

January 21, 2026, at 05:30 pm IST

Q3 FY2026 Earnings Call Transcript

Management Participants:

AS Lakshminarayanan, Managing Director and Chief Executive Officer

Kabir Ahmed Shakir, Chief Financial Officer

Rajiv Sharma, VP and Head Investor Relations

Sudeshna Patnaik, Deputy General Manager, Investor Relations

Moderator:

Ladies and gentlemen, good day, and welcome to the Tata Communications Limited Q3 FY 2026 Earnings Conference Call. The results for the quarter ending 31st December, 2025 have been announced, and the data pack is available on our website. Please note all participant lines will be in the listen-only mode and this conference is being recorded.

We have with us from the management team Mr. Amur Lakshminarayanan, MD and CEO, Mr. Kabir Ahmed Shakir, CFO, Mr. Rajiv Sharma, Head of Investor Relations and Ms. Sudeshna Patnak, DGM, Investor Relations.

We will begin the call with opening remarks from Mr. Lakshminarayanan on the business performance and outlook, followed by Mr. Shakir on the company's business and financial performance. Post that, we will open the floor for questions.

In the event if the management line drops, we request participants to stay connected while we reconnect them to the meeting. Please note some of the statements made in today's call may be forward-looking in nature and are subject to risks and uncertainties. The company does not undertake to update these forward-looking statements publicly.

I now hand the call over to Mr. Lakshminarayanan. Over to you.

A.S. Lakshminarayanan: Thank you. Good evening, everyone.

You would have seen the announcement that the Board has approved appointing Mr. Ganesh Lakshminarayanan as CEO & MD Designate, subject to regulatory approvals, on my retiring in April. I congratulate Ganesh and wish him every success. It has been a privilege to steward the company through a phase of transformation, strengthening the Digital Fabric, increasing our customer relevance and building a platform poised for growth and long-term value creation.

As we progress through the remainder of this year and into April, my focus remains firmly on execution and continuity. This quarter's performance reflects not just delivery in the moment, but the resilience and strategic optionality we have deliberately embedded into the business for the next phase of growth.

This quarter, we acquired a majority stake in Commotion Inc., a leading AI-native Enterprise SaaS Platform. Adoption of the platform within both products and processes will accelerate the AI integration across the Digital Fabric. In CIS, Commotions' strong capability integrated with Kaleyra channels will be a powerful proposition. The platform is natively secure for Enterprise usage and runs on our Vayu cloud. With this, we aspire to be the leading full stack AI platform provider, with best in features and price globally. Deep diving into the quarter performance, we are very pleased by the growth momentum coupled with margin expansion that we have been able to achieve. We are seeing momentum across the data business driven by both Core connectivity and digital portfolio.

Our overall revenues came in at INR 6,189 Cr, up 1.5% QoQ and 6.7% YoY. EBITDA grew by 4.6% QoQ and 4% YoY to INR 1,228 Crore. Overall EBITDA margins came in at 19.8%, an improvement of 60 bps QoQ.

I am very pleased to share that we had an excellent Order Book this quarter with very healthy double-digit QoQ and YoY growth. A large part of this OB growth comes from Core connectivity on the back of a deal with one of the largest OTT content providers. To add more color to the deal, we will build an India leg of major global subsea build spanning five different continents. Our funnel remains robust and about 70% contributed by digital portfolio. We continue to be making progress with our deeper with fewer strategy; as we are seeing a steady uptick in the number of million-dollar customers

during the year, especially in the 10Mn+ category.

Coming to our financial performance, data revenues grew by 3.5% QoQ and 9.3% YoY. Core Connectivity business came in at INR 2,700 Cr, up 2.4% QoQ, and 4.2% YoY. The revenue growth in Core is driven by the implementation of more than half of the large hyperscaler DC to DC connectivity deal that we had announced earlier.

Digital Portfolio at 49.6% of Data revenues is up 245bps YoY and is in line with our strategy to drive relevance quotient. Digital Revenues came in at INR 2,659 Cr, increased by 4.6% QoQ, 15% YoY. The growth was driven by Interaction fabric and Cloud and Security fabric, on the back of some large deals and benefited from usage-driven seasonality.

Interaction fabric, which comprises 52% of the digital portfolio, reported a growth of 10.4% QoQ and 17.9% YoY. We see a steady uptick in the non-SMS business in CIS in the new wins this quarter. Media business has seen a degrowth of 16.6% QoQ and a growth of 1% YoY.

Next Generation connectivity has sequential growth of 3.9% QoQ and 17% YoY. We won an IZO WAN deal for a large global wine company in France. For a large International Airlines, we have been awarded a network transformation deal for 14 countries. Deals such as these are helping us push forth our Challenger positioning in the international market.

Cloud and Security fabric reported a growth of 9.4% QoQ and 18.9% YoY. We have a marquee win in the Security portfolio. We have won a large strategic deal for managed SASE with a large public sector bank in India. This strategic network security transformation involves a comprehensive set of use cases, including secure internet access, private access, advanced data protection, and zero-day threat protection. We are seeing several large PSUs and government entities planning a transition to a unified SASE stack, and this deal places us well to pursue further such opportunities. It is heartening to see that both Next Gen, Cloud and security and Media have grown 25%, 19.6% and 15.1% YTD and better than their 5-year CAGRs.

