

April 22, 2022 at 05:30 pm IST

---

# Q4 FY2022 Earnings Call Transcript

---

**MAIN SPEAKER:**

**AS Lakshminarayanan, Managing Director and  
Chief Executive Officer**

**Kabir Ahmed Shakir, Chief Financial Officer**

## Chirag Jain

Good evening, everyone, and welcome to the Tata Communications Earnings Conference Call for Q4 FY 22. We are joined today by our MD and CEO, Mr. Amur Lakshminarayanan and our CFO, Mr. Kabir Ahmed Shakir. The results for the quarter and full year ended 31st, March 2022 have been announced yesterday and the quarterly fact sheet is available on our website. I trust, you would have had the chance to look through the key highlights.

We will commence today's call with comments from Lakshmi, who will share his thoughts on the business and long-term outlook, followed by Kabir, who will share his views on the financial progress achieved. At the end of the management's remarks, you will have an opportunity to get your queries addressed.

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

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

## AS Lakshminarayanan

Thank you. Good evening, everyone, and I welcome you all to the Q4 FY 22 earnings call for Tata Communications Ltd. With the economies reopening and governments easing restrictions globally, we are hopeful of our lives returning to normalcy, with no future waves of COVID like the ones we witnessed over the past two years. Our offices resumed in the first week of April for return to office and it was a welcome change interacting with the teams and leadership in person. Not only that, we also resumed business travel globally, and I had the opportunity to meet some of our customers in person. These in office interactions have been no less than a delight, especially because they reaffirm the faith our customers have in us, in our capabilities to deliver the same. We are also watchful of the escalating tensions between certain nations globally though we have sufficient safeguards in place to protect our business and our customers' interests.

Over the last year, we undertook multiple initiatives to strengthen our product and execution capabilities. While some of the short-term challenges continue to plague the industry in the form of global supply chain issues, elevated attrition, and delayed business decision-making, we continue to focus on growth.

On the back of these efforts, our revenues have witnessed a steady growth over the last three quarters. We are moving forward in the right direction. We continue to proactively engage with our customers. Our NPS score is at a record high and is amongst the best-in-class. We see a sizable market opportunity which we will focus on. Our pipeline is better focused on the medium to large deals, as well as customer engagements, which give us a higher fixed monthly charge against a usage-based revenue.

Our win rates are improving and about 50% of our new funnel adds are from the Digital Platforms and Services Portfolio and our Incubation portfolio as well. Our Media segment continues to see healthy funnel adds and has grown by 25% year-on-year. Our funnel in the MOVE segment has nearly doubled on a yearly basis. Though our overall funnel dipped in Q3 on account of attrition in the past quarters, we are hiring and onboarding new talent and this is helping us to improve the funnel run rate on a Q-on-Q basis. Our network services continue to be our biggest

portfolio, which provides high-speed scalable and low-latency services, enabling our customers to maximize business efficiency and ensure business continuity. Our core connectivity business continues to engage with and onboard new customers through our dedicated network offerings and we are expanding our revenue by 0.5% Q-on-Q and 1.4% on a yearly basis.

As the demand for our network architecture grows globally, we will continue to invest in augmenting our capacity in existing and new cable systems and provide the best-in-class services to our customers. I would want to share that Tata Communications was recognized as a leader by the Gartner Magic Quadrant for Network Services Global for the ninth consecutive year.

As the need for digital transformation gains traction, our digital platforms and services portfolio continues to serve the ever-growing demands of our customers by allowing them to stay connected and collaborate seamlessly with a secure digital infrastructure. All our digital platforms and services offerings have shown a double-digit growth on a year-on-year basis, except for our collaboration services. This is largely because of two reasons. Firstly, you may recall that during the first half of FY 21 our SIP revenues received a major boost as people migrated to a remote mode of working, amidst the pandemic. As people continue to work from home, this traffic got distributed and moved towards channels like IP and app-based calling. Secondly, the increased IUC charges for India termination imposed by the regulatory authorities, adversely affected us and we witnessed some volume churn in enterprise voice leading to a drop in traffic.

We continue to see the traffic being impacted due to fundamental shift being witnessed in SIP usage. We are working with our cloud providers, the CASPs and redesigning our product offering with a focus on innovation and flexibility. Our Microsoft Teams solution, which utilizes the SIP as underlying infrastructure continues to grow at a rapid pace. The response for our Global Rapide Solution for Microsoft Teams deployment and management is very positive, and we are onboarding new customers on the platform, providing them with a suite of services. These offerings allow integration across legacy systems and disparate platforms, creating an environment where users can easily connect, collaborate, and share ideas across locations, boosting organizations' productivity.

Our teams offering has clocked another quarter of over 100% growth and is gaining traction. Overall collaboration and Managed CPaaS portfolio grew by 3% quarter-on-quarter but declined 18.8% on year-over-year basis. Our cloud hosting and security services help build an agile IT ecosystem with hybrid multi-cloud environments, security and network that our customers need globally thus, improving productivity and efficiency. Our cloud assured, cloud secured offering provide the agility, assurance, and resiliency to grow and thrive in today's digital first world.

