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Q4 FY2024
Earnings Call Transcript

MAIN Participants:

AS Lakshminarayanan, Managing Director and Chief Executive Officer

Kabir Ahmed Shakir, Chief Financial Officer

Rajiv Sharma, Head, Investor Relations

Chirag Jain, Deputy General Manager, Investor Relations

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Chirag Jain

Good afternoon, everyone and welcome to the Tata Communications earnings conference call for Q4 FY24. 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 2024 have been announced yesterday afternoon and the quarterly data back 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 comments 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

Welcome to Q4 FY24 Earnings Call. FY24 has been a milestone year for the company as overall revenues surpassed the 20,000 crore mark and data revenues the 17,000 crore mark. I am happy to share that our reported 4QFY24 data revenue were up 26.9% YoY for and grew 21.9% on a full year basis. Incremental data revenues for this fiscal year were at INR3,085 crore of which Core contributed 18.5% and digital 81.5%.

Our 4Q FY24 EBITDA is up 2.1% YoY and full year EBITDA was lower by 2%. Our full year EBITDA margins were at 20.2% and 4QFY24 EBITDA margins were at 18.6%. Our Core EBITDA (excluding subsidiaries and the impact of acquisitions) for the year is at 23.7% which is well within our ambition range of 23-25%. Coming to the margins and dip we see this year, there are five factors which have affected and I have talked about these before, these are, our organic investments in people and platform, both in the markets and building the platform, our M&A related expenses this year, consolidation of acquisitions which are loss-making, a drag from subsidiaries and a change in mix revenue to digital. Let me share that we have improvement plans in place across all these parameters that we would see from cost of trajectory from margin side as well as the investment on the growth side. We remain confident about doubling of data revenues by FY27 and we are aware that we need to grow 15%-20% every year in order to make this happen.

While I had called out that our reported Data revenues grew by 21.9% on a full year basis, our underlying data revenue growth for the full year was at 8.8%, tad lower than 10% in FY23 affected by macro conditions. In this context let me talk about our order book and funnel. While funnel continues to be robust, order book has been flattish for the past few quarters and I had call them out before. There are two parts to this order book, Enterprise which is large focus of majority team members of sales and the OTT/SP segments. Enterprise order book continues to be robust; both India and International enterprise revenues have witnessed a positive growth momentum and grown double digit. Our India enterprise revenues grew by 12.6% and our international enterprise revenues grew by 10.5%, with some of the international regions growing more than 20%. However, the other part of order book which accrues from OTTs/Hyper-scalers and the Service Providers has been lumpy in the last couple of quarters.

An equally important aspect is with the CIS portfolio getting larger, a good part of our revenues are now usage revenues, and they don't reflect in the Order Book. As such two aspects that you need to make note of, first that business model is moving towards an element of usage and usage revenues will be cyclical in nature. I want to re-emphasize that Switch and Kaleyra are being run as integrated businesses with our CIS unit and Switch with our media unit and I mentioned before they are all led by one leader-age as an integrated business. Customer opportunity is being looked at holistically as opposed to looking at it from an individual product lens. Moreover, new business opportunities are being taken up by Kaleyra as it is our go to platform for our CIS ambitions going forward and this started happening even after some of DIGO opportunity is done on Kaleyra paper in the last quarter as well. Incrementally the health of the overall business will not only be governed by order book, but it will be a combination of order book and usage.

Coming to our Digital Portfolio performance. Our Q4 Digital Portfolio revenues stood at INR2,082 crore, growing strongly at 71.6% YoY. For the full year, the Digital Portfolio grew by 55.4% on a reported basis and by 14.7% on an underlying basis. Our Digital Portfolio have grown at 2-year CAGR of 37%and all parts of the portfolio have delivered with Next Gen growing at a CAGR of 30%, Cloud at 21%, Collab & CIS at 40%, Media at 64% over the last 2 years. Media excluding Switch has grown at a CAGR of 21%. Our Collaboration and CIS portfolio excluding Kaleyra has a 2-year CAGR of 5%. This is a complete reversal of a declining trend this business faced till FY22.

A couple of thoughts on our medium-term aspirations. We remain confident about our data growth ambitions as it continues to be driven by our expanded portfolio of capabilities as well as our increasing customer relevance. Our acquisitions and organic capabilities have made our digital fabric more relevant to enterprises today as we help them solve challenges with their cloud strategies and simplifying their network transformations. There has been slowness in decision making which has hurt growth but with our expanded portfolio we are very well prepared to benefit as macro starts improving. Our medium-term structural drivers continue to be our India market leadership, our expanding scale in international markets, our increasing customer relevance and our new product rollouts including AI cloud. One of the other growth catalysts for us has been the acquisition of new logos and in FY24 the new logo revenues were up 90% YoY, albeit a smaller base testifying our increasing relevance across domains.

To summarize, we believe that our global digital fabric is a powerful concept which enterprises, especially in the international markets are beginning to realize. With our network fabric, cloud fabric, customer interaction fabric and IoT fabric we are addressing a large number of problems that enterprises are faced with and our digital fabric is coming out as a reliable, agile and resilient solution to them. We are confident about the larger opportunity and with this strong conviction, we will continue to improve and derive value of these investments and continuously augment our capabilities.

With this I now request Kabir to share financial highlights.

Kabir Ahmed Shakir

Thank you, Lakshmi. Good afternoon, everyone.

To begin with, FY24 has been an eventful year for us. The year saw the Fit to Compete and the Fit to Grow pillars of our Financial Strategy come to life. Our focus on driving profitable growth, strengthening our balance sheet laid the foundation to enable us to complete 3 acquisitions in a single year while investing incrementally in our organic capabilities. Some of these inorganic and organic investments were solely on the back of internal cash accruals. We are encouraged by the early success we witness as the integration of Switch with our Media business; and Kaleyra with DIGO is progressing well ahead of anticipated timelines. Our financial KPIs have departed because of strategic actions we have taken, that said their performance is in line with our expectations. As we harvest revenue and cost synergies from these investments, we will see these indicators come back to their ambition range over the medium term.

