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Q2 FY2026
Earnings Call Transcript

Main Participants:

AS Lakshminarayanan, Managing Director and Chief Executive Officer

Kabir Ahmed Shakir, Chief Financial Officer

Rajiv Sharma, Vice President and Head, Investor Relations

Sudeshna Patnaik, Deputy General Manager, Investor Relations

Sudeshna Patnaik: Good evening, everyone, and a very warm welcome to you all. Thank you for participating in the Q2 FY26 Earnings Call for Tata Communications. My name is Sudeshna Patnaik, and I'll be your host for the call.

We are joined by our MD and CEO, Mr. Amur Lakshminarayanan; our CFO, Mr. Kabir Ahmed Shakir; and our Head of Investor Relations, Mr. Rajiv Sharma.

The results for the quarter ended 30th September, 2025 have been announced and the data pack is available on our website. We will begin today's call with opening remarks from Lakshmi on the business performance and outlook, followed by Kabir on the company's financial performance.

All participant lines will be muted for the duration of the call. There will be an opportunity for you to ask questions after the management remarks. Some of the statements made in today's call may be forward-looking in nature and are subject to risks and uncertainties. The company does not undertake to update these forward-looking statements publicly.

With that, I would like to invite Lakshmi to share his views. Thank you, and over to you, Lakshmi.

A.S. Lakshminarayanan: Thank you, Sudeshna. Let me begin by welcoming you all to the Q2 FY26 call. Starting with the financial performance for the quarter. Our overall revenues came in at INR 6,100 crore, 2.3% QoQ and 6.5% YoY growth. EBITDA grew by 3.2% QoQ and 3.9% YoY to INR 1,174 crore. EBITDA margin came in at 19.2%, an improvement of 17 basis points QoQ.

Before I dive further into our performance, let me touch on the strategic bets we outlined at the Investor Day. I'm pleased to share that across our strategic bets, we are seeing strong progress both in product and capability build out and early customer traction. AI plays an important role for us across these products and more so with our strategic portfolio.

We launched our Voice AI platform, which is powered by agentic AI. This will strengthen our Kaleyra AI platform, its value proposition very significantly further. Our next strategic bet, AI Cloud is seeing good customer traction, largely for model training purposes. A standout win this quarter is our engagement with the largest payments player, which we will be leveraging our sovereign cloud for advanced AI use cases.

Additionally, agentic AI running on our own AI Cloud as a combined value proposition is proving to be extremely beneficial to our customers. The Digital Fabric tool, which provides intelligent orchestration across the fabric in both India and international regions is coming out as a valuable differentiator. This Digital Fabric tool, which is one of the strategic bets we called out, gave us a clear edge in securing a large deal with the GST Appellate Tribunal under the Ministry of Finance.

To sum it up, we are encouraged by the traction that we see in the strategic bets that are in various stages of product evolutions, which is the early stages of stage 0 and 1, and believe that they will contribute at least 10% of incremental digital revenues for this year.

Coming to the order book. Our enterprise order book has seen a double-digit QoQ growth. Overall order book is flat driven by headwinds in the service provider segment. Our funnel continues to be robust with 60% attributable to digital services.

We're making significant progress in our position as “Challengers” in the international markets. The European market, we won a multi-year, multi-million dollar deal with a German manufacturer. This is an existing customer for us on the network fabric and we were able to further expand our relationship through our security offering.

In APAC, we won a large deal with one of the world's largest mobility players for our interaction fabric. We are seeing some strong new logo additions in the international regions. Our international order book has grown healthy double-digits this quarter.

Coming to more on financial performance pertaining to the data portfolio. Data revenue grew by 0.9% QoQ and 7.3% YoY. Data EBITDA margins were up 144 basis points QoQ.

The Core Connectivity business came in at INR 2,637 crore, a sequential growth of 0.6% QoQ, an increase of 0.9% YoY. We faced subsea cable cuts in the Red Sea area, disrupting internet and data traffic between Asia, Europe, and Middle East regions. While traffic restoration efforts by alternate available routes on our network and sourced from market are underway, we expect the impact to continue into Q3 of FY26.

Growth drivers like the data centre connectivity in India continued to see strong demand and help us to mitigate some of these impact of subsea cable cut disruption. While we are leaders in the DC-DC connectivity in India, we are also exploring investing in international DC-DC propositions as well.

Digital revenues came in at INR 2,542 crore, increased by 1.3% QoQ, 14.9% YoY. The growth was broad-based and all parts reported double-digit YoY growth. It is worth highlighting that the Nextgen Connectivity and Media reported closer to 30% YoY growth rate. Cloud Networking, along with IZO hybrid WAN have contributed significantly to the growth in the next-generation connectivity portfolio.

MOVE™ and IoT fabric reported a decline, largely due to access pricing revision. That said, the volume growth continues to be robust as number of active SIMs under management increased by 21% YoY. We're making progress with our platform strategy and have signed 2 marquee partnerships with Cisco and BSNL for our new platform.

Cloud and Security Fabric revenues were up 13.1% YoY. We won a deal with a large Indian fund house where we are establishing a dedicated disaster recovery site to ensure compliant and seamless recovery. We will also provide end-to-end managed services across network, data centre and security with SLA back support. We are seeing increased traction in security transformation deals, particularly the next-gen SOC and network security. We remain confident of achieving mid- to high teens growth in this segment for the year.

Interaction fabric, which is 49% of our digital portfolio revenues, reported 12.9% YoY growth. We are seeing steady uptick in our enterprise revenue. There is also a gradual revenue share shift from SMS to non-SMS, and this shift will help us to monetise the orchestration layer better.

