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Q1 FY2022 Earnings Webinar Transcript

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 ended 30th June 2021 have been announced yesterday, and the quarterly fact sheet 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. 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: Good afternoon, everyone, and a very warm welcome to the Q1 FY22 Earnings Call of Tata Communications. We have been through another devastating wave of COVID, which has affected all of us. We lost some of our valued colleagues and several of our people suffered tragic loss of family members as well. We extend our heartfelt condolences to everyone. During the second wave, people had to endure great difficulties, and we can only hope and pray that this does not repeat.

Coming to the business, our teams once again rose to the challenge in prioritizing safety and wellness, driving the vaccination campaign internally, and despite difficulties faced, we have focused on customer service. And at this juncture, I would also like to extend my appreciation of the efforts of our customers who themselves were impacted as well.

Looking back during the last one year, our business had tailwinds as well as the headwinds due to COVID. During Q1 and Q2 of last year, we had tailwinds of COVID as companies were scrambling to cope with work from home and increased cloud collaboration needing a massive increase in network capacity. Similarly, there was a sudden jump in SIP traffic. During the second half of the last year, this demand started to moderate and acted as a headwind for us, and there were other headwinds, as you know, in the media event cancellations and so on. This is the reason why our year-on-year revenue performance looks somewhat downbeat. Although these factors are still affecting our performance, these trends peaked in Q4 and have started to reverse in Q1, which we see as a huge positive signal.

Let me elaborate these trends a little bit more. The first one is the rationalization of bandwidth in the first half of last year. The connectivity demand for our hub locations and data center sites of our customers witnessed a huge surge in traffic. But in the second half, a lot of enterprises rationalized their branch connectivity as offices were closed and employees who are working from home, leading to terminations and downgrades. This churn peaked in Q3 of last year and now has moderated to come down slowly with the gradual reopening of offices, and we should see a reversal of downgrades and terminations gradually going forward.

Moderation of SIP traffic. SIP traffic peaked in Q2 of last year. And post that, it has been moderating due to shift towards IP. And we were also impacted uniquely by the increase in IUC charges that I've talked about in the past. We have been running programs to get some of this traffic back, and we are witnessing early signs of recovery. We have reversed the trend, and SIP traffic in this quarter showed marginal growth over Q4, and the recovery has been slower than expected due to the second wave, but it's a positive sign. Also in the international markets, wherever COVID situation is normalized, we are witnessing an uptick in usage-based services.

Slowdown in large leads is the third reason. Due to the uncertainties as well as varying priorities of our customers, business decisions relating to network transformations have been slower, resulting in longer lead time to close large transformation leads. We touched upon this point last quarter as well. We have started to see some recovery. But in the meantime, we are also concentrating on smaller deals and accelerating them. These require less customization, and they should be faster to close. This will help us to bring revenue growth in the interim. We are running specific internal programs to monitor these deals on a continuous basis and improve the win rate and simultaneously keep engaging with our customers on the larger opportunities.

Despite the extreme circumstances that surfaced this time around in second wave, we were better prepared and were able to reduce the impact on the business. The underlying trends are positive. And in all segments, Q1 performance has improved over Q4, which is a healthy sign. The funnel and order book are gradually building up, and we are confident that it's just a matter of time before the numbers start showing a good positive trend.

Service delivery has been impacted and was an area of concern due to people impact, our employees as well as clients as well as the logistics, the lockdown and the restriction of movements in various geographies. Due to these and some of the other factors below, service delivery had been affected leading to delayed revenue recognition. Lockdown situation has started to improve, but deliveries continue to remain slow due to supply chain constraints. Freight movement was affected due to international air travel restrictions, adding to the delivery timelines of critical equipment.

Current chip shortage impacting OEMs and other new processes introduced are extending the delivery time lines. We are managing the situation with our vendors and ordering some of the equipment in advance to shorten the delivery time lines. In our recent Investor Day meet, we presented our strategy update and the progress we have made so far. We trust this session would have aided in your understanding of our business and provided insights to our strategy for sustained growth.

One of the important pillars of our strategy is being relevant in customers' ecosystem and we, at Tata Communications, are constantly innovating our products to cater the customers' emerging needs. We continue to expand our IZO Private Cloud offering. We recently launched our IZO Financial Cloud, which is a purpose-built community cloud platform, enabling next-gen digital transformation, customized to meet the stringent data privacy and protection compliance and security guidelines defined by India's regulators for banking, financial services and insurance sectors. It also allows international banks to expand their footprint in India by meeting the country's data residency requirements. This is one such example of how our products are helping businesses to achieve their digital transformation goals. One of our focus areas in providing seamless collaboration in customer ecosystems and delivering customer experiences powered by end-to-end engagement to match the increased demand for customer engagement in this digital age, we will be shortly launching our cloud communications platform as we expand beyond A2P messaging to also offer CPaaS. It will be an omnichannel full stack cloud-based delivery model, enabling programmable voice, video, messaging on a software layer accessible through API-enabled functions and flexible workflows. We are already working with some pilot customers from retail banking and logistics industry.

