

TCom reported broadly in-line revenue, but margin disappointed in Q4 due to lower margins for Kaleyra/Switch. Combined EBITDA of Kaleyra and Switch was down to Rs0.2bn in Q4 from Rs1.1bn in Q3, leading to consolidated margin declining 160bps QoQ to 18.6%. While funnel continues to be robust, order book has been flattish. Revenue likely to improve on investing in the platform and realizing synergies from acquisition. Margin to improve from FY25 due to: i) Reduction in M&A spend; ii) operating leverage benefit from investments; and iii) sharper focus on subsidiary profitability. Scale and synergies can help improve margin to 23.4% by FY26, from 18.6% in Q4FY24. Our TP reduces to Rs2,125/share (11x Mar-26E EBITDA) from Rs2,225 as we cut our FY25/FY26E margin by 43/10bps on margin miss. We retain our ADD rating on the stock.

Tata Communications: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	167,247	178,383	209,688	245,465	268,071
EBITDA	42,267	43,182	42,301	51,281	62,699
Adj. PAT	14,758	16,546	12,170	17,258	24,608
Adj. EPS (Rs)	52.0	60.7	42.7	60.6	86.3
EBITDA margin (%)	25.3	24.2	20.2	20.9	23.4
EBITDA growth (%)	(0.8)	2.2	(2.0)	21.2	22.3
Adj. EPS growth (%)	18.5	16.8	(29.7)	41.8	42.6
RoE (%)	417.0	170.0	86.3	82.9	72.9
RoIC (%)	21.4	29.1	22.0	25.7	34.9
P/E (x)	35.8	31.9	43.4	30.6	21.5
EV/EBITDA (x)	14.1	13.5	14.6	11.5	9.4
P/B (x)	73.6	43.0	33.2	20.5	12.6
FCFF yield (%)	3.5	4.4	(4.0)	6.5	1.3

Source: Company, Emkay Research

Robust funnel; order book flattish; investment and synergies to drive growth

Management remains confident about doubling of data revenues by FY27 (needs per year growth of >15%). While funnel continues to be robust, order book has been flattish for the past few quarters. Enterprise order book grew in double-digits this year, though order book from OTT, hyper-scalers, and service providers have been lumpy. Slow decision-making has hurt growth, though TCom is well-prepared to benefit from improvement in macros. It plans to improve revenue by investing in the platform and also realizing all cost synergies. Initiatives like: i) moving Kaleyra, DIGO, and InstaCC into one customer interaction suite; and ii) Switch and TCom's media being led by one business leader, are likely to aid growth. The ROCE is expected to witness dilution over the next two quarters, on full impact of Kaleyra. Profitability may improve as TCom benefits from the synergies of its acquisitions, and as it begins realizing operating leverage from its organic investments. Improvement in ROCE will be followed by an improvement in margin.

Synergies and scale to drive margin improvement in FY25E; maintain ADD

Q4 EBITDA was impacted due to: i) full quarter impact of Kaleyra integration; ii) Q4 being a seasonally-weak quarter for Kaleyra after a strong Q3; iii) costs related to harmonization of policies in line with TCom; iv) provisioning of USD1mn related to one-off legal expenses that may emerge from a large US-listed public company takeover. We see margin improving in FY25E as: i) spend on M&A, including due diligence and fees, that company incurred in FY24 will come off in FY25E; ii) operating leverage benefit from organic investments, as investments reduce; iii) sharper strategic focus on subsidiaries like TCTS and TCPSL to drive profitability. We see the share of digital revenue in data revenue, increasing to 51% in FY26E from 45% in Q4FY24. With synergy and operating leverage benefits, margin can recover to 23.4% by FY26E from 18.6% in Q4FY24. We expect revenue/EBITDA to register CAGR of 13%/22% over FY24-26E. We cut our FY25E/FY26E margin by 43/10bps on margin miss. Our TP reduces to Rs2,125/share (11x Mar-26E EBITDA) from Rs2,225 earlier. We retain our ADD rating on the stock.

Target Price – 12M	Mar-25
Change in TP (%)	(4.5)
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	14.6
CMP (18-Apr-24) (Rs)	1,854.1

Stock Data	Ticker
52-week High (Rs)	2,085
52-week Low (Rs)	1,172
Shares outstanding (mn)	285.0
Market-cap (Rs bn)	528
Market-cap (USD mn)	6,325
Net-debt, FY25E (Rs mn)	59,468
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	1,590.5
ADTV-3M (USD mn)	19.0
Free float (%)	-
Nifty-50	21,996
INR/USD	83.5
Shareholding, Mar-24	
Promoters (%)	58.9
FPIs/MFs (%)	18.2/13.1

