TATA COMM

RESULT UPDATE

nuvama institutional equities

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	1,764
12 month price target (INR)	2,020
52 Week High/Low	2,175/1,291
Market cap (INR bn/USD bn)	503/5.8
Free float (%)	39.6
Avg. daily value traded (INR mn)	810.5

SHAREHOLDING PATTERN

	Mar-25	Dec-24	Sep-24
Promoter	58.86%	58.86%	58.86%
FII	16.99%	17.80%	18.06%
DII	14.51%	13.66%	13.45%
Pledge	0.00%	0.00%	0.00%

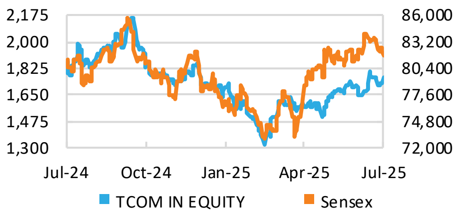
FINANCIALS (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Revenue	2,09,688	2,31,891	2,49,894	2,78,429
EBITDA	42,301	45,443	54,990	66,854
Adjusted profit	12,040	11,449	18,193	27,655
Diluted EPS (INR)	42.2	40.2	63.8	96.9
EPS growth (%)	(30.0)	(4.9)	58.8	52.0
RoAE (%)	58.0	76.3	49.4	51.7
P/E (x)	41.8	43.9	27.6	18.2
EV/EBITDA (x)	14.6	13.7	10.9	8.5
Dividend yield (%)	0.9	1.4	1.1	1.1

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Revenue	2,49,894	2,78,429	-1.7%	-1.2%
EBITDA	54,990	66,854	-4.8%	-0.2%
Reported profit	17,988	27,655	-7.7%	1.7%
Diluted EPS (INR)	63.1	96.9	-7.7%	1.6%

PRICE PERFORMANCE



Digital continues to report solid growth

TCOM reported soft Q1FY26 results with revenue at INR59.6bn (-0.5% QoQ/+6.6% YoY)—broadly in line with estimate. Data revenue grew +9.3% YoY driven by Digital, up +17.1% YoY. Consolidated EBITDA margin came in at 19.1% (+34bp QoQ) while adjusted PAT (net of loss on sale of subsidiary) stood at INR2.5bn, in line with our estimate.

We view the focus on the digital segment supported by healthy growth and margins as a step in the right direction. We continue to see TCOM as an exciting play, offering the best of both worlds—stability of telecom and growth potential of the IT Services sector. We are tweaking FY26E/27E EPS by -7.7%/+1.6%, mainly due to an exceptional loss in FY26. Retain 'BUY' with a TP of INR2,020 (earlier INR2,000).

Media and Next Gen drive revenue growth

Data revenue grew +0.7% QoQ (+9.3% YoY) to INR51.3bn on a blended basis led by Digital (+2.9% QoQ/+17.1% YoY), whereas Core Connectivity (-1.4% QoQ/+2.7% YoY) dragged. All sub-segments in Digital reported solid YoY and QoQ growth: Next-gen (+5.2% QoQ), Cloud & Security (+2.7% QoQ), Media (+11% QoQ), and CPaaS (+2.4% QoQ). Cloud growth was driven by execution of a large security deal; CPaaS growth was led by the shift in volumes from SMS to non-SMS channels. Core connectivity growth was affected by macroeconomic challenges in SAARC while TCTS revenue fell 33.5% QoQ due to the impact of settlement of a contract exit. Order book grew at healthy double digits with robust growth across India and International regions.

Margin improvement on track; RoCE to follow with a lag

EBITDA margin expanded to 19.1% (+34bp QoQ/-125bp YoY) with data margins at 17.2% (-31bp QoQ/-210bp YoY) for Q1FY26. Reported PAT came in at INR1.9bn, impacted by exceptional losses of INR204.4mn on staff optimisation cost and INR421.9mn on sale of subsidiary. Net debt increased to INR101.2bn (INR93.8bn in Q4FY25). Management remains confident of expanding margins in the digital business via operating leverage, focus on profitable contracts and change in portfolio mix. Margin expansion in CPaaS shall be driven by cutting down revenue bearing lower margins and moving from SMS to non-SMS channels such as Whatsapp and RCS. Management also remains confident of achieving leverage and RoCE targets.

We remain positive on unique tech-telecom story

We continue to be positive on this unique technology-cum--telecom play, anticipating the surge in digital growth and consolidated margins in FY26E to drive strong growth over FY26E/27E. We continue to value the Digital/Core/Others business at 12x/9.5x/4x based on FY27E EV/EBITDA; maintain '**BUY**'.

