

Q1FY21 result review  
and reco change

## Telecom

Target price: Rs830

### Earnings revision

(%)	FY21E	FY22E
Revenue	↑ 2.0	↑ 2.1
EBITDA	↑ 13.4	↑ 14.2
PAT	↑ 57.1	↑ 41.2

### Target price revision

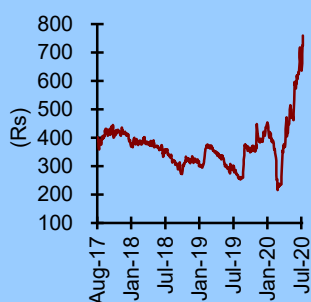
Rs830 from Rs569

### Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	75.0	75.0	75.0
Institutional investors			
MFs and other	19.1	19.0	18.7
Banks/ FIs	0.0	0.0	0.0
Insurance Cos.	1.4	1.4	1.4
FIs	17.7	17.6	17.3
Others	5.9	6.0	6.3

Source: NSE

### Price chart



### Research Analysts:

#### Sanjesh Jain

sanjesh.jain@icicisecurities.com  
+91 22 6637 7153

#### Sameer Pardikar

sameer.pardikar@icicisecurities.com  
+91 22 2277 7637

# Tata Communications

## ADD

Upgrade from HOLD

## Rs760

### New normal deserves an upgrade

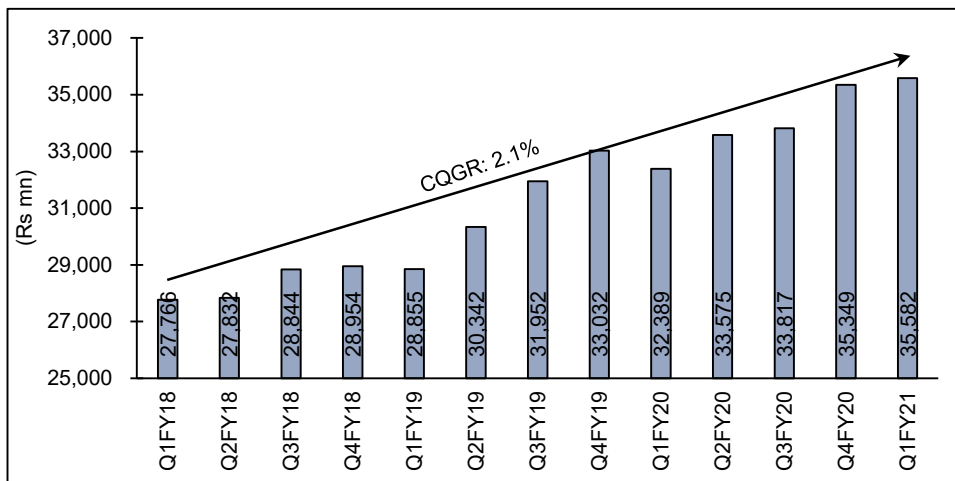
TCom's Q1FY21 EBITDA came in at Rs10bn, 17.5% beat to our estimate, largely due to expansion in traditional services margin to 42% vs 37% in Q4FY20. The margin expansion was driven by cost optimisation and automation. TCom sees only Rs500mn (220bps) of cost to come back on normalisation (benefit on account of lower travel, marketing etc). TCom also hinted at the significant rise in sales funnel, which increases our confidence on revenue growth acceleration in coming quarters. We have raised our EBITDA estimate for TCom by 13.4% and 14.2% for FY21 and FY22 and accordingly, we increase our target price to Rs830 (from Rs569). We have also increased our EBITDA multiple to 7.5x (from 6.5x) on expansion in ROCE to 16% in FY22. We upgrade TCom to ADD (from Hold).

- Why upgrade to ADD (from Hold)?** 1) TCom in the past two years has expanded margins in traditional services by 640bps (adjusted from Ind-AS 116 and Rs500mn benefit of Covid-19). The large part of margin expansion can be attributed to cost optimisation efforts and internal digital transformation (automation); and revenue growth in this segment has been low; however, it is still growing faster than industry. Though we were factoring margin expansion in our estimates, magnitude of margin expansion has surprised positively. Further, company still sees headroom for more margin expansion; 2) TCom indicated its sales funnel looks extremely strong and the company has seen highest addition in Q1FY21. It has also seen traction for its innovative products MOVE and NetFoundry and 3) efforts to transform from being a connectivity provider to platform service provider.
- Right product at the right time:** Covid-19 outbreak has pushed enterprise to embrace work-from-home culture. Enterprises are faced with new challenges of managing productivity of scattered workforce, security risk, supply chain etc. They are restructuring business model with much higher integration of digital ecosystem to address rising business complexity. TCom, with its Secure Connected Digital Experience (SCDx), is well positioned to service these enterprises in post-Covid world. It helps enterprise in faster adoption of digital, which would aid in enhancing employee productivity, providing secure connectivity and cloud through NetFoundry. SCDx provides a fully integrated, consistent, and enhanced user experience across the enterprise value chain to help businesses adapt to new market requirements.
- GDS EBITDA CAGR of 21% over FY20-22E:** We have not increased our GDS revenue estimates, as we would wait to see signs of funnel turning into orderbook and revenue, which means there is an upside risk to our estimates. However, structurally, we see GDS margins remain high, and accordingly, we now see TCom's GDS EBITDA CAGR of 21% over FY20-22E (vs 2.3% CAGR over FY17-19).

Market Cap	Rs217bn/US\$2.9bn
Reuters/Bloomberg	TATA.BO/TCOM IN
Shares Outstanding (mn)	285.0
52-week Range (Rs)	760/216
Free Float (%)	25.0
FII (%)	17.3
Daily Volume (US\$/'000)	1,202
Absolute Return 3m (%)	76.5
Absolute Return 12m (%)	165.8
Sensex Return 3m (%)	12.2
Sensex Return 12m (%)	1.5

