

Data segment continues healthy traction...

Tata Communications (TCL) reported another healthy quarter on the operating front wherein the company reported robust margins both in voice and data segment. Reported revenue was at ₹ 4273 crore (up 5% YoY), driven by the data segment which reported revenue growth of 10.7% YoY to ₹ 3399 crore. This more than offset voice revenue decline of 12.5% YoY to ₹ 874 crore during the quarter. On a reported basis, EBITDA margin beat (19.5% vs. expectations of 18.6%) was led by overall data margins at 22.1% vs. expectation of 21.5%, aided by strong traditional data segment as well as higher voice margins of 9.3% (vs. 7.5% expected). Without impact of Ind-AS 116, margins came in at 17.2%, an expansion of 240 bps YoY. The company reported lower PAT of ₹ 53.9 crore, on account of higher-than-expected taxes due of remeasurement of deferred tax asset of ~₹ 52 crore.

Data segment continues to remain robust

The data business has continued to surprise positively with traction in traditional services, (past operator's consolidation impact, aided by efficient churn management) & third consecutive quarter of growth services profitability. Overall GDS total order book (TCV sales) on TTM basis was stable at \$1.4 billion. For Q2FY20, total order book (TCV sales) was at US\$259.3 million. While traditional data business order book was at US\$130.3 million, up 12.7% YoY, growth services were at US\$129 million, up 35.9% YoY. We conservatively bake in 8.7% revenue CAGR in data segment in FY19-21 and margins of 22.3% (up from 19% in FY19) in FY21.

AGR case- company expects liability of ₹ 1200 crore as on FY19

TCL said it has received a demand from Department of Telecommunication (DoT) for ₹ 6633 crore, towards license fee on AGR. Out of this, ₹ 5400 crore is due to accounting difference on account of accrual basis vs. actual basis. It further indicated that it has already submitted revised accounting based on actual basis. The contingent liability from AGR is ~₹ 1200 crore as on FY19 end, including interest & penalty. The company also reiterated that ILD/NLD license is separated from UASL due to differences in contracts. Consequently, the ILD/NLD that gets deduction for call charges, access charges and other income are not part of AGR unlike telcos.

Valuation & Outlook

The strong performance of the data segment is impressive. However, we would monitor innovation services (major chunk of five year growth plan) traction given it would require continuous investments keeping margin expansion under check. We continue to maintain our **HOLD** rating on the stock, valuing at EV/EBITDA multiple of 6.5x for data and 2x for voice FY21E EBITDA, respectively. We deduct ₹ 1300 crore (₹ 46/share) for AGR liability to arrive at our target price of ₹ 380/share.

TATA COMMUNICATIONS

Particulars

Particulars	Amount
Market Capitalization	₹ 10480.9 Crore
Total Debt (FY19)	₹ 10274.3 Crore
Cash (FY19)	₹ 852.1 Crore
EV	₹ 19307.1 Crore
52 week H/L	627/ 260
Equity capital (₹ crore)	285.0
Face value (₹)	10.0

Key Highlights

- Margin beat was led by overall data margins at 22.1% vs. expectations of 21.5%, aided by strong traditional data segment as well as higher Voice margins of 9.3% (vs. 7.5% expected)
- Maintain our HOLD rating on the stock, valuing it at ₹ 380/share on SoTP basis

Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	17,619.7	16,650.8	16,525.0	17,339.6	18,112.4	4.7
EBITDA	2,405.9	2,291.4	2,744.9	3,336.6	3,513.8	13.1
Adjusted PAT	273.7	46.9	(232.2)	304.4	430.0	NA
Adjusted P/E (x)	38.3	223.5	NM	34.4	24.4	
Price / Book (x)	6.6	21.0	NM	NM	52.9	
Adjusted EPS (₹)	9.6	1.6	(8.1)	10.7	15.1	
EV/EBITDA (x)	7.5	7.8	7.0	5.8	5.3	
RoCE (%)	6.1	5.9	5.4	8.4	9.0	
RoE (%)	17.2	9.4	NM	NM	217.0	

Exhibit 1: Variance Analysis

	Q2FY20	Q2FY20E	Q2FY19	Q1FY20	YoY (%)	QoQ (%)	Comments
Revenue	4,272.8	4,239.0	4,068.2	4,168.6	5.0	2.5	
Other Income	9.6	10.0	8.6	8.8	11.0	13.1	
Employee Expenses	732.0	784.2	744.8	768.7	-1.7	2.0	
Administrative Expenses	1,010.5	898.7	875.7	865.9	15.4	3.8	
Network costs	1,696.6	1,766.0	1,817.6	1,708.4	-6.7	3.4	
Raw Material Expenses	0.0	0.0	0.0	0.0	0.0	0.0	
EBITDA	833.7	790.1	630.2	825.6	32.3	-4.3	EBITDA beat aided by strong traditional data segment as well as higher voice margins
EBITDA Margin (%)	19.5	18.6	15.5	19.8	402 bps	-29 bps	
Depreciation	558.3	552.2	500.6	552.2	11.5	1.1	
Interest	115.7	116.9	97.9	115.7	18.3	0.0	
Exceptional Items	6.0	0.0	-1.6	6.5	0.0	0.0	Company booked expenses towards land demerger as exceptional items
Total Tax	110.7	65.6	41.8	85.2	165.1	29.9	
PAT	53.9	67.2	1.7	76.6	3,167.3	-29.6	PAT lower on account of higher-than-expected taxes due of remeasurement of deferred tax asset of ~₹ 52 crore
Total Minutes (in billion)	6.0	6.5	7.7	6.4	-22.5	-6.7	
GDS Revenues	3,398.6	3,366.5	3,069.1	3,278.4	10.7	3.7	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	17,232.8	17,339.6	0.6	17,995.8	18,112.4	0.6	Realign estimates to incorporate H1FY20 performance
EBITDA	3,263.9	3,336.6	2.2	3,437.2	3,513.8	2.2	
EBITDA Margin (%)	18.9	19.2	34 bps	19.1	19.4	30 bps	
PAT	284.4	298.8	5.1	364.0	430.0	18.1	
EPS (₹)	10.0	10.5	5.1	12.8	15.1	18.2	

Source: Company, ICICI Direct Research

Business Highlights

Voice business:

- Revenue for the quarter came in at ₹ 874.1 crore, decline of 12.5% on YoY basis, on account of continued slide in voice minutes despite realisation improvement for the quarter
- Voice overall volume came in at 6 billion minutes, a decline of 22.5% YoY. Realisations, on the other hand declined 12.8% YoY to ₹ 1.46 per minute
- Voice margins for the quarter came in at 9.3%, flattish YoY. We note that the management has guided for margin of 6-7% on sustainable basis

Data Business:

- Revenue grew 10.7% YoY and 3.7% QoQ, aided by robust growth across traditional, transformational and growth services segment
- Overall reported margins at 22.1% (ex-Ind-AS margins of 20.1%, up 260 bps YoY) were aided by superior traditional segment margins as well as sustained productivity measures and growth services turning EBITDA positive

Traditional data services:

- Revenue for the quarter grew 7.2% YoY to ₹ 2068 crore, aided by International Leased Line (ILL forming 17% of revenues), which grew 15.6% YoY and others, which were up 27%
- Reported EBITDA came in at ₹ 817 crore, growth of 40% YoY (ex-Ind-AS growth of 28.3% YoY), while margins came in at 37.8% (ex Ind-AS margins of 34.7%, up 570 bps YoY). The company has guided for traditional data margins of 35-36% (including Ind-AS benefits)

Growth services:

- Revenue for the quarter came in at ₹ 772 crore, growth of 13.7% YoY, 0.5% QOQ. Relatively lower growth was attributed to higher event-based revenue in media services in Q1 as well as new revenue getting pushed to future. We note that the management maintained its earlier guidance of 18-20% revenue growth in 'Growth Services' for FY20
- EBITDA for the quarter came in at ₹ 1 crore (US\$3.9 mn), which was higher than US\$3 million EBITDA reported in Q1 as well as loss in base quarter, on account of operating leverage
- Within growth portfolio, IZO grew 80%, security services grew 52% while hosting services grew 21% YoY

Transformation services:

- Revenues grew 27.5% YoY to ₹ 323.6 crore aided by new deal wins during the quarter. The company started reporting numbers, net of intercompany eliminations

- EBITDA for the quarter came in at ₹ 18.2 crore with EBITDA margin at 5.6% (vs. 12.4% in Q2FY19). The margins were lower due to rebadging of resources during the quarter
- The management indicated that there would be continued upfront investments in this business as they have healthy international order book. It expects margins to recover from Q1FY21 onwards

Payment solutions:

- Revenue came in at ₹ 85 crore, decline of 1.6% YoY as the company focused on profitability. As a result of the same, EBITDA grew 372% YoY to ₹ 19.2 crore with EBITDA margin of 22.5% witnessing a margin expansion of 110 bps QoQ
- The company closed 249 ATMs and redeployed 212 ATMs at more profitable locations

Other highlights:

- The GDS total order book (TCV sales) on TTM basis was at \$1.4 billion. For Q2FY20, total order book (TCV sales) was at US\$259.3 million. While traditional data business order book was at US\$130.3 million, up 12.7% YoY, growth services were at US\$129 million, up 35.9% YoY
- The capex for the quarter was US\$65 million. The management indicated that capex for FY20 will be US\$200-225 million
- Net debt was at US\$1.26 billion, addition of US\$14 million crore QoQ on account of dividend payout of ~US\$22 million during the quarter
- The company has adopted a new income tax rate regime and guided for annual saving of ₹ 65-70 crore

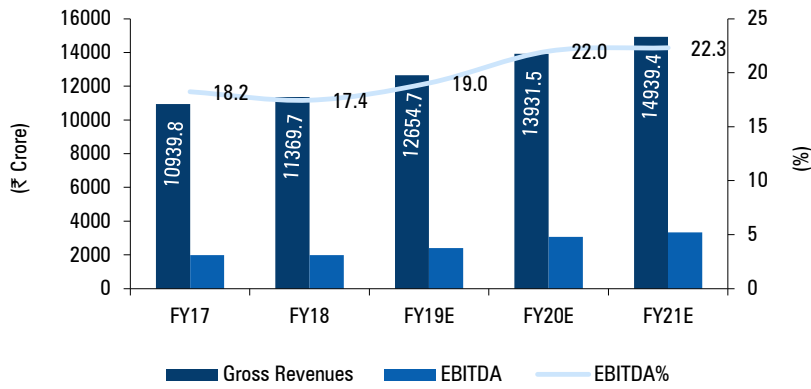
Exhibit 3: Valuations

Particulars	FY21 EBITDA (₹ Crore)	EV/EBITDA (x)	Amount (₹ Crore)
GVS Business Enterprise Value	190.4	2.0	381
GDS Business Enterprise Value	3,331.5	6.5	21,655
Total Enterprise Value			22,035
Less: Net Debt (incl. Lease Liability)			9,904
Less: AGR liability			1,300
Equity Value of the business			10,831
No. of equity shares outstanding (Crore)			28.5
Target Price			380

Source: Company, ICICI Direct Research

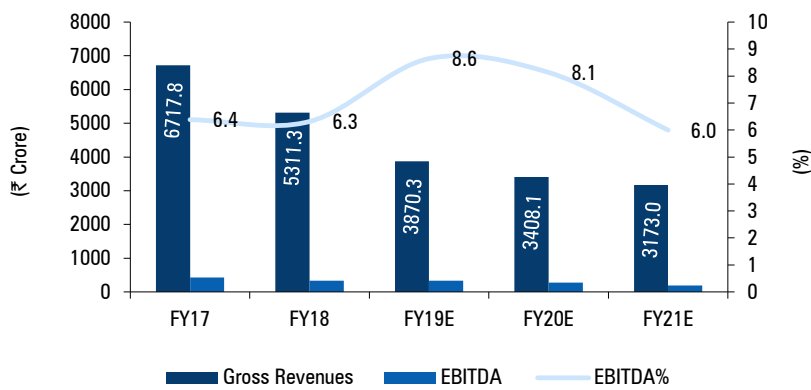
Financial story in charts

Exhibit 4: GDS operating performance



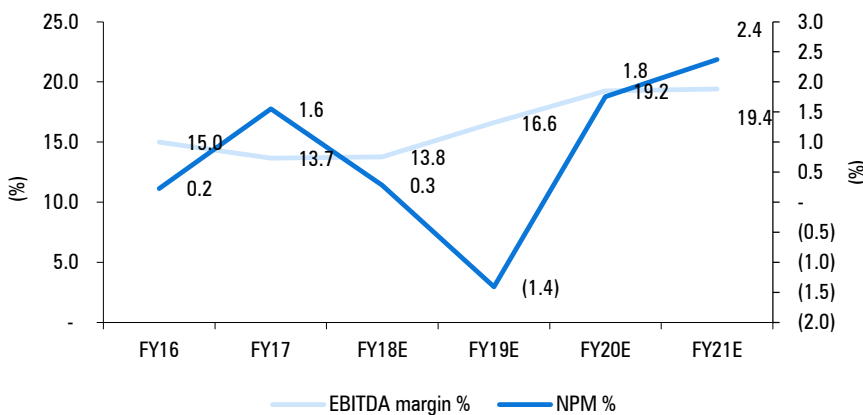
Source: Company, ICICI Direct Research

Exhibit 5: Global voice services operating performance



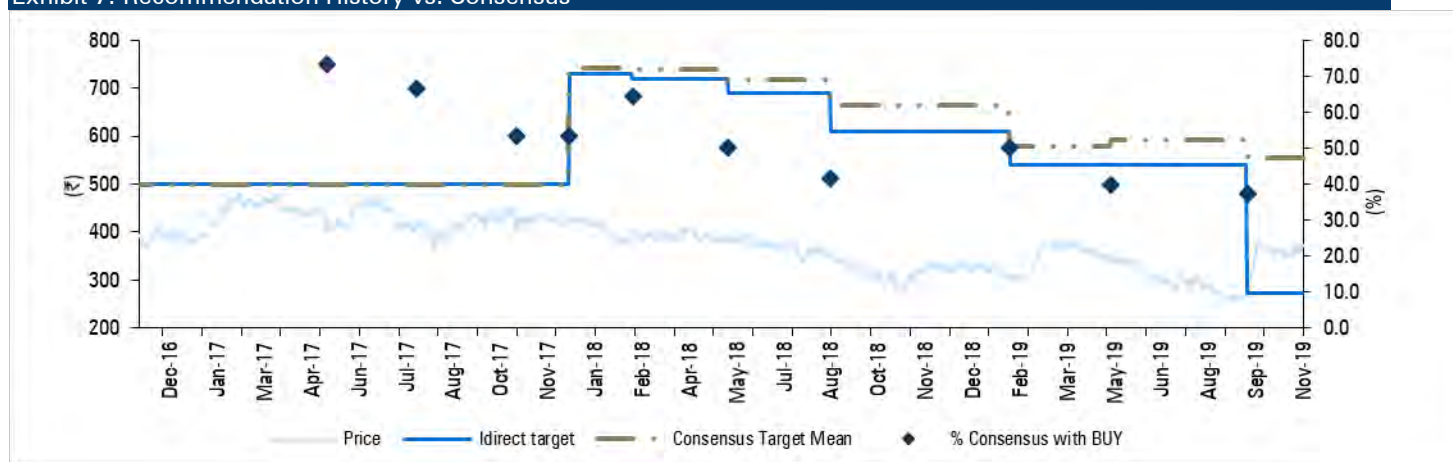
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and NPM margins trend



Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Name	1st Filing Date	% O/S	Position (m)	Change (m)
1	Tata Group of Companies	30-09-2019	48.9	139.26M	0.0
2	Government of India	30-09-2019	26.1	74.45M	0.0
3	East Bridge Capital Management L.P.	30-09-2019	5.7	16.19M	+0.86M
4	FIL Investment Management (Singapore) Ltd.	30-09-2019	2.0	5.63M	+1.30M
5	Norges Bank Investment Management (NBIM)	30-09-2019	1.7	4.70M	+0.11M
6	Baron Capital Management, Inc.	30-09-2019	1.4	3.85M	+0.39M
7	Amansa Capital Pte Ltd.	30-09-2019	1.1	3.00M	-2.39M
8	Life Insurance Corporation of India	30-06-2019	1.1	2.99M	-0.31M
9	The Vanguard Group, Inc.	30-09-2019	0.8	2.41M	0.0
10	Dimensional Fund Advisors, L.P.	30-09-2019	0.4	1.04M	0.0

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
FIL Investment Management (Singapore) Ltd.	+6.93M	+1.30M	Fidelity International	-26.95M	-3.34M
East Bridge Capital Management L.P.	+4.59M	+0.86M	Amansa Capital Pte Ltd.	-12.69M	-2.39M
Baron Capital Management, Inc.	+2.04M	+0.39M	Kotak Mahindra Asset Management Company Ltd.	-3.70M	-0.53M
Norges Bank Investment Management (NBIM)	+0.58M	+0.11M	SBI Funds Management Pvt. Ltd.	-2.28M	-0.32M
T. Rowe Price International (UK) Ltd.	+0.09M	+0.01M	Life Insurance Corporation of India	-2.16M	-0.31M

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Promoter	75.0	75.0	75.0	75.0	75.0
FII	16.3	16.9	18.2	18.3	18.2
DII	0.9	0.9	0.5	1.6	1.5
Others	7.8	7.2	6.4	5.1	5.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating income	16650.8	16525.0	17339.6	18112.4
Growth (%)		(0.8)	4.9	4.5
Employee Expenses	2977.5	2959.7	3164.6	3405.1
Network costs	7903.2	7162.0	7075.5	7371.7
Administrative Expenses	3478.7	3658.4	3762.9	3821.7
Other Expenses	0.0	0.0	0.0	0.0
Total Operating Expenditure	14359.5	13780.1	14003.0	14598.6
EBITDA	2291.4	2744.9	3336.6	3513.8
Growth (%)		19.8	21.6	5.3
Depreciation	1906.3	2067.6	2240.3	2318.4
Interest	344.5	396.6	466.4	462.9
Other Income	380.5	60.3	38.4	40.0
Exceptional Items	375.5	-2.2	12.5	0.0
PBT	45.6	343.2	656.0	772.5
Minority Interest	3.0	1.9	1.8	2.0
PAT from Associates	-16.3	-150.3	7.5	7.2
Total Tax	354.9	273.3	362.9	347.6
PAT	-328.6	-82.4	298.8	430.0
Growth (%)	NM	-74.9	-462.8	43.9
Adjusted PAT	46.9	-232.2	304.4	430.0
Growth (%)		NM	NM	41.3
EPS (₹)	-11.5	-2.9	10.5	15.1

