

Tata Communications



Connecting the globe

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

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Tata Communications

BSE Sensex
27,258

S&P CNX
8,417

CMP: INR 667

TP: INR788 (+18%)

Buy



TATA COMMUNICATIONS

Stock Info

Bloomberg	TCOM IN
Equity Shares (m)	285.0
52-Week Range (INR)	687 /326
1, 6, 12 Rel. Per (%)	1/49/56
M.Cap. (INR b)	190.1
M.Cap. (USD b)	2.8
Avg Val, INRm	402
Free float (%)	25.0

Financial Snapshot (INR b)

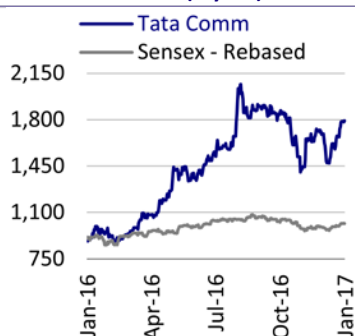
Y/E MARCH	FY16A	FY17E	FY18E
Net Sales (Rs b)	205.5	186.1	191.7
EBITDA (Rs b)	31.0	30.0	33.7
Net Profit Rs b)	0.4	4.0	10.1
EPS (Rs)	1.6	14.0	35.5
EPS Growth (%)	1,986.6	801.0	153.5
BV/Share (Rs)	-14.7	-2.9	32.6
P/E (x)	429.5	47.7	18.8
P/BV (x)	-45.5	-230.9	20.5
RoE (%)	-91.6	-159.4	238.9
RoCE (%)	0.9	5.9	10.7
RoIC	1.0	8.2	19.0

Shareholding pattern (%)

As On	Dec-16	Sep-16	Dec-15
Promoter	75.0	75.0	75.0
DII	9.1	10.8	14.1
FII	11.1	8.9	6.5
Others	4.9	5.3	4.4

FII Includes depository receipts

Stock Performance (1-year)



Connecting the globe

Phase 2.0: Improving margin, low leverage, superior RoCE

- Tata Communications (TCOM) has transformed from a long-distance voice services provider to a full-service data connectivity and value-added services provider. Its deep connectivity and array of customized solutions should drive a healthy 10% CAGR in data revenue over FY16-19 in a largely commoditized market. Yet, its focus on (a) the higher-margin Enterprise segment, and (b) value-added services should support a 490bp expansion in core EBITDA margin over FY16-19.
- The recently-announced sale of its African venture, Neotel, and data center should help deleverage TCOM's balance sheet by ~48% to INR60b. While this is factored in street estimates, we believe (a) the impending 40% capex reduction, (b) higher FCF, and (c) RoIC improvement to ~18% by FY19 are not.
- Despite its presence in the B2B space, we believe TCOM is better placed than traditional telecom companies like BHARTI and IDEA on the business front. TCOM's better competitive position, low regulatory risk, and lower capital intensity provides healthy scope of RoCE improvement.
- Factoring healthy 14% Core EBITDA CAGR over FY16-19 and subsequent deleveraging potential, the stock trades at an EV of 6x FY19E EBITDA. This is despite ~40% stock price appreciation in the last six months. We recommend Buy; our SOTP-based target price is INR778 (7x FY19E EV/EBITDA). Further, TCOM offers INR176/share land value to minority shareholders subject to Government approval for demerger of the land. Government's recent tax bill supporting the land demerger and our channel checks indicate potential monetization in current Government's regime.

Poised for steady growth in enterprise data business

TCOM's growing focus on the data business (contributing 57% of core revenue), leveraging its 710,000km deep submarine network and leadership position in emerging markets, holds it in good stead. Cisco expects business IP traffic to grow at a CAGR of 18% over the next five years. TCOM's shift from a commoditized network provider to a full-service customized enterprise solutions provider has led to sticky clientele growth. Its value-added offerings like unified communication, hosting, managed security, and a host of sector-specific data offerings also provide strong growth potential. We expect TCOM's data segment to record healthy 10% revenue CAGR over FY16-19.

Expect strong data-led margin expansion to continue

Despite the perennial price decline, we expect margin expansion to continue in TCOM's Traditional network business on the back of operating leverage. After 300bp expansion over FY13-16, we expect 310bp expansion over FY16-19. The base of the Growth and Transformation segments remains low, despite steady 45-50% CAGR. We believe scale benefits will allow these segments to turn highly profitable over FY16-19, with EBITDA margin benefit of about 10-15 percentage points. We expect TCOM's core EBITDA margin to expand ~490bp to ~20%, driven by the data segment. This should drive 14% EBITDA CAGR over FY16-19.

Improving balance sheet – RoCE expanding, FCF healthy

The recently-announced sale of the African venture, Neotel, and data center is expected to generate ~INR55b, which is likely to be used to reduce debt by ~48% to INR60b. While this is factored in the valuations, we believe the incremental gains of lower capex intensity (about 40% reduction), RoIC expansion from 6% in FY16 to ~18% in FY19E, and annual FCF generation of INR 10b in FY19E from negative FCF in FY16 (cumulative FCF generation potential of INR17.5b over FY18-19E) are not.

Better placed than conventional telcos

TCOM is better placed than the conventional telcos. While a B2B business model is generally perceived to suffer from high competition, weak FCF and low RoCE, in the telecom space, this is not really so. In TCOM's enterprise data business, competitive pressures are lower than in the consumer telecom market. Further, capex intensity is significantly low at about 10% of revenue, leading to healthy FCF generation; for BHARTI/IDEA, capex is 15-18% of revenue. TCOM is subject to limited regulatory risk; BHARTI and IDEA are exposed to high spectrum and quality of service related regulatory intervention. While we expect TCOM's RoIC to expand to ~18% by FY19, BHARTI and IDEA's RoCE is likely to remain below cost of capital. We believe TCOM has high re-rating potential and should enjoy a valuation of 7x EV/EBITDA in a market where BHARTI/IDEA trade at 6-7x one-year forward EV/EBITDA.

SOTP valuation

Particulars	FY18E	FY19E
EBITDA (INRmn)	33,731	39,996
multiple (x)	7.0	7.1
Voice EBITDA (INRmn)	4,082	3,938
multiple (x)	3.0	3.0
Data EBITDA (INRmn)	29,648	36,058
multiple (x)	7.5	7.5
Enterprise Value	234,610	282,251
Net Debt (INRmn)	71,243	60,556
Equity value (INRmn)	163,367	221,694
No of shares (mn)	285	285
Equity value/share(INR)	573	778
% Upside(Downside)	-14%	17%
Land Bank (INR)	176	176
Fair Value (INR)	749	954
CMP ((JNR)	667	667
% Upside(Downside)	12%	43%

Source: MOSL

SOTP valuation of INR778/share implies 17% upside

Our implied EV/EBITDA multiple of 7.1x to core FY19E EBITDA of INR40b is on the back of (1) EV of 3x FY19E EBITDA of INR4b for voice, given weak business visibility, (2) EV of 7.5x FY19E EBITDA of INR36b for data, given healthy growth, improving EBITDA margin and FCF generation potential over the next three years. We believe the stock has strong re-rating potential despite the sharp run-up in the last three months, as incremental FCF generation and RoCE improvement do not appear to have been factored at current valuations of 6x FY19E EV/EBITDA.

Land bank valued at INR176/share

TCOM's minority shareholders have a share in the land bank, valued at INR170/share after factoring capital gains tax and dividend distribution tax. While pending for over 15 years, there has been considerable progress towards the eventual monetization of the land after the current NDA government assumed power. In August 2016, the government passed the Taxation Bill, which takes care of the issues relating to capital gains tax liabilities. Also, a 51% government-owned entity, Hemisphere Properties has been created to transfer the demerged land. In our recent interactions, DoT has indicated that there is strong likelihood of the land transfer under the current government.

Poised for steady growth in enterprise data business

Shift of data growth towards emerging market bodes well

- **Deep connectivity, wide array of offerings supporting growth:** TCOM derives 57% of its core revenue from the data business. In this business, it has been witnessing strong growth, driven by (a) deep network connectivity across the globe, (b) wide array of offerings – traditional lease line connectivity and customised managed services – that attract corporate clients, and (c) TCOM's leadership position in Gartner's Magic Quadrant consistently since 2013.
- **Growth and Transformation segments the key growth drivers:** Over FY16-19, we expect the Growth and Transformation segments to witness a CAGR of 20% each, led by innovative/customised solutions and higher client wins. The Traditional segment should grow at 8% on shift of healthy volume growth towards the emerging markets, partly offset by perennially declining prices.
- **Capacity not a constraint to continued double-digit growth in data volumes for the industry; margins expanding despite falling prices:** The global IP traffic is expected to grow at 22% over 2015-20, while enterprise traffic would grow at 18% to reach 32,165PB/month, led by high growth in emerging markets and increasing adoption of advanced video communications in the enterprise segment. Capacity is not a key concern – increase in bandwidth from 40gbps to 100gbps/250gbps in high volume routes has releasing (and is releasing) huge capacity. Prices have been perennially falling, but without any impact on margins, due to fixed operating costs. Despite the price decline, the traditional connectivity business has seen consistent margin expansion.

Deep connectivity, wide array of offerings supporting growth

Tata Communications (TCOM) is a direct play on global data growth and shift in data consumption to emerging markets. It has transformed from a pure-play long-distance voice services provider into an integrated communication services provider, with sharper focus on the high-growth data business. TCOM, the erstwhile VSNL, now operates in two verticals: data and voice.

The data vertical, which is the key growth driver, contributed 57% of core revenue in FY16. Under this vertical, TCOM provides [A] traditional network services like private leased line connectivity, including virtual private networks, and [B] customized managed services to global enterprises, including (a) data centres, (b) unified communication services like video conference calls, and (c) ATM outsourcing, with its captive tier-I network connectivity across the globe.

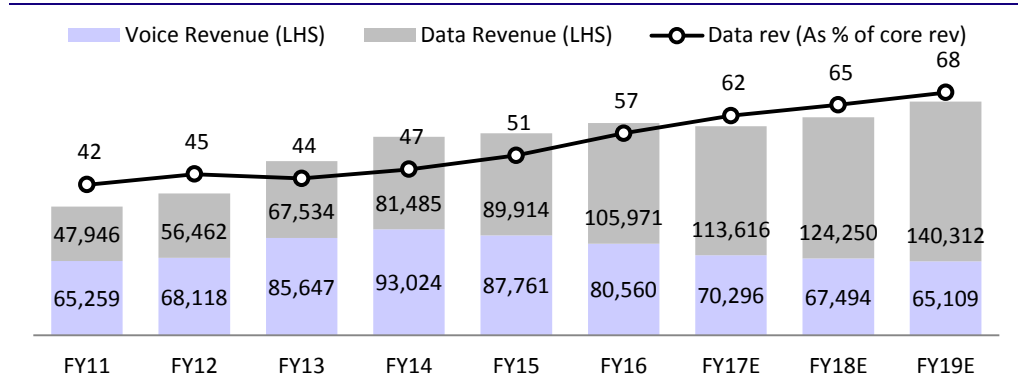
The voice vertical contributed 43% of core revenue, with ~6% EBITDA margin in FY16. It remains a steady cash cow business, with marginal capex and a steady annual FCF of INR4b. TCOM is the leader in the long-distance voice business, with 19% share in the international long-distance market.

Exhibit 1: TCOM’s transformation into a data business provider

		Core Business				Non-Core Business
		Revenue: INR186.5bn, EBITDA: INR27.4bn Revenues mix: 91%, EBITDA margin: 14.7%				Revenue: INR 19bn EBITDA margin: 18.5%
		Voice	Data			Neotel
Product Offerings	<ul style="list-style-type: none"> International Long Distance National Long Distance 	<ul style="list-style-type: none"> Data Centers VPN Intl Pvt line, Customized network solutions to enterprise Unified Comm 	<ul style="list-style-type: none"> IZO, Managed Hosting Managed Security Services Broadcast, Mobile New services 	<ul style="list-style-type: none"> Cost Transformation Technology Transformation Operational Transformation OSS Transformation 	<ul style="list-style-type: none"> Operates brown label and white label ATM under Indicash Brand 	<ul style="list-style-type: none"> South African Subsidiary Wholesale Voice Enterprise Solution Private leased line, IP transit
		52%				9%
Revenue Mix	39%	75% of data rev	12% of data rev	8% of data rev	5% of data rev	
EBITDA Margin	6.2%	21%				18.5%

Source: Company, MOSL

Exhibit 2: Revenue mix tilting towards data business

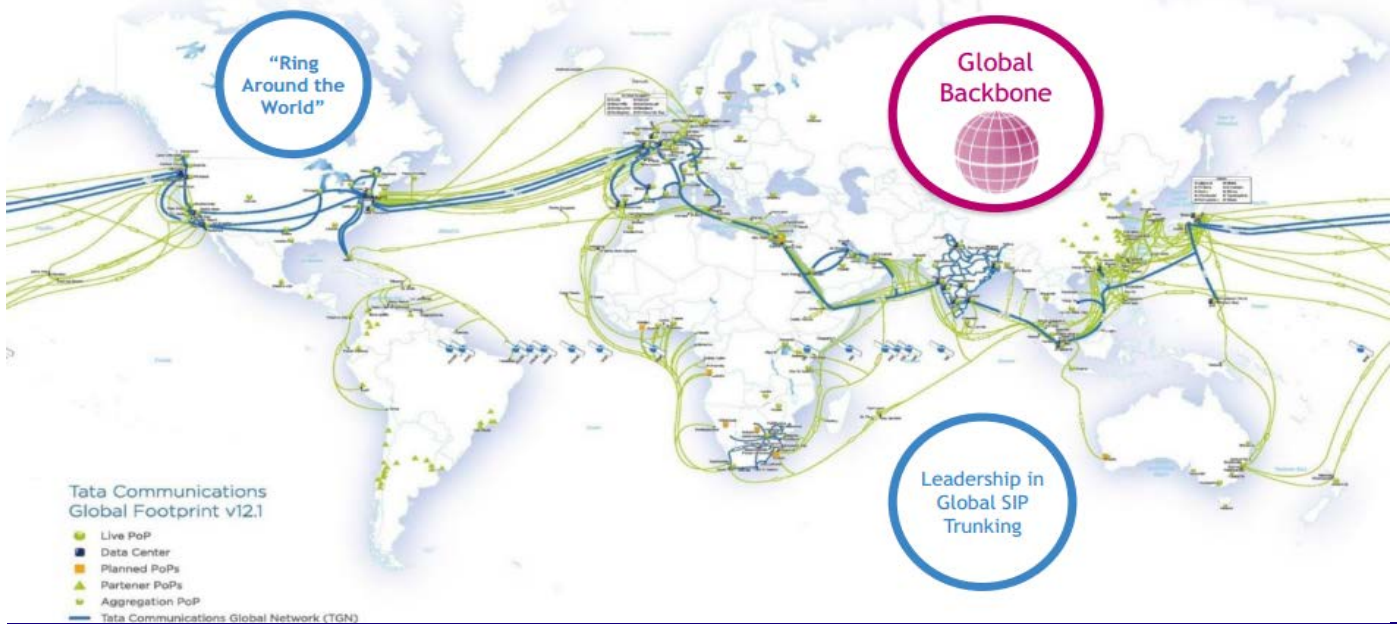


Source: Company, MOSL

Ring around the globe

TCOM’s key strength in the data segment is that it owns and operates the world’s only wholly-owned fibre-optic subsea network ring around the globe. Tata Communications’ Global Network (TGN) consists of 710,000km of optic fibre cabling, of which ~200,000km is terrestrial and ~500,000km is subsea. Its global network cable system interconnects Asia, the Middle East, the US, and Europe, allowing it to provide higher bandwidth and lower latency. TCOM holds a large portion of the cable independently; most other Indian and global telecom companies hold a small share in a large 20-member consortium. In an otherwise commoditized market, TGN gives TCOM strong pricing and cost benefits.