We recently collaborated with Indian Telecom Industries Limited, ITI, a public sector undertaking of Department of Telecommunications for our cyber security as a service platform. It will enable ITI to secure its customers from external and internal security vulnerabilities and protect business critical data by allowing secure access to company's assets, all this while supporting compliance with relevant regulations. Our integrated stack of multiple cyber security solutions will support their business goals of becoming a one-stop shop for cyber security needs of all PSUs and government entities in India. Additionally, their stock operations are further strengthened to backup security services from our SOC solutions for disaster recovery.

Our cloud hosting and security portfolio grew by 10.2% year-on-year but declined 1.7% on a Q-on-Q basis as it continued to support business requirements for our customers. Our Next-Generation Connectivity portfolio registered robust growth of 20.9% year-on-year and 20.5% on a quarterly basis. We continue to focus on providing end-to-end solutions to our customers by bundling our offerings over our strong backbone. We were awarded the leader position by Avasant SD-WAN Managed Services Space, and Frost & Sullivan honored Tata Communications with growth and innovation leader, and overall leader position in APAC region for Managed SD-WAN services in the market.

Our media segment has bounced back exceptionally well. We are excited and proud to be the official broadcaster, connectivity provider of Formula 1. Our global end to end managed network services for video distribution helps transform the experience for more than 500 million motor sport fans. Our solution enabled Formula 1 to move live data analysis and video production away from each circuit to a centralized remote operation center, which has led to a 34% reduction in the sports traveling freight since 2020.

We've also partnered with Eclat Media Group to distribute their newly launched channels across Pan Asia, empowering them to broadcast more than 4,000 hours of content annually. Our media ecosystem coupled with video connect and satellite uplink services, will allow commentators of these channels to overlay commentary in their local language which will be added to the viewers video feeds for relevant regions. Such reaffirmation in our services helps us remain excited about our progress and the tremendous opportunity we can address globally. Our media portfolio registered an impressive growth of 37.6% on a year-on-year basis, though it declined by 4.3% on a Q-on-Q basis, mainly on account of seasonality. Our IoT and Mobility Solutions are being well recognized by the industry and we continue to provide a seamless cross-border connectivity to deliver international services effectively and efficiently.

Our IoT platforms with plug-and-play enablement supported by our dashboard and predictive business-driven analytics continue to transform enterprises. Our platforms are delivering tremendous value to our customers across automotive, industrial, logistics, media, healthcare and aviation sectors. We've added five new logos in the Incubation segment across our product offerings as customers look forward to automating and digitizing their operations. We recently entered a strategic engagement in the Middle East to bring Smart City solutions. Our IoT ecosystem will serve as a one-stop shop to provide hardware platform application and insights enabling us to remodel cities with smart street lighting, smart waste management, connected workplace, healthcare, and connected cars. Overall, our Incubation portfolio grew by 67.6% year-on-year and 49.1% on a Q-on-Q basis.

At Tata Communications, having a diverse engaged and productive workforce is an essential part of achieving our business strategy, and we have put in place best-in-class people practices. We continue to be recognized like Kincentric's best employer in India for sixth year in a row, while we have been certified as a great place to work, and best companies to work for across multiple countries where we operate. We have been recognized as best companies for women in India, by Working Mother and Avtar Institute for the sixth consecutive year.

We are also being recognized for our efforts in fostering sustainability and community linked initiatives. We were the winners of the Golden Peacock Global Award for sustainability for the year 2021, and were also recognized by the business world, as top 10 most sustainable companies, both in India.

Let me discuss a few highlights of our financial performance. Our full year consolidated revenue declined by 2.2% year-on-year to INR 16,725 crore. Declining trend in voice business continued. For FY 22, this business declined by 18.1% year-on-year. Data Business grew by 1.4% year-on-year and continued to grow sequentially for the third consecutive quarter. Our Data Business grew by 2.1% Q-on-Q. EBITDA for the year was at INR 4,227 crore and the profit for full year was INR 1,482 crore. This translates to EPS of INR 52 per share growing at 18.5% on a yearly basis.

As an organization, we have taken various steps to improve our operational performance and bring efficiency into our processes. On the back of these efforts, we continue to deliver strong free cash flows and healthy profitability. I am happy to announce that the board has recommended a dividend payout equal to 40% of our consolidated PAT, amounting to INR 591 crore. Overall, we reported a steady and a positive data revenue growth for three consecutive quarters this year, after declining trend we witnessed in FY 21. Our improved cash flows and stronger balance sheet gives us the confidence that investing in digital business, while focusing on our customer engagement solutions is the right path. We are working on multiple future technologies to provide our customers a transformative speed through a reliable and multi-purpose network for their businesses.

