

TCom experience center: Demonstrating capability & credibility

Telecommunications ▶ Company Update ▶ September 3, 2023

TARGET PRICE (Rs): 1,710

We visited TCom's Customer Experience Center located in Mumbai, which was launched around April 2022. The center is divided into four zones and creates curated journeys, depending upon customers and their interests, using various use-cases. The discussions are about TCom's capabilities (what TCom can do) as well as its credibility (where TCom has implemented its applications). The center gives an insight into the company's Digital Platform and Solutions (DPS) and discusses case studies to demonstrate how TCom stitches together platforms in the hyper-connected ecosystem to solve customer problems, which can drive TCom's next growth phase. Post the acquisition of Switch and Kaleyra, the focus now shifts to execution, as synergies can help improve margins. We retain our HOLD rating, with a TP of Rs1,710 (10.5x its June-25E EBITDA).

Tata Communications: Financial Snapshot (Consolidated)

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,67,247	1,78,383	1,97,087	2,46,095	2,68,103
EBITDA	42,267	43,182	44,531	53,706	60,268
Adj. PAT	14,758	16,546	15,187	20,480	24,549
Adj. EPS (Rs)	52.0	60.7	53.3	71.9	86.1
EBITDA margin (%)	25.3	24.2	22.6	21.8	22.5
EBITDA growth (%)	(0.8)	2.2	3.1	20.6	12.2
Adj. EPS growth (%)	18.5	16.8	(12.3)	34.9	19.9
RoE (%)	417.0	170.0	87.1	71.7	57.7
RoIC (%)	21.4	29.1	28.4	30.6	32.4
P/E (x)	35.8	31.9	34.8	25.8	21.5
EV/EBITDA (x)	14.1	13.5	13.1	11.0	9.5
P/B (x)	73.5	43.0	23.4	15.3	10.4
FCFF yield (%)	3.5	4.4	1.2	0.0	5.2

Source: Company, Emkay Research

TCom enabling the digital transformation journey of organizations

Network is the core on which customer business runs and TCom enables the digital transformation journey of networks. TCom discussed four important attributes of digital transformation: secure, performant (good performer and intelligent with minimum number of hops), agile (footprint across the world) and scaling (increasing with customer requirements). The shift to platforms has made the company opex focused. TCom is now more about providing managed services, which are not capex heavy. The company takes the solution-based approach in its projects. TCom tries to be competitive in terms of pricing and looks at the cost of delivering the whole solution and the complexity of the solution while billing customers. Pricing is largely based on OEM cost and managed services cost. TCom also provides manpower solutions in case of complicated deals. In case of call center, pricing depends on cost per seat and the nature of the complexity.

Stitching together platforms to solve customer problems; maintain HOLD

TCom's strength lies in operating in areas that include Network, Cloud, Security, IoT, Mobility and Security. At the experience center, six use cases were discussed to showcase TCom's capability and credibility, including: (i) implementing cloud-ready architecture for a multinational medical equipment manufacturer to reduce opex; (ii) implementing connected cars solution using MOVE platform for a European car manufacturer; (iii) shifting agents of a logistics company from a fixed line telephone-based model to a cloud-based model using TCom's global SIM solution; (iv) stitching together customer, contact center agent and delivery agent of a food delivery company using CPaaS platform DIGO; (v) carrying F1 feed from track to production center in London in real time and back to F1 fans with near zero lag; and (vi) deployment of private network on the customer premises using LoraWAN (long-range wide area network) for smart-city solutions. These use cases demonstrate TCom's capability in stitching together platforms to form a digital fabric in the hyper-connected ecosystem, which can drive TCom's next growth phase. We retain HOLD, with a TP of Rs1,710 (10.5x its June-25E EBITDA).

Target Price – 12M	Jun-24
Change in TP (%)	-
Current Reco.	HOLD
Previous Reco.	HOLD
Upside/(Downside) (%)	(7.7)
CMP (01-Sep-23) (Rs)	1,852.4

Stock Data	Ticker
52-week High (Rs)	1,881
52-week Low (Rs)	1,095
Shares outstanding (mn)	285.0
Market-cap (Rs bn)	528
Market-cap (USD mn)	6,382
Net-debt, FY24E (Rs mn)	54,634
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	2,047.7
ADTV-3M (USD mn)	24.8
Free float (%)	-
Nifty-50	19,435
INR/USD	82.7
Shareholding, Jun-23	
Promoters (%)	58.9
FPIs/MFs (%)	17.2/14.1

Price Performance

(%)	1M	3M	12M
Absolute	5.1	38.9	47.4
Rel. to Nifty	6.7	32.1	33.0

1-Year share price trend (Rs)**Santosh Sinha**santosh.sinha@emkayglobal.com
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TCom's capabilities: Empowering tomorrow

