

# Tata Communications

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	TCOM IN
Equity Shares (m)	285
M.Cap.(INRb)/(USD\$b)	413.4 / 5.5
52-Week Range (INR)	1590 / 930
1, 6, 12 Rel. Per (%)	4/-/9/19
12M Avg Val (INR M)	807

## Financials & Valuations (INR b)

Y/E March	FY22E	FY23E	FY24E
Net Sales	167.7	182.9	201.4
EBITDA	43.2	50.2	57.3
Adj. PAT	15.1	19.4	25.1
EBITDA Margin (%)	25.8	27.5	28.5
Adj. EPS (INR)	53.0	68.0	88.2
EPS Gr. (%)	13.9	28.3	29.7
BV/Sh. (INR)	57.8	125.8	214.0

## Ratios

Net D:E	3.3	0.9	0.0
RoE (%)	171.4	74.1	51.9
RoCE (%)	18.2	21.4	24.3
Payout (%)	8.7	6.8	5.3

## Valuations

EV/EBITDA (x)	11.3	9.3	7.6
P/E (x)	27.4	21.3	16.4
P/BV (x)	25.1	11.5	6.8
Div. Yield (%)	0.3	0.3	0.3
FCF Yield (%)	2.9	5.5	7.9

## Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	58.9	58.9	75.0
DII	7.6	7.4	1.5
FII	23.5	24.0	17.6
Others	10.1	9.8	6.0

FII Includes depository receipts

**CMP: INR1,450**      **TP: INR1,450**      **Neutral**

## Soft earnings, but healthy FCF drives deleveraging

- Normalized EBITDA growth was soft at 2% (7% below our estimate), but the key silver lining was the steady net debt decline for the second quarter in a row by ~INR6b to INR71.9b on better working capital mix and robust OCF generation.
- We expect 10% revenue CAGR over FY22-24E as Connectivity (~70% revenue mix) has a low growth outlook. We factor in an improvement in margin on a favorable Data mix, curbing of losses in the Incubation business, and 15% EBITDA CAGR. We maintain our Neutral rating.

## Muted revenue growth, but normalized EBITDA at 2%

- TCOM's consolidated revenue was flat QoQ at INR41.8b in 3QFY22, led by a 3% growth in Data revenue (the key growth driver), even as Voice and other segments declined sharply. The modest sequential topline growth was propelled by a gradual pick up in business across all Data segments.
- EBITDA declined by 2.7% QoQ to INR10.8b (6.6% below our estimate). EBITDA margin contracted by 80bp sequentially to 25.9%. **Normalizing for one-off benefits of INR500m in 2Q (related to employee cost and reversal of provisions), EBITDA grew 1.8% QoQ in 3QFY22, with a 50bp improvement in margin.**
- TCOM saw an exceptional gain of INR84.9m on staff optimization costs.
- Other income declined by 48.4% QoQ and interest cost fell 8.1% QoQ (8% below our estimate) due to a decrease in net debt. Adjusted PAT (for exceptional items) fell 6% QoQ to ~INR3.9b (7% below our estimate).
- Capex stood at INR4b in 3QFY22 similar to INR3.9b QoQ and INR3.4b YoY.
- The key silver lining is the steady decline of ~INR6b in net debt (for the second consecutive quarter) to INR71.9b v/s INR77.6b/INR80b in 2Q/1QFY22, backed by a better working capital mix and robust OCF generation.

## Highlights from the management commentary

- Its order book saw sluggish growth in 3QFY22 on slower large deal closures, semiconductor shortage, and talent attrition.
- Stable capex guidance of USD250m, improvement in DSO days, and continued positive operating free cash flow generation will keep net debt-to-EBITDA ratio below 2x.
- TCOM posted a higher EBITDA margin in 3QFY22 as compared to the management's guidance of 23-25%. The same is expected to normalize as it plans to recruit over 1,000 employees to support its sales growth.

## Valuation and view

- In the last two years (FY19-21), TCOM delivered 25% EBITDA CAGR and a PAT of INR12.5b v/s a loss of INR824m on the back of 830bp improvement in EBITDA margin. Growth in Revenue/EBITDA is expected to remain flattish in FY22E.

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

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- Recent rejig in business segments and focus on driving higher deals in digitalization will result in healthy growth. The management commentary on deal wins and demand for networking solutions has been bullish since the onset of the COVID-19 pandemic. However, Data revenue – the key driver of growth – has continued to remain muted for the last few quarters.
- We expect lower revenue growth visibility considering Connectivity (71% revenue mix) has a low growth outlook. This, coupled with flat EBITDA margin guidance of 23-25% v/s the current high of 25.9% and overall double-digit EBITDA growth, could be challenging. Yet we factor in an improvement in margin from the curbing of losses in the Incubation business and a favorable Data mix, building in 15% EBITDA CAGR over FY22-24E.
- Operating leverage below EBITDA should drive healthy PAT growth. The strong improvement in earnings in the last two years, but no increase in capex has led to healthy FCF and a deleveraging opportunity, which could provide a 5-7% upside.
- Deal wins and a deal-to-revenue conversion will be the key monitorables going forward to achieve double-digit earnings growth.
- We maintain our **Neutral** rating with a TP of INR1,450/share (assigned 9x/3x EBITDA to the Data/Voice business).

## Consolidated quarterly earnings model

(INR m)