FY24 was a historic year as we delivered the highest growth in our Data Portfolio, coming in at 21.9%, and crossing the 17,000 Crore mark for the first time ever. Our FY24 underlying data revenues grew by 8.8% on a reported currency basis. The reported revenue numbers this year continue to have certain forex benefits accruing from a strengthening dollar. Normalizing for Forex, our underlying data revenues grew by 6.6% YoY and the positive impact on consolidated EBITDA margin is seen at 20 bps. Our reported EBITDA came in at 20.2% this year on the back of investments in our organic and inorganic capabilities. Our Core EBITDA (excluding subsidiaries and the impact of acquisitions) for the full year is at 23.7%, which is well within our ambition range of 23-25%. Our ROCE came in at 18.8% driven by the impact of a rolling 12-month average of our EBIT performance, which has an element of dilution from our inorganic investments over the last 6 months and increased capital allocation for organic opportunities. The ROCE numbers will witness a further dilution over the next 2 quarters as the full impact of Kaleyra gets baked in.

Going forward as we benefit from the synergies from our acquisitions and begin realizing operating leverage from our organic investments, our profitability will improve further. On the KPIs it will be fair to say that the first improvement you will see is on leverage, and this quarter there is a marginal improvement. This will be followed by improvement in ROCE, and EBITDA margins. Our focus continues to be on creating elbow room and capacity for multiyear growth as we have to be ready to participate in new opportunities including AI cloud, multi cloud connectivity and CloudLyte.

Now coming to our quarterly performance. Our Consolidated Revenue for the quarter stood at INR5,692 crore, improving by 24.6% YoY and 1% on a sequential basis. Data revenue for the quarter stood at INR4,656 crore, improving by 26.9% YoY and by 0.8% on a quarterly basis. Our EBITDA margins for the quarter were at 18.6%. Our PAT margins for this quarter stood at 5.6%. We have provisioned for a deferred tax asset this quarter amount to INR186 crore on account of an assessed recoverability of the past tax losses, as we redomiciled our international business from Bermuda to Switzerland. Our cash from operations for this year was INR2,829 crore and FCF for the full year was INR747 crore.

Net debt for the quarter stood at INR9,126 crore and net debt to EBITDA is now at 2.16x. Cash Capex for the quarter stood at INR435 crore, though our approved capex is close to INR1,131 crore largely driven by our commitment to invest in new opportunities and technologies underpinning our consistent focus on investing for growth.

Moving to subsidiaries. TCTS revenue improved by 9.1% on a full-year basis. Our Payment business is now a 98% Franchise Model, which has helped improving the business margins over the last couple of quarters. This quarter the margins came in at 13.2% against 9.4% last quarter.

Our energies on a continuous basis are oriented towards driving the right capital allocation across the organization with an eye on return for every penny invested. With a robust capital governance framework in place, we are investing in the right opportunities to help us stay ahead of an ever disruptive technology curve. Our investments today are helping us participate in megatrends such as the AI, Cloud, and enhanced collaboration experiences. At the same time, we are also optimizing resources through an ongoing strategic review of our businesses and subsidiaries. We are confident that these levers will sharpen our moats and help us improve our margins trajectory in the medium term and deliver the right value to our customers and shareholders.

I will now ask Chirag to open the forum for Q&A.

Chirag Jain

We will wait for a minute for the queue to assemble. The first question is from the line of Sanjesh Jain from ICICI Securities. Sanjesh, you have been requested to unmute. Please unmute yourself and go ahead and ask your question.

Chirag Jain

Sanjesh you have been requested to unmute. Please go ahead and ask your question. We are unable to hear you.

Sanjesh Jain

Chirag, can you hear me please?

Chirag Jain

Yes, please go ahead.

Sanjesh Jain

Sorry there was some technical problem. Good afternoon, everyone.

AS Lakshminarayanan

Good afternoon Sanjesh, go ahead. Not sure if your connection is bad. We can't hear you. Why don't we take the next one and come back?

Chirag Jain

Next question is from the line of Balaji Subramanian from IIFL Securities. Balaji, you have been requested to unmute. Please go ahead and ask your question.

Balaji Subramanian

Am I audible?

Chirag Jain

Yes, Balaji, you're audible. Please go ahead.

Balaji Subramanian

Good afternoon and thanks for taking my question.

My first one would be a bit on the housekeeping side. If I look at the EBITDA performance of Switch and Kaleyra, there seems to be a INR110 crore negative swing, quarter on quarter. So, could you share some light on what exactly resulted in this? Is it some kind of one-time severance cost or one-time restructuring cost or something? And how should one look at it going forward? That would be my first question.

The second question is more on the collaboration and CPaaS portfolio. So, one can see that on an organic basis, your quarterly revenue in this part of the business has been between INR380 and INR430 crore for the last few quarters. And why is it kind of stuck at that level? And the other related question would be on CPaaS itself. Globally, if you look at CPaaS, the revenue growth seems to be coming off, be it the likes of Twilio or be it the likes of Tanla and Route Mobile. So what are the new capabilities that you think will become key in terms of driving growth going forward? Thank you.

AS Lakshminarayanan

Balaji, I think maybe the first question, Kabir, you want to take the EBITDA?

Kabir Ahmed Shakir

Let me then answer the first question, Balaji. I think it is both a combination of Switch and Kaleyra, which has resulted in the swing. But let me take Kaleyra because that is probably a significant portion of the swing that we talked about. That is as a result of about three, four elements. And none of them, let me state upfront, is a cause for worry.

The first is, I think, once we start integrating Kaleyra and you see a full four quarter go through, then I think the intimacy on understanding the seasonality of the business will be a lot better for all of us. Q3 is indeed always a good quarter with a lot of festivals and a lot of activity, you know, happening for that kind of a business. So therefore, I would say the seasonality indeed has an impact on the net revenue margin. And that was one contributor in Q4 that it was lower than last quarter. The second contributor is, I would say, as we are integrating, we are harmonizing our policies on multiple things, on accruals, on recognition of costs, on PDD and expected credit loss. All of those policies, harmonization that we do in line with Tata Com, which is, I would say, the second reason for that shift.

