

# Tata Communications

Refer to important disclosures at the end of this report

## Wait continues for double digit revenue growth

- In the analyst meet, TCOM management reiterated its strategy regarding platform transformation with a focus on product innovation, new launches, higher customer wallet share and financial fitness to accelerate topline growth.
- The strategy of 'deeper with fewer' is working well in the India Enterprise segment, which has seen market share gains. New product launches, increasing feet on the street and joint GTM with TCS should help garner share gains in overseas markets too.
- Although the company has achieved its financial fitness targets in the last two years and now has a healthy balance sheet and strong cash-flows, it continues to be noncommittal on the timelines for achieving double-digit revenue growth in the Data segment.
- We have cut FY23-25E EBITDA by 3-8% due to the delay in revenue recovery and lower margins (closer to management's guided range). We cut target multiple for Data segment to 8x (Jun'24E EBITDA) from 10.5x and arrive at a revised SOTP based TP of Rs1,155.

**Key highlights:** Management reiterated its strategy with a focus on: 1) enabling borderless growth; 2) enhancing products and efficiency; 3) building agility; 4) boosting product innovation and customer experience; 5) managing risk. Its strategy of going 'deeper with fewer' has led to the addition of 33 new customers in the million dollar club. The focus remains on 'fit to grow', under which TCOM aims to invest in innovation, infra and manpower capabilities and accelerate growth via M&A (if any). The company has maintained its medium-term RoCE and EBITDAM guidance at 25-30% and 23-25%, respectively. Growth in the India Enterprise segment remains strong, with its market share among larger enterprises rising by 2% to 32.3% in FY22. In the international market, management is focused not only on upgrading products to address specific market needs but also on increasing reach. As the addressable market is very large, the international segment offers huge growth potential.

**Outlook:** In the last two years, although the company has delivered on its financial fitness goals, revenue recovery has seen a delay. Management sounded positive about the improving funnel rate, potential deal conversions, new product launches and increased investments. However, it continued to be noncommittal regarding revenue growth guidance. Although management has reemphasized its double-digit medium-term topline growth guidance for the Data segment, there are no clear timelines. As we have highlighted in our past reports, double-digit revenue growth is essential for sustaining a re-rating. Amid these challenges, the stock saw a 30% correction after Q4FY22 results. We believe the stock will remain range-bound until TCOM is able to achieve sustainable double-digit revenue growth in the Data segment. The only positive is strong FCF generation despite higher capex spends.

**Key Risks:** 1) increased losses in incubation services; 2) inability to close large deals; 3) continued delays in revenue recovery; and 4) higher competitive intensity.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Telecommunications \(Page 10\)](#)

### Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Total Revenue	171,000	167,247	175,850	188,381	203,378
EBITDA	42,607	42,267	42,819	47,135	53,555
EBITDA Margin (%)	24.9	25.3	24.3	25.0	26.3
APAT	13,254	14,758	12,663	15,583	20,303
EPS (Rs)	46.5	51.8	44.4	54.7	71.2
EPS (% chg)	335.2	11.3	(14.2)	23.1	30.3
ROE (%)	(191.5)	383.6	79.3	54.9	52.8
P/E (x)	19.8	17.8	20.7	16.8	12.9
EV/EBITDA (x)	8.1	7.8	7.4	6.5	5.5
P/BV (x)	(2,528.6)	33.7	10.9	8.1	5.9

Source: Company, Emkay Research

<b>CMP</b> Rs 921 as of (June 14, 2022)	<b>Target Price</b> Rs 1,155 (▼) 12 months
<b>Rating</b> BUY (■)	<b>Upside</b> 25.5 %

### Change in Estimates

EPS Chg FY23E/FY24E (%)	(10.2)/(18.9)
Target Price change (%)	(29.9)
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	44.4	54.7
Consensus	53.6	67.3
Mean Consensus TP (12M)	Rs 1,396	

### Stock Details

Bloomberg Code	TCOM IN
Face Value (Rs)	10
Shares outstanding (mn)	285
52 Week H/L	1,592 / 906
M Cap (Rs bn/USD bn)	262 / 3.36
Daily Avg Volume (nos.)	908,508
Daily Avg Turnover (US\$ mn)	13.3