Financials

Year to March	Q1FY26	Q1FY25	% Change	Q4FY25	% Change
Net Revenue	59,599	56,334	5.8	59,904	(0.5)
EBITDA	11,368	11,242	1.1	11,221	1.3
Adjusted Profit*	2,104	2,471	(14.9)	4,626	(54.5)
Diluted EPS (INR)	7.4	8.7	(14.9)	16.2	(54.5)

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Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Total operating income	2,09,688	2,31,891	2,49,894	2,78,429
COGS	80,864	1,00,519	94,142	98,394
Employee costs	44,530	46,032	51,188	57,078
Other expenses	41,993	39,898	49,574	56,104
EBITDA	42,301	45,443	54,990	66,854
Depreciation	24,697	26,176	26,628	27,800
Less: Interest expense	6,442	7,341	7,061	6,000
Add: Other income	2,825	1,380	2,973	3,829
Profit before tax	14,187	16,318	24,218	36,882
Prov for tax	2,135	4,865	6,019	9,220
Less: Other adj	(2,357)	6,915	(204)	0
Reported profit	9,683	18,364	17,988	27,655
Less: Excp.item (net)	(2,357)	6,915	(204)	0
Adjusted profit	12,040	11,449	18,193	27,655
Diluted shares o/s	285	285	285	285
Adjusted diluted EPS	42.2	40.2	63.8	96.9
DPS (INR)	16.7	25.0	20.0	20.0
Tax rate (%)	15.0	29.8	24.9	25.0

Balance Sheet (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Share capital	2,850	2,850	2,850	2,850
Reserves	15,014	27,362	39,654	61,612
Shareholders funds	17,864	30,212	42,504	64,462
Minority interest	39	31	38	44
Borrowings	1,01,178	1,08,801	88,801	68,801
Trade payables	36,562	35,692	41,078	49,583
Other liabs & prov	48,383	51,921	51,921	51,921
Total liabilities	2,45,613	2,65,846	2,64,431	2,75,801
Net block	85,332	90,684	85,978	81,286
Intangible assets	5,362	2,898	2,798	2,698
Capital WIP	0	0	0	0
Total fixed assets	90,694	93,581	88,776	83,984
Non current inv	13,068	16,308	16,308	16,308
Cash/cash equivalent	9,917	15,031	16,269	26,271
Sundry debtors	37,584	40,061	41,078	45,769
Loans & advances	0	0	0	0
Other assets	14,799	21,102	21,235	21,430
Total assets	2,45,613	2,65,846	2,64,431	2,75,801

Important Ratios (%)

Year to March	FY24A	FY25A	FY26E	FY27E
Material cost as % of rev	38.6	43.3	37.7	35.3
Staff cost as % of rev	21.2	19.9	20.5	20.5
Other exp. as % of rev	20.0	17.2	19.8	20.2
EBITDA margin (%)	20.2	19.6	22.0	24.0
Net profit margin (%)	5.7	4.9	7.3	9.9
Revenue growth (% YoY)	17.5	10.6	7.8	11.4
EBITDA growth (% YoY)	(2.0)	7.4	21.0	21.6
Adj. profit growth (%)	(30.0)	(4.9)	58.9	52.0

Free Cash Flow (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Reported profit	9,683	18,364	17,988	27,655
Add: Depreciation	24,697	26,176	26,628	27,800
Interest (net of tax)	6,442	7,341	7,061	6,000
Others	(6,612)	(18,456)	12,295	12,636
Less: Changes in WC	(192)	4,064	(4,236)	(3,619)
Operating cash flow	31,820	29,108	53,717	61,252
Less: Capex	(20,718)	(21,994)	(22,695)	(23,381)
Free cash flow	11,102	7,114	31,022	37,870

Assumptions (%)

Year to March	FY24A	FY25A	FY26E	FY27E
GDP (YoY %)	6.5	6.3	6.5	6.5
Repo rate (%)	6.5	5.3	5.3	5.3
USD/INR (average)	84.0	84.6	86.5	86.5
Total Revenue growth	17.5	10.6	7.8	11.4
Total organic growth	7.4	4.5	7.8	11.4
Data business growth	21.9	13.7	10.9	13.1
Core connectivty growth	6.0	2.8	2.2	4.6
Digital business growth	55.4	29.3	20.9	21.3

Key Ratios

Year to March	FY24A	FY25A	FY26E	FY27E
RoE (%)	58.0	76.3	49.4	51.7
RoCE (%)	14.6	12.0	17.4	24.3
Inventory days	5	4	6	7
Receivable days	57	61	59	57
Payable days	156	131	149	168
Working cap (% sales)	(15.7)	(12.4)	(13.2)	(13.2)
Gross debt/equity (x)	5.7	3.6	2.1	1.1
Net debt/equity (x)	5.1	3.1	1.7	0.7
Interest coverage (x)	2.7	2.6	4.0	6.5

Valuation Metrics

Year to March	FY24A	FY25A	FY26E	FY27E
Diluted P/E (x)	41.8	43.9	27.6	18.2
Price/BV (x)	28.1	16.6	11.8	7.8
EV/EBITDA (x)	14.6	13.7	10.9	8.5
Dividend yield (%)	0.9	1.4	1.1	1.1