Our teams are working on POCs relating to mobile video surveillance, wireless supply chain management and automotive solutions using 4G, 5G network stacks. We will continue to invest in strengthening our ability to address the market opportunity ahead of us. The reality that our customers around the world have been modernizing business processes at fundamental level, and this will enable growth and competitiveness is driving greater demand and we feel good about the signals. We will focus on reinvesting our profits in our growth areas, deliver an improved customer experience, lower churn and drive healthy growth, and at the same time be laser focused on improving and simplifying our internal processes. As an organization we will endeavor to deliver our reimagined strategy with financial fitness at the core of our decision-making.

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

### **Kabir Ahmed Shakir**

Thank you, Lakshmi. Good evening, everyone, and thank you for joining us on our Q4 earnings call. I'll take this opportunity to go through our financial performance for the quarter in more detail. FY 22 was a healthy year for Tata Communications marked by recovery across businesses. We continued to invest in the enhancement of our products and services to better enable our clients in their digital transmission journeys, while simultaneously improving the health of our balance sheet.

Our Data Business continues to grow for the third consecutive quarter, signaling signs of recovery as the pandemic recedes and the world moves towards normalcy. Though there was a certain element of softness in our data growth, we were focused on our ambition of achieving double-digit revenue growth by continuously working on expanding our product offerings, increasing our customer outreach by hiring more feet on the ground globally, and strengthening our internal processes.

Our full year revenue declined by 2.2% year-on-year to INR 16,725 crore, primarily driven by the decline in our voice business. Data revenue for the full year has grown by 1.4%, coming in at INR 12,779 crore. This growth is broad-based across all segments of our data portfolio, except our collaboration usage-based revenue, which has seen a decline. Revenue for the quarter is at INR 4,263 crore increasing by 1.9% Q-on-Q. Data revenue for the quarter is INR 3,301 crore, which represents 2.1% Q-on-Q growth and third consecutive quarter of growth.

Moving to subsidiaries, TCTS business was affected by some of the customer specific contracts issues we had entered in previous years and higher operating cost. Starting FY 22 we exited these contracts and worked on stabilizing the business which impacted the P&L. FY 22 at TCTS was focused on strengthening internal processes to drive business efficiencies. On quarter-on-quarter basis revenue for TCTS has grown by 6.7% and reported a positive EBITDA of INR 7 crore, thus signaling green shoots of recovery. Full year revenue stood at INR 1,312 crore. Our Payment business continued to be affected by COVID and with average daily transactions for FY '22 being 15% lower than last year. As part of our strategy to focus on financial health and profitability, we launched the franchisee model this year. Under the new model, the response has been stellar, and we have deployed close to 1,000 ATMs in FY '22. This has led to a positive impact on overall profitability of the business, although the base is low at present. Revenue for the year came in at INR 165 crore with an EBITDA of 9.1%.

For FY '22, our EBITDA was INR 4,227 crore with a margin of 25.3%, expanding by 40 basis points versus prior year. EBITDA for the quarter was at INR 1,045 crore, witnessing a 3% year-on-year growth over same quarter last year and declining by 3.4% on sequential basis. This decline is due to increase in certain costs, which are usually back-ended to the later half of the year. Despite these higher expenses, our margin for the quarter came in at 24.5%, well within our guidance. We continue to maintain a healthy profitability in our data segment.

As we step into a FY 23, we are hopeful of a pandemic free year and normalcy setting into business environment

with employees returning to office and management travel picking pace, we would see an uptick in our employee and travel-related expenses. We're also making efforts to arrest the growing attrition due to the Great Resignation and continue to invest in our employees and their capabilities. We remain committed to our strategic guidance of EBITDA at 23% to 25%, although these costs will impact our profitability and we expect to operate at the low to mid part of this range for FY 23.

PAT for the year is at INR 1,482 crore, as compared to INR 1,251 crore in the last year. This translates to an EPS of INR 52 per share growing at 18% on a year-on-year basis. The current quarter PAT was impacted positively by some of one-offs of tax refunds and related interest and some prior period adjustments on the tax line. Adjusting for those, the normalized PAT Margin for the year is still 8.4 %, which is a healthy increase of 110 basis points over last year.

CapEx for the full year stood at INR 1,608 crore as compared to INR 1,421 crore in FY 21. This is in line with our decision of increasing our CapEx spend as we invest for growth and has been called out in our previous discussions as well. We will continue to invest in developing future capabilities and strengthening our existing ones.

ROCE for the year is at 26% as compared to 24.6% in FY '21. Net debt as on 31, March stands at INR 6,744 crore, reduction in net debt during the quarter was INR 445 crore compared to Q3, and INR 1,042 crore compared to the same quarter last year. Net debt to EBITDA is now at 1.6x as compared to 1.8x a year earlier. Our cash flow for the year stood at INR 2,619 crore.

We had outlined our finance strategy during our annual Investor Day last year. We witnessed significant progress on our strategic pillars of fit-to-compete and fit-to-grow by driving operational efficiencies, eliminating waste, simplifying processes, and strengthening our capabilities. This has enabled us to continue delivering a strong bottom line and significantly improve our cash flow. All our financial metrics are tracking in the right direction and as a result, our balance sheet is in a much stronger and healthier state now.

