

# Tata Communications

**Estimate change**
**TP change**
**Rating change**


|                       |             |
|-----------------------|-------------|
| Bloomberg             | TCOM IN     |
| Equity Shares (m)     | 285         |
| M.Cap.(INRb)/(USD\$)  | 344.8 / 4.2 |
| 52-Week Range (INR)   | 1590 / 856  |
| 1, 6, 12 Rel. Per (%) | 1/-11/-15   |
| 12M Avg Val (INR M)   | 914         |

## Financials & Valuations (INR b)

| INR million       | FY22  | FY23E | FY24E |
|-------------------|-------|-------|-------|
| Net Sales         | 167.2 | 180.1 | 199.8 |
| EBITDA            | 42.3  | 45.2  | 51.4  |
| Adj. PAT          | 14.8  | 17.8  | 20.7  |
| EBITDA Margin (%) | 25.3  | 25.1  | 25.7  |
| Adj. EPS (INR)    | 51.8  | 62.3  | 72.7  |
| EPS Gr. (%)       | 11.5  | 20.3  | 16.5  |
| BV/Sh. (INR)      | 32.5  | 97.0  | 169.7 |

## Ratios

|            |       |      |      |
|------------|-------|------|------|
| Net D:E    | 6.0   | 0.8  | -0.4 |
| RoE (%)    | 283.3 | 96.2 | 54.5 |
| RoCE (%)   | 18.6  | 21.2 | 21.2 |
| Payout (%) | 8.9   | 7.2  | 6.4  |

## Valuations

|                |      |      |      |
|----------------|------|------|------|
| EV/EBITDA (x)  | 9.9  | 8.5  | 6.6  |
| P/E (x)        | 23.4 | 19.4 | 16.7 |
| P/BV (x)       | 37.2 | 12.5 | 7.1  |
| Div. Yield (%) | 0.3  | 0.3  | 0.3  |
| FCF Yield (%)  | 6.4  | 9.5  | 13.6 |

## Shareholding pattern (%)

| As On    | Sep-22 | Jun-22 | Sep-21 |
|----------|--------|--------|--------|
| Promoter | 58.9   | 58.9   | 58.9   |
| DII      | 13.9   | 12.9   | 7.6    |
| FII      | 17.0   | 17.9   | 23.5   |
| Others   | 10.2   | 10.3   | 10.1   |

FII Includes depository receipts

**CMP: INR1,210**
**TP: INR1,100 (-9%)**
**Neutral**

## Growth in Data revenue and healthy FCF yield continues

- Revenue/EBITDA grew 2.8%/4.9% QoQ after modest growth (of 1% each) in the last few quarters, backed by healthy Data revenue/EBITDA growth of 4.6%/3.9%. Margin improved by 50bp to 25.5%, way above the management's guidance of 23-25%. FCF remains strong at INR6.2b, with RoCE healthy at 28%.
- We have marginally cut our consolidated EBITDA, factoring in a moderate revenue/EBITDA CAGR of 9%/10% over FY22-24. While growth in Data segment has been soft, healthy FCF generation and continued deleveraging remain the silver lining, aiding valuation. We maintain our Neutral rating.

## Revenue/EBITDA grew 3%/5% QoQ (in line) led by the Data business; FCF generation healthy

- Consolidated revenue grew 2.8% QoQ to INR44.3b (in line), led by a 4.6% QoQ improvement in the Data segment (which constitutes 79% of revenue) after a soft growth in the last few quarters. Revenue from the Voice segment fell 6.6% QoQ, while the same from Others grew 1%.
- EBITDA increased by 4.9% QoQ to INR11.3b (in line) led by the Data segment EBITDA for the Data segment grew 3.9% QoQ (which constitutes 89% of total EBITDA). This increased consolidated EBITDA margin by 50bp QoQ to 25.5%.
- Adjusted PAT (adjusting for an exceptional item) fell 16% QoQ to INR4.6b (a 15% miss) due to DTA and high interest cost of INR978m v/s INR799m in 1QFY23.
- Committed capex grew 22% QoQ to INR4.2b in 2QFY23, led by a capex of INR500m in Digital Platform and Services (DPS). Cash capex for 2QFY23 stood at INR3.2m v/s INR3.3m in 1QFY23.
- FCF reduced sequentially to INR6.2b in 2Q from INR9.6b in 1QFY23, which was the highest in the last five years, yielding an annualized FCF yield of 7%. TCOM generated an FCF of INR21.8b in FY22, a yield of 6%.
- It reported a RoCE of 27.7% in 2QFY23 from 29.1%/26% in 1QFY23/FY22. Total capital employed grew INR73b in 2Q from INR67b in 1QFY23.

## Key takeaways from the management interaction

- The management aims to achieve double-digit revenue growth and 23-25% EBITDA margin v/s 25.2% in 1HFY23.
- TCOM plan to improve its international revenue share is in sync with its long-term goals.
- It disposed of two land parcels and targets to maximize the value of its land bank by either leasing or selling the same. The improvement in the funnel, order book, and win rates continue, and will rise once supply-chain constraints abate.

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

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## Valuation and view

- Revenue from the Data segment (a major contributor to overall revenue) rose 4.6% QoQ v/s a muted growth over the last few quarters.
- We have marginally cut our consolidated EBITDA estimate to factor in an overall revenue/EBITDA growth of 9%/10% on the back of lower double-digit revenue growth in the Data segment (79% revenue mix) and soft performance in Voice and Others. Deal wins and a deal-to-revenue conversion will be key to TCOM achieving double-digit earnings growth.
- The continuous decrease in leverage should drive healthy PAT growth. Though the management's guidance of a 20% increase in capex to USD300-325m can curb a potential improvement in FCF going forward, it can still garner a healthy (over 20%) RoCE and a high single-digit FCF yield.
- We maintain our Neutral rating with a TP of INR1,100 (assigned 8x/3x EBITDA to the Data/Voice business). A sustained improvement in earnings growth visibility will be key to a re-rating in valuations.

## Consolidated quarterly earnings

(INR m)

