

Tata Communications

BSE SENSEX 76,607 S&P CNX 23,323

CMP: INR 1,897 TP: INR 1,950 (+3%) Neutral

TATA COMMUNICATIONS

Bloomberg	TCOM IN
Equity Shares (m)	285
M.Cap.(INRb)/(USDb)	540.6 / 6.5
52-Week Range (INR)	2085 / 1447
1, 6, 12 Rel. Per (%)	3/-2/3
12M Avg Val (INR M)	1721
Free float (%)	41.1

Financials & Valuations (INR b)

INR b	FY24	FY25E	FY26E
Net Sales	209.7	242.9	273.0
EBITDA	42.3	49.1	61.1
Adj. PAT	12.0	13.7	23.8
EBITDA Margin (%)	20.2	20.2	22.4
Adj. EPS (INR)	42.3	48.1	83.5
EPS Gr. (%)	-30.0	13.8	73.6
BV/Sh. (INR)	62.7	99.2	171.0

Ratios

Net D:E	4.9	2.3	0.5
RoE (%)	72.9	59.4	61.8
RoCE (%)	14.4	14.6	22.0
Payout (%)	39.5	20.8	12.0

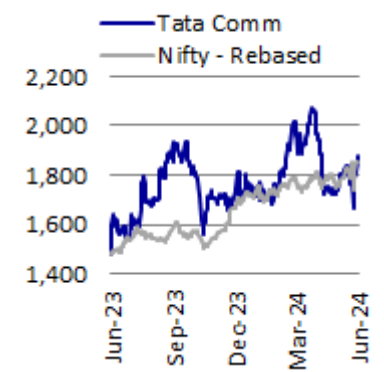
Valuations

EV/EBITDA (x)	14.8	12.3	9.3
P/E (x)	44.7	39.3	22.6
P/BV (x)	30.2	19.1	11.1
Div. Yield (%)	0.9	0.5	0.5
FCF Yield (%)	1.8	5.2	7.3

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	58.9	58.9	58.9
DII	13.1	12.1	14.0
FII	18.2	19.2	17.0
Others	9.8	9.8	10.1

Stock Performance (1-year)



Focusing on digital platform growth

We attended TCOM's analyst meet, where management presented its GTM 'product-to-platform' strategy and discussed about the expanding growth in new products/portfolios and geographies. Below are the key highlights:

- Management reiterated its ambition to double data revenue by FY27 to INR280b (at 18% revenue CAGR), driven by the DPS segment that is likely to contribute more than 60% of data revenue.
- This will require higher capex and opex, totaling ~USD300m in FY25E, and is projected to increase with a capex-to-sales range of 10-11%.
- Further, TCOM aspires to maintain its EBITDA margin at 23-25% by FY27E, but management expects that the near-term margins may be hit by harmonization and restructuring following the acquisition.
- Management believes that the balance sheet discipline will be maintained with >25% ROCE and <2x net debt to EBITDA by FY27E.
- We have factored in a revenue/EBITDA CAGR of 14%/20% over FY24-26E. Margin improvement and data revenue growth should be the key catalysts for further valuation re-rating. Reiterate Neutral.

Data Revenue- key forte

Management reiterated its aspiration to double data revenue by FY27, implying an 18% CAGR (vs. 10% CAGR in the last four years). This growth will be fueled by the digital portfolio services, which currently account for 40% of the data revenue and are projected to increase to 60% (implying 34% CAGR), while the core services offering (commoditized connectivity solutions) is likely to post a 3% CAGR. The growth could be due to a combination of organic and inorganic opportunities, as well as an increase in the number of million-dollar club customers. The company is well placed to reap benefits from its recent investments in international markets and even in India.

- Cloud and security services are expected to benefit from an increasing Total Addressable Market (TAM), which is likely to post 16% CAGR over FY25-28E,
- Interactive and IoT fabric are expected to clock 14% and 10% CAGR over FY25-28E, respectively,
- Media: The focus remains on cloud and leadership in transmission, but the capability of Switch (a new division of video production) will be keenly monitored.

Strengthening capabilities to propel growth

The medium-term structural drivers for TCOM include leadership in the Indian market, expansion in international markets, increased customer relevance through portfolio expansion (in media), and new product rollouts such as AI cloud, multi-cloud connectivity, and CloudLyte. As a B2B specialist, TCOM boasts a strong network by owning a subsea network with extensive coverage. The company provides connectivity in over 190 countries and directly connects 35% of the internet routes. TCOM plans to leverage its digital platform capabilities and believes it has the right to win.

