

Tata Communications

Refer to important disclosures at the end of this report

Deleveraging on track; await revenue recovery

- As expected, TCOM posted a 10% qoq dip in operating profit in Q3 – a quarter marred by seasonality and weak deal conversion. Yet, it was another quarter of healthy cash generation (Rs7.1bn) and reduction in net debt (down Rs6.6bn qoq).
- Despite the normalization in costs and deferral of network costs from Q2, operating costs were down 2% qoq and 8.4% yoy (due to cost-optimization efforts). Covid-19-related savings should continue to moderate from Q4 with spends required for revenue growth.
- The deal conversion has been impacted in the last few quarters, while management alluded to early signs of recovery. The consistent focus on trimming debt, revenue recovery and stronger deal conversion going forward are key monitorables.
- Our revenue and EBITDA estimates remain largely unchanged while earnings upgrade is driven by lower ETR. We continue to be constructive and maintain Buy rating with a revised SoTP-based TP of Rs1,167 (FY23E) vs. Rs1,073 earlier (Sept' 22E).

Lower other income dents bottom line sequentially: Lower usage-based revenues due to seasonality and delayed recovery in Covid-19 hit revenue and dented the profitability for the Data Services segment, with margins contracting 151bps qoq. RPAT was negatively impacted by lower other income (Q2 had a one-time gain from the sale of international investments), which was offset in part by lower tax charges. With the reopening of the economy, TCPSL managed to post an operating profit of Rs50mn vs. a loss in Q2. There was a one-off charge of Rs114mn due to interest on unpaid AGR provisions, taking cumulative AGR-related provisioning to Rs3.8bn.

Outlook: While a relatively weaker Q3 print was anticipated, the key highlight of the quarter was the consistency in deleveraging and cash generation, despite the top-line being impeded, in our view. Along with this, double-digit revenue growth in the Data Segment and continued focus on reducing losses in the Innovation segment is the key for further re-rating in the name. We are projecting FCF generation of Rs56bn for FY21-23E. Going forward, with the resumption of businesses and the re-opening of the economy, we expect to see a traction in deal conversion and a recovery in the media portfolio as well. In our view, the government's decision to offload its 26% stake in the company will provide flexibility to management on strategic decisions in the future. One of our primary concerns regarding TCOM has been the historical inconsistency on the delivery front (i.e., not meeting its own guidance). We believe that healthy performance in terms of deleveraging and cash generation every passing quarter will help to erase past memories of under-delivery on guidance. **Key risks:** 1) Any delay in scaling up the Innovations segment, and continued and elevated losses; 2) Poor conversion of new deals; 3) Increased competitive intensity; and 4) AGR demand of the DoT materializing.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Telecommunications \(page 12\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Total Revenue	1,65,250	1,70,703	1,75,404	1,85,362	1,95,462
EBITDA	27,449	32,912	43,445	44,124	47,790
EBITDA Margin (%)	16.6	19.3	24.8	23.8	24.5
APAT	(846)	3,068	13,355	11,316	13,554
EPS (Rs)	(3.0)	10.8	46.9	39.7	47.6
EPS (% chg)	(281.0)	0.0	335.3	(15.3)	19.8
ROE (%)	(53.7)	(39.4)	(431.8)	90.2	57.2
P/E (x)	(354.1)	97.7	22.4	26.5	22.1
EV/EBITDA (x)	13.7	12.1	8.5	8.0	7.1
P/BV (x)	(162.8)	(21.8)	39.8	17.1	10.0

Source: Company, Emkay Research

CMP	Target Price
Rs 1,051 as of (January 20, 2021)	Rs 1,167 (▲) 12 months
Rating	Upside
BUY (■)	11.0 %

Change in Estimates

EPS Chg FY21E/FY22E (%)	19.2/8.7
Target Price change (%)	8.8
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	46.9	39.7
Consensus	44.2	51.7
Mean Consensus TP (12M)	Rs 1,076	

Stock Details

Bloomberg Code	TCOM IN
Face Value (Rs)	10
Shares outstanding (mn)	285
52 Week H/L	1,169 / 200
M Cap (Rs bn/USD bn)	300 / 4.10
Daily Avg Volume (nos.)	1,67,346
Daily Avg Turnover (US\$ mn)	2.4

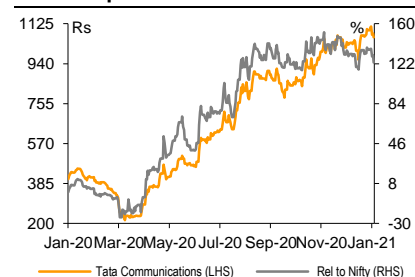
Shareholding Pattern Dec '20

Promoters	75.0%
FII's	17.7%
DII's	1.4%
Public and Others	6.0%

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	10	50	140
Rel. to Nifty	(1)	(11)	13	100

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

Naval Seth

naval.seth@emkayglobal.com
+91 22 6624 2414

Sonali Shah

sonali.shah@emkayglobal.com
+91 22 6624 2482

Exhibit 1: Actual vs. Estimates (Q3FY21)

