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Q1 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

Chirag Jain

Good afternoon, everyone, and welcome to the Tata Communications Earnings Conference Call for Q1 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 30th June 2023 have been announced yesterday and the quarterly data pack 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 and Good Afternoon everyone.

I welcome you all to Q1 FY24 Earnings Call. Our financial results are a good reflection of the disciplined execution of our Reimagine strategy. Our data revenue growth momentum continues to improve as we invest in improving our capabilities to enhance our relevance with customers. These investments imply that margins may remain soft in the short term and despite this we aspire to operate at ROCEs above 25%. Our unique strengths are very much recognized by our customers as we can address both the cost and revenue side outcomes for them, thus increasing our relevance quotient on a continuous basis.

Our Q1 reported revenue was INR 4,771 Crores, improving by 10.7% YoY and 4.4% QoQ. Our data business revenues improved by 17.1% YoY and 6.6% sequentially, coming in at INR 3,912 Crores. Digital Portfolio (DPS plus incubation combined) revenues stood at 1,415 Crores, growing healthily at 37.5% YoY and 16.6% QoQ. Underlying Data Revenues (these exclude Switch) grew by 14.2% YoY this quarter, highest since FY20 while they improved sequentially by 4%. Underlying Digital Portfolio Revenue grew by 28.1% YoY, the highest point in the past 12 quarters, and improved by 8.6% QoQ. EBITDA for the quarter was INR 1,024 Crores with 21.5% Margin. PAT was INR 382 Crores. ROCE remains healthy at 26.3%.

Before I discuss the financial results in detail, let me spend some time on the key strategic initiatives this quarter. Just to remind all of you, we announced acquisition of Switch in December 2022, and we are happy to report that we completed the acquisition of Switch in this quarter. Switch will help us a long way by expanding our reach to top tier US sporting event venues and gain strong foothold in North America. It will extend our media and entertainment portfolio with live production capabilities. Another equally important event this quarter was us entering into a definitive agreement to acquire Kaleyra Inc, leading global CPaaS player with robust product platform offerings and last reported revenues of USD 339 Mn in CY2022 for an estimated Enterprise value of USD 250 Mn. Kaleyra INC combined with Tata Communications DIGO will help us boost our Comm Tech play.

On a separate note, we continue to have a strong focus on sustainability and have made several interventions in the direction of climate change, energy conservation and community development. We are being recognized for our efforts in fostering sustainability and community linked initiatives. We are adjudged winners in "The Economic Times Sustainable Organization 2023", Excellence in CSR at CII-ITC Sustainability award, Platinum award in 13th Exceed Occupational Health & Safety and many more.

Now, let me discuss financial results in a little more detail, particularly our data portfolio.
Let me begin with our core Connectivity business, revenues grew by 8.1% YoY and 1.6% 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. Key drivers for growth this quarter was demand seen in the APAC market.

Now moving to the digital portfolio business

Our Collaboration Portfolio grew by 13.4% QoQ and 19.4% YoY. Consecutive quarters of double-digit revenue growth accruing in our Collaboration portfolio sets the path for the overall growth momentum to accelerate. The sequential revenue growth seen in our Collab portfolio is the highest in the past 12 quarters. Tata Communications DIGO continues to grow in capability as a Customer Interaction Suite, where it focuses to unify all customer interactions and benefited from addition of new logos and higher traffic revenues. Recently, one of the India's leading Passenger Car Manufacturer has trusted Tata Communications DIGO to transform Broker and Customer experience of its Car Insurance venture. The project covers the CX transformation of all the phases of customer journey – Attract, Acquire, Transact and Retain. Tata Communications DIGO won the MEFFYS AWARD 2023 in the "Personal Data & Identity" category for the Best Innovation in the field of authentication. Additionally, InstaCC portfolio grew by very healthy double digit this quarter and more, so we have robust deals in the delivery pipeline as well. InstaCC benefited from increased usage and the addition of new logos in the Middle East and deal wins in the healthcare segment.

