October 19, 2020 at 02:30 pm IST

# Q2 & H1 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 September 30, 2020 have been announced on Friday, 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 today for the earnings webinar. I once again will express our regrets for this delay. There's been a technical glitch. I'm sorry for keeping you all waiting. But I hope all of you are safe and healthy during these times.

At Tata Communications, we highly value the safety of all our employees. And ever since the first lockdown in March, we have majority of our employees working remotely. We still have about 7% of our employees working from office and on the field. We sincerely thank them all. We are taking all necessary precautions to make sure that our workforce remains safe and healthy.

We are delighted to report another strong set of numbers for this quarter despite economic uncertainties. Consolidated revenue for the quarter was at INR 4,401 crores, witnessing a growth of 3% year-on-year and flat sequentially. EBITDA for the quarter was at INR 1,158 crores, witnessing a growth of 38.9% year-on-year and 11.1% Q-on-Q. This growth was on the back of the operating model alignment exercise that we did and the resulting cost productivity and the COVID-related benefits. Some benefit in cost has also come due to timing, and we expect this benefit to moderate in H2 as some of the operating costs are back-ended. PAT for the quarter came in at INR 384 crores, as compared to a profit of INR 54 crores in Q2 of last year.

Data business revenue was at INR 3,642 crores, witnessing a growth of 7.2% year-on-year and 1.1% Q-on-Q. Quarterly growth has been affected by slower enterprise activity due to COVID and forex impact. Normalized for forex impact, data revenue would have grown by 1.7% Q-on-Q. Within data, Traditional services grew by 5.1% year-on-year and 1.9% Q-on-Q. Growth services grew by 17% year-on-year and witnessed a marginal decline of 2.2% Q-on-Q.

We witnessed a mix change in our Growth services this quarter, while usage-based enterprise voice traffic moderated to pre-COVID levels, there was strong growth in other solutions. Sporting events have started again, and this led to a recovery in our Media services. We witnessed a strong Q-on-Q growth in our Video Connect services and also our Security and Hosting services. Enterprises are leveraging the shift to cloud-first, Internet-first strategies and are looking to seamlessly embark and advance on their digital transformation journey. We are innovating across our portfolio to offer solutions that are tailored to this new digital world.

Our enterprise business has grown by 9.5% year-on-year, and we have witnessed a strong growth from global OTT players. Businesses across the world have accelerated their digital journeys and of their customers and supply chain interactions and the share of digital or digitally enabled products in their portfolio. Most businesses recognize technology's strategic important as a critical component of the business and not just the resource of cost efficiencies. These changes are long-lasting, and investments in digital initiatives will increase further. We believe that we'll be a long-term beneficiary of this digital adoption, and this stems from the structural changes in adoption of the virtual collaboration, greater access to Internet applications and enhanced requirements of seamless and secure connectivity for a scattered workforce.

Customers have been rapidly adopting cloud applications and migrating workloads and applications from in-house data center to clouds. Our IZO platform was created to address customer challenges relating to cloud adoption. Since its launch, the platform has evolved from being primarily a network service to an end-to-end solution covering network overlay and continues to evolve based on customers' requirements. We offer cloud and network services under this platform. IZO Private Cloud is a fully managed cloud platform that enables enterprises to integrate, manage and control their distributed IT environments with ease, consistency and better control, meeting all regulatory and regional data residency requirements. It is available globally across 10 geographically distributed nodes for enterprise customers and audited cloud nodes for Government of India and PSU customers. IZO Private Cloud has integrated security, which protects infrastructure from unauthorized access and threats. We help orchestrate the multi-cloud setup, simplifying the management and monitoring of the most complex cloud environment, thereby enabling a unified cloud experience.

