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Q3 FY2020 Earnings Conference Call Transcript

MAIN SPEAKER:

AS Lakshminarayanan, Managing Director and Chief Executive Officer

Pratibha K. Advani, Chief Financial Officer

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Moderator: Ladies and gentlemen, good day. And welcome to Tata Communications Limited Q3 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vipul Garg – Head of Investor Relations at Tata Communications. Thank you and over to you, sir.

Vipul Garg: Thank you, Janice. Good afternoon, everyone. And welcome to Tata Communications Earning Conference Call. We are joined today by our MD & CEO – Mr. Amur S. Lakshminarayanan and our CFO – Ms. Pratibha Advani. The results for the quarter ended December 31, 2019, have been announced yesterday and the quarterly fact sheet is now available on our website. I trust you would have had the chance to look through the key highlights. We will commence today's call will comments from Lakshmi, who will share his thoughts on the strategic imperatives, followed by Pratibha, who will share detailed views on the financial progress. 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. 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. Lakshminarayanan: Thank you, Vipul. Good afternoon everyone. Data Services continue to grow for us. This quarter we had robust growth and Data revenues and profitability, whereas some customer specific issues and two major transitions in our transformation business have impacted our margin. Focus on Enterprise segment is showing results and we are witnessing strong growth in Enterprise business, both in India and internationally.

From a market point of view, the Digital Transformation is in full force. Digital, as we say it, is a combination of data, applications and connectivity. And for a successful digital journey, connectivity is a key component. We are witnessing proliferation of data and connectivity, driven by enterprises increasingly adopting cloud, and a mobile first strategy.

Corporations today can harness the true power of internet and hybrid networks like our IZO platform to offer seamless, secure and reliable access to data and applications to employees, suppliers and end customers with ease. At Tata Communications, we see ourselves as a crucial component of this emergent economy, uniquely positioned to leverage on the digital trends. Our funnel and pipeline build up is steadily improving. And customer conversations are moving from standalone products to customized solutions, catering to business needs.

I want to call our IZO platform and Insta CC. These solutions are at the heart of customer experience transformation, and they are witnessing robust growth in their funnel. Insta CC is our global cloud-based platform for contact centers, we recently made a big customer live on this platform, enabling their digital journey. I had spoken about this to you in last quarter, and I am happy to announce that we received the Best Supplier recognition from Visteon for Seamless Delivery of fully managed SDVAN in this quarter.

Traditional Services, which were affected last year due to operator consolidation have now stabilized and we are witnessing strong growth in India business. Profitability in this business continues to be robust.

Growth Services continue to perform well. This quarter revenue growth was less, as Q3 is a seasonally weak quarter due to lower usage-based revenue due to holidays in December. We have a healthy funnel and order book, and we expect growth to pick up in the next quarter. We are witnessing significant operating leverage in this portfolio, which is evident from positive swing in EBITDA.

Last few months, I have had a deeper look at our Innovation Services. Aand I am really excited about the opportunity that lies ahead. Some of these solutions are cutting edge. Take the example of NetFoundry. It enables customers to instantly and securely connect applications across any set of edges and clouds, without the constraints of VPN, custom hardware and private circuits, giving the customer a total control of the network. For Enterprises, it offers agility, security, and a significant performance using internet.

As the world moves towards cloud native technologies, there is a huge potential for growth in NetFoundry. We have proven use cases and a very compelling proposition, and we are still in the early stages of customer and market adoption. And we should view this in a longer time horizon.

While Pratibha will talk about financial results in detail, I just want to highlight key numbers and reiterate that our financial performance is on the right track. Consolidated revenue came in at INR 4,229 crore and declined 1% on both year-on-year and Q-on-Q basis. Q3 of last year had a one-time benefit due to AFA. On a normalized basis, revenue grew by 1.2% year-on-year. Consolidated EBITDA for this quarter was INR 760.8 crore, witnessing a decline of 8.7% QoQ and a 9.7% year-on-year.

