

Tata Communications

Muted financial performance; Digital portfolio grew 10.2% YoY

Tata Communications' performance was below expectations for Q3FY25. Reported revenue stood at Rs58bn, up 1.2% QoQ. Segment-wise, Voice declined by 3.5% QoQ, Data grew by 1.4% QoQ while Others declined by 4.7% QoQ. Voice contributed 7.1% to revenue while Data contributed 84.6% to revenue. Digital portfolio contributed 47.2% to data gross revenue vs 45.9% in Q2FY25 and Core Connectivity contributed 52.8% to data gross revenue vs 54.1% in Q2FY25. EBITDA margin increased by 70bps QoQ to 20.4%, led by lower employee cost (down 4.3% QoQ) while it was dragged down by network cost (up 2.2% QoQ) and other expenses (up 1.7% QoQ). Capex stood at Rs4.9bn vs Rs4.5bn in Q2FY25. Net debt remained flat at Rs104.7bn vs Rs104.8bn in Q2FY25. Voice business would continue to decline as per industry trend. The Data business (led by the Digital portfolio) remains the key business growth driver for Tata Communications. Deal funnel addition has been robust but deal closure time has increased. It is expected to reach EBITDA margin of 23% by FY27. We expect Revenue/EBITDA/PAT to grow at 10.8%/16.2%/38.6% over FY24-FY27E. We roll over to March'27E for valuation and have revised our FY25E/FY26E/FY27E EPS by (11.0%)/(8.0%)/(4.8%). We maintain our REDUCE rating with a revised target price of Rs1,713 (vs Rs1,858 earlier) at EV/EBITDA of 8.5x (9x earlier) on March'27E.

Revenue below expectation

Revenue grew by 1.2% QoQ. Segment-wise, Voice declined by 3.5% QoQ; Data grew by 1.4% QoQ; Others declined by 4.7% QoQ. Voice contributed 7.1% to revenue while Data contributed 84.6% to revenue. Digital portfolio contributed 47.2% to data gross revenue (45.9% in Q2FY25) and Core Connectivity contributed 52.8% to data gross revenue (54.1% in Q2FY25). Overall, the Voice business is expected to decline at ~6-7% CAGR; core data business has revenue growth potential of 4-5% CAGR, with the Digital business expected to grow at 15-20% CAGR. The company's aim to double data revenue by FY27 over FY23 is on track, led by the growing deal funnel.

EBITDA margin improves sequentially

EBITDA margin increased by 70bps QoQ to 20.4%, led by lower employee cost (down 4.3% QoQ) while it was dragged down by network cost (up 2.2% QoQ) and other expenses (up 1.7% QoQ). Divestment of the TCPSL business affected topline by Rs360mn and it boosted EBITDA margin by 40 bps. The aspiration remains to achieve 23-25% EBITDA margin in the medium term. We expect a gradual improvement in EBITDA margin to ~23% by FY27E.

Maintain REDUCE

The financial performance was below expectation for the quarter. Data segment continues to drive overall revenue growth. It continues to augment its digital portfolio that includes Cloud, Collaboration, Security, Next Gen Connectivity (SD-WAN, IZO), CPaaS and Media Services while its cloud business has been mostly India focused. The revenue contribution from Voice business would continue to decrease going ahead. The rising mix of Digital data revenue would continue to drive overall revenue growth with EBITDA margin expected to increase to ~23% by FY27E. We expect Revenue/EBITDA/PAT to grow at 10.8%/16.2%/38.6% over FY24-FY27E. We roll over to March'27E for valuation and have revised our FY25E/FY26E/FY27E EPS by (11.0%)/(8.0%)/(4.8%). We maintain our REDUCE rating with a revised target price of Rs1,713 (vs Rs1,858 earlier) at EV/EBITDA of 8.5x (9x earlier) on March'27E.

