	41.6	45.3
Actual/New	45.2	50.0
Change (%)	8.6	10.4
<b>Core EBITDA margin (%)</b>		
Old	23.3	23.6
Actual/New	25.4	26.1
Change (%)	205bps	251bps
<b>PAT (INR m)</b>		
Old	10.4	13.7
Actual/New	14.0	18.8
Change (%)	34.4	37.0
<b>EPS (INR)</b>		
Old	36.4	48.1
Actual/New	49.0	66.0
Change (%)	34.4	37.0

Source: MOFSL, Company

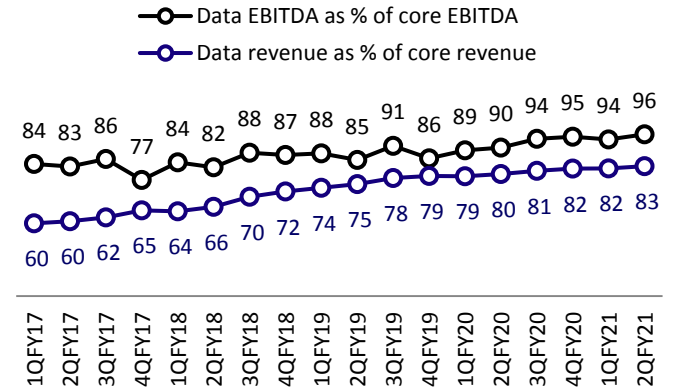
## Story in charts

**Exhibit 6: Core EBITDA margin at 26.3%**



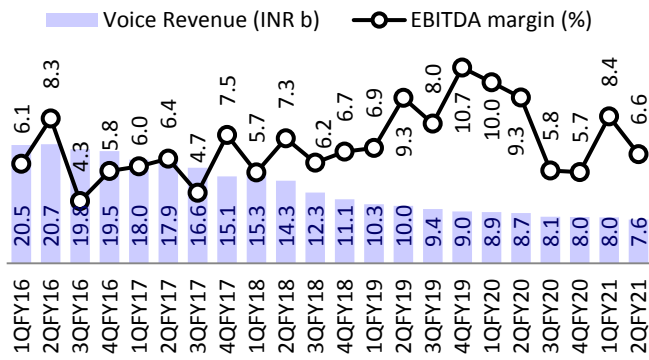
