BUY (Upgrade from HOLD)

CMP: **INR 1,373** Target Price: **INR 1,840 (INR 1,690)** ▲ 34%

ICICI Securities

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11 March 2025

India | Equity Research | Company Update

Tata Communication

Telecom

Compelling risk reward; core connectivity FCF and digital services potential – undervalued!

We upgrade Tata Communications' (TCom) two notches to **BUY** (from *Hold*). TCom's stock price has plunged notably beset by near-term revenue weakness – making the company's revenue guidance seem rather ambitious. In our view, this presents strong upside potential and compelling risk-reward. In FY24, TCom was wosrn by a cable cut in the Red Sea and weak order book (OB) growth. With the Red-sea issue now behind and double-digit FY25–TD OB growth, TCom's data revenue growth will likely swell. We believe TCom's strong digital product portfolio aside, Street is yet to bake in INR 33bn of FY27E FCF generation (EBITDA minus capex) in core connectivity (7.2% of EV). Notably, TCom has launched many products serving cloud ecosystem – shall benefit from its adoption. Also, TCom has been agile in embedding AI in internal process/services – these upfronted investments/potential are undervalued.

BUY: Why the double upgrade?

We arrive at an SoTP-based TP of INR 1,840; our estimates remain unchanged. We assign 11x FY27E EV/EBITDA to its core business (implies 7x EV/EBITDA for core connectivity and 2x sales for digital services). At CMP, we believe, TCom deserves a double upgrade to **BUY** due to: 1) strong pile-up of sales funnel; and early signs of OB growth; 2) strong digital services portfolio with focus on serving cloud ecosystem; and adoption of AI within the organisation; 3) upside risk to connectivity demand from rising adoption of AI; 4) financial discipline and sharp focus on capital allocation without compromising on growth investments; and 5) compelling valuations – stock trades at FY27E FCF yield of 4.5%; and FY27E EV/ EBITDA of 7.9x.

Digital – large opportunities; play on cloud ecosystem

TCom's digital services revenue growth is likely to accelerate Q4FY25 onwards with large deal execution kicking off, and shall sustain in FY26E. The company has been building a strong sales funnel, and more large deal-wins are likely in the offing. We estimate a digital services revenue CAGR of 17% over FY25–27 despite a low base; and excitement around new services. Our conservative estimates are hugely influenced by TCom's track record. Also, the bulk of cost its heavy-lifting is now behind; further, TCom expects the rise in digital revenue/operating leverage to help break-even digital services at EBITDA. Our estimate anchors digital services' EBITDA break even in FY27E (vs. INR 8bn EBITDA loss in FY25E); and a significant drop in cash-burns.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	2,09,688	2,32,871	2,53,525	2,75,375
EBITDA	42,301	46,426	53,923	61,646
EBITDA Margin (%)	20.2	19.9	21.3	22.4
Net Profit	12,040	11,698	17,240	22,920
EPS (INR)	34.0	41.0	60.5	80.4
EPS % Chg YoY	(30.0)	(2.8)	47.4	32.9
P/E (x)	32.5	33.5	22.7	17.1
EV/EBITDA (x)	11.4	10.3	8.7	7.4
RoCE (%)	14.2	13.3	16.5	19.4
RoE (%)	72.9	53.9	55.2	51.5

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Market Data

Market Cap (INR)	391bn
Market Cap (USD)	4,481mn
Bloomberg Code	TCOM IN
Reuters Code	TATA.BO
52-week Range (INR)	2,175 /1,291
Free Float (%)	41.0
ADTV-3M (mn) (USD)	6.3

Price Performance (%)	3m	6m	12m
Absolute	(22.6)	(31.2)	(31.7)
Relative to Sensex	(13.6)	(21.7)	(31.7)

ESG Score	2023	2024	Change
ESG score	**68.4**	**70.9**	**2.5**
Environment	47.1	51.2	4.1
Social	60.9	73.4	12.5
Governance	81.5	81.9	0.4

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Previous Reports

23-01-2025: Q3FY25 results review
18-10-2024: Q2FY25 results review

Core connectivity – steady growth assumption amid early signs of demand rising from AI

With the Rea-sea issue behind, core connectivity revenue shall grow at 5–6% p.a. – we factor in a CAGR of 5.1% over FY25–27E. This would largely be driven by volumes, and price erosion is unlikely to abate. Our estimate does not incorporate any gains from jump in data traffic from AI/cloud connectivity. Core connectivity EBITDA shall grow at a CAGR of 5.9% over FY25–27E and EBITDA margin would improve by 60bps to 45.2% in FY27E on operating leverage from other expenses. We factor in cumulative capex of INR 55bn over FY25–27E; yet, TCom's core connectivity will likely generate FCF (EBITDA minus capex) of over INR 30bn p.a.

Guidance – revenue target to be pushed by 12–18 months; but other financial parameters on track

TCom has set itself an ambitious revenue target for the data business at INR 280bn in FY27 (vs. INR 141bn in FY23). Given the company hit a soft patch in the past 18 months, we envisage TCom achieving its revenue target with a delay of 12-18 months. Our estimate remains conservative; and factors in data revenue of INR 241bn in FY27E. Despite TCom possibly missing its revenue target, the company is likely to achieve/or near guidance on other financial parameters – including EBITDA margin, RoCE and net debt to EBITDA. This shows financial discipline; and coming on the back of sustained investments for growth.

FCF generation to rise, aiding healthy balance sheet and dividends

TCom's EBITDA may grow at a CAGR of 15.2% to INR 62bn over FY25–27E. EBITDA growth shall be helped by core connectivity which would add INR 6bn in incremental EBITDA. Separately, a turnaround in digital services' EBITDA will likely add INR 9bn to EBITDA. An INR 15bn rise in EBITDA should translate into incremental CFO after WC of INR 8bn, post rise in tax outgo; and a rise in working capital would support rising data revenue. Therefore, FCF (after lease and finance cost) would grow at a CAGR of 33.8% over FY25–27E. Net debt to EBITDA would be comfortable and TCom's dividend payout policy of 40% shall facilitate strong growth in dividend.

AGR judgment is key risk to watch

Considering DOT's precedence of a favourable judgment in the AGR case, we have reason to believe AGR liability for TCom may also crystalise in the future. Only advantage the ISP license has is that – any unfavorable judgement could create huge liabilities in many non-telco PSUs. TCom's contingent AGR liability is INR 78bn; should it crystalise, net debt would double to INR 155bn in FY26E and take net debt to EBITDA to ~3x. This may warrant TCom to look at equity infusion as well. We have assigned a negative value of INR 136/sh in our SoTP-based valuation, which is 50% AGR dues – discounting potential risk.

Why compelling risk-reward?

Rationale for change in valuation methodology

We are shifting our valuation methodology to SoTP-based valuation (earlier PE valuation) where core and data center business is valued on EV/EBITDA multiples; and negative value ascribed for AGR dues. Below is the rationale for our change in valuation methodology.

- TCom has completed acquisition of The Switch and Kaleyra, which has increased net debt; and they contribute negatively to net profit in the immediate. Therefore, the earlier PE multiple under-appreciated new businesses, exhibiting a negative implied value – which appears unjust.
- Further, acceleration in FCF generation will likely drive deleveraging, which is relatively under-appreciated in the PE valuation methodology.
- PE fails to capture adequate value for the data center investments, which has become sizeable.

Rationale for EV/EBITDA multiple and other assumptions

We ascribe 11x FY27E EV/EBITDA multiple to core business. We assume 7x EBITDA multiple for core connectivity, which is fair considering a low growth rate but strong FCF. A 2x revenue valuation for digital services, which is fair for digital service that has broken even at EBITDA in FY27E and burns limited cash. This implies core business EBITDA multiple of 11x at our FY27 estimates.

We assume 15x FY27E EV/ EBITDA multiple for stake in data center business. Data center business trades at over 30x EBITDA multiple; but the discount is due to non-control stake and lower visibility on monetisation.

We consider a 50% cut to AGR liabilities, as we believe AGR liability on ISP can create much larger liabilities for non-telcos. Hence, there is a possibility for certain concession on AGR due for non-UASL licensees.

Upgrade to **BUY;** target price at INR 1,840

Our SoTP-based valuation arrives at a target price of INR 1,840 due to the change in valuation methodology (previously INR 1,690 – P/ E based); while our estimates remain unchanged. We upgrade our rating to **BUY** (from *Hold*).

Key reason for double upgrade of rating for TCom

- TCom's performance in the past 12 months was marred by various issues; but particularly, its muted OB has started showing traction. The company remains confident of more conversion from its strong sales funnel, which has piled up over the past few years.
- The company has launched various products across digital portfolio catering cloud, and allied services. It provides a gambit of services, including networking tools multi-cloud connectivity, SASE and IZO products; Private Cloud where demand in India is likely to rise, security, AI cloud, GPU-as-a-service. We believe, TCom's efforts on cloud is under-appreciated.
- Further, TCom has adopted AI in its internal processes, products and services – much ahead of many Indian peers. This shows company's preparedness for new age solutions/tech.
- Our estimates under-appreciate rising demand for bandwidth in AI driven world.

- Despite weakness in revenue growth; company has shown discipline by holding EBITDA margin, capex and FCF. Capital allocation has been commendable. Its RoCE is among the top quartile for telcos; and 7x EBITDA multiple is conservative.
- Recent stock price decline has made valuations compelling, and risk-reward favorable. The stock trades at FY27E FCF yield of 4.5%; and FY27E EV/ EBITDA of 7.9x.

Exhibit 1: TCom SoTP-based valuation

INR mn	FY27E
Consolidated	
EBITDA (adj IND AS 116)	54,223
Multiple (x)	*11.0*
EV	**5,96,452**
Less net debt	67,650
Equity value...(a)	**5,28,802**
Data Center	
EBITDA	8,807
Multiple (x)	*15.0*
EV	**1,32,102**
TCom stake (%)	*26.0*
Attributable EV... (b)	**34,347**
EV (a + b)	**6,30,799**
Less net debt	67,650
Equity value	**5,63,149**
Outstanding shares (mn)	285
Equity value per share (INR)	**1,976**
Pending AGR liability (50%)	*136*
Fair value (INR/sh)	**1,840**

Source: Company data, I-Sec research

Core connectivity: DC/enterprises may drive demand for connectivity; AI is dark horse

Red Sea fiber issue behind; core connectivity growth to normalise

The core connectivity business deals in providing network connectivity using sub-sea and terrestrial optic fiber. TCom has the world's largest wholly-owned sub-sea cable network, fourth largest tier-1 IPv6-enabled internet and backbone, and extensive reach into emerging markets. In fact, it handles more than 30% of the global internet route. The key products are MPLS-VPN, ethernet, business internet, international leased land, private leased line, IRU etc.

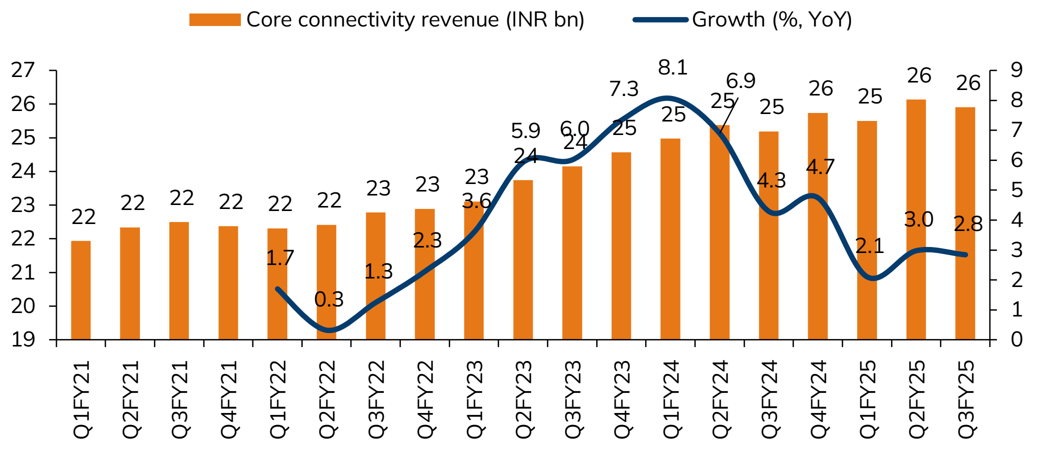
TCom has two customer categories: ***1) Telecom service providers*** – where decision is based on make or buy; and it is a wholesale business with relatively higher price erosion, and limited opportunity to cross-sell other products. However, TCom has leveraged its relationship with a large number of telcos globally, and stitched multiple solutions. ***2) Enterprise,* including data center** – these customers buy connectivity for day-to-day communication needs; and offer massive mining opportunities to penetrate value-added services thereby increasing life-cycle value. The churn rate and price erosion are relatively low. Further, data center connectivity is becoming critical, and driving strong volume off-take.

Core connectivity is a matured business, and revenues are also affected by disruption due to adoption of IP-based connectivity solutions, which come reasonably priced, and make network solution decentralised. However, TCom's core connectivity continues to grow healthily in India (home market) and overall higher volume growth is helping grow revenue at 5–6% p.a.

However, in the past three quarters, core connectivity revenue growth slowed to just 2–3% YoY, and management has cited the Rea Sea cable cut as the key issue for revenue growth slowing. Considering the threats in the Rea Sea area, TCom took longer to resolve the cable cut issue. Resultant, TCom's core connectivity business faced multiple challenges – 1) it lost traffic market share in the route due to non-availability of own cable; 2) it has to redirect own traffic on other fiber cables; and 3) higher operating cost to repair the cables.

Nonetheless, TCom fixed the cable issue by end-Oct'24 and is gradually regaining volume market share in the geography. We expect, over the next two quarters, core connectivity revenue growth to normalise at 5–6% p.a.

