

Revenue growth recovery to be key ahead...

About the stock: Tata Communications (TCom) is the leading global digital ecosystem enabler.

- It provides its clientele with state-of-the-art solutions, including a wide range of communication, collaboration, cloud, mobility, connected solutions, network and data centre services

Analyst Meet Takeaways:

- The management reiterated its guidance of RoCE of 25-30%, stepped up capex of US\$300 million (mn) from US\$ 200 mn and EBITDA margin range of 23-25%. **While the company reemphasised its ambition of double digit growth revenue growth in the data segment, largely driven by digital platforms & services (comprising 21% of data revenues), it refrained from guiding on the timeline or any outlook on the revenue front, given the slower conversion of order book into revenues, citing delays from clients' decision making due to component supply shortage**
- It highlighted that its "deeper with fewer" strategy resulted in higher contribution from US\$1 mn+ accounts [million dollar club (MDC)]. The company has added 33 such accounts over FY19-22 and MDC contributed 75% of revenues in FY22 (vs. 67% in FY19), which was the key driver for 28% CAGR in digital platform and services fixed revenue over FY19-22

What should investors do? TCom's share price has grown at ~14% CAGR over the past five years.

- We maintain **BUY** on the company

Target Price and Valuation: We value TCom at a target price of ₹ 1250 as we lower our target multiple to 20x from 24x earlier, amid higher cost of capital in rising interest rate regime.

Key triggers for future price performance:

- Growth will be driven by platforms viz. a) cloud, edge & security b) next generation connectivity c) NetFoundry d) *MOVE & IoT*, wherein each having robust market size growth potential of 15-25% CAGR over the next four to five years

Alternate Stock Idea: Besides TCom, we like Bharti Airtel in telecom space.

- A play on superior operating metric amid telecom sector consolidation
- BUY with a target price of ₹ 860

TATA COMMUNICATIONS

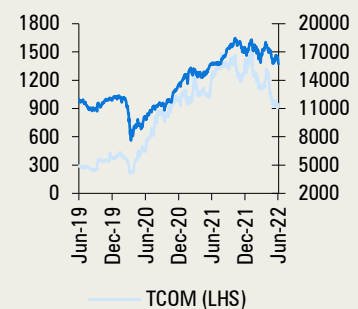
Particulars

Particulars	Amount
Market Capitalization	₹ 25422 Crore
Total Debt (FY22)	₹ 7921 Crore
Inv & Cash (FY22)	₹ 1176.2 Crore
EV	₹ 36951.5 Crore
52 week H/L	1592/ 856
Equity capital (₹ crore)	285.0
Face value (₹)	10.0

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	58.9	58.9	58.9	58.9
DII	6.9	7.2	8.4	11.1
FII	24.0	23.5	21.6	19.4
Other	10.2	10.5	11.2	10.7

Price Chart



Key risks

Key Risk: (i) Delay in revenue growth recovery; (ii) Sustained margin weakness

Research Analyst

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales	16,525.0	17,068.0	17,100.1	16,724.7	(0.6)	17,912.1	19,551.8	8.1
EBITDA	2,744.9	3,289.0	4,260.6	4,226.7	12.1	4,303.9	4,888.0	7.5
PAT	(82.4)	(86.0)	1,250.6	1,481.8	0.3	1,367.8	1,782.1	9.7
P/E (x)	NM	NM	19.9	16.8		18.2	14.0	
Price / Book (x)	NM	NM	216.0	26.9		15.5	9.4	
EPS (₹)	(2.9)	(3.0)	43.9	52.0		48.0	62.5	
EV/EBITDA (x)	12.3	11.1	8.3	7.9		7.6	6.4	
RoCE (%)	7.3	10.6	20.7	26.5		25.5	31.8	
RoE (%)	NM	NM	NM	NM		85.2	67.0	

