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# Q2 FY2022 Earnings Webinar Transcript

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## MAIN SPEAKER:

AS Lakshminarayanan, Managing Director and  
Chief Executive Officer

Kabir Ahmed Shakir, 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 our CFO, Mr. Kabir Ahmed Shakir. The results for the quarter and half year ended 30<sup>th</sup> September 2021 have been announced yesterday, and the quarterly fact sheet and 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 our long-term outlook, followed by Kabir, who will share his 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 risks and uncertainties we face. A detailed statement and explanation of these risks are included in our annual filing, which you can locate on our website, [www.tatacommunications.com](http://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 a very warm welcome to the Q2 FY22 Earnings Call of Tata Communications. I hope all of you are keeping well.

We have begun to see a gradual economic recovery across the world, while we continue to battle the aftereffects of the pandemic, it's very encouraging to see that our revenue numbers have started to pick up gradually. During this quarter, our consolidated revenue grew sequentially by 1.7% after 3 successive quarters of decline, and this growth was broad-based across all 3 segments of Data, Voice and others.

From a regional perspective, both India and international geographies witnessed growth in revenue. The underlying trends are positive, which gives us confidence that in the future, we will see traction. There is a gradual pickup in our data business. Data revenue grew by 1.1% Q-on-Q. All segments in the data business witnessed growth on both year-on-year and quarter-on-quarter basis except for collaboration portfolio, which is still recovering from the decline that we had in Q3 of last year.

Our funnel buildup is healthy. Last quarter, we talked about internal programs to increase our win rates. I'm happy to share that we have started seeing results and our win rate has improved as compared to Q1 on the back of improved traction with small deals as well as the larger ones. We are investing in our product and execution capabilities to increase and strengthen this further.

Our order book for Q2 increased by double digits on both Q-on-Q and year-on-year basis. We witnessed a healthy increase in order book both in India and international markets. Internationally, we're witnessing an uptick in all geographies, except for U.K. and Europe regions, where the deal momentum is still slow, and we expect this trend to improve in near future.

Business sentiment, as I said, has started to improve, but some of the short-term challenges are still affecting the revenue growth. Global chip shortage and logistics challenges have pushed the delivery time lines and network and customer premise equipment across all OEMs. The standard delivery of equipments which used to be between 6 to 8 weeks, is now in the range of 14 to 22 weeks, leading to execution delays and thus, conversion to revenue.

Another issue that whole industry is grappling with is the talent shortage. We have been facing elevated attrition in the last couple of quarters in line with the industry. We are making all the efforts to retain talent and attract fresh talent, but backfilling these vacancies generally happen with a time lag leading to a mismatch in cost.

We aspire to be a digital ecosystems enabler. And to do that, we need to invest not just in emerging technologies, but also in our talent. We recognize the importance of recruiting and reskilling talent to drive innovations. And we have set up various academies within the organizations to build skills and create a talent pool with capabilities in

digital technologies and also hire new capabilities from the market. We have been recognized as a great place to work in India, Hong Kong, U.K., Singapore, Canada, U.S. and Australia. And recently, we made it to the list of India's top 50 best workplaces for women. With all these initiatives, we hope to strengthen and build talent in line with our aspirations for a digital ecosystem enabler.

Innovation is one of the key commitments that we have made as part of the strategy. We have put in place robust processes and framework for ideation, prioritization, investment and monitoring impact of innovation initiatives across the company. In the last 12 months, we have incubated more than 50 such initiatives and are in various stages of research and development and implementation.

Coming to the data segments. Our global network infrastructure is the biggest asset. We are leveraging the strength of our enterprise-grade network to drive growth in both core and next-gen connectivity services as well as overlay services such as cloud security and SD-WAN. The importance of networks is increasing, platforms and solutions with integrated networks provide better performance, security and visibility to the customer. We, at Tata Communications, are developing these as in-network platforms to provide digital overlay services integrated with our global networking to provide the highest reach performance and resilience for a truly digital experience. We can offer network, cloud and security together as a single stack at a global scale, which makes us unique. Demand for these services is growing, and we are well positioned to grow with the market. Having said that, churn, which is a combination of price declines and terminations due to either rationalization of branch connectivity or price erosion. This churn has decreased both Q-on-Q and year-on-year basis.

I've always said that no digital experience is complete without robust connectivity. In this cloud-first, internet-first world, the importance of networks and connectivity is increasing. Secured reliable connectivity is essential in helping the businesses to deliver best-in-class digital experiences to their customers. We have been continuously modernizing our networks and enhancing the capacity both for submarine cables and terrestrial fiber. As more and more businesses embark on their digital transformation journeys, need for connectivity will keep on increasing. And our endeavor is to continue to invest and even accelerate the investments in networks to capture this opportunity. But for these investments to be sustainable in the long term, price of connectivity needs to increase. Not only are the price levels not conducive for investment in capacity and innovation, but I also genuinely believe that the value of the enterprise is grossly underestimated at the current pricing level.