Valuation Drivers

Year to March	FY24A	FY25A	FY26E	FY27E
EPS growth (%)	(30.0)	(4.9)	58.8	52.0
RoE (%)	58.0	76.3	49.4	51.7
EBITDA growth (%)	(2.0)	7.4	21.0	21.6
Payout ratio (%)	49.2	38.8	31.7	20.6

Source: Company and Nuvama estimates

Note: Financials not restated for retrospective period

Q1FY26 earnings call highlights

- Normalising for forex impact, revenue grew -1% QoQ and +4.3% YoY.
- Revenue impacted by one of the deals' exit and issues in the SAARC region.
- Order book grew at a healthy double digit with robust growth across India and International regions.
- Digital revenue growth was broad-based and all segments reported healthy YoY growth. Interaction fabric witnessed growth in the enterprise segment.
- Non-SMS traffic in voice and other channels continues to grow.
- Media segment grew 11% QoQ and recorded highest-ever ACV. Signed a multi-year deal with a prominent broadcaster in India for the playout services.
- Core connectivity continues to grow and outgrow the market growth.
- EBITDA margin improved as digital loss narrowed and subsidiaries are doing better.
- TCTS revenue decline was due to the impact of settlement in case of an onerous contract exit.
- The structural actions taken together with the exit of the onerous contract is reflected in the core EBITDA margin improving to 23.9%.
- Issues such as non-payments and difficulties in collection is happening in the SAARC region.
- Most of the SAARC region contracts are on net-contracts and margins are almost 100%, and due to a loss in this revenue, there was also impact on net revenue and margins.
- There were 5/10 key accounts where credit period was extended (INR2,100mn) and the billings were still in the not-due bucket; this along with seasonality led to increased working capital consumption.
- In CPaaS, the aim is to grow profitably. Have also cut down some revenue bearing low margins. Margin improvement in CPaaS would be scale and change in mix of portfolio from SMS to non-SMS channels such as Whatsapp and RCS.
- Cloud segment growth was driven by execution of a large security deal. Cloud segment has clients across BFSI, manufacturing, logistics and retail space.
- Calibrated efforts taken in the digital business, which grew 17% YoY. This segment has potential to grow 20–25%. Deliberately did not renew few contracts wherein margins would be dilutive.
- Next quarters' dividend payment of INR7,000mn is due; thereafter from Q3FY26E, improvement in net debt shall be visible.

Exhibit 1: Financial snapshot (INR mn)

Year to March	Q1FY26	Q4FY25	QoQ	Q1FY25	YoY	FY24	FY25	FY26E	FY27E
Total revenues	59,599	59,904	(0.5)	56,334	5.8	2,09,688	2,31,891	2,49,894	2,78,429
Cost of materials	27,291	27,125	0.6	23,638	15.5	80,864	1,00,519	94,142	98,394
Employee Benefit Expense	12,178	11,361	7.2	11,446	6.4	44,530	46,032	51,188	57,078
Other Expense	8,762	10,197	(14.1)	10,008	(12.5)	41,993	39,898	49,574	56,104
EBITDA	11,368	11,221	1.3	11,242	1.1	42,301	45,443	54,990	66,854
Depreciation	6,657	6,725	(1.0)	6,474	2.8	24,697	26,176	26,628	27,800
EBIT	4,711	4,496	4.8	4,768	(1.2)	17,604	19,267	28,362	39,054
Less : Exceptional Items	204	-5,778	(103.5)	-857	(123.8)	2,357	-6,915	204	0
Less: Interest expense	1,765	1,824	(3.2)	1,722	2.5	6,442	7,341	7,061	6,000
Other Income	171	688	(75.1)	263	(35.1)	2,825	1,380	2,973	3,829
Add: Share of profits from associates	-357	3,027	(111.8)	30	(1,277.6)	200	3,012	-57	0
PBT	2,556	12,164	(79.0)	4,197	(39.1)	11,831	23,233	24,014	36,882
Provision for taxation	654	1,759	(62.8)	868	(24.6)	2,135	4,865	6,019	9,220
Less: Minority Interest	2	2	(5.9)	1	77.8	12	4	6	6
Reported profit	1,900	10,403	(81.7)	3,328	(42.9)	9,683	18,364	17,988	27,655
Add : Exceptional item	204.4	-5,777.9		-857.1		2,357	-6,915	204	-
Adjusted profit	2,104	4,626	(54.5)	2,471	(14.9)	12,040	11,449	18,193	27,655
as % of net revenues									
Employee Benefit Expense	20.4	19.0		20.3		21.2	19.9	20.5	20.5
Other Expenses	14.7	17.0		17.8		20.0	17.2	19.8	20.2
EBITDA margin	19.1	18.7		20.0		20.2	19.6	22.0	24.0
EBIT margin	7.9	7.5		8.5		8.4	8.3	11.3	14.0
Adjusted profit	3.5	7.7		4.4		5.7	4.9	7.3	9.9
Tax rate	25.6	14.5		20.7		18.0	20.9	25.1	25.0