Finally, I would say there have been some, one off legal expenses that we have provisioned for, and that is not uncommon in a large US listed public company takeover. So, which has actually come through in the second quarter. I would say these are the three large reasons. Restructuring, since you mentioned it, let me clarify. There is a little bit of restructuring there, but we have taken it below the line as exceptional items, and it is not impacting the EBITDA numbers. I hope that that clarifies.

AS Lakshminarayanan

On the second part of the question, you had two parts to the second question on the collaboration and CPaaS. You said the organic is stuck between a range and not growing. One of the, the whole collaboration business itself has multiple colors to it. It has got, it's the traditional GSIP. We had Cisco Power Solution. The other one was the Microsoft Team Solution that we have, and we had newly launched another product called Jamvee. So, these are the main ones. And there, I think the GSIP revenue with the switch to apps had seen a decline post-COVID and was continuing to decline. It got stabilized with our introduction of the Global Rapide, which we combined all of these into a platform business and more into a fixed revenue business as opposed to dependent on usage, and that's stabilized, but has not grown well.

So, I think there are many factors, but I think we are looking at launching with Microsoft a product in India, and we'll be a partner to launch that. So that will hopefully give some fillip to that business. The other part is the collaboration in CPaaS. We have reported last year, the DIGO, which we launched had, you know, in percentage terms, grown very well. But this year, right from the Kaleyra acquisition, the DIGO business teams and the Kaleyra business team started working immediately upon close. And some of the deals in the pipeline that would have happened on DIGO has happened now on the Kaleyra. So it's difficult to split the organic numbers in a sense. So, these are some of the reasons. We are aware of the collaboration, the Global Rapid portfolio has had ups and downs, and we are ongoing process to revitalize that portfolio.

On the CPaaS, your question and observation that the growth is coming off with many global players, and you're right. I think the global players, they publicly stated that they want to focus more on profitability. I think purely being on the SMS side was a race to the bottom. And I think, in my view, there is some sense prevail there to see and bring focus back to profitability. And in that sense, many players have focused more on profitability than growth. The way we are looking at our business is more as an interaction business, a combination of SMS, programmable voice, emails, multiple channels. And we are also building layers of software on top of these channels to bring more orchestration and intelligence on that. So, we will be continuing to invest to build these new capabilities. It's our view that enterprises, in the way they interact with consumers, are fragmented today across multiple channels. And we have an opportunity to position a more converged and intelligent platform that orchestrate across multiple channels. So that is where we will invest. And that is where we believe will be new opportunities, besides the channel expansions from SMS to WhatsApp and others. We will focus on both dimensions, increasing the channels and also enhancing the platform.

Balaji Subramanian

Okay, I had a quick follow-up for Kabir. So you did call off some one-off legal expenses.

So could you please quantify that? And also, on the seasonality front, one can see that, at least at the gross revenue level that you have reported, that doesn't seem to be the case. There has been a QOQ growth. I do know that part of it is because the acquisition was consolidated maybe only for 85, 86 days a quarter. But at least at the revenue level, things don't seem to have come off materially.

Kabir Ahmed Shakir

The legal expenses so far are shy of a million dollars, which is what we have actually provisioned as of now. And all the other things, there's a lot that you need to lift under the hood, to understand the revenues NR mix, Balaji. So, it may not be visible for you. So, it's quite visible. Yes, you're absolutely right. It's a usage business. So 80, 85 days was indeed one of the elements which get in there. But I would say when you look at it, NR mix is indeed proving an element, that's also a sizable portion of it.

Chirag Jain

Thank you, Balaji. The next question is from the line of Mr. Mayur Magar from Aegon Life. Mayur, you have been requested to unmute.

Chirag Jain

Please go ahead and ask your question. I think Mayur is unable to join the queue. The next question is from the line of Sanjesh Jain from ICICI Securities. Sanjesh, you have been requested to unmute. Please unmute yourself and go ahead and ask your question. Sanjesh, please go ahead. Sanjesh, we still see a technical issue at your end.

Kabir Ahmed Shakir

Do you want to disconnect and log back again, Sanjesh?

Chirag Jain

The next question is from the line of Mr. Vibhor Singhal from Nuvama Wealth. Vibhor, you have been requested to unmute yourself. Please go ahead and ask your question.

Vibhor Singhal

I hope I'm audible.

Chirag Jain

Yes, Vibhor, please go ahead.

Vibhor Singhal

Yeah, thanks. Thanks for taking my question. So, a couple of questions, one on the growth part and one on the finance part for Kabir.

So, Lakshmi, on the growth part, just wanted to pick your brain on two things. How do you see the cloud business shaping up? I think this year was not a great year, not just for us, I think, but mostly the overall IT services vendors as well in terms of cloud adoption and deals also kind of going slow on the macro front. So how do you see that playing out in FY25? Any green shoots in pockets where you could probably highlight or what is your outlook for that segment, let's say, in this year? Secondly, on the CPaaS side, just wanted to understand, I think, I mean, post-COVID, of course, during COVID, of course, we saw a very sharp pickup in this industry overall for all the players, which has kind of died down right now.

What is the pricing environment in this domain like? Is there still cutthroat competition, which is continuously creating a pressure on the pricing in this segment? Or as you mentioned, as more and more players are focusing on profitability, is there any scope of stabilization of prices or maybe an uptick because of new platforms coming in? If you can answer these two questions, I'll probably have a couple of follow-ups for Kabir.