MOVE™ and IoT fabric reported a decline of 4.3% QoQ and a growth of 5.5% YoY. We had a significant uptick in IoT revenue, albeit on a small base. One large steel company is deploying our SafePass Connected Workers solution. The solution enables real-time monitoring and enhanced worker safety across the plant.

To conclude, happy to see that data and the digital portfolio are gaining momentum. The strategic bets that we had called out - ThreadSpan, Commotion global AI stack, EDP, AI Cloud and MCC + MCN, some of these have already been launched and are seeing several customer pilots, and few will be launched over next couple of months. Capability shift within the company in both products and processes is becoming very evident. We are very well positioned to build on this foundation with discipline, clarity, and ambition. I remain confident that the company's best chapters will be written by the strength of its people, its partnerships, and the trust of its shareholders.

Thank you, and over to you Kabir.

Kabir Ahmed Shakir:

Thank you, Lakshmi.

Let me take you through Q3 financial performance, this quarter reinforces a pattern of continuous improvement, with incremental gains in growth and margins flowing from better capital allocation, operating leverage, and razor-sharp portfolio focus. Momentum across Data revenue as both core and digital are participating in growth this quarter. Q3 FY26 revenues came in at INR 6,189 Cr, growth of 1.5% QoQ and growth of 6.7% YoY. Normalizing for forex impact, the revenue growth is up 0.5% QoQ and 2.2% YoY.

Data revenue grew at 3.5% QoQ and 9.3% YoY. Core connectivity revenues grew by 2.4% QoQ and 4.2% YoY. Digital revenues grew by 4.6% QoQ and 15% YoY. As we look ahead, incremental growth will come from a number of strategic bets that are being commercialized. We will begin to talk about these launches progressively over the next few months.

Net Revenue came in at INR 3,477 Cr., growing at 1.9% QoQ and 4.3% YoY. Overall Net Margin improved by 20 basis points sequentially to 56.2% driven by core connectivity.

EBITDA for the quarter came in at INR. 1,228 Crore, up by 4.6% QoQ and 4% on a YoY basis. Our EBITDA margins for the quarter were 19.8% and improved by 60bps QoQ. EBITDA margins have been on an upward trajectory since 4QFY25 and the 110bps improvement in EBITDA margins over the past 3 quarters reflects the inherent momentum and our commitment to our ambition of 23-25%. Data EBITDA came in at INR 1,013Cr, up 5.1% QoQ and 7.7% YoY. We are happy to note the improvement in Data EBITDA margin to 18.9%, up 30 bps YoY. As data growth improves further with the rollout of new products, we will see margins benefiting from operating leverage.

PAT nearby doubled QoQ and came in at Rs. 365 Crore and 42.3% on a YoY basis. PAT benefits from interest from income tax refund this quarter. We are also taking a provision for Labor Code of INR 61Cr, which is reflected as an exceptional item.

Net debt for the quarter stood at INR 10,080Cr, lower by about 11% QoQ. Net debt to EBITDA came in at 2.16x down from 2.45x previous quarter. In FY16, we invested in a Telecom Innovation Fund, and during this quarter we monetized this investment and recorded gains. In parallel, we continue to deploy capital into innovation-led opportunities aligned with our long-term strategy. Our commitment to funding innovation remains structural and independent of individual monetisation events.

Our fit-to-grow model is enabling us to deliver profitable growth while consistently reinvesting back into the business.

FCF for the quarter came in at INR 1050 Cr, up 3.9x QoQ. The increase was driven by improvement in working capital and tax refund in this quarter. Cash Capex for the quarter is at Rs 575 Cr. ROCE came in at 14.4%. Our ROCE is based on 12-month rolling numbers. ROCE is negatively impacted by TCR costs in Q2 and continued investments in STT. We believe that ROCE has now bottomed out, and with margin expansion momentum we expect gradual recovery over the next few quarters.

Coming to subsidiaries and real estate, the revenues for the quarter were down by 11.3% QoQ and 5.6% YoY. TCTS revenue came in at INR 191 Cr down by 27.8% QoQ and 25.5% YoY. We exited from a low margin contract and that has impacted revenues this quarter. TCTS EBITDA for the quarter came in at 42Cr and EBITDA Margins came in at 22.3%. With our continuous subsidiary review, we have restructured the operations for TCTS over the quarters and now the business is global with a larger focus on international clients. We have been able to turn around the business to healthy double-digit margins in just under two years.

TCR revenue came in at INR 217 Cr, up 7.3% QoQ and 27.3% YoY. TCR EBITDA came in at 112Cr, and EBITDA margins came in at 51.6%, an improvement of 7.5%QoQ and down 21.1% YoY.

With both core and digital contributing to growth and the upward trajectory in margins is driving the overall momentum. This builds the right platform to drive future growth. I will now ask the operator to open the forum for Q&A.

Moderator:

Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session.

We take the first question from Mr. Vibhor Singhal. Could you please unmute your connection and you may ask your question now.