As I said, we are continuously innovating and expanding our core and next-gen connectivity offerings. Recently, we launched bandwidth-on-demand feature for our Ethernet services, providing customers' flexibility and agility to upgrade for short-term bandwidth requirements via a self-service portal with flexible pay-as-you-go model. Initial response by customers has been positive and currently 10-plus customers have opted for this feature enablement.

During Q2, core connectivity grew by 0.4% year-on-year, while Next-gen connectivity grew by 9.7% year-on-year. Globally, core connectivity market is expected to remain flat, but this portfolio has consistently been growing for us in low single digits, and we continue to see growth opportunities. There is a heightened activity in Data center business in India, as major cloud and content players are establishing their nodes in India to be nearer to customers. This ecosystem of data center requires scalable, diverse and resilient connectivity solutions across them, which is an opportunity for us.

We have a proven expertise in providing hyperscale customers, bespoke DC to DC connectivity solutions in India, and we have maintained our leadership position in this market. We recently created one of the largest DC to DC connectivity network solution in Mumbai for one of the hyperscale content providers. The solution was designed to connect their cloud nodes spread across 3 data centers in Mumbai with multiple diverse fiber routes, ensuring robust connectivity and no service outage in the cloud ecosystem due to any fiber cuts in the network. Besides providing critical connectivity to data centers, we are also directly participating in this opportunity of data center growth through our partner and associate, STT Global Data Centers, India, which is the largest colocation provider in India. The business is growing at a rapid pace, and we continue to hold 26% stake.

When we divested our stake in 2016, STT was operating at a capacity of 50 megawatts IT load, which has now increased to 135 megawatts, and STT has plans to triple this capacity to 400 megawatts in the next 5 years. This strategic partnership also helps us in our eyes of private cloud offering as we have created our cloud nodes in the state-of-the-art data center facilities offered by STT. We are a leading provider with the capabilities to support the organization's multi-cloud, hybrid and private cloud needs along with the security.

A leading asset management company in India selected us as its sole managed services provider to enable an enhanced digital experience for their customers. We are leveraging our end-to-end service model to offer managed cloud, comprehensive managed security, next-generation SD-WAN connectivity and collaboration services. This will simplify and transform their operations. Asset management industry is in a consolidation phase and digital transformation becomes business critical to improve efficiency, productivity, transparency and compliance with all the SEBI guidelines.

Our cloud-first model, along with secure and industry-compliant IZO Financial Cloud, maximizes the efficiency of this advanced IT infrastructure through a faster implementation cycle. Our scalable, agile and secure cloud SOC solution protects sensitive and confidential data from internal and external threats. Our customer is now able to, one, provide customized products for the retail and institutional customers, and through our solutions to provide real-time asset tracking and monitoring and finally, be able to provide a digital interface for the workforce who can deliver efficiently and productively working in remote locations. This deal is significant as this is a multiproduct, multiyear deal, showcasing our end-to-end service model. This is also our first major win for the IZO Fin Cloud, which is a purpose-built private cloud offering for the BFSI sector in India.

The threat landscape has never been more complex or challenging and security has never been more critical to our customers. We believe that the future of network security is in the cloud. And accordingly, we are strengthening our cloud SOC offering. Recently, we implemented a fully managed cloud software for one of our customers in Europe. Our cloud hosting and security portfolio grew by 7.6% quarter-on-quarter and 2.4% year-on-year.

Collaboration portfolio still hasn't fully recovered, as I said, from Q3 of last year from the effects of COVID as well as the IUC rate increases that we had. This portfolio declined both on a year-on-year basis and Q-on-Q basis. With reopening of the offices and picking up in travel, we expect this portfolio to recover in the near future. We launched GlobalRapide, which is a secure managed UCaaS offering with an end-to-end management, automation and self-care capabilities. This enables best-in-class meeting room experiences with multi-country, multi-endpoint devices and services, which are compliant with local regulations. This has been launched for Microsoft Teams at this point and helps us leverage and monetize our platform and service capabilities. Our UCaaS solution and Microsoft Teams has grown 103% year-on-year, albeit from a small base and a small part of our overall collaboration portfolio at this point in time.

Coming to our media portfolio, as sporting events pick pace, we continue to improve performance of the business. Our Video Connect, Video Connect Plus and Video Edge Cloud are capable of handling multiple UHD video streams, both live and recorded, thereby promising lower latency and high-performance delivery. Our platform allows broadcasters, OTT content providers, sports organizations and esports enterprises to handle remote production with ease, while enabling them to give their customers a seamless and immersive experience. Our media portfolio has shown a remarkable growth of 25.7% year-on-year and 6.2% quarter-on-quarter.