We have enabled digital transformation for many enterprises, such as GoAir, Trent Retail, IPCL, Marico and so on with our IZO cloud platform and services. Our hosting services, which include both private and public cloud, grew by 14.4% year-on-year. On the network side, IZO Internet WAN is another product targeting customers looking at transition to Internet from private networks. The service is a unique internet-based connectivity solution targeted at global enterprises and is available in 148 countries. What makes IZO Internet WAN service unique is that it rivals traditional private VPN technologies in terms of SLAs, performance and features, but uses the public Internet as a transport mechanism. In effect, the service is the best of both worlds, providing the advantages of the Internet with advantages of MPLS.

We have been getting very good traction for our IZO portfolio, and we have won some marquee deals over the last couple of years. In Q2, IZO Internet WAN grew by 33% year-on-year. Last quarter, we won a big deal for a global bank headquartered in APAC for our IZO Internet WAN solution, providing connectivity over Internet in multiple geographies. We're providing coverage in a mix of developed and emerging markets, including some hard-to-reach markets in Africa and SLAs and reducing the cost of ownership for the customer by 30%. This has been highly appreciated by the customer.

Media portfolio has started to see some recovery with starting of sporting events. We continued our relationship with Star India for the third year to help them with the production and live broadcast of IPL 2020 Tournament to fans globally. With our Video connect solution, Star is broadcasting and streaming the matches in English, Hindi and 7 other regional languages, with the capability to add many more. Our solution supports Star with satellite distribution of IPL world feed to various global broadcasters from the site. It gives them the flexibility to capture and deliver the programming across IPL matches with reduced crew of on-site operators and with 24/7 service management.

Coming to our MOVE portfolio, which has been affected by COVID, some of the industries like airlines and auto OEMs have been affected and usage-based revenues remain low, but we are witnessing some strong recovery in other functionalities of MOVE platform. We're enabling Victor Mobile to launch customized prepaid and postpaid and hybrid mobile plans for subscribers across countries, starting with the U.K.. Victor Mobile, who envisions to become one of the world's largest multi-play MVNO, will be able to scale and launch their MVNO operations to other parts of the world with faster time to market with our MOVE MVNA services. In future, Victor Mobile also plans to offer the medium and large enterprise customers our IoT-based connectivity services through MOVE platform.

We launched our SCDx proposition in the last quarter. One of the key components is to provide solutions for B2C companies to enable a digital customer experience to their customers. I'm happy to announce that our first customer for the solution has gone live. We enabled Tata Communications Store At Home solution for Croma, which is one of India's largest consumer durables and electronics retailer. Our solution will enable the company to redefine its sales process and bring assisted selling experience to deliver a personalized, interactive superior shopping experience to the customer over its website. Through this solution, Croma employees can provide a seamless demonstration to its customers through a combination of audio, video and chat, assist customers with co-browsing its ecommerce site, facilitate discussions with other departments to clarify queries across a wide range of topic like financing, buy-back etc. This helps Croma deliver a near-real experience to customers, combining the intelligence of software, applications, and connectivity to provide the stable and secure digital experience required for the purchase. The solution was rolled out over the last weekend of September and Croma plans to scale it over a period of time to cover all its 150+ stores across 40 cities. This is a great validation of Tata Communications' platform that marries the personalization of an in-store experience with the ease of digitally buying anytime from anywhere. Transformation services business is back on track and the profitability has started to improve. We have a strong international pipeline for this business, and we expect the performance to improve further in the coming quarters.

Our Payment Solutions business remains affected by COVID. We have started to see some improvement in the business, but the average transaction count is still lower than the pre-COVID levels. With economic activity picking up, we expect the transactions to go up further in the coming quarters.

We have envisioned our road map for the future success, and we are on track. We are in the process to redesign our customer conversations and innovate our product offerings by bundling key elements to offer solutions and platforms with an aim to maximize wallet share and our customer retention. We revamped our organization structure, our product, sales and support teams are now in greater sync with each other than ever before. This has helped us to focus on the key identified customer accounts and deliver superior customer experience. We are witnessing still, a slowdown or slowness in the deal closures, especially in the large network transformation deals, which are getting pushed out to Q3 and Q4 by our customers. And we have witnessed this trend more in the international geographies. Our pipeline and funnel add continues to be robust and as economy and enterprise activity picks up pace, we expect faster deal conversion and, therefore, better traction of revenue in future. Q3, however, is generally a seasonally weak quarter as usage-based revenue is lower due to holidays. We are working closely with our customers and assessing how the growth will pan out for us in H2.

