

# Tata Communications

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## Results below expectations

Tata Communications reported its audited Q4 FY08 results. The results are not comparable on a QoQ and YoY basis as the company has hived off its retail broadband subsidiary. Although, the subsidiary has been incurring losses the results on QoQ basis have not shown substantial improvement on absolute terms after hiving off.

On a consolidated basis the company has reported a 4% dip in revenues YoY. EBITDA margins dipped by 200bps YoY mainly on account of certain one off expenses related to litigations, restructuring costs and other which the company does not expect in the forthcoming years. Adjusting for the one off expenses the management indicated that EBITDA margin improved by 150bps on YoY basis.

### Other Highlights

- The management expects the revenues to grow by 15% YoY and EBITDA margin to be in the range of 14% in FY09 which implies an improvement of 380 bps YoY. The management has maintained its guidance of managing 20% EBITDA margin by the end of FY12.
- The management has guided for a capex of USD550-600 mn for FY09, bulk of which will be spent on laying submarine cables.
- The management expects roll out WiMax will depend on the availability of spectrum in 3.3MHz or 2.5MHz bands. The government's policy on spectrum in these bands is still not very clear. This poses strong risks for the company on its WiMax roll out.
- The management has maintained its status quo with regards to de-merger or auction of surplus land, as the management is yet to receive any formal communication from the ministry.

### Valuation

- We had valued TCOM at Rs 530 on SOTP methodology with 46% of its value coming from the land bank, core business on DCF methodology at 120, TTSL stake at Rs105 and other investments on book value. The core business has performed below our expectations and uncertainty still looms large on the unlocking of value of land bank. Hence, we assign a discount of 20% to the land bank, value core business at 105 based on DCF methodology and we have maintained our estimates on TTSL stake and other investments, translating to our new target price of Rs 470, implying an upside of 11.6%. Hence, **Neutral**.

### Valuation summary

Y/E Mar, Rs mn	FY2006	FY2007	FY2008E	FY2009E	FY2010E
Net Sales	37,815	40,406	38,469	45,982	48,226
Growth, %	14.9	6.9	-4.8	19.5	4.9
Core EBITDA	8,748	9,017	6,859	8,891	10,040
EBIDTA margin, %	23.1	22.3	17.8	19.3	20.8
Net profit	5,351	4,621	3,230	3,468	3,902
EPS, Rs	18.8	16.2	11.3	12.2	13.7
EPS Growth, %	59.9	-13.6	-30.1	7.4	12.5
PER, x	22.4	26.0	37.1	34.6	30.7
EV/EBIDTA, x	13.5	13.4	18.1	14.5	12.9
EV/Net Sales, x	3.1	3.0	3.2	2.8	2.7
Price/Book Value, x	2.0	1.9	1.9	1.8	1.8
ROIC, %	10.3	8.5	5.2	5.3	5.7
ROE, %	9.1	7.4	5.1	5.3	5.8
Dividend Yield, %	1.0	1.0	1.0	1.0	1.0

Source: Company, MF Global India Research Estimates

Upgrade to Neutral /  
Rs 421 / Target Rs 470 (+12%)

#### Sector Rating

OW	N	UW

#### Stock Rating

B	OP	N	UP	S
> 10%	5% to 10%	5% to -5%	-5% to -10%	< -10%

This note should be read for

- Quarterly performance of TCOM
- Management views on the recent developments

Bloomberg code : TCOM IN  
Reuters code : TATA.BO  
www.tatacommunications.com

BSE Sensex : 15422  
NSE Nifty : 4582

#### Company data

O/S shares :	285mn
Market cap (Rs) :	120bn
Market cap (USD) :	2.8bn
52 - wk Hi/Lo (Rs) :	783 / 361
Avg. daily vol. (3mth) :	386,747
Face Value (Rs) :	10

