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Q4 FY2021 Earnings Webinar Transcript

MAIN SPEAKER:

AS Lakshminarayanan, Managing Director and
Chief Executive Officer

Kabir Ahmed Shakir, Chief Financial Officer

Vipul Garg:

Good afternoon everyone, and welcome to the Tata Communications earnings conference call. We are joined today by our MD and CEO, Mr. Amur Lakshminarayanan, and our CFO, Mr. Kabir Ahmed Shakir.

The results for the quarter and full year ended 31st March 2021 have been announced yesterday, and the quarterly factsheet is available on our website. I trust you would have had the chance to look through the key highlights. We will commence today's call with comments from Lakshmi, who will share his thoughts on the business and long-term outlook, followed by Kabir, who will share his views on the financial progress achieved.

At the end of management's remarks, you will have an opportunity to get your queries addressed. Before we get started, I would like to remind everyone that some of the statements made or discussed on the conference call today may be forward looking in nature and must be viewed in conjunction with the risk and uncertainties we face. A detailed statement and explanation of these risks are included in our annual filings, which you can locate on our website - www.tatacommunications.com. The company does not undertake to update these forward-looking statements publicly.

With that, I would like to invite Lakshmi to share his views. Over to you, Lakshmi

A.S Lakshminarayanan: Good afternoon, everyone, and thanks for joining us today for the Q4 and the FY21 full year earnings of Tata Communications. I hope everyone of you and your families are keeping safe and healthy. This last year has been a tough year for all of us. We witnessed and still witnessing a major pandemic and health crisis and economic disruptions that it brought about. And we are seeing the second wave, which hopefully will bring -- we'll get some normalcy pretty soon. So keep safe until then.

I would like to start with the comments on an important event that happened during the last quarter in Q4. The government of India sold their 26% shareholding, 10% was taken by the Tata Group, while the rest of 16% was offered to the market as offer for sale. As a result, the Tata Group became a majority shareholder, and the free float of the company has increased significantly. I would like to thank the Government of India for being a valuable shareholder since 2002 and also thank the Tata Group who have reposed faith in the company with its new strategy and the vision to be a global digital ecosystem enabler. I would also like to thank all of the existing and new shareholders for their continued support to the management and the company.

At the start of the last year, we rolled out our new strategy, wherein we redesigned of solutions keeping in our mind our customers. The underlying principles were staying relevant in the customers' digital ecosystem through our products and being able to stitch together multiple products to deliver a solution, thus solving customers' problems. Towards this, we reimagined our customer engagement model to deepen our relationship with customers, and thereby to also increase our wallet share with them. We restructured and created 3 business units to bring more focus on solutions, and I had talked about this last quarter. This strategy had an important aspect of financial fitness as a pillar of the strategy, and we had set some medium-term growth and profitability targets for ourselves. We worked on the operational cost efficiencies, and we did exceedingly well on profitability, and these targets were achieved well ahead of time. The balance sheet has become stronger with reduction in debt, and the company's net worth is now positive. Overall, we have a well-defined strategy, and we are executing on it. It is a continuous journey, and we have made good progress in the last 12 months.

Our engagement with our customers and the buildup of our funnel, pipeline gives us the confidence that we are on the right track. Our overall new funnel ads in FY21 has increased by 4% as compared to FY20 and the quality of the pipeline is also much better with more focus on the medium-to-large deals as compared to the last year. The overall large deals funnel ad has increased by 12% during the year. We are also witnessing good growth in the funnel in our growth, digital platforms and services. 50% of our overall funnel is for these new services. From an industry perspective, over 70% of our funnel is from high-growth sectors like IT and IT-enabled services, industrial and consumer discretionary and financial services. And these are the sectors where we see digital transformation being taken up in a big way. Another sector that I want to highlight is Media. Last year, we faced challenges due to cancellation of events, but this disruption also pushed broadcasting companies to adopt digital technologies faster. Our managed video services and remote production services are getting excellent traction, and the funnel has grown by 35% year-on-year. Improved profitability and stronger balance sheet allow us to effectively compete in the marketplace and also gives us the flexibility to invest for future growth.

We have articulated our aspiration for a double-digit Data revenue growth in the medium term. While the building blocks are in place, and that is a sizable market opportunity which we have talked about, revenue growth for this year was below expectations. Our conversion cycle continues to be longer, leading to slower revenue ramp-up for the large deals and for the large deals, our average conversion time, which used to be 203 days has now gone up to 258 days in FY21. We are also facing execution challenges due to COVID related movement restrictions, further delaying revenue recognition.

External triggers are also slow. While there is an uptick on software and application side, business decisions to transform the networks and associated digital infrastructure are delayed. We believe this is just a timing gap. We have started to see some recovery, and with IT architecture becoming more and more complex due to digitalization, movement to cloud and Internet, it's only a matter of time that we will start to capture this opportunity more meaningfully.

Network products is our biggest portfolio. It is the backbone and the key differentiator. As they move towards internet-first, cloud-first world, supported by the complex IT structures, importance of networks will increase manifold. More and more organizations are seeking intelligent and internet-based networks that offer integrated security. We have been offering enterprise-grade networks to our customers globally and with an overlay of SD-WAN, the networks have become programmable, intelligent and secure and we have been improving our IZO platform continuously and are also working on various improvements and iterations of this platform. We recently launched various variants of our IZO Internet, which have given us flexibility to participate in bigger multi-country, multi-location deals with an agile solution at a competitive price compared to market. We see some good opportunity shaping up for this business in coming quarters. Overall network service portfolio continues to grow at a robust pace. Full year revenue for Traditional Services grew by 5.6% year-on-year.

Growth Services segment, which has many of our digital platforms and services, has grown by 7.1% year-on-year on a full year basis. This revenue growth has been lower-than-expected as this segment has been affected by COVID-related weakness as well as slower deal conversion and subsequent execution as well.

