April 20, 2023, at 02:30 pm IST

Q4 FY2023 Earnings Call Transcript

KEY PARTICIPANTS:

AS Lakshminarayanan, Managing Director and Chief Executive Officer

Kabir Ahmed Shakir, Chief Financial Officer

Rajiv Sharma, Head Investor Relations

Chirag Jain, DGM, Investor Relations

Chirag Jain

Good afternoon, everyone, and welcome to the Tata Communications Earnings Conference Call for Q4 FY23. We are joined today by our MD and CEO, Mr. Amur Lakshminarayanan and our CFO, Mr. Kabir Ahmed Shakir, and our head for Investor Relations Mr. Rajiv Sharma. The results for the quarter ended 31st March, 2023 have been announced yesterday and the quarterly fact sheet 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 the 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.

AS Lakshminarayanan

Thanks Chirag. I welcome you all to Q4 FY23 Earnings Call. We witnessed another healthy quarter reflecting strong growth momentum in our data revenues. For the full year, data revenues are up by 10.3 %, PAT is up 21.2% and ROCE is at 28.3% versus 25.4% in March 2022.

Our results reflect the disciplined execution of our “Reimagine Strategy”, focus on “Deeper with Fewer” and our strategic push on products to platform. Our investments in the overlay or as you may call Digital Platform Services over the last couple of years combined with our strengths with the underlay positions us uniquely as a Comm Tech player. Our unique strengths are very much noticed by our customers in our abilities to impact both the cost and revenue side outcomes for them. Our Products to Platforms shift, increased investments in front-end sales, particularly in the international markets, and building new capabilities across the portfolio is reflecting in the growth momentum.

Our Data Revenues grow by 11.2% YoY again this quarter. For FY23, Digital platform and services revenues grew by 15.5%, highest in the last four years. To add more colour to our data growth; we have added INR 1,317 Crores of incremental data revenues in FY23, against an incremental revenue of INR 903 crores in FY21 and FY22 combined. Our digital revenues including Incubation are 32% of the total data portfolio and our ambition is that this number should be 50% of the overall data revenue over the next three years. Funnel addition in FY23 was the highest and we recorded more than 50% growth in large deal segment, and we are seeing good traction across India and International markets.

Before I get into details of the performance for this quarter, I take pleasure in mentioning that Tata Communications was selected as the Turnaround Company of the Year by Forbes in March 2023 and that we have once again been recognized as a Leader in the 2023 Gartner® Magic Quadrant™ for Network Services, Global, thus completing a Decade of Excellence. We further strengthened our DPS portfolio with some new launches this quarter. We launched Jamvee a cloud-based application offering integrated and simplified voice calling solutions. This strengthens our offering, especially for knowledge and frontline workforce within enterprises and helping enterprises with a secure and compliant setup. Most importantly it helps enterprise customers have greater control over the deployment and management of the unified communication estate.

Let me add with Jamvee we will be able to address 80% of the managed PBX market and the overall market is still growing in high single digits. The other product we launched CloudSIM, a software only SIM primarily addresses on demand connectivity and enables new use cases such as activating private network connectivity for short periods and provisioning connectivity only to devices in active use and allowing enterprises to decrease the total cost of ownership. This is a significant innovation and we are the only one in the world to have this solution.

Moving to our performance for the fourth quarter of FY23. Our data business remains instrumental to our overall revenue growth momentum. It improved sequentially by 2.2%, coming in at INR 3,670 Crores. Our Digital Platforms and Services revenues stood at 1,080 Crores, registering a healthy growth of 15.9% YoY and 2.3% QoQ. Our Q4 consolidated revenue was INR 4,569 Crores, improving by 7.2% YoY and 0.9% QoQ. EBITDA for the quarter stood at INR 1,034 Crores, while the EBITDA Margin stood at 22.6%. The profit for the quarter was INR 326 Crores.

Let me talk about our margins and the aspects shaping EBITDA trajectory. I want to re-iterate that we are fundamentally taking the company to a different growth trajectory. I have always said that the double digit revenue growth would take time and investment and this year is a milestone with 10% plus data growth on a full year basis and digital portfolio has grown 21% YoY, highest in last 4 years. This is encouraging and an outcome of the significant investments in people, platforms, IP creation, front end sales and capacity building. We called out to invest in growth and this was planned. Our full year EBITDA margins at 24.2% reflects these investments and we are very well in the range of our margin guidance of 23%-25%. There is a reason why we see ourselves as Comm Tech and not a traditional telco as we focus a lot on capital allocation and ROCEs. Unlike traditional telcos which are at low single digit ROCEs; our full year ROCE of 28.3% is despite investments in growth. We have delivered first-time double-digit PAT margin and highest ever absolute PAT this fiscal. We are staying the course and FY24 will continue to be another year of investments particularly in DPS and our ROCE guidance of 25% plus remains intact.