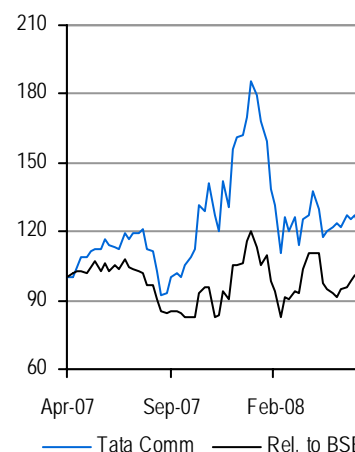
#### Share holding pattern, %

Promoters :	76.2
FII / NRI :	8.6
FI / MF :	12.0
Non Promoter Corp. Holdings :	1.0
Public & Others :	2.3

#### Price performance, %

	1mth	3mth	1yr
Abs	-17.7	-17.5	-6.6
Rel to BSE	-6.1	-21.4	-16.1

### Price vs. Sensex



Source: Bloomberg, MF Global India Research

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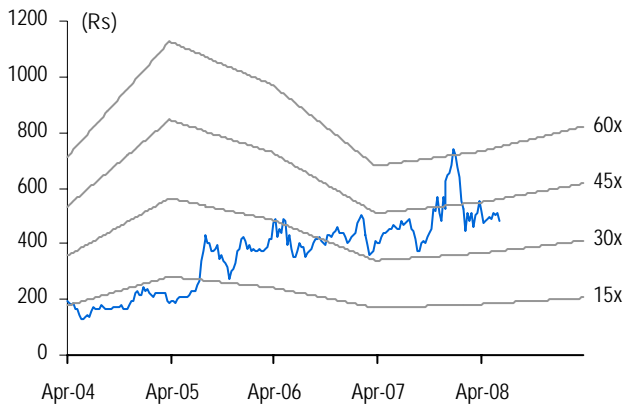
## Quarterly Results

(Rs mn)	Q4FY08	Q3FY08	QoQ, %	Q4FY07	YoY, %
Net sales	8,502	10,407	-18.3	10,842	-21.6
<i>Growth, %</i>	-21.6	-2.4		13.0	
Total income	8,502	10,407	-18.3	10,842	-21.6
Operating expenses	7,027.9	8,872.1	-20.8	8,443.5	-16.8
<b>EBITDA</b>	<b>1,474.5</b>	<b>1,535.3</b>	<b>-4.0</b>	<b>2,398.7</b>	<b>-38.5</b>
<i>Growth, %</i>	(38.5)	(39.6)		3.5	
<i>Margin, %</i>	17.3	14.8		22.1	
Depreciation	858.4	1,019.4	-15.8	1,047.6	-18.1
<b>EBIT</b>	<b>616.1</b>	<b>515.9</b>	<b>19.4</b>	<b>1,351.1</b>	<b>-54.4</b>
<i>Margin, %</i>	7.2	5.0		12.5	
Interest paid	105.3	(17.1)		16.1	554.0
Other Non-Operating Income	352.1	367.7	-4.2	864.4	-59.3
<b>Pre-tax profit</b>	<b>862.9</b>	<b>900.7</b>	<b>-4.2</b>	<b>2,199.4</b>	<b>-60.8</b>
Tax provided	263.8	42.2		769.6	
<b>MF Net Profit</b>	<b>595.5</b>	<b>598.9</b>	<b>-0.6</b>	<b>1,429.8</b>	<b>-58.3</b>
<b>Reported PAT</b>	<b>588.6</b>	<b>95.1</b>	<b>518.9</b>	<b>1,312.6</b>	<b>-55.2</b>
<i>Growth, %</i>	-55.2	-93.3		17.8	
<i>Margin, %</i>	6.9	0.9		12.1	
Extraordinary items: Gains/(Losses)	10.5	763.4	-98.6	117.2	-91.0
Adj Fully Dilluted EPS, Rs	2.1	2.1	0.6	5.0	-58.1

