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Q1 FY2027
Earnings Call Transcript

MAIN Participants:

Ganesh Lakshminarayanan, Managing Director and Chief Executive Officer

Siddhartha Mundra, Chief Financial Officer

Rajiv Sharma, Vice President & Head, Investor Relations

Sudeshna Patnaik, Deputy General Manager, Investor Relations

Moderator: Ladies and gentlemen, good evening, and welcome to the Tata Communications Limited Q1 FY27 Earnings Conference Call. The results for the quarter ending 30 June, 2026 have been announced, and the data pack is available on our website. Please note all the participant lines will be in a listen-only mode and this conference is being recorded.

We have with us today from the management team, Mr. Ganesh Lakshminarayanan, MD and CEO, Mr. Siddhartha Mundra, CFO, Mr. Rajiv Sharma, Head of Investor Relations, and Ms. Sudeshna Patnaik, DGM, Investor Relations.

We will begin the call with opening remarks from MD and CEO, Mr. Ganesh followed by CFO, Mr. Siddhartha on the company's business and financial performance. Post that, we will open the floor for questions for the management. In the event that the management line drops, we request participants to stay connected while we reconnect them to the meeting.

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 Ganesh. Over to you, sir.

Ganesh Lakshminarayanan: Thanks, Inba. Good evening, everyone and thank you for joining us. It's now 100 days since I took over as a CEO on April 14th. The best advice I got when I started here was meet as many customers and teams as you can in the 100 days, listen and learn, then build a team, then build a plan simple enough that everyone understands and then deliver the plan. Over these 100 days, I have met all of our teams across 15 cities. I have sat down with more than 100 customers across the globe.

Almost all of them are global Forbes 2000 customers and they span across industries, BFSI, manufacturing, entertainment, retail and I've learned a lot. Let me start with the learnings from those customers. I think I've learned 4 important things from my meetings. One, the customers today, they want solutions that stitch together various products that can deliver real outcomes.

For example, when I met with the CEO of a big automotive company, the CEO wanted us to bring a solution that will bring the total cost of connected cars down. He described the cars of the future as software on wheels. And if you look at this solution, which TATACOMM can uniquely bring, this will involve an onboard edge compute, a multimodal connectivity using our MOVE platform, a cloud compute, and security.

It spans across the products we have. The second thing is the customers, they want a global organisation that can serve them in multiple markets. Third, they also want undivided attention from a true B2B Comtech company, a B2B company, one which is not distracted by their B2C challenges.

And finally, the most important of all, customers want platforms that enable programmable infrastructure. They want to consume the infrastructure using APIs, and even better, using AI agents talking to each other. These lessons and the customers I met have helped me to create the team which will take to the next phase of growth. Inba, if you could go to the next slide, please.

Let me start with the structure we have come up with. The structure starts with customers on top and the MD and CEO at the bottom. Today, we serve 300 of the Fortune 500 customers, almost 400 of the ET 500 customers in India. The other interesting data point is 70% of India's live financial services data traffic goes through our network. These are the customers we want to serve. So we have fully integrated the customer success group.

Because to bring solutions, we want the customer success group to bring the product towers behind it so that they can stitch together the solutions the customers need. This group spans across the globe. Each account will have a unique team owning the end-to-end customer relations, pre-sales, sales, delivery, assurance across all geographies. The individual products which will be used to create those solutions will operate under 4 distinct towers, the network, infra tower, which is cloud and security, the interaction tower, and services.

Below them are all the functions which serves those who serve the customers, which is finance, legal, HR, strategy, and transformation. Finally, the CEO at the bottom. I feel my job is to facilitate and energise all who are serving the customers above. This is not on paper. This is how we want to operate. Inba, if you go to the next slide.

That is the structure and we have the full 11 people. It takes 11 people to build a cricket team. Now we have the full team of 11 people. On the top, Sumeet Walia continues to lead our CSG group. He's a veteran of TATACOMM for more than 25 years. We are integrating all sales, pre-sales, marketing in every geography across all products into this group. Each one in this team will be responsible for unique customer relationship.

Rupesh Chokshi has joined us as our CTO and Head of Network business. Rupesh comes with tremendous experience from AT&T and Akamai. Network needs to come together with security and edge compute to offer the solutions our customers want. And we believe Rupesh brings the experience, the customer exposure, and the business acumen to take this business to the next level. And I'm very also happy to say that he'll be based in New Jersey because the U.S. market is very important for us.