Media business revenues including revenues from Switch were sequentially up by 103.9% and 108.7% YoY. Excluding Switch, media business revenues were up 36.5% QoQ and 39.7% YoY. We are seeing rapid expansion in Japan and Nordic markets with more in region demand for global content. Our Media Edge is acting as a strong technology differentiator for all three segments content transport, processing, and production. With the integration of Switch, both teams are driving synergies by taking up joined up conversations to our strategic customers in Europe and the US. The global presence of Tata Communications and strong broadcast experience with production capabilities of Switch has helped us elevate our conversations across customers. We are seeing this translating to a good order pipeline, higher ACV deals and possibly better revenue conversions going forward.

Our Next-Gen connectivity offerings revenues increased by 14.9% QoQ and 46.6% YoY. Our unique IZO WAN proposition offers an end-to-end managed predictable and performant business grade internet to our customers. This serves as a major catalyst driving our deal wins. With our customers moving to Multi Cloud Interconnect, we see an opportunity to address this growing market opportunity. We will soon be launching the IZO Software defined Multi Cloud Connect to provide on-demand, self -serve capability for customers to manage and address their connectivity to cloud, multi-cloud, and between clouds.

Moving to Cloud, Hosting and Security. This portfolio registered a growth of 23.9% YoY and has seen some softness on a sequential basis. Enterprises continue to look for seamless integration across multiple clouds with the flexibility to leverage both private and public clouds with better and transparent FinOps to track cloud consumption. Our multi-cloud management capability with CloudOps, FinOps and SecOps through our TCX Cloud Command places us well to cater to this structural trend. Our MSS business continues to grow at a healthy double digit run rate. Tata Communications Cloud SOC Managed Detection and Response platform is well positioned to address market opportunities. We have recently signed a large Cloud SOC contract with a leading life and general insurance group to protect them against cyber-attacks. This is completely a cloud delivered solution from our platform.
The Incubation Portfolio grew by 27.5% YoY, however on a sequential basis the performance is subdued. MOVE has grown 40% YoY. In our IoT Offerings, after gaining wins in the domestic market, we are now looking at expanding to international geographies.

Our Digital Portfolio has the capability to address holistically the needs of our customers. We will continue to invest & drive relevance with our enterprise customers. With this, I will now request to Kabir share the financial highlights.

Kabir Ahmed Shakir

Thank you, Lakshmi. Good afternoon, everyone. I will take this opportunity to discuss the highlights of our financial performance for the quarter. This quarter onwards we are combining DPS and incubation revenues and calling it a digital portfolio. Additionally, we are talking about reported numbers and underlying numbers. Underlying numbers exclude the impact of acquisitions and disposals.

Now let me spend time on financial results and how our Fit to Grow strategy is helping us to accelerate our growth trajectory. We witnessed a quarter of strong growth in our Data Portfolio, both from an underlying as well as consolidated perspective, on the back of a strong execution rigor and deeper engagement with our customers.

Our reported revenue for the quarter stood at INR 4,771 Crores, improving by 10.7% YoY and 4.4% on a sequential basis. The reported revenue numbers this quarter continue to have certain forex benefits accruing from a strengthening dollar. Normalizing for Forex, our Consolidated revenues grew by 6.9% YoY and 4.3% QoQ and the positive impact on consolidated EBITDA margin is seen at 30 bps.

Data revenue for the quarter stood at INR 3,912 Crores, growing at the highest ever since FY20, coming in at 17.1% YoY and 6.6% on a sequential basis. The underlying data revenue growth stood at 14.2% YoY and 4% QoQ. Also, revenue growth for digital portfolio at 37.5% YoY and 16.6% QoQ is the highest in the past 12 quarters. EBITDA margins for the quarter came in at 21.5% on a reported basis and at 22.1% on an underlying business. Additionally, there is impact on account of acquisition related expenses pertaining to Kaleyra this quarter which are one-offs in nature. Normalizing for both, the Switch consolidation and M&A related expenses, normalized EBITDA margins are at 23.1%, well within the ambition of 23-25%. ROCE for the quarter is at 26.3% and sequential decline is again an outcome of Switch integration and M&A related costs. PAT is up 17.1% QoQ and PAT margins were at 8%. FCF for the quarter is at 184 Crores and this includes the income tax refund of INR 425 Crores. Net debt stood at INR 6,007 crores and net debt to EBITDA at 1.4x. Our debt levels continue to be at a comfortable gearing and well within our ambition.