Y/E March	FY21				FY22				FY21	FY22E	FY22E	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
<b>Revenue</b>	<b>44,029</b>	<b>44,011</b>	<b>42,228</b>	<b>40,733</b>	<b>41,028</b>	<b>41,740</b>	<b>41,849</b>	<b>43,059</b>	<b>1,71,001</b>	<b>1,67,676</b>	<b>42,796</b>	-2
YoY change (%)	5.6	3.0	-0.1	-7.4	-6.8	-5.2	-0.9	5.7	0.2	-1.9	1.3	
Total expenditure	33,612	32,436	31,767	30,581	31,167	30,612	31,024	31,632	1,28,395	1,24,434	31,203	-1
<b>EBITDA</b>	<b>10,418</b>	<b>11,575</b>	<b>10,461</b>	<b>10,152</b>	<b>9,861</b>	<b>11,129</b>	<b>10,825</b>	<b>11,427</b>	<b>42,606</b>	<b>43,241</b>	<b>11,593</b>	-7
YoY change (%)	26.2	38.8	37.5	16.8	-5.3	-3.9	3.5	12.6	29.5	1.5	10.8	
Depreciation	5,899	5,719	5,570	5,950	5,318	5,416	5,425	5,276	23,139	21,435	5,357	1
Interest	1,163	1,064	1,044	931	962	908	835	805	4,202	3,509	905	-8
Other income	147	761	82	577	134	364	188	300	1,568	986	250	-25
<b>PBT before EO expense</b>	<b>3,503</b>	<b>5,553</b>	<b>3,929</b>	<b>3,848</b>	<b>3,714</b>	<b>5,169</b>	<b>4,754</b>	<b>5,646</b>	<b>16,833</b>	<b>19,283</b>	<b>5,580</b>	-15
Exceptional (gain)/loss	105	540	114	-12	-56	-127	-85	0	747	-269	0	
<b>PBT</b>	<b>3,398</b>	<b>5,013</b>	<b>3,815</b>	<b>3,859</b>	<b>3,771</b>	<b>5,296</b>	<b>4,839</b>	<b>5,646</b>	<b>16,085</b>	<b>19,552</b>	<b>5,580</b>	-13
Tax	812	1,153	711	872	793	1,038	958	1,421	3,549	4,210	1,404	
Rate (%)	23.9	23.0	18.6	22.6	21.0	19.6	19.8	25.2	22.1	21.5	25.2	
MI and P/L of Asso. Cos.	8	15	12	-5	17	4	-72	81	30	30	-8	
<b>Reported PAT</b>	<b>2,578</b>	<b>3,845</b>	<b>3,092</b>	<b>2,992</b>	<b>2,961</b>	<b>4,254</b>	<b>3,952</b>	<b>4,144</b>	<b>12,505</b>	<b>15,311</b>	<b>4,168</b>	-5
<b>Adjusted PAT</b>	<b>2,683</b>	<b>4,384</b>	<b>3,206</b>	<b>2,980</b>	<b>2,905</b>	<b>4,126</b>	<b>3,867</b>	<b>4,144</b>	<b>13,253</b>	<b>15,043</b>	<b>4,168</b>	-7
YoY change (%)	236.9	632.8	447.6	189.1	8.3	-5.9	20.6	39.0	340.2	13.5	30.0	

## Key performance indicators

Y/E March	FY21				FY22				FY21	FY22E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Revenue mix</b>										
Voice segment (%)	18.2	17.2	16.0	13.7	14.4	14.5	13.2	12.7	16.3	13.7
Data segment (%)	72.1	72.9	74.0	75.8	75.7	75.2	77.3	77.6	73.7	76.5
<b>EBITDA margin</b>										
Voice segment (%)	8.3	6.5	2.8	6.3	4.5	7.6	7.8	9.2	6.1	7.2
Data segment (%)	30.1	33.8	32.1	30.1	30.0	33.4	32.2	32.5	31.5	32.0
EBITDA margin (%)	23.7	26.3	24.8	24.9	24.0	26.7	25.9	26.5	24.9	25.8
EBIT margin (%)	10.3	13.3	11.6	10.3	11.1	13.7	12.9	14.3	11.4	13.0
Adjusted PAT margin (%)	6.1	10.0	7.6	7.3	7.1	9.9	9.2	9.6	7.8	9.0

E: MOFSL estimates

### Segmental highlights

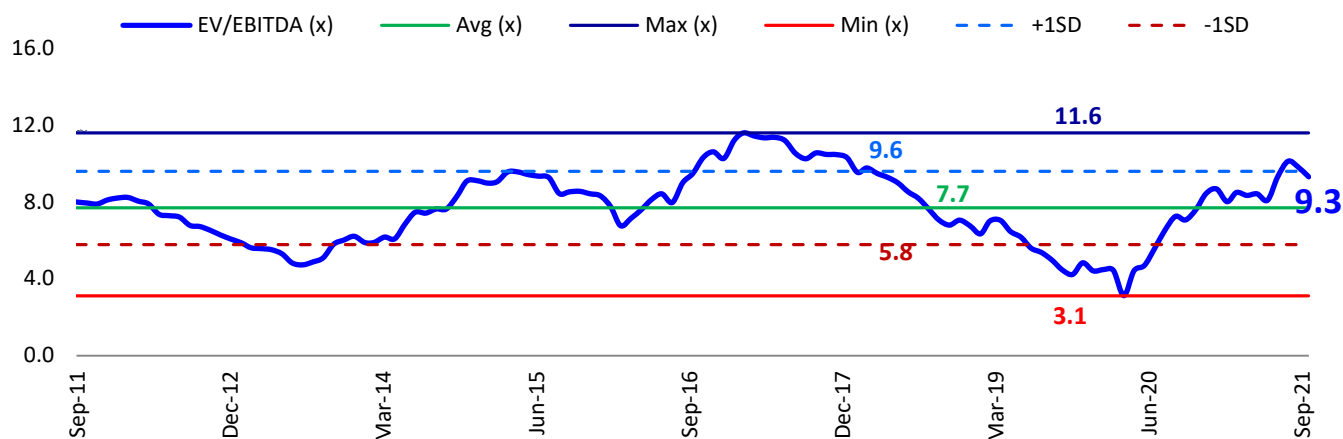
- Data revenue, the key growth driver, rose 3% QoQ to INR32.3b (in line) led by a recovery across all segments. EBITDA declined marginally by 0.8% to INR10.4b, with margin at 32.3%.
- Within Data, core connectivity (contributing 70% of Data business) rose 1.6% QoQ. However, EBITDA declined by 1.5% QoQ to INR10.1b, with a 140bp margin contraction to 44.5%.
- Digital Platform and Services (contributing 11% of total EBITDA) saw a 5.2% growth in revenue to INR9b. However, EBITDA declined by 1.8% to INR1.2b. Except Collaboration, all sub-segments within Digital grew in the 7-20% range sequentially.
- Revenue from Incubation Services rose 26.4% QoQ. Operating loss narrowed by 10% QoQ to INR915m.
- Both Transformation and Payment Solution segments continued to languish. The Transformation segment saw a 6.7% QoQ revenue decline (10% below our estimate) to INR3.1b. Operating loss widened to INR271m. The Payment Solutions segment saw an 11.2% QoQ revenue growth to INR455m, while EBITDA fell 14% QoQ to INR29m. This business continues to remain impacted by the third COVID wave. Average daily transactions in 3Q stood at 57 (v/s 56 in 2QFY22).
- Voice revenue declined by 8.6% QoQ to INR5.5b, while EBITDA (contributing 4% of total EBITDA) fell 6.2% to INR430m.
- Rental revenue/EBITDA witnessed a sequential decline of 20.3%/31.1% to INR415m/INR248m in 3QFY22.