The unified collaboration, UCC, is one of the biggest portfolios in this segment. Our UCC revenue has been affected by a decline in enterprise voice, SIP trunk traffic. You will recall in Q4 of last year and Q1 of this year, we witnessed a sudden jump in volume due to lockdown. But starting Q2, this traffic started to moderate and has now gone back to pre-COVID levels. SIP traffic is generated when people are sitting in the offices or on the move and use the lines to communicate. Due to work from home, this traffic has distributed and has moved to channels like IP. We believe the segment will go up once things start to open up globally. Also due to the IUC increases last year, we lost some traffic. This SIP traffic decline is one of the biggest factors that has affected both the revenue and profitability of the growth service. This volume decline is not a long-term trend, and we have taken steps to stabilize and grow the enterprise voice traffic in the coming quarters. We're proactively engaging with the customers, we've redesigned our packages, and we are hopeful that we will get some of the traffic back in the coming quarters.

I'd highlighted in Q3 that we are witnessing a trend where enterprise voice traffic is gradually moving to cloud-based calling. We are now offering a fully managed cloud communication solution using our offers on Microsoft Teams and Cisco WebEx as platforms. The proposition comes with an end-to-end deployment, along with the management and SLA to the customer. Such deals have a better quality of revenue as some part of the revenue is fixed monthly charge rather than 100% being usage based that we are used to in the past. This portfolio is witnessing a robust double-digit growth and will drive the future growth of overall UCC and the CPaaS portfolio. I talked about a large deal win in the space in Q3, which is now under execution. We have a healthy funnel, and we are working on a few similar deals for global enterprises. Overall, our UCC portfolio on a year-on-year basis grew by 14.6% year-on-year on a full year basis.

We recently won a deal from a global leader in shipping services to enhance their customer management experience. This solution, which is an extension of our Insta CC offering, will merge disparate systems into one globally consistent service platform and will enable their inbound and outbound customer communications in over 200 locations across 109 countries onto a single integrated global platform. This solution will be fully managed by us, and our platform will combine our global SIP Connect service, along with the Cisco WebEx cloud contact center, bringing the ecosystems together for a seamless user experience. This will significantly impact the digital transformation journey by bringing IT operational efficiencies, increased agent productivity and cost savings and strengthened their position as a global integrator of logistics.

Cloud opportunity continues to grow. Cloud has already established its value for many businesses, improving the enterprise customers' agility, scalability as well as cost efficiencies. Our IZO private cloud platform is helping enterprises to manage the scale demand with agility. We are supporting organizations with services across infrastructure modernization, data center transformation, application modernization, smart analytics and multi-cloud deployments with integrated security. Our offering works with dedicated infrastructure to create a seamless hybrid cloud or works with public cloud platforms, offering a multi-cloud environment as per the business needs. As part of multi-cloud strategy, we have expanded our managed public cloud services portfolio to include capabilities for Google Cloud in addition to our existing partnerships with the AWS and Azure.

During this year, we plan to deploy industry-specific clouds to cater for specific needs of various industries. We already have a government-certified cloud for all the government needs, and we have a Media-specific cloud, which helps broadcasting organizations in agile media management and remote production. In our Media business, despite COVID weaknesses and cancellation of events, we continue to win new logos basis the strength, using the strength of our offerings.

Digitization and adoption of cloud has led to a high focus on security of the modernized IT architecture. Our managed security offerings are getting good traction across industries. Until now, we have deployed over 35 security operation control, the SOC's for our customers to protect their technology systems and data. These SOC's are a mix of hybrid and cloud-based deployments as per the customer needs. Recently, we have expanded our relationship with one of the largest government-owned banks to help protect their amalgamated entity with a suite of managed security services. Users of the bank service will benefit from reduced downtimes, making them more reliable and available for their customers 24/7. The effectiveness of security control is announced by our 360-degree monitoring of attack surfaces, to reduce cyber risk and enable real-time tracking using centralized dashboards. Enhanced services will drive the journey of the bank towards a stronger security posture, while scaling up its adoption of advanced digital technologies. Our cloud hosting and security portfolio, on a full year basis, grew by 18.5% year-on-year.

IoT has started becoming integral to many enterprises, with the need for automation increasing at a fast pace. Our IoT India portfolio is geared towards meeting this demand by helping enterprises make most of these opportunities through various use cases that we are targeting. We are focused on 3 use cases at present: One, connected worker solution for health and safety; Two, man, machine, material, movement and tracking in large campuses; Three, smart street lighting solutions. We are getting good traction for all our offerings. IoT India revenue for full year grew by 173.9% year-on-year. Though this growth is on a small base, it is very encouraging.

I want to share a few recent achievements with all of you. Tata Communications has been recognized as a leader in March 2021 Gartner Magic Quadrant for Network Services Global for the eighth consecutive time. The Gartner Magic Quadrant assesses the company's completeness of vision and its ability to execute. We were also recognized by global environmental nonprofit organization, Carbon Disclosure Project, with the distinguished A- leadership score for implementing current best practices and sustainability for climate change. To put this into perspective, the global average score is C, while the average score for Asia region is D. Tata Communications is among the top 34% companies.

While Kabir will talk about the numbers in detail, I just want to talk about some of the headline numbers. Our full year consolidated revenue grew by 0.2% year-on-year to INR 17,000 crores. Declining trend in voice business continued. For FY21, this business declined by 17.3% year-on-year. We witnessed decline in both volume and pricing. This business is now 16% of our overall revenues. Data business, which is a primary growth driver for the company, grew by 4.5% year-on-year. This growth is lower than expectation as we continue to remain affected due to covid-related slowness. EBITDA was at INR 4,261 crores, witnessing a 29.5% year-on-year growth. Profit for full year was at INR 1,251 crores as compared to a loss of INR (86) crores in the previous year. This translates to an EPS of INR 44. This has been one of the highest consolidated profits generated by the company over the last 11 years. On the back of this profit, the Board has recommended a dividend of INR 14 per share. This would mean a jump of 3.5x over dividend of last year and is the highest in company's history since 2002. We have now turned net worth positive on back of the strong profit generation. We have been generating strong free cash flows over the course of this year. Our debt has come down consistently and net debt-to-EBITDA is now at a level of 1.8x compared to 2.8x a year earlier. The ROCE for the year was at 24.6% compared to 11.5% for the same period last year.

