

October 20, 2023, at 02:30 pm IST

Q2 FY2024 Earnings Call Transcript

MAIN Participants:

AS Lakshminarayanan, Managing Director and
Chief Executive Officer

Kabir Ahmed Shakir, Chief Financial Officer

Rajiv Sharma, Head, Investor Relations

Chirag Jain, Deputy General Manager, Investor
Relations

Chirag Jain

Good afternoon, everyone, and welcome to the Tata Communications Earnings Conference Call for Q2 FY24. We are joined today by our MD and CEO, Mr. Amur Lakshminarayanan and our CFO, Mr. Kabir Ahmed Shakir, and our head for Investor Relations Mr. Rajiv Sharma. The results for the quarter ended 30th September 2023 have been announced yesterday and the quarterly data pack is available on our website.

I trust you would have had the chance to look through the key highlights. We will commence today's call with comments from Lakshmi, who will share his thoughts on the business and 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

Thanks Chirag and Good Afternoon everyone.

I welcome you all to Q2 FY24 Earnings Call. We are very pleased to inform you that the integration of The Switch with our media business is progressing as per strategy, and we are excited about the combined opportunities that we see in the market. We are realizing early deal wins across customers through our joint offerings. Next, I am also happy to report that the accelerated closure of the Kaleyra deal is much before the expected timelines. We will now shift focus to ensuring the right synergies are playing out between Tata Communications DIGO & Kaleyra, thus enabling our combined offerings position us as a formidable player. We will build intelligent, intuitive, and innovative multichannel communication solutions and create a category of Customer Interaction Suite that helps us to scale growth in line with our ambitions. The Customer Interaction market is expected to grow at a CAGR of more than 25%, thus creating a market opportunity to the tune of \$27 Billion. To sum up, Switch and Kaleyra integration will set us up for a robust growth trajectory.

Additionally, I am excited to share that we are in discussions with NVIDIA to build a state-of-the-art AI infrastructure in India. Today, we offer Infrastructure as a service solution (IaaS) and several PaaS services while enabling enterprises to do data analytics. So, the logical next step for us was to enable enterprises to do AI and Machine Learning. This is an exciting opportunity, and we shall keep you posted as we progress.

Moving to our overall performance, our consolidated Q2 reported revenue was INR 4,872 Crores, improving by 10% YoY and 2.1% QoQ. Our reported data revenues stood at INR 3,995 Crores, growing strongly by 14.4% YoY. Our underlying data revenue growth (excluding Switch) came in at 10% YoY. EBITDA for the quarter was INR 1,015 Crores with 20.8% EBITDA Margins. PAT was INR 221 Crores. ROCE came in at 23.3%.

Our India revenues continue to grow strong double digits. Our international revenues continue to gain momentum steadily as we strengthen our offerings and footprint across global markets. We witnessed another quarter of a healthy funnel and order booking growth; however, order booking acceleration is lesser than our expectations because of uncertainties in the macroeconomic and the geopolitical scenarios. We see greater caution globally and slower decision-making. Despite this, our engagement intensity with our customers and prospects is increasing. Our recent product rollouts including IZOTM Multi Cloud Connect, DIGO Engage 2.0, and AI based cloud analytics reflect the strong conviction we hold about the growth opportunities ahead of us.

Now, let me dwell on the investments we have been making and how you should look at our profitability going forward.

For more information, visit us at www.tatacommunications.com

We continue to invest in our underlay capabilities both submarine and terrestrial in terms of augmenting capacity and new routes and are also investing to make them more intelligent and programmable. On top of this, we are building a strong digital portfolio to deliver a global digital fabric suitable for enterprises. Over the last three years we have invested in people and platforms which have yielded positive results. Our Incubation revenues have tripled, Cloud & Managed Hosting, Next Gen Connectivity and Media businesses have grown by over 50% in this period. Additionally, we invested in inorganic competencies to bridge certain gaps. Because of all these investments, the digital portfolio will be contributing upwards of 40% to our data revenues soon. These investments in organic and inorganic capabilities come with a cost which will have a dilutive impact on both margins and ROCEs in near term before they move upwards in the medium term towards our ambition of 23-25%.