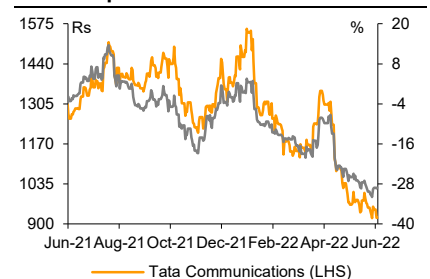
### Shareholding Pattern Mar '22

Promoters	58.9%
FIIIs	19.4%
DIIIs	11.5%
Public and Others	10.3%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	(5)	(20)	(36)	(31)
<b>Rel. to Nifty</b>	(4)	(14)	(30)	(31)

### 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:

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## Estimate changes

With management remaining noncommittal regarding the timelines of double-digit revenue growth in the Data segment, we have cut our FY23-25 revenue assumptions by 2-3%. Earlier, we were assuming double-digit data segment revenue growth from H2FY23. We have trimmed FY23-25E EBITDA margins as well, now estimating closer to the guided range of 23-25%. Prior to this, our margin estimates for the same period were higher than company guidance, after taking into account TCOM's outperformance on the margin front in the last two years. With faster-than-estimated interest rate hikes globally, we have raised finance charges by 1%, leading to a 10-20% reduction in FY23-25E PAT.

### Exhibit 1: Changes in estimates

Particulars (Rs mn)	FY23E			FY24E			FY25E		
	Old	Revised	% Change	Old	Revised	% Change	Old	Revised	% Change
Revenue	179,637	175,850	-2.1%	194,824	188,381	-3.3%	209,697	203,378	-3.0%
EBITDA	44,207	42,819	-3.1%	51,391	47,135	-8.3%	56,073	53,555	-4.5%
EBITDA Margin %	24.6	24.3	-26 bps	26.4	25.0	-136 bps	26.7	26.3	-41 bps
APAT	14,100	12,663	-10.2%	19,213	15,583	-18.9%	22,526	20,303	-9.9%
EPS	49.5	44.4	-10.2%	67.4	54.7	-18.9%	79.0	71.2	-9.9%