To sum up, we are encouraged by the growth in digital services, growing traction in our strategic bets and increasing relevance in the international markets. All put together is giving us confidence that we are moving in the right direction.

With that, I'll now hand over to Kabir to deep dive in the financial performance for the quarter.

Kabir Ahmed Shakir: Thank you, Lakshmi. Before I start, let me remind that our numbers under discussion today are as per the continuing business reported in our data pack. On our financial performance, Q2 FY26 revenue growth came in at INR 6,100 crore, a growth of 2.3% QoQ and a growth of 6.5% YoY. Normalising for ForEx impact, the revenue growth is up 0.4% QoQ and 2.6% YoY.

Data revenue for the quarter came in at INR 5,179 crore, a growth of 0.9% QoQ and 7.3% YoY. Core Connected revenues came in at INR 2,637 crore, a growth of 0.6% QoQ and 0.9%

YoY. While Core Connectivity had a better quarter, upsides were impacted by the cable cuts in the Red Sea.

Digital revenues for the quarter came in at INR 2,542 crore, a growth of 1.3% QoQ and 14.9% YoY. Our focus continues to be profitable growth, and this reflects both in our margins and the data EBITDA margins.

Net revenue came in at INR 3,413 crore, a growth of 3.7% QoQ and 2.8% YoY. Overall net margin improved by 75 basis points sequentially to 56%. Happy to highlight that we are seeing healthy improvement in NR margins for our Vayu Cloud portfolio this quarter.

EBITDA for the quarter came in at INR 1,174 crore, up 3.2% QoQ and 3.9% on a YoY basis. Our EBITDA margins for the quarter were 19.2% and improved by 17 basis points QoQ. Data EBITDA came in at INR 964 crore, up 9.4% QoQ. Data EBITDA margins improved to 18.6%, improvement of 144 basis points over Q1.

We've been investing in strategic bets over the last few years, and Lakshmi highlighted the progress we are making in these bets. We are transitioning from capability building phase to monetisation, and we will start seeing the compounding over time. The fact that they will start contributing meaningfully to incremental digital revenues in the coming quarters should accelerate our journey towards profitability. This is exactly the operating leverage we have been mentioning about in the past. We shall now start seeing this to play out.

PAT for the quarter came in at INR 183 crore, declined by 27% on a YoY basis. Net debt for the quarter stood at INR 11,315 crore. Increase is driven by dividend payments of INR 713 crore and also continued investments in STT to maintain our stake. Forex also had an adverse impact on net debt, resulting in an increase of INR 222 crore. Ned debt-to-EBITDA, therefore, stands at 2.45x.

FCF for the quarter came in at INR 216 crore versus a negative FCF in the previous quarter. The increase was driven by improvement in working capital and higher EBITDA. Cash CapEx at INR 506 crore is lower versus Q1 by INR 127 crore. ROCE came in at 15.1%. Our ROCE is based on a 12-month rolling numbers. ROCE is negatively impacted by Forex and investment in STT, our pursuit towards growth with profitability, and we'll address declining ROCE in the coming quarters.

Coming to subsidiaries and real estate, the revenues for the quarter were up 8.1% YoY. Breaking it further, TCTS revenue came in at INR 264 crore, up 1.4% YoY. TCTS EBITDA for the quarter came in at INR 54 crore and EBITDA margins came in at 20.4%. TCR revenue came in INR 202 crore, up 27.7% YoY, TCR EBITDA at INR 89 crore and an EBITDA margins at 44.1%.

I would conclude by saying that double-digit growth in our data portfolio and our digital portfolio combined with improvement in data EBITDA margins is setting us well to continue our journey towards profitable growth.

Let me now ask Sudeshna to open the forum for Q&A.

Sudeshna Patnaik: Thank you, Kabir. We will wait for a minute for the question queue to assemble. Interested participants may click on the raise hand icon at the centre bottom of the pane on the application.

The first question is from the line of Sanjesh Jain. Sanjesh, you have been requested to unmute yourself. Please proceed with your question. Sanjesh, we can't hear you. We will probably move to the next question.

The next question is from the line of Aditya Suresh. Aditya, please unmute yourself and ask your question.

Aditya Suresh: Yeah. Thank you for the opportunity. I had a few questions. Maybe first starting with the data centre announcements. We've obviously seen at an industry level a slew of announcements, whether it be the hyperscalers or IT companies. You're obviously a leader in the space from the DC-to-DC connectivity perspective. But even in a zoomed-out manner as a starting point, could you just help frame the opportunity which you see both in India, and I appreciate that you also made a comment about exploring international markets. So maybe if you can just like speak about the opportunity that you see as addressable, and also the roles in itself which you see playing beyond just connectivity? Thank you for that.

A.S. Lakshminarayanan: Sure. Our core premise, our Core Connectivity has been that in India, we saw a growing demand for data centre capacity. We think in the next five years, the data centre capacity will double. And we are very well positioned as a leader in the data centre to data centre connectivity space, because it requires a highly performant, highly reliable, resilient, low-latency capability, both from a technology perspective and also from ability to service these clients extremely well. So that is how we are seeing the market. And that is the reason why, while globally, the Core Connectivity market has been on a declining trend, we called out that we see would a growth and we are betting on a steady growth in that space. Now AI clearly has given a tailwind in the data centre capacity space and we want to fully maximise on that opportunity.