Coming to our core Connectivity business, revenues grew by 7.4% YoY and 1.7% QoQ. We continue to invest in the core capabilities, thus transforming our networks to be intelligent and working on their programmability to cater to the new market needs particularly on-demand needs.

Let me spend some time talking about our robustly growing Incubation or the connected solutions portfolio. The Incubation Portfolio progressed multi-fold growing by 65.3% YoY and 9.4% QoQ. We signed our first “born connected” deal with a leading EV manufacturer and we are very pleased to support their pan Asia scale up. I spoke about CloudSIM launch this quarter and am happy to share that we signed our first deal as well with a large integrated IoT device and board manufacturer with remote controlling and monitoring capabilities for industrial equipment and plants. This will help them to simplify deployment and reduce costs. Our MOVE business continues to grow strongly and recorded a YoY growth exceeding 100%. Our IoT Offerings seeing a growth of greater than 90% in revenues for the full year and are gaining momentum in international markets, where we cater to both enterprises and smart cities. Being one of the few players with Atex-certified SafePass badge ID solution in India, our solution has gone live for one of India's largest oil & gas players which opens new avenues for growth.

Now, coming to our Digital Platforms & Services portfolio, it has grown at 15.9% YoY and 2.3% QoQ. Our multitude of offerings in the Digital Platforms portfolio are intended to consistently deliver more holistic solutions, stitching multiple products together for our customers’ ecosystems. Our digital fabric helps create a robust moat around increasing customer stickiness and insulates us from structural pricing decline seen in the legacy businesses. The most exciting part of the DPS is the strength of this portfolio and suite of applications helping the enterprises to power their hyperconnected ecosystem. We have a good pipeline in our sales funnel and pipeline of product feature releases and new products in coming months.

Media business revenues were sequentially down 2.3% and up 19.5% YoY. Sequential decline in revenue is due to lesser number of events this quarter versus previous. This quarter Tata Communications supported enhanced video workflows for Formula E leveraging its media edge platform giving better quality video feeds leveraging internet based last miles. In FY23 the team has supported over 20,000 events which represents a significant growth and revenues were up 28% YoY for this segment. We would like to update that Switch enterprises the acquisition which we announced in 3Q, we are expecting all necessary approvals to be in place soon and targeting integration by 1QFY24. Switch will help us gain a strong foothold into the Americas media and entertainment market.

Moving to Cloud, Hosting and Security. This portfolio registered a growth of 38.5% YoY and 10.1% QoQ. In Q4FY23. Some of the key wins have been with our IZO private cloud and our managed services offerings. From product enhancement perspective we created automation of orchestration for our IZO Private Cloud – Platform as Service offering thus reducing time to provisions within minutes. Additionally enhanced Managed Services reporting dashboard (our Information as service offering) for the solutions deployed on our IZO Private Cloud. Our MSS or security business revenues were up 26.6% YoY. Enterprises continue to see merit in securing network transformation using zero trust architecture and we recently started working with one of Europe's largest automobile manufacturers to help them enable secure remote work for their 35,000 global workers more effectively than VPN, deliver secure & direct connection to applications and provide identical user experience from office or home.

Our Collaboration Portfolio grew by 1.8% YoY and declined by 3.6% QoQ. There have been some customer specific issues in layer 1 offerings and hence you see a dip in revenues this quarter. That said we continue to benefit from an increasing customer interest in our newer offerings namely Tata Communications GlobalRapideTM, InstaCC and Tata Communications DIGO. DIGO continues to grow in capability as a Customer Interaction Suite, where it focuses to unify all customer interactions. We are seeing customer wins in the layer 2/3/4 and our efforts are towards maximising scale.

Coming to our Next-Gen connectivity offerings revenues increased by 5% QoQ and 10.5% YoY. The key drivers of growth this quarter have been IZO WAN and IZO Private Connect. Our improved offerings on IZO WAN, both in terms of the wide variety of internet connectivity options, and price competitiveness helped us drive growth. Our vision for IZO WAN platform is to be the most comprehensive dependable connectivity platform providing a wide range of variety of internet connectivity options from predictable enhanced internet to broadband, to 4G/5G from premises-to-premises and premises-to-cloud and in between cloud as well.

To sum up, as a digital ecosystem enabler, we remain committed to building innovative and scalable platforms to empower enterprises. With that, I would like to invite Kabir to give an overview of our financial performance. Kabir.

