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Q3 FY2021 Earnings Webinar Transcript

MAIN SPEAKER:

AS Lakshminarayanan, Managing Director and Chief Executive Officer

Kabir Ahmed Shakir, Chief Financial Officer

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Vipul Garg:

Good afternoon everyone, and welcome to the Tata Communications earnings conference call. We are joined today by our MD and CEO, Mr. Amur Lakshminarayanan, and our CFO, Mr. Kabir Ahmed Shakir.

The results for the quarter ended 31st December 2020 have been announced yesterday, and the quarterly factsheet is available on our website. I trust you would have had the chance to look through the key highlights. We will commence today's call with comments from Lakshmi, who will share his thoughts on the business and long-term outlook, followed by Kabir, who will share his views on the financial progress achieved.

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

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

A.S Lakshminarayanan: Thanks Vipul. Good afternoon, everyone, and thank you for joining us today for the Tata Communications Q3 & 9M YTD FY21 earnings webinar. Wishing you all a Happy New Year and I hope all of you are safe and healthy.

Firstly, let me welcome our new CFO, Mr. Kabir Ahmed Shakir to the family. Kabir is a global finance and business leader with nearly 3 decades of leadership across diverse industries and geographies. He was the CFO at Microsoft India before joining us here. Before Microsoft, he spent 23 years with Unilever where he built his leadership, finance, and business acumen through diverse leadership roles across the globe. Kabir is also an angel investor, a board adviser, and a mentor to many startups. We are very excited to have him on board and confident of his leadership skills, to help us realize our vision of becoming the global leader in enabling digital ecosystems.

Coming to this quarter, we witnessed a stable quarter during these tough times, while our revenue growth was a little lower than expected, our profitability continues to be robust. Our long-term growth outlook remains strong, we continue to execute on our strategy, and we are on track to achieve our stated objectives. We have made good progress. Profitability, and cash flow generation of the business has improved significantly in the last few quarters. Cost optimization measures have started to yield results and savings have been banked. EBITDA for the quarter was at INR 1,046 crore, witnessing a 37.5% YoY growth. Profit for 9 months of this financial year is INR 951 crores translating into an EPS of INR 33. We have witnessed a 5-fold jump in our profit as compared to same period last year.

Revenue for the quarter was at INR 4,223 crore and was flat on a YoY basis. As communicated earlier, Q3 is a seasonally weak quarter, but revenue growth for our Data business was impacted due to various reasons and I will explain them in detail during this call.

1. There is an aspect of seasonality - Usage-based revenue is lower in Q3 due to holidays in the season. Growth Services, where a large part of the revenue is usage-based, were affected this quarter.

2. COVID related weakness –

  a. Within Growth services, Media and Mobility businesses were affected by COVID. While in Media, we have started to witness a recovery with the resumption of sporting events and travel, it is still lower than the pre-COVID levels.

b. On the Mobility, we have been impacted by lower roaming as well as by lower usage, where we have some of the customer segments like airlines, where usage has been low. Delivery of order book was slower due to imposition of lockdown in few countries in Europe. We also witnessed some churn from the customers due to consolidation in their offices and rationalization of bandwidth, which we believe is temporary and this will pick up again.

3. Specific Events – Increased IUC charges for India termination imposed by the regulator has adversely affected us and we witnessed some volume churn in enterprise voice. We believe this volume churn is now largely complete, and the future impact will be minimal. We were also affected by ban on Chinese OTT players in India, as some of them were our customers.

A mix of all these factors led to a slower revenue growth in Q3, but our demand outlook remains robust, we expect recovery and acceleration in coming quarters.

I will now talk about the product segments and the opportunities that we see ahead.

Networks continue to be our biggest portfolio and strength; we have a dedicated enterprise-grade global network suitable for large multinational enterprises operating in multiple geographies. All our network elements such as NLD, Metro Area network, Wireless access, and DC to DC connectivity have been made future ready. All new platforms and technologies being deployed in the network are designed to make the network more intelligent and programmable. In the cloud-first internet-first era, we believe the network will be the common thread that will hold complex IT architecture together and the importance of networks will increase manifold. We are witnessing a trend where going forward private networks will be replaced by mix of internet and hybrid networks. We are actively participating in this trend through our offerings like IZO WAN and the variants of IZO which we are about to launch, as well as other hybrid connectivity platforms. We are also actively participating in the growth of Cloud and Data centres by providing dedicated DC to DC connectivity corridors. Our IZO WAN and internet revenues have grown by healthy double digits on the back of these trends. Overall, our Traditional services revenue has grown by 6.0% YoY.