If you normalize for AFA, and the exceptional expense in Q3 of last year, EBITDA has grown by 20.3% year-on-year. Data business continues to perform well. Reported revenue grew by 0.6% year-on-year and 2.8% year-on-year. On a normalized basis, revenue grew by 5.7% year-on-year.

We have been driving efficiency and productivity across the organization and this has helped us in achieving higher profitability. Normalized EBITDA has grown by 28.2% year-on-year with significant margin expansion. Our business continues to benefit from improvement in the product mix, customer profile and deeper customer engagement. We aspire to scale profitablye and continue to improve our returns and create stakeholder value.

With that, I would request Pratibha to talk about financial highlights to you.

Pratibha Advani: Thank you, Lakshmi, for sharing your thoughts. A very good afternoon to all of you. Thank you once again for joining us on our Q3 FY20 earnings conference call. I will be taking you through the commentary on our financial performance.

Data business has achieved stable growth this quarter with Growth services driving growth and profitability. Reported consolidated revenue declined by 1%, both sequentially and Y-on-Y, coming in at Rs. 4,229 crore, as Lakshmi mentioned earlier. You would recall that in Q3 of last year we had a one-time access facilitation benefit in both, revenue and cost. While revenue benefit was Rs. 91 crore, cost benefit was Rs. 257 crore.

We also had one-time exceptional expense in that quarter of Rs. 138 crore. Overall, there was a favorable impact on EBITDA of Rs. 210 crore in Q3 last year. All these adjustments were made in data segment. It would only be appropriate for us to look at normalized numbers for year-on-year comparison. Consolidated normalized revenue for Q3 FY19, and this is just to jog your memory back, was up Rs. 4,178 crore, and normalized EBITDA would be Rs. 632.6 crore versus reported revenue of Rs. 4,269 crore, and EBITDA of Rs. 843 crore in Q3 last year.

You can also find the details in the investor factsheet of last year. Normalized for above adjustment, revenue has grown by 1.2% year-on-year. We have achieved stable growth despite Q3 being a seasonally weak quarter and a continuing decline in voice business by 14.3% year-on-year.

EBITDA for the quarter came in at Rs. 760.8 crore, with margins coming in at 18%. EBITDA declined by 9.7% year-on-year. On a normalized basis, EBITDA grew by 20.3% year-on-year due to strong profitability in data business. And this was, of course, partially aided by IndAS benefit. On a Q-on-Q basis, EBITDA declined by 8.7% primarily due to decline in voice business. And the one-time impact of KCTSL and the transition cost also. PAT for the quarter was Rs. 58.5 crore as compared to Rs. 53.9 crore in the previous quarter.

Moving on to our segment performance:
Data business saw a steady growth during the quarter, and now contributes 81% to revenue and 94% to EBITDA. Revenue came in at Rs. 3,420 crore, witnessing a growth of 2.8% year-over-year, and 0.6% sequentially growth quarter-on-quarter. On a normalized basis, revenue grew by 5.7% year-on-year. Enterprise customers are driving growth, both in India and international geographies. India enterprise segments has grown by 11% and international has grown by 9% year-on-year.

EBITDA for the quarter came in at Rs. 713.6 crore, with margins coming in at 20.9%. EBITDA has declined by 6.9% year-on-year, and sequentially by a 5.2%. We will obviously have to normalize it for the access facilitation charge of Q2 last year. And after normalization, EBITDA has grown by 28.2% with margin expansion of 370 basis points year-on-year. This margin expansion has come on the back of continued focus on productivity, strong profitability in Growth Services and IndAS benefit. Growth Services now contribute 7% overall EBITDA. Growth and Innovation Services will continue to be our growth drivers going forward.

