

Telecommunications

Q3 preview: Revenue to rise; TCom margin to contract

Sector Report

Quarterly Preview

January 7, 2024

NIFTY 50: 21,711

In Q3FY24, we expect Bharti Airtel and Jio Mobile to register revenue growth of 2.5-3% QoQ. RJio will benefit from industry-leading subscriber addition in Q3 (10.5mn), aided by competitive pricing of its plans, while Airtel will benefit from the mix of subscriber addition and conversion of 2G subscribers (to 4G). Vi is likely to lose subscribers. Bharti's focus on rural and 5G rollout is likely to aid Indus's tower/tenancy addition. For Indus Towers, the trajectory of receivables/provisioning remains the key monitorable. Tata Communications (TCom) is likely to maintain revenue growth in data, while its margin may come under pressure post Kaleyra's acquisition.

Bharti Airtel (ADD; TP: Rs1,125/share): Bharti Airtel's ARPU is likely to grow 1.3% QoQ to Rs205, given a better mix with more users converting to 4G from 2G. Overall, subscriber addition QoQ is expected to be 3.5mn vs. 3.7mn in Q2, leading to its India mobile revenue growing 2.4% QoQ. We expect Africa revenue at USD1,228mn (-1.4%QoQ) and EBITDA at USD604mn (49.1% margin; 64bps QoQ), on currency devaluation. Africa crossed the 150mn subscriber mark at the end of Dec-23, indicating the addition of ~2.3mn subscribers in Q3 vs. 4.6mn in Q2. On a consolidated basis, we expect revenue to increase by 1.1% QoQ and EBITDA to improve by 0.9% QoQ, with EBITDA margin expansion of 9bps.

RJio (RIL: ADD; TP: Rs2,730/share): We expect RJio to add the highest number of subscribers (+10.5mn QoQ in Q3 vs. +11mn QoQ in Q2). ARPU for the quarter would increase to Rs182.5 (Rs181.7 in Q2), amid higher data usage during the World Cup, although mitigated by JioBharat's subscriber addition. Wireline subscriber addition momentum is likely to pick up with the addition of 0.7mn subscribers in Q3 vs. 0.58mn in Q2. We estimate revenue/EBITDA growth of 2.9%/3.2% QoQ, with EBITDA margin expanding by 16bps to 52.5%, as 5G-related costs are still being capitalized.

Vodafone Idea (Not Rated): We expect subscriber loss to pick up again for Vi in Q3 — loss of 3mn vs. 1.6mn loss (Q2FY24). In Q2, Vi participated in a government scheme that brought in a significant number of new subscribers, including 4G subscribers. ARPU is set to increase by 0.6% QoQ to Rs143, led by increased prices of entry-level plans. Overall, revenue is likely to decline marginally by 0.4% QoQ. Margin is likely to decline by 20bps QoQ owing to a drop in revenue and higher marketing expenses.

RJio and Airtel continue to gain market share from Vi, which is witnessing a sustained decline in subscribers and a delay in external funding. Vi's weak financial condition is also impacting Indus Towers, despite the benefit from the 5G rollout by Bharti Airtel and Jio. We continue to prefer Bharti Airtel and RJio in the telecom space. We have rolled forward our estimates by a quarter and tweaked our estimates, leading to an increase in our TPs.

Rating, Target Price, and Valuation

	Rating	CMP (Rs)	TP (Rs)	Upside (%)	EV/EBITDA (x)		EV/EBITDA (x)	
					FY24	FY25	FY24	FY25
Bharti Airtel	ADD	1,047	1,125	7	10.2	8.7	10.2	8.7
Indus Towers	ADD	222	240	8	5.8	5.4	5.8	5.4
Tata Communications	ADD	1,758	1,900	8	14.0	11.1	14.0	11.1
Tejas Networks	BUY	866	1,050	21	94.6	5.9	94.6	5.9

Source: Company, Emkay Research

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Telecom infrastructure providers

Indus Towers (ADD; TP: Rs240/share): We expect Indus Towers to report healthy tower and tenancy additions with Q2 momentum continuing in Q3 (momentum has not tapered off), supported by Bharti's continued focus on rural presence. Loading of towers with 5G equipment would also aid rental revenue. We have built in tower and tenancy additions of 6,000 (+5,928 in Q2) and 5,648 (+5,583 in Q2), respectively, for Q3FY24. As a result, we expect rental revenue to increase by 0.7% QoQ. We estimate overall revenue to increase by 0.5% QoQ. We expect EBITDA to increase by 0.9%, with no major change in the cost structure. EBITDA margin is expected to improve by 20bps to 48.2%. Payments by Vi remain on time, though provisioning of past dues may continue.

Tata Communications (ADD; TP: Rs1,900/share): We expect growth in data revenue to sustain (+19.6% QoQ; +32.9% YoY), while voice continues to be a declining business (-4% QoQ/-23% YoY). Data revenue includes ~Rs7bn revenue from Kaleyra's merger. Excluding Kaleyra, we expect data revenue growth of 2.1% QoQ/13.5% YoY and consolidated revenue is likely to grow 1.6% QoQ/9.3% YoY. We expect consolidated EBITDA to increase by 1% QoQ (-4.8% YoY). Consolidated margin is likely to slip to 18.2% (-270bps QoQ impact on margin) due to the mix change with Kaleyra's acquisition, which operates in a single-digit EBITDA margin. PAT is expected to decline to Rs1.7bn (-23% QoQ/-57% YoY).

Tejas Networks (BUY; TP: Rs1,050/share): Tejas has begun to ship the 4G wireless equipment to BSNL from Q2. The PO from BSNL through TCS has to be executed in 12-18 months. We expect ramp up in revenue as the execution has started. We expect revenue/EBITDA to increase 44% QoQ/240% QoQ due to the ramp-up of BSNL's order. We expect EBITDA margin of 7.8% (+450bps QoQ) on account of operating leverage benefits.

Exhibit 1: Changes in Rating, TP, and multiples

	Rating		TP (Rs)		EV/EBITDA	
	New	Old	New	Old	New	Old
Bharti Airtel	ADD	REDUCE	1,125	1,050	9	9
Indus Towers	ADD	ADD	240	195	NA	NA
Tata Communications	ADD	ADD	1,900	1,840	10.5	10.5
Tejas Networks	BUY	BUY	1,050	1,050	NA	NA

Source: Company, Emkay Research

Exhibit 2: Q3FY24 estimate summary

	Revenue			EBITDA margin		
	Q3FY24E (Rs mn)	YoY (%)	QoQ (%)	Q3FY24E (Rs mn)	YoY (bps)	QoQ (bps)
Bharti Airtel	3,74,615	4.6	1.1	52.8	123	9
RJio	2,54,560	10.7	2.9	52.5	28.2	16.5
Vi	1,06,675	0.4	-0.5	39.7	38.2	-21.8
Indus Towers	71,676	6.0	0.5	48.2	3100	21
TCom	56,504	24.8	16.0	18.2	-564	-269
Tejas Networks	5,696	107.5	43.9	7.8	485	449

Source: Company, Emkay Research

Exhibit 3: Subscriber addition trend for telcos

(mn)	Subscriber additions				VLR subscriber Add				Wireless Broadband subs adds			
	Jul-23	Aug-23	Sep-23	Oct-23	Jul-23	Aug-23	Sep-23	Oct-23	Jul-23	Aug-23	Sep-23	Oct-23
Bharti	1.5	1.2	1.3	0.4	3.2	(0.4)	0.6	(1.2)	2.9	2.6	3.6	0.5
Vodafone Idea	(1.3)	(0.0)	(0.7)	(2.0)	(0.4)	(2.9)	0.4	(1.4)	(0.6)	1.3	1.0	(0.8)
RJio	3.9	3.2	3.5	3.2	1.4	1.2	3.2	1.8	3.9	3.2	3.5	3.2