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	-328.6	-82.4	298.8	430.0
Add: Depreciation	1906.3	2067.6	2240.3	2318.4
Add: Interest Paid	344.5	396.6	466.4	462.9
(Inc)/dec in Current Assets	339.5	-328.5	-353.6	-382.9
Inc/(dec) in CL and Provisions	290.6	-156.3	8.4	289.1
Others	0.0	0.0	0.0	0.0
CF from operating activities	2552.3	1897.0	2660.3	3117.6
(Inc)/dec in Investments	1183.8	-241.1	-200.0	-200.0
(Inc)/dec in Fixed Assets	-1543.7	-2315.2	-2728.7	-1750.0
Others	-512.1	-76.0	911.8	-239.5
CF from investing activities	-872.1	-2632.3	-2017.0	-2189.5
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-355.5	1287.1	0.0	-200.0
Less: Interest Paid	-344.5	-396.6	-466.4	-462.9
Less: Dividend and dividend tax	-135.7	-152.6	0.0	0.0
Others	-628.3	-446.1	-248.9	-100.0
CF from financing activities	-1463.9	291.8	-715.3	-762.9
Net Cash flow	216.3	-443.5	-71.9	165.2
Opening Cash	1079.3	1295.6	852.1	780.2
Closing Cash	1295.6	852.1	780.2	945.4

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
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	214.3	-466.8	-416.9	-86.8
Total Shareholders funds	499.3	-181.8	-131.9	198.2
Total Debt	8,987.2	10,274.3	10,274.3	10,074.3
Others	3,480.9	3,441.2	4,353.0	4,113.5
Total Liabilities	12,967.5	13,533.7	14,495.4	14,386.0
Assets				
Gross Block	32,285.4	34,741.8	37,470.5	39,220.5
Less: Acc Depreciation	21,408.0	23,475.6	25,715.9	28,034.3
Net Block	10,877.3	11,266.1	11,754.6	11,186.2
Capital WIP	439.5	298.3	298.3	298.3
Total Fixed Assets	11,316.9	11,564.5	12,052.9	11,484.5
Investments	1,250.2	1,491.3	1,691.3	1,891.3
Goodwill on Consolidation	-	86.3	86.3	86.3
Inventory	27.0	76.6	80.4	83.9
Debtors	2,891.2	2,968.5	3,135.4	3,275.1
Loans and Advances	341.4	238.7	300.6	376.8
Other Current Assets	386.3	690.6	811.7	975.0
Cash	1,295.6	852.1	780.2	945.4
Total Current Assets	4,941.5	4,826.5	5,108.2	5,656.2
Creditors	3,471.6	3,688.5	3,800.5	3,969.8
Provisions	566.4	601.6	619.9	647.5
Other current liabilities	2,597.3	2,188.9	2,067.2	2,159.3
Total Current Liabilities	6,635.3	6,479.1	6,487.5	6,776.6
Net Current Assets	-1,693.8	-1,652.6	-1,379.3	-1,120.4
Other non current assets	2,094.2	2,044.3	2,044.3	2,044.3
Application of Funds	12,967.5	13,533.7	14,495.4	14,386.0

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
EPS	-11.5	-2.9	10.5	15.1
Adj. EPS	1.6	-8.1	10.7	15.1
BV	17.5	-6.4	-4.6	7.0
DPS	4.8	5.4	0.0	0.0
Cash Per Share	45.5	29.9	27.4	33.2
Operating Ratios (%)				
EBITDA Margin	13.8	16.6	19.2	19.4
PBT / Total Operating income	2.3	4.1	6.3	6.6
PAT Margin	0.3	-1.4	1.8	2.4
Inventory days	0.6	1.7	1.7	1.7
Debtor days	63.4	65.6	66.0	66.0
Creditor days	76.1	81.5	80.0	80.0
Return Ratios (%)				
RoE	9.4	127.7	-230.8	217.0
RoCE	5.9	5.4	8.4	9.0
RoIC	3.3	5.7	8.7	9.7
Valuation Ratios (x)				
P/E	-31.9	-127.2	35.1	24.4
EV / EBITDA	7.8	7.0	5.8	5.3
EV / Net Sales	1.1	1.2	1.1	1.0
Market Cap / Sales	0.6	0.6	0.6	0.6
Price to Book Value	21.0	-57.6	-79.5	52.9
Solvency Ratios				
Debt/EBITDA	3.9	3.7	3.1	2.9
Debt / Equity	18.0	-56.5	-77.9	50.8
Current Ratio	0.9	0.9	1.0	1.0
Quick Ratio	0.9	0.9	1.0	1.0

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct Coverage (Telecom)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Bharti Airtel	372	425	Buy	190,719	1.0	-10.4	-1.6	362.8	NM	NM	11.8	8.5	7.7	5.6	2.1	3.5	2.7	-3.5	-4.6
Bharti Infratel	221	270	Hold	40,876	13.5	18.2	16.8	16.4	12.2	13.2	6.7	5.4	5.3	21.1	21.2	20.0	14.7	17.2	25.3
Vodafone Idea	4	6	Reduce	11,494	-16.7	-5.2	-5.1	NM	NM	NM	32.1	10.7	16.1	-2.3	-5.0	-3.5	-15.3	-25.9	-16.1
Sterlite Tech	134	120	Reduce	5,382	14.0	13.9	13.0	9.6	9.6	10.3	6.3	5.8	5.5	29.7	27.8	25.4	28.7	33.0	26.6
Tata Comm	368	380	Hold	10,482	-2.9	10.5	15.1	NM	NM	24.4	7.0	5.8	5.3	5.9	5.4	8.4	9.4	127.7	-230.8

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Bhupendra Tiwary, MBA, CFA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH00000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Tata Communications

BSE SENSEX	S&P CNX
40,345	11,913
Bloomberg	TCOM IN
Equity Shares (m)	285
M.Cap.(INRb)/(USDb)	104.8 / 1.5
52-Week Range (INR)	385 / 245
1, 6, 12 Rel. Per (%)	-2/1/3
12M Avg Val (INR M)	180
Free float (%)	25.0

CMP: INR368 TP: INR420 (+14%) Neutral

Traditional strength intact, smaller segments leaking earnings though

- Traditional segment continues improving:** TCOM delivered a modest performance in the second quarter, with revenue/EBITDA growth of 3%/1% QoQ (pre-IND-AS 116) exceeding our estimate. Data revenue/EBITDA increased 6%/3% QoQ, as Traditional segment (two thirds contribution to Data) grew strongly, while Growth segment improved off a low base. This was partly offset by an increase in EBITDA loss in Innovation segment and continued downtrend in Voice segment with 9% EBITDA decline. PAT declined 31% QoQ to INR485m with higher tax provisions. For 1HFY20, revenue/EBITDA were up 5%/25% YoY.
- Concall highlights:** (1) FY20 capex guided at USD200-225m, of which a large part would be incurred for network expansion; growth capex would be ~15-20%. (2) Traditional deal pipeline has improved with a margin potential of 35-36%. (3) RJio is not a big threat for Enterprise business, and TCOM is confident of protecting and growing market share in the segment.
- Modest expectation as smaller segments leak earnings:** Hemisphere Properties Pvt. Ltd. (HPIL) demerger is on track and further steps are undertaken for share allotment. TCOM also has surplus land parcel of 757 acres available for monetization across top cities, which should have equally attractive value. Traditional and Growth offer stable EBITDA growth, but increased spends on new product launches and deal expenses in Innovation and Transformation continue taking away the gains. We have marginally upgraded our EBITDA estimates building in a CAGR of 11% over FY19-21.
- Valuation and view:** We value TCOM on an SOTP basis and cut our target multiple to 6x/2x on FY21E Data/Voice EBITDA, given its slow earnings growth, allocation of Traditional and Growth EBITDA to other segments and continued high capex. Subsequently, we arrive at a TP of INR420 (prior: INR520) and maintain our **Neutral** stance. Additional monetization opportunity of TCOM's surplus land parcel could provide an option value.

Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	165.2	172.5	186.1
EBITDA	27.4	31.0	33.8
PAT	-0.6	3.1	6.7
EPS (INR)	-2.2	10.9	23.4
Gr. (%)	NM	-599.0	114.4
BV/Sh (INR)	-6.4	3.6	27.1
RoE (%)	-39.3	-797.9	152.6
RoCE (%)	1.5	5.6	9.8
P/E (x)	NM	33.8	15.8
P/BV (x)	-72.8	101.7	13.7
EV/EBITDA (x)	8.4	6.4	5.3

Estimate change 

TP change 

Rating change 

Cons. Quarterly Earning Model

Y/E March	FY19				FY20E				FY19	FY20E	2Q	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Revenue	39,438	40,682	42,695	42,435	41,686	42,728	43,639	44,480	1,65,250	1,72,533	42,570	0
YoY Change (%)	-8.5	-4.2	3.8	5.0	5.7	5.0	2.2	4.8	-1.5	4.4	4.6	
Total Expenditure	33,569	34,381	34,269	35,583	34,131	35,071	35,811	36,559	1,37,801	1,41,571	35,570	-1
EBITDA	5,869	6,302	8,426	6,853	7,555	7,657	7,828	7,921	27,449	30,962	7,000	9
Margins (%)	14.9	15.5	19.7	16.1	18.1	17.9	17.9	17.8	16.6	17.9	16.4	148bps
Depreciation	4,849	5,006	5,235	5,587	4,993	5,058	5,124	5,321	20,676	20,495	5,065	0
Interest	909	979	1,040	1,039	1,045	1,057	1,038	1,019	3,966	4,159	1,026	3
Other Income	-70	86	192	395	88	95	188	371	603	743	184	-48
PBT before EO expense	41	404	2,343	622	1,606	1,637	1,855	1,953	3,410	7,051	1,093	50
Exceptional (gain)/loss	0	-16	0	-7	65	59	1,578	0	-22	1,702	0	
PBT	41	419	2,343	629	1,541	1,578	277	1,953	3,432	5,349	1,093	44
Tax	641	418	667	1,007	852	1,107	91	645	2,733	2,695	361	
Rate (%)	1,560.6	99.6	28.5	160.1	55.3	70.2	33.0	33.0	79.6	50.4	33.0	
MI & P/L of Asso. Cos.	-15	-15	-58	1,610	-18	-14	-50	-122	1,523	-202	-50	
Reported PAT	-585	16	1,733	-1,988	706	485	236	1,430	-824	2,855	783	-38
Adj PAT	-585	1	231	-271	735	544	407	1,430	-624	3,116	783	-30
YoY Change (%)	NM	NM	NM	-166.0	NM	NM	NM	-626.9	-288.6	-599.0	NM	
Margins (%)	-1.5	0.0	0.5	-0.6	1.8	1.3	0.9	3.2	-0.4	1.8	1.8	

Aliasgar Shakir – Research analyst (Aliasgar.Shakir@motilaloswal.com); +91 22 6129 1565

Hafeez Patel – Research analyst (Hafeez.Patel@motilaloswal.com); +91 22 6129 1568

Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Segmental details

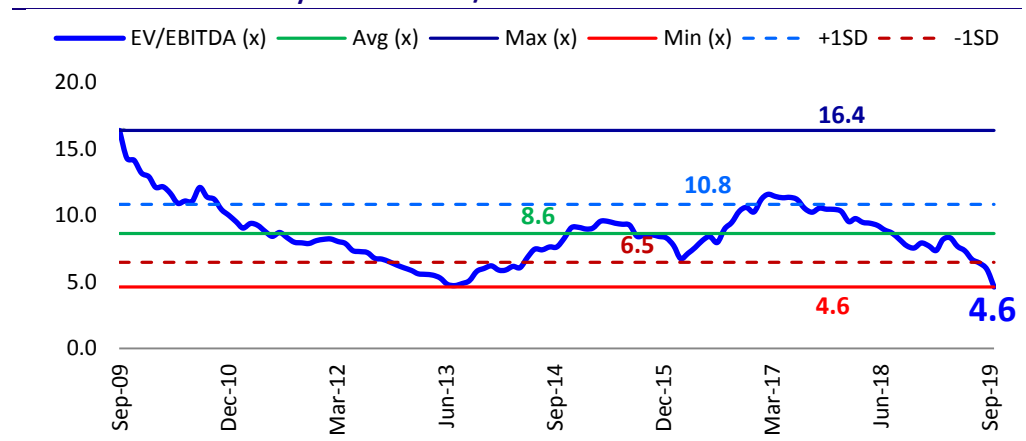
- Data revenue increased 4% QoQ to INR33.9b, while EBITDA was up 3% QoQ to INR6.8b on an ex-Ind AS-116 basis. EBITDA margin shrank 20bp QoQ to 20.1%.
- Traditional segment (~two thirds of revenue) revenue grew by 6% QoQ to INR22b and EBITDA was up 3% QoQ to INR7.7b on an ex-Ind AS 116 basis.
- Rest of the segments – Growth, Innovation and Transformation – delivered revenue growth of 0.5%/17%/8% QoQ. EBITDA for Growth was up 33% QoQ, Innovation saw a loss of INR1.4b and Transformation saw an EBITDA decline of 2% QoQ.
- Voice revenue was down 2% QoQ to INR8.7b, but EBITDA declined 9% QoQ to INR812m.
- Capex/FCF stood at INR7.9b/INR414m in 1HFY20.
- TCOM has received demand for INR66.3b from DoT in 2QFY20 toward the settlement of licensee fee on AGR. Of this, INR54.3b could be solved as DOTs disallowed earlier on accrual basis accounting. TCOM has provided revised statement. Also, the pending appeals on ILD/NLD license fee are not included in the Supreme Court's recent verdict.

Exhibit 1: Valuation summary—SOTP-based on FY21 EBITDA

Particulars	FY21E
EBITDA (INR m)	33,767
multiple (x)	5.6
Voice EBITDA (INR m)	2,787
multiple (x)	2.0
Data EBITDA (INR m)	30,980
multiple (x)	6
Enterprise Value (INR m)	1,88,358
Net Debt (INR m)	68,756
Equity value (INR m)	1,19,602
No of shares (m)	285
Equity value/share (INR)	420
% Upside(Downside)	13%
Land Bank (INR)	176
Fair Value (INR)	595
CMP (INR)	370
% Upside(Downside)	61%

Source: MOFSL, Company

Exhibit 2: TATACOMM: 1-year forward EV/EBITDA



Source: Bloomberg, MOFSL



2QFY20 earnings call highlights

Concall Highlights

- Post demerger of HPIL, TCOM will have 756 acres of surplus land available for monetization in cities such as Delhi, Mumbai and Pune.
- Expect FY20 capex to be USD200-225m, of which a large amount would be incurred toward network expansion and growth capex would be ~15-20%.
- Traditional deal pipeline has improved with margin potential of 35-36%.
- RJio is not a big threat for the Enterprise business and TCOM is confident of protecting and growing the market share in the segment.
- AGR Supreme Court verdict on unified access license is not fully applicable to TCOM according to the order on 11th Aug'11 as it is different for the company than that of telecom operators. Penalties stand at INR12b as on Mar'19.

2QFY20 performance

- Margin expansion was aided by improved data services business, productivity benefits and cost efficiencies initiatives undertaken by management.
- Margins were marginally affected by TCTSL consolidation.
- Land demerger was approved by MCA and further the process will be taken by HPIL to grant shareholders the respective shares of HPIL.
- Post demerger, TCOM will have 756 acres land in cities Delhi, Mumbai and Pune.
- TCOM has received demand from DoT for INR63b toward licensee fee on AGR for the period FY07 to FY18 for ILD and NLD revenues, which includes INR54b toward cost to AGR.
- The company has claimed the amount to be lower as per TDSAT ruling and is confident that the amount demanded amount will go in favor of TCOM.
- AGR Supreme Court verdict on unified access license is not fully applicable to TCOM according to the order on 11th Aug'11 as it is different for the company than that of telecom operators. Penalties stand at INR12b as on Mar'19.
- Penalties toward AGR case stands at INR12b which includes penalties and interest until March 2019 for which contingent liability has been provided. Penalties and interest post March 2019 need to be calculated.
- TCOM has received INR1.2b toward MAT.
- The company has adopted the new tax regime proposed by Gol and the company expects tax benefits of INR650-700m in FY20. In 2QFY20, the company has adjusted DTA amount of INR260m.

Data Segment

- Data traffic continues increasing strongly supported by AR, VR ,AI, IoT etc., and further TCOM has huge potential to grow in data service business.
- Indian data traffic CAGR is projected at 35% over the next three years v/s world data traffic growth of 26%.
- Data services segment now contributes 79% of revenue and 90% of EBITDA.
- The segment saw a strong performance from traditional and growth services. Margins expanded by 40bp on the back of sustained measures toward cost improvement and optimization of production and margin efficiency. Margins are expected to trend upward going ahead.

Growth Services

- TCOM has sold new TCV worth USD120m, up 35% YoY.
- Win rate has improved QoQ from 20% to 23%.
- EBITDA grew 33% QoQ and margins expanded led by ISO and security segment.
- The segment will incur upfront cost due to upcoming deal, and can lead to delays in revenue recognition.
- Expect to witness high growth in innovation portfolio as they start delivering growth.

Traditional Services

- Deal pipeline for traditional portfolio has improved and win rate has improved from 23% to 25%.
- Order book grew by 13% YoY to USD259m.
- NPL segment revenue grew 43% and ILL segment revenue grew 46% YoY witnessing good traction from OTT players which provide high margin business.
- EBITDA margins expanded due to continuous focus on cost efficiencies.
- Expect traditional services margin to be ~35-36% inclusive of Ind AS-116 effect.