Exhibit 3: Global network and data centers



Source: Company, MOSL

Exhibit 4: Gartner places TCOM in Magic Quadrant



Source: Company, MOSL

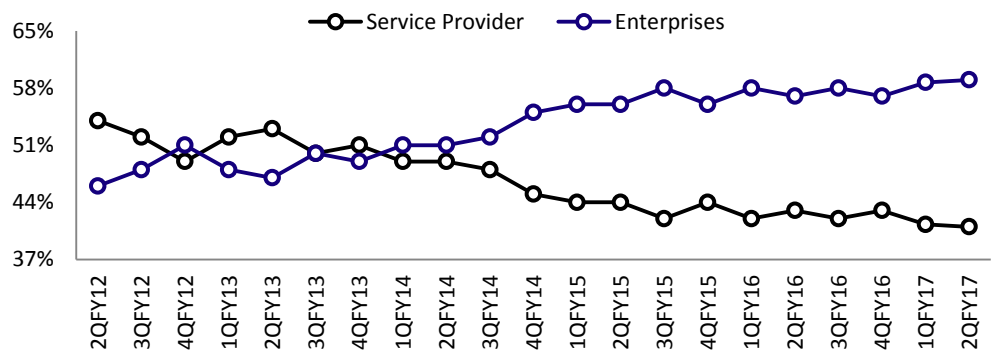
Scaling up in Gartner’s Magic Quadrant

Since 2013, TCOM has scaled up from the *Visionaries* quadrant to the *Leaders* quadrant in Gartner’s Magic Quadrant for network service providers (NSPs) in the Asia-Pacific. Magic Quadrant evaluates NSPs on their network completeness and ability to execute. NSPs with (a) a full portfolio of voice and data products, (b) above-average service & support, (c) deep global network coverage, and (d) competitive pricing are classified as leaders. Our industry channel checks indicate that TCOM’s classification as a leader in Gartner’s Magic Quadrant has allowed it to participate in several enterprises’ RFPs (requests for proposals), in turn accelerating the pace of contract wins from corporates.

Clientele – focus on premium enterprise segment

TCOM caters to two key segments of customers: 1.) Enterprises, 2.) Carriers (Service Providers). The enterprises it serves include (a) over 5,000 global and domestic banks, and (b) corporate clients seeking data connectivity and value-added services. It also serves 2,000 carriers across the globe, including Bharti Airtel, Idea Cellular, and over-the-top (OTT) firms like Skype and Vonage that seek global connectivity from TCOM. TCOM caters to carriers offering an integrated set of services, including wholesale voice, domestic and international data connectivity, and internet backbone connectivity (IP transit).

Exhibit 5: Focus on enterprise clients to help expand margins



Source: Company, MOSL

Higher contribution from enterprise clients driving up margins

TCOM offers diverse and customized services to over 5,000 enterprises. Among the services it offers are (a) Internet Protocol (IP) connectivity services, (b) IT infrastructure like data centres, (c) managed communication, and (d) collaboration solutions for businesses seeking voice, data and video connectivity between their distributed offices, within India or globally.

Margins in the enterprise segment are higher, given the customized offerings and direct B2C nature of the business. TCOM has been focusing on increasing the contribution of the enterprise segment – from 46% to 59% over the last five years. We believe this will continue to grow and remain a key driver of EBITDA margin expansion over the next five years.

Offering a gamut of services

TCOM's key USP is that it provides an array of services within the data segment. A chief information officer (CIO) looks at TCOM not just as a data network or a data center provider, but as a complete connectivity provider, with multi-point lease switching (MPLS), virtual private network (VPN), ethernet, tele-presence, audio-web conferencing, specialized sector-specific (examples: Media and Banking) services, and a bouquet of 20 services that improve connectivity and enhance data experience. TCOM has over 15 terabits of international bandwidth capacity, utilization of which is at just 20%. It has upgraded its global submarine cable capacity by increasing speed from 40 GB/sec to 100 GB/sec across Tata Global Network (TGN)-Pacific and Intra-Asia submarine fiber networks to meet increased bandwidth demand.

Innovative product portfolio to drive growth

To strengthen its position, TCOM has leveraged its wide network, offering customized, industry-specific services to Media & Entertainment and Banking & Financial Services. It offers live broadcasting and video downloads to the Media & Entertainment industry in multiple geographies with the lowest lag. Similarly, its dedicated connectivity with financial exchanges allows Banking & Financial Services companies to transact swiftly. The niches it has created enable it to command premium pricing.

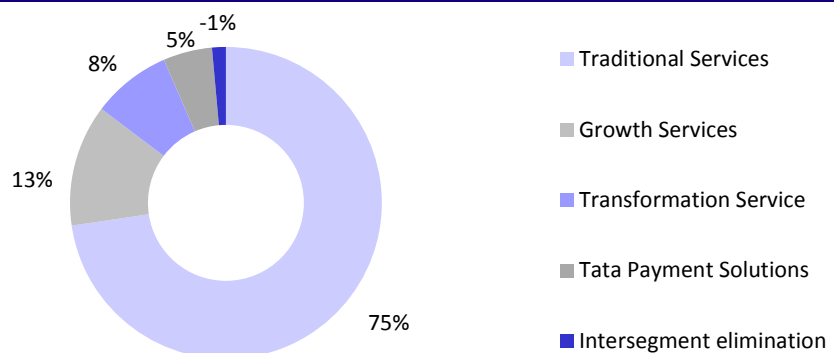
Under its unified communication and collaboration (UCC) services, TCOM provides enterprise calling services (VOIP), conferencing services (voice, data, web, video), and hosted contact center services. The recent strong demand for mobility makes UCC critical to large businesses that operate across multiple geographies and time zones. In July 2013, TCOM launched its *Jamvee* application, a device-and-access-agnostic video service that customers pay for on a per minute basis. This drives growth in video usage and IP traffic, increasing overall network usage.

Innovative offerings to the Media & Entertainment and Banking sectors and UCC services are the key drivers of the traditional and growth segments. Low competition and premium pricing in these segments allow TCOM to garner higher margins. Further, corporate clients seeking these services also consume traditional data network services, allowing the company to generate higher revenue.

Growth and Transformation segments the key growth drivers

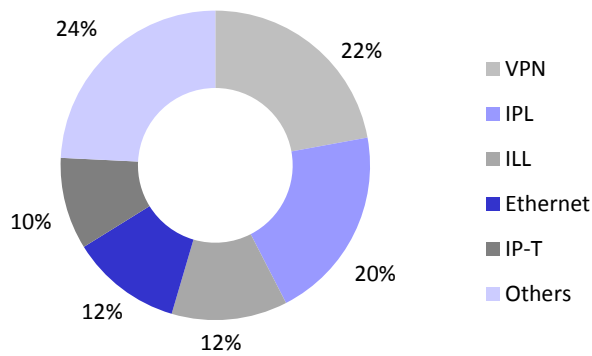
Over FY16-19, we expect the Growth and Transformation segments to witness a CAGR of 20% each, led by innovative/customised solutions and higher client wins. The Traditional segment should grow at 8% on shift of healthy volume growth towards the emerging markets, partly offset by perennially declining prices. We examine below the segment-wise growth prospects.

Exhibit 6: Data business mix



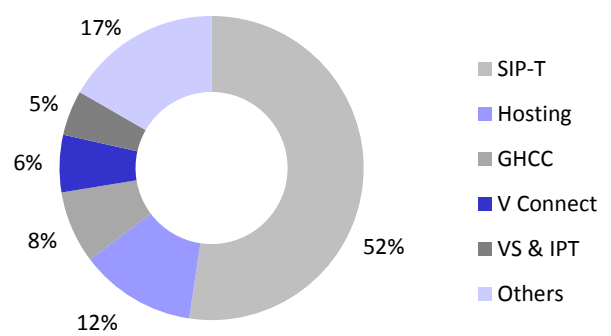
Source: Company, MOSL

Exhibit 7: Revenue mix – traditional business (2QFY17)



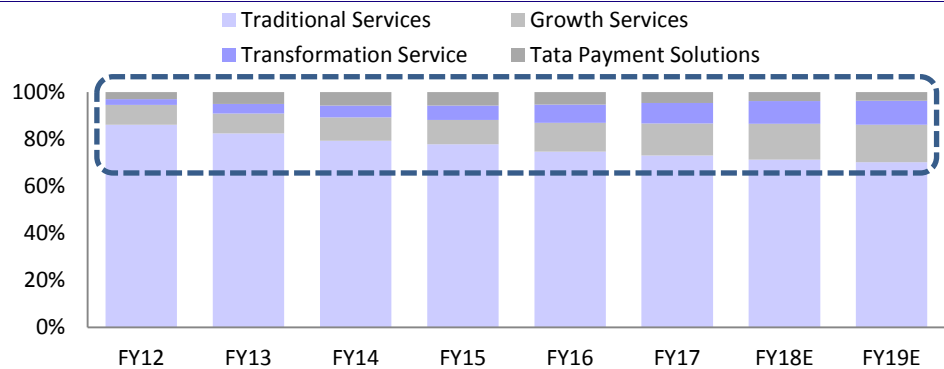
Source: Company, MOSL

Exhibit 8: Revenue mix – growth business (2QFY17)



Source: Company, MOSL

Exhibit 9: Contribution of high-margin growth/transformation services and payment solutions rising



Source: Company, MOSL

Exhibit 10: Growth and transformation verticals to drive data business

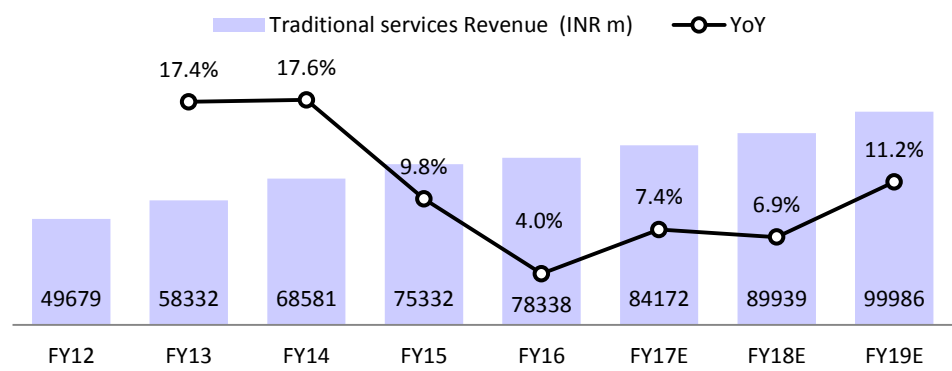
Revenue split (INR m)	FY16	FY19	CAGR (FY16-19)
Traditional Segment (a)	78,338	99,986	8%
as a % of data	75%	71%	-4%
Growth Segment (b)	13,246	22,647	20%
as a % of data	13%	16%	3%
Transformation Business (c)	8,348	14,571	20%
as a % of data	8%	10%	2%
ATM(d)	5,664	5,202	-3%
as a % of data	5%	4%	-2%
Data growth (a + b + c + d) (e)	103,771	140,312	11%
as a % of core revenues	56%	68%	12%
Voice segment (f)	80,560	65,109	-7%
as a % of core revenues	44%	32%	-12%
Core Business (e + f)	184,331	205,421	4%

Source: Company, MOSL

a) Traditional business: Stable bread-and-butter segment

The traditional connectivity business, which includes private and public cable connectivity, is TCOM's bread-and-butter business. It includes private and public connectivity, with customized private connectivity offerings to enterprises including virtual private network (VPN) and ethernet. The same cable connectivity is also offered to service providers for IP transit and other offerings. TCOM's wide footprint – 710,000km of cable connectivity; holding a ring around the globe – gives it a strong competitive edge. Its independently held cables across continents allow it to provide low-cost efficient offerings to clients in a highly commoditized market, where large quantity of holding is through consortiums. The traditional business has grown at 13% CAGR over FY12-16, with 76% contribution of overall data business. We expect the traditional network business to grow at about 8% over FY16-19.

Exhibit 11: Traditional services revenue and growth over FY12-16



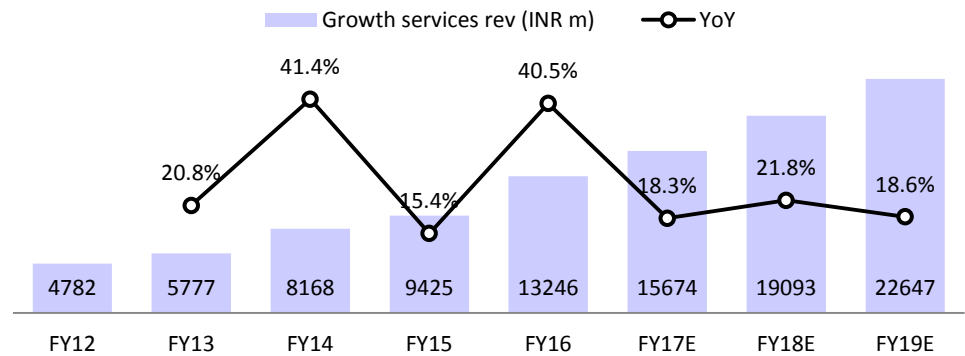
b) Growth business: Scaling up

To drive profitable growth, TCOM has leveraged its deep connectivity to expand its offerings to the enterprise segment. It offers multiple value-added services over the core connectivity layer – providing infrastructure and content hosting services, managed security services, video content delivery systems to specific industries like media and entertainment, data center through its partner network, IZO, IP calling connectivity (SIP trunking) to service providers and OTT operators, and a host of other value-added services. This allows the company to change its earnings model from invoicing of MBs and GBs to service-led invoicing.

OTT companies like Skype and Vonage use TCOM's IP transit services to provide direct calling. While this impacts TCOM's voice business growth, it contributes to data network segment growth.

The Growth segment has grown at a CAGR of 44% over FY11-16 to INR13.2b and contributes ~13% to the data business. Given its low base and huge opportunity, we expect the Growth segment to grow at 20% over FY16-19, with its contribution to data business rising to 16%.

Exhibit 12: Growth services continue to grow at a fast clip

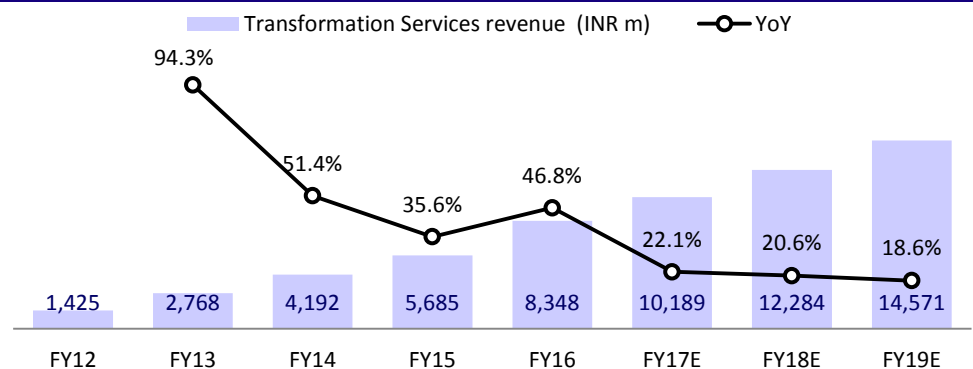


c) Transformation business: To see healthy growth

The Transformation business includes managed network operations, outsourcing and consultancy services to telecom operators around the world. TCOM delivers operational efficiency, cost transformation and revenue acceleration solutions for all stages of the carrier process lifecycle through network engineering and design, implementation, and operations functions. With the traffic mix shifting in favor of data from voice, telecom companies are focusing on reducing costs and supporting high demand through efficient network management.

Over the last five years, the Transformation business has been a key growth driver. It has grown at a CAGR of 55% over FY12-16, and its share in the overall data revenue pie has increased from 3% to 8%. We expect the segment to lead growth, with 20% CAGR over FY16-19; its contribution to data revenue should increase to ~10%. Strong funnel of new business wins and increased depth of service offerings will continue to drive accelerated growth over the next 3-5 years.

Exhibit 13: Transformation services revenue (INR m) and growth trends



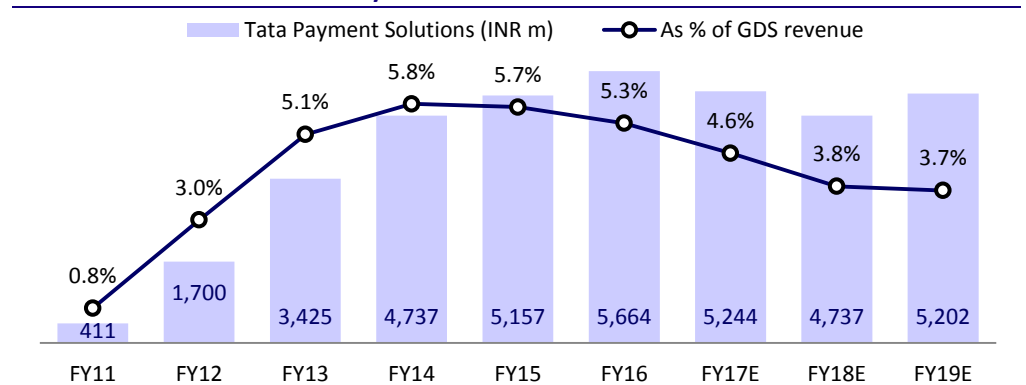
Source: Company, MOSL

d) ATM business: Impacted by demonetization

TCOM’s subsidiary, Tata Communication Payment Solutions is a managed ATM services provider, with a chain of 20,000-plus third-party brown label ATMs (BLA) as well as independent white label ATMs (WTA). To expand their ATM networks, banks outsource ATMs, which offsets capital as well as operational costs, including rent, telecom, security, network and cash management costs. TCOM operates ~12,000 BLAs. It also has ~8,000 independently held ATMs under the *IndiCash* brand. Additionally, it holds ~13,000 points of sale, which are known as card swipe machines.