Next, is Unified Conferencing and Collaboration, which is another focus area for us. During these pandemic times, we have all witnessed the importance of Collaboration platforms. There are 3 components in this portfolio: 1) deployment and management of collaboration apps like Teams, Webex, etc. 2) Cloud-based contact centre solutions and 3) SIP Trunking. While we have witnessed strong growth in the first 2 segments, our SIP trunking segment which is largely usage-based has been affected. In SIP, we earn revenue when our dial-in numbers are used to join conference calls, and due to lesser travel and people working from home, where people use the internet, this segment has been temporarily affected. This segment was also affected by seasonality as well as IUC increase which I referred earlier. We believe that this segment will revive as the economy opens. Our consolidated UCC portfolio grew by 7.0% YoY.

In this portfolio, we are also relooking our platform story and business model in this space. We are targeting fully managed UCC deals where the fixed revenue component is higher than usage-based revenue. In Q3, we won a large UCC deal from a Fortune 500 company which is one of the market leaders in Building Solutions having operations in 150 countries and more than 100,000 employees globally. Our fully managed solution will help the customer to transform their on-premises legacy voice infrastructure into a Cloud platform using Microsoft Teams and enable PSTN calling for 26,000 users from their laptops and phones instead of hard desk phones as in the past. On successful delivery of the platform, our customer will benefit from the lower fixed cost, superior user experience, reduced hardware footprint, improved mobility of Work from Home users, and a secure cloud calling platform. We are witnessing a trend where enterprise voice traffic is gradually moving to cloud based calling, and this gives us an opportunity to comprehensively address the Cloud communication needs of our customers. We continue to work on our UCC and CPaaS offerings where we will be introducing many new features and innovations in the future.

Customers have been rapidly adopting the cloud applications and migrating workloads and applications from in-house Data Centers to clouds. At the same time working from home has disproportionally increased the attack surface of organizations, as endpoints and traffic flows have moved beyond the secure perimeter of the office network. This is the reason why Cloud & Security is a big focus area for us.

Our IZO private cloud is a fully managed platform that enables enterprises to integrate, manage, and control their distributed IT environments, with ease, consistency, and better control. Our cloud has integrated security which protects infrastructure from unauthorized access and threats. Along with that, we partner with large public cloud providers like Azure, AWS to orchestrate multi-cloud setups, simplifying the management and monitoring of the most complex cloud environments thereby enabling a unified cloud experience. Our Managed Security portfolio has evolved into an end-to-end security services portfolio across all stages of customer maturity. Our security offerings draw on the best practices from industry-leading frameworks to support organizations as they build robust, future-ready cybersecurity programs.

This quarter, our cloud revenue growth was a little subdued due to slower deal conversions in Q1 and Q2. For both Cloud & Security, there has been a shift in the mix; contribution from pure resale of public cloud or equipment which is a low margin business versus the share of fully managed hosting and security solutions leading to a better quality of revenue and margins. This is helping us achieve our goal of profitable growth. Our Cloud Hosting & Security portfolio grew by 8.6% YoY, and within this our Security services grew by 29% YoY. For both these products, we have a strong funnel, and the opportunities are expanding.

In Q3, we won a large complex one of its kind Network, Cloud, and Security deal from one of the leading mineral and mining companies in India. All major enterprise applications like SAP, will be moved from an on-premises data centre to a fully managed cloud including our IZO Private Cloud and HANA Grid. This will be one of the largest HANA deployments in India. We are also providing disaster recovery solution through replication of cloud, connectivity to cloud infrastructure, and an overlay of security. Along with that, the customer will get a single pane of glass through our IZO command to monitor applications, connectivity and multiple could environments in real-time. This is a good example of Digital transformation that will help the customer to bring agility in its business operations along with complete visibility on infrastructure and SLAs.

Forward-thinking enterprises have already incorporated process automation, IoT, and AI into their digital planning. The past few months have magnified these opportunities and several new use cases for mobility and IoT have emerged.

Mobility and IoT will be the future growth drivers for us as we continue to scale our offerings and look at new use cases. This portfolio has been affected by COVID-related slowness. For our MOVE offering, we are working on 3 major areas:

1) Airlines – we have already signed up a few large customers, but this business segment continues to remain affected due to COVID related restrictions.

2) Auto OEMs – we have started to see some recovery in this segment but the scale-up in volumes is still slow. We have recently signed up some new Auto customers and we expect them to scale gradually over the next few quarters. We are optimistic about growth in this segment.

