

Long term growth prospect intact...

Tata Communication's Q4FY21 revenues were weak largely due to Covid related weakness in deal conversion and tapering down of UCC traffic impacting data revenues growth. Topline came in at ₹ 4073 crore, down 7.4% YoY, 3.5% QoQ as data revenues (forming ~86% of revenues) declined 2.2% YoY (down 0.9% QoQ). Consolidated EBITDA came in at ₹ 1015 crore, up 16.8% YoY, down 3.1% QoQ. The consequent margin was at 24.9% (up 517 bps YoY, 15 bps QoQ). **Data EBITDA margin was at 27.9%, up 500 bps YoY (down 100 bps QoQ, impacted by one-off catch-up costs).** PAT came in at ₹ 299 crore.

Growth segment witnesses decline...

Data growth segment revenues came in at ₹ 774 crore, down 9.6% YoY, 3.9% QoQ. The company attributed the decline to slower deal conversion in the wake of business uncertainties due to Covid and tapering down of UCC traffic after the bump-up last year. However, the company indicated that demand outlook is robust in the medium/long term and the funnel has improved by 4% YoY in FY21 with large deal sale funnel up by 12%. It maintained the long term trend of double digit growth outlook in data business. Another positive change is that the company is looking to increase business disclosures and simplify the segmental definitions.

Debt reduces sharply in FY21

For FY21, net debt reduced by ₹ 1390 crore to ₹ 7786 crore, driven by robust FCF with margins improvement seen during the year (from 19.3% in FY20 to 24.9% in FY21). Consequent RoCEs have also gone up to 16.2% in FY21 vs. single digit historically. Net debt to EBITDA on a TTM basis was 1.8x vs. 2.8x in Q4FY20. We bake in 9.3% revenue CAGR in FY21-23E in the overall data segment, driven by likely acceleration in growth from H2FY22 onwards. We expect data margins at 27.5% in FY23 vs. 28.6% in FY21, as FY21 had certain Covid led benefits aiding margins.

Valuation & Outlook

The company's strategic growth plan, focused approach and structural improvement in data segment margins has driven multiple re-rating. While deal closures delays could have near term weakness in revenues, demand outlook is robust in the medium/long term and recovery is likely over the next couple of quarters. Furthermore, stable performance and improved cash flow generation, deleveraging possibilities (already reduced net debt by ₹ 1390 crore over FY21) and improved return ratios bode well for the company. Thus, we maintain **BUY** with a revised SoTP target price of ₹ 1290/share (vs. 1210/share earlier), as we raise our data segment target multiple to 9x EV/EBITDA vs. 8x earlier.

TATA COMMUNICATIONS

Particulars

Particulars	Amount
Market Capitalization	₹ 31684.9 Crore
Total Debt (FY21)	₹ 10001 Crore
Cash (FY21)	₹ 927.1 Crore
EV	₹ 43214.3 Crore
52 week H/L	1367/ 357
Equity capital (₹ crore)	285.0
Face value (₹)	10.0

Key Highlights

- Data EBITDA margin was at 27.9%, up 500 bps YoY (down 100 bps QoQ, impacted by one-off catch-up costs)
- Maintain BUY rating, valuing at ₹ 1290/share on SoTP basis

Key risk to our call

- Delay in revenues growth recovery could impact operating leverage benefits and earnings growth estimates, going ahead
- Turnaround in transformation and innovation will hold key for overall stepping up of margins in long term. Non-fructification of same could long term impact growth potential

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	16,525.0	17,068.0	17,100.1	17,892.8	19,212.5	6.0
EBITDA	2,744.9	3,289.0	4,260.6	4,365.8	4,841.6	6.6
Adjusted PAT	(232.2)	283.9	1,308.9	1,328.1	1,636.7	11.8
Adjusted P/E (x)	NM	111.6	24.2	23.9	19.4	
Price / Book (x)	NM	NM	NM	NM	NM	
Adjusted EPS (₹)	(8.1)	10.0	45.9	46.6	57.4	
EV/EBITDA (x)	14.8	13.1	9.9	9.3	7.9	
RoCE (%)	5.4	7.8	16.2	16.2	18.6	
RoE (%)	NM	NM	NM	NM	NM	