Source: Emkay Research

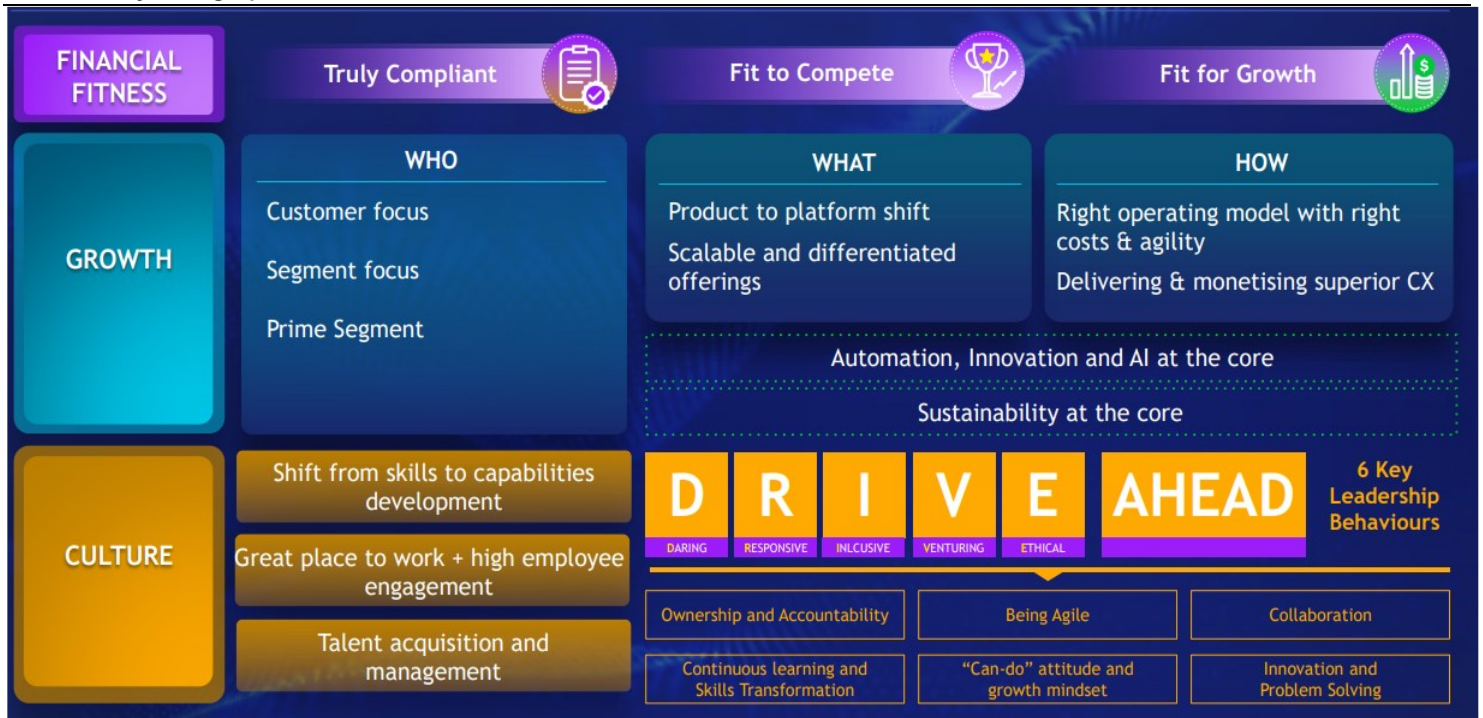
### Exhibit 2: SoTP-based valuation

Particulars	Jun'24
<b>Voice Segment</b>	
EBITDA (Rs mn)	1,077
EV/EBITDA (x)	2.0
<b>Enterprise value (Rs mn)</b>	<b>2,154</b>
<b>Data Segment</b>	
EBITDA (Rs mn)	47,663
EV/EBITDA (x)	8.0
<b>Enterprise value (Rs mn)</b>	<b>381,304</b>
<b>Total Enterprise Value (Rs mn)</b>	<b>383,458</b>
Net debt (Rs mn)	55,700
Implied market cap (Rs mn)	327,759
<b>Value from core business (Rs/share)</b>	<b>1,150</b>
<b>Add: 26% stake in data centre (Rs/share)</b>	<b>63</b>
<b>Less: Potential AGR liability (Rs/share)</b>	<b>56</b>
<b>Target price (Rs/share)</b>	<b>1,155</b>

