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Q2 FY2023 Earnings Call Transcript

MAIN SPEAKERS:

AS Lakshminarayanan, Managing Director and
Chief Executive Officer

Kabir Ahmed Shakir, Chief Financial Officer

Chirag Jain

Good afternoon, everyone, and welcome to the Tata Communications Earnings Conference Call for Q2 FY23. We are joined today by our MD and CEO, Mr. Amur Lakshminarayanan and our CFO, Mr. Kabir Ahmed Shakir, and our head for Investor Relations Mr. Rajiv Sharma. The results for the quarter ended 30th, September 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. The company does not undertake to update these forward-looking statements publicly.

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

AS Lakshminarayanan

Thanks Chirag and Good Afternoon everyone.

Before we commence today's call, I am very pleased to welcome Rajiv Sharma, our Head of Investor Relations to the Tata Communications family. Rajiv has more than 20 years of experience across Equity Research, Corporate Strategy and Investor Relations and we are very pleased to have him with us. He will be reporting to Kabir and will be supported by Chirag. I wish them the very best in their new roles.

With this, I welcome you all to Q2 FY23 Earnings Call and happy to share we have delivered more meticulously on our 'Reimagined' strategy. Our Products to Platforms shift, increased investments in front-end sales, particularly in the international markets and building new capabilities across the portfolio continue to help us deliver robust results, with our Data Revenues growing by 11.2% YoY this quarter. We remain committed to building digital ecosystems for our customers by co-creating innovative solutions, and delivering agile, connected, and secure solutions.

Doubling down on customer centricity, we soft launched Tata Communications TC^x, our customer experience portal and our digital store for our Indian markets. This is enabling us to digitise customer touchpoints, simplify their process interactions with us. Having received encouraging feedback from our customers, we are planning to launch Tata Communications TC^x covering additional products in India and also extend it to international markets.

Our vast investments in core infrastructure and digital capabilities, in line with emerging technology disruptions and evolutions, give us the confidence to efficiently cater to our customers' evolving digital transformation needs.

We continue to be a leading player in the India's Large Enterprise B2B segment and are strengthening our positions ever more. We are witnessing a healthy growth in our international revenue trends, both on a QoQ and an YoY basis, which is steadily progressing us towards our long-term ambition of improving the international revenue pie.

Moving to our performance for the second quarter of FY23. We have delivered a strong YoY Data Revenue growth of 11.2% with healthy margins. Our data business remains instrumental to our overall revenue. It improved sequentially by 4.6%, coming in at INR 3,493 Crores. Our Digital Platforms and Services revenues stood at 998 Crores, registering a healthy growth of 16.5% YoY and 6.1% QoQ.

Our Q2 consolidated revenue was INR 4,431 Crores, improving by 6.2% YoY and 2.8% QoQ. EBITDA for the quarter stood at INR 1,130 Crores, increasing by 1.5% YoY and 4.9% QoQ, while the EBITDA Margin stood at 25.5%. The profit

for the quarter was INR 532 Crores, improving by 25.1% YoY.

We witnessed a profitable data revenue growth despite ongoing supply chain headwinds mitigated by all our actions we have spoken about earlier. We do not see supply chain headwinds bottoming out yet nor do we see it worsening any further from where we stand. Our funnel additions have also been healthy across the portfolio, with a strong build up in our Digital Platforms & Services and Incubation Offerings.

Let me give you some more details about our Data portfolio. I would want to start with and spend some time talking about our strongly growing Incubation portfolio.

We have a three-pronged strategy here, especially relating to our Connected Solutions: one is ON-campus, second being leveraging private networks and lastly, being off-campus. The On-campus opportunity is driven by our IoT solutions where we cover enterprise segments as well as smart cities. Some of the core enterprise and Smart cities solutions are deployed at scale, and our objective is to deliver high RoI solutions for our customers which drives our leadership in the Industrial IoT space. To strengthen our offering in these private networks, we launched our Private 5G Global Centre of Excellence in Pune to accelerate Industry 4.0 applications and capabilities for enterprises. For our Off-campus offerings, it is our MOVE™ platform which gives us the right to win across connected solutions. Our in-house capabilities are helping enterprise realise business workflows which have massive cost efficiency and generate new revenue streams through platforms like connected vehicles, connected crews, smart manufacturing and MVNO-in-a-box.