#### Exhibit 1: Valuation based on FY24E EBITDA - India business

Particulars	FY24E
EBITDA (INR m)	56,273
multiple (x)	8.7
Voice EBITDA (INR m)	1,557
multiple (x)	3
Data EBITDA (INR m)	54,716
multiple (x)	9
Enterprise Value (INR m)	4,92,191
Net debt (INR m)	79,010
Equity value (INR m)	4,13,181
No. of shares (m)	285
Equity value/share (INR)	1,450
Fair value (INR)	1,625
CMP (INR)	1450
Upside/(Downside)	0.0%

Source: MOFSL, Company

Exhibit 2: One-year forward EV/EBITDA



Source: MOFSL, Company



## Key takeaways from the management call

### Key highlights

- Its order book saw sluggish growth in 3QFY22 on slower large deal closures, semiconductor shortage, and talent attrition.
- Stable capex guidance of USD250m, improvement in DSO days, and continued positive operating free cash flow generation will keep net debt-to-EBITDA ratio below 2x.
- TCOM posted a higher EBITDA margin in 3QFY22 as compared to the management's guidance of 23-25%. The same is expected to normalize as it plans to recruit over 1,000 employees to support its sales growth.

### Detailed notes

#### Deals and collaborations:

- Large deal closures remain slow as various enterprises are resetting from the COVID-19 pandemic and expansion plans have been put on hold.
- TCOM is witnessing supply-chain management issues on account of the global semiconductor shortage.
- 3Q has been a normal quarter in terms of deal wins (v/s strong deal traction in 2QFY22) as some deals have been pushed to subsequent quarters. However, the funnel size remains stable with larger deals and an improvement in win rates.
- The management plans to focus more on fixed committed recovery deals as against usage-based deals.
- It has entered into an agreement with a Specialty Chemical company to offer Cloud-based IoT applications.
- TCOM has bagged a deal from a local municipality in Saudi Arabia for development of a Smart City. It plans to serve as a one-stop shop for IoT hardware and support the transformation.

#### Business performance:

- Revenue growth was on the back of new wins and better churn management.
- Normalizing for one-off benefits of INR500m in 2Q, EBITDA grew 1.8% QoQ, with a 50bp improvement in margin in 3QFY22. The higher margin in 3QFY22 was due to lower staffing cost, but the same will rise further as hiring resumes.

- The Data business continues to recover and grow sequentially, despite macro headwinds and 3QFY22 being a seasonally weak quarter.
- The Core Connectivity segment witnessed stable growth (+1.6% QoQ), despite bandwidth rationalization due to the resumption of offices.
- Digital Platform and Services: Except Collaboration, all sub-segments within Digital grew in the 7-20% range sequentially.
- The Media business grew 18.4% QoQ and 21.8% YoY with the resumption of sporting events globally.
- The Incubation business is making huge strides with strong opportunities in the IoT and MOVE segment. TCOM is witnessing an uptick in usage from the Auto segment and some deals in the IoT segment. The management expects the segment to turn profitable once the business picks up.
- The Payment/ATM business was affected by the pandemic and flooding in some states where it has a prominent presence. This segment is expected to gain from higher pricing by RBI and a focus on franchisee instead of the owned model.
- The Next Gen Transformation segment grew 9.6% sequentially, led by ISO VAN and ST WAN. The management sees a huge potential in this segment on the back of demand from migration to the Cloud.
- The Microsoft Teams Solutions segment clocked a healthy growth (over 100%) in revenue. The majority of the growth in this segment accrues from fixed revenue and TCOM does not benefit from usage-based growth.

**Strong Balance Sheet:**

- Net debt fell INR5.7b QoQ on a better working capital mix and robust operating free cash flow generation. Net debt-to-EBITDA ratio stood at 1.7x in 3QFY22.
- DSO days reduced to 51 in 3Q from 56 in 2QFY22. The management aims to maintain these working capital levels. Similarly, PDD fell due to good collections.

**Business outlook:**

- Capex stood at INR4b in 3QFY22 v/s INR3.4b in 3QFY21. Cash capex remained lower in 4QFY22 on account of slower project execution. The management maintained its capex guidance of USD250m as some investments would be undertaken towards renewal of some sub-sea cables.
- It continues to maintain its target of maintaining net debt-to-EBITDA ratio below 2x. Healthy cash generation, improved working capital, and stable capex guidance are expected to keep leverage under check.
- The company rolled out more than 800 offers in 3QFY22. It aims to recruit over 1,000 employees to improve its sales.
- The management said it will continue to explore acquisition opportunities and invest in growth without compromising on return ratios.

**Exhibit 3: Quarterly performance**

	3QFY21	2QFY22	3QFY22	YoY (%)	QoQ (%)	3QFY22E	Var. (%)
<b>Revenue</b>	<b>42,228</b>	<b>41,740</b>	<b>41,849</b>	<b>-0.9</b>	<b>0.3</b>	<b>42,796</b>	<b>-2.2</b>
Operating Expenses	31,767	30,612	31,024	-2.3	1.3	31,203	-0.6
<b>EBITDA</b>	<b>10,461</b>	<b>11,129</b>	<b>10,825</b>	<b>3.5</b>	<b>-2.7</b>	<b>11,593</b>	<b>-6.6</b>
<b>EBITDA Margin (%)</b>	<b>24.8%</b>	<b>26.7%</b>	<b>25.9%</b>	<b>109bp</b>	<b>-79bp</b>	<b>27.1%</b>	<b>-122bp</b>
Depreciation	5,570	5,416	5,425	-2.6	0.2	5,357	1.3
Interest	1,044	908	835	-20.1	-8.1	905	-7.8
Other Income	82	364	188	128.7	-48.4	250	-24.7
Exceptional Items	114	-127	-85	-174.3	-33.4	0	NM
<b>PBT</b>	<b>3,815</b>	<b>5,296</b>	<b>4,839</b>	<b>26.8</b>	<b>-8.6</b>	<b>5,580</b>	<b>-13.3</b>
Tax	711	1,038	958	34.7	-7.7	1,404	-31.8
Effective Tax Rate (%)	18.6%	19.6%	19.8%			25.2%	
<b>PAT</b>	<b>3,104</b>	<b>4,258</b>	<b>3,881</b>	<b>25.0</b>	<b>-8.9</b>	<b>4,175</b>	<b>-7.1</b>
MI and P/L in Associates	-12	-4	72	-696.7	-1765.1	-8	
<b>PAT after Minority</b>	<b>3092</b>	<b>4254</b>	<b>3,952</b>	<b>27.8</b>	<b>-7.1</b>	<b>4,168</b>	<b>-5.2</b>
<b>Adjusted PAT</b>	<b>3206</b>	<b>4126</b>	<b>3,867</b>	<b>21</b>	<b>-6</b>	<b>4,168</b>	<b>-7.2</b>