Source: Emkay Research

# Strategy

Exhibit 3: Key strategic pillars



Source: Company, Emkay Research

Exhibit 4: Customer Shift - Deeper with fewer



Source: Company, Emkay Research

Exhibit 5: Product Shift - Product to Platform



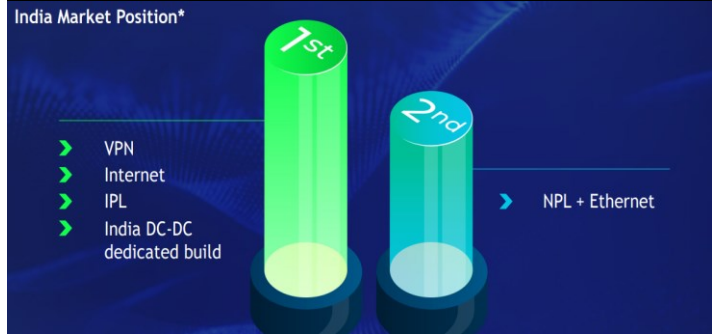
Source: Company, Emkay Research

**Exhibit 6: Financial fitness - Fit to grow**



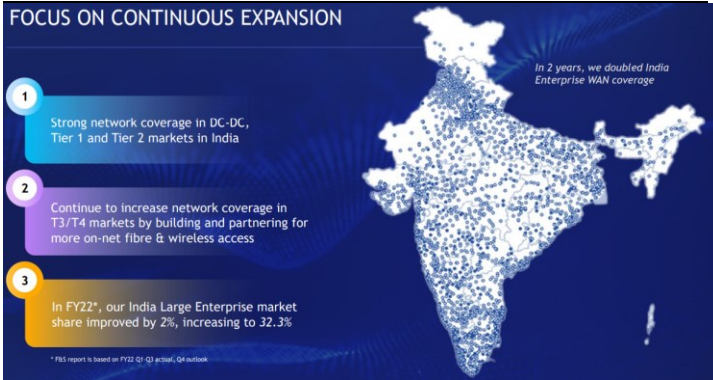
Source: Company, Emkay Research

**Exhibit 7: Strong leadership in India**



Source: Company, Emkay Research

**Exhibit 8: Continuous focus on expansion**



Source: Company, Emkay Research

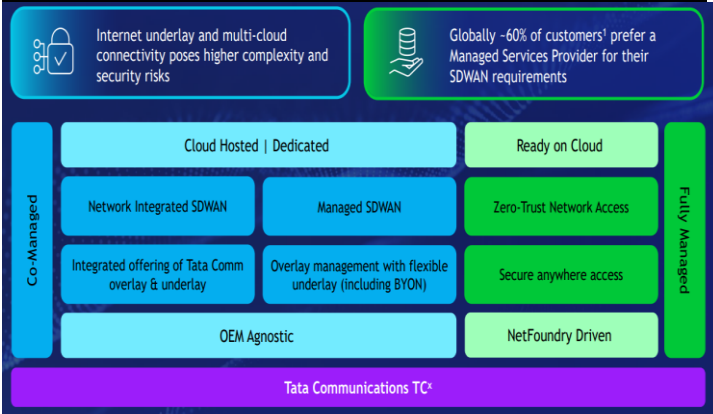
**Exhibit 9: Shift to cloud-first software defined network**



Source: Company, Emkay Research

**Cloud-first strategy**

**Exhibit 10: SD WAN offering**



Source: Company, Emkay Research

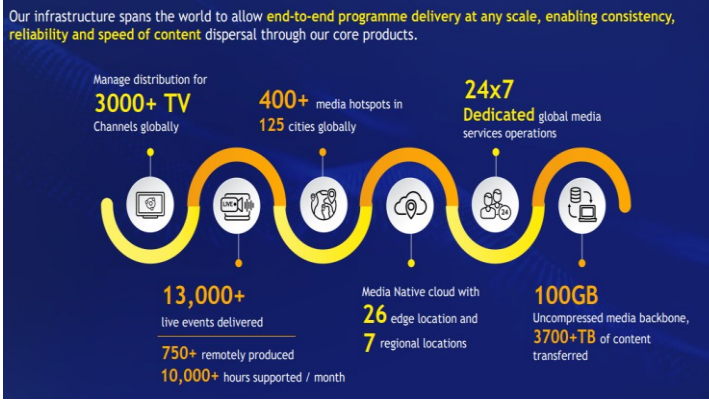
**Exhibit 11: Cloud and cyber security services**



Source: Company, Emkay Research

## Transforming media ecosystem

**Exhibit 12: Major player in the media industry**



Source: Company, Emkay Research

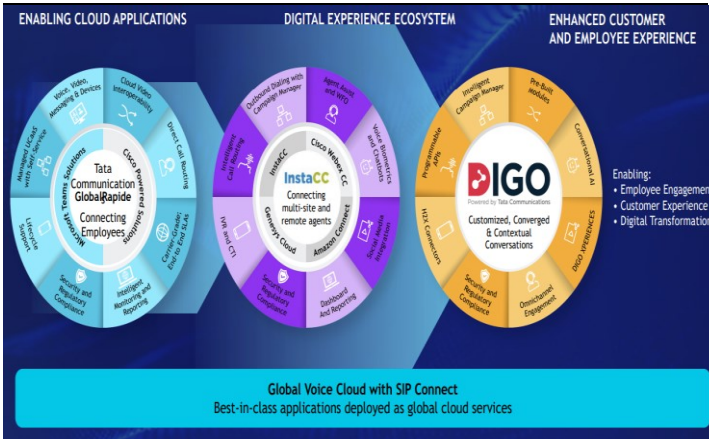
**Exhibit 13: Media opportunity and competitive landscape**



Source: Company, Emkay Research

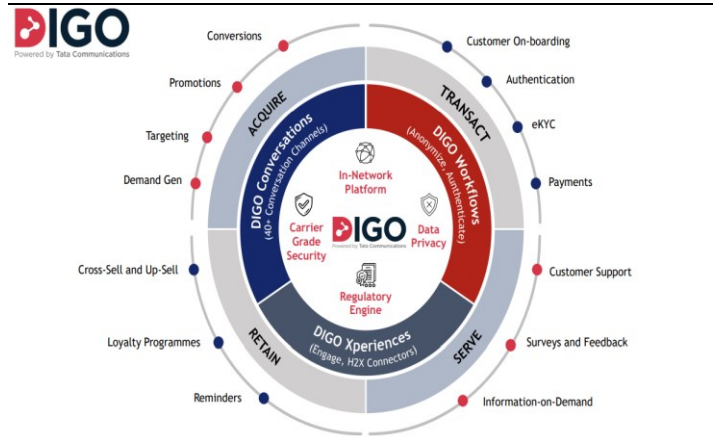
## Collaboration and Connected Solutions

