

# Tata Communications

Refer to important disclosures at the end of this report

## Treading slowly toward complete revenue recovery

- TCOM reported a 5% EBITDA beat in Q2, adjusting for one-time benefits of Rs500mn. Revenue growth was in-line at 1.7% qoq, pointing toward a gradual recovery across businesses.
- The Digital Platforms & Services segment's revenue grew 2.3% qoq, driven largely by cloud, hosting & security and media services. However, revenue fell 9% yoy, which can be attributed to the Collaboration portfolio (down 25% yoy) on high traffic in Q2FY21.
- Revenue prospects are improving, with a double digit rise in order book in Q2 on a qoq and yoy basis. But near-term challenges like chipset shortages & logistical issues shall impact network equipment availability negatively, resulting in execution delays.
- With the full-fledged revenue revival being pushed to Q4 from Q3, we have cut FY22-24E revenue by 3-4%. This remains the only stumbling block now, but is key to the next leg of up-move. Retain Buy with an SoTP-based Dec'22 TP of Rs1,700 (Dec'23E EBITDA).

**One-time benefits boost EBITDA:** Revenue growth, at 1.7% qoq, was in line with expectations on a gradual pick-up in voice and data segments. However, revenue declined 5.2% yoy due to the moderation in collaboration traffic, coupled with a sharp decline in voice segment revenues. EBITDA grew by 7.8% qoq while margin expanded by 143bps, adjusting for one-time cost benefits of Rs500mn toward timing difference in hiring employees and the reversal of provisions for doubtful debts. Other income increased significantly from Rs134mn in Q1 to Rs364mn in Q2. There was an exceptional gain of Rs127mn stemming from the reversal of provisions due to previous staff optimization efforts and a final insurance claim. RPAT rose 44% qoq, aided by higher EBITDA and other income, and a lower ETR of 20.1%.

**Outlook:** It was another quarter of gradual sequential revenue recovery accompanied by a deceleration in pace of yoy revenue decline. The quarter witnessed higher traction in deal wins, with the order book seeing a surge – both qoq and yoy. Management highlighted an uptick in orders from all international geographies, except for Europe and the UK. We continue to emphasize the need for a complete top-line rebound as it is crucial for re-rating. We expect Digital Platforms & Services revenue to recover with yoy growth from Q3FY22, supported by a lower base in terms of collaboration traffic, along with sustained performance of other sub-segments. In addition, there should be a steady increase in the revenue contribution of the incubation segment and a revival in the performance of its subsidiaries that were impacted by the second Covid wave. H1FY22 FCF generation of Rs13bn and the fall in net debt to Rs78bn, after a rise in Q1FY22, were positives. **Key risks:** 1) any delay in scaling up the innovations segment, and continued and elevated losses; 2) poor deal conversion rate; 3) increased competitive intensity; and 4) another Covid-induced disruption.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Telecommunications \(Page 11\)](#)

### Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Total Revenue	1,70,680	1,71,000	1,69,107	1,83,948	1,99,544
EBITDA	32,890	42,607	43,200	48,194	53,278
EBITDA Margin (%)	19.3	24.9	25.5	26.2	26.7
APAT	3,045	13,254	13,718	16,156	19,979
EPS (Rs)	10.7	46.5	48.1	56.7	70.1
EPS (% chg)	0.0	335.2	3.5	17.8	23.7
ROE (%)	(39.1)	(191.5)	141.4	64.6	53.0
P/E (x)	133.5	30.7	29.6	25.2	20.4
EV/EBITDA (x)	15.4	11.5	10.9	9.4	8.3
P/BV (x)	(29.6)	(3,917.1)	20.8	13.3	9.1

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
Rs 1,427 as of (October 21, 2021)	Rs 1,700 (■) 12 months
<b>Rating</b>	<b>Upside</b>
BUY (■)	19.2 %

### Change in Estimates

EPS Chg FY22E/FY23E (%)	1/
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	48.1	56.7
Consensus	50.0	62.1
Mean Consensus TP (12M)	Rs 1,618	

### Stock Details

Bloomberg Code	TCOM IN
Face Value (Rs)	10
Shares outstanding (mn)	285
52 Week H/L	1,540 / 876
M Cap (Rs bn/USD bn)	407 / 5.43
Daily Avg Volume (nos.)	4,14,035
Daily Avg Turnover (US\$ mn)	7.9

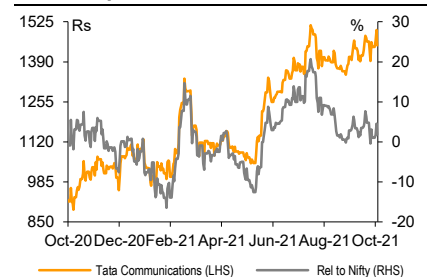
### Shareholding Pattern Sep '21

Promoters	58.9%
FIIIs	23.5%
DIIIs	7.6%
Public and Others	10.1%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	-	3	26	54
<b>Rel. to Nifty</b>	(3)	(11)	(1)	1