Global enterprises are now increasingly looking to leverage Internet along with MPLS and Ethernet to bring agility and scalability in the IT infrastructure, along with security and reliability. We are gaining traction in this hybrid connectivity market with our global core connectivity offerings and our next-gen IZO Connectivity Platform. Our Core connectivity business grew by 1.7% year-on-year, while Next Gen Connectivity grew by 14% year-on-year. Recently, KION Group, one of the world's leading suppliers of industrial trucks and supply chain solutions, has selected us for its cloud-first, Internet-first global network transformation journey. Powered by our IZO platform and cloud-based security solutions, this engagement will transform KION's hybrid WAN setup, consisting of more than 290 sites in 35 countries, to an Internet-driven solution. This global network transformation program will improve efficiency of applications throughout the KION Group of companies while ensuring cost optimization in line with the company's growth strategy. The improved performance and efficiency of applications will also enable the group to leverage synergies within their digital ecosystem, focus on innovation and provide superior customer experience. Since 2014, Tata Communications has been an integral part of KION's digital journey. This long-standing association has been further strengthened with a multi-year contract extension.

Our UCaaS offerings on Teams and Cisco platform is gaining traction. We are further improving these offerings through automation. Funnel for these offerings is growing very well and will drive the future growth of this portfolio.

Overall, collaboration on CPaaS portfolio grew by 7% quarter-on-quarter and declined by 36% year-on-year, mainly due to moderation on the SIP traffic that I've talked about before.

In this hyperconnected cloud world, security threats have increased manifold and the cyber-attacks aren't set to come to a halt any time soon. Businesses need to prepare for a new generation of cyber risks, which can be seamlessly and quickly deployed with existing security strategies. We continue to innovate and provide tailor-made security solutions as the customers' needs. This quarter, one of the central securities depositories under the Government of India selected us as their SOC and MSS partner to achieve the cyber resilience. We won the project for SOC 2.0, which is one of its kind hybrid SOC solution, and this will transform the customer's security posture in line with the latest challenges and threats in cyber space. Our services enabled increased efficiency, risk mitigation and cost reduction for the customer, helping them to support Indian capital markets, such as securities and brokerage firms. Cloud, Hosting and Security portfolio grew 16% year-on-year.

Our Media portfolio, which had been affected by COVID, has started to see substantial recovery with sporting events resuming globally. We continue to innovate. Recently, we deployed a virtual video-assisted referee solution on our Media Edge Cloud for SailGP, the Global Sailing Championship, thereby it becoming the first sports organization to deploy such a solution for its 9-event season, spanning 2021-22. This solution enables SailGP's umpires to connect remotely from anywhere across the globe to access and declare the winner when contestants are racing to the finishing line, providing a sustainable and COVID safe solution for the Federation. For this, Tata Communications is not only carrying 20-plus video feeds from the broadcast center of the event venue site, but also supporting low-latency video streaming for SailGP fans globally. Media Services grew by 82% year-on-year, though this is a comparison from the low point of COVID impacted first quarter of last year.

Our end-to-end IoT solutions provide a complete suite to enterprises with hardware, network, platform, application, analytics and managed services. Our IoT portfolio and connected operations are meeting the demand for the India IoT market by enabling businesses to gain organizational insight, make quick and accurate decisions and improve efficiency and productivity. Early adoption of IoT is transforming operations, increasing adaptability and in turn supporting the growth of Industry 4.0. For our industrial IoT solution, we recently signed up with Tata Steel BSL to provide them with workplace safety, health and productivity IoT solution, spanning 32,000-plus employees and contract workers. Our connected employee IoT solution will help Tata Steel drive a perfect blend of workplace safety, health and productivity as well as faster emergency response time and better workforce management across 6 locations.

Our Incubation portfolio has grown by 60.4% year-on-year, though the scale up is happening at a slower pace than expected due to various external factors, but we are seeing some good use cases that we are deploying, which we think should scale. It must be added that our auto OEM customers are also facing production issues due to the global chip shortage, further affecting the usage of the MOVE services.

Coming to financial performance. Our Q1 consolidated revenue was at INR 4,103 crores, witnessing a decline of 6.8% year-on-year and a growth of 0.7% quarter-on-quarter. This year-on-year decline is primarily due to the decline in Voice business and moderation of SIP traffic within the data portfolio that I have talked about earlier as well. Data revenue was at INR 3,104 crores, witnessing a decline of of 2.2% year-on-year and a growth of 0.6% quarter-on-quarter.