**Exhibit 14: Collaboration solutions- Overview**



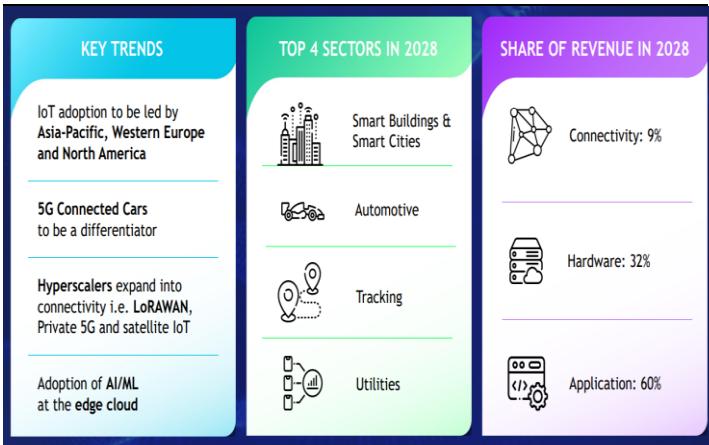
Source: Company, Emkay Research

**Exhibit 15: Digo Contextual conversations**



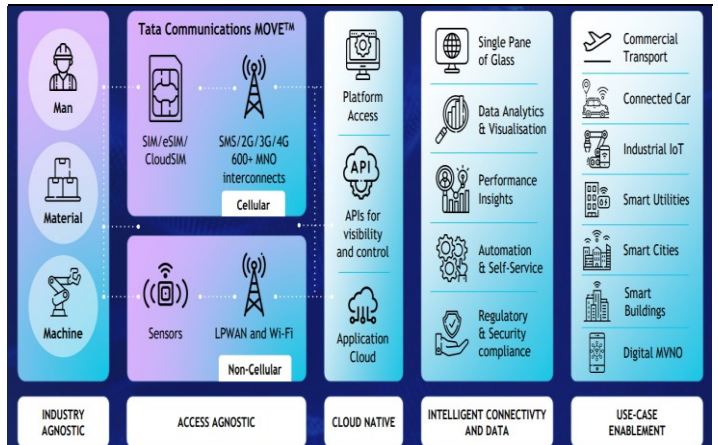
Source: Company, Emkay Research

**Exhibit 16: IoT- Market trends**



Source: Company, Emkay Research

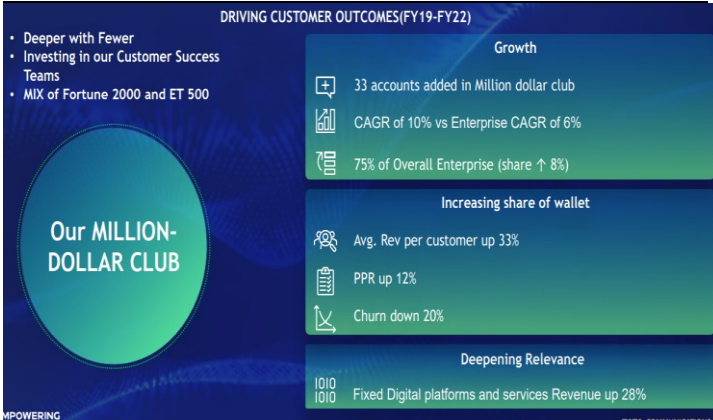
**Exhibit 17: Tata Communications in IoT**



