July 21, 2022, at 02:30 pm IST

Q1 FY2023
Earnings Call Transcript

MAIN SPEAKERS:

AS Lakshminarayanan, Managing Director and Chief Executive Officer

Kabir Ahmed Shakir, Chief Financial Officer

Chirag Jain

Good afternoon, everyone, and welcome to the Tata Communications Earnings Conference Call for Q1 FY 23. 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 2022 have been announced yesterday and the quarterly fact sheet is available on our website. We also conducted our Investor Meet – "Empowering Tomorrow" on 14th June 2022 in Mumbai. A recording of the entire event and the transcript is also available online under the "Presentations Section" of our Investor Relations Page on the 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 long-term outlook, followed by Kabir, who will share his views on the financial progress achieved. At the end of the management's remarks, you will have an opportunity to get your queries addressed. Before we get started, I would like to remind everyone that some of the statements made or discussed on the conference call today may be forward-looking in nature and must be viewed in conjunction with the risk and uncertainties we face. A detailed statement and explanation of these risks are included in our annual filings, which you can locate on our website www.tatacommunications.com. The company does not undertake to update these forward-looking statements publicly.

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

AS Lakshminarayanan

Thank you, Chirag. Good afternoon, everyone. A disciplined execution of our 'Reimagine' strategy through the Products to Platform Shift and deepening our customer engagement, has been yielding positive results.

We saw a profitable data revenue growth despite ongoing supply chain and OEM lead time issues which has worsened in this quarter, seeing a stretch of almost 4x from the initial 12-16 weeks delays. We have delivered a good YoY Data Revenue growth of 7.6% with very strong profits.

Our data business remains instrumental to our overall revenue. It improved sequentially by 1.2%, coming in at INR 3,340 Crores. Fixed pie of the data portfolio increased by 9% YoY, with India growing at double digits. And after several quarters, international markets are showing growth for us again.

Our Q1 consolidated revenue was INR 4,311 Crores, improving by 5.1% YoY and 1.1% QoQ. EBITDA for the quarter stood at INR 1,077 Crores, increasing by 9.2% YoY and 3% QoQ, while the EBITDA Margin stood at 25%. The profit for the quarter was at INR 544 Crores, improving by 83.6% YoY and 49% QoQ. Voice business continues to degrow in line with industry trends. The business declined by 4.7% YoY and improved 4.6% QoQ.

Our order-book for the quarter was strong, and improved YoY in good double-digits. Our funnel additions have also been healthy across the portfolio, with a strong build up in our Digital Platforms & Services and Incubation Offerings. This results from our regional investments in Sales & Marketing as well as our Products and Platforms.

Let me now give you some more details about our data portfolio.

Our Core Connectivity Services grew by 3.6% YoY and 1% QoQ powered by consistent performance, high reliability and resilience, predictable routing, and faster restoration.

Our Digital Platforms & Services portfolio has grown at 12.3% YoY. Our DPS Segment is intended to consistently deliver more holistic solutions, stitching multiple products together for our customers' ecosystems. We are enabling our customers to collaborate and connect seamlessly over our secure digital solutions.

Our entire portfolio except for Collaboration, witnessed double digit growth. In fact, some products and platforms are showing greater than 20% YoY growth. We have called out in our previous discussions about the fundamental shift being witnessed in our SIP usage business as the traffic is moving towards channels like IP and app-based calling.

Our Collaboration and Managed CPaaS portfolio reduced by 3.1% YoY and 3.3% QoQ, primarily driven by a dip in usage-based volume. However, we are seeing an increasing customer interest in our newer offerings namely GlobalRapide, InstaCC and the newly launched DIGO.

A leading Asia-based global airline is accelerating their digital transformation through our GlobalRapide platform enabling it to be more agile in the new world's hybrid working environment. We brought onboard an end-to-end managed solution to boost their productivity by providing a holistic collaboration experience as well as ensuring cross border regulatory compliance.