The Incubation Portfolio progressed multi-fold growing by 181.8% YoY and 36.1% QoQ.

And our Core Connectivity Services grew by 5.9% YoY and 2.7% QoQ. This continues to be on the back of our strong underlay capabilities which continue to deliver consistent performance. Our focus here is to continually invest in the core capabilities, thus transforming our networks to accelerate new market needs.

Now, coming to our Digital Platforms & Services portfolio, it has grown at 16.5% YoY and 6.1% QoQ.

Our multitude of offerings in the Digital Platforms portfolio are intended to consistently deliver more holistic solutions, stitching multiple products together for our customers' ecosystems. This, as we are beginning to call, is our digital fabric which helps create a robust moat around increasing customer stickiness and insulates us from the structural pricing decline seen in the legacy businesses. The portfolio grew broad based across all offerings.

Our Collaboration Portfolio grew by 1% YoY and 2.8% QoQ. We continue to benefit from an increasing customer interest in our newer offerings namely GlobalRapid™, InstaCC and Tata Communications DIGO. We believe with the help of these new offerings the portfolio will witness increased momentum as we progress. Tata Communications DIGO, is an offering to enhance Customer Interactions and Experiences. Through this, we continue to partner with enterprise customers to deliver customised, converged, and contextual conversations for their end consumers-on-the-go.

Moving to, our Cloud, Hosting and Security. This portfolio registered a growth of 21.9% YoY and 5.8% QoQ. Our cloud offerings are much broader today as we help customers in their multi-cloud journey with multi-tenant private cloud, industry community cloud, cloud platform for Kubernetes and analytical solutions. Our ability to broaden this portfolio is one of the key catalysts helping us to drive growth in the medium term. IZO™ Multi-tenant private cloud is getting more visibility and acceptability across use cases involving predictable workloads. Broader focus is winning in the private cloud space and the adoption is increasing across the board. On our security business, our Cloud SoC is driving our growth this quarter. In addition, we are investing in thematic solutions, thus propelling deeper engagement with customers.

Our IZO™ Fin Cloud for the India BFSI space which has stringent data privacy and security guidelines and our remote security offering via our Cloud SOC offerings are being embraced by key institutions in India. For instance, NPCI has adopted our cloud SOC this quarter and REBIT, a unit created by RBI embraced our security monitoring services across their IT infrastructure. In addition, we have leading private sector banks and international banks taking our cloud offerings to maximise employee efficiency and improving customer interface. We are providing banks with a fail-safe mechanism as per guidelines of RBI. Our wins in the BFSI space are setting us well for the immense potential this segment offers. In addition, it is allowing us to align our DPS portfolio more towards recurring revenue streams.

Coming to our Next-Gen Connectivity offerings, this increased by 31.9% YoY and by 15.3% QoQ. We are witnessing healthy growth and are winning due to our recently launched IZO™ Internet WAN and SD-WAN variants. We have further expanded our SD-WAN offerings and, our funnel and order book continue to be healthy in this segment. Moreover, we remain agile and continue focusing on adjacent opportunities around multi-cloud connectivity. We already have three major international multi-cloud connect customers.

Our Media Services revenue grew by 39.8% YoY and 5.7% QoQ. Our media & entertainment business continues to see sustained growth underpinned by the transformation taking place in this industry globally.

We are empowering global sports to reach billions of fans worldwide with our built-for-media and edge-based offerings. We supported 4,000+ events reaching over 2.5 bn viewers globally this quarter. Our media ecosystem delivers live matches to viewers devices, giving them live-like experience, taking them into the action like never before. At the same time, we are focusing on global Edge opportunity with media and video native edge cloud deployed globally. This supports low latency video streaming and other applications that need video processing close to the edge. This has witnessed good growth directly with global media organisations and media service providers.

To sum up as a digital ecosystem enabler, we remain committed to building innovative and scalable platforms to empower enterprises.

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

Kabir Ahmed Shakir

Thank you, Lakshmi. Good afternoon, everyone. I will take this opportunity to take you all through our financial performance for the quarter.

Q2 of FY23 witnessed healthy growth coupled with strong operating performance. Our Consolidated Revenue for the quarter stood at INR 4,431 Crores, improving by 6.2% YoY and 2.8% on a sequential basis. Our EBITDA for the quarter stood at INR 1,130 Crores, reporting a margin of 25.5%. Our absolute EBITDA grew by 4.9% sequentially and 1.5% YoY.