Vibhor Singhal:

Yeah. Thanks for the opportunity and congrats on a solid performance. Lakshmi, wish you all the best. My question was basically on the growth that we have seen in this quarter. I think we have consistently now been reporting kind of double-digit growth in the digital business. Of course, the breakup of that continues to vary across different verticals. So do you feel that the mix that we have at this point of time in terms of the CIS business and cloud and media, this kind of a trajectory of double-digit growth is sustainable over the coming quarters, and we could probably up that bit also in coming quarters.

And specifically on the media vertical, we saw a sharp fall in this vertical on a QoQ basis. I don't know, I'm sorry if you mentioned something about that in your opening remarks, but if you could elaborate, it's fallen from INR 390 crore to almost INR 312 crore in the last two quarters itself. Any colour on that? And when do we expect this to get back? And then I'll have a couple of follow-up questions for Kabir.

A.S. Lakshminarayanan:

Thank you, Vibhor. Talking about the digital growth, I think there is immense potential in all of the portfolios. Our focus on the next gen connectivity. And as I called out in the commentary, the next gen connectivity has existing products, some of it we recently launched and some we are going to be launching even later this month on the multi-cloud networking. All of them are seeing very good traction. So that definitely has a potential to grow at the current or even increased rates. Similarly, on the cloud and security with the investments we are making on the AI cloud, AI studio, strengthening our Vayu Cloud position all of that have good potential. And again, end of the month, we are launching the Edge Distribution Platform, which is a solution similar to what Cloudflare has. It aims to protect those applications which are web facing for our enterprises with a very low latency and a high performance is what we will be offering. So that portfolio also has a lot of legs to grow.

Coming to the CIS portfolio, we think that can definitely grow double-digits. Our aim is to expand beyond the SMS channels, because the SMS channels, the margins are still not very good. We are launching the voice, RCS, and WhatsApp. All of these have been launched in different markets, and we are seeing good progress being made. So that would expand. More importantly, the capability that I called out with Commotion when integrated with these channels with voice AI, an agentic capability to deliver better experiences if our customer is looking at marketing campaigns to acquire customers or to serve their existing customers, all of that can be handled through a very unified platform of agentic AI, voice AI, running on Vayu Cloud, serviced by our own channels. That again has a lot of potential to grow in good double-digits.

Media, also, if I look at the production capability, the Media Edge platform, which we call as the media ecosystem, those have excellent potential to grow. This quarter has seen a slowdown largely because of the World Athletics which that even concluded and that was a fairly large contributor of revenue. But overall, in the long run, we think that would grow. And the end of the month, we also will launch ThreadSpan, a product that spans the LAN, WAN, cloud and security to bring a much more simplified management for our enterprise customers. All of these products will have a lot of leg to grow. On the MOVE and IoT, our focus is going to be largely to get this business back to profitability. We will bet on that more to turn to profitability than to emphasise the growth on that. Largely, that is how I would see in the mix of these two.

Vibhor Singhal:

Got it. That was very helpful, Lakshmi. On the collaboration and CIS vertical, now since it forms almost more than half of our digital revenue, I think we've seen a very good growth in all the 3 quarters of this financial year. Last year, we know that in the CPaaS business

there were a lot of pressure on the top line as the global peers were struggling for volumes in search of profitability. Do you think that phase is behind us now and going forward, the CPaaS business specifically can continue to grow.

And again, on the media business, given that we've reached INR 300 crore of kind of top line in this quarter with the completion of the World Athletics event. Do you believe that this is the normal run rate? Or do you believe in the absence of an event like World Athletics, we can probably take it up from current levels also given the kind of initiatives that we are taking.

A.S. Lakshminarayanan: On the CIS business, I think the growth drivers, as I called out, the SMS world over is growing in 10%-12%. I think we will be careful to focus our business on enterprise segment and look at profitable deals there rather than growing that at any cost. But as I said, there are other channels such as voice, RCS, which has got potential and that has got much headroom. Adoption has been a bit slow in the market. In the long run, we believe the other channels will start to grow well. And as I said, the pull will be from the AI platform that we talked about, and that will ensure that we can elevate our conversations to outcomes to our customers to be able to do that sales conversions or to be able to deliver a better service. And with the world leading voice AI that the platform offers, that all of that offers a great potential.

But do remember that in CPaaS today, the SMS portion is a very large chunk. The newer portions are smaller to begin with. But that's where we will see much of the acceleration coming from. The second big growth driver for us in the CIS business will also be on the contact centre side of the business where we launched a product called TX which essentially sits on top of some of the existing contact centre products whether it's Genesis or Cisco or even AWS, it can sit on top of that. And essentially held a great deal in the productivity to the customers. Productivity of the agents is improved and also, customers are having to do a lot of customisation on these contact centre platforms. And with our TX platform, with all the integrations we have done, that customisation efforts will go down. And we're also combining the Commotion's voice AI and AI capabilities into the TX. So that will be another growth driver. The growth drivers in the CIS business would be the entire the contact centre space with TX integrated with AI, expanding to other channels and the overall AI story that we are saying with Commotion. So those would be the key growth drivers.