Last quarter we launched DIGO. It aims to be the preferred choice of platform for enterprise customers to deliver customised, converged, and contextual conversations for their end consumers-on-the-go. Some of our early wins include one of Asia's leading taxi hailing services and a food delivery service in Japan. We continue to onboard new customers and engage in deeper, richer engagements with key enterprises.

Moving on, our Cloud, Hosting and Security portfolio registered a growth of 24% YoY and a healthy 9.3% QoQ. As part of this, we are happy to be associated with the country's Digital India Initiative with the National Health Authority. They entrusted us, yet again, to deliver the largest Health Cloud for the Government of India as they roll out the world's largest Insurance and National Health ID schemes with a vision of extending Universal Health Coverage for all its citizens. Our Cloud and Security offering will enable the Government to roll out their National Health Card and register all citizens for their Unique Health ID digitally.

Now, about our Next-Gen Connectivity offerings which improved by 15.5% YoY, though it declined sequentially by 13.4% QoQ. This decline was due to a one-time revenue in Q4 FY22 and supply chain issues which are prolonging project deliveries, thus, delaying revenue recognition. We are witnessing YoY growth and are winning on the back of our newly launched enhanced IZOTM Internet WAN and SD-WAN variants. Our funnel and order book continues to be healthy in this segment. To give you an example, a leading global automotive manufacturer implemented an advanced cloud connectivity solution which reduces network complexity and improves user experience. Our IZOM Network Edge Multi-Cloud Connect offering simplifies the company's access to public cloud and their adoption of hybrid WAN across multiple regions in the world. This IZO™ Network Edge Multi-cloud connectivity service platform will enable the automotive manufacturer's multi-cloud journey by giving them agility and flexibility to add services and bandwidth.

Going further, our Media business is making strong strides as we deliver an enhanced viewing experience for millions of fans globally. From Formula 1 to MotoGP to foraying into regional sporting events, we are leading the media ecosystem with best-in-class solutions and delivering a promising end user experience. Our Media Services revenue grew by 40.5% YoY and 16.8% QoQ.

And our offerings in the Incubation Portfolio progressed multi-fold as the revenue for this quarter more than doubled, compared to Q1 FY22, growing by 140.7% YoY and 9.9% QoQ. This is an evolving space where intelligent technology meets smart networks to drive the next wave of digital adoption. We are witnessing encouraging results across all our offerings as we innovate in the expanding mobility and IoT services ecosystem.

With our suite of offerings, we remain committed to building innovative and scalable platforms to empower enterprises for their tomorrow, today. We will continue to explore opportunities across growth areas, deliver exceptional customer experiences and, at the same time, drive sustained and a healthy growth momentum.

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

Kabir Ahmed Shakir

Thank you, Lakshmi. Good afternoon, everyone, and thanks for joining our Q1 FY23 earnings call. I will take this opportunity to go through our financial performance of the company for the quarter in more detail.

Q1 of FY23 was another healthy quarter for Tata Communications with strong operating performance. Our Consolidated Revenue for the quarter stood at INR 4,311 Crores, improving by 5.1% YoY and 1.1% on a QoQ basis. For Q1, our EBITDA was INR 1,077 Crores, reporting a margin of 25%. Our absolute EBITDA grew by 9.2% YoY and by 3% sequentially. As we augment our staffing capabilities, internal and external engagements pick up pace, we would see some of these costs coming back in a phased manner as we progress into FY23.

Our Data Revenue growth continued to witness a positive growth momentum, despite the challenges around OEMs and delayed deliveries, as Lakshmi already called out. Our lead indicators in terms of funnel, Order book and win rates, are progressing in the right direction giving us the confidence to step up growth once the supply chain issues are sorted. Voice business declined of 4.7% YoY, though it improved by 4.6% sequentially. Data revenue for the quarter stood at INR 3,340 Crores, improving by 7.6% YoY and by 1.2% on a quarterly basis. We witnessed a strong YoY growth across all segments of our data portfolio, except for collaboration, which has declined on the back of usage-based revenues dipping further.

