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Q1 FY2021 Earnings Webinar Transcript

MAIN SPEAKER:

AS Lakshminarayanan, Managing Director and Chief Executive Officer

Pratibha K. Advani, Chief Financial Officer

Vipul Garg:

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

The results for the quarter ended June 30, 2020, have been announced yesterday, and the quarterly factsheet is available on our website. I trust you would have had the chance to look through the key highlights. We will commence today's call with comments from Lakshmi, who will share his thoughts on the strategic imperatives, followed by Pratibha, who will share detailed views on the financial progress achieved.

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

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

A.S Lakshminarayanan: Thank You Vipul, Good afternoon everyone, and thank you for joining us for this earnings call webinar. I hope that you and your families are safe and healthy.

I am very pleased to announce that we have started the financial year with a very strong set of numbers despite the economic headwinds we faced as a result of the COVID pandemic. You would have seen the details in our factsheet; in this quarter we recorded a strong EBITDA and PAT on the back of significant margin expansion. Data business continues to be the growth driver. We posted a double-digit data revenue growth this quarter as compared to the same quarter last year.

In the current environment, our priority continues to be on the safety of our employees and uninterrupted continuity of business and services for our customers. In business, the need to stay connected despite the distance has led to an acceleration in digital adoption. Work from home has emerged as a mainstay and a hygiene factor, from its earlier fringe status. This pandemic has forced companies around the world to adapt their strategies to survive in the new normal, driving the need for contactless engagements and digital adoption across the enterprise ecosystem. Organizations are having to cope with a range of new priorities, and challenges - making decisions in real-time while managing the productivity of a scattered workforce, security risks, supply chain, and many more. As enterprises rebuild businesses, resume operations, and restructure their business models, there is a need for a digital ecosystem that addresses this complexity and delivers coherent, holistic engagement across all stakeholders.

Keeping this in mind, we are creating a framework for the post COVID world, which we are calling as Secure Connected Digital Experience (SCDx), to enable enterprises to build agile, future-ready businesses. SCDx allows enterprises to effectively prepare for the new workspace and the global market with solutions that are secure, high performing, and scalable. This platform provides solutions for digital customer experience, real-time management of distributed partners, collaboration solutions to enhance employee productivity, and secure connectivity to enterprise applications and cloud through NetFoundry. Riding on Tata Communications' global network, SCDx provides a fully integrated, consistent, and enhanced user experience across the enterprise value chain to help global businesses adapt to the new market requirements and plan for their future.

In the post COVID world, companies are looking to integrate ultra-rich, connected digital experiences into their operations as part of their Digital transformation. SCDx will be a framework for everything Digital and it considers the importance of each customer's digital readiness, needs, and budgets, to provide tailored solutions. As explained in our strategy session last month, this is the first step towards our focus on platforms and solutions to address customer needs. SCDx will have offerings for three areas,

1) Workplace - enabling enterprise employees to work remotely,

2) B2C customers - enabling e-commerce and video collaboration for superior digital engagement,

3) B2B and B2C companies for digitizing and integrating various physical distribution channels and supply chain and collaborating with partners.

Just to give you an example, within Secure Connected Digital Workplace offering, we will provide a range of services to enterprises looking to enhance and safeguard employee experience. Through NetFoundry, we will provide secure and high-performance, zero-trust network access, giving remote employees secure access to applications and data in the cloud, regardless of device or broadband connectivity, with a 3-10X performance acceleration. This is vital for companies who want to digitally transform and embrace higher levels of remote working but need confidence that employees can access documents and apps securely and with an enterprise-grade experience, even on their home broadband connection.

In our strategy session, we spoke about our customer-centricity. Our continued focus on delivering superior customer experiences and being a preferred Digital partner has been reinforced by a series of award wins achieved by us during this quarter. It gives me immense pleasure to share with all of you that Tata Communications has won eight awards at Frost & Sullivan's 2020 India ICT Awards in the 'Company of the Year' category. All the awards were for excellence and innovation in product launches and strategies along with strong service delivery and support. Winning eight awards, especially the 'Enterprise Data Service Provider of the Year' for the eleventh time is a strong validation of our efforts and expertise. This performance is on the back of our Global Enterprise-grade network that we offer to our customers. Our network is tailored for business-critical activities like connectivity to Data centers and Hub locations. Our network is secure, high speed, reliable, and has a resilient design that offers consistent and predictable service levels. Just to give you an example, in the recent cyclone in Kolkata our networks were restored in less than 5 days while others took than 10 days to bring it up. This was highly appreciated by our customers and partners.