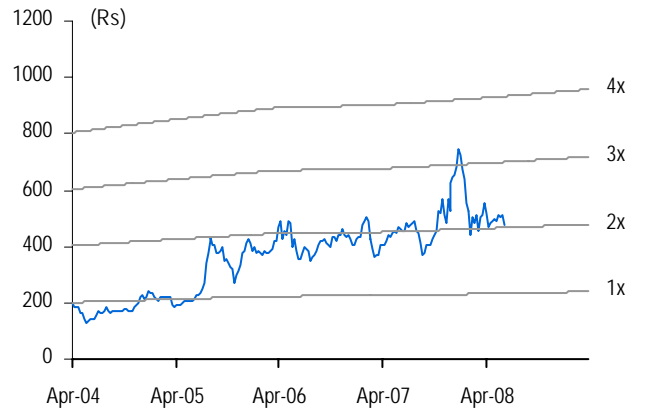
Source: Company, MF Global India Research

# ABSOLUTE ROLLING VALUATION BAND CHARTS

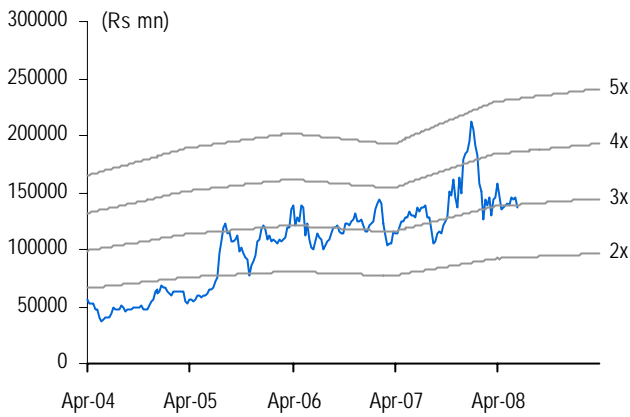
**PE band**



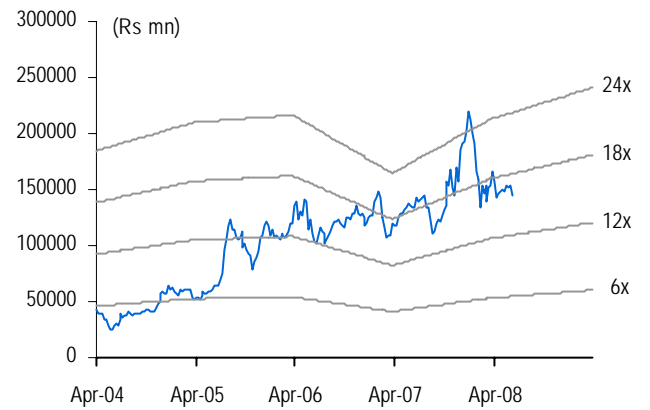
**PBV band**



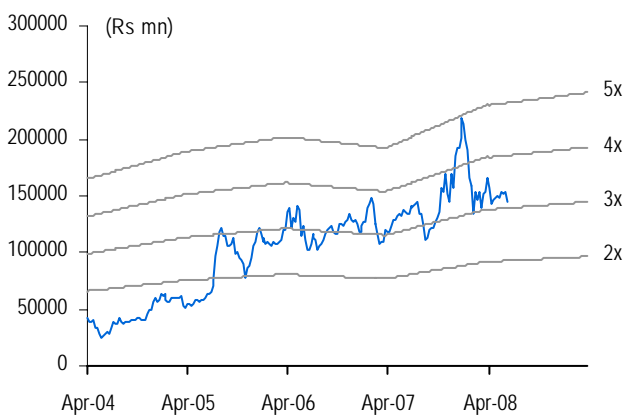
**MCap/Sales band**



**EV/EBIDTA band**



**EV/Sales band**



Source: MF Global India Research

## FINANCIALS

### Income Statement

Y/E Mar, Rs mn	FY2006	FY2007	FY2008	FY2009E	FY2010E
Net sales	37,815	40,406	38,469	45,982	48,226
<i>Growth, %</i>	15	7	-5	20	5
Operating expenses	-29,067	-31,389	-31,609	-37,091	-38,186
<b>EBITDA</b>	<b>8,748</b>	<b>9,017</b>	<b>6,859</b>	<b>8,891</b>	<b>10,040</b>
<i>Growth, %</i>	14	3	-24	30	13
<i>Margin, %</i>	23	22	18	19	21
Depreciation	-3,593	-3,916	-3,801	-5,333	-5,841
<b>EBIT</b>	<b>5,155</b>	<b>5,101</b>	<b>3,058</b>	<b>3,558</b>	<b>4,199</b>
<i>Growth, %</i>	-2	-1	-40	16	18
<i>Margin, %</i>	14	13	8	8	9
Net Interest and others	2,271	1,956	1,375	1,397	1,375
<b>Pre-tax profit</b>	<b>7,426</b>	<b>7,058</b>	<b>4,433</b>	<b>4,954</b>	<b>5,574</b>
Tax provided	-2,076	-2,437	-1,203	-1,486	-1,672
<b>Profit after tax</b>	<b>5,351</b>	<b>4,621</b>	<b>3,230</b>	<b>3,468</b>	<b>3,902</b>
Minority Interest	0	0	0	0	0
<b>MF Net profit</b>	<b>5,351</b>	<b>4,621</b>	<b>3,230</b>	<b>3,468</b>	<b>3,902</b>
<i>Growth, %</i>	60	-14	-30	7	13
Extraordinary items: Gains/(Losses)	0	0	0	0	0
Unadj. shares (m)	285	285	285	285	285
Wtd avg shares (m)	285	285	285	285	285

### Cash Flow

Y/E Mar, Rs mn	FY2006	FY2007	FY2008E	FY2009E	FY2010E
Pre-tax profit	7,426	7,058	4,433	4,954	5,574
Depreciation	3,593	3,916	3,801	5,333	5,841
Chg in working capital	660	-383	2,389	-685	-695
Total tax paid	-2,322	-2,471	-1,149	-1,433	-1,619
Other operating activities	0	0	0	0	0
<b>Cash flow from operating activities</b>	<b>9,358</b>	<b>8,120</b>	<b>9,474</b>	<b>8,170</b>	<b>9,101</b>