The strength of our offerings and customer-centricity has been recognized time and again. During last quarter, we were felicitated in 3 categories in ET Telecom Awards 2020. We are chosen as Best Enterprise Managed Security Services Provider, Best Enterprise Network Transformation Provider and Overall Best Enterprise Services Provider in India. These recognitions give us confidence that we are in the right direction.

To conclude, we are co-creating a digital ecosystem of solution that shapes the new world with the new tomorrow. We see great opportunities ahead as organizations look to harness the power of technology to transform their business model and drive competitive differentiation and sustainable development. I would now request Pratibha to take you through the financial highlights.

Thank you. Over to you, Pratibha.

**Pratibha Advani:** Thank you, Lakshmi. Good afternoon, everyone. Thank you once again for joining us today on our Q2 FY '21 earnings conference call. While Lakshmi has briefly touched upon our strong financial performance for the quarter, I will take you through the details.

We continue to deliver robust performance despite the challenging global environment. Data business continues to be the key driver for our business and has witnessed another quarter of Y-on-Y growth. Consolidated revenue for the quarter came in at INR 4,401 crores and grew by 3% Y-on-Y, although flat sequentially. While data business has shown a growth, moderation in enterprise voice traffic, as Lakshmi mentioned, and forex impact has led to a subdued growth sequentially. EBITDA for the quarter came in at INR 1,158 crores, growing by 38.9% year-on-year and 11.1% sequentially. EBITDA margins came in at 26.3% and expanded by 360 basis points year-on-year and 260 basis points sequentially. Our profitability has improved due to a continued focus on driving operational efficiencies, and we have witnessed 3 successive quarters of double-digit EBITDA growth.

We continue to make structural changes to drive productivity, fine-tune our processes and drive manpower productivity to optimize costs. Results have been visible, as you can see, and we plan to continue making these positive shifts in future. COVID-related cost benefit continued in this Q2. Additionally, we got a one-off cost benefit of INR 43 crores. PAT for the quarter came in at INR 384 crore on the back of strong business performance, lower depreciation, interest and tax cost. PAT grew by 613% year-on-year and 49.2% quarter-on-quarter.

I will now take you through our segment performance.

Data revenue came in at INR 3,642 crores, growing by 7.2% year-on-year and 1.1% quarter-on-quarter. Quarter Y-on-Y, we continue to witness strong performance across all segments. Enterprise business also continues to show healthy growth, with strong growth in India as well as the international markets. India business grew by 5.1%, and international business grew by 16.4% year-on-year. As communicated in last quarter, we are witnessing slower enterprise activity due to COVID and the deal conversion is taking longer than usual. This has led to a subdued sequential growth. We were also impacted by forex. Normalized for forex impact, our data revenues have grown by 1.7% Q-on-Q. Q2 EBITDA came in at INR 1,108 crore, growing by 47.2% year-on-year and 13.7% sequentially on the back of strong profitable growth in Traditional and Growth services and lower losses in Innovation services. EBITDA margin came in at 30.4%, expanding by 830 basis points year-on-year and 340 basis points Q-on-Q.

Moving to the performance of our Traditional portfolio;

Revenue came in at INR 2,271 crores, growing by 5.1% year-on-year and 1.9% sequentially. EBITDA stood at INR 1,016 crores, having grown 24.3% year-on-year and 8% sequentially, with margins coming at 44.7%. Margin expanded by 600 basis points year-on-year on the back of operational efficiencies driven by structural changes in our costs and lower cost as a result of lockdown. NPL grew by 30.9% year-on-year, and IP Transit witnessed a growth of 15.5% year-on-year.

