

# Tata Communications

- Revenues miss estimate but margins ahead of expectation; PAT beat aided by interest income on tax refund
- Strength in data revenues offset voice weakness while data margins reclaim 20% threshold
- Expect data to gain further prominence which would mitigate revenue volatility and provide margin support; raise core business EV/EBIDTA multiple to 6.5x on FY16 EBIDTA and retain BUY with revised 9-12 SOTP target of Rs475

## Result table

(Rs m)	Q2 FY15	Q1 FY15	% qoq	Q2 FY14	% yoy
<b>Net sales</b>	<b>50,716</b>	<b>51,117</b>	(0.8)	<b>49,526</b>	2.4
Network costs	(27,651)	(28,086)	(1.5)	(27,061)	2.2
Other exp	(8,459)	(8,814)	(4.0)	(8,238)	2.7
Personnel costs	(7,020)	(7,090)	(1.0)	(5,863)	19.7
<b>Operating profit</b>	<b>7,587</b>	<b>7,127</b>	6.4	<b>8,364</b>	(9.3)
<b>OPM (%)</b>	<b>15.0</b>	<b>13.9</b>	<b>102 bps</b>	<b>16.9</b>	<b>(193) bps</b>
Depreciation	(5,231)	(5,301)	(1.3)	(5,431)	(3.7)
Interest	(1,871)	(1,990)	(6.0)	(2,010)	(6.9)
Other income	1,635	643	154.3	393	315.5
<b>PBT</b>	<b>2,120</b>	<b>479</b>	342.8	<b>1,316</b>	61.1
Tax	(1,192)	(689)	73.2	(511)	133.3
Minority Int/Associates	(4)	(4)	(10.0)	(1)	176.9
<b>Adjusted PAT</b>	<b>924</b>	<b>(214)</b>	-	<b>804</b>	15.0

Source: Company, India Infoline Research

## EBIDTA ahead of estimates, PAT beat on higher other income

Tata Communications (Tcom) posted lower than expected revenue with qoq decline of 0.8% qoq vs estimated +4.7% qoq with most of the miss driven by lower voice revenues (-2.2% qoq vs est. +6.4% qoq). Reported margin also came ahead of our forecast on the back of lower operating and other expenses. Adjusted for actuarial impact of Canada pension fund, EBIDTA margin performance at 16.4% was even better on sequential and yoy basis. Other income included ~Rs1.3bn interest on tax refund of ~Rs5.8bn which resulted in PAT of Rs924mn vs our estimate of Rs381mn.

**Global voice:** Voice segment was affected by adverse traffic mix as company saw pressure on India termination rates due to higher competitive intensity driving price aggression. A mostly fixed cost base implied that revenue decline had a larger impact on voice EBIDTA margin which dropped to 5.7% vs 7.4% in Q1 and 10.6% in Q2 FY14.

**Global data:** data revenues came largely in line with expectation at +1.6% qoq, +7.8% yoy vs expected of flat qoq; momentum remained strong in enterprise segment though service provider space remained sluggish. Data margins regained 20% threshold on strong cost discipline and operating leverage and is EBIT +ve for H1 FY15. Data business turned FCF (EBIDTA-capex) positive.

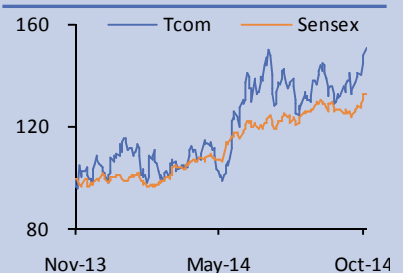
**Netel:** South African operations were below estimate at Rs6.1bn (-3% qoq, +6.5% yoy) vs our expectation of Rs6.3bn.

**Rating:** BUY  
**Target:** Rs475  
**CMP:** Rs412  
**Upside:** 16.6%

**Sector:** Telecom  
**Sector view:** Positive  
 Sensex: 27,860  
 52 Week h/l (Rs): 421/259  
 Market cap (Rscr) : 11,792  
 6m Avg vol ('000Nos): 417  
 Bloomberg code: TCOM IB  
 BSE code: 500483  
 NSE code: TATACOMM  
 FV (Rs): 10

Price as on November 03, 2014

## Share price trend



## Share holding pattern

%	Mar-14	Jun-14	Sep-14
Promoters	75.0	75.0	75.0
Insti	19.1	19.6	18.8
Others	5.9	5.4	6.2

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November 05, 2014

**Segment results**

Revenues	Q2 FY15	Q1 FY15	% qoq	Q2 FY14	% yoy
Voice	23,101	23,629	(2.2)	23,983	(3.7)
Data & managed scvs	22,363	22,017	1.6	20,752	7.8
South Africa ops	6,120	6,307	(3.0)	5,746	6.5
Others	-	20	-	26	-
EBIT	Q2 FY15	Q1 FY15	% qoq	Q2 FY14	% yoy
Voice	879	1,263	(30.4)	1,876	(53.2)
Data & managed scvs	295	(157)	-	218	35.5
South Africa ops	1,183	740	59.9	853	38.6
Others	-	(20)	-	(14)	-
EBIT margin (%)	Q2 FY15	Q1 FY15	bps qoq	Q3 FY13	bps yoy
Voice	3.8	5.3	(154)	7.8	(402)
Data & managed scvs	1.3	(0.7)	203	1.0	27
South Africa ops	19.3	11.7	759	14.9	447

Source: Company, India Infoline Research

**Retain BUY on strength of data momentum**

After a muted Q1, Tcom posted a relatively steady quarter as weakness on voice business was adequately offset by strength on data side. With rising share of data in overall pie, we believe core business would undergo a rerating on the back of better topline visibility and margin upsides. Retain earnings estimates for FY15/16 but raise core business target EV/EBIDTA multiple to 6.5x FY16 EBIDTA while keeping land and TTSL contributions unchanged; BUY for revised 9-12mth SOTP target of Rs475 (earlier Rs430).

**Financial summary**

Y/e 31 Mar (Rs m)	FY13	FY14	FY15E	FY16E
Revenues	172,130	196,659	215,460	238,212
yoy growth (%)	21.3	14.3	9.6	10.6
Operating profit	20,597	30,880	32,750	36,446
OPM (%)	12.0	15.7	15.2	15.3
Reported PAT	(6,234)	1,014	2,031	3,013
yoy growth (%)	(21.6)	-	100.3	48.3
EPS (Rs)	(21.9)	3.6	7.1	10.6
P/BV (x)	8.2	14.7	11.7	9.0
EV/EBITDA (x)	12.1	8.5	7.9	7.3
ROE (%)	(39.3)	3.2	22.5	26.1
ROCE (%)	1.6	7.0	7.1	8.2

Source: Company, India Infoline Research

## IIFL Research won 3 awards at India's Best Market Analyst Awards 2013 by Zee Business for Banking, Oil & Gas and Pharma.

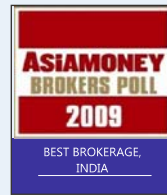
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### Other awards



#### Recommendation parameters for fundamental reports:

**Buy** – Absolute return of over +15%

**Accumulate** – Absolute return between 0% to +15%

**Reduce** – Absolute return between 0% to -10%

**Sell** – Absolute return below -10%

**Call Failure** - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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