Though the overall revenue growth was subdued, the underlying trends, as I had mentioned, are positive. We continue to monitor our cost tightly and deliver on the financial fitness goals. EBITDA for the quarter was INR 986 crores. This quarter, EBITDA was impacted by a provision of INR 33 crores that we took on account of license fee on revenue from pure Internet services. This revenue was earlier allowed as a deduction in the definition of AGR in our ISP license, and DoT has amended this definition on 31st March 2021. Net profit was also impacted by this provision and came in at INR 296 crores, witnessing a growth of 14.9% year-on-year.

In summary, we believe that the digital transformation opportunity is real and expanding. We have put the right building blocks in place and further investing in our products, and we will be at the forefront to capture this opportunity in the future.

With that, I would like to invite Kabir to give an overview of financial performance.

Kabir Ahmed Shakir: Thank you, Lakshmi. Good afternoon, everyone, and thanks once again for joining us today on our Q1 FY22 earnings call. I'll be taking you through the detailed financial performance for the quarter. The pandemic shook the entire world and all organizations, big, medium and small, have been adapting to it to ensure smooth and seamless functioning of their business. At Tata Comm, we have been agile and efficient in adapting to the changing environment around us.

We have streamlined our processes, control costs and brought efficiencies making our business stronger, more resilient and geared for growth. COVID-related challenges continue to affect us, and these were explained in detail by Lakshmi. Our revenue growth numbers are reflective of the macroeconomic headwinds that we faced during the recent second wave. We've been making efforts to reverse this situation and some of the underlying trends are encouraging. Though revenue growth has been slower, but we've kept a strong focus on costs and profitability.

For the quarter, consolidated revenue was at INR 4,103 crores. This was a growth of 0.7% quarter-on-quarter, while it has been a decline of 6.8% year-on-year. 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 Q1 of last year. I want to bring your attention to the quarter-on-quarter numbers and why some of the underlying trends are encouraging for us.

After three quarters of sluggish growth, we are witnessing early signs of recovery in every segment, including Voice. Churn and downgrades have come down from peak, and collaboration traffic has started to see some growth, though slower than expected as offices continue to remain closed due to the second wave. Globally, wherever COVID situation has started to normalize, we are witnessing an uptick in usage of our services in those geographies, which is a healthy sign. Demand for digital infrastructure and services is increasing, and we are capitalizing on this situation. Our customers continue to appreciate our offerings, and we continue to work on our services, enhancing them to better suit the variety of use cases and industries. The effect of this will be significantly visible in our numbers when the economy returns to normal.

On 31st of March 2021, DoT notified to amend the ISP licenses granted under 2002 and 2007 regime. This amendment required ISPs to pay license fee on revenue from pure Internet services, which was always allowed as a deduction under the definition of AGR in respective licensing agreements. This amendment was challenged in TDSAT by 2 ISPs and an interim stay was granted to all similarly placed license holders. While we believe we have strong arguments in the underlying case before the Supreme Court, we have made a provision for the license fee on revenue from pure Internet services from 1st April 2021. This has led to an impact of INR 33 crores on our consolidated EBITDA for Q1. EBITDA for the quarter was at INR 986 crores, witnessing a decline of 5.3% year-on-year and 2.9% quarter-on-quarter. Normalized for this impact, our EBITDA would have been around INR 1,019 crores. We continue to focus on profitability. Despite decline in revenue and impact of this provision, we were able to maintain our EBITDA margin. And in fact, our EBITDA margin grew by 40 basis points on a year-on-year basis. PAT grew by 15% year-on-year and came in at INR 296 crores. This translates to an EPS of INR 10.4 per share for the quarter.

Our Net debt as on 30th June 2021 stands at INR 8,001 crores. This has marginally gone up as compared to last quarter on account of our annual employee bonus payouts in Q1 and higher working capital, which tends to be elevated at the start of the year. Average cost of borrowing stands at 2.89%, and the net debt-to-EBITDA ratio came in at 1.9x, well under the guidance of 2x that we have mentioned before.

Upward trend in ROCE continues. Trailing 12 months ROCE was at 24.7% compared to 13.6% during the same period last year. CapEx for the quarter was at INR 381 crores as compared to INR 371 crores in Q1 of FY21.

Data business revenue for the quarter came in at INR 3,104 crores, witnessing a decline of 2.2% year-on-year and a growth of 0.6% quarter-on-quarter. The year-on-year decline is primarily due to the moderation of collaboration traffic, which peaked in Q1 of last year, as I mentioned earlier.

Core Connected Services witnessed a growth of 1.7% year-on-year, while the Digital Platform Services segment reported a decline of 12.8% due to the Collaboration segment. Digital Platform and Services segment remains subdued due to slower deal conversion. But as mentioned earlier, we are witnessing some recovery and usage services have also started to trend upwards. We are confident that once the economic environment improves, our growth numbers will be in line with our strategic plan. Until then, we are tirelessly working to negate any external impacts that our business is facing by maintaining high customer engagement levels, controlling costs and strengthening our proposition. Data business EBITDA was at INR 932 crores, witnessing a decline of 2.4% year-on-year and a growth of 0.4% sequentially. Despite the impact of this license provision, we've been able to maintain data EBITDA margins at 30%.