Cash Capex for the quarter stood at INR 431 Crores and the ramp up is attributed to payments coming up for capex projects committed in the prior year. All our KPIs – ROCE, PAT Margins, Net Debt to EBITDA and revenue growth reflect how we are fundamentally transforming the company to operate in a higher growth trajectory and are funding our growth ambitions in a meticulous manner to maximize value for our shareholders.

It is important to take a step back and understand the journey so far, we have a come a long way from a significantly leveraged balance sheet to a situation where we are steering capital allocation for growth. The healthy FCF over the last few years has allowed us to create a solid base to pursue inorganic opportunities and accelerate growth momentum. That said we continue to invest and strengthen our foundation for achieving growth ambitions and investing in our sales and product organization to benefit from the market opportunities. The Digital Portfolio revenue growth gives us confidence that we are on the right track. Our acquisition of The Switch and our definitive agreement with Kaleyra, Inc. will further sharpen our moats and help us improve our growth trajectory in the medium term. These strategic interventions will additionally help us penetrate deeper into international markets and accelerate our growth in these geographies.

Moving to subsidiaries, TCTS and TCPSL revenues remained flat sequentially. Our Payment business continues to make positive shifts as we expand our portfolio under the Franchise model. As of date, we have added close to ~3800 Franchise ATMs to our portfolio and are working steadily on increasing this further. We also continue to strengthen our governance rigor and agility in TCTSL.

To sum up, our holistic delivery across financial KPIs 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 of Sanjesh Jain from ICICI Securities. Sanjesh, you have been requested to unmute. Please unmute yourself and ask your question.

Sanjesh Jain

Thank you for taking my questions, I got a few of them. First, Lakshmi, can you help us understand how is the order book and funnel shaping up? And this quarter has been very strong growth in the data business. Can you also help us understand was there a bunch up of revenue because of the easing of chips or do you believe these growth numbers are sustainable, and you believe that you can further accelerate this? That's my first question.

AS Lakshminarayanan

Yeah, there wasn't anything that bunched up or anything as a result of semiconductors. I think I have been saying that because of investing in the markets our funnels are improving. I think the order books have been steadily increasing over the course of the last few quarters and some of the deliveries and conversion were happening, even though it was delayed, because, as I had said semiconductor delays, were delaying the, some of the deliveries but we were treating them more business as usual and nothing as unusual.

The way we would attribute this quarter's growth is the result of good order booking, disciplined execution on service delivery and assurance and good engagement with our customers to reduce churn and other factors. So, that's what we would say. Going forward, If I look at the funnel, I think the funnel is still very good. Last quarter, the number of deals that we added into our funnel was very healthy, the number of new logos that we acquired last quarter again is quite healthy. Having said that, the conversion of the funnel in Q1 we noticed that it was longer than what it took 2 quarters ago. So, it's longer but, mostly the response from customers is more about delay and more time to decide rather than stopping anything. So, overall, the demand drivers are pretty much in place, and the demand drivers for most of our offerings stem from the fact that the customers are moving to cloud, stems from the fact now today many customers are not just happy with just going to one cloud, but they want to be truly on multi cloud, stems from the fact that, you know, people want to examine private cloud a lot more strongly than blindly move into public cloud because that was a trend a while ago. There is a very clear discussion happening with customers on the value of private cloud, customers wanting to leverage the Internet and that does not die in terms of customers wanting to move to the Internet. Similarly, on the customer experience side, for B2C, they want to see a simpler means to have conversations with their consumers and in a more conversion and contextual manner, because that's what will help them to deliver a better experience. Again, customers wanting to take the contact centers to cloud for variety of reasons. and that so these are all the demand drivers. And we do not see anything slackening there at all, in medium term things will pick up again because the funnel looks good.

Sanjesh Jain

Got it got it. On core connectivity side again, we used to talk about the mid-single digit, we are clocking 8% reaching to high single digit, what has changed in the core connectivity?

AS Lakshminarayanan

So, core connectivity also, you know, I think the reason if you look at the global trend on core connectivity, is that it's a declining trend. We said that we would l do better for many reasons. One reason we felt was there still a lot of demand for data centers, and data centers are going to grow, and particularly in India and in certain select markets and that's one of the reasons why we said that will be in a low to mid digit growth.