Even internationally, not just because of the AI, but many of the large customers are looking at their data centre strategy, looking at their cloud strategy to see what is the hybrid model they want, what do they want to keep on-prem, how much they want to do on private clouds and how much they want to do on the public cloud, so we believe that large enterprises will want a lot of private cloud solutions and consolidate some of the data centre, which is the reason why we are exploring the DC/DC connectivity options to be delivered internationally. We already do that for several large customers and we're exploring how to further strengthen that. So that is one on the Core Connectivity side. The second equation of the AI that you pointed out that a lot of people are investing in data centres, specifically for AI, the entire Digital Fabric is geared towards that, not just the Core Connectivity which does the DC/DC connectivity. But also in all these places, people are going to be in multi-cloud and they're going to have workloads running in multiple places, they have training in one place, inferencing in another place, which requires multi-cloud connectivity. And that is where we have launched a product for multi-cloud networking. Already we had a site-to-cloud networking product in the market and we are enhancing that with the multi-cloud networking. And we probably will be a very unique player that will offer both site-to-cloud and to network within the cloud. And that is one of the strategic bets. So that will play out very well, as people move to cloud and people start to train and inference with the distributed data.

Secondly, with our AI Cloud, our goal is to build the most efficient AI Cloud for customers. We are one of the very few players, probably only one in India, which have done the liquid cooling. It has shown that, in the last few months that we have actively deployed the GPUs for our customers, very high availability, the power consumption is low, which is why we've been saying that this would be one of the best-performing GPU clouds available in the market. And we are topping that up with the capabilities of AI Studio and agentic AI and so on. So ours will be all-rounded capability that we can offer to enterprises and to leverage the expansion of AI-based opportunities in the market.

Sudeshna Patnaik: Thank you, Lakshmi. Thank you, Aditya for the question. We will move to our next question. Sanjesh, I have tried to unmute you. Please unmute yourself and ask your question.

Sanjesh Jain: Yeah, thanks, Sudeshna. Good evening, Lakshmi and Kabir. I hope you can hear me now. Yeah. A couple of questions from my side. First, on the order book. Lakshmi, a flattish order book after a good growth in FY 2025. Now what's transpiring here? Again, I thought we have built a decent funnel and we have crossed that journey of a longer decision-making? I thought now the order book growth should come more consistently. Now what suddenly has happened where order book again for the first half has been flattish for us?

A.S. Lakshminarayanan: Sanjesh, our order book is, as we go into larger deals, they are a little bit lumpy in nature. In the last year, we saw good order booking in Q1 and Q2 on the back of some of the larger deals. And we did call out Q3, Q4 was partly macro where we said the order book had gone to more of a steady-state situation rather than the increase that we saw in Q1. This year, definitely, the order booking is much better than the H2 of last year. But compared to the Q1, Q2 of last year, it's somewhat low. But again, as I called out in my commentary, the enterprise space order booking is still quite robust. The service provider segment is somewhat static. And the OTT side of the order booking is anyway a bit lumpy. I will not read too much into that. I think we are still seeing good funnel. We are winning large deals in the market growth in India and the international side. Yeah. So I don't think we are very concerned. But for us to increase this even further is where we are looking to see how to even more have coverage in the international markets. We are also exploring ultimate GTM models for some of the newer products with more digital-first model as well as the partnership and distributed methods are all being explored. That's the colour on the order book, Sanjesh.

Sanjesh Jain: Got it. To summarise, the first half was high base, so on a high base, we are flattish. We'll hit a more normalised base second half, so we should see an order book growth. And the quality of order book has improved because we are booking more enterprise and less of services. Will that be a fair summarisation?

A.S. Lakshminarayanan: Yes. I mean that's true.

Sanjesh Jain: Yeah, thanks. Second, Lakshmi, on the Digital Services. On the back of a nice order book growth in FY 2025, I thought we would cross a 20% growth, but again, a 15% growth YoY on a net revenue, it is significantly lower, 5.7%. I think the growth is coming from CPaaS, so net revenue conversion, obviously, is much inferior. Now that again doesn't show much exciting number. How to read this?

A.S. Lakshminarayanan: No. So even last year, I called out some of the order booking, the time to revenue varies. We did call out a good Q4 on the back of some of the deals that we won in Q1 of last year. And again, I pointed out some of the deals, especially in the media, we said it will play out in Q2, especially the World Athletics order that we called out last year itself. And another order, which we called out with a hyperscaler last year will only play out in fag end of this year. So the time to revenue of some of these order bookings is quite varied and it's very difficult to give a consistent view of the conversion of revenue and time taken to revenue because it depends on the product portfolio and the customer, which is we have been very explicit about calling this out and mentioning that. So I don't think I would read much into that conversion and the reason. This quarter, in terms of our overall digital revenues, if you see digital revenues have grown. There have been some delays that has got pushed out to the next quarter. But having said that, the Nextgen Connectivity and the Media has grown 30% YoY. And we see that some of the pushed out ones will play out in H2. So that is how I would look at the conversion from order booking that we talked about to the revenue.

Sanjesh Jain: Again, on the cloud side, Lakshmi within Digital, we are so gung-ho about the cloud, AI Cloud, GPU as a Service and security. Now the number at 13% growth really doesn't justify the kind of opportunity size and we being so low on the base. What's really happening in the cloud? Why it's not translating, opportunity or potential not translating into a number? Particularly in the cloud, I thought that is a segment which can grow at a much higher clip on a base we are today?