At Tata Communications, we are committed to a strategy of being a digital ecosystem enabler and help drive digital transformation of our customers and position us to consistently deliver growth for the long-term. Other than for any exceptional circumstances, we plan to pay dividends at between 30% to 50% of our underlying consolidated profit. We are committed to a sustainable dividend policy in line with our earnings and cash flow generation. For the financial year ending 31st, March 2022, the board has proposed to pay dividends equivalent to 40% of our consolidated profits, which translates to a dividend of INR 20.7 per share, reinforcing our commitment to shareholders returns.

To conclude, I would like to reiterate that we continue to deliver well on our finance strategy, our balance sheet position is now stronger and allows enough headroom to invest for growth. Our management focus is now solely on driving business growth and we are excited about the opportunities that lie ahead of us.

This brings us to the end of our management commentary. I'll now ask Chirag to open the forum for Q&A. Thank you for your attention.

**Chirag Jain**

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

**Sanjesh Jain**

Good afternoon, everybody. Few questions from my side. First on the data revenue, net basis even in this quarter we are at 5% and quarter-on-quarter growth of 0.7%. The double-digit growth guidance looks a far reach for us. What gives us the confidence that we will be able to achieve that in the next two years? That's number one. And how is the sales funnel and order books looks like for this quarter? Last quarter it was quite muted. Are we into the double-digit growth which gives us a confidence that FY 23 could be a much better year than FY 22 on a revenue growth? That's my first set of questions.

#### AS Lakshminarayanan

Yes. Sanjesh, thanks for the question. On the data growth as I called out, if you unpeel that, the core connectivity is one part which we have said that has grown at 1.4%. Within that India has grown quite well. It's year-on-year as we had called out mid-single digits or high mid-single digits, it's in that region. And international, there has been a decline largely because of the VPN declines which is the trend that we had called out, as well as some of the price erosions. So, that's largely on it, overall it came at 1.6%, which is sort of in the low to mid-single digits growth.

Whereas on the digital platforms and services, mainly on the usage is where we have had an impact and barring that usage if you look at the fixed, all the fixed portfolios, that we charge on a fixed basis, that has grown about 22% year-on-year. And again, on the usage basis, the issue has been largely on the SIP trunk, and the other one is the MMX. These are the two things.

We think on the SIP being a usage, usage being usage, it's difficult to really forecast, very accurately. But given all the indications that we have, we think, we can arrest the further decline. Now, whether it will pick up growth, we will have to wait and see. We are picking up some new customers on the usage side. But the usage will be on a usage basis. But today, the usage is about 34%, 35% of the entire DPS. So, that is one data point. From a confidence about the future, I think, on the network side, the next generation connectivity is growing. This year also it has grown. I think, we are betting on it to grow significantly next year as well.

With the new IZO variant products, that we are piloting with our customers, and there is going to be a formal launch in this coming quarter. That will be a relaunch of all our IZO variant products. So, that is something, that we are betting on to grow for next year. Similarly, on our cloud and security as well. The cloud on a standalone basis has grown, the cloud and security also would grow this year. And as I said, the funnel add for the digital platforms and services has been quite good. I called out the media as well as on the incubation, the MOVE funnel has increased. So all of these are giving us the confidence that the funnel is fairly healthy. I did mention that Q3, we had a drop but Q4 it's bounced back after we started putting feet on the ground and hiring people in the international markets, and we are continuing to hire people in the international markets. So hopefully, that will help, it will have a lag effect, but the funnel will continue to grow.

Conversion to revenue from the funnel to the order booking and to the revenue, again I called out in my commentary there is some slowness in decision-making. Order book is sort of flattish to marginal increase in Q4. But we are anticipating Q1, we should improve on that order booking status. Partly, the delays in the decision-making are due to the supply chain, the CP availability is a problem. And therefore, I think, when it plays on the customer mind saying that if you're anyway going to deliver after 9 months, 10 months, after I placed the order, why not delay the order could be one of the things that is delaying. Because we are seeing some of the conversations with our customers in advanced state, but not getting closed.

But having said that, I think all of them I believe are only temporary glitches and in the long run when you ask the question and in a double-digit growth in couple of years, we are quite confident of that.

#### Sanjesh Jain

Thanks. Thank Lakshmi for elaborate answer. Two thing, one on MMX side. I think one of our competition is doing very well on that platform. Surprising to hear that we are lagging in that. Number two, cloud security and hosting that particular segment now looks like it's quite decelerating and I thought this was a segment where we were very confident on delivering the growth. I think these are the two things if you can address, how do you think other things will change in FY '23 for each of them.

**AS Lakshminarayanan**

Yeah. So on the MMX front you're right. Largely, we have been addressing our MMX has been, as a wholesale play selling to service providers, as well as to couple of large OTT players is valued against MMX.