The large part of the CPaaS business is SMS, and we think that the market is growing at 10%, and we would see how we can grow profitably with enterprise focus. So that would be the focus that we would have on the CIS side of the story.

Coming to media, again, media is somewhat cyclical based on the events that happens. But having said that, we are also expanding the media story beyond the sporting federations into the broadcasters. We announced a large deal last year in the Latin American market. That is one. Second is we won a fairly large deal in the U.S., again, in the broadcaster segment, bringing together again, the capabilities of the Switch Commotion as well as our media edge capabilities to transform. And third, even in India with one of the broadcasters today, we are responsible for a lot of live sporting events play out. And that we are doing from this very building that we are sitting today. All of that are new capabilities, which are the accelerators as the growth for media business. Some of it will be steady. It's not that seasonal. But the traditional business that we've been doing for federations are seasonal and a bit cyclical, but the business has good potential to grow in the long term.

Vibhor Singhal: Got it. Thanks a lot for giving those detailed answers, Lakshmi. Kabir, just got 2 questions on the financials. If I look at the overall the consolidated margins as well as, let's say, the data margins, they have expanded QoQ but I mean, the highly demanding analysts that we are, I believe, the pace of the margin expansion still appears to be a bit on the softer side. And specifically now that now digital is almost half of the data revenue. Do you see the

pace of the margin expansion pick up in the coming quarters? And how far do you think are the digital margins, let's say, from breaking even either individually or any other colour that you can provide on the breakeven point for the digital subdivision.

Kabir Ahmed Shakir:

Thanks, Vibhor. We don't ever apologise for being the pushy and demanding unless that you are, you make us better, Vibhor. So really love the conversation that we always have. I think it's a good question, great question. But I would also say on a serious note, we are walking and chewing gum at the same time. We are doing repairs with the mains on as far as the digital portfolio is concerned. I mean Lakshmi talked about CIS, and you've seen CIS growth. CIS has also become bigger, but this is also a business when we actually bought from Kaleyra, had a lot of elements in the business where we wanted to move away from traditionally acquiring volume for the sake of acquiring volume, but going into more profitable. We wanted to change the mix of the business, and it's taking time, I would say in the last 2-3 quarters, really kudos to the team and the business they have are changing the colour of both the NR profile that we're getting from CIS. Also the cost profile that we have some very hard calls being taken on that to improve the profitability. I would say I'm quite pleased with the progress that CIS is making. And since we are talking about it, it is while Commotion also has happened not just for CIS, and I think Commotion has the AI capability that it can impact positively the rest of the organisation as well. But we do believe that would be a very good, I would say, niche that we can have where the conversation with our customers can shift away from price to value. I mean that's what the capability that Commotion can actually bring in. We have this good engine of SMS, but the moment you add the intelligence layer and composable layers on top of that and the unique capabilities of voice-to-voice that we have been suddenly the kind of opportunities that can give us as a healthy margin kind of opportunities we give us is immense, and we are excited about it. So that's on CIS.

Likewise, I can go into each and every business. We are taking both surgical actions in terms of improving the cost structure and making them fit to compete today while also having the eye on the ball to invest for the future. Horses for courses for different businesses. That was one example, the 5 strategic bets that we called out on the Investor Day. Lakshmi alluded to a couple of them just now. We are excited about the launches that they will bring. These are all SaaS-based margins. The margin profile, the NR profile of this are going to be like a typical SaaS company profile. It's not the kind of NR profiles that you've seen traditionally in TATACOMM. We are quite excited about this. Mix operating leverage, cost reduction is I would say, a combination of all of those things. Internally, we have a first tracker of each of these digital businesses when they will get the LOB margin before the general cost gets allocated to them. When do they get breakeven and positive and destination on that and when do they get to EBITDA. And that is a varying timeline depending on each of the portfolio segments and consolidated of that is what we gave in the Investor Day that we are in that trajectory.

I must admit we are a little slower than what we wanted because in this particular quarter, for example, I mean we don't call that out because as I said, we are walking and chewing gum. We gotten out of an onerous contract in CIS, for example the cost of it are already absorbed, even though the contract expires next quarter that costs have already been taken in this quarter itself. The multitude of actions that are being taken, I am quite confident that we will should get to digital breakeven in the near to medium term. And by our ambition time frame, we should have the digital portfolio at its destination margin.

Vibhor Singhal:

Right. Just for a second, and I thought you will not say near to mid term and you'll probably give me a quantified timeline of months or quarters, but I get that. If I can push my luck which of the sub verticals in digital, do you think will breakeven first?

Kabir Ahmed Shakir:

I mean you're really pushing my luck and I mean CIS definitely, yes. I think we have a path for that to happen. And as Lakshmi said, media is cyclical. There are event based. We have very good logos, and then we need to utilise those logos and get the cost structure fit for

purpose as well. Very clearly, these two of our business is where clearly, our focus is to get them into the black.

Vibhor Singhal:

Got it. Just one last bookkeeping question from my side. The TCR margins have been all over the place, 72%, 44%, 51% as a modelling exercise, where do you think the equilibrium will be for the TCR and what should we take for the margins going forward?