Moving to the performance of our Traditional portfolio:
After a period of pressure, this portfolio has stabilized. Q3 revenue at Rs. 2,159 crore, shows a growth of 0.1% year-on-year and a sequential decline of 0.1% too. On a normalized basis, revenue grew by 4.5% year-on-year. EBITDA came in at Rs. 812.8 crore, witnessing a decline of 4.6% year-on-year and a sequential decline of 0.5%, with margin coming in at 37.6%. On a normalized basis, EBITDA grew by 26.5% year-on-year with a margin expansion of 650 basis points. Margins have improved due to continuous focus on productivity and partly aided by IndAS 116.

Moving to Growth Services:
Q3 revenue came in at Rs. 784.8 crore, witnessing a growth of 7.5% year-on-year and 1.7% sequential growth. Within this portfolio, IZO has grown by 64.2% year-on-year, our global hosted contact center has grown by 40.9%, security services have grown by 30.4% and hosting by 21.5%. EBITDA for the quarter came in at Rs. 51.1 crore as compared to a loss of Rs. 32.7 crore in the same quarter last year. We have seen a significant positive swing in EBITDA in the last nine months of this financial year, this portfolio generated EBITDA of Rs. 100 crore as compared to a loss of Rs. 93 crore in the same period last year. EBITDA margin for the quarter came in at 6.5% and has expanded by 200 basis points quarter-on-quarter.

Moving to our Transformation Services business:
Overall, profitability and financial performance for the business has been muted. Although, revenue for the quarter came in at Rs. 327.6 crore, witnessing a growth of 10.1% year-on-year and 1.2% Q-on-1 Q2. As Lakshmi mentioned, customer specific issues and transition of new contracts have led to a negative EBITDA of Rs. 45.6 crore for the quarter.

Coming to performance of our Payment Solution business:
We continue to focus on profitability in this business. Revenue for the quarter came in at Rs. 87.4 crore and witnessed a decline of 2.3% year-on-year and growth of 2.8% Q-on-Q. Y-on-Y decline in revenue is due to low number of ATM, which was in line with our strategy to exit from unprofitable locations. We continue to improve our margins by focusing on efficiency and productivity.

EBITDA came in at Rs. 23.7 crore and grew by Rs. 144.5% year-on-year, and 23.8% Q-on-Q, with margins coming in at 27.1%. Margins have expanded for by 460 basis points Q-on-Q. Our strategy of focusing on profitability is working well and we are selectively deploying ATMs at profitable locations. Total ATM count at the end of Q3 was 12,278, a reduction of 784 ATMs in the last one year.

Moving on to the Voice business:
In line with industry trend, this portfolio continues to decline. Revenue for the quarter came in at Rs. 808.9 crore, declining by 14.3% year-on-year and 7.5% sequentially. Volumes continue to decline while price remains stable.

EBITDA for the quarter came in at Rs. 47.2 crore and witnessed a decline of 37.8% year-on-year, and 41.9% sequentially, with margins at 5.8%.

In last few quarters we have been getting benefits from profitable destination mix, which was not there this quarter, which has led to a decline in margin. As I mentioned earlier, in long-term, we expect margins to be in the range of 6.5% to 7%.

CAPEX for Q3 came in at USD 68.7 million, as compared to USD 64.7 million in Q2. We continue to be judicious in our CAPEX spend, and our endeavor to keep the full year spend within the range of USD 200 Mn to USD 225 Mn.

Net debt at the end of the quarter was USD 1.25 billion, a decrease of $5 million as compared to last quarter. Our average cost of borrowing for the quarter was at 3.55%, which has marginally come down by 22 basis points in comparison to Q2, primarily due to movement of average LIBOR from 2.2% in Q2 to 1.93% in Q3. Net debt to EBITDA is at 2.9x as compared to 3.4x same quarter last year.

Return on capital employed for rolling last four quarters is at 10.4% as compared to 7% for the same period last year. In conclusion, the outlook for business continues to be positive and our best-in-class bespoke solutions that enable customers to digitally transform are a key differentiator, providing businesses and ability to innovate, transform and grow. The Enterprise business continues to grow at a healthy pace of 10% year-on-year. And we expect growth and profitability to accelerate further in coming quarters, while keeping a close eye on our costs.

