

# Tata Communications

Refer to important disclosures at the end of this report

## Cost benefits apparent; focus is now on revenue recovery

**CMP: Rs 921** as of (October 19, 2020) | **TP: Rs 1,073 (▲)** 12 months | **Rating: BUY (■)** | **Upside: 16.4 %**

- TCOM had another stellar quarter with an EBITDA beat of 12%, driven by robust operating performance in the Growth Services segment, cost-optimization measures relating mainly to Covid-19, and the benefits stemming from delaying network opex.
- Growth services continued to gain from the increased need for connectivity and hosting solutions, with a steady growth in cloud and other portfolios along with growth in traditional services. Improved deal conversion should help sustain growth in the coming quarters.
- Healthy FCF generation has led to a net debt reduction of Rs5.5bn in H1FY21. Strong EBITDA delivery in H1 and expectation of revenue growth revival from Q4 should further provide confidence on the company's path to achieve its stated financials goals in 3 years.
- Strong Q2 EBITDA - despite moderate expectations for H2 - is leading us to upgrade FY21-23E EBITDA by ~5-11%, resulting in a revised SoTP-based TP of Rs1,073. We maintain Buy with an OW stance in sector EAP.

**Data segment continues to reap benefits:** Despite flat revenues qoq, EBITDA rose 11%, driven by a one-off gain in network cost due to timing, accompanied by Covid-19-related cost savings of ~Rs500mn. EBITDA margin expanded by 264bps qoq, primarily due to Growth Data Services which saw a 420bps increase in EBITDA margins. Higher other income (includes one-time gain from sale of investment) supported PAT, which rose 49% despite a one-off charge of Rs540mn. Exceptional items had a one-off cost of Rs1.1bn toward staff optimization, along with an Rs118mn provision for license fee due to the DoT's demand, which was offset in part by a one-off gain from the sale of a land parcel. Cumulatively, the company has so far provided Rs3.5bn toward the DoT demand.

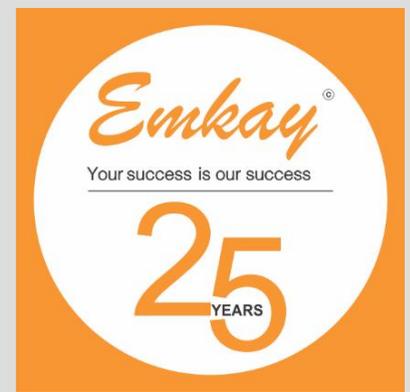
**Outlook:** Driven by the Covid-19-induced need for connectivity and rising spends on IT infrastructure, the company has registered better performance, with Traditional Services witnessing healthy revenue growth despite being a mature segment and Growth Services seeing new highs. With margin expansion, FCF generation and the reduction in net debt (Rs5.5bn in the last six months), along with a structural increase in the need for connectivity, security and hosting solutions, we remain constructive on the company. We project FCF generation of Rs64bn over FY21-23E. In the past, we have highlighted that one of our concerns relating to the company is its patchy performance in terms of under-deliverance on guidance however, the same will be overcome with steady performance. Key risks are: 1) any delay in scaling up the Innovations segment as well as continued and elevated losses; 2) poor conversion of new deals; 3) increased competitive intensity; 4) reverting to the historical trend of not meeting guidance; and 5) 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	1,78,850	1,88,296	1,98,551
EBITDA	27,449	32,912	42,801	44,130	47,752
EBITDA Margin (%)	16.6	19.3	23.9	23.4	24.1
APAT	(846)	3,068	11,209	10,408	12,680
EPS (Rs)	(3.0)	10.8	39.3	36.5	44.5
EPS (% chg)	(281.0)	0.0	265.3	(7.1)	21.8
ROE (%)	(53.7)	(39.4)	(272.8)	103.5	62.4
P/E (x)	(310.4)	85.6	23.4	25.2	20.7
EV/EBITDA (x)	12.3	11.0	7.8	7.1	6.1
P/BV (x)	(142.6)	(19.1)	47.8	18.0	10.1

Source: Company, Emkay Research



### Change in Estimates

EPS Chg FY21E/FY22E (%)	47.8/26
Target Price change (%)	12.9
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	39.3	36.5
Consensus	29.4	37.3
Mean Consensus TP (12M)	Rs 871	

### Stock Details

Bloomberg Code	TCOM IN
Face Value (Rs)	10
Shares outstanding (mn)	285
52 Week H/L	937 / 200
M Cap (Rs bn/USD bn)	263 / 3.58
Daily Avg Volume (nos.)	1,77,752
Daily Avg Turnover (US\$ mn)	2.0

### Shareholding Pattern Sep '20

Promoters	75.0%
FIIIs	17.6%
DIIIs	1.5%
Public and Others	6.0%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	9	38	149	156
<b>Rel. to Nifty</b>	5	27	94	152

### 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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**Exhibit 1: Actual vs. Estimates (Q2FY21)**

