October 19, 2022

RESULT REPORT Q2 FY23 | Telecommunication

Tata Communication Ltd

Improvement in sequential performance; pickup in data solutions business imperative for growth

Result Synopsis

Tata Communication (TCOM) reported sequentially improved performance for the quarter. Both, sequential revenue growth and EBITDA margin were slightly above estimates. It reported sequential revenue growth of 2.8% QoQ, led by increase in the revenue of Digital Platforms and Services by 6.1% QoQ. Voice revenue declined by 6.7% QoQ; while data revenue increased by 4.6% QoQ. There was sequential improvement in EBITDA margin(up 51 bps QoQ) led by optimization of other operating expenses. Net debt (as of 30th Sep 2022) increased by Rs 2.6bn QoQ to Rs 64 bn.

It was improved performance as data portfolio grew double digit YoY after a long time. We expect the voice business to continue to decline as per the industry trend; while Data segment would continue to drive the overall performance of the company. Private 5G related capex going ahead should also drive opportunities for the company. We expect that increase in other expenses led by travel and admin cost can put near term pressure on EBITDA margin. We estimate revenue CAGR of 8.7% over FY22-24E with average EBITDA margin of 25.3%. We maintain our NEUTRAL rating on the stock with revised target price of Rs 1,214/share based on EV/EBITDA of 8x(unchanged multiple) on FY24E. The stock trades at EV/EBITDA of 9.3x/8.0x on FY23E/FY24E EPS.

Result Highlights

- Reported revenue of Rs 44.3bn(up 2.8% QoQ, up 6.2% YoY). Voice gross revenue was down 6.7% QoQ (down 14% YoY), while data gross revenue grew by 4.6% QoQ(up 11.2% YoY).
- Total voice minutes declined to 2.9bn minutes in the quarter vs 3.3bn minutes in Q1FY23.
- EBITDA margin grew by 51 bps QoQ to 25.5%, led by optimisation of network and other operating expenses(partly offset by high employee cost).
- Reported PAT declined 2.1% QoQ to Rs 5.3bn, on lower other income in the quarter.
- Capex for the quarter was Rs 3.2bn vs Rs 3.6bn in Q2FY22 and Rs 3.3bn in Q1FY23.
- Net debt increased by Rs 2.6bn QoQ to Rs 64 bn, with net debt/ LTM EBITDA of 1.5x vs Net debt/ LTM EBITDA of 1.4x in Q1FY23.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	44,307	43,737	43,981	1.3%	0.7%
EBITDA	11,296	10,606	10,916	6.5%	3.5%
EBITDA Margin (%)	*25.50%*	*24.25%*	*24.82%*	*125 bps*	*68 bps*
Adjusted PAT	5,323	4,559	3,960	16.8%	34.4%

Source: Company, YES Sec

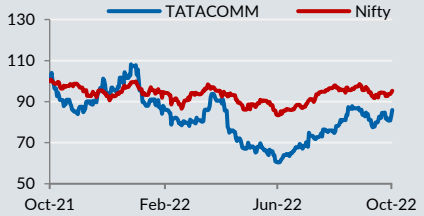
YES SECURITIES INSTITUTIONAL EQUITIES

Reco	:	**NEUTRAL**
CMP	:	Rs 1211
Target Price	:	Rs 1214
Potential Return	:	0%

Stock data (as on Oct 19, 2022)

Nifty	17,512
52 Week h/l (Rs)	1592 / 856
Market cap (Rs/USD mn)	345035 / 4158
Outstanding Shares (mn)	285
6m Avg t/o (Rs mn):	768
Div yield (%):	1.7
Bloomberg code:	TCOM IN
NSE code:	TATACOMM

Stock performance



	1M	3M	1Y
Absolute return	1.5%	21.7%	-17.4%

Shareholding pattern (As of Jun'22 end)

Promoter	58.9%
FII+DII	30.8%
Others	10.2%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	1,214	1,157

Δ in earnings estimates

	FY22	FY23E	FY24E
EPS (New)	51.8	61.2	62.8
EPS (Old)	51.8	57.9	63.4
% change	NA	5.7%	-0.9%

