

January 18, 2024

RESULT REPORT Q3 FY24 | Telecommunication

Tata Communication Ltd

Mixed operating performance with Digital Segment driving growth momentum

Result Synopsis

Tata Communication (TCOM) reported inline performance for the quarter. The sequential revenue growth was as per expectation; while EBITDA margin was slightly above expectation. It reported sequential revenue growth of 15.6% QoQ, led by increase in the Data revenue by 15.6% QoQ. Voice revenue declined by 24.4% YoY, inline with trend. There was sequential decline in EBITDA margin (down 70 bps QoQ) led by increase in Network costs. Reported PAT decreased by 79.6% QoQ to Rs 453mn, on account of extraordinary expenses for the quarter. Net debt increased by Rs 23.5bn QoQ to Rs 93.1 bn.

We expect the voice business to continue to decline as per the industry trend; while Data segment, especially the Digital segment would continue to drive the overall performance of the company. Data core connectivity is expected to grow around mid single digit YoY. Private 5G related capex going ahead should also drive opportunities for the company. EBITDA margin will be under pressure in near term as it integrates Kaleyra, a CPaaS player. We expect EBITDA margin to be around 20% for FY24. Net debt remains under control with strong operating cash flow generation. We estimate revenue CAGR of 17.5% over FY23-26E with average EBITDA margin of 25.3%. We maintain our ADD rating on the stock with revised target price of Rs 1,990/share based on EV/EBITDA of 6.5x on FY26E. The stock trades at EV/EBITDA of 7.3x/5.8x on FY25E/FY26E.

Result Highlights

- Reported revenue of Rs 56.3bn (up 15.6% QoQ, up 24.4% YoY). Voice gross revenue was down 1.4% QoQ (down 16.4% YoY), while data gross revenue grew by 15.6% QoQ (up 28.5% YoY).
- EBITDA margin dipped by 70 bps QoQ to 20.1%, led by increase in network costs (up 26.6% QoQ).
- Reported PAT decreased by 79.6% QoQ to Rs 453mn, on account of one of the extraordinary expenses.
- Cash Capex for the quarter was Rs 6.3bn vs Rs 5.9bn in Q2FY24.
- Net debt increased to Rs 93.1bn (Rs 69.6bn in Q2FY24), with net debt/ LTM EBITDA of 2.2x vs Net debt/ LTM EBITDA of 1.7x in Q2FY24.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	56,333	57,517	55,000	-2.1%	2.4%
EBITDA	11,343	10,641	10,630	6.6%	6.7%
EBITDA Margin (%)	20.14%	18.50%	19.33%	164 bps	81 bps
Adjusted PAT	453	3,895	2,480	-88.4%	-81.7%

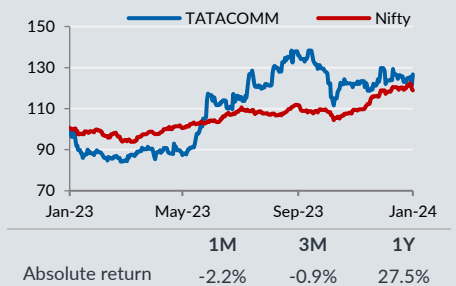
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 1,770
Target Price	: Rs 1,990
Potential Return	: + 12.4%

Stock data (as on January 18, 2024)

Nifty	21,462
52 Week h/l (Rs)	1957 / 1157
Market cap (Rs/USD mn)	483788 / 5818
Outstanding Shares (mn)	285
6m Avg t/o (Rs mn):	1,712
Div yield (%):	1.2
Bloomberg code:	TCOM IN
NSE code:	TATACOMM

Stock performance



Shareholding pattern (As of Dec'23 end)

Promoter	58.9%
FII+DII	31.3%
Others	9.8%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	1,990	1,939

Δ in earnings estimates

	FY24E	FY25E	FY26E
EPS (New)	53.1	113.9	154.3
EPS (Old)	51.2	72.8	NA
% change	3.6%	56.5%	NA

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Net Revenue	218,550	281,831	315,132
YoY Growth	22.5%	29.0%	11.8%
EBIDTA	47,340	74,346	91,342
YoY Growth	9.6%	57.0%	22.9%
PAT	15,122	32,472	43,973
YoY Growth	-10.4%	114.7%	35.4%
ROE	76.0%	86.1%	63.5%
EPS	53	114	154
P/E	33.4	15.5	11.5
BV	86	178	308
EV/EBITDA	11.8	7.3	5.8