Kabir Ahmed Shakir:

I had mentioned before, it's mid-50s is what ideally it should settle down at. There are some business model things that we are working on Vibhor. And this is all WIP as we have. And once those get fructified, is when we will have a complete clarity on what it is. We had already indicated that those margin levels were high and we will come down to a reasonable level. In the last quarter itself, I had mentioned to one of the questions that was raised that it should be in the mid-50s.

Moderator:

Thank you. That was from Mr. Vibhor Singhal of Nuvama Equities. We will now move to our next question. That's from Aditya Suresh of Macquarie. Please go ahead.

Aditya Suresh:

Thank you. Lakshmi first is congratulations and wishing you the very best. Just for this quarter, I had 2 questions. First is, any large customer deal wins you'd like to call out this quarter, you'll typically give us that million-dollar customer journey. Any kind of update on those metrics? That's the first one.

Second is on the data centre opportunity. We've seen quite a few large hyperscale announcements in the past several months. Could you maybe just talk through how you're seeing the data centre opportunity and what this could mean for your core connectivity segment in India? Thank you.

A.S. Lakshminarayanan:

I didn't get the second question properly, Aditya.

Aditya Suresh:

Just on the data centre opportunity, Lakshmi. There have been quite a few hyperscaler kind of announcements. Is that translating into kind of or how are you seeing the data centre opportunity in India for your connectivity segment?

A.S. Lakshminarayanan:

No, I think to take the second question first, the data centre. Data centre opportunity is great in India. We are continuing to be the leader in that space and keeping the market share there. And even in my commentary, I called out, it's not a data centre, data centre connectivity, but it's a core connectivity deal that we announced. It's a fairly large deal to help an OTT content provider to land and connect. So that's the space in the core connectivity. And in the core connectivity also, we have seen an uptick because of the Internet traffic going up, our Internet-related core connectivity products have seen an uptick this quarter. Also the core connectivity will see, again it had fallen in the last quarter because of the cable cuts. We do still suffer from the cable cuts in the Red Sea area and it's not fully out of the woods or out of the sea yet. But despite that, we've seen a good growth in the core connectivity this quarter.

Coming to the colour of some of the other deals, I did mention that in U.K. and Europe, we have one large network transformation deals. In France and one of the wine player and one large international airlines again in that region. There are deals in the U.S. in that space. We are also hiring a good amount of deals in the Wi-Fi space. We called out the deal on the security space.

On cloud, which was somewhat muted for the last 1-1.5 years, we have seen an uptick on the order booking this quarter. I think from an order booking perspective, it's been fairly well rounded across all the fabrics is what I would say.

Moderator:

Thank you. Our next question is from Sanjesh Jain of ICICI Securities. Please go ahead.

Sanjesh Jain:

Hi. Good evening all. And thanks for taking my questions. First, Lakshmi now that you're stepping back. Just one question. You inherited a company with multiple challenges. Probably you are leaving a company with multiple opportunities. Some of the things you think you would have done better or different that you want to share? That's number one.

Number two, how do you see this company evolving or where do you see this company has the potential to reach in next 3-5 years?

A.S. Lakshminarayanan:

I think the first one is a harder question, I need to reflect. I'm sure there are things that we could have done better and so on, but there's nothing specifically that occurs in my mind because the capability shifts requires a number of things to fall in place in terms of building that capability, the significant amount of culture change all of that are big ticket items. All of those, I think the teams have done tremendous work in getting to where we are today, and it's kudos to the team to get us where we are.

Very pleased with the platform that we have for future growth in terms of the product profiles, Kabir called out that some other strategic bets that we are calling out. Some of the new products are SaaS like products. All of it are leveraging the native capability of infrastructure, be it network or compute or all these capabilities. I think with this, I'm very passionate about at the risk of repetition, I would say about relevance to the customer. And that was one of the major missions that we had to say, if you stayed where we are, we are increasingly becoming irrelevant and commoditised.

Today, it's not just a \$1 million customers. And on my commentary I said there is an uptick in that. There is uptick in \$10 million customers. But that comes because we are able to have a conversation with a CIO or CTO or today, even with the CEO about how we can participate and help them in their transformation. That's a very big shift for us in terms of the relevance. And with the relevance comes our ability to participate in opportunities, and then with participation comes the winning and execution that comes down the line. I do believe that we are only scratching the surface. We have a solid platform on which the company can grow and build.

Sanjesh Jain:

Thanks Lakshmi for that. Just one question to Kabir. Kabir, the digital portfolio net revenue still appears to be quite soft, whether I look at sequentially or YoY. It's a decline. Though revenue numbers do give a slightly better feeling of a 15% YoY growth and 4-odd percent sequential growth. But the story on net revenue is quite different, which is still not encouraging or which still doesn't put us to a path where we can go to a breakeven at the EBITA level, because if net revenue is declining, which means our losses would have only expanded. How do we correlate this and what is not getting translated from say, a gross revenue to a net revenue and then to a profitability?