Other highlights

- The company highlighted its **market share in large enterprises improved by 200 bps to 32.3% in FY22**. Average revenues per customer was up 335 in the last three years and churn reduced by ~20%. It has a strong network coverage in data centre to data centre (DC-DC), Tier 1 and Tier 2 markets in India. It continues to increase network coverage in Tier III, IV markets by building and partnering for more on-net fibre & wireless access
- On **the core connectivity front**, the company intends to leverage the market opportunity in the IZO SDWAN segment (~ US\$ 3 billion market), with likely ~35% industry CAGR over FY21-24E vs. 3% industry CAGR for the IZO Hybrid WAN segment. **The company expects to grow at mid-single digit in core connectivity vs. flattish/decline fat industry levels**
- The company highlighted that **growth funnel (pre stage of order book) has increased, deal win rate has improved in digital segment and the company has expanded product offerings** in next gen connectivity, cloud etc. The newly launched *DIGO* services, along with *MOVE and InstaCC*, offer automations services. The company aims to scale up these segments
- The company **continues to focus on expanding international revenues** (forming just ~51% of total). It has also **put feet on street with new hiring and expanded regional leads presence**. It **aspires to expand the international revenues contribution to two-third of overall, in the medium to long term**

Outlook and valuations

The company's strategic growth plan, focused approach and structural improvement in data segment margins drove the multiple re-rating last year. However, deal closures delays have led to weakness in revenues, and, thus sharp correction recently. We expect ~9.3% revenue CAGR in FY22-24E (vs. 10.3%, earlier) in the overall data segment, with likely acceleration in growth from FY23 onwards. We expect overall margins to be stable at 25% in FY24 vs. 25.3% in FY22, with some weakness likely in FY23. Strong cash flows generation will aid deleveraging. Further growth tailwinds are also likely if the targeted M&A scouting fructify or if they monetise land bank to expand on new segments.

We maintain BUY with a target price of ₹ 1250/share, at 20x FY24 P/E vs. 24x, earlier, amid higher cost of capital in rising interest rate regime.

Exhibit 1: Growth drivers

GROWTH DRIVERS



DIGITAL TRANSFORMATION

- Momentum in Fixed Digital Platforms & Services business, growing at a 3 year CAGR of 20%
- This momentum is seen across all regions and all portfolios
- Current funnel contribution is 55% of overall pipeline



LARGE DEALS FOCUS

- Large Deals order book up 13% YoY
- Large deals open funnel contributing to 46% of total funnel
- Focus on multi-tower deals



NEW LOGO ACQUISITION

- Augmenting Headcount for new customer acquisition in international regions
- Targeting specific industry verticals
- Leveraging partners like TCS for joint GTM

EMPOWERING
TOWARD GROWTH

TATA COMMUNICATIONS

Source: Company, ICICI Direct Research

Exhibit 2: India enterprise segment opportunity

ADDRESSING THE EMERGING INDIA OPPORTUNITY (PRIME)

Volume led growth to address a wider customer base with standard products and bundles in fast-growing market segments. Automated tools for account engagement, order management and delivery



India Prime - Segmentation

Segment	Value (INR Cr)	CAGR
Others	3,104	16.5%
Managed Services	17,100	21.4%
Data Services	17,654	4.6%
Fixed Services	3,739	-5.0%

FY '22 Highlights

- Coming from a small base strong YoY growth seen in order book
- Funnel add is showing high double digit growth with major contribution coming from Digital Platforms & Services
- First of its kind in India (for network services) - TC^x self-serve, in the initial months of launch adopted by over 100 customers

India Enterprise Telecom Market (INR Cr)