Innovation segment

- The segment has seen new product launches and innovations by company to capture market share.

Transformation Service

- EBITDA margins were lower due to upfront expenses on incoming deals. Margin is likely to be in double digit by FY21.

Payment Solutions

- Closed 249 less profitable ATMs and opened 244 new ATMs during the quarter.
- ATM segment witnessed lower revenue due to decline in average number of transaction in the monsoon season but is expected to go up in Q3.
- Aiming to turn ATM business towards PBT positive.

Other Highlights and business outlook

- Capex in 2Q stood at USD64.6m, led by customer reach and expansion.
- Expect FY20 capex to be USD200-225m, of which a large amount would be toward network expansion and growth capex would be ~15-20%.
- Paid dividend of USD22m.
- Net debt/EBITDA reduced to 2.8x, and TCOM aims to reach net debt/EBITDA of 2.5x.
- RoCE for TCOM stands at 11.9% as of 1HFY20.
- Enterprise business is expected to witness robust growth and has strong order inflow; confident of procuring large deals going ahead.
- The company has not shown intent to share plans on land parcels.
- RJio is not a big threat for the enterprise business and TCOM is confident of protecting and growing the market share in the segment.
- Churn rate in the enterprise segment has been stable.

Exhibit 3: Consol. quarterly performance (INR m)

INR m	2QFY19	1QFY20	2QFY20	YoY (%)	QoQ (%)	2QFY20E	v/s est (%)
Consol. Revenue	40,682	41,439	42,728	5.0	3.1	42,570	0.4
Consol. EBITDA	6,302	7,309	7,657	21.5	4.8	7,000	9.4
Margin	15.5%	17.6%	17.9%	243bps	28bps	16.44%	148bps
PAT	1	735	544	NM	NM	735	NM
Voice Revenue	9,991	8,903	8,741	-12.5	-1.8	8,818	-0.9
Voice EBITDA	927	892	812	-12.4	-9.0	883	-8.1
Margin	9.3%	10.0%	9.3%	1bps	-73bps	10.0%	-73bps
Data Revenue	30,691	32,537	33,986	10.7	4.5	33,752	0.7
Data EBITDA	5,374	6,416	7,524	40.0	17.3	6,117	23.0
Margin	17.5%	19.7%	22.1%	463bps	242bps	18.1%	402bps
Traditional Revenue	20,133	19,770	22,008	9.3	11.3	20,887	5.4
Traditional EBITDA	5,830	5,381	7,719	32.4	43.4	6,684	15.5
Margin	29.0%	27.2%	35.1%	611bps	786bps	32.0%	307bps
Growth Revenue	6,844	7,433	7,715	12.7	3.8	8,141	-5.2
Growth EBITDA	-21	-39	277	-1408.6	-814.8	229	20.7
Margin	-0.3%	-0.5%	3.6%	390bps	411bps	2.8%	77bps

Source: MOFSL, Company

Exhibit 4: Quarterly – segment-wise core business performance (INR m)

Particulars	2QFY19	1QFY20	2QFY20	YoY(%)	QoQ (%)	2QFY20E	v/s est (%)
Revenues							
Voice segment	9,991	8,903	8,741	-12.5	-1.8	8,818	-0.9
Data segment	30,691	32,784	33,986	10.7	3.7	33,752	0.7
Core biz.	40,682	41,687	42,727	5.0	2.5	42,570	0.4
EBITDA							
Voice segment	927	892	812	-12.4	-9.0	883	-8.1
Margin (%)	9.3%	10.0%	9.3%	1bps	-73bps	10.0%	-73bps
Data segment	5,374	6,663	6,844	27.4	2.7	6,117	11.9
Margin (%)	17.5%	20.3%	20.1%	263bps	-19bps	18.1%	202bps
Core biz.	6,302	7,555	7,657	21.5	1.4	7,000	9.4
Margin (%)	15.5%	18.1%	17.9%	243bps	-20bps	16.4%	148bps

Source: MOFSL, Company

Exhibit 5: Quarterly – segment-wise core business performance (INR m)

	2QFY19	1QFY20	2QFY20	YoY(%)	QoQ (%)	2QFY20E	v/s est (%)
Total revenue	40,682	41,686	42,728	5.0	2.5	42,570	0.4
Voice segment	9,991	8,903	8,741	-12.5	-1.8	8,818	-0.9
Data segment	30,691	32,784	33,986	10.7	3.7	33,752	0.7
Traditional services	20,133	20,680	22,008	9.3	6.4	20,887	5.4
Growth services	6,844	7,680	7,715	12.7	0.5	8,141	-5.2
Innovation Service	42	190	222	424.4	16.8	200	11.3
Transformation Service	2,865	2,998	3,236	12.9	7.9	3,148	2.8
Tata Payment Solutions	864	889	850	-1.6	-4.4	920	-7.6
EBITDA	6,302	7,555	7,657	21.5	1.3	7000	9.4
Voice segment	927	892	812	-12.4	-9.0	883	-8.1
Data segment	5,374	6,663	6,844	27.4	2.7	6,117	11.9
Traditional services	5,830	7,481	7,719	32.4	3.2	6,684	15.5
Margin (%)	29	36	35.8	685bps	-36bps	32	381bps
Growth services	(21)	208	277	-1408.6	33.2	229	20.7
Margin (%)	(0)	3	3.6	390bps	88bps	3	77bps
Innovation Service	(924)	(1,352)	-1,498	62.1	10.8	-1,274	17.6
Margin (%)	NM	NM	NM	NM	NM	NM	NM
Transformation Service	287	186	182	-36.6	-2.2	208	-12.5
Margin (%)	10	6	5.6	-439bps	-58bps	7	-98bps
Tata Payment Solutions	4	162	164	4000.0	1.2	171	-4.4
Margin (%)	0	18	19.6	1913bps	137bps	19	94bps

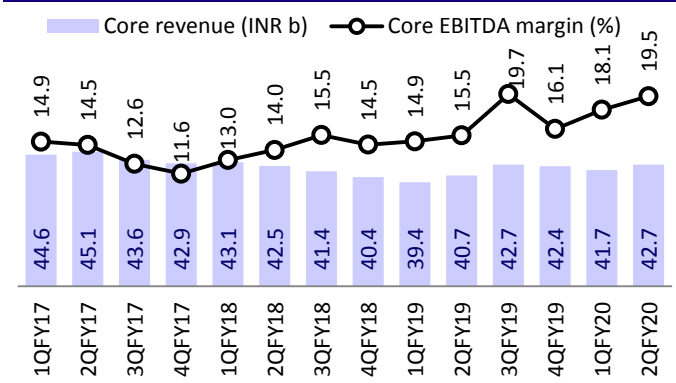
Source: MOFSL, Company

Exhibit 6: Summary of estimate change

	FY20E	FY21E
Core revenue (INR b)		
Old	171.9	185.4
Actual/New	172.5	186.1
Change (%)	0.4	0.3
Core EBITDA (INR b)		
Old	29.3	32.7
Actual/New	31.0	33.8
Change (%)	5.5	3.3
Core EBITDA margin (%)		
Old	17.1	17.6
Actual/New	17.9	18.1
Change (%)	88bps	52bps
PAT (INR m)		
Old	2.3	6.0
Actual/New	2.9	6.7
Change (%)	26.2	11.1
EPS (INR)		
Old	7.9	21.1
Actual/New	13.0	23.4
Change (%)	63.5	11.1

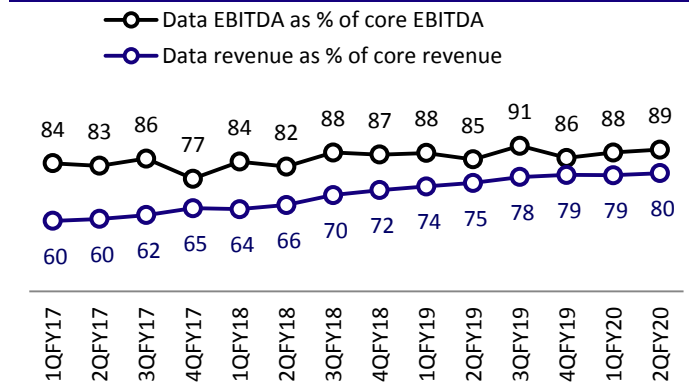
Story in charts

Exhibit 7: Core EBITDA margin at 19.5%



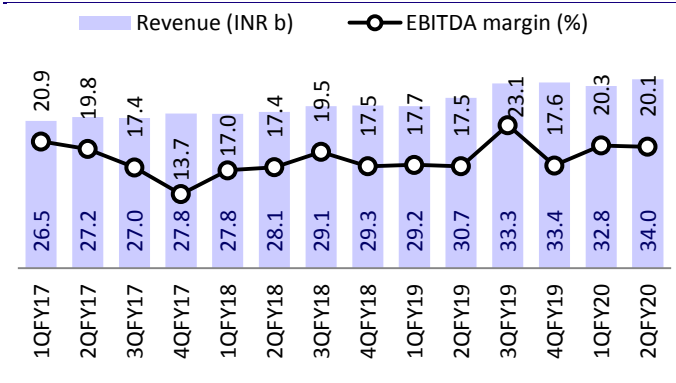
Source: MOFSL, Company

Exhibit 8: Data business revenue contribution continues to grow



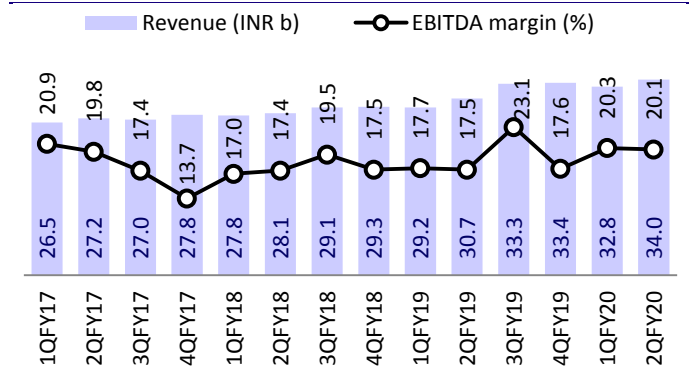
Source: MOFSL, Company

Exhibit 9: Voice revenue growth stable (INRb)