Financial and valuation summary

YE Mar (Rs mn)	3QFY25A	3QFY24A	YoY (%)	2QFY25A	QoQ (%)	FY25E	FY26E	FY27E
Revenues	57,981	56,333	2.9	57,279	1.2	2,31,511	2,57,512	2,85,569
EBITDA	11,810	11,343	4.1	11,294	4.6	47,348	58,183	66,252
EBITDA margin (%)	20.4	20.1	1.2	19.7	3.3	20.5	22.6	23.2
Adj. Net profit	2,567	448	472.9	2,510	2.3	13,163	21,282	25,163
Adj. EPS (Rs)	9.0	1.6	472.9	8.8	2.3	46.2	74.7	88.3
EPS growth (%)						35.9	61.7	18.2
PE (x)						36.2	22.4	18.9
EV/EBITDA (x)						11.7	9.4	8.2
PBV (x)						19.3	12.3	8.4
RoE (%)						61.8	66.8	52.5
RoCE (%)						14.9	22.1	22.8

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

Result Update

India | Telecom & Internet

22 January, 2025

REDUCE

Price: Rs1,678

Target Price: Rs1,713

Forecast return: 2%

Institutional Research

Market Data

Bloomberg:	TCOM IN
52 week H/L:	2,175/1,586
Market cap:	Rs478.2bn
Shares Outstanding:	285.0mn
Free float:	39.6%
Avg. daily vol. 3mth:	3,00,894

Source: Bloomberg

Changes in the report

Rating:	Unchanged
Target price:	Rs 1,713 from Rs 1,858
EPS:	FY26E: Rs 74.7 from Rs 81.2 FY27E: Rs 88.3 from Rs 92.7

Source: Centrum Broking

Shareholding pattern

	Dec-24	Sep-24	Jun-24	Mar-24
Promoter	58.9	58.9	58.9	58.9
FIIIs	17.8	18.1	18.1	18.2
DIIIs	13.7	13.5	13.2	13.1
Public/other	9.6	9.5	9.8	9.8

Source: BSE

Centrum estimates vs Actual results

YE Mar	Centrum	Actual	Variance
Revenue	59,140	57,981	(2.0%)
EBITDA	11,828	11,810	(0.2%)
EBITDA margin	20.0%	20.4%	40 bps
Rep. PAT	2,837	2,717	(4.2%)
Adj. PAT	2,837	2,717	(4.2%)

Source: Bloomberg, Centrum Broking



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Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY25E New	FY25E Old	% chg	FY26E New	FY26E Old	% chg
Revenue	2,31,511	2,34,914	(1.4%)	2,57,512	2,63,417	(2.2%)
EBITDA	47,348	48,649	(2.7%)	58,183	59,516	(2.2%)
EBITDA margin	20.5%	20.7%	(20 bps)	22.6%	22.6%	0 bps
Adj. PAT	13,163	14,800	(11.1%)	21,282	23,156	(8.1%)
Diluted EPS (Rs)	46.2	51.9	(11.1%)	74.7	81.2	(8.1%)

Source: Centrum Broking

Tata Communications versus NIFTY Midcap 100

	1m	6m	1 year
TCOM IN	(1.9)	(6.0)	(3.6)
NIFTY Midcap 100	(8.2)	(7.5)	10.7

Source: Bloomberg, NSE

Key assumptions

Y/E Mar(Rs mn)	FY25E	FY26E	FY27E
Revenue	2,31,511	2,57,512	2,85,569
EBITDA	47,348	58,183	66,252
PAT	13,163	21,282	25,163

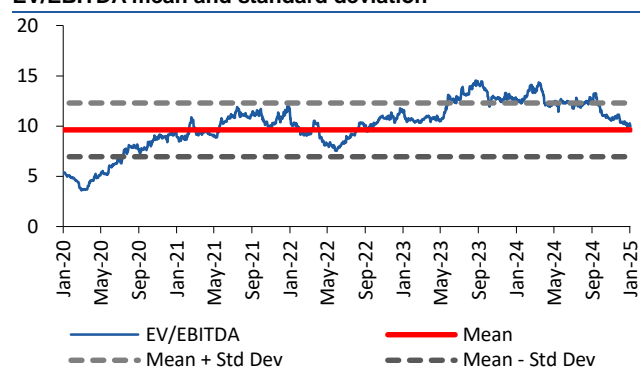
Source: Centrum Broking

Valuation

We value the company at EV/EBITDA of 8.5x on March'27E EBITDA to arrive at a target price of Rs1,713/share

Valuations	Rs/share
Mar'27E EBITDA(Rs mn)	66,252
Target EV/EBITDA multiple(x)	8.5x
EV(Rs mn)	5,63,143
Net Debt(Rs mn)	75,024
Equity value(Rs mn)	4,88,119
Shares outstanding	285
Target share price(Rs/share)	1,713

EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

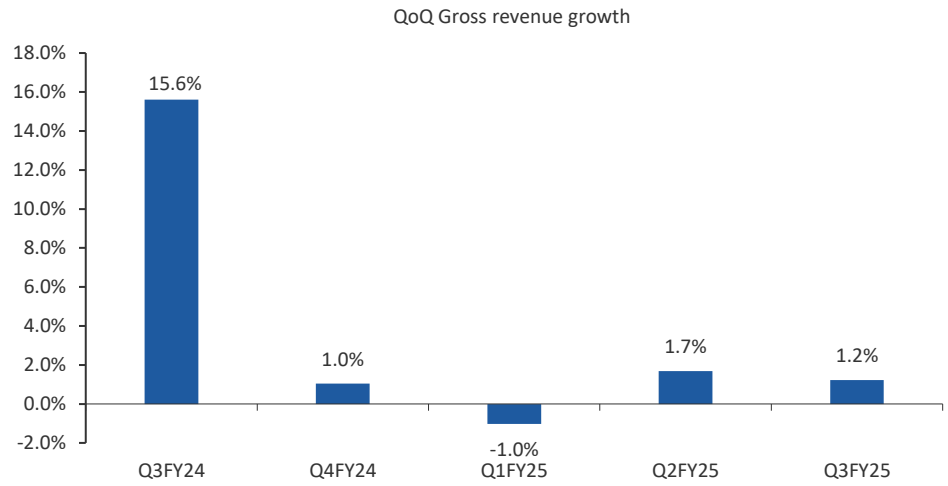
Result Analysis

Exhibit 1: Operating Metrics (Rs mn)

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Gross Revenue	45,283	45,687	47,714	48,725	56,333	56,917	56,334	57,674	57,981
Voice	5,058	4,624	4,183	4,287	4,231	4,290	4,227	4,255	4,105
Data	35,929	36,703	39,121	39,945	46,180	46,559	46,936	48,342	49,032
Core Connectivity	24,149	24,569	24,974	25,377	25,186	25,736	25,500	26,133	25,903
Digital Portfolio	11,780	12,134	14,148	14,569	20,994	20,823	21,436	22,209	23,130
Subs and Real Estate	4,296	4,359	4,409	4,493	5,921	6,069	5,171	5,077	4,843
Net Revenue	27,567	28,290	29,400	29,447	32,271	32,378	32,806	33,381	33,343
Voice	1,385	1,217	1,138	1,114	1,031	991	976	957	981
Data	25,036	25,754	27,185	27,164	28,967	28,528	29,070	29,472	29,453
Core Connectivity	19,465	19,789	20,063	20,322	20,433	20,587	20,667	21,141	20,902
Digital Portfolio	5,571	5,965	7,121	6,842	8,535	7,941	8,403	8,331	8,551
Subs and Real Estate	1,145	1,319	1,077	1,170	2,273	2,859	2,760	2,952	2,908
Gross Revenue Break Up of Digital Portfolio	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Collaboration and Managed CPaaS	4,015	3,869	4,388	4,063	10,536	10,509	10,447	11,140	11,773
Cloud and Security	3,444	3,682	3,802	4,186	3,842	3,990	4,157	4,151	4,320
Next Gen Connectivity	1,587	1,745	1,835	2,016	2,276	2,088	2,078	2,172	2,485
Media	1,512	1,502	2,991	3,128	3,147	3,083	3,367	2,889	3,083
Incubation Services	1,221	1,335	1,132	1,175	1,193	1,153	1,388	1,856	1,468
Data Revenue by Currency	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Indian Rupee (INR)	41.3%	42.1%	41.9%	42.8%	35.8%	35.3%	38.4%	37.9%	37.7%
Other International Currencies	58.7%	57.9%	58.1%	57.2%	64.2%	64.7%	61.6%	62.1%	62.3%
Data Revenue by Geography	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
India	49.1%	49.8%	48.6%	48.4%	43.9%	43.6%	43.4%	42.5%	41.9%
Rest of World	50.9%	50.2%	51.4%	51.6%	56.1%	56.4%	56.6%	57.5%	58.1%
Core Connectivity Revenue by Segment	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Service provider	37.1%	36.4%	35.3%	34.6%	35.3%	34.0%	31.3%	31.4%	33.4%
Enterprise	62.9%	63.6%	64.7%	65.4%	64.7%	66.0%	68.7%	68.6%	66.6%
Data Revenue by Segment	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Service provider	27.9%	26.9%	25.0%	24.6%	25.4%	25.2%	22.8%	23.6%	24.1%
Enterprise	72.1%	73.1%	75.0%	75.4%	74.6%	74.8%	77.2%	76.4%	75.9%