Source: TRAI, Emkay Research

Exhibit 4: Key revenue assumptions and trends

Bharti Airtel (BHARTI IN)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24E	QoQ	YoY
India							
Subscriber (mn)	332	335	339	342	346	1.0%	4.1%
Data subscriber (mn)	225	233	238	246	251	1.9%	11.2%
MOU (min)	1,094	1,122	1,138	1,123	1,133	0.9%	3.6%
Total minutes (bn)	1,082	1,124	1,149	1,148	1,170	1.9%	8.1%
Wireless Revenue (Rs mn)	1,93,527	1,95,493	2,03,924	2,09,521	2,14,446	2.4%	10.8%
Data Volume (bn MB)	13,853	14,248	15,273	16,127	17,373	7.7%	25.4%
Data Usage/subscriber (GB)	20.8	20.8	21.6	22.2	23.3	5.0%	12.3%
ARPU (Rs)	193	193	200	203	205	1.3%	6.2%
Vodafone Idea (IDEA IN)							
Subscriber (mn)	229	226	221	220	217	-1.4%	-5.2%
4G subscriber (mn)	122	123	123	125	125	0.5%	3.1%
MoU	613	623	627	613	616	0.5%	0.5%
Total minutes (bn)	424	425	420	406	403	-0.6%	-4.8%
Wireless Revenue (Rs mn)	93,758	92,036	93,262	93,976	93,554	-0.4%	-0.2%
Data Volume (bn MB)	5,762	5,802	6,002	6,119	6,252	2.2%	8.5%
ARPU (Rs)	135	135	139	142	143	0.6%	5.8%
Reliance JIO							
Subscriber (mn)	433	439	449	460	470	2.3%	8.6%
Data subscriber (mn)	433	439	449	460	470	2.3%	8.6%
MoU	985	1,003	1,003	979	990	1.1%	0.5%
Total minutes (bn)	1,271	1,312	1,336	1,334	1,381	3.5%	8.6%
RJio Revenue (Rs mn)	2,29,980	2,33,940	2,40,420	2,47,500	2,54,560	2.9%	10.7%
Data Volume (bn MB)	28,913	30,222	33,159	36,292	33,476	-7.8%	15.8%
Data Usage/subscriber (GB)	22.4	23.1	24.9	26.6	24.0	-9.9%	7.1%
ARPU (Rs)	178	179	181	182	182	0.4%	2.4%
Indus Towers (INDUSTOW IN)							
Rental revenue (Rs mn)	41,748	42,499	43,345	43,389	43,710	0.7%	4.7%
Energy revenue (Rs mn)	25,902	25,030	27,414	27,936	27,966	0.1%	8.0%
Total tower (nos)	1,89,392	1,92,874	1,98,284	2,04,212	2,10,212	2.9%	11.0%
Total tenancy (nos)	3,39,435	3,42,831	3,47,879	3,53,462	3,59,110	1.6%	5.8%
Tenancy addition (nos)	1,307	3,396	5,048	5,583	5,648	1.2%	332.2%
Closing tenancy ratio (x)	1.79	1.78	1.75	1.73	1.73	0.1%	-3.3%
Energy margin	-1.2%	-2.3%	-3.1%	-2.2%	-2.3%	2.3%	84.4%
Tata Communication (TCOM IN)							
Data Segment							
Revenue	35,929	36,703	39,121	39,945	47,766	19.6%	32.9%
EBITDA	9,475	8,825	9,285	9,130	9,219	1.0%	-2.7%
EBITDA margin	26%	24%	24%	23%	19%	-356 bps	-707 bps
GVS							
Total Minutes (bn min)	2.8	2.5	2.4	2.3	2.4	2.8%	-12.8%
Revenue Per Minute (Rs)	1.8	1.8	1.7	1.8	1.9	1.1%	1.0%
Revenue	5,058	4,624	4,183	4,287	4,457	4.0%	-11.9%
EBITDA	873	906	621	625	624	-0.1%	-28.5%
EBITDA margin	17.3%	19.6%	14.8%	14.6%	14.0%	-57 bps	-326 bps
Tejas Networks (TEJASNET IN)							
Revenue	2,746	2,993	1,879	3,960	5,696	43.9%	107.5%
EBITDA	80	(82)	(463)	130	443	241.3%	452.6%
EBITDA margin	2.9%	-2.7%	-24.6%	3.3%	7.8%	449 bps	485 bps

Source: Company, Emkay Research

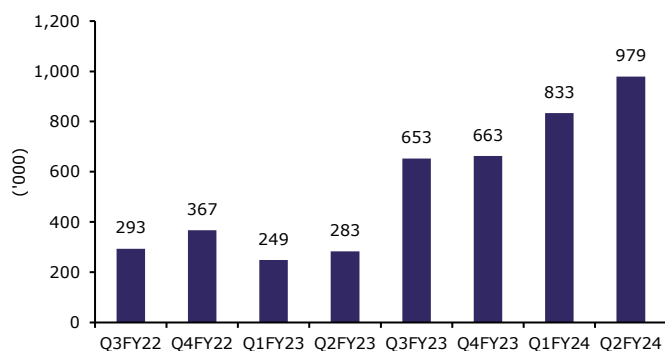
Bharti Airtel (ADD; TP Rs1,125): Cash flow to improve

We expect Bharti Airtel to benefit from the: i) subscriber gain from Vi, with the launch of 5G; ii) mix change, even without any tariff hike, as it can move users to 4G/5G from 2G, thus improving its ARPU; and iii) historically higher pass-through of the increase in revenue to EBITDA.

Bharti Airtel wields levers to improve ARPU, even without a tariff hike

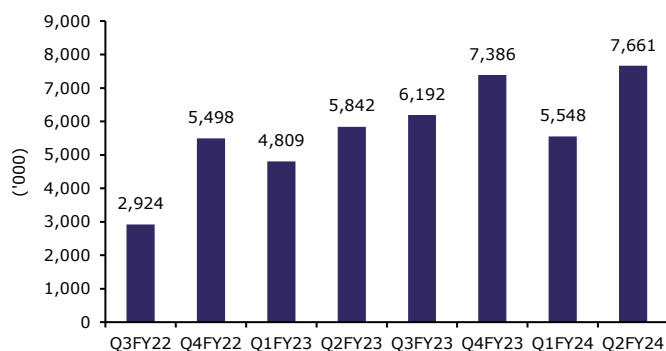
Bharti Airtel has levers to improve its ARPU even without a tariff hike, which includes: i) prepaid feature phone to smartphone conversion, which now implies a ~35% jump in ARPU; ii) prepaid to postpaid conversion leading to increased ARPU; iii) data monetization, with impulse buying of data allowance; and iv) one price plan for international roaming, with a focus on prepaid. Such measures are likely to help India's mobile ARPU to increase to Rs216 by Q2FY25E. We expect a tariff hike only by mid-FY25E, which would help ARPU to rise to Rs266 by FY26-end.

