

18 October 2024

India | Equity Research | Q2FY25 results review

Tata Communication

Telecom

Warming up for growth...

Tata Communications' (TCom) H1FY25 revenue print was muted due to subdued orderbook in FY24, and longer deal conversion cycle. However, it has built a large sales funnel, which started showing benefits in H1FY25 with a few very large deal wins, and orderbook expanding by 25%. Further, new sales forces also started contributing to funnel, and it could help accelerate order booking. TCom still aspires to achieve digital business revenue of INR 180bn in FY27 (vs INR 44bn in H1FY25), and end FY25 with 20% EBITDA margin. It has made significant progress in monetisation of non-core asset on excess land. It is also reviewing other non-core assets which could help unlock value. Our estimates remain unchanged with TP of INR 1,855 based on 30x FY26E EPS. Maintain **HOLD**.

Changes in reporting/accounting (from Q1FY25)

1) Reclassified certain direct and indirect costs, which resulted in direct cost reduction. 2) SASE revenue – earlier split between next gen and cloud & security portfolio – is now entirely included in cloud & security segment.

Data revenue grew 21% YoY/3% QoQ to INR 48bn

Including Switch and Kaleyra acquisition, net data revenue increased 1.4% QoQ/ 10.4% YoY to INR 29.5bn. Core connectivity revenue rose 2.5% QoQ/3% YoY led by one-offs; company believes cable-cut issues are behind which should help resume growth. Digital revenue was impacted from slower orderbook in FY24. However, orderbook improved in H1FY25, with jump of 25%; yet, deal conversion cycle continues to be long. TCom has started seeing conversion from large sales funnel accumulated. It has significantly increased its foot-on-the-street, and sales force has also started adding to sales funnel. H1FY25 had healthy conversion with sealing of some large orders.

Digital revenue grew 52.4% YoY/ 3.6% QoQ (unimpressive) to INR 22.2bn

Net revenue improved 31% YoY/ down 0.9% QoQ to INR 8.3bn. Collaboration revenue increased 2.7x YoY/ 6.6% QoQ (on seasonality in base) to INR 11bn. Cloud, hosting and security grew 12% YoY/ flat QoQ to INR 4.2bn. Next-gen connectivity was down 15% YoY/ +4.5% QoQ to INR 2.2bn. Media services revenue dipped 6% YoY/ 14% QoQ to INR 2.9bn. Incubation revenue rose 58% YoY/ 34% QoQ to INR 1.9bn.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	1,78,383	2,09,688	2,36,309	2,58,521
EBITDA	43,182	42,301	45,251	52,568
EBITDA Margin (%)	24.2	20.2	19.1	20.3
Net Profit	17,196	12,040	12,185	17,592
EPS (INR)	63.0	34.0	42.8	61.7
EPS % Chg YoY	16.5	(30.0)	1.2	44.4
P/E (x)	30.3	43.3	42.8	29.6
EV/EBITDA (x)	13.4	14.5	13.4	11.4
RoCE (%)	19.5	14.2	12.6	15.6
RoE (%)	140.6	72.9	55.7	55.5

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Market Data

Market Cap (INR)	522bn
Market Cap (USD)	6,205mn
Bloomberg Code	TCOM IN
Reuters Code	TATA.BO
52-week Range (INR)	2,175 /1,543
Free Float (%)	41.0
ADTV-3M (mn) (USD)	13.2

Price Performance (%)	3m	6m	12m
Absolute	(1.1)	(2.9)	2.4
Relative to Sensex	(1.5)	(13.9)	(19.6)

Previous Reports

19-07-2024: [Q1FY25 results review](#)

13-06-2024: [Company Update](#)

Data EBITDA margin at 18.2%, down 110bp QoQ

Data business EBITDA was down 3.6% YoY/ 3.1% QoQ to INR 8.8bn. EBITDA margin stood at 18.2%, down 110bp. Margins were impacted by various reasons including cost for restoring cable in Red Sea, and upfront cost for growth initiatives. Consolidated EBITDA margin contracted to 19.4%, down 60bp QoQ, cushioned due to sharp improvement in its subsidiary and voice businesses. The company has exited loss-making contract in TCTS, which may benefit margin by 70bp in FY25E. TCR (Campaign Registry) EBITDA margin has been healthy at 75.5%, down 120bp QoQ.