| Y/E March                    | FY22          |               |               |               | FY23          |               |               |               | FY22            | FY23E           | FY23E         | Var. |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|---------------|------|
|                              | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                 |                 | 2QE           | (%)  |
| <b>Revenue</b>               | <b>41,028</b> | <b>41,740</b> | <b>41,849</b> | <b>42,630</b> | <b>43,105</b> | <b>44,307</b> | <b>45,698</b> | <b>47,009</b> | <b>1,67,247</b> | <b>1,80,120</b> | <b>44,466</b> | 0    |
| Change (YoY %)               | -6.8          | -5.2          | -0.9          | 4.7           | 5.1           | 6.2           | 9.2           | 10.3          | -2.2            | 7.7             | 5.3           |      |
| Total Expenditure            | 31,167        | 30,612        | 31,024        | 32,177        | 32,335        | 33,011        | 34,364        | 35,173        | 1,24,980        | 1,34,880        | 33,151        | 0    |
| <b>EBITDA</b>                | <b>9,861</b>  | <b>11,129</b> | <b>10,825</b> | <b>10,453</b> | <b>10,770</b> | <b>11,297</b> | <b>11,334</b> | <b>11,836</b> | <b>42,267</b>   | <b>45,239</b>   | <b>11,315</b> | 0    |
| Change (YoY %)               | -5.3          | -3.9          | 3.5           | 3.0           | 9.2           | 1.5           | 4.7           | 13.2          | -0.8            | 7.0             | 8.2           |      |
| Depreciation                 | 5,318         | 5,416         | 5,425         | 5,887         | 5,369         | 5,516         | 5,631         | 6,009         | 22,045          | 22,526          | 5,631         | -2   |
| Interest                     | 962           | 908           | 835           | 898           | 799           | 978           | 964           | 926           | 3,603           | 3,666           | 747           | 31   |
| Other Income                 | 134           | 364           | 188           | 2,635         | 2,340         | 366           | 342           | 318           | 3,321           | 3,366           | 342           | 7    |
| <b>PBT before EO expense</b> | <b>3,714</b>  | <b>5,169</b>  | <b>4,754</b>  | <b>6,304</b>  | <b>6,943</b>  | <b>5,169</b>  | <b>5,081</b>  | <b>5,219</b>  | <b>19,940</b>   | <b>22,413</b>   | <b>5,279</b>  | -2   |
| Exceptional (gain)/loss      | -56           | -127          | -85           | 209           | 0             | -764          | 0             | 0             | -60             | -764            | 0             |      |
| <b>PBT</b>                   | <b>3,771</b>  | <b>5,296</b>  | <b>4,839</b>  | <b>6,095</b>  | <b>6,943</b>  | <b>5,933</b>  | <b>5,081</b>  | <b>5,219</b>  | <b>20,000</b>   | <b>23,177</b>   | <b>5,279</b>  | 12   |
| Tax                          | 793           | 1,038         | 958           | 2,433         | 1,591         | 659           | 1,279         | 1,314         | 5,221           | 4,842           | 1,329         |      |
| Rate (%)                     | 21.0          | 19.6          | 19.8          | 39.9          | 22.9          | 11.1          | 25.2          | 25.2          | 26.1            | 20.9            | 25.2          |      |
| MI and P/L of Asso. Cos.     | 17            | 4             | -72           | 12            | -86           | -50           | -10           | 107           | -39             | -39             | 10            |      |
| <b>Reported PAT</b>          | <b>2,961</b>  | <b>4,254</b>  | <b>3,952</b>  | <b>3,651</b>  | <b>5,438</b>  | <b>5,324</b>  | <b>3,812</b>  | <b>3,799</b>  | <b>14,817</b>   | <b>18,373</b>   | <b>3,960</b>  | 34   |
| <b>Adjusted PAT</b>          | <b>2,905</b>  | <b>4,126</b>  | <b>3,867</b>  | <b>3,860</b>  | <b>5,438</b>  | <b>4,560</b>  | <b>3,812</b>  | <b>3,799</b>  | <b>14,758</b>   | <b>17,608</b>   | <b>3,960</b>  | 15   |
| Change (YoY %)               | 8.3           | -5.9          | 20.6          | 29.5          | 87.2          | 10.5          | -1.4          | -1.6          | 11.4            | 19.3            | 23.5          |      |

## Segmental highlights

- **Data revenue**, the key driver of revenue growth (constituting 79%/89% of consolidated revenue/EBITDA), grew 4.6% QoQ to INR35b (in line) after a soft growth in the last few quarters. EBITDA grew 3.9% sequentially to INR10b, taking EBITDA margin to 28.8%.
  - Revenue from Core Services (which constitutes 68% of Data revenue) rose 2.7% QoQ to INR23.7b. EBITDA grew 13% QoQ to INR11b, which led to an improvement in EBITDA margin to 46.6% in 2Q from 42.5% in 1QFY23.
  - Revenue from DPS (which constitutes 29% of Data revenue) grew 6.1% sequentially to INR10b. However, it reported an operating loss of INR171m in 2QFY23 v/s an EBITDA of INR667m in 1QFY23.
- Revenue from the **Voice** segment (which constitutes 12% of total revenue) decreased by 6.6% QoQ to INR5.2b. However, EBITDA rose 64% QoQ to INR1b, resulting in an 830bp sequential improvement in margin to 19.3%.
  - Revenue may have declined due to a 13% QoQ reduction in ILD to 2.8b minutes.

- Revenue from the **Others** segment (which constitutes 9% of total revenue) grew 1% QoQ to INR4.1b. However, EBITDA fell by 53% QoQ to INR216m, which resulted in a decrease in margin to 39.3% in 2Q v/s 61% in 1QFY23.
- The QoQ decline in EBITDA was led by: a) Data rentals, which fell 38% to INR182m, and b) Transformational revenue, which fell 67% to INR52m.

#### Exhibit 1: Valuation-based on FY24E EBITDA

| Particulars              | FY24E    |
|--------------------------|----------|
| EBITDA (INR m)           | 49,904   |
| Multiple (x)             | 7.9      |
| Voice EBITDA (INR m)     | 3,462    |
| Multiple (x)             | 3.0      |
| Data EBITDA (INR m)      | 46,442   |
| Multiple (x)             | 8.0      |
| Enterprise Value (INR m) | 3,93,071 |
| Net Debt (INR m)         | 79,454   |
| Equity value (INR m)     | 3,13,618 |
| No. of shares (m)        | 285      |
| Equity value/share (INR) | 1,100    |
| Upside/(Downside) (%)    | -9%      |
| CMP (INR)                | 1,212    |

Source: MOFSL, Company



#### Key takeaways from the management interaction

##### Key highlights

- The management aims to achieve double-digit revenue growth and 23-25% EBITDA margin v/s 25.2% in 1HFY23.
- TCOM plan to improve its international revenue share is in sync with its long-term goals.
- It disposed of two land parcels and targets to maximize the value of its land bank by either leasing or selling the same.
- The improvement in the funnel, order book, and win rates continue, and will rise once supply-chain constraints abate.

##### Detailed notes

##### International market:

- The shift to platform from product work led to the 11.2% YoY growth in revenue from the Data segment.
- TCOM remains a leading player in India's large Enterprise B2B segment. It is strengthening its position and is witnessing a healthy growth in international revenue trends on a QoQ and YoY basis. This is a progression towards its long-term ambition of improving its international revenue pie.
- It is investing in marketing to accelerate growth in international regions.

##### Investments

- Investments in its core infrastructure and Digital capabilities will help meet the evolving Digital transformation needs of its customers.
- The management is continually investing in its core capabilities to transform its network to meet the needs of the market.
- It is investing on thematic solutions, which will propel deeper engagement with its customers.

- Cash capex (INR3.2b) is less than approved capex (INR5b) due to supply-chain constraints and delayed deliveries.

#### Soft launch of TCX – a customer experience portal

- It launched Tata Communication TCX, a customer experience portal and Digital stores in the Indian market.
- This will enable it to digitize customer touchpoints and improve interaction.
- It now aims to expand domestically and internationally given the encouraging customer feedback.