Kabir Ahmed Shakir

Thank you, Lakshmi. Good afternoon, everyone. I will take this opportunity to take you all through the highlights of our financial performance for the quarter. Before I dive into Q4 numbers it is important we see how FY23 has fared for us as a whole. We have delivered full-year double-digit data revenue growth; highest ever PAT, highest ever PAT margins, highest ever FCF, and full-year EBITDA margins of 24.2% within our range of 23-25%. ROCE for the full year at 28.3% and is up 290 bps above last year. PAT is up 21.2% YoY and most importantly FCF generation is up 64% YoY – even if were to include tax refunds, they are up 16%. The effective tax rate for the full year was 14.4% versus 26.1% in the previous fiscal. For the full-year net debt is down by 1,009 crores and net debt to EBITDA has improved to 1.3x from 1.6x.

EBITDA to cash conversion has improved from 52% in FY22 to 59% in FY23. Not long ago, this used to be in the 20s. I am happy to share that we have demonstrated a meaningful financial turnaround and incrementally our focus will be on creating elbow room and capacity for multiyear growth.

Let me now talk about the 4Q numbers, our Consolidated Revenue for the quarter stood at INR 4,569 Crores, improving by 7.2% YoY and 0.9% on a sequential basis. Data revenue for the quarter stood at INR 3,670 Crores, improving by 11.2% YoY and by 2.2% on a quarterly basis. The reported revenue numbers this quarter, like the previous quarter, continue to have certain forex benefits accruing from a strengthening dollar. Our EBITDA margins for the quarter were at 22.6%. Our PAT margins for this quarter stood at 7.1%. Net debt for the quarter stood at INR

5,711 Crores and net debt to EBITDA is now at 1.3x compared to 1.45x previous quarter. The most notable part is that on back of our strong cash flow generation debt has been consistently coming down. Our cash flow generation continues to be healthy, reporting an FCF of INR 631 Crores this quarter, and INR 2539 Crores for FY23. Cash Capex for the quarter stood at INR 400 Crores, though our approved capex is close to INR 600 Crores, and the gap is attributed to delayed deliveries and better payment terms.

Our consolidated EBITDA margins declined 120 bps this quarter to 22.6%. Let me elaborate here a little more on what Lakshmi suggested above on the margin trajectory and the bigger picture. If you look at our ROCE improvement, PAT improvement, and revenue growth they are suggesting that we are fundamentally transforming as a company to operate in a higher growth trajectory, and this needs a very different kind of opex-capex structure to fund growth ambitions. Double-digit data revenue growth over the past three quarters is an outcome of investments we made, and this was very much planned. Our strategy around the product-to-platform shift and deeper with fewer demanded investments in sales, the platform builds, and capacity building. Full year DPS revenue growth and digital platform revenue growth are the highest in 4 years giving us the confidence that we are on the right track.

This fiscal, we continue to strengthen our foundations for achieving our growth ambitions, through deepening customer engagements and investing in expanding our global sales and product organizations to address market opportunities. I continue to hold that if we have the right proposals from the business to fund customer success, we will stay the course and fund those opportunities and even if that implies margins temporarily going down below 23% for short term we will not hesitate. Having said that we will manage margins dynamically, in instances where revenue growth is delayed costs will be pulled. At the same time, we are focused on levers which will sharpen our moats and help us improve our trajectory in the medium term.

Moving to subsidiaries, we see a steady improvement in TCTS. TCTS revenue improved by 2.6% YoY and 2.7% sequentially, coming at INR 342 Crores. EBITDA for TCTS stood at INR 13 Crores for Q4. We feel confident about TCTS going forward. Our Payment business continues to make positive shifts as we expand our portfolio under the Franchise model. Revenue for the quarter came in at INR 46 Crores and an EBITDA of INR 21 Crores. As on date, we have added close to ~3300 Franchise ATMs to our portfolio and are working steadily on increasing this further. The massive uptake of digital payments over the last few years had an impact on the transaction count for the ATMs and long-term growth profile. As such the company has considered an impairment of Rs 322.76 Cr in standalone books of TCL India. Since TCSPL financial losses are consolidated while preparing TCL financials, there is no impact on the TCL consolidated financials.

To sum up our holistic delivery across financial KPIs be it strong FCF generation this quarter and fiscal overall, consistent reduction in net debt, continued improvement in PAT for the year and our ability to fund both organic and in organic growth opportunities is laying path to capture the tailwinds and market opportunities which lie ahead. I will now ask Chirag to open the forum for Q&A.

Chirag Jain

The first question is from the line from Sanjesh Jain from ICICI Securities, you may now ask your question.