Our Data Revenue reported strong growth momentum, both QoQ and YoY, across all our offerings this quarter despite the challenges around OEMs. Our key performance indicators in terms of funnel, order book and win rates continue to improve giving us the confidence to step up growth once we see some softness around the supply chain constraints. Data revenue for the quarter stood at INR 3,493 Crores, improving by 11.2% YoY and by 4.6% on a quarterly basis.

Voice business continues to decline in line with market trends. However, we witness an improvement in our Voice Net Revenue and EBITDA Margins, primarily driven by India market shift which has improved realisations. In our view, this is an industry wide phenomenon and seems to be short term in nature.

Moving to subsidiaries, we see a steady improvement in TCTS. TCTS revenue improved by 1.4% QoQ, though it declined as compared to same period last year, coming at INR 322 Crores. EBITDA for TCTS stood at INR 5 Crores for Q2. Our Payment business continues to make positive shifts as we expand our portfolio under the Franchise model. Revenue for the quarter came in at INR 46 Crores, improving by 4.1% QoQ and 12% YoY. As on date, we have added close to 2000 Franchise ATMs to our portfolio and are sharply focused on increasing this further.

Economies across the globe continue to witness a series of interest rate hikes, thus increasing the overall borrowing costs and are expected to rise further. This has impacted us as well, with our interest costs increasing sequentially by eighteen crores this quarter. Our current cost of borrowing stands at 3.69%. We have a well-defined Interest Rate Management Policy in place to mitigate such impacts by establishing an optimum mix of floating and fixed rate loans and taking other necessary steps as and when necessary. We will take a balanced view on capital spends to support our growth ambitions versus the need for debt reduction to better manage this volatility.

PAT for the quarter came in at INR 532 Crores, as compared to INR 544 Crores in Q1 of FY23. Our PAT Margin stood at 12% for Q2 and improved by 180 basis points YoY. Our PAT for the quarter was positively impacted by better profitability and certain tax adjustments. This is because we recognized a deferred tax asset of INR 29 Crores for a couple of our international subsidiaries in the current quarter. Our efforts to simplify our operating model and increased investments towards customer success in international markets have started yielding positive results. Thus, our international business has started showing improvements in terms of operational profits, giving us visibility on utilization of NOLs in the near-term. Hence, we have revised our policy to recognize deferred tax assets basis near-term profitability and will be doing so on a rolling basis going forward.

Cash Capex for the quarter stood at INR 324 Crores, though our approved capex is greater than INR 500 Crores. Committed capex for the quarter was at INR 421 Crores. Much of this variance can be attributed to the ongoing supply chain issues and delayed deliveries which already have been called out.

ROCE for the quarter stood at 27.7%, well above our guidance. Net debt as on 30 September stands at INR 6,400 Crores. Net debt to EBITDA is now at 1.5x as compared to 1.4x last quarter. This increase is largely due to a higher dividend pay-out of INR 591 Crores to our shareholders this quarter. Our cash flow generation continues to be healthy, reporting an FCF of INR 617 Crores this quarter.

In line with our growth ambitions, we continue to augment our staffing capabilities and invest in internal and external engagements. We would see some of these costs, further ramping up in a phased manner as we progress into the second half of FY23. Thus, we continue to maintain our margin guidance in the 23-25% range.

We have received a revised demand of our AGR dues amounting to INR 4,981 Crores this quarter from the Department of Telecommunications. This demand includes a levy of license fees on our Non-Telecom Revenues, “exceptional items” and “other income,” as well as the interest, penalty, and interest on penalty around these line items. The entire matter is sub judice and our multiple appeals are pending before the Apex Court and the Madras High Court. We have obtained independent legal opinion in this regard and believe we have sufficient ground to defend our position. As such, we have recognised this as part of our contingent liabilities.

Our strong operating performance will be a steppingstone for the company’s future. We remain committed to delivering a superior customer experience through our best-in-class bespoke solutions, enabling them to digitally transform their businesses and equipping them with the ability to innovate, transform and grow.

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

Chirag Jain

The first question is from the line from Riddhesh Gandhi from Discovery Capital. You may now ask your question.

