

Tata Communications

Estimate change	↔
TP change	↑
Rating change	↔

Bloomberg	TCOM IN
Equity Shares (m)	285
M.Cap.(INRb)/(USDb)	557.2 / 6.3
52-Week Range (INR)	2000 / 1291
1, 6, 12 Rel. Per (%)	16/14/0
12M Avg Val (INR M)	898

Financials & Valuations (INR b)

Y/E March	FY26E	FY27E	FY28E
Net Sales	246.6	265.8	286.6
EBITDA	48.7	55.8	61.0
Adj. PAT	12.0	17.5	21.5
EBITDA Margin (%)	19.7	21.0	21.3
Adj. EPS (INR)	42.0	61.5	75.3
EPS Gr. (%)	46.0	46.6	22.5
BV/Sh. (INR)	120.3	160.7	209.9

Ratios

Net D:E	2.9	1.8	1.1
RoE (%)	37.1	43.8	40.7
RoCE (%)	11.6	15.5	17.9
Payout (%)	47.7	40.6	39.9

Valuations

EV/EBITDA (x)	13.4	11.4	10.1
P/E (x)	46.2	31.5	25.7
P/BV (x)	16.1	12.1	9.2
Div. Yield (%)	1.0	1.3	1.6
FCF Yield (%)	1.5	2.5	3.3

Shareholding Pattern (%)

As On	Jun-25	Mar-25	Jun-24
Promoter	58.9	58.9	58.9
DII	14.8	14.5	13.2
FII	17.2	17.0	18.1
Others	9.1	9.6	9.9

FII includes depository receipts

CMP: INR1,938 TP: INR1,750 (-10%) Neutral

Steady 2Q; data EBITDA margin improves, but TCR contracts

- Tata Communications (TCOM) delivered steady 2Q, with ~7% YoY (~1% QoQ) growth in data revenue and 145bp data EBITDA margin expansion.
- TCOM's consol. EBITDA grew 4% YoY (3% QoQ), but came in **~3% below** our estimate as margin expanded by a modest 17bp QoQ to 19.2% (75bp miss), due to a sharp ~28pp contraction in TCR margins (linked to implementation of new incentivized payout structure).
- Management indicated that the order book was stable in 1HFY26 (on high base of 1HFY25) as healthy deal wins in Enterprise were offset by headwinds in service provider segment. The funnel remains robust, with a 60% contribution from the digital portfolio.
- As per management, rising data center (DC) investments bode well for TCOM in multiple ways – through its leadership in DC-to-DC connectivity, investments in AI Cloud, Multi Cloud Connect and potential monetization of land parcels, among others. However, there is currently no agreement with TCS for its recent announcement on AI data center investments.
- We build in ~8% data revenue CAGR over FY25-28E, with data revenue reaching INR246b by FY28. We believe **the ambition of doubling data revenue (INR280b by FY28) remains a tall ask without further acquisitions.**
- We also believe **reaching 23-25% EBITDA margin by FY28 would be difficult** and build in ~21.3% consolidated EBITDA margin in FY28.
- Our FY26-28 revenue and EBITDA estimates are broadly unchanged. We build in ~11% consolidated EBITDA CAGR over FY25-28E.
- We value TCOM's data business at 9.5x Dec'27E EV/EBITDA and the voice and other businesses at 5x EV/EBITDA to arrive at our revised **TP of INR1,750. We reiterate our Neutral rating.** Acceleration in data revenue growth, along with margin expansion, remains key for re-rating.

Steady quarter, reported margins weaker despite improvement in data margins

- Consolidated gross revenue grew ~2.3% QoQ (+8.1% YoY on like-for-like basis) to INR61b (1% higher). However, adjusted for FX benefits, the growth was modest at ~0.4% QoQ.
 - Data revenue at INR51.8b (in line) grew 7.3% YoY (+1% QoQ), driven by ~15% YoY (~1% QoQ) growth in digital portfolio and modest ~1% YoY/QoQ growth in core connectivity.
- Consolidated net revenue (a proxy for gross margin) at INR34.1b continued to grow at slower pace, rising ~3% YoY (+4% QoQ) due to continued weakness in net revenue growth for data portfolio (up 7% YoY vs. 15% YoY gross revenue growth).
- Consolidated adjusted EBITDA grew 3% QoQ (+13% YoY on like-for-like basis) to INR11.7b (3% miss) due to higher other expenses (up 7% QoQ).
 - Consolidated adjusted EBITDA margin expanded 15bp QoQ (75bp YoY) to 19.2%, but came in ~75bp lower than our estimate as improvement in data EBITDA margins was offset by weaker margins in voice and other subsidiaries (especially TCR).

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- Reported Consol. PAT came in at INR1.8b (-19% YoY, -4% QoQ).
- Net debt inched up INR12b QoQ to INR113b, due to dividend payments and investments in STT. Net debt/EBITDA rose to 2.45x (vs. 2.1x in Mar'25).
- Committed capex increased to ~INR6b in 2Q (vs. INR4.4b in 1QFY26), while cash capex declined ~20% QoQ to INR5.1b (though up ~13% YoY).
- Reported RoCE (annualized) declined further to 15.1% vs. 15.4% in 1QFY26.
- FCF stood at INR2.2b in 2QFY26 (vs. outflow of INR6.2b QoQ).
- For 1HFY26, revenue/EBITDA grew 7%/6%. Based on our estimates, the 2HFY26 implied revenue/EBITDA run rate stands at 7%/13%.

Key takeaways from the management interaction

- **Strategic bets:** TCOM is seeing strong progress both in product and capability build-out as well as receiving good early customer traction. The company launched Voice AI platform to strengthen its Kaleyra.ai platform value proposition. Further, AI Cloud is seeing good customer traction, with early deal wins for its sovereign AI cloud from a large payments player. TCOM's digital fabric tool enabled a large contract win with the GST Appellate Tribunal. Management expects **strategic bets to contribute at least 10% of the incremental digital revenues in FY26, which will scale up to INR100b by FY30.**
- **Order book and funnel:** TCOM's enterprise order book grew in double digits; however, overall order book was flat due to headwinds in the service provider segment. Management noted that 1HFY25 had the benefit of several large deal wins, and 1HFY26 order book was better than 2HFY25, which faced macro headwinds, with cloud/international order books growing in healthy mid-teen/double digits in 2Q. The funnel remains robust, with digital portfolio accounting for ~60%.
- **Potential collaboration with TCS on data centers:** Management noted that TCOM and TCS have been collaborating in various areas for a long period of time. Rising DC capacity in India will be beneficial for TCOM's core connectivity (DC to DC connectivity), digital fabric (Multi Cloud Connect, AI Cloud with liquid cooling) as well as from potential monetization of land parcels. However, there is no firm agreement at the moment.
- **FX benefits:** Normalizing for FX movement, consolidated revenue growth was **up by a modest 0.4% QoQ (vs. reported 2.3% QoQ growth).**
- **Data EBITDA margins:** ~140bp QoQ improvement in data EBITDA margin was driven by 1) improvement in Vayu Cloud portfolio, 2) right-sizing in certain verticals in line with the growth, and 3) operating leverage with rising scale. However, near-term margins are likely to be impacted by the revenue loss and costs associated with the Red Sea cable cut and a change in the payout structure in TCR.