Even in these tough times, we are increasing our customer engagement and conversations to better understand our customer's needs. We witnessed a very strong funnel add in Q1, funnel add this quarter was highest single quarter addition in the last 2 years, and we have a fairly strong pipeline. Due to COVID, there has been a slowdown in Enterprise activity and the deal conversion is taking longer than usual, leading to a marginal YoY decline in order booking. While it's difficult to predict the pace of economic recovery, there are some encouraging signs. Some of the sporting events have started again, and we have been involved in delivering most of the live events. Recently. we delivered WHO Lady Gaga concert for Amazon Prime in the US and Europe. Going by these trends, we are hopeful that economic activity will pick up pace in the coming quarters.

As a part of our long-term strategy we want to embed automation in every business process, and we had undertaken an exercise to digitally transform ourselves to achieve internal efficiencies and to further enhance the customer experience. Our automated platform called 'Optimus' for Lead to Order and Order to Cash is now live for 8 products and over 16,000 opportunities and 8,000 orders have been created till June 2020. Order log in time has now reduced from 4-8 days to real-time and there is a 30% reduction in order delivery timelines due to reduced handoffs, simplified processes, and automated workflow systems. As we move ahead in this journey, we will add more products and services to bring further simplicity to our processes.

Coming to the quarterly performance,

We witnessed a surge in traffic in March, April, and May but as the economies have started to re-open, there has been some moderation in the traffic in June. On one hand, we got the benefit of this increased traffic, and on the other hand, some of our business lines like Media, TCPSL have experienced a slowdown in activity. We delivered a strong financial performance this quarter; consolidated EBITDA for the quarter was at INR 1,042 crore witnessing a 19.9% QoQ and 26.2% YoY growth. EBITDA margin was at 23.7%, which expanded by 390 Bps both on YoY and QoQ basis.

This strong EBITDA performance is on the back of cost efficiencies and lower operating costs that we have been driving for some time and also as a result of some of the costs coming down due to shut down and COVID. We have been talking about the cost initiatives that we have undertaken in the last 9 months; these initiatives have started to show results and we have noticed a steady improvement in EBITDA margins in the last few quarters. This quarter, we also got the benefit of lower operating costs like office cost, travel, etc. We expect some of these costs to normalize as the business activity picks up, and our focus will be to continue driving efficiencies in the business, but as the economies open up and our customers start to engage, we will start to spend more on some of the customer-facing activities like marketing, customer-related travel, etc in-line with the business growth.

Consolidated Revenue for the quarter was at INR 4,403 crore, an increase of 5.6% YoY, and flat sequentially. We continue to record consistent strong growth in our Data business; revenue was at INR 3,604 crores witnessing an increase of 9.9% YoY and 0.2% QoQ. Sequential performance was flat due to revenue slowdown in some of our subsidiaries, TCPSL, TCTSL, and one-time revenue in Real Estate business in Q4.

Strong EBITDA growth has led to a PAT of INR 258 crore, translating into an EPS of INR 9 this quarter.

To conclude; Technology has been central to the way people, companies and governments have managed the Covid-19 crisis. Enterprises are now moving from business continuity and focusing on business recovery and acceleration and we continue to be a key partner for our customers and support them to adapt to these changes. Our goal is to enable enterprises to adopt new working models with increased productivity and efficiency in this digital world. We have started this new financial year with strong performance amidst these uncertain times and we are confident that we are on track to deliver on our long-term strategy.

Thank you. Over to you, Pratibha

Pratibha Advani: Thank You Lakshmi and a very good afternoon to all of you. I hope all of you are safe and healthy. Thank you once again for joining us on our Q1FY21 earnings conference call. While Lakshmi has briefly touched upon our strong financial performance for the quarter, I will take you through the details.

We delivered on yet another robust quarter despite the challenges & uncertainties that businesses are facing in these tough times. Data business: our key growth driver continues to witness robust growth in-line with our strategy.

Consolidated revenue for the quarter, as Lakshmi mentioned, came in at INR 4,403 Crore and grew by 5.6% YoY and marginally sequentially on the back of growth in Data business and also aided with some Fx benefit. This quarter, we got the benefit of increased traffic from existing customers due to lockdown which has compensated for lower new revenue due to COVID. EBITDA for the quarter came in at INR 1,042 crore, growing by 26.2% YoY and 19.9% sequentially. This is the highest ever EBITDA achieved by the company and we are very pleased to have crossed the INR 1,000 cr mark. EBITDA margins came in at 23.7% and expanded by 390 Bps YoY as well as sequentially. As Lakshmi mentioned, we have implemented various cost initiatives that have started to show results. This is visible in a structured shift in our cost base. And consequently, our margins have been steadily improving over the last few quarters. This quarter, some of our operating costs like travel, G&A and marketing were lower due to lockdown / deferment.