(Rs mn)	Actual	Estimate		% Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue	42,228	42,876	43,720	-2%	-3%	Impacted by lower usage based revenue and seasonality
EBITDA	10,461	10,483	10,792	0%	-3%	
EBITDA, margin	24.8%	24.5%	24.7%	32 bps	9 bps	
PAT	3,092	2,208	3,681	40%	-16%	Benefited by lower than anticipated tax charge

Source: Company, Bloomberg, Emkay Research

Exhibit 2: Consolidated quarterly financials

Rs mn	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY (%)	QoQ (%)	9MFY21	9MFY20	YoY (%)
Total Sales	42,287	43,979	44,029	44,011	42,228	(0.1)	(4.1)	1,30,269	1,26,701	2.8
Network cost	16,840	16,886	17,413	16,349	15,529	(7.8)	(5.0)	49,291	50,890	(3.1)
as % of sales	39.8	38.4	39.5	37.1	36.8			113	40.2	
Employee Cost	7,462	7,922	7,624	7,619	7,700	3.2	1.1	22,944	22,469	2.1
as % of sales	17.6	18.0	17.3	17.3	18.2			17.6	17.7	
Other operating expenses	10,377	10,482	8,574	8,467	8,539	(17.7)	0.8	25,580	29,141	(12.2)
as % of sales	24.5	23.8	19.5	19.2	20.2			19.6	23.0	
Total Expenditure	34,679	35,291	33,612	32,436	31,767	(8.4)	(2.1)	97,815	1,02,500	(4.6)
EBITDA	7,608	8,688	10,418	11,575	10,461	37.5	(9.6)	32,454	24,201	34.1
Depreciation	5,605	6,867	5,899	5,719	5,570	(0.6)	(2.6)	17,188	16,710	2.9
EBIT	2,003	1,821	4,518	5,856	4,891	144.2	(16.5)	15,266	7,491	103.8
Other Income	140	373	147	761	82	(41.2)	(89.2)	991	324	206.2
Interest	1,161	1,232	1,163	1,064	1,044	(10.1)	(1.9)	3,271	3,476	(5.9)
PBT	982	963	3,503	5,553	3,929	300.3	(29.2)	12,985	4,339	199.3
Tax	406	(98)	812	1,153	711	75.4	(38.3)	2,677	2,365	13.2
PAT before MI	576	1,061	2,691	4,400	3,218	458.6	(26.9)	10,308	1,974	422.2
Minority interest	9	(30)	(8)	(15)	(12)			-35	41	(185.8)
PAT	585	1,031	2,683	4,384	3,206	447.6	(26.9)	10,273	2,015	409.9
Exceptional item	-	3,781	105	540	114			759	124	
PAT from continued operations	585	-2,750	2,578	3,845	3,092	428.1	(19.6)	9,514	1,891	403.2
Margins (%)						(bps)	(bps)			(bps)
EBIDTA	18.0	19.8	23.7	26.3	24.8	678	(153)	24.9	19.1	581
EBIT	4.7	4.1	10.3	13.3	11.6	685	(172)	11.7	5.9	581
EBT	2.3	2.2	8.0	12.6	9.3	698	(331)	10.0	3.4	654
PAT	1.4	2.3	6.1	10.0	7.6	621	(237)	7.9	1.6	630
Effective Tax rate	41.3	(10.2)	23.2	20.8	18.1	(2,321)	(267)	20.6	54.5	(3,389)

Source: Company, Emkay Research

Other highlights

- Impacted by seasonality, revenue came slightly below our projections at Rs42.2bn and was down 4% qoq, while staying flat yoy.
- EBITDA came in line with our expectations at Rs10.5bn, down 9.6% qoq. The sequential decline in EBITDA was primarily due to seasonality and the deferral of expense of Rs310mn from Q2 to Q3 on account of timing difference.
 - Network cost declined 5% qoq to Rs15.5bn. Other operating expenses stood at Rs8.5bn, stable qoq, while employee cost rose 1% to Rs7.7bn.
- PAT stood at Rs3.1bn, down 20% qoq, impacted by significantly lower other income as Q2 had a one-off sale of overseas investment amounting to Rs550mn.
 - An exceptional item of Rs114mn was recorded due to further provisioning toward AGR dues. So far, a total provision of Rs3.8bn has been made, while the DoT demand stands at Rs66.3bn.
 - Finance cost declined 2% qoq to Rs1bn from Rs1.1bn in Q2FY21. Depreciation was down 3% qoq to Rs5.6bn.
 - The tax outgo was at Rs711mn vs. Rs1.2bn in the previous quarter, with ETR standing at 18.1%.