This brings to an end to management commentary. And I would now request the moderator to open the forum for Q&A. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question answer session. We take the first question from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: A couple of questions from my side. One on the growth services. It has been growing like 20% for us this year in earlier quarters, and a year or two before we were going at 30%. Our order because hebook also looked healthy. So just wanted to understand the reasons behind slowdown in the Growth Services. And how should we see this Growth Services growth coming in, say, from next quarter onwards and in next two years?

Pratibha Advani: Thank you, Sanjesh, for the question. Sanjesh, I really won't to say that Growth Services is slowing down, you would agree with us that there would be a base effect. And between 2018 to now, we have almost added 100 million of revenue. And I think what is going well with that business is that we are now starting to see operating leverage, and that is what has led to significant margin expansion. I did share the numbers with you about how some of the products in that portfolio are growing. So you do have to bear in mind that a larger base, you can't expect the same 25% to 30% growth. I am going to also request Lakshmi to share his thoughts.

A. Lakshminarayanan: See, on the Growth Service, obviously, has multiple products and solutions there. And obviously, the overall Unified Communications is a large piece. But if you see the core network related transformation that we offer, the IZO platforms, those have shown fairly good growth and it's continuing to show good growth. And those are the ones, in my opinion, will scale much larger as the enterprises look to transform and as they move to cloud. So, I think that is a good prospect for us to continue to drive growth in these services.

Sanjesh Jain: One probably follow-up question on that. What would be the potential market size for IZO product? And how much can we get out of it? I mean, just wanted to understand how big this product can be for us, because I have seen the UCC which has now matured, and which was earlier giving us a lot of growth has certainly suddenly looked like it's mature and the growth has almost muted there.

So I think a lot of it needs to be now compensated with, say, products like IZO, Security Services, GHCC, and video. So just wanted to understand, because we have been talking so bullish on IZO, so just wanted to understand your thought, how large this product can be for us and what is the opportunity size for this product?

A. Lakshminarayanan: Yes, first on the Unified Communications part, we offer both Cisco, Microsoft solutions, as well as the Growth-SIP. But while it this year has shown a fairly muted growth in that portfolio, we think there is still a good opportunity, as especially enterprises are moving towards Microsoft teams and pushing all that PBX to cloud, there is still opportunity in that portfolio.

Coming to the IZO part, I believe in the world of enterprises, particularly if you see, enterprises are still on their cloud journey and the cloud migration. And as they move to cloud, they are looking at re-architecting their networks to see how to reach the cloud as well as multiple clouds. They also have their suppliers and their customers getting to access the application through the internet and the branch-to-branch connectivity or a manufacturing hub to the main offices and so on. So, the entire network space is bound to be rearchitected in the coming years.

Added to that, the traffic that these network carry is also bound to grow. And what we have in our portfolio solutions in the IZO is essentially, obviously, starting from the whole software defined and how do you ensure that enterprises have the flexibility and the agility to shift between internet and the MPLS and the hybrid cloud is what we have. And of course, we have the IZO Internet WAN which is a very unique offering in the market which gives more deterministic performance over the internet.

So, I think the whole market size can be viewed upwards of about 4 billion, and the whole market is going through the transformation as well as they rearchitect the network with the customers moving to cloud and moving to the mobile first strategy of enterprises.

Sanjesh Jain: Okay. So out of this $4 billion market size, how much is the addressable market for us, in terms of geographical or in terms of verticals?

A. Lakshminarayanan: Yes. So, this is the addressable market. I mean, if you look at the entire market, the entire enterprise network as the total market, what we are talking about is an addressable market.

Sanjesh Jain: So, the $4 billion is our addressable market which is fairly big for our size, right?