Moving to subsidiaries, TCTS was affected by lower project-based revenues this quarter. The revenue for TCTS declined by 4% YoY and 5% QoQ, coming at INR 317 Crores. However, with the strengthening of our internal processes and improving the quality of revenues, TCTS reported a positive EBITDA of INR 16 Crores this quarter.

Our Payment business continues to make steady progress as we expand our portfolio under the franchise model, we launched last year. We are witnessing a mix benefit as the ATMs under the franchise umbrella contribute roughly a quarter of our total revenues today. Our focus is on further accelerating the deployment of such ATMs as we move ahead in this fiscal year and achieve scale in operations. Revenue for the quarter came in at INR 44 Crores, improving by 3.4% QoQ and 17.1% YoY. EBITDA for the quarter was INR 1 Crores, mainly impacted due to the increase in CRA expenses as they increased rates owing to inflation and higher fuel costs.

Having achieved financial fitness much ahead of our committed time, we have laid strong foundations for the Company’s future. With strong profits and free cash flows, we have a compelling posture globally to drive the next phase. I am pleased to see significant and consistent improvement in all the financial KPIs as we see the finance strategy positively impacting various parts of the business.

PAT for the quarter is at INR 544 Crores, as compared to INR 296 Crores in Q1 of FY22. Our PAT Margin came in at 12.6% for Q1 and improved sequentially by 410 basis points and by 540 basis points YoY. Our journey of balance sheet hygiene continues, and we received yet another tax refund this quarter. Despite adjusting for the interest cost benefit from that, our PAT is significantly higher both in QoQ and YoY terms. Capex for the quarter stood at INR 329 Crores, though our approved capex is greater than INR 500 Crores. Much of the variance can be explained due to the supply chain issues and delayed deliveries which we have already called out. Our capex spends should accelerate as we deliver on some these opportunities in the near to medium term.

ROCE for the quarter is at 29.1%. Net debt as on 30, June stands at INR 6,134 Crores. Net debt to EBITDA is now at 1.4x as compared to 1.9x a year earlier. Our cash flow for the year quarter came in at INR 955 Crores. We have changed our definition of Free Cash flow from EBITDA less Capex to the traditional definition of FCF, more details around the same are available in our factsheet. All historical numbers have been restated accordingly for a fair comparison.

While the underlying metrics are already healthy and improving vs prior period improving our balance sheet even further, they are optically even better this quarter due to timing differences – the supply chain issues impacting capex and therefore cash flow and net debt, dividend payout which happened in July impacting Net Debt.

Delivering on value addition, innovation and financial fitness will continue to be at the core of our organisational strategy. We have built a good foundation and continue to strengthen it as we commit to driving exceptional customer experiences and develop innovative solutions to accelerate growth. This brings us to the end of our management commentary. I will now ask Chirag to open the forum for Q&A. Thank you for your attention.

Chirag Jain

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

Sanjesh Jain

A few questions from my side, the revenue growth and net revenue growth, there is quite large divergence in this quarter, which is favorable for the company, but want to understand what is driving net revenue faster than the gross revenue, is it better renegotiation, more on-net sale? So, what is contributing to the net revenue growth over and above the gross revenue growth and how should we think about this, going forward? Secondly, on the order book, you did mention that order book has grown at a healthy double digit led by the DPS and the incubation. You also mentioned about the National Health Card, can you give us some more color on this, so when you say double digit, how much it really goes into replenishing the existing contract, how much will it contribute to the growth? Also, how much of this national health card kind of a large government project really help us in pushing the growth? Thirdly, on collaboration side, that piece looks like has been struggling. We are down from rupees six billion revenue per quarter now to 3.7 billion and we have been quite optimistic on the CPaaS and so when should we start seeing collaboration also contributing to the growth? Thank you.