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	Q3FY21	YoY (%)	QoQ (%)	Comments
Revenue	4,073.3	4,306.5	4,397.9	4,222.8	-7.4	-3.5	The data revenues (forming ~86% of the revenues) declined by 2.2% YoY (down 0.9% QoQ). Voice segment continued to remain weak with revenues down 30.5% YoY (down 17.2% QoQ) at ₹ 558 crore
Other Income	57.7	15.0	37.3	8.2	54.6	82.5	
Employee Expenses	754.7	766.6	792.2	770.0	-4.7	-0.4	
Administrative Expenses	899.2	882.2	1,048.2	853.9	-14.2	3.3	
Network costs	1,404.2	1,644.2	1,688.6	1,552.9	-16.8	5.9	
Raw Material Expenses	0.0	0.0	0.0	0.0	0.0	0.0	
EBITDA	1,015.2	1,013.5	868.8	1,046.1	16.8	-3.1	
EBITDA Margin (%)	24.9	23.5	19.8	24.8	517 bps	15 bps	
Depreciation	595.0	551.8	686.7	557.0	-13.4	6.8	
Interest	93.1	108.6	123.2	104.4	-24.4	-10.9	
Exceptional Items	-1.2	0.0	378.1	11.4	0.0	0.0	
Total Tax	87.2	93.9	-9.8	71.1	-986.3	22.6	
PAT	299.2	273.0	-275.0	309.2	-208.8	-3.2	PAT beat owing to higher other income, lower interest costs despite higher depreciation.
Total Minutes (in billion)	4.0	4.6	5.4	4.6	-26.4	-14.5	
GDS Revenues	3,515	3,636	3,595	3,549	-2.2	-0.9	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore	FY22E			FY23E			
	Old	New	% Change	Old	New	% Change	
Revenue	18,737.0	17,892.8	-4.5	20,058.2	19,212.5	-4.2	Realign after Q4 performance
EBITDA	4,515.6	4,365.8	-3.3	4,969.3	4,841.6	-2.6	
EBITDA Margin (%)	24.1	24.4	30 bps	24.8	25.2	43 bps	
PAT	1,306.0	1,328.1	1.7	1,568.7	1,636.7	4.3	
EPS (₹)	45.8	46.6	1.7	55.0	57.4	4.3	

Source: Company, ICICI Direct Research

Business Highlights

Voice business:

- Revenue for the quarter came in at ₹ 558 crore, down 30.5% YoY, 17.2% QoQ, on account of a decline in overall voice volume, which came in at 4 billion (bn) minutes, a decline of 26.4% YoY, 14.5% QoQ. Realisations were down 5.6% YoY (down 3.2% QoQ) to ₹ 1.41/minute. Revenue for FY21 came in at ₹ 2791 crore, down 17.3% YoY, on account of a decline in overall voice volume which came in at 18.7 bn minutes, down 19.7% YoY. Realisations were up 2.9% YoY to ₹ 1.5/minute
- Voice margins for the quarter came in at 6.4%, up 70 bps YoY. We note that voice margins were abnormally low in the last quarter owing to one of the deals wherein revenue was booked in preceding quarters while associated one-off cost was booked in the last quarter, which has normalised in the current quarter. Margins improved on cost optimisation. Voice margins for FY21 was at 6.2%, down 160 bps YoY