### 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 (Q2FY22)**

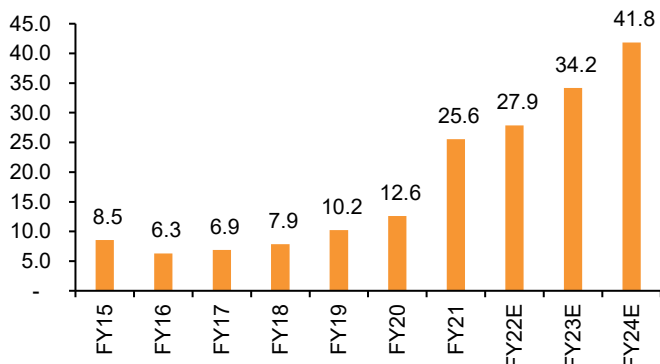
(Rs mn)	Actual	Estimate		% Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue	41,740	42,050	42,141	-1%	-1%	
EBITDA	11,129	10,113	10,246	10%	9%	One-off benefits related to timing difference in employee hiring & reversal of provision
EBITDA, margin	26.7%	24.1%	24.3%	261 bps	235 bps	
PAT	4,254	2,998	3,241	42%	31%	On higher EBITDA, other income and lower ETR

Source: Company, Bloomberg, Emkay Research

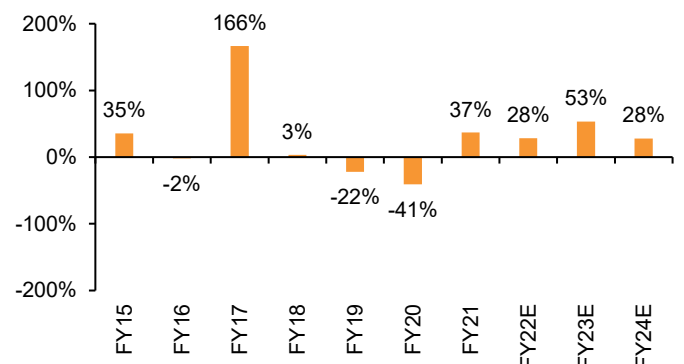
**Exhibit 2: Summary of quarterly financials**

Rs mn	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	YoY (%)	QoQ (%)	H1FY21	H1FY22	YoY (%)
Total Sales	44,011	42,228	40,733	41,028	41,740	(5.2)	1.7	88,040	82,768	(6.0)
Network cost	16,349	15,529	14,615	15,619	15,670	(4.2)	0.3	34,153	31,289	(8.4)
as % of sales	37.1	36.8	35.9	38.1	37.5			38.8	37.8	
Employee Cost	7,619	7,700	7,547	8,097	7,285	(4.4)	(10.0)	15,244	15,382	0.9
as % of sales	17.3	18.2	18.5	19.7	17.5			17.3	18.6	
Other operating expenses	8,467	8,539	8,419	7,452	7,657	(9.6)	2.8	16,651	15,108	(9.3)
as % of sales	19.2	20.2	20.7	18.2	18.3			18.9	18.3	
<b>Total Expenditure</b>	<b>32,436</b>	<b>31,767</b>	<b>30,581</b>	<b>31,167</b>	<b>30,612</b>	<b>(5.6)</b>	<b>(1.8)</b>	<b>66,047</b>	<b>61,779</b>	<b>(6.5)</b>
<b>EBITDA</b>	<b>11,575</b>	<b>10,461</b>	<b>10,152</b>	<b>9,861</b>	<b>11,129</b>	<b>(3.9)</b>	<b>12.9</b>	<b>21,993</b>	<b>20,989</b>	<b>(4.6)</b>
Depreciation	5,719	5,570	5,950	5,333	5,416	(5.3)	1.5	11,619	10,749	(7.5)
<b>EBIT</b>	<b>5,856</b>	<b>4,891</b>	<b>4,202</b>	<b>4,527</b>	<b>5,713</b>	<b>(2.5)</b>	<b>26.2</b>	<b>10,374</b>	<b>10,240</b>	<b>(1.3)</b>
Other Income	761	82	577	134	364	(52.1)	172.8	908	498	(45.2)
Interest	1,064	1,044	931	962	908	(14.7)	(5.6)	2,227	1,870	(16.0)
<b>PBT</b>	<b>5,553</b>	<b>3,929</b>	<b>3,848</b>	<b>3,699</b>	<b>5,169</b>	<b>(6.9)</b>	<b>39.7</b>	<b>9,056</b>	<b>8,867</b>	<b>(2.1)</b>
Tax	1,153	711	872	793	1,038	(10.0)	30.9	1,966	1,831	(6.9)
<b>PAT before MI</b>	<b>4,400</b>	<b>3,218</b>	<b>2,976</b>	<b>2,906</b>	<b>4,131</b>	<b>(6.1)</b>	<b>42.2</b>	<b>7,090</b>	<b>7,037</b>	<b>(0.8)</b>
Minority interest	(15)	(12)	5	(1)	(4)			-23	-5	(77.4)
<b>PAT</b>	<b>4,384</b>	<b>3,206</b>	<b>2,981</b>	<b>2,905</b>	<b>4,126</b>	<b>(5.9)</b>	<b>42.0</b>	<b>7,067</b>	<b>7,031</b>	<b>(0.5)</b>
Exceptional item	540	114	(12)	(56)	(127)			644	-184	
PAT from continued operations	3,845	3,092	2,992	2,961	4,254	10.6	43.7	6,423	7,215	12.3
<b>Margins (%)</b>						<b>(bps)</b>	<b>(bps)</b>			<b>(bps)</b>
EBIDTA	26.3	24.8	24.9	24.0	26.7	36	263	25.0	25.4	38
EBIT	13.3	11.6	10.3	11.0	13.7	38	265	11.8	12.4	59
EBT	12.6	9.3	9.4	9.0	12.4	(23)	337	10.3	10.7	43
PAT	10.0	7.6	7.3	7.1	9.9	(8)	281	8.0	8.5	47
Effective Tax rate	20.8	18.1	22.7	21.4	20.1	(69)	(135)	21.7	20.6	(106)