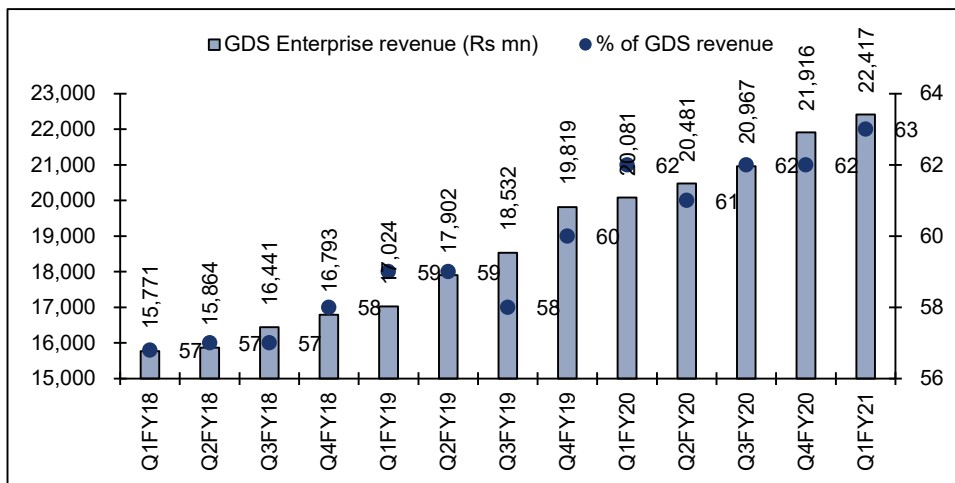
Year to Mar	FY19	FY20	FY21E	FY22E
Revenue (Rs bn)	163.0	168.9	180.9	189.1
Net Income (Rs bn)	(1.2)	3.0	9.5	12.6
EPS (Rs)	(4.3)	10.6	33.2	44.1
% Chg YoY	(346.5)	(345.4)	213.1	33.0
P/E (x)	(136.6)	55.7	17.8	13.4
CEPS (Rs)	68.2	93.3	115.3	126.5
EV/E (x)	10.5	8.5	6.6	5.8
Dividend Yield (%)	0.8	0.7	0.8	0.8
RoCE (%)	1.6	4.8	12.7	15.4
RoE (%)	NA	NA	NA	NA