Sanjesh Jain

The first question on the Order book front, we have added close to 2000 employees. And if I can see most of this employee increase has come in the non-standalone, which, means that the efforts are to drive the non-standalone business, which is generally the international revenues. How is this translating into a resultant order book and sales funnel? Overall, if you can give us a color on the order book attrition? and are there given that what we have heard from the company till now? Looks like there are certain pullbacks from the spend side. Are we concerned with the stand? How are we looking or what is our interaction with the customer? We were already sitting on an healthy order book, and we're facing supply chain issues. Now that the supply chain has eased, will it be a fair assumption for us to tell that the execution will pick up so revenue recognition may not get impacted because of all these sentimental things, which is impacting the investment on the digital side of it?

AS Lakshminarayanan

Yeah, I think there are 2 questions, or probably multiple in that. Let me try to answer. I think on the people front, it's not 2000, as you said, we, we have added 1000 for the year. In terms of those additions have been both in India and international and we are seeing the addition coming to fruition in terms of the revenue acceleration, because of the additions that we have made in the front end of sales and marketing. I've been able to reach more customers by building relationships and help us o drive and to build the funnel. In terms of the color of the order booking in the funnel, I think the, funnel addition last year has been 1 of the best that we have seen. Our order booking is also good.

We are also seeing what you call as large deals, which is more than a million, a significant jump in the number of these large deals both in India and internationally. So, these are all I see as good positive signs of our engagement with our customers, relevance to our customers and how our platforms are making more of an immediate impact in our customer's businesses, so that's the sort of color.

On an international level, so far, in all our discussions with our customers we haven't seen any pullback. Largely I would view in the current macro environment of international where people are cautious. A lot of our Portfolios lend themselves to a cost-led transformation and we believe that will make an impact. Overall for the last year, if you look at the overall order booking, over 40% of the order book is for our digital platforms and solutions. So, the overall color of the order booking and the traction we've been seeing so far is quite good. And that is what we have been saying and you've been seeing the result of that in the last 3 quarters, in terms of increased revenue acceleration. And we believe despite the macro caution that you attributed to, we think it will continue because the solutions that we are offering can help our customers to cut costs. For supply chain, I had called out as business as usual. The supply chain, In terms of the equipment delivery from many of the vendors are still not what we experienced pre COVID, but I had called out some time ago that we are treating that as business as usual. So that is neither affecting our revenue nor accelerating anything.

And the reason I say that is, many customers have also come to accept that. This is the time taken and we have found already alternate options available for the customers to go ahead, rather than being dependent on 1 provider. I would say that's more as a business thing.

Sanjesh Jain

Second question is on the revenue growth. We have a year guided of a double-digit revenue growth and we are there now. And we also anticipate the mix within data to change 50:50 between core connectivity and the digital services which imply that our digital services need to grow by 25% CAGR. Do you think you are confident about this mix change to happen and growth coming in considering the order book and on the ground discussion, you're seeing with your customers ?

AS Lakshminarayanan

Yes, I think, when we launched our strategy, we called out amongst all parameters that we want to hit a double-digit growth. And I always said that while people are not very patient, it takes time to get there. We need investments and products and building capability and takes time to do all of that. Now that we are here with our continued investments, I feel quite confident that we can stay the course to execute on that.

Kabir Ahmed Shakir

I'll just add the way in which we should look at is not from CAGR perspective, these are all businesses where, I don't know whether it is going to be in next year or the year after next, where if you get 1 transformative deal, then the growth trajectory for that particular year, for that part of the business will look in 3 digits, as opposed to a steady state year on year 25% kind of a number. So that is how you should look at this, especially when these are really new age technologies and things that we want to try to unlock. And the 2nd bit that I would also leave it is that we said we want to get double digit growth and we delivered 3 consecutive quarters and full year double digit growth, we want to maintain that momentum. And our next to marker to become a Com Tech player, therefore, having a balance of 50:50 between our digital services portfolio, and core connectivity. And that is how I would like you to read the ambition and not about whether it's fructifying exact proportions, every quarter, and every year.

Sanjesh Jain

On the margin side. is it fair to now believe that the bulk of the employee cost is now behind us in terms of what we needed to add and realign. And the attrition is also now normalized, is it a fair assumption that the cost pressure whatever we were supposed to see is largely in Q4 and next year when we deliver double digit revenue growth, the operating and leverage will play out. Is that the right way to think on the data side of the business?