Kabir Ahmed Shakir:

I mean I need to probably then getting into specifics here, which I cannot, Sanjesh, but I'll still try and give you some comfort as to what is going on underneath this. In this specific quarter, as I alluded to Vibhor's question earlier, there was an onerous contract, which we have chosen to exit because I mean in that particular market in CIS, the WhatsApp cost is even lower than the SMS cost. And therefore, we've said, look, it just doesn't make sense for us to continue anymore. And that alone was like a 100 basis points impact in the quarter. Likewise, there are two other deals, which we did and depending on the kind of a delivery schedule those deals when they recognised both revenue and costs in this particular quarter came at a dilutive margin profile. So that explains the one-off in the quarter in the digital portfolio. We actually, we examined it quite surgically on each of them. None of them are structural in nature. So that should give you some comfort, not necessary to say that we are happy with what it is, but at least they are not structural. And hopefully, we should learn from this and not repeat this and we get to a profitable profile. I would only enhance the same answer that I gave to Vibhor that we are seeing at least CIS to start with and then media then these two business to get to breakeven soon and to destination in EBITDA as well. So forget the oddities of this quarter which are one-offs.

Sanjesh Jain:

But Kabir, just a larger question here, did we really get aggressive pushy to buy Kaleyra because it's been now, what, more than 1.5 years, close to 2 years. And we are still cleaning up the book onerous contracts and all those things. What's the learning for us from the 2 acquisitions we have done and which should implement for the future, at least we don't repeat these things?

Kabir Ahmed Shakir:

I wouldn't say we were aggressive on anything of that sort, Sanjesh. And in this particular contract that I said is not Kaleyra is doing, it was a contract that we signed after the acquisition. So let's also call performance out where it really belongs, and it's very easy to brush under carpet and blame the past. That's not the case. I think we have a good capability in Kaleyra. It's a great asset that came at a great value globally.

Given the ambitions that we have with Commotion with AI that we will bolt on top of that, this can really be a good asset for us. We fundamentally believe that. Had we done stayed the course in this particular place with DIGO, we would have burnt a lot more cash, and we would have taken a lot longer to get to this level of revenue. So if you see from that perspective, I think it is indeed a good space that we would be in. We had estimated when we took Kaleyra that there will be certain channels. I mean, like 92% of the business was A2P and 8% was the other profitable channels. I mean, Lakshmi mentioned voice RCS, for example, has not picked up and not been adopted as much as we thought it would with giants like Google behind it. It's a matter of when and not if, so are we poised for all of those things. If I look at from those opportunities point of view and our business structure point of view, the cost synergies we got it kind of almost on target. The revenue synergies is what we knew that it's got delayed by a year for multiple factors, I would say, more than 3/4th of the factors were external rather than internal per se.

On hindsight, if I go back, yes, we do have got Kaleyra and let's not forget, we are, again, for the sake of transparency and governance. We have carved out TCR and showing TCR separately. It's a business which is profitable. It has grown significantly from what we actually bought before. If I add the two together, we are getting value from that business. And we have to be truthful and see the numbers the way they are.

Sanjesh Jain:

No, that I clearly appreciate Kabir. And Lakshmi, one on the order book, it's been probably now 4 quarters or 5 quarters, we have been speaking of a very strong order book. When should we really see this hitting into a revenue growth and translating into a double-digit EBITDA growth for us because we are still, I think, lagging significantly behind both on revenue and EBITDA growth.

A.S. Lakshminarayanan:

Sanjesh, I don't know whether we're flagging strong or we flagged a strong order booking in Q4 and Q1 of FY 2025. And at the time of order booking, I did say that one of the large orders, we will see the revenues starting to come in the later part of FY 2026, which is what you are seeing this quarter a part of the revenue, and I called out in my commentary, which is one of the reasons why the core connectivity has seen an uptick in growth. And after that, in subsequent quarters in FY 2025, I did say that the order booking was more in the stable region and not gone back to the same levels of increased order booking that we called out in Q1 of FY 2025 and Q4 of FY 2024. Those are the 2 quarters we called out exceptionally good order booking. So that's the data. That is what we've been calling out, right? And after that, it's been a fairly stable order booking, nothing to write home about. It wasn't declining, but it wasn't back at that levels of order booking that we had called out. I'm calling out this quarter that we had a very good quarter of order booking. There was 1 order again in the core connectivity space that I've elaborated. But even if I removed that large order, in the rest of the business also, there has been a good uptick in terms of the order booking on a QoQ and on a YoY basis. So that's the data point as far as the order booking is concerned.

Sanjesh Jain:

No, I appreciate. I'm telling that we thought we were any which way it was doing 14%, 15%, if I go by the historical rent rate. And that we had a couple of quarters very strong and

then a very stable order book. I thought that would have helped us to, and significantly we called out that a lot of 70% plus are coming in the digital portfolio. I thought we would have crossed 20%. I think for quite a few quarters, it appears that even on a low base or a favourable base last year ex of acquisition and the growth was quite muted.

On a favourable base and a stable to a better order book, I thought we would have done better. So just wanted to understand, how should we reconcile this? Or is there a real potential for us to grow beyond 20% because that is really what the company need to achieve the INR 28,000 crore of revenue.