PAT for the quarter was at INR 258 Crore with margins coming in at 5.9% on the back of strong EBITDA performance, with YoY PAT growing by 236%.

I will now take you through our segment performance:

Data revenue came in at INR 3,604 crore and has grown by 9.9% YoY, and 0.2% sequentially on the back of strong performance in Traditional and Growth Services. While Traditional portfolio has grown by 7.8% YoY, Growth Portfolio has grown by 20.2% YoY. Our Enterprise business has also shown a healthy growth in the quarter, on the back of strong growth both in India as well as the international markets. While India grew by 6.7%, International grew by 8.3% YoY. Sequential revenue growth was flat due to slowdown in the subsidiaries as Lakshmi had called out, and one-time revenue benefit that we got in our Real Estate business in Q4.

EBITDA for the quarter came in at INR 975 crore, growing by 32.4% YoY and 18.4% sequentially on the back of strong profitable growth in Traditional and Growth services. EBITDA margin was at 27%, translating into an expansion of 460 Bps YoY and 410 Bps QoQ. This expansion is on the back of continued focus on driving cost efficiencies and lower/deferment of cost due to lockdown.

Moving to the performance of our Traditional portfolio:

Revenue for Q1 came in at INR 2,229 crore, recording a growth of 7.8% YoY and 1.5% sequentially. Increased bandwidth usage due to lockdown has led to this growth. EBITDA came in at INR 941 Crore, witnessing a growth of 18.3% YoY and 15.8% sequentially, with margin coming in at 42.2%. Margin has expanded by 370 Bps YoY primarily due to cost efficiencies driven by structural changes in our costs and also lower costs due to lockdown. Enterprise and OTT segment has contributed to this growth and has grown sequentially by 2.5%. We have seen 7% growth in IPL & 18.5% YoY growth in ILL due to higher bandwidth usage

Moving to Growth Services:

Growth services continue to scale on the back of new deals and an increase in traffic in the UCC portfolio. Revenue came in at INR 923 Crore and grew by 20.2% YoY and 7.9% sequentially. Our UCC revenues grew by 34.4% QoQ on the back of increased use of Collaboration tools during lockdown. Media services were affected due to cancellation of sporting events. Change in product mix has resulted in lower net revenue conversion. However, EBITDA for the quarter came in at INR 115 Crore as against INR 21 crore in the same quarter last year, growing by 451% YoY, and 15.5% sequentially. EBITDA margin for the quarter came in at 12.4%; and margin expanded by 80 Bps QoQ.

Our Innovation portfolio was affected by COVID related slowdown. We witnessed lower usage in revenue in MOVE portfolio, which led to a reduction in overall revenue. We expect the situation to improve with pick-up in economic activity. We are seeing lower EBITDA losses with a continued focus on making this portfolio profitable. We are also witnessing a strong pipeline for NetFoundry, especially for remote working use, and we have a lot of remote working use cases.

Moving to our Transformation Services business performance:

Revenue for the quarter was at INR 333 Crore, witnessing a growth of 10.9% YoY but a decline of 7.9% sequentially. Quarterly decline has been primarily due to loss of revenue due to termination of an onerous contract. We are also witnessing delays in the execution of some of the new orders due to lockdown. EBITDA loss for the quarter came in at INR 3 Crore as compared to a loss of INR 16 Crore in Q4 last year. Profitability of this business has been impacted by delayed transitions and an onerous contract. We have been able to successfully terminate the onerous contract and consequently, the profitability has steadily improved and will continue to do so in the coming quarters.

Now moving to performance of our Payment Solutions business:

Revenue for the quarter was at INR 52 Crore, witnessing a decline of 41.3% YoY and a decline of 36.3% sequentially. This business has been severely affected due to lockdown, average transactions have come down to 56 in Q1 as compared to 84 in Q4 leading to a decline in revenue. EBITDA loss for the quarter was INR 4 Crore due to weak revenue. With lockdown easing, we expect a steady improvement in transactions, which in turn will help improve the profitability of this business.