TCOM has received contracts from PSU banks like SBI in Tamil Nadu for INR6.6/transaction. In comparison, banks charge other bank customers about INR18/transaction for using another bank's ATM. At the upper end of the spectrum, Electronics Payments and Systems (EPS) has acquired a contract at INR11.9/transaction for offsite cash transactions in Maharashtra, and AGS Transact Technology operates at INR12.1/transaction for the Chandigarh, Haryana and Himachal Pradesh zone. This depends on the frequency of transactions and attractiveness of the location, which reduces cost per transaction.

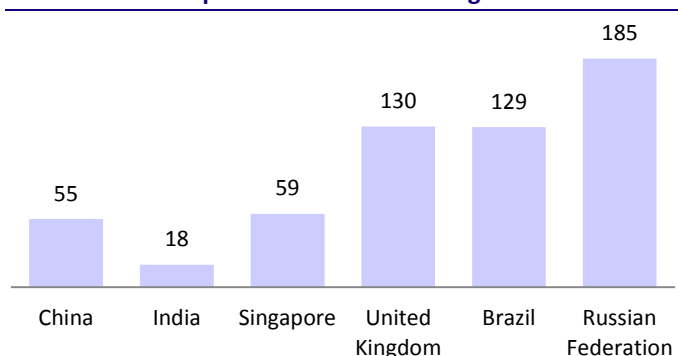
Exhibit 14: ATM revenues hurt by demonetization



Source: Company, MOSL

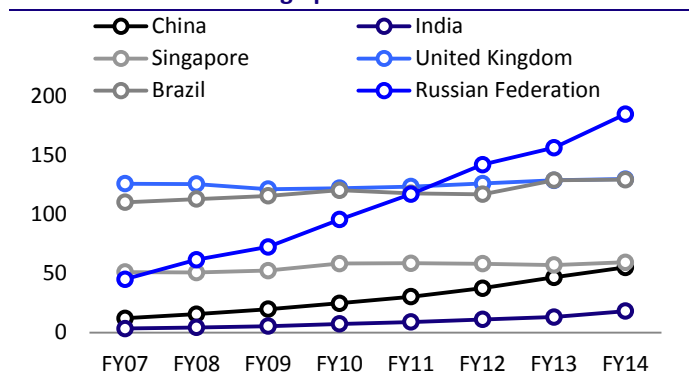
ATM penetration in India is one of the lowest in the world. In FY14, there were only 181 ATMs for every 1m persons in India against 550 in China and 1,300 in the UK. In aggregate, there are just about 203,000 ATMs in India; we expect this number to grow significantly.

Exhibit 15: ATMs per 100k adults: India lags other nations...



Source: Company, MOSL

Exhibit 16: ...but catching up



Source: Company, MOSL

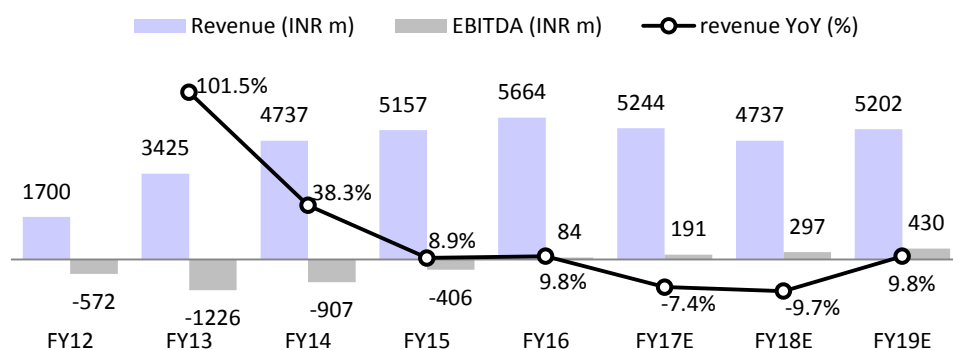
To increase the ATM per million persons and expand banking services in rural and semi-urban areas, in June 2012, the RBI announced the introduction of white-label ATMs (WLA). These ATMs are owned and operated by non-banking finance companies and do not display any bank's logo. TCOM launched a WLA network under the brand, *Indicash*, and currently owns ~8,000 ATMs.

Exhibit 17: Managed ATM companies in India

TCom	Financial Software & Systems
Prizm Payments	FIS
Srei Infra	Accura Infotech
AGS Transact Technologies	MphasiS
NCR	Muthoot

Source: Company, MOSL

ATM business adding 2,000 WLAs annually: TCOM has RBI approval for 20,000-21,000 ATMs. Currently, it has 8,000 ATMs and plans to add ~2,000 ATMs annually. To reduce capex and opex, TCOM plans new models like shop-in-shop and alliances with large retail formats, among others. It also plans to leverage its ATM network for opportunities such as third-party advertisements, sales, delivery points, bill payments, data capture, and lead generation. With average capex of about INR300k/ATM, TCOM may incur annual capex of USD8m-9m towards the addition of 2,000 ATMs per year.

Exhibit 18: TCOM: Payment solutions/ATM business has turned the corner

Source: Company, MOSL

We expect the segment to deliver revenue CAGR of 10% over FY16-19, maintaining 5% revenue contribution to the data segment. With maturity of the existing ATM base coupled with strong cost focus and scale efficiency, the management expects EBITDA margin to expand from the current 6% to ~10% by FY19. Subsequently, EBITDA contribution should improve from 1% to 10%.

Given the segment's limited synergy with the overall business, we expect TCOM to exit this business over time. At the current weak 6% EBITDA margin and annual capex of USD8m-9m, FY17E FCF of ATM business should be ~INR 20m.

Demonetization to result in near-term headwinds for ATM business: The currency demonetization announced by the Indian government has led to sharp liquidity squeeze in the market, with ATMs running out of cash. TCOM's brown label ATMs have seen a sharp fall in cash transactions, whereas its white label ATMs have been dry for the last two months until December 30, 2016. This is expected to impacted 3QFY17 ATM business revenue by about 29%, leading to negative EBITDA margin of 7.5% against positive EBITDA margin of 6.2% in 2QFY17. However, we expect recovery in 4QFY17, with improving liquidity and ATM transactions. This should lead to about 5% EBITDA margin in 4QFY17.

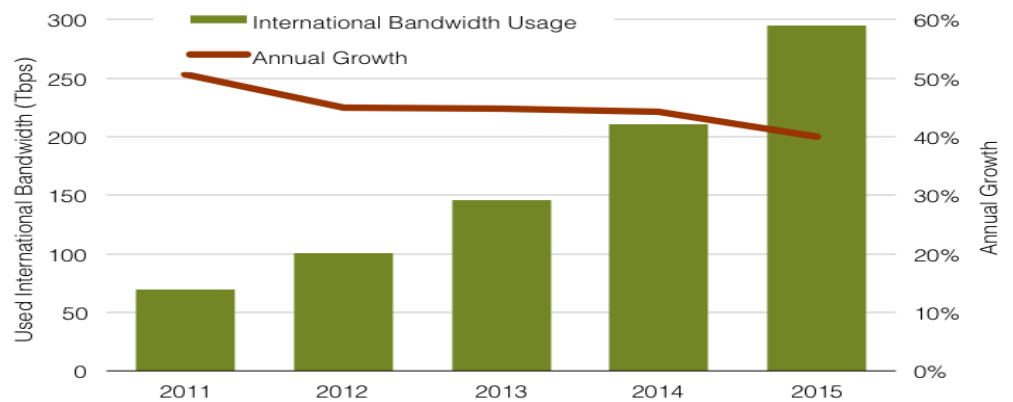
Capacity not a constraint to continued double-digit growth in data volumes for the industry; margins expanding despite falling prices

The global IP traffic is expected to grow at 22% over 2015-20, while enterprise traffic would grow at 18% to reach 32,165PB/month, led by high growth in emerging markets and increasing adoption of advanced video communications in the enterprise segment. Capacity is not a key concern – increase in bandwidth from 40gbps to 100gbps/250gbps in high volume routes has released (and is releasing) huge capacity. Prices have been perennially falling, but without any impact on margins, due to fixed operating costs. Despite the price decline, the traditional connectivity business has seen consistent margin expansion.

Benefits from steady data growth in EMs

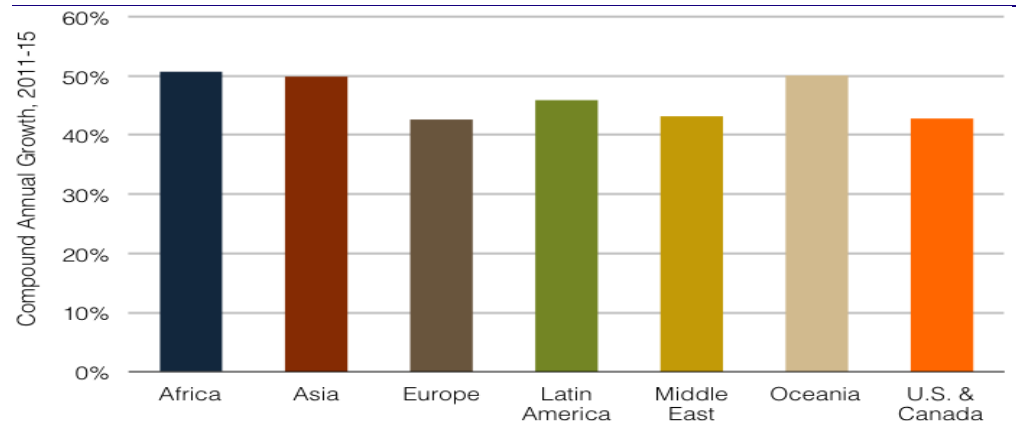
Growth in worldwide bandwidth usage has been staggering. International bandwidth usage doubled in just two years, growing from 146tbps in 2013 to 295tbps in 2015. Demand growth has been strong across the globe, with each region witnessing 40% CAGR over 2011-15. The growth has been fastest on links to Africa, Asia, and Oceania, where demand has grown at over 50% CAGR over 2011-15.

Exhibit 19: Global data consumption growing sharply



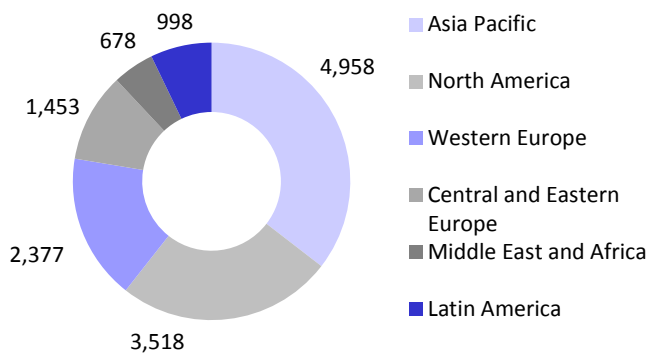
Source: IDC, MOSL

Exhibit 20: Used international bandwidth growth by region



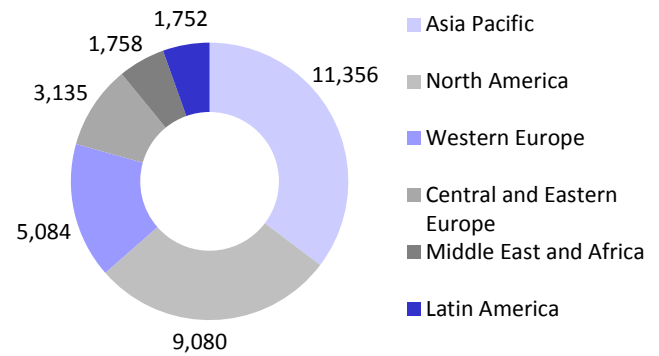
Source: IDC, MOSL

Exhibit 21: FY15 business IP traffic by geography (PB/month)



Source: Company, MOSL

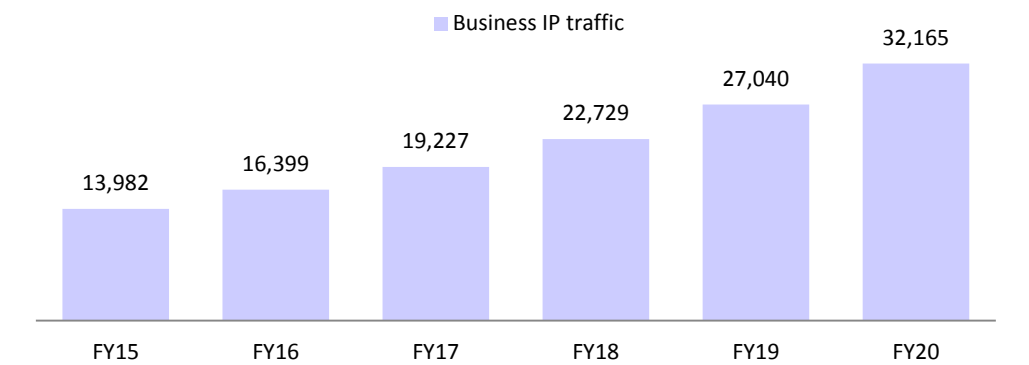
Exhibit 22: FY20 business IP traffic by geography (PB/month)



Source: Company, MOSL

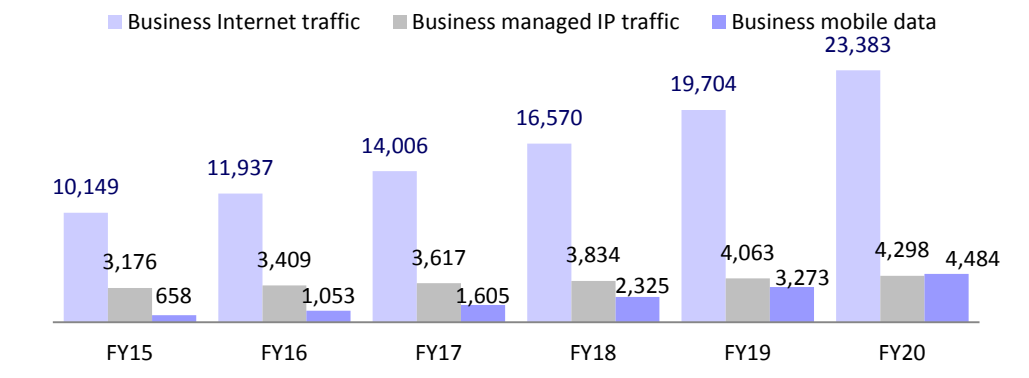
As per Cisco, the global IP traffic will grow 22% over 2015-20, while Business segment will grow 18% reaching 32,165 PB/month. Increased adoption of advanced video communications in the enterprise segment will drive steady growth in business IP traffic.

Exhibit 23: Business IP traffic (PB/month)



Source: Company, MOSL

Exhibit 24: Business IP traffic by network type; 2015-2020 (PB/month)



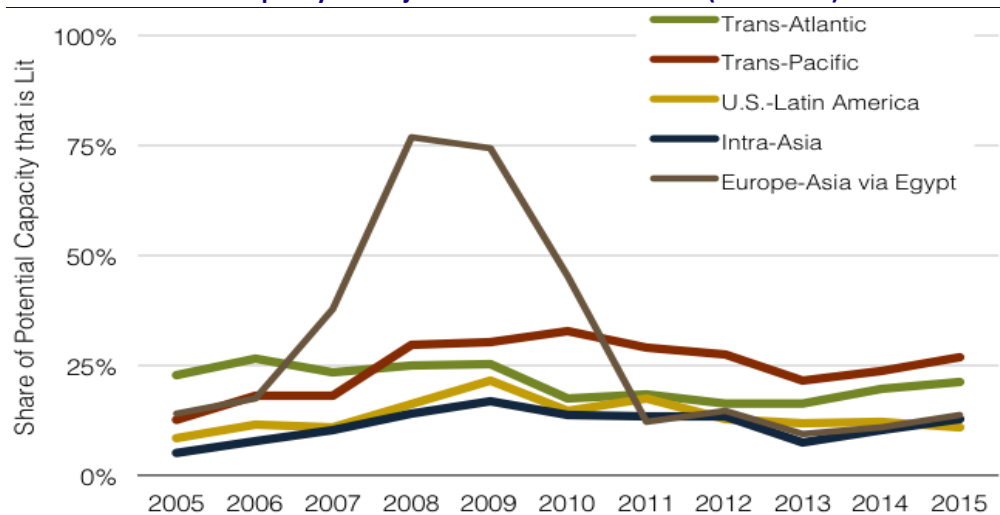
Source: IDC, MOSL

The exponential growth will be driven by the steep data absorption in EMs. The market is highly fragmented, with top five firms contributing USD100b in revenue and a majority of the data traffic in North and South American regions. (Companies like AT&T and Verizon, with USD50b each in revenue, BT with ~USD15b, Orange at USD10b, Singtel at USD5b, and Vodafone at USD5b). Among India’s firms, TCOM (annual revenue: USD1.6b) and Bharti Airtel (annual revenue: USD1.4b) are the top contenders. TCOM’s contribution to overall global data traffic is insignificant, in our view. However, its deep network in the emerging markets, in favour of which international data consumption is shifting, is allowing the company to record consistently high traffic growth.

