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Q4 FY2020 Earnings Webinar Transcript

MAIN SPEAKER:

AS Lakshminarayanan, Managing Director and
Chief Executive Officer

Pratibha K. Advani, Chief Financial Officer

Vipul Garg: Good evening everyone, and welcome to the Tata Communications earnings conference call. We are joined today by our MD and CEO, Mr. Amur Lakshminarayanan, and Pratibha Advani, CFO.

The results for the quarter and full year ended March 31, 2020 have been announced on Saturday, and the quarterly factsheet is available on our website. I trust you would have had the chance to look through the key highlights. We will commence today's call with comments from Lakshmi, who will share his thoughts on the strategic imperatives, followed by Pratibha, who will share detailed views on the financial progress achieved.

At the end of management's remarks, you will have an opportunity to get your queries addressed. Please note all participants will have their video disabled and audio on mute during the call. The participant asking questions will only have his or her audio unmuted. Interested participants may click on 'Raise hand' icon next to their name in the participants pane on WebEx application to join the Q and A queue.

Before we get started, I would like to remind everyone that some of the statements made or discussed on the conference call today may be forward looking in nature and must be viewed in conjunction with the risk and uncertainties we face. A detailed statement and explanation of these risks are included in our annual filings, which you can locate on our website - www.tatacommunications.com. The company does not undertake to update these forward-looking statements publicly.

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

A.S Lakshminarayanan: Thank you, Vipul. Good afternoon all. I hope all of you and your families are staying safe and healthy in these difficult times that we face.

My commentary today will be divided in 3 broad sections:

1. Impact of COVID and opportunities in Post COVID world
2. An update on Q4 and the full year results
3. Our medium to long term strategy

The situation we are witnessing is quite unprecedented. While the front-line medical professionals and staff are battling it out every day to save countless lives, there are people, like us, all around the world who are trying to adjust to the new daily lifestyle. We must also acknowledge unsung heroes of the digital world, who have kept operations running 24/7, and ensuring reliable connectivity for the world, which needs to stay updated and connected with each other to learn and evolve on a continuous basis.

At Tata Communications, we enabled 98% of our employees globally to work from home in a very short period of two weeks, and thanks to the robust infrastructure that we have in place, we have been able to make the transition smoothly, thereby protecting our employees, while also ensuring uninterrupted business continuity for us and our customers. The exception is of course, the frontline workers who are involved in operating and maintaining our network sites, backend IT operations and infrastructure. Our business remains fully functional and all measures are in place to minimize any effect that the lockdown situation might have on these services.

The importance of network, seamless connectivity and security has increased manifold. Our Enterprise customers switched to their own business continuity plans, which involved enabling Work from Home for their employees and shifting of workloads seamlessly across borders. People are working from home to connect to their organization's servers online, Cloud traffic has surged due to the use of Collaboration tools and data consumption, which is multiplying manifold. Our teams are working in an agile manner, tirelessly, to keep services running for our customers, delivering service upgrades and changes in record speed. We are also helping our large customers and partners to rapidly expand network capacity to serve the need of their customers.

During this time, we have been working closely with our customers and provided 3 lines of solutions:

1. Capacity Upgrade - This was necessitated due to increased Cloud and internet traffic, as employees across the world accessed the Enterprise applications in data centers and Cloud. Globally, we have witnessed and delivered over 650 orders specifically related to COVID, corresponding to 1.35 TBPS of additionally provisioned bandwidth. IP traffic is up by 23% Q-o-Q on our networks. In the month of March, we witnessed 30% growth in internet traffic on our network over January 2020. This trend has continued over the past couple of months as well. This capacity expansion in short span of time has been possible due to extensive upgrade and modernization of our network done over the course of last 3 years. All our network elements such as NLD, Metro Area Network, Wireless access, and DC to DC connectivity have been made future ready. All new platforms and technologies being deployed in this network are designed to make the network more intelligent and programmable. We are working on a few initiatives to make the network context aware thereby further enhancing the speed and agility for our customers.
2. Seamless Collaboration - One of the most important aspect of remote working is seamless collaboration of all internal and external stakeholders through various collaboration platforms like Teams, Cisco, Zoom, Bluejeans. The need for video conferencing and collaboration platforms has increased, as organizations globally now depend on these tools for most of their secure communication needs. We recorded 1 billion minutes of Enterprise voice traffic in March alone and our UCC revenue has grown by 20% QoQ this quarter.
3. Through our Global Hosted Contact center platform, we have been able to help call center agents, service desk associates to work from home in a regulatorily compliant way.

While we witness these spikes in traffic, the spread of the corona virus has impacted some customer segments. This includes the cancellations or postponement of major live sporting events for which we host critical digital infrastructure, enable remote operations, and enable new broadcast technology. Our current outlook remains stable, however, we will have to wait to fully comprehend the COVID impact on our customers going forward. We are keeping a close watch on the situation and working with our customers to minimize the impact as much as possible.

We are facing some challenges in our supply chain; we were adequately stocked and have been able to fulfil customer orders immediately, but now due to lockdown we are facing a 6-8-week delay in procurement from OEMs and equipment manufacturers; we are working with all our suppliers to keep this delay to minimum. So this is not a show stopper, but is costing some minor delays which our teams are coping with, admirably.

I want to specifically call out the trend on Work from Home. It goes without saying that the global pandemic has introduced radical changes on both the professional and personal front and has forced tens of millions of people to adopt remote working almost overnight. Global surveys suggest that 91% of organizations now support WFH as compared to 63% in Pre COVID world.

The changes that we have seen, accelerated during this period are likely to stay, and become the 'new normal', the workplace will be significantly different from what it was before the pandemic. In India 90-95% people in large IT organizations are working from home and the managements have indicated that this practice will continue going forward, and same is the case in many other sectors globally.

This presents a huge short to medium term business opportunity for us, just to give you an example at Tata Communications, we ourselves had about 1,200 VPN connections for our employees before the lockdown, this number has now increased to about 5,500; if we consider all chats and calls within our organization on Teams platform, we have witnessed a 50 fold increase in traffic. I am sure the trend will not be very different for other large businesses as well.

In a short span of time since lockdown, we have enabled tens of thousands of employees in India and globally for remote working across more than 150 organisations. As we speak there are many more under deployment.