Source: MOFSL, Company

**Exhibit 7: Data biz revenue contribution continues to grow**



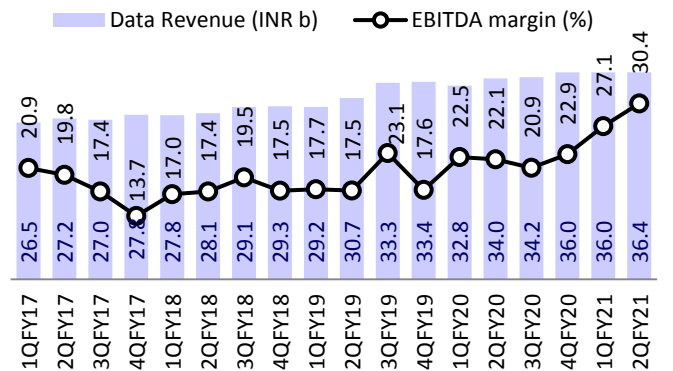
Source: MOFSL, Company

**Exhibit 8: Voice revenue/EBITDA margin declined (INRb)**



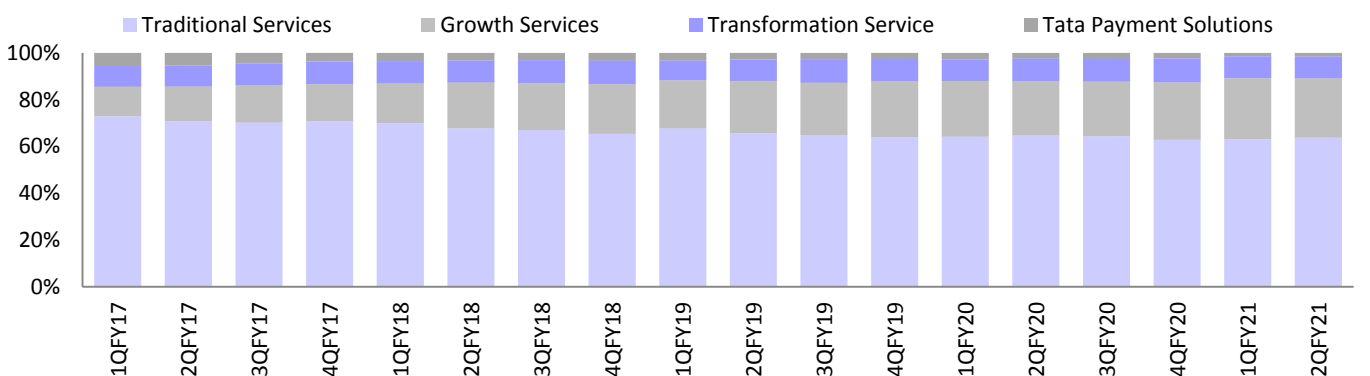
Source: MOFSL, Company

**Exhibit 9: Data revenue flat with margin expansion (INR b)**



Source: MOFSL, Company

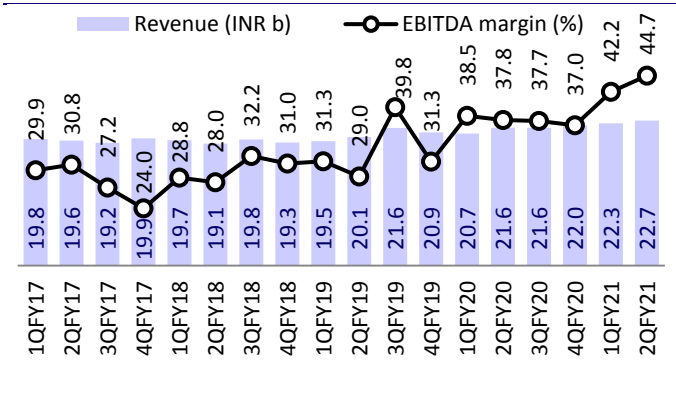
**Exhibit 10: Growth segmental revenue contribution increasing (%)**