Moving to Growth services;

Revenue came in at INR 903 crores, witnessing a growth of 17% year-on-year and a marginal decline of 2.2% sequentially. This sequential decline was primarily due to moderation in enterprise voice traffic, as I mentioned earlier. The traffic is now close to pre-COVID levels. Some of this decline is compensated by growth in our Media, Security and Hosting services. Sporting events have restarted now, and this has led to some recovery. Video Connect platform grew by 74.2% Q-on-Q. Cloud-first and Internet-first strategies are accelerating digital adoption, leading to a strong demand for our cloud security and hosting services, which have grown by 22% quarter-on-quarter. EBITDA for the quarter came in at INR 150 crores compared to INR 28 crore in Q2 FY '20, having grown by 440% year-on-year and 30.6% sequentially. EBITDA margin came in at 16.6%, expanding by 420 basis points Q-on-Q. We were benefited this quarter by operational efficiencies and a change in our product mix. Share of more profitable services have increased in the portfolio, leading to a higher EBITDA margin. Our innovation portfolio, as we mentioned last time as well, has been affected by COVID-related slowdown. We are, however, seeing signs of recovery, and there has been strong growth in this portfolio across all products. MOVE has grown by 53%, IoT by 78.5% and NetFoundry by 11.4% Q-on-Q. As we are scaling revenue, EBITDA losses have started to come down. This quarter, EBITDA loss was

INR 80 crores as compared to a loss of INR 150 crores in the same quarter last year.

Moving to our Transformation Services business.

Q2 revenue came in at INR 333 crores, witnessing a growth of 2.8% year-on-year and flat sequentially. EBITDA for the quarter came in at INR 4 crores as compared to a loss of INR 3 crores in last quarter. We are in the process of executing some large international deals, and we expect revenue trajectory and profitability to improve in coming quarters.

Moving to Payment Solutions business.

Revenue for the quarter came in at INR 58 crore, having declined by 31.7% year-on-year, but grew by 11.1% sequentially. The lockdown continues to have a severe effect on this business, though we have started to see some improvements. Average transactions for the quarter improved marginally and came in at 64 compared to 56 in the last quarter. This is still significantly lower than 85 transactions recorded in same quarter last year. EBITDA loss for the quarter was INR 4 crore.

Moving to Voice business.

Revenue came in at INR 759 crore, declining by 13.2% year-on-year and 5.1% sequentially. This decline is primarily due to lower traffic. EBITDA came in at INR 50 crores, witnessing a decline of 38.6% year-on-year and 25.7% Q-on-Q, with margins coming in at 6.6%. Voice business now contributes just 4.3% to overall EBITDA.

Capex for Q2 came in at INR 318 crore, as compared to INR 372 crore in the preceding quarter. We continue to invest for our future growth and customer success-based orders and at the same time be prudent with our capital allocation in line with our long-term strategy to conserve cash.

Net debt stood at INR 8,631 crores and witnessed a decline of INR 377 crores compared to Q1. Net debt came in despite dividend payout of INR 114 crores and the annual bonus payment to our employees during the quarter. Average cost of borrowing for the quarter was at 2.8%, witnessing a decline of 23 basis points as compared to Q1. This is primarily due to decline in average LIBOR, which is down from 0.37% in Q1 to 0.26% in Q2. Our trailing net debt to trailing 12 months EBITDA is at 2.3x as compared to 2.8x in the same quarter last year.

ROCE has seen significant improvement coming in at 17.3% as compared to 11.6% in the same quarter last year.

To conclude, Data business continues to grow at a healthy pace, and profitability has improved due to our focus on operational efficiencies. There has been a robust improvement across all financial parameters. Our profitability and cash flow generation has improved significantly in the last few quarters, leading to a stronger balance sheet for the future.

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

**Vipul Garg:** Thank you, Pratibha. Interested participants may click on the 'Raise Hand' icon next to their name in the participants' pane on the Webex application to join the QnA queue. We will just wait for 1 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 from my side. First, on the revenue trend. Though we have delivered exceptionally strong EBITDA free cash flow, on the revenue, it still looks like we are not at the trajectory we would have expected. This compared to the IT companies which fight for the same kind of spend, which we are there. They have shown a pretty strong growth and so Indian IT companies have shown a very, very strong growth. So what is the disconnect wherein we are still not seeing that kind of an uptick in the revenue growth versus the IT companies which have been in the same space? That's my first question.