Source: Company, Emkay Research

**Exhibit 3: RoIC is expected to expand meaningfully**

Source: Company, Emkay Research

**Exhibit 4: FCF/EBITDA is projected to rise**

Source: Company, Emkay Research

## Other highlights

- Revenues were in line at Rs41.7bn (+1.7% qoq, -5.2% yoy). The sequential increase was on account of the gradual pick-up in business across the data and voice segments, while the yoy decline can be attributed to the reduction in the voice business, accompanied by a moderation in collaboration traffic in the data segment.
- EBITDA surpassed our projections by 5%, adjusting for one-time cost benefits, and stood at Rs10.6bn (+7.8% qoq, -8.2% yoy). There was a cost benefit from the timing difference in hiring new employees and the reversal of a provision of doubtful debt due to better collection efforts.
  - Network cost was steady at Rs15.7bn qoq.
  - Other operating expenses rose 2.8% qoq.
  - Employee cost fell sharply due to the one-time benefit.
- PAT stood at Rs4.3bn (+44% qoq), helped by higher EBITDA, lower ETR and a rise in other income.
  - Sequentially, other income rose significantly and stood at Rs364mn vs. Rs134mn in Q1FY22.
  - An exceptional gain of Rs127mn was recorded in the quarter on account of the reversal of certain provisions made in connection with previously-undertaken cost optimization efforts (Rs27mn) and a final insurance claim settlement of Rs101mn.
  - Finance cost declined by 6% to Rs908mn from Rs962mn in Q1FY22.
  - The tax outgo stood at Rs1bn vs. Rs793mn in the previous quarter, while ETR was 20.1% vs. 21.4% in Q1.

### Data segment

- Gross revenue stood at Rs31.4bn, up 1.1% qoq. However, it declined 2.2% yoy due to the moderation in collaboration traffic which was at its peak in H1FY21.
- EBITDA stood at Rs10.5bn, down 3.4% yoy.

#### Exhibit 5: Financials of Data segment

Rs mn	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	YoY (%)	QoQ (%)	H1FY21	H1FY22	YoY (%)
<b>Gross revenues</b>	<b>32,099</b>	<b>31,263</b>	<b>30,875</b>	<b>31,045</b>	<b>31,399</b>	<b>(2.2)</b>	<b>1.1</b>	<b>63,855</b>	<b>62,444</b>	<b>(2.2)</b>
Less: Direct Costs	9,011	8,264	8,333	8,997	8,880	(1.5)	(1.3)	18,584	17,877	(3.8)
<b>Net revenues</b>	<b>23,088</b>	<b>22,998</b>	<b>22,542</b>	<b>22,048</b>	<b>22,519</b>	<b>(2.5)</b>	<b>2.1</b>	<b>45,271</b>	<b>44,567</b>	<b>(1.6)</b>
Less: Operating Exp	12,230	12,956	13,260	12,731	12,028	(1.6)	(5.5)	24,867	24,759	(0.4)
<b>EBITDA</b>	<b>10,859</b>	<b>10,043</b>	<b>9,282</b>	<b>9,317</b>	<b>10,491</b>	<b>(3.4)</b>	<b>12.6</b>	<b>20,404</b>	<b>19,808</b>	<b>(2.9)</b>
<b>EBITDA margin (%)</b>	<b>33.8%</b>	<b>32.1%</b>	<b>30.1%</b>	<b>30.0%</b>	<b>33.4%</b>	<b>-42 bps</b>	<b>340 bps</b>	<b>32.0%</b>	<b>31.7%</b>	<b>-23 bps</b>
Less: Depreciation	5,271	5,138	5,567	5,011	5,107	(3.1)	1.9	10,733	10,118	(5.7)
<b>EBIT</b>	<b>5,588</b>	<b>4,904</b>	<b>3,716</b>	<b>4,306</b>	<b>5,384</b>	<b>(3.7)</b>	<b>25.0</b>	<b>9,671</b>	<b>9,690</b>	<b>0.2</b>
<b>EBIT margin (%)</b>	<b>17.4%</b>	<b>15.7%</b>	<b>12.0%</b>	<b>13.9%</b>	<b>17.1%</b>	<b>-26 bps</b>	<b>327 bps</b>	<b>15.1%</b>	<b>15.5%</b>	<b>37 bps</b>

Source: Company, Emkay Research

### Core Connectivity

- Revenue saw a marginal increase on a yoy and qoq basis.