(Rs mn)	Actual	Estimate		% Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue	44,011	44,176	44,430	0%	-1%	
EBITDA	11,575	10,381	10,367	12%	12%	Due to Covid-19-related cost savings and one-off gain in network costs
EBITDA, margin	26.3%	23.5%	23.3%	280 bps	297 bps	
PAT	3,845	1,984	2,298	94%	67%	On account of higher other income

Source: Company, Bloomberg, Emkay Research

**Exhibit 2: Consolidated quarterly financials**

Rs mn	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)	6MFY21	6MFY20	YoY (%)
<b>Total Sales</b>	<b>42,728</b>	<b>42,287</b>	<b>43,979</b>	<b>44,029</b>	<b>44,011</b>	<b>3.0</b>	<b>(0.0)</b>	<b>88,040</b>	<b>84,414</b>	<b>4.3</b>
Network cost	16,966	16,840	16,886	17,413	16,349	(3.6)	(6.1)	33,762	34,050	(0.8)
as % of sales	39.7	39.8	38.4	39.5	37.1			38.3	40.3	
Employee Cost	7,320	7,462	7,922	7,624	7,619	4.1	(0.1)	15,244	15,007	1.6
as % of sales	17.1	17.6	18.0	17.3	17.3			17.3	17.8	
Other operating expenses	10,105	10,377	10,482	8,574	8,467	(16.2)	(1.2)	17,041	18,764	(9.2)
as % of sales	23.6	24.5	23.8	19.5	19.2			19.4	22.2	
<b>Total Expenditure</b>	<b>34,391</b>	<b>34,679</b>	<b>35,291</b>	<b>33,612</b>	<b>32,436</b>	<b>(5.7)</b>	<b>(3.5)</b>	<b>66,047</b>	<b>67,821</b>	<b>(2.6)</b>
<b>EBITDA</b>	<b>8,337</b>	<b>7,608</b>	<b>8,688</b>	<b>10,418</b>	<b>11,575</b>	<b>38.8</b>	<b>11.1</b>	<b>21,993</b>	<b>16,593</b>	<b>32.5</b>
Depreciation	5,583	5,605	6,867	5,899	5,719	2.4	(3.1)	11,619	11,105	4.6
<b>EBIT</b>	<b>2,753</b>	<b>2,003</b>	<b>1,821</b>	<b>4,518</b>	<b>5,856</b>	<b>112.7</b>	<b>29.6</b>	<b>10,374</b>	<b>5,488</b>	<b>89.0</b>
Other Income	95	140	373	147	761	697.7	416.3	908	184	394.2
Interest	1,157	1,161	1,232	1,163	1,064	(8.0)	(8.5)	2,227	2,315	(3.8)
<b>PBT</b>	<b>1,692</b>	<b>982</b>	<b>963</b>	<b>3,503</b>	<b>5,553</b>	<b>228.3</b>	<b>58.5</b>	<b>9,056</b>	<b>3,357</b>	<b>169.7</b>
Tax	1,107	406	(98)	812	1,153	4.2	42.0	1,966	1,960	0.3
<b>PAT before MI</b>	<b>584</b>	<b>576</b>	<b>1,061</b>	<b>2,691</b>	<b>4,400</b>	<b>652.8</b>	<b>63.5</b>	<b>7,090</b>	<b>1,398</b>	<b>407.2</b>
Minority interest	14	9	(30)	(8)	(15)			(23)	31	(173.2)
<b>PAT</b>	<b>598</b>	<b>585</b>	<b>1,031</b>	<b>2,683</b>	<b>4,384</b>	<b>632.8</b>	<b>63.4</b>	<b>7,067</b>	<b>1,429</b>	<b>394.5</b>
Exceptional item	59	-	3,781	105	540			644	124	
<b>RPAT</b>	<b>539</b>	<b>585</b>	<b>(2,750)</b>	<b>2,578</b>	<b>3,845</b>	<b>613.2</b>	<b>49.1</b>	<b>6,423</b>	<b>1,305</b>	<b>392.1</b>

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	19.5	18.0	19.8	23.7	26.3	679	264	25.0	19.7	532	
EBIT	6.4	4.7	4.1	10.3	13.3	686	304	11.8	6.5	528	
EBT	4.0	2.3	2.2	8.0	12.6	866	466	10.3	4.0	631	
PAT	1.4	1.4	2.3	6.1	10.0	856	387	8.0	1.7	633	
Effective Tax rate	65.5	41.3	(10.2)	23.2	20.8	(4,468)	(241)	21.7	58.4	(3,666)	