A. Lakshminarayanan: Right. So mind you, but this will be the traditional the MPLS and other network, as well as on top of it internet in the internet. In the international, the movement through the internet from the MPLS is increasing. Whereas in India, we still have pretty much MPLS and the internet is still not very reliable. So the characteristics in different markets are slightly different. But the interesting thing is that enterprises are having to rearchitect as they move to cloud, because their old network architecture will simply not give them either the performance or the agility and security that they look for.

Sanjesh Jain: My follow-up is on Innovation Services. We had won one few day but it looks like the revenues are not yet being recognized or the execution has not yet been started. How should we see this entire Innovation Services and how the revenues here will look like in coming quarters? Because it's been quite muted for last two quarter now, on a very, very low base.

Pratibha Advani: Sanjesh, the way I would put this, and this is something that we have been talking that we did anticipate a faster take off in the products. But I think it's taking a little more time. It's a very interesting portfolio as Lakshmi mentioned, there are a lot of opportunities. But I think for us to penetrate into the customer ecosystem is taking a little longer. I would continue to look at growth at current levels right now, because this is still a portfolio that we are assessing and investing in. So that's the way I would look at showing the growth in your models.

Sanjesh Jain: But just one on this, Pratibha, because I understand we have won some contracts also, right, the execution has not been started or it was just proof-of-concept or how was it?

Pratibha Advani: Actually, we have started, so if you recall, we won a large contract in May. tThe execution on that has started but the revenue recognition has not happened. So we are still in the investment mode in those contracts. And hopefully from next year you should start to see some more traction in top-line.

Sanjesh Jain: Okay, that's helpful. One last question from my side. On the free cash flow perspective, when should we see a meaningful free cash flow generation which helps us in organically deleveraging? Should that be the focus for us in FY21? And how much deleveraging are we looking at doing through our internet accruals in FY21?

Pratibha Advani: Sanjesh, most definitely all our efforts and endeavor are to deleverage ourselves. We would like to be ideally in the 2.2x to 2.5x range. However, I will be candid here, for us to make a commitment at this point will not be correct, given the lot of external factors that are presently at play.

Sanjesh Jain: Sorry, I got one more question. Just on this enterprise part which in India has grown 11% for us Y-o-Y, has the competition intensity been fair there, because we understand Reliance Jio has also started the services and growth in enterprise look really amazing. So how should we see here in terms of competitive intensity shaping up in this part of the business?

A. Lakshminarayanan: Obviously, we are coming across competition in some of the accounts. But I think we are quite confident of serving the enterprises because enterprises do require a lot more contextual understanding of them and how the architect and deliver the solution at enterprise grade with SLAs. So while there is competition, we are quite confident of keeping and improving our market share.

Pratibha Advani: Just to add to what Lakshmi has said, we are really looking at large enterprises, these large enterprises are our customer. And for them, SLA is the quality of service and the relationship matters. Also, it's important to mention that given the breadth of our portfolio, I think it will still be some time before we will see a dent on our growth in the enterprise segment.

Moderator: Thank you. We take the next question from the line of Prabir Adhikari from RCML Securities. Please go ahead.

Prabir Adhikari: I have a question. One is, I guess this 5G whenever this will get implemented, your company is expected to get a lot of benefit out of it. So my question is, when are you seeing this 5G implementation in India to start and by when there will be a significant growth in your data business pertaining to 5G? And another question I have, so what is the status on this hemisphere, is there a delay going on in listing this stock?

A. Lakshminarayanan: On 5G, to be honest, we are evaluating the full impact. I think in India by the time the auction comes and they implement, it could be some time. But with 5G, the last mile access will definitely improve. And therefore, the growth and the stability of the internet services will grow. And with that we believe we can also bring and introduce our IZO Internet WAN solutions in India, it will become more applicable. So we generally see this as a fairly positive move in the coming years. And the thing I mentioned about NetFoundry, I think it will have a greater play when the internet becomes a lot more reliable and people move to more cloud and cloud native technologies. That's my answer on 5G.