AS Lakshminarayanan

Thanks for the questions. Sanjesh, I will take them in the reverse, talk about the order book first and then come to the net revenue part, which Kabir will add more color to. On the order booking, we have seen a good double-digit growth. It is coming across all the portfolios of our offering. Both in India as well as in the international markets. I called out the investments in terms of sales and marketing that we had begun to do in Q3 and Q4 of last year. And that is beginning to show results as well as the as the enhanced products that we have launched on the IZO™ Internet as well as on the other areas. So, all of these are helping us to grow the order book. Even though we deliver a strong order booking, the funnel has been filled back. Therefore, the funnel is also quite strong, and we are confident of building the funnel, going forward. So that is on the order booking. I think, you asked a specific question on contracts like NHA, how does it help to sharpen our products. This has been an excellent relationship, in the NHA 1.0 we provided the IZO™ cloud solution, which was a government community cloud. It was community cloud created specifically for the Government of India to ensure that it complies with all the requirements of the government in terms of the compliances that are required. We won the NHA 2.0. This is a massive undertaking by the government and the demands on the solution was even greater and it includes all the cloud security offerings as well embedded into this, and we will have several new features. So, this will overall strengthen our cloud portfolio quite significantly, and we will bring, you know, similar capabilities to bear in our IZO™ cloud to other industries as well as the recently launched financial cloud that we launched a couple of quarters ago. So, it is testament to both our execution as well as the strength of the product. We believe the IZO™ cloud has a niche space. We do not directly compete with the public cloud. We have a multi cloud offering, but it does have a niche positioning and a niche benefit that we are offering to the market. And this growth has been very good to see. The question on collaboration, we launched the new CPaaS, I had mentioned some quarters ago about the possible launch, we were building out the product, the platform. This platform has been launched now, and as I said, we are seeing very good conversations with the customers and the funnel is building up. This is fairly unique in our opinion, in terms of, this platform offers very simple ways for an architect to deliver a very converged communication experience for their consumers, it is scalable, and it offers programmable workflow, intelligent AI-driven chat bots and other capabilities. So, as we further develop a product, further, enhance the capabilities and we take market, we are quite confident that this will get good traction. Not just in India, but also in the international markets.

Kabir Ahmed Shakir

Let me answer the question on the NR growth. Primarily, at a very uber level, it is just product mix and even if I lift the hood between core connectivity and DPS also, much of the group it is product mix, there are details around more on-net and less off-net, which has therefore helped the profitability. So, again, that is a product mix thing, and also a few of the contracts where we had fixed costs and waiting for the usages, and now the usage has started coming in. So, therefore, the profitability of each of those individual things have looked better as well. So, again, product mix related. So, at a micro and macro level, all three points towards improving product mix, which has helped in NR growth being better than GR growth.

Sanjesh Jain

And the trends should continue?

Kabir Ahmed Shakir

Well, it again depends on the kind of customer orders that we have. Hopefully it should, it should have that same trend.

Sanjesh Jain

Was it by design that we are changing this or just coincidental to what is happening?

Kabir Ahmed Shakir

No, it is not design, because on mix, it is not that these are products that can be alternated by the customer. So, if someone wants, they will buy core connectivity or if someone wants, CPaaS, then they will go to buy CPaaS. You cannot switch them. It is just a mixed effect of how our order book pans out.

Sanjesh Jain

On the EBITDA margin guidance of 23 to 25% range, which you mentioned in the previous quarter, was more on the lower end. Yes, it looks like you have been performing much better. You are on the upper end. Are you restating the guidance ?