#### Revenue from the Data segment

- Despite ongoing supply-chain headwinds, it clocked a revenue growth in the Data segment. The management said headwinds in the supply-chain have abated and it doesn't see it getting any worse.
- Funnel additions were healthy across the portfolio.
- Incubation growth strategy
  1. On campus opportunities were driven by IoT solutions which cover the Enterprise segments as well as Smart Cities. The objective is to deliver high RoI solutions to its customers, which will drive leadership in the Industrial IoT space.
  2. To leverage private networks, it launched a private 5G Global Center of Excellence in Pune to accelerate Industry 4.0 applications and its enterprise capabilities.
  3. Off campus: It launched the Move platform, which offers it the advantage to win across connected solutions. In-house capabilities such as connected vehicles, connected cruise, smart manufacturing, and MVNO in a box are helping enterprises.
- The management expects the multitude of its offerings in Digital Platform products to attract additional customers, increase customer stickiness, and insulate the company from a decline in structural pricing as seen in the legacy business. It added that the decline in EBITDA is not due to any structural change.
- The collaboration portfolio continues to benefit from an increasing customer interest in offerings, namely GlobalRapide, InstaCC, and DIGO. With these portfolio offerings, TCOM will witness increased momentum.
- Cloud hosting and the security portfolio: A multi-tenant private Cloud, an industry community Cloud, and analytical solutions will broaden the portfolio, and is one of the key growth catalysts in the medium term. IZO multi-tenant private Cloud is gaining greater visibility. Leading Indian Private Banks are customers of its IZO Cloud offering.
- Next-gen connectivity: TCOM has further expanded its SD WAN offerings and funnel. The order book remains healthy in this segment.
- Media services: It is empowering global sports to reach billion of fans by supporting more than 4,000 events. It earned EUR0.5b globally in 2QFY23 by offering the customer the best experience, with low latency video streaming.

#### Voice revenue

- The decline in the Voice business continues and is in line with market trends. However, its India market shift has improved realizations.
- The management said this is an industrywide phenomenon and that it appears to be short-term in nature.

**Key performance indicators**

- **Net revenue grew faster than gross revenue** due to the product mix, i.e. a greater mix of on-net and less of off-net.
- The improvement in the funnel, order book, and win rates continue, and will rise once supply-chain constraints abate.
- The overall value of the funnel stands at 1QFY23 levels. A number of additional deals are for Digital platforms and solutions as well as larger deals.
- It cleared some of the order backlog in 2QFY23, and new funnel growth was seen. The larger deals will take time to convert as a customer.
- Win rates are healthy and similar to 1QFY23 levels.
- TCOM has added 200 ATMs under the franchise model.
- Borrowing cost is expected to rise further, led by a hike in global interest rates. The management said it will optimize the mix of fixed and floating loans.

**Others**

- TCOM said it will recognize deferred tax assets going forward.
- It has received a revised demand for AGR dues of INR49.8b from the DoT. The matter is sub judice, with appeals pending in the Supreme Court and the Madras High Court. The same has been recognized in contingent liabilities.
- TCOM disposed two land parcels in 2QFY23. For the rest of its land bank, it will maximize value by either leasing or selling the same.

**Exhibit 2: Quarterly performance**

|                           | 1QFY22        | 1QFY23        | 2QFY23        | YoY (%)       | QoQ (%)      | 2QFY23E       | Var. (%)    |
|---------------------------|---------------|---------------|---------------|---------------|--------------|---------------|-------------|
| <b>Revenue</b>            | <b>41,740</b> | <b>43,105</b> | <b>44,307</b> | <b>6.2</b>    | <b>2.8</b>   | <b>44,466</b> | <b>-0.4</b> |
| Operating Expenses        | 30,612        | 32,335        | 33,011        | 7.8           | 2.1          | 33,151        | -0.4        |
| <b>EBITDA</b>             | <b>11,129</b> | <b>10,770</b> | <b>11,297</b> | <b>1.5</b>    | <b>4.9</b>   | <b>11,315</b> | <b>-0.2</b> |
| <b>EBITDA Margin (%)</b>  | <b>26.7%</b>  | <b>25.0%</b>  | <b>25.5%</b>  | <b>-116bp</b> | <b>51bp</b>  | <b>25.4%</b>  | <b>5bp</b>  |
| Depreciation              | 5,416         | 5,369         | 5,516         | 1.9           | 2.8          | 5,631         | -2.0        |
| Interest                  | 908           | 799           | 978           | 7.7           | 22.4         | 747           | 30.9        |
| Other Income              | 364           | 2,340         | 366           | 0.5           | -84.3        | 342           | 7.1         |
| Exceptional Items         | -127          | 0             | -764          | 499.3         | NM           | 0             | NM          |
| <b>PBT</b>                | <b>5,296</b>  | <b>6,943</b>  | <b>5,933</b>  | <b>12.0</b>   | <b>-14.5</b> | <b>5,279</b>  | <b>12.4</b> |
| Tax                       | 1,038         | 1,591         | 659           | -36.5         | -58.6        | 1,329         | -50.4       |
| Effective Tax Rate (%)    | 19.6%         | 22.9%         | 11.1%         |               |              | 25.2%         |             |
| <b>PAT</b>                | <b>4,258</b>  | <b>5,351</b>  | <b>5,274</b>  | <b>23.9</b>   | <b>-1.4</b>  | <b>3,950</b>  | <b>33.5</b> |
| MI and P/L in Associates  | -4            | 86            | 50            | -1253.5       | -42.6        | 10            |             |
| <b>PAT after Minority</b> | <b>4254</b>   | <b>5438</b>   | <b>5,324</b>  | <b>25.1</b>   | <b>-2.1</b>  | <b>3,960</b>  | <b>34.4</b> |
| <b>Adjusted PAT</b>       | <b>2980</b>   | <b>5438</b>   | <b>4,560</b>  | <b>53</b>     | <b>-16</b>   | <b>3,960</b>  | <b>15.2</b> |

Source: MOFSL, Company

**Exhibit 3: Detailed segmental quarterly performance**

| Particulars                   | 2QFY22  | 1QFY23 | 2QFY23 | YoY (%) | QoQ (%) | 2QFY23E | Var. (%) |
|-------------------------------|---------|--------|--------|---------|---------|---------|----------|
| <b>Total revenue</b>          | 41,740  | 43,105 | 44,307 | 6.2     | 2.8     | 44,466  | -0.4     |
| <b>Voice segment</b>          | 6,060   | 5,614  | 5,245  | -13.5   | -6.6    | 5,450   | -3.8     |
| <b>Data segment</b>           | 31,399  | 33,397 | 34,926 | 11.2    | 4.6     | 34,723  | 0.6      |
| Core Connectivity             | 22,408  | 23,107 | 23,739 | 5.9     | 2.7     | 23,454  | 1.2      |
| Digital Platform and Services | 8,563   | 9,402  | 9,979  | 16.5    | 6.1     | 10,248  | -2.6     |
| Incubation                    | 429     | 888    | 1,208  | 181.8   | 36.1    | 1,021   | 18.3     |
| <b>Others</b>                 |         |        |        |         |         |         |          |
| Transformation Service        | 3,352   | 3,170  | 3,215  | -4.1    | 1.4     | 3,297   | -2.5     |
| Tata Payment Solutions        | 409     | 440    | 458    | 12.0    | 4.1     | 511     | -10.4    |
| Rental                        | 520     | 484    | 463    | -10.9   | -4.2    | 484     | -4.2     |
| <b>EBITDA</b>                 | 11,129  | 10,770 | 11,297 | 1.5     | 4.9     | 11,315  | -0.2     |
| <b>Voice segment</b>          | 459     | 617    | 1,010  | 120.2   | 63.6    | 594     | 70.1     |
| <b>Data segment</b>           | 10,491  | 9,693  | 10,070 | -4.0    | 3.9     | 10,209  | -1.4     |
| Core Connectivity             | 10,287  | 9,826  | 11,067 | 7.6     | 12.6    | 9,973   | 11.0     |
| Margin (%)                    | 45.9    | 42.5   | 46.6   | 71bp    | 409bp   | 42.5    | 409bp    |
| Digital Platform and Services | 1,215   | 667    | -171   | -114.1  | -125.7  | 973     | -117.6   |
| Margin (%)                    | 14.2    | 7.1    | -1.7   | -1591bp | -881bp  | 9       | -1121bp  |
| Incubation                    | (1,011) | (800)  | (825)  | -18.4   | 3.1     | (737)   | 12.0     |
| Margin (%)                    | NM      | NM     | NM     | NM      | NM      | NM      | NM       |
| Transformation Service        | (215)   | 156    | 52     | -124.0  | -66.9   | 202     | -74.4    |
| Margin (%)                    | (6)     | 5      | 1.6    | 801bp   | -331bp  | 6       | -451bp   |
| Tata Payment Solutions        | 34      | 12     | (17)   | -150.6  | -240.3  | 17      | -200.8   |
| Margin (%)                    | 8       | 3      | -3.8   | -1205bp | -653bp  | 3.3     | -708bp   |
| Rental                        | 360     | 293    | 182    | -49.4   | -37.8   | 292.8   | -37.8    |
| Margin (%)                    | 69.2    | 60.5   | 39.3   | -2989bp | -2117bp | 60.5    | -2121bp  |