Ample capacity, no fresh capex in the market

Submarine cables are the primary channels of inter-continental communication and supply a significant amount of the capacity that meets global bandwidth demand. The steep data growth in the past five years has not reduced data capacity utilization (defined as Lit capacity) on major subsea routes. This is due to technology advancement, which has enabled transition from 10 Gbps wavelength speeds to 100 Gbps, ensuring that both existing and new cable systems have ample supply for years to come. For instance, the introduction of higher-capacity transmission technology has decreased the trans-Atlantic cable’s lit capacity utilization from 25% to 16% over 2006-13. This is even though the lit capacity nearly tripled during this period and no new cables entered service.

Exhibit 25: Potential capacity on major submarine cable routes (2005-2015)

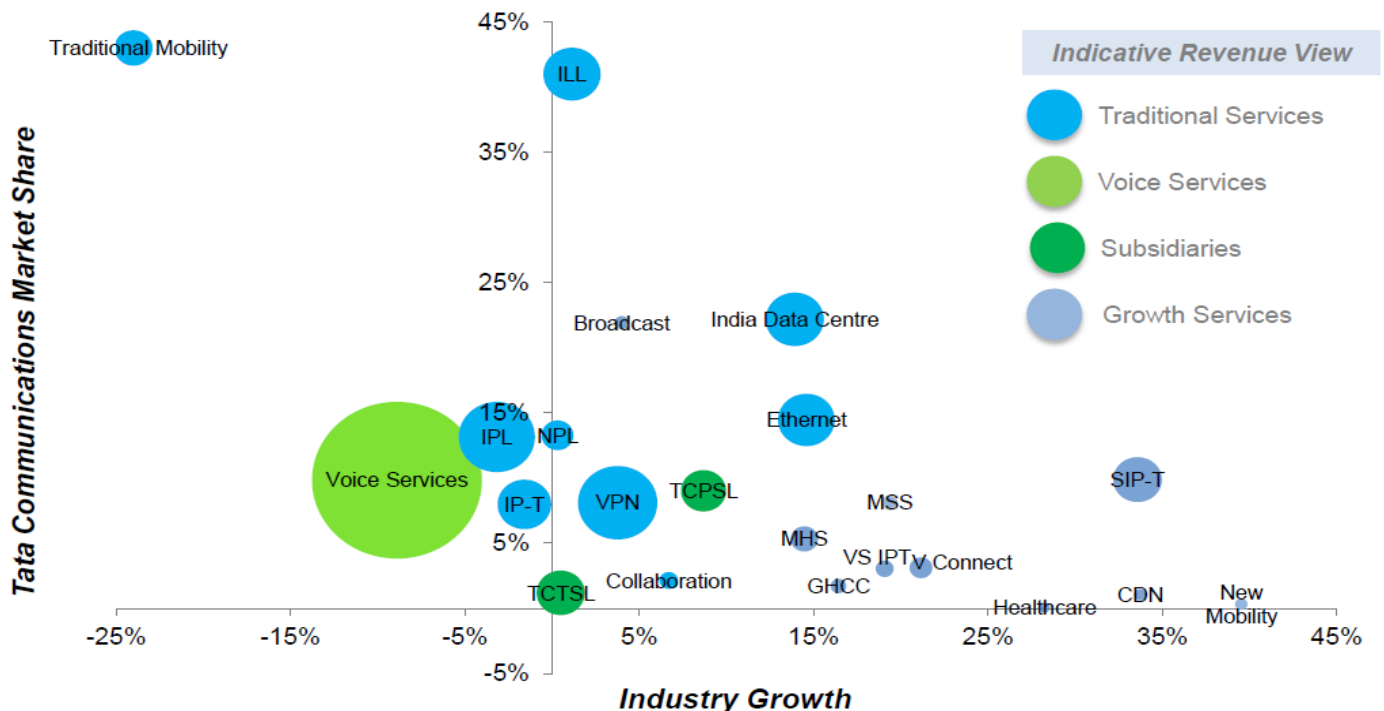


Source: Company, MOSL

Content providers driving data volume growth

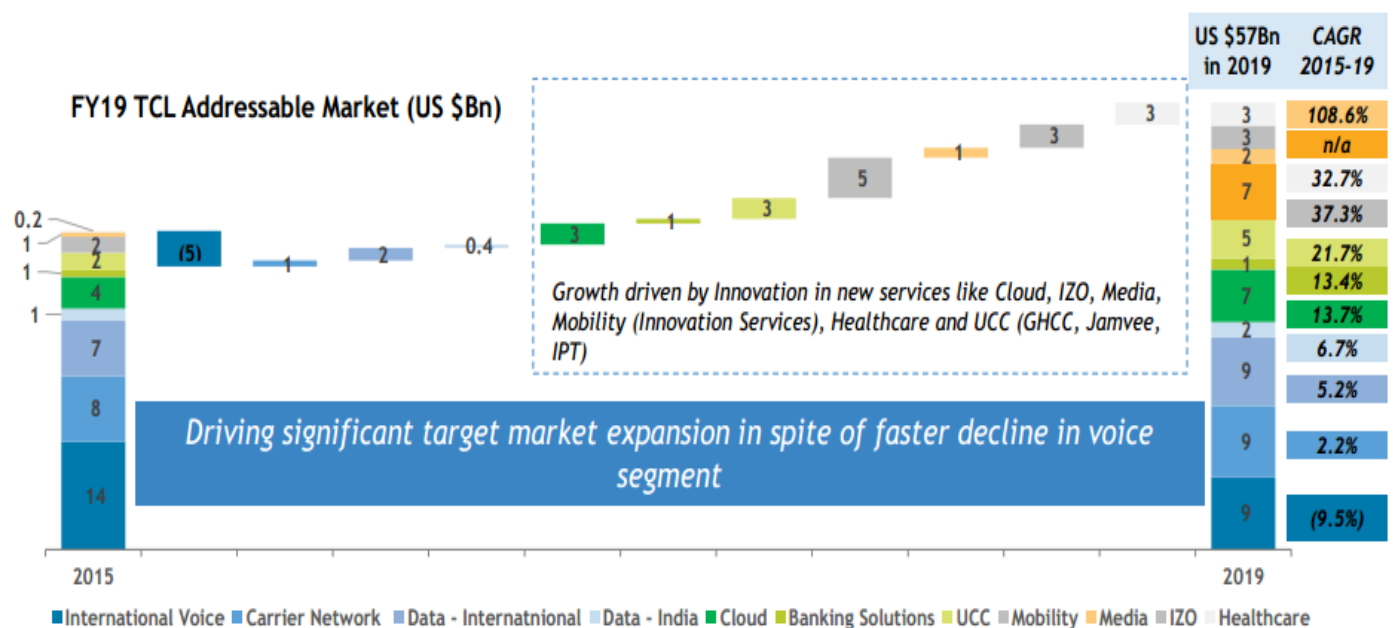
Unable to meet the high network bandwidth demand of content providers like Google, Facebook and Microsoft, internet carriers have started shifting to direct cable operators. As major capacity users, content providers are likely to play a leading role in global network development. They will participate more as anchor investors and consortium members in submarine cable systems, driving overall network growth.

Exhibit 26: Tata Communications' current portfolio: Market share v/s industry growth



Source: Company, MOSL

Exhibit 27: New platforms to drive market expansion from USD41b to ~USD57b by FY19E



Source: Company, MOSL

TCOM expanding target market by adding new, unconventional products

Over the last 2-3 years, TCOM has added a series of new product lines like video support, managed hosting, and cloud-based products focused on specific industries. This should allow TCOM to expand its addressable market by 50% over the next three years. This is despite the weakening voice market, which remains its biggest market. Since most of these segments are unconventional, with limited competition, TCOM should be able to record healthy growth and garner superior margins.

Healthy margin accretion potential

Scale benefits offer margin levers across business segments

With inherent operating leverage in the telecom business and scale benefits, we expect TCOM's data margins to expand by 470bp over FY16-19 to reach ~26%. The management has indicated ~30% EBITDA margin by the end of FY19.

- 1.) The Traditional segment should see 310bp expansion over FY16-19 led by operating leverage on the back of 8% revenue growth.
- 2.) The Growth segment is likely to turn profitable, with EBITDA margin expanding from --15% in FY16 to 3% in FY19 on scale benefits from higher revenue base.
- 3.) We expect EBITDA margin for the Transformation segment to remain range bound over FY16-19 at 16-17%. Though in 2QFY17, EBITDA margin has dropped to 8%, it should recover to 20% due to front-loading of growth-related costs and visibility of healthy growth.

Data EBITDA margin to improve 470bp over FY16-19

With inherent operating leverage in the telecom business and scale benefits, we expect TCOM's data margins to expand by 470bp over FY16-19 to reach ~26%. The management has indicated ~30% EBITDA margin by the end of FY19.

Exhibit 28: Segmental EBITDA margin improvement potential

EBITDA Split	FY16	FY19	Growth (FY17-19)
Traditional	22,720	32,670	13%
EBITDA margin (%)	29.0%	33%	4%
Growth	-2,020	639	-168%
EBITDA margin (%)	-15%	3%	18%
as a % of data	-9%	2%	11%
Transformation Business	1,458	2,319	17%
EBITDA margin (%)	17%	16%	-2%
as a % of data	7%	6%	0%
ATM	84	430	72%
EBITDA margin (%)	1%	8%	7%
as a % of data	0%	1%	1%
Data	22,242	36,058	17%
EBITDA margin (%)	21%	26%	4%
as a % of core business	83%	90%	7%
Voice	4,963	3,938	-7%
EBITDA margin (%)	6%	6%	0%
as a % of data	19%	10%	-9%
Core business	26,804	39,996	14%
EBITDA margin (%)	15%	19%	5%

Source: Company, MOSL

Traditional segment – operating leverage driving margin expansion

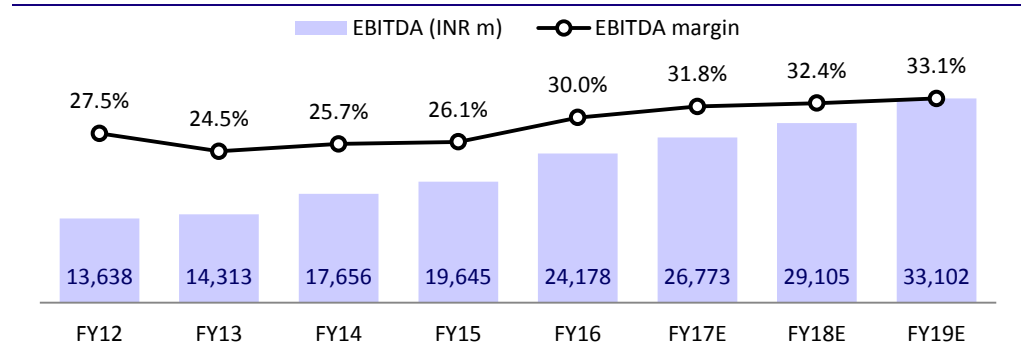
For the Traditional data segment, EBITDA margin has expanded 300bp over FY13-16 to 27.5%. This is despite the perennial data price deterioration and highly commoditized nature of the business.

Despite price decline, EBITDA margin should improve

- Being a commoditized business, the Traditional network business sees increased competition and pricing pressures. However, lower prices may not translate into lower margins. Given the (a) absence of variable costs, and (b) high operating leverage in the network business, incremental volumes do not require additional costs. Until volume growth outpaces price decline, the incremental revenue should drive higher margins.
- TCOM independently holds a large portion of its submarine and terrestrial network, which gives it the advantage of lower access cost in a commoditized market. Further, TCOM's focus on improving enterprise mix by offering innovative managed services would help it to garner better margins. The company combines the traditional lease line connectivity services with added services like VPN, ethernet, or communication services, while catering to enterprises, thus creating bespoke offerings.

We expect the traditional segment to continue to drive margin improvement on the back of operating leverage from 8-10% revenue growth. Post the reclassification since last two quarter, the Traditional business margin stands at 30%. We expect about 310bp incremental improvement over FY16-19.

Exhibit 29: Favorable leverage to aid Traditional services margins

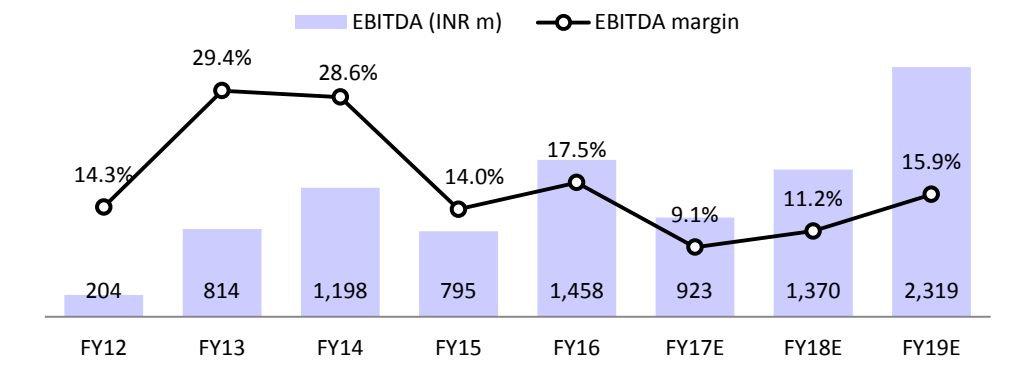


Source: Company, MOSL

Transformation segment to drive overall margin improvement

Transformation business EBITDA margin hovers at single digit (7.8% in 2QFY17). However, the segment has previously delivered high-teen EBITDA margin, with a peak of 28-29%. According to the management, the weak EBITDA margin in 2QFY17 was due to (a) increase in headcount for scaling up the business, (b) front-ending costs for new deals, and (c) portfolio rejigs to attract higher growth. We believe, the segment has the potential to deliver about 25% EBITDA margin. Over FY16-19, we expect EBITDA margin for the Transformation segment to reach 17% and the EBITDA contribution for the segment to increase to 6% from 2.5% in 2QFY17.

Exhibit 30: Transformation services margin profile improving

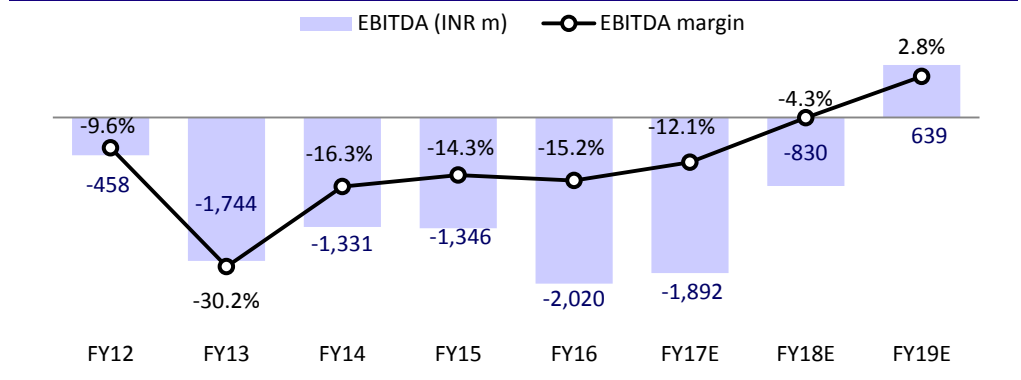


Source: Company, MOSL

Scale benefits to help turn Growth segment profitable

The Growth segment is currently loss-making, with -15% EBITDA margin in FY16. The size of the Growth segment – revenue of INR13.2b in FY16 – is one-sixth the size of the Traditional connectivity business, which is delivering 27.5% EBITDA margin. Given the fixed cost model, the Growth segment should see steep revival, as it reaches healthy scale. Over the last five years – FY11-16 – Growth segment revenue has improved 44%. We expect it to continue to grow at an accelerated pace of 20% over FY16-19. This should allow it to reach ~3% EBITDA margin in FY19 compared to -15% in FY16. We believe this segment has the potential to reach 20-25% EBITDA margin on stable-state basis, which could be over the next five years, given its value-added proposition, which allows better pricing power.

