

# Tata Communication

ADD

CMP Rs1,112

Target Rs1,225

Upside 10.2%

## Result Highlights

- ✓ Reported revenue of Rs 40.7bn (down 3.5% QoQ), which was below consensus estimate. The weak revenue performance was due to sharper degrowth in voice business (down 17% QoQ on gross basis) and unexpected slight decline in data business (down 1% QoQ)
- ✓ The decline in data revenue was due to longer deal conversion and execution cycle due to Covid19 and the moderation of UCC traffic.
- ✓ However, ongoing cost optimization helped it to report 15 bps increase in EBITDA margin to 24.9%.
- ✓ Strong cash flow generation has helped to reduce net debt by Rs 186 cr to Rs 7,786 crore at Net debt/ LTM EBITDA of 1.8x compared to 2.8x in the same quarter last year.
- ✓ It has returned to sustained profitability as it posted profit of Rs 299 crore compared to loss of Rs 275 crore in Q4FY20
- ✓ The board also recommended final dividend of Rs 14/ share for the financial year ended March 31, 2021.
- ✓ While the revenue growth has remained elusive for many quarters, the company has delivered strong margin performance and it is expected that pick up in Growth Services will help to drive revenue growth going ahead

**Our view:** The revenue performance in the quarter was weak due to covid19 related factors that led to longer deal conversion and execution cycle. The company has returned to sustained improvement in profitability led by focus on cost optimization and that should continue to drive overall profit. Uptick in Growth services is expected to drive overall revenue growth going ahead. Moderation in capital expenditure and strong operating cashflow generation would continue to help in deleveraging of the balance sheet. The stock trades at EV/EBITDA of 7.7x on FY23 EBITDA. Initiate coverage on the stock with ADD rating.

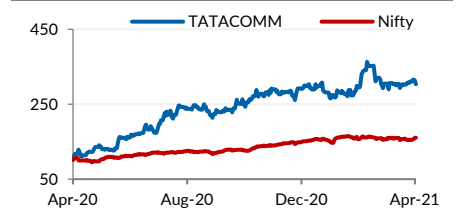
## Exhibit 1: Result table

Particulars (Rs mn)	Mar-21	Mar-20	YoY%	Dec-20	QoQ %
Sales	40,733	43,979	-7.4	42,228	-3.5
EBITDA	10,152	8,688	16.8	10,461	-3.0
EBITDA %	24.9	19.8	517bps	24.8	15bps
Depreciation	5,950	6,867	-13.4	5,570	6.8
EBIT	4,202	1,821	130.7	4,891	-14.1
EBIT %	10.3	4.1	617bps	11.6	-127bps
Other income	577	373	54.6	82	601.9
finance cost	931	1,232	-24.4	1,044	-10.9
PBT	3,848	963	299.7	3,929	-2.1
Tax	872	-98	-986.3	711	22.6
Reported PAT	2,992	(2,750)	-208.8	3,092	-3.2
Adjusted PAT	2,981	1,031	189.1	3,206	-7.0
EPS	10	4	189.1	11	-7.0

## Stock data (as on Apr 29, 2021)

Nifty	14,895
52 Week h/l (Rs)	1368 / 368
Market cap (Rs/USD mn)	316849 / 4280
Outstanding Shares	285
6m Avg t/o (Rs mn):	553
Div yield (%):	1.3
Bloomberg code:	TCOM IN
NSE code:	TATACOMM

## Stock performance



	1M	3M	1Y
Absolute return	-0.5%	10.5%	175.9%

## Shareholding pattern (As of Dec'20 end)

Promoter	75.0%
FII+DII	19.0%
Others	6.0%

## Financial Summary

(Rs mn)	FY21	FY22E	FY23E
Net Revenue	171,001	184,174	203,044
YoY Growth	0.2%	7.7%	10.2%
EBIDTA	42,606	46,964	53,557
YoY Growth	29.5%	10.2%	14.0%
PAT	13,254	16,035	19,396
YoY Growth	NA	21.0%	21.0%
ROE	NA	282.6%	88.9%
EPS	47	56	68
P/E	24.7	20.4	16.9
BV	-5	45	108
P/BV	-209.9	25.4	10.7

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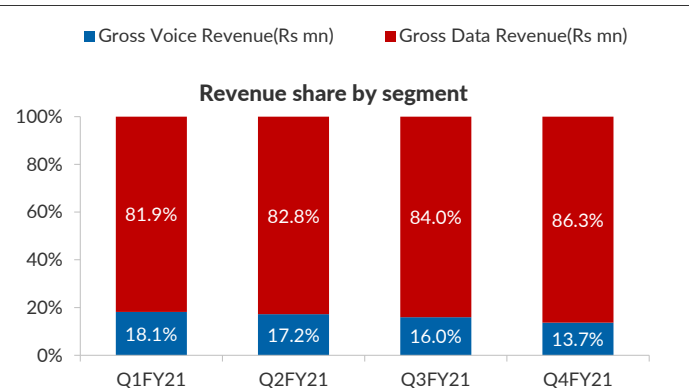
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## CON-CALL HIGHLIGHTS

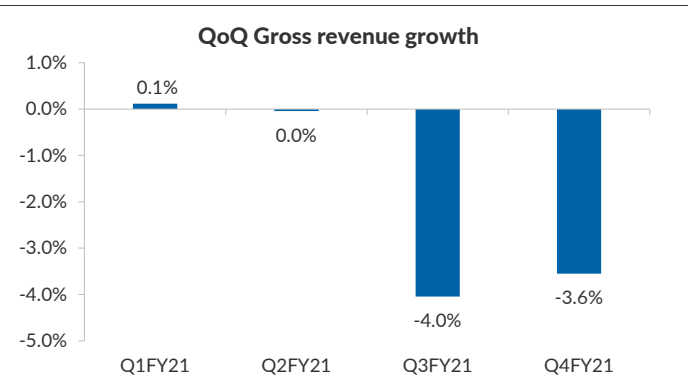
- ✓ The management expects revenue growth to pick up as the company should be able to convert strong deal pipeline going ahead. The deal pipeline remains robust but conversion has been delayed due to impact of covid19
- ✓ A significant amount of work has been done in augmenting the product portfolio. The cloud based solutions remain the key focus area of the company
- ✓ It expects to grow at industry rate in the cloud solutions business. The business performance has been robust in the case of security solutions.
- ✓ Working with clients to offer them managed cloud solutions, the demand for which is expected to rise at accelerated pace in the post covid19 world
- ✓ Expect decline in voice business to moderate going ahead.
- ✓ Cash flow generation to aid further deleveraging of balance sheet.

**Exhibit 2: Data segment continues to gain revenue share**

**Exhibit 3: Revenue growth has been elusive**



Source: Company, YES Sec - Research



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