TCom still aspires to end FY25 with 20% EBITDA margin, and reiterated its ambition to take EBITDA margin to 23-25% range in next two years which will come from operating leverage and multiple business initiatives.

Unlocking value from non-core assets

TCom hinted at efforts to monetise non-core assets, and usage of capital efficiently to drive faster growth. It has long talked on land monetisation, and it had significant progress in resolving documentation issues. It sold a small land parcel for INR 732mn in Mumbai in Q2FY25. A large land is in the process to be sold to ST Telemedia (related party) in Chennai for INR 7.5-8.5bn; however, it will also result in rental incoming declining. Also, TCom has identified 3-4 land parcels which can each yield cash of INR 500-700mn in near future.

The company's position is to maintain 26% equity stake in ST Telemedia, but it may also come for strategic review.

TCom has two subsidiaries – TCTS and TCPS (ATM business), which were also classified as non-core and will be reviewed.

Net debt rose sharply in H1FY25 on higher working capital

TCom's capex stood at INR 10.7bn in H1FY25 (9.4% of revenue). It expects to step-up capex to USD 300mn in FY25. Net debt increased by INR 13.6bn in H1FY25 to INR 105bn on higher working capital requirement and higher cash tax payout. It clarified that working capital increase in H1FY25 was due to some deal-related structure and may not be persistent.

Risks

Downside risks: **1)** Slower-than-expected execution in digital services revenue. **2)** Continuous investments putting pressure on margins. **3)** Delay in turnaround of acquisition portfolio.

Upside risks: **1)** Faster-than-expected growth in digital services and margin profile. **2)** Quicker turnaround of acquisition business. **3)** TCom achieving guidance within the targeted timeframe.

Q2FY25 result: Other highlights

Data business

- **Data revenue** rose 21% YoY / 3% QoQ to INR 48bn and net revenue rose 10.4% YoY / 1.4% QoQ to INR 29.5bn (after deducting direct cost). Notably, Kaleyra acquisition was not in base of Q2FY24. Segmental EBITDA was down 3.6% YoY/3.1% QoQ to INR 8.8bn. EBITDA margin came in at 18.2% in Q2FY25, up 110bp QoQ, which is disappointing considering healthy revenue growth.
- **Data revenue by geography:** Data revenue in India grew 6.2% YoY/5.2% QoQ to INR 20.6bn. International revenue grew 1.4% QoQ/35% YoY to INR 27.8bn.
- **Data revenue by customer:** Enterprise revenue grew 2.9% QoQ/18.5% YoY to INR 37bn, and service providers' revenue increased 3.2% QoQ/30% YoY to INR 11.4bn.

- **Data revenue by services:** Core connectivity revenue increased 2.5% QoQ/3% YoY to INR 26bn aided by one-off prior year's revenue of INR 840mn. The company has won a multi-million-dollar deal with hyper-scaler for 10 years where it will help in connecting data centres in various states in India, and provide connectivity. **Within core connectivity**, enterprise rose 2.5% YoY/ 2.6% QoQ to 17.9bn, while service providers' revenue rose 4% YoY/2.3% QoQ to 8.2bn.
- **Digital platform and services'** revenue increased 3.6% QoQ/52.4% YoY to INR 22.2bn. Digital services net revenue dipped 0.9% QoQ/ +31% YoY to INR 8.3bn.
- **Within digital services**, collaboration rose 6.6% QoQ (2.7x YoY), partly helped by Kaleyra integration. Next gen grew 4.5% QoQ / down 15% YoY as SASE revenue was entirely shifted to cloud (vs earlier partly recognised in next gen). Cloud, hosting and security revenue was down 0.1% QoQ/+12% YoY. Media revenue dipped 14.2% QoQ/5.9% YoY. Incubation revenue jumped 34% QoQ/ 58% YoY to INR 1.9bn.
- **Transformation services:** TCTS' revenue dropped 6.8% QoQ/26.4% YoY to INR 2.6bn; EBITDA stood at INR 312mn, up 36.3% QoQ (vs INR 229mn in Q1FY25); margin stood healthy at 12%.
- **ATM business:** Revenue in ATM business fell 19% YoY/10% QoQ to INR 320mn, and segmental EBITDA stood at INR 36mn (flat QoQ).
- **TCR (Campaign Registry):** Revenue grew 9% QoQ to INR 1.6bn; EBITDA grew 7.3% QoQ to INR 1.2bn. EBITDA margin stood at 75.5%.
- **Capex** for the quarter stood at INR 5.8bn or 10% of revenue in Q2FY25, and INR 10.7bn in H1FY25 (9.4% of revenue).
- **Net debt** increased by INR 8.7bn QoQ to INR 105bn on higher working capital requirement, and rose by INR 13.6bn in H1FY25, which is unimpressive.