**Chart 1: GDS revenue has been growing at CQGR of 2.1% since Q1FY18...**



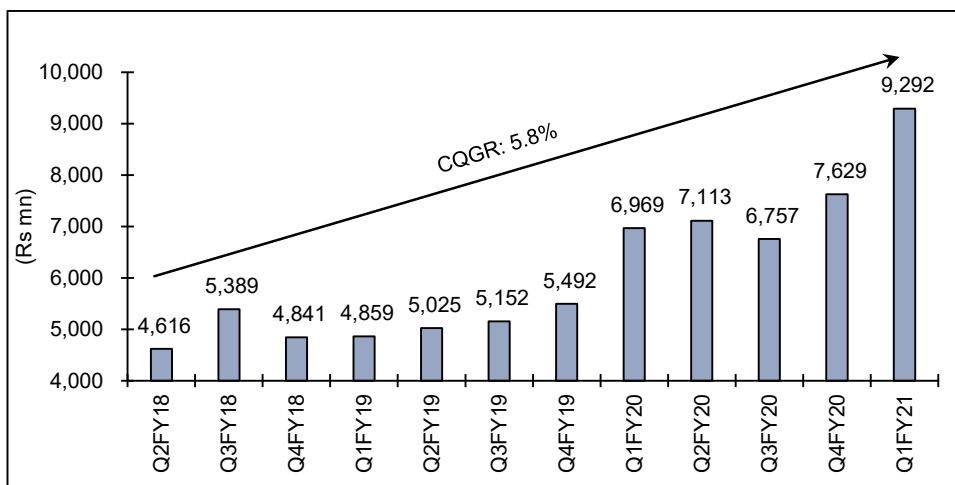
Source: Company data, I-Sec research

**Chart 2: ...driven by enterprise revenue CQGR of 3.0%**



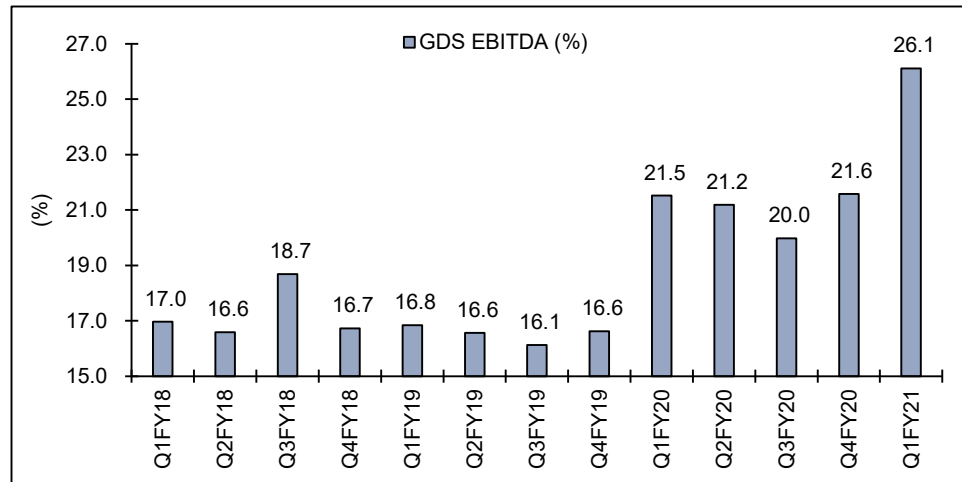
Source: Company data, I-Sec research

**Chart 3: However, EBITDA grew at CQGR of 5.8%...**



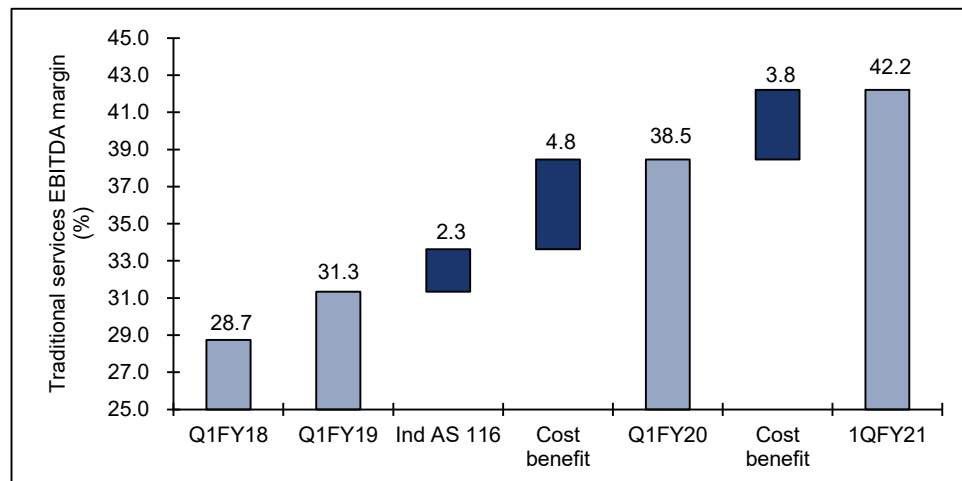
Source: Company data, I-Sec research

**Chart 4: ...driven by significant expansion in EBITDA margin**



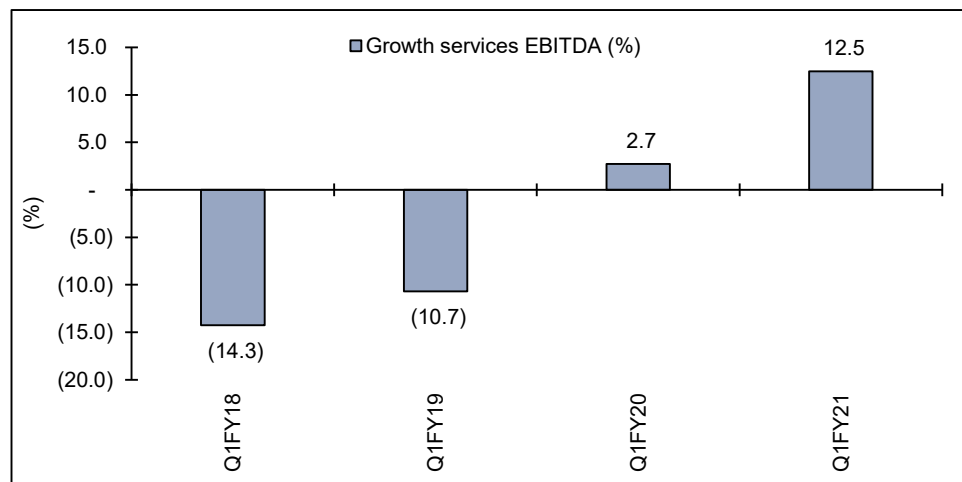
Source: Company data, I-Sec research

**Chart 5: EBITDA expansion mainly came from cost optimisation and internal digital transformation in traditional services...**

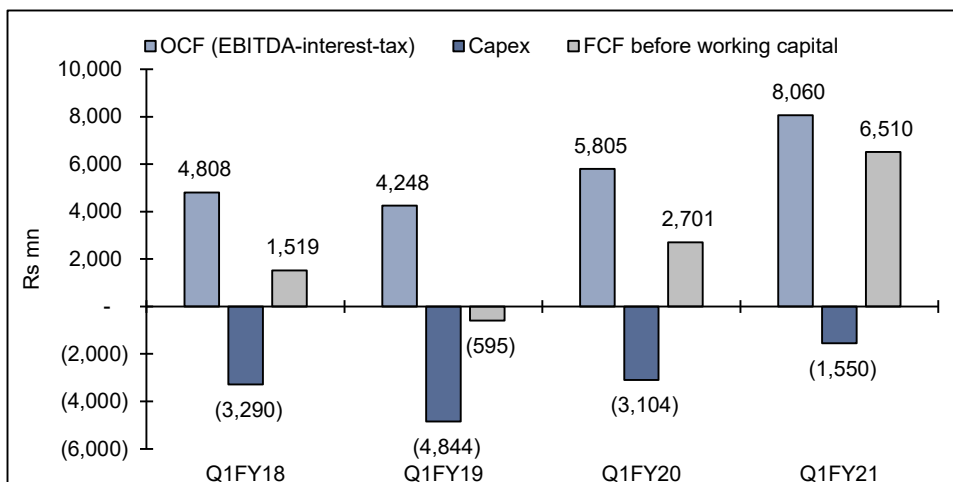


Source: Company data, I-Sec research

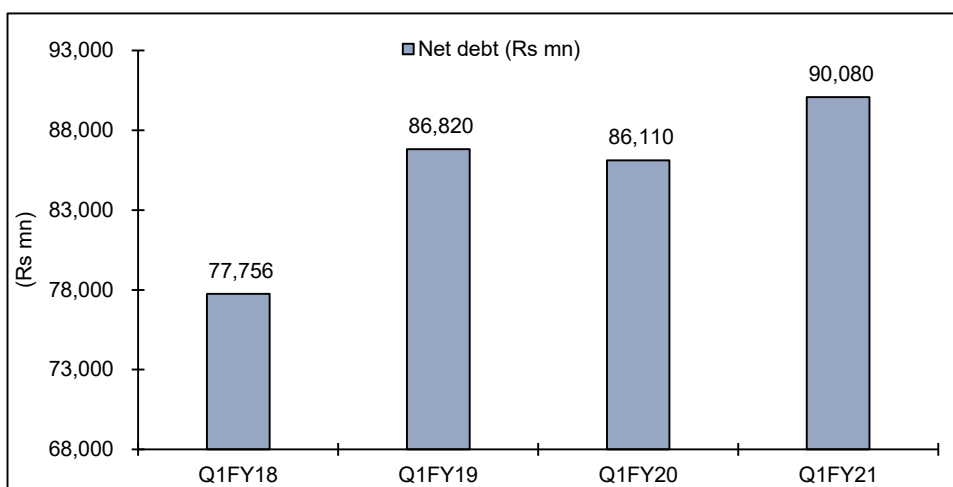
**Chart 6: ...and reduction in losses in growth services**



Source: Company data, I-Sec research

**Chart 7: This led to significant improvement in FCF profile**

Source: Company data, I-Sec research

**Chart 8: Net debt reduction will start hereon**

Source: Company data, I-Sec research

**Table 1: We see TCom's EBITDA CAGR of 18% over FY20-22E**

(Rs mn)	FY17	FY18	FY19	CAGR (%)	FY20	FY21E	FY22E	CAGR (%)
<b>Revenue</b>								
GVS	67,583	53,113	38,703	(24.3)	33,764	31,193	27,458	(9.8)
GDS	1,08,614	1,13,462	1,24,392	7.0	1,35,129	1,49,707	1,61,618	9.4
<b>Total</b>	<b>1,76,197</b>	<b>1,66,575</b>	<b>1,63,095</b>	<b>(3.8)</b>	<b>1,68,893</b>	<b>1,80,900</b>	<b>1,89,076</b>	<b>5.8</b>
<b>% mix</b>								
GVS	38.4	31.9	23.7		20.0	17.2	14.5	
GDS	61.6	68.1	76.3		80.0	82.8	85.5	
<b>EBITDA</b>								
GVS	4,291	3,356	3,347	(11.7)	2,634	1,872	1,647	(20.9)
GDS	19,768	19,558	20,687	2.3	28,459	37,585	41,688	21.0
<b>Total</b>	<b>24,059</b>	<b>22,914</b>	<b>24,034</b>	<b>(0.1)</b>	<b>31,093</b>	<b>39,457</b>	<b>43,335</b>	<b>18.1</b>
<b>EBITDA (%)</b>								
GVS	6.3	6.3	8.6		7.8	6.0	6.0	
GDS	18.2	17.2	16.6		21.1	25.1	25.8	
<b>Total</b>	<b>13.7</b>	<b>13.8</b>	<b>14.7</b>		<b>18.4</b>	<b>21.8</b>	<b>22.9</b>	
<b>% mix</b>								
GVS	17.8	14.6	13.9		8.5	4.7	3.8	
GDS	82.2	85.4	86.1		91.5	95.3	96.2	