Valuation and view

- We currently model ~14% CAGR in digital revenue over FY25-28 and expect digital to account for ~54% of TCOM's data revenue by FY28 (vs. ~49% currently). Acceleration in digital revenue remains key for re-rating.
- Our FY26-28E revenue remains broadly unchanged and believe TCOM's ambition of doubling data revenue by FY28 remains a tall ask without further

acquisitions. Overall, we build in ~8% data revenue CAGR over FY25-28, with data revenue reaching INR246b by FY28 (vs. TCOM's ambition of INR280b).

- We lower our FY26E EBITDA by a modest 1% while keeping our FY27-28E EBITDA broadly unchanged. We believe that margin expansion to 23-25% by FY28E could be challenging, given the rising share of inherently lower-margin businesses in TCOM's mix amid weakness in core connectivity. Our FY28 margin estimate is ~21.3%.
- We roll forward our valuations to Dec'27E (from Sep'27) and ascribe 9.5x EV/EBITDA to the data business and 5x EV/EBITDA to voice and other businesses. We ascribe an INR37b (or INR132/share) valuation to TCOM's 26% stake in STT data centers to arrive at our revised **TP of INR1,750 (earlier INR1,685)**.
- After the recent run-up (TCOM: +15% in last five day), the stock now trades at ~12.5x one-year forward EV/EBITDA (~22% premium to the LT average).
- We **reiterate our Neutral rating** as we await sustained acceleration in data revenue growth, along with margin expansion, before turning more constructive on TCOM.

Cons. Quarterly Earnings

Y/E March	FY25				FY26				FY25	FY26E	(INR b)	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			FY26E 2QE	Est Var (%)
Revenue	55.9	56.4	57.7	59.9	59.6	61.0	62.6	63.4	229.9	246.6	60.5	1
YoY Change (%)	17.2	15.8	2.4	5.2	6.6	8.1	8.5	5.8	9.7	7.2	0.0	
Total Expenditure	44.6	46.0	46.2	48.7	48.2	49.3	49.9	50.6	185.4	197.9	48.5	2
EBITDA	11.4	10.4	11.5	11.2	11.4	11.7	12.8	12.8	44.5	48.7	12.1	-3
YoY Change (%)	11.0	2.7	1.6	6.2	0.0	12.5	10.7	14.4	5.3	9.3	0.0	
EBITDA Margin (%)	20.3	18.5	20.0	18.7	19.1	19.2	20.4	20.2	19.4	19.7	20.0	
Depreciation	6.3	6.5	6.4	6.7	6.7	6.8	6.9	6.9	25.9	27.2	6.7	1
Interest	1.7	1.9	1.9	1.8	1.8	2.0	1.7	1.6	7.3	7.1	1.8	15
Other Income	0.2	0.1	0.3	0.7	0.2	-0.2	0.3	0.5	1.3	0.8	0.3	-157
PBT Before EO Expense	3.5	2.2	3.6	3.4	3.1	2.8	4.5	4.8	12.6	15.2	3.9	-29
Exceptional (gain)/loss	-0.9	-1.3	-0.1	-5.8	0.2	0.2	0.0	0.0	-8.1	0.4	0.0	
PBT	4.4	3.4	3.7	9.1	2.9	2.5	4.5	4.8	20.7	14.8	3.9	-35
Tax	0.9	1.0	1.3	1.8	0.7	0.8	1.0	1.1	4.9	3.6	0.9	
Rate (%)	19.7	28.3	34.0	19.2	22.5	32.3	22.5	22.5	23.5	24.2	22.5	
MI & P/L of Asso. Cos.	0.2	0.2	0.1	-3.0	0.4	-0.1	-0.1	-0.1	-2.5	-0.4	-0.1	
Reported PAT	3.3	2.3	2.4	10.4	1.9	1.8	3.6	3.8	18.4	11.5	3.1	-41
Adj PAT	2.5	1.0	2.2	4.6	2.1	2.0	3.6	3.8	10.3	11.5	3.1	-34
YoY Change (%)	-34.9	-55.8	-3.5	23.9	-14.9	108.5	59.7	-18.4	-14.5	11.4	24.6	

E: MOFSL Estimates

Consolidated performance	2QFY25	1QFY26	2QFY26	YoY	QoQ	2QFY26	vs. est.
Revenue	56,414	59,599	60,998	8.1	2.3	60,542	0.8
Network costs	24,600	27,291	27,154	10.4	(0.5)	27,973	(2.9)
Staff cost	11,748	12,178	12,696	8.1	4.3	12,335	2.9
Operating and other expenses	9,637	8,762	9,412	(2.3)	7.4	8,144	15.6
Total expenditure	45,985	48,230	49,261	7.1	2.1	48,452	1.7
EBITDA	10,429	11,368	11,736	12.5	3.2	12,090	(2.9)
Depreciation and amortization	6,482	6,657	6,788	4.7	2.0	6,730	0.9
EBIT	3,948	4,711	4,948	25.4	5.0	5,360	(7.7)
Other income	100	171	(172)	(273.1)	(200.8)	300	(157.5)
Interest expense	1,894	1,765	2,020	6.6	14.4	1,750	15.4
PBT	2,153	3,117	2,756	28.0	(11.6)	3,910	(29.5)
Income tax	976	654	821	(15.9)	25.5	880	(6.6)
PAT before exceptional items	1,177	2,463	1,935	64.5	(21.4)	3,030	(36.1)
Exceptional items	1,294	(204)	(210)			—	
PAT after exceptional items	2,470	2,258	1,725	(30.2)	(23.6)	3,030	(43.1)
Minority interest	(238)	(424)	(2)	(99)	(100)	(20)	(93)
Share of associates/JVs	40	65	107	168	64	70	53
Reported net income	2,272	1,900	1,831	(19.4)	(3.6)	3,080	(40.6)
Adjusted net income	979	2,104	2,041	108.5	(3.0)	3,080	(33.7)
Adjusted EPS (INR/share)	3.4	7.4	7.2	108.5	(3.0)	10.8	(33.7)
Margins (%)							
EBITDA	18.5	19.1	19.2	75 bp	17 bp	20.0	(73)bp
EBIT	7.0	7.9	8.1	112 bp	21 bp	8.9	(74)bp
PBT	3.8	5.2	4.5	70 bp	(71)bp	6.5	(194)bp
Adjusted PAT	1.7	3.5	3.3	161 bp	(19)bp	5.1	(174)bp