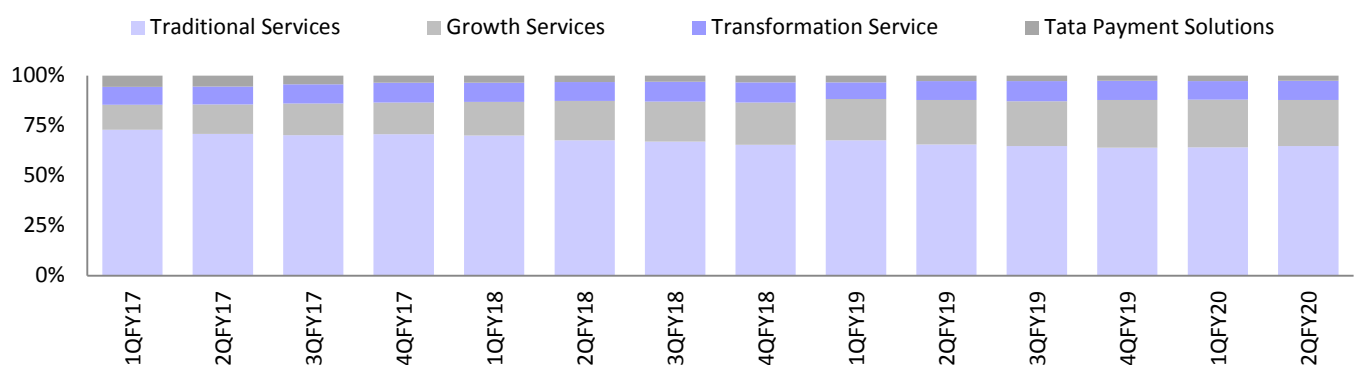
Source: MOFSL, Company

Exhibit 10: Data revenue trend (INR b)



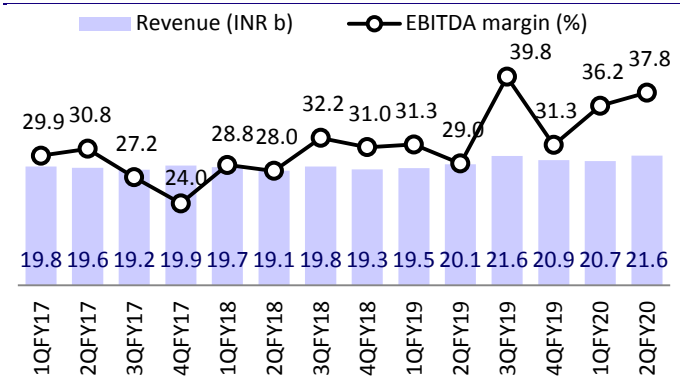
Source: MOFSL, Company

Exhibit 11: Growth segmental revenue contribution increasing (%)



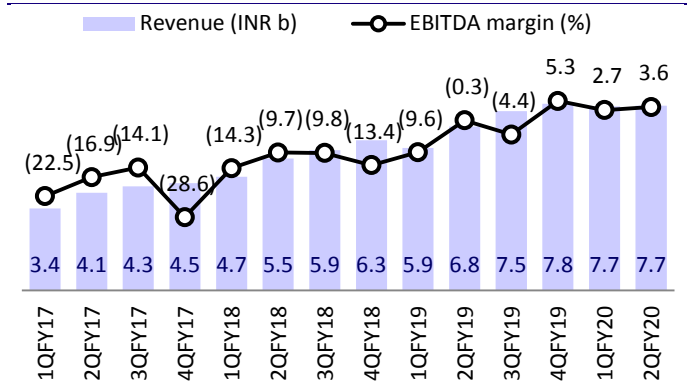
Source: MOFSL, Company

Exhibit 12: Traditional business revenue/EBITDA margin trend



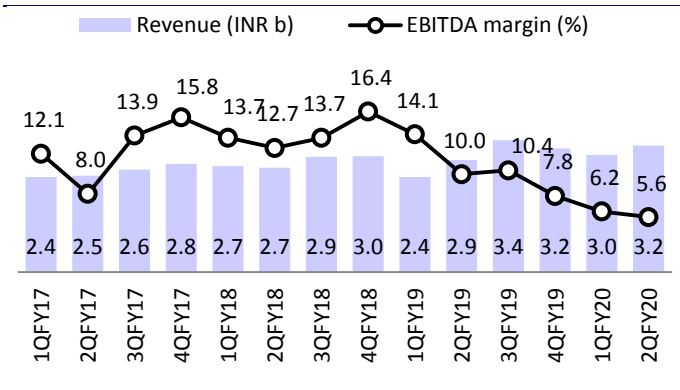
Source: MOFSL, Company

Exhibit 13: Growth business revenue/EBITDA margin trend



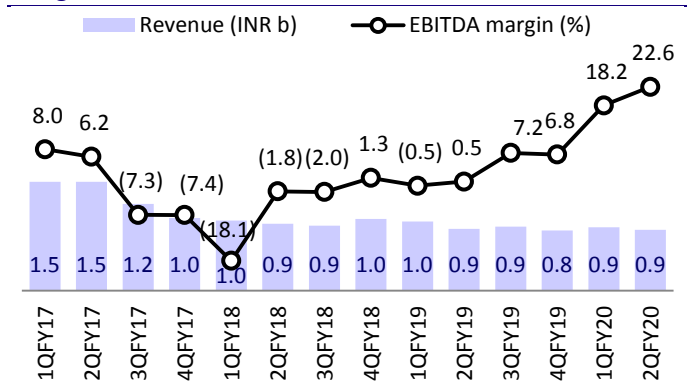
Source: MOFSL, Company

Exhibit 14: Transformation business revenue/EBITDA margin trend



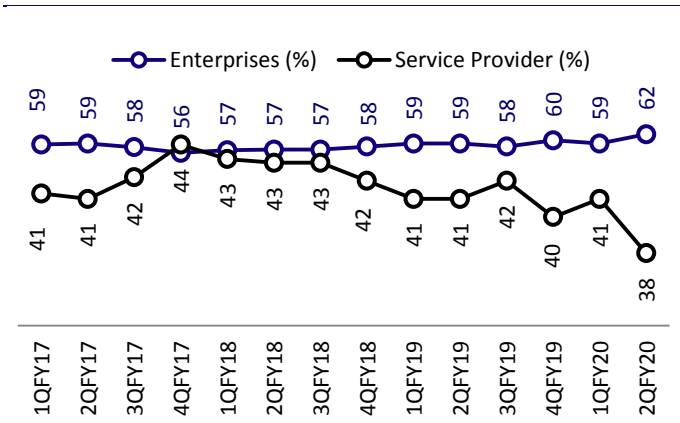
Source: MOFSL, Company

Exhibit 15: Payment solution business revenue/EBITDA margin trend



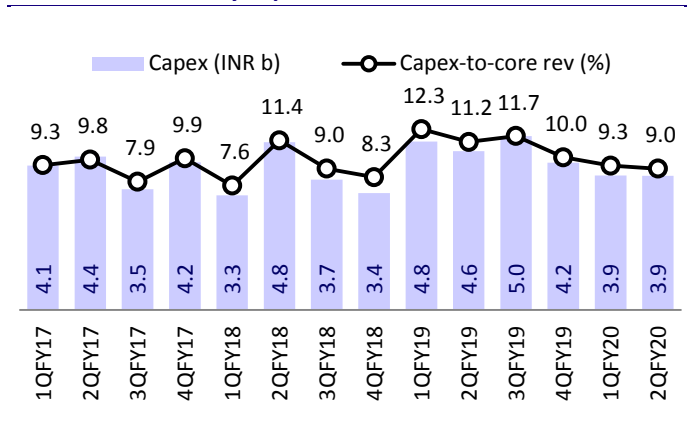
Source: MOFSL, Company

Exhibit 16: Clientele revenue mix



Source: Company, MOFSL

Exhibit 17: Quarterly capex trend



Source: Company, MOFSL

Exhibit 18: Core Segmental mix (INR m)