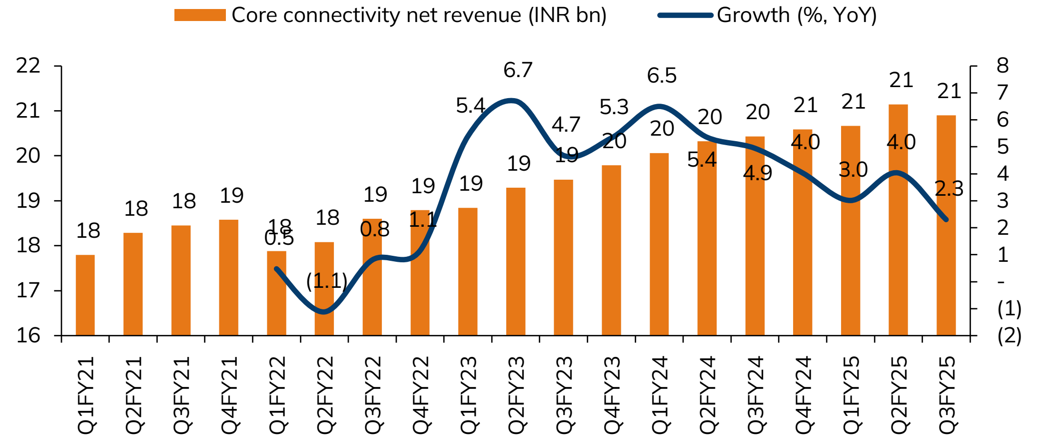
Exhibit 2: Core connectivity revenue growth dips on Red Sea cable issue – stands resolved



Source: Company data, I-Sec research

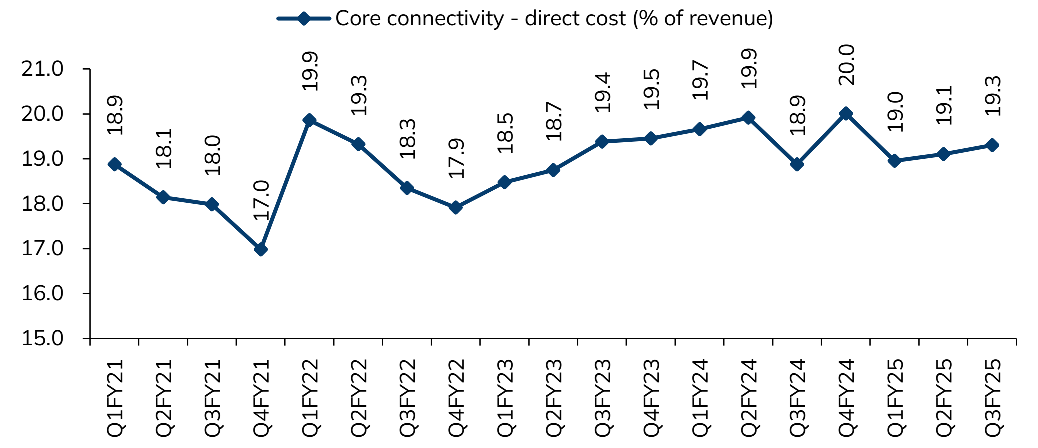
Following revenue, net revenue has also decelerated, and direct cost has seen a slight jump in the past three quarters.

Exhibit 3: Core connectivity net revenue also dipped, following revenue



Source: Company data, I-Sec research

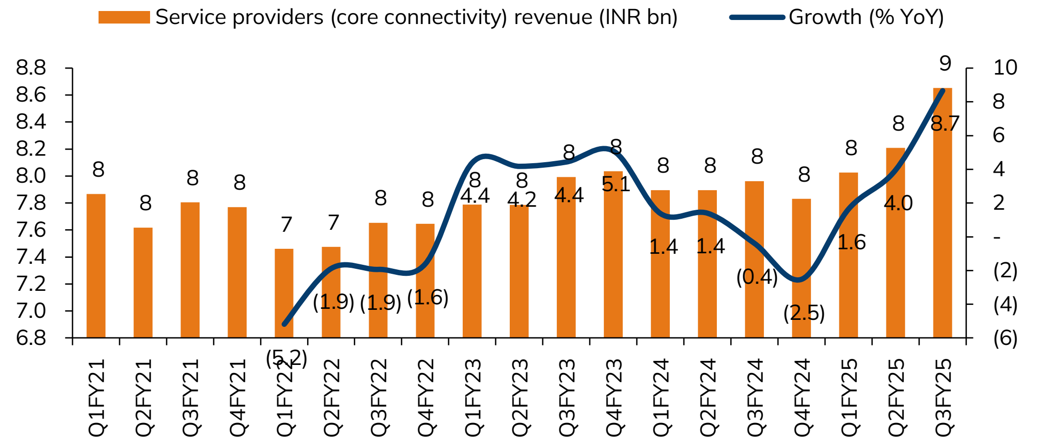
Exhibit 4: Core connectivity – direct cost as % of revenue increased in past few years eating into net revenue conversion; due to increasing need of fiber connectivity at new locations



Source: Company data, I-Sec research

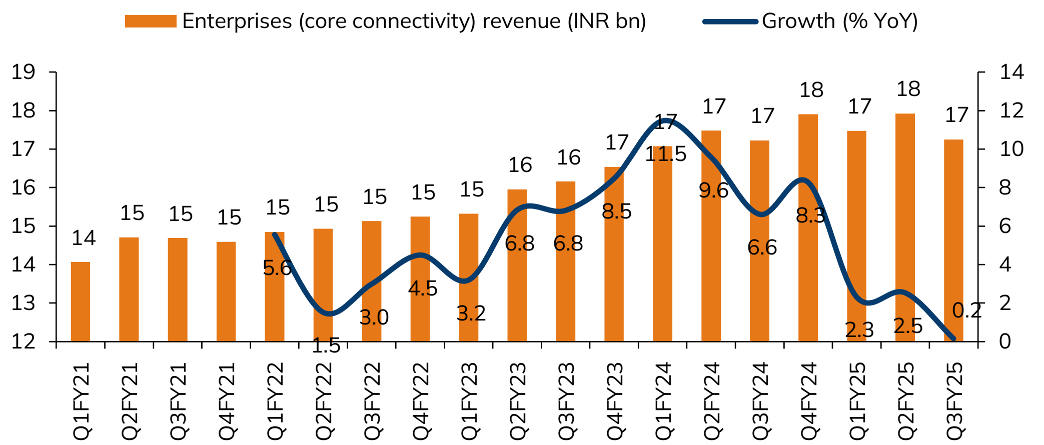
Service providers' revenue has been stable/slightly declined in the past while enterprise revenue was driving growth. However, in the past two quarters, service providers' revenue spiked while enterprise revenue slowed. Enterprise revenue is now 69–70% of core connectivity. Again, we expect enterprise business' revenue to grow faster from FY26E, and believe the recent deceleration was transient.

Exhibit 5: Within core connectivity, service provider revenue growth slightly accelerated…



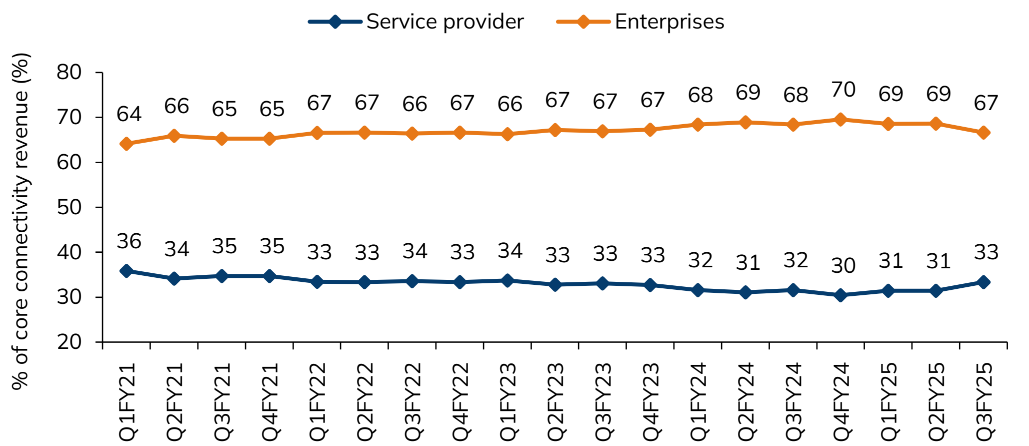
Source: Company data, I-Sec research

Exhibit 6: …while enterprises revenue has decelerated – probably on cautious investment/macro headwinds



Source: Company data, I-Sec research

Exhibit 7: Mix in core connectivity slipped for enterprise in past three quarters



Source: Company data, I-Sec research

AI/data centre may drive higher demand for connectivity – a potential upside risk to our long-term estimates

An article on Fierce Network (link) sums up growing demand for fiber with arousal of demand for AI. Fierce Network first began gleaning that there would be a symbiotic relationship between fiber and artificial intelligence (AI) in 2023 when executives from Corning and Zayo said they were seeing an increased demand for fiber, driven by AI. It turns out that they were spot on, because the year 2024 was notable for the boom in AI and the associated demand for fiber.

- In Mar'24, Light Source Communications said it was building a fiber middle-mile network in the Phoenix metro, covering nine cities. Debra Freitas, CEO of Light Source Communications, said, '*AI happens to be blowing up our industry, as you know. It's really in response to the amount of data that AI is demanding*.'
- In Jul'24 Microsoft was tapping Lumen Technologies to provide high-bandwidth connectivity between its growing number of data centers. Lumen's CMO Ryan Asdourian said that demand for fiber was increasing at an incredible rate. '*I think what Microsoft was finding and what others are finding is that that demand for fiber and the routes and the network capacity and capabilities, that's becoming the scarce resource right now*'
- In August, Lumen said it was seeing so much demand for long-haul transport due to AI advances that it was locking down a big supply of fiber optical cable from Corning for the next two years. Lumen's CTO Dave Ward said the demand for fiber was creating '*the largest expansion of the internet in our lifetime*.'
- Lumen's CEO Kate Johnson said recently on the company's third quarter earnings that it had now won more than USD 8bn in new fiber connectivity contracts in CY24 with billions more in the pipeline.
- Another telling sign that AI is infusing life into the fiber broadband ecosystem was when Nokia's CEO Pekka Lundmark said in Oct'24 that telco is no longer the top growth market. Instead, the company has turned its focus for growth to data centers. Nokia won a big contract with the AI hyperscaler CoreWeave, which selected Nokia to deploy its IP routing and optical transport equipment globally as part of its extensive backbone build-out, with immediate roll-out across its data centers in US and Europe.
- Ciena's CEO Gary Smith said that AI is bringing Ciena new business from service providers as well as cloud providers. He said "*Our business is linked heavily into the growth of bandwidth around the world*."
- Telecom system integrators are getting in on the AI action. Executives from Tech Mahindra, Accenture and Infosys Consulting said their companies are working with major U.S. service providers as they look to extend fiber broadband more ubiquitously to serve the AI boom.

During third quarter call (link), Lumen President and CEO Kate Johnson said that unlike other carriers in the same market, Lumen is not looking to grow with traditional telecom services. She said, "*I want to be clear here. We are not here to find revenue growth in legacy telco. All of our transformation work is in service to customers who need and want to leverage technology like GenAI to transform their business. The legacy networks of yesterday just won't serve tomorrow's enterprise. They're not big enough, they're not fast enough, and they're not secure enough. And of course, the customer experience in legacy telco is neither quick nor effortless, especially in complex, multi-cloud, hybrid environments, which have become the norm for every business*."

Johnson said that the three largest cloud providers -- Amazon Web Services, Microsoft Azure and Google Cloud, as well as social media giant Meta -- have chosen Lumen as their network for AI. She said, "*Lumen is building the backbone for the AI economy. The market now recognizes that AI needs data in these data centers, and those data centers need to be connected … Big tech is choosing Lumen because our geographically diverse, conduit-based intra and intercity fiber network was built for this moment*."

In another interesting article (link), Flexential CEO, Chris Downie, reiterated his warning that the network could soon replace GPU supply as the next AI bottleneck. Downie noted that the scale of the network being deployed inside data centers – like those operated by Flexential – has increased "*to a level we've never seen before*" and that the data flowing within these facilities will need to be transported elsewhere.

TCom CEO Amur Lakshminarayanan in Q3FY25 earnings call said, *"…I mentioned that we are a market leader in DC-to-DC connectivity in India. Internationally the core connectivity has been on the decline, and we have been growing. So, we have been doing relatively well with focused investments and capabilities and delivering a network that is reliable for the DC-to-DC connectivity and for large enterprises who require large pipes, both nationally and internationally. So that is the business that has been growing for us 6%, 7%.*

While we had initially said that it would be in mid-single digits or low single digits, based on how the overall market growth or degrowth was happening in the international markets. So that's just to give you a perspective. So definitely, AI and Lumen has seen that on the back of large investments by hyperscalers for AI cloud in the U.S., Lumen has benefited through the large order bookings there. And that is precisely what we have been doing in our core connectivity as well."

In Q2FY25 earnings call Lakshminarayanan said, *"we are building the long-haul dedicated network, connecting their data centres across different states. The deal is large and complex and its scale of operation in terms of the size with a multi-million-dollar TCV. Spread over a period of 10 years, the revenue for this deal will start coming from FY26."*

To conclude, we have seen demand for fiber on the rise from adoption of AI, both from data centers and enterprises, and these are smart network that are purpose built to handle new age requirements. India probably is behind in adoption, and investment in AI, but we believe it is just matter of time, India need to catch-up on investment on AI/ data center. TCom has strong positioning on fiber connectivity, and company has been investing in making network adoptable for future requirement.

Our estimates do not capture the rising demand for network and likely faster growth in core connectivity; more importantly, this is the most profitable business for TCom with EBITDA margin ~45%. Any acceleration in core connectivity business revenue can significantly create value for the company.