Pratibha Advani: On HPIL, government is taking steps to al lot HPIL shares to all eligible shareholders, we have provided them the list of shareholders. It has taken longer than anticipated due to admin issues at government's end. We are expecting. allotment in the next month and I guess listing thereafter should happen after two months of allotment.

Moderator: Thank you. The next question from the line of Bharat Seth from Quest Investment. Please go ahead.

Bharat Seth: So, firstly on this Innovation Services. So can you give some sense and color on the kind of a funnel and how much TCV we have won? And how do we see this piece over a couple of years, I mean, or at least so there is a little longer than the expected ramp up. So full color can you give? And when really do we think that we can really breakeven this business?

A. Lakshminarayanan: Bharat, I think on the Innovation Services, I think I made a brief comment. From a longer term perspective, we are in a process of looking at our strategy across all portfolios, customer, segments, and markets and so on. So you need to wait for a little while, before I precisely come. But on the specific things in our Innovation Services, there are multiple products within that. I think MOVE is something that we have had a big large success, and we need to now put our heads down, implement and ensure that that product can, the solution can be delivered for this large auto OEM. And then we look to scale that up. And I think it's very scalable proposition in the long-term.

Similarly, NetFoundry as I mentioned, it is an SWAN, fairly innovative and I am very excited about the product. Again, as customers move to cloud first and begin to use a lot more internet, this will become a lot more bigger and scalable. Some of the customers where we have already implemented in the overseas locations, the feedback from these customers have been extremely positive because they have seen the performance in many cases go up 10x. They are saying that because it is a zero trust security, the implementation of security is extremely easy. As well as, it brings a lot more agility and manageability of the entire network, because it's an application WAN. So I am excited about the product. And I believe we need to give it more time before it can really scale.

Bharat Seth: Okay. And what kind of, whether MOVE as well as NetFoundry, a market opportunity or potential that we look or is emerging?

A. Lakshminarayanan: I have said, we are working through the overall cytogenesis, I am evaluating all the portfolio and you probably need to wait a little longer for me to answer this question in terms of potential in some of the Innovation Services. But MOVE clearly has a much bigger potential and we can really quantify, because any products that are going to be moving across national borders, I mean, the auto OEM is one example where automotive are going across boundaries and MOVE is very relevant from an IoT context, or any other logistics providers where the IoT would be relevant.

And MOVE has another use case where we call it SIM Connect. Essentially, many airlines are customers today as their crew members are going into different countries they carry iPads and devices, carrying eSIM of the MOVE product. And at least three or four airlines have already implemented that. So from use cases point of view there is high receptivity, and we believe also MOVE, overall, both on the SIM Connect as well as on the IoT Connect has a fairly large market potential and in double-digit billions, I would say.

Bharat Seth: And in your initial remarks, you made a comment on this Transformation Services. There were two major transition, one is, transformation in the services, I mean, transition; and one related to large accounts. And despite we have added almost 1,000 headcounts during nine months, but the top-line looks muted. So can you give some more color and what kind of opportunity?

Pratibha Advani: Bharat, as Lakshmi mentioned, that we are transitioning to contract, so obviously we have to hire people ahead before you start to see the revenues. And despite that, I just want to highlight that the revenues are growing 10% year-on-year. So while there the profitability has been muted, the top-line is still growing well.

Bharat Seth: But I think the kind of a headcount that we have a vis-à-vis top-line, so when we really see sustainable kind of EBITDA and growth for this business where we once upon a time we had a very high hope of growing and high double-digit and high double-digit EBITDA margin also. Where do we stand?

Pratibha Advani: So those aspirations are very much there. The fact that we are winning large contracts, both in India and internationally, is testimony to our services. I also would like to remind you that this is really a services business, right. And as I mentioned that, when I transition, I have to hire people two, three months in advance, they need to be trained, we transition that business and it's only after that that revenue starts to come in. There is always a lag between the time that we recognize cost and when revenue starts to come in.