Overall, our digital platforms and services have grown 2.3% quarter-on-quarter but declined 9% year-on-year, primarily due to the surge of SIP traffic that we had in the first half of last year.

Our incubation portfolio has started to pick up. The revenues grew by 18.7% year-on-year and 16.2% quarter-on-quarter. For MOVE, usage has started to pick up in the Auto segment. We continue to engage with our existing customers to further drive the usage. With travel gradually picking up, we expect recovery in airline segment also. IoT opportunity is shaping up well, and we believe there is a huge market potential.

Strengthening our sustainability efforts, we are driving commitment towards greater transparency, deeper

engagement and stakeholder management. We have aligned our sustainable development report to global reporting initiative standards. Our detailed sustainability report is now available on our website, and it highlights our sustainability and community-linked initiatives. And I would request all of you to please have a look.

While Kabir will talk about the financials in detail, I just want to give you a brief overview. Consolidated revenue came in at INR 4,174 crore, witnessing a growth of 1.7% Q-on-Q and a decline of 5.2% year-on-year. The year-on-year decline is largely due to the COVID-related traffic surge that we had and the tailwind we had in the first half of the last year, which then went down and has now moderated. All our profitability indicators are tracking in the right direction. EBITDA for the quarter was INR 1,113 crore, with margins coming at 26.7%. There have been certain one-off benefits that pushed up this margin. We expect to maintain the medium-term margins in the 23% to 25% range as we had explained earlier during our strategy session. Profit for the quarter was at INR 425 crore, witnessing a growth of 10.6% year-on-year and 43.7% Q-on-Q. Sequential revenue growth has been a positive step, on which we hope to further build on. Management is focused on growth, and we are taking all the necessary steps to achieve our goals.

I'll now request Kabir to share the financial update more in detail with you.

#### **Kabir Ahmed Shakir:**

Thank you, Lakshmi. Good afternoon, everyone. Thank you once again for joining us today on our Q2 earnings call. I'll be taking you through the financial performance for the quarter.

Business environment has started to improve, and it's reflected in our performance, too. Sequential revenue growth after 3 consecutive quarters of decline is a positive sign, and we have doubled our efforts to build on the momentum, given the promising signs of recovery we have been witnessing. While there remain some headwinds on the macro level and COVID, though less impactful than before, the effects still continue as explained by Lakshmi. The signs so far are encouraging, and we continue to capitalize on every opportunity that comes our way.

For the quarter, consolidated revenue was at INR 4,174 crore, declining by 5.2% year-on-year, but witnessing a growth of 1.7% quarter-on-quarter. This year-on-year decline was primarily due to the degrowth in Voice business and moderation of the collaboration traffic, which was at its peak in the first half of last year. Sequential growth in revenue is a positive and this growth has been broad-based, both in data and voice segments. With economies normalizing, reopening of offices and people starting to travel again, we are witnessing gradual recovery in our business. With organizations rapidly adapting their business to digital, we are capitalizing on the upcoming opportunities. We have been shaping our services and offerings to suit the specific needs of our customers across use cases and industries.

We continue to focus on profitable growth. EBITDA for the quarter was at INR 1,113 crore, witnessing a growth of 12.9% quarter-on-quarter and a decline of 3.9% year-on-year. You would recall that last year, we had COVID-related benefits, which has started to normalize during the course of the year, leading to this decline from that high level last year.

EBITDA margin came in at 26.7%, an improvement of 40 basis points year-on-year and 260 basis points on a quarter-on-quarter basis. This quarter, we had a onetime benefit in cost leading to high margin, as Lakshmi alluded earlier. We are facing high elevated attrition in line with the industry trends, and there is a lag in backfilling of vacancies, which has led to this cost mismatch. Also, this quarter, we had a reversal of a provision of doubtful debts on the back of sustained, good collection efforts. Both the events combined had a positive net impact of about INR 50 crore on EBITDA this quarter. PAT grew by 10.6% year-on-year and came in at INR 425 crore. This translates to an EPS of INR 14.9 per share for the quarter. Our net debt as on 30th September stands at INR 7,761 crore. Our Net debt has gone down by INR 240 crore as compared to last quarter and has reduced by INR 870 crore as compared to the same quarter last year. This is a significant step as Net debt has reduced despite increased dividend payment of INR 399 crore that we made during Q2.

Average cost of borrowing stands at 2.87% and the net debt-to-EBITDA ratio is at 1.9x. Trailing 12 months ROCE is at 24.1% as compared to 17.3% during the same period last year. CapEx for the quarter was at INR 392 crore as compared to INR 318 crore in the same quarter last year.