#### Exhibit 6: Financials of Core Connectivity segment

Rs mn	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	YoY (%)	QoQ (%)	H1FY21	H1FY22	YoY (%)
Gross revenue	22,338	22,498	22,378	22,307	22,408	0.3	0.4	44,271	44,715	1.0
Net revenue	18,285	18,452	18,577	17,878	18,078	(1.1)	1.1	36,078	35,955	(0.3)
EBITDA	10,208	9,874	9,789	9,510	10,287	0.8	8.2	19,689	19,797	0.5
<b>EBITDA margin</b>	<b>45.7%</b>	<b>43.9%</b>	<b>43.7%</b>	<b>42.6%</b>	<b>45.9%</b>	<b>21 bps</b>	<b>328 bps</b>	<b>44.5%</b>	<b>44.3%</b>	<b>-20 bps</b>

Source: Company, Emkay Research

### Digital Platforms & Services

- Revenue stood at Rs8.6bn, up 2.3% qoq.
- This was on the back of improved performance in all segments, except for the collaboration portfolio. However, revenue declined 9% yoy.

**Exhibit 7: Financials of Digital Platforms & Services segment**

Rs mn	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	YoY (%)	QoQ (%)	H1FY21	H1FY22	YoY (%)
Gross revenue	9,400	8,440	8,132	8,369	8,563	(8.9)	2.3	18,992	16,931	(10.9)
Net revenue	4,631	4,462	3,936	4,122	4,419	(4.6)	7.2	8,939	8,541	(4.5)
EBITDA	1,445	1,188	560	751	1,215	(15.9)	61.8	2,510	1,966	(21.6)
<i>EBITDA margin</i>	<i>15.4%</i>	<i>14.1%</i>	<i>6.9%</i>	<i>9.0%</i>	<i>14.2%</i>	<i>-118 bps</i>	<i>522 bps</i>	<i>13.2%</i>	<i>11.6%</i>	<i>-160 bps</i>

Source: Company, Emkay Research

**Subsidiaries****Transformation services (TCTSL)**

- Revenue stood at Rs3.4bn, while EBITDA loss widened to Rs210mn from Rs60mn in Q1FY22 due to a one-off provision on account of an international customer.
- The weakness was due to the slow growth in the international business.
- The transaction-based business was impacted by the second Covid wave, while costs remained high.

**Payment Services (TCPSL)**

- The topline rose 9% qoq, while EBITDA stood at Rs30mn vs. Rs70mn in the last quarter.
- Average daily transactions for the quarter stood at 56 vs. 64 in Q2FY21.
- The company started to see the benefits of increased bank interchange fee from Aug'21.

**Voice segment**

- Gross revenue stood at Rs6.1bn, up 3% qoq.
- ILD minutes dipped 9% qoq, while NLD minutes rose 18%.
- EBITDA of Rs459mn was boosted by the one-time benefits too.

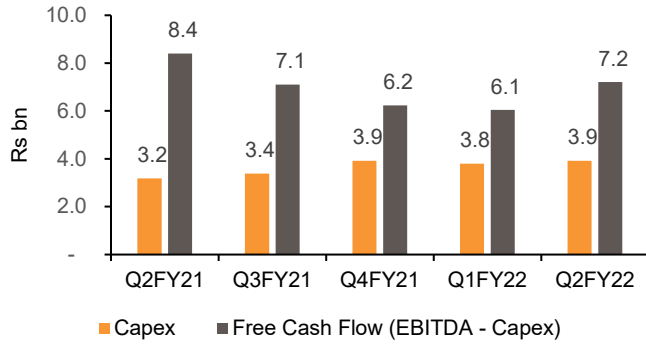
**Exhibit 8: Performance of Voice segment**

Rs mn	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	YoY (%)	QoQ (%)	H1FY21	H1FY22	YoY (%)
<b>Gross revenues</b>	<b>7,590</b>	<b>6,740</b>	<b>5,580</b>	<b>5,890</b>	<b>6,060</b>	<b>(20.2)</b>	<b>2.9</b>	<b>15,580</b>	<b>11,950</b>	<b>(23.3)</b>
Less: Direct Costs	6,300	5,960	4,660	5,040	5,061	(19.7)	0.4	13,010	10,101	(22.4)
<b>Net revenues</b>	<b>1,290</b>	<b>780</b>	<b>920</b>	<b>850</b>	<b>999</b>	<b>(22.6)</b>	<b>17.5</b>	<b>2,570</b>	<b>1,849</b>	<b>(28.1)</b>
Less: Opex	790	580	560	590	540	(31.6)	(8.4)	1,400	1,130	(19.3)
<b>EBITDA</b>	<b>500</b>	<b>200</b>	<b>360</b>	<b>260</b>	<b>459</b>	<b>(8.3)</b>	<b>76.4</b>	<b>1,170</b>	<b>719</b>	<b>(38.6)</b>
<i>EBITDA margin (%)</i>	<i>6.6%</i>	<i>3.0%</i>	<i>6.5%</i>	<i>4.4%</i>	<i>7.6%</i>	<i>98 bps</i>	<i>315 bps</i>	<i>7.5%</i>	<i>6.0%</i>	<i>-150 bps</i>
Less: Depreciation	90	90	90	60	65	(27.7)	8.4	180	125	(30.5)
<b>EBIT</b>	<b>410</b>	<b>110</b>	<b>270</b>	<b>200</b>	<b>394</b>	<b>(4.0)</b>	<b>96.8</b>	<b>990</b>	<b>594</b>	<b>(40.0)</b>
<i>EBIT margin (%)</i>	<i>5.4%</i>	<i>1.6%</i>	<i>4.8%</i>	<i>3.4%</i>	<i>6.5%</i>	<i>109 bps</i>	<i>310 bps</i>	<i>6.4%</i>	<i>5.0%</i>	<i>-139 bps</i>