**Exhibit 4: Summary of our change in estimates (INR b)**

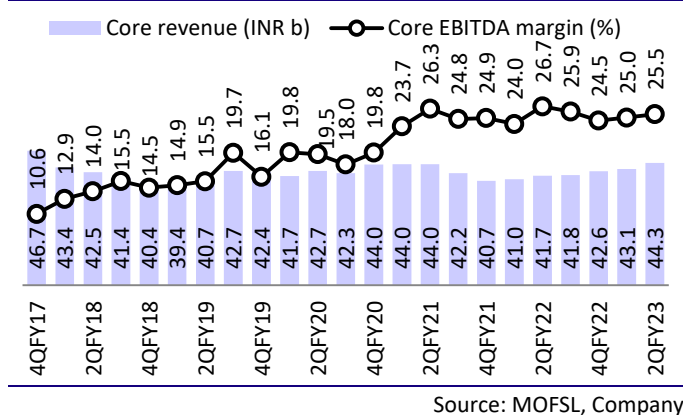
|                                     | <b>FY23E</b> | <b>FY24E</b>  |
|-------------------------------------|--------------|---------------|
| <b>Global Voice revenue (INR b)</b> |              |               |
| Old                                 | 21.5         | 19.1          |
| Actual/New                          | 20.9         | 18.4          |
| Change (%)                          | <b>-2.8</b>  | <b>-3.6</b>   |
| <b>Global Data revenue (INR b)</b>  |              |               |
| Old                                 | 141.3        | 160.4         |
| Actual/New                          | 142.2        | 161.9         |
| Change (%)                          | <b>0.6</b>   | <b>1.0</b>    |
| <b>Core revenue (INR b)</b>         |              |               |
| Old                                 | 180.2        | 199.4         |
| Actual/New                          | 180.1        | 199.8         |
| Change (%)                          | <b>0.0</b>   | <b>0.2</b>    |
| <b>Core EBITDA (INR b)</b>          |              |               |
| Old                                 | 46.4         | 54.1          |
| Actual/New                          | 45.2         | 51.4          |
| Change (%)                          | <b>-2.5</b>  | <b>-5.0</b>   |
| <b>Voice EBITDA (INR b)</b>         |              |               |
| Old                                 | 2.3          | 2.0           |
| Actual/New                          | 3.5          | 3.5           |
| Change (%)                          | <b>52.1</b>  | <b>73.5</b>   |
| <b>Data EBITDA (INR b)</b>          |              |               |
| Old                                 | 41.9         | 49.3          |
| Actual/New                          | 40.4         | 46.4          |
| Change (%)                          | <b>-3.5</b>  | <b>-5.7</b>   |
| <b>Core EBITDA margin (%)</b>       |              |               |
| Old                                 | 25.8         | 27.1          |
| Actual/New                          | 25.1         | 25.7          |
| Change (%)                          | <b>-64bp</b> | <b>-139bp</b> |
| <b>PAT (INR m)</b>                  |              |               |
| Old                                 | 18.4         | 23.4          |
| Actual/New                          | 18.4         | 20.7          |
| Change (%)                          | 0.0          | -11.5         |
| <b>EPS (INR)</b>                    |              |               |
| Old                                 | 64.5         | 82.1          |
| Actual/New                          | 64.5         | 72.7          |
| Change (%)                          | 0.0          | -11.5         |
| <b>Depreciation (INR b)</b>         |              |               |
| Old                                 | 22.5         | 22.2          |
| Actual/New                          | 22.5         | 22.2          |
| Change (%)                          | 0.0          | 0.0           |
| <b>Interest (INR b)</b>             |              |               |
| Old                                 | 3.0          | 2.7           |
| Actual/New                          | 3.7          | 3.6           |
| Change (%)                          | 24.3         | 33.5          |

Source: MOFSL, Company

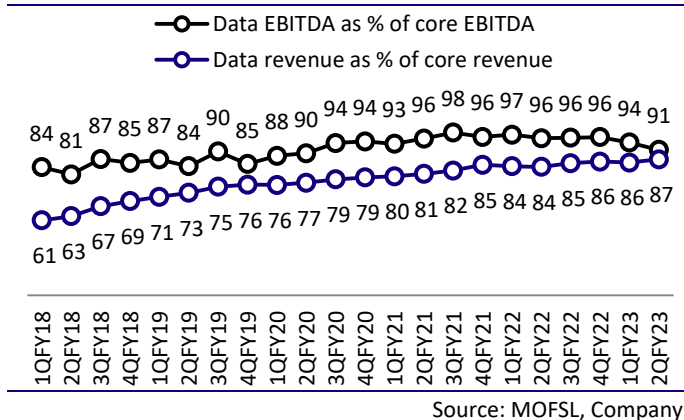


## Story in charts

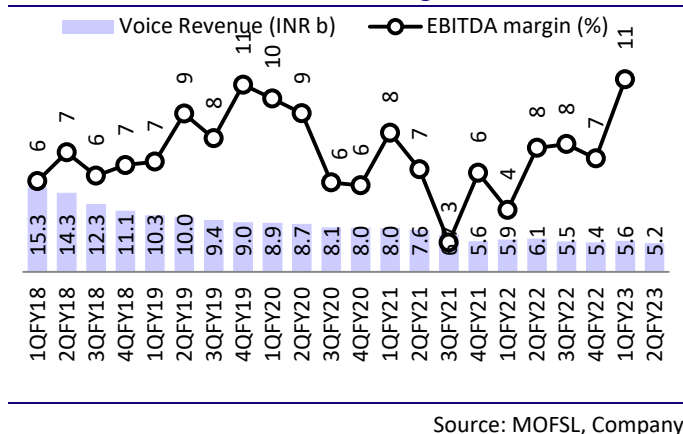
**Exhibit 5: Core EBITDA margin up 25.5% QoQ in 2QFY23**