As work from home becomes the global norm, cybersecurity has become critically important. To support corporate agility, we are working with customers to deploy security strategies seamlessly and quickly, offering simple but effective security solutions that can be implemented within days, like the Global Secure Internet Gateway and Managed Authentication. These add an additional layer of security to enable secure access to applications and data residing in the Enterprise data centre and/or public Cloud infrastructure.

NetFoundry has become even more relevant in context of remote working. Through NetFoundry, we can spin up a secure network over the internet, enabling quick, secure access and performance acceleration to an organisation's applications in any location, from any device. It ensures users have high performing, reliable connectivity to their business resources. As this is software driven solution; its on demand, consumption based with zero touch deployment, it is extremely convenient. For one of our customers, NetFoundry deployment has led to over 6 times improvement in speed, with which employees are connecting to Enterprise applications.

Our themes of "Borderless Growth" and "Managing Business Risk" have acquired an all new meaning. A successful Remote working solution needs to be Secure, Connected, Scalable with high performance. In coming weeks, some of the make-do solutions for work from home will be industrialized, in what one would call WFH 2.0, to deliver what we call a Secure Connected Digital eXperience (SCDx) - enabling the Enterprises to crystallize the efficiencies and also help them to give an unprecedented new digital experience to their customers - across the B2C and B2B worlds.

Our customer centricity and the strength of our product and solutions has been recognized time and again both by our customers and industry leaders. I am happy to share with all of you, that for the seventh consecutive year, we have been named as Leaders in Gartner's 2020 Magic Quadrant for Network Services, Global. The Gartner Magic Quadrant assesses providers' completeness of vision and their ability to execute. We are glad to be a part of this prestigious list yet again.

Partnership has been one of the key pillars of our growth, and we have been successfully partnering with some of the biggest global OTT players, Cloud players, and other service providers. We have recently partnered with a major Pan-African telecommunications service provider, SEACOM to offer high-speed, reliable pathways between Africa, Europe and Asia to meet the growing demand for connectivity linking these regions. This partnership with SEACOM will help both companies leverage each other's digital infrastructure and help provide customers with state-of-the-art technology services. This is the first step of many in expanding our partnership with SEACOM across areas such as the Internet, MPLS, Cloud, Media and Cybersecurity.

Coming to our Financial performance, Data business is our growth driver and continues to grow at a healthy pace. Engagement with our customers is getting more meaningful; during FY20, our Enterprise Business grew by 13% YoY with India business growing by 16% and International business growing by 11% YoY. We have witnessed strong profitable growth in both Traditional and Growth Services. In FY20, Traditional Services grew by 4.6% YoY and Growth Services grew by 14% YoY. We have tightened our deal selection criteria to achieve the right mix of growth and profitability, and as a result we have achieved double digit EBITDA margin for Growth Services this quarter, which is an important milestone.

While Pratibha will provide details about financial performance, I just want to highlight key numbers. Our consolidated revenue for the quarter came in at INR 4,398 crore, witnessing a growth of 3.6% Y-o-Y and 4.0% Q-o-Q. EBITDA for the quarter was at INR 869 crore, witnessing a growth of 26.8% Y-o-Y and 14.2% Q-o-Q, aided by profitable growth in data business and continued focus on cost optimization. We have been continuously focusing on our costs, and we are closely monitoring all our direct and indirect costs and looking at all business processes to

achieve the optimal cost structure. Our efforts have started to show results, we have seen gradual improvement in margins; in FY20 our Data business recorded EBITDA margin of 22.1%, which is an expansion of 310 BPs over FY19, and we will continue to drive these efforts within the company.

This quarter, we took a provision of INR 342 crores towards additional license fees liability on account of cost deductions as per actual payment basis as against accrual basis claimed earlier. This led to a loss of INR 275 crores in Q4 and INR 86 crore in FY20. On AGR matter, we have appeals pending in Supreme Court and Madras High Court, and our appeals are not included in Supreme Court ruling of Oct 24, 2019 on AGR.

While, I will present our detailed strategy in a separate session in the third week of June, I just wanted to touch upon briefly about our company's strategy. The current environment has accelerated the need for global businesses to go Digital. Digital, I think, and as I have mentioned before, is a combination of Data, Applications and Connectivity. And Connectivity is vital for anything to be Digital, yet unfortunately, it is not being given its due importance.

The opportunity for us starts with considering the economics of data and ultimately, how close you are to the customer, and what role you have, in that ecosystem having the conversation with the customer. Global Enterprise Telecom Spend is divided in 2 broad categories:

1) Global Enterprise Network Spend which is expected to be around USD 145 Bn by 2023, and we are a direct participant and well positioned in this segment. Our solutions and platforms are relevant to current and future business trends and we will be at forefront to help global Enterprises transform their networks towards more Cloud, internet, and mobile first strategies.

2) Internet Ecosystem, which is expected to be at USD 254 Bn by 2023, we are an indirect participant in this segment, and we gain with the growth in internet traffic. We aim to participate more actively and gain revenue share in future.

Our ambition is to "Achieve profitable growth and become a Digital Ecosystem Enabler in the eyes of our customers, and the industry". We believe that we have a robust product portfolio, but we need to make some strategic shifts in our execution to achieve this plan.

Broadly, our strategy consists of the three elements which I will briefly talk about, the Who, the What and the How:

1. **WHO** - Greater focus and clarity on who we target and how we engage with our customers, and simplify the experience for our customers. We are looking to actively participate, and partner in customer's Transformation journey. Through an excellent customer experience, consistent streamlined engagement model, and flawless execution, we want to take dominant share of customer's Digital spend.
2. **WHAT** - We will shift from an individual product focus, to a more integrated customer solution focus by building on the strength of our existing product portfolio. So, our goal will be to shift from products to platforms. And one that solves business problems and align us to their Enterprise goals. All our products in future will be platform based and will have a focus on capex efficiency. We will evaluate all our products on 4 parameters.
a) scalability, b) profitability, c) relevance to industry and technology trend, d) Differentiated product and service design.
3. **HOW** - Our aim is to achieve right operating model with optimal cost structure and agility that will deliver the right experience for our customers. We are also culling out our service delivery and aggregating our capabilities as a service wrap, which will help us to stitch all of these products and platforms, so that the customer can see a seamless execution from our side, and a deeper engagement with the customer.