E: MOFSL Estimates

Segmental performance

Data segment: 2Q data revenue up ~7% YoY, driven by ~15% YoY growth in Digital Portfolio; data EBITDA margin expands ~145bp QoQ

- Gross revenue was up ~7% YoY to INR51.8b (+1% QoQ, 0.5% below).
 - Core-connectivity revenue grew by a modest ~1% YoY to INR26.4b (+1% QoQ, 2% below) as 5% QoQ growth in Enterprise was offset by 8% QoQ dip in service providers' revenue.
 - **Digital portfolio revenue was up 15% YoY (+1% QoQ)** to INR25.4b (1% ahead), driven by higher growth in Media (+29% YoY, 18% ahead, boosted by World Athletic deal) and Collaboration and CPaaS (+13% YoY, 4% ahead). Next-Gen connectivity (+29% YoY) continued robust growth trajectory, while growth moderated sharply in Cloud Hosting & Security (+13% YoY, vs. 27% YoY in 1Q) and Incubation revenue declined 9% YoY.
 - ✓ However, net revenue at INR34.1b grew by a modest 3% YoY (+4% QoQ) as digital portfolio net revenue grew ~7% YoY (vs. ~15% YoY growth in gross revenue).
 - ✓ Data EBITDA at INR9.6b (+9% QoQ, +8% YoY) was **~4% above our estimate** as **EBITDA margin expanded 145bp QoQ** (+5bp YoY, 75bp beat), despite weaker growth in Core-connectivity, likely on declining losses in the digital portfolio.

Voice: Voice revenue at INR4.1b grew ~3% QoQ (though down ~5% YoY, 4% beat). Voice EBITDA declined 6% QoQ (-14% YoY) to INR412m (10% miss), as margin declined ~90bp QoQ to 10.2% (155bp miss).

Others:

- The Campaign Registry (TCR) revenue grew ~7% QoQ to INR2b (+28% YoY). However, EBITDA declined ~35% QoQ to INR.9b (42% miss) as margins contracted sharply to 44.1% (from 72.3% QoQ, 75.5% YoY) due to revision in variable pay structure and one-time incentive payouts.
- TCTSL revenue grew ~34% QoQ (on low base of 1Q) and EBITDA was up 15% QoQ to ~INR540m despite ~350bp QoQ dip in margins to 20.4%.

Exhibit 1: Segmental results

	2QFY25	1QFY26	2QFY26	YoY (%)	QoQ (%)	2QFY26E	vs. est
Segmental gross revenue (INR m)							
Gross revenue	57,279	59,598	60,998	6.5	2.3	60,542	0.8
Voice	4,255	3,945	4,060	(4.6)	2.9	3,891	4.3
Data	48,262	51,302	51,789	7.3	0.9	52,041	(0.5)
Core connectivity	26,134	26,198	26,366	0.9	0.6	26,826	(1.7)
Digital portfolio	22,128	25,105	25,423	14.9	1.3	25,215	0.8
Digital platforms and services	20,353	23,604	23,805	17.0	0.9	23,564	1.0
Incubation services	1,775	1,501	1,618	(8.8)	7.8	1,651	(2.0)
Others	4,761	4,351	5,149	8.1	18.3	4,611	11.7
Rentals	573	491	486	(15.2)	(1.0)	550	(11.7)
TCTSL	2,604	1,967	2,640	1.4	34.3	1,996	32.3
TCR	1,584	1,893	2,023	27.7	6.8	2,065	(2.0)
Segmental net revenue (INR m)							
Net revenue	33,194	32,900	34,130	2.8	3.7	35,257	(3.2)
Voice	957	832	815	(14.8)	(2.1)	854	(4.6)
Data	29,399	29,731	30,001	2.0	0.9	30,676	(2.2)
Core connectivity	21,142	20,663	21,198	0.3	2.6	21,327	(0.6)
Digital portfolio	8,257	9,067	8,803	6.6	(2.9)	9,350	(5.8)
Others	2,838	2,337	3,313	16.8	41.8	3,726	(11.1)
Rentals	572	490	485	(15.3)	(1.0)	550	(11.8)
TCTSL	834	130	958	14.9	639.0	1,297	(26.1)
TCR	1,431	1,717	1,870	30.6	8.9	1,879	(0.5)
Segmental EBITDA (INR m)							
EBITDA	11,294	11,368	11,736	3.9	3.2	12,090	(2.9)
Voice	478	436	412	(13.7)	(5.5)	455	(9.5)
Data	8,957	8,813	9,643	7.7	9.4	9,304	3.6
Others	1,859	2,119	1,681	(9.6)	(20.6)	2,330	(27.8)
Rentals	352	279	250	(29.0)	(10.5)	329	(24.0)
TCTSL	312	471	540	73.2	14.7	469	15.1
TCR	1,196	1,369	892	(25.4)	(34.9)	1,532	(41.8)
Segmental EBITDA margin (%)							
EBITDA margin	19.7	19.1	19.2	(47.7)	16.6	20.0	(72.9)
Voice	11.2	11.1	10.2	(107)bp	(90)bp	11.7	(155)bp
Data	18.6	17.2	18.6	6bp	144bp	17.9	74bp
Others	39.1	48.7	32.7	(640)bp	(1,604)bp	50.5	(1,789)bp
Rentals	61	57	51	(995)bp	(544)bp	60	(836)bp
TCTSL	12.0	23.9	20.4	847 bp	(349)bp	23.5	(306)bp
TCR	75.5	72.3	44.1	(3,140)bp	(2,821)bp	74.2	(3,013)bp