Exhibit 5: Q2FY24 saw the highest postpaid addition in Bharti Airtel



Source: Company

Exhibit 6: Strong 4G net additions continue for Bharti Airtel (India)



Source: Company

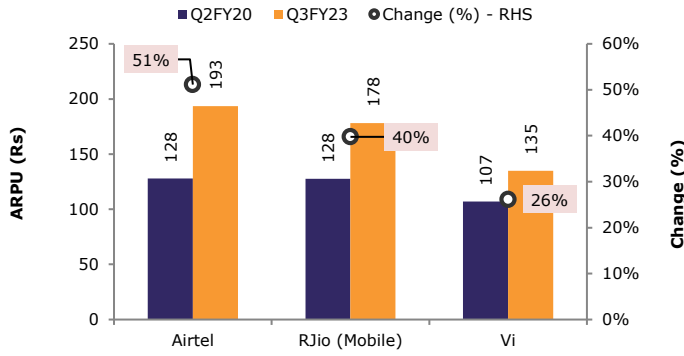
Bharti to be the key beneficiary of any tariff hike: The last two tariff hikes in the prepaid segment took place in Q3FY20 and Q3FY22 by all telcos. Post these hikes, ARPU improvement has been better for Bharti Airtel vs. RJio and Vi. We believe in the event of any tariff hike or revenue improvement, Bharti Airtel will also be the key beneficiary of EBITDA improvement as the earlier price hike resulted in a 77% pass-through of revenue to EBITDA for Airtel vs. 70% for RJio. Vi witnessed a decline in revenue during the same period, with some increase in EBITDA on cost-cutting measures.

Exhibit 7: Airtel – 77% of the incremental revenue passed on to EBITDA

(Rs mn)	Q2FY20	Q3FY23	Change
Airtel			
Revenue	1,09,814	1,93,526.5	83,713
EBITDA	39,913	1,04,121	64,208
Pass-through			77%
RJio			
Revenue	1,31,300	2,29,980	98,680
EBITDA	51,390	1,20,090	68,700
Pass-through			70%
Vi			
Revenue	1,08,440	1,06,206	-2,234
EBITDA	33,956	41,808	7,852
Pass-through			N/A

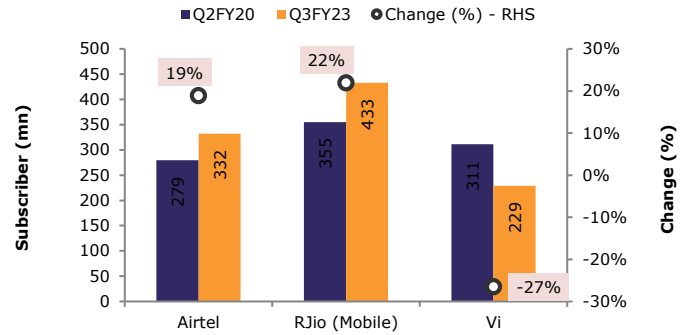
Source: Company, Emkay Research

Exhibit 8: Change in ARPU over Q2FY20-Q3FY23 post the tariff hike



Source: Company, Emkay Research

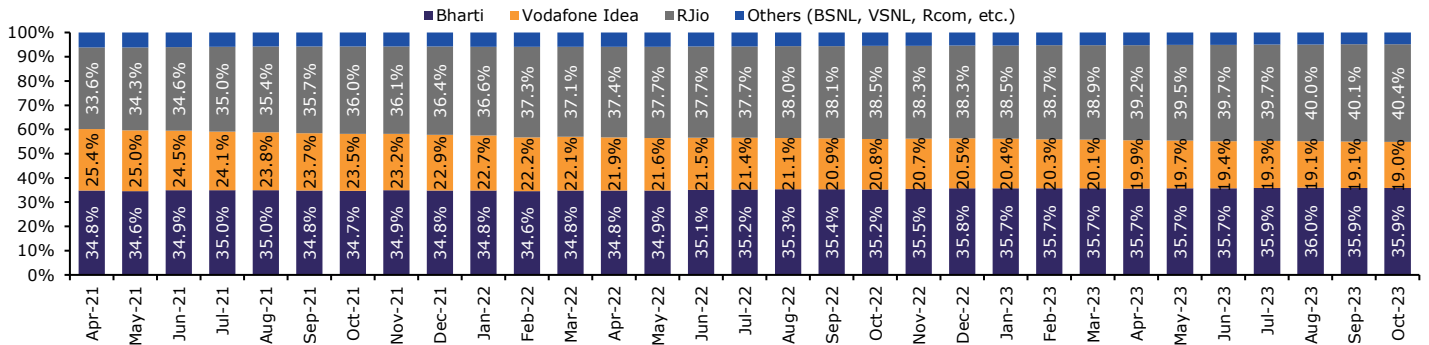
Exhibit 9: Change in the no. of subscribers over Q2FY20-Q3FY23



Source: Company, Emkay Research

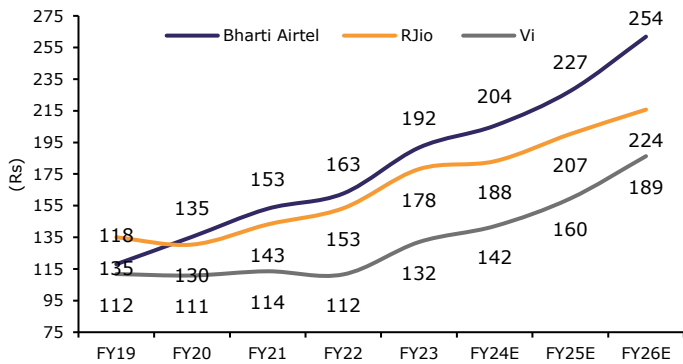
We expect market share gains to continue for RJio and Bharti Airtel at the expense of Vi amid the successful launch of 5G by RJio and Bharti Airtel, which may particularly help both telcos attract high ARPU customers from Vi. While Vi has witnessed a moderation in the subscriber loss, we expect subscriber losses to again increase for Vi in Q3.

Exhibit 10: RJio and Bharti Airtel continue to gain active subscriber market share from Vi



