

TATA Communications Ltd. ₹ 297**Well Connected****Accumulate****Company Background**

Tata Communications Ltd. (TCOMM) (formerly VSNL), a part of Tata Group, was established in 1986 and started as a wholly-owned government corporation. Apart from international long distance (ILD) telephony, TCOMM provided various other services like telex, telegraph, leased lines, internet and video-conferencing services. It started internet services in 1995. It was earlier under the control of the government till the time it was divested in favor of the Tata group, which has a 45% stake in the company. The company is also one of the largest internet service providers in the country. TCOMM works out of its associated company Intelsat, New Skies Satellite, a Netherlands-based spin-off being carved out of Intelsat, shares a JV with IL&FS and Essel Shyam in TVC India. As part of its expansionary plans, it foresees entering into newer businesses like enterprise data and broadband services and leverage its broad range of end-to-end solutions. It also plans to expand services offered through its global business pathway providing the world's leading businesses with diversified multi-technology connectivity, significant commercial flexibility, and innovative managed services.

Key Highlights

- ➔ Tata Communications and Ciena Corporation announced the launch of 100 gigabits per second upgrade along the TGN-Pacific (TGN-P) submarine cable system that connects the US to Japan and three routes in the TGN-Intra-Asia (TGN-IA) market across Asia.
- ➔ Tata Communications announced the launch of its mobile VoIP platform, a hosted, white label solution that allows mobile network operators (MNO) and other retail voice providers to deliver and monetize innovative converged IP communication services.
- ➔ There are recent speculations of Tata Group mulling telecom exit in the industry. A recent report by a leading Business Daily says that the company is in preliminary discussions with Vodafone to sell both Tata Communications and Tata Teleservices. This deal could make Vodafone the leading private Telecom operator in India surpassing Bharti Aircel. It should be noted that both Tatas and the Vodafone management has declined any such news.

Key Financials

Year Ended 31 st	Mar 11	Mar 12	Mar 13
Revenue (INR mn)	38,065.2	42,708.7	49,859.6
Rev. growth (%)	(4.53)	12.20	16.74
EBITDA (INR mn)	10,734.4	11,966.0	15,626.3
Net profit (INR mn)	1,625.6	1,713.4	4,752.4
Shares outstanding (mn)	285.0	285.0	285.0
EPS (INR)	5.7	6.0	16.7
EPS growth (%)	(66.36)	5.40	177.37
P/E (x)	41.9	37.4	14.0
RONW (%)	1.2	2.2	3.6
ROCE (%)	0.9	1.7	3.2



Gateway to Prosperity

Feb 07, 2014

Nishant Chopra

nishantc@indiratrade.com

Info Codes

Reuters	: TATA.BO
Bloomberg	: TCOM@IN
NSE	: TATACOMM
BSE	: 500483

Market Data

52 Wk Range (₹)	:320 / 137
Shares in Issue (mn)	:285.0
Mkt. Cap (₹ bn)	:83.90
BSE 2 Wk Avg Vol	:76000

Share Holding Pattern (%)

Promoters	: 74.99
DII's	: 13.27
FII's	: 6.13
Others	: 5.61

Investment Theme

In the coming years, the Company plans to continue with its strategy of providing managed services globally with a B2B focus. The Company expects that the demand for its services will remain strong, but that it will continue to face increased competition and pressure on pricing and margins. Therefore, it has a threepronged strategy of driving revenue growth from new markets, investing in services and technology innovation, while continuing to improve the cost structure of its operations. TCOMM plans to further strengthen its position in the market by continuing to develop and introduce new products and services catering to the needs of corporate customers, such as Unified Communication, Hosted Contact Center, Mobile Broadband enablement, Content Delivery Infrastructure as a Service (IaaS), and other managed products and services which should turn positive.

The Call Carrier

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 11	Mar 12	% Chg	Mar 13	% Chg
Total Sales + Excise	36129.1	40917.7	13.25	44161.2	7.93
Other Income	1936.0	1791.0	(7.49)	5698.4	218.17
Change in Stocks	0.0	0.0	-	0.0	-
Raw Material Con.	79.4	224.0	182.12	208.2	(7.05)
Employee Exp.	5204.6	6222.4	19.56	6707.3	7.79
Indirect Taxes	132.2	177.3	34.11	183.6	3.55
Other Exp.	21914.5	24119.0	10.06	27134.2	12.50
Operating Exp.	27330.7	30742.7	12.48	34233.3	11.35
Operating Profit	8798.4	10175.0	15.65	9927.9	(2.43)
Total Interest	2119.3	1948.7	(8.05)	1196.9	(38.58)
Gross Profit	8615.1	10017.3	16.28	14429.4	44.04
Net Dep.	7074.7	7366.1	4.12	7862.5	6.74
Total Taxation	(85.2)	937.8	(1200.70)	1814.5	93.48
Net Profit/Loss	1625.6	1713.4	5.40	4752.4	177.37