Riddhesh Gandhi

So, to understand your digital platforms and services, we have gone into the negative EBIDTA, is it because of actual investments in actual projects, which we expect to recoup over the next few quarters, or is it just a slowdown or how should we look at that?

Kabir Ahmed Shakir

I mean, I have guided the market earlier as well. I mean, let us not get into each line item because there are peculiarities and specifics, quarter to quarter. I think I would encourage you to look at the data services, and the portfolio as a whole, and also to look at the overall, company portfolio as a whole. I think, this quarter although the guidance, has been that we will probably be in the low to mid part of our range, for the year we've been helped by various things by positive forex, we've been helped by the market shift that I mentioned of and as a company, we are delivering EBITDA, at the higher end, or even breaching the higher end of the range, there are very specifics, the deal related non-deal related that sometimes go into each of these things that don't deter away from the strategic direction that the company is taking.

Riddhesh Gandhi

No, the only reason I am asking is that because we do break this up, and historically this was the loss-making area, which would then become profitable. So, wanted to understand the profitability that is driven by some COVID revenues, which are the replaceable, or effectively are they sustainable, or is this an exceptional for this quarter.

Kabir Ahmed Shakir

I would say there is nothing structurally to worry about the profitability.

Riddhesh Gandhi

Okay, fine but then the next question is with regards to the supply chain issues on the chip side. We had indicated that end of this year we would have expected some amount of normalization to happen, is that sort of on track or how long do we expect? I know that a lot of the execution of the order book and pipeline, is going to be driven by that.

AS Lakshminarayanan

No, I mentioned in my commentary that supply chain, as far as this quarter is concerned, I do not think it is, sort of negatively affected us in revenue, because we had put some mitigation actions, in the last two quarters, such as buying some of them, some of the equipment in advance. So, we had done some advanced ordering and so on. So, those mitigating actions are helping us to deliver.

Having said that, the supply chain issues, are still causing delays. It is not got any worse from the last quarter, but it is not improving either is what I mentioned. There is a second in dimension of the supply chain issues, which is more relating to the core network, of us investing in our network and, increasing the capacity of networks, which is not directly and immediately attributable to any customer revenues. But this is as is something that we must expand, and in those areas, because of the delay, some of the projects are delayed. And you are seeing that, directly

relating to our lower capex spend as well as because of that reason. But know these are some things, we think it is going to continue for a while longer. It is very hard to predict as to when we will get out of this, but we are treating this as business as usual and managing the situation, through advanced ordering, so on and so forth.

Riddhesh Gandhi

We would expect again slight delay in ramp up of the growth effectively, until these issues are further resolved.

AS Lakshminarayanan

No, that is what I mentioned. So, this quarter, we did not have any impact because of the supply chain issue. I mean, even if that was there, it was very marginal to call out anything. We are ordering equipment in advance to make sure that we can deliver. Clients are also reconciling to the fact that these delays are through OEMs. So, if we have enough in our pipeline, and we keep winning, I do not think these delays would cause any substantial issues. In terms of, I mean, of course, if the situation was very different, then we could accelerate some of the deliveries and we could get, but we would treat this as business as usual for the next least a couple of quarters, is what we think.

Riddhesh Gandhi

And just the last question is with regards to any update on the land, monetisation at all. Is there anything you can share on that?

Kabir Ahmed Shakir

Well, this quarter, we had a couple of very small items, two land parcels that we disposed. I said earlier, we are, guided by accounting policies when any asset is held for sale that will get reflected automatically in our results and you will get to know about it. I have spoken at length in previous quarters in 1:1 meeting, in investor forums as well. We have an articulated approved real estate strategy, and we will try and align, both the internal needs of the business and also the right market timing in order to look at the value maximization for us. And the value maximization could either be through leasing that particular asset or selling that. So, we will look at the right, economic value that we can realize for our shareholders and for the benefit of the business. And that is how I would like to keep it at that level, because it then gives us the flexibility to take the right call.

Chirag Jain

Next question is from Sanjesh Jain from ICICI Securities. Please go ahead and ask your question.

Sanjesh Jain

Yes, good afternoon and thanks for the opportunity. Good to see data revenue finally picking up. Lakshmi, you made an initial comment that we have been seeing healthy order book. And in the previous quarter, if I remember, you mentioned that the sales funnel was not catching up along with it, because of attrition issue. I can see there is a lot many employees got added in this quarter. Can you help us give us more color on the order book? Is it double-digit growth what we mentioned last quarter continues and how is the sales funnel lining up to understand how will be the future order book growth?

