

COMPANY PROFILE

Tata Communications Limited

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COMPANY OVERVIEW

Tata Communications Limited (Tata Communications or "the company") is a provider of communications solutions to enterprise customers and service providers worldwide. The company offers a range of services, including transmission, internet protocol (IP), converged voice, mobility, managed network connectivity, hosted data center, communications solutions and business transformation services to global and Indian enterprises & service providers as well as broadband and content services to Indian consumers. The company primarily operates in India, the US, the UK, and the Netherlands. It is headquartered in Mumbai, India and employed 8,517 people as of March 2015.

The company recorded revenues of INR182,644.2 million (\$2,995.4 million) during the financial year ended March 2015 (FY2015), an increase of 2.3% over FY2014. The operating profit of the company was INR8,214.4 million (\$134.7 million) in FY2015, an increase of 14.9% over FY2014. The net profit of the company was INR12.9 million (\$0.2 million) in FY2015, a decrease of 98.7% compared to FY2014.

*Operating profit was arrived after deducting network and transmission expenses, employee benefit expenses, operating and other expenses and depreciation and amortization expenses from the total revenues.

KEY FACTS

Head Office	Tata Communications Limited C-21 and C-36 G Block Bandra Kurla Complex Mumbai 400098 IND
Phone	91 22 66591968
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Web Address	http://www.tatacommunications.com
Revenue / turnover (INR Mn)	182,644.2
Revenue (USD Mn)	2,995.4
Financial Year End	March

Tata Communications Limited

Company Overview



Employees	8,517
Bombay Stock Exchange (BSE) Ticker	500483

SWOT ANALYSIS

Tata Communications Limited (Tata Communications or "the company") is a provider of communications solutions to enterprise customers and service providers worldwide. The company's robust network infrastructure enables it to cater to the dynamic needs of the customers and allows it to effectively cater to the growing bandwidth needs thereby enhancing its competitive position. However, growing competition is expected to shrink the company's addressable market and impact its business adversely.

<p>Strength</p> <p>Robust network infrastructure Leadership position in several markets Wide geographic presence</p>	<p>Weakness</p> <p>Significant debt</p>
<p>Opportunity</p> <p>Strong outlook for cloud based solutions to increase demand Poised to benefit from growing video conferencing and telepresence markets Growing traction for HD voice services to provide significant opportunities</p>	<p>Threat</p> <p>Growing competition could shrink the company's addressable market Unfavorable regulations could impact business operations</p>

Strength

Robust network infrastructure

Tata Communications has a robust network infrastructure. The company owns and operates the world's largest wholly-owned submarine fiber network consisting of more than 500,000 kilometers of subsea fiber, and 210,000 kilometers of terrestrial fiber. Its network includes the only global fiber ring and the only fiber network that connects the Middle East. As of FY2015, over 24% of the world's internet routes travel over Tata Communications' network, and Tata Communications is the only Tier-1 provider that is in the top five by routes in five continents. According to the company, its global subsea and terrestrial network covers 700,000 kilometers, more than 17 times around the world. It features wholly-owned fiber ring around the world; the only Ethernet ring serving the Middle East; more than 400 Points of Presence on five continents; and operate more than one million square feet of data center space in 44 locations worldwide. Also, the company has invested around \$1.2 billion in its global subsea fiber network.

The company also continued to invest substantially in the network infrastructure. For instance in January 2015, Tata Communications made an investment for purchase of significant capacity in Seaborn Networks' cable system between Brazil and the US. The company's robust network infrastructure enables

it to cater to the dynamic needs of the customers and allows it to effectively cater to the growing bandwidth needs thereby enhancing its competitive position.

Leadership position in several markets

The company has a leadership position in several markets. Tata Communications has leading market shares in voice and data transmission in India. In the international long distance (ILD) voice business, the company commands approximately 21% market share. At the end of FY2015, the Indian ILD voice market had nine major operators, an estimated inbound market size of 91.5 billion minutes and an estimated outbound market size of 4.6 billion minutes. The company's market share was 27% of the addressable inbound traffic and 18% for ILD outbound traffic. The country's estimated national long distance (NLD) voice market size was 387 billion minutes with more than 10 major operators. The estimated NLD addressable market size was 15 billion minutes, of which the company's market share was 30%. At the end of FY2015, the company had a 20% market share of the Indian enterprise data market and a 28.5% market share of the Indian data center market. Tata Communications also has leadership positions in other emerging markets including leadership in global international voice. The company has strategically invested in operators in South Africa (Neotel), Sri Lanka (Tata Communications Lanka), and Nepal (United Telecom) and most of these operators have leading positions in their respective regions.