Capital expenditure	-6,555	-7,299	-9,181	-11,000	-8,000
Chg in investments	-12,988	-1,742	0	0	0
Chg in marketable securities	0	0	0	0	0
Other investing activities	0	0	0	0	0
<b>Cash flow from investing activities</b>	<b>-19,542</b>	<b>-9,041</b>	<b>-9,181</b>	<b>-11,000</b>	<b>-8,000</b>
Free cash flow	-10,184	-921	293	-2,830	1,101
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	983	994	1,500	4,050	500
Dividend (incl. tax)	-301	39	0	0	0
Other financing activities	0	0	0	0	0
<b>Cash flow from financing activities</b>	<b>681</b>	<b>1,033</b>	<b>1,500</b>	<b>4,050</b>	<b>500</b>
Net chg in cash	-9,503	112	1,793	1,220	1,601

## Balance Sheet

As at 31st Mar, Rs mn	FY2006	FY2007	FY200E	FY2009E	FY2010E
Cash & bank	2,569	1,043	-561	-1,030	-1,116
Marketable securities at cost	0	0	0	0	0
Debtors	7,376	9,552	9,485	11,338	11,891
Inventory	38	47	47	47	47
Loans & advances	13,151	11,478	9,617	11,496	12,056
Other current assets	983	1,048	962	1,150	1,206
Total current assets	24,116	23,167	19,550	23,001	24,084
Investments	24,993	26,736	26,736	26,736	26,736
Gross fixed assets	40,996	45,830	55,830	66,830	74,830
Less: Depreciation	-10,911	-14,288	-18,908	-24,241	-30,082
Add: Capital WIP	1,478	3,404	3,404	3,404	3,404
Net fixed assets	31,564	34,946	40,326	45,993	48,152
Other non-current assets	0	0	0	0	0
<b>Total assets</b>	<b>80,673</b>	<b>84,849</b>	<b>86,612</b>	<b>95,729</b>	<b>98,972</b>
Current liabilities					
Provisions					
Total current liabilities	17,411	17,545	17,921	21,155	21,630
Non-current liabilities	2,651	3,709	5,263	9,367	9,920
Total liabilities	20,061	21,254	23,184	30,522	31,550
Paid-up capital					
Reserves & surplus	57,762	60,745	61,397	63,177	65,391
Shareholders' equity	60,612	63,595	64,247	66,027	68,241
<b>Total equity &amp; liabilities</b>	<b>80,673</b>	<b>84,849</b>	<b>86,612</b>	<b>95,729</b>	<b>98,972</b>