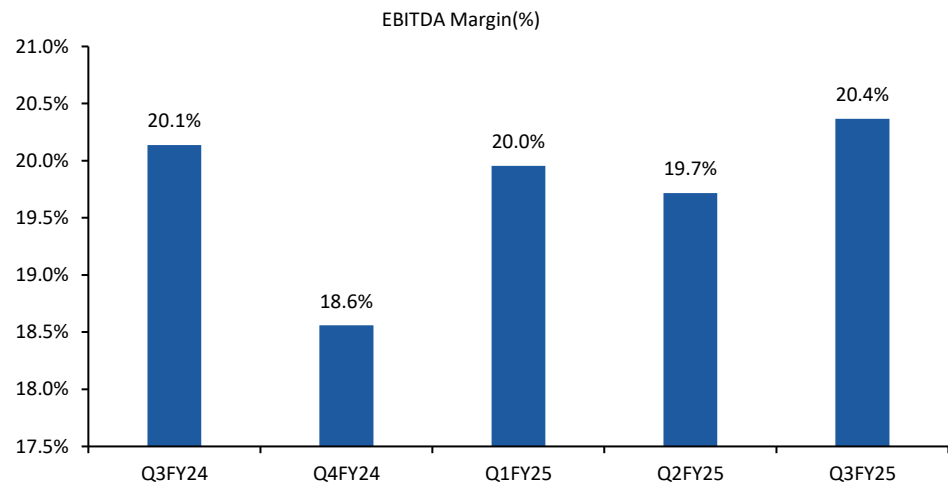
Source: Company data

Exhibit 2: Revenue growth remained muted



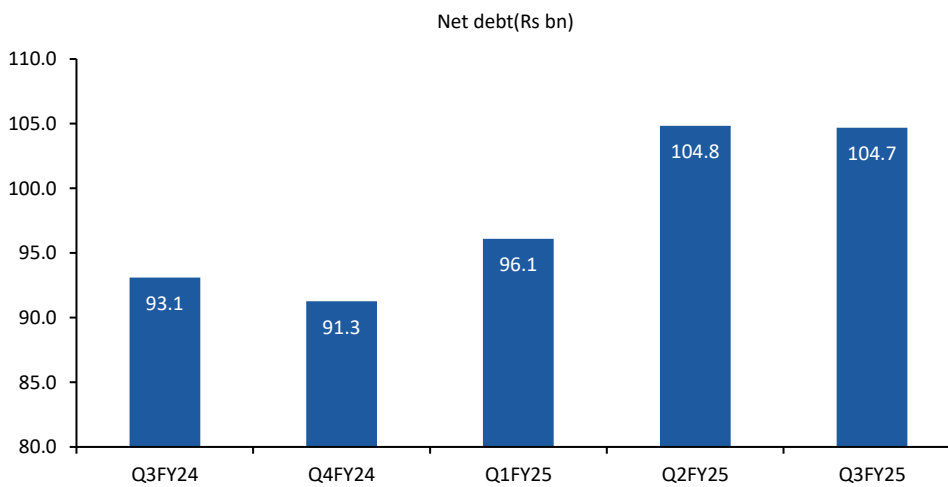
Source: Centrum Broking, Company Data

Exhibit 3: Sequential increase in EBITDA margin

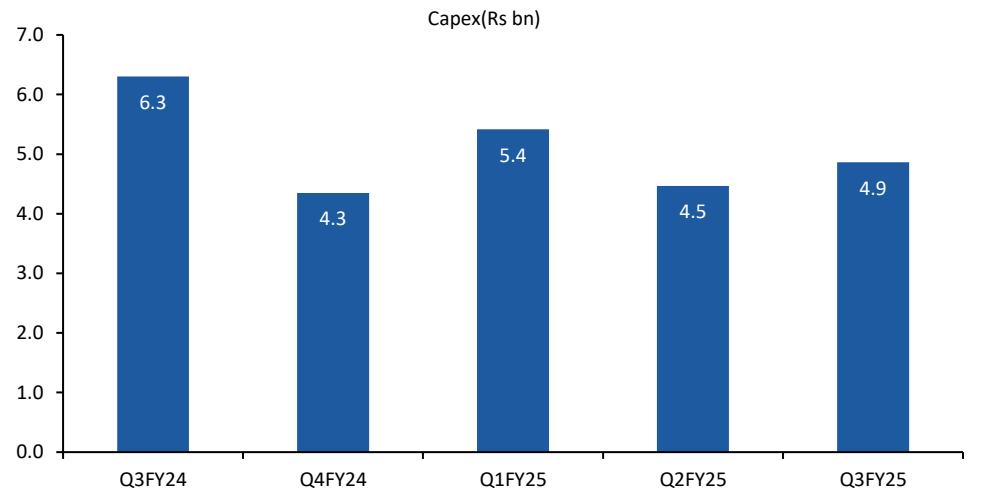


Source: Centrum Broking, Company Data

Exhibit 4: Net debt remained flat



Source: Centrum Broking, Company Data

Exhibit 5: Capex increased sequentially

Source: Centrum Broking, Company Data

Concall Highlights

- Expects to complete sale of land parcel for Rs8.5bn.
- Divested the TCPSL business, which affected topline by Rs360mn.
- Its Cloud business has been mostly India focussed.
- Demand environment has been subdued. Slight increase in deal closure times.
- Deal funnel addition has been robust.
- Core connectivity revenue in FY25 has been muted compared to previous years.
- Working on achieving EBITDA margin of 23-25% by FY27; minor delay due to forex and investments.
- Well on track to achieve ROCE and net debt/EBITDA guidance.
- Needs to increase its footprint in the international market to drive growth.
- Free cash flow hit Rs8.4bn, the highest in 10 quarters, addressing prior working capital issues.
- FY27 data revenue doubling target on track; led by growing deal funnel.

P&L					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenues	1,78,383	2,09,688	2,31,511	2,57,512	2,85,569
Operating Expense	63,755	80,864	96,740	1,01,681	1,11,372
Employee cost	35,975	44,530	46,417	48,927	54,258
Others	35,471	41,993	41,007	48,721	53,687
EBITDA	43,182	42,301	47,348	58,183	66,252