AS Lakshminarayanan

Yeah, I mentioned in my commentary we are adding, and strengthening our international regions with sales, and we will continue doing that, and investing and marketing in those regions will help us to further accelerate our growth in those regions. As far as order book is concerned, we saw a good order book in the last two quarters. This quarter was also quite good. And I do not want to comment on a quarter-on-quarter basis for the order book, because there will be pluses and minuses based on deal getting pushed out by a week. This will color the numbers but overall, the order book is good.

As far as the funnel is concerned, our overall final value stands at a similar level as last quarter. So, even if we are closing the deals, we are able to add opportunities into the funnel, and therefore, our funnel remains healthy and stands at similar levels as last year. One market thing about the, the funnel is also the color of the funnel in terms of the types of deals that are there. We are seeing a lot more of digital platforms and solutions deal in the funnel. We are also seeing a lot many larger deals in the funnel. So, these are again, these are in line with our strategy, where we have been saying that the digital platforms are what needs to accelerate our growth. The funnel shows that we are accelerating the funnel addition in the digital platforms. We also said that we will engage more deeper with customers, to craft larger deals and that is also reflected in the funnel as of what we see today. So, we are moving all these in the right direction.

Sanjesh Jain

If our sales funnel is same and you are adding more to order book, is it fair to assume that our order win rates, the conversion rate from sales funnel to order book has seen a material improvement. Will that be a fair assumption?

AS Lakshminarayanan

No, purely from a number point of view, it is standing the same again. Depends on the which portfolio we are talking about, but largely, the win rates are, I talked about improved win rates a few quarters ago, and it stands at that similar kind of levels. So, I would not say that we have dramatically improved the win rates in the last couple of quarters, but it is quite healthy is what I would say. I think the factors we wanted to add more into the funnel because as the larger deals that comes into the funnel, the time the customer takes to scrutinize and evaluate will take longer but that is the character of the larger deals anyway. So, no, we are quite happy with the, the size of the funnel, the color of the funnel and, and the time taken is not very material as long as we can keep adding good quality deals into our funnel.

Sanjesh Jain

Great follow up question probably to Kabir. The order books look great, total revenue looks great but somehow the net revenue acceleration has not kept the pace with the gross revenue. So, what are we missing there?

Kabir Ahmed Shakir

In this quarter, it is more of a mixed effect as I said. We had a good contribution of India market shift and the voice business that came in. So that's overall net revenue looks like that because of the mix effect. But otherwise, sometimes, you kind of play the portfolio well. There are very competitive deals when we look at as we are improving our product penetration ratio and winning more, selling more to our customers, there is a competitive price play that that we need to do and if that's a dilution of NR in that deal, but overall adds to the customer profitability better, then we take those tactical calls. So, that is where I would, leave it at that. But of course, the, the devil is more in the detail and if we go by product portfolio, it is a different story. But at an uber level, that is the larger theme.

Sanjesh Jain

No, I was looking more from the DPS perspective, sequential growth was 6.2% while it was a decline on the net NR basis. That is not really a value creation, right? In that sense, was it more like a project execution, CPE cost which was upfronted and we are doing revenue recognition over a period which we changed few quarters back? Is that playing a game in this as well?

Kabir Ahmed Shakir

Not really, I see only the mix effect a little bit, a little bit one offs that are there in the prior quarter, but it is a longer runway. I would say, it is the foot in the door into large accounts and combination of those things. We had one offs in Q1 which resulted into that, but I would largely say it is a longer runway and the logical play that we would like to do. There are a couple of deals in cloud, for example. And we took that that strategic call, so it is more strategic, that we should be able to see as we do migration and start the workloads, you may see lower margins. But, as consumption picks up, then those margins will then come through. And when you look at the even the lifetime of the deal per says, let alone, you know, as adding for the more to it.

Sanjesh Jain

Lakshmi, one question on the collaboration side, now that is still not picking up. I understand SIP Trunking was declining. But if one were to see that portfolio ex of SIP trucking and, DIGO being now commercialized, what is the ex of SIP kind of a growth this portfolio has the ability or a potential to deliver, for the next 3 to 5 years? Can it grow 25 - 30% CAGR, ex of SIP Trunking. Does that potential exist in this portfolio?