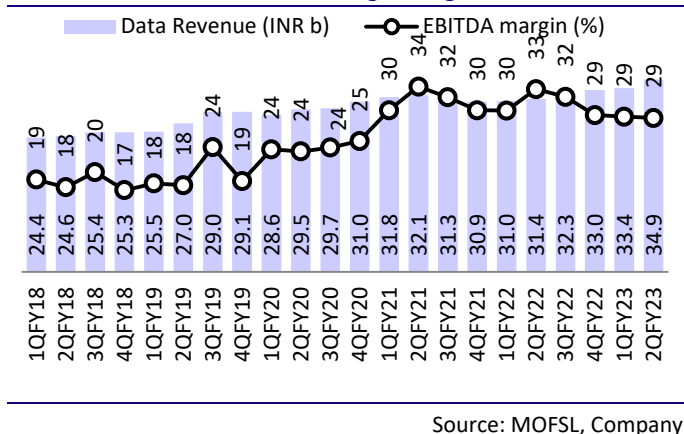
**Exhibit 6: Revenue and EBITDA contribution from the Data business**



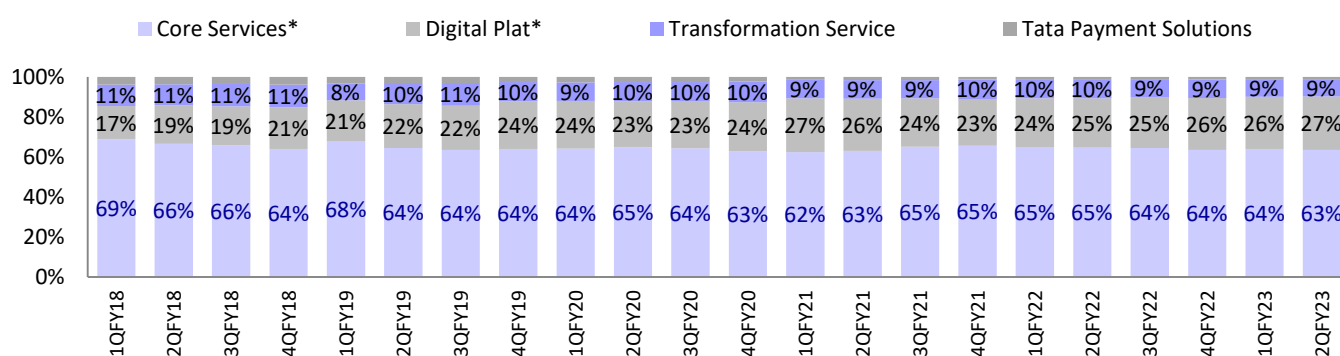
**Exhibit 7: Revenue from the Voice segment rises QoQ**