A.S. Lakshminarayanan: Yeah. No, we don't separate out cloud and security. Both portfolios together have grown in the mid-teens YoY. Having said that, it is lower than the growth that we have had in the past, and there are many reasons. I think some of the attrition that we had last year, which I called out a couple of customer-specific things, that has contributed to some of the slowdown. But having said that, our order booking, specifically on the cloud, this quarter has increased YoY in mid-teens, and we see a good pipeline for the next quarter for conversion as well. Specifically, on the AI Cloud, we have won some marquee deals, which is what I called out. I think our performance of GPU and our ability to service that with very high uptime and reliable solution is playing out very well. So these will take some more time. I'm still bullish and gung-ho about the cloud and security. In the security space, we continue to win large SOC deals. We continue to win the network security deals. Internationally, I called out one of our existing customers in Europe where we expanded our security footprint for them. And we are also further investing in the security space. I mean that is one of the strategic bets that we called out. As to how we'll leverage our edge, our own CDN software that we had developed, the DDoS software that we have developed that we deployed for the Olympics earlier this year, combining all of those capabilities is what we are putting together an edge distribution platform for helping enterprises to deliver better application performance and security, is what we are working on. So this full space, we will continue to invest. We continue to be bullish. There have been some blips for the reasons that I called out, but we are still very bullish about this portfolio.

Sanjesh Jain: That's clear. One, if I can ask in relation to the TCS, which has announced a very large investment in data centre. How at the group level we are looking at the synergy? We have our own stake in STT, TCS coming up with a very large investment in the data centre. And we have a nice DC-to-DC connectivity and now we are getting more bullish on the services layer, say, private cloud or a GPU as a Service now. Within the group, how do we want to exploit these opportunities with TCS having both passive and the application layer? We are in between them. How that synergy going to work and how it's going to benefit Tata Communications in medium to long term? And what's our take on STT stake now that TCS is getting into data centre business?

A.S. Lakshminarayanan: There are several questions in this question, Sanjesh, some of which, which I cannot answer. All of these are independent companies. STT has its own Board. We have, and so does TCS. All I would say is, and as you rightly pointed out, our offering sits very nicely to be able to take advantage of growing data centre capacities in India. As enterprises mature in their AI journey, we believe there is going to be a lot more of AI workloads, not just for training, but also in inferencing. We are well positioned with our full stack, not just for training, but also on the edge inferencing. We have recently won a few deals with our edge cloud in factories for vision analytics, for example. We've even won some of the deals in international markets for the edge capabilities. So as we pointed out, we are positioned well. We will collaborate with TCS and others to truly exploit these opportunities.

Sanjesh Jain: But anything we have started working in terms of synergy benefit that can be shared with the public, which you think can transpire in the next 12 to 18 months for us?

A.S. Lakshminarayanan: That's too specific. I think we are continuing with TCS, there is a very strong collaboration in many areas.

Sanjesh Jain: Got it. One for Kabir. Kabir, this TCR EBITDA margin, there is a significant drop sequentially from 75 to 44. What explains that sudden drop in the margin? I thought it's a very steady-state business for us. At least that was the impression we got with the numbers we have shown for last so many quarters.

Kabir Ahmed Shakir: Yeah. I mean thanks for that. Let me explain what has happened in TCR. Since we acquired Kaleyra, TCR as a business has done exceedingly well, both in terms of growth and profitability. This quarter, the management of Tata Comm along with the Board of TCR, we decided to incentivise the management for almost having created a solid business out of literally nothing. Plus we're also now looking at how we can take TCR, which is predominantly U.S.-based, to more international markets. And therefore, we have crafted an incentive comp structure for the management team which aligns with the growth ambitions that they will actually deliver. So this quarter contains a onetime incentive payment to the management. But going forward also, I mean, we have structured in such a way that the management will get compensated on a variable pay basis directly in relation to the value that they will generate for TCR. So in any case, we were not expecting it to continue in the 70s. Any which way with this revised comp structure, the EBITDAs will come down, with onetime hit it is at 44. I would more stabilise this business in the low to mid-50s, is what I actually see this business on a steady-state basis after taking into account this revised comp structure that we have offered to the management of the company.

Sanjesh Jain: This will shave off almost 2,000 basis points of margin in the TCR?

Kabir Ahmed Shakir: That's true.

Sanjesh Jain: Pretty generous. Yeah, Kabir?

Kabir Ahmed Shakir: Yeah.

A.S. Lakshminarayanan: Are you made a statement, or are you asking a question, Sanjesh?

Sanjesh Jain: No, I was asking a question. It appears to be quite high. So that's how we should think, right? Then what should be the growth rate we should look at, then it should grow at much higher rate.

A.S. Lakshminarayanan: No, we can't comment on the future. But if you look at the past three years, since we acquired Kaleyra, it's grown very, very impressively.

Kabir Ahmed Shakir: In this quarter, if you see 28% growth, is what this business has demonstrated growth. And it's a very niche business and has a potential to replicate that across the globe. It should needs investment as well. So it's not slam-dunk and it is not easy that what has been created. And that's the kind of big target that the management is taking. So therefore, the comp structure is in line with that aggressive ambition that they have.

Sanjesh Jain: That's very clear. But just one last question. I know I have taken a lot of time. Tax rate, Kabir, anything you want to comment on the tax rate and the negative other income?

Kabir Ahmed Shakir: See, the negative other income is because of the cross-currency swap. So I wouldn't pay too much attention. We don't do hedge accounting for, we took an NCD of INR 70 crore in India because that was more beneficial for us to do it, although our requirement was in dollars. We immediately did a swap on both ends. So we are not exposed. So that's just the mark-to-market effect of that. So I mean, I wouldn't worry too much about the other income.

Sanjesh Jain: And tax rate?

Kabir Ahmed Shakir: Tax rate, there has been a dividend payout in one entity that we actually did, which is TCR itself. So as a result of that, there was a withholding tax.

Sanjesh Jain: But for the full year, we still maintain the 21%-22% of tax rate?

Kabir Ahmed Shakir: Yeah. We maintain.