We have started pivoting into selling MMX into the enterprise segment quite recently and that is still underway. So we are piloting our MMXs A2P messaging but above that to get a CPaaS play is what we are working on. We have a few pilot customers and that's what will help us to accelerate the growth in the MMX in the CPaaS business in the coming years.

On the cloud and security, I think I briefly mentioned to you, within the cloud we have done quite well. I think we have launched some new products as well in the fin-cloud where we picked up now a couple of customers. And we are bringing variants for developers community and others. So on the cloud we are, definitely enhancing our products as well as expanding and that is growing.

On the security side, while in India, we have done reasonably well. In the international market, it has definitely slowed down and again, we attribute that decline to, the feet on ground attrition that we have had. And secondly, largely the security in the international business has been on the network security. So as we grow the network business, the security is an upsell to those deals, particularly in the European market. We are seeing once again a buildup of the funnel there compared to last year. So it should recover in the coming quarters.

**Sanjesh Jain**

Fair enough. Fair enough. Again, in that international segment, muted growth is largely because of the feet on the ground? We were also betting particularly on a SI partnership play, how are they helping us in scaling up the international. Does that partnership paying us off?

**AS Lakshminarayanan**

I think, the partnership, I wouldn't say, it hasn't delivered fabulous results. It has definitely got us into conversations and helped us in the pipeline. But despite those partnerships, if things are not closing, it is just attributable to the environment, that the customers are in. And the priorities, they attribute or accord to a network transformation versus the others. Because in some of these areas, our partners are the main players in those accounts and despite that if there is a struggle to close it, that's the only reason I can attribute and that is largely in line with what we are seeing in other places where we are going alone by ourselves as well. But we are focusing on -- we are doubling up on those efforts with SI partners in this year. So, if nothing our pipeline should be healthier and as and when it's the right time we should be able to take advantage of that.

**Sanjesh Jain**

Got it. And the international segment muted performance is largely the feet on the street kind of a situation.

**AS Lakshminarayanan**



Largely that as well as on the usage side, also on the international side as well we have had I mean both India and international we've had impact, but on the international side has been a higher impact on the usage side and feet on street is the other problem.

**Sanjesh Jain**

Incubation has done very well for us in the last two quarters. We are almost doubling the revenue on a YoY basis. Is it largely MOVE IoT, or are we also seeing Net Foundry attributing to growth there? And how does the FY '23 looks like for these services?

**AS Lakshminarayanan**

So we are not desegregating the incubation. Basically, we have the connected solutions of IoT and MOVE and the Net Foundry. We will need to give more time to Net Foundry because I think that's picking up, we are getting customers. But as I said, they are pivoting from world of enterprise zero trust to also IoT zero trust. So we'll allow them more time to see, which of those use cases can really scale with the customers.

But they are getting a lot of good design wins but the main wait for us is to see which pattern will pick up and scale in the market. As far as the Connected Solutions are concerned, it has grown quite well. I think it's a very decent run rate getting close to about U.S.\$29 million this year. And we anticipate that growth will continue -- we have a good pipeline in some of these areas. So that's as you called out that's doing very well. I think we will have to make sure that in those areas, we continue to invest. And again, look at both the product, we need to continue to sharpen to stay relevant in those areas, as well as invest in the sales, in those areas.

**Sanjesh Jain**

I got it. Net Foundry had a hardy push even from the public cloud service provider. Is that side of solution architecture not helping the Net Foundry to scale up faster?

**AS Lakshminarayanan**

No, that's -- I don't know, when you say cloud. I mean, one of the use cases was for the cloud migration -

**Sanjesh Jain**

-- on our connectivity, right? Cloud migration.

**AS Lakshminarayanan**

So, the specific use case that we had done with a couple of customers were cloud migration. So, whenever people are migrating to cloud, rather than having a private network established, just for the sake of migration, the use case was to see how they could transfer data using internet. Somehow that has just not -- we have had good customers and the design wins, but that has not scaled as much as we would like to have seen.

**Sanjesh Jain**

Got it. Lastly for Kabir, what's our CapEx guidance for FY '23 and will the fiber replacement or reinvestment which Lakshmi spoke in his initial remark will start from FY '23?

**Kabir Ahmed Shakir**

I had mentioned before that we would have our total CapEx to somewhere close to U.S.\$ 300 million in that range Sanjesh. This year, although our approved CapEx has been higher, our spent CapEx was lower because of all the supply chain issues that Lakshmi alluded to earlier as well. So I don't know how that will unfold, but at least from a business case perspective, we would like to increase our CapEx to close to U.S.\$ 300, 325 million that ballpark, that range and of course supported by good business cases to start with.

Our subsea cable investments has a payment schedule that's already started in this year and we will continue it as a payment schedule on a for the next couple of years. So it will flow through next year as well. So I've included that in our U.S.\$ 300, 325 million, that range is what our total CapEx will look like.

**Sanjesh Jain**

Got it. And this should be fair range for next few years, right Kabir?