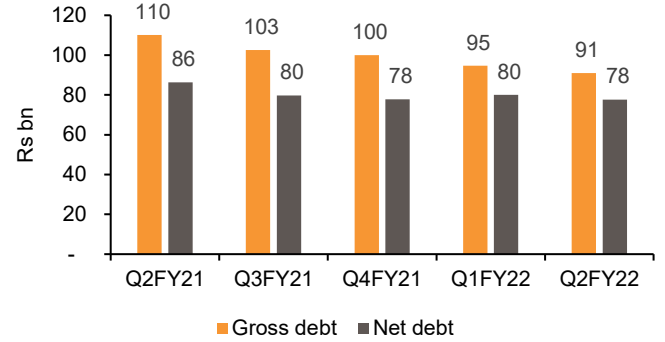
Source: Company, Emkay Research

**Cash generation, capex and debt profile**

- FCF for the quarter stood at Rs7.2bn vs. Rs6.1bn in the last quarter.
  - Data FCF stood at Rs7bn vs. Rs6bn in Q1.
  - Voice FCF was Rs450mn vs. Rs240mn in the previous quarter.
- Core Business Net Debt stood at Rs77.6bn vs. Rs80bn in the prior quarter.
  - The weighted average cost of debt was steady at 2.9%.
- Capex for the quarter stood at Rs3.9bn vs. Rs3.8bn in the preceding quarter.

**Exhibit 9: Capex and cash generation rose on a sequential basis**

Source: Company, Emkay Research

**Exhibit 10: Debt dipped after rising in the previous quarter**

Source: Company, Emkay Research

**Exhibit 11: Changes in estimates**

Rs mn	FY22E			FY23E			FY24E		
	Old	Revised	% Change	Old	Revised	% Change	Old	Revised	% Change
Revenue	1,75,672	1,69,107	-3.7%	1,89,183	1,83,948	-2.8%	2,05,296	1,99,544	-2.8%
EBITDA	43,764	43,200	-1.3%	48,135	48,194	0.1%	54,145	53,278	-1.6%
EBITDA Margin %	24.9	25.5	65 bps	25.4	26.2	80 bps	26.4	26.7	30 bps
APAT	13,777	13,901	0.9%	16,075	16,156	0.5%	20,556	19,979	-2.8%
EPS	48.3	48.8	1.0%	56.4	56.7	0.5%	72.1	70.1	-2.8%

Source: Emkay Research

**Exhibit 12: Key revenue assumptions**

Rs mn	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Voice Segment	53,113	38,703	33,763	27,900	23,275	20,275	18,052
Data Segment	1,13,394	1,25,243	1,35,311	1,41,433	1,44,059	1,61,993	1,79,812
Rental	916	1,304	1,609	1,660	1,773	1,680	1,680
<b>Total revenue</b>	<b>1,67,423</b>	<b>1,65,250</b>	<b>1,70,683</b>	<b>1,70,993</b>	<b>1,69,107</b>	<b>1,83,948</b>	<b>1,99,544</b>

Source: Company, Emkay Research

## Valuation

**Exhibit 13: SoTP-based valuation**

Particulars	Dec'23E
<b>Voice Segment</b>	
Dec'23E EBITDA (Rs mn)	1,163
EV/EBITDA (x)	2.0
Enterprise value (Rs mn)	2,326
<b>Data Segment (including others and rental)</b>	
Dec'23E EBITDA (Rs mn)	49,876
EV/EBITDA (x)	11.0
Enterprise value (Rs mn)	5,48,631
<b>Total Enterprise Value (Rs mn)</b>	<b>5,50,956</b>
Net debt (Rs mn)	67,378
Implied market cap (Rs mn)	4,83,578
<b>Value from core business (Rs/share)</b>	<b>1,690</b>
Add: 26% stake in data center (Rs/share)	63
Less: Potential AGR liability (Rs/share)	53
<b>Target price (Rs/share)</b>	<b>1,700</b>