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Net Revenue	1,67,247	1,79,367	1,97,633
YoY Growth	-2.2%	7.2%	10.2%
EBIDTA	42,267	44,941	50,396
YoY Growth	-0.8%	6.3%	12.1%
PAT	14,758	17,449	17,902
YoY Growth	11.4%	18.2%	2.6%
ROE	283.0%	103.5%	56.0%
EPS	52	61	63
P/E	23.4	19.8	19.3
BV	33	86	139
P/BV	10.1	9.3	8.0

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Exhibit 2: Quarterly snapshot Console: Data business drove revenue growth in the quarter

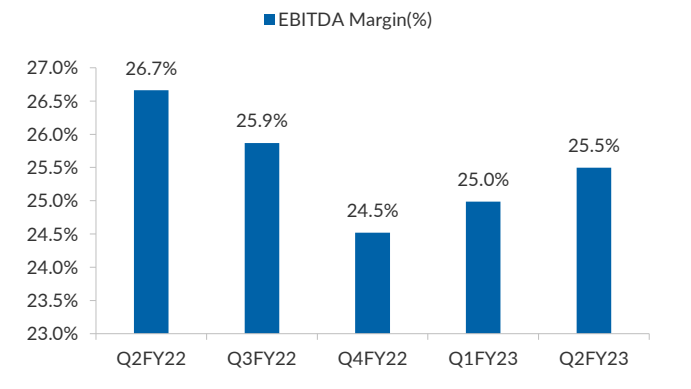
Particulars (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	yoy%	qoq%	H1FY23	H1FY22	YoY%
Sales	41,740	41,849	42,630	43,105	44,307	6.2	2.8	87,413	82,768	5.6
EBITDA	11,129	10,825	10,453	10,770	11,296	1.5	4.9	22,067	20,989	5.1
EBITDA %	26.7	25.9	24.5	25.0	25.5	-117 bps	51 bps	25.2	25.4	-11 bps
Depreciation	5,416	5,425	5,887	5,368	5,516	1.9	2.8	10,885	10,734	1.4
EBIT	5,713	5,400	4,566	5,402	5,780	1.2	7.0	11,182	10,255	9.0
EBIT %	13.7	12.9	10.7	12.5	13.0	-64 bps	51 bps	12.8	12.4	40 bps
Other income	364	188	2,635	2,340	366	0.5	-84.3	2,706	498	443.7
finance cost	908	835	898	799	978	7.7	22.4	1,777	1,870	-5.0
PBT	5,169	4,754	6,304	6,943	5,168	0.0	-25.6	12,111	8,883	36.3
Tax	1,038	958	2,433	1,591	659	-36.5	-58.6	2,250	1,831	22.9
Reported PAT	4,254	3,952	3,651	5,438	5,323	25.1	-2.1	10,761	7,215	49.1

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

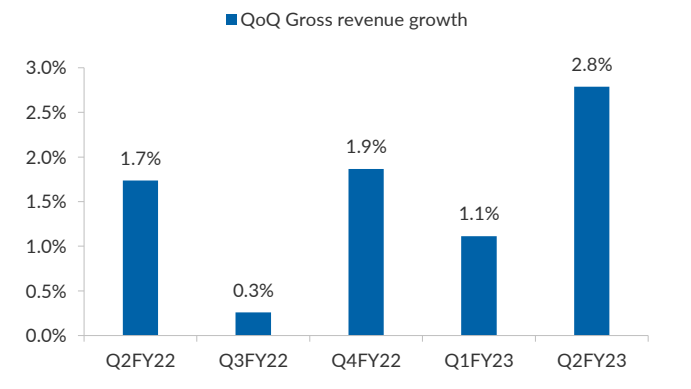
- Maintained EBITDA margin guidance of 23%-25% for FY23.
- Media and Entertainment business grew 30% plus YoY, as it supported 4,000 plus events globally.
- Cloud hosting and Security business grew 21% YoY for the quarter.
- It would take a balanced view on capex spending and the need to reduce debt.
- Disposed off two land parcels in the quarter.
- Sales order book funnel stands at the same size as Q1FY23.
- It is seeing more digital platform related deals in the sales funnel.
- SIP Trunking/Collaboration business had weak quarter in Q2FY23.
- The aim is to sustain the momentum seen in data business.
- It was hampered due to OEM issues in the SD-WAN business.
- It witnessed double digit growth YoY in the data portfolio of business after a long time.