- **Platform-based strategy:** TCom has moved from point products to platform-based strategy. Platform for TCom means bringing together different components of tech stack and getting them to work together to solve customer problems. This helps the company to work with customers across different industries. This is leading to TCom's growth, driven largely by Digital Platform Services (DPS). The company discussed its capabilities around key platforms – MOVE and DIGO.
- **TCom network services:** TCom also discussed network services, which start with software defined WAN (SD-WAN). Earlier MPLS used to provide point-to-point connectivity. Now people have moved to SD-WAN due to connectivity required for CLOUD and complications in the network require it to be software defined.
- **IZO-SD-WAN:** IZO-SD-WAN helps reduce costs for customers by up to 25%, while increasing network capacity 10x. About 96% of the network incidences are proactively identified and resolved before a customer complains of an issue. For example, for one of the world's largest call service providers, TCom delivered 4TB of capacity across the segment in the APAC region during the global pandemic. This was supported by TCom's undersea and terrestrial fiber, allowing 99.99% network availability. IZO-SD-WAN helps reduce cost by 30-35% for customers vs. MPLS solutions. TCom makes this possible by collaborating with regional ISPs to provide the first predictable internet in over 150 countries and business broadband in over 40 countries. Its network services have helped enterprises improve latency by 40ms to 200ms, as over 30% of the world's internet prefixes are connected on its network as customers. TCom's customers can reach their destination in a lesser number of hops on average, leading to lower latency and better network performance.

Exhibit 1: TCom's Digital Platforms and Solutions



Source: Company

Use-cases: Digital transformation stories and implementation of TCom's capabilities

- **Network services:** TCom brought down the cost for multinational medical equipment manufacturers, which acquired various companies and grew inorganically with operations in 39 countries. There were various ecosystems that were not synergistic in nature with complexity and lack on integration. The company brought them all together, connected them and made them efficient with integrated managed services capabilities using the consultative approach. TCom rationalized and optimized the current WAN infrastructure to cloud-ready architecture and implemented enterprise grade voice solution and brought down networking cost by 40%. Moreover, its managed security solution offered secured transformation. Now, TCom can continue to grow in multiple geographies, leveraging multiple solutions for a single company.

- **MOVE platform (mobility platform):** This was implemented for a European car manufacturer. The client wanted connectivity across 60 countries, so that connected cars operate seamlessly in all geographies. TCom provided the client with seamless SIM, which optimized connectivity costs and delivered best data plans wherever the client travels, thereby making driving a fully connected experience. Critical telematics provide over-the-air updates, thereby allowing predictive maintenance. Daily insights also help improve future designs. This platform offers connectivity as per the choice of the user (SIM, private 5G or wi-fi) and there is a layer of services. There is also analytics on top of this. MOVE can also be used in other industries like supply chain.
- **Contact center for a logistics company:** Contact center had 8,000 agents working across 200 locations. Agents were on the fixed line telephone-based model. TCom shifted them to the cloud-based model so they enjoy the flexibility of 'as-you-go' model. TCom understood the need for integrated scalable solutions for the company. Powered by Cisco-managed webex contact center and integrated with TCom global SIM solution, the company managed to provide connectivity for all agents. The company moved 8,400 agents, working in 200 locations, in 18 months to this fully integrated cloud-based solution. This enabled the company to provide omni-channel customized experience to customers anywhere in the world. It was done through a web-hosted call center (on the cloud). This increased efficiency and enabled agents to work in a unified environment. This improved RoI through lower capex, run-rate cost and management charges. It allowed agents to pick up conversation from where someone else had left it for a better customer experience. In the second phase, post implementation, CSAT scores increased up to 75% and there were 2-3 layers of cost saving.
- **DIGO (CPaaS platform):** TCom stitched together customer, contact center agent and the delivery agent of a food delivery company, thus leading to huge amount of operational efficiency at the back end. TCom's CPAAS solution delivered 40% saving in operations. There is a strong B2C angle to it, as brand loyalty is low in this case. So, reducing operating cost increases end-customer stickiness. The company has managed to reduce the time for delivery agents to contact restaurants, while maintaining end-to-end privacy, thus increasing efficiency. For added security, calls can be recorded and supervised. The company completed testing, integration and on-boarding of the solution for the food delivery company in just six weeks.
- **F1 relationship:** TCom's team travels with F1 teams across all 23 circuits where races take place. TCom sets up a network operations center at the race track. The company carries the feed from the track to its production center in London, on real-time basis, where the remote production happens. This remotely produced content is fed back to 500mn F1 fans across 180 destinations with near zero lag.
- **IoT LoraWAN:** TCom has also deployed private network on its customer premises using LoraWAN. Using this, the company has implemented smart-city solutions in many cities. It also offers Safe-Pass for industrial areas (go and no-go zones) and passes with built-in SoS-buttons. The company also demonstrated watches with biometric sensors to check stressful situations in a working area that keep sending alerts. Gas leakages in pipelines can also be tracked using IoT and reduce the requirement of manual patrolling.