Investing in growth

To drive accelerated growth, TCOM believes it will need to invest in growth. It has raised its capex guidance to USD300m from ~USD250m in FY24 (likely to maintain the capex-to-sales ratio at 10-11%). Further, TCOM will continue to intensify its opex. Therefore, management maintains its 23-25% EBITDA margin guidance despite aiming to increase scale. The core EBITDAM is operating at an optimum level, while the acquisitions have dragged down margins for some time. However, margins are expected to improve soon. Management expects that FY25 EBITDAM could be higher than FY24. The company expects gradual improvement, with the first improvement expected in leverage (the net debt-to-EBITDA ratio to fall below 2.0x by FY27), followed by improvements in ROCE (25%+ by FY27), and then EBITDA margins (23-25% by FY27). However, ROCE may experience further dilution for the next couple of quarters before gradually improving.

Valuation and view

- We estimate a 14%/20% CAGR in revenue/EBITDA over FY24-26.
- The company has set an ambitious revenue growth target of INR280b by FY27 in the digital portfolio, which will be supported by both organic and inorganic initiatives.
- Net debt jumped 60% YoY to INR90b due to inorganic acquisitions. However, TCOM's strong FCF of ~INR20b annually would allow it to explore growth opportunities, while maintaining a healthy RoCE of over 25%.
- At a P/E of 23x and EV/EBITDA of 9.3x on FY26E, we see limited upside potential for the stock. Margin improvement and data revenue growth should be the key catalysts for further valuation re-rating. **Reiterate Neutral with a TP of INR1,950.** We assign 10x/3x EBITDA to its Data/Voice businesses.

Exhibit 1: Valuation based on FY26E EBITDA

Particulars	FY26E
EBITDA (INR m)	61,096
multiple (x)	9.5
Voice EBITDA (INR m)	1,368
multiple (x)	3
Data EBITDA (INR m)	59,728
multiple (x)	10
Enterprise Value (INR m)	5,82,273
Net Debt (INR m)	26,428
Equity value (INR m)	5,55,845
No of shares (m)	285
Equity value/share (INR)	1,950
% Upside(Downside)	3%

Source: MOFSL, Company

Investor meet highlights

Digital platform to drive the growth

Management reiterated its aspiration to double data revenue by FY27, implying an 18% CAGR (vs. 10% CAGR in the last four years).

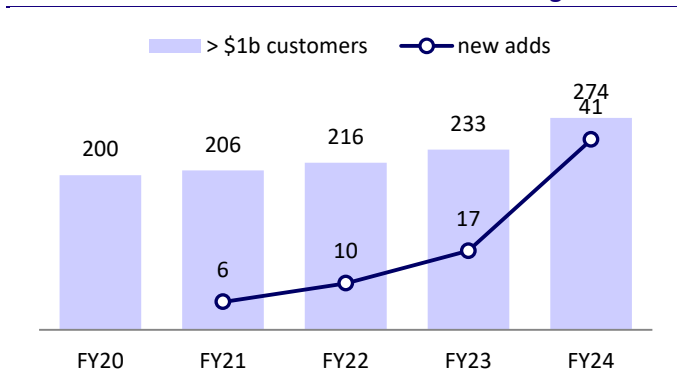
- This growth will be fueled by the digital portfolio services, which currently account for 40% of the data revenue and are projected to increase to 60% (implying 34% CAGR), while the core services offering (commoditized connectivity solutions) is likely to post a 3% CAGR.
- The growth could be due to a combination of organic and inorganic opportunities, as well as an increase in the number of million-dollar club customers.
 - Million-dollar customers increased 18% YoY to 274 in FY24 (from 233).
 - TCOM added 18 customers in the 5m+ dollar club.
 - In FY23, 35% of its revenue was contributed by the million-dollar account.
- The company is well placed to reap benefits from its recent investments in international markets and even in India.
 - **Overall enterprise data revenue grew 30% YoY in FY24, in which India business rose 13% YoY and international business grew 47% YoY (though having a minor share).**
 - TCOM is a market leader in BFSI, ITeS, and Retail. Further, government projects will support its growth. **Cloud services are new in India and are growing rapidly.**
 - The company has a minor presence in international markets and hence, the growth rate could be more. **In FY24, growth originated from inorganic initiatives.**
 - **TCOM aspires to reach a revenue of USD1b from the US in the medium term.**
- Cloud and security services are expected to benefit from an increasing Total Addressable Market (TAM), which is likely to post 16% CAGR over FY25-28E,
- Interactive and IoT fabric are expected to clock 14% and 10% CAGR over FY25-28E, respectively.