**Kabir Ahmed Shakir**

Yes. They should be fair range for next few years. But as I said, as we drive growth almost 50% of our CapEx is customer success based CapEx and therefore you should be able to draw a correlation with growth and capital. And that part of my capital -- I really do not want to have any budget at all. I'm speaking the same language that I speak internally, outside as well. As long as we are able to get growth and help our customers drive the digital transformation, and we will therefore invest in those things because each and every individual business case then pays for itself. So that element, is definitely unconstrained.

Within the ambit of our strategic plan and the vision that we actually have, in terms of our double-digit growth U.S.\$ 300, 325 million looks well. If our CapEx number grows and so will our growth.

**Sanjesh Jain**

Got it. Got it. Just one last on the dividend payout, sorry for this. We are at 30 to 50. Our net debt-to-EBITDA range looks much more comfortable today. Do you think there could be an upside risk to the payout in the future?

**Kabir Ahmed Shakir**

Sorry, upside risk did you say?

**Sanjesh Jain**

Yes. Upside risk as in paying more than 30 to 50?

**Kabir Ahmed Shakir**

Well, we believe 30 to 50 is certainly the right level for the medium term. I would say Sanjesh, so we hope to operate within that particular range going forward.

Earlier we did not have a formal documented policy. Now with two years of improved profitability, a good balance sheet shape, the Board was comfortable to formulate this policy and propose a higher dividend this year and which also gives visibility for us as a management and also to you as investors, that we are confident on our earnings and

our cash flow generation. But for now I would say 30 to 50 is a good range to go for in the medium term.

#### Sanjesh Jain

Got it. Got it. Thank you. Thank you for all the answers and best of luck for the upcoming quarters.

#### Chirag Jain

The next question is from the line of Riddhesh Gandhi from Discovery Capital.

#### Riddhesh Gandhi

Just wanted to understand for a number of quarters now, including at your last analysts meet, we've been guiding towards the revenue growth actually kicking in and effectively, it's been delayed by a quarter, six months, nine months, a year and it just seems to be keeping a miss. So, I understand that there are certain amount of headwinds, certain amount of tailwinds which are there. Just wanted to understand from you what is the reason, why -- I mean is it that we had never before seen any of this? Is it that because we are new management in the company, we're still sort of figuring out exactly where the guidance should be, because given the overall complexity in the business and then the number of products and services that we offer, as an investor, we do depend a reasonable amount on the guidance we provided and the revenue specifically has been a very, very strong, underperformance compared to at least what our expectations were. So just would be great to understand the reasons behind why we were unable to anticipate what actually ended up happening and whether in stuff like SIP trunking etc., if we are seeing, we are like reaching this bottom in terms of the -- and if we see upside going on from here.

#### AS Lakshminarayanan

Yes. Riddhesh thanks. See I think, first of all, we haven't specifically given any guidance. In our strategy we called out aim to reach a double-digit growth in data. And we have called out the opportunities ahead of us and we've called out what we will do for that in order to hit those growth.

Specifically in terms of if you see the last three quarters, I think the growth is coming back whether it's at 2% or whatever, I think the growth is coming back in the last three quarters. Having said that, I think the complexity as you call out is mainly and I've mentioned this about in the usage area and also the reasons I have called out in the usage as to what those reasons are. In terms of SIP particularly, we feel that it is bottoming out, but we will wait for a couple of quarters to really make that call on that, but it is bottoming out.

On the fixed side, I think the various portfolios have performed in different ways I think the previous question I answered about whether it's a cloud or the Nextgen. The Nextgen connectivity has grown quite well and each of these portfolios are performing at various levels. And my summary to that question about the future potential that exists in each one of them, we think it is quite a strong potential and they are revamping as I said our A2P messaging and the CPaaS as well. They are on the G SIP as well. We are looking to what innovations can be brought about and working closely with other cloud providers of solutions, like the Ciscos, and the Microsofts, and the Zooms of the world to provide them a service with our SIP trunk.

So, we are working on those product changes. But largely, those would be my answers. I would say that, in all of the portfolio, the Nextgen connectivity, we think our strategy is still solid. We are developing that capability. On the SDWAN, we had a two product portfolio. We are expanding that to a multi product portfolio. Similarly, on the cloud, we are launching different variants of those. So, we are strengthening, definitely our products. The international market, the feet on street was an issue with the attrition that we had.

And we have also had a change in management in all of our regions. All the regional leads have been changed in last one year, some of them as recently as five, six months ago. So that revamp is happening, and there will be a lag in these markets as the new team comes in to understand the portfolio and build those relationships to build up the funnel. But fundamentally what we said in our Annual Analyst Meet, about our confidence in the product portfolios that we have, the opportunities ahead of us, nothing has changed.

**Riddhesh Gandhi**

But given all of the ambiguity and with the new headcount and, certain amount of headwinds which we hadn't anticipated etc., what is giving us the confidence going ahead that this is double digit data growth is actually going to come through and that it isn't going to be as actually as slow a growth as we've been seeing over the last five, six quarters?