Overall, we had a satisfactory performance in a tough year, while revenue growth was slower due to various

external factors that I talked about. We focused on cost to enhance our profitability. Looking ahead at FY22, we need to take more steps to spur growth and capture greater market share. We believe that all the building blocks are falling into place, and we will capitalize on the progress made till now, and we will sharpen our execution further to continue to deliver on our strategy.

Strength of our financials gives us the flexibility to invest for growth. In FY21, we are cautious with our CapEx spend due to pandemic. But in FY22, we can look forward to a spend in the range of USD 250 million, depending on the market opportunities. We will keep our focus on returns. We have a strict discipline in place, and all our investments will undergo rigorous evaluation and monitoring. We will also continue to run programs for operational and cost efficiencies. We will look to deploy some of these incremental efficiencies back into the business to drive growth. Our people are one of our biggest focus areas, and we will continue with our programs to upskill and build the talent and overall capability in the organization to harness the new technologies and cater to new customer needs.

Starting from Q1 FY22, we will be changing the nomenclature of some of our segment reporting. This will help simplify our business further to the outside world and aligned to internally how we are structured and how we are monitoring. In terms of numbers and models, there will be no disruption, and Kabir will provide further details in his commentary. We will increase business disclosures in due course.

As a company and as a business, we are undergoing a transformation and transformations of this scale do take some time. We appreciate and thank you for your patience and support.

With that, I will ask Kabir to take you through the financial highlights. Thank you.

Kabir Ahmed Shakir: Thank you, Lakshmi. Good afternoon, everyone. Thank you once again for joining us today on our Q4 and FY21 earnings call. I'll be taking through the detailed financials that Lakshmi briefly touched upon in his remarks.

At Tata Communications, we have been constantly adapting to the changes in the industry and to the needs on demands of our customers since the pandemic hit us. As a result, we've been able to streamline our operations, control cost and realign our structure to achieve the right product mix and the customer mix.

Consolidated revenue for the quarter was at INR 4,073 crores, witnessing a decline of 3.5% on a quarter-on-quarter basis and 7.4% on a year-on-year basis. This decline has been largely led due to the degrowth in voice business and slower-than-expected growth in the Data business. Deal conversion cycle, as Lakshmi called out, continues to be impacted. Also, in Q4 of last year, we had witnessed a search in our UCC traffic post lockdown, which has now moderated to pre-COVID levels, leading to a year-on-year decline in data business. Our full year revenue grew by 0.2% year-on-year to INR 17,100 crores. Our solutions and inherent value proposition are being appreciated by our customers, and the pipeline is building up. Internally, we have taken steps to ensure that we are fit to compete in the market and fit to grow the business. We believe it is a matter of time and revenue growth will start to pick up as things start to normalize and economic activity picks up.

We focused on the right operating structure for the company and brought efficiencies into the business. This has led to expansion of margin, robust generation of PAT and free cash flow and improved return ratios. For FY21, our EBITDA was INR 4,261 crores, witnessing a growth of 29.5% year-on-year growth, with margin expansion of over 560 basis points. EBITDA for the quarter was at INR 1,015 crores, witnessing a 16.8% year-on-year growth, but a decline of 3% quarter-on-quarter. This decline is something which we called out already in the last earnings call. It is because of the higher R&M expenses, also compounded by the lower revenue that we had in Q4 and these costs are normally back ended during the latter half of the year. Despite these higher expenses, our margins for the quarter came in at 24.9%, an improvement of 10 basis points sequentially and 510 basis points on a year-on-year basis. PAT for the year is at INR 1,251 crores as compared to a loss of INR (86) crores in the last year. This translates into an EPS of INR 44 per share. Strong profits have helped strengthen the balance sheet. Our net worth is now positive, and the debt levels are in a comfortable range. The business is now generating adequate cash flows to fund future business growth, and hence, the Board has recommended a dividend of INR 14 per share. This has been one of the highest dividends in company's history since the year 2002.

This quarter, we made a onetime payment of INR 380 crores to DOT. This is on account of the difference in accounting treatment of costs. We had made a provision for this in our books in Q4 of last year already. Payment

includes difference in license fee, along with interest and penalty till January of 2021. This payment has been made under protest, and we will have the opportunity to present and argue our case in the future. All other pending AGR matters are still sub-judice and we are waiting for hearing date from the Honorable Supreme court.

Our cash flow generation has been robust. Despite these license-fee payments, we have reduced our Net debt by INR 1,390 crores this year. Net debt as of 31st March is at INR 7,786 crores, with an average cost of borrowing of 2.88%. Net debt-to-EBITDA is now at 1.8x compared to 2.8x a year earlier. ROCE for the year was at 24.6% as compared to 11.5% in FY20. Financial fitness is one of our key pillars of our strategy, and we continue to deliver on it.

Data business revenue for full year has grown by 4.5% year-on-year. Traditional Services witnessed a strong growth of 5.6% year-on-year, while Growth Services grew by 7.1% year-on-year. Revenue in Growth Services was subdued due to slower deal conversion due to COVID and moderation of UCC traffic. Data revenue was also affected by higher churn during the quarter. We are hopeful that business environment will improve in the coming quarters. In the interim, we are managing a performance through proactive customer engagement, active churn management and cost control. We continue to maintain a healthy profitability in our data segment. Growth Services' EBITDA was affected in Q4 due to lower revenue and certain one-time catch-up costs during the quarter.