AS Lakshminarayanan

Thank you, Vibhor. On the cloud side, we are largely focused on India, while we do have some customers that we serve internationally. On the, our view of the cloud adoption today is not complete. I think there are many still on-prem users that are, and we are trying to position our cloud as a purpose-built cloud that is multi-tenanted, which has the flexibility and offers all the benefits of a private cloud to the customers. And we say that over a three-year period, our TCO will be much better than any public cloud player. It's been, you know, it's achieved a reasonable scale. Where we are operating fairly, national, mission-critical applications on our cloud. So, it's proven in space, the technology and our engineering capabilities and services.

What we are doing to sort of boost the growth, one is the macro that you called out that is there, but from our side, we are preparing to strengthen our industry cloud, where we have a government community cloud, we have a financial services cloud, which is compliant with RBI. So, we are strengthening these areas. And similarly, our Kubernetes and analytics cloud capability and the storage capability.

So, these are all the things that we are investing and strengthening and repurposing the teams in a way that they can take this to market more effectively. So, we are using this period where there has been slowness to organize ourselves and preparing for the future. But the potential is still large because not everyone has moved to the cloud.

The second aspect of this is, you know, some of the workloads that cannot move to the cloud for various reasons, because they need to be on-prem, because they don't want to incur a large amount of network backhauling costs and the latency associated with taking to some place and bringing it back. Or, you know, they cannot afford a failure in an application, not being able to be accessed because there is a network failure or a failure on the cloud side. We are keeping all of them on-prem. So, the classic cases in point are manufacturing, for example, some of the manufacturing execution systems. Many people have it on-prem. Some of the store systems are on-prem. So, there we are launching our Edge product to make sure that these workloads can operate at the Edge. So that is something that we are preparing ourselves. We've already launched it in our media business, and we'll be launching it for other segments soon.

Many customers are in the early stage one usage of these products. So that is how we are preparing ourselves for the upcoming cloud wave. And of course, the AI cloud will be another game changer on its own. So, this is how we are preparing our business for cloud and Edge. On the question of CPaaS, you're right. I think there are, I didn't mention, I think people are, it's public information, that some of the major players announced that they wanted to focus on margins.

Internationally, we are seeing that play out. But India market is, as you say, is still, I think you used the word cutthroat and you won't be too incorrect with that statement. So, our positioning in this needs to be, as I called out, to expand to channels other than SMS and vertically expand to software layers above the channels to bring more orchestration, to bring more intelligence to interactions.

Vibhor Singhal

Got it. That was really helpful. Just a quick follow-up on the cloud question that I had.

So typically, we have seen that in any of these technology adoptions, be it cloud or analytics or basically RIMS before that, Indian enterprises tend to basically adopt a new technology with a lag of at least two to three years. It's historically been the case. Do we see that playing out in the case of cloud as well? Are the Indian enterprise at least, I mean, at some years behind their global counterparts in terms of cloud adoption or let's say in terms of moving to public cloud vis-a-vis the private cloud that they are kind of focusing at this point of time?

AS Lakshminarayanan

I haven't seen the data, but clearly yes, there has been a lag, but in a way that lag is good as well because internationally what we are seeing, people who move to public cloud are now having second thoughts because the costs of public cloud have gone up. It is easy to get in, but there are other costs that hit them as they grow. So, I think that should be an opportunity for us to address that properly in the Indian market.

Vibhor Singhal

Sounds good.

Thanks, Lakshmi. Thanks for answering my questions. Kabir, just a quick two questions.

One is you mentioned that the cost, the legal expense cost that has been provisioned up till now is around $1 million yet. So are there any more expenses that we are expecting in the coming quarters or are we done with most of them? And secondly, last quarter we spoke about basically getting our interest cost down by refinancing of some of the bonds or expensive debt that we have on our balance sheet. Any progress on that? Or if you could give maybe some kind of a timeline when we are looking to maybe execute that?

Kabir Ahmed Shakir

Two things. I mean, look, legal, I can only tell you what I know. I mean, if something comes up, you know, I hope it doesn't, but if something comes up in future, then it comes up. So, I can't speculate that for now, Vibhor. So, these are, I mean, all of them are in public domain. I mean, there's nothing that which is not privy to all you guys. I'm sure you've searched out, you'll know what are the things that are there from Kaleyra, whether it's the warrant holders or otherwise, which are in there, which we need to defend, which we will.

On the refinancing part, yes, we will be doing it. It will be imminent, you know, anytime soon. And once that is there to be, you know, declared, we will, you know, come out. We are looking at, we've already, I mean, signed or rather, you know, with the consortium bankers in terms of when we will do, and we will execute in the next couple of weeks. And when that time is there to announce, we will announce that, you know, as well. And you're absolutely right.

It will be refinanced, you know, at a rate which is, which will be, you know, more attractive than what we did the lines of credit when the $ 200 million refinancing we had to do for the bond repayments that we did in end of November for the Kaleyra bond holders.

Vibhor Singhal

Got it, got it. That's great to hear.

Just last thing, I'm assuming the guidance for FY27 in terms of doubling our data revenue, margins, ROCE and leverage, they all remain intact.

Kabir Ahmed Shakir

Absolutely, they all remain intact. As I mentioned in my speech, we will get the debt to the leverage ratio much faster. In fact, we made a marginal improvement. Last quarter was 2.2X, 2.21X. This quarter is 2.16X. I mean, in FY25, it will come under 2X. So that's not an issue.

ROCE is not at bottomed out because it's a 12 month trailing, that's the formula. So, you will have two more quarters where you will see a little bit of a deterioration in ROCE and then it will start coming up. So, that will happen the following year and EBITDA will be the last one to come back to the range of 23 to 25%, completely committed on all three parameters as it stands today.

Vibhor Singhal

And the growth as well, doubling of data revenues.

Kabir Ahmed Shakir

101%, yes. That's the main and the most important one. Completely committed. You know, Lakshmi made it very, very clear.

We remain confident of the opportunity we have. We remain committed to doubling our data business.

Vibhor Singhal

Got it, got it. Thank you so much. Thanks a lot, guys. I wish you all the best.

Chirag Jain

Thanks, Vibhor. The next question is from Sanjesh Jain from ICICI Securities.