Exhibit 3: Breakdown of gross revenue by segment

Particulars	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY (%)	QoQ (%)
Service Provider / Carrier (%)	38	38	37	36	37	(2.6)	2.8
Enterprise (%)	62	62	63	64	63	1.6	(1.6)
Service Provider / Carrier (Rs mn)	12,996	13,661	13,335	13,111	13,131	1.0	0.2
Enterprise (Rs mn)	21,204	22,289	22,705	23,309	22,359	5.4	(4.1)

Source: Company, Emkay Research

Exhibit 4: Breakdown of gross revenue by geography

Particulars	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY (%)	QoQ (%)
India (%)	53	53	51	54	54	1.9	-
Rest of the world (%)	47	47	49	46	46	(2.1)	-
India (Rs mn)	18,126	19,054	18,380	19,667	19,165	5.7	(2.6)
Rest of the world (Rs mn)	16,074	16,897	17,660	16,753	16,325	1.6	(2.6)

Source: Company, Emkay Research

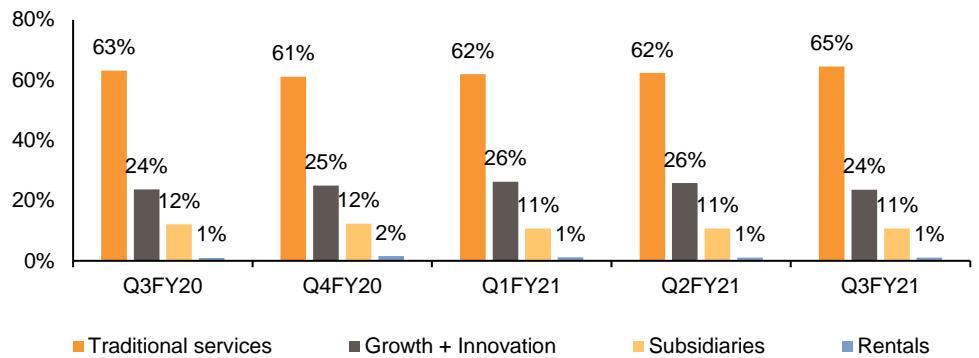
Global Data Solutions (GDS)

- Gross revenue (adjusted for rental revenues) stood at Rs35.5bn, up 4% yoy, while declining 3% qoq.
- The sequential decline is due to slower deal conversion as a result of Covid-19, seasonality and lower usage-based revenues in the Growth Service segment.
- EBITDA, adjusted for rental revenues, stood at Rs10.3bn, surged 44% yoy, while dipping by 7.4% qoq. EBITDA margin stood at 28.9% vs. 30.4% in Q2FY21. The sequential contraction was due to lower Covid-19-related cost savings due to the resumption in business operations and one-off benefit in the base quarter.

Exhibit 5: Financials for Global Data Solutions

Particulars (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY (%)	QoQ (%)
Gross revenues	34,200	35,950	36,040	36,420	35,490	3.8	(2.6)
Less: Direct Costs	12,220	12,570	12,830	12,480	11,540	(5.6)	(7.5)
Net revenues	21,980	23,380	23,210	23,940	23,950	9.0	0.0
Less: Operating Exp	14,840	15,150	13,460	12,860	13,690	(7.7)	6.5
EBITDA	7,140	8,230	9,750	11,080	10,260	43.7	(7.4)
EBITDA margin (%)	20.9%	22.9%	27.1%	30.4%	28.9%	803	(151)
Less: Depreciation	5,530	6,780	5,810	5,630	5,480	(0.9)	(2.7)
EBIT	1,610	1,450	3,940	5,450	4,780	196.9	(12.3)
EBIT margin (%)	4.7	4.0	10.9	15.0	13.5	876	(150)

Source: Company, Emkay Research

Exhibit 6: Revenue mix for Data services: Contribution of Growth & Innovation services is on the rise

Source: Company, Emkay Research

Traditional services

- Revenue for the Traditional Data Services was flat qoq with 0.8% growth.
- On the other hand, EBITDA declined 3.4%, with margins contracting 180bps.

Growth & Innovation services

- Lower usage-based revenues, coupled with seasonality, led to an 11% qoq dip in revenues.
- EBITDA stood at Rs1.3bn (-16% qoq and +146% yoy) with a margin of 15.6% (-100bps qoq).
- The EBITDA loss of the Innovation Services was Rs1bn vs. Rs800mn in Q2FY21.

Transformation Services

- Revenue dropped 3% qoq, with EBITDA loss standing at Rs90mn vs. a profit of Rs40mn in the previous quarter.
- Revenue and profitability of the segment continue to be affected, with low transaction volumes. Although large deals have already been amassed in the order book, execution is proving to be challenging, impacting the process of scaling up the business, which is essential for future growth, in our view.

Tata Communications Payment Solutions Ltd (TCPSL)

- Revenue for TCPSL rose 2% qoq to Rs590mn.
- EBITDA for the quarter stood at Rs50mn vs. a loss of Rs40mn in Q2.
- Average transactions stood at 77 in the quarter.
- Total ATM network dipped sizably as there are no managed ATMs.

Exhibit 7: Quarterly performance of TCPSL

Particulars	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY (%)	QoQ (%)
Gross Revenue (Rs mn)	870	820	520	580	590	(32.2)	1.7
Total ATMs managed	12,278	12,240	12,198	11,326	6,682	(45.6)	(41.0)
Managed ATMs	3,993	3,955	3,949	3,713	-		
White label ATMs	8,285	8,285	8,249	7,613	6,682	(19.3)	(12.2)
Total POS managed	5,791	5,584	3,412	3,219	3,169	(45.3)	(1.6)

Source: Company, Emkay Research

Global Voice Solutions (GVS)

- Gross revenue declined 11% qoq Rs6.7bn, while net revenues stood at Rs780mn.
- EBITDA at Rs200mn, was down meaningfully. Margins dipped to 3% - the lowest ever recorded as the same was impacted by cost deferral from the previous quarter. We expect margins to revert to normalized levels from 4Q.
- ILD minutes fell 6% qoq, while NLD stayed flat.