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Exhibit 2: Quarterly snapshot Console: Sequential dip in EBITDA margin

Particulars (Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	yoy%	qoq%	9MFY24	9MFY23	YoY%
Sales	45,283	45,687	47,714	48,725	56,333	24.4	15.6	152,771	132,696	15.1
EBITDA	10,774	10,342	10,240	10,155	11,343	5.3	11.7	31,738	32,840	-3.4
EBITDA %	23.8	22.6	21.5	20.8	20.1	-366 bps	-70 bps	20.8	24.7	-397 bps
Depreciation	5,548	6,185	5,797	6,051	6,190	11.6	2.3	18,038	16,433	9.8
EBIT	5,225	4,157	4,443	4,103	5,153	-1.4	25.6	13,700	16,407	-16.5
EBIT %	11.5	9.1	9.3	8.4	9.1	-239 bps	73 bps	9.0	12.4	-340 bps
Other income	308	618	1,886	254	115	-62.7	-54.7	2,255	3,014	-25.2
finance cost	1,227	1,321	1,310	1,374	1,876	52.9	36.5	4,560	3,004	51.8
PBT	4,306	3,454	5,019	2,983	3,393	-21.2	13.7	11,394	16,418	-30.6
Tax	436	281	1,306	779	1,135	160.4	45.7	3,220	2,686	19.9
Reported PAT	3,939	3,273	3,818	2,219	453	-88.5	-79.6	6,490	14,700	-55.9

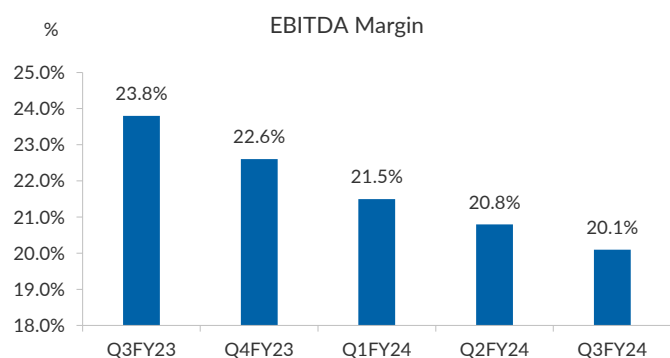
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Quarterly runrate for revenue crossed Rs 5,000 crore milestone and quarterly data revenue runrate crossed Rs 4,000 crore milestone.
- Digital portfolio witnessed uptick during the quarter and contributed ~45% of total data revenue. Digital Portfolio Revenue grew by 78.2% YoY.
- India Enterprise revenue grew strongly, increasing 10.4% YoY.
- Media revenue was up ~110% YoY on account of Cricket World Cup event in Q3FY24.
- Extraordinary expenses included renewal of license charges which were statutorily reported into expenses and not allowed to capitalize.
- EBITDA Losses for Switch has narrowed down, and aim is to make it EBITDA breakeven in medium term.
- Kaleyra business became EBITDA positive in the first quarter itself post its acquisition.
- Singapore Airlines partners with Tata Communications to enhance customer experience for their discerning customers.
- JLR to digitally transform organisation through partnership with Tata Communications.
- RoCE stood at 21.0%, lower sequentially on account of investments being made to drive growth.
- Medium term EBITDA guidance to be in range of 23% to 25% and RoCE guidance to be in 25% to 27% range.