Kabir Ahmed Shakir

Well, I have never given a guidance for a quarter, or I have always mentioned long term you know range that we would like to operate in. Earlier if you remember, we had a much wider range of 20 to 25%, you know, and we heard the market feedback. We made it tighter at 23 to 25% and there will be times when we will operate at the lower end and there will be times when we operate at the higher end. And in the last quarter, I also pointed out that it will be more backended as things open up, as offices open up, travel happens. We start funding marketing programs to accelerate growth. All of that will happen in the way in which, the programs intend to happen, and costs intend to come. So, we did not call out and say for this quarter. I have just given that range and we have spoken many times and to many other analysts on the call also, I am a fan of a range. It gives the right elbow room for the management to take the right calls and not be pinned down by any targets. So, my request is to take it in that spirit only, and 23 to 25% is a tight enough range for us to operate under. So, it is good news that we are operating at the higher end of the range. We continue to operate for the last one and a half, 2 years at the higher end of the range. But I do not want to get fixated there because if I am getting right proposals from the business, you know, to fund marketing, to aid customer success, we are not going to say, no, because we are just pinning ourselves to some guidance, we should do what is right for the business.

Sanjesh Jain

Got it. One last question on the annual report. It says about asset held for sale. We have certain real estate asset being classified, what is the realization and what we are looking at it and what time frame are we putting on it? It is less than 12 months, right?

Kabir Ahmed Shakir

Yeah, normally the accounting policy says when the probability of sale becoming higher, that's when you have to classify as asset held for sale, so there are about 10-11 properties, which we have classified under that category, actually, 2 of them, the sale consideration has been received already in Q2 so that will get reflected when we talk in Q2, but other things will probably take its own time. I can see one of the properties was there since the time, I actually joined the company, and it has its own vagaries as to when that will fructify. So, they will happen in the due course, all of them have the high probability of happening in the next 12 months. And that is the reason why we put it in there.

Sanjesh Jain

What will be the cumulative realization? What is the range?

Kabir Ahmed Shakir

The number that you see, which is held for sale is about Rs. 152 Crores, this is on the book value. It all depends on as we monetize property by property. You know, some of them are a couple of buildings, which, are four data centers, which will be done at cost. So, that may not happen. Some of them, you know, are very low cost, we are carrying since inception, and they will have a higher market value. Two of them have concluded so I know the value, the balance has not been concluded. So, I do not know the value, which is the honest answer.

Sanjesh Jain

Okay, thank you for all the answers.

Chirag Jain

Thank you. So, the next question is from the line of Nishit Rathi from CWC Advisors. Please go ahead and ask your question.

Nishit Rathi

Just wanted to understand had the supply chain disruption not happened, and if things were normal, this quarter, what could have been the impact on our revenue growth, if you could just kind of help us quantify that number, how should we look at it?

AS Lakshminarayanan

No, I cannot put a number exactly on it. If you look at that, it has impacted in many ways, some of them on immediately deliverable projects that we could have realized revenues on. Some of the OWM delays are in building the core capacity itself, which is not directly attributable to this quarter's revenue but potentially delaying the capacity enhancements for the future. So, that's probably the answer I can give, we are not calling out, specifically. The delays, The extent of delays has increased quite significantly from these OEMs quite significantly, which I mentioned in my opening remarks.

So those are the main attributes, but having said that, we are placing some of the orders ahead of time, building up some of the inventory and those are the actions that we are taking and working very, very closely with all the OEMs concerned, because they've been working shoulder to shoulder with us, along with our customers, giving jointly the commitments and so on. So, we are doing everything that we can to ensure that we can deliver, as expected by our customers and to turn up the revenues from the orders.

Nishit Rathi

Are you seeing some progress being made there? When do you see normalization come through, is it still very murky for you to kind of call that out right now?

AS Lakshminarayanan

This is like looking into the crystal ball, talking to many of the very senior levels with these OEMs. All of them are unable to give any firm view. And by all reckoning, this is likely to continue for several quarters. So, yes, there is no clear outlook on when this will get fixed.