Exhibit 8: Performance of Global Voice Solutions segment

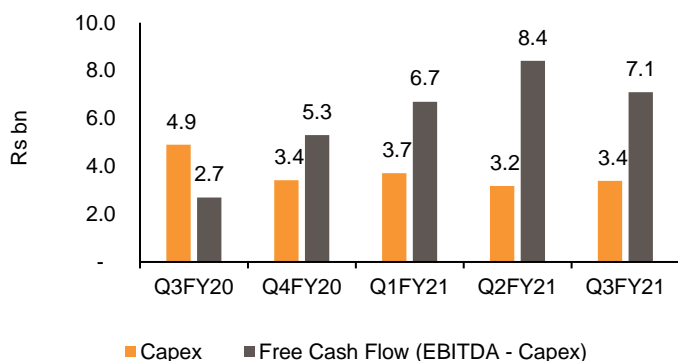
Particulars (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY (%)	QoQ (%)
Gross revenues	8,089	8,030	7,990	7,590	6,740	(16.7)	(11.2)
Less: Direct Costs	7,059	6,920	6,710	6,300	5,960	(15.6)	(5.4)
Net revenues	1,030	1,110	1,280	1,290	780	(24.3)	(39.5)
Less: Opex	560	650	610	790	580	3.6	(26.6)
EBITDA	470	460	670	500	200	(57.4)	(60.0)
EBITDA margin (%)	5.8%	5.7%	8.4%	6.6%	3.0%	(284)	(362)
Less: Depreciation	72	90	90	90	90	24.5	-
EBIT	398	370	580	410	110	(72.3)	(73.2)
EBIT margin (%)	4.9	4.6	7.3	5.4	1.6	(328)	(377)
Volumes (bn mins)							
ILD	5.4	5.3	5.1	4.8	4.5	(16.7)	(6.3)
NLD	0.1	0.1	0.1	0.1	0.1	-	-
Total	5.5	5.4	5.2	4.9	4.6	(16.4)	(6.1)
Net realization per min (Rs/min)	0.2	0.2	0.2	0.3	0.2	(9.5)	(35.6)
EBITDA per min (Rs/min)	0.1	0.1	0.1	0.1	0.0	(49.1)	(57.4)

Source: Company, Emkay Research

Cash generation, capex and debt profile

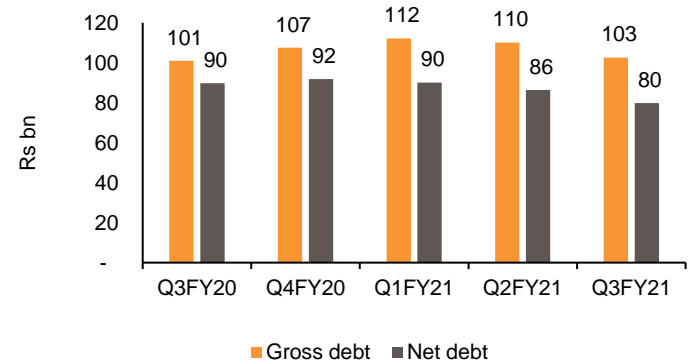
- FCF for the quarter stood at Rs7.1bn, taking the total cash generation to Rs22.2bn in 9MFY21.
 - Data FCF stood at Rs7.4bn vs. Rs8.3bn in Q2.
 - Voice FCF was Rs180mn vs. Rs450mn in Q2FY21.
- Capex for the quarter stood at Rs3.4bn vs. Rs3.2bn in Q2.
- Core business net debt stood at Rs80bn vs. Rs86bn in the previous quarter.
 - Weighted average cost of debt rose slightly to 2.9% vs. 2.8% in Q2.

Exhibit 9: Cash generation of Rs22.2bn in 9MFY21 is promising



Source: Company, Emkay Research

Exhibit 10: Consistently reducing leverage



Source: Company, Emkay Research

Changes in estimates

We have made following changes to our model: 1) Marginal reduction in revenue growth for Q4 due to a delay in recovery; 2) Lower capex spends of Rs15bn vs. Rs18bn earlier; 3) Lower ETR as management guidance stands lower for Q4 and going forward.

Exhibit 11: Changes in estimates

Particulars (Rs mn)	FY21E			FY22E			FY23E		
	Old	Revised	% Change	Old	Revised	% Change	Old	Revised	% Change
Revenue	1,78,850	1,75,404	-1.9%	1,88,296	1,85,362	-1.6%	1,98,551	1,95,462	-1.6%
EBITDA	42,801	43,445	1.5%	44,130	44,124	0.0%	47,752	47,790	0.1%
EBITDA Margin %	23.9	24.8	84 bps	23.4	23.8	37 bps	24.1	24.5	40 bps
APAT	10,565	12,596	19.2%	10,408	11,316	8.7%	12,680	13,554	6.9%
EPS	37.1	44.2	19.2%	36.5	39.7	8.7%	44.5	47.6	6.9%