Exhibit 2: TAM opportunity

USD b	FY25	FY28	FY25-28
Network fabric	186	205	3%
Cloud and security fabric	39	61	16%
Interaction fabric	59	87	14%
IoT fabric	73	98	10%

Source: MOFSL, Company

Exhibit 3: Million-dollar club customers increasing



Source: MOFSL, Company

Media

Key trends

- Increasing volume of content is getting distributed
- Optimizing the cost pressure issues by acquiring sports telecast rights
 - World Athletics is the world's third-largest sports event. TCOM's expertise in optimizing costs by reducing the number of vendors, modernizing the video environment, and utilizing cloud technology led to a 30% cost reduction. The company has a five-year contract.
- Need to personalize content experiences for fans across demographics
 - The focus remains on cloud and leadership in transmission, but the capability of Switch (a new division of video production) will be keenly monitored.
 - CloudLyte – delivered 4k video of ICC WC in the US
- **TAM**
 - USD12b – video transmission, video production
 - USD10b – media hub, media cloud.

New opportunities:

- Opportunity to position a more converged and intelligent platform that orchestrates across multiple channels
- Focus on both channel expansion and new opportunities; expects refinancing to be done soon.
- New product launches are AI cloud, multi-cloud connectivity, and CloudLyte.
- **Setup AI CoE** – Trained 100 employees and funded 40+ projects. Company wants to go big in AI cloud but in a measured way.

Opportunities in India:

Government spending is increasing on cloud, security, and citizen services; retail players are aggressively adding stores which require IT and simplification; demand for integrated solutions is increasing.

- DP&S share increased 50% in five years
- Large deal counts increased 2x in two years
- 22% increase in average deal sizes in two years
- Major drivers of growth -> CIS, Cloud & Next Gen Connectivity

International market opportunities:

In order to derive high RoI, international clients prefer TCOM since it helps in cost-effective solutions.

- DP&S share increased by 90% in five years
- 2x growth in new logo acquisitions in two years
- 81% increase in funnel in two years with DP&S funnel growing at 104%
- Large deal counts increased >2x in two years

Levers for EBITDA improvement

- TCOM has multiple levers to improve EBITDA: a) expects to realize operating leverage from organic investments and synergies from acquisitions, leading to improved profitability; b) strategic review of subsidiaries and the ongoing processes, which allows them to shut down a loss-making portfolio.

- Seasonality, harmonization of accounting policies, organic investment in people and platform, and one-off in legal expenses led to a decline in EBITDA margin in 4QFY24.
- Harmonization and restructuring of acquisition may happen in the next few quarters. FY25 EBITDAM could be higher than FY24. The core EBITDAM is operating at an optimum level, while the acquisitions have dragged down margins for some time. However, margins are expected to improve soon.

Monetization/ value-unlocking investments

- TCOM can monetize its inorganic investments such as: a) investments in data centers (26% stake in STT data centers),
- value unlocking from land bank of ~750 acres (post-clearing title deeds and other required documents) and
- Maximizing the utilization of existing net operating losses by relocating a subsidiary from Bermuda to Switzerland. This strategic tax planning aims to optimize the utilization of these losses and reduce tax obligations.