Source: MOFSL, Company

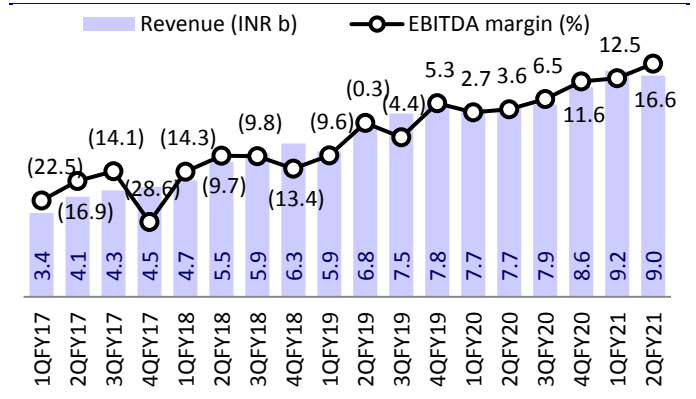


**Exhibit 11: Traditional business – revenue/EBITDA margin trend**



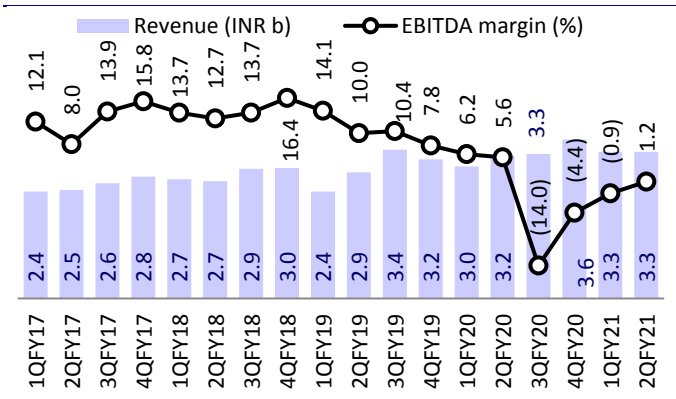
Source: MOFSL, Company

**Exhibit 12: Growth business – EBITDA margin improves**



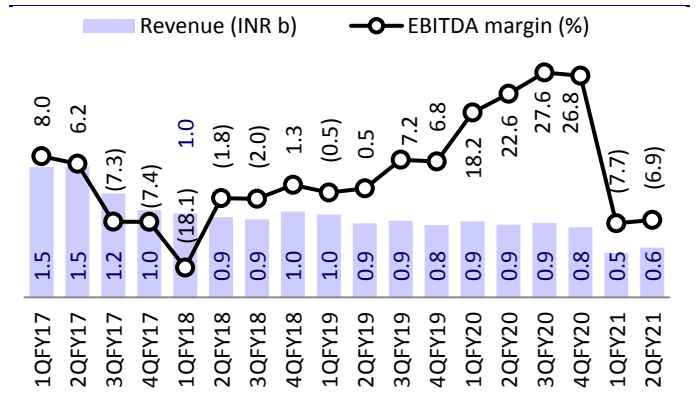
Source: MOFSL, Company

**Exhibit 13: Transformation business turns profitable**



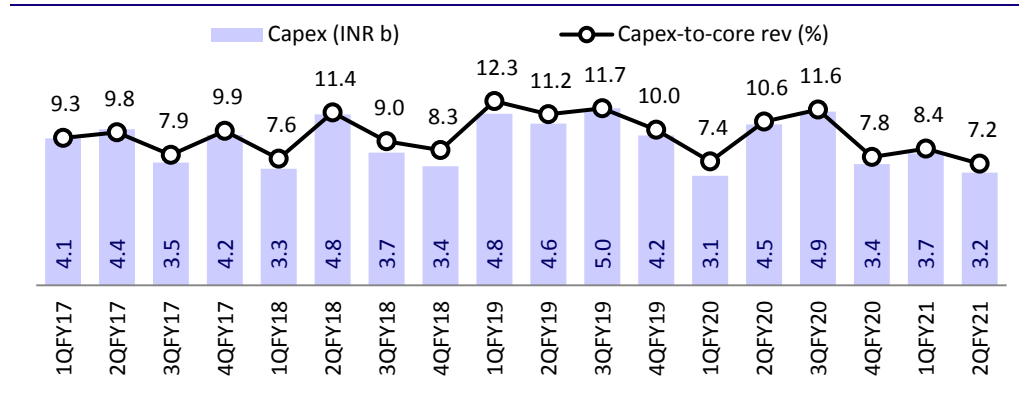
Source: MOFSL, Company

**Exhibit 14: Payment solution business revenue/EBITDA margin trend**



Source: MOFSL, Company

**Exhibit 15: Quarterly capex trend**



Source: MOFSL, Company



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

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>Revenues Segments</b>									
Voice	93,024	87,761	80,560	67,581	53,113	38,703	33,764	30,538	29,047
growth	8.6%	-5.7%	-8.2%	-16.1%	-21.4%	-27.1%	-12.8%	-9.6%	-4.9%
as a % of core	53.3%	49.4%	43.2%	38.4%	31.7%	23.4%	19.8%	17.1%	15.2%
Data	81,485	89,914	1,05,971	1,08,619	1,14,603	1,26,546	1,36,920	1,47,717	1,62,450
growth	20.7%	10.3%	17.9%	2.5%	5.5%	10.4%	8.2%	7.9%	10.0%
as a % of core	46.7%	50.6%	56.8%	61.6%	68.3%	76.6%	80.2%	82.9%	84.8%
<b>Core Revenues</b>	<b>1,74,509</b>	<b>1,77,675</b>	<b>1,86,531</b>	<b>1,76,200</b>	<b>1,67,716</b>	<b>1,65,249</b>	<b>1,70,684</b>	<b>1,78,254</b>	<b>1,91,497</b>
growth	13.9%	1.8%	5.0%	-5.5%	-4.8%	-1.5%	3.3%	4.4%	7.4%
<b>EBITDA Segments</b>									
Voice	8,292	6,359	4,963	4,140	3,437	3,359	2,634	2,172	1,860
margin	8.9%	7.2%	6.2%	6.1%	6.5%	8.7%	7.8%	7.1%	6.4%
growth	13.5%	-23.3%	-22.0%	-16.6%	-17.0%	-2.3%	-21.6%	-17.5%	-14.4%
as a % of Core EBITDA	35.0%	26.2%	18.2%	17.5%	14.2%	12.2%	8.0%	4.8%	3.7%
Data	15,418	17,885	22,242	19,459	20,685	24,089	30,258	43,044	48,129
margin	18.9%	19.9%	21.0%	17.9%	18.0%	19.0%	22.1%	29.1%	29.6%
growth	35.9%	16.0%	24.4%	-12.5%	6.3%	16.5%	25.6%	42.3%	11.8%
as a % of Core EBITDA	65.0%	73.8%	81.8%	82.5%	85.8%	87.8%	92.0%	95.2%	96.3%
<b>Core EBITDA</b>	<b>23,710</b>	<b>24,244</b>	<b>27,205</b>	<b>23,599</b>	<b>24,122</b>	<b>27,448</b>	<b>32,892</b>	<b>45,216</b>	<b>49,988</b>
margin	13.6%	13.6%	14.6%	13.4%	14.4%	16.6%	19.3%	25.4%	26.1%