Data business revenue for the quarter came in at INR 3,140 crore, witnessing a sequential growth of 1.1% quarter-on-quarter and decline of 2.2% year-on-year. The year-on-year decline is primarily due to the moderation of collaboration traffic, as I mentioned earlier, which had peaked in H1 of last year. All the segments in data business have started to grow and have reached pre-COVID levels, except for collaboration, which is still affected by COVID-related slowness. Core Connectivity Services witnessed a growth of 0.4% on both year-on-year and quarter-on-quarter basis. while Digital Platform and Services segment reported a decline of 9% year-on-year due to the collaboration segment but grew 2.3% quarter-on-quarter.

Funnel buildup and order booking is healthy and business sentiment is improving in both India and international geographies. We are confident that once the economic development in the environment improves, our growth numbers will be in line with our strategic plan.

Data business EBITDA was at INR 1,049 crore, witnessing a growth of 12.6% quarter-on-quarter and a decline of 3.4% year-on-year. Margins have improved by 340 basis points on quarter-on-quarter basis and declined marginally by 40 basis points year-on-year. Margin expansion was on the back of profitable growth, both in Core Connectivity and in Digital Platform and Services.

Moving to our subsidiaries.

Both businesses continue to be affected by COVID. Transformation business has started stabilizing but at a much slower rate. Transaction-based businesses was impacted due to COVID while costs remain elevated. This quarter, EBITDA was also affected by a one-time cost provision taken for one of our international customers.

Our Payment Solutions business was affected due to the second wave and consequent country-wide lockdown. Average transactions per day had declined from 59 in Q1 to 56 in Q2, affecting revenue. This quarter, we have started to see the benefit of the increased bank interchange fee starting from August 2021.

In conclusion, I would like to say that we continue to execute on our strategy and the initial signs of recovery are positive and step in the right direction. More importantly, we continue to strengthen our balance sheet and be prepared and ready to invest for future growth.

This brings us to the end of the management commentary. I will now ask Vipul to open the forum for any Q&As.

## Vipul Garg

Thank you, Kabir. The first question comes from the line of Sanjesh Jain of ICICI Securities.

## Sanjesh Jain

I have a few questions. First, on the order book, which Lakshmi, you mentioned in your opening remark that we have seen a double-digit growth both on Y-o-Y basis and Q-o-Q basis. Can you provide us a color as in how has been the growth for last 2 to 3 years? And with this kind of an order book, considering that we will have some price erosion and some of the contracts expiring, how should we see this translating into the revenue growth in terms of adding to the growth and replenishing the existing business? How should we evaluate this order book? And double digit is quite a big range. If you can just help us understand, are we talking about early teens, high teens or really in the 20s, where are we in terms of order book? That would be my first question.

## Amur Lakshminarayanan

So Sanjesh, on the order book, I think some time ago I mentioned this. The color of the order book and this conversion to the revenue actually depends on various products, some of their international network order books sometimes take longer to convert to revenue. Some of the orders like in the usage based for MMX and others also has different -- So I wouldn't be able to give you exact color on when and how this will convert to revenue. But I think it's definitely a good sign that after a long time, we are seeing a good double-digit order book growth in the Data business. And this order book growth has come both from India, and as I said, in the international markets as well, barring one, Europe and U.K. markets. So I wouldn't be able to give you more color on it, but just to say that after quite some time, we are seeing this growth in the order book. And this order book, while even in the previous quarter has been marginally growing, this is the first time we have seen a fairly bigger growth in the order book.

### Sanjesh Jain

But Lakshmi, can you share at least not in terms of amount, I understand that's quite difficult to quantify, at least number of deals we have won?

### Amur Lakshminarayanan

Number of deals, again, Sanjesh, a lot of these deals are small deals. Frankly, I don't know the number and I can find out. But we don't look at -- I'm sure we have a count of the deals, but the deals are typically for a company like us with network and other offerings, the deals are sometimes fairly small, ranging from \$100,000 ACV to \$1 million or a couple of million ACV, which we consider as a largish deal. When it goes to a couple of million annual contract value, we consider that to be a larger deal. So I wouldn't know the exact count. But if I can give that color on what we consider as larger deals, say, \$1 million for India and \$2 million for international, that count is also going up. That's probably the best color I can offer on this.

### Sanjesh Jain

And are these deals from the new label or an existing customer who is upgrading, how should we see this?

### Amur Lakshminarayanan

Yes. Again, that will be a combination. So I would say largely, about 80% of that will come from existing customers and the rest some of the new customers. And classification of new customer is, if you have sold a network, but now we are going and selling a cloud software, then that practice we consider that as a new customer. But largely, it will be from the existing customer base.