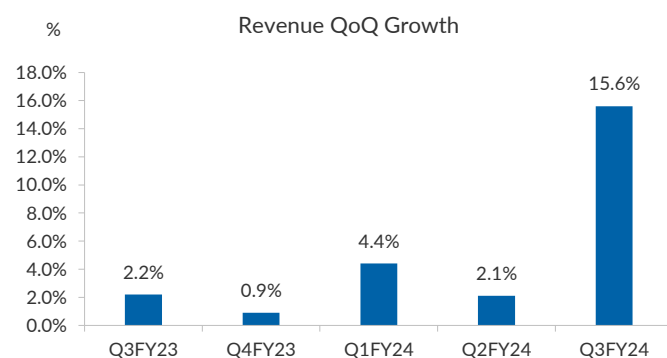
STORY IN CHARTS

Exhibit 3: Sequential decrease in EBITDA margin was led by acquisition of Switch



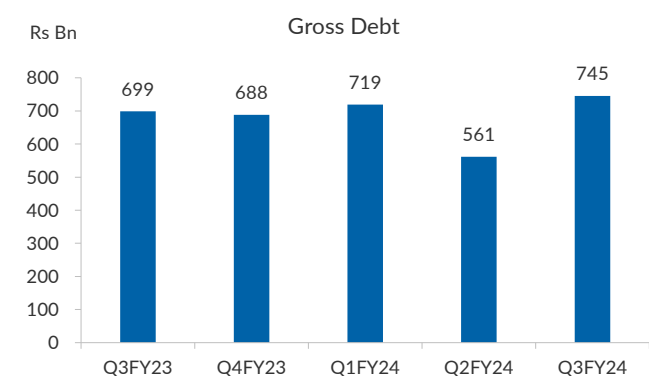
Source: Company, YES Sec

Exhibit 4: Revenue growth was led by Data Revenue Segment



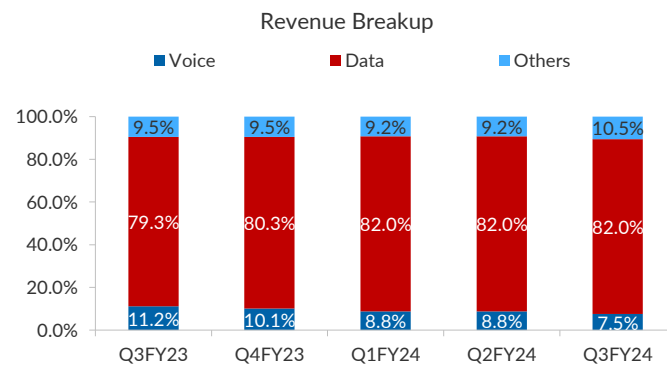
Source: Company, YES Sec

Exhibit 5: Sequential increase in gross debt



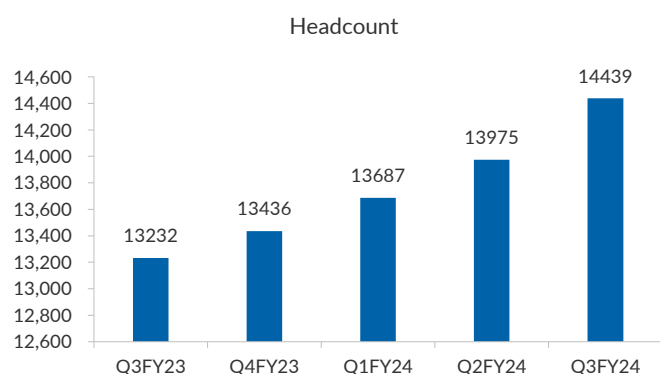
Source: Company, YES Sec

Exhibit 6: Data revenue share to maintain rising trend



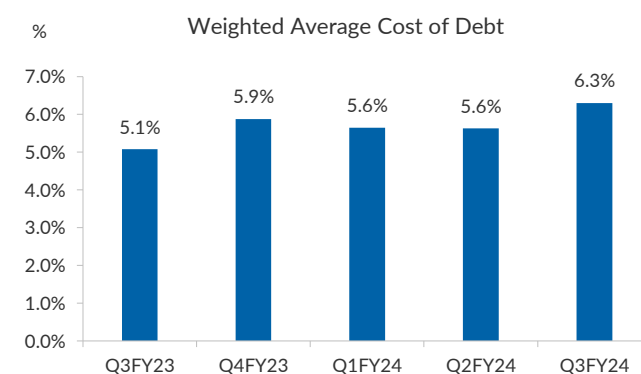
Source: Company, YES Sec

Exhibit 7: Headcount addition during the quarter



Source: Company, YES Sec

Exhibit 8: Cost of debt increased over last quarter



Source: Company, YES Sec

FINANCIALS

Exhibit 9: Balance Sheet

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Reserves & surplus	(1,695)	6,426	12,333	21,754	47,956	84,804
Shareholders' funds	1,155	9,276	15,183	24,604	50,806	87,654
Minority Interests and others	282	285	303	303	303	303
Non-current liabilities	134,232	102,812	92,181	84,731	78,847	74,278
Long-term borrowings	100,482	69,958	59,128	50,156	42,677	36,439
Other non-current liabilities	33,750	32,854	33,053	34,575	36,169	37,840
Current liabilities	77,666	84,307	97,859	95,749	94,795	94,801
ST borrowings, Curr maturity	11,968	21,749	27,965	22,779	18,610	15,256
Other current liabilities	65,697	62,558	69,895	72,970	76,185	79,545
Total (Equity and Liabilities)	213,334	196,680	205,526	205,388	224,751	257,036
Non-current assets	154,963	147,982	147,416	143,943	157,013	182,183
Fixed assets (Net block)	115,091	112,841	111,356	106,793	97,976	87,182
Non-current Investments	14,709	16,548	17,348	17,521	18,398	19,317
Long-term loans and advances	18,887	13,695	12,685	10,148	8,118	6,495
Other non-current assets	6,277	4,898	6,027	9,481	32,521	69,189
Current assets	58,371	48,698	58,110	61,445	67,738	74,853
Cash & current investment	22,095	11,762	18,221	18,935	21,264	24,045
Other current assets	36,276	36,936	39,889	42,510	46,474	50,808
Total (Assets)	213,334	196,680	205,526	205,388	224,751	257,036