Depreciation & Amortisation	22,618	24,697	25,918	27,347	29,985
EBIT	20,565	17,604	21,430	30,835	36,267
Interest expenses	4,325	6,442	7,167	6,398	5,902
Other income	3,632	2,825	1,650	2,155	1,078
PBT	20,635	11,631	17,050	26,592	31,443
Taxes	2,966	2,135	4,080	5,318	6,289
Effective tax rate (%)	14.4	18.4	23.9	20.0	20.0
PAT	17,669	9,496	12,970	21,274	25,155
Minority/Associates	303	189	193	8	8
Recurring PAT	17,972	9,685	13,163	21,282	25,163
Reported PAT	17,972	9,685	13,163	21,282	25,163
Ratios					
YE Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Growth (%)					
Revenue	6.7	17.5	10.4	11.2	10.9
EBITDA	2.2	(2.0)	11.9	22.9	13.9
Adj. EPS	21.3	(46.1)	35.9	61.7	18.2
Margins (%)					
Gross	64.3	61.4	58.2	60.5	61.0
EBITDA	24.2	20.2	20.5	22.6	23.2
EBIT	11.5	8.4	9.3	12.0	12.7
Adjusted PAT	10.1	4.6	5.7	8.3	8.8
Returns (%)					
ROE	147.0	58.6	61.8	66.8	52.5
ROCE	22.9	15.7	14.9	22.1	22.8
ROIC	14.4	9.3	11.0	15.8	17.1
Turnover (days)					
Gross block turnover ratio (x)	2.4	2.8	3.1	3.6	4.1
Debtors	54	57	62	61	60
Inventory	6	5	3	3	3
Creditors	180	156	141	141	135
Net working capital	(30)	(40)	(32)	(23)	(15)
Solvency (x)					
Net debt-equity	4.3	5.3	3.2	1.9	1.2
Interest coverage ratio	10.0	6.6	6.6	9.1	11.2
Net debt/EBITDA	1.5	2.2	1.7	1.3	1.0
Per share (Rs)					
Adjusted EPS	63.1	34.0	46.2	74.7	88.3
BVPS	53.3	62.7	86.9	136.5	199.8
CEPS	142.4	120.6	137.1	170.6	193.5
DPS	20.7	21.0	22.0	25.0	25.0
Dividend payout (%)	32.8	61.8	47.6	33.5	28.3
Valuation (x)					
P/E	26.5	49.2	36.2	22.4	18.9
P/BV	31.4	26.7	19.3	12.3	8.4
EV/EBITDA	12.6	13.5	11.7	9.4	8.2
Dividend yield (%)	1.2	1.3	1.3	1.5	1.5