Our Core business (excluding subsidiaries), the performance is as per the plan. However, our subsidiaries, which account for roughly 8% of our reported revenues continue to have a dilutive impact on our core EBITDA margins. Another factor affecting EBITDA margins is the change in revenue mix. Our digital portfolio has a different margin profile. The calibrated increase in digital revenues, thus changing the revenue mix, comes with an impact on EBITDA in the near to medium term. However, each platform has a profitability glidepath we are sharply focused on and are confident for the business to operate in the 23-25% range in the medium term. I did mention the subsidiaries having a drag on the core margins and we will be initiating an undertaking of strategic review of the subsidiaries.

Before I deep dive into a detailed discussion of the quarterly performance, it is important to emphasize on our medium-term structural growth drivers. This includes maintaining our India market leadership, emerging as a strong challenger in international markets from a peripheral player today to become a strong challenger. With Kaleyra and Switch, we see this becoming more of a reality as we have the scale in the USA to accelerate and bring more credibility in the market. These possibilities are driving our conviction and our continuous investment in capabilities. Lessons from tech industry are loud and clear, investments in one capability never create sustainable competitive advantage and it is always about network of capabilities which develop as a source of competitive advantage and that is exactly how we are focused.

Now coming to our segmental performance, Digital Portfolio (DPS plus incubation combined) revenues stood at INR 1,457 Crores, growing healthily at 30.2% YoY and 3% QoQ. Underlying Digital Revenues (excluding Switch) grew by 16.4% YoY this quarter. Our Core Connectivity business revenues grew by 6.9% YoY and 1.6% QoQ and reflect robust execution and initiatives around price erosion and churn management.

Now moving to the digital portfolio. Our Collaboration Portfolio grew by 7.5% YoY and declined by 7.4% QoQ. I would not read much into the sequential decline as these volatilities are due to specific customer implementation contracts and engagements, we executed last quarter. H1 FY24 revenues for Collab Portfolio have improved by 13.4% YoY, largely driven by our CIS portfolio. Going forward, the integration with Kaleyra will accelerate the growth momentum.

Media business revenues including revenues from Switch were sequentially up by 4.9% QoQ and 107% YoY. Excluding Switch, media business revenues were up 3% YoY. The sequential decline is on account of lesser events this quarter. With the combined capabilities of Switch and our Media portfolio, we are witnessing healthy order pipeline, higher ACV deals and possibly better revenue conversions going forward. The momentum around joint customer wins and more business from existing customers is positive and in line with our strategy.

Our Next-Gen connectivity offerings revenues increased by 15.4% QoQ and 46.9% YoY. The growth has been broad based across the portfolio with our IZO™ WAN & IZO™ SDWAN growing strongly. We successfully delivered our largest SDWAN deployment of 5,000 sites for one of India's leading banks. Our new offerings like Managed WIFI & IZO™ Multi Cloud Connect, Flex SDWAN gained solid traction with enterprises.

Moving to Cloud, Hosting and Security. This portfolio registered a growth of 6.3% QoQ and 24.4% YoY successfully delivering some large deals. We continue to witness encouraging engagement from small and large enterprises on cloud and cybersecurity deployments for ensuring consistent user experience and all-around protection from cyber-attacks, and flexibility to scale. With regards to cloud adoption in India, we see continuing momentum on the adoption of multi

and hybrid clouds.

The Incubation Portfolio grew by 3.8% QoQ, however on a YoY basis the performance is subdued. MOVE™ has grown over 40% YoY. We continue to engage with enterprises for our IoT & MOVE™ Offerings and are excited with the opportunities that we can tap in this market.