4. We will embed sustainability, Innovation and Artificial intelligence at the core of our business, which is in-line with our company objective. This strategy will have an overlay and focus on “Financial Fitness” which is all about getting our balance sheet healthy and achieving double digit profitable growth. We have been working on the right cost structure and looking at an optimal on-shore off-shore mix. Some of these measures are already in place for a few months now and you would have noticed the results in our numbers.

Our Digital expertise enables us to be a partner of choice in our customer’s Digital Transformation journey. This would mean a higher level of customer engagement and a bigger long-term business opportunity for us. We seek to clinch this opportunity and focus on solutions, that are at the center of our customer’s experience transformation, address business needs and eventually create more value for our customers and ourselves.

We are witnessing good traction in the market. We recently won a multimillion-dollar deal from a large health care equipment manufacturing company. Not only we are offering multiple products, we also built in a service wrap capability on top of these offering that seamlessly brings all of this together for our customer. This capability helps us to deliver better value, and then integrate all of our solutions within the Enterprise ecosystem.

Our customer focus has started to show results and our NPS score for this year has come in at 70, a substantial 15-point increase compared to last year’s score of 55. Overall participation has gone up by 6%. Our NPS is higher than the B2C NPS benchmarks of almost all companies across industry verticals and puts us in the top quartile of the industry. NPS is a strong indicator of customer advocacy and positive customer perception and this year’s score is an incredible achievement for us. Delivering superior customer experience is a critical pillar of our new business strategy. With the sharpened focus on customers and emphasis on solution-centric platforms, we have no doubt that we will become a trusted partner for our customers.

To conclude, we see this current situation as an opportunity for our business and we are fully geared to leverage on this opportunity.

As mentioned earlier, we will be presenting our mid to long-term strategy for the business more in detail, in the third week of June. Invites will be shortly sent, and I hope to meet you all again there.

With that, I would request Pratibha to take you through the financial highlights.

Pratibha Advani: Thank you, Lakshmi, for sharing your thoughts. A very good afternoon to all of you and I hope all of you are safe and in good health. I would like to thank you once again for joining us on our Q4 & FY20 earnings conference call. I will be taking you through the commentary on our financial performance and touch upon the key highlights.

We have registered another quarter of robust growth in these rather tough times. Data services continue to be the key driver of our business growth as articulated by Lakshmi.

Consolidated revenue for the quarter came in at INR 4,398 crore and grew by 3.6% YoY and 4.0% sequentially. This growth is due to robust performance in Data business and slower than expected decline in Voice. EBITDA for the quarter came in at INR 869 crore, witnessing a growth of 26.8% YoY and 14.2% Q-o-Q with margins coming in at 19.8%. Our margins have expanded by 180 BPs sequentially on the back of strong profitable growth in data portfolio, combined with focus on cost efficiency and one-time catch up billing in our Real Estate business of INR 18 crore. If we exclude INDAS benefit of Rs.99 crores in EBITDA this quarter, Q4 EBITDA has grown by 12.3% YOY & margins have expanded by 130BPS.

For full year, we reported a revenue of INR 17,068 crores, witnessing a growth of 3.3% YoY. EBITDA for the year was at INR 3,289 crore. EBITDA grew by 19.8% YoY, with margins coming in at 19.3% and have expanded by 270 BPs YOY on the back of strong profitable growth across our data portfolio with the exception of Transformation Services and Payment Solutions Business. Even without INDAS benefit of Rs.325 crores, EBITDA has grown by 8% with margin expansion of 90BPS. Transformation Services has adversely impacted our margins by 80 BPS.

Depreciation for the quarter was up by INR 126 crore, out of this INR 107 crore is one-time due to impairment of certain assets and alignment of end of life upgrades with the life of our cables. This one-time depreciation charge has led to lower EBIT by INR 18 crores and Operating PBT by INR 25 crore.

During the quarter ended September 30, 2019, the Company had received demands from Department of Telecommunications (DOT) aggregating to ~ INR 6,633 crore towards License Fee on its Adjusted Gross Revenue (AGR) for the financial years 2006-07 till 2017-18. The demand included an amount of INR 5,434 crore which were disallowed by the DOT towards cost adjusted to Gross Revenues by the Company that was claimed on accrual basis instead of actual payment, for which a revised statement on the basis of actual payment has been submitted to DoT. We have not received any further communication from them on this matter. However, during the quarter, we made a provision of INR 342 crore towards additional license fees liability on account of cost deductions as per actual payment. Our appeals relating to our ILD & NLD licenses are sub-judice and are pending with the Hon'ble Supreme Court and Hon'ble Madras High Court. Our contingent liability computation has been trued up for license fee, interest & penalty till March 2020.

We have been working to achieve the right blend of on-shore and off-shore mix of workforce. As a result, we took an additional exceptional provision of INR 38 crore this quarter on account of staff cost optimization. YOY our offshore head count ratio has improved by 4%.

Despite a strong operating performance in this quarter and full year, we recorded a loss of INR 275 crores during Q4 due to exceptional provisions taken during the quarter as I mentioned earlier on. On a full year basis, we reported a loss of INR 86 crore as compared to a loss of INR 82 crore in FY19.

Moving on to our segment performance:

Data business now contributes 82% to revenue and 95% to EBITDA. Q4 Revenue came in at INR 3,595 crore, growing 7.5% YoY, and 5.1% sequentially. India Enterprise segment grew by 6.9% and the international segment grew by 5.2% Q-o-Q. We have witnessed strong performance across all segments of data business, barring the Payment Solutions business that has got impacted by COVID. EBITDA for the quarter came in at INR 823 crore, growing by 39.8% YoY and 15.3% Q-o-Q on the back of strong EBITDA growth in Growth services, lower losses in Innovation services and one-off rental income that I mentioned earlier. Consequently, EBITDA margin came in at 22.9% translating into margin expansion of 530 BPs YoY and 200 BPs sequentially.