growth	27.1%	2.3%	12.2%	-13.3%	2.2%	13.8%	19.8%	37.5%	10.6%

Source: Company, MOFSL

## Financials and Valuations

Consolidated - Income Statement								(INR Million)	
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>Total Income from Operations</b>	<b>1,96,196</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>1,78,254</b>	<b>1,91,497</b>
Change (%)	14.0	1.5	-8.8	-2.9	-4.8	-1.5	3.3	4.4	7.4
Network Cost	1,07,457	1,05,543	96,724	88,119	79,032	71,620	67,776	67,370	71,445
Staff Cost	24,976	27,948	27,396	28,394	29,775	29,597	30,391	30,591	31,325
Operating & Other Expense	33,346	35,702	32,949	35,625	34,787	36,584	39,623	35,096	38,761
<b>Total Expenditure</b>	<b>1,65,779</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>1,33,056</b>	<b>1,41,530</b>
% of Sales	84.5	85.0	86.5	86.3	85.6	83.4	80.7	74.6	73.9
<b>EBITDA</b>	<b>30,416</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>45,198</b>	<b>49,966</b>
Margin (%)	15.5	15.0	13.5	13.7	14.4	16.6	19.3	25.4	26.1
Depreciation	20,914	21,611	18,643	18,658	19,063	20,676	23,577	23,026	22,722
<b>EBIT</b>	<b>9,502</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>22,172</b>	<b>27,244</b>
Int. and Finance Charges	7,617	7,508	4,091	3,672	3,445	3,966	4,707	4,336	4,075
Other Income	1,433	4,008	3,966	3,603	2,597	603	697	1,347	1,878
<b>PBT bef. EO Exp.</b>	<b>3,318</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>19,184</b>	<b>25,047</b>
EO Items	1,126	-1,052	-1,028	-10,633	-3,755	22	-3,905	-644	0
<b>PBT after EO Exp.</b>	<b>4,444</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>18,540</b>	<b>25,047</b>
Total Tax	3,433	3,705	2,329	2,364	3,549	2,733	2,267	4,599	6,262
Tax Rate (%)	77.2	99.2	50.4	-44.6	778.2	79.6	162.3	24.8	25.0
Minority Interest	-3	17	18	-25	193	1,523	-11	-11	-11
<b>Reported PAT</b>	<b>1,014</b>	<b>13</b>	<b>2,276</b>	<b>-7,640</b>	<b>-3,286</b>	<b>-824</b>	<b>-860</b>	<b>13,951</b>	<b>18,796</b>
<b>Adjusted PAT</b>	<b>5,333</b>	<b>3,027</b>	<b>973</b>	<b>3,016</b>	<b>331</b>	<b>-624</b>	<b>3,011</b>	<b>14,596</b>	<b>18,796</b>
Change (%)	-206.2	-43.2	-67.9	210.0	-89.0	-288.6	-582.2	384.7	28.8
Margin (%)	2.7	1.5	0.5	1.7	0.2	-0.4	1.8	8.2	9.8