To summarize, we believe that our global digital fabric is a powerful concept which enterprises, especially in the international markets are beginning to realize. Our Digital Portfolio has the capability to address holistically the needs of our enterprise customers and we will continue to invest & drive relevance with these enterprises. To add to this, we have invested in inorganic opportunities from a capability as well as a market access lens and now the focus will be on accelerating the value creation process. We are confident about the larger opportunity and with this strong conviction, we will continue to improve and derive value of these investments and continuously augment our capabilities. With this, I will now request to Kabir share the financial highlights.

Kabir Ahmed Shakir

Thank you, Lakshmi.

Good afternoon, everyone. I will take this opportunity to discuss the highlights of our financial performance for the quarter.

Our data revenues continued their double-digit growth momentum, both from a reported as well as an underlying perspective. Our reported revenue for the quarter stood at INR 4,872 Crores, improving by 10% YoY and 2.1% on a sequential basis. The reported revenue numbers this quarter continue to have certain forex benefits accruing from a strengthening dollar. Normalizing for Forex, our Consolidated revenues grew by 7% YoY and 1.9% QoQ and the positive impact on consolidated EBITDA margin is seen at 30 bps. Data revenue for the quarter stood at INR 3,995 Crores, growing at 14.4% YoY and 2.1% on a sequential basis. The underlying data revenue growth stood at 10% YoY. Revenue growth for our digital portfolio stood at 30.2% YoY and 3% QoQ.

Moving to margins, reported EBITDA margins for the quarter came in at 20.8% and underlying EBITDA margins were at 21.7%. Our core business margins excluding subsidiaries were at 23.7%. ROCE for the quarter is at 23.3% and sequential decline is an outcome of lower EBIT and higher net debt because of the dividend payout this quarter. Cash Capex for the quarter stood at INR 587 Crores and the ramp-up is attributed to payments coming up for capex projects committed in the prior year as suggested previously. Lower profitability, higher cash capex and adverse working capital movement, a large part of which is seasonal, resulted in a muted FCF for the quarter at -61 Crores. PAT for the quarter stood at INR 221 Crores and the margins were at 4.5%. Net debt stood at INR 6,963 crores and net debt to EBITDA at 1.68x. Our debt levels continue to be at a comfortable gearing and well within our ambition. Moving to subsidiaries, our Payment business continues to make positive shifts as we expand our portfolio under the Franchise model. As on date, we have added close to ~4,300 Franchise ATMs to our portfolio and are working steadily on increasing this further. TCPSL revenues declined by 6 Crores this quarter on account of lower transactions as well as closing of a sizeable number of our Company Owned Company Operated ATMs. TCTSL revenues improved by 4% sequentially due to improving customer engagement and better pricing.

Let me spend some time on our EBITDA margin trajectory. Aside ongoing focus on cost management and financial prudence, there are three important levers of margin performance - Organic mix, Impact of M&A and Operating leverage. Organic Mix will continue to be a drag on our overall EBITDA margins. This is obvious given our stated ambition to rebalance our revenue mix more towards Digital Portfolio, which not only has a lower margin profile today but will remain a lower margin profile versus our core connectivity business. The acquisitions we have made in the recent past make a lot of strategic sense but in the short term, they have a dilutive impact on EBITDA as they are loss making. So, this will also be a drag in the short-term. In fact, as we consolidate Kaleyra results next quarter, our EBITDA will be below 20%. Even ROCEs will dip below 20% as both Kaleyra and Switch are not profitable and will gradually improve as

For more information, visit us at www.tatacommunications.com

they turn profitable. However, each of the business case has a path to break-even and destination margin attainment. On Operating leverage, we should see a steady improvement every quarter as each of the businesses attain scale and we progress towards our ambition of doubling data revenues. The sum total of these three drivers means that in the short term they will put pressure on our margins but as the strategy plays out, we are confident they will attain the ambition margin of 23-25% for EBITDA and >25% for ROCE. We have a glide path of profitability which is periodically monitored at a product level with a razor-sharp focus on the drivers.