Moving to subsidiaries. Both businesses have been affected by COVID. Transformation business has started stabilizing but at a slow rate. Transaction-based business was impacted due to COVID while costs remain elevated. We hope that this situation will improve in coming quarters as the economies open. Our Payment Solutions business was affected due to the second wave and the consequent country-wide lockdown. Average transactions per day declined from 75 in Q4 to 59 in Q1, affecting the revenue. Despite lower revenue, we've been able to maintain profitability as we exited the loss-making Ministry of Finance contract in December of 2020. Recently, RBI has accepted our long-standing demand and increased the interbank charges on both cash and noncash transactions. This will help improve the financial health of the industry and will certainly help Tata Comm in the long term.

In conclusion, I would like to say that we have a reliable strategy in place and have already started seeing some progress owing to it. We are confident that with improvement in the COVID situation, we will see our business grow at a faster rate, and we'll be able to fully utilize opportunities and maximize profitability. This brings us to the end of the management commentary. I will now ask Vipul to open the forum for any Q&A. Vipul?

Vipul Garg: Thank you, Kabir. The first question is from the line of Sanjesh Jain of ICICI Securities.

Sanjesh Jain: A couple of questions from my side. First one is, we talked about the impact of lockdown, and we have also mentioned that the opening up has really helped us. Can you help us how has been the exit revenue for us in terms of deal pipeline, execution? And how should we see this trajectory improving, say, in Q2, Q3 and Q4 over the next three quarters? That's number one.

The related question is, we did mention that we have seen traction in the usage-based revenue, which has seen moderation during the lockdown. How much of our revenue is dependent on the usage base? And how are we seeing this coming back? Is it more gradual? Or we are seeing a V-shape recovery in the usage-based revenue? These are the initial 2 questions. I will come up with a few questions more.

Amur Lakshminarayanan: Sanjesh, thanks. I mentioned on the kind of impacts that we've had because of COVID, if you look back on the last year, across the entire year, I mentioned the tailwinds we had early on and then thereafter the headwinds in Q3, Q4. And I mentioned that we are seeing the uptick due to various factors, and I elaborated those. And we are seeing, for example, the SIP traffic going up. While it is going up, it is not at the same levels as the pre-COVID levels.

But all the various other factors that we called out, which also had slowed down, our service delivery had slowed down because of COVID, the logistics issues, the people impacted on our side as well as the customer side, all of them with the opening up, we think we should improve. But we all also realize and recognize these are all fragile ones, and hopefully, as I mentioned before, whatever the next waves are being talked about, we will be even better prepared for the situation, and we think some of this recovery can be sustainable. But I can't give you exact numbers. The only other indicators I can give you is our funnel has improved in the last quarter. The amount of opportunities that we have added in the funnel is better than what it was in Q4, for example. So, these are some of the indications that we are calling out for the green shoots of the recovery.

To the question on usage based versus the fixed, I think the usage based is roughly about a quarter of the revenues of data. And I think a lot of our commentary was on global SIP trunk, which is a major part of our usage, but also the other usage services, which are our A2P messaging, MMX portfolio as well as the MOVE, which is largely on usage. So, these are also other usage-based portfolio of product we have.

Sanjesh Jain: A question on the sales funnel and the small deals we highlighted in our opening remarks. So, we said that these are less customized, so we can execute the deal faster. So how are the margins in these? Are we going for the quick deal time? Can this dilute the margin in the near term, so I can understand it will drive the revenue growth?

Amur Lakshminarayanan: No, it will not be diluting. A large part of the network additions and changes that the customers want has always been as part of the business. And that actually constitutes a large part of the business. But we were deliberately focusing on larger transformation story because we believe that, as customers move to cloud and Internet, they needed to transform the network, and those larger transformations were slowing. But the regular additions, changes, modifications to the branches, all of that has always been part of it, and we are just doubling up our focus on it. And to your question, no, it will not dilute the margins. It is a part of our regular business. It's healthy margin.

Sanjesh Jain: Got it. Two last questions. One on the international market opening up. We have been very hopeful of Next Gen Connectivity driving a lot of growth in the international market now that the international market is far better than what India is. Are we seeing the traction in our sales funnel for this Next Gen Connectivity solution? And second question is on the CapEx. You said that we may reinvest some back into the business. Will that happen in FY22 or from FY23? So how should we look at CapEx for this year and the year after?