Bharat Seth: Pratibha, but when do we expect, I mean, since nine months, as I told you, we have already added 25 additional headcount. So when do we expect that to really start kicking in?

Pratibha Advani: Bharat, I had mentioned in my last call, expected by Q1, Q2 next year.

Bharat Seth: Okay. So, still further three quarters away, correct, is that fair understanding?

Pratibha Advani: No, I mean, I said Q1, Q2 next year.

Bharat Seth: Okay. So maybe one or two quarter?

Pratibha Advani: Yes, that's right.

Bharat Seth: And this Growth Service you said that on large base our growth is almost 16%. So what kind of a sustainable growth and EBITDA are we looking next year, I mean? Some kind of color if you can give.

Pratibha Advani: We don't give guidance, Bharat, you know that. But as Lakshmi mentioned, we are optimistic on this portfolio, it is delivering results. And that itself should be suffice that this portfolio will grow, we will start to see operating leverage, we have actually started to see that operating leverage and margin expansion should continue.

Moderator: Thank you. Next question is from the line of Ridhesh Gandhi from Discovery Capital. Please go ahead.

Ridhesh Gandhi: Just had a question on your Innovation Services. As you guys had actually initially committed, you have actually become profitable on Growth Services. Any guidance with regards to actually how long Innovations Services and the losses are expected to continue? Because it is reasonably meaningful number.

Pratibha Advani: Ridhesh, we are putting a strategy together and give us some time to come back to you.

Ridhesh Gandhi: And so is the aspiration to implement strategy and rationalize the investments which we expect to be highly profitable and give actually attractive return in the future and can you stop those which are effectively actually bleeding? Is there a rationalization exercise which we are going through, because, obviously, we have sort of made a number of investments across the board., I am sure a few are healthy and a few aren't all bad. But are we still looking to rationalize how we deploy our capital going ahead?

A. Lakshminarayanan: I think you need to give us more time. I am evaluating all the product portfolios to look at both the scalability as well as the margin, the logic for margin expansion, the possibility of doing that and what you will get. But particularly on the innovation side, as I mentioned, I am quite excited about some of these products. And as I said, some of them will take time and some of them I don't want that to be measured on a quarterly basis to see how it is being done. So we will come back to you and we look at all the products and a broader view on our overall strategy in a quarter or so.

Ridhesh Gandhi: Sure. And the other question was with regards to the real estate in Tata Communication. Is there any plans or any strategy revolving around the monetization of those assets? Is there any update on that?

Pratibha Advani: Ridhesh, again, this was a question that came last time. The entire process of surplus land is still not over. We still need some time, but we are working on a strategy. And once we are ready, we will be only happy to share that with all of you. But you have to give us some time.

Ridhesh Gandhi: But by time are we like looking at six to nine months? A year? 18 months? I mean, how long should we be?

Pratibha Advani: I can't give you a commitment right now because the physical possession of handing it over to the government has still not been initiated. So it is difficult for me to give you any kind of timeline.

Ridhesh Gandhi: And then lastly, as we look at actually a free cash flow, our EBITDA has grown reasonably over the last few quarters. Just wanted to get a view on how we should be thinking about the free cash flow generator business, are we still in an investment mode where we can continue to invest their free cash flow into actually selling your products and service offerings?

A. Lakshminarayanan: Yes, I think it sort of goes back to my earlier answer, currently we are in the mode of evaluating all the products for scalability on revenue and margins. That would clearly dictate. And obviously, product is one but the underlying network where we have one of the strongest networks in terms of how it is engineered and delivered in India, as well as our subsea cables, are highly strong foundations of that. And we continue to make CAPEX investments to make sure that that remains solid. So, our investments would be on the core network as well as the products that will ride on top. And we will have to come back on that. But my sense is that we will continue to invest. Which products, where is what we are looking at.