Price Performance

(%)	1M	3M	12M
Absolute	(5.5)	4.8	52.9
Rel. to Nifty	(5.4)	2.8	23.1

1-Year share price trend (Rs)



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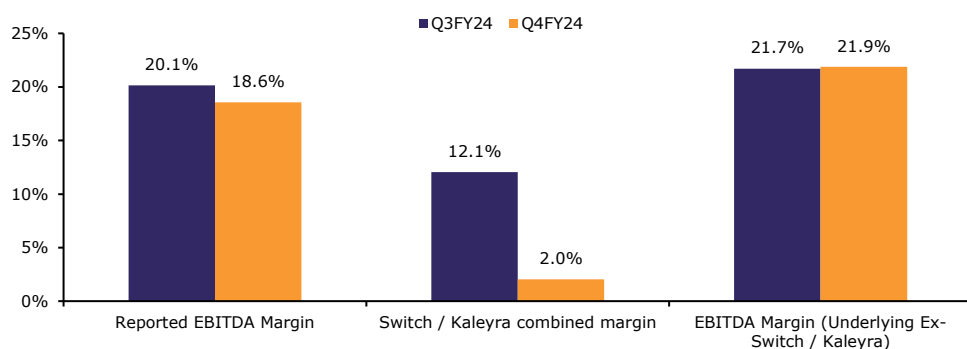
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Exhibit 1: Underlying revenue/EBITDA

(Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Total Sales (Reported)	45,687	47,714	48,725	56,333	56,917	24.6	1.0
Switch/Kaleyra impact	0	968	1,543	9,134	9,489		3.9
Underlying Sales (Ex-Switch/Kaleyra)	45,687	46,746	47,182	47,199	47,428	3.8	0.5
Reported EBITDA	10,342	10,240	10,155	11,343	10,563	2.1	(6.9)
Switch/Kaleyra impact	0	-104	-67	1,102	193		(82.5)
Underlying EBITDA (Ex-Switch/Kaleyra)	10,342	10,344	10,221	10,242	10,370	0.3	1.3
Reported EBITDA Margin	22.6%	21.5%	20.8%	20.1%	18.6%	(408)	(158)
Switch/Kaleyra combined margin				12.1%	2.0%		(1,003)
Underlying EBITDA Margin (Ex-Switch/Kaleyra)	22.6%	22.1%	21.7%	21.7%	21.9%	(77)	17

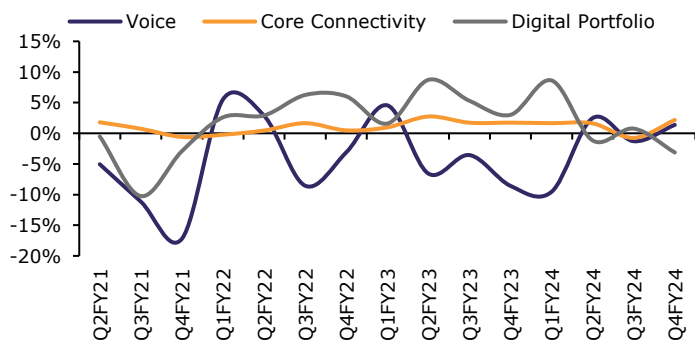
Source: Company, Emkay Research

Exhibit 2: Combined margin of Switch and Kaleyra was down in Q4FY24



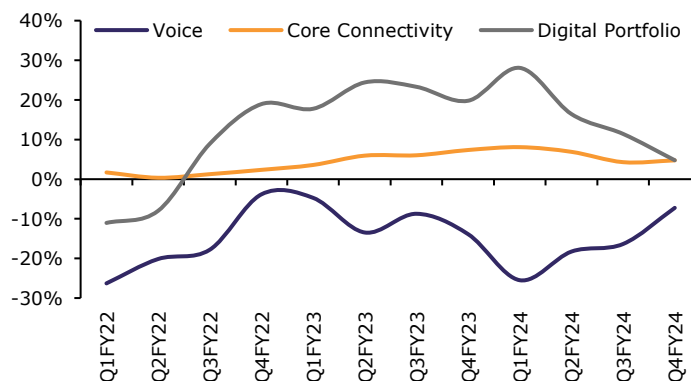
Source: Company, Emkay Research

Exhibit 3: QoQ underlying revenue growth for the digital portfolio, continues to be moderate in Q4