Moving to our subsidiaries. TCTSL business was affected in FY20 due to an onerous contract. This affected both revenue and profitability. We got out of this contract and we worked towards stabilizing this business in FY21. This business was affected by COVID as volumes decreased and execution became difficult due to movement restrictions. On full year basis, the revenue grew by 1.2% year-on-year, and we generated a positive EBITDA of INR 9 crores during the year as compared to a loss in FY20. We have started to see recovery in this business, and we have good international order book for FY22. Recently, we won a multiyear deal in Africa to roll out, manage and operate the network infrastructure across the country. This project is now under execution.

Our Payment Solutions business continues to be affected by COVID. During the year, we saw some recovery, but the transactions have again dipped in March affecting our revenue. Average daily transactions for Q4 were 75 as compared to 84 during the same period of last year. As part of our strategy to focus on financial health and profitability, we have closed loss-making ATMs and got out of the Ministry of Finance contract, which were incurring loss. Ministry of Finance portfolio, which used to contribute to around INR 10 crores per quarter to revenue, is not there from January 2021 and the residual business is a much more profitable business that we have.

Coming to the nomenclature change that Lakshmi touched upon in his remarks, we are pivoting towards this to being a digital ecosystem enabler. Our focus is now on platforms and solutions rather than point products. These solutions are integral for our customers' digital transformation journey and agile and scalable to cater to future needs. In line with the strategy, we have reorganized our business into 3 different business units. We also took your feedback that we need to simplify our business. Keeping that in mind, we will be changing the nomenclature and regroup the segments from Q1. This will help align external reporting metrics to the internal management reporting. This nomenclature change will not lead to any disruption in overall reporting.

Presently, we have two segments, Voice and Data. Today, rental business and subsidiaries are clubbed within data, which is not right as the drivers of these businesses are very different. Going forward, we will have three segments for reporting: 1) Voice 2) Data and 3) Others. Other segments will include Rental and Subsidiaries.

Within Data, Traditional Services, we will call as Network Services. Growth Services will be renamed as Digital Platform and Services. And Innovation Services will be called as Incubation Services. The overall composition of this portfolio will remain largely the same. Product level details, which created confusion, will be discontinued, and we will be providing details according to the proposition that we take to our customers. We will provide more details when we do our analyst meet later in June.

As Lakshmi explained, all the building blocks are in place and we now need to build on the progress made in this year. Financially, we are in a much better shape and management focus is now solely on driving business growth. We are excited about the opportunities ahead and we are fully geared to capture a meaningful share.

This brings us to the end of the management commentary. I will now ask Vipul to open the forum for question and answers. Thank you very much for your patient listening.

Vipul Garg: Thanks, Kabir. The first question is from the line of Vimal Gohil. Vimal, you may please ask your question now.

Vimal Gohil: Sir, my first question is, you spoke about conversion cycles that they've been elongated from 203 days to 258 days, so if you can just explain how does a typical sales cycle work for you? And what gives us the confidence that this 258 days will mean revert going forward? That is one question and then I have a follow-up, please.

A.S Lakshminarayanan: So I'm not quite sure when you're asking about the sales cycle, what it is. We are focused on a set of large customers and we have teams assigned to these customers, which we call as a customer success team, which is an account manager and a team of other people associated with accounts like the success manager, the project manager, the architects, which are the solution people for the accounts, right? So this is a team that works on a set of accounts, and they are constantly talking to customers to look at opportunities and look for opportunities. And when these opportunities come about and then the RFPs and that's what the cycle that we talk about. And that cycle from the moment the opportunities are identified to closure is what we called out.

Now that improvement, and that is a function of more of that decision-making given the environment rather than our process.

The second is more about when we go out for acquiring completely new logos and new customers that is a completely new team, that team is supported by the marketing to reach to those customers, build relationships and that cycle of prospecting and brand-new accounts, where we don't have an existing relationship, will take a bit longer as well. That is the normal process. I'm not sure if I understood your question. I'm sorry if I'm explaining a sales 101 process, but that's what we do.

Vimal Gohil: Lakshmi, I was actually referring to you've spoken about the growth being lower than expectations that -- was because of the larger conversion cycle that...

A.S Lakshminarayanan: Correct. Correct.

Vimal Gohil: Yes. So, I just wanted to understand that what are we doing to sort of shorten that conversion cycle? Are we seeing an improvement in demand? Or are we doing something internally?

A.S Lakshminarayanan: Right. No, that cycle is not entirely under our control. I mean that is one of the problems, right? I mean it is the decision-making cycle of the customers who take that longer time. And we still have -- I think I have talked about this before, but we still have instances where we won a deal in Q1 of last year, right, of a network transformation. The customer had put -- this is I'm talking about post winning the deal. But we had not signed a contract, but they announced us as a winner, but post that, the customer has put a stop and they are relooking at their architecture, and we are working with them to redesign.

So there are instances where after winning, the execution has taken time because of customers reassessing and because they're not going back to the branches, they're thinking about do I need all this bandwidth in my branch, what should be the new architecture? So that is one aspect of the delay.

The other aspect of the delay is their own decision-making cycle because, I guess, their priorities are, and looking at applications and others before they come down to network and other digital infrastructure that we offer to them. So that's the cycle that I'm talking about.

The third is even in our unified collaborations, where we are selling, let's say, our Microsoft Teams-based

managed services offer, right? So, we win a deal with the customer for a large international company, but the execution of that, they would like to do region-by-region and specific set of users within that region rather than all the users. So, customers are calibrating how they want to roll out. And that is also a reason for a slowness in conversion, even post winning, as to how much gets executed and how much we are able to realize this revenue.

So those are some of the challenges that are being seen. That's what I'm talking about. I don't think from our internal process -- in fact, we are looking to see how we can help the customers to accelerate that. So in this very same customer where we had won a complete Teams transformation deployment thing, we are developing tools that will go to the extent of saying, "Hey, customer, the problem seems to be in your WAN and not in a Team's App or in your WAN architecture, right?"