Financials and Valuations

Consolidated - Income Statement								(INRb)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	165.2	170.7	171.0	167.2	178.4	209.7	242.9	273.0
Change (%)	-1.5	3.3	0.2	-2.2	6.7	17.5	15.8	12.4
Network Cost	71.6	67.8	63.3	62.0	63.8	80.9	96.3	105.0
Staff Cost	29.6	30.4	30.5	30.4	36.0	44.5	48.8	53.0
Operating & Other Expense	36.6	39.6	34.6	32.6	35.5	42.0	48.6	54.0
Total Expenditure	137.8	137.8	128.4	125.0	135.2	167.4	193.8	211.9
% of Sales	83.4	80.7	75.1	74.7	75.8	79.8	79.8	77.6
EBITDA	27.4	32.9	42.6	42.3	43.2	42.3	49.1	61.1
Margin (%)	16.6	19.3	24.9	25.3	24.2	20.2	20.2	22.4
Depreciation	20.7	23.6	23.1	22.0	22.6	24.7	27.1	28.5
EBIT	6.8	9.3	19.5	20.2	20.6	17.6	22.0	32.6
Int. and Finance Charges	4.0	4.7	4.2	3.6	4.3	6.4	7.0	5.6
Other Income	0.6	0.7	1.6	3.3	3.6	2.8	3.1	4.6
PBT bef. EO Exp.	3.4	5.3	16.8	19.9	19.9	14.0	18.1	31.6
EO Items	0.0	-3.9	-0.7	0.1	0.8	-2.4	0.0	0.0
PBT after EO Exp.	3.4	1.4	16.1	20.0	20.6	11.6	18.1	31.6
Total Tax	2.7	2.3	3.5	5.2	3.0	2.1	4.5	8.0
Tax Rate (%)	80	162	22	26	14	18	25	25
Minority Interest	1.5	0.0	0.0	0.0	-0.3	-0.2	-0.2	-0.2
Reported PAT	-0.8	-0.9	12.5	14.8	18.0	9.7	13.7	23.8
Adjusted PAT	-0.6	3.0	13.3	14.8	17.2	12.0	13.7	23.8
Change (%)	-288.6	-582.2	340.2	11.5	16.4	-30.0	13.8	73.6
Margin (%)	-0.4	1.8	7.8	8.8	9.6	5.7	5.6	8.7

Consolidated - Balance Sheet								(INRb)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Total Reserves	-4.7	-15.6	-1.7	6.4	12.3	15.0	25.4	45.9
Net Worth	-1.8	-12.8	1.2	9.3	15.2	17.9	28.3	48.7
Minority Interest	0.1	0.0	0.3	0.3	0.3	0.0	0.0	0.0
Total Loans	106.8	81.6	98.0	79.0	75.3	101.2	86.2	66.2
Lease liabilities	0.0	39.9	14.4	12.2	10.4	11.5	11.5	11.5
Deferred Tax Liabilities	-0.9	-2.5	-2.8	-1.9	-3.2	-5.2	-5.2	-5.2
Capital Employed	104.2	106.3	111.0	98.9	98.0	125.3	120.7	121.2
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Block	116.6	129.1	151.3	170.4	190.3	226.9	247.4	267.9
Less: Accum. Deprn.	5.0	28.6	51.7	73.8	96.4	121.1	148.2	176.7
Net Fixed Assets	111.6	100.5	99.6	96.6	93.9	105.8	99.2	91.1
Right to use assets	0.0	16.0	13.3	11.5	10.0	11.0	11.0	11.0
Goodwill on Consolidation	0.9	0.9	1.1	1.1	1.2	17.8	17.8	17.8
Capital WIP	4.1	4.5	6.1	8.7	11.5	13.3	13.3	13.3
Total Investments	14.9	15.6	22.3	15.7	19.5	16.1	16.1	16.1
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Curr. Assets, Loans&Adv.	67.2	72.0	67.8	61.0	66.0	74.4	87.1	111.0
Inventory	0.8	0.7	0.3	0.4	1.6	0.8	1.4	1.6
Account Receivables	29.7	32.3	26.1	25.8	27.4	37.6	36.6	41.1
Cash and Bank Balance	8.5	9.1	9.3	7.4	10.6	8.4	17.8	35.1
Loans and Advances	28.2	29.9	32.1	27.3	26.4	27.6	31.2	33.1
Curr. Liability & Prov.	94.4	103.2	99.3	95.6	103.9	113.1	123.8	139.1
Account Payables	36.9	38.4	32.4	30.1	32.8	36.6	39.9	44.9
Other Current Liabilities	51.5	57.3	60.0	57.9	62.7	67.3	73.2	82.3
Provisions	6.0	7.5	6.9	7.7	8.5	9.3	10.6	12.0
Net Current Assets	-27.2	-31.2	-31.5	-34.6	-37.9	-38.7	-36.7	-28.1
Appl. of Funds	104.2	106.3	111.0	98.9	98.0	125.3	120.7	121.2