Source: Company data, I-Sec research

**Table 2: Expansion of margin in traditional services helps drive EBITDA for GDS**

Rs mn	FY17	FY18	FY19	CAGR (%)	FY20	FY21	FY22	CAGR (%)
<b>Revenue</b>								
Traditional services	77,036	75,939	81,179	2.7	85,669	91,580	95,522	5.6
Growth services (incl Innovation)	16,026	22,350	28,541	33.5	32,907	39,800	45,919	18.1
Subsidiary	15,552	15,107	14,671	(2.9)	16,553	18,328	20,177	10.4
<b>Total</b>	<b>1,08,614</b>	<b>1,13,396</b>	<b>1,24,392</b>	<b>7.0</b>	<b>1,35,129</b>	<b>1,49,707</b>	<b>1,61,618</b>	<b>9.4</b>
<b>% mix</b>								
Traditional services	70.9	67.0	65.3		63.4	61.2	59.1	
Growth services (incl Innovation)	14.8	19.7	22.9		24.4	26.6	28.4	
Subsidiary	14.3	13.3	11.8		12.2	12.2	12.5	
<b>EBITDA</b>								
Traditional services	20,106	22,898	24,005	9.3	31,550	37,548	37,253	8.7
Growth services (incl Innovation)	(1,623)	(4,977)	(4,954)		(3,673)	(1,228)	2,060	
Subsidiary	1,285	1,391	1,636	12.8	590	1,266	2,374	100.6
<b>Total</b>	<b>19,768</b>	<b>19,312</b>	<b>20,687</b>	<b>2.3</b>	<b>28,467</b>	<b>37,585</b>	<b>41,688</b>	<b>21.0</b>
<b>EBITDA (%)</b>								
Traditional services	26.1	30.2	29.6		36.8	41.0	39.0	
Growth services (incl Innovation)	(10.1)	(22.3)	(17.4)		(11.2)	(3.1)	4.5	
Subsidiary	8.3	9.2	11.2		3.6	6.9	11.8	
<b>Total</b>	<b>18.2</b>	<b>17.0</b>	<b>16.6</b>		<b>21.1</b>	<b>25.1</b>	<b>25.8</b>	
<b>% mix</b>								
Traditional services	101.7	118.6	116.0		110.8	99.9	89.4	
Growth services (incl Innovation)	(8.2)	(25.8)	(23.9)		(12.9)	(3.3)	4.9	
Subsidiary	6.5	7.2	7.9		2.1	3.4	5.7	

Source: Company data, I-Sec research

**Table 3: Organic deleveraging to begin from FY21**

Rs mn	FY17	FY18	FY19	CAGR (%)	FY20	FY21	FY22	CAGR (%)
Cashflow from operators	24,162	23,060	23,191	(2.0)	24,911	35,454	38,239	23.9
Less: Chg in working capital	(227)	(5,932)	(4,748)		(7,394)	(6,355)	(5,561)	
<b>CFO after working capital</b>	<b>23,935</b>	<b>17,128</b>	<b>18,443</b>	<b>(12.2)</b>	<b>17,517</b>	<b>29,099</b>	<b>32,678</b>	<b>36.6</b>
<b>% of EBITDA</b>	<b>99.5</b>	<b>74.8</b>	<b>76.7</b>		<b>56.3</b>	<b>73.7</b>	<b>75.4</b>	
Less: Capex	18,140	16,207	17,489		16,045	17,186	17,962	
<b>% of GDS revenue</b>	<b>16.7</b>	<b>14.3</b>	<b>14.1</b>		<b>11.9</b>	<b>11.5</b>	<b>11.1</b>	
<b>FCFF</b>	<b>5,796</b>	<b>921</b>	<b>954</b>		<b>1,472</b>	<b>11,913</b>	<b>14,716</b>	
Finance cost + lease	2,552	2,326	2,758	4.0	4,325	4,784	4,466	1.6
Dividend paid	1,452	2,059	1,541	3.0	1,140	1,283	1,283	6.1
<b>FCF for debt reduction</b>	<b>1,792</b>	<b>(3,464)</b>	<b>(3,344)</b>		<b>(3,993)</b>	<b>5,846</b>	<b>8,967</b>	
<b>% of net debt</b>	<b>2.4</b>	<b>(4.7)</b>	<b>(3.9)</b>		<b>(4.1)</b>	<b>6.5</b>	<b>11.1</b>	

Source: Company data, I-Sec research

## Q1FY21 result review

**GDS revenue rose 9.9% YoY.** TCom's revenue grew 5.5% YoY (0.4% QoQ) to Rs43.6bn driven by GDS revenue growth of 9.9% YoY to Rs36bn while GVS revenue dipped 10.3% YoY (0.5% QoQ) to Rs8bn. Within GDS, traditional services revenue grew 7.8% YoY / 1.5% QoQ to Rs22.3bn driven by significant traction in ILL / IP-T revenue which rose 17.4% YoY to Rs6.5bn. Growth services revenue growth accelerated to Rs9.5bn, up 20.2% YoY which was mainly driven by 58% YoY / 36% QoQ growth in SIP-trunking (UCC) to Rs3.8bn. However, growth services net revenue growth was 17.2% YoY, but dipped 6.9% QoQ to Rs4bn. Subsidiaries' revenue were most impacted from Covid-19 outbreak and were down 35% YoY to Rs0.6bn.

**Traditional services EBITDA zooms.** TCom's EBITDA rose 26.7% YoY / 23.2% QoQ to Rs10bn. GDS' EBITDA growth was strong at 33.3% YoY / 21.8% QoQ to Rs9.2bn. GDS' EBITDA margin expanded 460bps YoY to 26.1%. Within GDS, traditional services' EBITDA was up 18.3% YoY at Rs9.4bn and EBITDA margin expanded to 42.2% (up 380bps YoY). Growth services' (including Innovative services) EBITDA was positive at Rs140mn vs loss of Rs340mn in Q4FY20 on rising margins in Growth services while losses in innovative services were low in the quarter. TCTS reported EBITDA loss of Rs30mn on older lower-margin orders. TCPS' EBITDA was loss of Rs40mn vs EBITDA of Rs220mn in Q4FY20. GVS' EBITDA came in at Rs670mn, down 24.9% YoY but was up 45.7% QoQ. Company's net profit was Rs2.6bn.