Now, the data centers growth is there, I think, as people invest more on data and perhaps AI there's a lot more of core connectivity requirements are required. And this year as I said, this quarter, there was a lot of demand from APAC, and not just from India. And the second aspect of why we maintain that we will continue to grow there is because of the investment that we are making in the core connectivity as well. Not just making our network mesh, a lot more powerful by giving a lot more diversity to our customers, making the, the core network itself, a lot more programmable and making it more on demand. So, I think those are all the capabilities that we are investing in. So, these are the reasons why we were saying that it will grow. Now, whether this level of growth that we saw, and this also has some lumpiness in this business because some of these contracts tend to be large, but overall, we are still saying that we it be continue to be in the low to mid digits, single digits. I hope that answered the question.

Sanjesh Jain
Yeah, yeah, thank you. Thanks that answer my question. On the Switch strategy side. Now that the acquisition is done, can you help us understand how this acquisition will have a synergy benefit and path towards the profitability for this business.

AS Lakshminarayanan
So, with Switch, you know, I think the rationale was that Switch is a very strong player in North America, comes with a lot of good customer base and infrastructure in that market where they have connected to many venues. The second is they have a strong production capability which is a missing piece in the Tata Communications portfolio, and that augments our product capability. So, it brings with it a geographic expansion for us. It brings with its product capability and fills the gap in our portfolio, that's the rationale. In terms of synergy, we are already, you know, 2 months into close and we are seeing already the results of that where we can take up the joined-up offerings to our customers. And they are seeing very good traction with customers with these joined-up offerings, you know, in North America to Switch customers, we take our Tata Comm offerings and bundle it and take it. And similarly in Europe and other markets when we bring them. Switch production capabilities and bundle it, that are interesting conversations happening. The funnel is looking good as a result of these conversations.

The second aspect of it is the margins that we've talked about. Yes, I think, as we scale, as we work on the other aspects of synergies that we had laid out, these will play out in due course to improve.

Sanjesh Jain
One last from my side. Subsidiaries have been very volatile and struggling. We haven't seen a sustained turnaround. What's the end game for us in both TCTS and TCPS

AS Lakshminarayanan
See, I think, the way we want to look at this business is TCTS is addressing telco markets, they have the core competency and a very strong domain knowledge of telecom. And that combined with the technology expertise and service expertise they bring; it is attractive to the telecom companies out there who is investing in fiber to have a lot of legacy technologies and processes and would want to transform. That's the real value proposition of TCTS and you know I think that is still attractive. Maybe there is some softness in the market today, as you would have seen, you know, globally, telcos and others are soft. We would have seen that from the SI results announcement. Many of them are called out. It takes time to convert opportunities and win those deals. From a profitability point of view, we are turning around, making careful selection of bids, and making sure that the mix is more skewed towards international. As we execute on that, it will turn around. That is the short, medium-term plan as far as TCTSL is concerned. For TCPSL, we had called out that that company again suffered through a lot of macro changes imposed by various things, one of that being COVID. We had pivoted that business too, from being a fully company owned company operated model to a franchisee model and that changing to that franchise model is beginning to show results. Albeit, while that part of it is slowing showing results, the other part is yet to fully turn around, and as we completely pivoted to the model that we want, it will turn profitable.

Sanjesh Jain
Oh, my problem with TCTS is that it's been like 4, 5 years. The business has struggled. We haven't seen any material turnaround. The question is, do we really want to continue? Now we have given half a decade for the business.

AS Lakshminarayanan

I think if there is any other proposal we will come to you, but as of now the management team is keeping their head down and focus on the execution of the strategy that has been outlined.

Chirag Jain

Thanks, Sanjesh. Thank you, the next question is from Pratap Maliwal from Mount Intra Finance, please go ahead and ask a question.

Pratap Maliwal

I wanted to have better clarity around our Cloud and Security business. We have seen some good growth around this subvertical. Is there any one off we had in this particular quarter which will reversely going ahead. Also, had a doubt is our Cloud Hosting & Security more India focused.

AS Lakshminarayanan

No, there isn't any one off as such. From an overall demand perspective, as I said, the cloud demands are still solid. Where we take this to market, our cloud offerings are focused on India. Our IZO Private Cloud, we have launched specific solutions for the government community cloud, and we are serving very prestigious government institutions without our cloud. Similarly, we have launched a fin cloud that addresses financial services companies that specifically with specific compliances. and other latency requirements. And we have the IZO cloud that is running for other enterprises as well, where we are running variety of workloads on the cloud, and it has scaled very well.