Data business

- Revenue declined 2.2% YoY, 0.9% QoQ at ₹ 3515 crore, due to weakness in growth services while traditional services continue to grow. Sequential revenue was impacted by slower deal conversion due to Covid and moderation in UCC traffic, which surged in Q4 last year. **Enterprise segment (62% of revenues) was down 2.2% YoY while service providers'/carriers revenues were also down 2.2% YoY.** Revenue for FY21 grew 4.5% YoY, at ₹ 14,310 crore
- EBITDA was at ₹ 980 crore with a margin of 27.9%. EBITDA has grown 19.0% YoY but was down 4.6% QoQ. EBITDA margins expanded 500 bps YoY but tapered by 100 bps QoQ, **due to one off catch up costs.** EBITDA for FY21 was at ₹ 4,088 crore with a margin of 28.6%, an expansion of 650bps YoY

Traditional data services

- Revenue for the quarter was up 3.7% YoY, down 0.5% QoQ at ₹ 2276 crore **with strong growth traction from Enterprise and OTT segments.** ILL grew 13.8% YoY, while IP transit witnessed 6.2% growth YoY. Revenue for FY21 was up 5.6% YoY, at ₹ 9,065 crore **with continued strong growth traction from Enterprise and OTT segments.** For FY21, ILL grew 14.6% YoY while IP transit witnessed 7.4% growth YoY. Reported EBITDA came in at ₹ 3907 crore, witnessing growth of 20.7% YoY, with a margin of 43.1%, up 540 bps YoY on the back of cost efficiency

Growth services:

- Revenue for the quarter came in at ₹ 774 crore, down 9.6% YoY, 3.9% QoQ. Revenue declined on account of slower deal conversion and moderation of UCC traffic, which had surged in Q4 of last year. Within the segment, UCC business declined 36% YoY and V connect declined 12.4% YoY. For FY21, revenue was up 7.1% YoY to ₹ 3,406 crore. EBITDA grew 128% YoY to ₹ 455 crore while margins expanded 700 bps to 13.3%
- EBITDA for the quarter came in at ₹ 65 crore, witnessing 35% YoY and 48.5% QoQ decline. **EBITDA margins have contracted 320 bps YoY to 8.4% (down 720 bps QoQ), due to moderation in revenues and one-off catch up costs**

Transformation services:

- Revenue (net of inter-segmental eliminations) for the quarter was down 5.5% YoY, while it was up 6.1% QoQ to ₹ 341 crore. Revenue for FY21 was ₹ 1,328 crore, a moderate growth of 1.2%.

- EBITDA for the quarter was at ₹ 17 crore (vs. ₹ 9 crore loss Q3). This business was impacted by Covid as volumes were depleted while there were also challenges in execution due to movement related restrictions. EBITDA for FY21 was ₹ 184 crore, growth of 46% YoY, due to visibility on recovery especially from international markets

Innovation services:

- Revenue for the quarter was down 15.0% YoY while it was up 12.8% QoQ to ₹ 37 crore. Revenue for FY21 was up 16.3% YoY, to ₹ 128 crore
- EBITDA loss for Q4FY21 was ₹ 108 crore compared to a loss of ₹ 133 crore in Q4FY20

Payment solutions:

- Revenue came in at ₹ 46crore, down 44% YoY, 22.3% QoQ. The business continued to be impacted by Covid. The company witnessed a dip in average daily transactions to 74 in Q4FY21 (vs. 84 in Q4FY20) due to second wave. The company has moved out of a contract with Ministry of Finance in ATM business from Q4, which will result in loss of ₹ 10 crore revenue per quarter. Revenue for FY21 came in at ₹ 215 crore, down 37.3% YoY
- EBITDA for the quarter was ₹ 9 crore (vs. ₹ 5 crore in Q3) but much lower than ₹ 22 crore EBITDA in Q4FY20. EBITDA for FY21 was only ₹ 6 crore, down 93% YoY

Other highlights:

- Capex for the quarter was at ₹ 392crore vs. ₹ 340 crore in Q3. FCF was ₹ 623 crore (vs. 707 crore in Q3). For the full year capex was at ₹ 1420 crore (vs. ₹ 1596 crore in FY20. Net debt was at ₹ 7786 crore, decline of ₹ 186 crore QoQ, driven by healthy FCF during the quarter. **For FY21, net debt reduced by ₹ 1390 crore, driven by robust FCF. Net debt to EBITDA on TTM basis was 1.8x vs. 2.8x in Q4FY20**
- i) The company paid ₹ 380 crore as a license fee to DoT in Q4 under protest ii) They guided for voice margins of 7-8% iii) The company won large deal for a shipping company, which operates in 209 locations and in 109 countries for platform services iv) It will continue cost saving programme in FY22 as well and they are also looking to change the reporting structure in FY22

Valuations

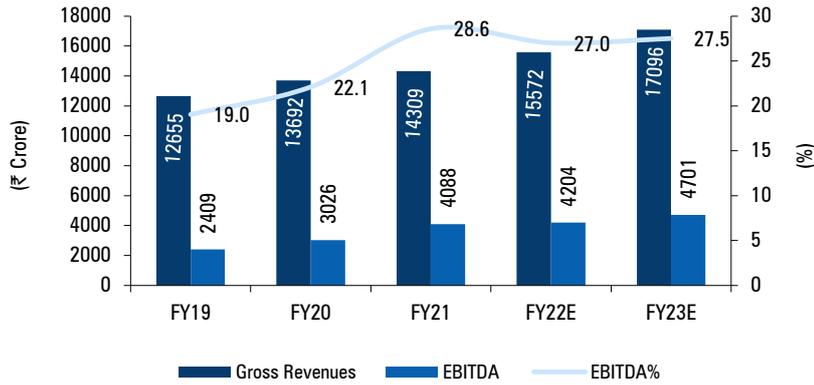
Exhibit 3: Valuations

Particulars	FY23 EBITDA (₹ Crore)	EV/EBITDA (x)	Amount (₹ Crore)
GVS Business Enterprise Value	148.2	2.0	296
GDS Business Enterprise Value (incl. Rent)	4,701.4	9.0	42,313
Data Centre - 26% stake (based on 20x EV/EBITDA)			1,820
Less: Net Debt (incl. Lease Liability)	-	-	6,374
Less: AGR liability	-	-	1,200
Equity Value of the business	-	-	36,855
No. of equity shares outstanding (Crore)	-	-	28.5
Target Price	-	-	1,293
Rounded off Target Price	-	-	1,290