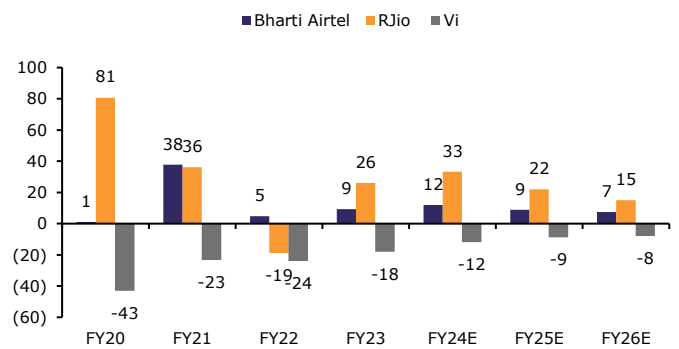
Source: TRAI

Exhibit 11: Airtel to maintain market leading ARPU



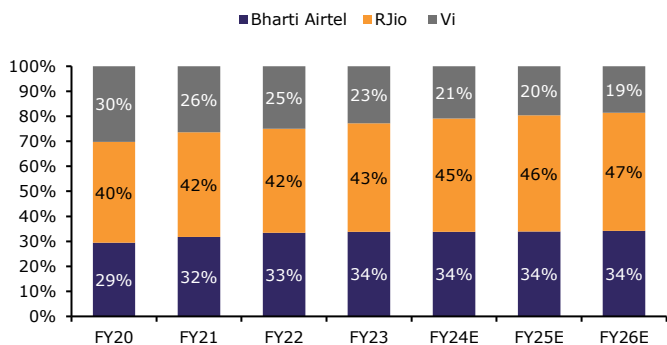
Source: Company, Emkay Research

Exhibit 12: RJio to lead in subscriber addition



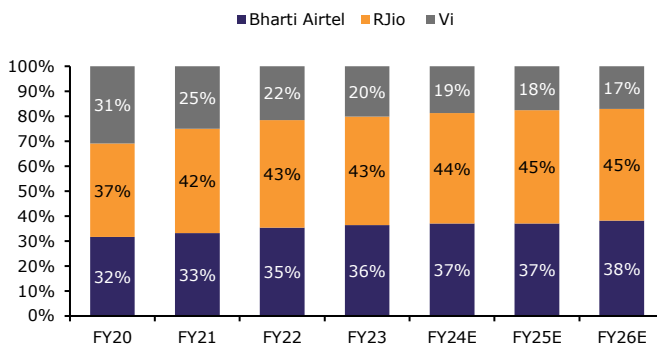
Source: Company, Emkay Research

Exhibit 13: Vi likely to lose further subscriber market share*



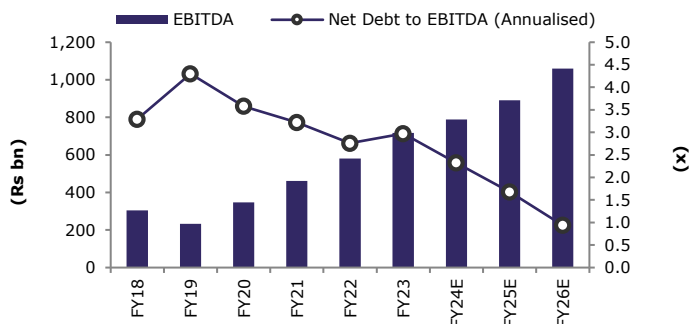
Source: Company, Emkay Research *Assuming a market with 3 private players

Exhibit 14: Bharti and RJio to gain further revenue market share



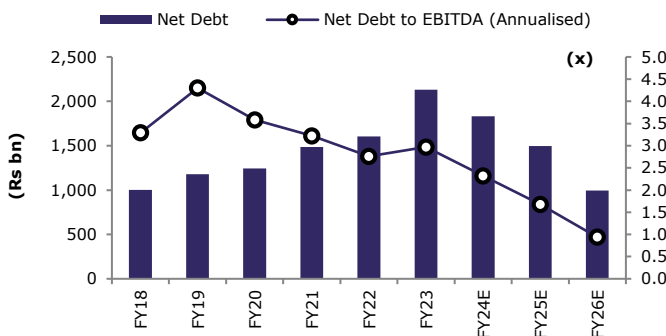
Source: Company, Emkay Research *Assuming a market with 3 private players

Exhibit 15: EBITDA to improve further with ARPU



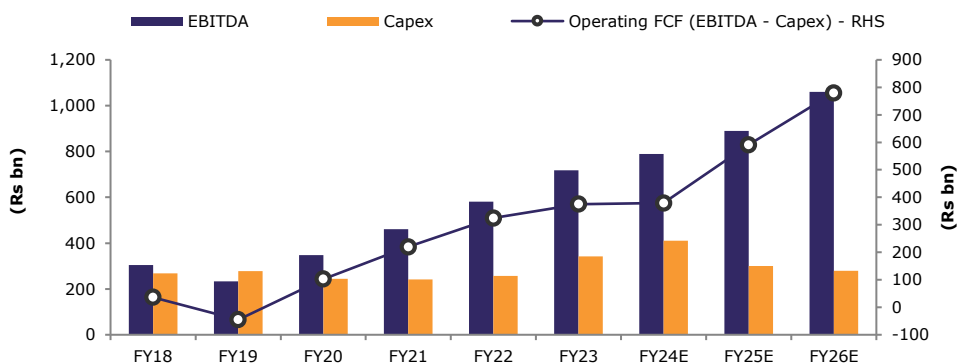
Source: Company, Emkay Research

Exhibit 16: Net debt to decline on improving EBITDA



Source: Company, Emkay Research

Exhibit 17: Operating FCF to increase, leading to deleveraging



Source: Company, Emkay Research

We have cut FY25E/FY26E EBITDA by 4%/1%, as we have moderated our subscriber addition and ARPU estimates. We have also rolled forward our estimates by a quarter, leading to our SOTP-based TP increasing to Rs1,125/share (Rs1,050/share earlier). We upgrade our rating to ADD from REDUCE on Bharti Airtel.

Exhibit 18: Changes in estimates

Particulars	FY24E			FY25E			FY26E		
	Old	Revised	% Change	Old	Revised	% Change	Old	Revised	% Change
Revenue	14,94,769	14,98,826	0.3	16,74,383	16,57,269	-1.0	19,01,734	18,99,435	-0.1
EBITDA	7,99,175	7,88,680	-1.3	9,31,756	8,94,405	-4.0	10,79,775	10,63,894	-1.5
EBITDA Margin (%)	53.5	52.6	-88 bps	55.6	54.0	-163 bps	56.8	56.0	-79 bps
PAT	98,486	84,263	-14.4	2,00,782	1,75,576	-12.6	3,14,675	3,06,619	-2.6
EPS (Rs)	16.5	14.1	-14.5	33.6	29.4	-12.5	52.7	51.3	-2.6

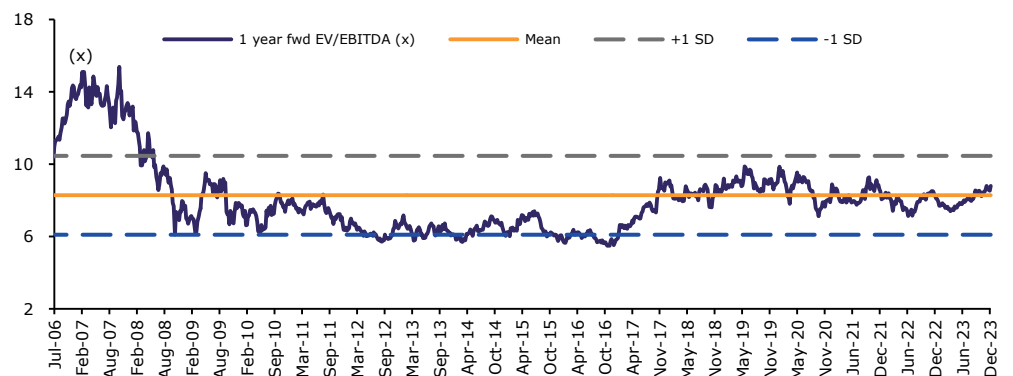
Source: Company, Emkay Research

Exhibit 19: Bharti Airtel's SOTP

Particulars	Dec-26E
Core India business (ex-towers, ex-Africa)	
Enterprise value (Rs bn)	7,252
EBITDA (Rs bn)	806
EV/EBITDA (x)	9.0
Net debt (Rs bn)	1,237
Equity value (Rs bn)	6,015
Equity value (Rs/share)	1,008
Indus Towers' valuation	
Target market cap (Rs bn)	526
Bharti's shareholding (%)	48.0%
Bharti's share	252
Per Share value (Rs/share)	42
Africa business valuation	
Enterprise value (Rs bn)	1,057
EBITDA (Rs bn)	235
EV/EBITDA (x)	4.5
Net debt - (Rs bn)	268
Equity value (Rs bn)	789
Bharti's stake	55%
Per share value (Rs/share)	73
Target Price (Rs/share)	1,125

Source: Company

Exhibit 20: EV/EBITDA (One-year forward)



Source: Bloomberg

Indus Towers (ADD; TP Rs240): Demand outlook positive

Indus Towers is witnessing strong demand from one of its key customers (Bharti Airtel) for rural expansion and densification in urban areas. Further, 5G will require tower densification once the 5G rollout is largely complete, which will add to demand. In the Q2 earnings call, management indicated that demand will likely remain healthy for the next two quarters at least, led by rural expansion, densification of urban areas, and 5G rollouts. Order book is strong, as per the company.