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenues Segments								
Voice	93,024	87,761	80,560	67,581	53,113	38,703	34,869	33,446
growth	8.6%	-5.7%	-8.2%	-16.1%	-21.4%	-27.1%	-9.9%	-4.1%
as a % of core	53.3%	49.4%	43.2%	38.4%	31.7%	23.4%	20.2%	18.0%
Data	81,485	89,914	105,971	108,619	114,603	126,546	1,37,664	1,52,624
growth	20.7%	10.3%	17.9%	2.5%	5.5%	10.4%	8.8%	10.9%
as a % of core	46.7%	50.6%	56.8%	61.6%	68.3%	76.6%	79.8%	82.0%
Core Revenues	174,509	177,675	186,531	176,200	167,716	165,249	1,72,533	1,86,071
growth	13.9%	1.8%	5.0%	-5.5%	-4.8%	-1.5%	4.4%	7.8%
EBITDA Segments								
Voice	8,292	6,359	4,963	4,140	3,437	3,359	3,208	2,787
margin	8.9%	7.2%	6.2%	6.1%	6.5%	8.7%	9.2%	8.3%
growth	13.5%	-23.3%	-22.0%	-16.6%	-17.0%	-2.3%	-4.5%	-13.1%
as a % of Core EBITDA	35.0%	26.2%	18.2%	17.5%	14.2%	12.2%	10.4%	8.3%
Data	15,418	17,885	22,242	19,459	20,685	24,089	27,754	30,980
margin	18.9%	19.9%	21.0%	17.9%	18.0%	19.0%	20.2%	20.3%
growth	35.9%	16.0%	24.4%	-12.5%	6.3%	16.5%	15.2%	11.6%
as a % of Core EBITDA	65.0%	73.8%	81.8%	82.5%	85.8%	87.8%	89.6%	91.7%
Core EBITDA	23,710	24,244	27,205	23,599	24,122	27,448	30,962	33,767
margin	13.6%	13.6%	14.6%	13.4%	14.4%	16.6%	17.9%	18.1%
Growth	27.1%	2.3%	12.2%	-13.3%	2.2%	13.8%	12.8%	9.1%

Source: MOFSL, Company

Financials and Valuations

Consolidated - Income Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Total Income from Operations	196,196	199,090	181,486	176,197	167,717	165,250	172,533	186,071
Change (%)	14.0	1.5	-8.8	-2.9	-4.8	-1.5	4.4	7.8
Network Cost	107,457	105,543	96,724	88,119	79,032	71,620	70,018	75,814
Staff Cost	24,976	27,948	27,396	28,394	29,775	29,597	29,838	30,101
Operating & Other Expense	33,346	35,702	32,949	35,625	34,787	36,584	41,715	46,393
Total Expenditure	165,779	169,193	157,069	152,138	143,595	137,801	141,571	152,307
% of Sales	84.5	85.0	86.5	86.3	85.6	83.4	82.1	81.9
EBITDA	30,416	29,897	24,417	24,059	24,122	27,449	30,962	33,763
Margin (%)	15.5	15.0	13.5	13.7	14.4	16.6	17.9	18.1
Depreciation	20,914	21,611	18,643	18,658	19,063	20,676	20,495	21,689
EBIT	9,502	8,286	5,774	5,401	5,059	6,773	10,467	12,074
Int. and Finance Charges	7,617	7,508	4,091	3,672	3,445	3,966	4,159	3,882
Other Income	1,433	4,008	3,966	3,603	2,597	603	743	1,480
PBT bef. EO Exp.	3,318	4,786	5,650	5,332	4,211	3,410	7,051	9,672
EO Items	1,126	-1,052	-1,028	-10,633	-3,755	22	-1,702	0
PBT after EO Exp.	4,444	3,734	4,622	-5,301	456	3,432	5,349	9,672
Total Tax	3,433	3,705	2,329	2,364	3,549	2,733	2,695	3,192
Tax Rate (%)	77.2	99.2	50.4	-44.6	778.2	79.6	50.4	33.0
Minority Interest	-3	17	18	-25	193	1,523	-202	-202
Reported PAT	1,014	13	2,276	-7,640	-3,286	-824	2,855	6,682
Adjusted PAT	5,333	3,027	973	3,016	331	-624	3,116	6,682
Change (%)	-206.2	-43.2	-67.9	210.0	-89.0	-288.6	-599.0	114.4
Margin (%)	2.7	1.5	0.5	1.7	0.2	-0.4	1.8	3.6

Consolidated - Balance Sheet

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	2,850	2,850	2,850	2,850	2,850	2,850	2,850	2,850
Total Reserves	5,145	365	-6,484	13,069	2,143	-4,668	-1,813	4,869
Net Worth	7,995	3,215	-3,634	15,919	4,993	-1,818	1,037	7,719
Minority Interest	62	59	69	184	45	58	58	58
Total Loans	136,944	130,757	151,181	99,516	95,395	106,844	91,510	84,530
Deferred Tax Liabilities	-727	-2,015	-1,072	71	-477	-887	-887	-887
Capital Employed	144,274	132,015	146,545	115,690	99,956	104,196	91,718	91,419
Gross Block	278,736	299,608	308,467	270,923	288,666	116,569	1,31,974	1,31,113
Less: Accum. Deprn.	135,779	156,419	167,208	161,638	180,701	5,006	25,501	30,923
Net Fixed Assets	142,957	143,190	141,259	109,285	107,965	111,563	1,06,473	1,00,189
Goodwill on Consolidation	6,185	3,848	3,246	0	0	863	863	863
Capital WIP	6,530	6,383	7,998	7,509	5,203	4,082	4,082	4,082
Total Investments	17,582	17,675	18,306	24,340	12,502	14,913	14,913	14,913
Curr. Assets, Loans&Adv.	74,431	68,841	79,095	69,199	69,425	67,205	57,075	70,255
Inventory	506	264	254	192	270	766	541	583
Account Receivables	27,339	24,870	30,189	25,900	28,912	29,685	30,725	33,136
Cash and Bank Balance	16,695	16,212	19,763	10,793	12,956	8,521	-431	9,814
Loans and Advances	29,891	27,495	28,889	32,313	27,288	28,234	26,240	26,722
Curr. Liability & Prov.	103,411	107,922	103,359	94,643	95,139	94,429	91,688	98,882
Account Payables	40,403	36,697	35,764	35,814	34,716	36,885	35,452	38,234
Other Current Liabilities	56,324	61,538	61,748	53,142	54,759	51,527	50,105	54,037
Provisions	6,684	9,687	5,847	5,687	5,664	6,016	6,130	6,611
Net Current Assets	-28,980	-39,081	-24,264	-25,444	-25,714	-27,224	-34,613	-28,627
Appl. of Funds	144,274	132,015	146,545	115,690	99,956	104,196	91,718	91,419

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Basic (INR)								
EPS	18.7	10.6	3.4	10.6	1.2	-2.2	13.0	23.4
Cash EPS	92.1	86.4	68.8	76.0	68.0	70.4	84.9	99.5
BV/Share	28.1	11.3	-12.7	55.9	17.5	-6.4	3.6	27.1
DPS	4.5	5.5	4.3	4.5	4.5	4.5	4.5	4.5
Payout (%)	151.8	13,711.6	64.2	-20.0	-46.6	-185.7	53.6	22.9
Valuation (x)								
P/E		43.7	136.1	43.9	399.9	-212.0	28.5	15.8
Cash P/E		5.4	6.7	6.1	6.8	6.6	4.4	3.7
P/BV		41.2	-36.4	8.3	26.5	-72.8	101.7	13.7
EV/Sales		1.2	1.5	1.3	1.3	1.4	1.1	1.0
EV/EBITDA		8.3	10.9	9.2	9.0	8.5	6.4	5.3
Dividend Yield (%)	1.0	1.2	0.9	1.0	1.0	1.0	1.2	1.2
FCF per share	44.7	44.1	11.7	21.0	-8.4	-27.1	33.7	68.2
Return Ratios (%)								
RoE	48.0	54.0	-464.6	49.1	3.2	-39.3	-947.3	152.6
RoCE	1.8	0.1	3.4	9.9	3.8	1.5	5.6	9.8
RoIC	2.0	0.1	3.0	9.0	2.1	1.9	6.9	11.9
Working Capital Ratios								
Fixed Asset Turnover (x)	0.7	0.7	0.6	0.7	0.6	1.4	1.3	1.4
Asset Turnover (x)	1.4	1.5	1.2	1.5	1.7	1.6	1.9	2.0
Inventory (Days)	1	0	1	0	1	2	1	1
Debtor (Days)	51	46	61	54	63	66	65	65
Creditor (Days)	75	67	72	74	76	81	75	75
Leverage Ratio (x)								
Current Ratio	0.7	0.6	0.8	0.7	0.7	0.7	0.6	0.7
Interest Cover Ratio	1.2	1.1	1.4	1.5	1.5	1.7	2.5	3.1
Net Debt/Equity	12.8	30.1	-31.1	4.0	14.0	-45.9	74.3	7.7