We have Vivek Srivastava joining us to lead our Infra business. Security is a very, very important agenda for our customers. So we wanted to get someone who has a tremendous knowledge and experience in the security area. He comes with rich experience at global security and infra companies like Fortinet and Cisco. He has been stitching solutions with company like Tata Communications globally. He has been working very closely with us in the past. So Vivek will be joining us to lead the cloud and security portfolio.

We have Vivek Manglik, who has joined us to lead the interaction business. Vivek is a TATACOMM veteran who was part of the early team that built a very profitable interaction business. He joins us from Airtel, where he led a similar business. Vivek has already started.

Our new services BU, which we have created. It will deliver platform-led AI-enabled services. We don't want to build a services business which is linear and depend on people. We want to build a services business which will be platform-led and which is AI-enabled. Agnel has been with the company for a long period of time. He's a TATACOMM veteran. He's done a tremendous job handling a similar portfolio for another vertical, and he's going to start building the services business, which can serve every customer, starting from telcos to enterprise to OTTs. The rest of the functions are led by the same leaders. You know Sid. Aman has been our CHRO. Troy and Tri have served the company for a very long period of time.

We are also bringing a Chief Transformation Officer which can look at the technology functions we have, CIO, CISO, AI Center of Excellence, Business Excellence Group. We will be announcing that individual shortly. Mostly by this week, we will be able to tell you who that person is. If you look at the structure, it is simple enough. It's consistent customer experience through our customer success group.

The solutions we want to create will be built from these 4 product towers, and the enabling functions will serve those who serve the customers. Our new structure is built around a single strategic imperative, converting our scale into profitable growth. We feel we now

have the team which can carry Tata Communications on the next phase of growth. Inba, if you could go to the next slide, please.
So I've learned from the customers, we have built the team. What is our plan? Our plan is CTC. When I say CTC, everybody thinks about cost to company. It's actually customer, team, and company. One of the best and simplest pieces of advice I learned from a previous leader of mine. You see, if we take care of the customers, energise, and engage our team, the company will do well. If you look at this on the top, the big whys for this year is about maintaining and enhancing our NPS, which we shared with you in the last call is already industry leading, and we want to maintain and enhance further.

Improving our employee engagement scores, again, which is in the top quartile for similar cohorts, and driving profitable growth. These are the same metrics we have presented to the board. These are the same metrics we will get our bonus on, and we have rolled it out across the company.

How do we do that? We have few simple whats. First and foremost, we will accelerate the growth of our network business. The network business is the most profitable business we have in our portfolio, and that will drive EBITDA growth. We will drive profitability in our digital portfolio. You heard this from me in the last call as well, and we are committed to improving the profitability of our digital business.

Again, it should help in our EBITDA growth. We will increase the mix of our platform business. The most exciting platforms we have, which is ThreadSpan, the Commotion, our MOVE platform. These are the right areas for us to accelerate, which will again help us on the EBITDA growth. We are reorienting our sales teams. I mentioned how we are bringing all of this together, and we are aligning our sales teams' incentives on sales contribution margin, which is basically net revenue minus all the spend they have. By aligning the sales teams on sales contribution margin, we want to land the right mix of our products, again, helping in our EBITDA growth.

We will bring agility to our operations. The way we want to serve our customers and improve NPS is to cut the lead to cash time by 50%. We have taken a very aspirational goal that we will bring these solutions faster to market and fastest to customers. So that's the plan. Inba, if you go to the next slide, I want to talk about what we want to deliver for this year.

Our priorities for this year are very clear. Profitable growth and drive stronger capital efficiency. Our first and primary goal is to maintain and enhance our customer experience. Because if we take care of our customers, we will have profitable growth. We want to build a stronger, more engaged, and more energised team, which will act with the agility of a startup, but the responsibility of a Tata company. We will measure that by our employee engagement scores.

We aspire to deliver double-digit EBITDA growth this fiscal year, which is a meaningful step up from the performance we have delivered on the profitability side over the last several years. We'll maintain the discipline focus on ROCE, free cash flows, and capital allocation. So how are we doing on Q1? Before I hand it over to Sid to go through the numbers, let me give you the colour. Our customer wins continue to be robust. I want to call out some multimillion-dollar marquee deals.

One I'm very proud of is our platform strategy. Our platform strategy is really seeing good progress with wins both across the ThreadSpan platform and the Commotion platform, which we recently acquired. We have two notable deals for ThreadSpan that I want to call out, one with a leading global card network company, other one is with a large Indian conglomerate. ThreadSpan brings an unified control plane for the CIOs to look at their entire asset in one single view, the inventory, the configuration, and the monitoring. And it also helps us to deliver the platform-based AI-enabled service I talked about. Commotion, which is really exciting product. The first set of use cases are around true enterprise-grade voice AI solution. It has helped us to win and expand with some key logos. For a leading Indian hospitality chain, we have deployed our enterprise voice AI agent for reservations across the domestic and international properties. With a general insurance company, we also deployed the solution to increase the effectiveness of their leads.