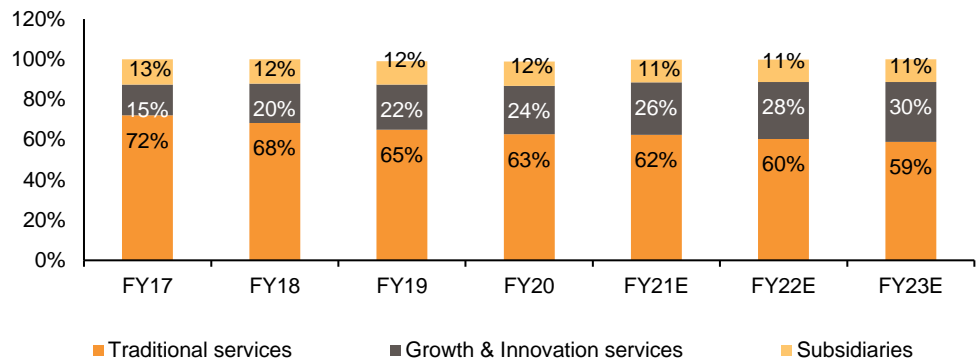
Source: Emkay Research

Exhibit 12: Key revenue assumptions

Particulars (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Global Voice Solutions	38,703	33,763	29,510	25,679	22,359
Global Data Solutions	1,25,243	1,35,311	1,44,203	1,57,883	1,71,303
Others	1,304	1,606	1,690	1,800	1,800
Total revenue	1,65,250	1,70,680	1,75,404	1,85,362	1,95,462

Source: Company, Emkay Research

Exhibit 13: Data revenue mix: Contribution of growth & innovation services segment should rise



Source: Company, Emkay Research

Valuation

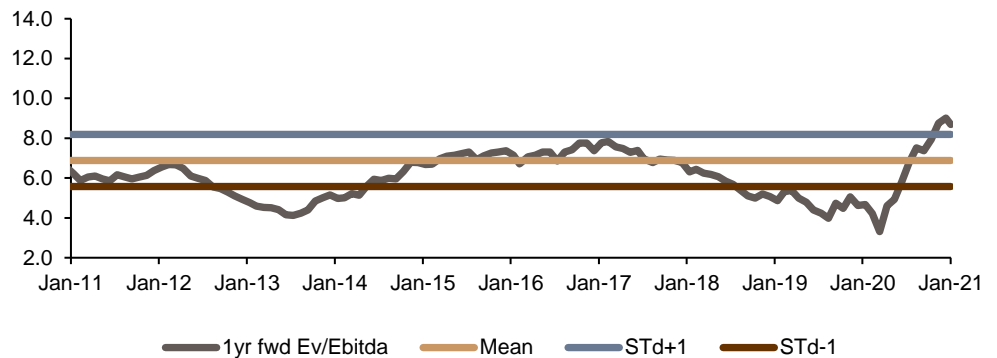
We have rolled forward our estimates to FY23E and value the company based on SoTP model to arrive at the target price of Rs1,167 vs. Rs1,073 earlier.

Exhibit 14: SoTP-based valuation

Particulars (Rs mn)	FY23E
Global Voice Solutions (GVS)	
EBITDA	1,565
EV/EBITDA (x)	3.0
Enterprise value	4,695
Global Data Solutions (GDS)	
EBITDA	46,218
EV/EBITDA (x)	8.2
Enterprise value	3,78,991
Total Enterprise Value	3,83,686
Net debt	54,092
Implied market cap	3,29,594
Value from core business (Rs/share)	1,156
Add: 26% stake in data center (Rs/share)	63
Less: Potential AGR liability (Rs/share)	53
Target price (Rs/share)	1,167

Source: Emkay Research

Exhibit 15: 1-year forward EV/EBITDA valuation band



Source: Bloomberg, Emkay Research

Conference call highlights

- **Revenues** have been impacted across various segments.
 - Media and Mobility businesses were the worst-affected. Although both have started to recover, the revenue print remains lower than pre-Covid-19 levels.
 - Customer churn/cancellation was seen due to offices consolidation impacted deal conversion.
 - The India government's ban of certain Chinese apps also impacted revenues from OTT platforms as some of those platforms were TCOM's customers.
 - Enterprise voice churn is largely completed.
- **Order book and deal conversion:** The company is seeing early signs of recovery on deal conversion after weak trends seen in 9MFY21. The deal funnel continues to remain strong while have been weak in certain areas (as highlighted above).
 - Order bookings continue to grow yoy. The company has started to participate in large and complex deals in Europe and the US while it is yet to see some wins, despite reaching advanced stages.
 - **Sectors that can drive growth:** The company is seeing traction in Airlines (has signed a few customers), Auto OEMs and in the semi-conductor space. However, recovery has been slow in the first two sectors.
- **UCC:** SIP-T was impacted as the same is usage-based segment. The company has one large UCC deal from one of the Fortune-500 companies and the focus is to increase the proportion of fixed revenues vs. usage-based revenues.
- **Cloud and security revenues** were muted due to delayed deal conversion. TCOM's focus is on cloud in India, while other IT services companies are focusing on the global markets.
 - Revenue from Cloud Services grew 8.6% yoy, while Security Services witnessed 29% growth yoy.
- **TCTS** recovery has been delayed due to the cancellation of one of the orders and the pandemic has also impacted the execution of ongoing contracts.
- **Costs:** Spends have resumed only for those heads that are required to drive revenue growth from Q1FY22.
- **Tax rate:** ETR is expected to be in the range of 25-28% for FY21.
- **Capex:** Lower spends in 9MFY21 were intentional due to a lack of clarity on revenues, while it will see a rise in Q4, in line with the trend seen earlier.