Source: MOFSL, Company

**Exhibit 4: Detailed segmental quarterly performance**

Particulars	3QFY21	2QFY22	3QFY22	YoY (%)	QoQ (%)	3QFY22E	Var. (%)
<b>Total revenue</b>	<b>42,228</b>	<b>41,740</b>	<b>41,849</b>	<b>-0.9</b>	<b>0.3</b>	<b>42,796</b>	<b>-2.2</b>
<b>Voice segment</b>	<b>6,743</b>	<b>6,060</b>	<b>5,542</b>	<b>-17.8</b>	<b>-8.6</b>	<b>5,884</b>	<b>-5.8</b>
<b>Data segment</b>	<b>31,263</b>	<b>31,399</b>	<b>32,330</b>	<b>3.4</b>	<b>3.0</b>	<b>32,452</b>	<b>-0.4</b>
Core Connectivity*	22,880	22,408	22,777	-0.5	1.6	22,968	-0.8
Digital Platform and Services*	8,440	8,563	9,012	6.8	5.2	8,991	0.2
Incubation*	324	429	542	67.0	26.4	493	9.9
<b>Others</b>							
Transformation Service*	3,216	3,352	3,127	-2.8	-6.7	3,486	-10.3
Tata Payment Solutions*	591	409	435	-26.4	6.4	455	-4.2
Rental	415	520	415	-0.1	-20.3	520	-20.3
<b>EBITDA</b>	<b>10,461</b>	<b>11,129</b>	<b>10,825</b>	<b>3.5</b>	<b>-2.7</b>	<b>11,593</b>	<b>-6.6</b>
<b>Voice segment</b>	<b>192</b>	<b>459</b>	<b>430</b>	<b>124.4</b>	<b>-6.2</b>	<b>439</b>	<b>-2.1</b>
<b>Data segment</b>	<b>10,043</b>	<b>10,491</b>	<b>10,408</b>	<b>3.6</b>	<b>-0.8</b>	<b>10,756</b>	<b>-3.2</b>
Core Connectivity	9,810	10,287	10,129	3.2	-1.5	10,330	-1.9
Margin (%)	42.9	45.9	44.5	159bp	-144bp	45.0	-51bp
Digital Platform and Services	1,188	1,215	1,194	0.4	-1.8	1,366	-12.6
Margin (%)	14.1	14.2	13.2	-83bp	-94bp	15	-194bp
Incubation	(1,020)	(1,011)	(915)	-10.3	-9.6	(940)	-2.7
Margin (%)	NM	NM	NM	NM	NM	NM	NM
Transformation Service	(90)	(215)	(271)	202.3	26.1	-41	559.0
Margin (%)	(3)	(6)	-8.7	-588bp	-225bp	-1	-748bp
Tata Payment Solutions	51	34	10	-80.8	-71.2	55	-82.2
Margin (%)	9	8	2.2	-636bp	-605bp	12.1	-983bp
Rental	265	360	248	-6.6	-31.1	359.7	-31.1
Margin (%)	64.0	69.2	59.8	-417bp	-938bp	69.2	-938bp

Source: MOFSL, Company

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

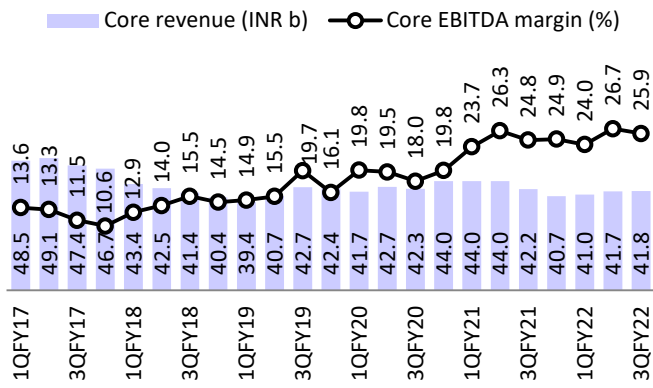
	FY22E	FY23E	FY24E
<b>Global Voice revenue (INR b)</b>			
Old	23.5	21.2	18.9
Actual/New	23.0	20.4	18.1
Change (%)	<b>-2.4</b>	<b>-4.0</b>	<b>-4.0</b>
<b>Global Data revenue (INR b)</b>			
Old	128.4	142.0	157.7
Actual/New	128.2	144.4	162.6
Change (%)	<b>-0.2</b>	<b>1.7</b>	<b>3.1</b>
<b>Core revenue (INR b)</b>			
Old	152.0	183.4	199.6
Actual/New	151.2	182.9	201.4
Change (%)	<b>-0.5</b>	<b>-0.3</b>	<b>0.9</b>
<b>Core EBITDA (INR b)</b>			
Old	44.6	51.2	57.4
Actual/New	43.2	50.2	57.3
Change (%)	<b>-3</b>	<b>-2</b>	<b>0</b>
<b>Voice EBITDA (INR b)</b>			
Old	1.6	1.5	1.3
Actual/New	1.7	1.8	1.6
Change (%)	<b>4.8</b>	<b>21.1</b>	<b>22.6</b>
<b>Data EBITDA (INR b)</b>			
Old	41.8	47.7	53.8
Actual/New	41.1	47.8	54.7
Change (%)	<b>-1.6</b>	<b>0.1</b>	<b>1.7</b>
<b>Core EBITDA margin (%)</b>			
Old	29.4	27.9	28.8
Actual/New	28.6	27.5	28.5
Change (%)	<b>-75bp</b>	<b>-43bp</b>	<b>-31bp</b>
<b>PAT (INR m)</b>			
Old	15.9	19.6	24.5
Actual/New	15.3	19.4	25.1
Change (%)	<b>-3.7</b>	<b>-1.2</b>	<b>2.8</b>
<b>EPS (INR)</b>			
Old	55.8	68.8	85.8
Actual/New	53.7	68.0	88.2
Change (%)	<b>-3.7</b>	<b>-1.2</b>	<b>2.8</b>