Exhibit 2: Revenue build-up for TCOM

	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	YoY	QoQ
Data revenue – geographical mix	46.2	46.6	46.9	48.3	49.0	51.0	51.3	51.8	7.3	0.9
India	19.4	19.3	20.4	20.5	20.6	21.4	21.8	20.3	(1.3)	(6.8)
Rest of World	26.8	27.2	26.6	27.8	28.5	29.6	29.5	31.5	13.7	6.6
Gross revenue by currency	56.3	56.9	56.3	57.7	58.0	59.9	59.6	61.0	6.5	2.3
INR	20.2	20.1	21.6	21.9	21.9	23.4	23.5	25.0	13.9	6.5
Others	36.1	36.8	34.7	35.8	36.1	36.5	36.1	36.0	1.9	(0.3)
Data revenue customer mix	46.2	46.6	46.9	48.3	49.0	51.0	51.3	51.8	7.3	0.9
Service Providers	8.8	8.6	10.7	11.4	11.8	10.2	13.6	12.1	(0.5)	(11.2)
Enterprise	37.4	38.0	36.3	36.9	37.2	40.7	37.7	39.7	9.9	5.3
Data revenue segment mix	46.2	46.6	46.9	48.3	49.0	51.0	51.3	51.8	7.3	0.9
Core-connectivity	25.2	25.7	25.5	26.1	25.9	26.6	26.2	26.4	0.9	0.6
Digital portfolio	21.0	20.8	21.4	22.2	23.1	24.4	25.1	25.4	14.9	1.3
Digital Platforms and Services	19.8	19.7	20.0	20.4	21.7	22.7	23.6	23.8	17.0	0.9
Incubation services	1.2	1.2	1.4	1.9	1.5	1.7	1.5	1.6	(8.8)	7.8
Core connectivity customer mix	25.2	25.7	25.5	26.1	25.9	26.6	26.2	26.4	0.9	0.6
Service Providers	8.0	7.8	8.0	8.2	8.7	7.6	8.6	7.9	(9.0)	(8.2)
Enterprise	17.2	17.9	17.5	17.9	17.3	19.0	17.6	18.5	5.8	5.0
Digital Platforms and services segment mix	19.8	19.7	20.0	20.4	21.7	22.7	23.6	23.8	17.0	0.9
Collaboration & CPaaS	10.5	10.5	10.4	11.1	11.8	11.4	11.7	12.6	12.9	7.4
Cloud, Hosting and Security	3.8	4.0	4.2	4.2	4.3	5.1	5.3	4.7	13.1	(11.0)
Next Gen Connectivity (IZO & SDWAN)	2.3	2.1	2.1	2.2	2.5	2.6	2.7	2.8	28.8	3.0
Media Services	3.1	3.1	3.4	2.9	3.1	3.5	3.9	3.7	29.3	(4.2)

Source: MOFSL, Company

Exhibit 3: We ascribe a TP of INR1,750 to TCOM

	Dec'27E EBITDA (INR b)	EV/EBITDA (X)	Enterprise Value	
			INR b	INR/share
Data	54.2	9.5	515	1,807
Voice and other businesses	5.5	5	27	96
Value of 26% stake in the data center			37	132
Enterprise value			580	2,035
Consolidated debt			87	304
Net equity value			493	1,730
Rounded fair value, including dividend				1,750
% Upside (Downside)				-10%
CMP (INR)				1,938

Source: MOFSL, Company

Exhibit 4: Summary of our estimate revisions

	FY26E	FY27E	FY28E
Voice revenue (INR b)			
Old	15.4	14.6	13.7
Actual/New	15.9	14.9	14.2
Change (%)	3.5	2.4	3.4
Data revenue, incl. TCR (INR b)			
Old	220.3	241.0	261.9
Actual/New	218.7	237.5	258.0
Change (%)	-0.7	-1.5	-1.5
Consolidated revenue (INR b)			
Old	245.9	266.4	287.0
Actual/New	246.6	265.8	286.6
Change (%)	0.3	-0.2	-0.2
Consolidated EBITDA (INR b)			
Old	49.1	56.0	61.1
Actual/New	48.7	55.8	61.0
Change (%)	-0.9	-0.3	-0.3
Voice EBITDA (INR b)			
Old	1.8	1.7	1.5
Actual/New	1.7	1.6	1.5
Change (%)	-3.5	-2.1	0.0
Data EBITDA, incl. TCR (INR b)			
Old	44.2	50.9	56.0
Actual/New	43.7	50.5	55.5
Change (%)	-1.0	-0.8	-1.0
EBITDA margin (%)			
Old	20.0	21.0	21.3
Actual/New	19.7	21.0	21.3
Change (%)	-23bps	-1bps	-3bps
PAT (INR m)			
Old	12.8	18.2	21.9
Actual/New	12.0	17.5	21.5
Change (%)	-6.5	-3.7	-2.2

Source: MOFSL, Company



Detailed takeaways from the management interaction

- **Strategic bets:** TCOM is seeing strong progress both in product and capability build-out as well as receiving good early customer traction. The company launched Voice AI platform to strengthen its Kaleyra.ai platform value proposition. Further, AI Cloud is seeing good customer traction, with early deal wins for its sovereign AI cloud from a large payments player. TCOM's digital fabric tool enabled a large contract win at the GST Appellate Tribunal. Management expects **strategic bets to contribute at least 10% of the incremental digital revenues in FY26, which will scale up to INR100b by FY30.**
- **Order book and funnel:** TCOM's enterprise order book grew in double digits; however, the total order book was flat due to headwinds in the service provider segment. Management noted that 1HFY25 had the benefit of several large deal wins, and 1HFY26 order book was better than 2HFY25, which faced macro headwinds, with cloud/international order books growing in healthy mid-teen/double digits in 2Q. The funnel remains robust, with digital portfolio accounting for ~60%.
- **Potential collaboration with TCS on data centers:** Management noted that TCOM and TCS have been collaborating in various areas for a long period of time. Rising DC capacity in India will be beneficial for TCOM's core connectivity (DC to DC connectivity), digital fabric (Multi Cloud Connect, AI Cloud with liquid cooling) as well as from potential monetization of land parcels. However, there is no firm agreement at the moment.
- **FX benefits:** Management indicated that normalizing for FX movement, the consolidated revenue growth was up **by a modest 0.4% QoQ (vs. the reported 2.3% QoQ growth).**
- **Data EBITDA margins:** ~140bp QoQ improvement in data EBITDA margin was driven by 1) improvement in Vayu Cloud portfolio, 2) right-sizing in certain verticals in line with the growth, and 3) operating leverage with rising scale. However, near-term margins are likely to be impacted by the revenue loss and costs associated with the Red Sea cable cut and a change in the payout structure in TCR.
- **TCR margins:** The sharp contraction in TCR margins from 75% to 44% was due to a one-time impact arising from special management incentive payouts to reward the team for the scale-up of the business and to align compensations with the future growth ambitions. Management expects **TCR margins to settle in low-to-mid 50s in the steady state.**
- **Deal wins:** The company is seeing improved momentum in its international business with a multi-million deal win in Europe (German manufacturer for security offering) and a large deal win in APAC (one of the largest mobility players for interaction fabric).
- **ROCE, capex and growth ambitions:** Management reaffirmed their long-term ambition to i) double data revenue, ii) improve EBITDA margins to 23-25% range, iii) increase RoCE to 25%+, and iv) reduce leverage to <2x. However, the company continues to pursue strategic investments (such as GPUs to build-out AI capability, funding STT's growth plans, etc.), which could impact RoCE in the near term but will deliver value in the longer run. Management indicated that capex could remain in the range of 11-12% of sales in the near term.