So, we have now developed tools that will pinpoint where the problems are for customers, which will help them to better their experience. So internally, we are doing -- in fact, we are accelerating a lot of those investments to build capabilities, bring more tools that will give transparency to the customers in their own estate, right, which will pinpoint and show them where the issues are.

So those are things that we are doing internally to further help customers. But it's more the external environment's new slowness that I called out.

Vimal Gohil: Right, right. One more question from my side. You spoke about SIP Trunk services, seeing the maximum amount of slowdown and being responsible for the overall growth slowdown in the Growth Services business, but in a scenario where increasing amount of companies or enterprises are looking at work from home as maybe a sustainable sort of a way of life, so what happens then? I mean do we have a way out over there? Or do we have some offset?

A.S Lakshminarayanan: Yes. So the way I would put it is, we are looking at the collaboration as a bundle of SIP Trunk, on which we deliver a managed collaboration service using Teams or Cisco or multiproduct coexisting together, right?

So one of our customers where we are doing the transformation, they're using, as a transient measure to continue to use their meeting room conference room with their existing equipment where they've invested. And they want to move to Microsoft Teams for other collaborations. So how do you coexist and all of that is what we're looking at. So that is the direction of travel that the customers will go. and in that, our offerings around managed services on collaboration for Teams or Cisco or multiproduct coexistence will gain more and more traction, right? So, the customers who are buying simple SIP trunking, right, which will still be there, which will be very large enterprises who will want to manage it all themselves rather than give it to somebody as a managed service. So, SIP trunking, with some of the analysts' growth projections are, even after COVID, it will continue to grow in the high single-digit or about 10%-11% is what some of the analysts are forecasting. So that will grow. But definitely, most of the enterprises will pivot more and more towards the Cloud application-based providers, which is the Teams and the Ciscos and the Zooms and that is where our focus will be to work with enterprises to deliver all of that as a managed service.

The foundation of that will still be SIP trunking. So internally, when we are looking at our Microsoft Teams product, right, that product will include the SIP trunking underlay that will be bundled with our customers. And those customers who are simply asking for SIP trunk only will be called out as a SIP trunk only product solution. That would be largely the cloud service providers like Cisco and Microsoft and Zoom and others and will also be some of the large enterprises who will buy that kind of services.

Vipul Garg: Thanks, Vimal. The next question is from the line of Prasheel Shah. Prasheel, you may please ask your

question now.

Prasheel Shah: Yes. So, my question is regarding the Growth Services and the Innovation segment. So if you look at the growth segment, it has been hovering around 700-odd -- the quarterly run rate has been around INR 700-odd crores for the last two years. I was just wondering where do we see ourselves in the next five years? How big is the opportunity out there?

A.S Lakshminarayanan: Yes. Prasheel I think the Growth and Innovation products that are there, we think there is still a lot of upside available. If we look at our -- the way we are structured by business unit, I can call out by that.

One is within the network, we are calling out all our IZO Internet capabilities and the IZO Internet variants that I talked about, right? So that is part of the growth that we believe many of the international companies who are on MPLS will shift to Internet. There, we always had an IZO Internet offering, which was differentiated. But it was available only as one solution with one price structure. Today, we are offering that with about 3 different variants of that solutions at different price points. So we believe that will effectively address the market needs. We have also expanded our footprint of coverage across markets. So that's one segment of opportunities where customers in their shift to Internet, we have a proposition, which we think can address that shift to Internet. So that is part of our growth offerings, right? So that upside is there, definitely. While some of the traditional MPLS will slightly decline or it will remain flat, there is an upside to be had in that segment.

If you look at our collaboration, I just explained in the collaboration side, as people are moving to more of the Cloud providers like Teams and Cisco, we have an offer, which we believe will address the requirement of the market, and there is also an upside there. While that will not fully -- it will cannibalize to some extent, the SIP trunk, but we believe the SIP trunk has its own market space with cloud providers and others. But with the enterprises, this will grow. So that is another growth segment. And that has got a tremendous upside available.

The other part of the collaboration is our traditional MMX, which again, we were affected last year, which I didn't highlight. But last year, we had a decline in MMX as well, which affected our overall growth. Now if you look at MMX, we're looking at that MMX rather than a simple A2P messaging service as to see how we can be relevant with enterprises. And that market, we believe, has a high upside and potential available, and we are looking to see how we can participate in that with our new offerings that will come out shortly, right? So that's all in the collaboration space.

Similarly, in the Mobilities space with MOVE; I have spoken about the MOVE platform. We are participating, and that has got a lot of upsides available. The only thing in MOVE is today, we are talking about segments like auto OEMs, right? And we are gaining customers. But our revenue model today is based on how many cars are sold or how many sims are there in the cars. We are trying to pivot that business as well to more towards the platform, and that is work in progress.

The other segment that the MOVE segment was addressing more similarly all the global SIP Connect with airlines and others, that segment was impacted last year. But again, that from an upside point of view, we believe there is a lot of upside available in that.

The last business unit I want to touch upon is the cloud, security, SD-WAN and that, has grown quite well last year, even though it's off a small base. And we believe both in the cloud, which we are focused on India market has a tremendous upside.

Security, where we have grown very well, but it's still got upside. And similarly, in the international market, we

are targeting all the adjacencies to the network and cloud with our comprehensive security offering, that also has got a lot of upside.

So that is the flavor of upsides that we have and I'm convinced about the upsides and we are configuring our solutions to meet that upside.

Prasheel Shah: Yes. So, is there any way you can quantify the kind of the addressable market that is there in the Innovation and the Growth? Is it possible to quantify these two segments?

A.S Lakshminarayanan: Yes, these -- sorry, the three segments, right? Even in Network, I talked about the Internet as a growth opportunity. I don't have the figures off-hand with me, for each one of those segments. But suffice to say that they are in the addressable segment -- market is and hundreds of millions and some of them are a billion plus. So the addressable segment is quite large.