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Total Revenue	1,65,250	1,70,703	1,75,404	1,85,362	1,95,462
Expenditure	1,37,801	1,37,790	1,31,958	1,41,238	1,47,672
EBITDA	27,449	32,912	43,445	44,124	47,790
Depreciation	20,676	23,577	22,995	23,929	24,731
EBIT	6,773	9,335	20,450	20,195	23,060
Other Income	603	697	1,236	1,176	1,279
Interest expenses	3,966	4,707	4,369	4,039	3,579
PBT	3,410	5,324	17,317	17,332	20,760
Tax	2,733	2,267	3,889	6,066	7,266
Extraordinary Items	22	(3,905)	(759)	0	0
Minority Int./Income from Assoc.	19	11	37	37	44
Reported Net Income	(824)	(837)	12,596	11,316	13,554
Adjusted PAT	(846)	3,068	13,355	11,316	13,554

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	2,850	2,850	2,850	2,850	2,850
Reserves & surplus	(4,670)	(15,613)	4,679	14,712	26,983
Net worth	(1,820)	(12,763)	7,529	17,562	29,833
Minority Interest	58	48	11	(26)	(70)
Loan Funds	99,349	1,24,135	1,02,795	87,795	77,795
Net deferred tax liability	(887)	(2,495)	(2,495)	(2,495)	(2,495)
Total Liabilities	96,700	1,08,925	1,07,840	1,02,836	1,05,063
Net block	1,12,426	1,26,703	1,13,492	1,08,062	1,01,831
Investment	14,913	15,631	15,631	15,631	15,631
Current Assets	67,182	70,792	82,097	86,152	94,984
Cash & bank balance	8,519	9,107	18,375	17,942	23,703
Other Current Assets	25,825	26,071	26,789	28,125	29,071
Current liabilities & Provision	1,01,923	1,09,619	1,08,590	1,12,218	1,12,592
Net current assets	(34,741)	(38,827)	(26,492)	(26,066)	(17,608)
Misc. exp	21	952	0	0	0
Total Assets	96,700	1,08,925	1,07,840	1,02,836	1,05,063

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	2,807	4,628	16,081	16,156	19,481
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(1,946)	3,066	(3,066)	(859)	(2,697)
Operating Cashflow	17,898	24,865	33,440	34,350	35,543
Capital expenditure	(24,015)	(38,239)	(10,527)	(18,500)	(18,500)
Free Cash Flow	(6,116)	(13,373)	22,913	15,850	17,043
Investments	(2,411)	(718)	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(25,823)	(38,260)	(9,291)	(17,324)	(17,221)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	10,080	24,786	(21,340)	(15,000)	(10,000)
Dividend paid (incl tax)	(1,534)	(1,508)	(1,283)	(1,283)	(1,283)
Other Financing Cash Flow	(1,091)	(4,588)	12,111	2,862	2,300
Financing Cashflow	3,489	13,983	(14,881)	(17,459)	(12,561)
Net chg in cash	(4,435)	588	9,268	(433)	5,761
Opening cash position	12,954	8,519	9,107	18,375	17,942
Closing cash position	8,519	9,107	18,375	17,942	23,703

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	16.6	19.3	24.8	23.8	24.5
EBIT Margin	4.1	5.5	11.7	10.9	11.8
Effective Tax Rate	80.2	42.6	22.5	35.0	35.0
Net Margin	0.4	1.8	7.7	6.1	6.9
ROCE	7.7	9.8	20.1	20.3	23.4
ROE	(53.7)	(39.4)	(431.8)	90.2	57.2
RoIC	10.2	12.6	27.7	30.4	37.0

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	(3.0)	10.8	46.9	39.7	47.6
CEPS	69.6	93.5	127.5	123.7	134.3
BVPS	(6.5)	(48.1)	26.4	61.6	104.7
DPS	5.4	5.3	4.5	4.5	4.5

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	(354.1)	97.7	22.4	26.5	22.1
P/CEPS	15.1	11.2	8.2	8.5	7.8
P/BV	(162.8)	(21.8)	39.8	17.1	10.0
EV / Sales	2.3	2.3	2.1	1.9	1.7
EV / EBITDA	13.7	12.1	8.5	8.0	7.1
Dividend Yield (%)	0.5	0.5	0.4	0.4	0.4

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	(41.2)	(7.2)	9.1	3.1	1.3
Net Debt/EBIDTA	2.8	3.0	1.6	1.2	0.8
Working Cap Cycle (days)	(95.6)	(102.5)	(93.4)	(86.7)	(77.1)

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	(1.5)	3.3	2.8	5.7	5.4
EBITDA	13.8	19.9	32.0	1.6	8.3
EBIT	33.9	37.8	119.1	(1.2)	14.2
PAT	0.0	0.0	0.0	(10.2)	19.8