Source: Company, ICICI Direct Research

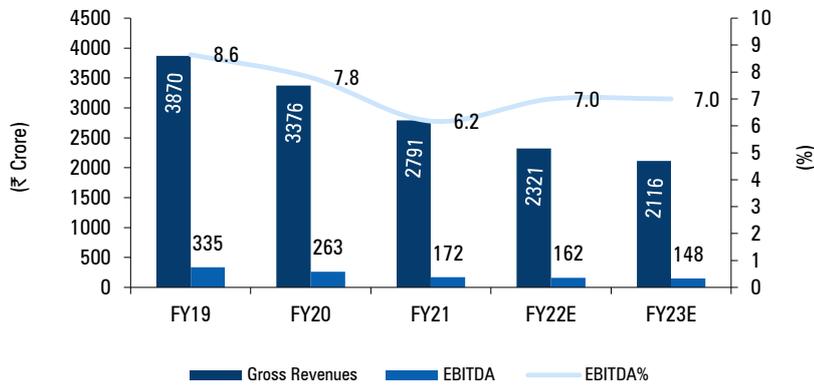
Financial story in charts

Exhibit 4: Global data services operating performance



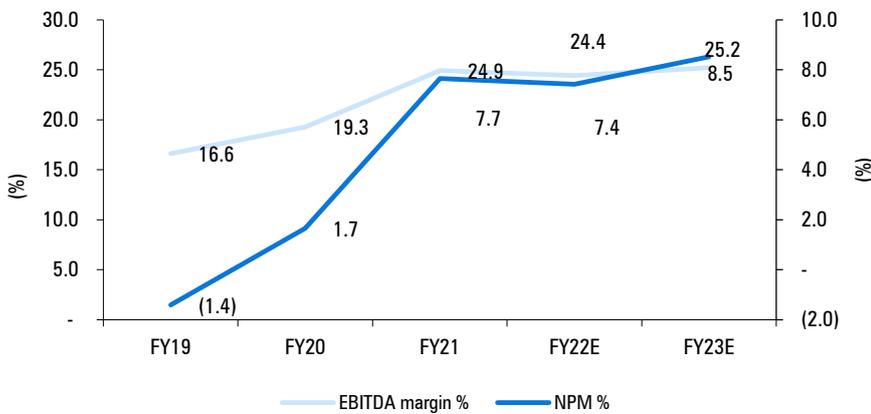
Source: Company, ICICI Direct Research

Exhibit 5: Global voice services operating performance



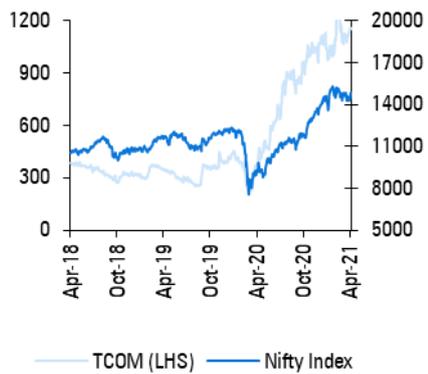
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and NPM margins trend



Source: Company, ICICI Direct Research

Exhibit 7: Price Performance



Source: Bloomberg, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	17068.0	17100.1	17892.8	19212.5
Growth (%)	3.3	0.2	4.6	7.4
Employee Expenses	3039.1	3049.1	3095.5	3323.8
Network costs	6777.6	6333.3	6817.2	7166.3
Administrative Expenses	3962.3	3457.2	3614.3	3880.9
Other Expenses	0.0	0.0	0.0	0.0
Total Operating Expenditure	13779.0	12839.5	13527.0	14371.0
EBITDA	3289.0	4260.6	4365.8	4841.6
Growth (%)	19.8	29.5	2.5	10.9
Depreciation	2357.7	2313.9	2272.4	2382.4
Interest	470.7	420.2	355.2	318.2
Other Income	69.7	156.8	80.0	100.0
Exceptional Items	390.6	74.7	0.0	0.0
PBT	139.7	1608.6	1818.2	2241.0
Minority Interest	1.1	0.9	1.2	1.2
PAT from Associates	2.2	-2.1	2.0	2.0
Total Tax	226.7	354.9	490.9	605.1
PAT	-86.0	1250.6	1328.1	1636.7
Growth (%)	NM	NM	6.2	23.2
Adjusted PAT	283.9	1308.9	1328.1	1636.7
Growth (%)	NM	361.0	1.5	23.2
EPS (₹)	-3.0	43.9	46.6	57.4