**A.S Lakshminarayanan:** Yes. Sanjesh, I think quite difficult to compare the IT SI businesses with us, so I wouldn't be able to really comment on their commentary. I can tell what we are seeing, as we had commented, there is a strong growth in our cloud and security area that we have reported. But the larger needle shifters for us are the large network transformation deals. And there, especially in the international market, we have seen some pushing out of those deals to the future quarters, but we hope that will pick up.

**Sanjesh Jain:** Got it. Just one related to network. So for us, I was looking at the numbers. International enterprise actually has done very well. So it's grown at 16% Y-o-Y. But is India is one which is dragging down, right, which is 5% growth for Y-o-Y? So it's a problem that India enterprise is still not shifting or India Its-- or our telecom connectivity is at a nascent stage and they require a complete transformation? So why India growth is still not picking up?

**A.S Lakshminarayanan:** Yes. I think this is my commentary about the deal closures and the softness from what we saw in the deal closures. But on the India enterprise side, I think the COVID impact of us being able to deliver the equipment and realize the changes. So that perhaps is the -- reason for network-related slowness.

**Sanjesh Jain:** Got it, sir.

**A.S Lakshminarayanan:** I mean, international, I think whatever the deals that we have won are being executed, and that's resulting in the growth.

**Sanjesh Jain:** Okay. So India we still have a problem in terms of supply chain is what you are telling, right? And once that's resolved.

**A.S Lakshminarayanan:** I will say supply chain -- yes. Go ahead. Sorry.

**Sanjesh Jain:** Got it. On the UCC side, I'm surprised because we are back to pre-COVID level kind of a growth and on a pre-COVID level base. It's slightly surprising because we still see a lot of usage on the UCC and all. Is there any change in the way revenue is recognized? Or how it is? How should we see the UCC space?

**A.S Lakshminarayanan:** No. I think the UC space from a traffic point of view is what we commented that it's softening as people start to go back to the offices. So that's why we saw the drop in the traffic and, therefore, the softening of the usage-based revenue.

**Pratibha K. Advani:** Sanjesh, just to share some data point with you, our traffic used to be almost -- 1 billion minutes, and that's down to the level of 600 million, 700 million minutes.

**Sanjesh Jain:** And what was it pre COVID?

**Pratibha K. Advani:** It was the same range.

**Sanjesh Jain:** No, that's what's surprising me because we still see a lot of usage of video conferencing and all. The things are normal again, now, these minutes coming back is slightly surprising. That's what I wanted to understand.

Is there any change in terms of deal structure? It's very difficult to reconcile from the outside world.

Okay. One question on the cost side, Pratibha, for you. So we have done a phenomenal job in terms of cost, and we still see that there is still staff cost optimization in the exceptional item, which indicates that there is more cost saving probably coming in the coming quarters. So how much more cost saving can we see in next, say, 12 or 18 months? And what kind of headroom do we have in terms of more margin expansion, more cost-saving-led?

**Pratibha K. Advani:** Sanjesh, while we are driving our cost optimization program, but you're not going to see immediate benefit. This will really come in by next year because the whole process takes time. Again, what has happened is while there have been some structural benefits in cost, and we had alluded to in our last quarter commentary, some of the COVID cost benefit may actually go away in the future quarters as things open up and we start going back to offices. So overall, I would say that our margin should be in the range of 22% to 25% because some of that COVID benefit is likely to go away in future. And also some cost, because of COVID, have got deferred, for example, marketing, et cetera, have actually got deferred. But finally, we will have to incur and spend those costs.

**Sanjesh Jain:** Got it. Thanks. One last question. On the tax side, tax rate on a consolidated basis has come down significantly, now at 20% of the PBT. How should we see the tax rate for this year and next year?