Allocation of spectrum for private networks can help create a digital ecosystem

The government in India has to take a call if it wants to allocate a spectrum to enterprises for private networks, which has been a practice in many countries, and this can help create a digital ecosystem in India. Allocation of the spectrum just to telcos can create monopolies. There are markets where enterprises are allocated spectrum, although the spectrum can also be leased from telcos for establishing a private network. TCom can provide the private network to enterprises even with Wi-Fi6, in the absence of the spectrum allocation for private network.

Business from sister companies based on merit: There is one Tata team with dedicated account managers to coordinate between sister Tata companies for cross-selling and upscaling opportunities. However, there is no preferential treatment for TCom and such projects are assigned purely on merit basis.

Tata Communications: Consolidated Financials and Valuations

Profit and Loss

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,67,247	1,78,383	1,97,087	2,46,095	2,68,103
Revenue growth (%)	(2.2)	6.7	10.5	24.9	8.9
EBITDA	42,267	43,182	44,531	53,706	60,268
EBITDA growth (%)	(0.8)	2.2	3.1	20.6	12.2
Depreciation & Amortization	22,061	22,618	23,729	25,519	27,291
EBIT	20,206	20,564	20,802	28,187	32,977
EBIT growth (%)	3.8	1.8	1.2	35.5	17.0
Other operating income	0	0	0	0	0
Other income	3,321	3,632	3,000	3,000	3,000
Financial expense	3,603	4,974	4,846	5,664	5,384
PBT	19,924	19,221	18,956	25,523	30,593
Extraordinary items	60	764	0	0	0
Taxes	5,221	2,966	3,815	5,105	6,119
Minority interest	13	49	19	26	31
Income from JV/Associates	68	340	65	87	105
Reported PAT	14,818	17,310	15,187	20,480	24,549
PAT growth (%)	18.5	16.8	(12.3)	34.9	19.9
Adjusted PAT	14,758	16,546	15,187	20,480	24,549
Diluted EPS (Rs)	52.0	60.7	53.3	71.9	86.1
Diluted EPS growth (%)	18.5	16.8	(12.3)	34.9	19.9
DPS (Rs)	20.7	21.0	25.0	30.0	30.0
Dividend payout (%)	39.8	34.6	46.9	41.7	34.8
EBITDA margin (%)	25.3	24.2	22.6	21.8	22.5
EBIT margin (%)	12.1	11.5	10.6	11.5	12.3
Effective tax rate (%)	26.2	15.4	20.1	20.0	20.0
NOPLAT (pre-IndAS)	14,911	17,391	16,615	22,549	26,381
Shares outstanding (mn)	285.0	285.0	285.0	285.0	285.0

Source: Company, Emkay Research

Cash Flows

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	19,924	19,221	18,956	25,523	30,593
Others (non-cash items)	0	0	0	0	0
Taxes paid	(5,221)	(2,966)	(3,815)	(5,105)	(6,119)
Change in NWC	4,062	6,735	(3,331)	(3,650)	1,690
Operating cash flow	40,724	46,610	37,115	42,324	53,499
Capital expenditure	(19,823)	(21,208)	(29,853)	(42,566)	(24,000)
Acquisition of business	6,681	(3,853)	0	(4,529)	0
Interest & dividend income	71	71	71	71	71
Investing cash flow	(9,820)	(21,430)	(26,853)	(44,095)	(21,000)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(22,721)	(5,449)	(5,000)	20,369	(5,000)
Payment of lease liabilities	(2,104)	(1,816)	0	0	10,432
Interest paid	(3,603)	(4,974)	(4,846)	(5,664)	(5,384)
Dividend paid (incl tax)	(5,900)	(5,985)	(7,125)	(8,550)	(8,550)
Others	(2,425)	11,566	2,571	2,034	2,034
Financing cash flow	(34,647)	(4,842)	(14,400)	8,190	(16,899)
Net chg in Cash	(3,744)	20,338	(4,138)	6,419	15,600
OCF	40,724	46,610	37,115	42,324	53,499
Adj. OCF (w/o NWC chg.)	44,786	53,345	33,785	38,673	55,190
FCFF	20,901	25,402	7,262	(242)	29,499
FCFE	17,370	20,499	2,488	(5,835)	24,187
OCF/EBITDA (%)	96.3	107.9	83.3	78.8	88.8
FCFE/PAT (%)	117.2	118.4	16.4	(28.5)	98.5
FCFF/NOPLAT (%)	140.2	146.1	43.7	(1.1)	111.8