Moving to the Voice business:

This portfolio saw another quarter of decline. However, the decline was lower than expected due to uptick in traffic due to lockdown. Revenue came in at INR 799 crore, witnessing a decline of 10.2% YoY and 0.5% sequentially. EBITDA came in at INR 67 crore, witnessing a 24.8% YoY decline and a growth of 46.7% sequentially with margins coming at 8.4% primarily due to the better destination mix of traffic.

Moving to CapEx, Q1 CapEx stood at INR 372 crore, as compared to INR 342 crore in Q4. We are being prudent in our Capex spend and a large part of this capex is an investment for future growth and customer success-based orders.

We have generated operating free cash flows of INR 245 crore during the quarter vs negative cash flows of INR 84 crore in the same quarter last year on the back of significantly strong EBITDA growth.

Net Debt at the end of the quarter was INR 9,008 Crore, witnessing a decline of INR 168 Crore as compared to Q4. Our average cost of borrowing during the quarter was 3.03%, witnessing a decline of 70 Bps as compared to Q4, primarily due to a decline in Average LIBOR rate from Q4 to Q1.

Our trailing Net Debt to trailing 12 months EBITDA is at 2.6 times as compared to 2.9 times in the same quarter last year. Our RoCE has improved to 13.6% as compared to 9.9% last year.

In conclusion, we have registered another quarter of strong growth. Data Business, which has been the key driver for our business, recorded a double-digit growth with a robust margin expansion of 460 Bps. We continue to drive cost efficiencies in our business and with every successive quarter, we are improving our financial fitness. Our focus is to sustain profitability as well as generate higher free cash flows.

This brings us to the end of management commentary. I will now request Vipul to open the forum for Q&A.

Thank you very much.

Vipul Garg: Thank you, Pratibha. We will now start the QnA session. Interested participants may click on the 'Raise Hand' option next to their name in the participant pane and join the QnA queue. We will wait for a minute for the queue to assemble.

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

Sanjesh Jain: A couple of questions. First question on the order book, on the funnel. Lakshmi, you mentioned that you had the highest ever single quarter funnel, which we added in this quarter. Can you give a little bit more color on where is this order coming from, more India, international? It's more of a Traditional service versus growth service versus innovation. So, what is leading to this strong funnel addition which we are seeing? That's the first.

Number two, when do we see this funnel translating into a revenue growth? So that's the first part of my question.

A.S Lakshminarayanan: Yes. So firstly, yes, I think our order book has -- the additions to our order books are very strong. Again, this is on the back of a very strong drive by our teams to engage with our customers. During the strategy session, we talked about forming a customer success team where we deeply understand customers and go proactively to them to create new opportunities. And I think we have -- the order book, what we see is growing equally in India as well as in the international markets. So, I think it's almost, in both the markets, we have added a significant amount of pipeline into the funnel.

In terms of where we see the growth, I would rather not talk about Traditional and Growth. I think last time, I mentioned the way we see that is all of that as Data. We are looking at the way an enterprise would look at us rather than the way we look at ourselves internally in the product. So a lot of growth has come in the funnel in the network transformation. We see a lot of funnel adds in our Unified Collaboration portfolio, with the customer experience, the Insta CC platform as well as our Microsoft Teams and Cisco powered solutions, so that funnel is also quite strong.

We have a good number of prospects in MOVE as well. So, I think I would say the funnel add has been fairly good across all the portfolios. Our Cloud and Security has seen a fairly strong funnel add as well. So all of these, we have seen a fairly good addition.

But your question on when would we see this converting to revenues, I think I already remarked, and as you would expect, particularly the enterprise customers, we will have to see when they start moving on some of the larger transformations, especially on the network side. And they see that in a quarter's time, that will start to change, and we will see the funnel converting to order book and the order book then converting into revenues.

And as you know, some of our products are a mix of usage-based and some of them have onetime charge as well as the ongoing monthly charges that we charge. So it's fairly difficult for me to answer that question on when and how it will convert to revenue. And that's partly the reason why we said that until we get our feel of this right, we will not be giving you the data on the order booking itself, because that was pretty confusing.

So that is how I would answer, Sanjesh. I hope I have been able to give you some color on the funnel itself. It's well balanced between international and India.

Sanjesh Jain: Yes. Thanks, Lakshmi for that question. One thing with the network transformation. When we say network transformation, what do you really mean? Are we completely overhauling their enterprise solution right from connectivity to Cloud to Managed services? So when you say network transformation, how should we see it?