**Pratibha K. Advani:** It will be more appropriate for -- while this year, of course, it will be lower because we've also got the benefit on account of capital gains, et cetera, this quarter. But if you are modeling, I would say, look at it in the range of 28% to 30%. But we will have tax efficiencies as our international entities now are turning profitable.

**Sanjesh Jain:** Yes, that's what I was thinking because we would have accumulated losses and that should help us in bringing down the tax rate.

**Pratibha K. Advani:** And that's why you've seen that it has been declining. If you go to a couple of years back to today, we are very, very tax-efficient.

**Sanjesh Jain:** So 28% to 30% in that sense looks slightly higher because India, which is a significant chunk of our profit, is at 25%, and international now turning profitable and we have accumulated losses. There should be no tax incidence there, right? And effectively, our consol should be anywhere between 20% to 25% is what I was expecting.

**Pratibha K. Advani:** You're right, Sanjesh, it should be lower. But just to be on the safe side, I have given you that range. But ideally, we would aim our tax rate to be between the 25% to 28% range. But it's dependent on a lot of factors, right? You don't know how some geography's profitability is going to play out. And that is why I said for purposes of modeling, it may be safer to build your models at the 28%, 30% range. But our effort will be to continue to drive tax efficiency. And there are a lot of initiatives that we are working on, at the moment.

**Vipul Garg:** Thanks, Sanjesh. The next question is from the line of Viraj Mahadevia. Viraj, you may please ask your question now.

**Viraj Mahadevia:** Hi, Congratulations to the management team, fantastic results. I had a question regarding this INR 109 crores exceptional provision. Can you maybe throw a little bit of light on this around the VRS? How many employees? What percent of your employee base? The nature of the roles? Onshore, offshore? And consequently, what is likely to be the reduction in the employee benefits expense on a quarterly basis going forward as a result?

**A.S Lakshminarayanan:** No, I'm not sure if we can give specific details on how many and so on, if that is a question that you are asking, Viraj.

**Viraj Mahadevia:** I'm just asking for more of a flavor. I mean, I'm not looking for X number of employees, want flavor for what are the kinds of roles, where is the fat being cut? Is it overseas or India? Specific roles in technology, R&D, sales and marketing? I mean, where are these cuts coming from?

**A.S Lakshminarayanan:** Right. So I think it would be fair to say that as we were looking at our operating model in terms of where our people are based and how do we service our customers; Large portions of this is happening overseas and also some in India as we do more automation, and that is driving some of the operating model benefits. A large part of it is overseas, but also in India is what I would say. But in terms of roles, it's across the space, looking at all of our portfolios, all of our units, right, in terms of the product units, the sales and solutioning, looking at how we can centralize and create a more a hub-and-spoke model for some of the -- so it's across the units that we have looked at what is the right model for us to operate. And therefore, the roles span across all of the business units and all of the business functions.

**Viraj Mahadevia:** Right. And is this expected to continue? And then what is likely to be that new normal sort of employee benefits cost structure on a quarterly basis?

**A.S Lakshminarayanan:** No. I think I wouldn't say it's expected to continue. This was an initiative that we had launched late calendar year last year in looking at realigning our operating models, right? So that exercise is coming to an end and will be ending in the next few months. And that's the exercise that we have completed. So that would be the answer, yes.

**Viraj Mahadevia:** And Pratibha, just to my first question, which was what is employee benefits expense going forward on a basis from INR 760-odd crores per quarter, where you've been -- how much are you likely to move down to on a quarterly or even on an annual basis?

**Pratibha K. Advani:** So what I would say is that -- and I don't want to give a number, but basically, what we're aiming at is improving our on-site offshore mix. And if you look at it last year, it was 61-39, and we are aiming this year to bring it down to 53-57. Y-on-Y, if you look at it, our manpower costs are down by about INR 50-odd crores.

