Arihant Capital
Generating Wealth

Tata Communications Ltd- Investor/Analyst Meet 2025
11th June 2025

Tata Communication

Focus on Margin Expansion and strong growth

CMP: INR 1,735

Outlook: Positive

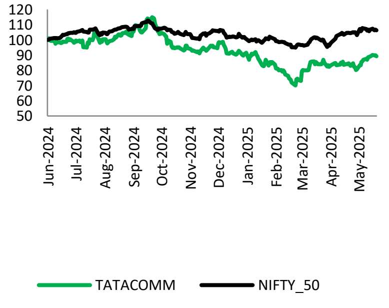
Stock Info	
BSE	500483
NSE	TATACOMM
Bloomberg	TCOM IN
Reuters	TATA.NS
Sector	Telecom
Face Value (INR)	10
Equity Capital (INR Cr)	285
Mkt Cap (INR Cr)	49,448
52w H/L (INR)	2,175/ 1,291
Avg Daily Vol (in 000')	441

Shareholding Pattern %
(As on March 2025)

Promoters	58.86
FII	16.99
DII	14.51
Public & Others	9.63

Stock Performance (%)	1m	3m	12m
Tata Communication	10.38	15.93	-7.91
Nifty 50	0.72	11.77	7.91

Tata Communication vs Nifty 50



Abhishek Jain
Abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
Jyoti.singh@arihantcapital.com
022 67114837

Outlook: Data revenue guidance to achieve INR 280 bn expected to be delayed by 2-3 quarters (earlier FY27) indicate 45% expansion from FY25 to FY28 and (~13-14% CAGR) through organic growth. EBITDA margin guidance of 23-25% and RoCE guidance of 25% by FY27 also pushed back to FY28.Focus areas include expanding new customer logos and accelerating conversion rates.MS churn is a concern in certain segments, but efforts are underway to gain traction in emerging opportunities like cloud connectivity and AI.M&A activity will be considered if aligned with strategic growth. Focus remains on margin expansion, operational efficiency, and leveraging operating leverage to improve profitability. Company is accelerating its digital pivot, with 65% of total data revenue expected to come from its digital portfolio. The company is following a "fewer but deeper" approach, with 80% of mn-dollar customers using three or more service fabrics. It is also strengthening its international presence. While facing ~10–15% churn and price erosion in its traditional connectivity business, strong tailwinds from AI, data analytics, growing data Centre demand, private cloud adoption, and increased focus on cybersecurity are supporting growth in digital services. Q4FY25 EBITDA margins are seen as the bottom, with FY26E focused on margin recovery and improving operational leverage.

Review: 11.6% CAGR in data segment, 7.8% total revenue. Data revenue at INR 70Bn, digital services target 65% of data revenue, currently ~50%. Large deals up 2x, 57% from multi-year contracts 53% of $10M+ clients get 50% revenue from digital. Connectivity price drops (10-15% yearly) challenge B2B revenue despite segment growth potential.

Customer Engagement & Market Penetration: 8+ customers added in 10mn+ during FY21-25, 53% (155/290) of MDC customers with 50%+ digital revenue NPS at 82, top quartile, driven by deep engagement and complex solutions. Example: $20B Philippine healthcare provider turned RFP into strategic digital partnership.

Digital: Tata leads in digital transformation via AI/cloud platforms (Kaleyra, IoT fabric). Agentic AI personalizes workflows. Digital fabric tools offer orchestration, observability for scalability, security. Cloud fabric supports AI workloads; interaction fabric enhances customer experience. Growth in BFSI (1.9x), manufacturing (2x). In media segment major chunk of revenue still comes from events like F1 race and other sports clients. It's trying to move to more production and studio related projects. (clients: Vrio DirectTV, Formula 1).

Pegged FY25 Digital Portfolio EBITDA loss at INR 9bn, signaling that peak investments are likely behind. While it guided for double-digit destination EBITDA margins, no timeline was shared. This target provides confidence in future margin recovery.

Strategic Bets: Investing in unified cloud network, AI cloud, interaction fabric, SASE, digital fabric tools. Unified cloud network targets $8B market (30% CAGR), offering cost optimization, scalability. SASE (Secure Access Service Edge)integrates network/security; digital fabric ensures visibility. Early customer adoption shows promise for transformation needs.

Cybersecurity: Tata focuses on countering AI-driven cyber threats (like : phishing, deepfakes) with robust cybersecurity measures to ensure compliance and trust.

Subsea Cable Infrastructure Optimization: The reassignment of the entire subsea cable infrastructure from Bermuda to Switzerland safeguarded $40 mn in NOLs. Capital losses from land sales were utilized fully to realize cash proceeds, contributing to strategic financial management.

Digital Fabric Capabilities: Investment in multi-fabric solutions has created a strategic capacity. This enables the handling of multi-fabric deals, generating sustainable, repeatable revenue streams, and increasing customer stickiness. The integration of AI across products enhances relevance, shifts focus from price to value and fosters closer customer engagement.

Cable Business: Continued investment is prioritized due to its profitability. While traditional telcos demonstrate high EBITDA margins, their revenue growth remains modest. Strategic emphasis balances profit margins with asset productivity, tailored to each business stage and innovation cycle. Target margins are >25%, with ROCE <10%.

Organic Capex: CapEx as a percentage of revenue has 2%, with fluctuations between 1.8% and 2.1%. High-value CapEx, such as large cable projects or AI cloud investments, are evaluated strategically, often linked to deal profitability and cash flow. These investments are aligned with future growth objectives, despite not providing immediate returns.

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Portfolio Transformation & Growth: The digital portfolio now constitutes 84% of total data business, up from 74% five years ago, indicating a clear shift toward data-centric revenue streams. The focus is on reaching a 60% digital share, with aspirations for double-digit margins, transitioning from non-data to data-driven models. MS growth is supported by new product launches, such as cloud connectivity and AI solutions.

Strategic Investments: In AI, cloud, and digital platforms are foundational, despite often not yielding immediate returns. The integration of AI within products aims to enhance customer engagement and operational efficiency, contributing to long-term valuation growth.

Data & Cloud Infrastructure: The enterprise knowledge base is protected through increased private cloud adoption, ensuring data security and preventing commoditization. Cybersecurity and network security remain a strategic focus, operating in a crowded and evolving space.

Land parcel: RE and data centre monetisation, along with NOLs, offer significant value upside, potentially outweighing AGR and other contingent liabilities. Key land parcels like Chattarpur and GK could be monetised, though processes are lengthy e.g., Ambattur land sale took nearly 5 years from paperwork initiation.

New Business Initiatives: US market undertakings include remote production facilities for sports broadcasting, targeting increased ticket sizes and margins through service diversification. The goal is to grow ticket size threefold, with the margin profile shifting toward higher-value services.

B/s: The company as raised over INR 14 bn through asset sales since FY21, reducing its net debt-to-EBITDA ratio from 2.4x to ~2.1x, and remains open to M&A opportunities.

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park	
Building No. 10, 1st Floor	6 Lad Colony,
Andheri Ghatkopar Link Road	Y.N. Road,
Chakala, Andheri (E)	Indore - 452003, (M.P.)
Mumbai – 400093	Tel: (91-731) 4217100/101
Tel: (91-22) 42254800	CIN: L66120MP1992PLC007182

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	**SMS: ‘Arihant’ to 56677**	www.arihantcapital.com	instresearch@arihantcapital.com

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800