3) Semiconductor and Industrials – This is a new segment that we have launched recently, and we are excited

about the opportunity ahead. We are collaborating with Micron Technology to create a worldwide cellular-enabled connectivity solution that will simplify and accelerate the large-scale global deployment of IoT devices. Our Global Mobility solutions will offer a pervasive, end-to-end offering for the zero-touch onboarding of connected IoT devices to cloud services across 200 countries and territories, backed by our relationships with 600+ mobile network operators worldwide. The solution will unleash innovation in the expanding IoT services ecosystem, which is expected to grow in the future. The solution will enable highly scalable IoT security, seamless global connectivity, on-demand cellular-enabled subscription, and pay-as-you-go flexibility.

This quarter we have acquired a controlling stake of 58.1% in Oasis Smart SIM Europe, a French-headquartered e-SIM technology provider. Oasis develops and provides advanced technologies and personalized services to enable the deployment of eSIM and SIM technologies. With this investment, eSIM technology will be fully integrated into our MOVE platform, enabling an end-to-end embedded connectivity solution, and strengthening MOVE as a single-source platform for global enterprise mobility needs. We will create and accelerate the product roadmap, R&D while Oasis will leverage and amplify the growth in the mobility and IoT markets.

Momentum from our enterprises business is maintained and showing an upward trend. We have witnessed a healthy year on year increase in our order book and funnel. For our SCDX solution, we are extensively working with customers both in India and internationally across Banking, Retail, and Automobile sectors with interactions at various stages. We expect to close a few of these proposals in the coming quarters. We have formed a Global Service Design hub in India to support deals globally in a hub-spoke model and to enhance the underlying service processes. This is helping us to work on large complex network transformation deals, and due to these capabilities, we are now able to participate in deals where we were not participating earlier. We are actively engaging with our customers and working on a few large multi-country, multi-product deals. We are witnessing early signs of pick up in enterprise demand, but large deal conversion is still taking longer than expected. And as I said, we have a strong funnel.

We have reimagined our role to be a digital ecosystem enabler, in-line with this strategy, we recently reorganized our product organization into 3 separate business units, focusing on 1) Global Technology, Network & Operations, 2) Mobility and Collaboration, 3) Cloud, SDWAN, and Security. Each unit will be headed by a senior leader, reporting to me. This will help us to strengthen our focus on solving customer problems and engage deeper with them to deliver a seamless customer experience and bringing the necessary leadership focus from within our company. Our customer conversations are now more solution and services led and stitching our products together to address customer and market trends and needs.

To conclude, we are witnessing a digital transformation of businesses globally; cloud-first internet-first strategies have become an integral part of the enterprise network and IT architecture and we see this current situation as an opportunity and we are investing in all of the areas as I have alluded in my earlier remarks, and we are fully geared to leverage and capitalize on this opportunity.

With that, I will ask Kabir to take you through the financial highlights. Thank you.

Kabir Ahmed Shakir: Good afternoon, everyone. It is indeed my pleasure to talk to you for the first time. Thank you once again for joining us today on our Q3 & 9M FY21 earnings conference call. Let me just take you through the details while Lakshmi has briefly touched upon our financial performance for the quarter.

We rolled out our new strategy at the start of this fiscal when the pandemic had just hit us. No one anticipated the challenges and impact of this global crisis. As a company, I am glad that we have been resilient and agile. We have relooked at our processes, optimized our costs, reorganized our business and product strategy to cater to the changing demands and needs of our customers, and the journey continues. These changes reflect in our numbers too. Both business and financial parameters are tracking in the right direction. The demand outlook and the conversations we have with our customers give us the confidence that we are on right track.

Our Consolidated revenue for the quarter came in at INR 4,223 crore, which is just about flat on a YoY basis. Voice business declined by 16.6% YoY due to lower traffic; Data business grew by 3.8% YoY and compensated for the decline in the voice business. Q3, as Lakshmi mentioned, is typically a weak quarter from the seasonally point of view and our data business revenue growth was lower than expected due to the reasons that Lakshmi outlined earlier.

New deal conversion is still taking longer due to uncertainties in the business environment, but we are witnessing early signs of recovery. The demand outlook for our products and services is robust and we have a healthy order book and funnel. As we win new deals and execute our order book, we expect our financial parameters to accelerate in the coming quarters.

There has been some softness in revenue, but our profitability continues to be robust. As Lakshmi mentioned, we had taken a lot of cost optimization measures in the last few quarters and the results are visible. Our EBITDA margins have significantly expanded. During this year, we banked structural cost savings of INR 100 crore per quarter. The employee mix between India and International has been optimized to achieve the right operating structure which helped us in delivering a good manpower cost efficiency. Along with that we looked at our processes, sourcing policies and brought efficiencies in other line items as well. This is an ongoing process, and we aim to maintain agility in our cost structure to compete effectively in the market.