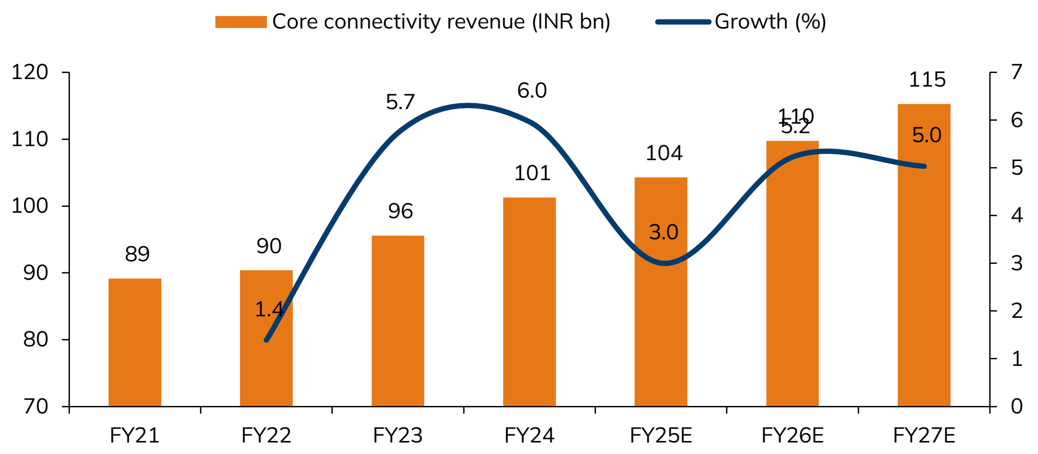
Core connectivity margins healthy; robust FCF

Core connectivity revenue growth guidance is low to mid-single digit; we factor in revenue growing at a CAGR of 5.1% over FY25–27E. This shall largely be driven by volumes, and price erosion is unlikely to abate. Our estimate does not incorporate any gains from jump in data traffic from AI/ cloud connectivity. Direct cost as a % of revenue would be stable; however, it has increased 160bps over FY21–24 to 19.6% of core connectivity revenue as the company has partnered/leased fiber for last-mile connectivity. We anticipate direct cost to remain stable at 19.2% as TCom expands fiber reach. Consequently, we expect core connectivity net revenue to grow at a CAGR 5.1% over FY25–27E.

Despite the rise in direct cost as a % of revenue, EBITDA margin improved by 60bps to 44.7% over FY21–24 for core connectivity and benefited from operating leverage in other costs. Other expenses as a % of revenue fell to 35.7% in FY24 (from 37.9% in FY21) – also aided by lower inflation in repair and maintenance cost. Other expenses shall see a jump in FY25 for cable repairs, else, inflation in other expenses to remain benign even in future. In fact, TCom plans to replace old fiber, which should help in reducing R&M cost – this is not part of our forecast yet. Core connectivity EBITDA to grow at a CAGR of 5.9% over FY25–27E and EBITDA margin shall improve by 60bps to 45.2% in FY27E.

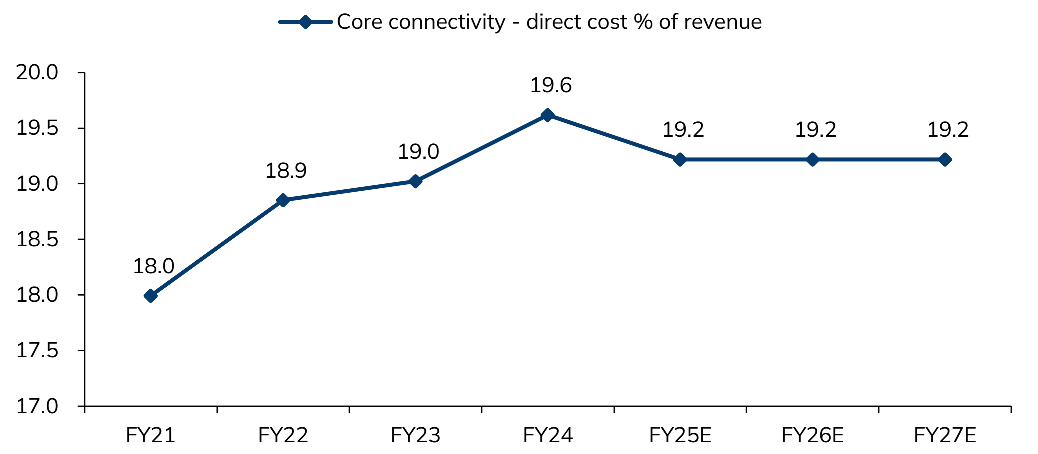
TCom does not share segmental capex, but we estimate 70% of its capex is towards core connectivity and absolute capex is at INR 15bn. We assume acceleration in core connectivity capex to build reach and replace some old fiber. We factor in cumulative capex of INR 55bn over FY25–27E in core connectivity; yet, TCom's core connectivity will likely generate FCF (EBITDA minus capex) of INR 33bn in FY27E which is 7.2% of current EV. TCom's core connectivity FCF is quite under-appreciated, in our view.

Exhibit 8: Despite rising opportunities, we pen steady growth (CAGR of 5.1% over FY25–27E) in core connectivity



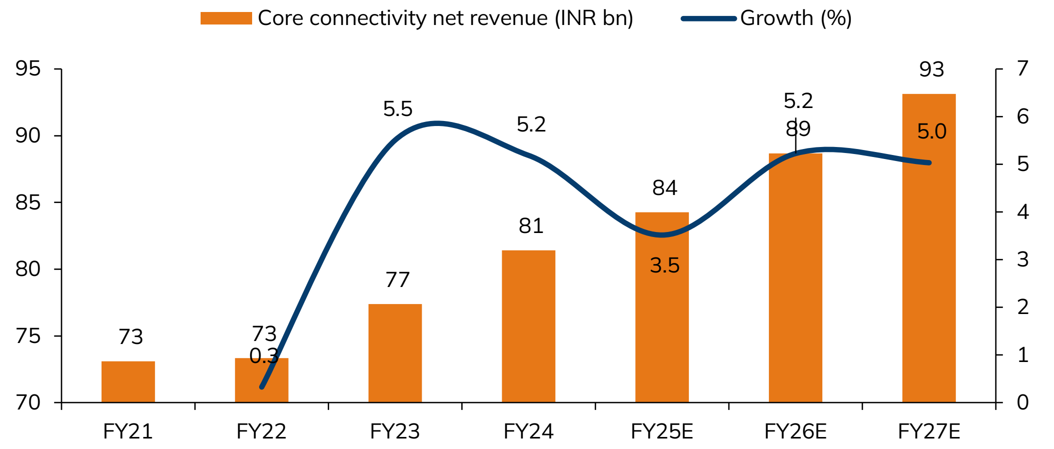
Source: Company data, I-Sec research

Exhibit 9: Core connectivity – direct cost at % of revenue to be stable while company has been adding more fiber routes



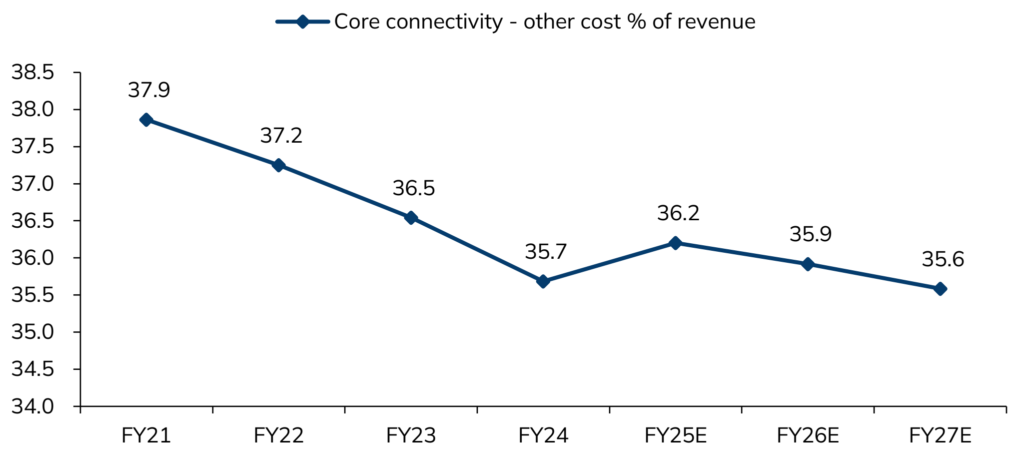
Source: Company data, I-Sec research

Exhibit 10: Core connectivity – net revenue to mimic revenue growth



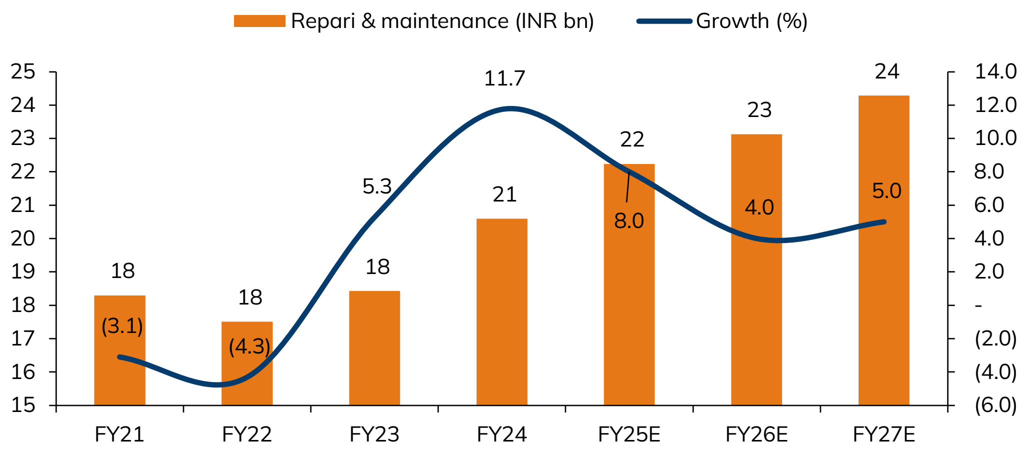
Source: Company data, I-Sec research

Exhibit 11: Core connectivity – FY25 an aberration in other expenses due to cable cut in Rea Sea; else, operating leverage should keep helping improve EBITDA margin



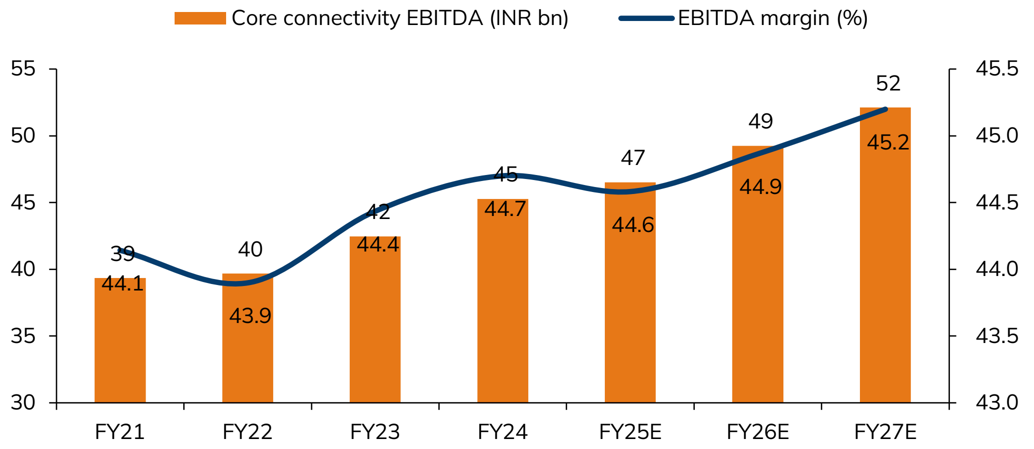
Source: Company data, I-Sec research

Exhibit 12: Repair & maintenance cost inflation to taper FY26 onwards; in fact, it may start declining if TCom replace old fibers



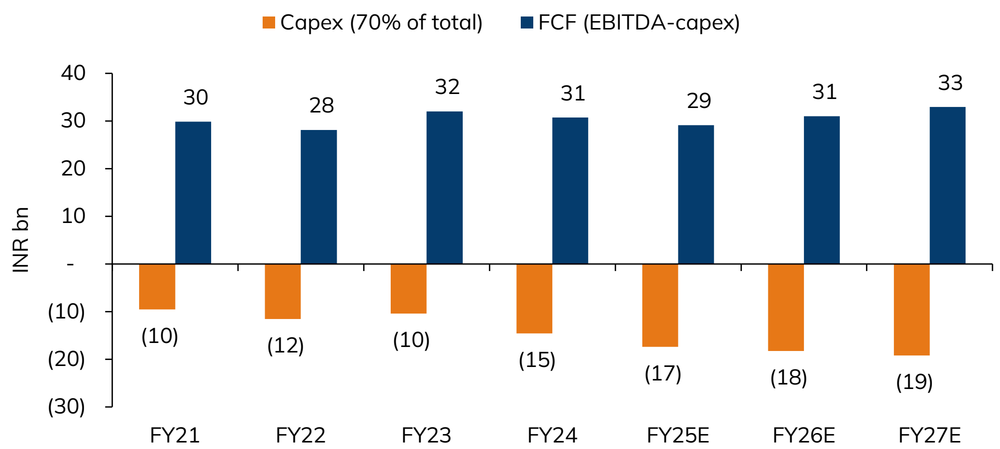
Source: Company data, I-Sec research

Exhibit 13: Core connectivity – EBITDA to grow at a CAGR of 5.9% over FY25–27E



Source: Company data, I-Sec research

Exhibit 14: Core connectivity – generates FCF (EBITDA minus capex) of INR 33bn in FY27E (7.2% of EV)



Source: Company data, I-Sec research

Digital services – large opportunity; upfronted investment

Digital services – an introduction

Since FY11, TCom embarked on a journey of leveraging its strong fiber network to overlay services products and platforms, which helps the company grow its relevance with customers, wherein services/platforms bring agility to customer business, and accelerate their digital adoption. TCom has launched products organically in the past, but the company grew aggressively in FY23 with two large acquisitions (both US) – The Switch (Media) and Kaleyra (CPaaS), which complemented its existing business, and helped strengthen TCom's position in large US market.

Within digital services, TCom has four platform verticals – network fabric (next-gen connectivity); interaction fabric (collaboration and CPaaS), cloud and security and IoT fabric (incubation). It also has one industry vertical – media. TCom gains its competitive edge with a strong underlying fiber network, and leveraging relationships with large telcos globally to stitch solutions.

Exhibit 15: TCom's four digital platforms

Source: Company data

- ***Collaboration and CPaaS (interaction fabric)***: With voice and messaging at the heart of the business collaboration strategy, and its portfolio comprising UCaaS, Global SIP Connect, Microsoft Teams solutions, Cisco Powered Solutions, Hosted Contact Centre and the all-new suite of Cloud communications platform, powered by APIs that can be integrated into business solutions, TCom is ranked seventh globally by Juniper Research with over 60bn interactions in a year. TCom has acquired Kaleyra, which has a strong footprint in US/Europe for CPaaS.