Financials and Valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	-2.2	10.6	46.5	51.8	60.3	42.3	48.1	83.5
Cash EPS	70.4	93.3	127.7	129.2	139.7	128.9	143.2	183.7
BV/Share	-6.4	-44.9	4.1	32.5	53.3	62.7	99.2	171.0
DPS	4.5	4.0	14.0	20.7	21.0	16.7	10.0	10.0
Payout (%)	-205.4	37.9	30.1	39.9	34.8	39.5	20.8	12.0
Valuation (x)								
P/E	-863.1	179.0	40.7	36.5	31.3	44.7	39.3	22.6
Cash P/E	26.9	20.3	14.8	14.6	13.5	14.7	13.2	10.3
P/BV	-296.4	-42.2	466.8	58.1	35.5	30.2	19.1	11.1
EV/Sales	3.8	3.7	3.6	3.6	3.3	3.0	2.5	2.1
EV/EBITDA	22.7	19.3	14.6	14.4	13.8	14.8	12.3	9.3
Dividend Yield (%)	0.2	0.2	0.7	1.1	1.1	0.9	0.5	0.5
FCF per share	-27.1	36.5	64.5	89.7	103.2	39.0	110.3	145.2
Return Ratios (%)								
RoE	-39.3	-41.2	-227.9	283.3	140.6	72.9	59.4	61.8
RoCE	1.5	-5.8	14.8	16.3	20.6	14.4	14.6	22.0
RoIC	1.9	-7.5	20.2	21.3	28.5	20.0	20.4	37.4
Working Capital Ratios								
Fixed Asset Turnover (x)	1.4	1.3	1.1	1.0	0.9	0.9	1.0	1.0
Asset Turnover (x)	1.6	1.6	1.5	1.7	1.8	1.7	2.0	2.3
Inventory (Days)	2	2	1	1	3	1	2	2
Debtor (Days)	66	69	56	56	56	65	55	55
Creditor (Days)	81	82	69	66	67	64	60	60
Leverage Ratio (x)								
Current Ratio	0.7	0.7	0.7	0.6	0.6	0.7	0.7	0.8
Interest Cover Ratio	1.7	2.0	4.6	5.6	4.8	2.7	3.1	5.8
Net Debt/Equity	-45.9	-7.6	69.9	7.3	3.7	4.9	2.3	0.5

Consolidated - Cash Flow Statement

(INRb)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	3.4	-0.8	12.5	20.0	20.6	11.6	18.1	31.6
Depreciation	20.7	23.6	23.1	22.0	22.6	24.7	27.1	28.5
Interest & Finance Charges	4.0	4.7	4.2	3.6	4.3	8.3	7.0	5.6
Direct Taxes Paid	-2.7	-2.8	-5.0	0.9	-2.0	-2.2	-4.5	-8.0
(Inc)/Dec in WC	-3.3	-2.5	-5.5	-4.7	-0.6	-11.0	7.4	8.7
CF from Operations	22.0	22.1	29.4	41.8	45.0	31.4	55.0	66.5
Others	-6.6	3.1	2.4	0.2	-1.1	0.5	-3.1	-4.6
CF from Operating incl EO	15.4	25.2	31.8	42.0	43.8	31.8	51.9	61.9
(Inc)/Dec in FA	-23.2	-14.9	-13.4	-16.5	-14.4	-20.7	-20.5	-20.5
Free Cash Flow	-7.7	10.4	18.4	25.6	29.4	11.1	31.4	41.4
(Pur)/Sale of Investments	-2.4	-0.5	-6.9	9.4	-3.2	-3.6	0.0	0.0
Others	-0.3	0.0	0.3	-1.9	-0.8	-2.1	3.1	4.6
CF from Investments	-25.8	-15.3	-20.0	-8.9	-18.4	-26.4	-17.4	-15.9
Issue of Shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inc/(Dec) in Debt	11.4	-4.0	-8.4	-27.8	-13.0	3.2	-15.0	-20.0
Interest Paid	-4.0	-3.9	-2.5	-2.5	-3.5	-5.3	-7.0	-5.6
Dividend Paid	0.0	-1.5	-1.1	-4.0	-5.9	-6.0	-3.3	-3.3
Others	-1.5	0.0	0.5	-0.6	0.1	-0.1	0.2	0.2
CF from Fin. Activity	6.0	-9.4	-11.6	-34.9	-22.2	-8.2	-25.1	-28.7
Inc/Dec of Cash	-4.4	0.6	0.2	-1.8	3.2	-2.8	9.4	17.3
Opening Balance	13.0	8.5	9.1	9.3	7.4	10.6	8.4	17.8
Closing Balance	8.5	9.1	9.3	7.4	10.6	8.4	17.8	35.1

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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