Source: Company, Nuvama Research

Note: Financials not restated for retrospective period

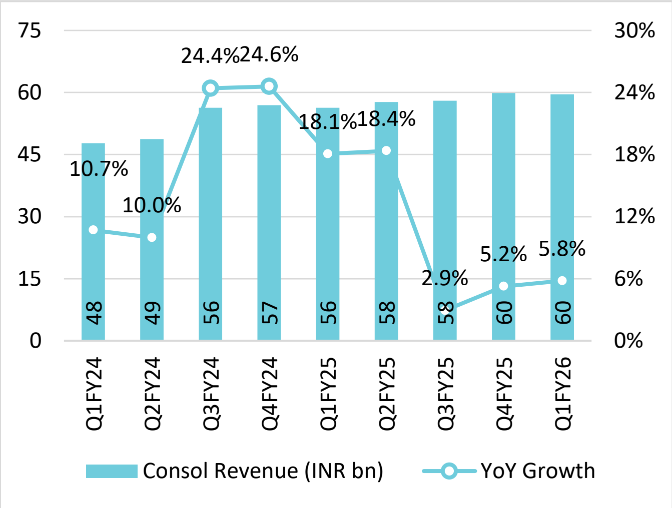
Exhibit 2: Digital revenue breakdown

		Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Collaboration/CPaaS	Revenue	4,388	4,063	10,536	10,509	10,447	11,140	11,773	11,437	11,715
	YoY Growth	19.4%	7.5%	162.4%	171.6%	138.1%	174.2%	11.7%	8.8%	12.1%
Cloud and Security	Revenue	3,487	3,705	3,646	3,670	4,157	4,151	4,320	5,139	5,276
	YoY Growth	23.9%	24.4%	12.5%	2.9%	19.2%	12.1%	18.5%	40.0%	26.9%
Next Gen Connectivity	Revenue	2,213	2,555	2,530	2,468	2,078	2,172	2,485	2,581	2,716
	YoY Growth	46.6%	46.9%	37.9%	28.1%	-6.1%	-15.0%	-1.8%	4.6%	30.7%
Media	Revenue	2,928	3,070	3,089	3,023	3,367	2,889	3,083	3,513	3,898
	YoY Growth	108.7%	107.0%	110.3%	110.6%	15.0%	-5.9%	-0.2%	16.2%	15.8%
Incubation Services	Revenue	1,132	1,175	1,193	1,153	1,388	1,856	1,468	1,729	1,501
	YoY Growth	27.5%	-2.7%	-2.3%	-13.7%	22.6%	58.0%	23.1%	50.0%	8.2%

Source: Company, Nuvama Research

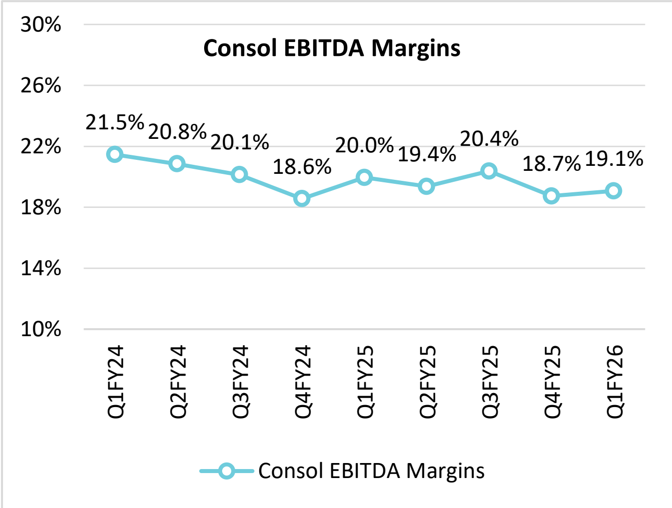
Note: Financials not restated for retrospective period