Source: Company, Emkay Research

Exhibit 4: YoY underlying growth for the digital portfolio waters down further



Source: Company, Emkay Research

Q4FY24: Earnings call key highlights

- **Healthy funnel for enterprise:** The macro conditions are still not very favorable. However, TCom's level of participation in larger opportunities continues to increase. Hence, the funnel is healthy, despite the flattish order book. Enterprise order book continues to be robust, with both India and international, witnessing a positive growth momentum growing at 12.6% and 10.5%, respectively, while some of the geographies registered over 20% growth. However, order book from OTT, hyperscalers, and service providers have been lumpy in the last few quarters. This is due to higher built up of capacity, especially in the OTT segment. Slow decision making is also hurting the growth rate.
- **Doubling of revenue by FY27E:** TCom maintains its long-term ambition of doubling its revenue by FY27E (with the help of 15-20% annual growth), with a 23%-25% EBITDA margin range (as operating leverage from organic investments plays out). By FY25, the company wants to maintain net debt/EBITDA under 2x. This will lead to improvement in RoCE (after bottoming out in the next two quarters). EBITDA margin will be the last to improve and attain the company's target range.
- **Eventful FY24 leads to dip in margin:** Excluding acquisitions and subsidiaries, TCom's EBITDA margin dipped to 23.7% from 24.2% in FY23. This is majorly attributable to organic investments in people and platform, as well as building of the platform, M&A-related expenses in FY24, consolidation of acquisitions (which are loss-making), and the changing revenue mix towards digital. Seasonality in Kaleyra and Switch business (Q3 strong due to festivities and events) impacted their net revenue margin. Additionally, a one-off legal expense of USD 1mn in Kaleyra, and cost regularization for Kaleyra and Switch, impacted consolidated EBITDA margin (158bps QoQ decline) during the quarter.
- **Switch and Kaleyra are being run as an integrated business:** TCom is positive about the combined opportunities visible in the market. Switch and TCom's media are led by one business leader. TCom has moved to a structure where Kaleyra, DIGO, and InstaCC are in one customer interaction suite (CIS) unit and led by one leader. Customer opportunities are being looked at holistically vs. through an individual product lens. Moreover, new business opportunities are taken up by Kaleyra, as it is expected to lead growth for the CIS unit.
- **Revival in Collaboration and CPaaS:** Collaboration and CIS portfolio (excl. Kaleyra) grew at 5% CAGR over the last 2 years, witnessing reversal of a declining trend. The company believes that cloud adoption is yet to complete in India (Indian players lag global peers), and has scope for growth; the company considers its TCO to be better than that of any public cloud player in the next three years. TCom is confident about its data growth ambition, led by expansion of portfolio capabilities. It has launched a new product named 'JAMVEE', and is looking to partner with Microsoft for a product launch in India to boost this business.
- **Next-gen connectivity key focus area for growth:** TCom has its key focus on next-gen connectivity, which is driving growth, despite its time period from order booking to revenue being a bit longer. The cloud business is likely to see growth largely in India, while the company is doubling its focus for the Security segment in International markets. Kaleyra acquisition has opened up an opportunity in the area of interaction fabric.
- **Other comments**

 - Company will be refinancing its debt for a lower rate, details for which are expected to be announced in the next few weeks.
 - New logo registered a strong performance of 90% revenue growth in FY24 (albeit on a low base), led by digital fabric.
 - The SMS contribution of 95% is expected to diversify in to other channels and the company has planned its offerings to capture this shift.

Consolidated Financial performance

- **Revenue broadly in line:** Revenue came in at Rs56.9bn (+24.6% YoY, +1% QoQ), broadly in line with our revenue estimate of Rs57.4bn, and consensus estimates of Rs57.2bn.
- **Moderating underlying data revenue growth:** On underlying basis, revenue was up 3.8% YoY/0.5% QoQ, backed by underlying data revenue improving 4.8% YoY/0.4% QoQ. We highlight that underlying data revenue growth has been moderating in the last 4 quarters (4.8% YoY in Q4FY24; 6.6% YoY in Q3FY24; 10% YoY in Q2FY24 and 14% YoY Q1FY24).
- **Miss on EBITDA:** EBITDA is down 6.9% QoQ and up 2.3% YoY, a miss of 7% on our/consensus EBITDA. **On underlying basis, EBITDA was up 1.3% QoQ/0.3% YoY.** Network cost increased 2.4% QoQ/42.4% YoY, as employee costs were up 1.2% QoQ/17.6% YoY, and other operating expenses increased by 6.5% QoQ/25.7% YoY, owing to full quarter impact of the Kaleyra acquisition.
- **Margin disappointed:** EBITDA margin of 18.6% was below our/consensus estimate of 19.8%/19.7%, respectively, by 130bps amid higher other expenses. Underlying EBITDA margins stood at 21.9% vs. 21.7% on underlying basis. Margin from Kaleyra and Switch disappointed in Q4.
- **PAT for Q4 was Rs3.2bn**, up 6x QoQ. TCom's PAT for Q4 reduced by Rs329mn in Q4 (vs. Rs 154.4mn in Q3) on Kaleyra acquisition, while it declined by Rs526mn in Q4 (Rs122mn in Q3) on Switch acquisition.
- The carrying amount of trade receivables (including unbilled revenue and net of provisions) from Vi was Rs2,351mn and Rs2,212mn as on 31-March-2024 and 31-December-2023, respectively. TCom believes that the balance is good and recoverable, basis its on-going interactions with Vi.
- **FCF and Net Debt**
 - Cash capex for Q4FY24 reduced to Rs4.35bn, against Rs6.3bn in Q3FY24.
 - FCF increased to Rs5.5bn in Q4FY24 vs. Rs0.8bn in Q3FY24, due to higher cash from operations and lower capex.
 - Net debt reduced to Rs91.3bn at the end of Q4 vs. Rs93.1bn at the end of Q3.
 - Weighted average cost of debt reduced to 5.9% from 6.3% in Q3FY24.