Consolidated EBITDA for the quarter came in at INR 1,046 crore, witnessing a growth of 37.5% YoY with a margin of 24.8%, resulting in an expansion of 680 BPs over the same quarter last year. Sequentially, there has been a decline in EBITDA; you would recall we had called out a one-off gain of INR 43 crore in Q2, last quarter. This quarter EBITDA was also affected by timing difference in our Voice business of some revenue being booked earlier, the cost of which reflected in this quarter. This led to an impact of INR 31 crore on the EBITDA in the current quarter. For the last 2 quarters, we have been getting a cost-benefit of around INR 50 crore per quarter due to COVID-related lockdown. As the economies have opened up, some of this benefit has started to go away and costs have started to normalize. Some of the business-related expenses that were held back due to COVID are now being released, due to which you see the impact on EBITDA in this quarter. In Q4, we expect these costs to come back at a normalized run rate. We have an extensive submarine cable network across the globe, and this network is affected by vagaries of weather, wear and tear, and cable cuts regularly. There have been some cuts on some of our routes and we will be doing the repair along with regular maintenance in Q4, and consequently, we expect some of these costs to come up in Q4.

PAT for the quarter was at INR 309 crore, witnessing a healthy increase of 428% YoY.

Within Data, Traditional Services continued to witness robust growth. Revenue grew by 6.0% YoY on the back of strong demand across all segments of customers. We saw very strong growth from OTT and Enterprise customers due to the trends around Cloud adoption and digitization.

Growth Services revenue grew by 2.6% YoY, which has been lower than expected. Seasonality, lower usage-based revenue and slower deal conversion affected the growth. Some of our businesses like Media and Mobility have been affected by COVID. These businesses have started to recover but the traffic is still lower than pre-COVID levels. Current quarter growth was low due to multiple reasons and is in no way reflective of our long-term business outlook. As we win new deals and execute them, we expect the situation to improve in the coming quarters.

Free Cash flow generation trend has been robust and consequently, our net debt has come down to INR 7,972 crore, a reduction of INR 659 crore over Q2. Net Debt to EBITDA is now at 1.9x as compared to 2.9x a year back. Oasis investment that we did during the quarter is part of our annual cash flow forecast. Weighted average cost of debt for Q3 was at 2.88%.

Capex for the quarter was at INR 339 Crore as compared to INR 490 crore in the same quarter last year. Our capex spend is within the range of capex outlook given at the start of the year.

Trailing 12 months ROCE significantly improved to 21.1% as compared to 10.1% in the same quarter last year.

In conclusion, Data business continues to drive our overall business growth along with improving operational efficiencies. The company's financial performance has been very healthy, and profitability and cash flow generation are constantly improving with every passing quarter. We are optimistic about the opportunities ahead and we have the right structure in place to capitalize on these opportunities.

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

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

Sanjesh Jain: A couple of questions on my side to some of the things. Lakshmi you tried to explain, but still. The expectation for the revenue growth was to accelerate with easing of lockdown and stay strong sales funnel we have achieved in Q1, which you mentioned was highest in past two years. So I don't understand the slowing revenue growth. I'm talking purely Y-o-Y basis, I understand quarterly there's a seasonality, but I think on a Y-o-Y basis, it would be a fair comparison. So, what is the bottleneck what we are seeing from a sales funnel translating into a revenue growth? That's one. I will just ask the three questions all the three are related so you can comprehensively answer them. The second one is on the Growth services, particularly on the others part, which include some of our marquee products where we have trusted hopes on our future growth, which is security services, IZO and cloud. That again on a Y-o-Y basis, it's disappointing to see such a low growth on such a low base. Now, if you compare the same with the Cloud service provider or a software as a service company in the US, they have been delivering, high, double digit and triple digit growth and we are just starting here. I thought this is an exciting opportunity and there's a huge addressable market for us. But revenue deceleration of that magnitude probably was not expected. On an overall basis, if you can help us understand how it works from sales funnels to order books and the visibility on GDS revenue growth. So, this is my comprehensive question on the revenue, and it would be helpful if you can share some thoughts.