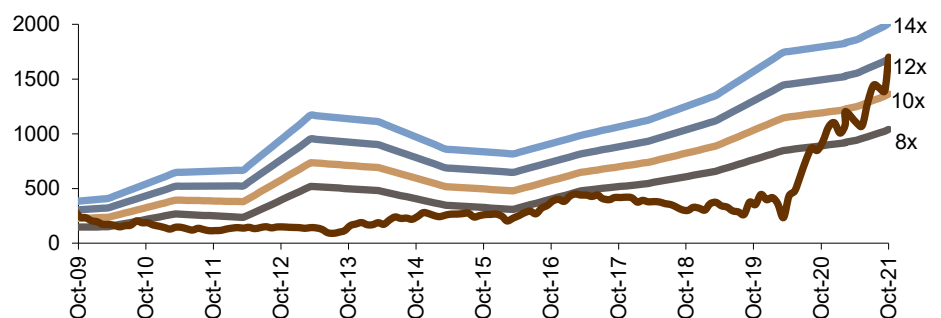
Source: Emkay Research

**Exhibit 14: Land details post demerger with HPIL. Land valuation is not accounted in our TP**

Location	Total land in B/S (Acre)	Land with HPIL post demerger (Acre)	Land with TCOM post demerger (Acre)
Dighi – Pune, Maharashtra	678.1	524	154.1
Chattarpur, Delhi	162.4	58	104.4
GK-I, Delhi	119.1	69.5	49.6
Halisahar, W.B.	81.7	35.2	46.5
Padianallur, Chennai, TN	53	53	0
Mumbai	10.2	0	10.2
Rest of Western India	241.1	0	241.1
North and East India	123.6	0	123.6
South India	27.2	0	27.2
<b>Total</b>	<b>1496.4</b>	<b>739.7</b>	<b>756.7</b>

Source: Company, Emkay Research

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



Source: Bloomberg, Emkay Research

## Con-call highlights

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- The company has started to see higher deal win rates with focus on small deals (80% of the deals from existing customers). **Q2 order book saw a double-digit increase on both yoy and qoq basis.** The increase was seen both in India and overseas regions (excluding Europe and the UK).
  - According to management, ongoing challenges such as chip shortages are impacting growth. The chipset shortage and logistics challenges have impacted network equipment availability, resulting in lower revenue growth. The lead time for chipset procurement has increased to 14-22 weeks from 6-8 weeks earlier.
- Churn has reduced on both qoq and yoy basis. Terminations usually happen due to the rationalization in branch network connectivity. The company is increasing its capacity to address the rising need for connectivity.
- UCC is expected to recover with continued re-opening of offices globally and the resumption of travel, leading to better usage for SIP trunking volumes. In Q2, volumes were down, but prices were not impacted.
- Media events have picked up pace, resulting to revenue growth.
- **Data Centers:** The ecosystem of data centers requires strong connectivity, which provides growth opportunities for TCOM. The company has deployed DC2DC connectivity for a large customer in Mumbai.
  - The company is also directly participating in the data center growth opportunity through a 26% stake in STT data center. STT has plans to triple its data center capacity to 400MW over the next five years.
  - **Out of the total investment outlay of Rs60-90bn, a large proportion of investment would be for land acquisition.** TCOM is not looking to dilute its 26% stake in STT and it would infuse capital if all the other aspects of funding (internal accrual and debt) get exhausted.
- Employee churn has increased, but the same is in line with industry trends.
- **TCTSL:** The business has started to stabilize but at a slower pace. During the quarter, a one-off provision was taken in this segment in connection with an international customer.



**Key Financials (Consolidated)****Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Total Revenue</b>	<b>1,70,680</b>	<b>1,71,000</b>	<b>1,69,107</b>	<b>1,83,948</b>	<b>1,99,544</b>
<b>Expenditure</b>	<b>1,37,790</b>	<b>1,28,393</b>	<b>1,25,906</b>	<b>1,35,753</b>	<b>1,46,266</b>
<b>EBITDA</b>	<b>32,890</b>	<b>42,607</b>	<b>43,200</b>	<b>48,194</b>	<b>53,278</b>
Depreciation	23,577	23,139	22,278	23,677	24,259
<b>EBIT</b>	<b>9,312</b>	<b>19,468</b>	<b>20,922</b>	<b>24,518</b>	<b>29,019</b>
Other Income	697	1,568	1,122	1,493	1,930
Interest expenses	4,707	4,202	4,452	4,551	4,413
<b>PBT</b>	<b>5,302</b>	<b>16,834</b>	<b>17,592</b>	<b>21,459</b>	<b>26,537</b>
Tax	2,267	3,549	3,925	5,365	6,634
Extraordinary Items	(3,905)	(747)	184	0	0
Minority Int./Income from Assoc.	11	9	37	46	57
<b>Reported Net Income</b>	<b>(860)</b>	<b>12,507</b>	<b>13,901</b>	<b>16,156</b>	<b>19,979</b>
<b>Adjusted PAT</b>	<b>3,045</b>	<b>13,254</b>	<b>13,718</b>	<b>16,156</b>	<b>19,979</b>