### Global Data Services (GDS)

- **GDS revenue** grew 9.9% YoY (+0.7% QoQ) to Rs35.6bn. GDS EBITDA rose 33.3% YoY (21.8% QoQ) to Rs9.3bn on strong performance in traditional and growth services and lower losses in innovation services. Traditional services EBITDA grew 15.9% YoY, while growth services' EBITDA was up 16.2% YoY.
- **GDS revenue by customers:** 1) *Enterprise* segment revenue rose 11.6% YoY / 2.3% QoQ to Rs22.4bn and contributed 63% to GDS revenue, up from 62% in Q1FY20. 2) Service Providers revenue rose 7.0% YoY (however, it was down 2.0% QoQ) to Rs13.1bn.
- **GDS by services: Traditional services** revenue rose 7.8% YoY and 1.5% QoQ to Rs22.3bn and EBITDA rose 18.3% YoY (15.9% QoQ) to Rs9.4bn. EBITDA margin rose to 42.2% (up 380bps YoY / 520bps QoQ).

Within traditional services, VPN (including Ethernet) revenue dipped 0.5% QoQ, grew 0.1% YoY to Rs8.4bn. Traditional network service revenue (including IPL, NPL and IRUs) grew 6.3% YoY / down 1.8% QoQ to Rs4.7bn. IP-T (including ILL) revenue rose 17.4% YoY / 7.4% QoQ to Rs6.5bn. 'Others' segment revenue rose 15.5% YoY / 11.7% QoQ to Rs2.7bn.

- Growth services (including innovation services) revenue grew 20.2% YoY / 5.2% QoQ to Rs9.5bn, while EBITDA turned positive at Rs140mn vs loss of Rs1.1bn in Q1FY20.

Within growth services, SIP-T revenue rose 58% YoY / 36% QoQ to Rs3.8bn, while others (which includes Security services) was up only 1.3% YoY but down 5.0% QoQ to Rs2.9bn.

- *Transformation* services: TCTS revenue rose 11.1% YoY / down 7.9% QoQ to Rs3.3bn. TCTS had EBITDA loss of Rs30mn, which has reduced from loss of Rs160mn in Q4FY20.
- ATM business: Revenue in ATM business dipped 41.5% YoY / 36.6% QoQ to Rs520mn while it showed EBITDA loss of Rs40mn vs EBITDA of Rs220mn in Q4FY20.
- Capex for the quarter stood at Rs3.7bn (8.5% of revenues) vs Rs3.4bn in Q4FY20.
- Gross debt rose by Rs4.6bn to Rs112bn in Q1FY20, while net debt reduced by Rs1.7bn to Rs90bn in Q1FY21.

### **Global Voice Solutions (GVS)**

- Minutes fell 18.8% YoY / 3.7% QoQ to 5.2bn while net revenue dipped 13.4% YoY and rose 15.3% QoQ to Rs1.3bn. This implies net realisation per minute was up 6.6% YoY and 19.8% QoQ to 24.6p/min.
- EBITDA stood at Rs670mn, down 24.9% YoY / up 45.7% QoQ. EBITDA margin stood at 8.4% vs 5.7% in Q4FY20 and 10.0% in Q1FY20.

### **Conference call highlights**

- SCDx will have offerings for 1) workplace - enabling enterprise employees to work remotely, 2) B2C companies - enabling e-commerce and video collaboration for superior digital engagement, 3) B2B companies – digitising and integrating various physical distribution channels and supply chains.
- TCom's NetFoundry will provide secure and high-performance, zero-trust network access, giving remote employees secure access to applications and data in the cloud, regardless of device or broadband connectivity, with 3-10X performance acceleration.
- Sales funnel addition in Q1FY21 was highest single quarter addition in the past two years for the company which gives strong visibility for order pipeline. However, orderbook for the quarter was down QoQ marginally due to Covid-19 crisis.
- Sales funnel has risen for services such as network transformation, UCC, customer experience InstaCC and MOVE. Network transformation involves enter overhaul of connectivity solution including MPLS VPN and cloud connectivity.
- Rs500mn of cost benefit was on account of lower travel, market etc which should come back with the opening up of economy.

**Table 4: Q1FY21 result review (consolidated)**

(Rs mn)

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	QoQ (%)	YoY (%)
<b>Revenue</b>	<b>41,291</b>	<b>42,317</b>	<b>41,904</b>	<b>43,377</b>	<b>43,571</b>	<b>0.4</b>	<b>5.5</b>
Personnel cost	7,687	7,320	7,462	7,922	7,624	(3.8)	(0.8)
% of revenue	18.6	17.3	17.8	18.3	17.5		
Network Costs	17,084	16,966	16,840	16,886	17,413	3.1	1.9
% of revenue	41.4	40.1	40.2	38.9	40.0		
Operating & other Expenses	8,659	10,105	10,377	10,482	8,574	(18.2)	(1.0)
% of revenue	21.0	23.9	24.8	24.2	19.7		
<b>EBITDA</b>	<b>7,861</b>	<b>7,926</b>	<b>7,225</b>	<b>8,087</b>	<b>9,960</b>	<b>23.2</b>	<b>26.7</b>
EBITDA margin (%)	19.0	18.7	17.2	18.6	22.9		
Depreciation and amortisation	5,522	5,583	5,605	6,867	5,899	(14.1)	6.8
<b>EBIT</b>	<b>2,340</b>	<b>2,342</b>	<b>1,620</b>	<b>1,220</b>	<b>4,060</b>	<b>232.9</b>	<b>73.5</b>
Interest	1,157	1,157	1,161	1,232	1,163	(5.6)	0.5
Other income	484	507	523	975	606	(37.9)	25.2
<b>PBT</b>	<b>1,666</b>	<b>1,692</b>	<b>981</b>	<b>963</b>	<b>3,503</b>	<b>263.8</b>	<b>110.3</b>
Exceptional items	(65)	(59)	-	(3,781)	(105)		
Provision for tax	852	1,107	406	(98)	812		
Minority interest	18	14	9	(30)	(8)		
<b>Net income (reported)</b>	<b>766</b>	<b>539</b>	<b>585</b>	<b>(2,750)</b>	<b>2,578</b>		
<b>EPS (Rs)</b>	<b>2.7</b>	<b>1.9</b>	<b>2.1</b>	<b>(9.6)</b>	<b>9.0</b>		

Source: Company data, I-Sec research

Note: Company has reclassified real estate rental income from 'other income' to GDS while cost was factored into expenses. The change is done to match revenues with cost. However, for our analysis and representation, we have taken rental income back to 'other income'.