Amur Lakshminarayanan: I'll take the question on the Next Gen Connectivity and ask Kabir to answer the second one. I think I mentioned about the Next Gen Connectivity. This is what I call the larger network transformation deals, very often along with this Next Gen Connectivity, which is IZO WAN, Internet WAN propositions, the SDWAN and the security are often combined and that's what we call as the network transformation. And I commented that the decisions on these are becoming fewer. But there is traction and the customers are interested, and I think it's a matter of timing and their priority to make this happen because the underlying trends of them moving to cloud, them wanting to leverage Internet a lot more, and therefore, the network being responsive, flexible, resilient, at the same time being secured, that need hasn't gone away. So we believe that the need still remains. So that would be the answer for the first question. Kabir, do you want to take the second one?

Kabir Shakir: Yes, certainly, Lakshmi. Sanjesh, we've indicated that we wanted to increase our CapEx levels. Our going in view for FY22 is a CapEx forecast of $250 million for the CapEx for this year. Having said that, let me try and, I would say, give a context to it because there is CapEx is made up of essentially, I would say, three elements. If I were to simplify, we have a large chunk, which is our customer success-based CapEx, and then there is maintenance and strategic CapEx. The maintenance CapEx has a threshold and a rigor up to 2% of revenue, and that's where we try to control maintenance CapEx, too. On strategic CapEx, we take a call on where we need to invest in capacity. So, I'll focus on the customer success-based CapEx. There we have put an indication of what we need, given our forecast for the year in terms of revenue because these are directly revenue related. So if we get a customer order and that needs for us to buy the equipment and then that gets amortized over the tenure of the contract, technically, I wouldn't want to have a limit there because these drive growth as far as I'm concerned.

But equally, if growth gets constrained for various reasons, as we explained, this is also not going to be spent. So actually, it's a good problem to have. I would like to spend a lot more. But a lot more is definitely on the customer success-based CapEx, not on the other two. I hope that clarifies, Sanjesh.

Vipul Garg: The next question is from the line of Nagraj Chandrashekhar from Laburnum Capital

Nagraj Chandrashekhar: Just one question on how we should look at Network PaaS. So obviously, the way the industry breaks down is at the very bottom, you have the actual connectivity product. At the top, you have the various applications that increasingly run on the network. And in the middle, you have this middle layer of Network PaaS sort of services, it could be security, customer service products, things like that. Now there, obviously, one approach would be to sell our own homegrown products. And another would be to be sort of bundlers providing off-the-shelf products that are kind of widely used in the industry to our customers, but being the sort of solution designer, bundlers, system integrator, whatever you want to call it.

How much of our targets and aspirations in this area, including the margins that you guys have talked about in the past, presume the product actually being created by us? Or would you be able to hit these growth margin targets? Obviously, growth you would, but would you be able to hit the margin, ROIC targets you're talking about, even as a bundler of third-party products, I'd say, Amazon, InstaConnect, bundling in a security services product from Cisco or any other vendor?

Amur Lakshminarayanan: Yes. Nagraj, I think that's an interesting question. I would probably call for a longer answer. But briefly, we talked about in our strategy, one of our ambitions is to move from products to platforms and that is precisely what we meant. So, as we look at our platforms today, a large part of it, as you say, is bundling of several OEM products and stitching them together as a service to customers. That is what that we do. And in that, it is possible to see if we can add a lot more of our own content and capability, what one might call us our own secret sauce in these, which will help us to differentiate in how we deliver the service. So that is the direction that we are going. This varies from different platforms in different areas in various ways. That is why this will require a more specific conversation. But directionally, to answer your question, I hope what I have answered satisfies that. And in terms of margins, we don't believe -- and in fact, by adding some of our own content and using other OEMs where it makes sense, the margins will only be better than otherwise.

Nagraj Chandrashekhar: No, no, I fully recognize that. My only question was, obviously, it would be wonderful if we were bundling more and more of our own content because obviously the margins will be much better. I'm saying suppose we weren't able to do that, right? And I suppose we were simply the system integrator, solution designer, bundling the core network connectivity product with value-added products that we resell on behalf of, say, Cisco or Amazon, would that be enough to get us to the margins and ROICs that you guys have talked about in the past? Or are you baking in a relatively heavy weight of your own products being in the mix, which is obviously a higher bar in execution sales, all that stuff, so it's tougher to reach?

Amur Lakshminarayanan: Yes. But Nagaraj, that's what it's difficult to answer in one go. Various platforms will have -- to your example of our offering on call center on the cloud, yes, we do offer call center on our cloud, which is third-party OEMs with some of our own capabilities on the cloud, but a large part of it is OEM capabilities. Now some of the providers like Amazon and even Cisco, WebEx and Genesis, for example, all of them have come up with a cloud offering. So there, our effort is to see how we can stitch together an entire service, including how do you migrate this to the cloud, how do you ensure that people are regulatorily compliant, how do you add something on the top to deliver a better customer experience and employee experience and not a plain vanilla, a call center capability on the cloud, for example. So these are the other things that we will be doing. So we are already doing that, to answer your question. And we will continue to do it as well.