- ***Cloud and security***: TCom offers flexible and cost-efficient compute and storage options via a single pathway to manage multiple complex workloads and computing environments, with an integrated view. TCom has over 1mn sq.ft. of collocation space in 44 locations worldwide and global partnership to extend reach. The company's portfolio offers access to colocation, dedicated Hosting, virtualisation, IZO Private Cloud and IZO Cloud Storage solutions. It has purpose built sovereign cloud (government community clouds)/BFSI community cloud. TCom has launched CloudLyte – an edge platform.

  TCom also offers cloud embedded with security. Its security services are delivered by partnering with external vendors and a 24/7 proactive support through own Security Operations Center (SOC).

- ***Next-gen connectivity (network fabric)***: With the global usage of internet becoming more mainstream vs. expensive private lines, the importance of this portfolio has grown. TCom offers intelligent routing and SLAs on the public internet, as well as on-demand connectivity solutions addressing the dynamic requirements to have a scalable network. SD-WAN offering adds a software overlay to make the network more programmable. IZO SDWAN integrates seamlessly with IZO Hybrid WAN, IZO Private Connect and cloud solutions, to deliver a unique and scalable communication platform.

  TCom has invested in new platforms such as multi-cloud-connect (MCC), a software defined cloud interconnect platform – to the cloud, within the cloud and between the cloud.

- ***Media (industry vertical)***: TCom provides solutions for every kind of enterprise in all segments of media and entertainment – gaming, sports, news, cable, and broadcasting. Its media ecosystem combines its traditional video contribution services with IP-based connectivity to create a highly innovative cloud-based global media platform. The global media ecosystem provides solution that includes asset management, workflow management, channel origination, video contribution and distribution feeds, OTT platform as a service, live OTT delivery and transcoding as service. TCom acquired The Switch, which has strong production footprint in US market, and likely aid the company in penetrating US market deeper particularly tapping local sports opportunities.

- ***Incubation (IoT fabric)***: These services are being seeded to drive future growth, as technology trends evolve in the longer term. It comprises the global mobility platform MOVE, IoT and the in-house SASE platform NetFoundry.

Exhibit 16: Key demand driver for digital platforms

Source: Company data

Exhibit 17: TCom's growing relevance with digital services is also significantly driving TAM

Source: Company data

Exhibit 18: Media business also has massive headroom for growth

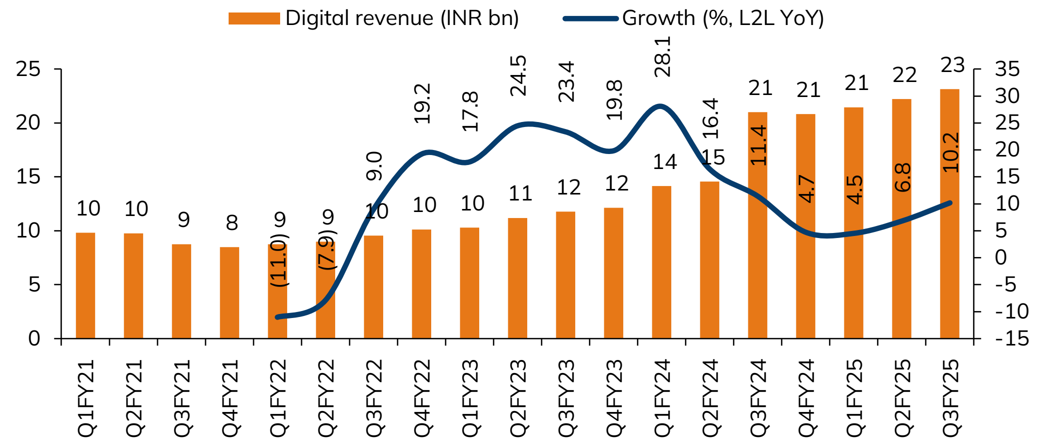
Source: Company data

Digital services revenue growth downtick on lower order wins in FY24

Digital services revenue has potential to grow at least 15-20% p.a. (in the past it has grown over 20% as well). However, on a like-to-like basis (adjusted for inorganic growth from acquisition of The Switch and Kaleyra), TCom's digital services revenue growth has dropped to a low of 4.5% YoY; and has been in the range of 5–11% for the past one year, which was disappointing. This had two major implications – 1) company data revenue growth suddenly decelerated with core connectivity also suffering; and 2) the company made higher upfront investment in digital services, which could not be absorbed – putting pressure on margins.

The lower digital services revenue growth was on account of weaker macro in FY24. Yet, the company has built a strong sales funnel, but the OB remained muted. OB growth suffered from a protracted conversion cycle (delay in decision making) – the company was pushing for more larger, multi-continent deals, which elongate the conversion cycle. Muted OB growth reflected in slower revenue growth in digital services.

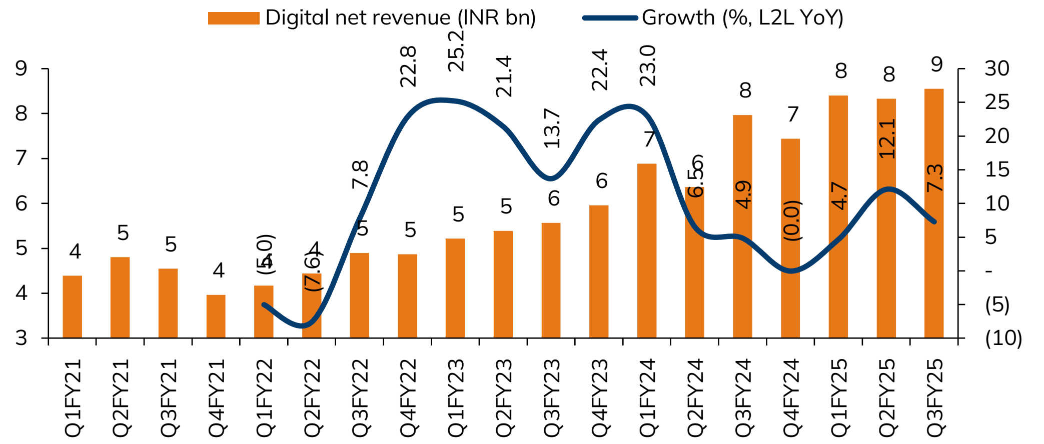
Exhibit 19: Digital revenue (LTL growth) underperformed over Q4FY24 to Q3FY25



Source: Company data, I-Sec research

LTL YoY growth trend was slightly better on net revenue basis, which should have benefited from better direct cost. TCom has been improving direct cost as a % of revenue – even in the past where direct cost slipped 180bps (of revenue) from FY21–23 (before acquisitions). We believe, the trend would have sustained.

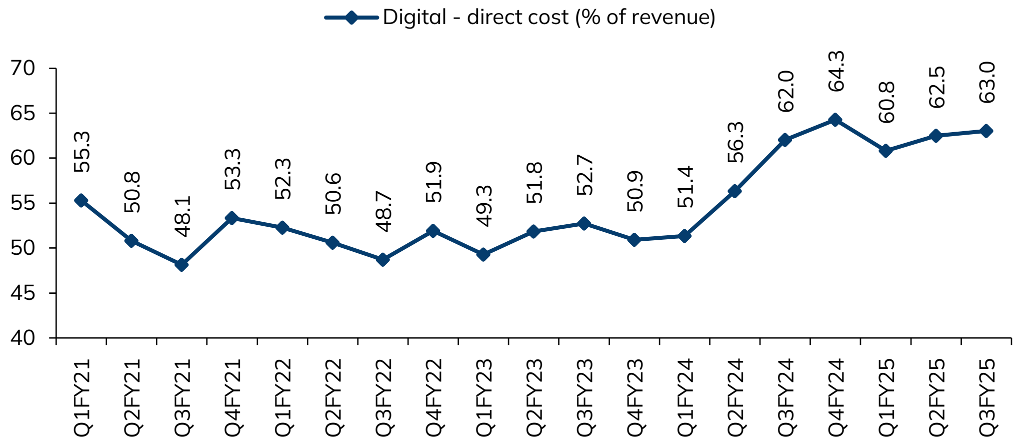
Exhibit 20: Digital net revenue (LTL) growth was slightly better



Source: Company data, I-Sec research

On a reported basis, direct cost as % of revenue has jumped post-acquisition from FY24 to reach high of 63%. Notably, Kaleyra has higher direct cost as % of revenue, and integration of Kaleyra has rebased the cost line. However, we believe direct cost as % of revenue will likely improve going forward with better revenue mix (lower collaboration & CPaaS mix), buying efficiencies including in Kalerya, and rise in services components.

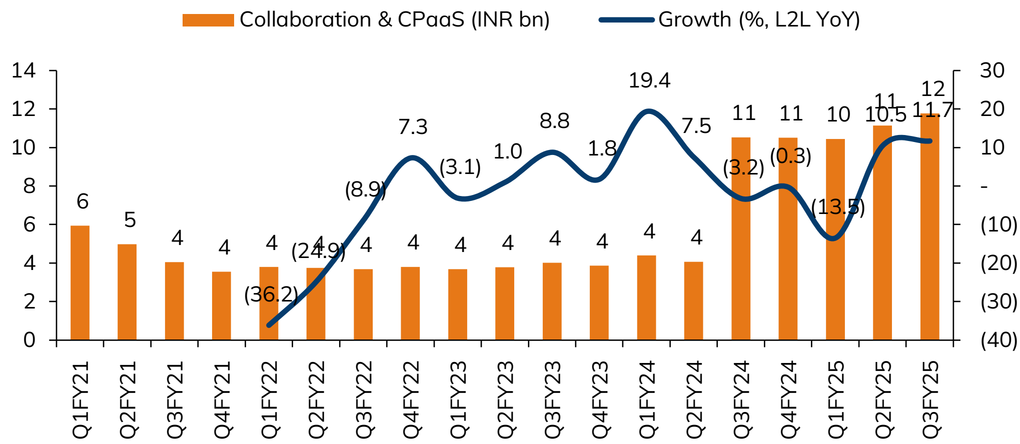
Exhibit 21: Digital – direct cost at % of revenue jumps due to integration of Kaleyra, where direct cost is high



Source: Company data, I-Sec research

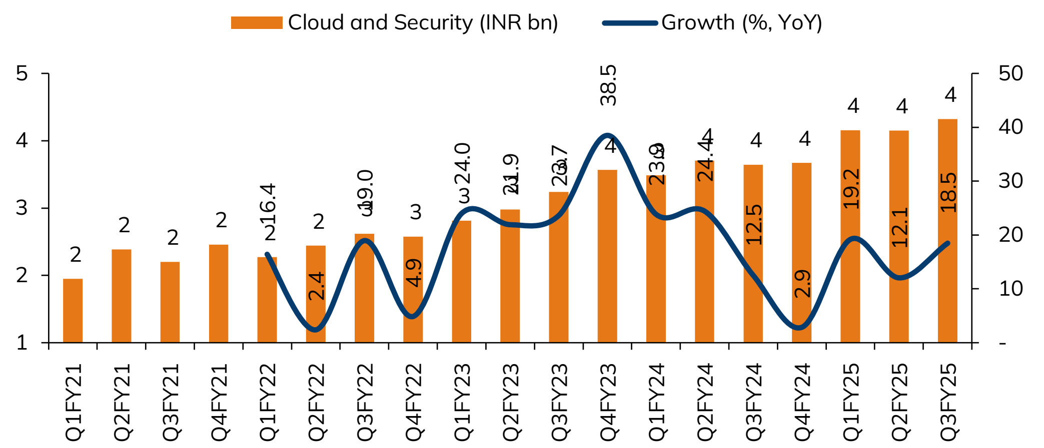
Within digital services, revenue growth decelerated across platform and services. Collaboration was earlier hurt from a decline in SIP revenue; and Kaleyra acquisition is helping the segment to start growing again.

Exhibit 22: Within digital – collaboration and CPaaS has been a drag in the past due to decline in SIP; with CPaaS/Kaleyra, revenue resumed growing



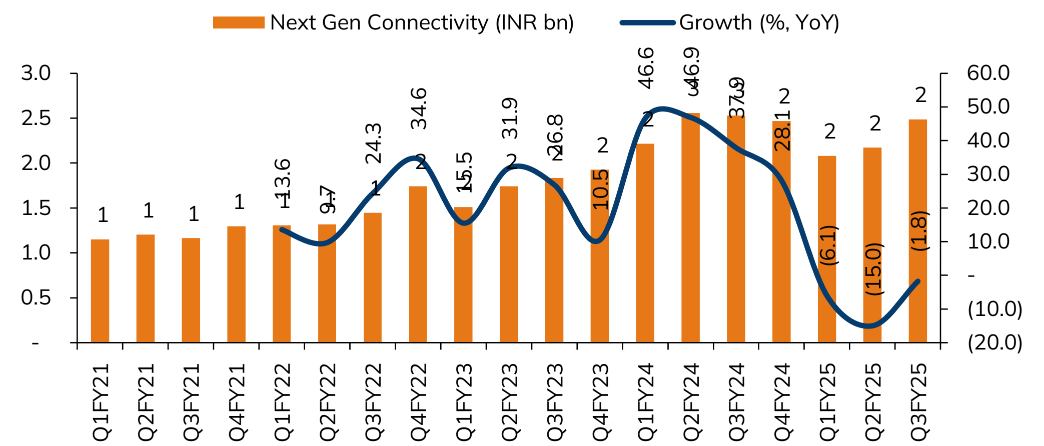
Source: Company data, I-Sec research

Exhibit 23: Reclassification of SASE helped revenue grow for cloud & security



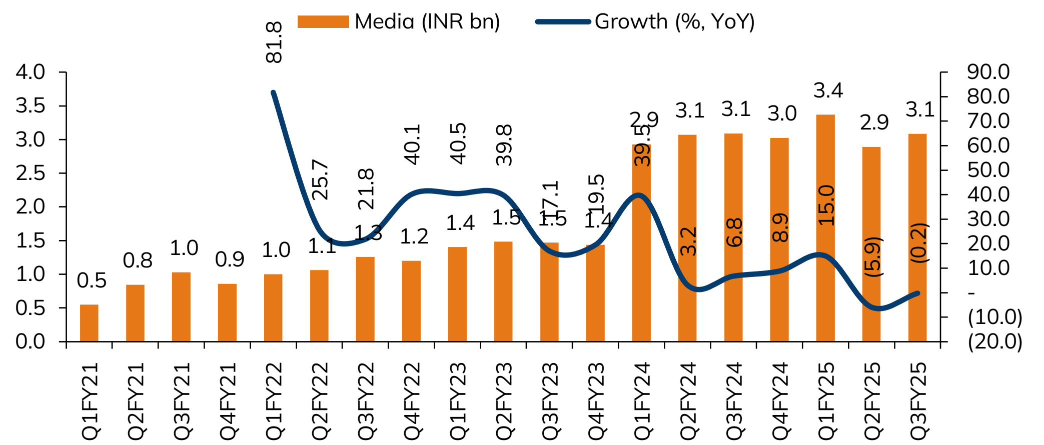
Source: Company data, I-Sec research

Exhibit 24: Next-gen connectivity was also hurt from reclassification; adjusted for it, underlying demand still weak