Source: Company, Emkay Research

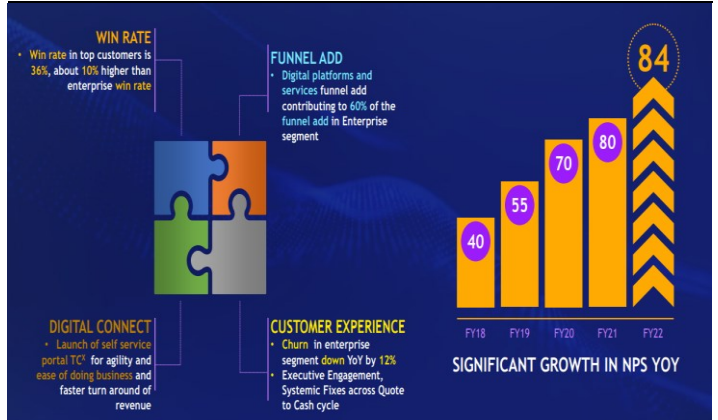
# Sales and Marketing strategy

**Exhibit 18: Strategy in motion**



Source: Company, Emkay Research

**Exhibit 19: Customer intimacy**



Source: Company, Emkay Research

**Exhibit 20: Opportunity in India**



Source: Company, Emkay Research

**Exhibit 21: Growth drivers**



Source: Company, Emkay Research

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

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Total Revenue</b>	<b>171,000</b>	<b>167,247</b>	<b>175,850</b>	<b>188,381</b>	<b>203,378</b>
<b>Expenditure</b>	<b>128,393</b>	<b>124,980</b>	<b>133,031</b>	<b>141,246</b>	<b>149,824</b>
<b>EBITDA</b>	<b>42,607</b>	<b>42,267</b>	<b>42,819</b>	<b>47,135</b>	<b>53,555</b>
Depreciation	23,139	22,061	23,537	24,656	25,582
<b>EBIT</b>	<b>19,468</b>	<b>20,206</b>	<b>19,281</b>	<b>22,479</b>	<b>27,972</b>
Other Income	1,568	3,321	876	1,240	1,526
Interest expenses	4,202	3,603	3,980	3,811	3,561
<b>PBT</b>	<b>16,834</b>	<b>19,924</b>	<b>16,178</b>	<b>19,909</b>	<b>25,938</b>
Tax	3,549	5,221	3,559	4,380	5,706
Extraordinary Items	(747)	60	0	0	0
Minority Int./Income from Assoc.	9	13	11	13	17
<b>Reported Net Income</b>	<b>12,507</b>	<b>14,818</b>	<b>12,663</b>	<b>15,583</b>	<b>20,303</b>
<b>Adjusted PAT</b>	<b>13,254</b>	<b>14,758</b>	<b>12,663</b>	<b>15,583</b>	<b>20,303</b>

**Balance Sheet**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	2,850	2,850	2,850	2,850	2,850
Reserves & surplus	(1,696)	6,425	21,280	29,739	41,492
<b>Net worth</b>	<b>1,154</b>	<b>9,275</b>	<b>24,130</b>	<b>32,589</b>	<b>44,342</b>
<b>Minority Interest</b>	<b>282</b>	<b>285</b>	<b>274</b>	<b>261</b>	<b>243</b>
<b>Loan Funds</b>	<b>113,936</b>	<b>91,215</b>	<b>81,215</b>	<b>76,215</b>	<b>71,215</b>
Net deferred tax liability	(2,824)	(1,868)	(1,868)	(1,868)	(1,868)
<b>Total Liabilities</b>	<b>112,548</b>	<b>98,907</b>	<b>103,752</b>	<b>107,197</b>	<b>113,933</b>
<b>Net block</b>	<b>114,034</b>	<b>109,164</b>	<b>107,626</b>	<b>101,471</b>	<b>95,888</b>
<b>Investment</b>	<b>22,334</b>	<b>15,652</b>	<b>15,652</b>	<b>15,652</b>	<b>15,652</b>
<b>Current Assets</b>	<b>66,469</b>	<b>59,447</b>	<b>67,906</b>	<b>75,980</b>	<b>89,263</b>
Cash & bank balance	9,270	7,436	12,692	16,138	25,099
Other Current Assets	28,420	23,491	22,941	24,576	26,532
<b>Current liabilities &amp; Provision</b>	<b>97,639</b>	<b>95,557</b>	<b>96,156</b>	<b>94,629</b>	<b>95,594</b>
<b>Net current assets</b>	<b>(31,169)</b>	<b>(36,110)</b>	<b>(28,250)</b>	<b>(18,649)</b>	<b>(6,331)</b>
Misc. exp	1,258	1,478	0	0	0
<b>Total Assets</b>	<b>112,548</b>	<b>98,907</b>	<b>103,752</b>	<b>107,197</b>	<b>113,933</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>15,266</b>	<b>16,604</b>	<b>15,302</b>	<b>18,669</b>	<b>24,412</b>
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(7,823)	4,062	(2,604)	(6,154)	(3,358)
<b>Operating Cashflow</b>	<b>27,751</b>	<b>40,724</b>	<b>35,063</b>	<b>34,072</b>	<b>42,511</b>
Capital expenditure	(12,095)	(19,823)	(22,000)	(18,500)	(20,000)
<b>Free Cash Flow</b>	<b>15,656</b>	<b>20,901</b>	<b>13,063</b>	<b>15,572</b>	<b>22,511</b>
Investments	(6,703)	6,681	0	0	0
Other Investing Cash Flow	0	0	0	0	0
<b>Investing Cashflow</b>	<b>(17,230)</b>	<b>(9,820)</b>	<b>(21,124)</b>	<b>(17,260)</b>	<b>(18,474)</b>
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(10,199)	(22,721)	(10,000)	(5,000)	(5,000)
Dividend paid (incl tax)	(1,140)	(3,990)	(6,270)	(7,125)	(8,550)
Other Financing Cash Flow	5,206	(2,425)	11,566	2,571	2,034
<b>Financing Cashflow</b>	<b>(10,335)</b>	<b>(32,738)</b>	<b>(8,684)</b>	<b>(13,365)</b>	<b>(15,076)</b>
<b>Net chg in cash</b>	<b>186</b>	<b>(1,834)</b>	<b>5,256</b>	<b>3,447</b>	<b>8,961</b>
Opening cash position	9,084	9,270	7,436	12,692	16,138
<b>Closing cash position</b>	<b>9,270</b>	<b>7,436</b>	<b>12,692</b>	<b>16,138</b>	<b>25,099</b>