**AS Lakshminarayanan**

The opportunity we believe in is because the market is there.

**Riddhesh Gandhi**

Okay. So it's an execution issue right now, which we are fixing, is it?

**AS Lakshminarayanan**

Yeah. It is an execution issue, we called out some macro issues because of the supply chain issues in the CP availability. OEMs are delaying, some of them as much as nine months. So when the customer says, why give an order now, if the equipment is going to be available only after nine months. These are the things that could be playing in customer's mind, and I called out why there is a delay in translating the order book to the revenues or even translating the funnel into order book.

**Riddhesh Gandhi**

Got it. And a small suggestion was that look like given effectively speaking the slight complexity in the business, would just suggest like a little bit incremental, actually clarity on the IR front. I know you have lost your Head of IR, and there's been a slight hole out here even now after the quarter and the year end, we don't even have an investor presentation to look at in terms of the call. So which we can digest before-hand. So, I would just request if we can just sort of pay a little bit of incremental attention towards our investor relationship, just to sort of give us incremental clarity and understanding of where we are in the business and a path going ahead?

**Kabir Ahmed Shakir**

Riddhesh, the investor presentation is normally uploaded after the call is there. So, you be rest assured that none of the things that you used to get will be compromised or delayed because of this vacuum. So that will continue to be there. So not to worry at all. The investor fact sheets and all the things that we've been doing in the past are continued to being done.

**Riddhesh Gandhi**

No, no just the incremental level of granularity. Look earlier we had a contact so we could speak to and like get a reasonable degree on the clarity and with your presentations also ahead of the call are obviously helpful. So that

some of the questions aren't repeated and we have an understanding incrementally as to what's happened in the quarter etc., I mean ahead of the call, typically that's what we see in the most of the companies, but I understand. All right. Thank you.

**Kabir Ahmed Shakir**

Chirag is available, please, you can reach out to him as the first point of contact.

**Riddhesh Gandhi**

Sure. Okay. Thank you. That's all for me. Thank you.

**Chirag Jain**

The next question is from the line of Nagraj Chandrasekar from Laburnum Capital. Nagraj you may go ahead and ask your question.

**Nagraj Chandrasekar**

Hi, thank you. You mentioned a weakness in the Core Connectivity Portfolio side India, and at the same time we're also seeing strong growth in Nextgen connectivity in SDWAN. Just wondering, is it just cannibalization you're seeing from SDWAN replacing a VPN across portfolios both in India and abroad. And if so this INR 2,000 crore VPN portfolio we used to have as of FY '21, when we used to split it out within the INR 9,000 crore of Core Connectivity revenue, how much of that is India and how much of that is outside India?

**AS Lakshminarayanan**

Yes. The weakness in Core Connectivity in the international market I had called out and at the same time there's an Nextgen Connectivity, which is growing very fast. So, to answer your question, the whole Nextgen Connectivity is based on using internet as opposed to VPN. Even though some of the hybrid connectivity, which is part of the Nextgen Connectivity, where we provide a combination of solution, which includes internet and MPLS as a high hybrid solution.

So, definitely VPN to some extent is getting cannibalized and replaced by our IZO Internet WAN propositions, but the opportunity that we see ahead of us is definitely going into incumbents, customers and offering our portfolio because our presence in those markets, in VPN is much, much smaller than the incumbents in these large markets. So that is the opportunity that we see ahead of us.

**Nagraj Chandrasekar**

Got it. I think Vodafone business has a very similar sort of business plan or model given their small enterprise space in their markets, they have the same sort of goal. Just want to understand is that hard to do because we don't have the existing sets with the customers. Can those be refactory configured to change over to SDWAN more easily when you're already with a customer. And, so, is that an issue and this INR 170 odd crore of SDWAN revenue, Nextgen IZO revenue has grown to a very good runrate, but is that mostly India or is it equally 60, 40 India, outside is rest of the data businesses.

**AS Lakshminarayanan**

. In terms of, see when there is an incumbent Nagraj, of a provider who has got a private circuit. And when customers are thinking about an SDWAN journey, there are multiple scenarios. One is whenever they think about SDWAN, they also think about how to transform the underlay. And when it transforms underlay the combination of existing MPLS plus internet solutions. And when they are thinking about the transformation, they will look at new vendors but, obviously, the incumbents will have certain advantage but they will look for new vendors there for the underlay part.

The overlay part, which is the SDWAN part, that again, what is playing out in the market is sometimes the underlay players and the overlay players are the same, it is getting bundled, and sometimes the customers are preferring to unbundle it in the international markets, and that is what we see. So I don't think, particularly an incumbent would enjoy a huge advantage but they definitely have an advantage because they know the customers landscape.

And to answer your question on the SDWAN, our revenues, it's a split of roughly 50/50 between India and international.