The one thing I want to call out is these are not voice bots. These are enterprise voice AI agents closely tied to the enterprise data, working on real business cases that deliver real ROI. For a large battery manufacturer, we have won an industrial connectivity deal involving managed Wi-Fi and LAN infrastructure. This integrated network modernisation, which combines LAN and WAN, is a clear strength area for us. This is for a gigafactory. They are setting it up new. It also brings together the IT/OT solution, which is again, a big opportunity for us.

As I called out in the last quarter, we continue to see momentum from GCC customers. We closed repeat business from existing GCC customers and also won new customers in this segment. These wins position us strongly as partners for growth for enterprise. On specific numbers for Q1, our data revenue grew more than 11%, 11.3%, propelled by healthy growth in both core connectivity and digital platforms. Our core connectivity revenue grew almost 6% year-over-year, the highest in the last 10 quarters. The digital portfolio grew at about 17%. Our interaction business delivered a strong growth at 32%. I'm really proud of the growth in our next gen connectivity platforms, like the Multi Cloud Connect Fabric, ThreadSpan, Multi-Cloud Networking, which grew almost 31% year-over-year.

In my visits, one thing that has become very clear is the market is placing a premium on platforms that simplify the complexity for enterprises, makes the infrastructure programmable, not provisioned. You all saw, we recently saw a global peer of ours spend nearly half a billion dollars to acquire capabilities in cloud and data centre orchestration. What others are now acquiring, we have been building it over the last few years. Our Multi-Cloud Connectivity, Multi-Cloud Networking, and ThreadSpan platforms are already embedded in our next-gen services and more importantly, these are not bolt-on platforms. This is combined with the strength of our global network. To us, this validates our strategy and reinforces that we have the right assets, both digital and physical, to drive the next phase of growth.

I am pleased to share that profitability is seeing improvement. Normalised EBITDA margins for this quarter came at 13% year-over-year EBITDA growth. Over the last two quarters, our year-over-year average EBITDA growth has exceeded 10%. Largely, all parts of our digital portfolio are seeing improvement in their profitability. This is reassuring we are on the right track towards profitable growth.

I want to leave you with a simple message. The team is in place. The plan is simple, clear, and it's aligned across the company. The opportunity is significant. Now the rest of the year is about execution.

With that, let me hand over to Siddhartha to take you through the quarter's performance and financial highlights.

Siddhartha Mundra: Thank you, Ganesh. Let me start with the quarter performance. The Q1 FY 2027 consolidated revenue came in at INR 6,583 crore, up 10.5% YoY. Data revenue for the quarter came in at INR 5,708 crore, a growth of 11.3% on a YoY basis. The top line has certain Forex impacts accruing from a strengthening dollar. Normalising for the same, the consolidated revenue saw a growth of 2.8% YoY, and data revenue saw a growth of 4.1% on a YoY basis.

Core connectivity revenue is up 5.7% YoY. Core connectivity segment has tailwinds driven by the DC-to-DC connectivity. During Q1, we successfully completed the implementation of our dedicated NLD network build for a large hyperscaler between three metros. We continue to actively engage on several large opportunities, which are expected to progress over the coming quarters.

Based on the strength of the pipeline, we remain confident of maintaining our market share in the DC-to-DC connectivity solutions. Digital portfolio revenue is up 17.1% on a YoY basis. Media segment, in particular was impacted by the cancellation of multiple sporting events because of the West Asia conflict. EBITDA for the quarter came in at INR 1,230 crore, up 8.2% YoY basis, and margins for the quarter came in at 18.7%. Our EBITDA has a one-off impact of INR 51 crore this quarter. This is attributable to a customer programme which had complexities which led to higher usage requirements and delays in delivery. The contract was signed 2 years back. We are making changes to ensure that our profitable growth momentum remains insulated from such isolated events in the future.

Normalised for this, the EBITDA margin for the quarter is at 19.4% and the normalised EBITDA growth is 12.7% on a YoY basis. Normalised data EBITDA margins came in at 17.7%. The normalised digital portfolio EBITDA margins for this quarter stood at a negative minus 6.9% and is a significant improvement from our earlier periods. PAT for this quarter stood at INR 130 crore and is impacted by INR 106 crore on account of some provisions. This includes provisions from losses arising from a fire incident at a co-located third-party data centre premise and provision towards certain contractual obligation. We have insurance policies which will cover the replacement costs of these damaged assets in the fire incident.