Source: Company, Emkay Research

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**Key Ratios**

<b>Profitability (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EBITDA Margin	24.9	25.3	24.3	25.0	26.3
EBIT Margin	11.4	12.1	11.0	11.9	13.8
Effective Tax Rate	21.1	26.2	22.0	22.0	22.0
Net Margin	7.8	8.8	7.2	8.2	9.9
ROCE	19.2	22.5	20.0	22.5	26.7
ROE	(191.5)	383.6	79.3	54.9	52.8
RoIC	20.2	21.4	22.7	26.3	33.3

<b>Per Share Data (Rs)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EPS	46.5	51.8	44.4	54.7	71.2
CEPS	127.7	129.2	127.0	141.2	161.0
BVPS	(0.4)	27.4	84.7	114.3	155.6
DPS	4.0	14.0	22.0	25.0	30.0

<b>Valuations (x)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
PER	19.8	17.8	20.7	16.8	12.9
P/CEPS	7.2	7.1	7.3	6.5	5.7
P/BV	NA	33.7	10.9	8.1	5.9
EV / Sales	2.0	2.0	1.8	1.6	1.4
EV / EBITDA	8.1	7.8	7.4	6.5	5.5
Dividend Yield (%)	0.4	1.5	2.4	2.7	3.3

<b>Gearing Ratio (x)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Net Debt/ Equity	(793.2)	8.7	2.2	1.4	0.7
Net Debt/EBIDTA	1.9	1.6	1.2	0.9	0.6
Working Cap Cycle (days)	(86.3)	(95.0)	(85.0)	(67.4)	(56.4)

<b>Growth (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Revenue	0.2	(2.2)	5.1	7.1	8.0
EBITDA	29.5	(0.8)	1.3	10.1	13.6
EBIT	109.1	3.8	(4.6)	16.6	24.4
PAT	0.0	18.5	(14.5)	23.1	30.3

<b>Quarterly (Rs mn)</b>	<b>Q4FY21</b>	<b>Q1FY22</b>	<b>Q2FY22</b>	<b>Q3FY22</b>	<b>Q4FY22</b>
Revenue	40,733	41,028	41,740	41,849	42,630
EBITDA	10,152	9,861	11,129	10,825	10,453
<b>EBITDA Margin (%)</b>	<b>24.9</b>	<b>24.0</b>	<b>26.7</b>	<b>25.9</b>	<b>24.5</b>
PAT	2,992	2,961	4,254	3,952	3,651
<b>EPS (Rs)</b>	<b>10.5</b>	<b>10.4</b>	<b>14.9</b>	<b>13.9</b>	<b>12.8</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Mar-21</b>	<b>Jun-21</b>	<b>Sep-21</b>	<b>Dec-21</b>	<b>Mar-22</b>
Promoters	58.9	58.9	58.9	58.9	58.9
FII	24.4	24.0	23.5	21.6	19.4
DII	7.5	7.4	7.6	8.8	11.5
Public and Others	9.2	9.8	10.1	10.7	10.3