**Exhibit 8: Revenue from Data segment grew 4.5% QoQ**

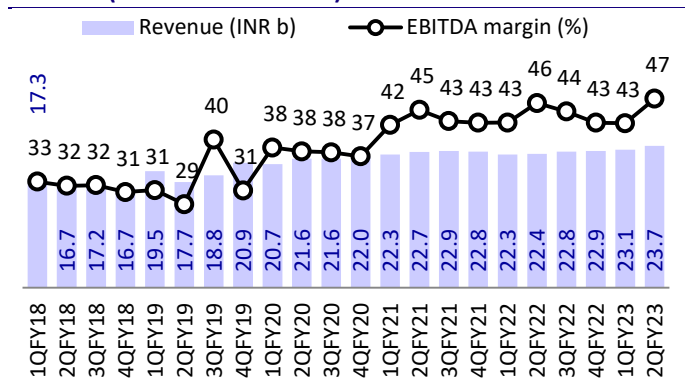


**Exhibit 9: Revenue contribution from various segments in 2QFY23 (%)**

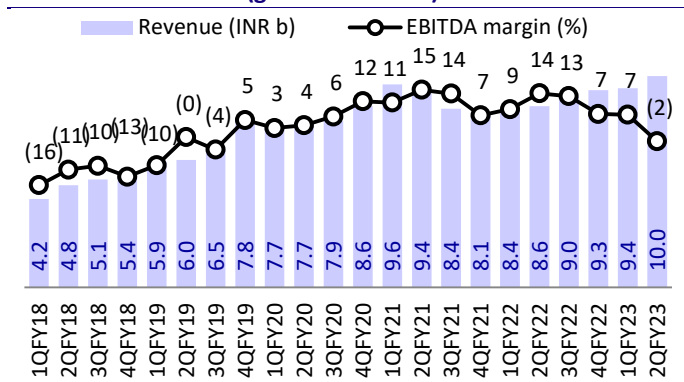


\*revised as per the new reporting structure. Source: MOFSL, Company

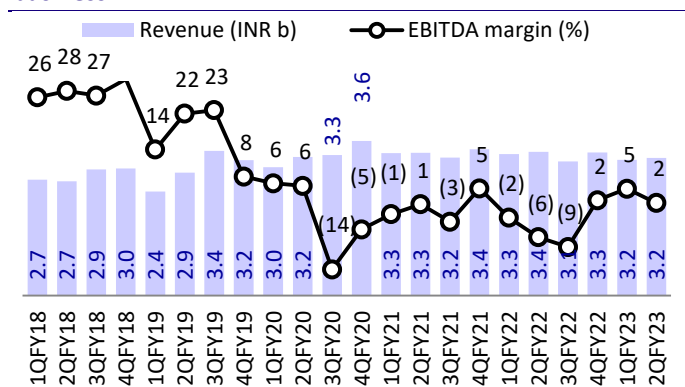


**Exhibit 10: Revenue and EBITDA margin trend for Core Services (traditional business)**

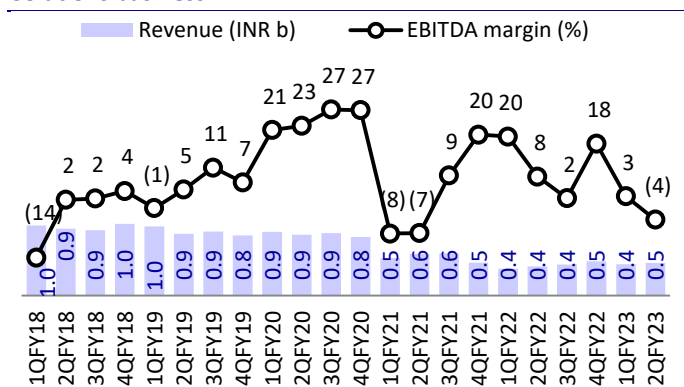
Source: MOFSL, Company

**Exhibit 11: Revenue and EBITDA margin trend for Digital Platform and Services (growth business)**

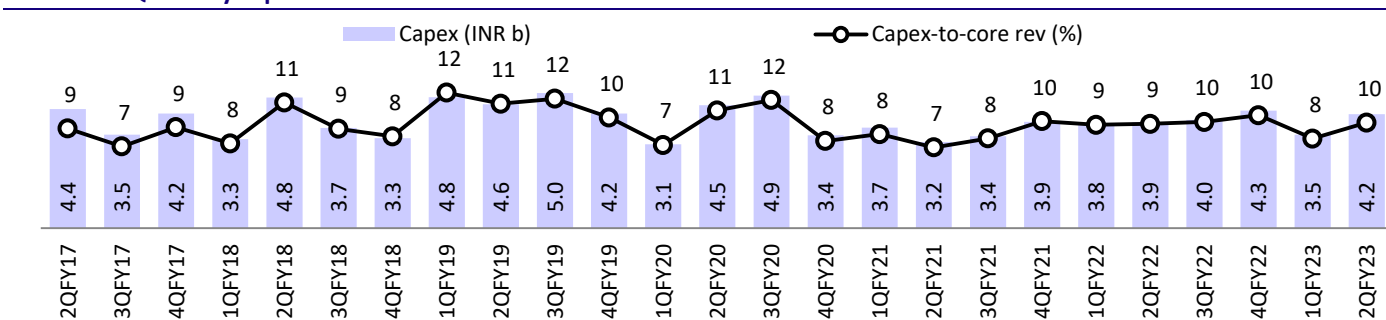
Source: MOFSL, Company

**Exhibit 12: Revenue and EBITDA trend in the Transformation business**

Source: MOFSL, Company

**Exhibit 13: Revenue and EBITDA trend in the Payment Solutions business**

Source: MOFSL, Company

**Exhibit 14: Quarterly capex trend**

Source: MOFSL, Company

## Financials and valuations

| Consolidated Income Statement       |                 |                 |                 |                 |                 |                 |                 |                 |                 | (INR m)         |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Y/E March                           | FY15            | FY16            | FY17            | FY18            | FY19            | FY20            | FY21            | FY22            | FY23E           | FY24E           |
| <b>Total Income from Operations</b> | <b>1,99,090</b> | <b>1,81,486</b> | <b>1,76,197</b> | <b>1,67,717</b> | <b>1,65,250</b> | <b>1,70,680</b> | <b>1,71,001</b> | <b>1,67,247</b> | <b>1,80,120</b> | <b>1,99,784</b> |
| Change (%)                          | 1.5             | -8.8            | -2.9            | -4.8            | -1.5            | 3.3             | 0.2             | -2.2            | 7.7             | 10.9            |
| Network Cost                        | 1,05,543        | 96,724          | 88,119          | 79,032          | 71,620          | 67,776          | 63,333          | 61,995          | 63,915          | 71,305          |
| Staff Cost                          | 27,948          | 27,396          | 28,394          | 29,775          | 29,597          | 30,391          | 30,491          | 30,403          | 34,702          | 37,335          |
| Operating and Other Expense         | 35,702          | 32,949          | 35,625          | 34,787          | 36,584          | 39,623          | 34,572          | 32,582          | 36,263          | 39,746          |
| <b>Total Expenditure</b>            | <b>1,69,193</b> | <b>1,57,069</b> | <b>1,52,138</b> | <b>1,43,595</b> | <b>1,37,801</b> | <b>1,37,790</b> | <b>1,28,395</b> | <b>1,24,980</b> | <b>1,34,880</b> | <b>1,48,386</b> |
| As a percentage of Sales            | 85.0            | 86.5            | 86.3            | 85.6            | 83.4            | 80.7            | 75.1            | 74.7            | 74.9            | 74.3            |
| <b>EBITDA</b>                       | <b>29,897</b>   | <b>24,417</b>   | <b>24,059</b>   | <b>24,122</b>   | <b>27,449</b>   | <b>32,890</b>   | <b>42,606</b>   | <b>42,267</b>   | <b>45,239</b>   | <b>51,398</b>   |
| Margin (%)                          | 15.0            | 13.5            | 13.7            | 14.4            | 16.6            | 19.3            | 24.9            | 25.3            | 25.1            | 25.7            |
| Depreciation                        | 21,611          | 18,643          | 18,658          | 19,063          | 20,676          | 23,577          | 23,139          | 22,045          | 22,526          | 22,156          |
| <b>EBIT</b>                         | <b>8,286</b>    | <b>5,774</b>    | <b>5,401</b>    | <b>5,059</b>    | <b>6,773</b>    | <b>9,312</b>    | <b>19,467</b>   | <b>20,222</b>   | <b>22,714</b>   | <b>29,242</b>   |
| Int. and Finance Charges            | 7,508           | 4,091           | 3,672           | 3,445           | 3,966           | 4,707           | 4,202           | 3,603           | 3,666           | 3,622           |
| Other Income                        | 4,008           | 3,966           | 3,603           | 2,597           | 603             | 697             | 1,568           | 3,321           | 3,366           | 1,950           |
| <b>PBT bef. EO Exp.</b>             | <b>4,786</b>    | <b>5,650</b>    | <b>5,332</b>    | <b>4,211</b>    | <b>3,410</b>    | <b>5,302</b>    | <b>16,833</b>   | <b>19,940</b>   | <b>22,413</b>   | <b>27,570</b>   |
| EO Items                            | -1,052          | -1,028          | -10,633         | -3,755          | 22              | -3,905          | -747            | 60              | 764             | 0               |
| <b>PBT after EO Exp.</b>            | <b>3,734</b>    | <b>4,622</b>    | <b>-5,301</b>   | <b>456</b>      | <b>3,432</b>    | <b>1,397</b>    | <b>16,085</b>   | <b>20,000</b>   | <b>23,177</b>   | <b>27,570</b>   |
| Total Tax                           | 3,705           | 2,329           | 2,364           | 3,549           | 2,733           | 2,267           | 3,549           | 5,221           | 4,842           | 6,903           |
| Tax Rate (%)                        | 99.2            | 50.4            | -44.6           | 778.2           | 79.6            | 162.3           | 22.1            | 26.1            | 20.9            | 25.0            |
| Minority Interest                   | 17              | 18              | -25             | 193             | 1,523           | -11             | 30              | -39             | -39             | -39             |
| <b>Reported PAT</b>                 | <b>13</b>       | <b>2,276</b>    | <b>-7,640</b>   | <b>-3,286</b>   | <b>-824</b>     | <b>-860</b>     | <b>12,506</b>   | <b>14,818</b>   | <b>18,374</b>   | <b>20,706</b>   |
| <b>Adjusted PAT</b>                 | <b>3,027</b>    | <b>973</b>      | <b>3,016</b>    | <b>331</b>      | <b>-624</b>     | <b>3,011</b>    | <b>13,253</b>   | <b>14,774</b>   | <b>17,770</b>   | <b>20,706</b>   |
| Change (%)                          | -43.2           | -67.9           | 210.0           | -89.0           | -288.6          | -582.2          | 340.2           | 11.5            | 20.3            | 16.5            |
| Margin (%)                          | 1.5             | 0.5             | 1.7             | 0.2             | -0.4            | 1.8             | 7.8             | 8.8             | 9.9             | 10.4            |