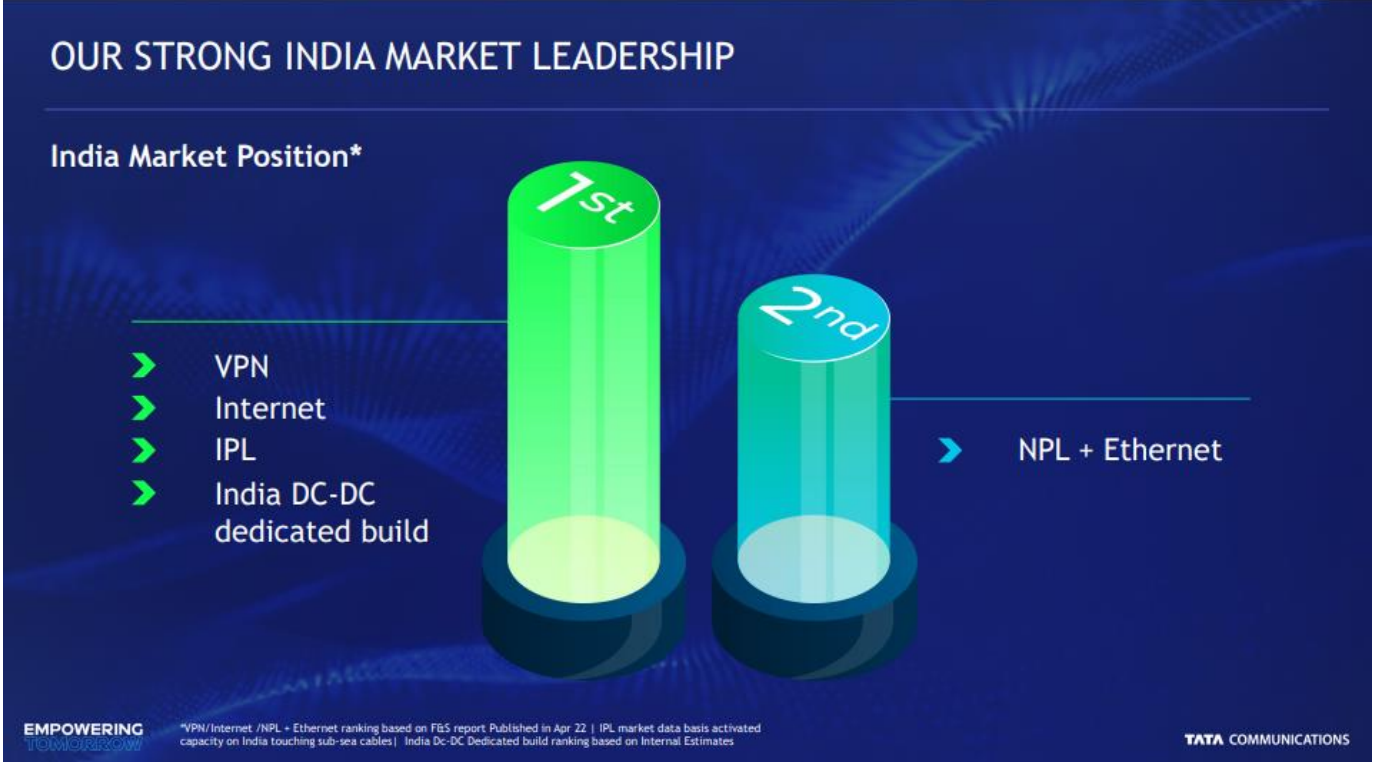
Segment	FY 22	FY 26
Others	1,657	3,104
Managed Services	7,882	17,100
Data Services	14,748	17,654
Fixed Services	4,995	3,739
Total	28,912	41,626

EMPOWERING
TOWARD GROWTH

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Source: Company, ICICI Direct Research

Exhibit 3: India - Market leadership segment



Source: Company, ICICI Direct Research

Exhibit 4: Growth opportunity



Source: Company, ICICI Direct Research

Exhibit 5: SD WAN OPPORTUNITY

SHIFT TO A CLOUD-FIRST, INTERNET FIRST SOFTWARE-DEFINED NETWORK

	IZO™ Hybrid WAN	IZO™ SDWAN
Addressable Market CAGR*	2.6%	35%
2021	\$63.9 bn	\$3 bn
2024	\$69 bn	\$7 bn

* Based on Gartner's Comms Services Forecast, Q1 2022. IZO Hybrid WAN addressable market is defined as 20% of total MPLS market and all of Internet market.