**Balance Sheet**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	2,850	2,850	2,850	2,850	2,850
Reserves & surplus	(15,635)	(1,696)	16,659	27,685	41,963
<b>Net worth</b>	<b>(12,785)</b>	<b>1,154</b>	<b>19,509</b>	<b>30,535</b>	<b>44,813</b>
<b>Minority Interest</b>	<b>48</b>	<b>282</b>	<b>244</b>	<b>198</b>	<b>142</b>
<b>Loan Funds</b>	<b>1,24,135</b>	<b>1,13,936</b>	<b>98,936</b>	<b>98,936</b>	<b>95,936</b>
Net deferred tax liability	(2,495)	(2,824)	(2,824)	(2,824)	(2,824)
<b>Total Liabilities</b>	<b>1,08,902</b>	<b>1,12,548</b>	<b>1,15,865</b>	<b>1,26,845</b>	<b>1,38,067</b>
<b>Net block</b>	<b>1,26,703</b>	<b>1,14,034</b>	<b>1,10,146</b>	<b>1,04,969</b>	<b>99,210</b>
<b>Investment</b>	<b>15,631</b>	<b>22,334</b>	<b>22,334</b>	<b>22,334</b>	<b>22,334</b>
<b>Current Assets</b>	<b>70,769</b>	<b>66,469</b>	<b>71,054</b>	<b>1,00,297</b>	<b>1,09,438</b>
Cash & bank balance	9,084	9,270	10,925	31,558	37,750
Other Current Assets	26,071	28,420	27,936	29,836	32,366
<b>Current liabilities &amp; Provision</b>	<b>1,09,619</b>	<b>97,639</b>	<b>93,760</b>	<b>1,06,845</b>	<b>99,006</b>
<b>Net current assets</b>	<b>(38,850)</b>	<b>(31,169)</b>	<b>(22,706)</b>	<b>(6,549)</b>	<b>10,433</b>
Misc. exp	952	1,258	0	0	0
<b>Total Assets</b>	<b>1,08,902</b>	<b>1,12,548</b>	<b>1,15,865</b>	<b>1,26,845</b>	<b>1,38,067</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>4,605</b>	<b>15,266</b>	<b>16,470</b>	<b>19,966</b>	<b>24,606</b>
Other Non-Cash items	0	0	0	0	0
Chg in working cap	3,066	(7,823)	(6,808)	4,475	(10,788)
<b>Operating Cashflow</b>	<b>24,842</b>	<b>27,751</b>	<b>30,591</b>	<b>44,263</b>	<b>33,393</b>
Capital expenditure	(38,239)	(12,095)	(18,390)	(18,500)	(18,500)
<b>Free Cash Flow</b>	<b>(13,396)</b>	<b>15,656</b>	<b>12,201</b>	<b>25,763</b>	<b>14,893</b>
Investments	(718)	(6,703)	0	0	0
Other Investing Cash Flow	0	0	0	0	0
<b>Investing Cashflow</b>	<b>(38,260)</b>	<b>(17,230)</b>	<b>(17,268)</b>	<b>(17,007)</b>	<b>(16,570)</b>
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	24,786	(10,199)	(15,000)	0	(3,000)
Dividend paid (incl tax)	(1,508)	(1,140)	(4,560)	(5,130)	(5,700)
Other Financing Cash Flow	(4,588)	5,206	12,344	3,058	2,483
<b>Financing Cashflow</b>	<b>13,983</b>	<b>(10,335)</b>	<b>(11,668)</b>	<b>(6,623)</b>	<b>(10,630)</b>
<b>Net chg in cash</b>	<b>565</b>	<b>186</b>	<b>1,655</b>	<b>20,633</b>	<b>6,193</b>
Opening cash position	8,519	9,084	9,270	10,925	31,558
<b>Closing cash position</b>	<b>9,084</b>	<b>9,270</b>	<b>10,925</b>	<b>31,558</b>	<b>37,750</b>

Source: Company, Emkay Research



**Key Ratios**

<b>Profitability (%)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
EBITDA Margin	19.3	24.9	25.5	26.2	26.7
EBIT Margin	5.5	11.4	12.4	13.3	14.5
Effective Tax Rate	42.8	21.1	22.3	25.0	25.0
Net Margin	1.8	7.8	8.1	8.7	10.0
ROCE	9.8	19.2	19.4	21.4	23.4
ROE	(39.1)	(191.5)	141.4	64.6	53.0
RoIC	12.6	25.6	27.9	34.2	41.8

<b>Per Share Data (Rs)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
EPS	10.7	46.5	48.1	56.7	70.1
CEPS	93.4	127.7	126.3	139.8	155.2
BVPS	(48.2)	(0.4)	68.5	107.1	157.2
DPS	5.3	4.0	16.0	18.0	20.0

<b>Valuations (x)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
PER	133.5	30.7	29.6	25.2	20.4
P/CEPS	15.3	11.2	11.3	10.2	9.2
P/BV	(29.6)	(3,917.1)	20.8	13.3	9.1
EV / Sales	3.0	2.9	2.8	2.5	2.2
EV / EBITDA	15.4	11.5	10.9	9.4	8.3
Dividend Yield (%)	0.4	0.3	1.1	1.3	1.4

<b>Gearing Ratio (x)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
Net Debt/ Equity	(7.2)	(793.2)	3.4	1.5	0.8
Net Debt/EBIDTA	3.0	1.9	1.5	0.9	0.7
Working Cap Cycle (days)	(102.5)	(86.3)	(72.6)	(75.6)	(50.0)