I want to assure all of you that our margin performance is exactly as planned and as per our expectations. Investments in both organic and inorganic opportunities is a conscious and strategic choice we made and accelerated closure of Kaleyra comes with near term implication in reported KPIs. Our core business excluding subsidiaries has been performing as per our laid-out strategy in its expected margin profile considering the impact of our portfolio mix, investment in people and M&A related expenses. The subsidiaries margin profile continues to be a drag on the core business. We have been separately reporting margins for all the businesses and we believe you would be taking cognizance of this while forecasting/modeling for core business profitability. Underlying Core business margins are at 23.7% and 40bps sequential decline in margins is purely on account of revenue mix and planned investments in new products.

Over the last few years, we have focused on changing the texture of the business and ramping up our digital offerings. We believe that these will help us improve the customer relevance quotient and drive sustainable and profitable growth. Our finance strategy of Fit to Compete and Fit to Grow helped us improve our balance sheet which allowed us to invest in inorganic capabilities to improve our market offerings. Inorganic investments in Kaleyra and Switch will raise the share of digital revenues upwards of 40% and this will only ramp up further as the integration picks up.

We are in an exciting phase of driving growth through investment for Tata Communications. The financial fitness we have attained in the recent past has given us the elbow room to fund the next phase of our journey while remaining financially fit. As a management team, we are acutely aware of the acceptable margin drop we are willing to take to drive growth, capture the market potential, and position ourselves as a formidable global Comtech player.

To sum up, our KPIs are likely to see short term volatility, we will continue to invest in building capabilities which help us strengthen our moats and strengthen our long-term ability to create longer term value for our shareholders. I will now ask Chirag to open the forum for Q&A.

Chirag Jain

Thank you, Kabir. We will now open the queue for Q&A. Please raise your hand and ask your question. We will unmute you accordingly. We will wait for a minute for the queue to assemble.

Chirag Jain

The first question is from the line of Sanjesh Jain from ICICI Securities. Sanjesh, you have been requested to unmute yourself. Please unmute yourself and go ahead and ask your question.

Sanjesh Jain

Good afternoon. Thanks for taking my call. I got few questions, first, on the order book. Lakshmi can give us more color because it appears digital services, which has grown at 28% ex of Switch last quarter. This quarter the growth on a year-on-year basis is 16%. There is a material deceleration. Was it one off? Or you are also seeing some headwinds as most of the IT companies have highlighted. Are we seeing any challenges? And then we had a strong order book booking earlier, and we thought that easing of chip set would allow us to grow for lengthier period of time. This quarter looks like subdued any comments and outlook on how does the order book look like?

AS Lakshminarayanan

On the order book, we had a good order book in H1 of last year and while the funnel was improving, there was a

slowness in the bookings towards the end of last year. So, we are seeing that play out in the Digital Portfolio. But I think I would not read too much into it. All of the Digital Portfolio, which includes our DIGO, and others I would play, and the Media also is included in this and this quarter I explained on the Media side because of the events we have a lesser revenue. So, it is difficult to read into a quarterly trend, because each one of them has a different profile. But overall, what I'm seeing is, yes, there is a caution with customers and therefore there is a slowness in the decision making, and as I called out our funnel actually is improving, and it's a function of the fact that we have now invested in more salespeople, especially in the international markets, and that's helping us to add the funnel. So, the funnel is quite healthy.

I also called out that our order booking in H1 of this year has improved, even though it is lower than what we would like it to be. So, there is not much to read into the deceleration. If you see, it's still a very, very good percentage and the other data point that I would look at is, which I mentioned in my speech is the level of interactions that we are having with customers, the workshops that we are conducting are more on broad based, global digital fabric is happening more and more day by day. We are conducting more workshops with our customers. Customers are interested in engaging, so our engagement intensity with customers is improving, which gives us confidence that whatever we are putting out there as a digital fabric is resonating. But in terms of conversion to revenue there will be some fluctuations. But overall, I am quite pleased with the 10% growth that we saw this quarter.