Source: Company, Emkay Research

## Other highlights

- Revenue was in line with expectations at Rs44bn (up 3% yoy), but it remained flat sequentially.
- EBITDA surprised positively by rising 11% qoq to Rs11.6bn, boosted by lower network cost. EBITDA margins expanded 264bps qoq to stand at 26.3%.
  - Network cost declined 6% qoq to Rs16.3bn, as there was timing benefit as some costs were pushed to H2. Other operating expenses stood at Rs8.5bn, down a marginal 1% sequentially. Employee cost was stable sequentially at Rs7.6bn.
- Reported net profit stood at Rs3.8bn, up 49% qoq on higher other income, which rose significantly to Rs761mn from Rs147mn in Q1FY21. There was a one-off charge of Rs540mn and adjusting for it, net profit rose 63% qoq.
  - Exceptional items included a charge of Rs1.1bn toward staff cost optimization and Rs118mn as provision toward license fee on account of the DoT demand. This was offset in part by a gain on the sale of a land parcel of Rs674mn.
  - Finance cost declined 9% qoq to Rs1.1bn from Rs1.2bn in Q1FY21. Depreciation was down 3% qoq to Rs5.7bn.
  - Tax outgo stood at Rs1.2bn vs. Rs812mn in the previous quarter, with ETR at 20.8%.

### Exhibit 3: Breakdown of gross revenue by segment

Particulars	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY growth	QoQ growth
Service Provider/Carrier (%)	39.0	38.0	38.0	37.0	36.0	-300bps	-100bps
Enterprise (%)	61.0	62.0	62.0	63.0	64.0	300bps	100bps
Service Provider/Carrier (Rs mn)	13255	12996	13661	13335	13111	(1.1)	(1.7)
Enterprise (Rs mn)	20731	21204	22289	22705	23309	12.4	2.7

Source: Company, Emkay Research

### Exhibit 4: Breakdown of gross revenue by geography

Particulars	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY growth	QoQ growth
India (%)	54.0	53.0	53.0	51.0	54.0	-	300bps
Rest of the world (%)	46.0	47.0	47.0	49.0	46.0	-	300bps
India (Rs mn)	18352	18126	19054	18380	19667	7.2	7.0
Rest of the world (Rs mn)	15634	16074	16897	17660	16753	7.2	(5.1)

Source: Company, Emkay Research

### Global Data Solutions (GDS) – Growth Services segment continues to shine

- Gross revenue (adjusted for rental revenues) stood at Rs36bn (up 7% yoy) but it remained flat qoq.
- Sequential growth was impacted by slower deal conversion due to Covid-19, forex impact and moderation in the Growth Services segment.
- EBITDA (adjusted for rental revenues) stood at Rs1.1bn, up 48% yoy and 15% sequentially. EBITDA margin stood at 30.2% vs. 26.6% in Q1FY21.

### Traditional Services

- Revenue for the Traditional Data Services segment saw 2% qoq growth, with EBITDA growing 8% qoq.
- Margin expanded 250bps qoq, mainly due to lower costs stemming from the lockdown.

### Growth & Innovations Services

- Despite recording a 2.2% sequential decline in revenue, the Growth Services segment delivered EBITDA growth of 31% sequentially, with EBITDA margins expanding 420bps.
- The sequential decline in revenue was due to a moderation in enterprise voice traffic during the quarter. However, it is nearing pre-Covid levels currently.
- With the resumption of sporting events, the company is witnessing healthy traction in the segment.
- The Innovations Services segment saw a dip in EBITDA losses to Rs800mn vs. Rs1bn in Q1.

### Transformation Services

- Revenue was flat sequentially at Rs3.3bn, with EBITDA standing at Rs40mn vs. a loss of Rs30mn in the previous quarter.
- Profitability of the segment was impacted by business transitions as well as an onerous contract, which the company was able to terminate.

### Exhibit 5: Financials for Global Data Solutions

Particulars (Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY growth	QoQ growth
<b>Gross revenues</b>	<b>33986</b>	<b>34200</b>	<b>35950</b>	<b>36040</b>	<b>36420</b>	<b>7.2</b>	<b>1.1</b>
Less: Direct Costs	11800	12220	12570	12830	12480	5.8	(2.7)
<b>Net revenues</b>	<b>22186</b>	<b>21980</b>	<b>23380</b>	<b>23210</b>	<b>23940</b>	<b>7.9</b>	<b>3.1</b>
Less: Operating Expense	14662	14840	15150	13460	12860	(12.3)	(4.5)
<b>EBITDA</b>	<b>7524</b>	<b>7140</b>	<b>8230</b>	<b>9750</b>	<b>11080</b>	<b>47.3</b>	<b>13.6</b>
<b>EBITDA margin (%)</b>	<b>22%</b>	<b>21%</b>	<b>23%</b>	<b>27%</b>	<b>30%</b>	<b>828bps</b>	<b>337bps</b>
Less: Depreciation	5511	5530	6780	5810	5630	2.2	(3.1)
<b>EBIT</b>	<b>2013</b>	<b>1610</b>	<b>1450</b>	<b>3940</b>	<b>5450</b>	<b>170.7</b>	<b>38.3</b>
<b>EBIT margin (%)</b>	<b>5.92</b>	<b>4.71</b>	<b>4.03</b>	<b>10.93</b>	<b>14.96</b>	<b>904bps</b>	<b>403bps</b>

Source: Company, Emkay Research

### Tata Communications Payment Solutions Ltd (TCPSL)

- Revenue for TCPSL rose 11% qoq to Rs580mn.
- The business was impacted by the lockdown with average transactions at 64 vs. 85 in Q2FY20. With the lockdown getting eased, the company expects for a steady improvement in the segment.
- Total number of ATMs in the network stood at 11,326 - down 7% qoq.