Source: Company, Emkay Research

Balance Sheet

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	2,850	2,850	2,850	2,850	2,850
Reserves & Surplus	5,810	10,981	19,750	31,680	47,679
Net worth	8,660	13,831	22,600	34,530	50,529
Minority interests	285	303	284	259	228
Deferred tax liability (net)	(1,868)	(2,798)	(2,798)	(2,798)	(2,798)
Total debt	91,215	85,766	80,766	1,01,135	96,135
Total liabilities & equity	98,292	97,103	1,00,853	1,33,127	1,44,095
Net tangible fixed assets	81,451	78,568	83,666	90,455	71,410
Net intangible assets	16,225	16,460	18,369	19,656	19,842
Net ROU assets	11,488	9,968	9,085	7,545	23,113
Capital WIP	8,723	11,481	11,481	11,481	11,481
Goodwill	0	0	0	10,511	10,511
Investments [JV/Associates]	15,652	19,506	19,506	24,034	24,034
Cash & equivalents	6,820	10,782	6,626	13,675	29,624
Current assets (ex-cash)	52,011	52,803	55,028	72,561	76,322
Current Liab. & Prov.	95,557	1,04,014	1,02,907	1,16,790	1,22,242
NWC (ex-cash)	(43,545)	(51,210)	(47,879)	(44,229)	(45,919)
Total assets	98,292	97,103	1,00,853	1,33,127	1,44,095
Net debt	68,743	55,479	54,634	63,427	42,477
Capital employed	96,814	95,554	1,00,853	1,33,127	1,44,095
Invested capital	65,618	53,786	63,240	83,937	78,956
BVPS (Rs)	25.2	43.1	79.3	121.2	177.3
Net Debt/Equity (x)	9.6	4.5	2.4	1.8	0.8
Net Debt/EBITDA (x)	1.6	1.3	1.2	1.2	0.7
Interest coverage (x)	0.2	0.2	0.2	0.2	0.1
RoCE (%)	22.6	25.2	24.2	26.7	26.0

Source: Company, Emkay Research

Valuations and Key Ratios

Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	35.8	31.9	34.8	25.8	21.5
P/CE(x)	14.3	13.5	13.6	11.5	10.2
P/B (x)	73.5	43.0	23.4	15.3	10.4
EV/Sales (x)	3.6	3.3	3.0	2.4	2.1
EV/EBITDA (x)	14.1	13.5	13.1	11.0	9.5
EV/EBIT(x)	29.5	28.4	28.0	21.0	17.3
EV/IC (x)	9.1	10.8	9.2	7.0	7.2
FCFF yield (%)	3.5	4.4	1.2	0.0	5.2
FCFE yield (%)	3.3	3.9	0.5	(1.1)	4.6
Dividend yield (%)	1.1	1.1	1.3	1.6	1.6
DuPont-RoE split					
Net profit margin (%)	8.8	9.3	7.7	8.3	9.2
Total asset turnover (x)	1.6	1.9	2.0	2.1	1.9
Assets/Equity (x)	29.4	9.9	5.6	4.1	3.3
RoE (%)	417.0	170.0	87.1	71.7	57.7
DuPont-RoIC					
NOPLAT margin (%)	8.9	9.7	8.4	9.2	9.8
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	21.4	29.1	28.4	30.6	32.4
Operating metrics					
Core NWC days	(95.0)	(104.8)	(88.7)	(65.6)	(62.5)
Total NWC days	(95.0)	(104.8)	(88.7)	(65.6)	(62.5)
Fixed asset turnover	0.5	0.5	0.5	0.6	0.6
Opex-to-revenue (%)	37.7	40.1	42.3	41.3	40.8

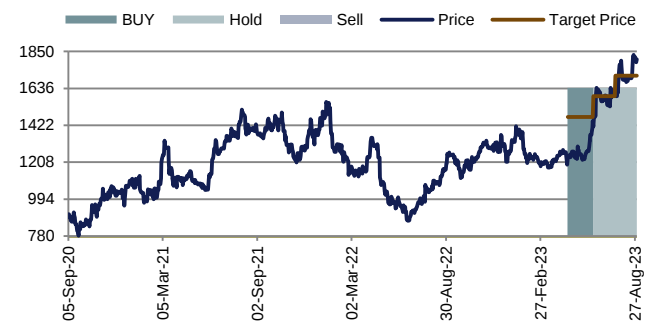
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
20-Jul-23	1,604	1,710	Hold	Santosh Sinha
29-Jun-23	1,583	1,590	Hold	Santosh Sinha
08-Jun-23	1,414	1,590	Hold	Santosh Sinha
20-Apr-23	1,232	1,470	Buy	Santosh Sinha

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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