A.S Lakshminarayanan: Sure, Sanjesh, let me look at the revenue part first. We have been saying that there is a strong funnel and I did mention that we had the highest funnel add as well. Now, firstly, one of the things I would like to point out is that our order booking Y-o-Y is growing, our order booking has grown Y-o-Y. Now, what has compensated on the translation of that in the revenues? One is the loss of revenues in certain areas that are highlighted, right, in terms of, you know, in the in the Mobility space, due to the roaming and Mobility space, the airlines business revenues going away. And some of that in the collaboration space, there was this slowdown as a result of, especially last quarter on the IUC charges related impact. Now all of this put together is what is causing you to see the year-on-year slowness in the revenue growth in some of these segments. But our order booking is definitely better. Order booking has year on year grown. That's how attrition in the revenues that I called out, has net-net affected our growth and the revenues. Secondly, if you look at our order booking, our funnel, there are some larger deals, and I alluded we are participating now in larger deals and more complex deals, which we would not have participated earlier. So, we are participating on those things and frankly speaking 1 or 2 deals in

Europe and the US geographies, we came to a very close second, but we didn't make it. But there are huge learnings and the result of that, we are able to sharpen our IZO portfolio, our IZO WAN portfolio, right. Now it is available in a lot more markets in the international and we believe the offer will become even more stronger. So, I think the quality of what we are seeing in our pipeline, and the nature of deals we are seeing in the pipeline is different from what we used to have. So that is one, and internally, there is a change that we are doing, as we said, you know, working through with the sales and solutioning team, all of these are changing within the company. And I think while we might have lost a couple of deals and there is slowness in conversion of some of these larger deals, I feel very confident that our offering is getting only sharper, our capability to win this in future is improving, and our ability to address a much larger segment and therefore able to convert these in future is only improving. So that's the color on the pipeline. And some of the one-off impacts that we have had on the revenue, which has caused the slowness That's the combination of these two that has affected us.

Sanjesh Jain: That’s very helpful, Lakshmi. Just one follow up question on the funnel and some of the deals, which we just missed. What led to this miss? Was it a superior offering of the competition or a more aggressive pricing, or we lacked the reach? What do you think in your sense made us to come second or else we would be number one?

A.S Lakshminarayanan: So, I'll give you an example. So, some of the, probably the largest network transformation in the past would have involved, obviously multi region, multi country, but about 600-700 sites. And one of the deals we were working was involving, you know, 10 times more than that. And I think we put up a very, very credible show there, in coming second, the incumbent won there; and the reasons might be more of the comfort of the incumbent. And secondly, in the international market, the nature of the deals are shifting to a lot more of internet, which is also what I alluded to in my commentary and which I spoke about in our strategy. Previously from private MPLS network, it is going to shift to the Internet, and we believe and there we are not encumbered by not having our own capillarity and network in the international market. While we do have the international connectivity. In region, we are able to work with multiple providers and stitch together our IZO WAN proposition. And that IZO WAN proposition is getting sharper now. And we are introducing multiple variants as a result of us participating in these deals, we are able to sharpen our proposition a lot more. The third is, we introduced our service wrap only a year ago, while we had some early successes, we are going through the learning of, how do we position this effectively with customers, as opposed to offer a simply a wire service of connectivity. So, all of these are major changes within the company, and we should not overlook these transformations that we are doing within our company. And at the same time, the changes that are happening in the market, but all I can say is, you know, we are participating, and we are sharpening these. And it only gives us the confidence that we'll be able to participate, and the white space is much bigger in this space.

Sanjesh Jain: Just one follow on question, the last question from my side on this. Does having lower on net in US and Europe geography particularly under terrestrial fiber, do you think that could be a big bottleneck for us in winning a large deal whereas the incumbent or probably a local player will have a larger presence and hence, larger on-net traffic. Can that be a bigger challenge for us in terms of selling or winning a lot of these large projects?

A.S Lakshminarayanan: Yeah, I mean, that that used to be the case, but as the customers are moving to internet, I don't think that would be a big bottleneck for us, and that is an opportunity that we have.

Sanjesh Jain: Okay, so that is what is happening for us. So, more Internet means much faster expanding addressable market for us. Is the right way to look at it?

A.S Lakshminarayanan: I would think so. I mean, it's not going to be easy, as you know, we are in a challenger position in these markets. But the opportunity is available and as we sharpen our IZO proposition, and we are also sharpening the security overlay on top of this IZO proposition. It will really put us in a stronger position to participate in such deals much more solidly.

Sanjesh Jain: One more question on a different line, though. TCTS, again we talked about turnaround in FY21. That looks like it's getting pushed out. What's happening on the TCTS. That's one question.

A.S Lakshminarayanan: Yeah, no, I think TCTS is getting pushed out. I think we alluded to a couple of contracts, which had caused us problems. And one of the contracts we had gotten out of, and the other two contracts are in execution. But partly one of the international contracts that we had, partly due to COVID, we ourselves had difficulty in transitioning in terms of moving people out of international locations back to India and so on. And secondly, the customer's volumes were also not as much as we had anticipated at the time of contract. So, these have led to the slowness of revenue while some of the costs were committed for these contracts. We believe, again, in the in the medium to long term, I believe this business has good potential and prospects. We have some capabilities, but we need to give it some more time to turn this around.