Exhibit 31: Growth services profitability still in the red; operating leverage on high cost base to ensure steep revival



Source: Company, MOSL

Perennially eroding prices having low bearing on profitability

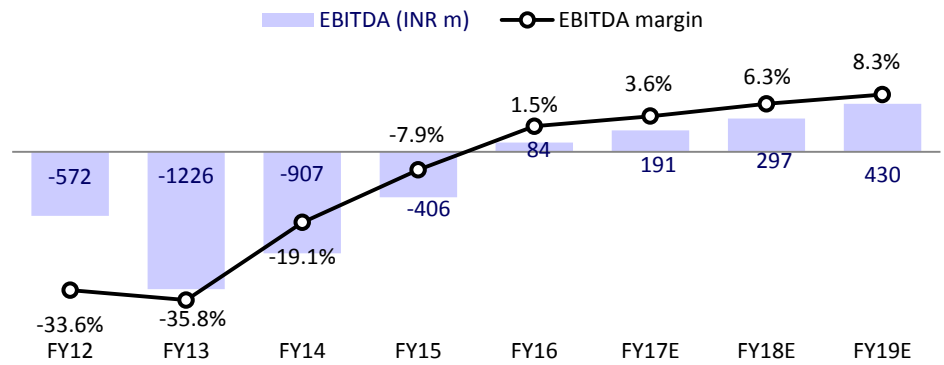
Data prices vary widely by region due to differences stemming from available supply, competition, and cost of incremental upgrades. However, bandwidth price erosion is perennial even as the mix of market participants evolves. Average 10 Gbps wavelength prices on key global routes have declined at a compounded annual rate of 25% since 2012; however, it varies considerably by route. The wholesale market is limited to specialist sellers with the constitution for very high rates of both volume growth and price decline, or with unique attributes that pose fundamental differentiation, such as access to emerging markets.

The key point is that the price decline remains slower than demand growth, keeping revenue growth in healthy positive territory. In the Enterprise data market, price decline is a function of increased capacity coming from technology advancement, which accommodates lower wholesale prices. Thus price declines are ultimately enabled by excess supply with no impact on costs.

ATM business – focus on profitable growth

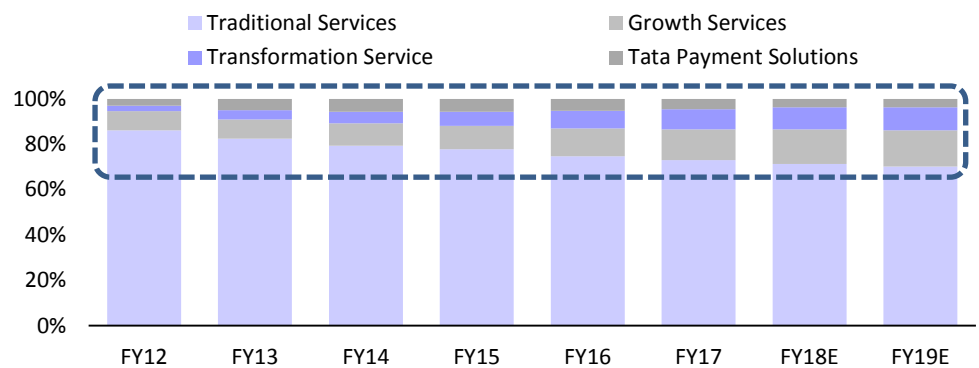
The ATM business has turned around, with about 6% EBITDA margin in 2QFY17, after being loss-making for the last five years. We believe the company’s increased focus on profitable white label ATM growth, and paring of about 5,400 loss-making brown label ATMs should support margin improvement. Also, 2QFY17 saw 180bp margin impact due to one-time operating costs and provisions. We expect the ATM business to reach about 8% EBITDA margin by FY19. Over the long term, we believe this business could be divested, given the limited synergies with the company’s business profile and profit growth potential.

Exhibit 32: ATM business has turned around



Source: Company, MOSL

Exhibit 33: Rising product segment mix for non-traditional segments



Source: Company, MOSL

Fading Voice business – impact minimal

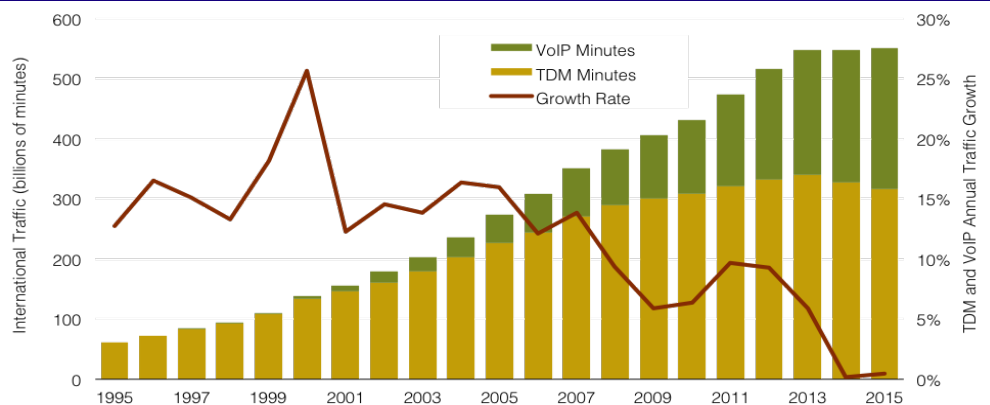
IP calling has shifted voice traffic towards data

- The advent of IP calling has significantly shrunk the traditional circuit switch-based long distance voice market.
- TCOM’s voice revenues have declined at a compounded annual rate of 2% over FY14-16, while EBITDA has declined at 13%. Over FY16-19, we expect revenue and EBITDA to decline at 7%.
- However, being a full service connectivity provider, TCOM has gained from IP-based calling, led by the OTT and other operators.

VOIP calling services impacting voice traffic

The international long distance (ILD) industry has been plagued by the advent of low price VOIP calling services, with increased contribution of the total voice traffic consistently over the last 10 years, as per Telegeography. TCOM’s combined voice traffic (ILD and NLD) peaked in FY13; over the last three years – FY13-16, TCOM’s voice traffic has declined at a compounded annual rate of 11% to 43.1b minutes. However, better pricing has slowed the pace of revenue decline to 2%. TCOM remains a dominant player, with an estimated 19% global market share of ILD voice traffic.

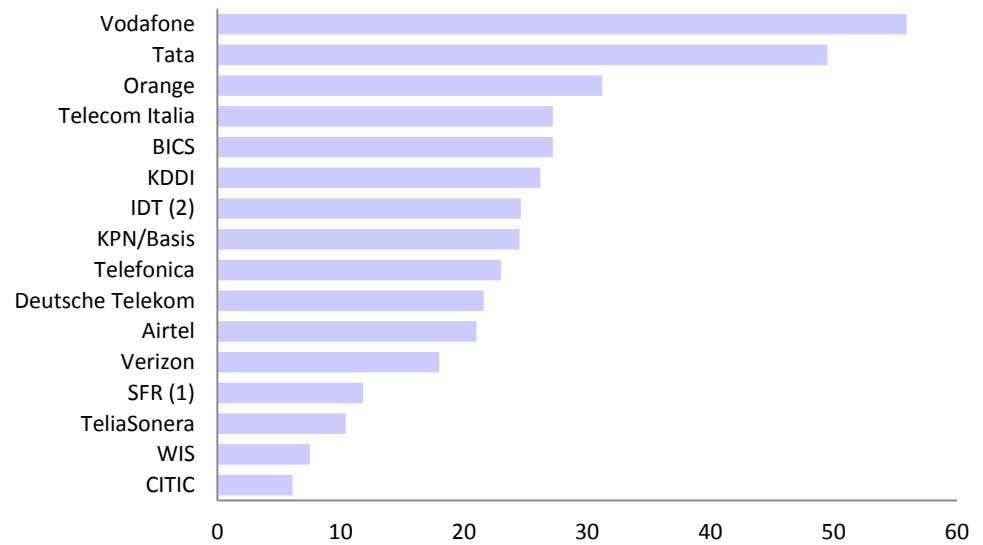
Exhibit 34: ILD voice minutes shifting to VOIP



Source: Telegeography, MOSL

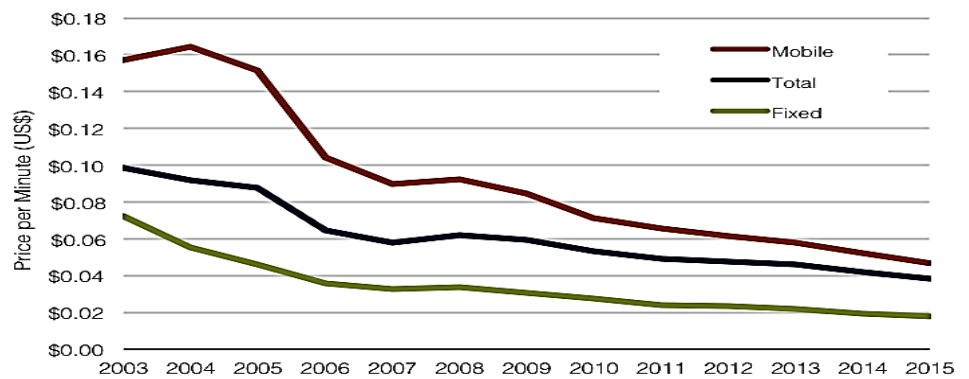
The voice business generated revenue of INR80.1b in FY16, contributing 43% to the core business. With 6% EBITDA margin compared to 21% data EBITDA margin, the EBITDA contribution is merely 18%; this has further reduced to 15% in 2QFY17. The impact of voice business has substantially reduced. The weak earnings visibility in the voice segment is already indicated by the management and factored in the stock price. We expect voice segment revenue and EBITDA to decline at a compounded annual rate of 7% over FY16-19; EBITDA contribution would decline to 10%. Further, with just USD5m-10m maintenance capex, it remains a cash cow business, generating annual FCF of INR4b.

Exhibit 35: TCOM gains strongly in ILD over the past five years



Source: Telegeography, MOSL

Exhibit 36: Perennial price decline in Voice segment



Source: Telegeography, MOSL

However, Voice segment not passé

While the use of OTT services will grow and the number of international carriers will decline, as per Telegeography, the traditional voice traffic will continue to operate. Social networking services cannot match the global reach of traditional voice. The traditional voice service connects more than 8b fixed and mobile subscribers.

No loss of revenue from VOIP

The management concurs that there is some softness in overall traffic volume in recent years. Though international voice calling is shifting in favor of IP-based calling by OTT companies, the management clarifies that the shift is gradual. Further, TCOM offers SIP trunking services to OTT firms which are part of the data segment. Loss of international voice traffic will be a gain for the data segment, driven by the increase in data traffic of IP-based calling. Additionally, TCOM also caters to OTT and VOIP providers like Vonage and Skype. Therefore, it will merely witness a shift of revenue from one segment to another, rather than loss of revenue.

Steady FCF generation, improving RoCE

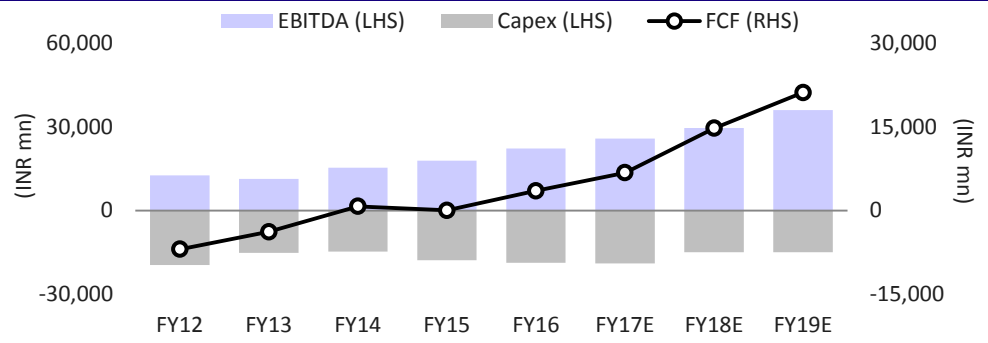
Neotel and Data center sale to support FCF generation

- **Steady FCF:** With the sale of Neotel and data center business, TCOM's capex should reduce by nearly 40% to about USD250m. With this and core EBITDA CAGR of 14% over FY16-19, annual FCF should grow to INR 10b by FY19E from negative FCF in FY16 (cumulative FCF generation should be about ~INR17b over FY18-19).
- **Healthy return ratios:** Low capex and improving profitability should also improve core RoIC from just 6% in FY16 to 18% in FY19.
- **Deleveraging at the forefront:** TCOM's FY16 net debt of INR115b should decline to about INR60b following the sale of the capex-intensive Neotel and data center businesses. Incremental healthy FCF will further reduce net EBITDA to 1.8x by FY18 from 3.7x in FY16.

Expect core business to grow annual FCF to ~INR 10b (INR17b cumulative FCF over FY18-19)

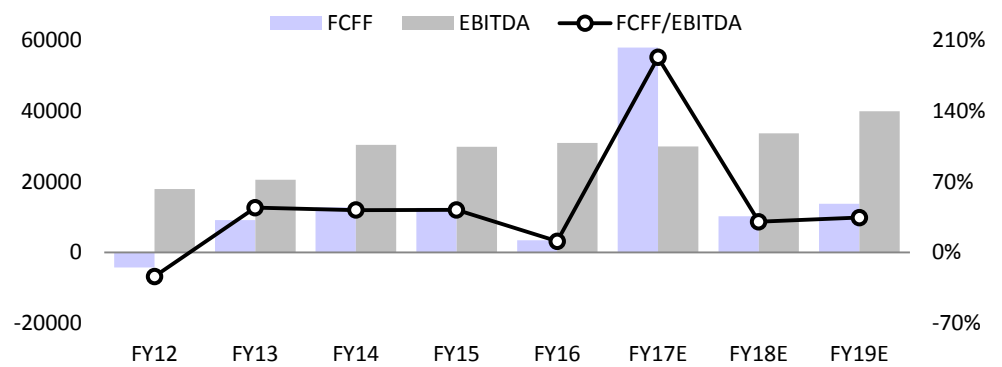
We expect core revenue to grow at a CAGR of 3% over FY16-19 (factoring in the sale of Data Center business), with EBITDA margin expanding 490bp, leading to 14% core EBITDA CAGR to INR40b. Additionally, after heavy capex and nascent data business contribution over the past five years, the data business has now reached a sizeable scale. Data segment EBITDA of INR22.2b (FY16) contributes 82% of core EBITDA and is expected to reach INR36b, with 90% overall contribution. Peak capex is behind, with capex guidance of USD200m-250m per year over FY16-19, leading to a healthy INR17b cumulative FCF by over FY18-19, up from the current core business FCF of INR200m.

Exhibit 37: Data business: Higher EBITDA, flat capex to turn FCF positive



Source: Company, MOSL

Exhibit 38: FCFF/EBITDA set to improve

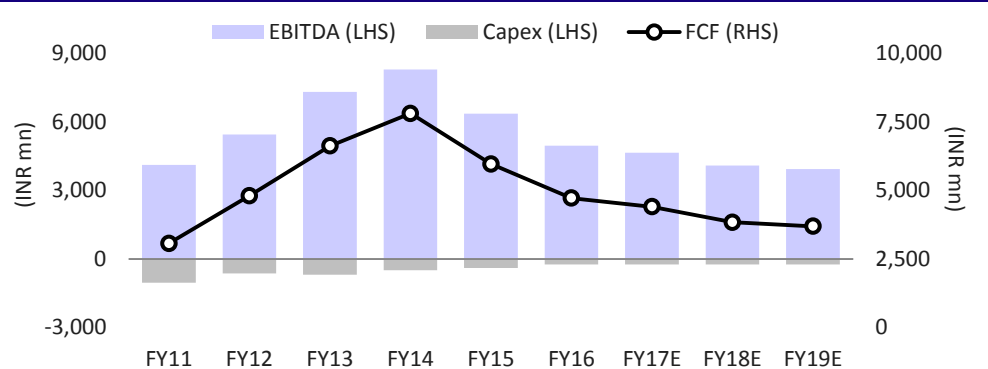


Source: Company, MOSL

Cash cow voice business with steady FCF

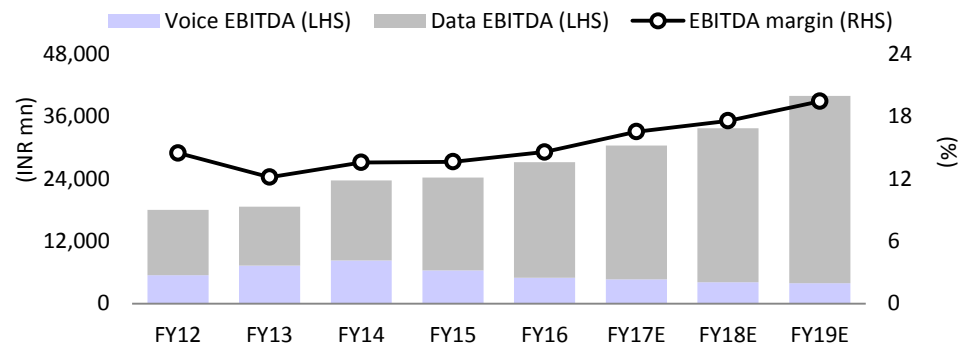
The Voice segment remains a free cash flow play, with steady EBITDA of INR4.7b in FY17E and just INR5m-10m of annual capex. Being a commoditized business, the Voice segment offers low EBITDA margin of 6% and risk of degrowth due to the impact of OTT firms like Skype, Viber and Vonage. TCOM continues to lead the market, with 20% share in international voice market. The management prioritizes margin and cash flow protection over traffic growth. Voice EBITDA has declined at a compounded annual rate of 12% over FY12-16, given the pressure from OTT firms. We have factored in 7% voice EBITDA decline over FY16-19, led by declining revenue and EBITDA margin. The key positive is that this is a cash cow business, requiring low capex. We expect cumulative FCF of INR12b over FY16-19.