Source: Company, YES Sec

Exhibit 10: Income Statement

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	171,001	167,247	178,383	218,550	281,831	315,132
Operating expenses	(128,395)	(124,980)	(135,200)	(171,211)	(207,485)	(223,789)
EBITDA	42,606	42,267	43,182	47,340	74,346	91,342
Depreciation	(23,139)	(22,045)	(22,618)	(25,932)	(33,820)	(37,816)
EBIT	19,467	20,222	20,565	21,408	40,526	53,526
Other income	1,568	3,321	3,632	5,055	7,046	7,878
Finance cost	(4,202)	(3,603)	(4,325)	(6,398)	(6,992)	(6,449)
Exceptional & extraordinary	(747)	60	0	0	0	0
Profit before tax	16,086	20,000	19,872	20,064	40,580	54,956
Tax (current + deferred)	(3,549)	(5,221)	(2,966)	(4,954)	(8,116)	(10,991)
Profit / (Loss) for the period	12,537	14,779	16,905	15,111	32,464	43,965
P/L of Associates, Min Int, Pref Div	(30)	39	(37)	11	8	8
Reported Profit / (Loss)	12,506	14,818	16,868	15,122	32,472	43,973
Adjusted net profit	13,254	14,758	16,868	15,122	32,472	43,973

Source: Company, YES Sec

Exhibit 11: Cash Flow Statement

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	16,086	20,000	19,872	20,064	40,580	54,956
Depreciation	23,139	22,045	22,618	25,932	33,820	37,816
Change in working capital	(18,195)	2,371	5,817	3,198	1,493	868
Total tax paid	(3,878)	(4,266)	(4,317)	(5,286)	(8,482)	(11,394)
Others	4,202	3,603	4,325	6,400	6,992	6,449
Cash flow from oper. (a)	21,354	43,753	48,314	50,308	74,402	88,694
Capital expenditure	(11,757)	(19,796)	(21,133)	(21,369)	(25,003)	(27,022)
Change in investments	(6,923)	6,657	(4,068)	(249)	(953)	(997)
Others	2	428	318	(3,097)	(22,649)	(36,238)
Cash flow from inv. (b)	(18,679)	(12,710)	(24,883)	(24,716)	(48,605)	(64,257)
Free cash flow (a+b)	2,675	31,043	23,431	25,592	25,797	24,438
Debt raised/(repaid)	4,328	(20,744)	(4,615)	(14,157)	(11,648)	(9,593)
Dividend (incl. tax)	(1,140)	(3,990)	(5,900)	(5,700)	(6,270)	(7,125)
Others	(5,683)	(8,146)	(9,724)	(5,098)	(5,627)	(5,016)
Cash flow from fin. (c)	(2,495)	(32,880)	(20,239)	(24,955)	(23,544)	(21,734)
Net chg in cash (a+b+c)	180	(1,837)	3,192	638	2,253	2,703