Data segment – Underlying data revenue growth moderating

- Underlying data segment revenue witnessed growth of 4.8% YoY/0.4% QoQ.
- **Digital portfolio grew 72% YoY (-0.8% QoQ)**, led by Kaleyra/Switch acquisition. On underlying basis, it was up 4.8% YoY (-3.1% QoQ). QoQ decline was due to 7.8% QoQ drop in gross revenue of Collaboration and Managed CPaaS division. Incubation Services is also down 3.4% QoQ/14% YoY. Next-Gen Connectivity up 28% YoY (-2.4% QoQ) on underlying basis, was the key positive.
- **Core connectivity** grew by 4.0% YoY (+0.8% QoQ).
- **On underlying basis, data EBITDA was up 6.4% YoY (+0.6% QoQ).** Reported data EBITDA stood at Rs8.6bn, down 2.9% YoY/11% QoQ.
- **Underlying data margin was flat QoQ at 24.4%:** Reported data margin was down 243bps QoQ to 18.4%, possibly due to lower margin for Kaleyra and Switch.

Exhibit 5: Data segment - Financials

Data (Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Gross revenue	36,703	39,121	39,945	46,180	46,559	26.9	0.8
Less: Direct Costs	10,949	12,176	13,261	17,777	18,533	69.3	4.2
Net revenues	25,754	26,945	26,684	28,403	28,026	8.8	(1.3)
Less: Operating Exp	16,929	17,660	17,554	18,775	19,453	14.9	3.6
EBITDA	8,825	9,285	9,130	9,628	8,573	(2.9)	(11.0)
EBITDA margin (%)	24.0%	23.7%	22.9%	20.8%	18.4%	-563 bps	-243 bps

Source: Company

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Exhibit 6: Data segment – Financials break-up

Core Connectivity (Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Gross revenue	24,569	24,974	25,377	25,186	25,736	4.7	2.2
Less: Direct Costs	4,779	4,910	5,054	4,754	5,149	7.7	8.3
Net revenue	19,789	20,063	20,322	20,433	20,587	4.0	0.8
Gross revenue - Digital and incubation	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Digital Platform and Services	10,799	13,015	13,393	19,801	19,670	82.2	(0.7)
Incubation Services	1,335	1,132	1,175	1,193	1,153	(13.7)	(3.4)

Source: Company

Exhibit 7: Digital portfolio – Gross revenue break-up

(Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
(Rs mn)	10,799	12,048	13,393	19,801	19,670	82.2	(0.7)
Collaboration and Managed CPaaS	3,869	4,388	4,063	10,536	10,509	171.6	(0.3)
Cloud and Security	3,568	3,487	3,705	3,646	3,670	2.9	0.7
Next-Gen Connectivity	1,926	2,213	2,555	2,530	2,468	28.1	(2.4)
Media	1,436	1,960	3,070	3,089	3,023	110.6	(2.1)
Incubation Services	1,335	1,132	1,175	1,193	1,153	(13.7)	(3.4)

Source: Company

Voice segment and subsidiaries

- **Voice revenue grows QoQ:** Voice gross revenue stood at Rs4.3bn, up 1.4% QoQ vs. down 1.3% QoQ in Q3. EBITDA stood at Rs440mn with margin of 10.3% vs. 11.8% in Q3 (-150bps QoQ).
- **Transformation services:** Revenue stood at Rs3.7bn, up 0.4%QoQ (4.2% YoY), while EBITDA was Rs151mn in Q4 vs. Rs13mn in Q3. Margin increased to 4.1% from 0.3% in Q3. TCom had mutually agreed to exit a large contract in TCTS in Q3, which was not profitable. This may have led to an increase in profitability in the segment.
- **Payment services:** The topline improved 3.7% sequentially (-9.2% YoY), while EBITDA stood at Rs55mn vs. Rs38mn in the last quarter. In Q2, the company witnessed lower transactions and the closing of company-operated ATMs, which has impacted YoY growth for the segment.