Sanjesh, you have been requested to unmute. Please unmute yourself. Go ahead and ask your question.

Yes, Sanjesh, please go ahead.

Sanjesh Jain

Yeah, can you hear me now?

Chirag Jain

Yes, Sanjesh.

Sanjesh Jain

Thank you. Thanks for taking my question. I got a few of them. Lakshmi, first on the digital piece as itself, it appears that the entire segment has significantly slowed down and now we are at a 5% YOY growth. Two quarters back, we were at 24% growth. There's a material shift in the growth rate, what we were looking at. And we were hoping for an acceleration with a solid funnel and the order book we have today. How does it look for FY25? Where do you think FY25, we will end up with whatever order book funnel we have today? Are we confident of delivering the 20% plus growth next year with the order book and funnel and the visibility we have today on this business?

AS Lakshminarayanan

Yeah, so Sanjesh, on the digital, I have been calling out on the order book. We have said that our funnel is good, but the order booking is slow. That is what I had called out. And I'm still in my commentary. There is slowness in decision-making. The only thing that was contrasted with saying that in our enterprise side of the business, we grew close to 13% in India and a good double digit in international markets. Despite macro conditions that enterprise business in the international markets face. On the going forward basis, I think there are a few things that we have to keep in mind. It's not as though macro conditions have suddenly improved. If anything in the US, with inflation and possibility of interest rates not coming down, there is going to be more caution and the other geopolitical conflicts that are there. So, the caution is going to be in the air. So, I think there is no doubt.

I think the bigger picture that I see in all my interactions with the customer is, are we? The proposition that we are making to customers, is that appealing to customers? Are we now able to engage at senior levels with customers where they see the traction? I think clearly yes. Our awareness in the international markets is still very low. And we have to increase that awareness. And with increasing footprint of sales, we have, the standalone is not enough. Our participation levels will increase as the macro conditions ease. And then the opportunity for us, is the need still there for customers to transform the network? Are we still relevant in that space? We are very relevant, especially with our new products of cloud networking. There is even more relevance.

Sanjesh Jain

Okay, that's fair. That's fair, Lakshmi. Just stripping out digital a little bit more.

Within the four sub-segments, where are you more confident? Is that next-gen connectivity? Are we more confident or cloud hosting and security? Because these are the two lines, as you articulate, looks to be much more on the stronger footing than the remaining two. Will that understanding be fair?

AS Lakshminarayanan

I think next-gen connectivity, clearly, we have seen the growth. And even there, as you called out, the momentum of growth in the last two quarters has come down. The characteristics of next-gen connectivity is the time period from order booking to turn up of the revenue is a bit longer. Because we have to implement the network, implementing SD-WAN across multiple sites to take time. So, the time taken. But if you ask, that's a large portfolio and that growing will help us to shift the needle. So, we are clearly focused there. The cloud and security is also large, but the cloud is largely in India. Security is a mixture of India and international. And we are doubling our focus in the international markets by taking some of our cloud SOC opportunities there. So that is a critical opportunity.

The third is the interaction fabric, because we have invested in Kaleyra. We see a lot of excitement from customers, because Kaleyra has a powerful platform. Combined with the brand of Tata Comm., there is a lot more confidence in using the platform. So, we see a lot of opportunity with customers. And as I said, we are going to be further investing in the platform. Besides realizing all the cost synergies that we see, we are going to invest in the platform to build out the software layers for orchestration and intelligence. So that is our third. The fourth is IoT Fabric. And Sanjesh I don't want to call out any particular segment to say, you know, they could be focusing more and less same. All four are equally focused. They are run by separate teams. And we are allocating. Thank you Sanjesh.

Sanjesh Jain

Sorry, I think there is some gap in between. There were blanks, but I got the broader message. The next question on the India business, Lakshmi, that looks like, India business has significantly deteriorated or decelerated to 5% kind of a growth. I hear that there is an increased competitive intensity in the Indian market. Do you believe next year could be a fierce competitive year and India market may struggle to grow? Do you see that scenario panning out?

AS Lakshminarayanan

I have called out India. We have grown 13%. So I don't know that. Revenue into enterprise market. The enterprise.

Sanjesh Jain

So 13% is only for the enterprise, Lakshmi, I guess. Overall, India piece has grown only 5.8%.

AS Lakshminarayanan

Yeah, so that's why I did call out the service provider and the OTT segment there. In the OTT segment, we put large hyperscalers and others into that segment. And then I think the context is these people had invested in a lot of capacity during COVID and post-COVID. And there was some moderation, and it should pick up again with them investing in more data centers. It should come back up again. So, I think that's more of cyclical nature. But the focus on enterprise is the top-most focus and we are very happy with the 13% growth. I think we can do more with our expanded portfolio and we'll be pushing for accelerating that further.

Sanjesh Jain

Got it, got it, got it. I got couple of questions. Sorry for you. I'm pulling it a little bit more. But on Kaleyra and Switch, what has been our YOY growth for us because we don't have a comparable number for last year. Can you help us understand how have we been growing on those both businesses?

Kabir Ahmed Shakir

You know, Sanjesh, let me chip in here. You know, although we call out underlying in data revenue at 8.8% and including acquisition so much. If I have to be honest, you know, about it and this Lakshmi alluded in his qualitative description, we are running this business as an integrated business. So let's say Kaleyra, right? We are stripping out, you know, all of Kaleyra's, you know, numbers as acquisition and reporting the balance as underlying, which is a little unfair. Why? Because we had a DIGO funnel, which before the acquisition, and now we are looking at which is the best way, you know, to serve our customer. And in majority of the cases, we are going, as Lakshmi has pointed out, we are going with the Kaleyra paper, right? We are selling that product. So, and the same with Switch as well, right? We are going in a combined way together. And even from a structure point of view, we have one common leader for these businesses who are looking at these products as one integrated offering, you know, to the customer. So, after a point in time, we are like splitting hair, you know, to then say, you know, what will be separately this growth without that and stuff like that. I mean, I am still reporting it for better governance and transparency to the street because one of them, you know, came to us with money having been paid to acquire that capability.