Proxy play to any positive news on Vi

At Q2FY24-end, the company's trade receivables stood at Rs61.9bn, mostly related to Vi. Besides this, Indus Towers has already provisioned ~Rs56bn in the last six quarters. Though Vi is making regular payments to Indus Towers now. However, we see challenges for Indus Towers concerning outstanding receivables from Vi, if Vi fails to raise funds or if there is no tariff hike. We believe Indus Towers is a better proxy to play any news around a fundraise by Vi, as Vi is one of its key clients. Vi's fundraise will alleviate Indus Towers' concerns on: i) high receivables from Vi and ii) sustainability of long-term demand from Vi.

We see reduced cash constraint for Vi till H1FY26 on promoter's fund infusion

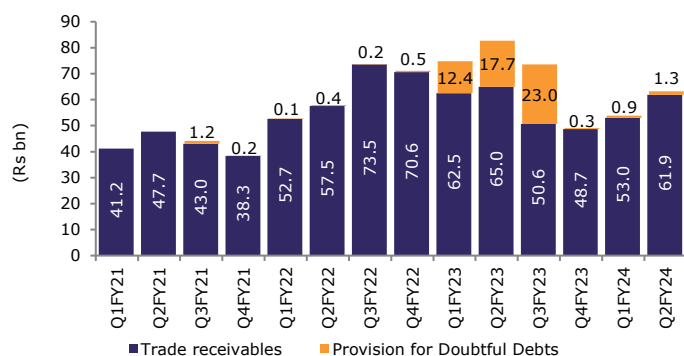
We believe the Rs20bn financial support by Vi's promoter, when received, will reduce cash constraint for Vi till H1FY26, as the bank's debt obligation for Vi reduces post-Q4FY24. Vi's bank debt at the end of Q2FY24 stood at Rs79bn and its bank debt will be ~Rs37bn at the end of Q4FY24. From Q1FY25, the company's debt-servicing burden is expected to reduce, i.e., Rs5bn in Q1FY25 and Rs9bn in Q2FY25, as per our estimates. We believe Vi's internal accruals will be sufficient to make essential payments till H1FY26, before the moratorium ends. During this period, we assume capex at Q1FY24 levels (Rs4.5bn per quarter or Rs18bn per year, with no 5G rollout). We also assume refinancing of Rs15bn of debt in FY24E to meet cash shortfall (in case there is no external equity or debt funding). We expect this debt to be repaid in FY25. We have excluded payments related to working capital from our analysis.

Some media reports also indicated that Vi is in advanced negotiations to sell its fiber assets and expects up to Rs120bn for the assets. Any surplus cash from asset sales can be used by Vi for repayment to vendors (including Indus Towers) and 5G-related capex.

Momentum to sustain in Q3; maintain ADD: We expect strong tenancy and tower additions to continue in Q3 for Indus Towers. We assume provisioning related to Vi would gradually reduce, leading to an improvement in reported EBITDA margin for the company. We increase our FY25E/FY26E EBITDA estimates by 1%/3%. We also roll forward our estimates by a quarter and increase the terminal growth rate to 3% from 2%, as the outlook improves. **Our DCF-based TP stands at Rs240/share (vs. Rs195/share earlier). We maintain our ADD rating on the stock.**

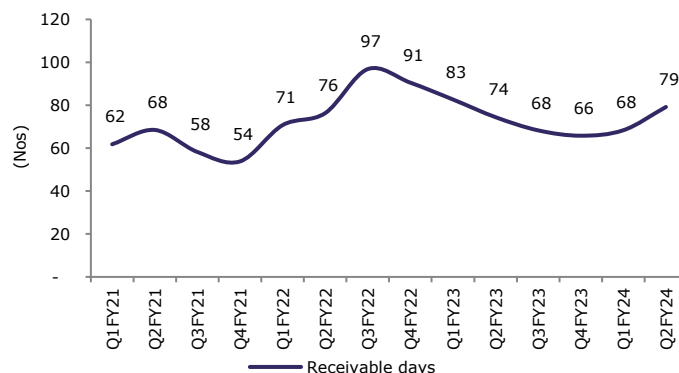
Receivables remain high despite provisioning related to Vi

Exhibit 21: Provisioning for doubtful debt and trade receivables is again up in Q2FY24 for Indus Towers