| Consolidated Balance Sheet           |                 |                 |                 |                 |                 |                 |                 |                |                 | (INR m)         |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------------|-----------------|-----------------|
| Y/E March                            | FY15            | FY16            | FY17            | FY18            | FY19            | FY20            | FY21            | FY22           | FY23E           | FY24E           |
| Equity Share Capital                 | 2,850           | 2,850           | 2,850           | 2,850           | 2,850           | 2,850           | 2,850           | 2,850          | 2,850           | 2,850           |
| Total Reserves                       | 365             | -6,484          | 13,069          | 2,143           | -4,668          | -15,634         | -1,695          | 6,426          | 24,799          | 45,506          |
| <b>Net Worth</b>                     | <b>3,215</b>    | <b>-3,634</b>   | <b>15,919</b>   | <b>4,993</b>    | <b>-1,818</b>   | <b>-12,784</b>  | <b>1,155</b>    | <b>9,276</b>   | <b>27,649</b>   | <b>48,356</b>   |
| Minority Interest                    | 59              | 69              | 184             | 45              | 58              | 48              | 282             | 285            | 285             | 285             |
| Total Loans                          | 1,30,757        | 1,51,181        | 99,516          | 95,395          | 1,06,844        | 81,575          | 98,011          | 78,968         | 78,320          | 66,320          |
| Lease liabilities                    |                 |                 |                 |                 |                 | 39,938          | 14,351          | 12,248         | 12,248          | 12,248          |
| Deferred Tax Liabilities             | -2,015          | -1,072          | 71              | -477            | -887            | -2,495          | -2,824          | -1,868         | -1,868          | -1,868          |
| <b>Capital Employed</b>              | <b>1,32,015</b> | <b>1,46,545</b> | <b>1,15,690</b> | <b>99,956</b>   | <b>1,04,196</b> | <b>1,06,282</b> | <b>1,10,975</b> | <b>98,908</b>  | <b>1,16,634</b> | <b>1,25,340</b> |
| Gross Block                          | 2,99,608        | 3,08,467        | 2,70,923        | 2,88,666        | 1,16,569        | 1,29,126        | 1,51,316        | 1,70,360       | 1,67,588        | 1,67,799        |
| Less: Accum. Deprn.                  | 1,56,419        | 1,67,208        | 1,61,638        | 1,80,701        | 5,006           | 28,583          | 51,722          | 73,767         | 96,293          | 1,18,449        |
| <b>Net Fixed Assets</b>              | <b>1,43,190</b> | <b>1,41,259</b> | <b>1,09,285</b> | <b>1,07,965</b> | <b>1,11,563</b> | <b>1,00,543</b> | <b>99,594</b>   | <b>96,593</b>  | <b>71,296</b>   | <b>49,350</b>   |
| Right to use assets                  |                 |                 |                 |                 |                 | 15,956          | 13,337          | 11,488         | 11,488          | 11,488          |
| Goodwill on Consolidation            | 3,848           | 3,246           | 0               | 0               | 863             | 918             | 1,103           | 1,083          | 1,083           | 1,083           |
| Capital WIP                          | 6,383           | 7,998           | 7,509           | 5,203           | 4,082           | 4,466           | 6,091           | 8,723          | 8,723           | 8,723           |
| <b>Total Investments</b>             | <b>17,675</b>   | <b>18,306</b>   | <b>24,340</b>   | <b>12,502</b>   | <b>14,913</b>   | <b>15,631</b>   | <b>22,334</b>   | <b>15,652</b>  | <b>15,652</b>   | <b>15,652</b>   |
| <b>Curr. Assets, Loans, and Adv.</b> | <b>68,841</b>   | <b>79,095</b>   | <b>69,199</b>   | <b>69,425</b>   | <b>67,205</b>   | <b>72,016</b>   | <b>67,773</b>   | <b>60,968</b>  | <b>99,192</b>   | <b>1,34,284</b> |
| Inventory                            | 264             | 254             | 192             | 270             | 766             | 730             | 344             | 379            | 389             | 432             |
| Account Receivables                  | 24,870          | 30,189          | 25,900          | 28,912          | 29,685          | 32,289          | 26,077          | 25,821         | 29,609          | 32,841          |
| Cash and Bank Balance                | 16,212          | 19,763          | 10,793          | 12,956          | 8,521           | 9,091           | 9,271           | 7,434          | 41,246          | 71,823          |
| Loans and Advances                   | 27,495          | 28,889          | 32,313          | 27,288          | 28,234          | 29,906          | 32,081          | 27,334         | 27,948          | 29,187          |
| <b>Curr. Liability and Prov.</b>     | <b>1,07,922</b> | <b>1,03,359</b> | <b>94,643</b>   | <b>95,139</b>   | <b>94,429</b>   | <b>1,03,248</b> | <b>99,257</b>   | <b>95,599</b>  | <b>90,800</b>   | <b>95,240</b>   |
| Account Payables                     | 36,697          | 35,764          | 35,814          | 34,716          | 36,885          | 38,450          | 32,395          | 30,065         | 29,609          | 30,104          |
| Other Current Liabilities            | 61,538          | 61,748          | 53,142          | 54,759          | 51,527          | 57,252          | 59,981          | 57,868         | 56,750          | 60,209          |
| Provisions                           | 9,687           | 5,847           | 5,687           | 5,664           | 6,016           | 7,546           | 6,881           | 7,666          | 4,441           | 4,926           |
| <b>Net Current Assets</b>            | <b>-39,081</b>  | <b>-24,264</b>  | <b>-25,444</b>  | <b>-25,714</b>  | <b>-27,224</b>  | <b>-31,232</b>  | <b>-31,484</b>  | <b>-34,631</b> | <b>8,392</b>    | <b>39,044</b>   |
| <b>Appl. of Funds</b>                | <b>1,32,015</b> | <b>1,46,545</b> | <b>1,15,690</b> | <b>99,956</b>   | <b>1,04,196</b> | <b>1,06,282</b> | <b>1,10,975</b> | <b>98,908</b>  | <b>1,16,634</b> | <b>1,25,340</b> |

## Financials and valuations

### Ratios

| Y/E March                     | FY15        | FY16       | FY17        | FY18       | FY19        | FY20        | FY21        | FY22        | FY23E       | FY24E       |
|-------------------------------|-------------|------------|-------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Basic (INR)</b>            |             |            |             |            |             |             |             |             |             |             |
| <b>EPS</b>                    | <b>10.6</b> | <b>3.4</b> | <b>10.6</b> | <b>1.2</b> | <b>-2.2</b> | <b>10.6</b> | <b>46.5</b> | <b>51.8</b> | <b>62.3</b> | <b>72.7</b> |
| Cash EPS                      | 86.4        | 68.8       | 76.0        | 68.0       | 70.4        | 93.3        | 127.7       | 129.2       | 141.4       | 150.4       |
| BV/Share                      | 11.3        | -12.7      | 55.9        | 17.5       | -6.4        | -44.9       | 4.1         | 32.5        | 97.0        | 169.7       |
| DPS                           | 5.5         | 4.3        | 6.0         | 4.5        | 4.5         | 4.0         | 4.0         | 4.0         | 4.0         | 4.0         |
| Payout (%)                    | 13,711.6    | 64.2       | -25.0       | -45.4      | -181.0      | -154.2      | 10.6        | 8.9         | 7.2         | 6.4         |
| <b>Valuation (x)</b>          |             |            |             |            |             |             |             |             |             |             |
| P/E ratio                     | 114.1       | 355.0      | 114.5       | 1,043.2    | -553.2      | 114.7       | 26.1        | 23.4        | 19.4        | 16.7        |
| Cash P/E ratio                | 14.0        | 17.6       | 15.9        | 17.8       | 17.2        | 13.0        | 9.5         | 9.4         | 8.6         | 8.1         |
| P/BV ratio                    | 107.5       | -95.1      | 21.7        | 69.2       | -190.0      | -27.0       | 299.2       | 37.2        | 12.5        | 7.1         |
| EV/Sales ratio                | 2.3         | 2.6        | 2.5         | 2.6        | 2.7         | 2.4         | 2.5         | 2.5         | 2.1         | 1.7         |
| EV/EBITDA ratio               | 15.4        | 19.5       | 18.0        | 17.7       | 16.2        | 12.7        | 10.2        | 9.9         | 8.5         | 6.6         |
| Dividend Yield (%)            | 0.5         | 0.4        | 0.5         | 0.4        | 0.4         | 0.3         | 0.3         | 0.3         | 0.3         | 0.3         |
| FCF per share                 | 44.1        | 11.7       | 21.0        | -8.4       | -27.1       | 36.5        | 64.5        | 89.7        | 121.8       | 155.1       |
| <b>Return Ratios (%)</b>      |             |            |             |            |             |             |             |             |             |             |
| RoE                           | 54.0        | -464.6     | 49.1        | 3.2        | -39.3       | -41.2       | -227.9      | 283.3       | 96.2        | 54.5        |
| RoCE                          | 0.1         | 3.4        | 9.9         | 3.8        | 1.5         | -7.2        | 19.5        | 18.6        | 21.2        | 21.2        |
| RoIC                          | 0.1         | 3.0        | 9.0         | 2.1        | 1.9         | -7.5        | 20.2        | 21.3        | 30.4        | 54.7        |
| <b>Working Capital Ratios</b> |             |            |             |            |             |             |             |             |             |             |
| Fixed Asset Turnover (x)      | 0.7         | 0.6        | 0.7         | 0.6        | 1.4         | 1.3         | 1.1         | 1.0         | 1.1         | 1.2         |
| Asset Turnover (x)            | 1.5         | 1.2        | 1.5         | 1.7        | 1.6         | 1.6         | 1.5         | 1.7         | 1.5         | 1.6         |
| Inventory (Days)              | 0           | 1          | 0           | 1          | 2           | 2           | 1           | 1           | 1           | 1           |
| Debtor (Days)                 | 46          | 61         | 54          | 63         | 66          | 69          | 56          | 56          | 60          | 60          |
| Creditor (Days)               | 67          | 72         | 74          | 76         | 81          | 82          | 69          | 66          | 60          | 55          |
| <b>Leverage Ratio (x)</b>     |             |            |             |            |             |             |             |             |             |             |
| Current Ratio                 | 0.6         | 0.8        | 0.7         | 0.7        | 0.7         | 0.7         | 0.7         | 0.6         | 1.1         | 1.4         |
| Interest Coverage Ratio       | 1.1         | 1.4        | 1.5         | 1.5        | 1.7         | 2.0         | 4.6         | 5.6         | 6.2         | 8.1         |
| Net Debt/Equity ratio         | 30.1        | -31.1      | 4.0         | 14.0       | -45.9       | -4.4        | 57.5        | 6.0         | 0.8         | -0.4        |