Consolidated - Balance Sheet								(INR Million)	
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Equity Share Capital	2,850	2,850	2,850	2,850	2,850	2,850	2,850	2,850	2,850
Total Reserves	5,145	365	-6,484	13,069	2,143	-4,668	-15,634	-1,682	17,113
<b>Net Worth</b>	<b>7,995</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>1,168</b>	<b>19,963</b>
Minority Interest	62	59	69	184	45	58	48	48	48
Total Loans	1,36,944	1,30,757	1,51,181	99,516	95,395	1,06,844	81,575	1,10,070	1,02,630
Lease liabilities							39,938	39,938	39,938
Deferred Tax Liabilities	-727	-2,015	-1,072	71	-477	-887	-2,495	-2,495	-2,495
<b>Capital Employed</b>	<b>1,44,274</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>1,48,728</b>	<b>1,60,084</b>
Gross Block	2,78,736	2,99,608	3,08,467	2,70,923	2,88,666	1,16,569	1,29,126	1,44,474	1,60,444
Less: Accum. Deprn.	1,35,779	1,56,419	1,67,208	1,61,638	1,80,701	5,006	28,583	51,609	74,331
<b>Net Fixed Assets</b>	<b>1,42,957</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>92,865</b>	<b>86,112</b>
Right to use assets							15,956	15,956	15,956
Goodwill on Consolidation	6,185	3,848	3,246	0	0	863	918	918	918
Capital WIP	6,530	6,383	7,998	7,509	5,203	4,082	4,466	4,466	4,466
<b>Total Investments</b>	<b>17,582</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>15,631</b>	<b>15,631</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>74,431</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>1,15,588</b>	<b>1,34,060</b>
Inventory	506	264	254	192	270	766	730	781	839
Account Receivables	27,339	24,870	30,189	25,900	28,912	29,685	32,289	33,209	35,676
Cash and Bank Balance	16,695	16,212	19,763	10,793	12,956	8,521	9,091	51,154	66,266
Loans and Advances	29,891	27,495	28,889	32,313	27,288	28,234	29,906	30,444	31,278
<b>Curr. Liability &amp; Prov.</b>	<b>1,03,411</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>96,697</b>	<b>97,060</b>
Account Payables	40,403	36,697	35,764	35,814	34,716	36,885	38,450	36,628	36,201
Other Current Liabilities	56,324	61,538	61,748	53,142	54,759	51,527	57,252	54,209	56,137
Provisions	6,684	9,687	5,847	5,687	5,664	6,016	7,546	5,860	4,722
<b>Net Current Assets</b>	<b>-28,980</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>18,891</b>	<b>37,000</b>
<b>Appl. of Funds</b>	<b>1,44,274</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>1,48,728</b>	<b>1,60,084</b>