Kabir Ahmed Shakir

The attrition part is I can safely say it's behind us. You probably hear that in the news as well with multiple IT companies also narrating the same thing. So, that I can definitely say is behind us. In terms of our hiring, we added 900. So in the last year we had about 900 headcounts, and a lot of them are backfilling that we have done. Plus, I would say the net additions of course, have gone in 3 areas - product and engineering side, go to market and also our Service Delivery organization. See, as far as I'm concerned, this is a continuous cycle that we will get into. That's the whole fit to grow model. We have compelling business proposals that we need to fund, we will continue to fund , so I won't say this is behind us and that we will not do any more hiring. Then we will not grow. Yeah, we will continue to grow and we need to calibrate as to when I am getting the operating leverage of the headcount and the investments that I have made. When I'm seeing that come through, then we take the next call of doing the next level of investment so that it gets into that continuous momentum. So that is how I would encourage you to actually look at it.

Sanjesh Jain

I meant for the near term, we have hired, and we would want to stabilize this work, drive some utilization and then go for the next level. For next year atleast we are not going to hire another 900 or 1,000 people, right?

Kabir Ahmed Shakir

I think we've added significant amount of people in our products and platforms and in the markets. The 2 things to look at last year, hiring was done over a period of 1 year. So not all the costs have seen a full-year impact. So there is a full year impact and that would come about this year. Where it is necessary we would add people and as you said, you would need to calibrate that on an ongoing basis and the old calibrate that. Because we are carefully managing the business in terms of where we are investing. And what returns do we need to deliver. So, that would be calibrated for sure.

Sanjesh Jain

We guided for 250 to 300 million dollar of capex. I think we are significantly lower than this year. How should we think Capex for next 2 years?

Kabir Ahmed Shakir

Well, my guidance remains the same, that is our intention to spend and if you see our approved Capex, we are in that zone. This excludes our fibre replacement capex The moment I want to get to 50:50 between our Digital and Core business, let's set aside the efficiency that we should get in our Capex and operating leverage for a minute.

If you do the work working backwards, you will find that we would need a significant level of investment to support that kind of growth ambition that we have, so, I'm targeting that 250 to 300 as the number. And the reason why we did not spend, we mentioned before, supply chain deliveries delays plus we some better payment terms, so there will be a catch up of that. That'll actually come up in the following year. Plus, we would like to get into the zone of spending 250 to 300 Million and additionally on top of that for replacement capex for the next 3 to 4 years

Sanjesh Jain

From a free cash flow perspective. If I see, we are investing more in the operating expenses, we are investing more in the capex. If we need to maintain the cash flow as a percentage of revenue, that means our revenue needs to grow significantly higher than say this 11 or 12%. Else ROCEs will start diluting. I hope this is a fair assumption that when we say that we maintain that 25 to 30% guidance. All this ambition is well backed by the fact that we will be growing the revenue significantly faster than this, will this be a fair assessment ?

Kabir Ahmed Shakir

Yeah, that's absolutely fair. All markers and contours that I have given and which sets our own internal working and governance in the company as well. Yes, our guidance is greater than 25% of ROCEs. We have been operating in that range, we will continue to operate in that range. 23% -25% is our EBITDA guidance, but if I must kickstart growth, and if I have to invest in a few areas and temporarily for a quarter or 2, it takes me below 23%, I am not fussed about it because that is being spent on the right areas of investment and that investment is not a waste that we are incurring and that I want to be clear. So, if you mix all these things yes, we need a different level of growth trajectory to have these ambitions, but at the same time, if these are not fructifying and These are not free for all 1-time approval to go ahead and spend, these are going to be calibrated. These are going to be milestone based. If you are growing well, you're getting in the right direction then there will be continued momentum and investment behind it. Where we are going off course, then we will pause and pull back, so that we are not diluting any of the ambition on the financial metrics that we have given.

Chirag Jain

Next question is from Aliasgar Shakir from Motilal Oswal. Please go ahead and ask your question.

Aliasgar Shakir

Yeah, thanks for the opportunity and quite a detailed explanation. I just have a question on the growth of products point of view. So you did give a lot of explanation in terms of your order book, funnel and how the overall trajectory is but, from a growth product, point of view, whether, it's MOVE NetFoundry CPaaS or even Cloud SIM that you mentioned. That you mentioned what is attraction specifically.

I'm asking this more from the point of view that, when I see segments in DPS, there have been few of them firing, like CPaaS, which we've been quite positive for the full year as well, as in this quarter, not really done very great. So, from your overall growth engine point of view, what are the products where we have most positive outlook and where we think we can drive growth in FY24 if we have to do double digit growth in our data business?