Kabir Ahmed Shakir

In fact, let me chip in as well, the lead times are only getting worse. So it is, what used to be 12 weeks, it is now, 4x - 5x is the kind of lead times that we are actually seeing. So, these are all linked to the global events that are happening. I do not think any of us can predict when the Russia Ukraine crisis is going to come to an end. I know that has an impact on neon, which has an impact on semiconductor, which has an impact on the equipment. So, it has a cascading effect. So, if we hazard a guess and take a guess, I do not think any of us are going to be right in that.

Nishit Rathi

I was just trying to understand, because like some of the companies, they say that they have started trying to modify their needs to the conductors that are available. So, is there any way to come around that? But I can understand.

AS Lakshminarayanan

I think we have taken all the steps to mitigate wherever we could, place some advanced orders or look for alternative solutions. So, all of that is what we are working but in order to make sure that we can sell our customers in the best possible way.

Nishit Rathi

Is there some clarity that you can give on what our role in 5G could be, given that all private 5G is being allowed now, how will Tata Communications participate and what will be our role and along with all the group companies, if there is some sense that you could share?

AS Lakshminarayanan

We are testing in building capabilities on Private network. We have already got labs set up. We have done successfully pilots on private network, across heterogeneous network, including LTM license and 5G for various use cases 3-4 customers. We are taking this capability internationally as well. So, we are building strongly the capabilities on private network with a strong platform and a digital fabric in the campus. We already had our strengths with LoRa IoT for use cases and we are expanding that to other use cases that can be served through this fabric be it LTM license or 5G. Right, Industry 4.0 use cases to our customers. And so that is something that we are doing and investing in.

Nishit Rathi

Is it fair for me to understand that fiber networks that we have all the assets, the digital infrastructure that we have, that becomes, the utilization of that goes up and then on top of it, we are building solutions and services, which will also be a capitalized way to enable the companies to kind of participate with these solutions. Is that the right way to think about it?

AS Lakshminarayanan

The 5G private network will make use of some of our capabilities. So, for example 5G private network, beyond basic security that 5G offers, is going to require a lot more device security, which we will bring through our securities that we have built into our MOVE™ platform in terms of device security and other securities. We also bring an orchestration capability to be able to deliver a service. A company does not have to immediately go for 5G because a lot of use cases, we believe can be delivered through LTM license to begin with. And as they get good at using those use cases, and they see the returns on those, people can upgrade that seamlessly to a 5G network. So those are the kinds of capabilities that we will deliver and MOVE™ platform for example, will enable companies to seamlessly move from, within campus to outside the campus. So, if your question is, will 5G private network make use of our current capabilities and other platforms? The answer is yes.

Nishit Rathi

No, that is perfect. Thanks a lot.

Chirag Jain

Next question is from Deepak Poddar from Sapphire Capital. Please go ahead and ask your question.

Deepak Poddar

I just wanted to check if I have to look back over last 10 years, our revenue has been hovering around Rs. 17,000 Crores although profitability has improved. Can you throw some light that how we see growth going forward as well and what led to flattish revenue growth in last 10 years?

AS Lakshminarayanan

Yes, so I have to go back to the very basics in this. As a B2B player, if you see that, a lot of players in their revenue side, being stagnant as well as on many other parameters. Partly the reason is network has been a commodity, more and more capacity build is happening, and more and more capacity and volume is being sold but there is a greater price erosion, and that has been the nature of the business for the last several years.

Second, this industry also has been undergoing a lot of technology disruptions. One technology comes and cannibalizes another, so the voice gets cannibalized by data, MPLS gets cannibalized by Internet, and I can give many, many more examples in this industry. So, these are the reasons why the numbers have been stagnant across B2B space for many companies including ourselves. So, we have undergone a lot of transformation going from a voice-only company to voice and data, being a wholesale to enterprises and a lot of these technology changes has been at the heart of why the revenues have been stagnant and the second, is the company also, you know, had certain products like data centers and so on, which was sold in the past and therefore the overall number over the last 10 years looks almost the same.