Source: Capitaline

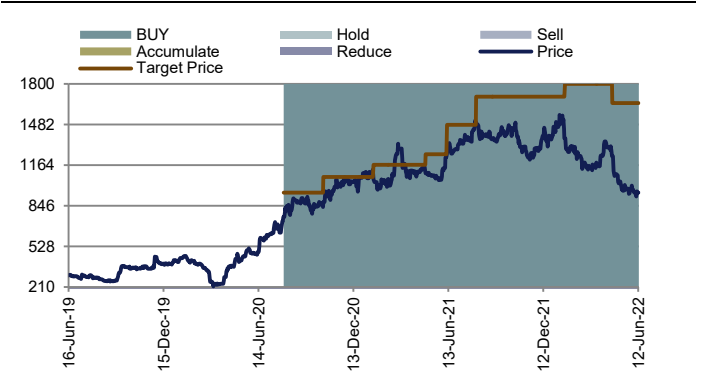


## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
23-Apr-22	1,234	1,650	12m	Buy	Naval Seth
22-Jan-22	1,374	1,800	12m	Buy	Naval Seth
21-Oct-21	1,427	1,700	12m	Buy	Naval Seth
5-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
1-Aug-20	760	950	12m	Buy	Naval Seth

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – Telecommunications



### Analyst: Naval Seth

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#### 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 based on Current NAV	Change vs last published EAP (bps)
<b>Telecommunications</b>	<b>2.13</b>	<b>2.13</b>	<b>0%</b>	<b>0</b>	<b>100.00</b>	
Bharti Airtel	1.76	1.81	3%	5	84.91	0
Indus Towers	0.18	0.18	1%	0	8.48	0
Tata Communications	0.12	0.12	3%	0	5.63	0
Vodafone Idea	0.08	0.02	-74%	-6	0.91	0
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.07</b>	<b>0</b>

Source: Emkay Research

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

### Sector portfolio NAV

	Base					Latest
	1-Apr-19	14-Jun-21	13-Dec-21	14-Mar-22	13-May-22	13-Jun-22
EAP - Telecommunications	100.0	148.7	190.5	180.9	173.9	171.1
BSE200 Neutral Weighted Portfolio (ETF)	100.0	120.5	155.3	146.2	140.0	137.9

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

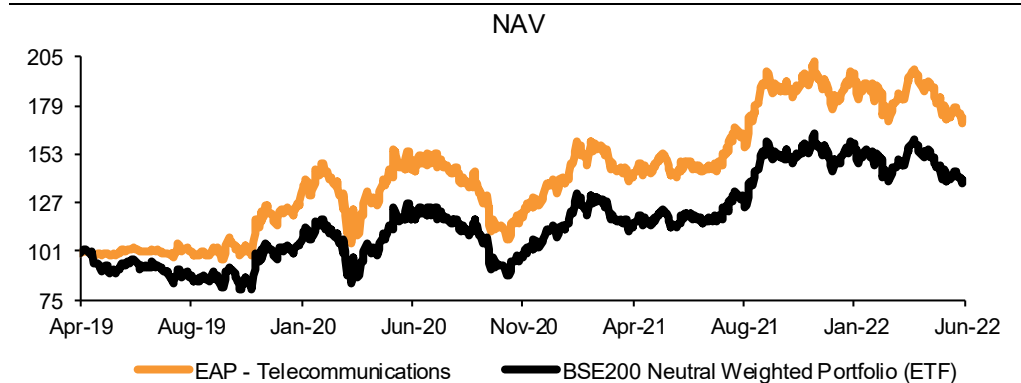
Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - Telecommunications	-1.6%	-5.4%	-10.2%	15.1%
BSE200 Neutral Weighted Portfolio (ETF)	-1.5%	-5.7%	-11.2%	14.4%

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: 15 Jun 2022 02:31:11 (SGT)

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