<b>Growth (%)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
Revenue	3.3	0.2	(1.1)	8.8	8.5
EBITDA	19.8	29.5	1.4	11.6	10.5
EBIT	37.5	109.1	7.5	17.2	18.4
PAT	0.0	0.0	11.1	16.2	23.7

<b>Quarterly (Rs mn)</b>	<b>Q2FY21</b>	<b>Q3FY21</b>	<b>Q4FY21</b>	<b>Q1FY22</b>	<b>Q2FY22</b>
Revenue	44,011	42,228	40,733	41,028	41,740
EBITDA	11,575	10,461	10,152	9,861	11,129
<b>EBITDA Margin (%)</b>	<b>26.3</b>	<b>24.8</b>	<b>24.9</b>	<b>24.0</b>	<b>26.7</b>
PAT	3,845	3,092	2,992	2,961	4,254
<b>EPS (Rs)</b>	<b>13.5</b>	<b>10.8</b>	<b>10.5</b>	<b>10.4</b>	<b>14.9</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Sep-20</b>	<b>Dec-20</b>	<b>Mar-21</b>	<b>Jun-21</b>	<b>Sep-21</b>
Promoters	75.0	75.0	58.9	58.9	58.9
FII	17.6	17.7	24.4	24.0	23.5
DII	1.5	1.4	7.5	7.4	7.6
Public and Others	6.0	6.0	9.2	9.8	10.1

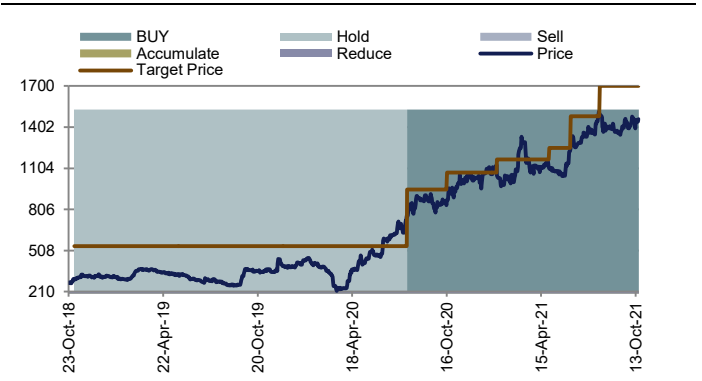
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
05-Aug-21	1,497	1,700	12m	Buy	Naval Seth
10-Jun-21	1,259	1,480	12m	Buy	Naval Seth
30-Apr-21	1,100	1,250	12m	Buy	Naval Seth
20-Jan-21	1,051	1,167	12m	Buy	Naval Seth
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

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## 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 13 years of experience in equity research. His team currently covers 19 stocks spread across three different sectors.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>Telecommunications</b>	<b>2.10</b>	<b>2.10</b>	<b>0%</b>	<b>0</b>	<b>100.00</b>
Bharti Airtel	1.62	1.64	1%	2	78.18
Indus Towers	0.23	0.24	4%	1	11.54
Tata Communications	0.16	0.17	6%	1	8.09
Vodafone Idea	0.08	0.05	-43%	-4	2.19
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>

Source: Emkay Research

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

### Sector portfolio NAV

	Base					Latest
	1-Apr-19	21-Oct-20	20-Apr-21	20-Jul-21	20-Sep-21	20-Oct-21
EAP - Telecommunications	100.0	113.2	144.8	144.1	189.4	192.3
BSE200 Neutral Weighted Portfolio (ETF)	100.0	92.8	116.8	116.5	152.7	155.2

\*Performance measurement base date 1<sup>st</sup> April 2019

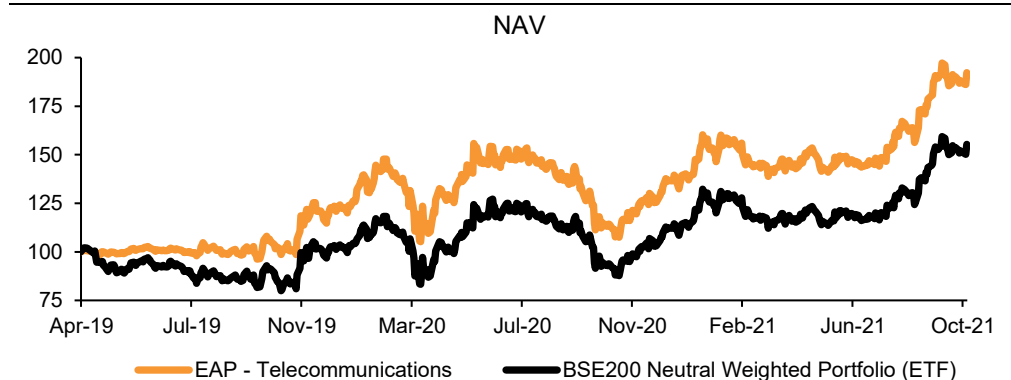
Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - Telecommunications	1.5%	33.4%	32.8%	69.8%
BSE200 Neutral Weighted Portfolio (ETF)	1.6%	33.3%	33.0%	67.3%

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 Oct 2021 22:29:06 (SGT)

Dissemination Date: 21 Oct 2021 22:30:06 (SGT)

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

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