Exhibit 39: Voice business a consistent FCF business



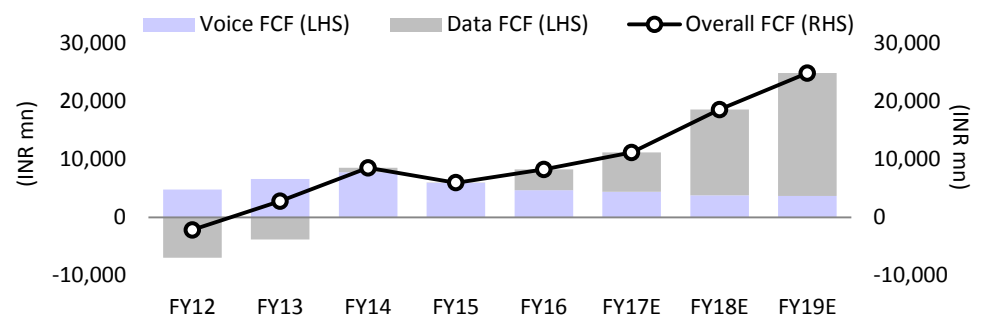
Source: Company, MOSL

Exhibit 40: Data margin improvement to drive core business margin



Source: Company, MOSL

Exhibit 41: Core business FCF to improve, driven by operating leverage and flat capex



Source: Company, MOSL

Peak capex is behind

After a period of asset expansion and infrastructure build-out completion, TCOM is now focusing on containing capex and sweating its existing assets. Reduced capex intensity and improved operating performance should drive core business deleveraging. With the sale of capex-intensive data center business and Neotel, there should be ~USD100m capex reduction from earlier capex guidance of USD300m-350m. TCOM has an annual capex outlay of USD200m-250m for the next 2-3 years, which is well below its previous 2-3 years’ annual average capex of about USD300m. Of the USD250m capex, USD15m-20m would be for maintenance and the remaining would be fresh capex towards growth avenues and the ATM business.

Exhibit 42: Annual capex estimates for FY18 and FY19

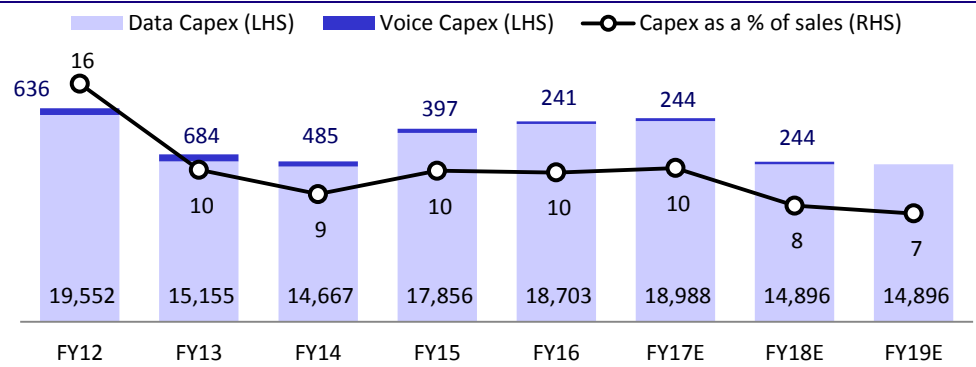
Particulars	Capex (USD m)
Voice	4
Data Maintenance capex	11
Data growth capex	150
Strategic capex	35
Others	30
Total Capex	229

Source: MOSL Estimate

Capex-to-sales ratio down from 16% to 7% in FY16E

TCOM’s capex-to-sales ratio has fallen from a peak of 16% in FY12 to ~10% in FY16. This is well below the 18-20% capex-to-sales ratio for Bharti and Idea, as well as other players in South East Asia. TCOM finished laying submarine cables across the globe and passed its huge capex phase in FY12.

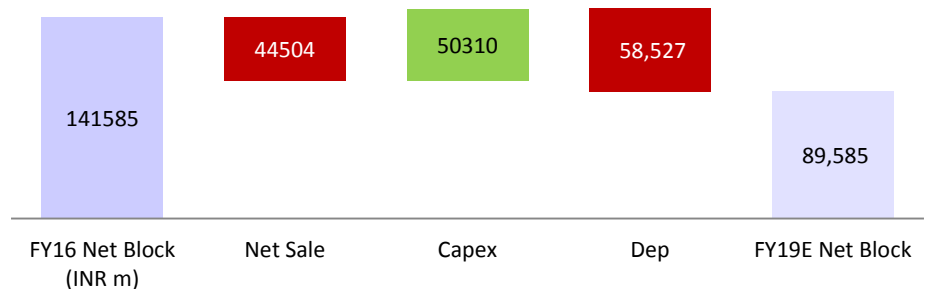
Exhibit 43: Capex-to-sales to moderate (INR m)



Source: Company, MOSL

The data segment has a capex-to-sales ratio of ~18% (FY16). However, being a mature business, TCOM’s voice segment has low annual maintenance capex requirement of just USD5m against an EBITDA of INR5b (FY16). Therefore, its overall capex-to-sales ratio is just ~10% (FY16).

Exhibit 44: Capex below annual depreciation



Source: Company, MOSL

#Annual capex = INR50310/3 = INR16770m

Net sale of INR44,504m includes Tata Docomo’s buy back value of INR10,465m

To put TCOM’s capex outlay in perspective, existing capex is even lower than its overall depreciation cost. This indicates that the company’s peak capex is behind. Though depreciation on invested capital is high, there is little capex towards the same assets, leading to lower net block over FY16-19. The lower gross block (down INR45b-50b) is also on account of the sale of capital-intensive data center and Neotel verticals, which has further improved capital efficiency of the business.

Capacity no constraint in the business

TCOM recently upgraded its network speed from 40GB/sec to 100GB/sec, expanding capacity 5x. This can be done by changing the circuit switch at the point of presence (PoP). Capacity is not a constraint in this business. TCOM’s current capacity utilization is sub-30%, leaving significant capacity available for incremental growth.

High FCF generation to improve gearing

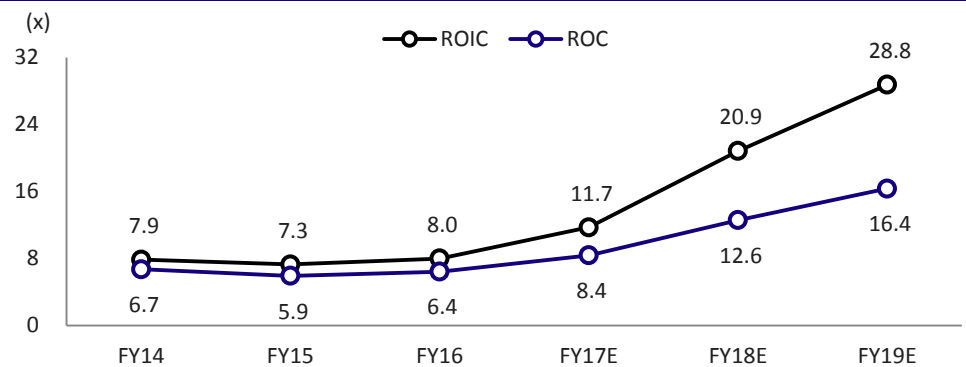
With healthy FCF, we expect TCOM to utilize cash to improve its leverage position. We expect cumulative FCF of INR76.4b over FY16-19, including the sale of Neotel and data center business, which should be completed in the current fiscal. The overall amount generated through the sale of both businesses would be INR55b-. The sale also enables INR6b reduction in annual capex, adding to FCF generation.

The sale of Neotel and data center business would lead to debt reduction of ~INR55b, allowing core net debt to fall from INR115b in FY16 to ~INR71b in FY17 and ~INR60b in FY18. With all the deleveraging funded by internal accruals, TCOM's ex-Neotel debt-to-EBITDA should fall to ~1.8x in FY18 from the peak of 6x in FY12.

Return ratios should witness healthy improvement

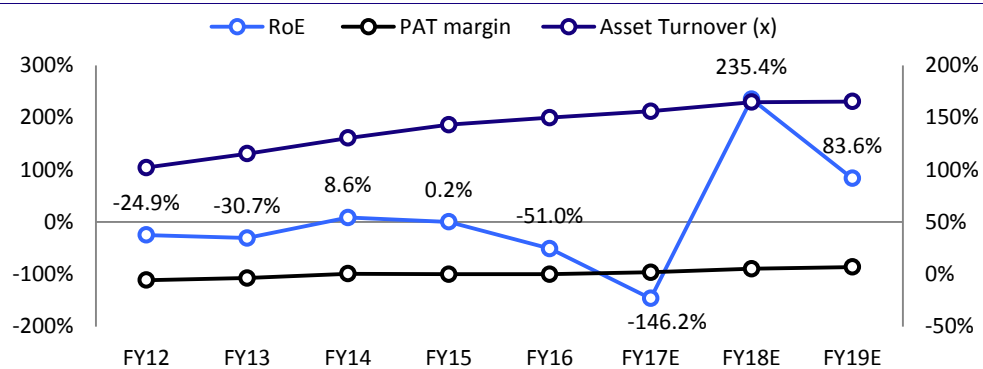
TCOM's core business has seen a 240bp EBITDA margin expansion over FY13-16 to 14.6%, driven by data-led profit recovery. Over the next three years – FY16-19, we expect a steady data EBITDA CAGR of 17%, leading to an overall EBITDA margin improvement of 490bp over FY16-19. Further, the capex-to-sales ratio has reduced from the peak of 16% in FY12 to 10% in FY16 and is expected to decline further to 7% in FY19, as the company has passed peak capex and looks to sweat assets. All these factors should improve core RoIC from just 6% in FY16 to 18% in FY19.

Exhibit 45: Return ratios to improve following sale of Neotel, data center



Source: Company, MOSL

TCOM's RoE improvement should be exponential, as its equity has not grown in the past decade. Inability to raise equity, given government stake in the company, led it to remain dependent on debt funding. Further, due to losses over the past five years, the equity base did not grow. The negative equity base in FY16 should turn positive in FY18. Low base should drive TCOM's RoE to 86% in FY19.

Exhibit 46: ROE decomposition: Improving asset turns and pat margin drive ROE

Source: Company, MOSL

Neotel sale yet to be factored in

Neotel, TCOM's South African subsidiary, has been a loss-making venture, and has remained a drag on overall profitability. In 2008, TCOM ventured into the South African market as a wholesale international voice and enterprise data provider, and continued to make losses until FY13 due to high interest cost. In FY14, it turned profitable, but net-debt-to-EBITDA ratio remained high at 12.2x.

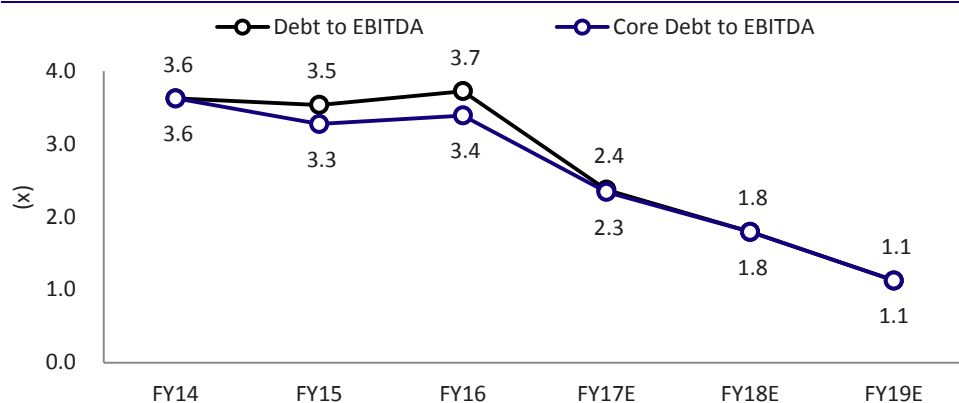
TCOM recently entered into an agreement with Liquid Telecom-led SPV to sell Neotel at an EV of ZAR6.55b (USD465m; INR31.8b). This will generate equity value of INR2.8b for TCOM's 67% equity holding after paying off debt of INR25.6b, with a value/share of INR 10.

After factoring in sale of Neotel and data centre, the core business net debt is likely to fall from INR115b in FY16 to ~INR60b in FY18. Net-debt-to-EBITDA ratio would be 1.8x and RoIC would be 18% in FY18.

Exhibit 47: Neotel valuation (FY17)

Neotel	ZAR	USD	INR
Share Capital	1,767	125.7	8,582
Reserves	(2,548)	(181.2)	(12,374)
Debt	5,200	369.8	25,251
Capital Employed	4,419	314.3	21,459
Assets	3,403	242.0	16,523
Neotel deal size	6,550	465.9	31,807
Debt	5,200	369.8	25,251
Equity Value (100%)	1,350	96.0	6,556
Additional liabilities	500		
Tata Comm Stake 67.32%	572	40.7	2,779
No of Shares			285
Equity Value/share (INR)			9.7

Source: Company, MOSL

Exhibit 48: Neotel sale to improve gearing (x)

Source: Company, MOSL

Data center sale to aid further deleverage and reduce capital intensity

In May, TCOM announced the sale of 74% stake in the Indian and Singapore data center business at an enterprise value of INR31.3b (INR23.2b for 74% stake). The data center business has an estimated annual revenue of ~INR6b and EBITDA of ~INR1.6b, valuing the deal at about 19x EV/EBITDA. The deal is like to get executed by 3QFY17. This should allow TCOM to deleverage its balance sheet and also reduce capital intensity, with ~USD50m reduction (x) in annual capex.

Exhibit 49: Data center sale to Singtel

Particulars	Total value	@ 74% stake sale
Data Center (SGD m)	232	
Data Center EV (INR m)	31,300	23,162
Data revenues (INR m)	6,000	4,440
EBITDA (INR m)	1,620	1,199
EBITDA margin		27%
EV/EBITDA (x)	19.3	14.3

Source: Company, MOSL

Exhibit 50: RoE decomposition

	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
PAT margin	-5.6%	-4.5%	0.4%	0.0%	0.2%	2.1%	5.3%	6.9%
Asset Turnover (x)	1.1	1.2	1.4	1.5	1.5	1.6	1.6	1.7
Equity Multiplier (x)	5.9	9.7	18.0	41.1	-33.0	-137.2	12.5	5.3
RoE	-34.8%	-54.8%	9.5%	0.7%	-10.6%	-484.4%	108.9%	60.4%

Source: Company, MOSL

Better placed than the conventional telcos

Competitive pressures, capex intensity lower

- We prefer TCOM to BHARTI/IDEA from a medium-term perspective.
- Despite operating in a B2B model, TCOM enjoys better competitive position and margin outlook. We expect TCOM to post healthy cash flows and RoIC of 18% in FY19.
- On the other hand, BHARTI/IDEA's cash flows would be weak and RoIC would remain below cost of capital.

Healthy future cash flows

Sweating of existing assets along with healthy core EBITDA growth and reduced capex-to-sales ratio (10%) will keep TCOM's cash flows healthy (INR20b annual operating FCF). On the other hand, BHARTI/IDEA should see heavy capex towards data coverage, leading to weak FCF generation.