Source: MOFSL, Company



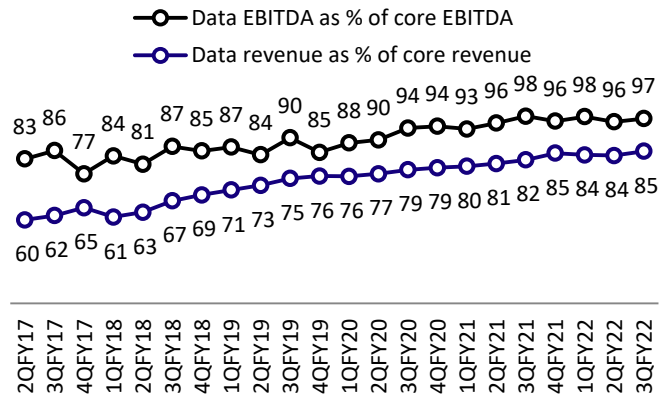
Story in charts

Exhibit 6: Core EBITDA margin at 25.9%



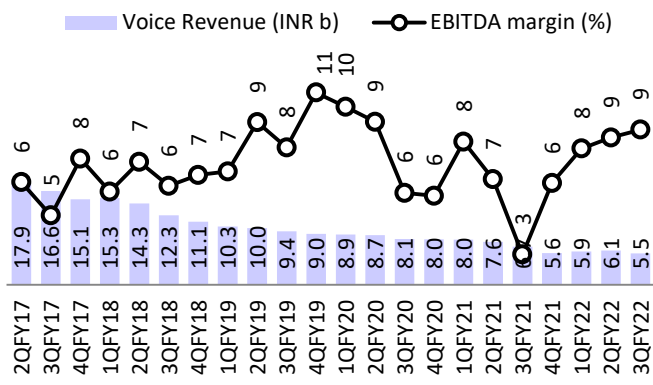
Source: MOFSL, Company

Exhibit 7: Revenue and EBITDA contribution from the Data business



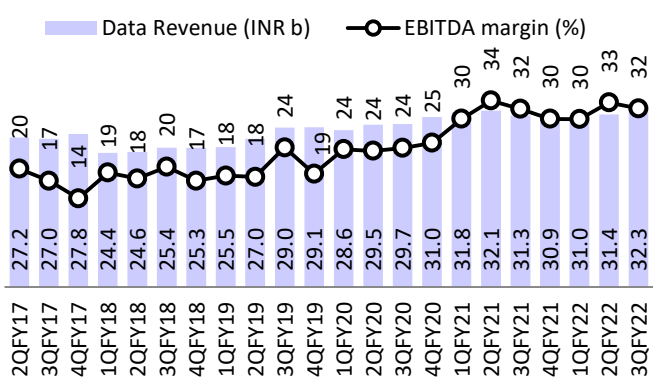
Source: MOFSL, Company

Exhibit 8: Voice revenue declines QoQ (INR b)



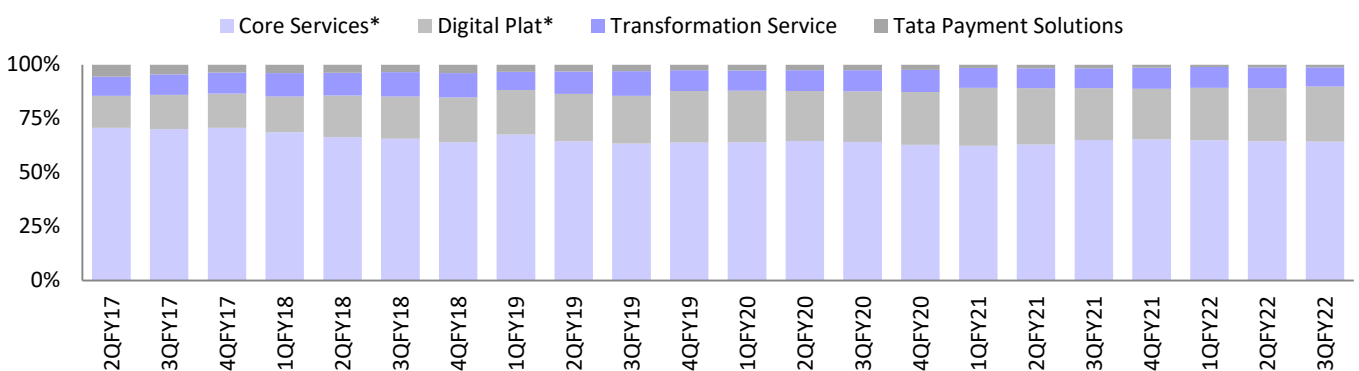
Source: MOFSL, Company

Exhibit 9: Data revenue up 3% QoQ



Source: MOFSL, Company

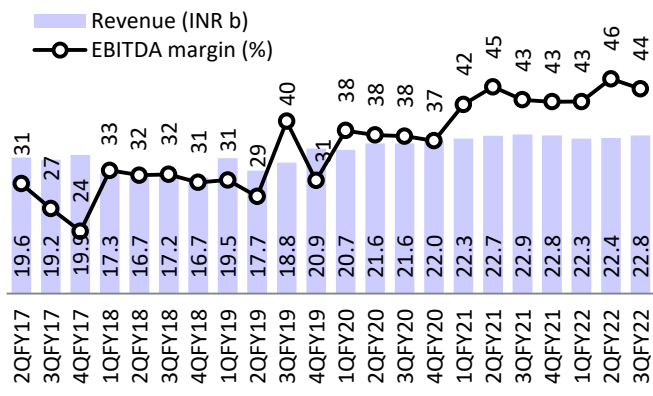
Exhibit 10: Revenue contribution from segments in 3QFY22 (%)