Exhibit 3: Consolidated revenue and growth



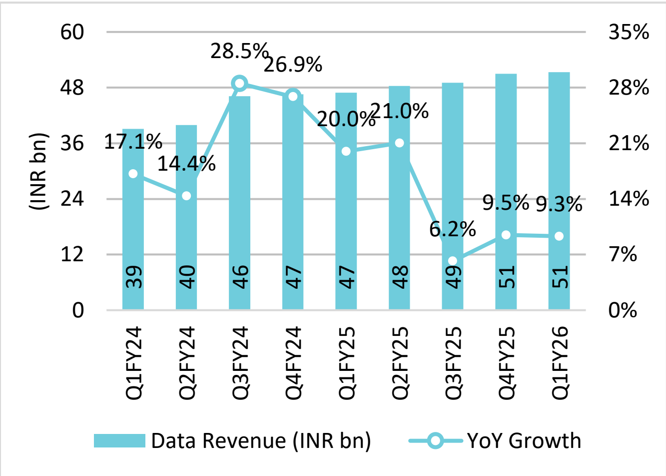
Source: Company, Nuvama Research

Exhibit 4: Consolidated EBITDA margin



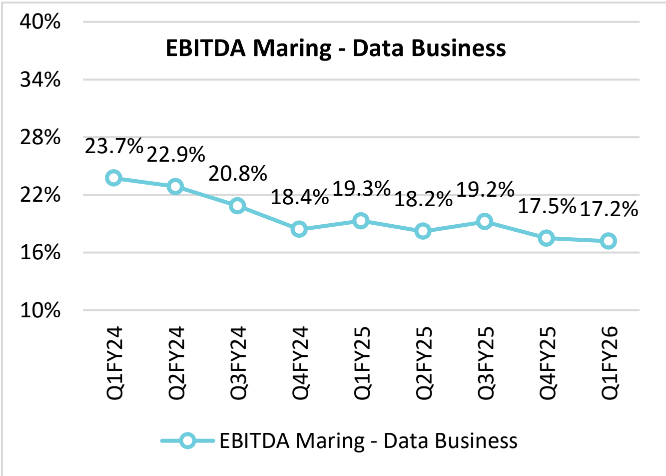
Source: Company, Nuvama Research

Exhibit 5: Data business: Revenue and growth



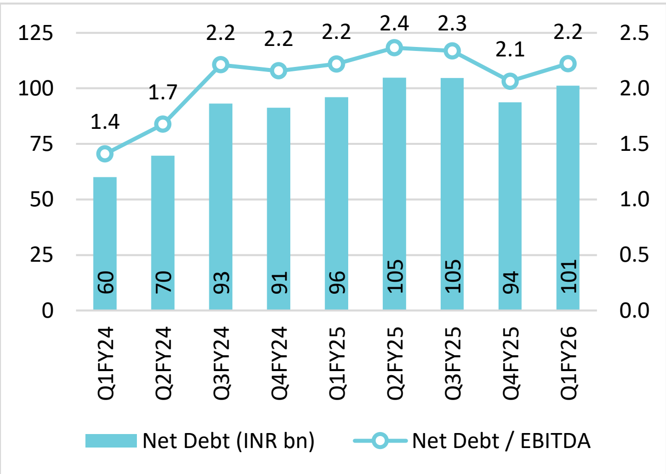
Source: Company, Nuvama Research

Exhibit 6: Data business: EBITDA margin



Source: Company, Nuvama Research

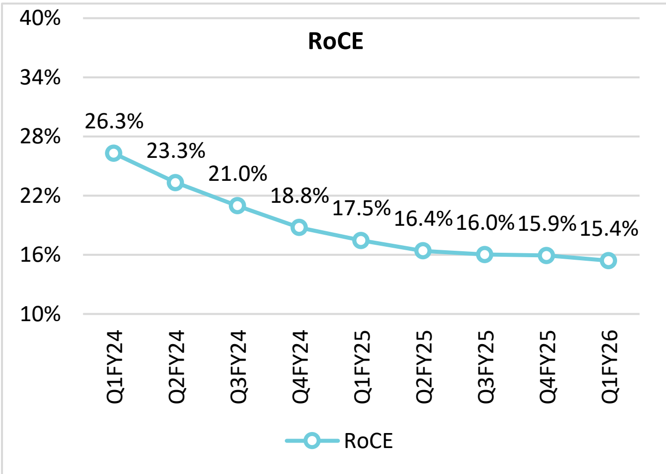
Exhibit 7: Debt profile



Source: Company, Nuvama Research

Note: Financials not restated for retrospective period

Exhibit 8: Return on capital employed (RoCE)



Source: Company, Nuvama Research

Exhibit 9: SotP valuation

Segment (INR mn)	FY27 EBITDA	Target multiple	Total EV	Per share
Data business				
Core Connectivity	47,833	9.5	4,54,414	1,595
Digital	10,113	12.0	1,21,350	426
Voice business	1,493	4.0	5,974	21
Other businesses	7,415	4.0	29,659	104
Total Business EV			**6,11,397**	**2,147**
Net debt			42,530	149
Total Business Equity Value			**5,68,867**	**2,020**