AS Lakshminarayanan

Yeah, Ali, I think if you look at the segments, I called out each one of them. Barring collaboration where you have had somewhat of a muted growth. All other segments, in the product portfolio segments that quite well, and within collaboration, GSIP which was sort of a drag a couple of years ago, that is finally stabilized. And the, the new products that we have introduced, like the Global Rapide™ is gaining traction. Tata Communications DIGO™ is gaining traction. So, we are quite confident that across all product portfolios, we should be seeing good traction.

Aliasgar Shakir

And just 1 question for Kabir. You did mention that a lot of these opex investments are very milestone and timeline driven and therefore whatever investment we are doing either opex capex, we will see the benefits of that or else we will stop them. So, in that context, if you would just explain how the operating leverage will behave in investments in FY24 and FY25 that we have done, what is the trajectory of growth. At operating level, we should see this margin to recover at some point and what will be the timeline milestone we will look at?

Kabir Ahmed Shakir

Thanks for that question. Look in the immediate term, this is going to be in the investment phase that we are in what you have seen our opex on staffing costs. We haven't seen the full year impact of that yet because our hiring add only more back ended in Q3 and Q4 of this year. So you'll see the full year effect of that coming through. As we also outlined, and I mentioned to Sanjesh, we are doing the investment on staffing, on Head count on 3 aspects, there is product and engineering, and these are folks who are working on my next set of innovations that will actually come through. Then, I have my feet on street and then I have my delivery organization, these are the 3 large buckets in which our investments have gone. The product follows a cycle of 1,3,30. Stage 0 to 1, we will see those products coming to fruition 18 months, 24 months from now. 3 is where we are currently taking from 1 and, going to 3 to 5 customers to see, whether it has legs in multiple other industries in multiple other use case. And 30 is when it gets into the product state.

The 30 is where you'll see operating leverage kicking in because the revenues will come through in FY24. But for 1 and 3, those will only come through in FY25 and beyond. Likewise for the sales organization, also it will take 3 months for any salesperson to come onboard. And, go through the readiness program and be ready and take some of the 3 months for them to then start building customer relationships and working on building the funnel and then converting them into an order book. And then we have our own gestation period of when the order book converts to revenue, so that will flow through during the course of FY24 here. All we need is sometimes there are some aspects where you look at output metrics and measure the outcome of the business. In some, we need to look at input metrics and measure the right call for the business. I would say this is the input metrics that we need to do that are we doing the right investments in the right places? And then, do we have governance mechanism internally to see the progress of each of them? And that is how I would want to navigate and therefore, you know, in FY24 we are expecting our margins to be at the lower end of the range. Well, that's what I said exactly same time last year for FY23. We were helped by the market shift that we actually had in Voice, which I called out a couple of quarters ago. We had some benefit there on the profitability line, which actually took us to 24.2% otherwise, we would have probably been in the 23% range. So, we will continue to be in the 23% range is what I see for the for the next year, but these are in my view, the right investments because we want to now maintain the momentum of a double-digit growth, and we want to launch this to a different trajectory and I'm not going to spell it out for you. You guys can do the numbers. Our ambition of 50:50 on digital platform tells you as to where we need to head and therefore, what investments that need to happen and I won't be myopic about 1 quarter 1 year to take away what opportunities this company has ahead for itself.

Aliasgar Shakir

Should we expect that by FY25 to then start seeing some benefit out of this?

Kabir Ahmed Shakir

I hope so Ali, and in FY25, if we have more places where we need to invest, then we will come and tell you guys, where we are making those investments and why we're making those investments. We talked about MOVE™. I mean, our portfolio has grown over 100%, Iot over 90%. I mean, these are all markers that tells us that we are in the right direction and we are getting the right design wins for us. If tomorrow our SASE and Security portfolio gives us promise, Media is another exciting place that we are so confident of and that's why we made the Switch acquisition as well. So these are all green shoots that are available and these need support, these need that tender love and care. And we, we have to offer them because they have the ability to scale up to 500/700 Million to a 1 Billion dollar business is on its own in 5 to 7 year’s time.

Chirag Jain

Thank you. So, the next question is from the line from Gautam Rathi from CWC Advisors. Please go ahead and ask your question.

Gautam Rathi

I know, people have been asking you regularly about some quantitative color on the order book and that is where again, my 1st question is a request towards that. If at all there is any kind of quantitative color that you could give, towards the order book, like, even in the fact that what is the Order book that we started with in FY23 and, where are we today even on an annual basis that will be very, very helpful for us to actually see the progress, going forward.