In addition, the company is the major provider in international access voice services (toll-free, home country direct (HCD) and local number services) as well as a leading provider for other value-added services worldwide, such as IPX+ connectivity, voice, messaging, roaming and signaling. Further, the company is the second largest network operator in South Africa. Tata Communications' network handle more than 24% of the global internet traffic, totaling more than 7,300 petabytes a month. The company's leadership position in various markets provides a competitive advantage over its peers as it is exposed to a large customer base and enjoys the advantages associated with scale.

Wide geographic presence

The company has wide global presence. Over the years, Tata Communications expanded its presence across various geographies and established itself as a global player. The company serves clients in India, the US, the UK, Canada and South Africa, among others. In addition, it operates a robust network infrastructure that connects multiple geographies around the world. Tata Communications activities in Africa are based in South Africa, Zambia, Malawi, Tanzania, Uganda, Ghana, Mozambique, Zimbabwe, Nigeria and Kenya. In Asia, the company serves customers in India, Nepal, China, Thailand, Singapore, and Malaysia. Further, the company serves customers in the UAE. Tata Communications' global operations diversify its business risks and enables the company to exploit growth opportunities across various regions.

Weakness

Significant debt

Tata Communications has a substantial debt. The company's total borrowings was INR76,067.8 million (\$1,247.5 million) in FY2015. Significant debt level and related debt service obligations could negatively impact its operations. Furthermore, as the company dedicates significant cash flow from operations for the payment of principal and interest on the debt, this would reduce the funds available for other purposes such as acquisitions or capital investment. Hence, if the company fails to check the high level of debt on its books it could experience adverse impact on its source of liquidity as well as on its overall financial flexibility. Further, high debt could have an adverse effect on Tata Communications' liquidity position and may hamper its credibility in the market.

Opportunity

Strong outlook for cloud based solutions to increase demand

The worldwide demand for cloud computing services is expected to record strong growth in coming years. Cloud computing is a computing infrastructure model, which enables delivery of software-as-a-service (SaaS). This reduces the upfront royalty or licensing payments, investment in hardware and other operating expenses. Several organizations around the world have been realizing the potential benefits of cloud and are adopting these technologies to gain business advantage. According to industry estimates, the global public cloud services' spending is forecast to grow at a compound annual growth rate (CAGR) of 19.4% during 2015-19 periods and reach more than \$141 billion in 2019 from \$70 billion in 2015. In 2019, public IT cloud services will account for more than half of worldwide software, server, and storage spending growth. The growth in public cloud services spending is primarily driven by the emergence of virtual private cloud (VPC) offerings.

The company will benefit from the positive outlook for cloud computing market. Tata Communications offers IZO, an enterprise WAN and cloud enablement platform, which combines the public internet uniquely engineered for predictable routing, together with enterprise private and public cloud connectivity and interconnected data centers to deliver a total cloud solution. The platform brings together Tata Communications' global Tier-1 IP network, Global MPLS and Ethernet Network spanning across more than 190 countries and an ecosystem consisting of over 20 network providers covering 34 countries. In addition, the company offers colocation and managed data storage services. Furthermore, the company increased its focus on cloud solutions in the recent times. For instance, Tata Communications became a Google Cloud Platform Authorized Services Partner in 2014. Under the terms of this agreement, Google's new service, Google Cloud Interconnect will connect with the company's IZO Public, a cloud enablement service that provides a dedicated and deterministic route, for businesses, into Google's cloud.

The company's increased focus on cloud offering and strong outlook for the end market will provide it an opportunity to expand its market share and increase its revenues in the coming years.

Poised to benefit from growing video conferencing and telepresence markets

Global business spending on video conferencing and telepresence solutions is expected to grow in the coming years. According to industry estimates, the global market for video conferencing equipment and services was valued at \$3.7 billion in 2014 and is forecast to expand at a CAGR of 8.5% during 2015-23 periods to reach a value of \$7.8 billion. With growing adoption of immersive telepresence systems and video conferencing infrastructure, a substantial amount of revenue is generated in the on premise video conferencing solutions segment. Moreover, high-priced end-points, including high definition (HD) displays, cameras, microphones, and dedicated video conferencing networks, have contributed to a huge proportion of the overall video conferencing market's revenue.