A.S Lakshminarayanan: Yes. So see, we have the point products. So we have the MPLS, all the Internet connects and all of those are point products. But the way we are going to market with our customers is, our customers have their Data centers. They have cloud, their applications are distributed, and they are migrating. They are all the time opening new offices, new branches. The users are distributed. So which essentially then calls for the underlying network to stay in tune with these changes that they are going through, and that calls for our network transformation. It calls for a balance between what they used to have perhaps as MPLS and addition of new Internet, which our business-grade Internet offering that we have, which is IZO Internet WAN, combining with all of that and the overlay that they are now adding with the SD-WAN capability so that the network can become more application context-aware and deliver better performance at a better cost. So that is what we mean by network transformation.

And as they do that, it equally calls for their security to be also looked at. So alongside this network, they would also have to evaluate what their security is, how they are breaking out to cloud, and all of that. So, in totality, this is what we call network transformation.

Sanjesh Jain: That's very clear. Just one last question. You in your comment mentioned that we are looking at a very strong prospect for MOVE. And Pratibha in her opening remarks shared that we are looking at a very strong order book for NetFoundry. This translates into a very strong momentum, at least on the innovative portfolio, right? When should we see a major uptick or a significant transition in the revenue all this prospect as in -- can we expect something material happening in this year itself? Or we should look at as more of an FY '22 phenomena?

A.S Lakshminarayanan: No I think this, again, in line with my earlier comments it's very difficult to forecast when some of the closures will happen. So we'll have to wait to see how these closures happen. But the encouraging signs are the early indications of the funnel add is a fairly lead indicator that these products are fairly strong, and they are meeting the customer demands. And therefore, it makes us very optimistic that these solutions will have a fairly bright future.

Sanjesh Jain: Thanks Lakshmi, and best wishes.

Vipul Garg: Thanks, Sanjesh. The next question is from the line of Deepak Mehta of MetLife. Deepak, you may please ask your question now.

Deepak Mehta: So my question is around Work from Home, as you have seen that due to more of the employees are working from home and the cyber-attacks have been increased. So what is the traction and demand for our company product you are getting? And is there any big deals or -- you have won in this space?

A.S Lakshminarayanan: Yes. Deepak, the Work from Home has many patterns of solutions that we're offering to customers, right? So many of them have at the onset of COVID, had already moved to work from home, but that was not a mainstay solution. So we are looking at 3 factors: one is over the traditional VPN and vUTM kind of security solution; the second is fairly a paradigm shift of NetFoundry-based solution; and the third is more aimed at the call centers and the BPO and ITeS companies to enable their agents to work from home in a compliant way, right? So, these are the 3 patterns. And in each of the 3 patterns, we are pushing fairly strongly in terms of enabling and growing this pipeline. I'm afraid this is a fairly new offer that we've just launched in the market, and I would not be able to give you some -- any quantitative numbers. But we do know that customers would look for -- most of the customers do have issues of people not being able to access all the applications that they would want to access from home. They are either constrained or they have to force their employees to move to office sooner than what is desirable.

So we feel that there is a need, and there are -- I think NetFoundry-based example, one of our customers where we've done thousands of users, they have seen an order of magnitude of improvement of performance on the Internet while being very secure. So this is early stage. So hopefully, we'll be able to add more color in the coming quarters.

Deepak Mehta: Okay. Thank you so much for the answer. So, one more question. So, if you see government is putting restriction on Chinese equipment, I was wondering if our company is using any of this equipment for our infrastructure? Or what can be the impact in terms of cost and margins if we plan to restrict them?

A.S Lakshminarayanan: Deepak, we have as you would expect, evaluated all the risks as a result of COVID, not just from a health point of view, from geopolitical and customers and all aspects. And this aspect that you point out in terms of the vendors and the risk associated has been very carefully evaluated. We do use -- I mean, our network is global, and we do use equipment from the Chinese vendors. But having evaluated, we feel the risks are fairly low, and we would be carefully monitoring in the future as to how we would need to follow through that. But as of now, in our evaluation, there is little-to-no risk.

Deepak Mehta: Thank you so much for the answers, and have a great rest of the year, sir.

Vipul Garg: Thank you, Deepak. The next question is from the line of Mr. Bharat Sheth from Quest Investment. Mr. Sheth, you may please ask your question now.

Bharat Sheth: Congratulations Lakshmi and Pratibha on the good set of numbers. And just can you give me some kind of...

A.S Lakshminarayanan: Sir, we can't hear you properly.

Bharat Sheth: Hello? Now can you hear me?

A.S Lakshminarayanan: Yes.