### Exhibit 6: Quarterly performance of TCPSL

Particulars	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY growth	QoQ growth
<b>Gross Revenue (Rs mn)</b>	<b>850</b>	<b>870</b>	<b>820</b>	<b>520</b>	<b>580</b>	<b>(31.8)</b>	<b>11.5</b>
<b>Total ATMs managed</b>	<b>12,362</b>	<b>12,278</b>	<b>12,240</b>	<b>12,198</b>	<b>11,326</b>	<b>(8.4)</b>	<b>(7.1)</b>
Managed ATMs	4011	3993	3955	3949	3713	(7.4)	(6.0)
White label ATMs	8351	8285	8285	8249	7613	(8.8)	(7.7)
Total POS managed	5823	5791	5584	3412	3219	(44.7)	(5.7)

Source: Company, Emkay Research

### Global Voice Solutions (GVS)

- Gross revenue declined 5% sequentially to Rs7.6bn, while net revenues stood at Rs1.3bn, up 1% sequentially.
- ILD minutes dropped 6% qoq, while NLD minutes stayed flat. Blended realization/minute rose 7% qoq.
- EBITDA stood at Rs500mn - down 25% qoq. EBITDA margin was 6.6% vs. 8.4% in Q1.

**Exhibit 7: Performance of Global Voice Solutions segment**

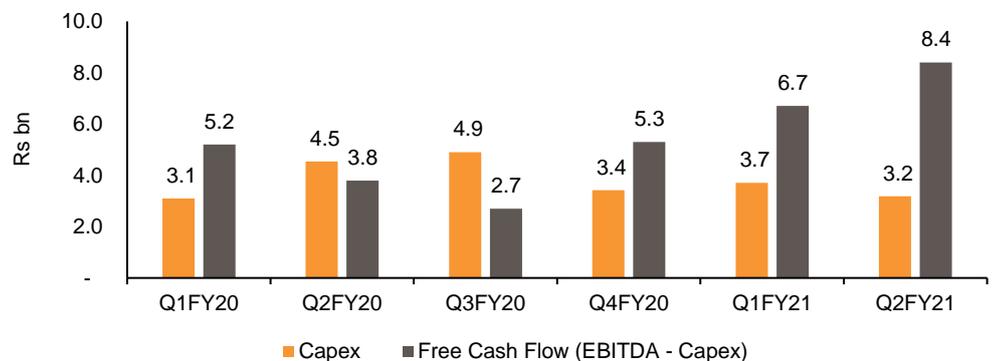
Particulars (Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY growth	QoQ growth
<b>Gross revenues</b>	<b>8741</b>	<b>8088.8</b>	<b>8030</b>	<b>7990</b>	<b>7590</b>	<b>(13.2)</b>	<b>(5.0)</b>
Less: Direct Costs	7248	7058.8	6920	6710	6300	(13.1)	(6.1)
<b>Net revenues</b>	<b>1493</b>	<b>1030</b>	<b>1110</b>	<b>1280</b>	<b>1290</b>	<b>(13.6)</b>	<b>0.8</b>
Less: Opex	681	560	650	610	790	16.0	29.5
<b>EBITDA</b>	<b>812</b>	<b>470</b>	<b>460</b>	<b>670</b>	<b>500</b>	<b>(38.4)</b>	<b>(25.4)</b>
<b>EBITDA margin (%)</b>	<b>9.3%</b>	<b>5.8%</b>	<b>5.7%</b>	<b>8.4%</b>	<b>6.6%</b>	<b>(270)</b>	<b>(180)</b>
Less: Depreciation	72	72.3	90	90	90	25.0	-
<b>EBIT</b>	<b>740</b>	<b>397.7</b>	<b>370</b>	<b>580</b>	<b>410</b>	<b>(44.6)</b>	<b>(29.3)</b>
<b>EBIT margin (%)</b>	<b>8.5</b>	<b>4.9</b>	<b>4.6</b>	<b>7.3</b>	<b>5.4</b>	<b>(306)</b>	<b>(186)</b>
<b>Volumes (bn mins)</b>							
ILD	5.8	5.4	5.3	5.1	4.8	(17.2)	(5.9)
NLD	0.1	0.1	0.1	0.1	0.1	-	-
Total	5.9	5.5	5.4	5.2	4.9	(16.9)	(5.8)
Net realization per min (Rs/min)	0.25	0.19	0.21	0.25	0.26	4.0	7.0
EBITDA per min (Rs/min)	0.14	0.09	0.09	0.13	0.10	(25.9)	(20.8)