A.S. Lakshminarayanan: Yeah. No, I think if you ask me if we have the potential to grow. Yes, I mean, I think the previous question I did elaborate in each other areas in next gen connectivity, there are some new products and next gen connectivity by itself has been doing very well. In cloud and security, I did call out, the cloud was a bit muted. We have been doing very well on security side, but we have seen an uptick on the cloud order booking, and we think that has got a great potential to grow. Each one of them. The only platform I called out was the MOVE and IoT where we are sort of looking at the business to pivot to profitability. We are looking at how the product lines within that can be consolidate and rationalised a bit more. We want to get that to a state of fitness before we focus terribly on growth on that side. But other portfolios, whether that Next Gen connectivity, the cloud and security, the CIS platform, the media, all of them have potential to grow 20% or more.

Moderator: Thank you. Our next question is from Vinit Manek of Karma Capital. Please go ahead.

Vinit Manek: Firstly, wishing you Lakshmi, a very all the best for your future endeavour. Most of my questions have been answered. Just 2 clarification needed. One to Kabir on the TCTS part of the revenue. Where should we look at this bottoming out and from there, how should we look at growth? As we said that most of our baggage has now been cleared. So how should we look at this segment from a top line perspective going forward?

And the second thing, also can you help us understand on the sudden increase in the depreciation during this quarter. What was the reason to it? And how should we look at the sustainable number going forward?

Kabir Ahmed Shakir: Thanks, Vinit. Let me answer the TCTS question first. We did have 2 large businesses that TCTS did domestically in India. We got out of that one of the contract, which is the largest one last year. We spoke about it as well, and that was a big top line drop that we did, but it came at a huge accretive margin percentage perspective because we were losing money in that particular contract. The second one was this. This also was a loss-making contract for now we have got out of. I would look at TCTS now in the last 7-8 quarters and absolute kudos to the management team. They have done a phenomenal job in taking these hard calls and managing our way out without any issues to our customer and did the transition management very well, even though they were loss making contracts. This business is now largely international and the margin profile, as you see from this quarter is in the 20s. We are hoping that this business going forward also are going to take businesses. It's all very pure services, of course, in the telecom and the network space but it's going to come with that kind of a margin profile if not better and focus towards export and towards international operations. That is how you should look at TCTS. And now with the baggage gone, we are looking to task them with high growth targets, which is what the team is capable of and it comes with very less upfront investment or anything that we need to put in. We will encourage the management team to really go and realise the potential, which quite a few deals are in the pipeline. We have visibility to and which we are encouraging in the management to do that.

On depreciation, technical accounting point, Vinit. I wouldn't really worry about too much was and one specific deal where it is the nature of an IRU. If it is the nature of an IRU, it doesn't sit in OPEX, it goes as depreciation. It was effective 1st of April, but the contract was signed on in October. So that's the reason why the sudden increase that you see is the

reclassification done from the first of April onwards, because only when the documentation was in place and the contract was signed with the customer, could I effect such changes.

I wouldn't worry too much because we don't structure the deals driven by accounting reasons. We structured the deals driven by customer needs and what the customer wants. In this particular case, once that deal was inked and the documentation was available. This was the right accounting entry. So the team went ahead and restated it such things like this have existed in the base as well because it was, and then that normally concludes within the quarter or maximum one quarter. I mean this time that it just went through three quarters. And that's the reason why you're seeing the impact.

Vinit Manek: Got it. So it will be onetime in nature. And from next quarter onwards, we should see a normalised depreciation.

Kabir Ahmed Shakir: Absolutely, you're right.

Vinit Manek: Got it. And so we can say that in TCTS, the large part of cleanup has happened and there is not much left? Or do you still see there is some more clean up that is yet to happen?

Kabir Ahmed Shakir: Well, there is no domestic business left. It's all international business. So none of those deals are loss making deals as we have but I will say never to any of those things because you never know in these geopolitical situation tariffs and on various things that are in play and global M&A plays that really happens. We have to be watchful of changing things but I think the clear coaching, not just I would say TCS, but I would say even to the digital portfolio business teams and leadership is managing with resilience, the entire business has been navigated through these ups and downs. So that's where I will leave that.

Moderator: Thank you. Our next question is from Balaji Subramanian of IIFL. Please go ahead.

Balaji Subramanian: Thanks for taking my call. Good evening and all the best, Lakshmi on your future endeavours. I just had a quick couple of questions for Kabir. These are housekeeping in nature. You wouldn't say that this IRU charges have to be expensed below the EBITDA line item. Would there be any change in the QoQ and YoY EBITDA numbers that you reported, which is 4% YoY and 4.6% QoQ. If you make adjustments for this. That is number one.

Kabir Ahmed Shakir: Go back and adjust Balaji, even the prior quarters also, right. I mean it doesn't work only in one quarter know.

Balaji Subramanian: Yeah. So is there any bunched up impact this quarter? That is what I was trying to understand. So will the underlying numbers be any different if the accounting treatment were to be removed the effect of the accounting treatment were to be removed?

Kabir Ahmed Shakir: If you take short term, yes. If you take over a year, no, because it gets evened up.