Bharat Sheth: All right. So now in terms of this NetFoundry business, can you give some more color, is it like a startup? And has this too have a separate culture? We have operated it as a separate subsidiary. So if you can give me some points which a layman can understand a little bit over, I mean for this NetFoundry? And how do we see the opportunity in the future of this NetFoundry, which is a platform-based service, right?

A.S Lakshminarayanan: I mean this would be a fairly long conversation to have to explain what it is. But to put in a very -- yes, it is a startup. It is software-based. What we would call as an AppWAN or a cloud WAN, right? So it doesn't rely on the underlying transport of connectivity and whether it's -- so it uses the Internet. What we offer essentially to our customers who use this product is agility, which means that they can spin up networks on the fly as they need. Second is, it offers military-grade security. It works on what is called a zero-trust basis. So it doesn't expect the traditional perimeter security and others that you would see in a traditional network. That's the second important feature.

And the third important feature is, while on the Internet, most people do not get good performance, not just in India, but we see that even in the international market. Now using NetFoundry, people have experienced almost 5x to 10x improvement in performance in their applications as a result of using NetFoundry. There are many, many patterns of NetFoundry. The work from anywhere is one, but also there are solutions where it has been used for SAP data migration to the cloud, for example, right, or as part of an edge solution in IoT. So there are many patterns, but it will take a long time to fully explain what it does. And these are the main features of what it offers. It offers agility, it offers security, and it offers high performance. So these are the 3 key features that it does.

Bharat Sheth: Who are the major enterprises, I mean, who would have a look for NetFoundry-based services?

A.S Lakshminarayanan: Yes. As you can imagine, in the early stages of the development, the company has been focused on selling to niche, born in the cloud kind of companies who will appreciate and understand this offering a lot better. Now we are gradually moving to larger enterprises, so NetFoundry is working with us, but it also works like other major SI’s and carriers around the world to sell to the large enterprises.

It also has partnerships, for example, with Microsoft. So the new Microsoft Azure Edge product will come embedded with NetFoundry, for example, as enterprises will move. They will have an option of using NetFoundry along with the edge. So we have spread the net quite wide, going to market through a size, through carriers, directly to companies who are more born in the cloud companies and also talking to the OEMs, such as Microsoft and others, to embed the products in their solutions.

Bharat Sheth: Yes. Well, IZO SDWAN software-defined network your product IZO, which is a very good, I mean for, a hybrid cloud. So very few people were -- I mean, particularly because of security moving to the cloud. Now because of pandemic, a lot of migrations are happening on the cloud. So how are you seeing the traction for this product?

A.S Lakshminarayanan: Yes. I mean IZO, our IZO hybrid WAN, of which I talked about IZO Internet WAN is a part of, that is a very essential and important element of the network transformation that I talked about, right? So yes, that is my answer. And that is why we see an increased pipeline as people transform. Our IZO hybrid, our IZO Internet WAN will be a very fundamental part of the transformation.

Bharat Sheth: Okay, great. And now a question for Pratibha. Pratibha, when we are on talking about the better operating cost mix, some of, I mean, savings that is because of onetime -- I mean, due to lockdown and some of them because of the efficiency. Can you give a little more color or granular little detail, I mean, how it can come back once the lockdown and normalcies come back? And how much is the real saving that structurally we have done?

Pratibha Advani: So I'll break this answer into 2 components. To answer your first part, because of COVID we have, as I mentioned in my commentary also, seen savings in travel costs, deferment of marketing costs, and general G&A. And we also got concessions from governments in our international entities. All that would roughly be in the range of INR 50 crores to INR 60 crores. Structurally, we have seen a significant change in our cost structure. And year-on-year, that would be almost about INR 100 crores; primarily on salaries, with a change in headcount mix from international to India. That would be the largest cost line. But we've also looked at all other cost lines, and they would contribute the balance INR 50-odd crores.

Bharat Sheth: On the growth services you have reported a very good, Y-o-Y EBITDA. So can you give some direction how do we see on Growth service? And then we are -- for IoT, I mean, new business has come down significantly. So directionally, how do we try to build this into our model?

Pratibha Advani: So I think Growth services, if you look at the last few quarters, has been in a sustained basis, you're seeing margin expansion. And that is on account of 2 factors: One is, of course, our top-line growth, which is the ramp-up is happening. And simultaneously, some of the structural cost benefits are flowing also into Growth services. So both those are leading to EBITDA growth and margin expansion. Going forward, you should continue to see the ramp-up, while we have had some upswing in revenue in the collaboration portfolio because of COVID, that, hopefully, in the coming quarters, will get offset by the growth that will come back in the Media portfolio.