**Table 5: Segmental performance – GDS EBITDA rose 33.3% YoY**

(Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	QoQ (%)	YoY (%)
<b>Revenue</b>							
GVS	8,903	8,741	8,090	8,030	7,990	(0.5)	(10.3)
GDS	32,389	33,575	33,817	35,349	35,582	0.7	9.9
<b>Core business</b>	<b>41,292</b>	<b>42,316</b>	<b>41,907</b>	<b>43,379</b>	<b>43,572</b>	<b>0.4</b>	<b>5.5</b>
<b>EBITDA</b>							
GVS	892	812	470	460	670	45.7	(24.9)
GDS	6,969	7,113	6,757	7,629	9,292	21.8	33.3
<b>Core business</b>	<b>7,861</b>	<b>7,925</b>	<b>7,227</b>	<b>8,089</b>	<b>9,962</b>	<b>23.2</b>	<b>26.7</b>
<b>EBITDA margin (%)</b>							
GVS	10.0	9.3	5.8	5.7	8.4		
GDS	21.5	21.2	20.0	21.6	26.1		
<b>Core business</b>	<b>19.0</b>	<b>18.7</b>	<b>17.2</b>	<b>18.6</b>	<b>22.9</b>		

Source: Company data, I-Sec research

**Table 6: Enterprise segment grew 11.6% YoY while Service Provider revenue grew 7.0% YoY**

(Rs mn)

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	QoQ (%)	YoY (%)
<b>GDS revenue - by customers</b>							
Service provider	12,308	13,094	12,851	13,432	13,165	(2.0)	7.0
Enterprise segment	20,081	20,481	20,967	21,916	22,417	2.3	11.6
<b>Total</b>	<b>32,389</b>	<b>33,575</b>	<b>33,817</b>	<b>35,349</b>	<b>35,582</b>	<b>0.7</b>	<b>9.9</b>

Source: Company data, I-Sec research



**Table 7: Growth services EBITDA loss reduced YoY due to profits in ex-innovation services**

GDS by Services - Rs mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	QoQ (%)	YoY (%)
<b>Gross revenue</b>	<b>32,437</b>	<b>33,631</b>	<b>33,850</b>	<b>35,380</b>	<b>35,600</b>	<b>0.6</b>	<b>9.8</b>
Traditional Services	20,680	21,608	21,590	21,960	22,290	1.5	7.8
Growth Services	7,870	7,937	8,110	8,990	9,460	5.2	20.2
Subsidiaries	3,887	4,086	4,150	4,430	3,850	(13.1)	(1.0)
<b>Net revenue</b>	<b>21,462</b>	<b>21,914</b>	<b>21,620</b>	<b>22,810</b>	<b>22,780</b>	<b>(0.1)</b>	<b>6.1</b>
Traditional Services	16,995	17,467	17,480	17,800	18,020	1.2	6.0
Growth Services	3,548	3,553	3,780	4,470	4,160	(6.9)	17.2
Subsidiaries	919	894	360	540	600	11.1	(34.7)
<b>EBITDA</b>	<b>7,184</b>	<b>7,325</b>	<b>6,940</b>	<b>7,840</b>	<b>9,480</b>	<b>20.9</b>	<b>32.0</b>
Traditional Services	7,952	8,170	8,130	8,120	9,410	15.9	18.3
Growth Services	(1,144)	(1,219)	(970)	(340)	140	(141.2)	(112.2)
Subsidiaries	376	374	(220)	60	(70)	(216.7)	(118.6)
<b>EBITDA margin (%)</b>	<b>22.1</b>	<b>21.8</b>	<b>20.5</b>	<b>22.2</b>	<b>26.6</b>		
Traditional Services	38.5	37.8	37.7	37.0	42.2		
Growth Services	(14.5)	(15.4)	(12.0)	(3.8)	1.5		
Subsidiaries	9.7	9.2	(5.3)	1.4	(1.8)		

Source: Company data, I-Sec research

**Table 8: Growth services revenue grew 20.1% YoY**

GDS by Services - Revenue Rs mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	QoQ (%)	YoY (%)
<b>Traditional Services</b>	<b>20,701</b>	<b>21,586</b>	<b>21,590</b>	<b>21,960</b>	<b>22,312</b>	<b>1.6</b>	<b>7.8</b>
Traditional Network Services (IPL, NPL, IRUs)	4,426	4,494	4,685	4,787	4,703	(1.8)	6.3
VPN Services	8,396	8,470	8,636	8,696	8,403	(3.4)	0.1
Internet Transit (IP-T, ILL)	5,563	5,834	5,808	6,083	6,531	7.4	17.4
Others	2,316	2,787	2,461	2,394	2,675	11.7	15.5
<b>Growth Services (excl Innovation services)</b>	<b>7,688</b>	<b>7,715</b>	<b>7,842</b>	<b>8,560</b>	<b>9,230</b>	<b>7.8</b>	<b>20.1</b>
SIP-T	2,412	2,477	2,253	2,791	3,803	36.3	57.7
Hosting	745	772	950	933	794	(14.9)	6.6
GHSS	200	208	236	240	332	38.6	66.4
V Connect	837	764	754	753	388	(48.5)	(53.7)
VS & IPT	660	694	707	822	1,043	26.9	57.9
Others	2,834	2,801	2,944	3,022	2,871	(5.0)	1.3
<b>Subsidiaries</b>	<b>3,887</b>	<b>4,086</b>	<b>4,150</b>	<b>4,430</b>	<b>3,850</b>	<b>(13.1)</b>	<b>(1.0)</b>
TCTSL	2,998	3,236	3,280	3,610	3,330	(7.8)	11.1
TCPSL	889	850	870	820	520	(36.6)	(41.5)