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
OP/(Loss) before Tax	4,444	3,734	2,626	20,188	456	3,432	5,349	9,672
Depreciation	20,914	21,611	22,194	19,469	19,063	20,676	20,495	21,689
Interest & Finance Charges	7,038	6,680	7,151	6,875	3,445	3,966	4,159	3,882
Direct Taxes Paid	-1,824	-1,120	-4,238	-7,404	-3,549	-2,733	-2,695	-3,192
(Inc)/Dec in WC	228	-1,339	-4,432	-227	2,433	-3,335	-1,563	4,259
CF from Operations	30,800	29,565	23,301	38,900	21,847	22,005	25,745	36,310
Others	-184	718	326	-14,965	-8,796	-6,577	-743	-1,480
CF from Operating incl EO	30,616	30,283	23,627	23,935	13,051	15,428	25,002	34,830
(Inc)/Dec in FA	-17,872	-17,713	-20,287	-17,952	-15,437	-23,152	-15,405	-15,405
Free Cash Flow	12,744	12,570	3,340	5,983	-2,386	-7,724	9,596	19,425
(Pur)/Sale of Investments	-5,101	-1,720	-3,084	7,815	11,838	-2,411	0	0
Others	1,675	2,550	3,409	10,023	2,597	-260	743	1,480
CF from Investments	-21,298	-16,884	-19,963	-114	-1,003	-25,823	-14,662	-13,925
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	6,777	-5,088	7,602	-28,219	-4,121	11,448	-15,334	-6,980
Interest Paid	-6,694	-6,285	-5,807	-3,086	-3,445	-3,966	-4,159	-3,882
Dividend Paid	-964	-1,467	-1,873	-1,424	-1,988	0	0	0
Others	-975	-1,043	-34	-62	-332	-1,523	202	202
CF from Fin. Activity	-1,856	-13,883	-113	-32,791	-9,885	5,960	-19,291	-10,661
Inc/Dec of Cash	7,462	-483	3,551	-8,970	2,163	-4,435	-8,951	10,244
Opening Balance	9,233	16,695	16,211	19,763	10,793	12,956	8,521	-431
Closing Balance	16,695	16,211	19,763	10,793	12,956	8,521	-431	9,814

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

Disclosures

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Motilal Oswal Financial Services Ltd. (MOFSL) is a SEBI Registered Research Analyst having registration no. INH000000412. MOFSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Investment Advisory Services, Depository participant services & distribution of various financial products. MOFSL is a subsidiary company of Passionate Investment Management Pvt. Ltd.. (PIMPL). MOFSL is a listed public company, the details in respect of which are available on www.motilaloswal.com. MOFSL (erstwhile Motilal Oswal Securities Limited - MOSL) is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Limited (BSE), Multi Commodity Exchange of India Limited (MCX) and National Commodity & Derivatives Exchange Limited (NCDEX) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) National Securities Depository Limited (NSDL), NERL, COMRIS and CCRL and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products and Insurance Regulatory & Development Authority of India (IRDA) as Corporate Agent for insurance products. Details of associate entities of Motilal Oswal Financial Services Limited are available on the website at <http://onlinereports.motilaloswal.com/Dormant/documents/List%20of%20Associate%20companies.pdf>

MOFSL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report

MOFSL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that MOFSL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. Details of pending Enquiry Proceedings of Motilal Oswal Financial Services Limited are available on the website at <https://galaxy.motilaloswal.com/ResearchAnalyst/PublishViewLitigation.aspx>

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of MOFSL or its associates maintains arm's length distance with Research Team as all the activities are segregated from MOFSL research activity and therefore it can have an independent view with regards to Subject Company for which Research Team have expressed their views.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOFSL & its group companies to registration or licensing requirements within such jurisdictions.

For Hong Kong:

This report is distributed in Hong Kong by Motilal Oswal capital Markets (Hong Kong) Private Limited, a licensed corporation (CE AYY-301) licensed and regulated by the Hong Kong Securities and Futures Commission (SFC) pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) "SFO". As per SEBI (Research Analyst Regulations) 2014 Motilal Oswal Securities (SEBI Reg No. INH000000412) has an agreement with Motilal Oswal capital Markets (Hong Kong) Private Limited for distribution of research report in Hong Kong. This report is intended for distribution only to "Professional Investors" as defined in Part I of Schedule 1 to SFO. Any investment or investment activity to which this document relates is only available to professional investor and will be engaged only with professional investors." Nothing here is an offer or solicitation of these securities, products and services in any jurisdiction where their offer or sale is not qualified or exempt from registration. The Indian Analyst(s) who compile this report is/are not located in Hong Kong & are not conducting Research Analysis in Hong Kong.

For U.S.

Motilal Oswal Financial Services Limited (MOFSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the "1934 act") and under applicable state laws in the United States. In addition MOFSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts"), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOFSL, including the products and services described herein are not available to or intended for U.S. persons. This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOFSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

For Singapore

In Singapore, this report is being distributed by Motilal Oswal Capital Markets Singapore Pte Ltd ("MOCMSPL") (Co.Reg. NO. 201129401Z) which is a holder of a capital markets services license and an exempt financial adviser in Singapore. As per the approved agreement under Paragraph 9 of Third Schedule of Securities and Futures Act (CAP 289) and Paragraph 11 of First Schedule of Financial Advisors Act (CAP 110) provided to MOCMSPL by Monetary Authority of Singapore. Persons in Singapore should contact MOCMSPL in respect of any matter arising from, or in connection with this report/publication/communication. This report is distributed solely to persons who qualify as "Institutional Investors", of which some of whom may consist of "accredited" institutional investors as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Accordingly, if a Singapore person is not or ceases to be such an institutional investor, such Singapore Person must immediately discontinue any use of this Report and inform MOCMSPL.

Specific Disclosures

- 1 MOSL, Research Analyst and/or his relatives does not have financial interest in the subject company, as they do not have equity holdings in the subject company.
- 2 MOSL, Research Analyst and/or his relatives do not have actual/beneficial ownership of 1% or more securities in the subject company
- 3 MOSL, Research Analyst and/or his relatives have not received compensation/other benefits from the subject company in the past 12 months
- 4 MOSL, Research Analyst and/or his relatives do not have material conflict of interest in the subject company at the time of publication of research report
- 5 Research Analyst has not served as director/officer/employee in the subject company
- 6 MOSL has not acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
- 7 MOSL has not received compensation for investment banking/ merchant banking/brokerage services from the subject company in the past 12 months
- 8 MOSL has not received compensation for other than investment banking/merchant banking/brokerage services from the subject company in the past 12 months
- 9 MOSL has not received any compensation or other benefits from third party in connection with the research report
- 10 MOSL has not engaged in market making activity for the subject company

The associates of MOFSL may have:

- financial interest in the subject company
- actual/beneficial ownership of 1% or more securities in the subject company
- received compensation/other benefits from the subject company in the past 12 months
- other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.
- acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
- be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies)
- received compensation from the subject company in the past 12 months for investment banking / merchant banking / brokerage services or from other than said services.

The associates of MOFSL has not received any compensation or other benefits from third party in connection with the research report

Above disclosures include beneficial holdings lying in demat account of MOFSL which are opened for proprietary investments only. While calculating beneficial holdings, It does not consider demat accounts which are opened in name of MOFSL for other purposes (i.e holding client securities, collaterals, error trades etc.). MOFSL also earns DP income from clients which are not considered in above disclosures.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Terms & Conditions:

This report has been prepared by MOFSL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MOFSL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. MOFSL will not treat recipients as customers by virtue of their receiving this report.

Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. MOFSL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of MOFSL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOFSL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt MOFSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOFSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOFSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022 71934200/ 022-71934263; Website www.motilaloswal.com.CIN no.: L67190MH2005PLC153397. Correspondence Office Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad(West), Mumbai- 400 064. Tel No: 022 7188 1000.

Registration Nos.: Motilal Oswal Financial Services Limited (MOFSL)*: INZ000158836(BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412. AMFI: ARN - 146822; Investment Adviser: INA000007100; Insurance Corporate Agent: CA0579;PMS:INP000006712. Motilal Oswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670); PMS and Mutual Funds are offered through MOAMC which is group company of MOFSL. Motilal Oswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) is offered through MOWML, which is a group company of MOFSL. Motilal Oswal Financial Services Limited is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDs, Insurance Products and IPOs. Real Estate is offered through Motilal Oswal Real Estate Investment Advisors II Pvt. Ltd. which is a group company of MOFSL. Private Equity is offered through Motilal Oswal Private Equity Investment Advisors Pvt. Ltd which is a group company of MOFSL. Research & Advisory services is backed by proper research. Please read the Risk Disclosure Document prescribed by the Stock Exchanges carefully before investing. There is no assurance or guarantee of the returns. Investment in securities market is subject to market risk, read all the related documents carefully before investing. Details of Compliance Officer: Name: Neeraj Agarwal, Email ID: na@motilaloswal.com, Contact No.:022-71881085.

* MOSL has been amalgamated with Motilal Oswal Financial Services Limited (MOFSL) w.e.f August 21, 2018 pursuant to order dated July 30, 2018 issued by Hon'ble National Company Law Tribunal, Mumbai Bench.