Bharat Sheth: Okay. So I mean, growth momentum will continue overall?

Pratibha Advani: Absolutely

Bharat Sheth: And can we expect EBITDA margin of around 15-plus kind of in Growth service?

Pratibha Advani: We don't give formal guidance. So I will not be able to answer that question. Directionally, I did mention to you that we are on the right trajectory.

Bharat Sheth: Okay. And new services – Innovation side?

Pratibha Advani: Innovation, as we mentioned, it has got somewhat impacted because of COVID. We are seeing lower usage in MOVE. But given the funnel that we have, we are extremely positive about that portfolio. And in the coming quarters, we'll be able to add more color to your question.

Bharat Sheth: Lower loss will continue, I mean, going ahead?

Pratibha Advani: That's right. If you've seen the last couple of quarters, our losses are coming down.

Bharat Sheth: Great, all the best. Thank you.

Vipul Garg: Thank you Mr. Sheth. The next question is from the line of Viraj Mahadevia. Viraj, you may please ask your question now.

Viraj Mahadevia: Congratulations to Lakshmi and the management team on spectacular results. We finally seem to be capitalizing on the value of this platform for some of us older shareholders who've been around. Much of the improvement at the last gentleman's comment has come from reductions in costs of approximately INR 260 crores in Q4, Q1. It sounds like, Pratibha, INR 50 crores to INR 60 crores has come from one-off COVID cutbacks and government concessions. You mentioned about INR 100 crores have come from employee relocations from higher-cost jurisdictions, presumably to India. What about the balance INR 100 crores?

Pratibha Advani: I don't want to go line by line, but I did mention that across all our cost lines, we have been driving efficiency, and this productivity is coming through these cost lines. But I don't want to get into the details of each of these lines. As I mentioned, structurally, there has been a change in our costs.

Viraj Mahadevia: Okay. Understood. So can we assume taking out the INR 50 crores to INR 60 crores one-off of COVID plus concessions, can we assume sort of new normal cost structure is roughly INR 200 crores lower than what we saw in Q4, going forward?

Pratibha Advani: No. As I mentioned, that structurally, the INR 100 crores is what is going to remain. And that is what is the structured change in our costs.

Viraj Mahadevia: Okay. Sure. Secondly is contrary to the expectations around commentary around COVID and Work from home, revenue growth has been a bit muted, right? A lot of the change in profitability has come from the cost side. Is this just a timing issue on booking of Work-from-home revenues for enterprises? It sounds like you have a good revenue pipeline, Lakshmi indicated that it's hard to predict how that will translate into revenue bookings. But over the next 12 to 24 months, can you expect a meaningful uptick in revenues and revenue growth vis-à-vis the low single-digit growth we've seen in the past?

A.S Lakshminarayanan: So let me try to answer that question. See, when we-- for Work from home, we are not participating in the broadband data consumption, right? So we are not in that play. We are not connecting to --we are not giving connections of data broadbands to homes. So we are not in that play. So our -- the result of work from home increases are coming as a result of having these, the Cloud service providers like the Cisco collaboration, the Microsoft Teams collaborations or Zoom and so on.

As a result of increased use of such collaboration tools, which are on the cloud, these cloud providers are going to require, and there is an increase of traffic, and now either enterprise have to strengthen their -- increase their capacity to the Cloud or these Cloud providers themselves for their interconnects are having to increase their capacity, right? So that is how Tata Comm participates in the growth. So we are not participating in, for example, us talking from home, we are not participating directly in those -- in the revenue.

Viraj Mahadevia: I think in my -- sir, I understand that ours is not a last-mile presence, right?

A.S Lakshminarayanan: So the -- and as a result, when we talk about the increase in work from home, some of the new things like SCDx we're talking about. So when people migrate and move to, let's say, a NetFoundry solution, there, again, we will not have the broadband revenue, but NetFoundry as a platform will start to clock in the revenue as people use it, right? So ours would be an addition to what the customers already have. And therefore, we can't unfortunately directly correlate the increased working from home to the shape of our revenues. That was the point I was trying to make.

Viraj Mahadevia: Understood. Understood. And in terms of the visibility of the next 12 to 24 months with this increased pipeline you're seeing in Q1, et cetera, less concerned about what we see on a quarter or a quarter 2 versus quarter 3 basis. But over a directional 12-24-month period, do you see significant traction in revenue growth, to say, higher single digits versus the lower single digits we've seen in the recent past?