Prasheel Shah: Okay. And lastly, so we have been seeing deterioration in the Voice margin for a few quarters and this quarter, you guys did report some bounce back. So can we say that the worst is behind for this segment and can we expect it to stabilize that at like 6%-7% odd percent?

Kabir Ahmed Shakir: I can pick that up for Lakshmi. I would say, look, it's a very complex trading business. What I can definitely tell you is how the business teams are incentivized and how they are tracked. The business teams do not talk gross revenue at all, they always talk net revenue. So therefore, at least the focus on the business is to have 6%-7% and beyond as the margin.

Vipul Garg: Thank you. The next question is from the line of Sarath Reddy. Sarath, you may please ask your question now.

Sarath Reddy: Basically, I had two questions. One was actually answered the one on the SIP trunking that was answered earlier. So the other one was, see, while you say SIP has declined, but on the at the same time, we also said the traffic Voice -- enterprise voice has also declined, which means -- which I understand is all the Zoom, Cisco, WebEx and those have also declined. Is my understanding correct? And so both declining simultaneously doesn't add up. If people are working from home, then fine, SIP trunking has declined. But on the side of the voice -- or the communications segment should at least increase. So just if you could help me understand this better?

A.S Lakshminarayanan: Enterprise voice, and Vipul correct me here if I'm going wrong. Enterprise voice and SIP is used interchangeably Sarath...

Vipul Garg: Yes, yes. They are used interchangeably.

A.S Lakshminarayanan: Yes. So I think that's possibly...

Sarath Reddy: Okay. Okay. So SIP has declined. But on the other hand, where you manage services on Teams, Zoom, WebEx, that bit increased?

A.S Lakshminarayanan: That bit increased. So the SIP trunk, when we talk about enterprise voice and SIP trunk, one is the nature of the shift that we talked about and the other reason I think we had also called out is because of some IUC charges increases, we had changed some pricing, which caused movement of traffic away from us and which also caused an issue. But largely, those are the reasons why what we called out. But to answer your question, yes, SIP and enterprise voice are used interchangeably, which might have caused you the confusion.

Sarath Reddy: Okay. So that bit has declined, that's fine. That's understood. Hopefully, it's not a longer-term trend, as you've said. But on the other side, it's fair to say that this Teams -- where you manage services around Teams, Zoom, WebEx, etc., those had -- that revenue segment has increased?

A.S Lakshminarayanan: Those revenue segments have increased, but we are coming off smaller bases there because the Teams offer as a relatively new offer and similarly on the Cisco side, while it has been there for a long time, I think the world is looking at -- how much people are selling number of Teams licenses sold versus the Cisco, WebEx how much they are selling. And also part of our Insta CC-based offer of moving to the call centers and the others to the cloud that will also use the enterprise voice, which is a SIP trunk offer. So all of these were -- the three bundled offers of Microsoft Teams based, Cisco WebEx based for enterprise as well as our all of them will use the SIP trunk as a base, is the point that we need to note.

Vipul Garg: Thanks Sarath. The next question is from the line of Pavan Ahluwalia. Pawan, you may please ask your question now.

Pavan Ahluwalia: So, one question on the Growth Services front. So when we look at your positioning in things like Gartner, everyone recognizes that you're a leader in network services. But when we talk to customers or we look at Gartner, etc., it's not yet clear that people view you as an organization that can really deliver the cloud to them, which, at a very high level is, what your various growth services offerings are really all about. Since you've taken over as CEO, there's clearly been a greater focus in marketing and sales and in terms of total solutioning and presenting this as a pace from a customer. And that's sort of noticeable within the industry. I'm wondering whether in addition to the focus on solutioning and messaging, we also need to significantly upgrade our internal capabilities in terms of people and technology. So I'd be curious to get your assessment?

And I compare -- so two questions. One is, at what point do you think a Gartner starts taking us seriously as -- or calling us a leader in, say, cloud infrastructure or cloud infrastructure delivery or whatever the relevant quadrant is?

And secondly, if you want to compare us to some of the peers we may compete with in some of the Growth Services areas, like possibly a Sify or a how would you assess our bench capabilities and our technology capabilities relative to them? And what are we doing to bridge these capabilities?

Lastly, you obviously come with the -- with TCS background and at TCS, you had to put together large offerings for very large clients. Are we in a position today where we could effectively partner someone like a TCS as well as anybody else out there? Or is there some distance we need to go in this?

A.S Lakshminarayanan: Yes, I think there was two basic -- see, one is if you look at the analysts like Gartner, yes, the articulation of how we are building our solution, it's differentiators, all of that they look at, right? So, I think there, we are investing in terms of our vision of our solution, how it helps the customers and what internal capabilities we are building so they can see that.

But they also look at the other dimension of how many customers have you succeeded with, right? And that's another factor that they use to see when they put you in a leader quadrant or wherever. So there, I think in one dimension where we are building the capability and we are articulating to them, I think that box is getting ticked. Obviously, we have to get a lot more wins and deals, which we can reference to them. And only then they will actually position us. That's how internationally they work, specifically Gartner.

Pavan Ahluwalia: So it's a chicken egg type thing, you need - Gartner leader has an easier time winning, and only a winner can be a Gartner leader.

A.S Lakshminarayanan: To put it in very simple terms, the answer is yes. But the customers do not simply buy based on that alone, right? The customers would lift it, solution under the hood and see that because the customers buying -- buyers are intelligent. They're not just going to go by what is told. I mean that might be relevant when they are including you in the initial RFP, but it's not so much relevant when you actually compete your teams in front of them and competing for solutions. So at that stage, I don't think where you stand there makes a huge difference. In the initial consideration, yes, they will look at you from that perspective.