We compete strongly with public cloud players in that space because it's very unique, very differentiated and gives the customers the level of flexibility and cost savings and more predictable cost that the customers are now beginning to look for. So that's largely targeted towards India market now. As far as security is concerned, that's more of a global offering.

We have a variety of offerings in MSS, in security. One is largely about network security, and that is a global offer that we use for customers. The other is Cloud SOC which is essentially to build a SOC customer to deliver managed detection and response capability. Cloud SOC was launched in India a year and a half ago, and it's seen a very rapid growth. And we have taken this capability selectively to other markets. So, we launched that in the UAE and while we have not officially launched it in the European markets, there are already 2-3 customers in Europe who are using our cloud SOC capability. So, our security offerings are more global. Our cloud capability, at the moment is largely in India.

Pratap Maliwal

So, in our DPS portfolio of the 4 offerings, which one do we think can really move the needle for us when it comes to our international revenues. Which one are we really looking at for that growth trigger?

AS Lakshminarayanan

All of them, no favorites, we will be betting on all of them. So, all of them have good potential in the market and, you know, each one of them has a different driver for them, but all of them have very good potential.

Chirag Jain

Thank you, Pratap. The next question is from the line of Mihir Manohar from Carnelian Asset Advisors. Mihir, you have been requested to unmute. Please unmute yourself and ask your question.

Mihir Manohar

Largely wanted to understand, the Kaleyra acquisition that we have made now, given the fact that that is like 2700 to 2800 Crores kind of an addition. Despite acquiring this business, we are still hopeful of maintaining 23% -25% margins from a long-term angle. This question is from a long-term angle, and just wanted to understand if such a large business would get added to Tata Comm Consol. What will lead to the release of margins in the balance part of the portfolio ? Just wanted to have an understanding around that what can be the margin release for us to have 23 to 25% margins when we are looking at the FY27 vision ?

Kabir Ahmed Shakir

Kaleyra is a listed company, so I'm sure you can do the mathematics of what the last reported turnover and profitability is., Indeed when we close, it will have a dilutive effect in the immediate term, but our ambition for this business is to operate in the 23% to 25% range. So, in the medium to near to medium term, we hope to get Kaleyra back. The business case already looks at the potential synergies that we will have because of the Kaleyra acquisition plus, the efficiencies that we will actually bring about, you know, as Tata Communication, the complementarities entities that we have from a customer perspective. The ambitions that we have from a product portfolio and capability and feature set, , perspective, when we look at from all these angles, I think there is opportunity for us to get the business back to profitability, get the synergy benefits.

Exactly which year it will turn around I can't say that to you, but yes., our ambition is going to be operating in the 23 to 25 range of EBITDA with a short-term margin dilution because of all these acquisitions, Switch and Kaleyra, but we hope to get back to 23% -25%.

Chirag Jain

The next question is from the line of Ali Asgar Shakir from Motilal Oswal. Ali, you have been requested to unmute. Please unmute yourself and ask your question.

Aliasgar Shakir

Thank you so much for the opportunity and congratulations on a good set of numbers, especially the digital portfolio, it seems to be doing well this quarter. Just a little more color if you could share in that portfolio , the Collaboration and Managed CPaaS segment. I've seen very decent growth. I think there are a couple of different verticals here within this. We have the SIP Trunking, Tata Communications DIGO and UCC. If you could share some color on about how each one of them is doing or probably what is driving this growth and, how would the sustainable trends be going forward? And similarly, the media segment. which as you indicated, even excluding Switch it has done strongly and also some pieces on the Cloud and Security?

AS Lakshminarayanan

The collaboration portfolio, as I commented earlier, we had pivoted that model from purely being a usage based, GSIP revenues to more of a product and services portfolio by introducing Tata Communications GlobalRapide which we introduced, and I think that helped us to stabilize the degrowth. of purely a usage-based consumption model that we had. As people moved to using more of the applications, like Teams and Zoom and Cisco and others for their collaboration purposes. So, I think the products that we introduced helped us to stem the degrowth and stabilize it. Now what is driving the growth.