Exhibit 8: Voice segment

(Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Gross Revenue	4,624	4,183	4,287	4,231	4,290	(7.2)	1.4
Less: Direct Costs	3,407	3,045	3,173	3,200	3,299	(3.2)	3.1
Net revenues	1,217	1,138	1,114	1,031	991	(18.6)	(3.9)
Less: Opex	311	517	489	530	550	77.2	3.9
EBITDA	906	621	625	501	440	(51.4)	(12.1)
EBITDA Margin (%)	19.6%	14.8%	14.6%	11.8%	10.3%	-934 bps	-158 bps

Source: Company

Exhibit 9: TCTSL – Financials

(Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Gross Revenue	3,424	3,403	3,539	3,689	3,704	8.2	0.4
Less: Direct Costs	2,857	3,012	3,040	3,215	2,792	-2.3	-13.2
Net Revenue	567	390	499	474	912	60.7	92.3
Less: Opex	436	408	542	462	760	74.2	64.7
EBITDA	131	(17)	(42)	13	152	NM	NM
EBITDA Margin (%)	4%	-1%	-1%	0%	4%	27 bps	376 bps

Source: Company

Exhibit 10: TCPNL – Financials

(Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Gross Revenue	459	446	395	403	417	-9.2	3.7
Less: Direct Costs	183	323	282	273	264	44.2	-3.4
Net revenues	277	123	113	130	154	-44.5	18.4
Less: Opex	67	110	113	92	99	48.4	7.3
EBITDA	210	12	0	38	55	-73.9	45.3
EBITDA margin (%)	46%	3%	0%	9%	13%	-3,257 bps	377 bps

Source: Company

Exhibit 11: Summary of quarterly financials

(Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Total Sales	45,687	47,714	48,725	56,333	56,917	24.6	1.0
Network cost	16,387	16,733	18,007	22,792	23,333	42.4	2.4
As a % of sales	35.9	35.1	37.0	40.5	41.0		
Employee Cost	9,996	10,435	10,723	11,617	11,755	17.6	1.2
As a % of sales	21.9	21.9	22.0	20.6	20.7		
Other operating expenses	8,962	10,305	9,841	10,580	11,267	25.7	6.5
as % of sales	19.6	21.6	20.2	18.8	19.8		
Total Expenditure	35,344	37,473	38,571	44,990	46,354	31.1	3.0
EBITDA	10,342	10,240	10,155	11,343	10,563	2.1	(6.9)
Depreciation	6,185	5,797	6,051	6,190	6,658	7.7	7.6
EBIT	4,157	4,443	4,103	5,153	3,905	(6.1)	(24.2)
Other Income	618	1,886	254	115	570	(7.8)	396.5
Interest	1,321	1,310	1,374	1,876	1,882	42.4	0.3
PBT	3,454	5,019	2,983	3,393	2,593	(24.9)	(23.6)
Tax	281	1,306	779	924	(1,085)	(486.7)	(217.4)
PAT before MI	3,174	3,713	2,204	2,469	3,678	15.9	49.0
Minority interest	87	85	3	45	56		
PAT	3,260	3,797	2,207	2,514	3,734	14.5	48.5
Exceptional item	-	(20)	-	2,066	521		
PAT from continued operations	3,260	3,817	2,207	448	3,213	(1.5)	617.0
(%)						(bps)	(bps)
EBITDA margin	22.6	21.5	20.8	20.1	18.6	(408)	(158)
EBIT margin	9.1	9.3	8.4	9.1	6.9	(224)	(229)
EBT margin	7.6	10.5	6.1	6.0	4.6	(300)	(147)
PAT margin	7.1	8.0	4.5	4.5	6.6	(58)	210
Effective Tax rate	8.1	26.0	26.1	27.2	(41.8)	(4,996)	(6,906)