EMPOWERING NETWORKS

TATA COMMUNICATIONS

Source: Company, ICICI Direct Research

Exhibit 6: Cloud and cyber security services

CLOUD & CYBER SECURITY SERVICES OVERVIEW

	CLOUD AND MANAGED HOSTING	MANAGED SECURITY SERVICES																				
OPPORTUNITY	<ul style="list-style-type: none"> Driven by Multi-cloud adoption CSPs expected to manage multi-cloud complexity 	<ul style="list-style-type: none"> Customers opting for Cloud-based security Network Transformation integrates Network & Security Increasing Cyber threats Need to protect 'Data + User + App' anywhere 																				
OUR FOCUS MARKETS	<ul style="list-style-type: none"> India - to be the first-choice multi-cloud platform 	<ul style="list-style-type: none"> India - Offer comprehensive Managed Security Services and lead globally with advanced Network Security Services 																				
MARKET SIZE¹	<table border="1"> <thead> <tr> <th></th> <th>India</th> </tr> </thead> <tbody> <tr> <td>CAGR</td> <td>24%</td> </tr> <tr> <td>2021</td> <td>\$4 bn</td> </tr> <tr> <td>2025</td> <td>\$8.4 bn</td> </tr> </tbody> </table>		India	CAGR	24%	2021	\$4 bn	2025	\$8.4 bn	<table border="1"> <thead> <tr> <th></th> <th>India</th> <th>International</th> </tr> </thead> <tbody> <tr> <td>CAGR</td> <td>22%</td> <td>9%</td> </tr> <tr> <td>2021</td> <td>\$2.1 bn</td> <td>\$145 bn</td> </tr> <tr> <td>2025</td> <td>\$4.7 bn</td> <td>\$218 bn</td> </tr> </tbody> </table>		India	International	CAGR	22%	9%	2021	\$2.1 bn	\$145 bn	2025	\$4.7 bn	\$218 bn
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¹ Gartner

EMPOWERING NETWORKS

TATA COMMUNICATIONS

Source: Company, ICICI Direct Research

Exhibit 7: Media segment opportunity



Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Total operating Income	17100.1	16724.7	17912.1	19551.8
Growth (%)	0.2	(2.2)	7.1	9.2
Employee Expenses	3049.1	3040.3	3260.0	3460.7
Network costs	6333.3	6199.5	6752.9	7351.5
Administrative Expenses	3457.2	3258.2	3595.4	3851.7
Other Expenses	0.0	0.0	0.0	0.0
Total Operating Expenditure	12839.5	12498.0	13608.3	14663.9
EBITDA	4260.6	4226.7	4303.9	4888.0
Growth (%)	29.5	-0.8	1.8	13.6
Depreciation	2313.9	2204.5	2274.8	2346.2
Interest	420.2	360.3	402.7	342.2
Other Income	156.8	332.1	100.0	140.0
Exceptional Items	74.7	-6.0	0.0	0.0
PBT	1608.6	2000.0	1726.4	2339.6
Minority Interest	0.9	2.9	6.0	6.0
PAT from Associates	-2.1	6.8	10.0	10.0
Total Tax	354.9	522.1	362.5	561.5
PAT	1250.6	1481.8	1367.8	1782.1
Growth (%)	NM	18.5	-7.7	30.3
Adjusted PAT	1308.9	1477.4	1367.8	1782.1
Growth (%)	361.0	12.9	-7.4	30.3
EPS (₹)	43.9	52.0	48.0	62.5