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Equity share capital	2,850	2,850	2,850	2,850	2,850
Reserves & surplus	12,333	15,014	21,907	36,064	54,102
Shareholders fund	15,183	17,864	24,757	38,914	56,952
Minority Interest	303	39	39	39	39
Total debt	76,661	1,02,775	89,578	85,099	80,844
Non Current Liabilities	40,436	39,990	41,182	42,448	43,793
Def tax liab. (net)	333	1,959	2,096	2,243	2,400
Total liabilities	1,32,916	1,62,627	1,57,652	1,68,743	1,84,027
Gross block	74,598	74,297	73,747	72,338	69,348
Net block	74,598	74,297	73,747	72,338	69,348
Capital WIP	10,034	11,765	10,001	8,500	7,225
Net fixed assets	1,02,538	1,33,052	1,16,943	1,12,683	1,07,205
Non Current Assets	23,978	25,515	31,948	41,875	56,381
Investments	17,348	19,887	20,881	21,925	23,021
Inventories	1,600	835	919	1,011	1,112
Sundry debtors	27,350	37,584	40,966	44,653	48,672
Cash & Cash Equivalents	10,626	8,425	10,109	12,131	14,558
Loans & advances	1,464	1,558	1,713	1,885	2,073
Other current assets	17,070	11,589	12,613	13,739	14,976
Trade payables	32,772	36,562	38,390	40,310	42,325
Other current liab.	38,242	44,629	46,123	47,692	49,337
Provisions	1,596	1,796	1,814	1,832	1,850
Net current assets	(14,501)	(22,997)	(20,007)	(16,415)	(12,123)
Total assets	1,32,916	1,62,627	1,57,652	1,68,743	1,84,027

Cashflow					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Profit Before Tax	20,635	11,631	17,050	26,592	31,443
Depreciation & Amortisation	22,618	24,697	25,918	27,347	29,985
Net Interest	4,325	6,442	7,167	6,398	5,902
Net Change – WC	5,817	815	1,530	778	91
Direct taxes	(4,317)	(4,128)	(4,660)	(5,960)	(6,999)
Net cash from operations	49,077	39,458	47,004	55,155	60,422
Capital expenditure	(21,133)	(39,591)	(8,705)	(22,094)	(23,612)
Investments	(4,068)	3,564	(1,009)	(1,059)	(1,111)
Others	318	(984)	(9,970)	(12,867)	(16,958)
Net cash from investing	(24,883)	(37,011)	(19,685)	(36,020)	(41,682)
FCF	24,194	2,448	27,320	19,135	18,740
Increase/(decrease) in debt	(4,615)	27,137	(13,605)	(4,872)	(4,633)
Dividend paid	(5,900)	(5,985)	(6,270)	(7,125)	(7,125)
Interest paid	(4,325)	(6,442)	(7,167)	(6,398)	(5,902)
Others	(6,163)	(19,359)	1,407	1,282	1,346
Net cash from financing	(21,002)	(4,648)	(25,635)	(17,113)	(16,314)
Net change in Cash	3,192	(2,201)	1,684	2,022	2,426

Source: Company, Centrum Broking

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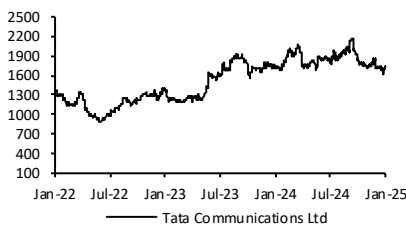
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Tata Communications



Source: Bloomberg

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