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

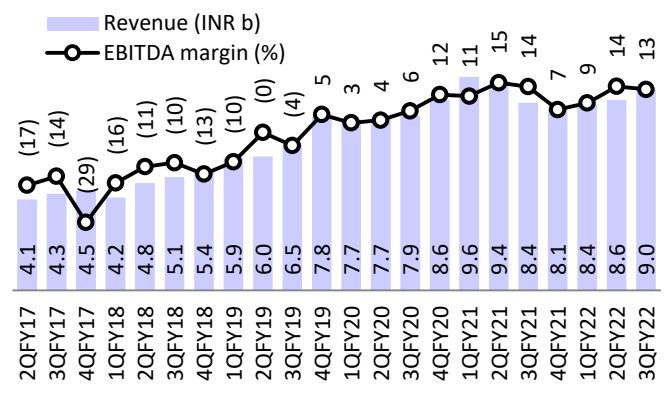


**Exhibit 11: Core Services (Traditional business) – revenue/EBITDA margin trend**



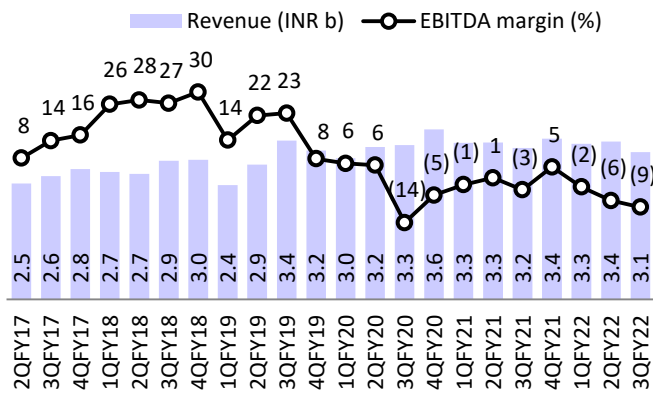
Source: MOFSL, Company

**Exhibit 12: Digital Platform and Services (growth business)**



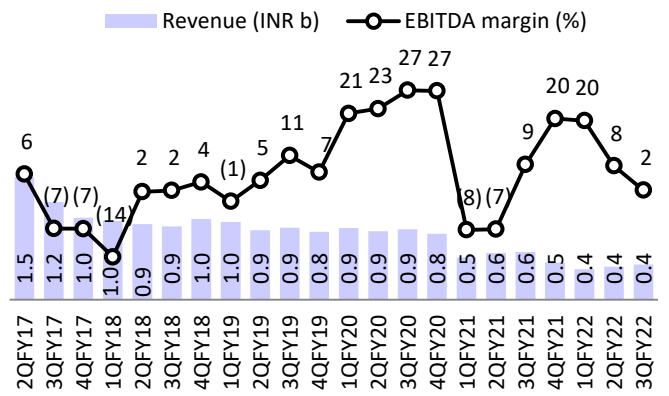
Source: MOFSL, Company

**Exhibit 13: Transformation business**



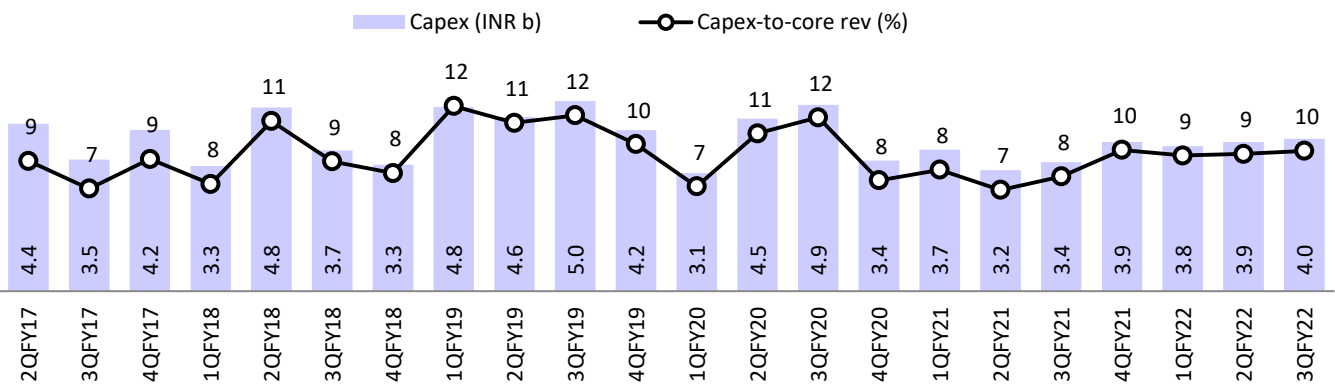
Source: MOFSL, Company

**Exhibit 14: Payment Solutions business**



Source: MOFSL, Company

**Exhibit 15: Quarterly capex trend**



Source: MOFSL, Company

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

	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Revenue segments</b>							
Voice	67,581	53,113	38,703	33,762	27,908	22,978	20,392
<i>Growth</i>	-16.1%	-21.4%	-27.1%	-12.8%	-17.3%	-17.7%	-11.3%
<i>as a percentage of core revenue</i>	35.2%	31.7%	23.4%	19.8%	16.3%	13.7%	11.2%
Data	1,08,619	99,746	1,10,566	1,18,752	1,25,993	1,28,206	1,44,395
<i>Growth</i>	2.5%	-8.2%	10.8%	7.4%	6.1%	1.8%	12.6%
<i>as a percentage of core revenue</i>	56.6%	59.5%	66.9%	69.6%	73.7%	76.5%	79.0%
Core revenue	1,91,751	1,67,717	1,65,249	1,70,680	1,71,001	1,67,676	1,82,856
<i>Growth</i>	-4.4%	-12.5%	-1.5%	3.3%	0.2%	-1.9%	9.1%
Non-core revenue (Neotel)	12,562	0	0	0	0	0	0
Total	2,04,313	1,67,717	1,65,249	1,70,680	1,71,001	1,67,676	1,82,856
<b>EBITDA segments</b>							
Voice	4,140	3,465	3,359	2,634	1,703	1,658	1,832
<i>Margin</i>	6.1%	6.5%	8.7%	7.8%	6.1%	7.2%	9.0%
<i>Growth</i>	-16.6%	-16.3%	-3.1%	-21.6%	-35.3%	-2.6%	10.5%
<i>as a percentage of core EBITDA</i>	16.6%	13.9%	12.2%	8.0%	4.0%	3.8%	3.6%
Data	19,459	18,568	22,085	28,709	39,728	41,085	47,804
<i>Margin</i>	17.9%	18.6%	20.0%	24.2%	31.5%	32.0%	33.1%
<i>Growth</i>	-12.5%	-4.6%	18.9%	30.0%	38.4%	3.4%	16.4%
<i>as a percentage of core EBITDA</i>	78.0%	74.7%	80.5%	87.3%	93.2%	95.0%	95.2%
Core EBITDA	24,945	24,862	27,449	32,889	42,606	43,242	50,228
<i>Margin</i>	13.0%	14.8%	16.6%	19.3%	24.9%	25.8%	27.5%
<i>Growth</i>	-38.0%	-0.3%	10.4%	19.8%	29.5%	1.5%	16.2%