And in future, going forward, we believe that Tata Communications GlobalRapide has good potential for it to grow as well. The last 2 quarters, we introduced Tata Communications DIGO in the market last year. And InstaCC while it has been in the market for some time, we have expanded the portfolio which is a CCaaS offering and combined the InstaCC and Tata Communications DIGO what we call it a Customer Interaction Platform, a suite of customer interaction platforms and this has seen good growth and that is what is fueling growth this quarter and last quarter as well. So, that's what you're seeing in that portfolio, and we believe as we continue to invest in and that's the rationale for also investing in Kaleyra it will further strengthen our position, the product and presence in various geographies to help us to grow in this market. This is a very fast-growing market. There's a lot of movement happening in the market where people are looking at how to strengthen the customer experience journey for enterprises. We think we'll be very uniquely positioned there to continue this forward as we bring the two companies together.

Media itself is growing very well and combined with Switch has good potential. So, I think it's a question of more disciplined execution in the Media. We also, you know, a lot of new products from the digital side, we keep calling the Media EDGE. Our EDGE solution while we will formally launch EDGE for other horizontals and verticals, EDGE is a solution, which brings the cloud closer to the users. So, that is what edge is designed for and this edge capability that we have developed is being used by our media and is taken to market.

And there are many use cases that they are addressing in the world of media, and this is getting very good traction. Because our edge sits right on top of the video network that we have, brings a lot of capabilities, low latency, and a lot more abilities than what a public cloud or a public cloud edge provides at the moment. So that is one of the key drivers for the media. Plus, our deepening engagement with customers is also helping the media growth organically and now with Switch, it will only strengthen that more.

Coming to the Cloud and Security, I think I already answered that question. Cloud is largely focused on India. Our IZO Cloud is a very strong proposition. We do compete with public clouds in that space. We believe the private cloud has a very unique place in the workloads of enterprise customers. It offers them a lot more predictability of costs and lowers the total cost of ownership when you look at a 3-year horizon. It brings a lot more flexibility and we can offer better performance because our cloud in India is distributed in many locations, and therefore are able to offer a much better performance on this. And we today run very prestigious workloads for government organizations, we are running workloads for major enterprises. So, it's a very proven platform that we have.

And that is something that we believe will continue to go forward and drive forward as we bring more and more new capabilities for AI ML in it, video objects storage, and other capabilities that we will add to our cloud capabilities. From a security offering, security offerings are more global. In India, we have a little bit more wider offerings, but it is truly a global offering that we have. And that again has shown excellent growth in the past and it's got even greater potential going forward.

Chirag Jain

The next question is from the line of Nishit Rathi from Chanakya Wealth. Nishit, you have been requested to unmute. Please unmute yourself and ask your question.

Nishit Rathi

Just to understand, the employee numbers seem to have gone up again by 250 employees this quarter. I assume there will be some addition because of Switch. Can you just break that up for me please.

AS Lakshminarayanan

Yeah, yeah, you're right. I think the employee count has gone up with Switch as well as some of the offers that we had made towards the fag end of the last year also coming into play. So, yeah, those are the reasons why it's going up.

Nishit Rathi

Lakshmi, is it fair to assume that 100-150 employees would have been added due to Switch? Because that's the number we could find on the net.

AS Lakshminarayanan

Yeah, I think the precise number will be 128.

Nishit Rathi
Any particular reason why Tata Communications MOVE saw this sequential softness. It's been growing really well and it's a product which you've been pretty excited about. So just wanted to understand anything in particular to read.

AS Lakshminarayanan
Nothing particular to read into it. Today the MOVE platform addresses different segments. Of what they're addressing the MNOs, airlines and yet to be discovered segment, Semiconductors , which we are really excited about. So, these are different segments. Each of these segments are in sort of different stages of maturity in our 1,3, 30 model and as we navigate through, we believe each one of these will scale. So, the softness that we are seeing is only transient.

Having said I want to emphasize this is still in the sort of early stages of discovery of use cases and so on. So, as we win customers from a design win perspective, we will scale them to the next levels.

Nishit Rathi
And is it fair to say that we were a fairly strong player in the auto connectivity, part of it and as the connected cars keep on increasing, you could start seeing much better revenue traction in this portfolio?