- **Core-connectivity:** The growth was impacted by cable cuts in the Red Sea, with the impact likely to continue in 3QFY26. Management indicated that DC to DC connectivity remains the key growth driver for the segment, where TCOM has **~40% share** in the Indian market and is exploring investments in international markets.
- **Digital portfolio:** Media and Next-Gen Connectivity reported ~30% YoY growth, with Media benefitting from the World Athletics deal. Revenue growth in Cloud and Security was impacted by certain delays in one of the large deals, which should now be reflected in 3Q. Management remains confident of achieving mid-to-high-teen growth in Cloud in FY26. In the interaction fabric, there is a gradual shift from SMS to non-SMS, which should enable a margin uptick. The growth in MoVE and IoT fabric was impacted by access pricing erosion.
- **STT stake:** TCOM continues to invest in STT to maintain its 26% stake. The company has no plans to either reduce or increase its stake in STT (data centre entity) in the near term.
- **Other income and tax:** Other income turned negative in 2Q, due to the mark-to-market impact from the unfavorable FX movements. The tax rate was higher due to withholding tax on dividends from TCR.
- **Staff optimization:** The company has been right-sizing its workforce to align costs with business priorities, incurring some one-time restructuring expenses during the quarter. Management explained that the benefits of these actions will start to reflect in margins over the coming quarters.

Story in charts

Exhibit 5: Consol revenue increased 2.3% QoQ (+8% YoY on LTL basis); Adj. EBITDA margin expanded ~17bp QoQ

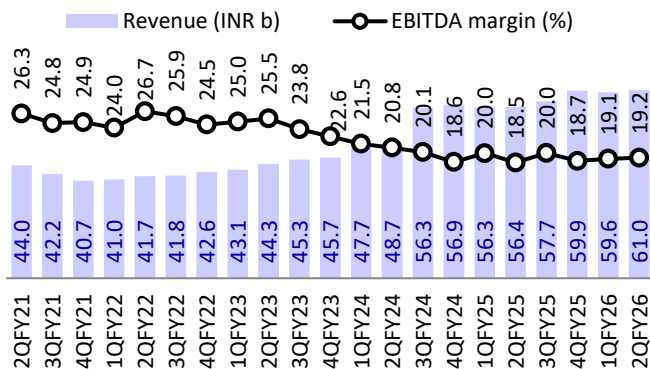


Exhibit 6: Data revenue up ~1% QoQ (+7% YoY); margin expanded ~144bp QoQ

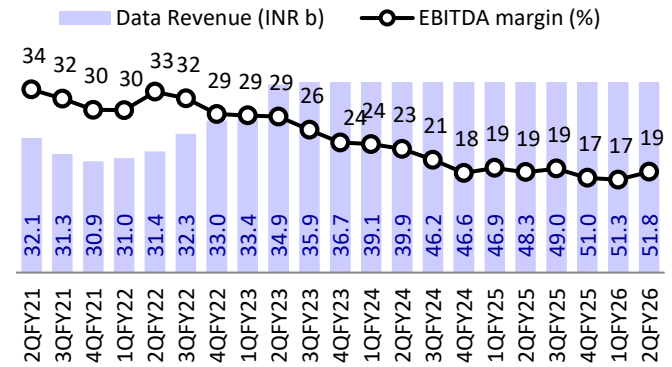
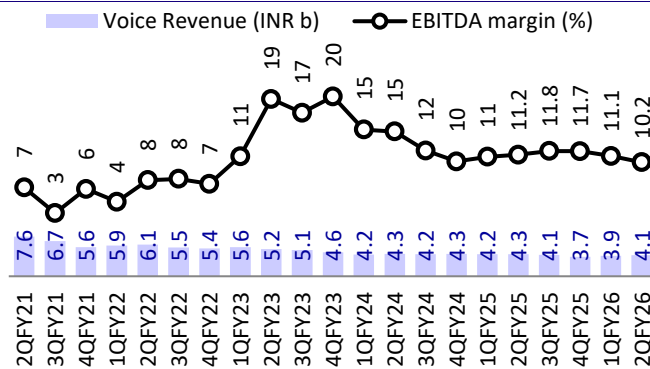
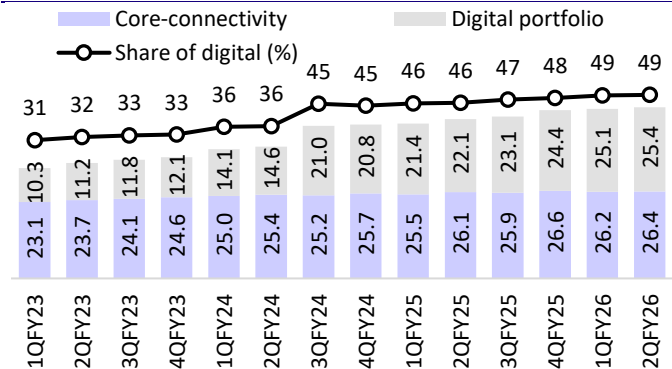


Exhibit 7: Voice revenue grew 2.9% QoQ; margin contracted ~90bp QoQ



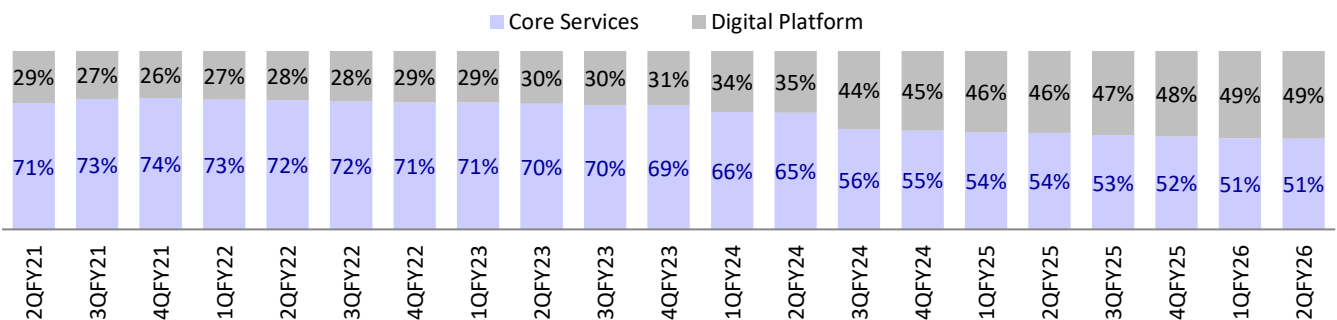
Source: MOFSL, Company

Exhibit 8: Digital portfolio revenue up ~1.3% QoQ (+15% YoY)