Sanjesh Jain: Got it. Just two bookkeeping questions, Kabir. One is on the INR 500 mn cost saving. Because of COVID, the run rate was there for last 2 quarters, this quarter you said that it has slightly normalized. If you can just quantify that what is the kind of benefit we had in this quarter, that's one. Number two on the tax rate, I had this particular question, even in the last quarter and Pratibha said that 20% tax rate… But it looks like our tax rates are falling, which was logical as even I then thought, because we had a lot of accumulated losses that should result in a much lower tax rate for us. So, if you can just make us understand how to look at tax rate for next 2 years, that will be very helpful. Thank you.

Kabir Ahmed Shakir: Thanks, Sanjesh. Let me look at the benefit that we had of INR 50 cr per quarter. We've been getting that even this quarter. This quarter, what we basically did was look at line item wise and what are the costs that we need to take the lid off. We were in an uncertain situation, so a lot of costs on marketing and internal training, internal people cost, we had actually put a stop to. Some of them, which we need a right momentum for us to start in Q1, those are the costs that we've actually lifted the lid on, so that we can allow them to be spent as the as the economy opens up. But we have been very, very watchful of that, that it is direct costs that are very clearly related to driving revenue growth. So, that's where we're coming in from. Answering your question on effective tax rate, you're absolutely right. This is a mix of, as our international business starts delivering more profit, you'll just find that we end up using the accumulated losses there and that ends up in our effective tax rate actually, coming down, which is what you actually see in this quarter. We would still stick to that range of, I think, 20-25%, which we had mentioned earlier. So, we would stick to that that range as we try and see how the world is going to really going to come out of COVID. If you ask me with the wave 2 happening and what the spread is going to be across the world, we still have a plan A, plan B and plan C. So, I would stick with our normative level if international operations profit does go up, then it is simple mathematics that you will see the benefit until we utilize the accumulate losses.

Vipul Garg: The next question is from the line of Naval Seth of Emkay Securities. Naval, you may please ask your question now.

Naval Sheth: I have two questions. First, as there are early signs of recovery, which are visible. So now, how far are we to full recovery in revenue and whether it is Q4 end or next quarter or H2 of next year? How far are we assuming, whatever the current condition of lockdown we assume in UK and Europe.

A.S Lakshminarayanan: I think we can't obviously give guidance for Q4 and ahead from a revenue perspective. But my commentary was more about the business opportunities that we see with customers, accelerating their digital transformation and our ability to participate in those transformation projects. And as I said the funnel…

Naval Sheth: Sorry to interrupt, but I don't want guidance. But my only question is that by when one should see recovery happening based on whatever signs you are seeing right now, for deals which are in pipeline.

A.S Lakshminarayanan: Recovery in the sense, our enterprise business has still grown even with YTD and Y-o-Y. And our Data businesses, YTD has grown quarter on quarter while YoY is lower. So, I'm not sure what you mean by recovery, if it means that... if the company has seen a Data growth in the past of 6-7%, and for us to come to that level I am quite hopeful that it will happen in the next few quarters.

Naval Sheth: Second question is on Capex. So, Capex spends are quite low, so if we look at first few months, as compared to the annual guidance. So, any thoughts there? Are you expecting that guidance to be lowered or we still maintain that INR 1700-1800 crores or USD 200-230 mn of Capex expense?

Kabir Ahmed Shakir: Yeah, let me take that. We had taken a call as a management at the beginning of the year when COVID had unfolded that we didn't know how revenue would come up. So, a lot of Capex we had actually put a stop to. So, you see that reflection of our Capex numbers is the conservatism that was there with the uncertainty around it. In Q4 traditionally, Q4 is a slightly stronger quarter in terms of our capex spends, and that's what we expect to… it should bounce back up and that's what we do. But we will continue to be watchful of how the situation unfolds, and we have a very rigorous and tight discipline against Capex approval and spend and we will continue to maintain that. But you should be able to see for the next quarter, the Capex level inching up. It should not be at the same level that had been there in the past.

Vipul Garg: Thank you Naval. The next question is from the line of Vimal Gohil of Union Mutual Fund. Vimal, you may please ask your question now.

Vimal Gohil: My first question was on your UCC portfolio. What portion of your UCC portfolio will be in SIP trunk and what will be the rest of the portion, which is probably growing at this point in time? Just wanted to understand the magnitude of SIP which impacted us this time around.

A.S Lakshminarayanan: So, we don't give disaggregated information on the three segments that I called out for SIP trunk, the platforms and the others. But SIP trunk is a fairly large part of the UC portfolio now. So roughly about two-thirds. And that is a commentary that I gave, and that's the segment that had got impacted due to the reasons that I talked about.