Source: Company, Emkay Research

### Cash generation, capex and debt profile

- FCF for the quarter stood at Rs8.4bn, up 25% sequentially.
  - Data FCF stood at Rs8.3bn, up 25% qoq vs. Rs6.6bn in Q1.
  - Voice FCF was Rs450mn vs. Rs540mn in Q1FY21.
- Capex for the quarter dipped to Rs3.2bn from Rs3.7bn in Q1.
- Core business net debt stood at Rs86bn vs. Rs90bn in the previous quarter.
  - INR-denominated loans rose to Rs8.6bn from Rs8.2bn in Q1FY21, while foreign currency loans fell to Rs101bn from Rs104bn in the previous quarter.
- Weighted average cost of debt declined to 2.8% in Q2 from 3.03% in Q1.

**Exhibit 8: Cash generation has improved on the back of EBITDA growth and lower capex**



Source: Company, Emkay Research

## Changes in estimates

Strong EBITDA in Q2, along with sustained benefits of cost optimization efforts, has led us to raise EBITDA estimates for FY21-23. We have baked in a conservative EBITDA margin of ~22.9% in H2FY21 vs. 25% in H1, on account of the seasonality impact in Q3 and a moderation in Covid-19-related cost savings. In addition, we are assuming a slight contraction in margins in FY22E due to the absence of Covid-19-related cost savings. The upward revision in PAT estimates is due to lower ETR (40% vs. the original estimate of 45%), EBITDA upgrade, slightly higher other income (in the case of FY21).

**Exhibit 9: Revision in estimates**

Particulars (Rs mn)	FY21E			FY22E			FY22E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	1,78,200	1,78,850	0.4%	1,87,331	1,88,296	0.5%	1,98,092	1,98,551	0.2%
EBITDA	38,728	42,801	10.5%	42,149	44,130	4.7%	45,363	47,752	5.3%
EBITDA Margin %	21.7	23.9	220 bps	22.5	23.4	94 bps	22.9	24.1	115 bps
APAT	7,148	10,565	47.8%	8,266	10,408	25.9%	10,096	12,680	25.6%
EPS	25.1	37.1	47.8%	29.0	36.5	25.9%	35.4	44.5	25.6%

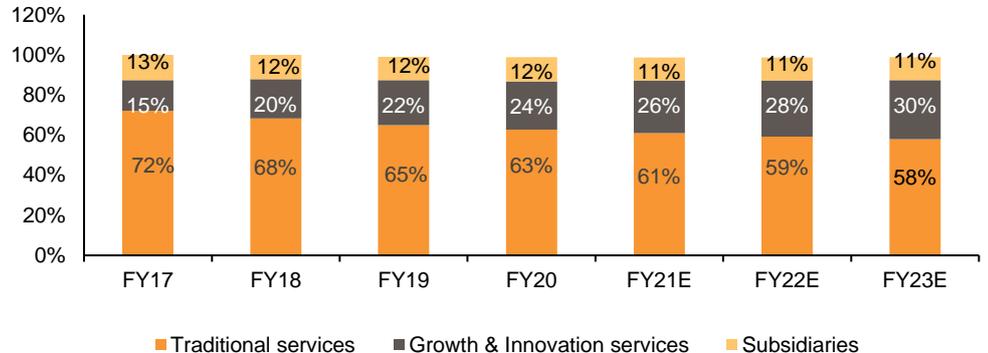
Source: Company, Emkay Research

**Exhibit 10: Key revenue assumptions**

Particulars (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Global Voice Solutions	38,703	33,763	30,013	26,116	22,739
Global Data Solutions	1,25,243	1,35,311	1,47,138	1,60,380	1,74,013
Others	1,304	1,606	1,700	1,800	1,800
<b>Total revenue</b>	<b>1,65,250</b>	<b>1,70,680</b>	<b>1,78,850</b>	<b>1,88,296</b>	<b>1,98,551</b>