Vipul Garg: The next question is from the line of Naval Seth of Emkay Securities.

Naval Seth: First question is on Media business. Lakshmi, you stated it has grown substantially, although on a low base. Can you give some more insights, how far are we on pre-COVID levels? And if you don't want to guide, but what is your sense by when will you achieve that? Gradually, still we are very far off, or we are progressing at a very fast pace to that level?

Amur Lakshminarayanan: Why don't I have someone give you the precise data on that, we haven't broken down. But I think it is coming back to definitely the pre-COVID levels and provided there aren't any more hiccups of third waves in other markets and so on. Even then, I think some of the federations have come up with very innovative means of delivering these events, right, which we talked about even in the case of SailGP, which our solution will enable the referees to even virtually and remotely be present rather than being present in the venue to do this. So, there are several innovations that are happening. And with those, we think the media is looking positive, barring any unforeseen activities in the future.

Naval Seth: Okay. Second question on joint deals with TCS. Do you want to share any insights there, how things are progressing? Or these are also benefiting you in joint wins through the small deals what you've stated in your initial remarks?

Amur Lakshminarayanan: Yes, not in the small deals. I think with TCS, we are focused on the larger ones with the larger customers. I think there is a lot of engagement at the field level as one of the funnel improvements that I called out is also a result of that, and we have seen some very good conversion in the area in the collaboration space. And we are hoping that in the network transformation as well, we would see some success in the near future. So, I think that, overall, the collaboration is going well, but has been impacted also because of all the reasons that I have laid out before. And for those very reasons, I think these were...

Naval Seth: And one broader question as things are opening up globally and India also. Are you seeing any change in your customer behavior, demand, pricing, which will ask you to go a step ahead in developing new product services? Or you think that achieving a strong healthy double-digit growth is achievable with these offerings what you have right now?

Amur Lakshminarayanan: No. I think in all the portfolios, there is a need to continually innovate in the offerings. And I think I mentioned that whether it's in our broad portfolio, we are launching. So last time around, we called out our SAP HANA grid. We called out other partnerships with hybrid cloud players. We called out our multi-cloud capabilities. This time around, we are calling out the launch of the IZO Fin Cloud. So, we have to constantly be on top of being relevant to the customers. In the same way even in the collaboration space, how do you manage end-to-end the collaborations portfolio for our customers, we talked about the programmable voice, messaging and the CPaaS offer that we are working on. In every area, we need new offerings to stay relevant. And some of these offerings are finding the initial traction, but we need to really find the ones that can scale, right, and how do we scale that. And that's where our focus and efforts will be. But to answer your question, we will be continuously investing in improving these offerings.

Naval Seth: And no major shift in terms of your customer behavior on pricing or something of that aspect what you're seeing as things are opening up?

Amur Lakshminarayanan: No, I don't think there's any major shift in the behavior of the customer in terms of pricing. Kabir, do you want to give some figures on the -- if at least...

Kabir Shakir: Yes. On the media, we are back to kind of the same pre-COVID levels in terms of absolute number in terms of business. But given the kind of growth that we have, I think as events start coming in, we should be able to grow faster. In terms of absolute number that we achieve in the revenue, we are back to the pre-COVID levels.

Naval Seth: Okay. And lastly, any new deals in this segment also what you would have signed, and which will accelerate growth over here? Apart from what you are working on.

Amur Lakshminarayanan: I think Kabir had answered that question as events come back, we can't precisely say how it will accelerate next quarter. But as the events come, as we are introducing newer products with our Media edge cloud, there are a couple of variants of solutions that we already have called out. We believe with our innovation and our presence in the Media, we should be able to capture a good part of that market.

Vipul Garg: The next question is from the line of Hitesh Arora of Unifi Capital

Hitesh Arora: Just wanted to clarify one thing. You talked about RBI interbank cash charges have increased. How does exactly help Tata Comm, if you could kindly explain?

Amur Lakshminarayanan: Kabir?

Kabir Shakir: Well, our subsidiary, which is Tata Comm Payment Solutions Limited. Their revenue model is that it is a variable pay. So INR 5 is what previously was the fee that was paid for a cash transaction and INR 15 for a noncash transaction. And now that has been increased from INR 5 to INR 6 and INR 15 to INR 17. So that's what as the ATM provider, we can actually charge the respective banks from where the consumer actually does the cash or a noncash transaction. So, the revenue model of the subsidiary is based on the amount fixed by the RBI.

Hitesh Arora: Okay. Okay. Understood. Very well answered. Just one more question. In your Data digital platforms and services, our absolute EBITDA is, again, it's a very small number, it's still a single digit. And the margins also surprisingly are low. One would have thought the margins would be relatively higher in this segment. How do you see those margin numbers changing? Does incremental growth in net revenue directly flow into the EBITDA, i.e., you have all the resources, manpower, everything there? And then any incremental net revenue that comes -- that keeps flowing to the EBITDA? Or how is it the additional costs involved in getting the business?