Source: Company, Nuvama Research

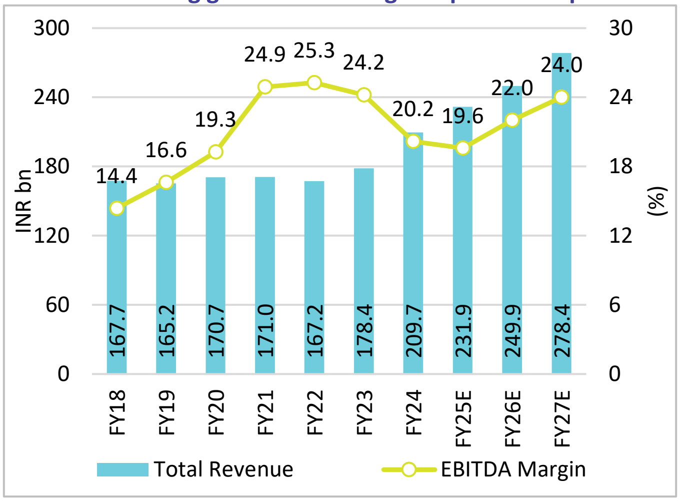
Exhibit 10: Summary of financials

	FY22	FY23	FY24	FY25	FY26E	FY27E
Consolidated						
Revenue	1,67,247	1,78,383	2,09,688	2,31,891	2,49,894	2,78,429
% YoY	-2%	7%	18%	11%	8%	11%
EBITDA	42,267	43,182	42,301	45,443	54,990	66,854
% YoY	-1%	2%	-2%	7%	21%	22%
% Margins	25.3%	24.2%	20.2%	19.6%	22.0%	24.0%
PAT	14,758	17,196	12,040	11,449	18,193	27,655
% YoY	11%	17%	-30%	-5%	59%	52%
Data						
Revenue	1,27,788	1,40,955	1,71,805	1,95,272	2,16,645	2,44,959
% YoY	1%	10%	22%	14%	11%	13%
EBITDA	39,899	38,063	36,616	36,175	45,376	57,946
% YoY	0%	-5%	-4%	-1%	25%	28%
% Margins	31.2%	27.0%	21.3%	18.5%	20.9%	23.7%
Core Connectivity						
Revenue	90,377	95,565	1,01,272	1,04,097	1,06,373	1,11,240
% YoY	1%	6%	6%	3%	2%	5%
EBITDA	39,869	41,843	43,547	44,762	45,478	47,833
% YoY	1%	5%	4%	3%	2%	5%
% Margins	44.1%	43.8%	43.0%	43.0%	42.8%	43.0%
Digital Portfolio						
Revenue	37,412	45,391	70,533	91,175	1,10,273	1,33,719
% YoY	1%	21%	55%	29%	21%	21%
EBITDA	31	-3,780	-6,931	-8,587	-102	10,113
% YoY	-93%	-12449%	83%	24%	-99%	-9998%
% Margins	0.1%	-8.3%	-9.8%	-9.4%	-0.1%	7.6%
Digital Revenue						
Next gen connectivity	5,816	7,010	9,766	9,316	11,819	14,015
% YoY	21%	21%	39%	-5%	27%	19%
Cloud Solutions	9,906	12,599	14,507	17,767	22,961	27,226
% YoY	10%	27%	15%	22%	29%	19%
Collaboration/CPaaS	15,027	15,338	29,496	44,797	51,996	64,617
% YoY	-19%	2%	92%	52%	16%	24%
Media	4,515	5,791	12,110	12,853	16,964	20,116
% YoY	38%	28%	109%	6%	32%	19%
Incubation	2,148	4,652	4,653	6,441	6,532	7,745
% YoY	68%	117%	0%	38%	1%	19%
Voice						
Revenue	22,864	20,542	16,991	16,328	15,547	14,934
% YoY	-18%	-10%	-17%	-4%	-5%	-4%
Others						
Revenue	16,595	16,886	20,892	20,291	17,702	18,537
% YoY	-3%	2%	24%	-3%	-13%	5%