Source: Company, Emkay Research

Exhibit 12: TCom – Financials

Consolidated (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Revenue	171,000	167,247	178,383	209,688	245,465	268,071
EBITDA	42,607	42,267	43,182	42,301	51,281	62,699
Margin	24.9%	25.3%	24.2%	20.2%	20.9%	23.4%
Revenue Break-up						
Voice	27,903	22,862	20,542	16,991	15,323	13,975
Data	125,992	127,788	140,955	171,805	205,791	229,014
Others (Subsidiaries + Real Estate)	17,100	16,595	16,886	20,937	24,350	25,082
Share of revenue						
Voice	16.3%	13.7%	11.5%	8.1%	6.2%	5.2%
Data	73.7%	76.4%	79.0%	81.9%	83.8%	85.4%
Others (Subsidiaries + Real Estate)	10.0%	9.9%	9.5%	10.0%	9.9%	9.4%
Data (Rs mn)						
Revenue (Rs bn)	125,992	127,788	140,955	171,805	205,791	229,014
EBITDA	39,728	39,899	38,063	36,616	43,267	54,700
Margin	32%	31%	27%	21%	21%	24%
Data break-up						
	FY21	FY22	FY23	FY24	FY25E	FY26E
Core Connectivity	89,147	90,377	95,565	101,272	106,336	111,653
Digital Platforms and Services	35,564	35,264	40,738	65,880	93,844	110,150
Incubation Services	1,281	2,148	4,652	4,653	5,611	7,211
Total	125,992	127,788	140,955	171,805	205,791	229,014
Data break-up						
Core Connectivity	70.8%	70.7%	67.8%	58.9%	51.7%	48.8%
Digital Platforms and Services	28.2%	27.6%	28.9%	38.3%	45.6%	48.1%
Incubation Services	1.0%	1.7%	3.3%	2.7%	2.7%	3.1%
Voice (Rs mn)						
Revenue	27,903	22,862	20,542	16,991	15,323	13,975
EBITDA	1,722	1,516	3,406	2,187	1,686	1,369
Margin	6.2%	6.6%	16.6%	12.9%	11.0%	9.8%
YoY growth	-17.4%	-18.1%	-10.1%	-17.3%	-9.8%	-8.8%
RENTALS (Rs mn)						
Revenue	1,660	1,832	1,890	2,253	2,400	2,600
EBITDA	1,020	1,175	1,002	1,465	1,392	1,508
EBITDA Margin	61%	64%	53%	65%	58%	58%
TCTSL (Rs mn)						
Revenue	13,290	13,118	13,143	14,335	14,567	14,785
EBITDA	90	(471)	487	105	583	591
EBITDA Margin	1%	-4%	4%	1%	4%	4%
TCPSL (Rs mn)						
Revenue	2,150	1,645	1,854	1,705	1,774	1,862
EBITDA	60	149	224	105	231	242
EBITDA Margin	3%	9%	12%	6%	13%	13%

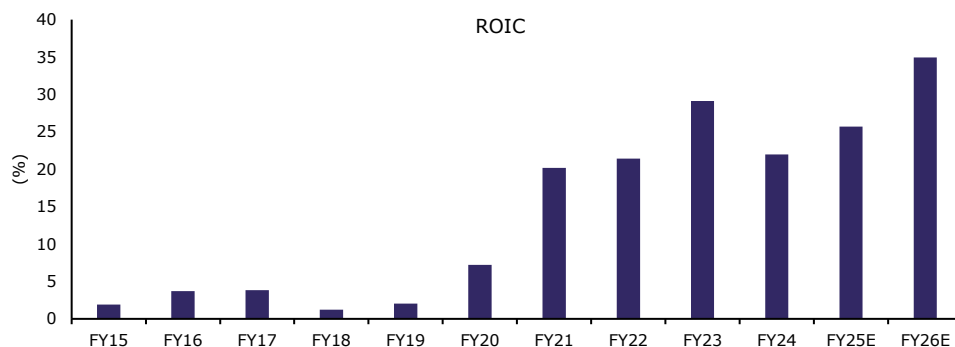
Source: Company, Emkay Research

Exhibit 13: Changes in estimate

(Rs mn)	FY25E			FY26E		
	Old	Revised	Change	Old	Revised	Change
Revenue	246,778	245,465	-0.5%	270,539	268,071	-0.9%
EBITDA	52,614	51,281	-2.5%	63,531	62,699	-1.3%
EBITDA Margin (%)	21.3	20.9	-43 bps	23.5	23.4	-9 bps
APAT	18,600	17,258	-7.2%	25,482	24,608	-3.4%
EPS (Rs/sh)	65.3	60.6	-7.2%	89.4	86.3	-3.4%