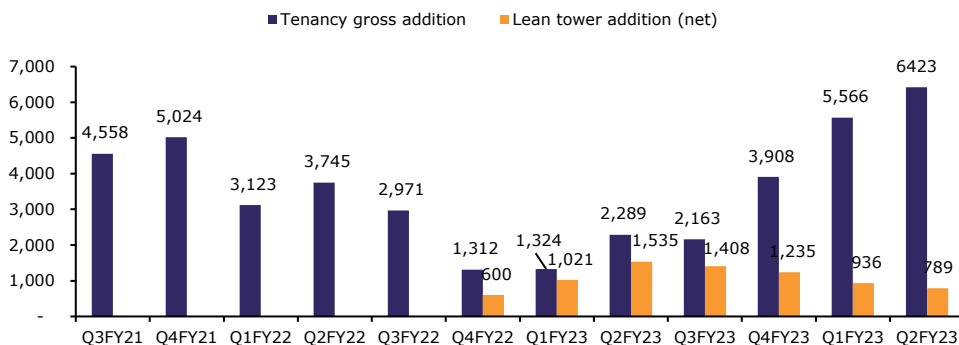
Source: Company, Emkay Research

Exhibit 22: The number of receivable days increased despite provisioning



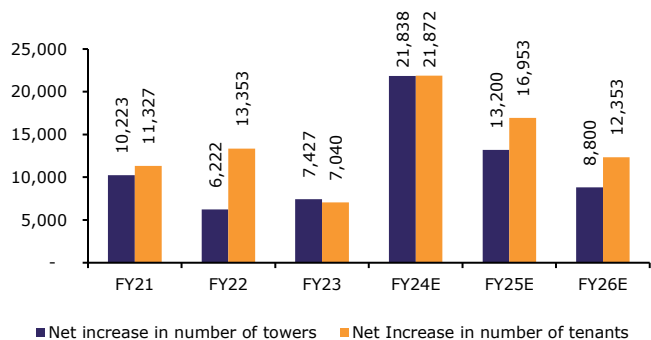
Source: Company, Emkay Research

Exhibit 23: Tenancy gross addition has picked up pace for Indus Towers



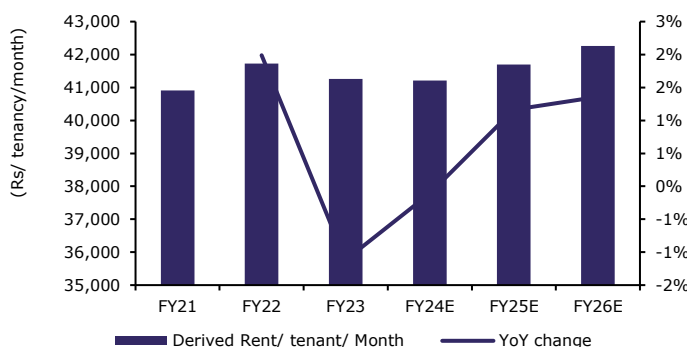
Source: Company, Emkay Research

Exhibit 24: Our forecast of tower and tenancy additions for Indus



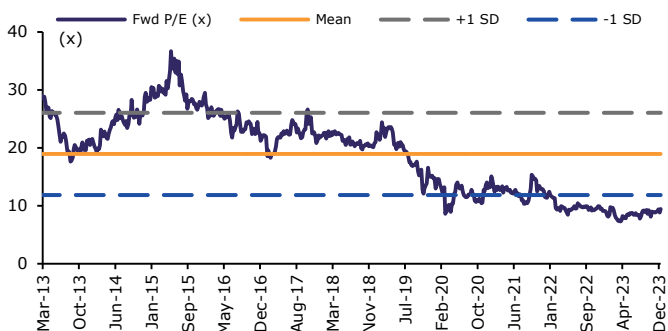
Source: Company, Emkay Research

Exhibit 25: Rent per tenant per month



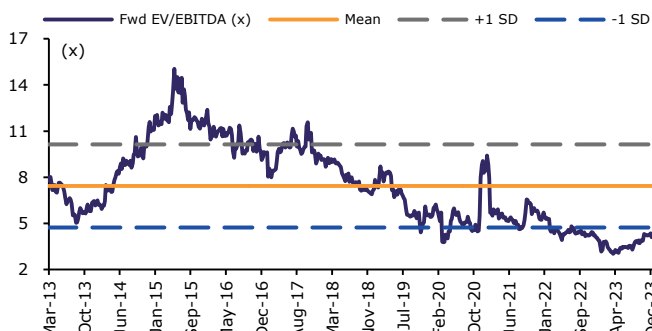
Source: Company, Emkay Research

Exhibit 26: One-year forward P/E (x)



Source: Bloomberg

Exhibit 27: One-year forward EV/EBITDA (x)



Source: Bloomberg

Exhibit 28: Indus Towers' TP sensitivity

		Terminal Growth Rate				
		2.0%	2.5%	3.0%	3.5%	4.0%
WACC	13.5%	205	205	215	220	225
	13.0%	215	220	225	230	240
	12.5%	225	230	240	245	255
	12.0%	240	245	255	260	270
	11.5%	255	260	270	280	290

Source: Emkay Research

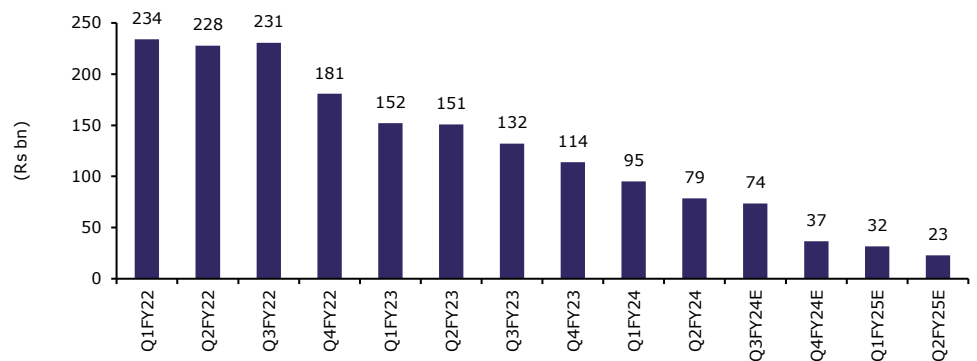
Exhibit 29: Changes in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Towers	2,13,712	2,14,712	0.5	2,26,912	2,27,912	0.4	2,35,712	2,36,712	0.4
Tenants	3,63,050	3,64,703	0.5	3,80,040	3,81,657	0.4	3,92,393	3,94,010	0.4
Rental revenue	1,75,922	1,75,021	-0.5	1,87,286	1,86,720	-0.3	1,97,011	1,98,441	0.7
Energy reimbursement	1,10,241	1,11,281	0.9	1,11,784	1,12,839	0.9	1,12,902	1,13,967	0.9
Total Revenue	2,86,163	2,86,302	0.0	2,99,071	2,99,559	0.2	3,09,913	3,12,408	0.8
EBITDA	1,39,355	1,38,790	-0.4	1,47,816	1,49,486	1.1	1,55,014	1,59,851	3.1
EBITDA (%)	48.7	48.5	-22 bps	49.4	49.9	48 bps	50.0	51.2	115 bps
PAT	52,020	53,122	2.1	55,344	57,176	3.3	58,118	62,577	7.7
EPS (Rs)	19.3	19.7	2.1	20.5	21.2	3.3	21.6	23.2	7.7

Source: Company, Emkay Research

Bank debt declining for Vi; promoter fund infusion to reduce cash constraint

Exhibit 30: Bank debt burden decreasing for Vi



Source: Company, Emkay Research

Exhibit 31: Cash position to improve for Vi, post funding by the Promoter

(Rs bn)	FY24E	FY25E	H1FY26	FY24-H1FY26
Reported EBITDA	169	183	102	453
Adjustment for IndAS-116	82	86	45	213
Cash EBITDA	87	96	57	240
Infusion by promoters*	20			20
Payment for spectrum dues	(18)	(18)	(18)	(55)
Bank debt repayment	(77)	(37)	-	(114)
Assumed refinancing	15	(15)		-
Interest repayment on bank loan	(7)	(2)	0	(10)
Capex (annualizing Q1FY24 capex)	(18)	(18)	(9)	(45)
Cash surplus (shortfall)	1	6	29	36

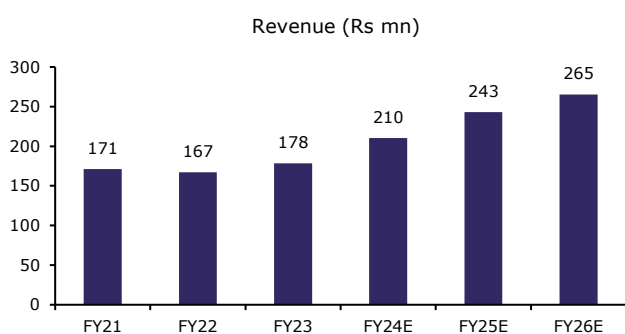
Source: Company, Emkay Research; Note: *Still awaited

TCom (ADD; TP Rs1,900): Scale and synergy to aid margin growth

We see short-term margin dilution due to acquisitions (Switch and Kaleyra), with margins below 20% in Q3FY24 at 18% (vs. 24.2% in FY23). However, with synergy and operating leverage benefits, the margin can recover to 23% by the end of FY26. We expect revenue/EBITDA to register a 14%/12% CAGR over FY23-26E. Revenue growth is expected to be led by the digital platform and services (40% CAGR over FY23-26E), which can also benefit from the acquisitions of Switch and Kaleyra, as they gain scale. We see the share of digital platform and services revenue (ex-incubation) in data revenue increasing to 48% in FY26 from 29% in FY23, aided by acquisitions and improving scale.