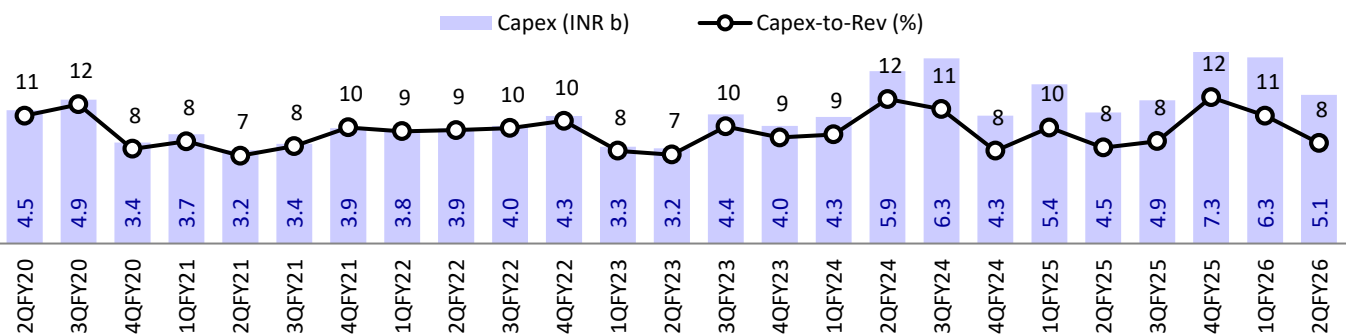
Source: MOFSL, Company

Exhibit 9: Share of digital portfolio in the data revenue mix steady at ~49% in 2QFY26



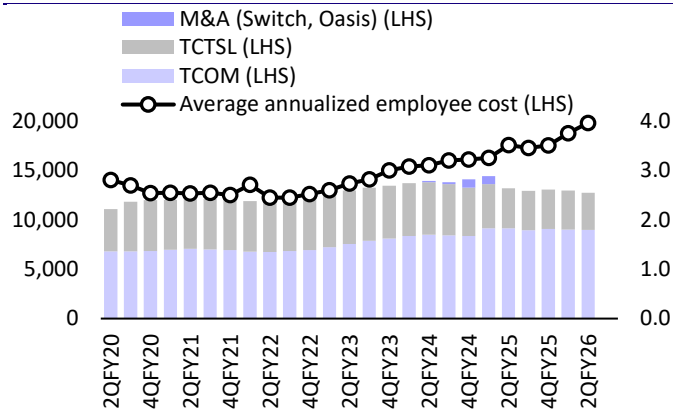
*Revised in line with the new reporting structure; Source: MOFSL, Company

Exhibit 10: Quarterly cash capex declined ~20% QoQ to INR5.1b (though up ~13% YoY)



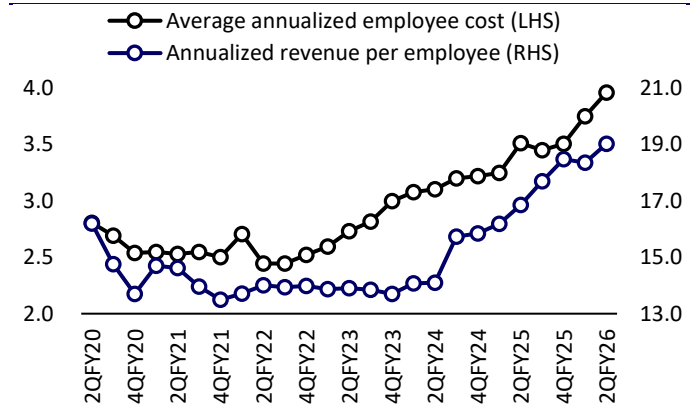
Source: MOFSL, Company

Exhibit 11: TCOM's FTE base declined ~249 in 2QFY26, while the average cost per employee increased ~6% QoQ



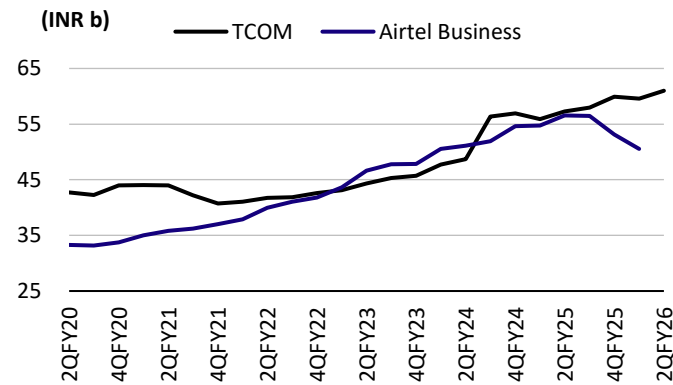
Source: MOFSL, Company

Exhibit 12: TCOM's annual cost per employee increased to INR4m; revenue per employee increased ~4% QoQ



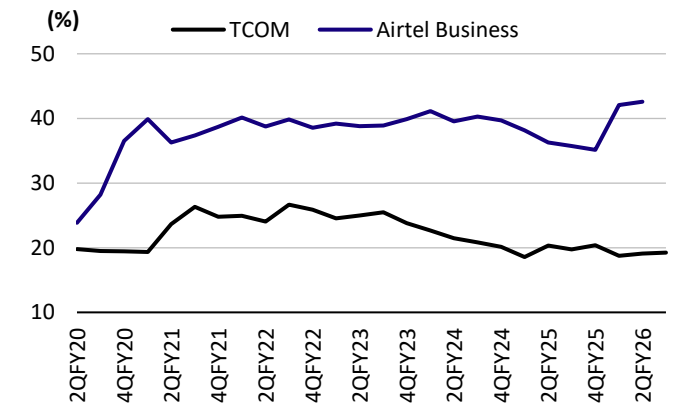
Source: MOFSL, Company

Exhibit 13: After the Kaleyra acquisition, TCOM's gross revenue surpassed Bharti's enterprise revenue