Vimal Gohil: So, the outlook in this particular SIP trunk is, what is the outlook there? I mean, if incrementally people are going to move towards more platform? How does this impact the SIP trunk portfolio?

A.S Lakshminarayanan: So the SIP trunk portfolio, the global studies and analysts have said that, it's likely to grow anywhere between 7 to 11% and the segment to whom we sell, we already, offer SIP trunk but a large part of our customer segment is the large Cloud service providers, like the Cisco, Microsoft and Zoom, and the other segment is our enterprise segment. As this Cloud play becomes more and more dominant, and we provide the SIP trunk to the cloud services providers, we'll grow and accelerate and we have a strong proposition for the enterprise segment as well. Our SIP trunk is hugely differentiated by our ability, with our fraud management capability as well, which many people acknowledge that we have the most advanced fraud management capability. So that, and I also talked about we re-looking this entire portfolio on how we should look at the platform. So, we build APIs so that these can be directly integrated with applications. We are launching more intelligent monitoring tools. As people join on these collaboration platforms many a times, it's difficult for people to know why something is not working. As I said, the most famous phrase was "Am I audible?". People can't say things, presentations don't come up after the things freeze. So, when they are in large meetings in an enterprise setup, how can we offer an end-to-end service that will deliver us a superior experience and for that, you need more intelligent monitoring tools, which are the ones that we are working on and which is going to get launched. So, we are re-imagining this portfolio, and we believe that we will have an attractive proposition to not only the Cloud providers through our GSIP trunk, as well as the fraud management capabilities, we also have a strong position to the enterprise segment as well.

Vimal Gohil: Just to be sure the SIP trunk is the one which you called out which allows you to connect to any platform through conference calls through a phone number, right?

A.S Lakshminarayanan: Yeah, that's right.

Vimal Gohil: Another point that is for Kabir, out of our total cost mix currently, because that has undergone a very, very significant change over the last 3 quarters. What would be the proportion of fixed and variable cost at this point in time? For the 9 months, or if you can also give me the number for Q3.

Kabir Ahmed Shakir: Well, the way in which we call gross revenue and net revenue, most of our product costs, that are actually involved goes already between gross and net. So that is directly variable to the revenue that we actually get and we're trying to maximize our gross margins there. Thereafter, between net revenue and EBITDA, most of our expenses are largely fixed in nature. And as the pandemic grew, we had taken calls. One of the bigger calls, even before COVID hit, was we looked at our employee mix and if you're a global organization and a digital organization, we could deliver those services being anywhere and so therefore we came to an optimal mix of the right level of people that we need in those geographies to those who can actually operate from other geographies. So that was again a fixed cost, which we tried and shared and brought them on an optimal level. Thereafter, I would say a large element of our costs that sit there are indeed fixed costs.

Vimal Gohil: So, basically, what you're saying is the difference between the gross and the fixed cost would most probably be the network cost regular in nature. Rest everything else is fixed, including salaries and other Opex. Would that be right?

Kabir Ahmed Shakir: Yes, that is correct.

Vimal Gohil: Okay, sir just one more question on Oasis. If you can just help us revise what was our investment and what is the kind of revenue and EBITDA that it actually generates?

Kabir Ahmed Shakir: We have provided what investment we have made to the notes to accounts. So you'll be able to find the details already indexed. Yeah. So, I think USD 4.5 mn is what we have actually put in there. So that's the money that we actually paid. We'll get to revenue and EBITDA. We don't want to disclose that for individual lines of businesses, we didn't acquire the business for the independent, you know, what it generates, but what the synergistic effect that it actually has on the MOVE portfolio in totality. So, I would be doing disservice to Oasis to quote that in isolation.

Vimal Gohil: So we also… most of the IT services companies, your sister concern TCS talk about their whole opportunity that they see in Cloud. I just want to understand, what is the difference when a TCS or another IT service provider gives cloud-based services and how is Tata Communications providing these services? I just want to understand the difference over there. What is IT services player doing there and what is Tata Communications doing there, in Cloud.

A.S Lakshminarayanan: Let me tell you what we do, or what we don't do. We are not in the application space, and we don't build applications for Cloud and others. Essentially, we offer the infrastructure and platform as a service. And our strength, and this Cloud offer is largely for India. Of course, we have extended the Cloud offer for select customers, the Media and others in international, and we have co-location services in international markets as well, but purely as a Cloud offer, we are focused on India market. And there, our offering is helping our customers to choose the right Cloud solution, to migrate their applications to the cloud where we have a very strong IZO private cloud proposition, and I gave an example of how the upgrades… and we actually have 2-3 customers already migrating their SAP HANA workload to our IZO private cloud. And we deliver the multi-cloud, so we enable customers for the private Cloud, and the public Cloud to coexist and through our IZO commands, we offer a single pane of glass to manage this infrastructure. That's the service and we bundle this with security as well as security is a very strong requirement as people move to cloud.