AS Lakshminarayanan

I'm sorry to cut you short, but I think the ask is well understood. I think you're asking for lead indicators. Last time around we did give some indicators of lag in terms of how we are firing our 1 Million dollar customers, I tried to give you some color on even the 1 Million dollar large deals within the order book, it's significantly improved. And the order booking itself has significantly improved. The reason why I haven't given out the exact numbers is there are a few things that happen in our business. In a traditional connectivity as well as sometimes in the next gen connectivity, there is a churn that happens. That, the customers shift offices, or there is a price churn, that unfortunately nappens and that's something is not very predictable yet. So I think we are having to balance that. And then the new order booking that adds on top of it to make up for this, for this churn. So, if I give you 1 number, I must then give you another number which is not very well predictable, because that's based on plan discussions and negotiations that we have. The 2nd aspect of it is the color of the usage business. So, the usage order booking is purely usage based if there is an uptake in usage that revenue goes up, so, even in the order booking, it's very difficult to give a proxy order book on what that usage needs to be.

We've experimented with the different models internally, contributing a smaller value of order book, attribute almost 0 value to the order book for usage. So these are all things that we are doing so that we get better predictability internally for us to govern. So, I hope I'm giving you a color of the reason why it's not that we don't want to give you the color. The reason is by giving 1 parameter we don't want to misdirect you and confuse.

Gautam Rathi

That's very fair and I understand, you are taking your time to be sure that what you share with us is the most relevant information. The only thing is, given something seems to have given you the confidence that it is the time to push the pedal, right? And you are doing that right? Just whatever, if there is anything quantifiable is what I was trying to understand.

AS Lakshminarayanan

I think qualitatively if I said that I think I mentioned that if you look at our overall funnel and order booking in FY23, digital portfolio is 40%. So, which was not the case before. So that would give you a feel for the acceleration of the digital portfolio in the order booking and the funnel. The 2nd is what we classify as large deals, which is a 1Million dollar deal in enterprise segment that has seen a significant growth in the deals, and both in India market as well as the international market, and the 3rd is, as we speak to our customers, we get a sense that of our relevance to them is ever more increasing. Because we are not talking to them anymore, just about connectivity and connecting branches. We are truly discussing with them how the digital fabric can help them in their own journey to build their digital experiences for the customers. So, these are the factors that, I can tell you as to why, our confidence is there.

Gautam Rathi

The PPC and the churn, with respect to that, because those are again two very important parameters that you could associate with relevance. If I were to just take that, if you could give some sense out there and another framework that you've used is 1,3,30, if you were to just overlay that framework, just a few examples out there would be very, very helpful like, where you kind of testing 1 and 3, and, you're now in the phase where you are saying that, it's more like that we are going to push for in the quarter.

AS Lakshminarayanan

So, no, I think that is number of products for customer is seeing an upward trend, even though I am not tracking that metric by itself because even when we had a product penetration of 4 before, I sometimes used to see while the ratio is 4, but the revenue with the customer was small. Because there's no point in doing very small things with 4 products. And that was not very meaningful. We do measure that, but I don't assign too much weightage to that. So I look at more how many customers are at the threshold of a 1 Million dollars and how many 1Million dollars customers do we have and how is that going. We put out that number last year the, and we will put out the number, come the investor day, that we would have in June. You would see the growth in that. So, that's 1 parameter for how we see our relevance to the customer is increasing. In terms of churn that you asked for, I think I included the churn last year. We were able to reduce it through strong actions from the team in the front, supported by all the delivery and assurance functions and we are trying to move that to a more programmatic activity to see how we can engage early with the customers to reduce the churn. But, this is something, it seems to be more of an industry factor that we are caught up in, until we transform ourselves to fully realize our vision of digital fabrics, which is in progress. this churn is going to be there. I hope that answers the question.

Gautam Rathi

So, just the last part, which was the 1,3,30, what I meant out there was, just a few examples where, basically, what I'm trying to understand is you've seen a number of initiatives and what I understood was, you wanted some of them to kind of, reach that hygience levels before you really scale it up.

AS Lakshminarayanan

Are there visible example yeah, so there are visible example see, the 1,3,30 is a very continuing thing. It's not a product at any point in time we'll have several ones because if you look at GlobalRapide™, you know, we started with, a stage 1. We have now launched the GlobalRapide™2.0 have enhanced features, so while the GlobalRapide™ itself is in stage 30, the 2.0 is still in stage 1. GlobalRapide™ has seen a significant growth in terms of number of seats that we won last year, and the number of seats that we are deploying. Similarly, within, the next gen connectivity, we had the IZO WAN and we launched the stage 1 of multiple variants, and that has now reached a stage 30. And we said that our next gen connectivity has seen a good amount of growth. And we are further continuing to expand. So, I think if I were to give a color to you, in the past, we used to say that if a sweet spot of our customers in the international market is any customer having presence in 5 regions and that network requirement is no more than 30% in the domestic market and 70% of the requirement is in international market. That would be our sweet spot.