**Nagraj Chandrasekar**

Great. Great. And just couple of questions. You mentioned, a 34%, 35% usage-based mix. Is that only within, what we call UCC, or is that within all of CPaaS? So, it is a bit confusing.

**AS Lakshminarayanan**

Usage is largely in the collaboration business. So, it's a combination of SIP and MMX, mainly.

**Nagraj Chandrasekar**

Got it. That was just a bit confusing there. And just a last question. The DPS segment margins came off this quarter sequentially to around, 15% compared to sort of mid-20s, the last couple of quarters. Just wanted to know, if there were any one-offs here, or was it a mix issue, and what really is the margin, one should expect within this segment. That's it.

**Kabir Ahmed Shakir**

I mean, I think I've alluded earlier Nagraj. I mean, we want to play the portfolio game as a whole here and we are looking to reinvest our gains to drive growth. Yes, there were a little bit of, we know, one-offs in trial periods and corrections. Plus we have also done some investments in some technology consulting and in some of our portfolios as well which has resulted into this dip and all of these are to drive growth.

If we start then micromanaging then we will not be able to reach our ambition of double-digit growth faster. So, as a management, we will pull levers to take margins from one part of the business and reinvest into other part of the business which needs that growth momentum and growth push. So that's, that's what has happened in Q4.

**Nagraj Chandrasekar**

That's fair. Growth is the utmost priority. I agree. Thank you.

**Chirag Jain**

Since we are nearly out of time, the last question is from the line of Pranav Kshatriya from Edelweiss Financial

Services. Pranav you may now go ahead and ask your question.

**Pranav Kshatriya**

Yeah, thanks for the opportunity. I just have one question, regarding the EBITDA margin guidance what has been given? So typically, what we see in telecom companies as the revenue continues to grow, operating leverage, sort of starts coming in and that typically drives EBITDA margin upwards, but from what you said about that, the margin should be in the lower end of the 23% to 25% band. So just trying to understand that what exactly is causing these margins, and how should we see this margin over a medium to long term? If you can give some color on what should be the incremental EBITDA margin over a longer term? That will be useful.

**Kabir Ahmed Shakir**

Yeah. Well, I think I need to take you a few quarters back to, so that there is continuity in what we've been saying and consistency in what we've been saying. Our EBITDA margin range last year was 22% to 25%, as our performance was improving and we had more certainty on our P&L. We tightened that range to 23% to 25%. We stay committed to the range of 23% to 25% for the medium to long term. So that is, something we have stated consistently for the last, few quarters. And even going forward into FY '23, we stay committed to the range of 23% to 25%. Now the reason why we were operating in the upper-end of the range or exceeding that guidance in the last, I would say, seven, eight quarters is because we had COVID-related benefit and they were sometime last year in order of magnitude of about INR 50 crore a quarter as our offices were shut, travels were all come to a standstill, all of that savings were baked into the P&L and we saw the benefit in our higher profitability.

As the world opens up now, we are having our employees returning to work. Management travel is going to pick up. We are obviously prioritizing customer-facing travel. And we also had the benefit this year with the -- I wouldn't call it a benefit actually. It's an under spend of our staffing costs, because we had a lot of attrition in this year. We hope to arrest that attrition. We also hope to put in retention measures for our teams. And also increase our feet on street, and product and engineering talent in next year.

So, combination of these three things return to office, travel and marketing spends, coming back to its normalcy levels. And increase in our headcount and arresting the attrition, are the reasons as to why, we will see those costs coming back up. And why we believe that we will operate in the low to mid-part of our strategic guidance, which still remains the same at 23% to 25%.

**Pranav Kshatriya**

Sure sir. But any color on longer term? I mean, should we expect incrementally margins to move up as the revenue growth starts coming in and you hit the double digit revenue growth number ?

**Kabir Ahmed Shakir**

See for a medium-term, as I've stated before, we would like to reinvest those to strengthen our capabilities both internal capabilities and customer-facing capabilities and the agility of our processes in automating our front end processes. So therefore, very clearly any operating leverage that we will get and which we will get eliminating waste simplifying our processes all of those have already given us benefit this year itself, quite a bit every line above EBITDA and below EBITDA has performed to our expectations already this year. That performance we hope to continue but we will choose to reinvest those savings, those benefits back to drive growth. And that's the reason why we are continuing to guide a 23% to 25%.

Pranav Kshatriya

Sure sir, thank you so much. That it's from my side.

Chirag Jain

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

AS Lakshminarayanan

Yeah. Thank you, Chirag. As I mentioned, the return back to sequential growth in the last three quarters, I definitely see that as a green shoot in the amongst the headwinds that I had mentioned. Our continued performance on financial fitness at the EBITDA level, as well, as the balance sheet strengthening is really, really good. That gives us the confidence, that we can invest and which we are investing. The markets, the opportunity ahead of us is something that we believe in. So in the long term, as I mentioned, we are working towards the growth and we are quite confident of getting that.

With that, I would like to thank you all. Be safe. Thank you.

Chirag Jain

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

---

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