Deepak Poddar

And how do we see next 3 to 5 years in terms of growth parts?

AS Lakshminarayanan

Yes, so that is where we talked about our strategy to go beyond network to be, digital platforms and solutions, which is over and above the network what can be done and DIGO is a good example. DIGO makes use of our strong voice messaging global network and on top of that capability, as a foundation, we are building a platform that enables enterprises to deliver a very simple flexible secure customer engagement platform capabilities, so we will deliver everything programmable, workflows, everything programmable, so truly Omni channel experiences and so on and so forth, which will put the enterprises, at a good spot in delivering very good customer experience for their consumers. So those are the kinds of things that we are building, which will sit on top of the network. So, our cloud offerings are exactly that, our IZO™ private cloud that sits on our network and that is what we are able to offer an integrated network and a cloud solution to our customers. Same with network security, combined with our cloud and other security offerings. So, we are building our products and platforms sitting on top of that core capability of network and which are what we call as digital platforms and solutions and that's part of the strategy that we articulated.

Deepak Poddar

Yep, fair enough. Regarding cost part, we expect some of the costs to come back in a phased manner in FY23. So, what could be the impact on the margins?

Kabir Ahmed Shakir

Despite all these costs coming back, we will stay within our guidance of 23-25%. So, I cannot comment any further than that.

Chirag Jain

The next question is from the line of Mr. Abhishek Singhal from Naredi Investments. Please go ahead.

Abhishek Singhal

On consolidated basis, other income is Rs. 234 Crores. So, where has it come from? Second question, revenue growth in data core connectivity is stable and in data digital platform and services growth in double digit. EBITDA margin in data core connectivity is 42.5% and in data digital platform & service 7.1%. So, what EBITDA margin we expect from data digital platform and services in next 2 to 3 years?

Kabir Ahmed Shakir

The other income includes income tax refund of the past years. So, there is an interest component within that refund which we classify into other income. So, that is the majority of the Rs. 234 Crores. In terms of EBITDA margins, I have encouraged all of you to look at our total portfolio as a company as a whole, there are multiple moving parts that we have, we have voice business that declines, we have a data business, which where our focus is, which grows, we have a core connectivity business, which has a very different growth profile and we have a digital platform and solutions business, which has a different growth profile and incubation services, separately, which have a very different focus and attention. So it is, a game of resource allocation that the management does in order to activate the right outcome for each of the businesses, not just for the short term, but also for the long term. So, I would say the businesses that are today is small, need that support, need that air cover in order for them to grow into large businesses, the potential that they actually belong. So, my encouragement to all of you again is to go back to the 23 to 25% as a consolidated weighted average margin that you should look at and leave that to the management to be able to do the resource allocations dynamically, depending on where we get the right returns, you know, for individual business, and for the company, as a whole.

Chirag Jain

Next question is from the line of Pratap Maliwal from Mount Intra Finance. You have been unmuted please go ahead and ask your question.

Pratap Maliwal

Just looking at the fact sheet, so when we come to the Digital Platforms and Services revenue, when we look at the breakup, we see that collaboration and CPaaS as a percentage of revenues declining now for the past 4 or 5 quarters and even the Next Gen Connectivity, it is kind of hovering around the 15 to 16% range. Now when we look at our growth trigger, in terms of revenue, SIP trunking was an important part and our Next Gen Connectivity – the IZO™ SDWAN and with these segments not firing as we hoped, where does our revenue trigger come from?

AS Lakshminarayanan

So, on the Digital Platforms and Solutions, as we called out, the collaboration has primarily been declining because of the larger usage component of the GSIP, and that is something that we called out. We are still calling that out and that was a large part of our Digital Platforms and Solutions. A few things happened in the market, which is during COVID and the resulting change to organizations moving to, the app-based communication, so the, UCaaS shift happened, people shifted to using within a closed user group on a Teams or a Cisco, as opposed to using numbers to call these out. All these are very rapidly changing trends that we saw in the market for the last couple of years and hence the collaboration, which was again, the GSIP was a very large part of it suffered from that.