Coming to some of your -- some of the questions, especially as you referenced, cloud and India, I think in cloud, we are fairly well rated in the market, right, in India. And we have seen good successes with our IZO private cloud offer, bundled with other public cloud to be able to deliver that as a multi-cloud. And we have some good wins, and that has grown quite well.

Compared to even other players that you called out, I would think in the private cloud market, we would be one of the leaders. But that will still have significant scope there for us to increase our growth and capture even a bigger market share.

In terms of the other products like collaboration, like we talked about, the -- whether it's the -- our ability to implement Teams DR and other things. We are talking to Gartner. So today, as I said, we are coming off a small base of revenue there. It's grown very well. And I think we are presenting our case to the analysts where they will start to acknowledge our offerings and our capabilities in the near future. But overall, I wouldn't be using that as only -- while we have an internal metric to say, we want to present to these analysts, and we want to be in the leader quadrant, but that is not the only factor that will help us to grow.

That is an important factor -- that determines the perception by the market as well.

Pavan Ahluwalia: And in terms of people capabilities, do we need to be -- if you had to assess our people capabilities relative to these guys, right? Because they all have more of an IT DNA and there may be a perception that the IT bench at these places is just stronger, right? Having come from TCS, as you assess our IT bench strength, our capabilities as a -- beyond just being a telco, as an IT company in a way that can or at least an IT infrastructure company that can effectively deliver the cloud, how far along are we? And how much distance do we have to go in terms of getting bench and, say, technical value that we can provide?

A.S Lakshminarayanan: No, I think the -- especially then talking about cloud, we have a very, very strong team, very strong capability there, right? I think we have just in India, delivered some of the largest cloud implementations. And I had called out last quarter, we successfully delivered the largest HANA cloud implementation in India. So the teams have the capabilities, and we have the bench strength to be able to do that.

If I look at Security, similarly, I think Security also is strong. But Security has the product portfolios, when I say the OEM products, the number of products are quite large. We are focused on a set of products, and we have the capability and the bench strength in those capabilities.

So in overall, to stitch many of these together to say, for customers to be able to deploy, integrate with their ecosystem, deliver a full-fledged team DR Solution in customers' environment, right? Those are all the capabilities that we were building last year.

So until previously, we were reliant on some third-party, we have now insourced all of that capability, and we're building that capability. So, some of those capabilities building in terms of implementing some of the offerings that we are building ourselves. That capability build is happening as we speak, and we are ramping up our

capabilities, investing in training in those capabilities, and we are bringing additional outside people where we think we need to bolster those kinds of capabilities.

But those are services, right? So, it's also a question of we need to win more to be able to build that capability even more and more and scale, and we need to get those timing right. And we are putting those models in place.

Vipul Garg: Thank you. The next question is from the line of Sanjesh Jain. Sanjesh, you may please ask your question now.

Sanjesh Jain: So the growth we reported in our KPI case, right? The storage growth for us, whether it's instances which has grown on our managed cloud services or the number of devices we manage. If I look at each of those parameters, okay, they have grown at ballpark 10% on a Y-o-Y basis for us. This growth tends to look like we are growing significantly lower than the industry. The industry is growing anywhere between 25% to 30%. And that, again, is what is reflecting in our "Others" of growth services, where we capture a lot of these revenues, that hasn't grown.

Are we losing market share, and if yes, what are we trying to fix there and how do we see these services? Because these are one of the fast-growing services, and clearly, we are not up in the market in terms of trends on these solutions.

A.S Lakshminarayanan: Yes. So Sanjesh, on the security side, I think we are growing quite fast. So I think that we had called out those numbers as well.

On the cloud side, while we are growing, we somewhat recalibrated that last year. Previously, we were -- from a revenue point of view, we were simply reselling some of the third-party cloud offers with very little of our services and that came at lower margins as well. So in our new positioning in the marketplace, we are talking about a fully managed cloud services and not simply as a reseller of a cloud of a third party.

And, we are in the cloud revenues, there is an element of managed hosting, which is third-party hosting of, let's say, servers, that was also a larger part. Our focus has now shifted more and more to drive growth on our private cloud, coupled with multi-cloud offer to customers. So that is what we pivoted, which gives us better quality of revenue. So, you would have seen somewhat of a muted growth last year because we sort of shifted our focus in that portfolio. But I think in terms of the way we are participating in the cloud opportunities and so on, I don't think we are participating any less or we are winning any less.

Sanjesh Jain: Got it. Got it. But again, if I look at, along with what's happening on the net revenue side, I thought this time we have sold more third-party product because see, the revenue growth on the Growth Services the decline was close to 10%. But as the net revenue decline was to the tune of 17%. That means there was a higher direct cost which we incurred, while we are talking of selling more of our own services and doing the services on our and doing less of the third-party services, that trend is not clearly showing that Lakshmi. So what are we missing there on growth?

A.S Lakshminarayanan: Okay. I don't know whether you're talking about overall growth -- Kabir, did you get that question? Or are we talking about cloud specific here?

Sanjesh Jain: No, no, it's not cloud specific. It's because we don't get cloud specific, I'm taking the entire Growth Services as a service, and there SIP trunking generally had a higher payout because of IUC cost, and that has come down significantly. Despite that our net revenue as a percentage of the gross revenue in Growth Services have come down, right? Your commentary on telling that we are selling lesser of the third-party products...

A.S Lakshminarayanan: Yes. That was only referenced to the cloud that I was talking about, Sanjesh, not the overall -- all the other aspects in the growth business.

Kabir Ahmed Shakir: Also, Sanjesh, I think you're referring to Q4. But if you look at full year, it has increased. Q4, as I explained, there are some catch-up costs as well. But if you look at year-on-year, you actually see a proper healthy increase.

Sanjesh Jain: No. I got it, Kabir, But direct cost we are talking, right? So I don't know do we really have a catch-up costs and the direct cost will get captured?

Kabir Shakir: Yes, it was. There were some bookings of prior quarter which had to be recognized properly.