On a full year basis, Data revenue grew by 8.2% and came in at INR 13,692 crore on the back of strong growth across our portfolio, except the Payment Solutions Business, where we have closed 532 ATMs. Our Enterprise business grew by 13% with India business growing at 16% and International business growing at 11% YoY. We also saw some growth in Service Provider segment, which grew YoY by 2%. Full year EBITDA came in at INR 3,026 crore witnessing a 25.6% YoY growth with a margin of 22.1%. This is on the back of strong profitable growth in Traditional services, which grew by +19.9% YoY and Growth services turning EBITDA positive and cost savings of INR 173 crores YoY.

Moving to the performance of our **Traditional** portfolio:

Q4 revenue came in at INR 2,196 crore, recording a growth of 5.3% YoY and 1.7% sequentially. Within this portfolio,

we witnessed strong uptick in bandwidth usage due to lockdown, and as Lakshmi mentioned, our IP traffic has also grown considerably YoY. EBITDA came in at INR 812 crore, witnessing a growth of 24.5% YoY, with margin coming in at 37%. On an annualized basis, revenue grew by 4.6% YoY; and EBITDA grew by 19.9% YoY. EBITDA margin came in at 37.7%, expanding by 480 BPs over last year. This expansion is due to cost efficiencies and also aided by INDAS 116. If we exclude INDAS 116 benefit, EBITDA margins will be 35.6% with YOY expansion of 270 BPS.

Moving to **Growth Services**:

Growth services continue to scale on the back of profitable deal selection, thereby witnessing a revenue growth of 9.8% YoY and 9.1% sequentially; Q4 revenue came in at INR 856 crore. We have seen a surge in usage services traffic in the last few days of the quarter due to lockdown; our UCC revenues have grown 20% Q-o-Q. SIP(T) grew by 7.8%, IZO has also grown by 7%. EBITDA for the quarter came in at INR 99 crore as compared to INR 42 crore in Q4 last year, witnessing 138% YoY growth, and 94.3% Q-o-Q growth. EBITDA margin for the quarter, for the first time was double digit, coming in at 11.6%. With increase in scale, we are witnessing significant operating leverage; margins expanded by 510 BPs Q-o-Q. On a full year basis, we recorded 14.3% YoY revenue growth, with revenue coming in at INR 3,180 crore, on the back of strong growth in IZO - which grew by 70% YoY, Cloud & Security witnessing a 23.7% growth, Media grew by 11%. Full year EBITDA came in at INR 199 crore as compared to a loss of INR 52 crore in FY19, which is a swing of INR 251 crore YoY.

Our **Innovation portfolio** continues to scale. We are witnessing good traction in MOVE, NetFoundry and IoT. Full year revenue came in at INR 110 crore, witnessing 68% YoY growth. Due to lockdown, we are witnessing some delays in signing and delivery of new deals in MOVE and IoT. However, as the situation improves, we expect this portfolio to scale at a faster pace.

Moving to our **Transformation Services** business performance:

Revenue for the quarter came in at INR 361 crore, witnessing a growth of 14.3% YoY and 10.2% QoQ. EBITDA in this portfolio had turned negative last quarter due to an onerous customer contract and simultaneous transition of 3 large deals. We have been able to shed the customer contract and consequently, EBITDA loss this quarter has come down to INR 16 crore as compared to loss of INR 46 crores in Q3. We have a strong pipeline in TCTSL, and we expect profitability to scale in coming quarters.

Now moving to performance of our **Payment Solutions** business:

This business was affected by lockdown as we witnessed a drop in average daily transactions to 84 in Q4 from 89 in Q3 FY20. Revenue for the quarter came in at INR 82 crore and witnessed a decline of 2.9% YoY and 6.2% Q-o-Q. With lockdown easing in June, and transactions are expected to increase, and we are hopeful that this business will bounce back. EBITDA for the quarter was INR 22 crores and declined sequentially by 6.8% in-line with fall in revenue that we've seen.

Moving to the **Voice** business:

This portfolio continues to decline in line with the industry. In Q4 the decline was less than expected due to uptick in traffic during lockdown. Revenue for the quarter came in at INR 803 crores and declined YoY by 10.9% and sequentially by 0.7%. For the year, revenues stood at INR 3,376 crore, a degrowth of 12.8% YoY. EBITDA for the quarter came in at INR 46 crores and witnessed a decline of 52.7% YoY, and 3.2% sequentially, with margins coming at 5.7%. On an annual basis, EBITDA came in at INR 263 crore, witnessing a decline of 21.6% YoY.

Moving to Capex,

Q4 CAPEX stood at INR 342 crore, as compared to INR 490 crore in Q3. Capex for the full year was at INR 1,596 crore which is well within the guided range that we had given to you. In FY21 we aim to keep our capex in same range as last year.

Net Debt at the end of the quarter was USD 1,216 million, a decrease of USD 41 million as compared to last quarter. Net Debt in INR terms looks higher due to USD/INR conversion impact; INR depreciated by 5.8% as on 31st March 2020 as compared to 31st December 2019. Average cost of borrowing for the quarter was at 3.73%, which has marginally gone up due to impact of unamortized arrangement fee on a loan that was restructured during the quarter.

Our Net Debt to EBITDA has come down YoY and is at 2.8 times as on 31st March 2020 as compared 3.1x last year. Return on capital employed for the year is at 11.8% as compared to 8.1% for FY19.

In conclusion, we have registered another quarter of strong growth, with all our financial and operating metrics tracking in the right direction. We have generated FCF (EBITDA - Capex) of INR 1,693 crores vs last year of INR 881 crores, an increase of INR 812 crore. Even after exclusion of interest and tax, we have generated FCF of INR 995 crore vs last year of INR 211 crore, an increase of INR 784 crore. We continue to drive the business towards sustainable profitability and positive cashflows.

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

Vipul Garg: Thank you Pratibha. Just to reiterate, anyone interested in asking questions may click on the 'Raise hand' option right in the participant's pane.

The first question is from the line of Aliasgar Shakir from Motilal Oswal. Ali, you may please ask your question, your line has been unmuted.