### Sanjesh Jain

Got it. Got it. One last question on the deal. You did speak in length about a deal we won, asset management company. What would be a typical size of this kind of deal where we are selling multiple products, multiple services, right from connectivity to cloud to managed services. What would be the average deal size or a lifetime value of this kind of a deal?

### Amur Lakshminarayanan

Lifetime value I will not be able to say. But as I mentioned to you, Sanjesh, for India market, internally, we are looking at \$1 million plus annual revenue potential deal, right, or annual value. So we are classifying for India \$1 million plus as a large deal. And for international market, we classify \$2 million plus as a large deal. So that's the sort of amongst the large deals, so there might be 1 or 2 which might give us \$5 million ACV when we look at it. So this is

a large deal, which means that in India, it would be \$1 million plus, in international market, it will be \$2 million plus. Just to give you a flavor because in other industries, when people talk about large deals, the benchmarks are very different. So that's the color I wanted to give.

### Sanjesh Jain

Fair enough. Fair enough. One question on the India side, the growth of 2.5% Y-o-Y, it looks like for last quarter or 2, we have been trailing versus Bharti Airtel. Are we losing market share or they are doing the SMEs better, so that number looks much better for Bharti? How should we compare the performance of Tata Communications with the Bharti Airtel enterprises?

### Amur Lakshminarayanan

No. I think we are tracking carefully all the competitors, Sanjesh. I think there are some data points on what they would consider and what they have considered in the enterprise segment. I mean their segments would also include the small, medium and others, and possibly even the broadband provided to individuals at home as part of the enterprise, if that an enterprise user. So there is no like-for-like comparison that we can offer. And I think some of the growth that they have included in their market share also includes the addition of OTT business, which was not included in the network share last time, that's what we understand. So from an overall market share perspective, as I said and I called out in the DC to DC connectivity, which is the large segment of connectivity, we believe we have a market leadership.

And of course, in the connectivity and the reach to the Tier 3 and Tier 4, we are working on strategies as to how we address it. And there, we have to strengthen our proposition more. But I don't believe we are losing market share. On the contrary, on other portfolios that we have, like the private cloud and security, we would clearly be leading by far.

### Sanjesh Jain

Fair enough. Fair enough. Two more questions. One on the transformation services, it looks like we have been lagging and it seems we have been talking of turnaround. But that segment continues to look like it's been a trouble side for us. How should we look at our transformation service from near-term to medium-term perspective? Do we think we are committed to that business? Or how should we see the transformation service? That would be the first.

And one for Kabir, on the data center investment side in STT. Now that they are planning to go up 3x in terms of the capacity from 135 megawatts to 400 megawatts capacity, what will be the capital commitment with Tata Communications will have in this? These are the 2 questions.

### Amur Lakshminarayanan

Sanjesh, on TCTS business, we believe the core value proposition of what TCTS offers to the market is quite robust. And as you point out, given the recent performances, we have had a very solid look at it, looked at the leadership, tested our value growth. And we believe the strength that they bring of solid telecom domain combined with technology process, simplification and outsourcing is an area which has potential more so in the international market and some in the India market as well. I think that business has been sort of affected by some customer-specific issues as well as the timing of the transition that we were doing given the COVID. So a couple of customer-specific issues and COVID, which has prevented the transaction volumes from going up because we have contracted based on a number of transactions. And there was a mismatch on the revenues coming through transactions and a mismatch on the cost side, which are there are, so a couple of customer-centric issues that we are dealing with. But fundamentally, we believe the business has a solid value proposition and we are committed to it.



**Kabir Shakir**

Yes. Sanjesh, on the question on STT, I need to be a bit careful here that I don't talk on behalf of STT. Also, there's a conflict because I also sit on the board of STT India. So the investment required, firstly, is over a period of 5 years, and it can vary because there's a big element of land that is actually sitting in there. So it can vary anywhere between INR 6,000-7,000 crore to INR 8,000-9,000 crore. So because closer to time when they go to acquire what is going to be the -- and their strategy is to buy the land rather than to kind of lease out. So that is a big component that sits in. So that's the variability that sits on the project cost.

How it then gets funded is through internal cash flow generation. Their cash flow situation is really, really good and quite profitable as well. And then funded by a component of debt and equity. Our commitment, at least, if I would say, that we as a management, believe endorsed by the Board, as well is that we stay committed at least in the near term, not to dilute our share in STT. So we will continue to hold the 26%. So therefore, to the extent that they would then require an equity injunction after accounting for their internal cash flow generation and the amount of debt they could leverage and take, we remain committed to participate to the 26%.