Regulatory risk reduces

Regulatory risks are relatively low for TCOM, given its business model, which is subject to little government intervention. It does not hold any spectrum. On the contrary, BHARTI and IDEA are exposed to spectrum-related risk as well as cash flow risk. Additionally, pending legal cases on 3G interconnect roaming agreement and one-time spectrum costs remain contingent liabilities on their books.

Leverage coming down

TCOM is on its way to reducing the debt on its books (net-debt-to-EBITDA has shrunk from 6x in FY12 to 3.4x in FY16 and is likely to decline to 1.8x in FY18), led by sale of capital-intensive business and high FCF. Gross interest cost could decline 50% to INR3.5b in FY18. On the contrary, IDEA and BHARTI's balance sheets will bloat, driven by high spectrum acquisition costs and heavy network-related capex.

Better competitive position

TCOM is agnostic to spectrum-related investments, as it is largely B2B and its deep submarine network gives it a strong competitive advantage in emerging markets. The survival and growth of B2C telecom companies, however, depends on spectrum acquisition and infrastructure investments, more so with intensive competition in the data space triggered by RJIO's offerings.

Superior return ratios

TCOM should generate steady core EBITDA CAGR of 14% over FY16-19 (490bp core EBITDA margin expansion). This would lead to RoIC to 18% in FY19, up from 6% in FY16. On the contrary, IDEA and BHARTI's return ratios are below their cost of capital and in single digits, given high spectrum investment.

Compelling valuations

TCOM's higher profitability, reduction in net-debt-to-EBITDA from a peak of 3.7x in FY16 to 1.8x in FY18E, and higher RoCE should allow the core business to garner better valuations than just 6x (excluding surplus land value) FY19E EV/EBITDA. IDEA and BHARTI's lower RoCE, FCF constraints, higher debt/EBITDA do not justify ~6x FY18E EV/EBITDA.

Land valued at INR176/share

Recent developments raise hopes of land value monetization

Indecision on capital gains waiver had been holding up land transfer

In 2002, when Tata Group acquired 45% stake in VSNL, the deal excluded the 740-acre land bank held by VSNL. As part of the transaction, the land was to be demerged into a separate entity. This would trigger a capital gain tax liability on the seller. However, TCOM was merely holding the land due to its legacy title with the erstwhile government-owned VSNL, later renamed TCOM. Due to the indecision surrounding capital gains waiver to TCOM, the land transfer has not fructified.

Recent developments raise hopes of land value monetization

In 2014, the new government formed a new entity, Hemisphere Properties, in which it holds 51% stake, with a view to transfer the land parcel. In August 2016, the government passed bill to allow transfer of land by TCOM without being subject to capital gains tax. This resolves a key hurdle in the transfer of land.

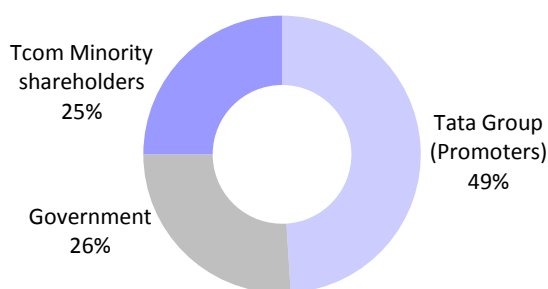
Value of the land

The land identified for demerger at different locations measures 740 acres and carries a book value of INR1.63m. Considering minimum government registration value, the land is valued at INR75.7b. Even after factoring in a 20% capital gains tax rate and a 20% dividend distribution tax, the land would still be valued at INR170/share. Over the last 15 years, the land value has been a mere theoretical calculation, with a potential option value of INR170/share. However, the current government's action towards creating a new entity in the first budget after taking charge and passing the bill that removes the key hurdle in the transfer of land provides visibility on the potential monetization. In our recent interaction, the DoT (Department of Telecom) indicated that it is working on the transfer, without offering specific timelines. We believe there is a high probability of the transfer getting completed in the current government's regime.

Of the shareholders, there are three key segments that have rights to the land:

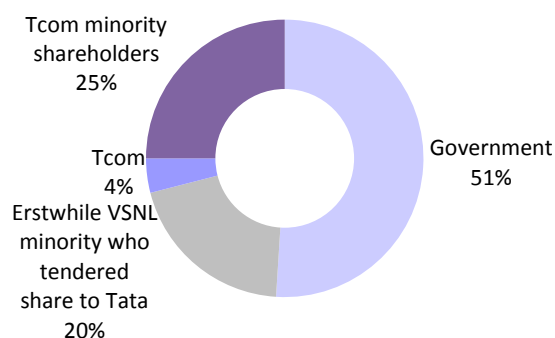
- 1.) Government:** Its current 26% stake and additional 25% sold to Tata Group in 2002 entitles the government to 51% rights to the land.
- 2.) Minority shareholders:** The current 25% as well as 20% who sold their stake to Tata Group in 2002 through the open offer have 45% rights to the land.
- 3.) Tata Group:** Tata Group's (Tata Sons and related group entities) initial 45% stake (25% government and 20% minority shareholders) acquired through the divestment scheme in 2002 does not give it any rights to the land. However, the incremental 4% acquired through the market should be entitled to the land value.

Exhibit 51: Current TCOM shareholding



Source: MOSL

Exhibit 52: Surplus Land's stakeholders



Source: MOSL

Exhibit 53: Surplus land value (FY17)

Location	Land Area (in acres)	Value/acre (INR m)	Land value (INR m)
Delhi - Greater Kailash	70	828	57,960
Delhi - Chattarpur	58	180	10,440
Pune - Dighi	524	10	5,240
Chennai - Padianallur	53	24	1,272
Kolkata - Halishahar	35	22	770
Total	740		75682
Less: Capital Gains Tax (20%)			15,136
Realisable land value			60,546
Realisable land value per share			212
Less: Discount (Potential dividend distribution tax-@17.304%)			37
Value per share (INR)			176

Source: Company, MOSL

Exhibit 54: Global Peer Comparison

Company Name	M Cap (b)	Revenue (b)			EBITDA (b)			PAT (b)			PE (x)			EV/EBIDTA (x)			ROE (%)		
		CY16E	CY17E	CY18E	CY16E	CY17E	CY18E	CY16E	CY17E	CY18E	CY16E	CY17E	CY18E	CY16E	CY17E	CY18E	CY16E	CY17E	CY18E
China Mobile Ltd	224.8	103.7	108.5	113.5	37.3	39.6	41.6	15.8	17.1	18.6	14.3	13.2	12.2	4.2	4.0	3.8	11.3	11.6	11.7
Axiata Group Bhd	9.5	4.7	5.0	5.3	1.8	1.9	2.0	0.4	0.4	0.5	23.8	21.4	19.5	7.5	6.9	6.6	7.0	7.9	8.7
DiGi.Com Bhd	8.5	1.5	1.6	1.6	0.7	0.7	0.7	0.4	0.4	0.4	22.5	22.6	22.6	13.2	13.0	12.7	317.0	314.9	315.8
Maxis Bhd	10.2	1.9	1.9	2.0	1.0	1.0	1.0	0.4	0.4	0.4	24.2	24.6	24.8	12.2	12.3	12.3	42.4	39.3	38.5
Advanced Info Ser. PCL	13.0	4.3	4.5	4.7	1.7	1.9	2.0	0.8	0.8	0.9	15.3	15.7	14.8	9.1	8.4	7.8	65.2	63.3	62.5
Total Access Comm. PCL	2.8	2.4	2.4	2.4	0.8	0.8	0.8	0.1	0.1	0.1	34.2	35.7	26.2	4.7	4.5	4.4	10.6	10.7	12.5
XL Axiata Tbk PT	2.2	1.6	1.7	1.9	0.6	0.7	0.7	0.0	0.0	0.1	-	46.4	22.9	5.3	5.0	4.6	1.2	2.0	4.1
Indosat Tbk PT	2.5	2.2	2.4	2.6	1.0	1.0	1.1	0.1	0.1	0.2	35.3	18.2	12.8	4.3	4.0	3.7	7.4	11.6	15.1
Telekomunikasi Indonesia Perse	30.1	8.7	9.7	10.5	4.5	5.0	5.4	1.5	1.7	1.9	19.9	17.3	15.6	7.1	6.3	5.8	23.7	24.1	24.5
Far EasTone Telecom.	7.6	3.0	3.1	3.2	0.9	0.9	0.9	0.4	0.4	0.4	20.6	19.9	19.1	9.7	9.5	9.0	16.5	17.3	17.9
Taiwan Mobile Co Ltd	11.6	3.7	3.8	4.0	1.1	1.1	1.1	0.5	0.5	0.5	18.9	18.4	17.7	12.6	12.2	11.8	26.0	26.7	28.0
Globe Telecom Inc	4.4	2.6	2.7	2.8	1.0	1.0	1.1	0.3	0.3	0.3	15.4	15.3	14.7	6.2	5.9	5.6	24.4	23.9	23.7
LG Uplus Corp	4.3	9.5	9.8	9.9	2.0	2.1	2.1	0.4	0.4	0.5	10.9	10.3	9.3	3.8	3.6	3.5	10.1	9.9	10.1
SK Telecom Co Ltd	15.5	14.5	14.9	15.2	3.9	4.0	4.1	1.3	1.2	1.3	11.6	12.0	11.2	5.0	4.9	4.8	9.6	9.1	9.3
M1 Ltd/Singapore	1.4	0.7	0.7	0.7	0.2	0.2	0.2	0.1	0.1	0.1	12.2	13.2	14.3	7.3	7.4	7.6	36.5	33.0	28.8
StarHub Ltd	3.7	1.7	1.7	1.7	0.5	0.5	0.5	0.2	0.2	0.2	14.9	15.6	16.8	8.1	8.3	8.5	183.0	166.0	167.2
Telstra Corp Ltd	46.6	21.3	22.3	22.8	8.1	8.5	8.3	3.1	3.3	3.2	15.2	14.3	14.4	6.9	6.6	6.7	26.9	27.7	26.7
SmarTone Telecom. Ho	1.6	2.3	2.3	2.3	0.3	0.3	0.3	0.1	0.1	0.1	14.7	14.2	13.7	4.5	4.5	4.4	18.3	18.3	18.2
NTT DOCOMO Inc	94.8	40.4	41.6	43.0	12.6	13.3	13.9	5.8	6.2	6.4	15.2	14.0	13.1	7.3	6.9	6.6	12.4	12.6	12.6
Bharti Airtel Ltd	18.7	14.8	15.8	17.1	5.4	5.7	6.2	0.8	0.8	1.0	25.2	24.0	19.1	6.1	5.8	5.3	7.6	7.5	9.1
Idea Cellular Ltd	3.7	5.5	5.9	6.2	1.7	1.8	1.9	0.1	0.0	0.0	59.2	177.7	-	4.9	4.7	4.5	1.4	-0.6	-2.5
Reliance Comm. Ltd	1.1	3.1	3.2	3.2	0.9	1.0	1.0	0.0	0.0	0.0	39.0	19.6	14.0	6.1	5.8	5.7	0.7	1.3	0.3
Level 3 Comm. Inc	21.0	8.2	8.4	8.7	2.9	3.0	3.2	0.6	0.7	0.8	36.2	31.0	27.2	10.6	10.2	9.6	6.0	7.6	8.2

Source: Company, MOSL

Initiating coverage with a Buy rating

SOTP-based target price of INR778 excluding land value

Three reasons why we believe the stock is poised for further re-rating:

- Secular 14% EBITDA growth potential over next three years: The core business EBITDA (voice and data) is expected to grow at 14% over FY16-19, led by 490bp EBITDA margin expansion and 3% revenue CAGR.
- Increased FCF generation potential, triggering deleveraging
 - Cumulative FCF generation of INR76.2b on the back of ~INR55b through the sale of Neotel and data center.
 - Additional FCF generation of INR17b from internal accruals over FY18-19.
 - This should lead to reduction in net debt from INR115b to INR45b, with net-debt-to-EBITDA declining from a peak of 6x in FY12 to 1.1x.
- RoIC to reach ~18% by FY19: With steady EBITDA growth and sale of RoCE-detrimental businesses, we expect RoIC to improve to ~18% by FY19.

We initiate coverage with a **Buy** rating. We value TCOM using SOTP method. We have assigned 7.1x to TCOM's FY19E EBITDA of INR40b, yielding an equity value of INR866/share. This implies 3x EV/EBITDA for the mature voice business EBITDA of INR4b. This is due to its weak EBITDA outlook on the back of 7% revenue decline over FY16-19 and low EBITDA margin outlook of 6%. We have assigned the data business a higher EV/EBITDA of 7.5x due to its steady 17% EBITDA growth over FY16-19E, led by 10% revenue CAGR and 470bp cumulative EBITDA margin improvement to 25.7%. The data business' high valuation is also justified by its healthy FCF generation (EBITDA minus capex) from INR3.5b in FY16 to INR21.2b in FY19.

The stock currently trades at 6x FY19E EBITDA of INR40b. Higher profitability, reduction in net-debt-to-EBITDA from a peak of 6x in FY12 to 1.8x by FY18E, and improved RoIC should allow the core business to garner valuations of over 7x FY19E EV/EBITDA.

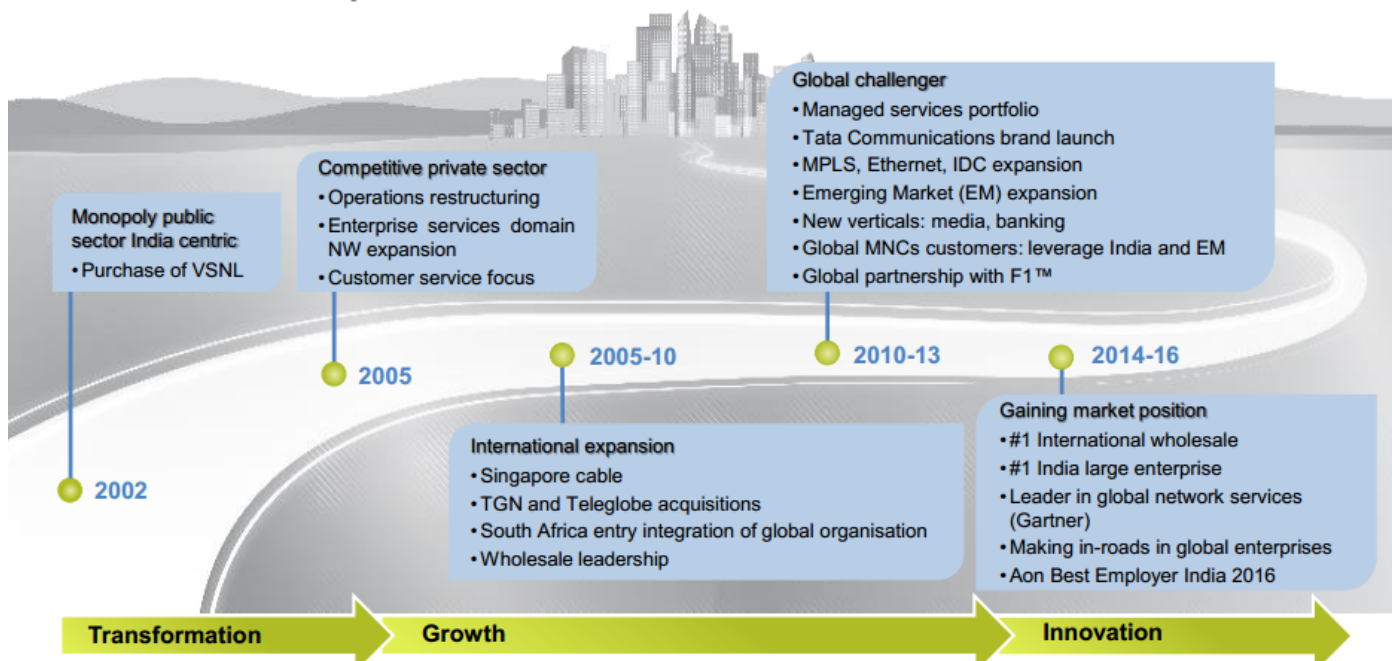
Additionally, the surplus land bank holds an equity value of INR176/share post the capital gains tax and dividend distribution tax. The overall value works out to be INR1,042/share, 60% upside from the current value.