Aliasgar Shakir: Hi, thanks a lot for this opportunity. I had a few questions on the business side. The first is on the Traditional business. I mean, excellent growth in terms of volume growth that we can see, and you did mention that Work from Home is one of the key phenomena that is driving this growth. But from a revenue growth or the profit growth point of view, it was pretty much flattish. So, do you think any specific, like you mentioned Media as a category actually impacted and maybe that is the reason that, we didn't see the volume growth not translating into revenue or EBITDA growth. I just wanted to understand from an outlook point of view, how does this volume growth translate over the course of coming quarters?

Pratibha Advani: Ali to your point, even if we see Q-o-Q, flat Fx, Traditional portfolio has grown by 1%. So, I would not agree with you that we are not witnessing growth. Having said that, we do expect this growth trend to continue in the following quarters. And at this point, we are not seeing any, COVID impact coming. Having said that, of course, you know, as things stabilize, we will have better visibility. To your point on the Media portfolio, that sits in Growth services, and very rightly that is a portfolio that has got impacted. However, we are hopeful that from Q2 onwards, we should start to see some traction in that portfolio.

A.S Lakshminarayanan: And, if I may add, I think the volumes growth that we had indicated was over a period of March, April, May, June. So, I think that we haven't seen the full impact in the Q4, as well.

Aliasgar Shakir: Got it. So are you saying this 24% volume growth should translate into better revenue and profit

growth in coming quarters?

A.S Lakshminarayanan: It was somewhat seasonal. Seasonal in the sense I mean, during Covid there was a peak requirement, and I iterated in the commentary that IP traffic increased and the number of bandwidth for some of the customers that we had to increase the capacity. We don't know whether it will be permanent or transitional. But, yes, there will be some impact in the coming quarters.

Pratibha Advani: And just to add to what Lakshmi said, we should see an upside in ILL, IP-T and NPL.

Aliasgar Shakir: Got it. So Traditional, the low single digit growth that we typically see in the Traditional segment, does that have an opportunity to increase because of this Work from Home phenomena?

A.S Lakshminarayanan: I think on the Traditional, there's also pricing. Largely that is the wholesale to service providers and to the ISP's. So, we can't translate the volume growth to directly corresponding to growth. And I don't want to directly correlate these two.

Pratibha Advani: Yeah. And I would say, our margins will remain stable for Traditional portfolio.

Aliasgar Shakir: Alright. Second question is I'd just like to combine the Growth and Innovation as a category, you know, which earlier was how the reporting was. So, just wanted to understand, one is the Work from Home phenomenon, which I think is a big driver for the Growth services, on the other hand, Innovation as a segment, we are seeing very steady volume and revenue growth, but it is yet not showing visibility in terms of profitability. So if you could just throw some color in terms of what typically is the revenue business that you think you will achieve in Innovation as a segment, or that will show us steady state profitability and in what timeframe? And similarly, on the Growth segment, if you can share some deal pipeline, revenue growth, and what kind of steady state margin targets that we have there.

A.S Lakshminarayanan: Ali, the way I look at it is broadly as Data business. I really don't want to segment Traditional, Growth and Innovation, but our long-term goal is to grow the data by double digits, because within Growth and Innovation there are multitudes of products and each one of them is having their own dynamic and profile, right? So, if you look at the Innovation, since you raised the question, Innovation today, we have the MOVE IoT, we have the NetFoundry, and India IoT as well, and the three are in very different tiers altogether. So the NetFoundry is all software, zero trust, app WAN, zero touch deployment, driving agility for our customers and military grade security and we are tremendously hopeful that that can grow. But that is, from small volumes today and we need to give it more space so that it can prove itself in larger Enterprise segments. And we are very hopeful that it will see volume growth

Similarly, when you look at the MOVE- IoT, the large segments we are addressing is the auto OEM, as primarily one of the largest segments and we had one big success with JLR. But, again, as we execute, and against the combination of our customers' dynamic as well, in terms of their sales and the launch of products and so on, but there is one segment again, that will scale, and we are looking to shift the needle, as and when we win other larger deals in that segment. Outside of that, we have other segments where we have a play there, the airlines as you know, we've announced in the past that we work with many major airlines, helping the crews with the MOVE, the SIM connect product that we have. And that again is another segment, which will have its own course. But currently with the airlines, having their own difficulties, we'll have to see how that plays out.

So, as a portfolio of these products and rightly, as they've been called Innovation, I would like to see that they're being given more room and space to grow and at the moment, it's smaller in revenue size, it's not going to shift the needle very much. But in due course, we would expect that to contribute a lot more.

The rest of the Data and the Growth services, we definitely will see a bigger uptick and hopefully in June, when we talk about a bit more in detail about our strategy we can paint a bit more color to that.

Aliasgar Shakir: Okay. I think this was a very useful and detailed comment, thank you so much. The last question is on TTSL do we have any update, are we still exploring, to acquire the SME business or we have decided not to pursue

A.S Lakshminarayanan: No, I don't want to comment anything on that at this stage. Nothing substantially to report. But having said that, we partner with them on the Enterprise segment, their Voice business services are resold. We partner in terms of sharing network and some of the fiber rollout. So that's basically what it is.

Aliasgar Shakir: Okay. So, at this point, we are not exploring anything, is that the right way to look at it? Pardon me for persisting on that.

A.S Lakshminarayanan: No, as I said there is nothing that I would want to comment, I don't have any update and I don't want to comment at this point.

Aliasgar Shakir: Okay, got it. That's very helpful. Thanks so much, Lakshmi.

Vipul Garg: Thank you Ali. The next question comes from Riddhesh Gandhi from Discovery Capital. Riddhesh, you may please ask your question now.

Riddhesh Gandhi: Hi, and a big congratulations on your numbers. I just had a question on your internal return expectations around incremental capex which you do, either in context of the payback or ROCE.

Pratibha Advani: For large investments in cables, etc, it's a longer duration and for other investments, we typically look at a payback of anywhere between 36 to 60 months.

I think we've delivered a very strong ROCE and going forward you're only going to see an improvement as the incremental EBITDA that we generate is going to convert into EBIT. I don't want to call out any number, but the very fact that you are seeing a trend where our ROCE is growing Y-o-Y is evidence itself of the fact that as an organization we are very focused and committed to improve ROCE going forward.