Source: Company, Nuvama Research

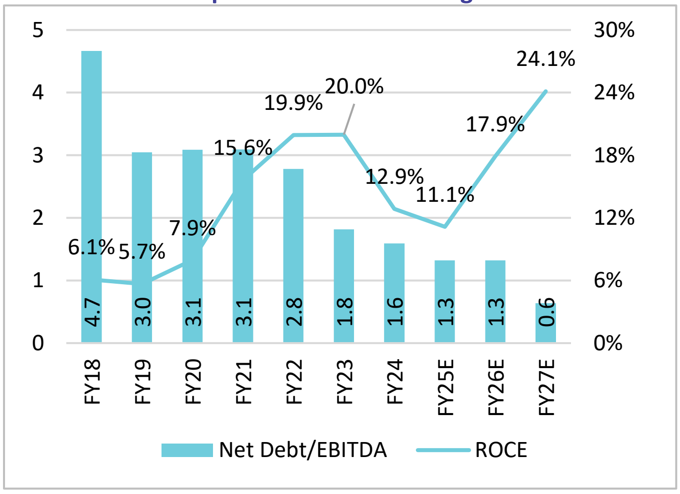
Story in charts

Exhibit 11: Strong growth and margin expansion expected…



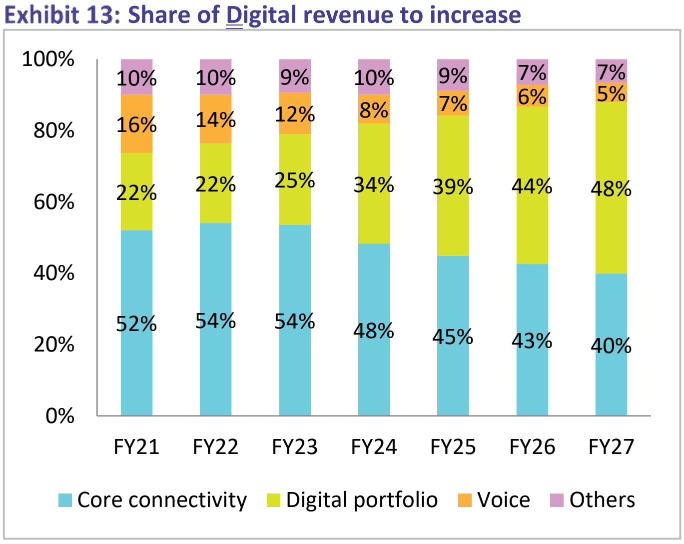
Source: Company, Nuvama Research

Exhibit 12: … to improve RoCE and leverage



Source: Company, Nuvama Research

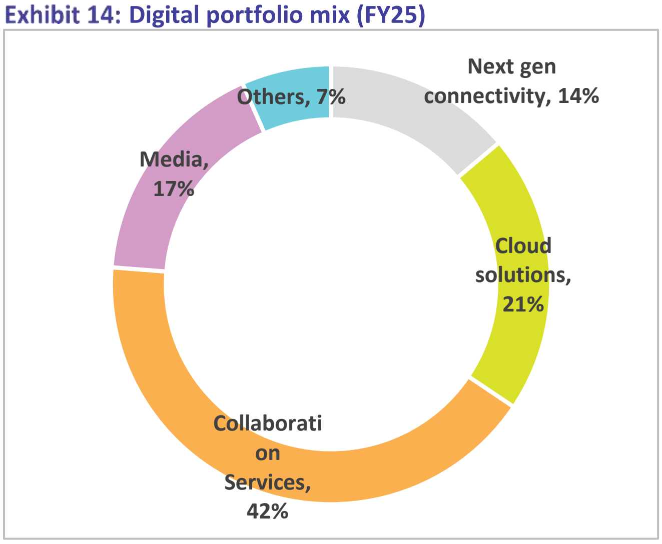
Exhibit 13: Share of Digital revenue to increase



	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Others	10%	10%	9%	10%	9%	7%	7%
Voice	16%	14%	12%	8%	7%	6%	5%
Digital portfolio	22%	22%	25%	34%	39%	44%	48%
Core connectivity	52%	54%	54%	48%	45%	43%	40%

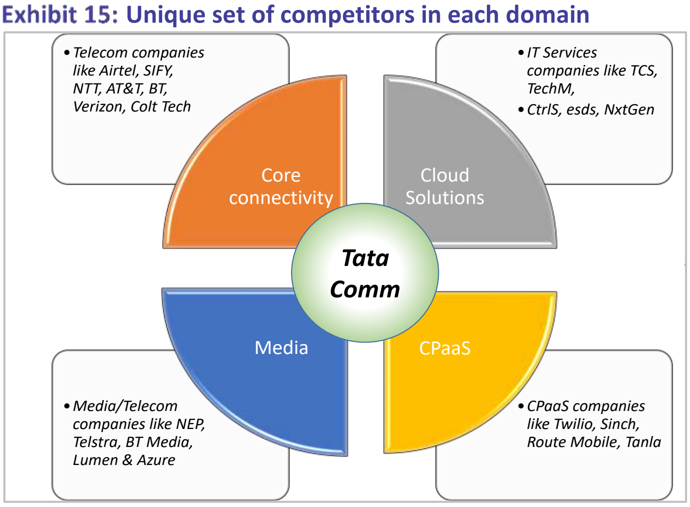
Source: Company, Nuvama Research

Exhibit 14: Digital portfolio mix (FY25)



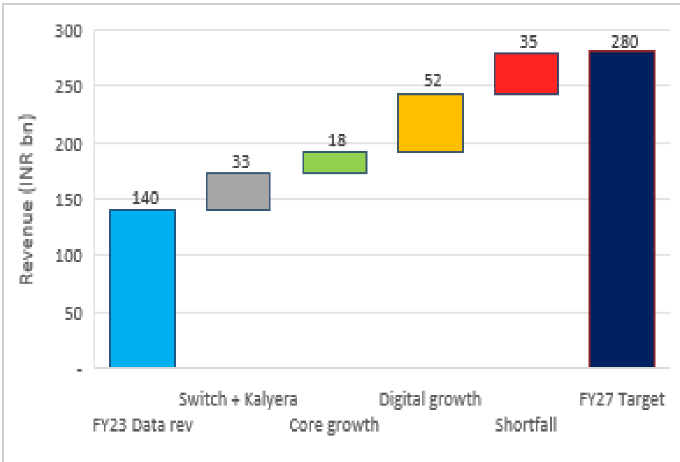
Source: Company, Nuvama Research

Exhibit 15: Unique set of competitors in each domain



Source: Company, Nuvama Research

Exhibit 16: FY27 target achievable via inorganic push



Source: Company, Nuvama Research

Company Description

Tata Communications was incorporated as Videsh Sanchar Nigam (VSNL), a public sector enterprise, in 1986. In 2002, the Tata Group acquired 25% stake in VSNL. In FY06, VSNL acquired Tyco and Teleglobe providing it undersea cable network spanning 60k km connecting the continents of North America, Europe, and Asia. In 2008, VSNL was renamed Tata Communications and announced an expansion of network connectivity into Africa through an agreement with Neotel. In recent years, it has developed and expanded its portfolio of digital solutions around the telecom infrastructure – to get transformed from a telecom infrastructure provider – to an enabler of digital telecom solutions.