AS Lakshminarayanan

Yeah, I think is that the overall collaboration portfolios lifted because of the GlobalRapidTM and the DIGO portfolios that we have. But this is a fairly still a large part of us of our DPS portfolio. So, excluding that, yes, our growth rate is quite good. It is about 25%, excluding not just the SIP trunking but excluding all the collaboration.

Sanjesh Jain

No, no, I was asking more from the collaboration perspective, If I were to remove SIP from it, is it growing in line with the remaining portfolio in the DPS?

AS Lakshminarayanan

Yeah, I think GlobalRapidTM, InstaCC, DIGO are all growing, in line or better, I would say but the SIP trunking is a large part of collaboration today, so that colors the overall growth of the collaboration. But if your question is excluding SIP trunk, if the other product in that portfolio is growing, they are all growing at a very healthy rate.

You know, we cannot exclude the SIP trunk, I am saying is, the way we are seeing the collaboration space is that we would like to think of ourselves as a global voice cloud for enterprise. So, it is one of the largest coverages around the world with our voice and messaging infrastructure that we have and on top of it is what we are building our collaboration, which is the GlobalRapidTM, the InstaCC, the call center on the cloud and so on and so forth. So, this and our ability then to provide all of this as a, a fully managed service for our customers, ensuring compliance and across the world ability to monitor this end to end and deliver the productivity that they seek, this holistic package is helping us to build the moats against, even some of other CPaaS players who will try to sell point solutions to enterprises or compared to other providers who might have certain capabilities but not the broad and wider capability that we are able to take the customer. So, I just want to make that point, but purely on the growth and the CAGR growth, all my comments that I said before are quite valid. Purely, we can try to exclude SIP, then everything else will grow, but you must understand that underlying that platform is what is powering all the other capabilities.

Sanjesh Jain

That is a confusion part for me, you know, because if I look at your peers, Indian listed peers, they are growing at

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upwards of 50% and they have a fairly healthy revenue there. That is still growing at 50% while we have a disproportionate advantage of having completely an integrated solution, and that we are barely able to grow. So, what are we missing there then? Because the other peer numbers are fairly available in the market now. They are growing at 50% plus on an annualized basis and it is still at flattish for us.

AS Lakshminarayanan

I think so far, our SIP solutions have not been sold domestically. We have been primarily helping major international players, with that capability, or India players who have an international footprint is what we have been doing. Now, with us getting into VNO license, we will be able to start selling some of these. But what you are comparing with an Indian peer to, the international may not be like for like, comparison as far as the collaboration and SIP portfolio is concerned. Then purely from a DIGO point of view again, we have just launched it. It has a much wider capability but, like, other players are largely reporting a messaging increase, A2P increase, with India, or in other markets outside of India. So, it is not a like to like comparison of the portfolio I would say, in percentage terms of what we have to offer and where the products were focused on so far.

Sanjesh Jain

Just one last question on the margin side. We have been continuously being more than on the upper end, but our margin guidance will continue to remain at 23 to 25% and Telecom is fairly a large operating leverage business. Are we being too conservative on the margin side?

Kabir Ahmed Shakir

Even for this quarter if I were to exclude the forex and the one-off benefits that we got from the market shift, our underlying margin is exactly in the middle of the range. That is what I have guided the market before. That is where we continue to be there. So, we have so far been positively, impacted with things, which have flown into the bottom line. I do not want to go quarter by quarter, whether it is this quarter or next quarter. If I were to in the medium term, look at what should be the shape of this business, I would like to operate in the 23 to 25% range and any benefit that we get and we will continue to get, whether it is operating leverage, whether it is waste reduction, whether it is efficiency improvement, whether it is mixed benefits, all of which, our endeavor is to reinvest them back, into the portfolio even within our traditional networking business on to the Next Gen Connectivity, also into the digital platforms and services portfolio as well MOVE™ and IoT in Incubation part, all of this need oxygen.

And that will come. I see that as the sources of margin improvement for me, which then get repurposed and channelized to drive growth. Once we get to a good absolute level of business in DPS and then they continue to a stable growth trajectory, then probably is the time for us to unpeel and then say, can we look at margin expansion?

But that is a few years away at this stage. I think we should have the mindset of reinvesting all of these benefits back into the business. That is where we are focused.