Sanjesh Jain

Fair enough. One extended question on the collaboration and CPaaS side. That appears to be very volatile in last 2 years and has been the single source of digital performance drag if you see. Last quarter, we saw an encouragement there of almost 14% growth but again this quarter YoY growth has dropped to 7%. What is not working in our favor in collaboration? What are we missing there? Will the acquisition of Kaleyra help us to fix that?

AS Lakshminarayanan

If you look at the collaboration portfolio, it consists of what we used to call as, GSIP, which is a plain GSIP offering that we had and that's suffered a huge decline and if you look at the collaboration, in fact, even today, the collaboration is the biggest portfolio on our digital portfolio.

And being the biggest portfolio, and as you rightly pointed out having a slower growth, does have the impact of having a drag on overall digital growth as we report, that is one, but within the collaboration portfolio GSIP was one, GSIP suffered a big decline as customers moved to more app based communications, and we came out with our GlobalRapid™ offering, to provide more managed solutions for our customers, that arrested the de-growth. Now, the GlobalRapid™ what we offered with Microsoft in partnership is growing, but it is still coming off a small base and is growing well, but it is not enough to compensate on the de-growth that we had on GSIP; but we have largely arrested the de-growth. I mean, even there might be a marginal decline, but it is not declining as much as it would have in the previous years.

The second point I would call out in the collaboration is the entire CIS, customer interaction suite, which consists of the DIGO platform that we launched only last year and the InstaCC, which is our offering to take the contact centers to the cloud for our customers. So, these two put together is what is the customer interaction suite and customer interaction suite has been growing quite well, but since these are smaller relative to GSIP and GSIP is at best flat, we are seeing this slowness and sluggishness in the numbers in the collaboration.

Coming to your point on Kaleyra. Yes, that is exactly the reason why we launched the DIGO product last year and we are very pleased in the very first year of the launch, we have acquired several customers in India and Asia-Pacific markets and very substantial customers as well and its accelerating growth. Combined with Kaleyra we bring stronger synergies, while we have to build out a lot more things on DIGO, Kaleyra comes with a solid platform and a set of very good customers in the international markets, particularly the U. S. and in Europe. So, as we play out the synergy and synergize our products and take them to market, we believe that positioning will definitely help us in the growing market of customer interaction space.

For more information, visit us at www.tatacommunications.com

Sanjesh Jain

Fair enough, Lakshmi it is more than a quarter for Switch. How has been our initial experience with the Switch team? Are we able to retain the entire team, what is the synergy benefit? Any example of a large customer who is now looking to either share more wallet or has completely come on us, or any initial thoughts will be very helpful.

AS Lakshminarayanan

I think the integration is proceeding extremely well. I think the teams are gelling together very well. From a technology standpoint, the technologies that we were using for our video connect and video connect+ and the technologies that Switch is using in the U. S. are almost identical, so there is a lot of synergies there. In addition, Switch comes with the U. S. market access that our media team did not have. I mean, a lot of our strengths came out of Europe and APAC and for our media business, so that is also very synergistic.

And, thirdly, the fact that they have the production capability, and now we have an impressive production facility in the West Coast which many of our customers are truly amazed when they see that, and that production capability combined with our existing media capability are definitely resonating with our existing customers. And we have had a good number of wins in existing customers as well as newer customers, and I think while one month does not make a huge difference. But, in September we saw very good conversion and the best ACV we have had in the media business so far, but it is only a month. But we are very pleased with the integration process that is going on.