So, 12 months, for hopefully Switch, you know, that problem will stop in May. It will have completed the 12 months and we will get into a completely regular, you know, way of reporting growth. And it will take six more months for Kaleyra. And in Q3 of FY25 onwards, then you will see all that completely normalized. So it is a little difficult, you know, for us to peel that out.

Sanjesh Jain

No, no, got it Kabir. My only intention of asking that question was to understand with Kaleyra in place, because that is a heavy portfolio, will the 20 percent growth become a difficult if Kaleyra does not grow by 20 percent?

AS Lakshminarayanan

Life is not easy, Sanjesh.

Sanjesh Jain

No, no, because we are just hearing that globally the CPaaS business is going bit of slow growth.

AS Lakshminarayanan

So, I think the market, see, we can only look at, keep an eye on the future. My belief is that, you know, the B2C players, their interactions with the consumers are not going to decrease. There is going to be more channel diversity. That is what is going to happen. SMS will decrease today, 99 percent of the interactions or 95 percent of the interactions are all on SMS channels. That will diversify into other channels. And as I said, we will, we have already diversified into other channels.

We will further diversify with other capabilities. And we have to build out the stack on top, which is where more value added offerings will be there for customers. And that will also help us to deliver better margins in the platform. So that is what we need to do. So in the long run, you know, I don't believe the interactions with consumers are going to be reduced in any form or shape. It is only going to be increasing. Only the channel diversity is going to happen.

Sanjesh Jain

No, fair enough. Just one last question from my side. We are today at 18.6 percent margin. The ambition is to be in 23 to 25 percent range. Can you help us understand the bridge, what is going to try or what are the levers for the margin we are looking? Because the mix is only going to deteriorate towards more digital in terms of margin profile. I understand ROCE profile will improve. But what are the levers are we looking where we already have few tracks on the margin?

Kabir Ahmed Shakir

I will take that, Sanjesh. Sanjesh, we are confident we will get back to the 23 to 25. Multiple moving parts within that. First and, you know, foremost, you should see a good improvement in FY25 itself. So, these are all not back-ended to FY27. So you will see that already, you know, next year, you know, a little bit of an improvement as Lakshmi, called out. We did spend money on M&A, not just the impact of the acquisitions, but also cost that was actually spent on due diligence and, you know, fees and stuff like that. So those elements will come off, which are not going to be there.

Second, we have obviously spent a lot of money in terms of our organic, you know, investments in the 0, 1, 3 stage. Those should give me operating leverage, you know, as well. And that should come back because I'm not going to continue to spend money on them. You know, I will be looking for growth and revenue, you know, coming in from there. So, the NR margin should directly flow into, you know, into LOB and into EBITDA. So that's, I would say, the second lever. And the third one is, you've seen, you know, we've, you know, done some strategic review, took a call, a hard call on one of our subsidiaries, TCTS, on getting out of an onerous contract. Our TCPSL business is, you know, is doing well already. We've, you know, moved the profitability needle up, you know, significantly. Likewise, there are other elements also, which we will, you know, be more sharper focussed and sweat it out. So, I would say multiple such levers that we will, you know, play into the picture and bring that entire thing.

Sanjesh Jain

Got it. Do you see net profit margin improving or you think it will be below the net profit, the leverage will be more for us?

Kabir Ahmed Shakir

Sorry, you want to say net margin?

Sanjesh Jain

Net revenue margin.

Kabir Ahmed Shakir

See, net revenue margin, you know, your, that's your point is right. Net revenue margin will have the dilutive impact of the change in mix as we drive digital portfolio harder, right? Because they come at a lower net revenue margin compared to the core connectivity business. So there, there's going to be headwind. And the way in which we are managing is that inter-tower, inter-business headwinds, you know, the businesses themselves need to take care of. Inter-company, you know, within the company level, what headwind is there is what should get offset by the operating, leverage.

But as we mentioned earlier as well, we have a glide path for each of them. Now the glide path is whether it is organic operating leverage or whether it is cost synergies coming in from the M&A or revenue synergies then flowing in, you know, into margin. You know, I think all of those levers are there by product category and we haven't broken it down, you know, to a more granular level by drivers as well. And that is what, you know, the governance that we follow to get them to the destination margin.

Sanjesh Jain

Fair enough. That's great. Thanks for answering all my questions. Best of luck for the coming quarters. Thank you, Sanjesh.

Kabir Ahmed Shakir

Thank you, Sanjesh. This is from the line of Mayank Babla from Enam AMC. Mayank, you have been requested to unmute yourself. Please go ahead and ask your question.

Mayank Babla

Yeah. Hi. Am I audible?

Chirag Jain

Yes, Mayank. Please go ahead.

Mayank Babla

Thank you for taking my question. So, a while back you had announced, you know, Tata Comm.'s partnership with NVIDIA. I was wondering if you could give us some detail about this partnership, you know, the nature of it and the scope or potential it has for us.

AS Lakshminarayanan

Thank you. I won't be able to give a lot of details at this stage, Mayank. What we are doing is, you know, there is a solid partnership that is emerging. We are working very closely on the various aspects of the architecture and the build-out. And we'll be preparing ourselves for launch during this year. And there's a lot of good interactions that happen in terms of, you know, the use cases and very many things.

So as far as our ambition is concerned for AI Cloud, we believe AI has a huge potential. And in India, particularly with the launch of our AI Cloud, we will be able to help and move the needle. The government has announced, you know, a huge commitment to use AI as well. A lot of startups and enterprises, they have to go through the maturity curve or from the hype that is there today to actual use cases and training with their data, get more data discipline and make use of all of these. So there is a big potential. And we think that even the AI Cloud, even though it will be built in India and launched in India, there is a potential for even international customers to use this in due course. So, we are quite excited about the opportunity and we are working very diligently in going through all the details, making sure the launch is successful.

Mayank Babla

Sure, sure. Thank you so much and best of luck.