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

**Vimal Gohil:** Yes, sir. Thank you for the opportunity, Pratibha ma'am, the question is for you. In terms of the cost saving that you have seen this particular quarter or in the first half, could you just segregate the amount into the cost saving that has happened because of COVID and that could recur going forward? And the cost savings which are structural in nature and will continue to benefit TCOM going forward?

**Pratibha K. Advani:** Our structural savings Y-on-Y would be in the range of INR 190 crores to INR 200 crores. And the COVID benefit is the same this quarter, what we had last quarter, INR 50-odd crores. That's continuing.

**Vimal Gohil:** Right. So I think you also had about INR 50-odd crores benefit in the first quarter. So total COVID benefit would have been about INR 100-odd crores?

**Pratibha K. Advani:** No, no, I mean, no. I mean, there's no incremental COVID benefit. As a matter of fact, we were envisaging that some costs would come back this quarter. Those have now got deferred to Q3 as the economy starts to open up and we go back to our offices.

**Vimal Gohil:** Right. Lakshmi, sir, one question for you. Sir, you had -- last quarter-- the commentary on the general demand environment was very similar that you started winning deals and the deal pipeline was quite strong. So while the deals have been won, conversion is an issue because of the lockdown and the situation, the disruption that we are facing. Is it fair to say that this probably the situation will take some time to revive and the eventual growth that we are expecting to see that will come only in maybe in the first half of FY '22?

**A.S Lakshminarayanan:** No, so firstly, on the strength of the pipeline, Vimal, it's still quite strong, and we are able to see a good amount of funnel adds in our pipeline. And where there is a sense of urgency and the things have started moving like in the Media businesses, we are seeing closure as well as the realization of such revenue. But particularly when it comes to the larger network transformation deals, we are seeing still slowness in conversion, at least in Q2. And it got pushed out, and we are hoping that it will get closed in the coming quarters.

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

**Bharat Sheth:** My question is around innovation, that in medium term, how we see deal closures and pickup happening and what are our broad timelines for break even, if we can share something.

**A.S Lakshminarayanan:** Yes. So I wouldn't comment on the time lines or the breakeven, maybe Pratibha has a model that will. But in the innovation, we have, as we said, NetFoundry, has started picking up in terms of their revenues, and we see a fairly strong pipeline as well. And we believe that, that will start growing and it continues to grow, but the needle-shifting growth will happen next year is what we believe. The India IoT business is already delivering some good results, and we have plans to ensure that it can continue the growth path that it is on, and it will continue to grow. And the new IoT platform also, we'll have to wait to see whether we can close the OEMs and we are targeting a few other areas with semiconductors and so on, some new segments with those offerings, and we believe that will also help us to grow in those areas. So specific timeline to breakeven because there are multiple products in that, I won't be able to give you a specific timeline.

**Bharat Sheth:** Okay.

**Pratibha Advani:** But just to add more color to what Lakshmi said, and of course, this has been your question in every call, we would breakeven when revenue is around INR 125 million.

**Bharat Sheth:** INR 125 million.

**Pratibha Advani:** Yes

**Bharat Sheth:** My other question is around operational efficiencies and cost optimization. Do we have any more scope on this side and what are some of the initiatives that we are taking, if any, for the future.

**Pratibha Advani:** I think that's going to be an ongoing exercise. And as I mentioned even in my commentary, we are looking at making our processes more efficient. We will continue to drive productivity. But obviously, a large part of that work has already got done, and that is visible in our margin expansion.

**Bharat Sheth:** Okay. And the last question on any asset monetization -- whatever you wanted to -- any color on asset monetization that we can note --

**A.S Lakshminarayanan:** Yes, Mr. Sheth, I think we are in the process of looking at all the options of monetization across the many asset categories that we have. But not in a place where we can articulate the timing and the amount at this stage. But we are examining across our real estate and other assets that we have. All options are being looked at.

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

**Kaushik Dhanuka:** Yes. Just want some perspective on this fiber which you have, under the sea and terrestrial also. Do you foresee any disruption risk to this, like some new way of delivery data through satellite or something? Can you just throw some light on this?