Sanjesh Jain

Thanks Lakshmi, a few book-keeping questions for Kabir. The direct cost for data has gone up by two hundred basis point from 31% to 33%. I do not think there is any material change sequentially. So, what is leading to this increase in the direct cost by two hundred basis points. And number two, on the working capital again there is a sharp jump. In H1 there has been an outflow of close to ten billion Rupees, what is leading to that? And number three, last year you positively surprised on tax rate, but I think this year it is all eating it to it, we thought 22% was what we are looking for this year, and in the first half it is almost 26%, any change there?

Kabir Ahmed Shakir

Let me answer each of them. The direct cost is basically a mix issue. When we take some non-recurring revenue deals these are normally packaged in such a way that we take either a hardware or license resale and then we add services on top. When we recognize that upfront and they normally come at a lower margin profile, then what we have, so we had about a couple of lumpy deals in this quarter, which has actually resulted into the higher, direct cost, because of the lower NR margin profile that they bring. So that is just a deal specific issue. Nothing organic about it.

On working capital there are three reasons. Two major reasons are, one of the large customers in our subsidiaries, their outstanding grew to alarmingly high level, and as they are securing their funds and we got reassurance that it will be cleared quite soon. We already saw quite a few amounts cleared in the first week of October, so what we are acutely watching that.

The second one was again a sizable amount, because of the Government shifting the TDS return filing by about 15 days. So, therefore, a lot of the returns were by our customers, that previous were not filed, and therefore we could not take credit of that in our books. But also, we have signed a lot of things, which we are not due yet. So, I believe that all of the working capital movements are seasonal. That is what I pointed out in my speech as well. These should reverse in the following quarter. So, I am not acutely worried about it.

On tax rates, look, we had taken last year, as our international subsidiaries start becoming profitable, we took the deferred tax asset last year. I called it out very specifically as well, deferred tax assets are subduing our tax rates. And once we had a policy, and as it fitted into the policy, that consistently once it started growing profitably, we had to

recognize the deferred taxes. Now that is in our base. Twelve months have elapsed, it is part of our base, and therefore, that is how you are actually seeing the tax rates, it is kind of a climb up. This is a fallout of good performance, that you are doing well in international geographies and therefore you are seeing this, but nothing about which I would worry.

Sanjesh Jain

Great, one last question, what is the capex outflow this year anticipated?

Kabir Ahmed Shakir

I am still sticking to the range of \$250-300 million per se, organically. We have slowly inched up as I mentioned earlier. Our cash capex will be higher than the approved capex because of the catch-up effect from last year. That aside, fingers crossed, and I do not want to jump the gun, like Lakshmi mentioned that NVIDIA deal for example, we are trying to ink the specifics and the details. What they will come up with, what is the size of it, what is the timing of it; a lot of them are in the air. So, I would probably maybe treat them separately as one off, whenever they come up because they will be backed by a solid business case and good IRR I assume, but otherwise I am sticking in the 250-300 range, I know as I had mentioned earlier.

Sanjesh Jain

Thanks Lakshmi and Kabir for answering all my question and best of luck for coming quarters.

Chirag Jain

Thank you Sanjesh and the next question is from the line of Santosh Sinha from Emkay Global. Santosh you been requested to unmute yourself. Go ahead and ask a question.

Santosh Sinha

My question is regarding Kaleyra. So, what kind of saving exercise do you plan to take for Kaleyra, and the company has high ESOP expenses. So, do you want to tweak that ESOP expense for Kaleyra?

Kabir Ahmed Shakir

Look the Kaleyra business case has detailed out synergies, both on the revenue side and on the cost side. So, we will address that appropriately. For me, the biggest strategic reason of acquiring Kaleyra is the product strength and portfolio that they actually bring to the table, the complementarity of our go to market offerings where they are strong, and where they are present and the ability to cross sell to Kaleyra customers and then to Tata Communications customers, all of them are super exciting. I want to mention that upfront first, because I do not want people to listen that we are only driven by cost.