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	285.0	285.0	285.0	285.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserve and Surplus	-1,563.4	-169.5	1,058.6	2,595.3
Total Shareholders funds	-1,278.4	115.5	1,343.6	2,880.3
Total Debt	10,746.0	10,001.0	9,201.1	8,001.1
Others	4,996.6	4,304.0	4,067.0	3,827.6
Total Liabilities	14,464.2	14,420.5	14,611.7	14,709.0
Assets				
Gross Block	36,977.0	36,790.4	38,440.4	40,090.4
Less: Acc Depreciation	25,833.4	26,616.4	28,888.7	31,271.1
Net Block	11,143.6	10,174.1	9,551.7	8,819.3
Capital WIP	286.0	394.5	394.5	394.5
Total Fixed Assets	11,429.6	10,568.5	9,946.1	9,213.8
Investments	1,563.1	2,233.4	2,283.4	2,333.4
Goodwill on Consolidation	91.8	110.3	110.3	110.3
Inventory	73.0	34.4	36.0	38.7
Debtors	3,228.9	2,607.7	2,941.3	3,158.2
Loans and Advances	259.6	235.8	246.7	264.9
Other Current Assets	929.6	876.5	917.1	984.7
Cash	909.1	927.1	1,615.7	2,622.7
Total Current Assets	5,400.2	4,681.5	5,756.8	7,069.3
Creditors	3,845.0	3,239.5	3,382.5	3,632.0
Provisions	726.0	688.1	718.5	771.5
Other current liabilities	3,126.3	2,985.3	3,123.7	3,354.1
Total Current Liabilities	7,697.3	6,912.9	7,224.6	7,757.5
Net Current Assets	-2,297.1	-2,231.4	-1,467.8	-688.2
Other non current assets	3,676.8	3,739.7	3,739.7	3,739.7
Application of Funds	14,464.2	14,420.5	14,611.7	14,709.0

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY20E	FY21	FY22E	FY23E
Profit after Tax	-86.0	1250.6	1328.1	1636.7
Add: Depreciation	2357.7	2313.9	2272.4	2382.4
Add: Interest Paid	470.7	420.2	355.2	318.2
(Inc)/dec in Current Assets	-516.6	736.7	-386.8	-305.4
Inc/(dec) in CL and Provisions	1218.2	-784.4	311.8	532.9
Others	0.0	0.0	0.0	0.0
CF from operating activities	3444.1	3937.0	3880.7	4564.7
(Inc)/dec in Investments	-71.8	-670.3	-50.0	-50.0
(Inc)/dec in Fixed Assets	-2222.9	-1452.8	-1650.0	-1650.0
Others	-82.7	-773.9	-237.0	-239.5
CF from investing activities	-2377.4	-2897.0	-1937.0	-1939.5
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	471.7	-745.0	-799.9	-1200.0
Less: Interest Paid	-470.7	-420.2	-355.2	-318.2
Less: Dividend and dividend tax	-135.7	0.0	0.0	0.0
Others	-874.9	143.2	-100.0	-100.0
CF from financing activities	-1009.6	-1022.0	-1255.1	-1618.2
Net Cash flow	57.0	18.0	688.6	1007.0
Opening Cash	852.1	909.1	927.1	1615.7
Closing Cash	909.1	927.1	1615.7	2622.7

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	-3.0	43.9	46.6	57.4
Adj. EPS	10.0	45.9	46.6	57.4
BV	-44.9	4.1	47.1	101.1
DPS	4.8	0.0	0.0	0.0
Cash Per Share	31.9	32.5	56.7	92.0
Operating Ratios (%)				
EBITDA Margin	19.3	24.9	24.4	25.2
PBT / Total Operating income	5.5	11.4	11.7	12.8
PAT Margin	1.7	7.7	7.4	8.5
Inventory days	1.6	0.7	0.7	0.7
Debtor days	69.0	55.7	60.0	60.0
Creditor days	82.2	69.1	69.0	69.0
Return Ratios (%)				
RoE	NM	NM	98.8	56.8
RoCE	7.8	16.2	16.2	18.6
RoIC	7.8	17.8	19.8	24.8
Valuation Ratios (x)				
P/E	-368.6	25.3	23.9	19.4
EV / EBITDA	13.1	9.9	9.3	7.9
EV / Net Sales	2.5	2.5	2.3	2.0
Market Cap / Sales	1.9	1.9	1.8	1.6
Price to Book Value	-24.8	274.4	23.6	11.0
Solvency Ratios				
Net Debt/EBITDA	2.8	1.8	1.4	0.8
Debt / Equity	-8.4	86.6	6.8	2.8
Current Ratio	1.0	1.0	1.0	1.0
Quick Ratio	1.0	0.9	1.0	1.0

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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