Riddhesh Gandhi: Could you just expand on that slightly? And actually, split up how much of it is in terms of cables and the wires. And when you said a long gestation, how long is it? And with regards to the other stuff, by implying 3-5 years, which is an extremely broad range. So, because almost actually 50% of our EBITDA is being reinvested into capex, so it would be extremely helpful to get some sense on how you think about the returns on the incremental investments which we're making.

Pratibha Advani: So, when you actually look at the way our capex is split today, there is a portion only that's really going for capacity building and a large part of it, almost 100 to 120 million we do spend on sustenance or customer success based. Now if it is customer success-based capex, we then look at a payback during the course of that contract and hence, it would be very difficult for us to break through. But if you are asking me, if you are investing in a cable, which has a life of 20 years, then obviously we can't expect an imminent payback. And then it would be very difficult for me to break it in the way that you want to look at it, Riddhesh. But typically, a cable would take six to eight years to recoup our investment.

Riddhesh Gandhi: So what I'm saying is as an investor, we are seeing almost 50% of our EBITDA being reinvested in capex. So, I mean, maybe I'm not asking the question in the right way, but if you could throw some explanation to us as to how we should be looking at it to make sure that it's extremely accretive to our ROCE and our earnings.

Pratibha Advani: Yeah, and that's a point that I made earlier, that we are not going to be increasing our capex envelope going forward. So, we will remain range bound at the current level. And hence, whatever the incremental EBITDA that we are going to generate now is going to convert into free cash flow. And that's the way to look at it.

Riddhesh Gandhi: Okay, alright, thanks. Maybe I'll just take it offline.

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

Viraj Mahadevia: Hi to the management team, fantastic results. Just a question regarding the setup of the P&L in the business. Revenues have grown at 3.7% in FY20 over FY19. But EBITDA has grown close to 20%. When I dig deeper, I saw that that's because actually the network costs, which are bulk of your, or about 40% of your cost line items between revenue flowing down to EBITDA, actually dropped by 5%. So that is what's giving you the kicker at the EBITDA level? Can you just explain to us conceptually for those that don't understand exactly how this, the fiber optic undersea business works and traffic and operating leverage as to why you get so much of a EBITDA growth when revenue is growing at low, single digits?

Pratibha Advani: So, there are a couple of reasons. And we have been talking, Viraj about the cost optimization program that we are running. Also, last year, we had specifically called out that we had invested in WiMAX with some of the stress that we found in the Service Provider segment. So, we had made some investments there. This year, of course, those investments are not there. But additionally, I won't say it's just a network cost, but across the cost lines, we have made significant efforts to bring our costs down. If you look at our employee cost, that is substantially down by over INR 50 crore YoY. Overall, our cost is actually down by over INR 200 crores.

Viraj Mahadevia: How do you reduce your network cost? Is it because you cut certain unprofitable lines in the that you have or how do you reduce something that is fairly fixed costs in nature? That's what I'm trying to understand.

Pratibha Advani: So, couple of ways, I mean, firstly, of course, as our contracts come up for renewals, and as some of those destinations gain scale, we are able to negotiate better. We are also re-looking at utilization and redesigning our network to be able to optimize the process. There is a lot of work that goes in across network redesign, negotiations and of course, there are many times that we start paying for an access cost earlier, but a customer may delay. We are now getting smarter in ensuring that we only start paying for these costs closer to when the customer signs off. So different programs are being led to bring these costs down.

Viraj Mahadevia: Understood. The second question is again around gains, I want to understand how D&A works in your business. Like you said, lot of these networks have a useful life of, I don't know, 20-30 years. With incremental sustenance capex over the period, how do you think about D&A of these key assets that you own? Is it fast line depreciation? Straight line? Is it accelerated depreciation? What I'm trying to get at, is there some point down the road, 3, 4 or 5 years from now, where actually D&A flattens or start to reduce in absolute amounts?

Pratibha Advani: If you actually look at our depreciation line, it's pretty much been flat, barring this quarter where we took a hit of incremental depreciation because it's from additional electronics deployed on our cables, which we now align to the life of the cables. Otherwise we've had a pretty flat depreciation. Typically, cable life is twenty years for the undersea fiber and for the terrestrial, it's 15 years.

Viraj Mahadevia: And do you depreciate equally over that 20-year period or you are accelerating that depreciation?

Pratibha Advani: We depreciate it equally. And on your network cost question, this also includes an element of Voice and because Voice declined, the interconnect chunk that we pay, also comes down.

Viraj Mahadevia: Right, okay thank you. All the best.

Vipul Garg: Thank you, Viraj, The next question comes from Sanjesh Jain of ICICI Securities. Sanjesh, you may please ask your question.

Sanjesh Jain: Just on the revenue mix, what is the fixed capacity contract we sell, and how much of it is pay by use, and can there be a significant uptake from increase in pay as you go, given the COVID situation, and incrementally as people move to Work from home? Probably the usage itself may go higher. So, is there any structural win for us in terms of change in the revenue mix? You said that we have done some 650 order executions in March, but just can you give something on the revenue mix there?

Pratibha Advani: I can compute this for you quickly, but if you actually see our Q4 Growth services revenue, which has grown by 7.6%, this growth has largely come from usage-based revenue. So, as I mentioned, SIP trunking really was the growth driver for us, and this is both for the Microsoft and Cisco products, as well as for our own Enterprise customers. What is the explicit data point that you are looking at?

Sanjesh Jain: Can you give the mix between where there is a capacity upgrade, and what is the additional revenue we are getting from pay as you go if we have any of those kinds of contracts? So, we have a fixed capacity contract, or we also have a buffer where in customers pay, if they use over and above what they have bought?

Pratibha Advani: No, for example, if I would look at SIP Trunking, there it is usage based. But our entire GNS product, which is a Traditional point to point connectivity, that is based on capacity and it's fixed. So the entire UCC portfolio is usage based. Mobility, for example, our Traditional mobility, the signaling business would be usage based, but Cloud and Security would again be fixed.

Sanjesh Jain: Okay so there is a direct benefit from rise in Internet traffic for us, right? Apart from a customer wanting a higher capacity. Is that the right way to see?

Pratibha Advani: Yeah. But see, when the customer is wanting high capacity say in our network product, right? Traditional network, that will be still fixed. It's a fixed MRC, the monthly recurring revenue that we get. But as I mentioned, something like a SIP or our Cisco product, that would be usage based, depending on how much utilization is happening in terms of minutes usage.