Source: Company, Emkay Research

**Exhibit 11: Data revenue mix – Contribution of Growth & Innovation services portfolio should rise**



Source: Company, Emkay Research

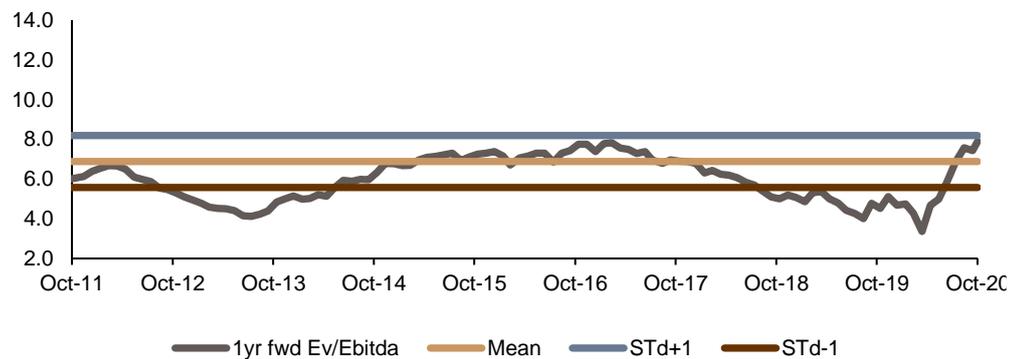
## Valuation

### Exhibit 12: SoTP-based valuation

Particulars	Sep'22E
<b>Global Voice Solutions (GVS)</b>	
EBITDA (Rs mn)	1,828
EV/EBITDA (x)	3.0
Enterprise value (Rs mn)	5,484
<b>Global Data Solutions (GDS)</b>	
EBITDA (Rs mn)	44,223
EV/EBITDA (x)	8.2
Enterprise value (Rs mn)	3,62,633
Total Enterprise Value (Rs mn)	3,68,117
Net debt (Rs mn)	65,426
Implied market cap (Rs mn)	3,02,691
<b>Value from core business (Rs/share)</b>	<b>1,062</b>
Add: 26% stake in data centre (Rs/share)	63
Less: Potential AGR liability (Rs/share)	53
<b>Target price (Rs/share)</b>	<b>1,073</b>

Source: Company, Emkay Research

### Exhibit 13: 1-year forward EV/EBITDA valuation chart



Source: Company, Emkay Research

## Conference call highlights

- Large network transformation deals are getting pushed to H2 and this is more prevalent in international markets. However, the deal funnel continues to remain strong. Q3 is a seasonally weak quarter due to lower usage-based revenues.
  - The Indian enterprise revenue growth business has been slow due to delayed deal closures on account of Covid-19.
- **Media portfolio:** Revenues have started to bounce back with sporting events getting resumed. Its 3<sup>rd</sup> year of partnership with Star for live streaming of IPL.
- Usage-based revenues are low due to weak demand from sectors such as Auto.
- The company's first customer, Croma Retail, has gone live with a personalized interactive solution through which there is demonstration of product through a combination of audio, video and chat on a virtual basis. It was launched in the last week of September, and Croma is looking to deploy it across its 150 stores.
- In Q2, IZO internet line grew by 33% yoy, driven by a deal win. The company has been providing internet coverage in various geographies, some of which are in the emerging markets including some hard to reach markets in Africa and SLA. This has led to a reduction in cost of ownership of the customer by 30%.
- The Innovation portfolio has been impacted by Covid-19, while there has been improvement in activity levels.
  - Net foundry grew 11.4%, IoT by 78.5% and MOVE by 53% qoq.
  - Cloud first and internet first strategies are accelerating digital adoption, leading to strong demand for a cloud security and hosting services, which have grown by 22% qoq.
  - The portfolio break-even will happen once the revenue run-rate of USD125mn is achieved.
- **Costs:** The benefits of employee cost rationalization should get reflected in the next fiscal year. As Covid-19 benefits would recede, EBITDA margin should stay in the range of 23-25%.
  - Employee costs are down Rs500mn with change in on/offshore mix change. Total structural savings would be Rs1.9-2bn and Covid-19-related benefits would be Rs500mn.
- **ETR:** Capital gain benefits in Q2 have led to lower ETR, while they would be in the range of 28-30% for FY21. Overall, the ETR should see a moderation due to measures to achieve tax efficiency and improving profitability of international subsidiaries.

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

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Total Revenue</b>	<b>1,65,250</b>	<b>1,70,703</b>	<b>1,78,850</b>	<b>1,88,296</b>	<b>1,98,551</b>
<b>Expenditure</b>	<b>1,37,801</b>	<b>1,37,790</b>	<b>1,36,050</b>	<b>1,44,166</b>	<b>1,50,800</b>
<b>EBITDA</b>	<b>27,449</b>	<b>32,912</b>	<b>42,801</b>	<b>44,130</b>	<b>47,752</b>
Depreciation	20,676	23,577	23,652	24,213	24,664
<b>EBIT</b>	<b>6,773</b>	<b>9,335</b>	<b>19,149</b>	<b>19,916</b>	<b>23,087</b>
Other Income	603	697	1,413	1,299	1,446
Interest expenses	3,966	4,707	4,523	3,951	3,501
<b>PBT</b>	<b>3,410</b>	<b>5,324</b>	<b>16,039</b>	<b>17,265</b>	<b>21,033</b>
Tax	2,733	2,267	4,759	6,906	8,413
Extraordinary Items	22	(3,905)	(644)	0	0
Minority Int./Income from Assoc.	19	11	34	37	45
<b>Reported Net Income</b>	<b>(824)</b>	<b>(837)</b>	<b>10,565</b>	<b>10,408</b>	<b>12,680</b>
<b>Adjusted PAT</b>	<b>(846)</b>	<b>3,068</b>	<b>11,209</b>	<b>10,408</b>	<b>12,680</b>