Source: Emkay Estimates

Exhibit 14: RoIC is expected to expand



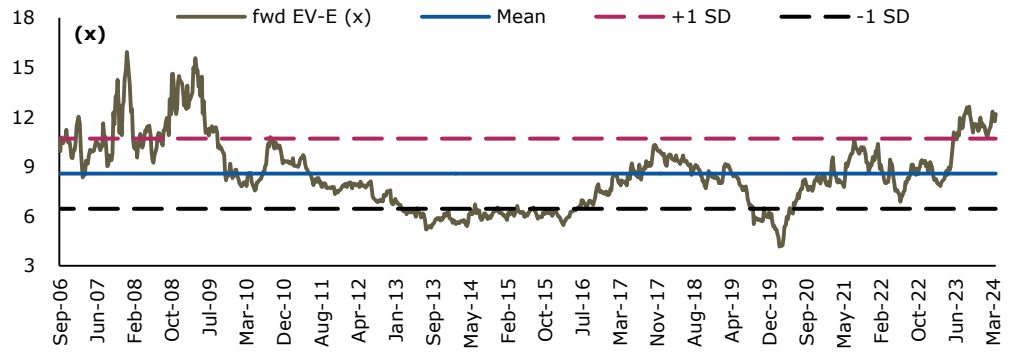
Source: Company, Emkay Research

Exhibit 15: SOTP for Tata Communications

Particulars	Mar-26E
Voice Segment	
EBITDA (Rs mn)	1,369
EV/EBITDA (x)	2.0
Enterprise value (Rs mn)	2,738
Data Segment	
EBITDA (Rs mn)	61,330
EV/EBITDA (x)	11.0
Enterprise value (Rs mn)	674,628
Total Enterprise Value (Rs mn)	677,365
Net debt (Rs mn)	75,198
Implied market cap (Rs mn)	602,168
Value from core business (Rs/share)	2,113
Add: 26% stake in data center (Rs/share)	63
Less: Potential AGR liability (Rs/share)	56
Target price (Rs/share)	2,125

Source: Company, Emkay Research

Exhibit 16: One-year forward EV/EBITDA



Source: Bloomberg

Tata Communications: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	167,247	178,383	209,688	245,465	268,071
Revenue growth (%)	(2.2)	6.7	17.5	17.1	9.2
EBITDA	42,267	43,182	42,301	51,281	62,699
EBITDA growth (%)	(0.8)	2.2	(2.0)	21.2	22.3
Depreciation & Amortization	22,061	22,618	24,418	26,660	27,630
EBIT	20,206	20,564	17,883	24,621	35,069
EBIT growth (%)	3.8	1.8	(13.0)	37.7	42.4
Other operating income	0	0	0	0	0
Other income	3,321	3,632	3,000	3,000	3,000
Financial expense	3,603	4,974	6,983	6,419	5,859
PBT	19,924	19,221	13,900	21,201	32,209
Extraordinary items	60	764	0	0	0
Taxes	5,221	2,966	1,924	4,240	8,052
Minority interest	13	49	14	21	32
Income from JV/Associates	68	340	208	318	483
Reported PAT	14,818	17,310	12,170	17,258	24,608
PAT growth (%)	18.5	16.8	(29.7)	41.8	42.6
Adjusted PAT	14,758	16,546	12,170	17,258	24,608
Diluted EPS (Rs)	52.0	60.7	42.7	60.6	86.3
Diluted EPS growth (%)	18.5	16.8	(29.7)	41.8	42.6
DPS (Rs)	20.7	21.0	25.0	30.0	30.0
Dividend payout (%)	39.8	34.6	58.5	49.5	34.7
EBITDA margin (%)	25.3	24.2	20.2	20.9	23.4
EBIT margin (%)	12.1	11.5	8.5	10.0	13.1
Effective tax rate (%)	26.2	15.4	13.8	20.0	25.0
NOPLAT (pre-IndAS)	14,911	17,391	15,407	19,697	26,302
Shares outstanding (mn)	285.0	285.0	285.0	285.0	285.0

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	19,924	19,221	13,900	21,201	32,209
Others (non-cash items)	0	0	0	0	0
Taxes paid	(5,221)	(2,966)	(1,924)	(4,240)	(8,052)
Change in NWC	4,062	6,735	(5,399)	20,347	(20,796)
Operating cash flow	40,724	46,610	31,368	65,349	31,410
Capital expenditure	(19,823)	(21,208)	(55,886)	(27,284)	(24,000)
Acquisition of business	6,681	(3,853)	3,423	0	0
Interest & dividend income	71	71	71	71	71
Investing cash flow	(9,820)	(21,430)	(49,463)	(24,284)	(21,000)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(22,721)	(5,449)	26,865	2,000	(10,000)
Payment of lease liabilities	(2,104)	(1,816)	1,023	0	11,454
Interest paid	(3,603)	(4,974)	(6,983)	(6,419)	(5,859)
Dividend paid (incl tax)	(5,900)	(5,985)	(7,125)	(8,550)	(8,550)
Others	(2,425)	11,566	2,571	2,034	2,034
Financing cash flow	(34,647)	(4,842)	15,328	(10,935)	(22,375)
Net chg in Cash	(3,744)	20,338	(2,766)	30,130	(11,965)
OCF	40,724	46,610	31,368	65,349	31,410
Adj. OCF (w/o NWC chg.)	44,786	53,345	25,969	85,697	10,614
FCFF	20,901	25,402	(24,518)	38,065	7,410
FCFE	17,370	20,499	(31,430)	31,717	1,621
OCF/EBITDA (%)	96.3	107.9	74.2	127.4	50.1
FCFE/PAT (%)	117.2	118.4	(258.3)	183.8	6.6
FCFF/NOPLAT (%)	140.2	146.1	(159.1)	193.3	28.2