## Per-share data

	FY2006	FY2007E	FY2008E	FY2009E	FY2010E
MAN EPS (INR)	18.8	16.2	11.3	12.2	13.7
<i>Growth, %</i>	<i>59.9</i>	<i>-13.6</i>	<i>-30.1</i>	<i>7.4</i>	<i>12.5</i>
Book NAV/share (INR)	212.7	223.1	225.4	231.7	239.4
FDEPS (INR)	18.8	16.2	11.3	12.2	13.7
CEPS (INR)	31.4	30.0	24.7	30.9	34.2
CFPS (INR)	32.8	28.5	33.2	28.7	31.9
DPS (INR)	4.5	4.5	4.5	4.5	4.5

## Financial structure

	FY2006	FY2007	FY2008E	FY2009E	FY2010E
Total debt/Equity (x)	1.6	3.1	5.4	11.4	11.8
Net debt/Equity (x)	-2.6	1.5	6.3	13.0	13.4

### Profitability, Productivity, Liquidity and Valuation Ratios

	FY2006	FY2007	FY2008E	FY2009E	FY2010E
Return on assets (%)	6.8	5.6	3.9	4.0	4.3
Return on equity (%)	9.1	7.4	5.1	5.3	5.8
Return on Invested capital (%)	10.3	8.5	5.2	5.3	5.7
RoIC/Cost of capital (x)	10.3	8.5	5.2	5.3	5.7
RoIC - Cost of capital (%)	2.7	0.5	-2.8	-2.9	-2.5
Return on capital employed (%)	8.8	7.1	4.9	5.1	5.5
Cost of capital (%)	7.6	8.0	8.0	8.2	8.2
RoCE - Cost of capital (%)	1.2	-0.9	-3.1	-3.1	-2.7
Asset turnover (x)	1.0	1.0	0.9	1.0	0.9
Sales/Total assets (x)	0.5	0.5	0.4	0.5	0.5
Sales/Net FA (x)	1.3	1.2	1.0	1.1	1.0
Working capital/Sales (x)	0.1	0.1	0.1	0.1	0.1
Fixed capital/Sales (x)	0.0	0.0	0.0	0.0	0.0
Receivable days	71.2	86.3	90.0	90.0	90.0
Inventory days	0.4	0.4	0.4	0.4	0.4
Payable days	157.7	140.2	148.1	151.8	149.7
Current ratio (x)	1.4	1.3	1.1	1.1	1.1
Quick ratio (x)	1.4	1.3	1.1	1.1	1.1
Interest cover (x)	n/a	196.2	235.2	24.1	14.8
Dividend cover (x)				3.4	3.1
PER (x)	22.4	26.0	37.1	34.6	30.7
PEG (x) - y-o-y growth	0.4	-1.9	-1.2	4.7	2.5
Price/Book (x)	2.0	1.9	1.9	1.8	1.8
Yield (%)	0.0	0.0	0.0	0.0	0.0
EV/Net sales (x)	3.1	3.0	3.2	2.8	2.7
EV/EBITDA (x)	13.5	13.4	18.1	14.5	12.9
EV/EBIT (x)	23.0	23.7	40.6	36.1	30.8
EV/NOPLAT (x)	31.9	36.2	55.7	51.6	43.9
EV/CE	1.9	1.8	1.8	1.7	1.7
EV/IC (x)	3.3	3.1	2.9	2.7	2.5

Source: Company, MF Global India Research Estimates

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Subramanyam Ravisankar	Equity Sales	91-22-6667 9991	s.ravisankar@mfglobal.in
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Chetan Savla	Sales Trader	91-22-6667 9749	chetan.savla@mfglobal.in
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