Quarterly (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenue	42,287	43,979	44,029	44,011	42,228
EBITDA	7,608	8,688	10,418	11,575	10,461
EBITDA Margin (%)	18.0	19.8	23.7	26.3	24.8
PAT	585	(2,750)	2,578	3,845	3,092
EPS (Rs)	2.1	(9.6)	9.0	13.5	10.8

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoters	75.0	75.0	75.0	75.0	75.0
FIs	17.7	17.5	17.2	17.6	17.7
DIs	1.5	1.5	1.5	1.5	1.4
Public and Others	5.9	6.0	6.3	6.0	6.0

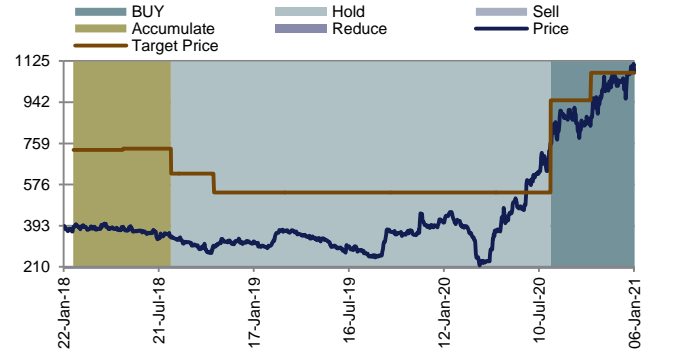
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
16-Oct-20	876	1,073	12m	Buy	Naval Seth
01-Aug-20	760	950	12m	Buy	Naval Seth
08-Apr-19	361	540	12m	Hold	Naval Seth
01-Feb-19	304	540	12m	Hold	Naval Seth
02-Nov-18	299	541	12m	Hold	Naval Seth
13-Aug-18	341	624	12m	Hold	Naval Seth
14-May-18	388	735	12m	Accumulate	Naval Seth
09-Feb-18	389	730	12m	Accumulate	Naval Seth

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Emkay Alpha Portfolio – Telecommunications



Analyst: Naval Seth

Contact Details

naval.seth@emkayglobal.com
+91 22 6624 2414

Sector

Consumer Durables, Media & Entertainment, SMID and Telecom

Analyst bio

Naval holds an MBA in Finance and has more than 12 years of experience in equity research. His team currently covers 18 stocks spread across three different sectors.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Telecommunications	2.29	2.29	0%	0	100.00
Bharti Airtel	1.76	1.93	10%	17	84.32
Indus Towers	0.30	0.28	-8%	-3	12.05
Tata Communications	0.10	0.08	-17%	-2	3.62
Vodafone Idea	0.13	0.00	-100%	-13	0.00
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	21-Jan-20	21-Jul-20	20-Oct-20	18-Dec-20	19-Jan-21
EAP - Telecommunications	100.0	136.3	147.8	109.9	137.1	157.9
BSE200 Neutral Weighted Portfolio (ETF)	100.0	111.1	119.8	90.1	112.4	130.3

*Performance measurement base date 1st April 2019

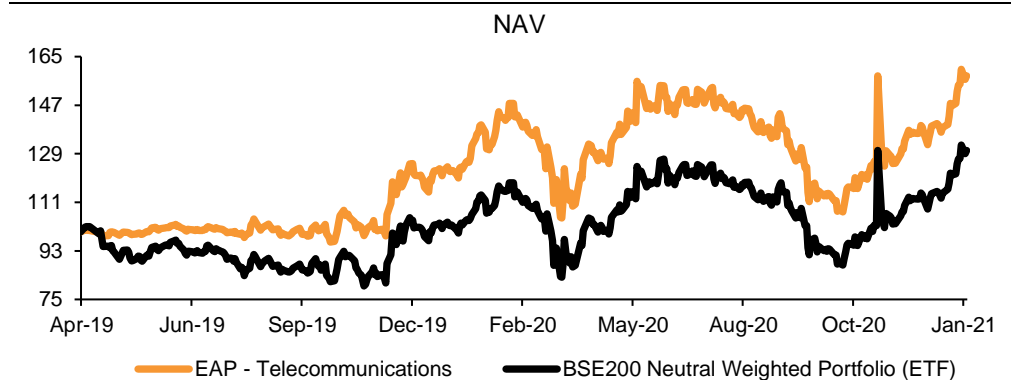
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Telecommunications	15.2%	43.7%	6.8%	15.8%
BSE200 Neutral Weighted Portfolio (ETF)	15.9%	44.5%	8.7%	17.2%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 21 Jan 2021 01:21:28 (SGT)

Dissemination Date: 21 Jan 2021 01:22:28 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

GENERAL DISCLOSURE/DISCLAIMER BY EMKAY GLOBAL FINANCIAL SERVICES LIMITED (EGFSL):

Emkay Global Financial Services Limited (CIN-L67120MH1995PLC084899) and its affiliates are a full-service, brokerage, investment banking, investment management and financing group. Emkay Global Financial Services Limited (EGFSL) along with its affiliates are participants in virtually all securities trading markets in India. EGFSL was established in 1995 and is one of India's leading brokerage and distribution house. EGFSL is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). EGFSL along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, portfolio management, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. www.emkayglobal.com