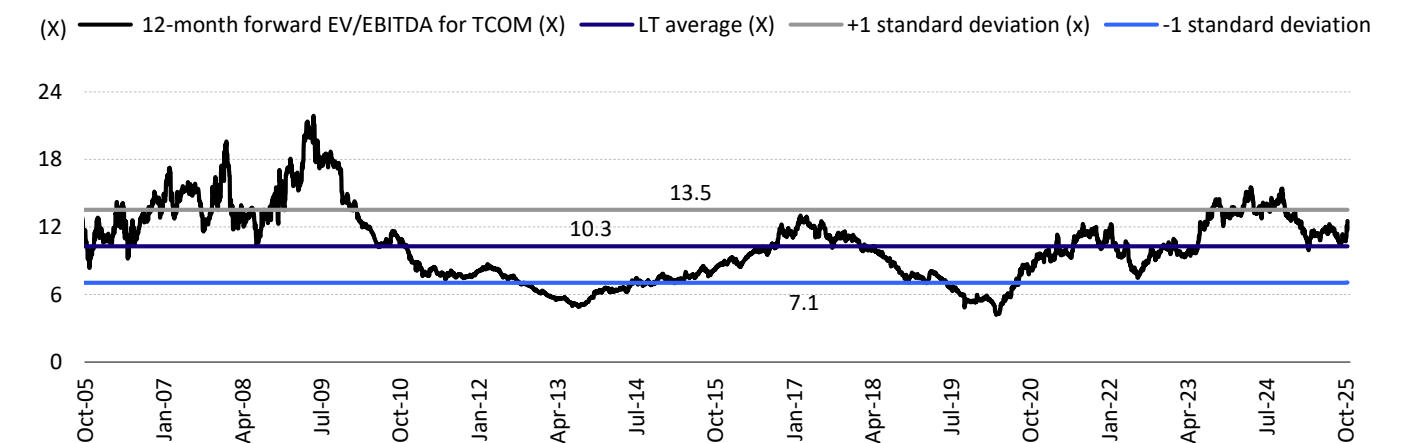
Source: MOFSL, Company

Exhibit 14: However, Bharti's enterprise business EBITDA margin is significantly ahead of TCOM's



Source: MOFSL, Company

Exhibit 15: Post recent run-up, TCOM trades at 12.5x EV/EBITDA, a ~22% premium to its long-term average 12-month forward EV/EBITDA



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement							(INRb)		
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Total Income from Operations	170.7	171.0	167.2	178.4	209.7	229.9	246.6	265.8	286.6
Change (%)	3.3	0.2	-2.2	6.7	17.5	9.7	7.2	7.8	7.8
Network Cost	67.8	63.3	62.0	63.8	80.9	100.5	107.3	115.0	123.2
Staff Cost	30.4	30.5	30.4	36.0	44.5	45.6	48.6	51.8	55.3
Operating & Other Expense	39.6	34.6	32.6	35.5	42.0	39.3	42.1	43.2	47.1
Total Expenditure	137.8	128.4	125.0	135.2	167.4	185.4	197.9	210.0	225.6
% of Sales	80.7	75.1	74.7	75.8	79.8	80.6	80.3	79.0	78.7
EBITDA	32.9	42.6	42.3	43.2	42.3	44.5	48.7	55.8	61.0
Margin (%)	19.3	24.9	25.3	24.2	20.2	19.4	19.7	21.0	21.3
Depreciation	23.6	23.1	22.0	22.6	24.7	25.9	27.2	28.5	29.9
EBIT	9.3	19.5	20.2	20.6	17.6	18.6	21.4	27.3	31.0
Int. and Finance Charges	4.7	4.2	3.6	4.3	6.4	7.3	7.1	6.0	4.8
Other Income	0.7	1.6	3.3	3.6	2.8	1.3	0.8	0.9	1.0
PBT bef. EO Exp.	5.3	16.8	19.9	19.9	14.0	12.6	15.2	22.2	27.2
EO Items	-3.9	-0.7	0.1	0.8	-2.4	8.1	0.4	0.0	0.0
PBT after EO Exp.	1.4	16.1	20.0	20.6	11.6	20.7	15.6	22.2	27.2
Total Tax	2.3	3.5	5.2	3.0	2.1	4.9	3.6	5.0	6.1
Tax Rate (%)	162	22	26	14	18	24	23	23	23
Minority Interest	0.0	0.0	0.0	-0.3	-0.2	-0.4	-0.4	-0.3	-0.4
Reported PAT	-0.9	12.5	14.8	18.0	9.7	16.3	12.4	17.5	21.5
Adjusted PAT	3.0	13.3	14.8	17.2	12.0	8.2	12.0	17.5	21.5
Change (%)	-582.2	340.2	11.5	16.4	-30.0	-32.0	46.0	46.6	22.5
Margin (%)	1.8	7.8	8.8	9.6	5.7	3.6	4.8	6.6	7.5

Consolidated - Balance Sheet							(INRb)		
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity Share Capital	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Total Reserves	-15.6	-1.7	6.4	12.3	15.0	27.4	31.4	43.0	57.0
Net Worth	-12.8	1.2	9.3	15.2	17.9	30.2	34.3	45.8	59.8
Minority Interest	0.0	0.3	0.3	0.3	0.0	0.0	0.0	0.0	0.0
Total Loans	81.6	98.0	79.0	75.3	101.2	108.8	93.8	78.8	63.8
Lease Liabilities	39.9	14.4	12.2	10.4	11.5	14.8	14.8	14.8	14.8
Deferred Tax Liabilities	-2.5	-2.8	-1.9	-3.2	-5.2	-11.6	-11.6	-11.6	-11.6
Capital Employed	106.3	111.0	98.9	98.0	125.3	142.2	131.2	127.8	126.8
Gross Block	129.1	151.3	170.4	190.3	226.9	0.0	0.0	0.0	0.0
Less: Accum. Deprn.	28.6	51.7	73.8	96.4	121.1	0.0	0.0	0.0	0.0
Net Fixed Assets	100.5	99.6	96.6	93.9	105.8	119.9	117.3	114.7	111.7
Right to Use Assets	16.0	13.3	11.5	10.0	11.0	0.0	0.0	0.0	0.0
Goodwill on Consolidation	0.9	1.1	1.1	1.2	17.8	19.3	19.3	19.3	19.3
Capital WIP	4.5	6.1	8.7	11.5	13.3	11.0	11.0	11.0	11.0
Total Investments	15.6	22.3	15.7	19.5	16.1	18.0	18.0	18.0	18.0
Curr. Assets, Loans & Adv.	72.0	67.8	61.0	66.0	74.4	77.7	72.7	77.0	84.7
Inventory	0.7	0.3	0.4	1.6	0.8	1.6	1.6	1.6	1.6
Account Receivables	32.3	26.1	25.8	27.4	37.6	40.1	41.6	44.1	46.8
Cash and Bank Balance	9.1	9.3	7.4	10.6	8.4	17.6	10.4	10.7	14.0
Loans and Advances	29.9	32.1	27.3	26.4	27.6	18.5	19.1	20.6	22.2
Curr. Liability & Prov.	103.2	99.3	95.6	103.9	113.1	103.7	107.1	112.3	117.9
Account Payables	38.4	32.4	30.1	32.8	36.6	35.7	36.9	39.8	42.9
Other Current Liabilities	57.3	60.0	57.9	62.7	67.3	58.7	60.1	61.8	63.6
Provisions	7.5	6.9	7.7	8.5	9.3	9.4	10.0	10.7	11.4
Net Current Assets	-31.2	-31.5	-34.6	-37.9	-38.7	-26.0	-34.3	-35.2	-33.3
Appl. of Funds	106.3	111.0	98.9	98.0	125.3	142.2	131.2	127.8	126.8