**Sanjesh Jain**

Fair enough, sir. Just one follow-up question on that. Sir, we have so much of spare land and STT holding in Tata communications. And our lands are really in a prime location, where probably the investment in the land, then building a data center may not be a great economical proposition. Now considering that India is landing up in excess capacity in data centers because if we look at all the operators, many operators are now planning to expand the data centers significantly. It looks like supply for a while can clearly go ahead of the time. Wouldn't it be more prudent to the investment flow by leasing out land and for Tata Communications? it would be a good source of revenue out of the land, which sits idle without revenue. It was a win-win situation. I still don't understand the logic behind buying the land, but I clearly take your point that we are not in a position to completely divulge what STT says. But I think this was one point I just wanted to highlight.

**Amur Lakshminarayanan**

Sanjesh, I mean I can't talk on behalf of STT. It's their strategy and how they wish to -- whether lease or buy is, of course, their call. They have global experience, and they are guided by their overall group on that strategy. So, I have very little to say or influence or comment more on that.

**Sanjesh Jain**

I fairly understand. I got a few more, but I will come in the queue.

**Vipul Garg**

The next question is from the line of Hitesh Arora.

**Hitesh Arora**

See, my question was on the digital platforms product segment. Here, our base is relatively small. So one would have expected larger growth rates here. I think from previous calls, we are targeting double-digit growth in the segment. But so far, this has been lacking. You told about CPaaS, that's been still recovering from COVID, cloud hosting is done relatively well. But on a combined scale, we're still lacking the strong double-digit growth that we had. It's a low-base business. It's a growth business. So all the more reason.

### Amur Lakshminarayanan

Yes. So Hitesh, on the digital platforms and solutions today, the collaboration portfolio is a fairly large part of this digital platform and solutions. And that is where we've had specific issues that I've already outlined and talked about in terms of usage services. So I think that's sort of coloring the overall numbers in growth. But within that, I called out the cloud and security business has grown quite well and the next-gen connectivity has also grown. And you're also right, these are coming from all small bases, and it's still not the scale, and therefore the larger growth is what we should aspire for, and that is what we are working towards. And there, you also should appreciate that some of the products, which we called out, we need to build a lot more of our own content in our efforts to shift these products to more of platforms. So even in the Microsoft Teams, for example, we were offering the Teams and basically connecting that itself. But now with our GlobalRapide, we are giving a more comprehensive tooling associated with that for enterprises to do discovery, to do auto provisioning, to do the monitoring end-to-end. So those tools and products have now been built and launched. So similarly, in each of these areas, the products are being strengthened with more of our own content, and that's a journey that we have to go through.

### Hitesh Arora

Sure. Just the bigger point I was trying to achieve at, see the growth in the PAT largely comes from items below EBITDA, and you're reducing interest cost, you're prepaying debt, so that is fine. That's great, actually. The depreciation costs have come down. So to that extent, the PAT increases, but the larger contribution from increased PAT number or increased EPS is largely not from large revenue accretion items, but more from below EBITDA items, which you know better.

### Kabir Shakir

Hitesh, we talked about revenue growth and what our aspirations are. But at the same time, if you recall our Investor Day Strategy Deck, we talked about our finance strategy of Fit for Growth and Fit to compete. So getting a strong balance sheet is a very important corporate imperative for us. So as much as we would want and we are striving for revenue growth and profit coming from revenue growth, there is no lever that is unturned. Every cylinder needs to fire in Tata Comm as far as we are concerned. Yes, one is firing a little faster than the others. That doesn't mean it is less important. Because for me -- for us, at the GMC and at the Board, having a very, very strong balance sheet and be ready to invest in new technologies for, I would say, getting future growth is very, very important. So I would say all of those levers are extremely important to go after.

### Vipul Garg

The next question is from the line of Vimal Gohil.

### Vimal Gohil

Sir, sorry to harp on this question on Collaboration and CPaaS. And also, if I would want to sort of connect the dots to our India revenue, our India piece. If I were to notice while there has been some sequential improvement in the India piece, the opening up of economy has been quite significant. Do you think despite this opening up and opening up of offices, etc., our revenue accretion in this quarter could have been lower and there could be some spillover in the quarters to come? That would be my question number one.

And again, on Collaboration and CPaaS, on an overall basis, whatever little revenue contribution happens in Collaboration and CPaaS from India, that should have seen some improvement because last quarter, we saw a 7% sequential improvement. This quarter should have slightly better, which was not the case. So is there some sort of revenue spillage that could happen in 3Q and 4Q? That is my first question.

**Amur Lakshminarayanan**

Yes. Vimal. See, I think on the first question on India, as I said, the order booking is good, but then there is a slowness in terms of converting to revenue because of the OEMs, the supply chain issues that we mentioned, right, in terms of chip shortage and others. But overall in terms of, if I look at all the portfolios for India across the piece, we see good traction beginning to happen there, both on the network side and on the digital platforms and solutions' side. So that is on India piece.