Kabir Shakir: Yes. Well, I completely acknowledge that the business does not have the destination margin profile that we would like it to be. Then that is as a result of various things that we have done in the past, in terms of we have done quite a bit of investments in this particular space. Some of them have worked and some of them haven't, and we've kind of learned from that. I would say you're probably right in the direction that we may not incrementally need the amount of resources for revenue growth, but it's not going to flow through 100% in full. There will be a little bit, but it will not be as much as we see now.

In our own financial planning, we are seeing margin acceleration a lot faster in these businesses as these businesses are being targeted for higher growth. And the reason why I gave a certain profit growth guidance, if I may, was that actually, there's an improvement in these margins, which gets offset by the fact that they are at absolute margin lower than the core connectivity, which has higher EBITDA levels. And that's what it offsets while at an absolute level, they do bring in more with profitability improving. But at a weighted average level, it gets pushed back because of the headwind that they have from a negative mix that they create vis-a-vis the Core Connectivity business.

Hitesh Arora: So would you have any guidance or maybe not even guidance, maybe an aspiration of where do you see these margins growing to?

Kabir Shakir: Look, I would like to stay with our 23% to 25% EBITDA range that we have given. But I mean, you can sure do the math. And in our strategy session last month, we talked about what is the aspiration that we have for growth on this business. So this business, we want them to grow in very good, strong double digits, whereas the Core Connectivity is going to be in high single digits. So with that kind of a growth, we're basically trying to kind of maintain our weighted average margins between 23% to 25%.

Vipul Garg: The next question is from the line of Vimal Gohil from Union AMC

Vimal Gohil: Sir, my first question is on the collaboration piece. As it's well known that the loss of connectivity because of lockdowns has impacted. But we were making some good efforts on increasing the mix of managed services in this business. Just wanted your update on what has been the progress there. That would be my first question.

Amur Lakshminarayanan: Yes. Vimal, I think we are making good progress, and I think I briefly called out our managed services is around areas of customers deploying, let's say, Teams or a Cisco collaboration within their enterprise across multiple geographies. And that is where we are going into our offer of fully managed service to be able to deploy this and do the voice activation, see how some of these can coexist with an existing video and other things and to be able to monitor this end to end is what we offer as a managed service. And that is certainly seeing some traction. And overall, these collaboration with Microsoft Teams and Cisco have grown well. But these are coming off fairly small bases as of now, but we are quite happy about the progress that we are making.

Vimal Gohil: Once these lockdowns open and people return to office, do you see some possibility of reversal in these collaboration deployment of Teams, WebEx, et cetera, because people as it will be in the office and may not need the solutions for the time being. So, do you see this reversal, or the trend will sort of continue going forward?

Amur Lakshminarayanan: No, I think there are two aspects of these services. So, one as people are out and about and in their office or in outside locations and having to participate in meetings, they will start using the SIP Trunk, which is what we called out. As it opens up, we think that the usage on SIP Trunk will increase. The second also is, as people are now deploying, let's say, a Teams solution, people are largely using the Internet for the Teams collaboration. And not necessarily using the Teams, the phone licenses as it were and activating the voice capabilities of Teams. And I think I had mentioned in one of the calls earlier, Tata Comm's involvement in all of these Teams will come about only when enterprises are buying the phone licenses and activating the PSTN enablement of Teams, if you will. And we believe, as people open up, people will need that. Today, people have deployed Teams, where people are using Internet. As people open up, we think that need will grow.

Vimal Gohil: Fair enough. Sir, this is a broader level question, I mean, across segments and I just wanted to comment on your Data Digital Platform business, as you call it now. What has been the progress on the market share? How has the industry grown? You have given some numbers in your Analyst Day. You gave some numbers on how the industry is sort of expected to grow. I just wanted your comments on what is the progress Tata Comm has made in terms of gaining market share over the last maybe 2 years?

Amur Lakshminarayanan: Over the last 2 years, I think the numbers are very small. The market share numbers will not be very relevant. That's the way I see it. And secondly, in each of these areas, there different segments that have different data points. I'm struggling to answer that question in a simple way, Vimal. But if you were to take even this collaboration space on Teams deployment and so on, we precisely don't have the data on how many enterprises have activated their phone licenses or bought phone licenses. So that information that we don't have. So it's difficult to answer that question. And I think I might have mentioned before, these numbers for us today are very small. So everything would be an upside. And it'd be hard to look at the market share. In certain markets, we can look at the market share. But I don't have that precise information to give you right now.