Vimal Gohil: So, what will be the fundamental difference between infrastructure services provided by IT services and the infrastructure services provided by Tata Communications?

A.S Lakshminarayanan: I think in the space in the cloud, I would say we very much offer the same thing. It's just that other players, I think are more focused on international markets. In the cloud, you know, we are very focused on India market.

Vipul Garg: The next question is from the line of Sandeep Kothari of East Lane Capital. Sandeep, you may please ask your question now.

Sandeep Kothari: Two questions. One is today's newspaper talked about the OFS by the government. Once the government holding comes down or is gone, does it make a difference of how we operate the company, or what our long-term aspirations are, and does it does it make any difference or there's no difference?

A.S Lakshminarayanan: No, in terms of how we operate, I don't think there's going to be any difference. They have been on the board. They've been very invaluable shareholders for the company. So, in terms of how we operate on a day-to-day basis, there is not going to be any difference.

Sandeep Kothari: The second question is that is the SMB opportunity in India a big opportunity for Tata Communications? Do you see that as a large opportunity, or is it really the large enterprises, which will be our customer base?

A.S Lakshminarayanan: Yeah, I think we are focused on large enterprises, but our go to market universe comprises of, and the definition of large and medium is a grey zone. So, we have a target segment in India, which is fairly large. And we believe that segment requires a unique way of addressing, and within the enterprise segment, we are internally we have 2 ways of taking it to market. One is through our sales teams and direct touch, and another segment is through what we call as a phygital model, where we have regional presence, and largely sold through traditional channels. But for a particular deal size and complexity and customer institution, we have regional owners who are in touch with those customers. And I think these two segments have slightly different characteristics. And that's the reason why we are servicing them in this work. But all of these segments have huge potential for growth in all of the product and services we have.

Vipul Garg: We will take the last question from the line of Dipan Mehta of Elixir Securities. Dipan, you may please ask your question now.

Deepan Mehta: Sir you spoke about a lot of costs going up and going down. But whatever the cost structure is as of the December quarter, is that now a fairly steady state cost structure and you would just have marginal increases based on inflation going ahead, or should we be budgeting for further increases in cost structures in Q4 and beyond?

Kabir Shakir Ahmed: I would say in terms of our manpower costs, I think we've come to a right optimal structure. But there are other business related expenses, which I alluded to in my call earlier, marketing and stuff like that, where we had actually curtailed them due to the uncertainty and we will release, you know, those costs back in. So, you should expect that we will get to normative levels soon.

Deepan Mehta: So, you will have the cost which was similar to say, fourth quarter of last fiscal year, somewhere about there, minus whatever cost is INR 100 cr, which you have already incurred.

Kabir Shakir Ahmed: I don't want to get into details and specifics of that. That's the ballpark and I don't want to give specific numbers. But to answer your earlier question, it won't be at different per quarter levels.

Deepan Mehta: And my second question is on the competitive intensity. Considering that there's a lot more business available, how would you compare the competitive intensity now, post pandemic as compared to what was there before this particular lockdown and the coronavirus?

A.S Lakshminarayanan: From a competition standpoint, we have a wide range of competition again within India, the network services, our competition is different within our Cloud and security and CDN. There are different competition sets. I wouldn't say the competition intensity has any way changed as a result of COVID. This is just an ongoing competitive environment, and I wouldn't attribute it to anything as post-COVID competition intensity has changed. Similarly, on the international market, the same goes. What has changed is the international markets and I believe which will change in India is the customers' acceptance to move to Internet a lot more than before, because people are working from home, people are using internet and people are seeing that they can. But then it is not rapid enough, robust enough, secure enough. But then if you are able to provide all of that on the internet with SLAs, with security, we believe that people will look at that. So those changes will happen and that will bring for perhaps different sets of competition and new ways of doing things. But I wouldn't attribute the post COVID as anything related to any competition intensity.

Vipul Garg: This brings us to the end of the earnings call. I would now request Lakshmi for his closing remarks.

A.S Lakshminarayanan: Thank you all for joining us today. While we have delivered a good set of results in terms of profits and margins this quarter, we have alluded to the reasons for the revenues and the impact that was there, but we are very confident about the revenue growth, the transformation that we are doing internally to manifest ourselves in the customer conversations, and our ability to participate in those deals and convert them in the near future. Thank you.

Vipul Garg: Thank you, Lakshmi. Thank you, everyone, for joining the call. You may please disconnect. Thank you.

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