What we have done very quickly is to fire that entire collaboration portfolio with offerings, where, today, GlobalRapide, which is enabling companies to implement and manage their solutions, whether it is Teams or Cisco or whatever and that has been growing and the funnel there is quite good. The second is the contact centers moving to a cloud is an important trend. And we are capturing that trend by diversifying our InstaCC™ offerings a lot more than having just one product under InstaCC, now, we have four variants of it.

We announced a partnership with Genesys, with Amazon and we have our own InstaCC™ product, which is a white label product that we offer to our customers. And the third, we have done in the collaboration is, as I mentioned, the DIGO platform that is launched so all these products, actually the InstaCC and GlobalRapide, underlying will be fired by the GSIP, but it will be consumed as a platform and not just as a standalone that we sell to enterprises. So, we are also pivoting as the market changes and developing products and launching them into the market. So, it is only a matter of time before the overall collaboration will again start, it will take, a couple of quarters.

But as GSIP as we called out has been declining, and that has been a larger part of the portfolio. That is on the collaboration side. Yes, similarly on the Next Gen Connectivity. You know, we, we have strengthened that product again quite significantly with our IZO™ Internet plan with multiple variants for the international market, strengthened that product across all geographies and we are seeing very good traction in that, in terms of engagement with the customers. I also mentioned as part of the IZO™ Next Gen Connectivity, the multi cloud connect product that we are trying with a couple of customers, and we have seen some early success and I call that out with a large US based Auto OEM, so that product is in the early stages and we will roll that out in coming weeks and months. So, the Next Gen Connectivity also includes all the SD-WAN, and we have strengthened it with multiple product OEM capabilities, bolting-on security capabilities to provide a holistic network transformation. So, those are the strengthening that we are doing and those will begin to contribute in a quite a significant way in the overall platforms and solutions.

Pratap Maliwal

When it comes to SD-WAN and our network transformation deals, that comes under Next Gen Connectivity, so could we please get some idea on what our traction is in the network transformation deals? SD-WAN in particular and maybe India International split is it like, 50-50. Is that correct?

AS Lakshminarayanan

On the network transformation deals, the network transformation comprises of several things, people want to transform that underlay, move from MPLS to Internet. Work from anywhere, connect from anywhere so that is part of the network transformation. It also includes the overlay of SD-WAN and many times a security component attached to it to say, how are we securing the network. All of this in entirety is what we call a network transformation, our Next Gen Connectivity. We are seeing good traction both in India as well as in the international markets.

Pratap Maliwal

Okay, so is the split for SDWAN roughly 50-50? That was called out in the last quarter and why is it so? If that is true within market, mainly for network transformation outside India, so should not, maybe the international proportion be greater?

AS Lakshminarayanan

I do not have that data readily with me. We normally call out our overall revenues between India and international to be 50-50. Not sure specifically for SD-WAN. We can come back to you if there is any specific clarification that we need to provide on that.

Chirag Jain

This brings us to the end of the call. I would request Lakshmi to share his closing comments.

AS Lakshminarayanan

Thank you, Chirag, and thank you everyone for participating and asking questions. As I mentioned before, I think we have delivered a very good quarter results. It's come on the back of all the investments in the market to develop a robust pipeline, as well as investments in strengthening our products and platforms. There is a good amount of opportunity for us going forward as we develop our platforms, and as we engage with our customers even more deeply. And thank you for all your questions and look forward to participating next quarter. Thank you.

Chirag Jain

Thank you, Lakshmi. This brings us to the end of the call. The recording will be available on our website in the next 24 hours. You may please disconnect now. Thank you.

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