**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)	2,647	11,773	23,171
<b>Net worth</b>	<b>(1,820)</b>	<b>(12,763)</b>	<b>5,497</b>	<b>14,623</b>	<b>26,021</b>
<b>Minority Interest</b>	<b>58</b>	<b>48</b>	<b>13</b>	<b>(23)</b>	<b>(68)</b>
<b>Loan Funds</b>	<b>99,349</b>	<b>1,24,135</b>	<b>1,02,795</b>	<b>87,795</b>	<b>77,795</b>
Net deferred tax liability	(887)	(2,495)	(2,495)	(2,495)	(2,495)
<b>Total Liabilities</b>	<b>96,700</b>	<b>1,08,925</b>	<b>1,05,811</b>	<b>99,900</b>	<b>1,01,253</b>
<b>Net block</b>	<b>1,12,426</b>	<b>1,26,703</b>	<b>1,14,713</b>	<b>1,08,500</b>	<b>1,01,836</b>
<b>Investment</b>	<b>14,913</b>	<b>15,631</b>	<b>15,631</b>	<b>15,631</b>	<b>15,631</b>
<b>Current Assets</b>	<b>67,182</b>	<b>70,792</b>	<b>83,135</b>	<b>91,930</b>	<b>1,04,213</b>
Cash & bank balance	8,519	9,107	17,526	22,369	32,077
Other Current Assets	25,825	26,071	27,315	28,570	29,530
<b>Current liabilities &amp; Provision</b>	<b>1,01,923</b>	<b>1,09,619</b>	<b>1,12,878</b>	<b>1,21,370</b>	<b>1,25,636</b>
<b>Net current assets</b>	<b>(34,741)</b>	<b>(38,827)</b>	<b>(29,742)</b>	<b>(29,440)</b>	<b>(21,423)</b>
Misc. exp	21	952	0	0	0
<b>Total Assets</b>	<b>96,700</b>	<b>1,08,925</b>	<b>1,05,811</b>	<b>99,900</b>	<b>1,01,253</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>2,807</b>	<b>4,628</b>	<b>14,626</b>	<b>15,966</b>	<b>19,586</b>
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(1,946)	3,066	(665)	4,541	1,691
<b>Operating Cashflow</b>	<b>17,898</b>	<b>24,865</b>	<b>34,469</b>	<b>39,126</b>	<b>38,991</b>
Capital expenditure	(24,015)	(38,239)	(12,406)	(18,000)	(18,000)
<b>Free Cash Flow</b>	<b>(6,116)</b>	<b>(13,373)</b>	<b>22,064</b>	<b>21,126</b>	<b>20,991</b>
Investments	(2,411)	(718)	0	0	0
Other Investing Cash Flow	0	0	0	0	0
<b>Investing Cashflow</b>	<b>(25,823)</b>	<b>(38,260)</b>	<b>(10,992)</b>	<b>(16,701)</b>	<b>(16,554)</b>
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)	12,088	2,652	2,055
<b>Financing Cashflow</b>	<b>3,489</b>	<b>13,983</b>	<b>(15,058)</b>	<b>(17,581)</b>	<b>(12,729)</b>
<b>Net chg in cash</b>	<b>(4,435)</b>	<b>588</b>	<b>8,419</b>	<b>4,843</b>	<b>9,708</b>
Opening cash position	12,954	8,519	9,107	17,526	22,369
<b>Closing cash position</b>	<b>8,519</b>	<b>9,107</b>	<b>17,526</b>	<b>22,369</b>	<b>32,077</b>

Source: Company, Emkay Research

**Key Ratios**

<b>Profitability (%)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
EBITDA Margin	16.6	19.3	23.9	23.4	24.1
EBIT Margin	4.1	5.5	10.7	10.6	11.6
Effective Tax Rate	80.2	42.6	29.7	40.0	40.0
Net Margin	0.4	1.8	6.3	5.5	6.4
ROCE	7.7	9.8	19.2	20.6	24.4
ROE	(53.7)	(39.4)	(272.8)	103.5	62.4
RoIC	10.2	12.6	26.2	32.1	44.0

<b>Per Share Data (Rs)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
EPS	(3.0)	10.8	39.3	36.5	44.5
CEPS	69.6	93.5	122.3	121.5	131.0
BVPS	(6.5)	(48.1)	19.3	51.3	91.3
DPS	5.4	5.3	4.5	4.5	4.5

<b>Valuations (x)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
PER	(310.4)	85.6	23.4	25.2	20.7
P/CEPS	13.2	9.9	7.5	7.6	7.0
P/BV	(142.6)	(19.1)	47.8	18.0	10.1
EV / Sales	2.0	2.1	1.9	1.7	1.5
EV / EBITDA	12.3	11.0	7.8	7.1	6.1
Dividend Yield (%)	0.6	0.6	0.5	0.5	0.5