Having said that there will be cost synergies that will come up. Kaleyra was a listed entity when we acquired; they have just been de-listed recently, couple of days ago from the New York Stock Exchange, and they are no longer an SEC regulated company. So therefore, as a result of that, there will be naturally cost savings that will accrue. And that has already been built into the business case, and the assumptions when we talked about getting Kaleyra to break even in the near term and getting to destination margins in the medium term.

So, therefore we are quite aware of that, but at the same time, I am excited about the go to market and the revenue synergies and the combination of DIGO and Kaleyra put together, the promise that we can offer to the market, create a new category entirely of a customer interaction suite. That is the strategic rationale with which we acquired this business, and we are completely committed to that strategic rationale.

Santosh Sinha

Thank you. Thanks for answering my question.

Chirag Jain

Thank you, Santosh. The next question is for line of Mihir Manohar from Carnelian Asset Management. Mihir, you have been requested to unmute. Please go ahead and ask your question.

Mihir Manohar

I just wanted to understand on the margins front. Are you still looking at the similar margins, 23 to 25% margins? So, you mentioned that you provided clarity on the Kaleyra part, so just wanted to understand out of this improvement, which should be there, what would be the organic and inorganic contribution and what will exactly lead to this margin improvements. I mean, it was just some 3-4 steps around it, that will be helpful.

Kabir Ahmed Shakir

We are committed to this 23% to 25% range for this company, the way in which the current mix stays and in the last 2 years, there have been many quarters where we have delivered more than 25%. Even then, we have said that 23-25% is the right range that we need to operate in.

We also called out as to why we have over delivered, there were Covid related savings, there was great attrition, and we were actually sitting with a lot of vacancies and therefore not the right amount of spend in our staffing costs and these are not healthy. Now we are getting to a more normative level where COVID is behind us. Travel has started, our marketing spends are back to normal levels, not only have we arrested attrition, but we've actually gone ahead and invested in more people, about 1,500 people is what we have added in the last 18 months. So, all of those costs have come in.

Coupled with that is the inorganic activity that we have done both Switch and Kaleyra, Switch we have detailed out what the margin dilution is. Kaleyra is a listed entity. The financials are available in the public domain, you can do the math's yourself as to what it will result into and I have also called out that next quarter, we will be mathematically; you just add that in, and we do no change to our core business, mathematically when I add Kaleyra's quarterly numbers, we will be below 20% in EBITDA.

But I want to reassure all of you in the call and the wider investor community as well that this is a conscious and a strategic choice that we have done. We have improved the financial fitness both in the P&L and the balance sheet. Only, we have scaled only to leap forward and drive growth for this business. So, for the next few quarters, we will be below our ambition of 23%-25%. But the 3 levers that I called out: Organic mix, the impact of M&A and operating leverage, aside the ongoing focus that we have on efficiency on cost management, war or waste, those are my day jobs and I'm not going to repeat that but the uber levers are these 3 levers and I have just given a color of how these 3 levers will behave. So, some of them will continue to have a drag. Some of them will slowly improve. Some of them will improve slightly faster. The sum total of all of them means that in the near quarters, there will only be a drag. But as we get out of it and in the short to medium term these will start becoming positive and help us to get to 23% to 25%. So that is the color that I can actually give you.

I leave it to your ability to model it as to when that will happen and as we have always done in the past, our endeavor is, and as a management team, to be responsible enough to an acceptable margin drop that we were willing to take in order to drive the growth and investment for our businesses and to get back to the 23% to 25%. Again, when we get back to 23% to 25% I can't tell you what more organic BAU investments that we need to make, what more attractive inorganic opportunities that will come our way right? We will evaluate that on a case by case basis and take the right action for a sustainable and a profitable growth for Tata Communications.

Mihir Manohar

For more information, visit us at www.tatacommunications.com

So, that is it from my side. Thank you. Thank you so much.

Chirag Jain

The next question is from the line of Namit Arora. Namit, may I request you to first introduce yourself and then go ahead and ask your question.