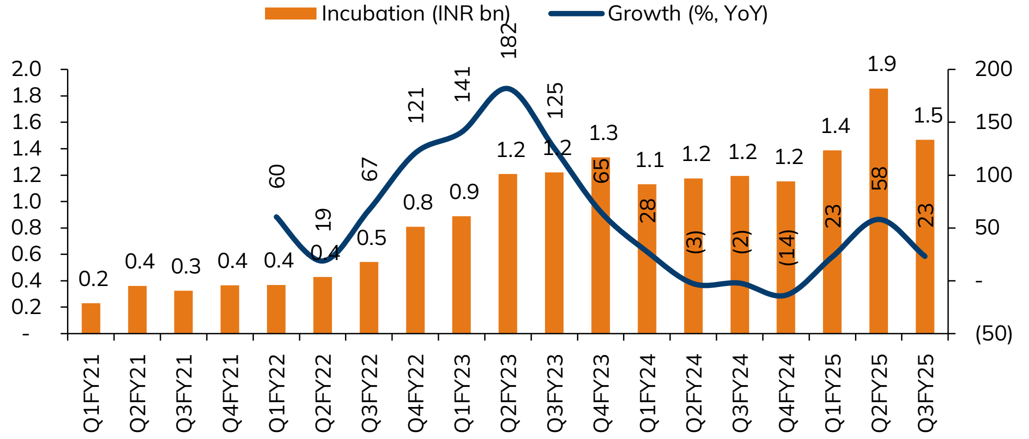
Source: Company data, I-Sec research

Exhibit 25: Media, with The Switch integration complete, was hurt from higher base of sporting event



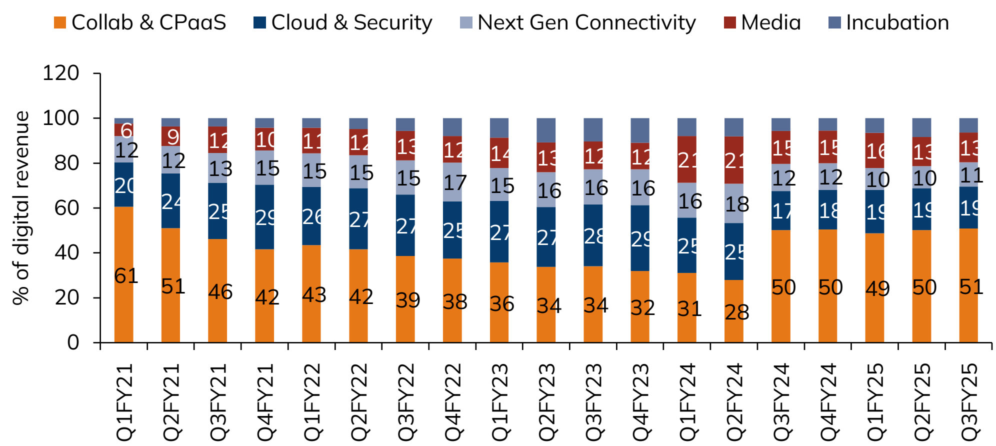
Source: Company data, I-Sec research

Exhibit 26: Incubation/MOVE revenue growth remain healthy



Source: Company data, I-Sec research

Exhibit 27: Digital mix – collaboration and CPaaS contribution increased from acquisition



Source: Company data, I-Sec research

New order wins to drive growth immediately; sales funnel/OB commentary healthy to sustain momentum

TCom's commentary on revenue pick-up and orderbook has improved in past two quarters which gives us confidence on acceleration in digital services revenue; and momentum to sustain. During 9MFY25, company has closed few large deals, and the execution of these orders to start from Q4FY25.

Management comments in Q3FY25

- *"On the order book and funnel side, our funnel continues to be robust. Large deal funnel addition has increased by 50% YoY, giving us the confidence that we are delivering on our strategy and being relevant to our customers. Our order book in H1 had benefited from marquee large deals. The YTD order book growth is healthy double digit, and early signs suggest that 4Q is likely to be robust in revenue growth."*
- *"To throw some light on the deals in Q3, in India we are seeing increased traction in hosted SASE, internationally we continue to add new logos in the form of national champions. In UK and Ireland, we bagged orders from the top retail bank and a global retail chain to transform the digital landscape. In the Americas, we started working with the world's largest manufacturer of construction equipment*

to support their operations overseas. Additionally, we are seeing more wins from existing customers in line with our strategy of going 'deeper with fewer' each year."

- *"Our funnel is still pretty good in terms of additions. New deals into the funnel were good in Q3. And as we are looking at more-larger and larger deals, our closure is taking time. I think that's more a function of us getting into a larger deal as opposed to necessarily the macro conditions, what I would say. So those are the main elements from what we see and how we see the demand environment to be."*
- *Media – "We signed a multimillion-dollar deal with a LATAM-based media tech company. As a media cloud and edge technology partner, we will help them transform from a linear traditional channel format to a digital platform."*

Management comments in Q2FY25

- *"On the order book and funnel side, our funnel continues to be robust. Although the funnel addition has remained subdued in H1, we have witnessed an improvement in our win rate across all the regions. The improvement in win rate in H1 can be attributed to the large deals that have come in this year. On the back of this improving win rates our order book in Q2 has increased by upwards of 25% YoY. The growth in order book is driven across all segments in India and international, except the service provider segment. Our international region has registered the highest quarterly order booking in the last 5 years."*
- *Cloud and Security – "The segment continues to see improving traction within the BFSI space particularly. The pipeline of deals in this segment is healthy. We are encouraged by the opportunities in this segment, and the deals that we have signed in Q1 and Q2."*
- *"But we are calling out the increased order booking, because I was always of the opinion that as you continue to improve your funnel and work your way through, something will come out of the funnel at some point in time, and that this last two quarters has proven to be the case."*
- *"But the market conditions are still the same. I think the conversion of the decision-making time has not improved in any significant way. But as it may, we can't change the conditions. What we are focused on is continuing to invest in our fabric products, continuing to engage with our customers. That coupled with what we said on increasing our sales footprint and we did that and that is delivering an improved order book."*

Digital services revenue to grow at CAGR of 17% over FY25-27E

TCom's digital services revenue growth is likely to accelerate from Q4FY25 with start of execution of large deal wins of 1HFY25, and likely to sustain in FY26. Company has been piling strong sales funnel, particularly in large deals, and we expect more deals win likely to be announced in coming quarters which will help accelerate revenue growth even in FY27E.

We remain excited on TCom's new products / services – 1) GPU-as-a-Service is already available in the market; and TCom AI Studio launch should help scaling new fast-growing business. 2) multi-cloud connect has strong demand tailwind; and company should benefit from its adoption. 3) SASE addressable market is small, but growing fast; 4) Private cloud adoption in India, and TCom has a strong position; 5) CloudLyte should help fast-pace edge-compute deployment particularly in AI.

TCom has upped its game in offering services around cloud; and cloud adoption rising should help company in accelerating its digital services revenue. Company is also proactive in adopting AI based use case internally which will help in learning curve, and act as proof-of-concept for its capabilities.

Exhibit 28: TCom embedded AI in internal process

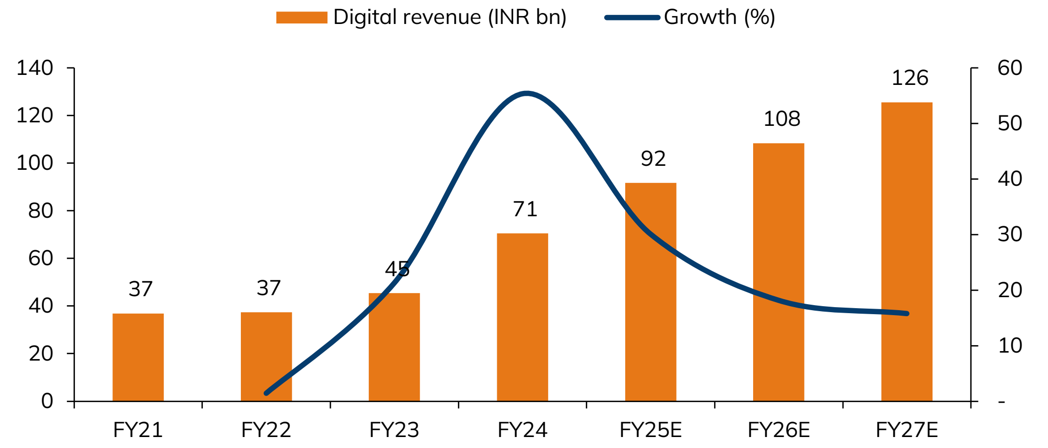
Source: Company data, I-Sec research

Exhibit 29: TCom embedded AI in its products and services

Source: Company data, I-Sec research

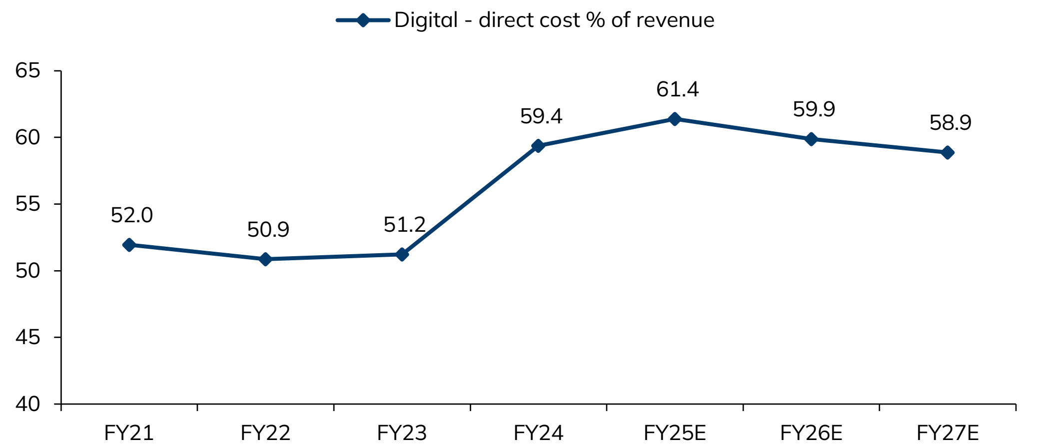
Our estimate forecast digital services revenue CAGR of 17% over FY25-27E despite low base, and large deal wins; and excitement around new products and services. Our conservative estimates are hugely influenced by TCom's past track record of volatility in revenue growth, and significantly under-appreciates company's new found mojo.

Exhibit 30: Digital revenue to grow at CAGR of 17% over FY25-27E which we believe is conservative



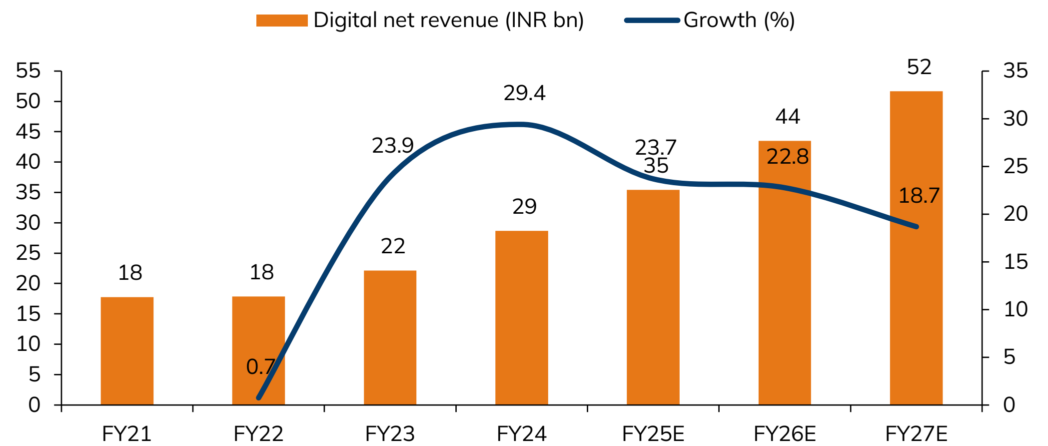
Source: Company data, I-Sec research

Exhibit 31: Digital – direct cost at % of revenue to drop due to change in product mix, scale and buying efficiency, and rising services contribution



Source: Company data, I-Sec research

Exhibit 32: Digital services net revenue to grow at CAGR of 20.7% over FY25-27E



Source: Company data, I-Sec research

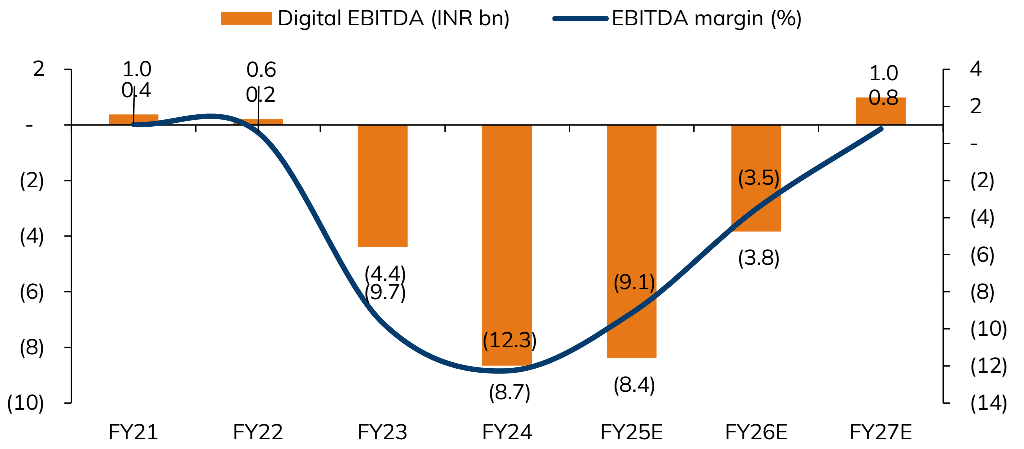
Turnaround of digital services has multi facet benefits

TCom has heavily invested in digital services by way of – 1) significantly increased feet-on-the-street, particularly in developed market (US) to drive penetration of TCom's products; 2) 0-3-30 program where company invests in new products and services. The program itself cost 200-250bps to margin; and 3) upskilling organisation, and funding losses for incubation.