<b>Gearing Ratio (x)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
Net Debt/ Equity	(41.2)	(7.2)	12.7	3.4	1.2
Net Debt/EBIDTA	2.8	3.0	1.6	1.1	0.6
Working Cap Cycle (days)	(95.6)	(102.5)	(96.5)	(100.4)	(98.4)

<b>Growth (%)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
Revenue	(1.5)	3.3	4.8	5.3	5.4
EBITDA	13.8	19.9	30.0	3.1	8.2
EBIT	33.9	37.8	105.1	4.0	15.9
PAT	0.0	0.0	0.0	(1.5)	21.8

<b>Quarterly (Rs mn)</b>	<b>Q2FY20</b>	<b>Q3FY20</b>	<b>Q4FY20</b>	<b>Q1FY21</b>	<b>Q2FY21</b>
Revenue	42,728	42,287	43,979	44,029	44,011
EBITDA	8,337	7,608	8,688	10,418	11,575
<b>EBITDA Margin (%)</b>	<b>19.5</b>	<b>18.0</b>	<b>19.8</b>	<b>23.7</b>	<b>26.3</b>
PAT	539	585	(2,750)	2,578	3,845
<b>EPS (Rs)</b>	<b>1.9</b>	<b>2.1</b>	<b>(9.6)</b>	<b>9.0</b>	<b>13.5</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Sep-19</b>	<b>Dec-19</b>	<b>Mar-20</b>	<b>Jun-20</b>	<b>Sep-20</b>
Promoters	75.0	75.0	75.0	75.0	75.0
FIIIs	18.2	17.7	17.5	17.2	17.6
DIIIs	1.5	1.5	1.5	1.5	1.5
Public and Others	5.3	5.9	6.0	6.3	6.0

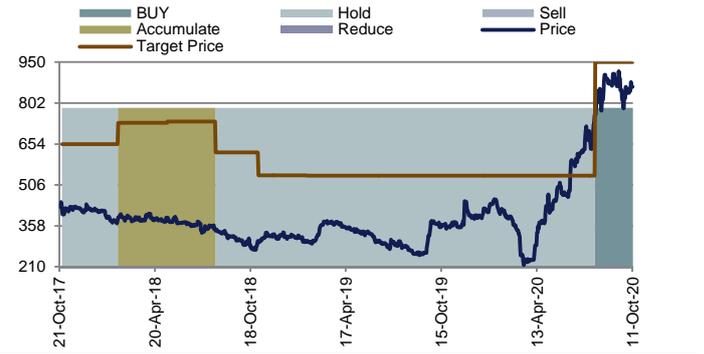
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
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
26-Oct-17	412	654	12m	Hold	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 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)
<b>Telecommunications</b>	<b>1.83</b>	<b>1.79</b>	<b>-2%</b>	<b>-3</b>	<b>100.00</b>
Bharti Airtel	1.49	1.55	4%	7	84.99
Bharti Infratel	0.24	0.20	-16%	-4	11.01
Tata Communications*	0.00	0.04	NA	4	2.11
Vodafone Idea	0.10	0.00	-100%	-10	0.00
<b>Cash</b>	<b>0.00</b>	<b>0.03</b>	<b>NA</b>	<b>3</b>	<b>1.89</b>

Source: Emkay Research

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

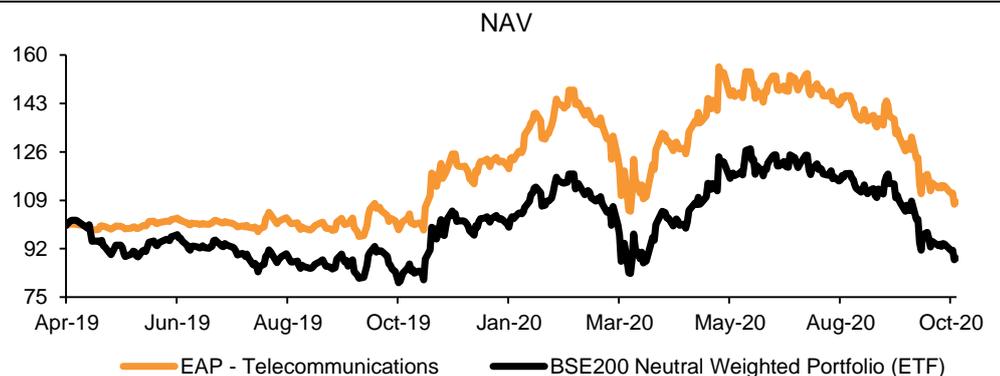
### Sector portfolio NAV

	Base					Latest
	1-Apr-19	17-Jan-20	17-Apr-20	17-Jul-20	16-Sep-20	16-Oct-20
EAP - Telecommunications	100.0	132.0	129.8	147.7	127.8	108.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	106.5	102.8	120.0	106.2	88.6

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

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: 20 Oct 2020 01:54:55 (SGT)

Dissemination Date: 20 Oct 2020 01:55:55 (SGT)

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