Sanjesh Jain: Thanks, Lakshmi. Thanks, Kabir. I think we are into a very exciting journey, and I wish all the best for the team. Thank you.

Kabir Ahmed Shakir: We have been on it for a while, Sanjesh. Thank you.

Sudeshna Patnaik: Thank you, Sanjesh. The next question is from the line of Vibhor Singhal. Vibhor, please unmute yourself and ask your question. Vibhor, we can't hear you.

We will move to the next question in the queue. The next question is from the line of Aditya Suresh. Aditya, please unmute yourself and ask your question.

Aditya Suresh: Thanks. I had a few follow-ups to my earlier questions and also the previous remarks which were made. I was hoping, Lakshmi, Kabir, if you all could kind of maybe revisit your ambitions which you all had articulated at the Analyst Day, so whether that be revenue. Are you feeling more optimistic or are you feeling more confident that we kind of meet these revenue ambitions given the slew of kind of positive announcements we've seen more recently, as kind of Part A?

And Part B is that kind of, as you're kind of chasing these revenue aspirations, how should we think about CapEx intensity and your path towards expanding ROCE towards 25%? Thank you.

A.S. Lakshminarayanan: Yeah. On the growth side, Aditya, we set out a target because we think that there are market opportunities in every domain that we operate in. And so if you look at the network space, people have to redesign the network for all the distributed data, AI, distributed workflows all of that needs to happen. And I don't want to go through the rationale for each one of them. But we think that some of those transformations are more a question of when rather than if they would do that. And we are beginning to participate in that. And we still have to execute in by expanding our reach in these markets and so on. And some of those strategic bets that we've called out, as I said, we are in the early stages of that, all the five that we called out. And in the initial stages of our taking that to market, we are receiving good amount of reception and traction in the market. And that's why we called out, if you see, those five are supposed to contribute 10,000 crore by 2030. These are too early to see, I mean those are the ambitions. Too early to see whether, how and when we will reach those. But all they can say is we are very still gung-ho about all the product opportunities that we laid out in all the fabrics. So we keep our ambition intact. That's what I would say on the revenue side.

Kabir Ahmed Shakir: Yeah. I mean I would, Aditya, just to add on to even to revenue when we came on with the Investor Day and we gave, it's not a target and ambition we want to double, because of all the opportunities that Lakshmi called out. But there we also need to be realistic of sometimes the headwinds that we get, like the Red sea cable cuts that we've all heard of. Despite that, I would say we're quite happy with our Core Connectivity growth. And if that had not happened, then it would have been a very different kind of a performance in the quarter from Core Connectivity. Equally, I would say on, there was also a question on cloud. On AI Cloud, today, we made the investment, almost close to 1,000 GPUs have already been bought. We've yet to get revenue. I mean very small minor revenues, 200k is what is reflected in the numbers. So far, but we've got a very good funnel. We are seeing good customer traction. So all the input parameters seem to be saying the right story in terms of our investment that we are making. Now the flip side of it is that the KPIs don't catch up with it immediately in that near quarter. So obviously, we don't see, if you do the maths of adding investment, but not having anything on the numerator, will continue to look weak. What time and again remind is our guard rails, which is how we approve investment decisions, how we set annual and strategic plan targets are based on doubling business, 23%, 25% margins and greater than 25% ROCE. So in fact, every CapEx decision outside of the strategic CapEx, we are guided by the IRR thresholds in line with our ROCE ambitions. The strategic CapEx like, for example, that we do on AI Cloud or the strategic bets that Lakshmi mentioned, or the inorganic investments that we have made, all of those things have to pay back over a period of time to get the ROCEs back up and running.

Are we confident that they will happen? Absolutely yes. With geopolitical situation, with tariffs, with macro, with things like cable sea cuts, there will be a little bit of volatilities in a quarter here or a quarter there, but we are still married to the ambition that we have outlined on the Investor Day.

Aditya Suresh: Thank you, Kabir for that. If I can just clarify, may ask for one clarification. So our ambitions here in the Vayu AI Cloud, is it fair to say that the CapEx itself is done, which is, as you say, you kind of got to 1,000 GPUs, and now it's about the catch-up and better utilisation driving returns? Or is there still a large kind of CapEx phase you have for us to think about? So I guess the real question is, when you think about CapEx to sales sub-10%, is there a blow out to that number which could happen?

Kabir Ahmed Shakir: On AI Cloud in specific, let me answer this way. We first went ahead saying we will put in 1,000 GPUs to start with and won't worry about revenue. Let's have customers come in, use it, even internal traction as well, of that usage internally on a lot of our products and a lot of our use cases that we are working on are all extremely promising. Once I have the 1,000 GPUs utilised fully by paying customers, we will invest more. Look, we are here in the business of driving growth and delivering our products and services and solutions to our customers. So therefore, now we are not going to not invest if we are having the customer traction. Obviously, we will not invest more GPUs if the first 1,000 are not getting utilised. And that cycle will continue per se. We are looking at 11% to 12% CapEx to sales is what I'm looking at as we see now, and that's the level that will continue in the near term.

Aditya Suresh: Thank you, Kabir. May I ask one more separate question?

Kabir Ahmed Shakir: Go ahead, please. Aditya.

Aditya Suresh: Just on margins, maybe, Kabir, so we're not going to try to, I appreciate that you don't split out the margin for Core Connectivity and the digital portfolio. But just given your disclosures around gross and net revenues and so forth, the broad sense that at least I was able to land at was that maybe you saw a reduction of losses in the digital portfolio by about 200 to 300 basis points. It's fairly material in this quarter. I'm not sure if you're able to comment on that assessment, point one. But it does seem that there was a reduction and losses in the digital portfolio. Was that scale or was that specific discretionary actions which the company took? And how should we think about that journey to breakeven? Is that a few quarters, a few years? How do you all think about that?