AS Lakshminarayanan
Yeah, I mean, auto is one of the core segments that we are addressing because, as you said, the connected cars are reality and connected cars is to deliver for the auto players a better visibility of what is going on inside the car in terms of understanding how the car performs, give real time feedback to the engineering team. So, all the telemetry data is what they are using. And the second use case is more about, how do I use it for passenger infotainment purposes so that passengers can have better experience riding the car, you know, delivering over their updates as the cars themselves tend to have a lot more of compute capabilities.

They have to be updated on a periodical basis. So, the SOTA updates are going to become more of a feature. So, these are the key drivers of growth for the MOVE platform in that segment.

Nishit Rathi
And we will participate in both Usage and Core Fee, right?

AS Lakshminarayanan
Yeah absolutely. We will be charging for the platform and there will be a usage charge as well.

Nishit Rathi
Any update you would like to share on the land parcels. You've acquired two companies you said, you will look to match that with the land.

Kabir Ahmed Shakir
Once we have something, we will announce. All the small, small land parcels that we have on a very transactional basis, we take a call whenever we get the right value for it. The large parcels, a lot of work needs to be done in terms of the title and stuff like that. So as and when we have news, you will get it from us.

Chirag Jain

The next question is from the line of Santosh Sinha from Emkay Global. Santosh, you have been requested to unmute. Please unmute yourself and ask your question.

Santosh Sinha

I think, regarding the margins, when we look at the underlying EBITDA margins, it's true that 22.1, that is still a decline of around 50 bps QoQ. So, what has led to this declining margin on an underlying basis and if we look at the margin improvement going forward, which will drive more margin improvement for the company, is it Switch or Kaleyra.

Kabir Ahmed Shakir

Let me answer the first part. Look as I mentioned, there are quite a bit of drivers that you need to organically understand for the company, and some of them play in the quarter-on-quarter variance, some of them play in the year-on-year variance. Let me explain the 3 holistic drivers. One is the mixed effect that we have as we drive the digital portfolio harder.

They are currently coming at a lower margin, even though we have margin accretion there at an absolute level. But that's still has the weighted average it will play out as a negative mix, so we need to understand that element structuring. The second, as I said, added people costs, and those coming that's there in the year on year, but not that much in the quarter on quarter. This I also explain that this quarter we have spent on the M&A related expenditure, all the due diligence and investment banker fee and strategic advisor fees that we had leading up to the decision that we made to enter into an agreement with Kaleyra. So those are all the things that have impacted us, and we have been clear. Let me reiterate that both on Investor Day and in the last few quarters, we have been transparent with the street, with the investors and the analysts about what our outlook on margin and what our approach to margin is. Our ambition is 23 to 25. but if there are strategic reasons why we need to depart, we will take that call.

However, our return on capital employed and return on that will be robust, greater than 25% is what we would like to aim at. And again, when we have some huge investments coming in, if again it dips a little bit here or there, there's a lot of headroom available there. Structurally, , we are a much healthier business, and we continue to retain the focus on the healthy balance sheet. I don't want to kind of speculate on whether it's Switch or Kaleyra. Each of them has their own demand drivers. Each of them has their own positives that they bring to Tata Command the synergies have a different gestation period and a different dimension to it.

So, I wouldn't compare, you know, between Switch or Kaleyra. I think all of them are part of my digital portfolio and have a have a very strategic role as they do. So, the mix of what is having a higher net revenue margin, and LoB costs or what is the capital that each of the business demands that will vary, depending on the nature of the business. So, I wouldn't really take a judgment of the business on looking at just one KPI in isolation. It needs to be looked at in totality.

Chirag Jain

The next question is from the line of Urmil Shah from Ageas Life Insurance. Urmil, you have been requested to unmute. Please unmute yourself and ask your question.

Urmil Shah

First is with regards to our strategic roadmap, regarding two acquisitions already been done and Kaleyra being a sizable one, so would it be reasonable to assume from the next 4 to 6 quarters point of view, you will first look at integrating and taking the synergy benefits from it or you still are seeing many opportunities at the marketplace.

And just the second part again on the margin in front. While from our Outlook, in the medium term for 23 to 25% margins, the organic business will have to offset the impact of the M&A. So, would it be reasonable to assume that at least for FY23 and 24, this is the period when you would continue to invest both in the organic business and more consolidation of M&A and a better margin range would be achievable from 25 and beyond.