Sanjesh Jain: Got it. Just one last question from my side in terms of the order funnel and what we are talking and all those things. So we believe that 18% to 20% growth, which we have done historically, in the Growth Services, are we confident enough to reach that kind of growth rate again say for next few years? Is it doable?

A.S Lakshminarayanan: Yes, yes. I think it's definitely doable, Sanjesh. I think if you look at historically, amongst the growth products, the key driver of the growth has been the SIP trunk, right? And the other was IZO, which had grown quite well when we launched IZO product at that time.

Now the market has shifted, and I explained those shifts to you. But despite those markets shifting, I think we have enough in our products and solutions capability, plus what we have invested during the course of last year to look at new requirements of the customers and fine-tune these products and build additional capabilities. I certainly believe that there is that upside available for growing in these segments.

Sanjesh Jain: Lakshmi, just one last question before I leave. We've talked about partnership with SI's in going for the large deal wins. Are we seeing any significant traction? Or can you see a significant difference in the way the sales happen when you're going with SI and the probabilities are going up for us in terms of winning the deals?

A.S Lakshminarayanan: No, I wouldn't be able to give you a trend there. So if you look at our funnel, where are we winning more, is it through SIs or directly? It's obviously direct is where we are winning more, right? With SIs, we have better access to customers. So a lot of these are coming from new customers where the SIs have a better relationship. And therefore, we are able to go through them to deliver our offerings.

So we will work hard on working with the SIs to further build that funnel and further improve on those win rates and conversion. But as of today, it's more of the direct ones which are delivering the results for us.

Vipul Garg: Thank you, Sanjesh. We are already out of time. We'll just take the last question, it's from the line of Nishit. Nishit, please go ahead. Nishit, we are not able to hear you. I think there is some problem with Nishit's line. We'll just take last question from the line of Punit Shah. Punit, you may please ask your question now.

Punit Shah: Thank you. You see Airtel has acquired OneWeb for a satellite Internet communication offering. How do you see that as a direct competition to your business?

A.S Lakshminarayanan: So, all the low-Earth Orbit players, they have said that their main target is more of servicing the Tier 3, Tier 4, servicing consumers there and some of them have also said that they will go in the wholesale model where we will be able to buy capacity from them and service our enterprise customers. So, we don't view that as a as a competition. It's another technology for delivering the last access to more remote locations.

Punit Shah: Okay. The second follow-up question was from e-SIM cloud, where you see the opportunity growth from a future standpoint. But what are one or two top trends which you feel that the e-SIM cloud will change how the industry today operates?

A.S Lakshminarayanan: When you say top two trends, see, I think the trend of IoT, especially when people are looking at how do they make their products, manufacturers looking at their products and to say, how can I make it more of a connected solution or a connected service, they will want to embed this connectivity, e-SIMs and other capabilities into their products.

So that is the trend that we see. And the SIM cloud will enable them to do that, as we say, born-in the cloud, right? So, during the factory when people have to test and embed their sim in the devices and test it, many times, they have to go to the SIM providers and say, give me the SIM and most SIM providers will give you for 1 year. Whereas in the factory for testing, they will need it only for a month. So the SIM cloud allows them to do that. So as a SIM cloud, it offers a specific use case. But overall, that embedded within our MOVE platform and capability, it addresses a much bigger opportunity for us.

Punit Shah: So there are any specific industries you want you'd like to target in terms of health services or manufacturing specific industries?

A.S Lakshminarayanan: Yes. We are currently targeting, as I said, in MOVE, overall, our target is, one is the auto OEM space and we carved out a special unit within the company to address that space, that is one.

Second is all the global SIM Connect. Within that, there are multiple segments. One is, for example, the airlines, which we have done before, but that has still not come out of the woods, and we are not betting on it for this year.

The other segment that we talked about is working with semiconductors and through them with the industrial OEMs, right? And that is a fairly new segment. So, we are working with some of the semiconductors to say how do we embed MOVE and jointly take that to the OEMs; and that can be the large industrial manufacturers or even others, they might be the Tier 2 provider to an auto, for example. So these are all the players through semiconductors that we can address. So that's another segment that we are addressing.

And the third segment we are addressing is the MVNO's who are out there who are expanding internationally. And for those MVNOs, we are delivering our MOVE MVNE platform. So these are the segments that we are talking about. Each of the segments have different use cases and different characteristics. But all of these segments, we believe, has a huge upside.

Punit Shah: Do you have any specific tie-ups with MVNOs?

A.S Lakshminarayanan: No, no. MVNOs, you won't have. MVNOs are customers for us. So they will come to us when they want to launch MVNOs in multiple countries, and we provide them the platform. And then on our platform, they use our platform and then they go and acquire the customers. So the only thing in the MOVE the business model is as we acquire these customers, as I think I mentioned before, we are trying to pivot the model partly on platform and partly on usage. Today, 99% plus is on usage.

So as these people onboard more of their customers and their customers start to use, which is when our platform gets used, we are seeing our revenues. And we are trying to pivot that a bit with more of a platform and less of a usage, and that is still work in progress. So that's the sort of model shift that we are making in these segments.

Vipul Garg: Thank you, Puneet. Lakshmi, we have a lot of queue. I'll put one more question, Nishit is back. So Nishit, next question is from you. This will be the last question. Nishit, we can't hear you. Okay, I think there seems to be some problem with Nishit's line. This brings us to the end of the Q&A session. Over to you, Lakshmi for your closing remarks.

A.S Lakshminarayanan: Thank you, Vipul, and thank you, everyone, for participating in the call. As I said in my opening remarks, all the building blocks that are needed for transforming the company are falling in place. We have done exceedingly well on financial fitness and execution there has been excellent. With respect to capturing the growth, we believe that there is a lot of upside to be had and we are investing in our platforms and capabilities accordingly. And we hope that soon, we would be able to convert some of these into deals and the results. Thank you.

Vipul Garg: Thank you, everyone. You may now disconnect.

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