Source: Company, YES Sec

Exhibit 12: Ratio Analysis

Y/e March 31	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth(%)						
Revenue Growth	0.2	(2.2)	6.7	22.5	29.0	11.8
EBITDA Growth	29.5	(0.8)	2.2	9.6	57.0	22.9
EBIT Growth	109.0	3.9	1.7	4.1	89.3	32.1
Net Profit Growth	NA	18.5	13.8	(10.4)	114.7	35.4
Profitability Ratios(%)						
EBITDA Margin	24.9	25.3	24.2	21.7	26.4	29.0
EBIT margin	11.4	12.1	11.5	9.8	14.4	17.0
Net Profit margin	7.8	8.8	9.5	6.9	11.5	14.0
RoA	9.0	9.9	10.2	10.4	18.8	22.2
RoE	NA	283.0	137.9	76.0	86.1	63.5
RoCE	13.8	14.4	15.2	16.0	28.8	32.8
Liquidity Ratios						
Net debt/Equity (x)	62.9	8.4	4.4	2.2	0.8	0.3
Current ratio (x)	0.8	0.6	0.6	0.6	0.7	0.8
Quick ratio (x)	0.7	0.6	0.6	0.6	0.7	0.8
Valuation Ratios						
PER(x)	NA	NA	29.9	33.4	15.5	11.5
PCE(x)	NA	NA	12.8	12.3	7.6	6.2
Price/Book(x)	NA	NA	33.2	20.5	9.9	5.8
EV/EBITDA(x)	NA	NA	13.3	11.8	7.3	5.8

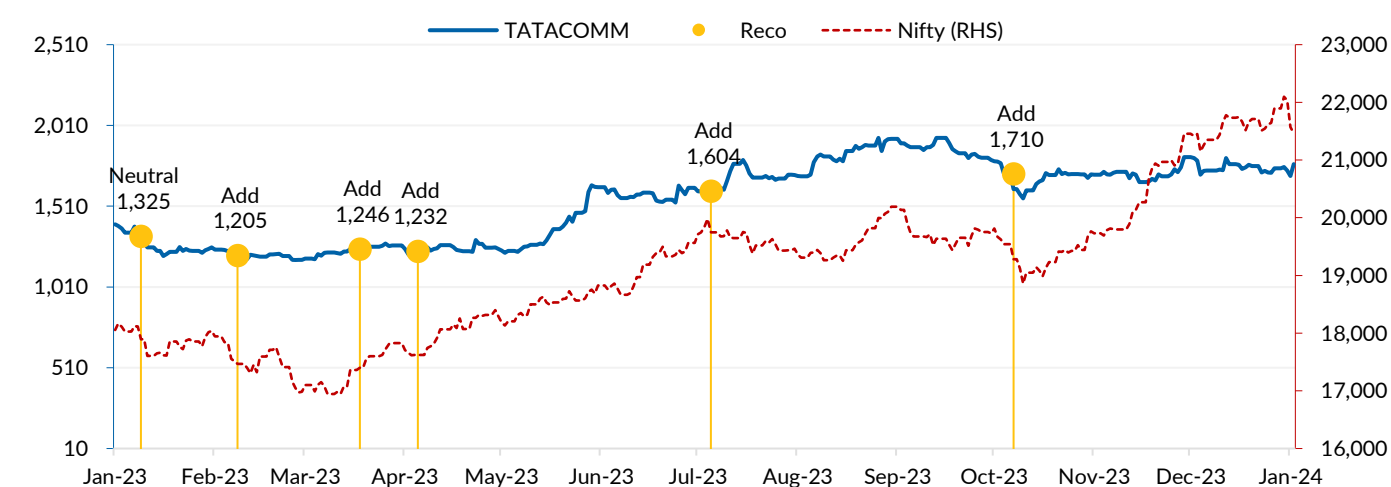
Source: Company, YES Sec

Exhibit 13: Dupont Analysis

Dupont Analysis	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net margin(%)	7.8	8.8	9.5	6.9	11.5	14.0
Asset turnover (x)	0.8	0.8	0.9	1.1	1.3	1.3
Leverage factor (x)	(37.4)	39.3	16.4	10.3	5.7	3.5
Return on Equity(%)	NA	NA	137.9	76.0	86.1	63.5

Source: Company, YES Sec

Recommendation Tracker



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