Kabir Ahmed Shakir

Let me take both of them. There were many M&A opportunities that we had. So, there is no target, or a goal seek that we have. We have clear operating principles as to how we look at M&A. We explained that in our Investor Day and let me repeat. It must have a strategic fit for us. It needs to create value for Tata Comm and all its stakeholders and therefore we will act responsibly. Now, we knew back then when Lakshmi talked about strategy on a page and called out financial fitness as an important lever.

Because unless and until we got our balance sheet in order, I don't think we would have been able to participate in M&A game. And again, we were spectators in the past. Now, we are actively participating. There is a separate engine, separate side of the of the business, which is continuously evaluating these targets and they will bring those targets to us and we have a governance mechanism where these targets are evaluated and then looked at. Of course, there are many factors that go into play, our ability to acquire, to fund it, our ability to execute and integrate. So, there are a lot more factors that go into the place. So, I can't tell you that for the next few quarters we will not do it or do it. I don't have a definitive answer. All I can tell you is that M&A plays a very, very strategic and an important role in our growth aspirations and that will continue to be so. As far as EBITDA margins are concerned, I cannot tell you if it going to be FY24 or FY25. I don't know if it would be 6 to 9 months or maybe sooner than that we would be able to close the Kaleyra acquisition and integrate that. And as we do that, you can do the mathematics as to what will be the impact on EBITDA, on PAT, for us. It will have a dilutive effect for 1 or 2 years until we get the entire synergy benefits, kicking in and restore Kaleyra back to its growth trajectory and convert that into a profitable business. The existing business, I wouldn't make that assumption that it needs to make up for it. Existing business on its own has its margin drivers, has its own plan on how to improve profitability and how to drive overall success for that portfolio, both top line and margin progression. So that will continue. And just because we have an acquisition doesn't mean someone else needs to overcompensate, that's why we talk about being responsible. Every element of the business needs to its potential and deliver to the best of its potential. So, that's how we will actually manage, and I wouldn't want one to be compensated for the other which indirectly then means that those businesses are then starved of the investments that they otherwise deserve. So, that's how I would sum up my response to your question.

Chirag Jain

The next question is from Saurabh Sadhwani from Sahasrar Capital. Please go ahead and ask your question.

Saurabh Sadhwani

So, I just wanted to understand one thing. If for the long term let's say, 4 to 5 years what are our aspirations for revenue and revenue mix?

AS Lakshminarayanan

We said that we want to double our data revenues in four years' time.

Saurabh Sadhwani

The data revenue is still 80% of the portfolio. So, what about the other things?

AS Lakshminarayanan

The thing is only voice. Other than data it is only voice and voice is declining business. When you talked about aspirations, especially aspiration for growth. The aspiration for growth comes from the data business and the data business will double. And within that, the digital portfolio will have to grow at an even greater pace and that is why we are looking at strengthening all digital portfolios, whether it is connected solutions or connected experiences or the entire connected digital infrastructure that we have. And those are the portfolios that we are investing in and strengthening in order to be part of the digital transformation of our customers. In 4 years', time, we said that we want to evolve from not just being a platform player but to become a digital fabric for enterprises. So, these are the aspirations that we have we have laid out which we discussed in the Investor Day, quite extensively.

Saurabh Sadhwani

And also, the data revenue would be at the same percentage as the overall revenue.

AS Lakshminarayanan

It will not, so, as a data revenue grows, then the voice, looking at the current trajectory, the voice is declining. So, I haven't worked out then what percentage will data be. Largely when we talk about the strategy, the voice, everybody knows is a declining business. And data is the business that we are focused on. So, when we talk about our strategy, we are largely focused on the data side.

All our articulation of our strategy is in line with that aspect of how we want to grow the data business. Encourage you probably look at our investor presentation, which is up. Have a look at this, I think probably these are all questions that have been already answered in our presentations.

Chirag Jain

This brings us to the end of the Q&A Session. I would now request Lakshmi to share his closing comments.

AS Lakshminarayanan

It's been truly a very exciting quarter. We call it a pivotal quarter at Tata Communications, the growth in the data growth, in the digital portfolio is phenomenal. The major announcement that we made of completing the switch transaction is truly a landmark event in our media business. The announcement of Kaleyra is another important milestone in this growth journey. So, we are very excited about the future and excited about the fact that we are becoming more and more relevant to the digital transformation of our enterprise customers.

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 disconnect now. Thank you.

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