Voice business

- Revenue decreased 0.7% YoY/ +0.7% QoQ to INR 4.3bn. Net revenue fell 14.1% YoY/ 1.9% QoQ to INR 957mn.
- EBITDA stood at INR 478mn, down 23.5% YoY/+3.3% QoQ; EBITDA margin stood at 11.2%.

Exhibit 1: Q2FY25 result review (consolidated)

INR mn	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	QoQ (%)	YoY (%)
Revenue	48,725	56,333	56,917	56,334	57,674	2.4	18.4
Personnel cost	10,723	11,617	11,755	11,446	11,986	4.7	11.8
% of revenue	22.0	20.6	20.7	20.3	20.8		
Network Costs	18,007	22,792	23,333	23,638	24,622	4.2	36.7
% of revenue	37.0	40.5	41.0	42.0	42.7		
Operating & other Expenses	9,841	10,580	11,267	10,008	9,896	(1.1)	0.6
% of revenue	20.2	18.8	19.8	17.8	17.2		
EBITDA	10,155	11,343	10,563	11,242	11,170	(0.6)	10.0
EBITDA margin (%)	20.8	20.1	18.6	20.0	19.4		
Depreciation and amortisation	6,051	6,190	6,658	6,474	6,606	2.0	9.2
EBIT	4,103	5,153	3,905	4,768	4,564	(4.3)	11.2
Interest	1,374	1,876	1,882	1,722	1,926	11.8	40.1
Other income	254	115	570	263	141	(46.4)	(44.3)
PBT	2,983	3,393	2,593	3,310	2,780	(16.0)	(6.8)
Exceptional items	-	(1,855)	(521)	857	429		
Provision for tax	779	1,135	(1,085)	868	976	12.5	25.3
Minority interest	3	45	55	29	40		
Net income (reported)	2,207	448	3,212	3,328	2,272	(31.7)	3.0
EPS (INR)	7.7	1.6	11.3	11.7	8.0		

Source: I-Sec research, Company data

Exhibit 2: Segmental performance – data EBITDA was down 3.6% YoY/3.1% QoQ

INR mn	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	QoQ (%)	YoY (%)
Revenue							
Voice	4,287	4,231	4,290	4,227	4,255	0.7	(0.7)
Data	39,945	46,180	46,559	46,936	48,342	3.0	21.0
Subsidiaries	3,934	5,356	5,501	4,602	4,508	(2.0)	14.6
Real Estate	559	565	568	569	569	0.0	1.8
Core business	48,725	56,333	56,917	56,334	57,674	2.4	18.4
Net Revenue							
Voice	1,114	1,031	991	976	957	(1.9)	(14.1)
Data	26,684	28,403	28,026	29,070	29,472	1.4	10.4
Subsidiaries	612	1,712	2,292	2,192	2,384	8.8	289.7
Real Estate	558	561	567	568	568	0.0	1.7
Core business	28,967	31,707	31,876	32,806	33,381	1.8	15.2
EBITDA							
Voice	625	501	440	462	478	3.3	(23.5)
Data	9,130	9,628	8,573	9,079	8,801	(3.1)	(3.6)
Subsidiaries	(43)	861	1,220	1,380	1,543	11.8	
Real Estate	443	354	329	321	348	8.4	(21.4)
Core business	10,154	11,343	10,563	11,242	11,170	(0.6)	10.0
EBITDA margin (%)							
Voice	14.6	11.8	10.3	10.9	11.2		
Data	22.9	20.8	18.4	19.3	18.2		
Subsidiaries	(1.1)	16.1	22.2	30.0	34.2		
Real Estate	79.2	62.6	58.0	56.4	61.1		
Core business	20.8	20.1	18.6	20.0	19.4		