Balaji Subramanian: Any sense on how much that delta would be on a QoQ basis?

Kabir Ahmed Shakir: I mean, I don't want to call out the specifics. I don't have it. Why don't you connect with Rajiv and I'm sure he can explain the maths to you, Balaji.

Balaji Subramanian: Yeah, sure. And the second one is on the improvement in NR to GR ratio in core connectivity. So anything to call out there? I think this time, it was around 83%. Usually, it's around 80%-81%. So anything to call out there?

Kabir Ahmed Shakir: I would say, operating leverage growth and the mix of growth v/s international v/s India. Nothing specific to call out.

Moderator: Thank you. Our next question is from Avnish Tiwari from Vaikarya Change LLP. Please go ahead.

Avnish Tiwari: Hi, Lakshmi. Congratulations to bring the company where it is, the transformation. And wish you very best in the future. I have 2 questions. One is your successor Ganesh, can you help us, what were the change capabilities in the Board and you looked in where the company's trajectory has been in last few years, which we have transferred in terms of capabilities and everything. What you are looking in the new leader. So if you can just help us understand how we should think this transition will work out? That's my first question.

A.S. Lakshminarayanan: Yeah, Avnish, thank you for your wishes. I would only talk about the process. It's been, why the NRC and some committees where the Board looked at extensive set of candidates and went through a process to arrive at the answers. We had clearly created a set of requirements in the job profile in agreement with the Board, which clearly is to see how to take this company forward in terms of leveraging on all the changes that we have made, bring more AI and capabilities on the platform side and grow the business. And that's how the selection came about. I don't want to talk about anything specific. You will get to meet and hear from him soon, but be assured that it went through a process to make sure that the company can move forward at an accelerated pace.

Avnish Tiwari: Great. Now, this is super helpful. The second question I have that you have built great capabilities, and I think the growth is also you said in order book, at least, we are seeing some signs emerging. What do you think this whole, we see the AI a big CAPEX, maybe it's right now hardware side that piece you have been trying to grow this company, very hard efforts you put in. So in terms of headwinds and tailwinds and as you leave this footprint, how are you seeing the overall outside the company's control kind of headwinds and tailwinds you're experiencing in your platform?

A.S. Lakshminarayanan: No. We've been calling that out even in the IR day, if you see there are 2 things. One is the macro environment is not very helpful, and that's continuously changing and the uncertainties there means that the businesses are cautious. But on the positive side or the tailwinds are the huge changes that are brought about by AI and the potential that AI offers to enterprises to transform themselves. And we are only scratching the surface as far as the enterprise adoption of AI goes and they have to now build new class of applications that are intelligent. And that would mean that the entire digital infrastructure has to be significantly looked into and transform. They have to look at, when I say AI adoption at scale, many enterprises are still taking a very use case approach. Every use case is a project and each of the project takes a long time. And that is where a platform like Commotion that we are bringing in brings a more platform-centric approach to AI. In a sense, we are trying to say that it's like an AI operating system.

Today, as you pointed out, it's more the beneficiaries of AI are the chip manufacturers, the hardware, and that's where the bulk of the spend is going and then the attention has come to the models. Models also, there are not going to be too many models. Large models are going to be consolidating and there won't be any issue. And then the enterprises have to look at doing their own small models, fine-tuning, and building applications at scale for which they need to bring a lot of data integration together, putting a lot of guardrails so that the AI can be trusted. All of that is what I'm calling as an AI operating system that needs to sit on top of the current system of records. And that's where our full stack capability with Vayu AI Cloud, the strength that we have in connecting all of these clouds, the AI studio and the platform that sits in above will help customers to navigate these transformations. Largely, that's the sort of the headwind and the tailwind and how we are positioning ourselves to prepare ourselves and prepare the customers for the future.

Avnish Tiwari: Just maybe one last piece. This AI infrastructure CAPEX, you were doing that NVIDIA kind of partnership. Is there some traction to think there also you have a role to play as in India, AI infrastructure comes up?

A.S. Lakshminarayanan: Yeah, we do play. We have a partnership with NVIDIA because of which we've launched our AI cloud and the AI cloud we are targeting more of enterprises. And as I called out in my

commentary, we are beginning to see uptick in the adoption of our AI cloud, both for training as well as for inferencing. We are also launching our AI studio that sits on top of the cloud for customers to build their own AI applications. Ours will be a fully integrated stack right from GPU to AI studio to building Agentic AI with the Commotion platform, and that is our play in the market.

Moderator: Thank you. That was the last question for today. I now hand the floor back to Mr. Lakshminarayanan for closing comments. Over to you.

A.S. Lakshminarayanan: Thank you all again. I know many of you called out to wish me luck for my stint after. But thank you for all your support. And as I read out in my commentary, we'll keep our heads down and executing this quarter, and we think we have a great platform on which the company can go forward.

I want to call out that the momentum that we've seen on the growth is something that we would want to build on. And the strength of the company is being very close to the customers. The NPS scores are great and our relevance to the customers are increasing. With that, we think we'll execute with all the focus that we need to execute. Thank you so much for all your support.

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.