Financials and valuations

Ratios									
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Basic (INR)									
EPS	10.6	46.5	51.8	60.3	42.3	28.7	42.0	61.5	75.3
Cash EPS	93.3	127.7	129.2	139.7	128.9	119.7	137.6	161.5	180.3
BV/Share	-44.9	4.1	32.5	53.3	62.7	106.0	120.3	160.7	209.9
DPS	4.0	14.0	20.7	21.0	16.7	25.0	20.0	25.0	30.1
Payout (%)	37.9	30.1	39.9	34.8	39.5	69.2	47.7	40.6	39.9
Valuation (x)									
P/E	183.4	41.7	37.4	32.1	45.9	67.4	46.2	31.5	25.7
Cash P/E	20.8	15.2	15.0	13.9	15.0	16.2	14.1	12.0	10.7
P/BV	-43.2	478.4	59.5	36.4	30.9	18.3	16.1	12.1	9.2
EV/Sales	3.8	3.7	3.7	3.4	3.1	2.9	2.6	2.4	2.2
EV/EBITDA	19.7	14.9	14.7	14.1	15.1	14.8	13.4	11.4	10.1
Dividend Yield (%)	0.2	0.7	1.1	1.1	0.9	1.3	1.0	1.3	1.6
FCF Per Share	36.5	64.5	89.7	103.2	39.0	25.0	74.3	91.7	102.6
Return Ratios (%)									
RoE	-41.2	-227.9	283.3	140.6	72.9	34.1	37.1	43.8	40.7
RoCE	-5.8	14.8	16.3	20.6	14.4	10.7	11.6	15.5	17.9
RoIC	-7.5	20.2	21.3	28.5	20.0	15.6	17.6	23.5	28.0
Working Capital Ratios									
Fixed Asset Turnover (x)	1.3	1.1	1.0	0.9	0.9	NA	NA	NA	NA
Asset Turnover (x)	1.6	1.5	1.7	1.8	1.7	1.6	1.9	2.1	2.3
Inventory (Days)	2	1	1	3	1	3	2	2	2
Debtor (Days)	69	56	56	56	65	64	62	61	60
Creditor (Days)	82	69	66	67	64	57	55	55	55
Leverage Ratio (x)									
Current Ratio	0.7	0.7	0.6	0.6	0.7	0.7	0.7	0.7	0.7
Interest Cover Ratio	2.0	4.6	5.6	4.8	2.7	2.6	3.0	4.6	6.5
Net Debt/Equity	-7.6	69.9	7.3	3.7	4.9	3.5	2.9	1.8	1.1
Consolidated - Cash Flow (INRb)									
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
OP/(Loss) before Tax	-0.8	12.5	20.0	20.6	11.6	20.7	15.6	22.2	27.2
Depreciation	23.6	23.1	22.0	22.6	24.7	25.9	27.2	28.5	29.9
Interest & Finance Charges	4.7	4.2	3.6	4.3	8.3	6.0	6.3	5.1	3.8
Direct Taxes Paid	-2.8	-5.0	0.9	-2.0	-2.2	-8.4	-3.6	-5.0	-6.1
(Inc)/Dec in WC	-2.5	-5.5	-4.7	-0.6	-11.0	-10.1	1.1	1.2	1.4
CF from Operations	22.1	29.4	41.8	45.0	31.4	34.1	46.7	52.0	56.2
Others	3.1	2.4	0.2	-1.1	0.5	-5.0	-0.8	0.0	0.0
CF from Operating incl EO	25.2	31.8	42.0	43.8	31.8	29.1	45.8	52.0	56.2
(Inc)/Dec in FA	-14.9	-13.4	-16.5	-14.4	-20.7	-22.0	-24.7	-25.9	-26.9
Free Cash Flow	10.4	18.4	25.6	29.4	11.1	7.1	21.2	26.1	29.3
(Pur)/Sale of Investments	-0.5	-6.9	9.4	-3.2	-3.6	0.0	0.0	0.0	0.0
Others	0.0	0.3	-1.9	-0.8	-2.1	0.2	0.8	0.9	1.0
CF from Investments	-15.3	-20.0	-8.9	-18.4	-26.4	-21.8	-23.8	-25.1	-26.0
Issue of Shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inc/(Dec) in Debt	-4.0	-8.4	-27.8	-13.0	3.2	1.1	-15.0	-15.0	-15.0
Interest Paid	-3.9	-2.5	-2.5	-3.5	-5.3	-5.6	-7.1	-6.0	-4.8
Dividend Paid	-1.5	-1.1	-4.0	-5.9	-6.0	-4.8	-7.1	-5.7	-7.1
Others	0.0	0.5	-0.6	0.1	-0.1	0.0	0.0	0.0	0.0
CF from Fin. Activity	-9.4	-11.6	-34.9	-22.2	-8.2	-9.4	-29.2	-26.7	-26.9
Inc/Dec of Cash	0.6	0.2	-1.8	3.2	-2.8	-2.0	-7.2	0.3	3.3
Opening Balance	8.5	9.1	9.3	7.4	10.6	11.5	17.6	10.4	10.7
Closing Balance	9.1	9.3	7.4	10.6	8.4	17.6	10.4	10.7	14.0

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NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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