Namit Arora

My question was around sort of slightly medium term. Your space is very dynamic. So, do you foresee disruptions fundamentally, when you talk to customers and some of your partners and what are the kind of investments you are doing in R & D, sort of forward-looking investments from a more medium-term perspective to handle any disruption that may come by in your business?

AS Lakshminarayanan

Namit, that is an excellent question. I think the space has always been disrupted. Pure core connectivity was disrupted with everything, becoming software defined with SDWAN. Now, that gave rise to a lot of network security and newer companies as you will, like the Palo Altos and Zscaler's and today there is a talk about is SDWAN and all of these coming together and converging to become a secure service edge. Similarly, we see the convergence of the LAN, which is becoming more software defined with Wifi-6 and others that will come into the market and that converging with the Wide Area Network will make the LAN and the WAN to be able to seamlessly operated.

The cloud itself is giving rise to a completely new category, which is why we have invested to deliver the ability for applications to give superior and more deterministic performance as they connect the Multi Cloud and within networking space, the Multi Cloud Connect is emerging as a category by itself.

So, all of these areas and more with AI and what we are attempting to do in MOVE™, essentially is like an IOT SaSE. While we do not own any spectrum, we still connect multiple millions of devices and several connected car solutions that we offer without being an MVNO ourselves. So, we are delivering on that platform. So, even in in some of the examples that I have given, these are ongoing disruptions that are happening, and we have been very aware of this disruption, and these are exactly the spaces where we have been investing to make sure that we can strengthen ourselves. This is why we saw the opportunity for us to go and disrupt incumbents in established markets, in international markets. Those are the areas we have invested in, and we will continue to invest and there are many more we have talked about AI, and our participation in that, AI cloud, we have been talking about AI embedding in our products. MOVE™, for example, can now tell exactly what the best time is to deliver a software over the air update, and these are all part of the investment. We have a very active team, with a very solid framework on innovation. What technologies are emerging, now what technologies are likely to emerge. We have a program to see how we invest early in the and then they take decisions on how and where we need to accelerate our investments.

Even in our IOT business, we are setting out to build solutions around video analytics and we are in very early stages of those video analytics and capabilities, and we already have several trials with customers that we are executing on.

So, there are many areas that I can talk about, and we have very calibrated investments in all these areas. Our innovation teams are in discussions with research institutions in academia. We are talking to several startups. Our own digital fabric, we are opening up to innovators to come and innovate on top of our fabric. So, on the innovation topic and on areas, where we are making early investments, there are a number of programs that we are doing all with very calibrated investments at this stage and as we see the opportunities, and it gets into stage one; in our stage 1/3/30 process, and that is when we will determine whether any of these requires accelerated investment, so we can capture the market.

So, we have a very solid framework, and we are following a well-defined process and strategy to track all of these and execute all of this.

Namit Arora

For more information, visit us at www.tatacommunications.com

This is very helpful. Thank you for a very detailed response, and all the best to the entire team. Thank you.

Chirag Jain

This brings us to the end of the Q&A session. I will now ask, Lakshmi to share his closing remarks,

AS Lakshminarayanan

Thank you all, as I said earlier, we are quite excited and I think we are in a very, very good place. Our traction with our customers and engagement intensity is improving as we position our full portfolio of digital fabric. There might be slowness because of the macro-economic conditions. But we feel very confident because of these engagements with customers, and we think that we are executing our strategy very well to integrate all the acquisitions and inorganic investments and we will continue to execute on this precisely to the plan. Thank you.

Chirag Jain

And this brings us to the end of the call. In case of any queries, please write to investor.relations@tatacommunications.com. The recording will be available on our website in the next 24 hours. You may please disconnect now, Thank you.

This is a transcription and may contain transcription errors. The Company or sender takes no responsibility for such errors, although an effort has been made to ensure a high level of contextual accuracy.