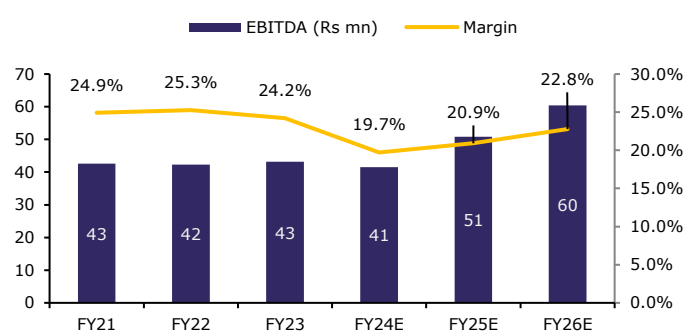
Structurally, we remain positive on TCom as we like TCom's focus on digital services. Digital services (ex-collaboration) have been delivering good performance. Kaleyra's acquisition would aid growth post the collaboration. Focus on gaining scale and synergies can help improve margin faster. We see earnings improving at a fast pace from FY25 post peak investments in FY24. We have tweaked our estimates, cutting FY25/FY26 EBITDA by 2.6%/0.9%. **Our TP increases to Rs1,900 (10.5x Dec-25E EBITDA) from Rs1,840, as we roll forward by a quarter. We retain our ADD rating on the stock.**

Exhibit 32: Revenue to register a 14.2% CAGR over FY23-26E



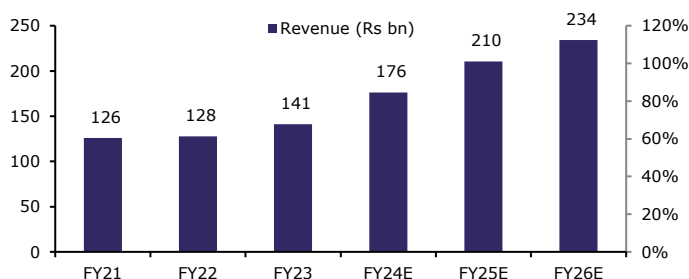
Source: Company, Emkay Research

Exhibit 33: Margin to improve gradually with synergy benefits



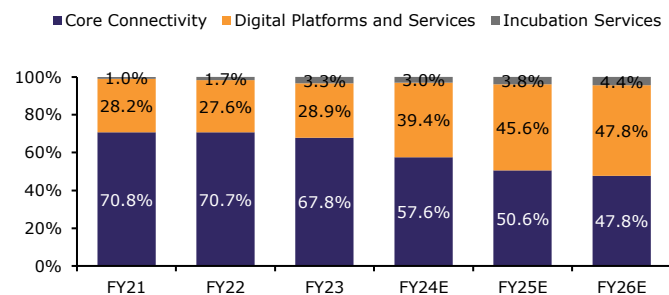
Source: Company, Emkay Research

Exhibit 34: Data segment's revenue to be over Rs200bn by FY25



Source: Company, Emkay Research

Exhibit 35: Share of digital platform services in data revenue to increase to ~48% by FY26E



Source: Company, Emkay Research

Exhibit 36: Changes in estimates

Particulars (Rs mn)	FY24E			FY25E			FY26E		
	Old	Revised	% Change	Old	Revised	% Change	Old	Revised	% Change
Revenue	2,11,813	2,10,460	-0.6%	2,45,015	2,43,045	-0.8%	2,67,084	2,65,156	-0.7%
EBITDA	43,233	41,497	-4.0%	52,185	50,850	-2.6%	60,925	60,386	-0.9%
EBITDA Margin (%)	20.4	19.7	-69 bps	21.3	20.9	-38 bps	22.8	22.8	-4 bps
APAT	10,142	9,922	-2.2%	18,984	17,164	-9.6%	25,273	23,079	-8.7%
EPS (Rs)	35.6	34.8	-2.2%	66.6	60.2	-9.6%	88.7	81.0	-8.7%

Source: Company, Emkay Research

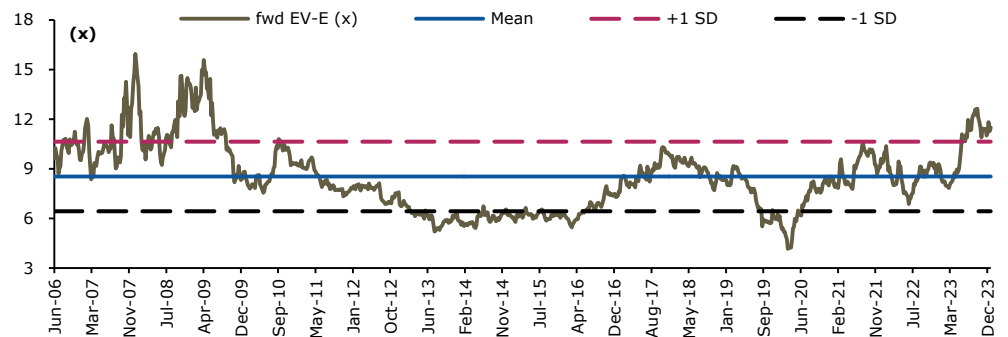
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Exhibit 37: SOTP for Tcom

Particulars	Dec'25
Voice Segment	
EBITDA (Rs mn)	1,557
EV/EBITDA (x)	2.0
Enterprise value (Rs mn)	3,115
Data Segment	
EBITDA (Rs mn)	56,894
EV/EBITDA (x)	10.5
Enterprise value (Rs mn)	5,97,382
Total Enterprise Value (Rs mn)	6,00,497
Net debt (Rs mn)	61,857
Implied market cap (Rs mn)	5,38,640
Value from core business (Rs/share)	1,890
Add: 26% stake in data center (Rs/share)	63
Less: Potential AGR liability (Rs/share)	56
Target price (Rs/share)	1,900

Source: Company, Emkay Research

Exhibit 38: EV/EBITDA (One-year forward)