Exhibit 3: Sequential increase in EBITDA margin was led by control on other operating expenses



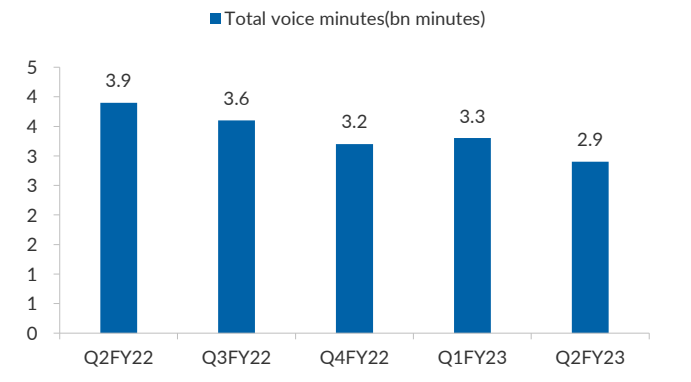
Source: Company, YES Sec

Exhibit 4: Data revenue growth picked up in the quarter



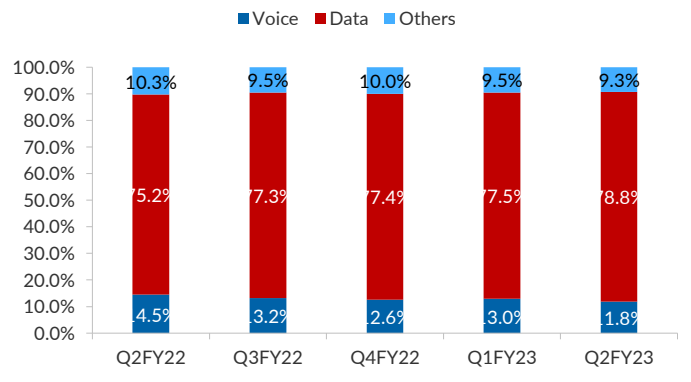
Source: Company, YES Sec

Exhibit 5: Total voice minutes continue to fall



Source: Company, YES Sec

Exhibit 6: Data revenue share to continue to rise



Source: Company, YES Sec

FINANCIALS

Exhibit 7: Balance Sheet

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Reserves & surplus	2,143	(4,668)	(15,634)	(1,695)	6,426	21,595	36,647
Shareholders' funds	4,993	(1,818)	(12,784)	1,155	9,276	24,445	39,497
Minority Intersts and others	45	58	48	282	285	285	285
Non-current liablities	98,615	1,07,363	1,20,647	1,34,232	1,02,812	99,213	91,081
Long-term borrowings	59,098	68,111	82,252	1,00,482	69,958	64,839	55,115
Other non-current liabilities	39,518	39,252	38,394	33,750	32,854	34,374	35,966
Current liabilities	92,374	94,525	1,13,704	77,666	84,307	86,367	85,434
ST borrowings, Curr maturity	17,789	23,706	25,870	11,968	21,749	21,043	17,218
Other current liabilities	74,585	70,819	87,834	65,697	62,558	65,324	68,216
Total (Equity and Liabilities)	1,96,028	2,00,128	2,21,615	2,13,334	1,96,680	2,10,310	2,16,296
Non-current assets	1,46,106	1,47,058	1,62,194	1,54,963	1,47,982	1,56,852	1,56,941
Fixed assets (Net block)	1,13,169	1,15,645	1,26,472	1,15,091	1,12,841	1,14,239	1,14,256
Non-current Investments	11,995	10,108	13,992	14,709	16,548	17,375	18,244
Long-term loans and advances	16,634	15,551	15,940	18,887	13,695	15,065	16,571
Other non-current assets	4,309	5,755	5,790	6,277	4,898	10,173	7,870
Current assets	49,922	53,070	59,421	58,371	48,698	53,458	59,355
Cash & current investment	14,823	14,481	15,709	22,095	11,762	13,087	15,228
Other current assets	35,099	38,589	43,712	36,276	36,936	40,371	44,127
Total (Assets)	1,96,028	2,00,128	2,21,615	2,13,334	1,96,680	2,10,310	2,16,296