On collaboration, see collaboration largely consists of the 4 subcomponents within that, which is the UCaaS, which is Microsoft and Cisco based, and we have the SIP Trunk, and we have the Contact Center as a Service, our Insta CC offering. These are the 3 offerings that we have. Now the SIP Trunk has been a bit of a yo-yo, I think in terms of volumes, it has gone up, but in terms of -- and that is the largest part of the collaboration as well, and that has pulled things down. And as I called out, the UCaaS, the Microsoft Teams has done well. And the Insta CC is also doing reasonably well. Of course, it has got bigger potential we believe, but it's seeing growth. So the collaboration because it's across these 4 things, you are seeing the variations between the quarter. But largely, the issues are around the SIP Trunk, and that's been consistent from the last in Q3. So we hope that in the coming quarters, it should pick up. Traditionally, the Q3 has been a seasonally weak quarter for SIP Trunk. But we believe that given some of the recent things we have done, we probably would have seen the bottom of the SIP Trunk is what I would say.

**Vimal Gohil**

Sir, you mentioned that the SIP Trunk's volumes were up, but that means that there has been some sort of a softness in the overall realization.

**Amur Lakshminarayanan**

No, actually it was the other way round. The volumes were down, but the revenues were up in this quarter.

**Vimal Gohil**

Okay. Okay. So what led to this abnormality because typically, you don't see such pricing movements on a quarter-quarter basis. So is it something that is a quarterly phenomenon or how do we...?

**Amur Lakshminarayanan**

No. I think, within SIP Trunk again, there are multiple products of different types of numbers, right, we have VAS numbers and others. So the mix matters. And secondly, the other factor is the destinations and which countries that we are offering services and where the spike is. So those are the factors. One is within SIP Trunk, what kinds of numbers we provide, the toll-free numbers and the VAS numbers and that mix matters. And the second is the destination countries matters. So if any of these mix changes, that has an effect in terms of realization.

**Vimal Gohil**

Right. Sir, if I were to look at your historical financials, the growth that you have historically achieved, let alone FY21, assuming that it was soft because of COVID. But before that, the growth in Digital was significantly strong. And the reason why it was strong is because we already have a very, very large sort of a customer base who have been using our core connectivity solutions to whom we sort of cross-sell our digital solutions, and because of that we've been able to sort of grow. Because we haven't been able to add customers maybe over the last 1 or 2 years because of COVID, is that one of the reasons also that you haven't been able to grow the digital solutions over last

1.5 years? Is that understanding, correct? And once you add customers, revenue growth should come?

**Amur Lakshminarayanan**

Yes, I think that is, Hitesh, partly true in terms of acquiring new customers. The second factor also is previously under the growth portfolio, again, it was GSIP, which was a very large contributor to the growth. and we had IZO WAN also, even though with smaller numbers, that was another contributor. On SIP Trunk, I think the sort of the industry and the market color has changed quite significantly, right? And with that, we had to change. We had to offer UCaaS rather than simple naked SIP Trunks to customers. And with cloud collaboration, like the Microsoft Teams and Cisco coming in to play, and as people move towards cloud, people are using IP rather than the SIP Trunk capability. And we are selling to those companies as well as to the enterprises. So you are right, in the past prior to that, SIP Trunk was growing, but the market has significantly changed in the last 2 years, both on account of the cloud collaboration companies pushing their products and also because of COVID. So the color of those products in the market has changed quite significantly in the last 3 years.

**Vimal Gohil**

Right. Right. Sir, last one, one book-keeping question for me. If you could just quantify the one-off benefits that have accrued at the EBITDA level? And plus your CapEx guidance continues to remain at \$250-odd million for the year. Would that be right?

**Kabir Shakir**

Yes. I think I mentioned already the onetime benefit in EBITDA is roughly about INR 50 crores for the quarter that I mentioned. Yes, and the CapEx, we are still looking at \$250 million for the year.

**Vipul Garg**

The next question is from the line of Aliasgar Shakir.

**Aliasgar Shakir**

My question is on the margin improvement opportunity. So if you see this quarter and actually not just this quarter but last 3-year profile, our EBITDA growth has pretty much outpaced our revenue growth quite significantly. I just want to understand from a future lever point of view. One is from your cost optimization; we have continuously seen a lot of improvements. In fact, your core traditional business revenue is now nearly around 45% kind of margin in terms of EBITDA level, and that is one point used to be -- sorry, yes, somewhere about 40%, if I said, is about 35%, right? And that used to be significantly lower. I think we've added quite significantly over there. This used to be somewhere about close to hardly about 30% margin 3 years back.