A.S Lakshminarayanan: So if I may add, in my commentary, I just said the overall network in the Enterprise side, I mentioned that there is a market of USD 145 billion globally.

If you look at that market, it's the Enterprise connectivity. So, the Enterprise is connecting their branch offices to the Enterprise hub of a data center, or them connecting to the hub to the Cloud, or from the branches to Cloud directly. All of that is part of the Enterprise connectivity space. Also, the large Cloud players, you know, Cloud connectivity between the data centers, all of that comprises of the USD 145 billion market. I also mentioned that there is another segment of the market, which is expected to be about USD 254 billion by 2023. That is largely the Internet. So, if I were to simplify that ecosystem, that is an employee within the Enterprise, connecting to the Enterprise through the Internet, right? Or, for an Enterprise as they sell more through E-commerce, for example, and the consumers are connecting to the Enterprise for E commerce, that is also through an Internet. And third is that consumers are consuming the general infotainment, you know, YouTube and other things. All of those is what is in the USD 254 billion market. That's the Internet ecosystem.

Today, and as I mentioned, we participate in an indirect way in that segment. When I say indirect way, as the Internet traffic goes up, and then the Cloud consumption goes up, then the large Cloud providers will have need for

excess bandwidth to connect their data centers in the Cloud traffic and they participate in that. And we don't. So to give an example of, when the users are working from home, is there a usage based service and is that, do we do anything more than our core network? Today we don't, but I think again, I mentioned in my commentary that we have enabled a lot of our customers, tens of thousands of users with about 150 customers to actually enable them to work from home in a robust, secure manner. So, we internally call that as Work From Home 1.0 and the WFH 2.0 will come, when the users, even in some of the banks, when I speak to, you know, relationship managers, for example, that person is not able to access the system from home, he has to go to the branch to do that. So while people have done the 1.0 now, the 2.0 will look very different. And that is when I said, we are saying, as to how we can participate in that world directly. So, I'm sort of giving you a long-winded answer. But when we talk in third week of June, and when we present our strategy, we can elaborate on this a little bit more.

Sanjesh Jain: Thanks Lakshmi for that answer. Just one question probably related to that. See, when we were working from office, we were using the broadband of Enterprise right? Now, we are working from home, a lot of it goes to mobile Internet, right? So, we have seen a surge in the mobile Internet also. I thought intuitively, our capacity utilization to that extent will get negatively impacted.

A.S Lakshminarayanan: No, that's why I think the Enterprises, when they have their networks, that's like, their fixed cost. They have bought network. If they bought a 200 Mbps or 1 gig to connect the data center or branch to that network. Today, you know, for them, that is not usage based, it's like a fixed cost. So, while that has not come down, like you and I accessing the broadband, we are increasing the broadband usage and there we don't participate directly. Now, when we participate, as I said, is, by enabling you know, if your company has signed up with us, for example, we'd have given them a VPN solution, a more secure multi factor authentication. So, our solution is more Enterprise grade so that we can ensure proper security to the Enterprise, which is what I'm calling, companies will shift to the WFH 2.0 when they will want to look at more. But purely as a broadband connectivity, Tata Comm is not in that space. I hope this answers your question.

Pratibha Advani: And if I can just add to what Lakshmi said. So, when we said SIP Trunking, we would sell it to Microsoft, Cisco and others. And these providers offer it as a bundle with their conferencing platforms, Teams, Cisco WebEx, etc. And, you know, the demand for those have gone up, which indirectly does benefit us. So, for example, Zoom is one of our top 5 SIP Trunking customers.

Sanjesh Jain: Okay, got it Pratibha. Thank you. Just one question related to Growth services. This year Growth services, at least revenue growth, if not for this sudden spurt in the Q4, it looks like it has decelerated very meaningfully. We were growing upwards of 25% CAGR in last three years and we are now coming to early teens. How should we see Growth services from here? given that we shared a very robust order book, last year? Now there's something missing between how the orderbook is getting executed and revenue getting recognized, but we thought the momentum in the Growth services was likely to sustain. So just wanted to understand how to see this.

Pratibha Advani: I think the Growth momentum is still strong. We are now talking about revenue of around INR 3,000 crore and, you know, revenue is growing at 14-15% on 3,000, I think, is robust growth. When you were talking about earlier CAGR numbers, that was at a much lower base. And we're confident that this growth rate is going to be sustained. However, this could be an exceptional year, given that we don't know the full impact on our portfolio for say, the Media, or the Hosting and Security services where they could be... for Media, of course, we don't know when the events are going to come back and for Hosting and Security the implementations are getting delayed. And Lakshmi, do you want to add something to that...

A.S Lakshminarayanan: I would like to look at, all Data services as a bundle, somewhat the Growth and Traditional is when I looked at it, when I came in is, I still feel there's a lot more juice in Traditional, and Growth is a mixed bag of many things and to put it all together and give a commentary on, it will not be the right thing to do. So, our

goal is, going forward, I would like to see all of the Data services to be growing at double digits. That is what we would be looking at.

Sanjesh Jain: I think that's a much better one to look at, in that way if you're saying entire Data is growing in double digits, I think that we are growing to accelerate meaningfully.

Just one clarification, Pratibha on Transformation services, last quarter in the earnings call you did mention that our margins will come back significantly from the Q1 FY21. So that that statement still stands true, right?

Pratibha Advani: Yes, we should have positive margins. As I mentioned, we did transition three large customers this quarter and we should now start to see revenue. Having said that, a part of the revenue is also transaction based and, you know, COVID has impacted that business. Hopefully, things should stabilize, and we are definitely optimistic that margins will bounce back.

A.S Lakshminarayanan: So Sanjesh, in my commentary on data, when we're saying we are looking at double digits, so that's sort of long-term direction.

Sanjesh Jain: Got it, sir. I guess that's it from my side. Thank you for taking my question, and best wishes.

Vipul Garg: Thanks, Sanjesh. We have next question from the line of Mr. Bharat Sheth from Quest Investment Advisors. Mr. Sheth, you may please ask your question.