A lot of cost heavy-lifting is behind, and the company expects with rise in digital services revenue, operating leverage should help break-even digital services at EBITDA. Our estimate suggests digital services EBITDA to break-even in FY27E (vs. INR 8bn EBITDA loss in FY25E).

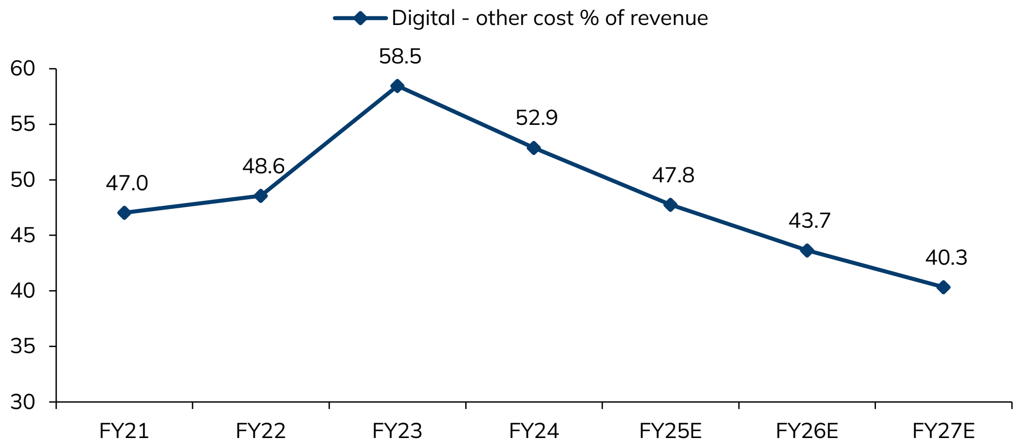
Core connectivity's strong cashflow was supporting digital services, but restricted cashflow generation at the company level. However, with losses being capped at digital services shall help overall cashflow for TCom to improve; and so, would return ratios.

Exhibit 33: Digital – EBITDA break-even anchored at FY27E. A key milestone for value creation



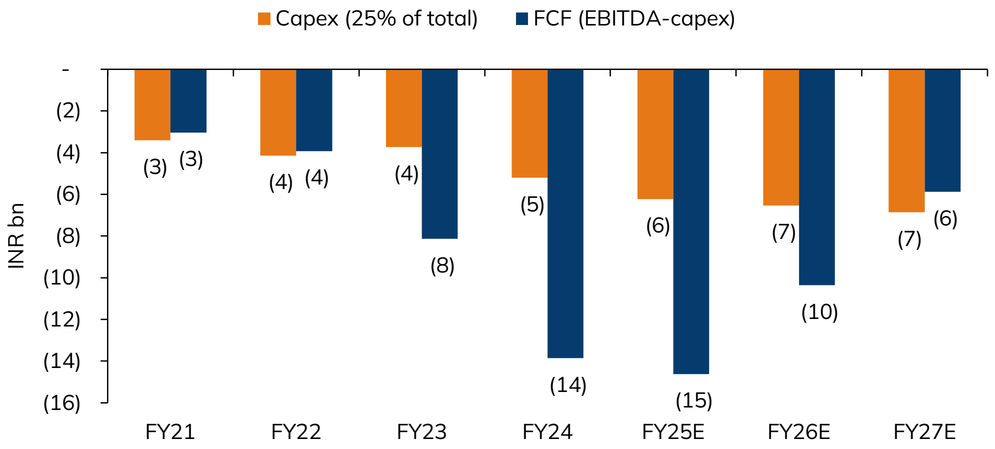
Source: Company data, I-Sec research

Exhibit 34: Digital – other costs are upfronted; and operating leverage should aid in turning profitable



Source: Company data, I-Sec research

Exhibit 35: Also, FCF drag from digital services to significantly reduce



Source: Company data, I-Sec research

Winning recipe for digital services

TCom has focused on two key markets – 1) India; and 2) US. It believes the path to global dominance in digital services passes through the US market. This was one of the reasons for TCom to acquire The Switch and Kaleyra which have a strong base in US. TCom aspires to scale its US business to over USD 1bn, which is critical scale; this should bring plenty of attention for the company in the world's largest market. We understand that in US, larger tech companies actually grow faster despite high base, and grab higher incremental market share; and TCom is eyeing key milestone of USD 1bn revenue from US.

India is fast growing market, but lacks digital investment. We believe India will likely have to follow global practices if corporates wish to grow and become MNCs. The government is also emphasising, and driving the digital agenda. TCom has a dominant position in India, and acceleration in digital spend in India shall significantly help TCom.

Revenue ambition appears stretched…can be pushed by 12–18 months

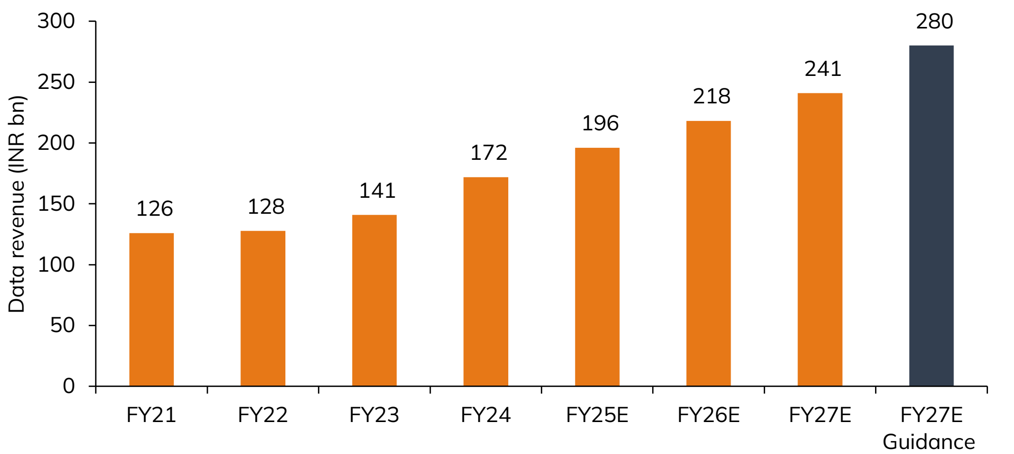
TCom has set itself an ambitious revenue target for data business at INR 280bn in FY27 (vs. INR 141bn in FY23), which includes both organic and inorganic. TCom hit a soft patch in the past 18 months; revenue target now will likely be achieved with a delay of 12-18 months. Its growth assumption pens an increase in digital portfolio revenue contribution to 60% (vs. 40% in FY24) and a rise in the million-dollar club customers to over 400, from 274 in FY24. A lot of digital revenue growth was expected to come from the international market, where it wishes to take position as serious challenger while retaining leadership in India.

Our estimates remain conservative and factor in data revenue of INR 241bn in FY27. We expect the company to push its revenue target by at least 12 months in the upcoming annual analyst meet.

Exhibit 36: During FY24 meet, TCom reiterated data revenue target of INR 280bn in FY27

Source: Company data

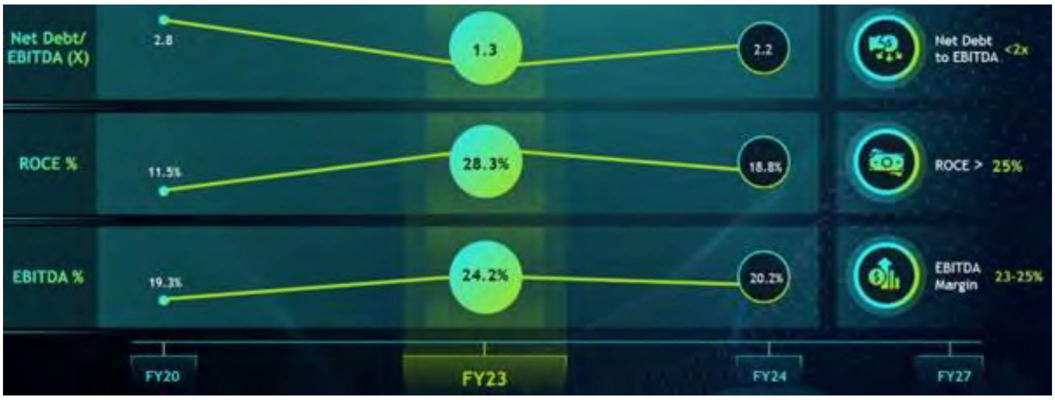
Exhibit 37: However, our data revenue estimate for FY27 is INR 241bn. We expect company to push revenue target by 12 months in upcoming analyst meet



Source: Company data, I-Sec research

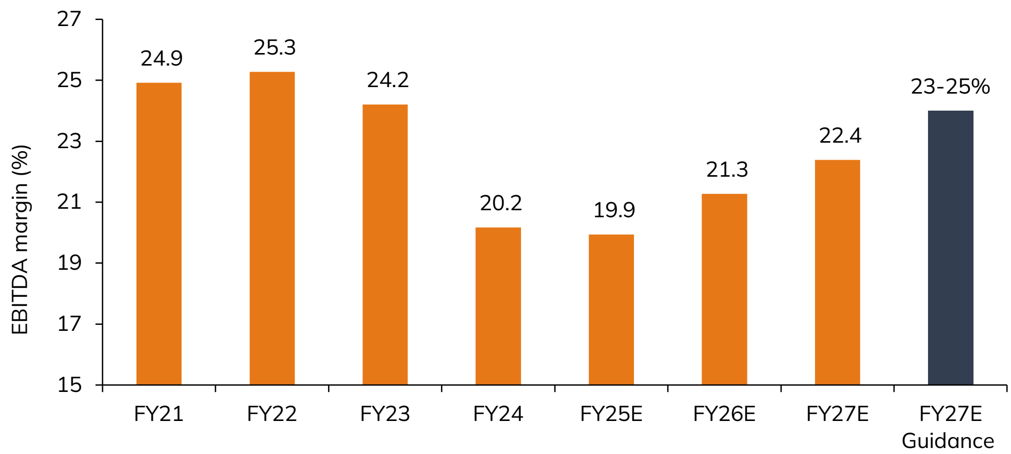
Despite TCom's miss to achieve its revenue target, the company is likely to achieve / or be close to guidance on other financial parameters including EBITDA margin, RoCE and net debt to EBITDA.

Exhibit 38: TCom's guidance on other financial parameters appears achievable



Source: Company data

Exhibit 39: Our EBITDA margin estimate for TCom is close to lower end of guidance

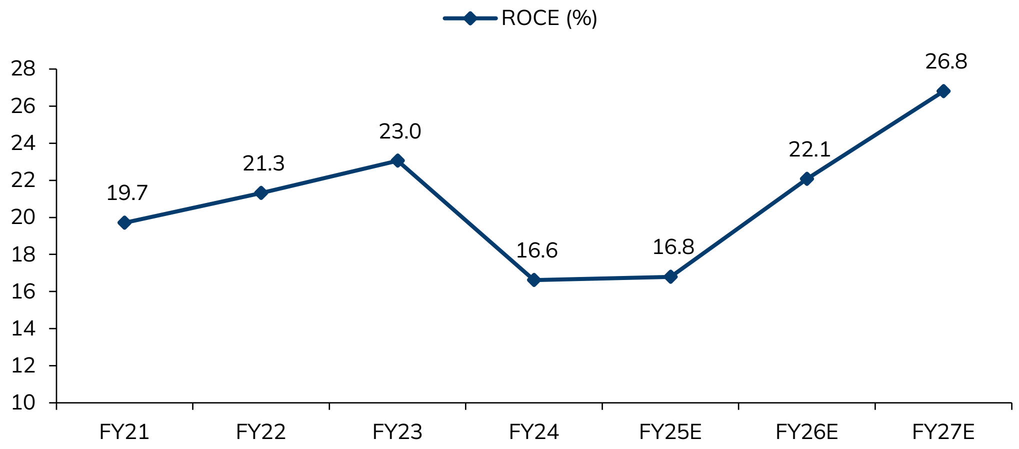


Source: Company data, I-Sec research

Exhibit 40: TCom has laid-out clear plans for EBITDA margin expansion, which appears credible

Source: Company data

Exhibit 41: TCom's pre-tax RoCE comfortably above 25% in FY27

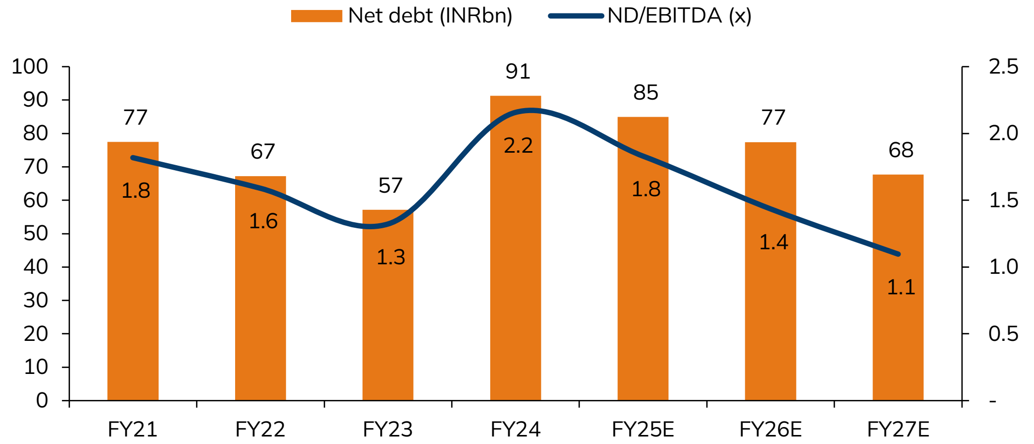


Source: Company data, I-Sec research

Path to accelerate FCF generation and deleveraging

TCom's FY25E net debt is expected to be INR 85bn, without factoring in the likely sale of surplus land worth INR 8.5bn in Q4FY25. Net debt to EBITDA shall stand at 1.8x, which is comfortable. And we see organic FCF generation accelerating going forward, which should help further deleverage its balance sheet, and increase dividend payout.