Kabir Ahmed Shakir: Yeah. I think good question, Aditya. I think it's a combination of both, and it varies business to business within the digital portfolio. There is an exceptional item that we have in PAT, and one of the reasons why that PAT dropped as well, that is to right size some of our businesses, including our subsidiary as well from an operating model perspective. So that is definitely one area. Plus we are also seeing businesses, I would say, getting the scale, although not all of them getting the level of growth that we would want them to. But they're getting, they're definitely better than what they were last year and in the second half of that. So it is going in the right direction. I would have liked the speed to be a little faster, but it is still going well. So it's a combination of both volume, resulting in operating leverage and us rightsizing our operating model.

Aditya Suresh: Thank you so much. All the best.

Kabir Ahmed Shakir: Thank you.

Sudeshna Patnaik: Thank you, Aditya. The next question is from the line of Vibhor Singhal. Vibhor, please unmute yourself and ask your question.

Vibhor Singhal: Yeah. Hi. Thanks for giving me the opportunity. Two questions from my side. One, Lakshmi, again, sorry to delve a bit more on the data centre thing. So I mean in the TCS conference call, I think the CEO specifically mentioned about basically the opportunities that are there in the Tata Group ecosystem. So to that extent, I know it will be difficult for you to comment on that. But I mean, at a broader level thing or let's say, at a very preliminary level of these conversations, what are we looking at as our role in this entire thing? Is it just providing the DC-to-DC connectivity that we're talking off? Or there could be a possibility of we taking a stake in that entity as well in terms of maybe having a stake in a data centre? We already have 26% stake in STT or will it be, let's say, partnering with other companies in that as well? Some clarity or some early indicators would be really helpful.

A.S. Lakshminarayanan: No. I can't give clarity when there is no confusion. So to be fair, TCS has made an announcement, which is an entity by itself. And as you rightly pointed out, we are also operating with STT. All I would say regardless, and I'm sorry to repeat what I said. We have a very strong proposition in the data centre connectivity space, and we'll continue to explore all opportunities and exploit all opportunities. We do have a strong cloud proposition and especially with AI Cloud and other capabilities that are there. So those are the areas where we would look for collaboration and expand what we do in the market.

Vibhor Singhal: Got it. Sure, Lakshmi. I understand, basically it's in very early stages. But also keeping in mind the entire, I mean, as you mentioned, the data centre capacity which should more than double in the next few years, and the kind of opportunity that we're looking at. Is there any basically thought on increasing, decreasing or selling our stake in STT data centre, or nothing on that sort, on the calls on that also at this point of time?

A.S. Lakshminarayanan: No, I can't. There is no such proposal.

Vibhor Singhal: There's no, in either direction.

A.S. Lakshminarayanan: In either direction. Yeah, we are retaining that is what we called out even this quarter, further investments to keep the 26% stake. I mean if there's anything that we would be coming to the market, but.

Vibhor Singhal: Got it. That's really helpful.

Kabir Ahmed Shakir: This quarter, before I just called out in my commentary, we have continue to invest in STT.

Vibhor Singhal: To maintain the stake.

Kabir Ahmed Shakir: I mean I know the questions that Aditya asked on, I know we have an ambition of ROCE. And if we invest in STT, it dilutes our ROCE. But we believe that strategically, that's the right thing to do for us to maintain our stake and it's the investment in the right space. So we're not getting swayed by short-term KPI things, while we are married to what we have said as the right markers for us to run the business, but we will not shy away from taking the right actions, even though in the short term they may be different to the markers that we have told the market.

Vibhor Singhal: Sure, Kabir. Since you mentioned about ROCE, let me basically ask you a question on that. So as you rightly said, these decisions are definitely good for the business from a long-term point of view, while they might be slightly dilutive or, let's say, from a very immediate or temporary point of view. I know we've basically, in FY23 we had given a four point guidance of doubling our revenue, margins, ROCE and leverage by FY27. Now we know the data revenue doubling will probably happen somewhere in FY28 now. But are we committed to those other three guidances that we have given in terms of margins, ROCE and leverage? Because this quarter, we saw the leverage also picking up, ROCE is also coming down. And margin pace, as you mentioned, maybe the pace of that pickup is not to the best of our liking. It's definitely growing, but maybe it could have done better. In terms of those three things, where are we? And do you think we will still be able to achieve them in FY27?

Kabir Ahmed Shakir: No. We mentioned that our ambition got shifted by a year from a data doubling point of view. The other three elements have their own time line with net debt-to-EBITDA coming to the under 2x range faster, ROCE followed within a year and EBITDA margins a year after. That's what we had said that we are working towards. Again, I will repeat, Vibhor. These are the right contours with which we do a strategic planning for our business. Now there are elements which are sometimes outside our control like the entire external environment in terms of interest rates and Forex, which like, for example, this quarter, we did not expect our net debt went up by INR 222 crore because of the Forex volatility that we've actually seen. We almost touched 90 as well, so we went to whatever 89.70 or something of that sort so. So we do have those external variables with which we are operating, which has an impact. Plus we are taking certain actions, which we do believe, I don't know if those will give the result to me within the FY27 time frame, if they give me the result within the FY27 time frame, we will hit the ball out of the park by that time. But each of the set of the actions, I mean, I would say the STT investment alone is almost 220 basis points of my ROCE, if that was not there per se. So we will not do anything wrong from terms of overall value creation for our shareholders because of these metrics.