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	2,850	2,850	2,850	2,850	2,850
Reserves & Surplus	5,810	10,981	14,164	22,872	38,930
Net worth	8,660	13,831	17,014	25,722	41,780
Minority interests	285	303	39	18	(15)
Deferred tax liability (net)	(1,868)	(2,798)	(5,219)	(5,219)	(5,219)
Total debt	91,215	85,766	112,632	114,632	104,632
Total liabilities & equity	98,292	97,103	124,466	135,152	141,178
Net tangible fixed assets	81,451	78,568	80,267	92,178	73,097
Net intangible assets	16,225	16,460	27,648	18,374	18,362
Net ROU assets	11,488	9,968	8,923	6,909	22,372
Capital WIP	8,723	11,481	13,270	13,270	13,270
Goodwill	0	0	17,837	17,837	17,837
Investments [JV/Associates]	15,652	19,506	16,082	16,082	16,082
Cash & equivalents	6,820	10,782	7,566	39,081	27,941
Current assets (ex-cash)	52,011	52,803	64,887	61,383	76,370
Current Liab. & Prov.	95,557	104,014	113,119	129,963	124,154
NWC (ex-cash)	(43,545)	(51,210)	(48,233)	(68,580)	(47,784)
Total assets	98,292	97,103	124,466	135,152	141,178
Net debt	68,743	55,479	88,983	59,468	60,608
Capital employed	96,814	95,554	123,360	135,152	141,178
Invested capital	65,618	53,786	86,442	66,718	83,885
BVPS (Rs)	25.2	43.1	55.8	90.3	146.6
Net Debt/Equity (x)	9.6	4.5	5.6	2.3	1.5
Net Debt/EBITDA (x)	1.6	1.3	2.1	1.2	1.0
Interest coverage (x)	0.2	0.2	0.3	0.2	0.2
RoCE (%)	22.6	25.2	19.1	21.4	27.6

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	35.8	31.9	43.4	30.6	21.5
P/CE(x)	14.4	13.5	14.4	12.0	10.1
P/B (x)	73.6	43.0	33.2	20.5	12.6
EV/Sales (x)	3.6	3.3	2.9	2.4	2.2
EV/EBITDA (x)	14.1	13.5	14.6	11.5	9.4
EV/EBIT(x)	29.6	28.4	34.5	23.9	16.8
EV/IC (x)	9.1	10.9	7.1	8.8	7.0
FCFF yield (%)	3.5	4.4	(4.0)	6.5	1.3
FCFE yield (%)	3.3	3.9	(5.9)	6.0	0.3
Dividend yield (%)	1.1	1.1	1.3	1.6	1.6
DuPont-RoE split					
Net profit margin (%)	8.8	9.3	5.8	7.0	9.2
Total asset turnover (x)	1.6	1.9	1.9	1.9	1.9
Assets/Equity (x)	29.4	9.9	7.8	6.2	4.1
RoE (%)	417.0	170.0	86.3	82.9	72.9
DuPont-RoIC					
NOPLAT margin (%)	8.9	9.7	7.3	8.0	9.8
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	21.4	29.1	22.0	25.7	34.9
Operating metrics					
Core NWC days	(95.0)	(104.8)	(84.0)	(102.0)	(65.1)
Total NWC days	(95.0)	(104.8)	(84.0)	(102.0)	(65.1)
Fixed asset turnover	0.5	0.5	0.5	0.6	0.6
Opex-to-revenue (%)	37.7	40.1	41.3	39.5	39.0

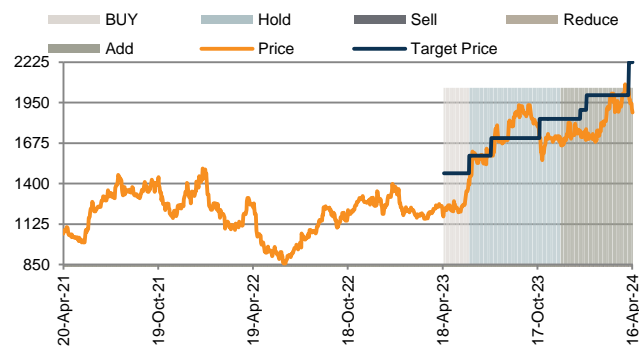
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
09-Apr-24	2,013	2,225	Add	Santosh Sinha
01-Apr-24	2,037	2,000	Add	Santosh Sinha
21-Feb-24	1,795	2,000	Add	Santosh Sinha
19-Jan-24	1,738	2,000	Add	Santosh Sinha
07-Jan-24	1,758	1,900	Add	Santosh Sinha
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	1,395	1,590	Hold	Santosh Sinha
20-Apr-23	1,216	1,470	Buy	Santosh Sinha

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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