Source: Company, YES Sec

Exhibit 8: Income Statement

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	1,66,806	1,65,250	1,70,680	1,71,001	1,67,247	1,79,367	1,97,633
Operating expenses	(1,43,595)	(1,37,801)	(1,37,790)	(1,28,395)	(1,24,980)	(1,34,425)	(1,47,236)
EBITDA	23,211	27,449	32,890	42,606	42,267	44,941	50,396
Depreciation	(19,063)	(20,676)	(23,577)	(23,139)	(22,045)	(22,379)	(24,704)
Other income	2,597	603	697	1,568	3,321	3,442	1,976
EBIT	6,745	7,375	10,009	21,035	23,543	26,004	27,669
Finance cost	(3,445)	(3,966)	(4,707)	(4,202)	(3,603)	(3,703)	(3,738)
Exceptional & extradordinary	(3,755)	22	(3,905)	(747)	60	-	-
Profit before tax	(455)	3,432	1,397	16,086	20,000	22,301	23,930
Tax (current + deferred)	(3,549)	(2,733)	(2,267)	(3,549)	(5,221)	(4,818)	(6,030)
Profit / (Loss) for the period	(4,004)	699	(870)	12,537	14,779	17,483	17,900
P/L of Associates, Min Int, Pref Div	(158)	(1,494)	11	(30)	39	(34)	2
Reported Profit / (Loss)	(4,162)	(795)	(860)	12,506	14,818	17,449	17,902
Adjusted net profit	(407)	(818)	3,046	13,254	14,758	17,449	17,902

Source: Company, YES Sec

Exhibit 9: Cash Flow Statement

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Profit before tax	(455)	3,432	1,397	16,086	20,000	22,301	23,930
Depreciation	19,063	20,676	23,577	23,139	22,045	22,379	24,704
Change in working capital	2,711	(5,976)	12,460	(18,195)	2,371	(1,845)	(2,171)
Total tax paid	(4,064)	(3,143)	(3,875)	(3,878)	(4,266)	(5,014)	(6,247)
Others	3,445	3,966	4,707	4,202	3,603	3,703	3,740
Cash flow from oper. (a)	20,700	18,954	38,267	21,354	43,753	41,525	43,957
Capital expenditure	(15,437)	(23,152)	(34,405)	(11,757)	(19,796)	(23,777)	(24,721)
Change in investments	17,260	(2,206)	(4,542)	(6,923)	6,657	(1,260)	(1,345)
Others	111	(13)	1,316	2	428	(5,057)	2,544
Cash flow from inv. (b)	1,934	(25,371)	(37,630)	(18,679)	(12,710)	(30,095)	(23,523)
Free cash flow (a+b)	22,634	(6,417)	637	2,675	31,043	11,430	20,435
Debt raised/(repaid)	(7,044)	14,930	16,306	4,328	(20,744)	(5,825)	(13,550)
Dividend (incl. tax)	(2,011)	(1,530)	(1,501)	(1,140)	(3,990)	(2,280)	(2,850)
Others	(11,416)	(11,418)	(14,871)	(5,683)	(8,146)	(2,433)	(2,365)
Cash flow from fin. (c)	(20,471)	1,982	(66)	(2,495)	(32,880)	(10,538)	(18,765)
Net chg in cash (a+b+c)	2,163	(4,435)	571	180	(1,837)	892	1,669