**A.S Lakshminarayanan:** No. The short answer would be no. But for a long answer, I have to get an expert to answer to you.

**Kaushik Dhanuka:** Okay. So you're not apprehensive of major disruption for your fiber, which you have?

**A.S Lakshminarayanan:** No. On the contrary, in our Media business, one of the big shifts, I mean, there are a few big shifts happening in the Media business. One is the customers' movement from satellite to fiber and Internet. So that's a big shift already happening because the cost of satellites are much greater. The second shifts that are happening in them is more of remote production. So if I were to look at that trend and what those customers are telling us, then I can extrapolate and say in this, we don't expect anything to happen to this.

**Kaushik Dhanuka:** Okay. And Lakshmi, just another thing, this focus on Atmanirbhar Bharat by the government and various policies in this regard, whether it's for electronics or white goods, et cetera. How do you see that for Tata Communications, like you're talking about semiconductors as a new area. So can you just throw some light on this?

**A.S Lakshminarayanan:** No. I think the context of MOVE in the semiconductor was more about these semiconductors can build in the MOVE-- you can have capabilities into the semiconductors before they sell it on to the OEM right? So that is what we are looking at. But yes, so that -- and that's got no relation to the India program of Atmanirbhar.

**Vipul Garg:** Thank you Mr Dhanuka. We have the last question from the line of Riddhesh Gandhi.

**Riddhesh Gandhi:** Congratulations on great numbers. There is a confidence that comes from you with regards to -- and I think I've asked this earlier question answers as well. In terms of how do you think about incremental return on capital employed on the reasonably large kind of CapEx, which we can continue to do every year? And how should actually we be thinking about it both from -- I mean, a sustenance Capex perspective and a growth Capex perspective?

**A.S Lakshminarayanan:** Yes. So, if I understood your question right, basically on the return on the capital employed, how do we differentiate between the growth capital and what is required for sustenance? Is that right, Mr. Gandhi?

**Riddhesh Gandhi:** So on the hurdle rates, of which we also have internally, because I think the target which we have set across for our ROCE a couple of years ahead are reasonably high. So just to understand how to reconcile from actually where we are now and where we'll be in a few years from now and how we are going to be able to achieve that. And also, our internal hurdle rates for the capital employed.

**Pratibha Advani:** Lakshmi you want me to take that question?

**A.S Lakshminarayanan:** Yes, go ahead.

**Pratibha Advani:** Yes. So our IRR hurdle rate we take is in the range of 20% and if you've seen -- we've -- I mean, we've seen a significant growth in our return on capital employed. And we are going to stick on with the number that we called out earlier because incremental EBIT is going to lead to incremental ROCE growth. Having said that, obviously, the mix of our product portfolio is what is going to lead to future EBITDA growth. Having said that, we are still confident that we will hit those ROCE numbers.

**Riddhesh Gandhi:** Sure. So, if I understand is that the investments, which we would have made over the last few years are still to generate the appropriate EBIT which we think which we can achieve? And as we sort of inch towards that, we will also see that in the ROCE numbers reflected? Is that how we should be looking at it?

**Pratibha Advani:** Yes. I mean, as I said, that we internally use a hurdle rate of 20%, and we are inching closer to that rate.

**Riddhesh Gandhi:** Got it. And with regards to, effectively, we would use incremental free cash flow after Capex to effectively reduce our overall leverage?

**Pratibha K. Advani:** Yes. I mean, we would want to -- going forward, deleverage ourselves. That is how we'd like to use our cash.

**Vipul Garg:** Thank you Riddhesh. That was our last question. Thank you, everyone, for joining. Over to you, Lakshmi, for your closing comments.

**A.S Lakshminarayanan:** Thank you, Vipul. Thank you, everyone. I think just in summary, we have delivered a solid quarter with improved EBITDA margins. We have also improved our net revenue margin. The mix that is more shifting towards Data. So, I think the execution is quite solid. And we do hope that the pipeline we have and the future conversion in the medium to long term will also result in a solid growth which is what we've articulated in our strategy. Thank you.

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

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