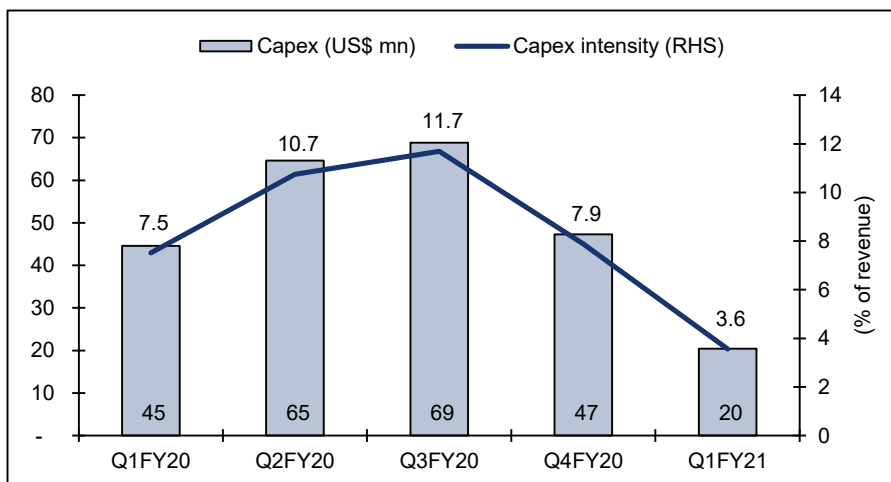
Source: Company data, I-Sec research

**Table 9: Global voice solutions – net revenue up 15.3% QoQ**

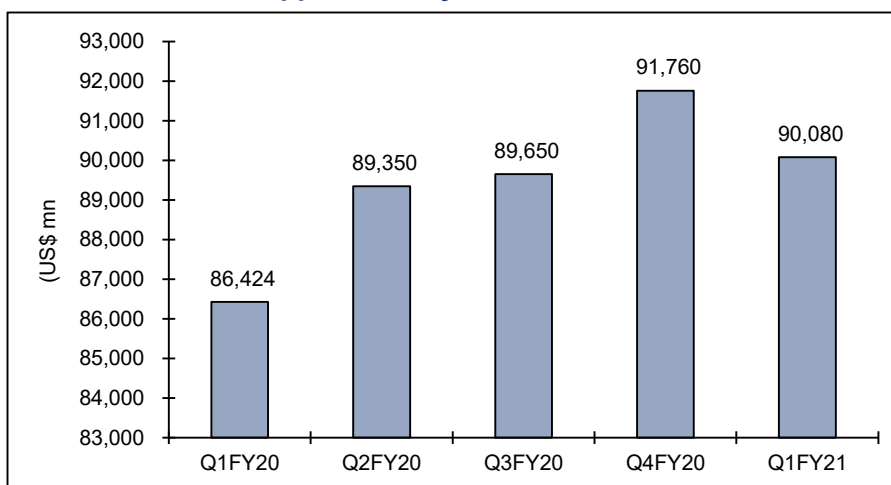
(Rs mn)

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	QoQ (%)	YoY (%)
<b>Revenue</b>	<b>8,903</b>	<b>8,741</b>	<b>8,090</b>	<b>8,030</b>	<b>7,990</b>	<b>(0.5)</b>	<b>(10.3)</b>
<b>Minute (bn)</b>							
NLD	0.3	0.1	0.1	0.1	0.1	-	(66.7)
ILD	6.1	5.8	5.4	5.3	5.1	(3.8)	(16.4)
<b>Total</b>	<b>6.4</b>	<b>5.9</b>	<b>5.5</b>	<b>5.4</b>	<b>5.2</b>	<b>(3.7)</b>	<b>(18.8)</b>
<i>Implied realisation/min (Rs)</i>	<i>1.39</i>	<i>1.48</i>	<i>1.47</i>	<i>1.49</i>	<i>1.54</i>	<i>3.3</i>	<i>10.5</i>
<b>Net revenue</b>	<b>1,478</b>	<b>1,493</b>	<b>1,030</b>	<b>1,110</b>	<b>1,280</b>	<b>15.3</b>	<b>(13.4)</b>
<b>Net revenue/min (Rs)</b>	<b>0.231</b>	<b>0.253</b>	<b>0.187</b>	<b>0.206</b>	<b>0.246</b>	<b>19.8</b>	<b>6.6</b>
EBITDA	892	812	470	460	670	45.7	(24.9)
<b>Implied EBITDA/min (Rs)</b>	<b>0.139</b>	<b>0.138</b>	<b>0.085</b>	<b>0.085</b>	<b>0.129</b>	<b>51.3</b>	<b>(7.6)</b>

Source: Company data, I-Sec research

**Chart 9: Capex intensity at 3.6% of revenue**

Source: Company data, I-Sec research

**Chart 10: Net debt dipped QoQ by Rs1.7bn**

Source: Company data, I-Sec research

**Table 10: SoTP-based valuation**

(Rs mn)

	FY22E	Remark
EBITDA (adj for Ind-AS 116)	39,936	
Multiple (x)	7.5	
<b>Enterprise value...(a)</b>	<b>299,518</b>	
<b>Rental revenue</b>	<b>1,879</b>	
Multiple (x)	6.0	
<b>Enterprise value...(b)</b>	<b>11,272</b>	
<b>Data Centre (26% stake)</b>	<b>1,696</b>	<b>Proportionate</b>
Multiple (x)	12.0	
<b>Enterprise value...(c)</b>	<b>20,356</b>	
<b>Total EV (a+b+c)</b>	<b>331,146</b>	
Net debt	81,026	
<b>Equity value</b>	<b>250,120</b>	
<b>Equity value (Rs/sh)</b>	<b>878</b>	
Less: AGR liability	47	<b>Rs13.5bn</b>
<b>TCom's target price (Rs)</b>	<b>830</b>	

Source: Company data, I-Sec research

**Table 11: Earnings revision***(Rs mn)*

	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
<b>Segment revenue</b>						
GVS	31,193	27,458	31,193	27,458	-	-
GDS	149,707	161,618	146,159	157,740	2.4	2.5
<b>Segment EBITDA</b>						
GVS	1,872	1,647	1,872	1,647	-	-
GDS	37,585	41,688	32,912	36,300	14.2	14.8
<b>Consolidated</b>						
Revenue	180,900	189,076	177,352	185,198	2.0	2.1
EBITDA	39,457	43,335	34,784	37,948	13.4	14.2
<i>EBITDA margin (%)</i>	<i>21.8</i>	<i>22.9</i>	<i>19.6</i>	<i>20.5</i>		
PAT	9,452	12,569	6,017	8,659	57.1	45.2