Pratibha Advani: And the only point that I want to add is, that our free cash flow year-on-year is also being growing by 25%,- 26%. So it is trending in the right direction.

Moderator: Thank you. We take the next question from the line of Narottam Garg from Chanakya Capital Services. Please go ahead.

Narottam Garg: Yes, this question is for Lakshmi. As you complete six months and you are looking at the entire portfolio and all the initiatives at the company, would it be fair to assume that as we exit quarter four, you would be able to give us more color and a more definite plan of how these things shape up for the company as you go forward?

A. Lakshminarayanan: Yes, definitely, I hope to do that. It's coming up to just more than three months since I started. So I should be in a position to do that in another three months.

Moderator: Thank you. Next question is from the line of Ali Asgar from Motilal Oswal Securities. Please go ahead.

Ali Asgar: I have a follow-up on the same Innovation and Growth Services' profitability. I just want to understand, how should we see the trend of this profitability going forward? Should we assume there are lot of heavy lifting in terms of your cost structures that are being done and therefore incrementally as you grow your revenue, we should see incremental EBITDA margin significantly higher? I am coming from the point of view that if I see the Growth Services in this quarter, actually absolute amount addition is quite low. But given that the base of Growth Services have been very low, we have seen actually that doubling near about. So I am just thinking about the Growth Services firstly, how the profitability trend should be and cost structure should be.

Pratibha Advani: Ali, as you rightly pointed out that while our top-line has grown but EBITDA has grown substantially sequentially. And this is because of the operating leverage that we are now getting on the portfolio. And this trend will only continue.

Ali Asgar: So, would you be able to share some outlook in terms of your profitability trends in terms of what could be your incremental margins on your revenue, just any broad trends? Or probably help us out with understanding in terms of two year out what kind of profitability we can expect from this business? Considering the kind of growth that you have already given, the 15%, 20% growth that you are expecting for growth services, or rather the existing base.

Pratibha Advani: Ali, we don't give guidance. So I wouldn't be able to help you with data points there. But as Laxmi mentioned, we are continuing to see good funnel growth in this portfolio. And, it has been growing both the top line as well as EBITDA has been growing well.

Ali Asgar: Okay. I am not looking for guidance, but just any thoughts around, should I expect the cost structure to sort of not grow very significantly from your, are you done with your heavy lifting so it should be more inflationary and then your incremental margin therefore should be completely driven by what kind of growth you are doing in this segment?

Pratibha Advani: I mentioned earlier, you will see operating leverage to continue. Also, if I look at my direct cost line, now that's dependent on the kind of contracts and wins that we have and consequently the investment that we need to make. But yes, you will definitely see in our operating costs the leverage to continue.

Ali Asgar: Okay. And similar point on even your innovation business, how should we see the losses over here? I mean, I understand that given the scale is too small over here, it would take some time before it could turn around. But, again, over here do we have any such gap in terms of the amount we are willing to spend or maybe at what base you think this segment could break even or your cost structure should break even? Just overall in terms of the portfolio, how it should behave as you grow?

Pratibha Advani: Ali, as Lakshmi mentioned earlier, we are putting our strategy together and we will come back to you directionally how we want to grow and how we see this portfolio panning out.

Ali Asgar: Okay. Just last question is on TTSL. I think earlier we were waiting for the deal with Bharti, regulatory approvals to come for that before we could decide on the deal with TTSL. Now that it is concluded, any update you can share over there?

Pratibha Advani: Its status quo for now.

Moderator: Thank you. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for closing comments.

A. Lakshminarayanan: Thanks everyone. And I just wanted to summarize. I see the fundamentals to be quite strong. I see the market opportunities as I speak to customers to be quite good. And we have asset of product and as we said, I am evaluating and we are confident of scaling that. We will come back with more color and light on this coming few weeks and months. Thank you.

Moderator: Thank you. On behalf of Tata Communications, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.

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