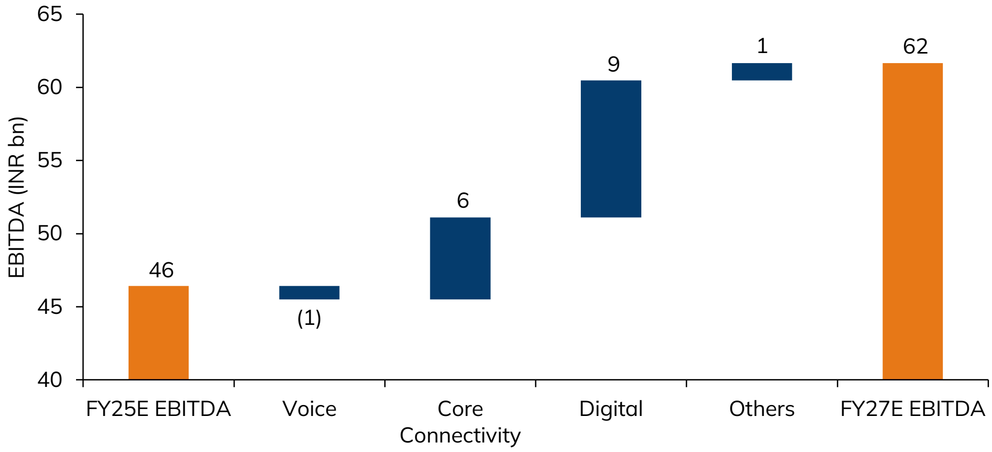
Exhibit 42: Net debt is comfortable, but acceleration in organic FCF would help further deleverage



Source: Company data, I-Sec research

We expect TCom's EBITDA to grow at CAGR of 15.2% to INR 62bn over FY25-27E. EBITDA growth shall be helped by steady growth in core connectivity, which should add INR 6bn in incremental EBITDA. Turnaround in digital service EBITDA will likely add INR 9bn to EBITDA. Voice EBITDA may decline by INR 1bn.

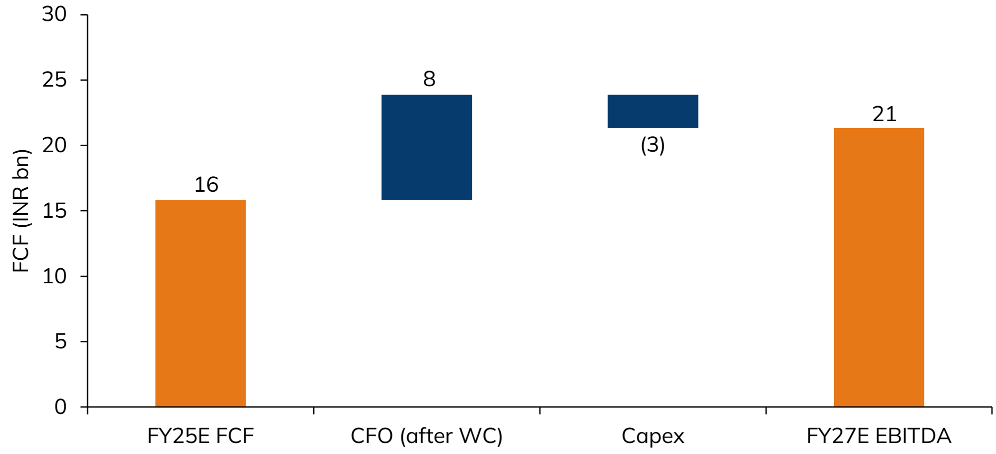
Exhibit 43: A significant jump in EBITDA is driven by turnaround in digital services; EBITDA to grow at a CAGR of 15.2% over FY25-27E



Source: Company data, I-Sec research

EBITDA rise of INR 15bn shall translate into incremental CFO after WC of INR 8bn post rise in tax outgo; and rise in working capital would support rising data revenue.

Exhibit 44: And shall support FCF generation; FCF after lease, capex & finance cost to grow at a CAGR of 33.8% over FY25–27E



Source: Company data, I-Sec research

Capex expectation is USD 300mn–350mn p.a. TCom also plans to replace some of its old fiber, which may need additional capex outlay. Replacement of old fiber would also help in reducing repair & maintenance cost, which is steep due to old fiber. Company has been diligent in the past on capex investment with a sharp focus on return ratios.

Exhibit 45: TCom has been diligent on capital allocation / capex outlay in past

Source: Company data; FY24 analyst meet

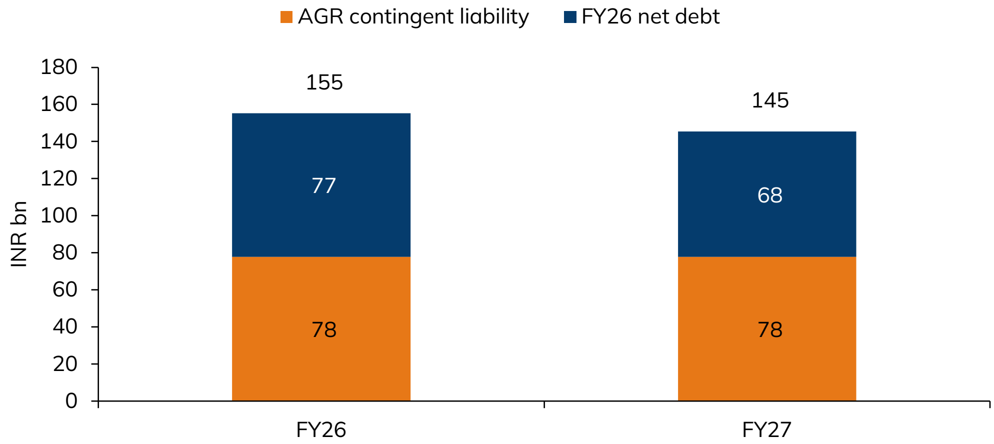
The company is aggressively looking to monetise non-core assets, particularly large surplus land. It has agreed to sell a large land parcel for INR 8.5bn. TCom has also divested its ATM business for INR 3.3bn (TCPSL). Apart from land, the company also has 26% equity stake in STT Data Center India; and it is probably the second-largest data center provider in India, after NetMagic.

Risk: AGR case

During Oct'19, AGR case came in favour of DOT (government), which has crystalised large contingent liabilities for UASL license holders including Bharti Airtel, Vodafone Idea and others. However, the hearing for other license holders is still pending. TCom has three key licenses – NLD, ILD and ISP. The company still has AGR-related contingent liability of INR 78bn, as per its Q3FY25 release.

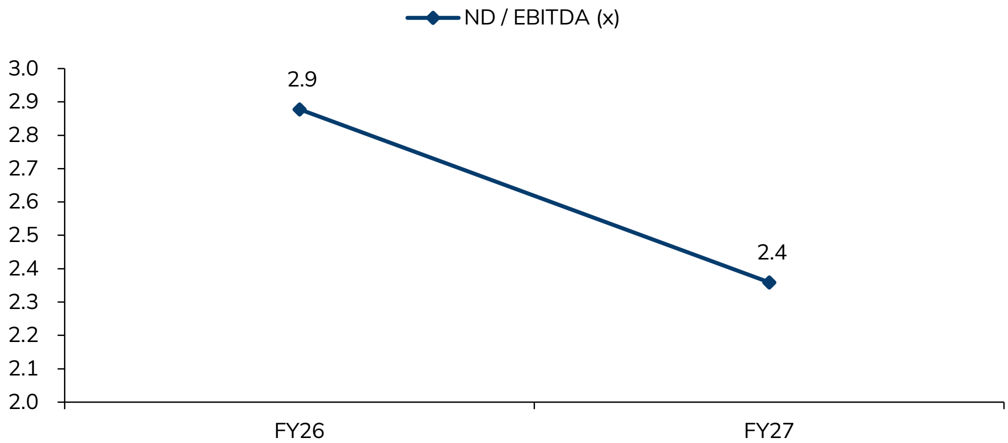
Considering DOT has a precedence of favourable judgment in AGR, we have reason to believe AGR liability for TCom may also crystalise in future. Only advantage that the ISP license has is – any unfavorable judgement can create huge liabilities in many non-telco PSUs.

Exhibit 46: If we add AGR contingent liability, net debt doubles to INR 155bn in FY26...



Source: Company data, I-Sec research

Exhibit 47: ...net debt to EBITDA jumps to ~3x. We believe, if entire liability accrues, then TCom may need support from equity infusion



Source: Company data, I-Sec research

ICICI Securities

Financial

Exhibit 48: Data business EBITDA to grow at CAGR of 18% over FY25-27E

INR mn	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	CAGR (%, FY25-27E)
Voice								
Revenue	27,908	22,864	20,542	16,991	16,462	14,548	12,595	(12.5)
Growth (%)	*(17.3)*	*(18.1)*	*(10.2)*	*(17.3)*	*(3.1)*	*(11.6)*	*(13.4)*	
% of total revenue	*16.3*	*13.7*	*11.5*	*8.1*	*7.1*	*5.7*	*4.6*	
EBITDA	**1,728**	**1,534**	**3,410**	**2,187**	**1,811**	**1,455**	**882**	**(30.2)**
EBITDA (%)	*6.2*	*6.7*	*16.6*	*12.9*	*11.0*	*10.0*	*7.0*	
Growth (%)	*(34.4)*	*(11.2)*	*122.4*	*(35.9)*	*(17.2)*	*(19.7)*	*(39.4)*	
% of total EBITDA	*4.1*	*3.6*	*7.9*	*5.2*	*3.9*	*2.7*	*1.4*	
Data								
Revenue	1,25,993	1,27,795	1,40,970	1,71,805	1,96,082	2,18,219	2,40,877	10.8
Growth (%)	*6.1*	*1.4*	*10.3*	*21.9*	*14.1*	*11.3*	*10.4*	
% of total revenue	*73.7*	*76.4*	*79.0*	*81.9*	*84.2*	*86.1*	*87.5*	
EBITDA	**39,728**	**39,897**	**38,070**	**36,616**	**38,115**	**45,419**	**53,099**	**18.0**
EBITDA (%)	*31.5*	*31.2*	*27.0*	*21.3*	*19.4*	*20.8*	*22.0*	
Growth (%)	*38.4*	*0.4*	*(4.6)*	*(3.8)*	*4.1*	*19.2*	*16.9*	
% of total EBITDA	*93.2*	*94.4*	*88.2*	*86.6*	*82.1*	*84.2*	*86.1*	
Others (subsidiaries, RE)								
Revenue	17,106	16,603	16,890	20,892	20,327	20,758	21,904	3.8
Growth (%)		*(2.9)*	*1.7*	*23.7*	*(2.7)*	*2.1*	*5.5*	
% of total revenue	*10.0*	*9.9*	*9.5*	*10.0*	*8.7*	*8.2*	*8.0*	
EBITDA	**1,177**	**847**	**1,710**	**3,498**	**6,500**	**7,050**	**7,665**	**8.6**
EBITDA (%)	6.9	5.1	10.1	16.7	32.0	34.0	35.0	
Growth (%)		*(28.1)*	*102.0*	*104.6*	*85.8*	*8.4*	*8.7*	
% of total EBITDA	*2.8*	*2.0*	*4.0*	*8.3*	*14.0*	*13.1*	*12.4*	

Source: Company data, I-Sec research

Exhibit 49: Digital revenue to grow at CAGR of 17% over FY25-27E

INR mn	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	CAGR (%, FY25-27E)
Data revenue	**1,25,993**	**1,27,795**	**1,40,970**	**1,71,805**	**1,96,082**	**2,18,219**	**2,40,877**	**10.8**
Growth (%)		*1.4*	*10.3*	*21.9*	*14.1*	*11.3*	*10.4*	
Core connectivity	89,147	90,387	95,570	1,01,272	1,04,316	1,09,770	1,15,297	5.1
Growth (%)		*1.4*	*5.7*	*6.0*	*3.0*	*5.2*	*5.0*	
Digital platform & services	36,846	37,407	45,400	70,533	91,766	1,08,449	1,25,580	17.0
Growth (%)		*1.5*	*21.4*	*55.4*	*30.1*	*18.2*	*15.8*	
Data net revenue	**90,811**	**91,728**	**99,530**	**1,10,058**	**1,19,711**	**1,32,188**	**1,44,782**	**10.0**
Growth (%)		*1.0*	*8.5*	*10.6*	*8.8*	*10.4*	*9.5*	
Core connectivity	73,108	73,348	77,390	81,405	84,269	88,675	93,140	5.1
Growth (%)		*0.3*	*5.5*	*5.2*	*3.5*	*5.2*	*5.0*	
Digital platform & services	17,703	18,380	22,140	28,653	35,443	43,513	51,642	20.7
Growth (%)		*3.8*	*20.5*	*29.4*	*23.7*	*22.8*	*18.7*	
Core connectivity								
Services providers	31,061	30,234	31,603	31,585	30,795	31,103	31,398	1.0
Growth (%)		*(2.7)*	*4.5*	*(0.1)*	*(2.5)*	*1.0*	*1.0*	
Enterprises	58,052	60,151	63,967	69,688	73,521	78,667	83,898	6.8
Growth (%)		*3.6*	*6.3*	*8.9*	*5.5*	*7.0*	*6.7*	
Digital services								
Collab & CPaaS	18,516	15,027	15,338	29,496	44,245	49,554	54,906	11.4
Growth (%)		*(18.8)*	*2.1*	*92.3*	*50.0*	*12.0*	*10.8*	
Cloud & Security	8,991	9,906	12,599	14,507	17,409	20,890	25,069	20.0
Growth (%)		*10.2*	*27.2*	*15.1*	*20.0*	*20.0*	*20.0*	
Next Gen Connectivity	4,811	5,816	7,010	9,766	10,743	13,429	16,115	22.5
Growth (%)		*20.9*	*20.5*	*39.3*	*10.0*	*25.0*	*20.0*	
Media	3,281	4,515	5,791	12,110	13,321	17,317	20,780	24.9
Growth (%)		*37.6*	*28.2*	*109.1*	*10.0*	*30.0*	*20.0*	
Incubation	1,281	2,148	4,652	4,653	6,049	7,259	8,710	20.0
Growth (%)		*67.6*	*116.6*	*0.0*	*30.0*	*20.0*	*20.0*	