E: MOFSL Estimates

## Financials and Valuations

### Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>Basic (INR)</b>									
<b>EPS</b>	<b>18.7</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>51.2</b>	<b>66.0</b>
Cash EPS	92.1	86.4	68.8	76.0	68.0	70.4	93.3	132.0	145.7
BV/Share	28.1	11.3	-12.7	55.9	17.5	-6.4	-44.9	4.1	70.0
DPS	4.5	5.5	4.3	6.0	4.5	4.5	4.0	4.0	4.0
Payout (%)	151.8	13,711.6	64.2	NM	NM	NM	NM	9.5	7.1
<b>Valuation (x)</b>									
P/E		55.6	172.8	55.8	507.9	NM	55.8	11.5	8.9
Cash P/E		6.8	8.6	7.8	8.7	8.4	6.3	4.5	4.1
P/BV		52.3	NM	10.6	33.7	NM	NM	144.0	8.4
EV/Sales		1.4	1.7	1.5	1.5	1.6	1.4	1.3	1.1
EV/EBITDA		9.5	12.3	10.7	10.4	9.7	7.3	5.0	4.1
Dividend Yield (%)	0.8	0.9	0.7	1.0	0.8	0.8	0.7	0.7	0.7
FCF per share	44.7	44.1	11.7	21.0	-8.4	-27.1	36.5	58.1	86.8
<b>Return Ratios (%)</b>									
RoE	48.0	54.0	NM	49.1	3.2	NM	NM	NM	177.9
RoCE	1.8	0.1	3.4	9.9	3.8	1.5	NM	19.6	18.7
RoIC	2.0	0.1	3.0	9.0	2.1	1.9	NM	21.6	27.0
<b>Working Capital Ratios</b>									
Fixed Asset Turnover (x)	0.7	0.7	0.6	0.7	0.6	1.4	1.3	1.2	1.2
Asset Turnover (x)	1.4	1.5	1.2	1.5	1.7	1.6	1.6	1.2	1.2
Inventory (Days)	1	0	1	0	1	2	2	2	2
Debtor (Days)	51	46	61	54	63	66	69	68	68
Creditor (Days)	75	67	72	74	76	81	82	75	69
<b>Leverage Ratio (x)</b>									
Current Ratio	0.7	0.6	0.8	0.7	0.7	0.7	0.7	1.2	1.4
Interest Cover Ratio	1.2	1.1	1.4	1.5	1.5	1.7	2.0	5.1	6.7
Net Debt/Equity	12.8	30.1	NM	4.0	14.0	NM	NM	37.1	1.0

### Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	4,444	3,734	2,626	20,188	456	3,432	-848	18,540	25,047
Depreciation	20,914	21,611	22,194	19,469	19,063	20,676	23,577	23,026	22,722
Interest & Finance Charges	7,038	6,680	7,151	6,875	3,445	3,966	4,707	4,336	4,075
Direct Taxes Paid	-1,824	-1,120	-4,238	-7,404	-3,549	-2,733	-2,793	-4,599	-6,262
(Inc)/Dec in WC	228	-1,339	-4,432	-227	2,433	-3,335	-2,513	-8,060	-2,996
<b>CF from Operations</b>	<b>30,800</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>33,242</b>	<b>42,586</b>
Others	-184	718	326	-14,965	-8,796	-6,577	3,117	-1,347	-1,878
<b>CF from Operating incl EO</b>	<b>30,616</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>31,894</b>	<b>40,708</b>
(Inc)/Dec in FA	-17,872	-17,713	-20,287	-17,952	-15,437	-23,152	-14,856	-15,348	-15,970
<b>Free Cash Flow</b>	<b>12,744</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>16,546</b>	<b>24,738</b>
(Pur)/Sale of Investments	-5,101	-1,720	-3,084	7,815	11,838	-2,411	-491	0	0
Others	1,675	2,550	3,409	10,023	2,597	-260	49	1,347	1,878
<b>CF from Investments</b>	<b>-21,298</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>-14,001</b>	<b>-14,092</b>
Issue of Shares	0	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	6,777	-5,088	7,602	-28,219	-4,121	11,448	-4,044	28,495	-7,440
Interest Paid	-6,694	-6,285	-5,807	-3,086	-3,445	-3,966	-3,850	-4,336	-4,075
Dividend Paid	-964	-1,467	-1,873	-1,424	-1,988	0	-1,508	0	0
Others	-975	-1,043	-34	-62	-332	-1,523	62	11	11
<b>CF from Fin. Activity</b>	<b>-1,856</b>	<b>-13,883</b>	<b>-113</b>	<b>-32,791</b>	<b>-9,885</b>	<b>5,960</b>	<b>-9,340</b>	<b>24,170</b>	<b>-11,504</b>
<b>Inc/Dec of Cash</b>	<b>7,462</b>	<b>-483</b>	<b>3,551</b>	<b>-8,970</b>	<b>2,163</b>	<b>-4,435</b>	<b>609</b>	<b>42,063</b>	<b>15,112</b>
Opening Balance	9,233	16,695	16,211	19,763	10,793	12,956	7,891	9,091	51,154
<b>Closing Balance</b>	<b>16,695</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>51,154</b>	<b>66,266</b>

NOTES

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

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