Second is your growth services as well, with increasing scale, I think we've improved margins quite significantly from like mid-single digit to now about 14%. And then I think even your innovation business, kind of I wanted to understand, with growing scale, should you see more reinvestment of business or probably you should see losses coming down. So I just wanted to understand from all these 3 points, I know you don't give guidance, but just if you give a trend in terms of, do we see this trend continuing? And how much more juice do we have here?

**Kabir Shakir**

Ali, we stay committed to our 23% to 25% range on EBITDA. I know we've been operating at the higher end of the range. And the one-off benefit in this quarter has only pushed that higher. So we talked about attrition and

therefore, savings in staffing costs, which we believe it's just one-off as we backfill those vacancies, and there's just a timing mismatch on that front. Plus also, if you look at our top line growth, we've had our Digital Platforms and Services, which has just degrown year-on-year and that comes with a lower margin profile. So therefore, simply just adds a positive mix effect on the margin line. It's just simple mathematics of it. So once we get our growth profile going and growth ticking, we do believe that we will be in the 23% to 25% range.

Having said that, the cost improvement is not a onetime exercise. We have a mindset of a continuous cost improvement and waste elimination from the business, which we will continue to aim, but reinvest those back towards capabilities to drive growth.

### Aliasgar Shakir

This is quite helpful. Just a quick follow-up here. So you mentioned 23% to 25% margin range, but I would assume that 1 year innovation business as you get scale will certainly reduce your losses. I mean we've discussed this before in terms of when it reaches breakeven as well. So there is a reasonable amount of loss there, which should improve your margin. Correct me if I'm wrong. And second is also on your growth business, it's still about 14% margin, much lower than the overall margin. So wouldn't we expect that as well to go up? So I mean, I'm just thinking from a 3-year point of view, what kind of upside opportunity do we have in terms of sort of further margin improvement from these levers?

### Amur Lakshminarayanan

Before Kabir probably elaborates on this, I would say, on the incubation, you're right, I think losses are reducing. But I also mentioned that we are investing in innovation, and we looked at some 30-40 initiatives over the last year. We are selecting and continuing to invest, and we have to improve the pace of those investments. There are areas like the 5G private networks and SASE and Edge, and all of those areas which we are looking at. So therefore, what we continue to incubate, we will probably need to incubate and so that we can stay relevant to our customers and relevant in the marketplace. So those kinds of investments will continue. And therefore, as Kabir said, that's the reason why we peg that to 23% to 25%, and we'll have to reinvest into the business.

### Kabir Shakir

Yes. thanks, Lakshmi for giving that out that in customer perspective. Let me give a very financial perspective, Ali, you should read this in conjunction with our ROCE ambition as well. Our ROCE has significantly improved compared to last year. Despite that, we have taken a bigger ambition to operate in the range of 25% to 30%. I know we are sub-25% now as we speak. We are at 24.1% this quarter. We were 24.9% at the end of March. But we have an aspiration of having 25% to 30%. So we go by ROI mindset within the organization, and that's the outcome that we want to do. And therefore, we would balance that between profitability and then reinvestment so that we can maximize value for our shareholders. That's how I would look at it in conjunction. Looking at it in isolation of profit alone and seeing, can we not get more, we'll probably deliver short-term results, but may, sometimes if we take the eye off the ball, starve the company from its long-term health. So as a management, I think we have both eye on the ball as far as the current quarter, current year is concerned, but also medium term to create the capability to reinvest.

### Aliasgar Shakir

Understood. This is quite elaborate and helpful. So from a 3-year, 5-year target, should innovation services -- I understand what you mentioned, will probably require more investment in the near term probably to scale up this business. But I mean, from a breakeven standpoint, should we expect this to break even what 3-year out? Or it could

take longer or we don't have a clear number there?

#### **Kabir Shakir**

Ali, I would ask you to draw your attention to our strategy discussion that we did in the Investor Day in June, where we talked about the opportunity there. And it's all the question of how quickly we are able to grasp, how the world opens up, how quickly we are able to grasp the opportunity and scale up our business. So I don't know if I want to give a time line on it, but our ambition is to get faster for sure.

#### **Vipul Garg**

At this point, we have no further questions in the queue. We would like to end the call here. Thank you all for joining. I'll hand over to Lakshmi for his closing comments.

#### **Amur Lakshminarayanan**

Thanks. Thank you, everyone. I just want to reiterate what I opened with. I think after 3 quarters of decline, seeing a Q-on-Q growth this quarter has been quite good, and that gives us the view that the underlying factors are improving and we want to stay focused on delivering the growth. Thank you.

#### **Vipul Garg**

Thank you, Lakshmi. Thank you, everyone, for joining. You may please disconnect the call. The recording will be available on our website by end of the day. Thank you.

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