Source: Bloomberg

Exhibit 39: Consolidated estimates

Name			Dec-23E	Sep-23	Dec-22	YoY	QoQ	Comments
Bharti Airtel								
CMP (Rs)	1047	Net Sales (Rs mn)	3,74,615	3,70,438	3,58,044	4.6%	1.1%	Bharti Airtel's ARPU is likely to grow 1.3% QoQ to Rs205, given a better mix with more users converting to 4G from 2G. Overall subscriber addition is expected to be 3.5mn in Q3 vs. 3.7mn in Q2, leading to its India mobile revenue growing 2.4% QoQ. We expect Africa's revenue at USD1,228mn (-1.4%QoQ) and EBITDA at USD604mn (49.1% margin; 64bps QoQ), on currency devaluation. Africa has crossed the 150mn subscriber mark at the end of Dec-23, indicating the addition of ~2.3mn subscribers in Q3 vs. 4.6mn in Q2.
Mkt Cap (Rs bn)	5,889	EBITDA (Rs mn)	1,97,674	1,95,137	1,84,532	7.1%	1.3%	
Rating	Add	EBITDA Margin (%)	52.8	52.7	51.5	123	9	
		PAT (Rs mn)	30,027	13,407	15,882	89.1%	124.0%	
		EPS (Rs)	5.0	2.2	2.7	88.5%	124.0%	
Vodafone Idea								
CMP (Rs)	17	Net Sales (Rs mn)	1,06,675	1,07,163	1,06,206	0.4%	-0.5%	We expect subscriber loss to pick up again for Vi in Q3 — loss of 3mn vs. 1.6mn loss (Q2FY24). In Q2, Vi participated in a government scheme that brought in a significant number of new subscribers, including 4G subscribers. ARPU is set to increase by 0.6% QoQ to Rs143, led by an increase in the price of entry-level plans. Overall revenue is likely to decline marginally by 0.4% QoQ. Margin is likely to drop by 20bps QoQ owing to a dip in revenue and increased marketing expenses.
Mkt Cap (Rs bn)	833	EBITDA (Rs mn)	42,401	42,828	41,808	1.4%	-1.0%	
Rating	Not Rated	EBITDA Margin (%)	39.7	40.0	39.4	38	-22	
		PAT (Rs mn)	-80,232	-87,379	-79,900	NM	NM	
		EPS (Rs)	-1.6	-1.8	-1.6	NM	NM	
Indus Towers								
CMP (Rs)	222	Net Sales (Rs mn)	71,676	71,325	67,650	6.0%	0.5%	We expect Indus Towers to report good tower and tenancy additions with momentum in Q2 continuing in Q3 (momentum has not tapered off), supported by Bharti Airtel's continued focus on rural presence. Loading of towers with 5G equipment would also aid rental revenue. We have built in tower and tenancy additions of 6,000 (+5,928 in Q2) and 5,648 (+5,583 in Q2), respectively, for Q3FY24. As a result, we expect rental revenue to increase by 0.7% QoQ. EBITDA margin is expected to improve by 20bps to 48.2% with no major change in the cost structure. Payments by Vi remain on time, though provisioning of past dues may continue.
Mkt Cap (Rs bn)	599	EBITDA (Rs mn)	34,534	34,215	11,626	197.0%	0.9%	
Rating	Add	EBITDA Margin (%)	48.2	48.0	17.2	3100	21	
		PAT (Rs mn)	13,394	12,947	-7,082	NM	3.4%	
		EPS (Rs)	5.0	4.8	-2.6	NM	NM	
Tata Communications								
CMP (Rs)	1,759	Net Sales (Rs mn)	56,504	48,725	45,283	24.8%	16.0%	We expect growth in data revenue to sustain (+19.6% QoQ; +32.9% YoY), while voice continues to be a declining business (-4% QoQ/-23% YoY). Data revenue includes ~Rs7bn revenue from Kaleyra's merger. Excluding Kaleyra, we expect data revenue growth of 2.1% QoQ/13.5%YoY and consolidated revenue growth of 1.6% QoQ/9.3% YoY. We expect consolidated EBITDA to increase by 1% QoQ (-4.8% YoY). Consolidated margin is likely to slip to 18.2% (-270 bps QoQ impact on margin) due to the mix change with Kaleyra's acquisition, which operates in a single-digit EBITDA margin. PAT is expected to decline to Rs1.7bn (-23% QoQ/-57% YoY).
Mkt Cap (Rs bn)	501	EBITDA (Rs mn)	10,257	10,155	10,774	-4.8%	1.0%	
Rating	Add	EBITDA Margin (%)	18.2	20.8	23.8	-564	-269	
		PAT (Rs mn)	1,697	2,207	3,939	-56.91%	-23.09%	
		EPS (Rs)	6.0	7.7	13.8	-56.91%	-23.09%	
Tejas Networks								
CMP (Rs)	865	Net Sales (Rs mn)	5,696	3,960	2,746	107.5%	43.9%	Tejas has begun to ship the 4G wireless equipment to BSNL from Q2. The PO from BSNL through TCS has to be executed in 12-18 months. We expect ramp-up in revenue as execution has started. We expect revenue/EBITDA to increase 44% QoQ/240% QoQ on the ramp-up of BSNL's order. We expect EBITDA margin of 7.8% (+450bps QoQ) on operating leverage benefits.
Mkt Cap (Rs bn)	147	EBITDA (Rs mn)	443	130	80	452.6%	241.3%	
Rating	Buy	EBITDA Margin (%)	7.8	3.3	2.9	485	449	
		PAT (Rs mn)	113	-126	-109	-203.77%	-189.32%	
		EPS (Rs)	0.7	-0.7	-0.7	-193.22%	-189.32%	

Source: Company, Emkay Research

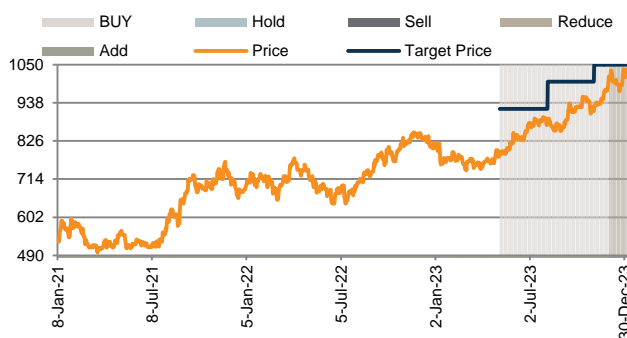
BHARTI AIRTEL

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Nov-23	1,015	1,050	Reduce	Santosh Sinha
02-Nov-23	924	1,050	Buy	Santosh Sinha
13-Aug-23	871	1,000	Buy	Santosh Sinha
07-Aug-23	891	1,000	Buy	Santosh Sinha
05-Aug-23	890	1,000	Buy	Santosh Sinha
17-May-23	792	920	Buy	Santosh Sinha
05-May-23	787	920	Buy	Santosh Sinha

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

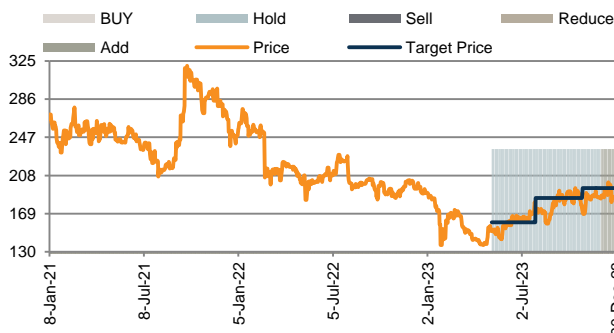
INDUS TOWERS

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Nov-23	184	195	Add	Santosh Sinha
03-Nov-23	188	195	Hold	Santosh Sinha
26-Oct-23	170	195	Hold	Santosh Sinha
28-Jul-23	174	185	Hold	Santosh Sinha
05-May-23	152	160	Hold	Santosh Sinha

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

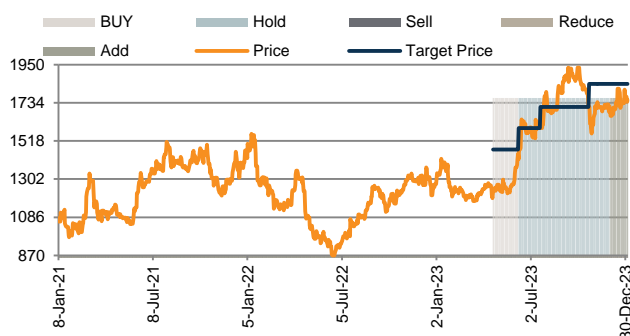
TATA COMMUNICATIONS

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Nov-23	1,706	1,840	Add	Santosh Sinha
25-Oct-23	1,585	1,840	Hold	Santosh Sinha
21-Oct-23	1,710	1,840	Hold	Santosh Sinha
03-Sep-23	1,852	1,710	Hold	Santosh Sinha
20-Jul-23	1,604	1,710	Hold	Santosh Sinha
29-Jun-23	1,583	1,590	Hold	Santosh Sinha
08-Jun-23	1,414	1,590	Hold	Santosh Sinha
20-Apr-23	1,232	1,470	Buy	Santosh Sinha

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

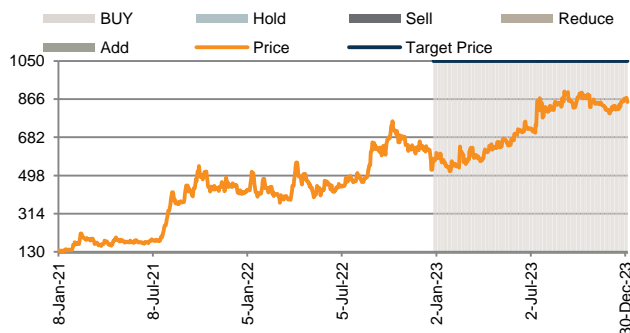
TEJAS NETWORKS

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
27-Dec-22	577	1,050	Buy	Santosh Sinha

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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Ratings	Expected Return within the next 12-18 months.
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ADD	5-15% upside
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SELL	<15% downside

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