EGFSL is registered as Research Analyst with SEBI bearing registration Number INH000000354 as per SEBI (Research Analysts) Regulations, 2014. EGFSL hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years, except that NSE had disabled EGFSL from trading on October 05, October 08 and October 09, 2012 for a manifest error resulting into a bonafide erroneous trade on October 05, 2012. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on EGFSL for certain operational deviations in ordinary/routine course of business. EGFSL has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

EGFSL offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by Emkay Global Financial Services Limited (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report

EGFSL and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject EGFSL or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to Emkay. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of EGFSL. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of EGFSL or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

- This publication has not been reviewed or authorized by any regulatory authority. There is no planned schedule or frequency for updating research publication relating to any issuer.
- Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets

Disclaimer for U.S. persons only: This research report is a product of Emkay Global Financial Services Limited (Emkay), which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of Financial Institutions Regulatory Authority (FINRA) or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account. This report is intended for distribution to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor. In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors.

ANALYST CERTIFICATION BY EMKAY GLOBAL FINANCIAL SERVICES LIMITED (EGFSL)

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible of the content of this research report, in part or in whole, certifies that he or his associate¹ does not serve as an officer, director or employee of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant). The research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests² in relation to an issuer or a new listing applicant that the analyst reviews. EGFSL has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the EGFSL and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of EGFSL compensation to any specific investment banking function of the EGFSL.

¹ An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

² Financial interest is defined as interest that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at the arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES BY EMKAY GLOBAL FINANCIAL SERVICES LIMITED (EGFSL):

Disclosures by Emkay Global Financial Services Limited (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

1. EGFSL, its subsidiaries and/or other affiliates do not have a proprietary position in the securities recommended in this report as of January 20, 2021
2. EGFSL, and/or Research Analyst does not market make in equity securities of the issuer(s) or company(ies) mentioned in this Research Report
Disclosure of previous investment recommendation produced:
3. EGFSL may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by EGFSL in the preceding 12 months.
4. EGFSL, its subsidiaries and/or other affiliates and Research Analyst or his/her relative's does not have any material conflict of interest in the securities recommended in this report as of January 20, 2021.
5. EGFSL, its subsidiaries and/or other affiliates and Research Analyst or his/her relative's does not have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the January 20, 2021
6. EGFSL, its subsidiaries and/or other affiliates and Research Analyst have not received any compensation in whatever form including compensation for investment banking or merchant banking or brokerage services or for products or services other than investment banking or merchant banking or brokerage services from securities recommended in this report (subject company) in the past 12 months.
7. EGFSL, its subsidiaries and/or other affiliates and/or and Research Analyst have not received any compensation or other benefits from securities recommended in this report (subject company) or third party in connection with the research report.
8. Securities recommended in this report (Subject Company) has not been client of EGFSL, its subsidiaries and/or other affiliates and/or and Research Analyst during twelve months preceding the January 20, 2021

RESTRICTIONS ON DISTRIBUTION

General	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
Australia	This report is not for distribution into Australia.
Hong Kong	This report is not for distribution into Hong Kong.
Indonesia	This report is being distributed in Indonesia by PT DBS Vickers Sekuritas Indonesia.
Malaysia	This report is not for distribution into Malaysia.
Singapore	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 16800306E) or DBSVS (Company Regn. No. 1860024G) both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an agreement under Regulation 32C of the financial Advisers Regulations. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report.
Thailand	This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd.
United Kingdom	This report is disseminated in the United Kingdom by DBS Vickers Securities (UK) Ltd, ("DBSVUK"). DBSVUK is authorised and regulated by the Financial Conduct Authority in the United Kingdom. In respect of the United Kingdom, this report is solely intended for the clients of DBSVUK, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBSVUK. This communication is directed at persons having professional experience in matters relating to investments. Any investment activity following from this communication will only be engaged in with such persons. Persons who do not have professional experience in matters relating to investments should not rely on this communication.
Dubai International Financial Centre	This research report is being distributed by DBS Bank Ltd., (DIFC Branch) having its office at units 608-610, 6 th Floor, Gate Precinct Building 5, PO Box 506538, Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it.
United Arab Emirates	This report is provided by DBS Bank Ltd (Company Regn. No. 196800306E) which is an Exempt Financial Adviser as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. This report is for information purposes only and should not be relied upon or acted on by the recipient or considered as a solicitation or inducement to buy or sell any financial product. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation, or needs of individual clients. You should contact your relationship manager or investment adviser if you need advice on the merits of buying, selling or holding a particular investment. You should note that the information in this report may be out of date and it is not represented or warranted to be accurate, timely or complete. This report or any portion thereof may not be reprinted, sold or redistributed without our written consent.
United States	DBSVUSA did not participate in its preparation. The research analyst(s) named on this report are not registered as research analysts with FINRA and are not associated persons of DBSVUSA. The research analyst(s) are not subject to FINRA Rule 2241 restrictions on analyst compensation, communications with a subject company, public appearances and trading securities held by a research analyst. This report is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. This report may only be distributed to Major U.S. Institutional Investors (as defined in SEC Rule 15a-6) and to such other institutional investors and qualified persons as DBSVUSA may authorize. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.
Other jurisdictions	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com