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	1250.6	1481.8	1367.8	1782.1
Add: Depreciation	2313.9	2204.5	2274.8	2346.2
Add: Interest Paid	420.2	360.3	402.7	342.2
(Inc)/dec in Current Assets	736.7	-65.2	-271.2	-374.5
Inc/(dec) in CL and Provisions	-784.4	-40.5	450.2	670.3
Others	0.0	0.0	0.0	0.0
CF from operating activities	3937.0	3940.9	4224.3	4766.3
(Inc)/dec in Investments	-670.3	668.1	-50.0	-50.0
(Inc)/dec in Fixed Assets	-1452.8	-2167.6	-2300.0	-2300.0
Others	-773.9	484.9	-234.0	-234.0
CF from investing activities	-2897.0	-1014.6	-2584.0	-2584.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-745.0	-2080.1	-1200.0	-1000.0
Less: Interest Paid	-420.2	-360.3	-402.7	-342.2
Less: Dividend and dividend tax	-135.7	-399.0	-590.0	-627.0
Others	278.9	-270.6	-100.0	-100.0
CF from financing activities	-1022.0	-3109.9	-2292.6	-2069.2
Net Cash flow	18.0	-183.7	-652.3	113.1
Opening Cash	909.1	927.1	743.4	91.1
Closing Cash	927.1	743.4	91.1	204.2

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
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	-169.5	642.6	1,320.5	2,375.6
Total Shareholders funds	115.5	927.6	1,605.5	2,660.6
Total Debt	10,001.0	7,921.0	6,721.0	5,721.0
Others	4,304.0	3,947.0	3,713.0	3,479.0
Total Liabilities	14,420.5	12,795.6	12,039.5	11,860.5
Assets				
Gross Block	38,321.3	40,104.7	42,404.7	44,704.7
Less: Acc Depreciation	28,147.2	30,351.8	32,626.6	34,972.8
Net Block	10,174.1	9,752.9	9,778.1	9,731.9
Capital WIP	394.5	778.7	778.7	778.7
Total Fixed Assets	10,568.5	10,531.6	10,556.8	10,510.6
Investments	2,233.4	1,565.2	1,615.2	1,665.2
Goodwill on Consolidation	110.3	108.3	108.3	108.3
Inventory	34.4	37.9	40.6	44.3
Debtors	2,607.7	2,582.1	2,765.5	3,018.6
Loans and Advances	235.8	232.0	248.5	271.2
Other Current Assets	876.5	967.6	1,036.3	1,131.2
Cash	927.1	743.4	91.1	204.2
Total Current Assets	4,681.5	4,563.0	4,181.9	4,669.5
Creditors	3,239.5	3,006.5	3,189.8	3,481.8
Provisions	688.1	766.6	813.4	887.9
Other current liabilities	2,985.3	3,099.3	3,319.3	3,623.2
Total Current Liabilities	6,912.9	6,872.4	7,322.6	7,992.9
Net Current Assets	-2,231.4	-2,309.4	-3,140.7	-3,323.4
Other non current assets	3,739.7	2,899.8	2,899.8	2,899.8
Application of Funds	14,420.5	12,795.6	12,039.5	11,860.5

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	43.9	52.0	48.0	62.5
Adj. EPS	45.9	51.8	48.0	62.5
BV	4.1	32.5	56.3	93.4
DPS	4.8	14.0	20.7	22.0
Cash Per Share	32.5	26.1	3.2	7.2
Operating Ratios (%)				
EBITDA Margin	24.9	25.3	24.0	25.0
PBT / Total Operating income	11.4	12.1	11.3	13.0
PAT Margin	7.7	8.8	7.6	9.1
Inventory days	0.7	0.8	0.8	0.8
Debtor days	55.7	56.4	56.4	56.4
Creditor days	69.1	65.6	65.0	65.0
Return Ratios (%)				
RoE	NM	159.3	85.2	67.0
RoCE	20.7	26.5	25.5	31.8
RoIC	17.8	18.5	18.4	23.0
Valuation Ratios (x)				
P/E	19.9	16.8	18.2	14.0
EV / EBITDA	8.3	7.9	7.6	6.4
EV / Net Sales	2.1	2.0	1.8	1.6
Market Cap / Sales	1.5	1.5	1.4	1.3
Price to Book Value	216.0	26.9	15.5	9.4
Solvency Ratios				
Net Debt/EBITDA	1.8	1.6	1.4	1.0
Debt / Equity	86.6	8.5	4.2	2.2
Current Ratio	1.0	1.0	1.0	1.0
Quick Ratio	0.9	1.0	1.0	1.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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