### Consolidated Cash Flow Statement

(INR m)

| Y/E March                          | FY15           | FY16           | FY17           | FY18          | FY19           | FY20           | FY21           | FY22           | FY23E         | FY24E          |
|------------------------------------|----------------|----------------|----------------|---------------|----------------|----------------|----------------|----------------|---------------|----------------|
| OP/(Loss) before Tax               | 3,734          | 2,626          | 20,188         | 456           | 3,432          | -848           | 12,515         | 20,000         | 23,177        | 27,570         |
| Depreciation                       | 21,611         | 22,194         | 19,469         | 19,063        | 20,676         | 23,577         | 23,139         | 22,045         | 22,526        | 22,156         |
| Interest and Finance Charges       | 6,680          | 7,151          | 6,875          | 3,445         | 3,966          | 4,707          | 4,202          | 3,603          | 3,666         | 3,622          |
| Direct Taxes Paid                  | -1,120         | -4,238         | -7,404         | -3,549        | -2,733         | -2,793         | -4,964         | 887            | -4,842        | -6,903         |
| (Inc.)/Dec. in WC                  | -1,339         | -4,432         | -227           | 2,433         | -3,335         | -2,513         | -5,526         | -4,718         | -9,211        | -75            |
| <b>CF from Operations</b>          | <b>29,565</b>  | <b>23,301</b>  | <b>38,900</b>  | <b>21,847</b> | <b>22,005</b>  | <b>22,131</b>  | <b>29,366</b>  | <b>41,817</b>  | <b>35,315</b> | <b>46,371</b>  |
| Others                             | 718            | 326            | -14,965        | -8,796        | -6,577         | 3,117          | 2,433          | 222            | -3,366        | -1,950         |
| <b>CF from Operations incl. EO</b> | <b>30,283</b>  | <b>23,627</b>  | <b>23,935</b>  | <b>13,051</b> | <b>15,428</b>  | <b>25,248</b>  | <b>31,798</b>  | <b>42,038</b>  | <b>31,949</b> | <b>44,421</b>  |
| (Inc.)/Dec. in FA                  | -17,713        | -20,287        | -17,952        | -15,437       | -23,152        | -14,856        | -13,428        | -16,468        | 2,772         | -211           |
| <b>Free Cash Flow</b>              | <b>12,570</b>  | <b>3,340</b>   | <b>5,983</b>   | <b>-2,386</b> | <b>-7,724</b>  | <b>10,392</b>  | <b>18,371</b>  | <b>25,570</b>  | <b>34,721</b> | <b>44,210</b>  |
| (Pur.)/Sale of Investments         | -1,720         | -3,084         | 7,815          | 11,838        | -2,411         | -491           | -6,916         | 9,441          | 0             | 0              |
| Others                             | 2,550          | 3,409          | 10,023         | 2,597         | -260           | 49             | 298            | -1,923         | 3,366         | 1,950          |
| <b>CF from Investments</b>         | <b>-16,884</b> | <b>-19,963</b> | <b>-114</b>    | <b>-1,003</b> | <b>-25,823</b> | <b>-15,298</b> | <b>-20,046</b> | <b>-8,950</b>  | <b>6,138</b>  | <b>1,740</b>   |
| Issue of Shares                    | 0              | 0              | 0              | 0             | 0              | 0              | 0              | 0              | 0             | 0              |
| Inc./(Dec.) in Debt                | -5,088         | 7,602          | -28,219        | -4,121        | 11,448         | -4,044         | -8,381         | -27,820        | -648          | -12,000        |
| Interest Paid                      | -6,285         | -5,807         | -3,086         | -3,445        | -3,966         | -3,850         | -2,515         | -2,476         | -3,666        | -3,622         |
| Dividend Paid                      | -1,467         | -1,873         | -1,424         | -1,988        | 0              | -1,508         | -1,140         | -3,990         | 0             | 0              |
| Others                             | -1,043         | -34            | -62            | -332          | -1,523         | 23             | 463            | -639           | 39            | 39             |
| <b>CF from Fin. Activity</b>       | <b>-13,883</b> | <b>-113</b>    | <b>-32,791</b> | <b>-9,885</b> | <b>5,960</b>   | <b>-9,379</b>  | <b>-11,573</b> | <b>-34,926</b> | <b>-4,275</b> | <b>-15,583</b> |
| <b>Inc./Dec. in Cash</b>           | <b>-483</b>    | <b>3,551</b>   | <b>-8,970</b>  | <b>2,163</b>  | <b>-4,435</b>  | <b>571</b>     | <b>180</b>     | <b>-1,837</b>  | <b>33,812</b> | <b>30,577</b>  |
| Opening Balance                    | 16,695         | 16,211         | 19,763         | 10,793        | 12,956         | 8,521          | 9,091          | 9,271          | 7,434         | 41,246         |
| <b>Closing Balance</b>             | <b>16,211</b>  | <b>19,763</b>  | <b>10,793</b>  | <b>12,956</b> | <b>8,521</b>   | <b>9,091</b>   | <b>9,271</b>   | <b>7,434</b>   | <b>41,246</b> | <b>71,823</b>  |

## 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 be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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