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

## Financials and valuations

Consolidated Income Statement										(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Total Income from Operations</b>	<b>1,99,090</b>	<b>1,81,486</b>	<b>1,76,197</b>	<b>1,67,717</b>	<b>1,65,250</b>	<b>1,70,680</b>	<b>1,71,001</b>	<b>1,67,676</b>	<b>1,82,856</b>	<b>2,01,411</b>
Change (%)	1.5	-8.8	-2.9	-4.8	-1.5	3.3	0.2	-1.9	9.1	10.1
Network Cost	1,05,543	96,724	88,119	79,032	71,620	67,776	63,333	62,285	66,816	74,281
Staff Cost	27,948	27,396	28,394	29,775	29,597	30,391	30,491	30,184	30,680	32,081
Operating and Other Expense	35,702	32,949	35,625	34,787	36,584	39,623	34,572	31,966	35,132	37,730
<b>Total Expenditure</b>	<b>1,69,193</b>	<b>1,57,069</b>	<b>1,52,138</b>	<b>1,43,595</b>	<b>1,37,801</b>	<b>1,37,790</b>	<b>1,28,395</b>	<b>1,24,434</b>	<b>1,32,628</b>	<b>1,44,092</b>
As a percentage of Sales	85.0	86.5	86.3	85.6	83.4	80.7	75.1	74.2	72.5	71.5
<b>EBITDA</b>	<b>29,897</b>	<b>24,417</b>	<b>24,059</b>	<b>24,122</b>	<b>27,449</b>	<b>32,890</b>	<b>42,606</b>	<b>43,241</b>	<b>50,228</b>	<b>57,319</b>
Margin (%)	15.0	13.5	13.7	14.4	16.6	19.3	24.9	25.8	27.5	28.5
Depreciation	21,611	18,643	18,658	19,063	20,676	23,577	23,139	21,435	22,648	23,720
<b>EBIT</b>	<b>8,286</b>	<b>5,774</b>	<b>5,401</b>	<b>5,059</b>	<b>6,773</b>	<b>9,312</b>	<b>19,467</b>	<b>21,807</b>	<b>27,580</b>	<b>33,599</b>
Int. and Finance Charges	7,508	4,091	3,672	3,445	3,966	4,707	4,202	3,509	2,924	2,454
Other Income	4,008	3,966	3,603	2,597	603	697	1,568	986	1,282	2,438
<b>PBT bef. EO Exp.</b>	<b>4,786</b>	<b>5,650</b>	<b>5,332</b>	<b>4,211</b>	<b>3,410</b>	<b>5,302</b>	<b>16,833</b>	<b>19,283</b>	<b>25,938</b>	<b>33,582</b>
EO Items	-1,052	-1,028	-10,633	-3,755	22	-3,905	-747	269	0	0
<b>PBT after EO Exp.</b>	<b>3,734</b>	<b>4,622</b>	<b>-5,301</b>	<b>456</b>	<b>3,432</b>	<b>1,397</b>	<b>16,085</b>	<b>19,552</b>	<b>25,938</b>	<b>33,582</b>
Total Tax	3,705	2,329	2,364	3,549	2,733	2,267	3,549	4,210	6,529	8,409
Tax Rate (%)	99.2	50.4	-44.6	778.2	79.6	162.3	22.1	21.5	25.2	25.0
Minority Interest	17	18	-25	193	1,523	-11	30	30	30	30
<b>Reported PAT</b>	<b>13</b>	<b>2,276</b>	<b>-7,640</b>	<b>-3,286</b>	<b>-824</b>	<b>-860</b>	<b>12,506</b>	<b>15,312</b>	<b>19,379</b>	<b>25,143</b>
<b>Adjusted PAT</b>	<b>3,027</b>	<b>973</b>	<b>3,016</b>	<b>331</b>	<b>-624</b>	<b>3,011</b>	<b>13,253</b>	<b>15,101</b>	<b>19,379</b>	<b>25,143</b>
Change (%)	-43.2	-67.9	210.0	-89.0	-288.6	-582.2	340.2	13.9	28.3	29.7
Margin (%)	1.5	0.5	1.7	0.2	-0.4	1.8	7.8	9.0	10.6	12.5

Consolidated Balance Sheet										(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	2,850	2,850	2,850	2,850	2,850	2,850	2,850	2,850	2,850	2,850
Total Reserves	365	-6,484	13,069	2,143	-4,668	-15,634	-1,695	13,616	32,995	58,139
<b>Net Worth</b>	<b>3,215</b>	<b>-3,634</b>	<b>15,919</b>	<b>4,993</b>	<b>-1,818</b>	<b>-12,784</b>	<b>1,155</b>	<b>16,466</b>	<b>35,845</b>	<b>60,989</b>
Minority Interest	59	69	184	45	58	48	282	282	282	282
Total Loans	1,30,757	1,51,181	99,516	95,395	1,06,844	81,575	98,011	80,660	68,660	56,660
Lease liabilities						39,938	14,351	14,351	14,351	14,351
Deferred Tax Liabilities	-2,015	-1,072	71	-477	-887	-2,495	-2,824	-2,824	-2,824	-2,824
<b>Capital Employed</b>	<b>1,32,015</b>	<b>1,46,545</b>	<b>1,15,690</b>	<b>99,956</b>	<b>1,04,196</b>	<b>1,06,282</b>	<b>1,10,975</b>	<b>1,08,936</b>	<b>1,16,315</b>	<b>1,29,458</b>
Gross Block	2,99,608	3,08,467	2,70,923	2,88,666	1,16,569	1,29,126	1,51,316	1,67,046	1,83,046	1,99,046
Less: Accum. Deprn.	1,56,419	1,67,208	1,61,638	1,80,701	5,006	28,583	51,722	73,156	95,805	1,19,525
<b>Net Fixed Assets</b>	<b>1,43,190</b>	<b>1,41,259</b>	<b>1,09,285</b>	<b>1,07,965</b>	<b>1,11,563</b>	<b>1,00,543</b>	<b>99,594</b>	<b>93,889</b>	<b>87,241</b>	<b>79,521</b>
Right to use assets						15,956	13,337	13,337	13,337	13,337
Goodwill on Consolidation	3,848	3,246	0	0	863	918	1,103	1,103	1,103	1,103
Capital WIP	6,383	7,998	7,509	5,203	4,082	4,466	6,091	6,091	6,091	6,091
<b>Total Investments</b>	<b>17,675</b>	<b>18,306</b>	<b>24,340</b>	<b>12,502</b>	<b>14,913</b>	<b>15,631</b>	<b>22,334</b>	<b>22,334</b>	<b>22,334</b>	<b>22,334</b>
<b>Curr. Assets, Loans, and Adv.</b>	<b>68,841</b>	<b>79,095</b>	<b>69,199</b>	<b>69,425</b>	<b>67,205</b>	<b>72,016</b>	<b>67,773</b>	<b>64,059</b>	<b>78,388</b>	<b>1,03,088</b>
Inventory	264	254	192	270	766	730	344	527	574	633
Account Receivables	24,870	30,189	25,900	28,912	29,685	32,289	26,077	27,563	30,059	33,109
Cash and Bank Balance	16,212	19,763	10,793	12,956	8,521	9,091	9,271	3,177	14,007	34,429
Loans and Advances	27,495	28,889	32,313	27,288	28,234	29,906	32,081	32,792	33,748	34,917
<b>Curr. Liability and Prov.</b>	<b>1,07,922</b>	<b>1,03,359</b>	<b>94,643</b>	<b>95,139</b>	<b>94,429</b>	<b>1,03,248</b>	<b>99,257</b>	<b>91,877</b>	<b>92,180</b>	<b>96,015</b>
Account Payables	36,697	35,764	35,814	34,716	36,885	38,450	32,395	31,698	30,059	30,350
Other Current Liabilities	61,538	61,748	53,142	54,759	51,527	57,252	59,981	56,045	57,612	60,699
Provisions	9,687	5,847	5,687	5,664	6,016	7,546	6,881	4,134	4,509	4,966
<b>Net Current Assets</b>	<b>-39,081</b>	<b>-24,264</b>	<b>-25,444</b>	<b>-25,714</b>	<b>-27,224</b>	<b>-31,232</b>	<b>-31,484</b>	<b>-27,819</b>	<b>-13,791</b>	<b>7,073</b>
<b>Appl. of Funds</b>	<b>1,32,015</b>	<b>1,46,545</b>	<b>1,15,690</b>	<b>99,956</b>	<b>1,04,196</b>	<b>1,06,282</b>	<b>1,10,975</b>	<b>1,08,936</b>	<b>1,16,315</b>	<b>1,29,458</b>