Source: Company data, I-Sec research

Exhibit 50: TCom EBITDA and PAT to grow at CAGR of 15.2%/ 40% respectively over FY25-27E

INR mn	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	CAGR (%, FY25-27E)
Revenue	**1,71,001**	**1,67,247**	**1,78,383**	**2,09,688**	**2,32,871**	**2,53,525**	**2,75,375**	**8.7**
Growth (%)		*(2.2)*	*6.7*	*17.5*	*11.1*	*8.9*	*8.6*	
Network opex	63,333	61,995	63,755	80,864	93,901	1,00,007	1,05,246	5.9
%o of revenue	*37.0*	*37.1*	*35.7*	*38.6*	*40.3*	*39.4*	*38.2*	
Emplooyee cost	30,491	30,403	35,975	44,530	51,209	55,306	59,730	8.0
%o of revenue	*17.8*	*18.2*	*20.2*	*21.2*	*22.0*	*21.8*	*21.7*	
Other expenses	34,572	32,582	35,471	41,993	41,335	44,289	48,752	8.6
%o of revenue	*20.2*	*19.5*	*19.9*	*20.0*	*17.8*	*17.5*	*17.7*	
Total expenses	**1,28,395**	**1,24,980**	**1,35,200**	**1,67,387**	**1,86,445**	**1,99,602**	**2,13,729**	**7.1**
Growth (%)		*(2.7)*	*8.2*	*23.8*	*11.4*	*7.1*	*7.1*	
EBITDA	**42,606**	**42,267**	**43,182**	**42,301**	**46,426**	**53,923**	**61,646**	**15.2**
EBITDA (%)	*24.9*	*25.3*	*24.2*	*20.2*	*19.9*	*21.3*	*22.4*	
Growth (%)		*(0.8)*	*2.2*	*(2.0)*	*9.8*	*16.1*	*14.3*	
D&A	23,139	22,045	22,618	24,697	26,008	26,312	26,717	1.4
EBIT	**19,467**	**20,222**	**20,564**	**17,604**	**20,418**	**27,611**	**34,929**	**30.8**
Growth (%)		*3.9*	*1.7*	*(14.4)*	*16.0*	*35.2*	*26.5*	
Other income	1,568	3,321	3,632	2,825	1,169	1,208	1,248	3.3
Finance cost	4,202	3,603	4,325	6,442	7,384	6,575	5,672	(12.4)
PBT	**16,833**	**19,940**	**19,871**	**13,988**	**14,204**	**22,244**	**30,506**	**46.6**
Growth (%)		*18.5*	*(0.3)*	*(29.6)*	*1.5*	*56.6*	*37.1*	
Exceptional item	(747)	60	764	(2,357)	-	-	-	
Tax	3,549	5,221	2,966	2,135	3,020	5,620	8,317	65.9
ETR (%)	**21**	*26.2*	*14.9*	*15.3*	*21.3*	*25.3*	*27.3*	
Minority	30	(39)	(291)	(188)	(514)	(616)	(731)	
PAT	**12,506**	**14,818**	**17,960**	**9,683**	**11,698**	**17,240**	**22,920**	**40.0**
Growth (%)		*18.5*	*21.2*	*(46.1)*	*20.8*	*47.4*	*32.9*	
EPS (INR)	44	52	63	34	41	60	80	40.0
Growth (%)		*18.5*	*21.2*	*(46.1)*	*20.8*	*47.4*	*32.9*	

Source: Company data, I-Sec research

Exhibit 51: Expect strong capital productivity and deleverage

INR mn	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	CAGR (%, FY25-27E)
Capital productivity								
Gross block	**3,38,349**	**3,40,635**	**3,48,199**	**3,59,309**	**3,84,209**	**4,10,354**	**4,37,806**	**6.7**
Data rev/ GB (x)	*0.37*	*0.38*	*0.40*	*0.48*	*0.51*	*0.53*	*0.55*	
EBITDA/ GB (x)	*0.13*	*0.12*	*0.12*	*0.12*	*0.12*	*0.13*	*0.14*	
Capex	**13,636**	**16,564**	**14,931**	**20,823**	**24,900**	**26,145**	**27,452**	**5.0**
intensity (% of data rev)	*10.8*	*13.0*	*10.6*	*12.1*	*12.7*	*12.0*	*11.4*	
Dep/ capex (x)	*1.7*	*1.3*	*1.5*	*1.2*	*1.0*	*1.0*	*1.0*	
Capital employed	97,889	85,394	87,667	1,16,192	1,18,894	1,25,247	1,30,339	4.7
pre-tax ROCE (%)	19.7	21.3	23.0	16.6	16.8	22.1	26.8	
Leverage								
Net debt	77,489	67,206	57,114	91,260	84,972	77,399	67,650	(10.8)
ND/ EBITDA (x)	*1.8*	*1.6*	*1.3*	*2.2*	*1.8*	*1.4*	*1.1*	
AGR dues (contingent)					77,771	77,771	77,771	
AGR / EBITDA (x)					*1.7*	*1.4*	*1.3*	
Cash conversion								
Inventory days	1	1	3	1	1	1	1	
Debtor days	56	56	56	65	66	67	68	
Creditor days	69	66	67	64	62	60	58	
Cash conversion	**(13)**	**(8)**	**(8)**	**3**	**6**	**9**	**12**	

Source: Company data, I-Sec research

Exhibit 52: Consolidated FCF (after lease and capex) seen at INR 22bn (4.5% of EV) in FY27E

INR mn	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	CAGR (%, FY25-27E)
Ops CF (after tax & lease)	33,625	42,449	40,868	39,306	41,012	46,012	51,152	11.7
% of EBITDA	*78.9*	*100.4*	*94.6*	*92.9*	*88.3*	*85.3*	*83.0*	
Chg in WC	(5,526)	(4,052)	(552)	(11,004)	385	(1,039)	(1,700)	
CFO	**28,099**	**38,397**	**40,317**	**28,302**	**41,397**	**44,973**	**49,452**	**9.3**
% of revenue	*16.4*	*23.0*	*22.6*	*13.5*	*17.8*	*17.7*	*18.0*	
Capex	(13,636)	(16,564)	(14,931)	(20,823)	(24,900)	(26,145)	(27,452)	
FCF	**14,463**	**21,833**	**25,385**	**7,479**	**16,497**	**18,828**	**22,000**	**15.5**
% of EBIT	*74.3*	*108.0*	*123.4*	*42.5*	*80.8*	*68.2*	*63.0*	
Finance cost	(2,515)	(2,476)	(3,487)	(5,278)	(7,384)	(6,575)	(5,672)	
FCFE	**11,948**	**19,356**	**21,898**	**2,201**	**9,114**	**12,253**	**16,328**	**33.8**
Acquistions	-	(1,696)	(905)	(12,708)	-	-	-	
Dividend	(1,152)	(4,016)	(5,930)	(6,014)	(3,995)	(5,888)	(7,827)	

Source: I-Sec research, Company data

Exhibit 53: Shareholding pattern

%	Jun'24	Sep'24	Dec'24
Promoters	58.9	58.9	58.9
Institutional investors	31.2	32.0	31.5
MFs and other	10.1	10.4	10.6
Banks/ FIs	0.0	0.0	0.0
Insurance Cos.	2.4	2.6	2.6
FIIs	18.7	19.0	18.3
Others	9.9	9.1	9.6

Source: Bloomberg, I-Sec research

Exhibit 54: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 55: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	2,09,688	2,32,871	2,53,525	2,75,375
Operating Expenses	**1,67,387**	**1,86,445**	**1,99,602**	**2,13,729**
EBITDA	42,301	46,426	53,923	61,646
EBITDA Margin (%)	**2,017.3**	**1,993.6**	**2,126.9**	**2,238.6**
Depreciation & Amortization	24,697	26,008	26,312	26,717
EBIT	17,604	20,418	27,611	34,929
Interest expenditure	6,442	7,384	6,575	5,672
Other Non-operating Income	2,825	1,169	1,208	1,248
Recurring PBT	11,631	14,204	22,244	30,506
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	**2,135**	**3,020**	**5,620**	**8,317**
PAT	9,496	11,183	16,624	22,189
Less: Minority Interest	(188)	(514)	(616)	(731)
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	9,683	11,698	17,240	22,920
Net Income (Adjusted)	**12,040**	**11,698**	**17,240**	**22,920**

Source Company data, I-Sec research

Exhibit 56: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	74,417	83,638	93,463	1,00,963
of which cash & cash eqv.	8,425	9,712	12,286	12,034
Total Current Liabilities & Provisions	1,13,120	1,21,439	1,27,652	1,33,702
Net Current Assets	**(38,703)**	**(37,801)**	**(34,189)**	**(32,740)**
Investments	16,082	16,082	16,082	16,082
Net Fixed Assets	1,19,072	1,20,872	1,23,613	1,27,256
ROU Assets	11,035	11,035	11,035	11,035
Capital Work-in-Progress	13,270	13,270	13,270	13,270
Total Intangible Assets	17,837	17,837	17,837	17,837
Other assets	-	-	-	-
Deferred Tax Assets	7,170	7,170	7,170	7,170
Total Assets	**1,32,494**	**1,35,196**	**1,41,549**	**1,46,641**
Liabilities				
Borrowings	**1,01,178**	**96,178**	**91,178**	**81,178**
Deferred Tax Liability	**1,959**	**1,959**	**1,959**	**1,959**
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	2,850	2,850	2,850	2,850
Reserves & Surplus	15,014	22,717	34,069	49,162
Total Net Worth	**17,864**	**25,567**	**36,919**	**52,012**
Minority Interest	39	39	39	39
Total Liabilities	**1,32,494**	**1,35,196**	**1,41,549**	**1,46,641**

Source Company data, I-Sec research

Exhibit 57: Quarterly trend

(INR mn, year ending March)

	Mar-24	Jun-24	Sep-24	Dec-24
Net Sales	56,917	56,334	57,674	57,981
% growth (YOY)	24.6	18.1	18.4	2.9
EBITDA	10,563	11,242	11,170	11,810
Margin %	18.6	20.0	19.4	20.4
Other Income	570	263	141	287
Extraordinaries	(521)	857	429	(149)
Adjusted Net Profit	3,733	2,471	1,843	2,510

Source Company data, I-Sec research

Exhibit 58: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	**42,824**	**43,920**	**48,920**	**54,060**
Working Capital Changes	(11,004)	385	(1,039)	(1,700)
Capital Commitments	(33,531)	(24,900)	(26,145)	(27,452)
Free Cashflow	**(1,711)**	**19,405**	**21,736**	**24,908**
Other investing cashflow	**7,092**	**1,169**	**1,208**	**1,248**
Cashflow from Investing Activities	7,092	1,169	1,208	1,248
Issue of Share Capital	-	-	-	-
Interest Cost	(5,278)	(7,384)	(6,575)	(5,672)
Inc (Dec) in Borrowings	6,680	(5,000)	(5,000)	(10,000)
Dividend paid	(6,014)	(3,995)	(5,888)	(7,827)
Others	-	-	-	-
Cash flow from Financing Activities	(8,130)	(19,287)	(20,371)	(26,407)
Chg. in Cash & Bank balance	**(2,749)**	**1,288**	**2,573**	**(251)**
Closing cash & balance	7,296	9,712	12,286	12,034

Source Company data, I-Sec research

Exhibit 59: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	42.2	41.0	60.5	80.4
Adjusted EPS (Diluted)	34.0	41.0	60.5	80.4
Cash EPS	108.1	119.7	140.2	161.6
Dividend per share (DPS)	16.7	14.0	20.7	27.5
Book Value per share (BV)	62.7	89.7	129.5	182.5
Dividend Payout (%)	39.5	34.2	34.2	34.2
Growth (%)				
Net Sales	17.5	11.1	8.9	8.6
EBITDA	(2.0)	9.8	16.1	14.3
EPS (INR)	(30.0)	(2.8)	47.4	32.9
Valuation Ratios (x)				
P/E	32.5	33.5	22.7	17.1
P/CEPS	12.7	11.5	9.8	8.5
P/BV	21.9	15.3	10.6	7.5
EV / EBITDA	11.4	10.3	8.7	7.4
EV / Sales	2.3	2.0	1.8	1.7
Dividend Yield (%)	1.2	1.0	1.5	2.0
Operating Ratios				
Gross Profit Margins (%)	-	-	-	-
EBITDA Margins (%)	20.2	19.9	21.3	22.4
Effective Tax Rate (%)	15.3	21.3	25.3	27.3
Net Profit Margins (%)	5.7	5.0	6.8	8.3
NWC / Total Assets (%)	(29.2)	(28.0)	(24.2)	(22.3)
Net Debt / Equity (x)	5.1	3.3	2.1	1.3
Net Debt / EBITDA (x)	2.2	1.8	1.4	1.1
Profitability Ratios				
RoCE (%)	14.2	13.3	16.5	19.4
RoE (%)	72.9	53.9	55.2	51.5
RoIC (%)	19.4	18.6	24.6	29.8
Fixed Asset Turnover (x)	0.6	0.6	0.6	0.6
Inventory Turnover Days	1.5	1.5	1.5	1.5
Receivables Days	65.4	66.4	67.4	68.4
Payables Days	63.6	61.6	59.6	57.6

Source Company data, I-Sec research

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