Source: Company, YES Sec

Exhibit 10: Ratio Analysis

Y/e March 31	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Growth(%)							
Revenue Growth	(5.3)	(0.9)	3.3	0.2	(2.2)	7.2	10.2
EBITDA Growth	(3.5)	18.3	19.8	29.5	(0.8)	6.3	12.1
EBIT Growth	(25.1)	9.3	35.7	110.2	11.9	10.5	6.4
Net Profit Growth	NA	(80.9)	8.1	NA	18.5	17.8	2.6
Profitability Ratios(%)							
EBITDA Margin	13.9	16.6	19.3	24.9	25.3	25.1	25.5
EBIT margin	4.0	4.5	5.9	12.3	14.1	14.5	14.0
Net Profit margin	(0.2)	(0.5)	1.8	7.8	8.8	9.7	9.1
RoA	3.3	3.7	4.7	9.7	11.5	12.8	13.0
RoE	(3.9)	(51.5)	NA	NA	283.0	103.5	56.0
RoCE	5.1	5.9	7.6	14.9	16.7	18.6	18.9
Liquidity Ratios							
Net debt/Equity (x)	12.3	(43.9)	(7.3)	62.9	8.4	2.9	1.4
Current ratio (x)	0.5	0.6	0.5	0.8	0.6	0.6	0.7
Quick ratio (x)	0.5	0.6	0.5	0.7	0.6	0.6	0.7
Valuation Ratios							
PER(x)	NA	NA	NA	NA	23.4	19.8	19.3
PCE(x)	NA	NA	NA	NA	9.4	8.7	8.1
Price/Book(x)	NA	NA	NA	NA	37.2	14.1	8.7
EV/EBITDA(x)	NA	NA	NA	NA	10.1	9.3	8.0

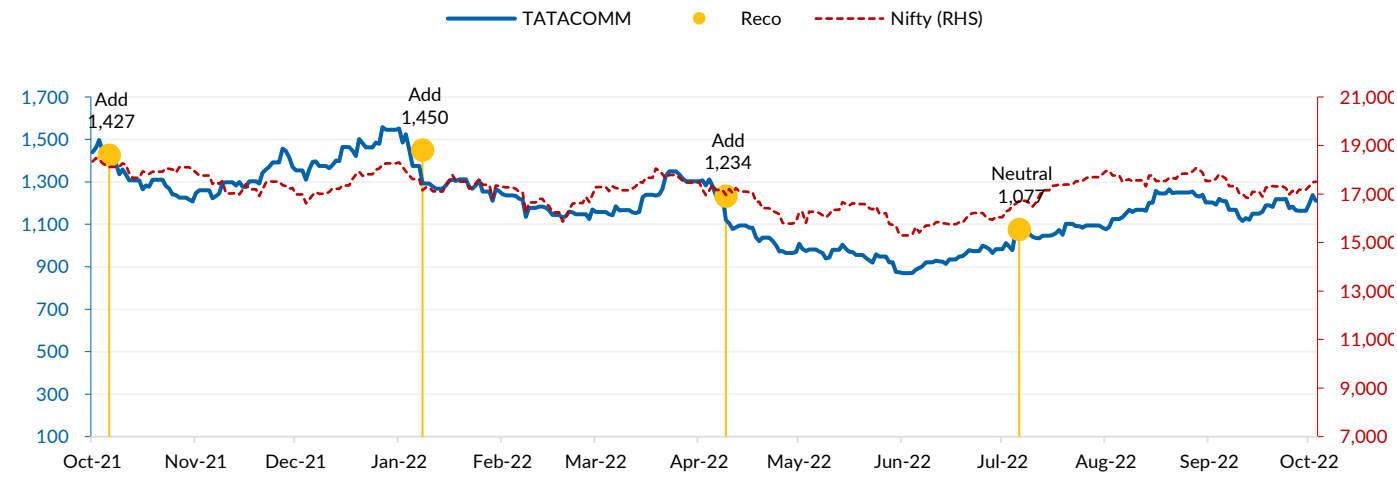
Source: Company, YES Sec

Exhibit 11: Dupont Analysis

Dupont Analysis	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net margin(%)	(0.2)	(0.5)	1.8	7.8	8.8	9.7	9.1
Asset turnover (x)	0.8	0.8	0.8	0.8	0.8	0.9	0.9
Leverage factor (x)	19.5	124.8	(28.9)	(37.4)	39.3	12.1	6.7
Return on Equity(%)	(3.9)	(51.5)	NA	NA	283.0	103.5	56.0

Source: Company, YES Sec

Recommendation Tracker



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9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

PIYUSH KUMAR Digitally signed by PIYUSH KUMAR Date: 2022.10.19 22:45:24 +05'30'

PARTH MANISH GHIYA Digitally signed by PARTH MANISH GHIYA Date: 2022.10.20 00:27:58 +05'30'

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.