Source: I-Sec research

## Financial summary

Table 12: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Operating Income (Sales)</b>	<b>163,043</b>	<b>168,893</b>	<b>180,900</b>	<b>189,076</b>
<b>Operating Expenses</b>	<b>139,009</b>	<b>137,800</b>	<b>141,443</b>	<b>145,741</b>
<b>EBITDA</b>	<b>24,034</b>	<b>31,093</b>	<b>39,457</b>	<b>43,335</b>
% margins	14.7	18.4	21.8	22.9
Depreciation & Amortisation	20,676	23,578	23,408	23,481
Net Interest	3,966	4,707	5,189	4,895
Other Income	1,910	2,488	2,594	2,706
<b>Recurring PBT</b>	<b>1,302</b>	<b>5,296</b>	<b>13,454</b>	<b>17,665</b>
Add: Extraordinaries	406	(3,905)	-	-
Less: Taxes	2,733	2,267	4,355	5,533
- Current tax	2,733	2,267	4,355	5,533
- Deferred tax				
Less: Minority Interest	(201)	11	(352)	(436)
<b>Net Income (Reported)</b>	<b>(824)</b>	<b>(886)</b>	<b>9,452</b>	<b>12,569</b>
<b>Recurring Net Income</b>	<b>(1,230)</b>	<b>3,019</b>	<b>9,452</b>	<b>12,569</b>

Source: Company data, I-Sec research

Table 13: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Assets</b>				
Total Current Assets	67,205	66,872	72,344	78,453
of which cash & cash eqv.	8,521	4,527	2,374	3,341
Total Current Liabilities & Provisions	101,923	109,704	110,975	110,556
<b>Net Current Assets</b>	<b>(34,718)</b>	<b>(42,833)</b>	<b>(38,631)</b>	<b>(32,103)</b>
<b>Investments</b>	<b>14,913</b>	<b>14,913</b>	<b>14,913</b>	<b>14,913</b>
<b>of which</b>				
Strategic/Group	8,953	8,953	8,953	8,953
Other Marketable	5,960	5,960	5,960	5,960
<b>Net Fixed Assets</b>	<b>115,645</b>	<b>127,331</b>	<b>122,449</b>	<b>119,208</b>
Goodwill	863	863	863	863
Deferred Tax Assets	1,503	1,503	1,503	1,503
<b>Total Assets</b>	<b>98,205</b>	<b>101,777</b>	<b>101,097</b>	<b>104,383</b>
<b>Liabilities</b>				
Borrowings	99,349	107,176	98,327	90,327
Deferred tax liability	616	616	616	616
Minority Interest	58	58	58	58
Equity Share Capital	2,850	2,850	2,850	2,850
Face Value per share (Rs)	10.0	10.0	10.0	10.0
Reserves & Surplus	(4,668)	(8,922)	(753)	10,533
<b>Net Worth</b>	<b>(1,818)</b>	<b>(6,072)</b>	<b>2,097</b>	<b>13,383</b>
<b>Total Liabilities</b>	<b>98,205</b>	<b>101,777</b>	<b>101,097</b>	<b>104,383</b>

Source: Company data, I-Sec research

Table 14: Quarterly trend

(Rs mn, year ending March 31)

	Sep-19	Dec-19	Mar-20	Jun-20
Net sales	42,317	41,904	43,377	43,571
% growth (YoY)	4.9	1.2	3.2	5.5
EBITDA	7,926	7,225	8,087	9,960
Margin (%)	18.7	17.2	18.6	22.9
Other income	507	523	975	606
Add: Extra ordinaries	(59)	-	(3,781)	(105)
<b>Net profit</b>	<b>539</b>	<b>585</b>	<b>(2,750)</b>	<b>2,578</b>

Source: Company data

Table 15: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Operating Cashflow</b>	<b>23,191</b>	<b>24,911</b>	<b>35,454</b>	<b>38,239</b>
Working Capital Changes	(4,748)	(7,394)	(6,355)	(5,561)
Capital Commitments	(18,497)	(16,045)	(17,186)	(17,962)
<b>Free Cashflow</b>	<b>(54)</b>	<b>1,472</b>	<b>11,913</b>	<b>14,716</b>
<b>Cashflow from Investing Activities</b>	<b>(4,384)</b>	<b>2,488</b>	<b>2,594</b>	<b>2,706</b>
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	3,861	(2,106)	(10,190)	(10,277)
Dividend paid & Others	(4,138)	(5,847)	(6,471)	(6,177)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(4,714)</b>	<b>(3,993)</b>	<b>(2,154)</b>	<b>967</b>

Source: Company data, I-Sec research

Table 16: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Per Share Data (in Rs.)</b>				
Recurring EPS	(4.3)	10.6	33.2	44.1
Reported EPS	(2.9)	(3.1)	33.2	44.1
Recurring Cash EPS	68.2	93.3	115.3	126.5
Dividend per share (DPS)	4.5	4.0	4.5	4.5
Book Value per share (BV)	(6.4)	(21.3)	7.4	47.0
<b>Growth Ratios (%)</b>				
Operating Income	(2.1)	3.6	7.1	4.5
EBITDA	4.9	29.4	26.9	9.8
Recurring Net Income	40.5	(254.9)	458.8	33.0
Diluted Recurring EPS	(346.5)	(345.4)	213.1	33.0
Diluted Recurring CEPS	(0.6)	36.8	23.5	9.7
<b>Valuation Ratios (x)</b>				
P/E	(136.6)	55.7	17.8	13.4
P/CEPS	8.6	6.3	5.1	4.7
P/BV	(92.4)	(27.7)	80.1	12.6
EV / EBITDA	10.5	8.5	6.6	5.8
EV / Operating Income	1.6	1.6	1.4	1.3
EV / Operating FCF	2,230.0	180.3	21.7	17.0
<b>Operating Ratios</b>				
Other Income / PBT (%)	146.7	47.0	19.3	15.3
Effective Tax Rate (%)	209.9	42.8	32.4	31.3
NWC / Total Assets (%)	(35.4)	(42.1)	(38.2)	(30.8)
Inventory Turnover (days)	1.7	1.7	1.7	1.7
Receivables (days)	66.5	71.0	76.0	81.1
Payables (days)	340.0	372.8	365.7	355.5
Net Debt/EBITDA Ratio (x)	3.5	3.1	2.3	1.9
Capex % of sales	11.3	9.5	9.5	9.5
<b>Profitability Ratios (%)</b>				
Rec.Net Income Margins	(0.7)	1.0	5.2	6.6
RoCE	1.6	4.8	12.7	15.4
RoIC	1.0	6.0	13.1	15.7
RoNW	(68.8)	(42.9)	(475.5)	162.4
Dividend Yield	0.8	0.7	0.8	0.8
EBITDA Margins	14.7	18.4	21.8	22.9

Source: Company data, I-Sec research

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