Investment Theme

TCOM primarily has two business segments (excluding others, which are small and/or declining) – Core connectivity and Digital Portfolio. The Core connectivity business forms 52% of revenue – in which it provides traditional point-to-point (P2P) connectivity solutions for enterprises. The digital business (25% of revenue) is the new-gen hi-tech Digital portfolio (Digital), built around its connectivity solutions – helping enterprises leverage the power of digital solutions like cloud and XaaS. Combined, TCOM intends to be able to address all the connectivity-related needs of an enterprise. In addition to these segments, it has an ATM network subsidiary in India (Tata Communications Payment Solutions) and a network management outsourcing subsidiary that supports global telecom service providers (Tata Communications Transformation Services).

Key Risks

Weak macro environment leading to deferment of technology spends by enterprises across the world

Regulatory changes in the telecom sector

Competitive intensity

Technology disruptions

Contingent liability of INR77bn for AGR dues

Additional Data

Management

CEO	A S Lakshminarayanan
CFO	Kabir Ahmed Shakir
Wholetime Director	
COO	N. Ganapathy Subramaniam
Auditor	S.R. Batliboi & Associates LLP

Holdings – Top 10*

	% Holding		% Holding
Panatone Finves	44.80	Vanguard Group	1.67
Tata Sons Pvt L	14.07	Jhunjhunwala Re	1.58
HDFC AMC Ltd	4.59	Blackrock Inc	1.53
First Sentier I	3.45	Quant Money Man	1.52
Mirae Asset Fin	2.62	Norges Bank	1.44

**Latest public data*

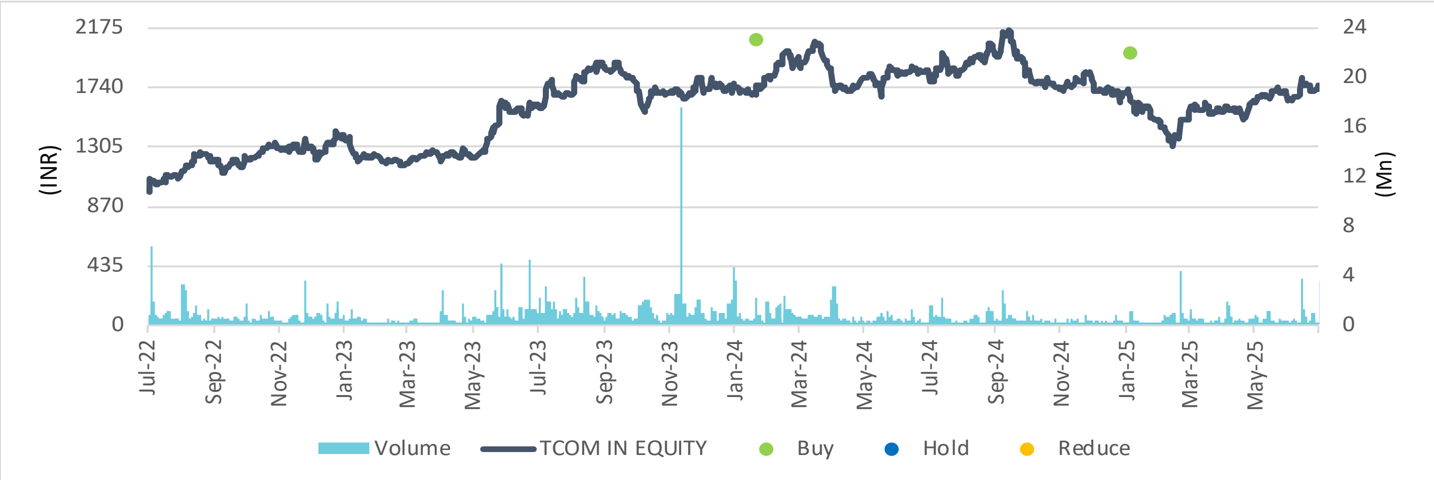
Recent Company Research

Date	Title	Price	Reco
10-Jun-25	Investor day: Monetising digital fabric; *Company Update*	1,735	Buy
23-Apr-25	Growth accelerating; margins to catch up; *Result Update*	1,584	Buy
05-Feb-25	On a solid foundation to capture growth; *Visit Note*	1,605	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
02-Jun-25	Vodafone Idea	In-line results; all eyes on fund-raise; *Result Update*
16-May-25	Sterlite Tech.	Focus on optical demand recovery; *Result Update*
14-May-25	Bharti Airtel	Solid base; steady climb; *Result Update*

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	202
Hold	<15% and >-5%	66
Reduce	<-5%	36

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