Because our true strength was then the international connectivity that we offer, and we were not able to fight against the strong, local incumbents. But today, that ratio has shifted, rather than 30, 70 we just won a deal, which is 70% regional and 30% international and that was possible because of these 1,3,30 approach of introducing new products and taking these to customers in a staged manner. We do track how much revenues that we are getting from stage 3, moving to stage 30. And last year of the incremental revenues that we showed. A significant part of it came from the products that moved from 1 and 3 to 30.

Chirag Jain

Thank you. So, the next question is from the line from Vinit Manek from Karma Capital. Please go ahead and ask your question.

Vinit Manek

My 1st question for you, just coming to the depreciation part. So, there was 64 to 65 crores of absolute increase in the depreciation during the quarter. I just wanted clarification that was there any one off during the quarter, in terms of depreciation, or this is a sustainable run rate that we will be seeing going forward.

Kabir Ahmed Shakir

No, there was a one time correction that we actually did in the way in which we use to recognize cable life and the residual value of cable life. I know that was about 40 odd Crores where we took that that correction. So, aside from that, I think it's business as usual.

Vinit Manek

Okay, so it was just a particular 40 crore one off during the quarter in terms of the.

Kabir Ahmed Shakir

Yeah, so we used to have, as per the Companies Act, that we used to recognize 5% of the terminal value and depreciate the balance over the life of the cable and then we took a call since we are not getting in that 5% anyway, when we we decommissioned the cable, we made that change for all the past ones, which are finished life, we have taken the hit. And all the ones which have useful life left over, we have apportioned that, what the rest of the life of the of the cable, and that therefore you'll see a small change in the future until each end of life. But this 40 Crore growth represents the past.

Vinit Manek

So, near term, maybe 2 or 3 quarters, you might still see something like this coming, or it's already done.

Kabir Ahmed Shakir

It's already done, there's nothing more that will come. Whatever will come is going to be marginal, you know, very, very marginal increase insignificant and immaterial.

Chirag Jain

Thank you. So, the next question is from the line from Abhishek Singhal from Naredi Investment. Please go ahead and ask your question.

Abhishek Singhal

My 1st, question effective tax rate in FY23 was 14%. So, what will be the effective tax rate in FY24? And 2nd question, what will be the EBITA margin in FY24 and what kind of growth expectation in topline in FY24?

Kabir Ahmed Shakir

Yeah, I wish we don't give specific numbers as guidance for every quarter or our future years. As we've said, our stated ambition is double digit growth. We have delivered that for the last 3 consecutive quarters and for the full year. And our endeavors to maintain that same momentum going forward.

Our ambition is to stay in the 23 to 25 range and as Ali asked I clarified by FY24 we expect to operate at the low end of the range. For various investment that we are making, and I have nothing further to add other than, you know, please stating and reiterating the same ambition that we have given.

Abhishek Singhal

Okay, and the effective tax rate for FY24?

Kabir Ahmed Shakir

The effective tax rate for FY4 will be better than what it has been in the past of 25 -26%. That is because we have net operating losses in international geographies and as international geographies are becoming more and more profitable, we are utilizing those losses plus also recognizing losses plus also recognizing that as deferred tax asset in our books, it's also an asset that we're creating in our balance sheet so you should be able to see that in conjunction and we hope to operate at a good level of ETR. Exact number I, I'm sorry, I'll not be able to give you that.

Abhishek Singhal

What is the 1 time acquisition cost for Switch Enterprises, which was acquired for 486 Crores in December and when will it reflect in profit and loss account statement.

Kabir Ahmed Shakir

So, this has not come in our books, Abhishek as, Lakshmi mentioned in this call, we expect all approvals to come through and integration to start only in the 1st quarter FY24, so we have not paid any of these things yet until the close has happened. There'll be some costs on account of due diligence and other related ancillary costs that we have absorbed in our current financials.

Chirag Jain

This brings us to the end of the call. I would request Lakshmi to share his closing comments.

AS Lakshminarayanan

Thank you everyone. I just wanted to sya how pleased we are for where we are today, having achieved double digit growth and all the financial parameters that we have outlined in our strategy. We are very well poised for our journey and the strategy remains the same. And we will continue to execute on the same.

Chirag Jain

Thank you, Lakshmi. This brings us to the end of the call. In case of any queries, please write to investor.relations@tatacommunications.com. The recording will be available on our website in the next 24 hours. You may please disconnect now. Thank you.

This is a transcription and may contain transcription errors. The Company or sender takes no responsibility for such errors, although an effort has been made to ensure high level of contextual accuracy.