Chirag Jain

Thanks, Mayank. The next question is from the line of Mr. Gautam Rathi from Chanakya Wealth. Gautam, you have been requested to unmute yourself. Please go ahead and ask your question.

Nishit Rathi

This is Nishit Rathi from Chanakya Wealth.

Lakshmi, I think I missed the number, but you said that you added of the number of new logos you added, you gave a percentage. Could you just just help us understand that that the number was something like 90 percent?

AS Lakshminarayanan

Correct. I know I talked about the revenue growth in new logos is a 90 percent. Now, there are there are a few things we have done, you know, from the sales teams. We had brought about a team that focuses purely on going after the new logo and that has helped us in a way. And that focus helped us in acquiring new logo. And secondly, is the quality of the new logo that we get as well in terms of what revenues we get. So that's been a change that we did last year in terms of how our sales teams got organized. And that is what I was reporting. And I think the one thing we have to keep in mind is, you know, it's starting off from a fairly low base, but it's delivered good results as a result of the focus that our sales team has brought about.

Nishit Rathi

And luckily, if I understand it right, what you're basically telling us is that the most structural part of the business, which is your enterprise business is seeing decent traction and is growing well, though you would want it to grow faster. But it is the more cyclical part of the business, which is kind of right now a bit more impacted. Is that is that understanding right? And how and historically, when you've seen you must have seen many of these cycles, how much time does it take for it to come back and can it come back pretty strongly whenever it does when the cycle is correct?

AS Lakshminarayanan

I think your observation is your observation is very spot on. I think the enterprise business, both in India and internationally, is quite good. And as you called out, it's not as fast as we would like it to be, but it's still seen good growth. The growth got pulled down largely from our OTT and the service provider segment. I wouldn't call them cyclical, but what has happened, especially with the OTT segment is as I mentioned earlier, I think there was a lot of capacity that they had built. And also last year, they focused more on that build out of data centers and others. And therefore, the growth on the network side didn't happen for us as much as the previous years. So, and also the OTT business in some parts, we also had you know, the messaging business, which had some cyclicity. The other part of the question is also if you look at our portfolio, the next gen connectivity had very good growth. The cloud and security also had double-digit, even though it's not as much as in the past. The collaboration, as was observed earlier, has been static and there are many moving parts in that we sort of revitalize that portfolio with a very combined Global Rapide, which is a G-SIP, a Cisco and a Microsoft, that are moving parts in that business that happens. And we were prepared for that business to be of a lower growth, which is why we started investing in Digo at that time.

And therefore, we focus more on the customer interaction side on the Global Rapide side. We believe the growth will come back. We've also invested and launched in a product called Jamvee. They're all in very early stages, so they should come back. So each of these portfolio has a different rhythm within our company. Some of them are affected by the macro as well. So it's a combination of factors. But as I called out the four fabrics in the company, we will continue to invest in all the four fabrics. The big chunk of focus needs to be in the international market, which is where there is a lot more of headroom for growth purely by the size of the market. But the international markets also have strong incumbents, and we are looking to replace the incumbents to the power of the offer that we have and the capabilities that we bring to the table. And we are seeing that steadily happen. Clearly with our brand as I said, the awareness levels are very low.

I mean, interestingly, in one of the products we did a test, and the awareness levels are low. And I think we need to improve our awareness levels. Despite our investments to increase the sales headcount and the strength there, it's nowhere sufficient to reach the full aspirational potential. And therefore, we will be increasing our marketing spend. We will have to continue to spend on the sales and increasing the capacity of the sales and gearing our teams to do more larger deals, which means that they do take time to shape, they do take time to close. So, we will have to get used to all of these cycles, but the opportunities are there.

Nishit Rathi

Sure. And Lakshmi, I just wanted to understand, is it possible that there are certain deals that have been won, which are because of the slowness in the market are taking time to scale up or is there certain pressure on the usage side? I'm just trying to understand, you know, see, there are two ways that the revenue comes back, right? One way is you win new deals and they will show up in the subsequent quarters eventually, right? And the other thing is there are certain parts of it, you know, we are lapping certain quarters where certain parts of the portfolio started slowing down a couple of quarters back and, you know, once they come into the base, the base impact will come out of it. Or the third is, you know, that the usage or certain deals start scaling up.

So I'm just trying to understand if you could give some sort of color as to how should we think about it? The drivers of growth for maybe specifically FY25.

AS Lakshminarayanan

So FY25, you know, largely the focus and the drivers of growth would be the next-gen connectivity, whatever we booked the orders last year, as we start to deliver, the revenues will come. Hopefully, you know, the order booking will improve as the conditions improve because parts of what we book in-year, gets realized in the year itself, especially if the order booking happens in Q1 and Q2. So we are hoping that conditions will improve and we can do that. In the usage side of the business, you know, it's more about, you know, acquiring new logos, going to the existing logos to diversify the channels beyond SMS. And we are seeing, as I said, you know, with Kaleyra particularly, with Kaleyra and Tata Comm. now working together, the leadership is in place and the motions of how we take it to market is falling into place. So with that, we will see some acceleration. We are acquiring customers, but it is also a factor of how these customers actually ramp up and put their traffic to our platform. So there are a couple of dependencies to it, but we'll have to work through those factors. I think there was a question on the cloud. I did mention, you know, there was a, as everybody else, we also saw a slowing down, but we were still at a good double digit on the cloud and security portfolio. And as things improve, we believe that should accelerate. So, you know, the way, that is how I would see how it will shape up. And I did say that the order booking had slowed down, which will have an impact.

But we also have, you know, a lot of organic business growth possible in the usage side from Kaleyra, the Switch integration, which brings the occasional use, the number of events that we do in the media is increasing, and that should help us as well. So different portfolios will have different cycles. And we are monitoring. How it pans out immediately in the quarter or something is difficult to say. But as I said, you know, we are very cognizant of the fact that we need to deliver at least a 15 to 20% growth in order to realize our ambition that we stated out. And we are very, very focused on delivering on that ambition.