Source: I-Sec research, Company data

Exhibit 3: India revenue grew 6.2% YoY

Data by geography - INR mn	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	QoQ (%)	YoY (%)
Revenue							
India	19,352	19,380	19,331	19,537	20,550	5.2	6.2
International	20,593	26,801	27,228	27,399	27,793	1.4	35.0
Total	39,945	46,180	46,559	46,936	48,342	3.0	21.0
Mix (%)							
India	48.4	42.0	41.5	41.6	42.5		
International	51.6	58.0	58.5	58.4	57.5		

Source: I-Sec research, Company data

Exhibit 4: Enterprise revenue grew 18.5% YoY

INR mn	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	QoQ (%)	YoY (%)
GDS revenue - by customer INR							
Service provider	8,803	8,806	8,560	11,080	11,432	3.2	29.9
Enterprise segment	31,142	37,374	37,999	35,857	36,910	2.9	18.5
Total	39,945	46,180	46,559	46,936	48,342	3.0	21.0
Mix (%)							
Service provider	22.0	19.1	18.4	23.6	23.6		
Enterprise segment	78.0	80.9	81.6	76.4	76.4		

Source: I-Sec research, Company data

Exhibit 5: Digital platform & services revenue rose 52.4% YoY/3.6% QoQ

Data by Services – INR mn	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	QoQ (%)	YoY (%)
Gross revenue							
Core connectivity	25,377	25,186	25,736	25,500	26,133	2.5	3.0
Digital platforms & services	14,569	20,994	20,823	21,436	22,209	3.6	52.4
Total	39,945	46,180	46,559	46,936	48,342	3.0	21.0
Direct cost							
Core connectivity	5,054	4,754	5,149	4,833	4,992	3.3	(1.2)
Digital platforms & services	8,207	13,024	13,384	13,033	13,878	6.5	69.1
Total	13,261	17,777	18,533	17,866	18,870	5.6	42.3
Net revenue							
Core connectivity	20,322	20,433	20,587	20,667	21,141	2.3	4.0
Digital platforms & services	6,362	7,970	7,439	8,403	8,331	(0.9)	31.0
Total	26,684	28,403	28,026	29,070	29,472	1.4	10.4

Source: I-Sec research, Company data

Exhibit 6: Within digital services, revenue growth was aided by collaboration and CPaaS, and incubation

Data by Services – INR mn	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	QoQ (%)	YoY (%)
Core connectivity							
Service Provider	7,895	7,962	7,832	8,025	8,208	2.3	4.0
Enterprise	17,481	17,224	17,904	17,474	17,924	2.6	2.5
Digital platforms & services							
Collaboration & CPaaS	4,063	10,536	10,509	10,447	11,140	6.6	174.2
Cloud, Hosting and Security	3,705	3,646	3,670	4,157	4,151	(0.1)	12.1
Next Gen Connectivity	2,555	2,530	2,468	2,078	2,172	4.5	(15.0)
Media Services	3,070	3,089	3,023	3,367	2,889	(14.2)	(5.9)
Incubation	1,175	1,193	1,153	1,388	1,856	33.8	58.0