Vimal Gohil: Fair enough. Sir, and my next question was regarding your Cloud and Hosting business, which is a part of the Digital Platform. Then pardon me for looking at the quarter-on-quarter trend, but because we've had a few soft quarters, that is sort of compelling me to look at this trend. But is there anything specific to read into the sequential decline in the Cloud and Hosting business because this business was in good momentum? So, what has led to sort of a slight break in this momentum on a sequential basis?

Amur Lakshminarayanan: Yes. I think if you look at the current run rate, it's better than what it was a few quarters before. But sequential decline, there are a couple of reasons. One is during Q1, Q2 of last year, there was a softness in booking the orders, which is translating to this lower revenue. The second is also, in Q4, particularly, we had a bit of a one-off, which shows the sequential growth of Q4 to Q1 also to be smaller. But year-on-year, I think it has grown. But we have ambitions for much faster growth in this space. So, we think that we are sharpening up our offerings and what we are taking to the market, we can grow faster then.

Vimal Gohil: Fair enough. And sir, last question would be on your CPaaS offering. This entire area has been in a lot of talk, the private equity space, et cetera. We have a listed specialist incumbent as well. So how different are we in terms of -- are we sort of directly competing with some of these incumbents like Route Mobile, Gupshup, et cetera? Or if yes, then how are we sort of competing? What are we doing different in this space?

Amur Lakshminarayanan: Yes, I think we will give more information when we actually launch it. As I said, we are trialing the product with a few customers at the moment. The reason why we are excited is for a few, one is, we are building this platform on top of a very robust and secure infrastructure. So one of the things, as you would have also seen earlier, is in all the messaging and other things, security has been a concern. And we would be building on a very secure infrastructure. Second is there are also regulatory complexities when it comes to international, and we would be a lot better in handling that. And third is our platform itself. Our ability to do programmable voice messages as well as flexible workflows, we think will differentiate us sharply. Also, addressing the enterprises requires understanding the context of the enterprises, and we will work closely with them and these workflows and programmable workflows, but we will be able to customize it for them. These are some of the things that we are seeing will be our differentiators. And that's what is playing out in our initial pilots. But maybe we can provide more information as we launch and come out with the proper plan.

Vimal Gohil: Right. Sir -- but the nature of the services will be almost the same, right? It will be A2P and then probably there will be some rich communications to it kind of services that we have been informed ?

Amur Lakshminarayanan: Yes, lot more of bundling that is possible. But yes, it will be similar, but we would like to be different.

Vipul Garg: We are almost out of time. We'll take the last question from the line of Agam Shah.

Agam Shah: Congrats on the numbers. First question on the Digital Platform and Services. As you rightly said that you're seeing reversal of downgrades and all. So can we say that we are near to the pre-COVID levels within collaboration, CPaaS, Cloud Hosting and the Next Generation Connectivity, specifically to your Digital Platform business?

Amur Lakshminarayanan: Yes. So I think the Digital Platform and Services, as you rightly called out, is having many things. I think Kabir called out on the Media saying that we are at pre-COVID levels already on the Media front. On Cloud and Security as well, we are at pre-COVID or better. On the Next Gen Connectivity, we have called out a year-on-year growth. So that's beyond the pre-COVID levels that we have gone. On the collaboration, I already called out on the SIP Trunk. We are nowhere near pre-COVID levels. But there is a slow and a gradual uptick in that. But in that area, we are nowhere near the pre-COVID levels.

Agam Shah: The collaboration, right?

Amur Lakshminarayanan: Yes, yes.

Agam Shah: Is it fair to assume that at least from this quarter onwards, if we don't see any other COVID wave or something like that, so there will be quarter-on-quarter improvement across our core and digital business?

Amur Lakshminarayanan: No, that's hard to answer precisely. I think I can only give the underlying trends that we see and we call out. We can't give precise guidance on what the quarter ahead has.

Agam Shah: The trend is showing that way.

Amur Lakshminarayanan: No, the one I called out on the collaboration on the SIP Trunk, we said that was recovering, and we saw Q1, in terms of traffic, was better than Q4. We also said that Q1 was nowhere near the pre-COVID levels. But it also depends on how much will people go back to offices even post COVID and how that demand will pick up. So, we are seeing recovery, but it's hard to give you a precise guidance on the collaboration space.

Vipul Garg: I'll now hand over the call to Lakshmi for his concluding remarks. Lakshmi, over to you.

Amur Lakshminarayanan: Thanks. Thanks, everyone. Thanks for joining on the call. I would like to just thank you and thank all of our employees, as I called out, at the beginning of the call. As far as our customers, the last quarter was a very difficult quarter and people have really done amazing things to be where we are. And as I called out as well, again, we are seeing a gradual recovery in various portfolios, and as things open up, our strategy should play out, and we are very hopeful of fully maximizing on that strategy through good execution. Thank you.

Vipul Garg: Thank you, Lakshmi. We are now at the end of the allotted 1 hour. You may please disconnect the call now.

Thank you.

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