Nishit Rathi

No, I think, which is very fair, the question, and I think to some extent, if I understand it, right, you're saying that in a quarter or two, you don't know, but for the full year, there are enough and more levers for you to kind of deliver the 15 to 20% growth, despite the slowness in the macro and the last couple of quarters that we've seen you feel that that is a doable task from what you see today, right? How it pans out eventually, it's a different matter. But we just wanted to understand from where we are in terms of orders, which we booked and the slowness that you've seen, is it?

AS Lakshminarayanan

You know, if your question is, do I have 100% visibility to deliver what I'm saying? The answer is no. If it was there, then I'll probably be on vacation tomorrow onwards, right? So no, that's not the case. We have still a lot of work to be done in order to, because in year order booking is as important as the orders booked last year. Some of these conversion do take time. You know, all I'm saying is from a qualitative perspective, you know, we would, the kind of conversations, I just had a trip to the UK last week. The conversations have all been very good. The customers still want to engage. You know, I was just telling, and one of the customers did tell us that changing the network is, you know, is touching live wire. They have applications running today and changing anything, they have to do it very cautiously, right? So it's not like in the application world where I can build a new application and put a new application. So, this is somewhat different. So, you know, we understand the mechanics that customers go through. But all I'm calling out is the opportunity exists.

Obviously we have to get into the consideration set, which we are now increasingly getting into, and then we have to win and close it. The confidence level of the growth comes from the fact that the inorganic acquisitions will start to play this year. At least we will see the benefit of those coming through. And that is why I'm saying that this year is critical for us to ensure that these go-to-market motions of both Switch and Kaleyra, we get it right, and we bring the full year benefit of the acquisitions to play. And organically, you know, we should go to more enterprise customers to pitch ourselves in the international market. So those are the colors that I can give you in how we are seeing the picture.

Nishit Rathi

That's very fair. Just two more questions. One is on the IoT / MOVE portfolio, right? You know, it's a portfolio, you know, there was a JLR announcement also that you put out that the partnership getting more strong out there.

And, you know, and autos have started to do well. So that's one portfolio. How should we think about it, you know, given that you had an early leadership in that platform? It's been, it's at least optically, it looks like a fairly disappointing year in that in that portfolio there. Any light on that portfolio, particularly the IoT / MOVE portfolio?

AS Lakshminarayanan

Yeah, I think the, you know, in the whole, I think we club it all into incubation and give the numbers to you there. MOVE by itself has delivered a double-digit growth, but nowhere near the expectations we ourselves have of that business. So, we have to do a lot more. I think the key levers for that business is to strengthen our position in the auto OEM world. You know, we have won a few in India, but in the international markets, we need to expand beyond JLR. So that is very critical for us to achieve. The other ones in the, in helping the MVNOs to launch and the airlines, you know, they are sort of going on as normal. So, the big needle shift will come from the, OEM business, which is what we need to work towards. The second aspect of the portfolio is about the IoT business. I think the IoT business, we had a big fillip as a result of a major deal in the international market last year.

And the replication of that is what we need to work on for that business to grow. We are also expanding the capability there with a lot of video analytics combined with our Edge. That's a new product that we are taking to market. So, I think that is still in the, in the early phases of, shall I say, you know, getting the offerings right and pivoting the business from one to another, right? So that is what we are doing in that business. And we'll keep a very close watch on that to see how we, how we deliver the growth.

Nishit Rathi

And then the last question is, is on the balance sheet side, we see, we see a big increase in the current liabilities line item. Some of it could be explained, I think, by, by a big increase in current taxes. And there seem to be some other current liabilities which have increased. Kabir can you just help us understand what this could be? How should we think about this?

Kabir Ahmed Shakir

Three, four elements, Nishit. One, I mean, the absolute increase is also because of the impact of acquisitions. So, when they came in, you just add them together. About rather INR250 odd crore is, is just on account of the impact of acquisitions. If I take that aside and then look at BAU business, I think there are three components to it vis-a-vis last year. The first one is we are in a continuous mode in terms of balance sheet cleanup. So past balances on vendor recourse and stuff like that, which have been cleaned up. So therefore that, you know, cleanup, you know, has removed, of course, the credit, but from a working capital point of view, it has the opposite effect. We've had some increase in prepaid expenses that are all growth related. They are deal specific, you know, but that's another chunky, you know, item that we had. So those are, you know, two big elements from that perspective. And, you know, those are the ones which are impacting, our working capital numbers. The last one was we did create this new entity, NovaMesh, which you are aware of. As we actually transitioned it, we had put a pause to the billing and the collections of it in March until we get the new GST registrations.

Nishit Rathi

Does that mean that some of the revenues in the month of March are unbilled and stand in unearned revenues in your revenue?

Kabir Ahmed Shakir

Yeah, that's correct. And also there is a reclassification of long term borrowings, you know, to short term when you see the, you know, the period, the moment it is less than one year, they get reclassified as well.

Nishit Rathi

That's very helpful. Thank you so much. Thank you, Nishit. Thank you, Gautam. In the interest of time, we will proceed towards closing the call. Before we close the call, I would request Lakshmi to share his closing comments.

AS Lakshminarayanan

Yes, thank you all. I think we, I mentioned there are critical things that we need to do for the year ahead. Our number one focus is to make sure that the Switch and Kaleyra acquisitions are well integrated in the business. The process is, you know, very strongly on and in the portfolios of Network Fabric and Cloud and Edge and the Interaction Fabric and the IoT Fabric, you know, we want to keep a sharp focus to make sure that they can deliver. I think we called out on all the levers available for us for the growth in the margins. And we look forward to executing on those levers. I think the biggest excitement for me is, as we talk to the customers the engagement at senior levels and the increasing relevance of Tata Comm. to them is the most encouraging sign to us. And we'll have to capitalize on that to get into their consideration set and participate in their opportunities and then win those deals. So, I think those are the factors that I would be focusing on.

Chirag Jain

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

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