Sanjesh Jain

We should be more optimistic on the revenue growth side, is that a fair assumption.

Kabir Ahmed Shakir

Well, let us meet our first marker that we have set of double-digit revenue growth. This is the first quarter where we are going in the right trajectory and once, we have a sustainable repeated performance, you are right that we should be able to push for it. It is a B2B business where you have a long gestation, and with all supply chain challenges, when we put in those investments to read and see the results of that investments, also take a few quarters. So, thank you for the patience. You all have been listening to us, to our investment stories all through. And this is the first quarter where we are seeing results and we should be able to continue that same momentum and we should not move away from that philosophy of how to run the business.

Chirag Jain

The next question is from the line of Pratap Maliwal from Mount Infra Finance. Please go ahead and ask your question.

Pratap Maliwal

So, I have a question around the Next Gen Connectivity vertical that we have. So, this quarter, we have seen good growth. In the previous quarter, we had said there were some supply chain issues and some project deliveries are affected which have delayed the revenue recognition. So, have the revenues come back in this quarter itself and has that given us the growth? Or can we maybe take the number for this quarter as the base, and then project for more growth after, which has been stable.

AS Lakshminarayanan

I think the Next Gen Connectivity, we have a multiple set of products which combined together forms Next Gen Connectivity. One is the IZO™ Internet WAN proposition where we are helping our customers to replace MPLS with Internet solutions. The other is, I mentioned about the IZO™ multi-Cloud Connect which we are just doing a soft launch and that is another, set of products and we also have soft launched WiFi6 and then the large part is the SD WAN capability. There are four parts to these areas. Particularly, when it comes to the SD WAN, which is where, we were hampered by some of the OEM issues and similarly on the WiFi6 as well where there are some OEM related issues that are there.

So, it is likely to have some up and down based on the OEM ability to deliver and then, therefore, us to deliver to the clients. So, there will be some changes, but overall, if I must comment on the Next Gen Connectivity, I had already mentioned that we are quite encouraged by the sizes of the funnels that we have both, in India as well as the international market, encompassing the full capability of our Next Gen Connectivity solutions. So, we would look for continued execution on the funnel and continue the execution on the conversion of that revenue.

Pratap Maliwal

Okay, I will just try and maybe re-phrased for this quarter, the growth has come from maybe us getting some new business and some of the funnel has been converted into new orders. Is that correct?

AS Lakshminarayanan

Yeah, I think, you might say so. Some of the backlogs have been cleared, as well as the new funnel, new customers, have been gotten. But that is the overall network transformation is a story that we have been talking about, the customers moving to the cloud, customer shifting to the Internet. There will be a change, there will be a customer wanting to do those transformations. And we are beginning to see that play out.

Pratap Maliwal

Okay, sure. And just one other question, a leading a telecom provider in India recently, there was news that they will come out with IoT based connectivity solution based on E-sim, which has been adopted by telematics providers and vehicle tracking solution provider. So, what I am trying to understand is that if it is in competition with our offering and the MOVE™ vertical, and if we are in trial, we have touched solution providers or any recent software, that we can call out please?

AS Lakshminarayanan

Yeah, MOVE™ does that and more actually, and our proposition is one of global as well as addressing the India

market, and they are addressing multiple segments in the industrial IoT segment as far as the MOVE™ is concerned. I had a fairly extensive commentary on it to say how we are doing and how the portfolio is growing as part of our Incubation business. So, we believe the product of MOVE™ is quite strong and addresses multiple segments, addresses their markets in India as well as the international markets. And we have seen and shown fairly good momentum of growth.

Chirag Jain

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

AS Lakshminarayanan

Thank you everyone for participating and asking questions. As I mentioned before, I think we have delivered a very good quarter result. This quarter has been a very very good quarter for us, hitting a double-digit growth on our data portfolio after a very long time. I think all the platforms that we have launched and the capabilities that we have added to these in the last few quarters are showing results, the color of engagements that we are having with the customers and the color of funnel is improving. With that, the teams are doing a tremendous job of ensuring that we execute this truly like a digital company. I think we would look for and hope for a continued momentum and execution. And I would also like to wish all of you are very happy Diwali in the coming festive season. Greetings to all.

Chirag Jain

Thank you, Lakshmi. This brings us to the end of the call. The recording will be available on our website in the next 24 hours. You may please disconnect now. Thank you.

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