E: MOFSL estimates

## Financials and valuations

### Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Basic (INR)</b>										
<b>EPS</b>	<b>10.6</b>	<b>3.4</b>	<b>10.6</b>	<b>1.2</b>	<b>-2.2</b>	<b>10.6</b>	<b>46.5</b>	<b>53.0</b>	<b>68.0</b>	<b>88.2</b>
Cash EPS	86.4	68.8	76.0	68.0	70.4	93.3	127.7	128.2	147.5	171.5
BV/Share	11.3	-12.7	55.9	17.5	-6.4	-44.9	4.1	57.8	125.8	214.0
DPS	5.5	4.3	6.0	4.5	4.5	4.0	4.0	4.0	4.0	4.0
Payout (%)	13,711.6	64.2	-25.0	-45.4	-181.0	-154.2	10.6	8.7	6.8	5.3
<b>Valuation (x)</b>										
P/E	136.5	424.7	137.0	1,248.1	-661.8	137.2	31.2	27.4	21.3	16.4
Cash P/E	16.8	21.1	19.1	21.3	20.6	15.5	11.4	11.3	9.8	8.5
P/BV	128.6	-113.7	26.0	82.8	-227.3	-32.3	357.9	25.1	11.5	6.8
EV/Sales	2.7	3.0	2.8	3.0	3.1	2.8	2.9	2.9	2.6	2.2
EV/EBITDA	17.7	22.3	20.9	20.5	18.6	14.8	11.8	11.3	9.3	7.6
Dividend Yield (%)	0.4	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
FCF per share	44.1	11.7	21.0	-8.4	-27.1	36.5	64.5	48.5	86.0	113.9
<b>Return Ratios (%)</b>										
RoE	54.0	-464.6	49.1	3.2	-39.3	-41.2	-227.9	171.4	74.1	51.9
RoCE	0.1	3.4	9.9	3.8	1.5	-7.2	19.5	18.2	21.4	24.3
RoIC	0.1	3.0	9.0	2.1	1.9	-7.5	20.2	22.7	27.3	35.9
<b>Working Capital Ratios</b>										
Fixed Asset Turnover (x)	0.7	0.6	0.7	0.6	1.4	1.3	1.1	1.0	1.0	1.0
Asset Turnover (x)	1.5	1.2	1.5	1.7	1.6	1.6	1.5	1.5	1.6	1.6
Inventory (Days)	0	1	0	1	2	2	1	1	1	1
Debtor (Days)	46	61	54	63	66	69	56	60	60	60
Creditor (Days)	67	72	74	76	81	82	69	69	60	55
<b>Leverage Ratio (x)</b>										
Current Ratio	0.6	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.9	1.1
Interest Coverage Ratio	1.1	1.4	1.5	1.5	1.7	2.0	4.6	6.2	9.4	13.7
Net Debt/Equity	30.1	-31.1	4.0	14.0	-45.9	-4.4	57.5	3.3	0.9	0.0

### Consolidated Cash Flow Statement

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	3,734	2,626	20,188	456	3,432	-848	12,515	19,552	25,938	33,582
Depreciation	21,611	22,194	19,469	19,063	20,676	23,577	23,139	21,435	22,648	23,720
Interest and Finance Charges	6,680	7,151	6,875	3,445	3,966	4,707	4,202	3,509	2,924	2,454
Direct Taxes Paid	-1,120	-4,238	-7,404	-3,549	-2,733	-2,793	-4,964	-4,210	-6,529	-8,409
(Inc.)/Dec. in WC	-1,339	-4,432	-227	2,433	-3,335	-2,513	-5,526	-9,759	-3,197	-442
<b>CF from Operations</b>	<b>29,565</b>	<b>23,301</b>	<b>38,900</b>	<b>21,847</b>	<b>22,005</b>	<b>22,131</b>	<b>29,366</b>	<b>30,527</b>	<b>41,785</b>	<b>50,906</b>
Others	718	326	-14,965	-8,796	-6,577	3,117	2,433	-986	-1,282	-2,438
<b>CF from Operations incl. EO</b>	<b>30,283</b>	<b>23,627</b>	<b>23,935</b>	<b>13,051</b>	<b>15,428</b>	<b>25,248</b>	<b>31,798</b>	<b>29,541</b>	<b>40,502</b>	<b>48,468</b>
(Inc.)/Dec. in FA	-17,713	-20,287	-17,952	-15,437	-23,152	-14,856	-13,428	-15,730	-16,000	-16,000
<b>Free Cash Flow</b>	<b>12,570</b>	<b>3,340</b>	<b>5,983</b>	<b>-2,386</b>	<b>-7,724</b>	<b>10,392</b>	<b>18,371</b>	<b>13,811</b>	<b>24,502</b>	<b>32,468</b>
(Pur.)/Sale of Investments	-1,720	-3,084	7,815	11,838	-2,411	-491	-6,916	0	0	0
Others	2,550	3,409	10,023	2,597	-260	49	298	986	1,282	2,438
<b>CF from Investments</b>	<b>-16,884</b>	<b>-19,963</b>	<b>-114</b>	<b>-1,003</b>	<b>-25,823</b>	<b>-15,298</b>	<b>-20,046</b>	<b>-14,744</b>	<b>-14,718</b>	<b>-13,562</b>
Issue of Shares	0	0	0	0	0	0	0	0	0	0
Inc./(Dec.) in Debt	-5,088	7,602	-28,219	-4,121	11,448	-4,044	-8,381	-17,351	-12,000	-12,000
Interest Paid	-6,285	-5,807	-3,086	-3,445	-3,966	-3,850	-2,515	-3,509	-2,924	-2,454
Dividend Paid	-1,467	-1,873	-1,424	-1,988	0	-1,508	-1,140	0	0	0
Others	-1,043	-34	-62	-332	-1,523	23	463	-30	-30	-30
<b>CF from Fin. Activity</b>	<b>-13,883</b>	<b>-113</b>	<b>-32,791</b>	<b>-9,885</b>	<b>5,960</b>	<b>-9,379</b>	<b>-11,573</b>	<b>-20,891</b>	<b>-14,955</b>	<b>-14,485</b>
<b>Inc./Dec. in Cash</b>	<b>-483</b>	<b>3,551</b>	<b>-8,970</b>	<b>2,163</b>	<b>-4,435</b>	<b>571</b>	<b>180</b>	<b>-6,094</b>	<b>10,830</b>	<b>20,422</b>
Opening Balance	16,695	16,211	19,763	10,793	12,956	8,521	9,091	9,271	3,177	14,007
<b>Closing Balance</b>	<b>16,211</b>	<b>19,763</b>	<b>10,793</b>	<b>12,956</b>	<b>8,521</b>	<b>9,091</b>	<b>9,271</b>	<b>3,177</b>	<b>14,007</b>	<b>34,429</b>

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

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

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