Tata Communications operates one of the largest global public telepresence room network across five continents. In addition, the company's telepresence service is based on the Cisco platform and its network of telepresence rooms are connected to the Cisco Public TelePresence Suites. With such strong offerings, the company is well positioned to benefit from the growing video conferencing and telepresence markets.

Growing traction for HD voice services to provide significant opportunities

Mobile high definition (HD) voice services have been getting more mainstream support from operators around the world in the recent times. HD voice refers to the next-generation of voice quality for telephony audio resulting in HD voice quality compared to standard digital telephony. According to industry estimates, global HD voice market is expected to grow from \$816 million in 2014 to \$2,300 million in 2019, representing a CAGR of 23%. North America is expected to be the largest market in terms of market size, while Europe and Asia Pacific are expected to experience an increase in market traction during the forecasted period.

Tata Communications will benefit from this emerging opportunity. The company offers international HD voice termination services which enables mobile network operators to route international HD calls via end-to-end internet protocol (IP), without transcoding, ensuring that HD customers calling HD-compatible destinations internationally will receive the full HD experience. In addition, the company serves several operators which are HD-ready. Growing traction in the end market and the company's increased focus will provide significant opportunities in future.

Threat

Growing competition could shrink the company's addressable market

The company operates in growing competitive telecommunications sector. In particular, the competition in the Indian telecom market, Tata Communications' primary market, has increased significantly in recent times. The existing and new operators are expanding their operations and services for ILD and NLD services. As result of this competition, the ILD business has resorted to steep rate cuts which impacted

the company's traffic volumes, revenues and market share. Also, the company was a monopoly in terms of providing ILD services for Bharat Sanchar Nigam Limited (BSNL) and Mahanagar Telephone Nigam Limited (MTNL) until 2002. However, in 2004 the market opened for other access providers (BSNL, MTNL, Bharti, Vodafone and Reliance) and these companies started competing heavily with Tata Communications. Further, access providers such as BSNL have started offering their own ILD services which might compel them to refrain from utilizing Tata Communications' ILD services.

In addition, the company faced several new competitors in its ILD business, particularly since the Gol liberalized the licensing conditions and reduced the entry fees for ILD and NLD services in 2006. Furthermore, all international calls that the company carries that either originate or terminate in India must pass through access telephone networks, which it does not own or control. In addition, customer choice regime that was expected to be completed by 2003 was not implemented due to technical and other reasons. As a result of a recall of the Carrier Access Code (CAC) and Carrier Pre-selection (CPS) implementation in India by the TRAI, many of the company's end customers do not have the right to choose to use its services, even if the company offers the most competitive rates and best quality. However, the ILD service providers have been allowed to access the subscribers directly only for provision of ILD voice service through calling cards. As a result, the company's international outgoing telephony services will continue to depend, to a significant degree, on companies such as BSNL, MTNL, Bharti Airtel, Vodafone and Reliance Communications. Its global competitors include Verizon Communications, BT Group, France Telecom and AT&T.

Growing competition is expected to shrink the company's addressable market and impact its business adversely.

Unfavorable regulations could impact business operations

India (Gol). Tata Communications must obtain telecommunications licenses from the Department of Telecommunications (DoT) to provide certain of its services. The DoT has the rights to modify the terms and conditions of the company's licenses at any time in the interest of the general public or for streamlining the telecommunication sector. A change in certain significant terms of any of the licenses, such as their duration, the range of services permitted or the scope of exclusivity, if any, may have a material adverse effect on the company's business and prospects. The DoT is also empowered to revoke a license granted by it for any breach of the license conditions.

In 2011, the DoT amended the license conditions to address security related concerns and making it the company's responsibility to maintain the security of its networks. It also required the company to take certain security measures prescribed in the revised license conditions. If the company breaches the newly amended conditions, it could be liable for a maximum penalty of INR500 million (\$8.3 million), and could be subject to criminal charges. Moreover, Tata Communications must also annually obtain various radio spectrum operating licenses from the Wireless Planning and Co-ordination Wing of the Ministry of

Communications. The non-renewal or modification of these licenses, or punitive action by the GoI for continuing these services without renewal of the licenses, will adversely impact the company. In addition, approval of the Telecom Regulatory Authority of India (TRAI) is required for all of the company's new pricing initiatives and product launches.

Any unfavorable changes to the existing regulations may negatively impact the company's business operations.

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