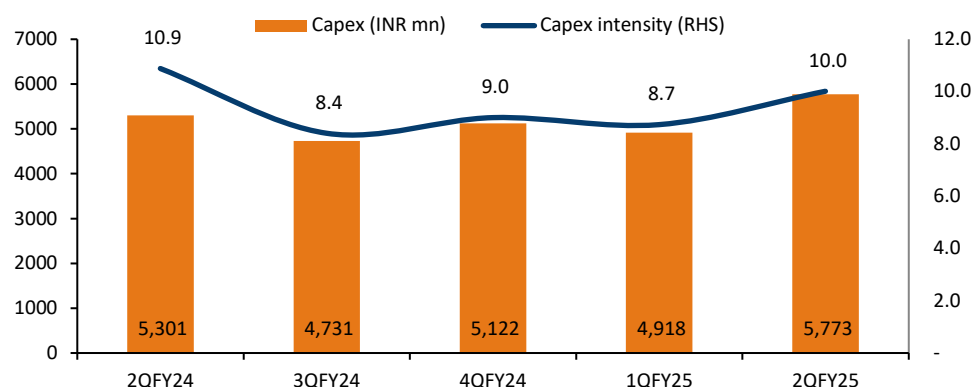
Source: I-Sec research, Company data

Exhibit 7: Subsidiaries have shown remarkable improvement

INR mn	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	QoQ (%)	YoY (%)
TCTS (Transformation services)							
Gross Revenue	3,539	3,689	3,704	2,793	2,604	(6.8)	(26.4)
Net Revenue	499	474	912	758	834	10.0	67.0
EBITDA	(42)	13	152	229	312	36.3	
EBITDA (%)	(1.2)	0.3	4.1	8.2	12.0		
TCPS (ATM business)							
Gross Revenue	395	403	417	356	320	(10.1)	(19.0)
Net Revenue	113	130	154	121	119	(1.6)	5.5
EBITDA	(0)	38	55	37	36	(2.8)	
EBITDA (%)	(0.1)	9.4	13.2	10.4	11.2		
TCR							
Gross Revenue		1,265	1,380	1,454	1,584	9.0	
Net Revenue		1,108	1,226	1,313	1,431	9.0	
EBITDA		810	1,013	1,115	1,196	7.3	
EBITDA (%)		64.1	73.5	76.7	75.5		
Real estate							
Gross Revenue	559	565	568	569	569	0.0	1.8
EBITDA	443	354	329	321	348	8.4	(21.4)
EBITDA (%)	79.2	62.6	58.0	56.4	61.1		

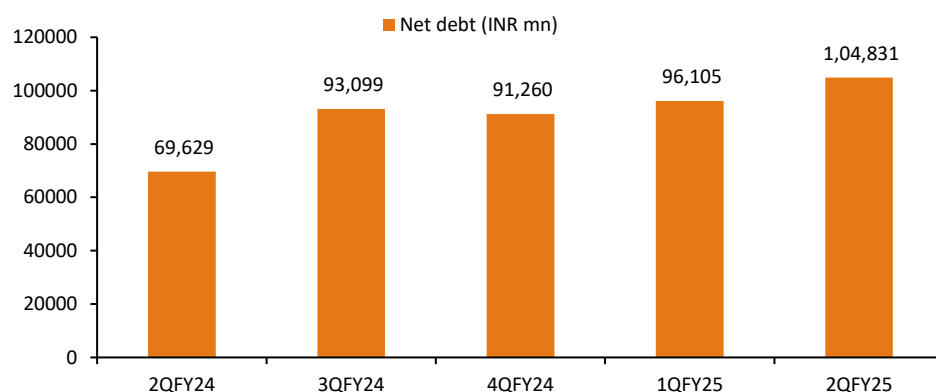
Source: I-Sec research, Company data

Exhibit 8: Capex intensity stood at 10% of revenue in Q2FY25



Source: I-Sec research, Company data

Exhibit 9: Net debt was up by INR 8.7bn QoQ in Q2, and INR 13.6bn in H1FY25



Source: I-Sec research, Company data

Exhibit 10: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	58.9	58.9	58.9
Institutional investors	31.4	31.2	32.0
MFs and other	10.3	10.1	10.4
Banks/ FIs	0.1	0.5	0.5
Insurance Cos.	2.3	2.4	2.6
FIIIs	18.8	18.2	18.5
Others	9.7	9.9	9.1

Source: Bloomberg, I-Sec research

Exhibit 11: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	1,78,383	2,09,688	2,36,309	2,58,521
Operating Expenses	1,35,200	1,67,387	1,91,058	2,05,953
EBITDA	43,182	42,301	45,251	52,568
EBITDA Margin (%)	24.2	20.2	19.1	20.3
Depreciation & Amortization	22,618	24,697	26,008	26,312
EBIT	20,564	17,604	19,243	26,256
Interest expenditure	4,325	6,442	7,123	6,327
Other Non-operating Income	3,632	2,825	2,702	2,787
Recurring PBT	20,635	11,631	14,822	22,715
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	2,966	2,135	3,152	5,739
PAT	17,668	9,496	11,670	16,976
Less: Minority Interest	(291)	(188)	(514)	(616)
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	17,960	9,683	12,185	17,592
Net Income (Adjusted)	17,196	12,040	12,185	17,592