A.S Lakshminarayanan: Again, I think, a) we can't give you any forward-looking ones, and it's fairly difficult to. So all I can say is our pipeline looks good, and it's a matter of how it gets converted and then converting to revenue.

Viraj Mahadevia: Sure. Great. And some sense, Lakshmi, on sort of the non-core land and now that the demerger is complete, is that something that we are working on monetizing? It's a difficult environment to monetize large land parcels. But do you see this again over the next 12 to 24 months starting to get gradually monetized to pay down debt?

A.S Lakshminarayanan: No. I would say we are looking at all options, but we wouldn't want to put any time frame to it.

Viraj Mahadevia: Okay. Thank you. All the best, and congratulations!

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

Riddhesh Gandhi: Hi, and many Congratulations on the numbers. Looks like you guys had indicated some amount of headwinds and some amount of tailwinds with regards to COVID. Would be helpful if you can, to an extent, like quantify how much of it is, I mean, temporary headwinds and how much of it is temporary tailwinds, both in terms of the revenue and if possible EBITDA? If you could just give us an indication as to how shall a normalized number would look like.

Pratibha Advani: Lakshmi, you'd want me to take that?

A.S Lakshminarayanan: Yeah, Pratibha. Please go ahead.

Pratibha Advani: Yes. Riddhesh, so roughly, our top line has got impacted by about INR 40 crores to 45 crores on account of COVID. So in the revenue, the impact is about INR 40 crores to 45 crores. And in the cost, I already mentioned that we had a benefit of about INR 50 crores to INR 60 crores.

Riddhesh Gandhi: Got it. And when I look at it, ideally be -- so they are offsetting each other effectively speaking?

Pratibha Advani: Absolutely.

Riddhesh Gandhi: So if I look at it from a normalized perspective, we'd expect this to be the, I mean, base case, out of which we grow from here with regards to potential revision on the funnel and the pipeline?

Pratibha Advani: Ideally, in the ideal world, yes. But as you know, our portfolio is a mix of products, and profitability depends on that mix, and hence, depending on how that mix changes. But yes, we should continue to see similar EBITDA.

Riddhesh Gandhi: Got it. And the other question was in terms of, we own a 26% stake in the, I mean, Data center for which we had hold some amount of the stake earlier as well. Given it's a minority stake, and we've seen a few recent transactions happening at extremely high prices, and multiples, would that be something that we will consider to monetize given the opportunity right now?

Pratibha Advani: I mean we're looking at all kinds of options, but we're too premature to look at anything at this point.

Riddhesh Gandhi: The question was if it's strategic importance to us where we need to own the 26% stake? Or it isn't all that strategically important?

Pratibha Advani: I would say at this point, we are invested in it, and it's an important partnership for us.

Riddhesh Gandhi: Thank you, and that is all from me. All the best!

Vipul Garg: Thank you Riddhesh. In the interest of time, we will now take the last question. The last question comes from Vimal Gohil. Vimal, you may please ask your question now.

Vimal Gohil: Yes. So I just -- I'm sorry, I joined the call a bit late. Just had to follow up on the cost question. I think you have explained as to what has been the structure of your cost savings in this quarter and how much of that is sustainable, and how much of it will probably reverse going forward? That was my first question. The second question is, what would be the kind of CapEx that you were looking to do for the full year?

Pratibha Advani: Our CapEx guidance remains the same. We've not changed it. Having said that, we are very careful with our spending, primarily, as I mentioned in my commentary, it is driven around customer success-based contracts that we are winning and for future growth.

Vimal Gohil: Yes? Ma'am, on my first question, please, if you could help me understand the structure of your cost savings this quarter, your reduction in employee cost, reduction in other OpEx. If you could just help me how much of that is sustainable and how much of it will reverse?

Pratibha Advani: So I mentioned that the structural change in our cost, that's about INR 100 crores. And the COVID benefit is in the range of INR 50 crores to INR 60 crores.

Vimal Gohil: Thank you, and all the best.

Vipul Garg: Thank you, everyone, for joining the call. I'll now hand over to Lakshmi for his closing comments.

A.S Lakshminarayanan: Thank you, everyone, for joining the call. I'll just reiterate that we have had a very strong quarter to begin the year on the back of strong structural changes that we have initiated on the cost side and our funnel pipeline looks good. And hopefully, with our engagement with our customers, we would be able to convert them and show the journey towards our strategy in a stronger way. Thank you.

Vipul Garg: Thank you, Lakshmi. Thank you, everyone, for joining the call. You may now disconnect.

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