Operationally, I mean, the investment decision that we take in our organic investments in the business, they are guided by these thresholds. So we run a business that way. But the corporate actions or anything below the line that we may take that we are taking in view of a longer-term strategic direction, that's how I would put that in. Short answer is, yes, we are married to it, but if it doesn't happen in a quarter or six months here or there, because of the corporate actions, which we are calling it out and letting thesStreet know well in advance because they are driven not by KPI, but they are driven by the right outcome for our shareholders.

Vibhor Singhal: Got it. Great, thanks Kabir and Lakshmi, thanks for taking my questions. And wish you all the best.

Sudeshna Patnaik: Thank you, Vibhor. The next question is from the line of Sumangal Nevatia. Sumangal, please unmute yourself, introduce yourself and ask your question.

Sumangal Nevatia: Yeah, good evening everyone. This is Sumangal from Kotak Securities. My first question is on the Core Connectivity revenue. Is it possible to give some colour as to what would be the contribution of DC-to-DC business today? And over the medium term, say, next three, four years, how big can it become given all the investment plans? And just from an understanding perspective, is there any thumb rule to work with respect to say, every 1 megawatt of DC plan, what sort of spend goes into Core Connectivity?

A.S. Lakshminarayanan: We don't have a metric like that to give. Also we don't have a metric to break out in our Core Connectivity how much is the DC-DC connectivity. Largely, it would be that, but, we can't break that out. Called out that one of the main drivers for growth in the Core Connectivity space has been, and this is not something new, we called out even three, four years ago, that we were pegging our Core Connectivity to grow in the low to mid-single digits and we deliver more like 5% plus. That came because of the large DC/-C connectivities that we were doing. And the AI is only adding that to the tailwind for further growth in the Core Connectivity space.

Sumangal Nevatia: Got it. If I can just ask one more. I mean given all the data centre investments which are being planned in the country and the associated requirements of land parcel, does it, in any way, boost our prospects of land monetisation, which we've been already doing? I mean is there any connect between the two which we should think in the direction of?

Kabir Ahmed Shakir: We are doing that independently anyway, Sumangal. Even this quarter, we had a small parcel of land in Kolkata that we actually sold, so ₹85 crore sale, gain on that is about ₹77 crore. We've declared it in our results. There are a few big land parcels that we have. And we have plans of monetising them in the next few years. If that happens to be within a group company, that will be within the ambit of related party guidelines. But we will maximise our value. We maximise that already with Ambattur, which we sold a few quarters ago. And I think the shareholders have positively benefited from the big gain that we actually got from that land parcel. So that is a separate parallel track that is running. And we've done a tremendous amount of work. I mean each and every land parcel needed work in terms of documentation and other issues that were surrounding it, which is coming in the way of monetisation. So we are working that completely independent of what it is. And I'm sure with these investments, as Tata Comm, we can only stand to benefit in monetisation of these parcels.

Sumangal Nevatia: Kabir, is it fair to say is the heavy lifting what we've seen last year already done and what lies in future is more of small land parcels or similar sizable opportunities are also there in the portfolio today?

Kabir Ahmed Shakir: No, I have two big land parcels, Sumangal, which are much, much bigger than anywhere else. Our GK land in Delhi and Chhatarpur is another one. So these are the two big land parcels from a value perspective, I have equally much larger one in Dehradun as well, but that's value-wise is not big. But value-wise, these two are very, very big, right? So they are not of the order of magnitude that we have seen in the past. Very much higher than that.

Sumangal Nevatia: Got it, got it. Thank you very much and all the best.

A.S. Lakshminarayanan: I think just to add on the data centre space, I said that we have a very strong position of the DC-DC connectivity in India, over 40% market share is what we have. And I also mentioned that we are exploring opportunities of DC/DC connectivity for enterprises internationally as well. So this area, and especially with our investments to make them more software-defined, on-demand products that we are adding to this, all of that will help us to further strengthen this portfolio for us.

Sumangal Nevatia: Understood, thank you. And all the best.

A.S. Lakshminarayanan: Yeah, thank you.

Sudeshna Patnaik: Thank you, Sumangal. The next question is from the line of Mayank Babla. Mayank, please unmute yourself, introduce yourself and ask your question. Mayank, please unmute yourself and ask your question. Mayank, we can't hear you. We will move to the next question in the queue. The next question is from the line of Sanjesh Jain. Sanjesh, please unmute yourself and ask your question.

Sanjesh Jain: Thanks, Sudeshna. I hope you can hear me. Thanks for taking the follow-up question. Kabir, just one small question. This quarter, and you have been doing this for the last few quarters on the staff optimisation. When should we start seeing this translating into margin benefit, right? Or these are reinvested in terms of getting better resources, which is more aligned to our current strategy? How should we see this staff optimisation? Because even in this quarter, we have booked close to Rs. 1 billion of that cost?

Kabir Ahmed Shakir: Yes. I mean Sanjesh, so you will see at least for this immediate benefit come through in the next few quarters itself. When we in the Investor Day talked about improving our Digital portfolio margin profile, I said it's made up of a few things. We are holding our leaders leading these businesses accountable for certain outcomes. Yes, we want growth, I mean, growth, growth and growth is the most important priority. But for some reasons, growths are getting pushed out, we are also saying get ourselves into a right operating model, so which is then scalable with that particular growth, that we are not carrying the cost too long until the growth actually comes.