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	65,993	74,417	85,752	96,531
of which cash & cash eqv.	10,626	8,425	10,734	13,754
Total Current Liabilities & Provisions	1,03,941	1,13,120	1,23,232	1,30,167
Net Current Assets	(37,948)	(38,703)	(37,480)	(33,636)
Investments	19,506	16,082	16,082	16,082
Net Fixed Assets	1,05,358	1,19,072	1,20,872	1,23,613
ROU Assets	9,968	11,035	11,035	11,035
Capital Work-in-Progress	11,481	13,270	13,270	13,270
Total Intangible Assets	1,151	17,837	17,837	17,837
Other assets	-	-	-	-
Deferred Tax Assets	3,552	7,170	7,170	7,170
Total Assets	1,01,585	1,32,494	1,35,517	1,42,101
Liabilities				
Borrowings	75,335	1,01,178	96,178	91,178
Deferred Tax Liability	333	1,959	1,959	1,959
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	2,850	2,850	2,850	2,850
Reserves & Surplus	12,333	15,014	23,038	34,622
Total Net Worth	15,183	17,864	25,888	37,472
Minority Interest	303	39	39	39
Total Liabilities	1,01,585	1,32,494	1,35,517	1,42,101

Source Company data, I-Sec research

Exhibit 14: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	56,333	56,917	56,334	57,674
% growth (YOY)	24.4	24.6	18.1	18.4
EBITDA	11,343	10,563	11,242	11,170
Margin %	20.1	18.6	20.0	19.4
Other Income	115	570	263	141
Extra ordinary	(1,855)	(521)	857	429
Adjusted Net Profit	2,303	3,733	2,471	1,843

Source Company data, I-Sec research

Exhibit 15: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	44,395	42,824	42,613	47,446
Working Capital Changes	(552)	(11,004)	1,087	(824)
Capital Commitments	(15,837)	(33,531)	(24,900)	(26,145)
Free Cashflow	28,007	(1,711)	18,800	20,476
Other investing cashflow	(2,580)	7,092	2,702	2,787
Cashflow from Investing Activities	(2,580)	7,092	2,702	2,787
Issue of Share Capital	-	-	-	-
Interest Cost	(3,487)	(5,278)	(7,123)	(6,327)
Inc (Dec) in Borrowings	(9,464)	6,680	(5,000)	(5,000)
Dividend paid	(5,930)	(6,014)	(4,161)	(6,008)
Others	-	-	-	-
Cash flow from Financing Activities	(22,408)	(8,130)	(19,192)	(20,244)
Chg. in Cash & Bank balance	3,019	(2,749)	2,310	3,019
Closing cash & balance	10,045	4,513	7,755	10,223

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	60.3	42.2	42.8	61.7
Adjusted EPS (Diluted)	63.0	34.0	42.8	61.7
Cash EPS	130.8	108.1	121.4	141.5
Dividend per share (DPS)	21.0	16.7	14.6	21.1
Book Value per share (BV)	53.3	62.7	90.8	131.5
Dividend Payout (%)	34.8	39.5	34.2	34.2
Growth (%)				
Net Sales	6.7	17.5	12.7	9.4
EBITDA	2.2	(2.0)	7.0	16.2
EPS (INR)	16.5	(30.0)	1.2	44.4
Valuation Ratios (x)				
P/E	30.3	43.3	42.8	29.6
P/CEPS	14.0	16.9	15.1	12.9
P/BV	34.4	29.2	20.1	13.9
EV / EBITDA	13.4	14.5	13.4	11.4
EV / Sales	3.2	2.9	2.6	2.3
Dividend Yield (%)	1.1	0.9	0.8	1.2
Operating Ratios				
Gross Profit Margins (%)	-	-	-	-
EBITDA Margins (%)	24.2	20.2	19.1	20.3
Effective Tax Rate (%)	14.9	15.3	21.3	25.3
Net Profit Margins (%)	9.6	5.7	5.2	6.8
NWC / Total Assets (%)	(37.4)	(29.2)	(27.7)	(23.7)
Net Debt / Equity (x)	3.8	5.1	3.2	2.0
Net Debt / EBITDA (x)	1.3	2.2	1.9	1.4
Profitability Ratios				
RoCE (%)	19.5	14.2	12.6	15.6
RoE (%)	140.6	72.9	55.7	55.5
RoIC (%)	27.5	19.4	17.6	23.5
Fixed Asset Turnover (x)	0.5	0.6	0.6	0.6
Inventory Turnover Days	3.3	1.5	1.5	1.5
Receivables Days	56.0	65.4	66.4	67.4
Payables Days	67.1	63.6	61.6	59.6

Source Company data, I-Sec research

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