Exhibit 55: Valuation summary

India Business		
Particulars	FY18E	FY19E
EBITDA (INR m)	33,731	39,996
multiple (x)	7.0	7.1
Voice EBITDA (INR m)	4,082	3,938
multiple (x)	3.0	3.0
Data EBITDA (INR m)	29,648	36,058
multiple (x)	7.5	7.5
Enterprise Value (INR m)	234,610	282,251
Net Debt (INR m)	71,181	60,493
Equity value (INR m)	163,429	221,758
No of shares (m)	285	285
Equity value/share (INR)	573	778
% Upside (Downside)	-9%	23%
Land Bank (INR)	176	176
Fair Value (INR)	749	954
CMP (INR)	633	633
% Upside (Downside)	18%	51%

Source: Company, MOSL

Exhibit 56: Tata Comm’s evolution over the years



Source: Company, MOSL

Exhibit 57: Key Metrics

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Revenues Segments										
Voice	61,319	65,259	68,118	85,647	93,024	87,761	80,560	70,614	68,111	65,702
growth	0	6.4%	4.4%	25.7%	8.6%	-5.7%	-8.2%	-12.3%	-3.5%	-3.5%
as a % of core	0	57.6%	54.7%	55.9%	53.3%	49.4%	43.2%	38.1%	35.1%	31.3%
Data	42,054	47,946	56,462	67,534	81,485	89,914	105,971	114,499	126,154	144,527
growth	0	14.0%	17.8%	19.6%	20.7%	10.3%	17.9%	8.0%	10.2%	14.6%
as a % of core	0	42.4%	45.3%	44.1%	46.7%	50.6%	56.8%	61.9%	64.9%	68.7%
Core Revenues	103,374	113,205	124,580	153,181	174,509	177,675	186,531	185,113	194,265	210,229
growth	0	9.5%	10.0%	23.0%	13.9%	1.8%	5.0%	-0.8%	4.9%	8.2%
Non Core (Neotel)	6,882	6,115	17,381	18,948	21,687	21,416	19,015	16,070	0	0
Total	110,256	119,320	141,961	172,129	196,196	199,091	205,546	201,183	194,265	210,229
EBITDA Segments										
Voice		4,111	5,443	7,306	8,292	6,359	4,963	4,669	4,120	3,974
margin		6.3%	8.0%	8.5%	8.9%	7.2%	6.2%	6.6%	6.0%	6.0%
growth		0.0%	32.4%	34.2%	13.5%	-23.3%	-22.0%	-5.9%	-11.8%	-3.5%
as a % of Core EBITDA		0.0%	30.2%	39.2%	35.0%	26.2%	18.2%	15.1%	11.8%	9.3%
Data		9,973	12,608	11,343	15,418	17,885	22,242	26,255	30,923	38,917
margin		20.8%	22.3%	16.8%	18.9%	19.9%	21.0%	22.9%	24.5%	26.9%
growth		0.0%	26.4%	-10.0%	35.9%	16.0%	24.4%	18.0%	17.8%	25.8%
as a % of Core EBITDA		0.0%	69.9%	60.8%	65.0%	73.8%	81.8%	84.9%	88.2%	90.7%
Core EBITDA		11,146	18,050	18,649	23,710	24,244	27,205	30,924	35,043	42,891
margin		9.8%	14.5%	12.2%	13.6%	13.6%	14.6%	16.7%	18.0%	20.4%
growth		0	61.9%	3.3%	27.1%	2.3%	12.2%	13.7%	13.3%	22.4%
Non Core (Neotel)		-1,851	-135	1,948	6,707	5,652	3,514	3,435	0	0
Total		9,295	17,915	20,597	30,417	29,896	30,719	34,359	35,043	42,891
Dep										
Voice		0	2,120	2,046	2,186	2,027	1,893	1,687	1,601	1,570
Data		0	13,367	15,596	16,278	17,360	17,965	17,709	17,487	18,502
Core Dep		-10,779	15,487	17,643	18,464	19,386	19,858	19,396	19,088	20,072
Non-Core (Neotel)		0	2,713	2,628	2,450	2,224	2,532	-28	0	0
Total Dep		-10,779	18,200	20,271	20,914	21,610	22,390	19,368	19,088	20,072
EBIT										
Voice			3,323	5,259	6,106	4,332	3,070	2,982	2,519	2,404
Data			-760	-4,253	-860	525	4,277	8,546	13,436	20,415
Core EBIT			2,563	1,006	5,246	4,858	7,347	11,528	15,955	22,819
Non-Core			-2,849	-679	4,257	3,428	982	3,463	0	0
Total EBIT			-286	327	9,503	8,286	8,329	14,991	15,955	22,819

Source: Company, MOSL

Exhibit 58: Key Metrics

Interest Cost	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Core	3,891	3,876	4,370	4,268	3,998	4,082	3,680	3,382	3,178
Non Core (Neotel)	1,807	5,516	3,398	3,350	2,471	3,027	3,183	-	-
Others	-	(1,049)	173	(1)	1,039	-	57	-	-
Total Interest Costs	5,698	8,343	7,941	7,617	7,508	7,109	6,920	3,382	3,178
Other Income	1,861	1,448	2,266	1,433	4,008	2,958	2,765	3,848	4,878
Tax	857	766	1,926	3,429	3,720	2,400	2,784	4,986	7,461
PAT									
Core	(1,134)	493	(2,463)	76	(942)	2,071	5,170	10,123	14,163
Non Core	(5,604)	(8,439)	(3,770)	939	957	(1,817)	281	-	-
Total PAT	(6,738)	(7,946)	(6,233)	1,015	15	1,778	7,554	10,123	14,163
EPS									
Core	(4.0)	1.7	(8.6)	0.3	(3.3)	7.3	18.1	35.5	49.7
Non Core	(19.7)	(29.6)	(13.2)	3.3	3.4	(6.4)	1.0	-	-
Total EPS	(23.6)	(27.9)	(21.9)	3.6	0.1	6.2	26.5	35.5	49.7

Source: Company, MOSL

Exhibit 59: Key Metrics

Cash Flows	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
OCF	12,064	17,525	24,547	30,616	30,283	23,713	33,566	25,374	28,920
Capex	(17,017)	(21,792)	(15,416)	(17,872)	(17,713)	(20,287)	24,475	(15,140)	(15,140)
FCF	(5,754)	(4,267)	9,131	12,744	12,570	3,426	58,041	10,234	13,780
Capex									
Core									
Voice	(1,043)	(636)	(684)	(485)	(397)	(241)	(244)	(244)	(244)
as a % of sales	1.6%	0.9%	0.8%	0.5%	0.5%	0.3%	0.3%	0.4%	0.4%
Data	(14,174)	(19,552)	(15,155)	(14,667)	(17,856)	(18,703)	(18,988)	(14,896)	(14,896)
as a % of sales	29.6%	34.6%	22.4%	18.0%	19.9%	17.6%	16.7%	12.0%	10.6%
Core Capex	(15,217)	(20,188)	(15,839)	(15,152)	(18,253)	(18,944)	(19,232)	(15,140)	(15,140)
as a % of sales	13.4%	16.2%	10.3%	8.7%	10.3%	10.2%	10.5%	7.9%	7.4%
Noeotel	(5,573)	(2,464)	(2,719)	(2,959)	(3,159)	(2,904)	(1,635)	-	-
Leverage									
Gross Debt	76,523	107,757	108,707	110,205	105,661	115,341	71,243	60,556	45,091
Core Net Debt	76,523	107,757	108,707	110,205	79,324	92,220	71,243	60,556	45,091
Debt to EBITDA	6.25	6.01	5.28	3.62	3.53	3.72	2.37	1.80	1.13
Core Debt to EBITDA	6.25	6.01	5.28	3.62	3.27	3.39	2.34	1.80	1.13
Return ratios									
ROE		(26.6)	(35.0)	9.0	0.5	(522.5)	(181.2)	235.4	86.2
Core ROE		(26.6)	(35.0)	9.0	0.5	(24.9)	(39.4)	235.4	86.2
ROC		(0.2)	0.2	6.7	5.9	6.4	8.4	12.6	16.4
Core ROCE		(0.2)	0.2	6.7	5.9	5.7	10.9	12.6	16.4
ROIC		(0.2)	0.3	7.9	7.3	8.0	11.7	20.9	28.8

Source: Company, MOSL

Financials and Valuations

Consolidated - Income Statement		(INR Million)						
Y/E March	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Total Income from Operations	141,961	172,130	196,196	199,090	205,539	186,122	191,744	207,545
Change (%)	19.0	21.3	14.0	1.5	3.2	-9.4	3.0	8.2
Network Cost	78,936	97,806	107,457	105,543	103,934	93,870	95,248	97,151
Staff Cost	21,199	24,115	24,976	27,948	31,077	28,167	24,613	24,876
Operating & Other Expense	23,910	29,612	33,346	35,702	39,551	33,926	37,161	42,760
Total Expenditure	124,046	151,532	165,779	169,193	174,562	155,963	157,022	164,787
% of Sales	87.4	88.0	84.5	85.0	84.9	83.8	81.9	79.4
EBITDA	17,915	20,597	30,416	29,897	30,978	30,159	34,722	42,757
Margin (%)	12.6	12.0	15.5	15.0	15.1	16.2	18.1	20.6
Depreciation	18,200	20,271	20,914	21,611	22,166	19,368	19,088	20,072
EBIT	-286	327	9,502	8,286	8,812	10,791	15,634	22,685
Int. and Finance Charges	8,343	7,941	7,617	7,508	7,191	6,135	3,382	3,178
Other Income	1,448	2,266	1,433	4,008	2,958	2,765	3,877	4,974
PBT bef. EO Exp.	-7,180	-5,349	3,318	4,786	4,578	7,421	16,130	24,482
EO Items	0	1,042	1,126	-1,052	-1,928	-920	0	0
PBT after EO Exp.	-7,180	-4,307	4,444	3,734	2,650	6,501	16,130	24,482
Total Tax	660	2,202	3,433	3,705	2,386	2,858	5,323	8,404
Tax Rate (%)	-9.2	-51.1	77.2	99.2	90.0	44.0	33.0	34.3
Minority Interest	107	-276	-3	17	14	14	14	14
Reported PAT	-7,947	-6,233	1,014	13	250	3,628	10,793	16,064
Adjusted PAT	-7,947	-7,808	758	21	443	4,144	10,793	16,064
Change (%)	2.3	-1.7	-109.7	-97.2	1,986.6	836.2	160.5	48.8
Margin (%)	-5.6	-4.5	0.4	0.0	0.2	2.2	5.6	7.7

Consolidated - Balance Sheet		(INR Million)						
Y/E March	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Equity Share Capital	2,850	2,850	2,850	2,850	2,850	2,850	2,850	2,850
Total Reserves	19,973	11,399	5,145	365	-7,032	-3,521	7,272	23,336
Net Worth	22,823	14,249	7,995	3,215	-4,182	-671	10,122	26,186
Minority Interest	92	79	62	59	69	69	69	69
Total Loans	110,818	123,624	136,944	130,757	143,724	115,280	108,578	101,876
Deferred Tax Liabilities	453	176	-727	-2,015	-1,543	-1,543	-1,543	-1,543
Capital Employed	134,186	138,128	144,274	132,015	138,068	113,135	117,226	126,587
Gross Block	224,256	249,475	278,736	299,608	319,011	294,535	309,676	324,816
Less: Accum. Deprn.	89,987	111,090	135,779	156,419	176,704	196,072	215,160	235,232
Net Fixed Assets	134,269	138,385	142,957	143,190	142,306	98,463	94,516	89,585
Goodwill on Consolidation	7,769	8,729	6,185	3,848	2,656	2,656	2,656	2,656
Capital WIP	11,489	7,707	6,530	6,383	7,998	7,998	7,998	7,998
Total Investments	7,527	13,216	17,582	17,675	17,664	17,664	17,664	17,664
Curr. Assets, Loans&Adv.	62,340	69,215	74,431	68,841	80,635	100,051	108,897	124,666
Inventory	224	272	506	264	254	235	242	262
Account Receivables	25,668	32,119	27,339	24,870	30,469	32,635	34,934	37,529
Cash and Bank Balance	3,061	9,233	16,695	16,212	19,789	36,106	41,577	53,878
Loans and Advances	33,387	27,592	29,891	27,495	30,122	31,076	32,144	32,997
Curr. Liability & Prov.	89,209	99,124	103,411	107,922	113,191	113,698	114,505	115,981
Account Payables	38,409	43,644	40,403	36,697	41,090	41,814	42,026	43,215
Other Current Liabilities	46,971	51,506	56,324	61,538	62,552	62,720	63,039	63,116
Provisions	3,829	3,974	6,684	9,687	9,548	9,164	9,440	9,650
Net Current Assets	-26,869	-29,909	-28,980	-39,081	-32,556	-13,646	-5,608	8,685
Appl. of Funds	134,186	138,128	144,274	132,015	138,068	113,135	117,226	126,587

Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Basic (INR)								
EPS	-27.9	-27.4	2.7	0.1	1.6	14.5	37.9	56.4
Cash EPS	36.0	43.7	76.0	75.9	79.3	82.5	104.8	126.8
BV/Share	80.1	50.0	28.1	11.3	-14.7	-2.4	35.5	91.9
DPS	2.0	3.0	4.5	5.5	4.3	4.3	4.3	4.3
Payout (%)	-8.3	-16.3	151.8	13,711.6	584.0	40.3	13.5	9.1
Valuation (x)								
P/E				8,610.8	412.7	44.1	16.9	11.4
Cash P/E				8.4	8.1	7.8	6.1	5.1
P/BV				56.8	-43.7	-272.2	18.0	7.0
EV/Sales				1.5	1.5	1.4	1.3	1.1
EV/EBITDA				9.9	9.9	7.3	7.2	NA
Dividend Yield (%)	0.3	0.5	0.7	0.9	0.7	0.7	0.7	0.7
FCF per share	-15.0	32.0	44.7	44.1	12.0	205.6	41.0	60.4
Return Ratios (%)								
RoE	-27.1	-42.1	6.8	0.4	-91.6	-170.8	228.4	88.5
RoCE	1.0	2.9	1.8	0.1	0.9	6.0	11.2	14.7
RoIC	-0.3	0.4	2.0	0.1	1.0	8.4	20.7	30.7
Working Capital Ratios								
Fixed Asset Turnover (x)	0.6	0.7	0.7	0.7	0.6	0.6	0.6	0.6
Asset Turnover (x)	1.1	1.2	1.4	1.5	1.5	1.6	1.6	1.6
Inventory (Days)	1	1	1	0	0	0	0	0
Debtor (Days)	66	68	51	46	54	64	67	66
Creditor (Days)	99	93	75	67	73	82	80	76
Leverage Ratio (x)								
Current Ratio	0.7	0.7	0.7	0.6	0.7	0.9	1.0	1.1
Interest Cover Ratio	0.0	0.0	1.2	1.1	1.2	1.8	4.6	7.1
Net Debt/Equity	4.4	7.1	12.8	30.1	-25.4	-91.7	4.9	1.2

Consolidated - Cash Flow Statement**(INR Million)**

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
OP/(Loss) before Tax	-7,180	-4,307	4,444	3,734	460	6,501	16,130	24,482
Depreciation	18,200	20,271	20,914	21,611	22,745	19,368	19,088	20,072
Interest & Finance Charges	8,343	7,941	7,038	6,680	6,341	6,135	3,382	3,178
Direct Taxes Paid	107	793	-1,824	-1,120	-4,238	-2,858	-5,323	-8,404
(Inc)/Dec in WC	1,070	1,887	228	-1,339	-3,383	-2,593	-2,567	-1,992
CF from Operations	20,539	26,585	30,800	29,565	21,925	26,552	30,710	37,336
Others	-3,014	-2,038	-184	718	1,788	7,582	-3,877	-4,974
CF from Operating incl EO	17,525	24,547	30,616	30,283	23,713	34,135	26,832	32,362
(Inc)/Dec in FA	-21,792	-15,416	-17,872	-17,713	-20,287	24,475	-15,140	-15,140
Free Cash Flow	-4,267	9,131	12,744	12,570	3,426	58,610	11,692	17,221
(Pur)/Sale of Investments	-608	-9,572	-5,101	-1,720	7,201	0	0	0
Others	150	3,491	1,675	2,550	3,350	2,765	3,877	4,974
CF from Investments	-22,250	-21,497	-21,298	-16,884	-9,737	27,240	-11,263	-10,166
Issue of Shares	4,336	0	0	0	0	0	0	0
Inc/(Dec) in Debt	4,612	11,696	6,777	-5,088	8,825	-38,909	-6,702	-6,702
Interest Paid	-7,752	-7,800	-6,694	-6,285	-5,807	-6,135	-3,382	-3,178
Dividend Paid	-663	-671	-964	-1,467	-1,873	0	0	0
Others	32	-103	-975	-1,043	-1,231	-14	-14	-14
CF from Fin. Activity	566	3,122	-1,856	-13,883	-86	-45,058	-10,098	-9,894
Inc/Dec of Cash	-4,159	6,172	7,462	-483	13,890	16,317	5,471	12,301
Opening Balance	7,220	3,061	9,233	16,695	16,211	30,101	46,418	51,889
Closing Balance	3,061	9,233	16,695	16,211	30,101	46,418	51,889	64,190

NOTES

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