Bharat Sheth: Hi, Congratulations on a good set of numbers Lakshmi and Pratibha. Lakshmi said that we want to look at Data as a total rather than breaking it up into Traditional, Growth and all. So, we have margin of around 20%. Do we still have any operating leverage in this business What kind of margin aspiration do we have in Data business?

Pratibha Advani: So, you know, I would say our Traditional portfolio and, I mean, while Lakshmi did mention that we will look Data as a whole, but I'd still like to call it out because Traditional portfolio, we should maintain margins at the current level, which is about 37%. Growth services again, we would start to see margin ramp up happening, that's already started to happen. However, having said that, there's a caveat on the current year, given the impact of COVID on some of our portfolio or products in that portfolio. And Innovation is still a portfolio that we are continuing to invest in. At least in the next two years, we are not going to see positive margins in that portfolio. So, it's more like FY23 when we would see positive margins in that portfolio. Having said that, as we are getting scale, overall you would see an improvement to margin as you've seen in the current year. Given that we are highly focused on costs. We are continuing to drive many programs around productivity and efficiency, so that impact should flow into EBITDA.

Bharat Sheth: So especially, I mean Innovation EBITDA losses have come down from INR 148 crores to 133. So, do we see, I mean a direct impact on EBITDA loss as the momentum would pick it up, and where would you like to see full year EBITDA loss as in FY 21, some kind of a ballpark number?

Pratibha Advani: Unfortunately, we don't give guidance. So, I don't want to give a number. But as I said, directionally you will see an improvement in our margins.

Bharat Sheth: And the same will apply onto Transformation services also, where we were once upon a time looking into high double-digit EBITDA margins, which is currently trading in negative? How do we see this Transformation service in full year perspective?

Pratibha Advani: Yeah, so I think what we've seen this year is an excellent top line growth in Transformation services. Unfortunately, that's not converted into EBITDA growth because of transition costs. They have good pipeline and next year we should see the margins come back to single digits and the following year they should bounce back to double digit.

Bharat Sheth: Last question Pratibha, I mean with these one-offs and non-recurring items. Of course, this year it's the license fee which has come up. So, how do we see these one-offs build over a period and how do we evaluate the whole company from a one-off perspective?

Pratibha Advani: Interesting question, and the fact is, because it is a one off, we've not been able to predict it. And this year our industry has been impacted by the AGR issue and we did think it would be, although it is conservative, but we did think we should provide for the INR 342 crore and primarily because while the license fee conditions did mention paid, however, we had a TDSAT judgement in our favor. But given that the DoT demand came, we just were a little conservative in our accounting and took this provision.

Bharat Sheth: Okay thanks, that's all from my side.

Vipul Garg: Thank you Mr. Sheth. We are almost out of time so we will take a last question. The last question is from the line of Vivekanand Subbaraman from Ambit Capital. Vivek you may please ask your question.

Vivekanand Subbaraman: Hey, thank you very much for the opportunity. I have two questions. One pertains to the domestic Enterprise market. Can you talk a bit about your revenue market share among domestic customers? And it would be helpful if you can have a discussion on the segments, the segmentation of the market, and the capabilities versus other players in the market. That's question one.

Question two is, what is the target Net debt / EBITDA or leverage that you want to maintain in the long run and that leads me to a question on the sustainable dividend, or return of cash to shareholders in the long run. Thanks.

A.S Lakshminarayanan: Let me take the first question, Vivek, on the domestic Enterprise market. I think we have a dominant market share as far as the domestic Enterprise market is concerned, it'll be around 30%+. And, our key differentiation is, our networks are engineered to serve the Enterprises and, in terms of delivering to the Enterprise customers, I talked briefly about the shifts that we're making, we have multiple products, but we are looking more from a, 'How do I combine these products to give an overall platform and a solution to the customers?' And we've been on that journey and that would be another major differentiator.

Third is, the Enterprise segment requires a different level of management and expectations as well, and our teams are well geared to service the segment extremely well, and that is reflected in our NPS score, which is really industry leading in this segment. So, and I think I mentioned very briefly, that customer experience is going to be the heart of our new strategy as well.

I briefly talked about a shift from product to platforms and more solution orientation, as opposed to a product out with our customers. We think all of these would be major enablers for us to participate in their transformation journey as far as, our portfolio of services and platforms are concerned. To look at beyond that, then you'd have to look at platform by platform, how we're enabling, what the differentiators are, and that would get more complex in this call.

Vivekanand Subbaraman: Okay, just one small follow-up. Within the domestic revenue pool that you may have, internally, how do you see the domestic market in terms of segmenting the offering? You mentioned that you'd adopt a more platform and solution-oriented approach. So, it would help to understand the segmentation of

customers and how your Sales strategy is for these various sets of consumers.

A.S Lakshminarayanan: Maybe, can we reserve this question to the Strategy session we will have in June? I can answer, but I'm just worried it might be a long-winded answer for this for this question.

Vivekanand Subbaraman: No worries Lakshmi, we can take it then.

Pratibha Advani: And Vivek, I will take your question on Net Debt to EBITDA. You would have been seeing that this has been trending in the right direction. In FY19 we were about 3.1. Now we've come down to 2.8. Ideally, we would like to settle at 2.5 levels and that is where, we're heading in that direction.

Vivekanand Subbaraman: Okay, and you would look to maintain a 2.5x as the long-term leverage?

Pratibha Advani: We'd be comfortable at that, given that we would want to invest back into our business and look at other growth opportunities. So, at this point, we will be comfortable at 2.5x levels.

Vivekanand Subbaraman: All right. Thanks, and all the best!

Vipul Garg: Thank you. This brings us to the end of this particular call. I would now like to hand over the call to Lakshmi for his closing comments. Over to you, Lakshmi.

A.S Lakshminarayanan: Thank you, Vipul, thank you Pratibha. Thank you all for listening to us patiently and the questions. I would just round it off by saying that we've had a fairly robust performance this quarter all around. Our domestic business, our international business, our data, all of them have grown very significantly. We have seen fairly significant margin expansion as well. And going forward, we think post COVID, there will be new sets of opportunities that we're working towards, to capturing those opportunities. So that would be my closing remarks and look forward to seeing you all in the third week of June.

Vipul Garg: Thank you, Lakshmi, Thank you everyone. You may now disconnect your call.

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