So this is going to be a continuous journey. Hopefully not staff costs, not redundancies is not a continuous journey, but a continuous journey of us getting the growth and then investing more and then getting the growth and investing more, right? So this is a rightsizing that we have done for two of our categories, two of our businesses internally within Tata

Comm and for our one of our subsidiaries as well when we exited an onerous contract. That I'm assuming is only one-off and not going to repeat. But in Tata Comm, we will continue to, I would say, invest in people, continue to invest in the strategic bets. And of course, we will scale that up with growth as the market, but we will also rightsize our business as we get along. Short answer, hopefully, in our margin aspirations that we had called out for Digital leading in, this should help in the margin progression in the coming quarters.

Sanjesh Jain: That's clear. Just one follow-up on the margin, Kabir before I end my question. Last year you mentioned that we will at least do a 20% margin, which we did achieve last year. Think we will surpass 20% in this year, because first half, we are slightly below 20%. Do you think we will make up in the second half and we should cross last year's margin profile?

Kabir Ahmed Shakir: Sanjesh, there are a few headwinds which we had not foreseen when that ambition was set. The Red Sea cable cuts, which I would have seen more uptick in terms of potential revenue that we would have got, which would have been good because that comes at a different margin profile, a healthier margin profile. So we've been robbed off that with this, plus the cost associated with the repair of it, not all of which is already reflected in this quarter, which we'll come through as well. So there is one such headwind.

And I called out the TCR management compensation structure. It's not just the entire margin reset is not only on account of that, but it's also about certain cost elements that we believe will come through from a steady state perspective, both of which were not factored in. One is internal, purely internal, and one is external. So we are aiming to have better improvement trajectory on overall margins with data EBITDA margins driving that forward. Whether 20% or not, I can't give you an exact answer there, but we are all aiming towards an improvement over last year.

Sanjesh Jain: Fair, Kabir thanks for the answer and again best of luck for future.

Sudeshna Patnaik: Thanks. Thank you, Sanjesh. The next question is from the line of Mayank Babla. Mayank, please unmute yourself, introduce yourself and ask your question.

Mayank Babla: My first question is related to the Interaction fabric and specifically the CPaaS subsegment. This industry has gone through certain disruptions in terms of the whole movement from SMS to WhatsApp. And then I think from 2022 onwards, there was the whole fiasco about fake accounts and SPAM bots, which made clients reluctant. I have a three-part question to this. One is what is driving growth for you in this segment? Second, how should we look at growth for the years ahead? And third is, I think you mentioned that this whole shift from SMS to WhatsApp is benefiting your orchestration layer. I didn't quite understand that. So if you could help me on that, yeah.

A.S. Lakshminarayanan: Yeah, so Mayank, you're right. I think in the CPaaS business, which largely today is SMS, the market growth in SMS is in single digits. We are very happy and pleased to see a 12% growth in this business. Simply leveraging with the platform capabilities that we acquired in Kaleyra as well as the larger customer base that Tata Comm has. In terms of our strategy, called out that the growth of SMS, SMS will still continue, but the growth of SMS will not be as high as in the past years. But the other channels, notably programmable voice, RCS, WhatsApp and others will start to pick up, is what we had called out. And as people go to multiple channels, there is a need to orchestrate between these channels. So if we send an SMS and the customer doesn't respond, we will have a fallback channel automatically to our voice to communicate with the customer, or any other channel. So that is what we mean by orchestration. That is one layer of orchestration. But we are also building a lot more of AI and intelligence through agentic AI and voice AI and journey orchestrations at the top layers, which brings a lot more of context. So when people switch between the channels, the contact centre agent, for example, knows exactly what happened in the communication, the earlier channels, handing over from a voice agent, a human agent to voice AI or other way around.

So all of these involve very intelligent orchestration, which is what we are working on. So that's the direction and investments that we are making.

Mayank Babla: And this rate of growth will be sustainable in the years ahead?

A.S. Lakshminarayanan: That is what we are calling out and that is where we see the markets, that we are very optimistic about exploiting these opportunities.

Mayank Babla: And my last question would be, I know you had given some clarification to Sanjesh earlier, but on the order book. So the first half is that we've seen a flattish order book. Is that purely a function of base effect? Or are there some other headwinds? And second, what is giving you the confidence or visibility for that order book revival in H2? Thanks.

A.S. Lakshminarayanan: Yes. As you've said, it's a base effect. In Q1 and Q2 of last year, we had a very good and large order booking that we had. This quarter, order booking is quite decent. It's much above the previous years, but lower than the Q2 of last year. So we don't have any major concerns on the order book at all. Our funnel is also very solid. We called out that our order booking in international markets have grown, our enterprise segments have grown. We called out that we can't predict the order booking for H2 because it's a function of many things. But what we are saying is because of the order bookings that we have done and some of the revenues are back ended from those order books, we are saying that, the H2, we should see some acceleration. So that is what we called out and mentioned.

Mayank Babla: Thank you so much and best of luck.

A.S. Lakshminarayanan: Thank you.

Sudeshna Patnaik: Thank you, Mayank. The last question is from the line of Amit Maskara. Amit, please unmute yourself and ask your questions. Amit, we can't hear you. Please get in touch with the Investor Relations cell and we can get your questions answered. Thank you, everyone. This brings us to the end of the Q&A session. I would request Lakshmi to please share his closing comments.

A.S. Lakshminarayanan: Thank you all. We're very encouraged by growth in our digital business. And as I mentioned, some of the new products that we announced are seeing good reception and traction in the market. We will continue to invest in these areas and exploit the opportunities available both in India as well as in the international markets. Thank you.

Sudeshna Patnaik: Thank you, Lakshmi. This brings us to the end of the call. In case of any queries, please write to investor.relations@tatacommunications.com. Thank you for joining the call and you may disconnect your lines now. Thank you.

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