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 10	Mar 11	Mar 12	Mar 13
SOURCES OF FUNDS	99,299.1	92,224.6	84,942.6	82,911.2
Equity Share capital	2,850.0	2,850.0	2,850.0	2,850.0
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	69,957.8	67,224.8	68,519.7	72,314.2
Long Term Loans	25,201.7	12,596.9	8,314.6	6,250.0
Short Term Loans	1,289.6	9,552.9	5,258.3	1,497.0
USES OF FUNDS	99,299.1	92,224.6	84,942.6	82,911.2
Gross Block	68,209.4	81,900.1	88,210.9	96,568.2
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	23,161.4	33,848.2	40,690.9	48,233.7
Net Block	45,048.0	48,051.9	47,520.0	48,334.5
Capital Work in Progress	3,861.5	2,202.2	3,033.4	1,746.6
Investments	25,013.0	18,328.2	17,882.7	24,929.2
Current Assets	48,877.2	48,625.3	98,784.6	92,343.1
Less : Current Liabilities	23,500.6	24,983.0	82,278.1	84,442.2
Total Net Current Assets	25,376.6	23,642.3	16,506.5	7,900.9
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	20,989.2	17,881.1	17,882.7	20,305.1
Mkt Val. Quoted Investments	0.0	447.1	0.0	4,624.1
Contingent Liabilities	104,090.6	150,510.2	164,316.2	212,454.7
Dividend (%)	0	20	20	30

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 12	Mar 13	Jun 13	Sep 13
Net Sales	10,892.30	11,502.30	11,406.50	12,192.30
Cost Of Sales	8,035.50	8,227.60	8,805.30	9,172.70
Operating Profit	2,856.80	3,274.70	2,601.20	3,019.60
Recurring Income	645.20	683.90	773.70	1,224.40
Adjusted PBDIT	3,502.00	3,958.60	3,374.90	4,244.00
Financial Expenses	316.20	215.80	158.60	157.70
Depreciation	1,970.10	1,979.00	1,905.90	1,912.90
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	1,215.70	1,763.80	1,310.40	2,173.40
Tax Charges	289.60	901.90	1,155.50	356.50
Adjusted PAT	926.10	861.90	154.90	1,816.90
Non Recurring Items	(250.10)	1,833.60	2,162.20	(1,348.90)
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	676.00	2,695.50	2,317.10	468.00

52 Week Index Relative Percentage Appreciation



TCOMM vs SENSEX

Risks Associated

- Reductions in prices for communications services, worldwide, are expected to continue to have an adverse effect. It is more likely that the prices for communications services will generally continue to decrease as competition increases, as capacity is augmented, and disruptive technologies are introduced.
- Technology is continuously changing in the telecommunications industry, and service providers need to ensure that they are constantly bringing new services and technologies to market in order to be able to compete effectively. If the Company is not able to complete successfully the development and introduction of new services, including new managed services, in a timely manner, the business could be adversely affected.
- In the long distance voice business in India, Tata Communications is a wholesale operator and does not have an access licence. The Company is dependent on access providers to route National Long Distance and international Long Distance calls of their customers through the Company's networks. This inherent nature of the business poses some risk. Several of these access operators in India have taken NLD and ILD licences and started operations as competitors in the long distance and other markets, thus shrinking the addressable market.
- The Company has interests in a large number of countries and territorial waters throughout the world and must comply with an extensive range of requirements. Legal and regulatory decisions and changes in the regulatory environment in the jurisdictions in which the Company does business could have adverse effects.

In a Nutshell

TCOMM is the world's largest carrier of international wholesale voice traffic and carries 20% of the world's Internet traffic over its network. It has over 15 terabits of international bandwidth lit capacity and owns over 1 million square feet of data centre and colocation space across 42 global locations. It is also the world's largest signalling provider, the 5th largest and fastest-growing Tier 1 IP backbone, and the largest Ethernet provider. TCOMM owns and operates the world's only wholly-owned fibre optic sub-sea network ring around the globe, its Global Network, consists of 210,000 kilometres of terrestrial and subsea network fibre and reaches countries representing 99.7% of the world's GDP. These capabilities equip TCOMM with unique competitive advantages to execute its vision, which is to deliver a new world of communications to advance the reach and leadership of its customers. Striving to build a leading-edge IP-leveraged solutions, based on its advanced global infrastructure and leadership position. TCOMM provides differentiated choices of network and IT Infrastructure services to Service Providers, and large Enterprise customers, in both established and emerging markets. In the coming years, the Company will continue with its strategy of providing managed services globally with a B2B focus. We expects that the demand for its services will remain strong, especially with its threepronged strategy of driving revenue growth from new markets, investing in services and technology innovation, while continuing to improve the cost structure of its operations. We therefore recommend to accumulate the stock.

Indira Group Offices

Registered Office	: Singh House, 3rd Floor, 23/25 Ambalal Doshi Marg, Fort, Mumbai 400023
	Tel : +91-22-22656812 Fax : +91-22-22656985 Email : im@indiratrade.com
Administrative Office	: Ramavat House, E-15 Saket Nagar, Indore 452018
	Tel : +91-731-2566361 Fax : +91-731-2562117 Email : ii@indiratrade.com
Institutional Dealing Unit	: Africa House, 3rd Floor, 5 Topiwala Lane, Lamington Road, Mumbai 400007
	Tel : +91-22-30080675 Fax : +91-22-23870767 Email : ie@indiratrade.com

Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

Disclaimer

This document has been prepared by Indira Group of Companies (Indira). Indira and its associate companies are a full fledged retail and institutional broking group. Our research analysts and sales persons provide important input into our investment broking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Indira or any of its affiliates shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Indira and affiliates to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Indira reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Indira is under no obligation to update or keep the information current. Nevertheless, Indira is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Indira nor any of its affiliates, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. The Analyst does not have any holding in this stock.