FCF for the quarter was negative INR 443 crore, impacted by seasonality in working capital, but significantly better than Q1 of FY 2026. We ended the quarter with net debt of INR 10,400 crore. Net debt to EBITDA stood at 2.12x. ROCE came in at 14.7%. On the subsidiaries, TCTS revenues were lower by 6.5% on a YoY basis. EBITDA margins improved by 300 basis points. TCR revenues were up 36.5% YoY, and EBITDA improved 19.3%.

Overall, our quarter's performance has been robust, driven by both core connectivity and digital portfolio. We are starting to see green shoots of profitability across digital portfolio, as highlighted by Ganesh. Our objective is to deliver double-digit reported EBITDA growth this fiscal year.

Inba, request you to open up the forum for Q&A.

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

We will wait for a moment while the question queue assembles. We take the first question from Sanjesh Jain of ICICI Securities. Please go ahead.

Sanjesh Jain: Thank you. Good evening. Thanks for giving me this opportunity. Got a couple of questions. First, on the double-digit EBITDA growth, Ganesh, what you spoke about. What are we looking at? Because you also hinted that in the last 2 quarters, we have grown at 10%. Are we looking at, what 10%-11% when you say double-digit growth? And related question is, how much of it will come from our revenue growth as in supported by the revenue growth? Because if we look at the adjusted growth in data revenue, adjusting for the currency, I think we mentioned some 4% odd growth YoY, which appears to be significantly inferior than what we thought a couple of year back in terms of how we want to shape up the revenue. So can you also help us understand how are you looking at revenue? We talked about green shoots in the profitability. Are there even green shoots in the revenue? That's my first question. Thank you.

Ganesh Lakshminarayanan: Thanks, Sanjesh. Good to hear you. The first question is, you know Sanjesh very well our business is a fixed cost business. So it's very difficult to deliver profitability without top line growing. So it's not about cost reduction or anything which is really profitability. I think what we want to do is to land the right portfolio. You saw the priorities we have outlined. We want to grow the network business. We want to drive profitability in the digital business. We want our sales teams to be focused on contribution margin.

I think, as I outlined in my call and as well as in the AGM, in the last 2 phases of our company has been first about getting financial discipline, getting the balance sheet right. The last phase where we made acquisitions to diversify our portfolio. We have got 60% of our revenue coming from global businesses, more than half of our business coming from non-connectivity business. I think we are entering into a phase where we want to get the operating leverage, get the right mix of our portfolio so that it drives profitability. So it is not a profitability growth without revenue growth. It is profitability growth coming with the right portfolio mix of revenue growing. That's the first thing I would say.

The second thing you said is what is the perfect number? Sanjesh, you know we don't give forward guidance. I have actually set myself an aspirational target to grow double-digit EBITDA. Let us see. I think, I would just leave at saying that we are focusing on absolute EBITDA growth. We have taking all the actions to get the mix right. We are hopeful that we can deliver accelerated EBITDA this year compared to what we have done in the past.

Sanjesh Jain: That's clear, Ganesh. Double-digit is quite a wide range, right? 10 to 99. Some hint will be really helpful. I know we are not looking at guidance, but directionally, how should we think? Because the last two quarter has been in the range of 10%-11%-12%. That again really is not very inspiring growth probably to look at. But just some amount of clarity help will be very useful there.

Ganesh Lakshminarayanan: Yeah, I know, Sanjesh. Let me do this quarter. This is actually my first full quarter as a CEO MD. Let's see how the Q2 goes. And I will definitely take this up post our H1 results.

Sanjesh Jain: Thank you. Thanks for that. Second question now, jumping onto the segmental. Cloud has been growing quite fast globally. And we had ourselves set a very high target for cloud and security business. I thought that's where we have a significant moat, edge, strength and we have done a lot of investment over the last few years in terms of product portfolio and all. But again, if I look at the growth, the decline YoY and that segment has been struggling now for over 4-6 quarter now. How should we think about that or what is not, which is going right in that segment and why it's not able to grow? And the base is really not that high. We are at a very modest base there.

Ganesh Lakshminarayanan: I agree with you. I think the infrastructure business is where we could get maximum growth. I think the GPUs we have invested, we have had good wins. I think most of the GPUs have been sold out now. There is supply constraints in terms of us getting new GPUs in place. In the last period, from what I understand, we had worked with other cloud players. Now we want to really push our own Vayu Cloud. So I want to get this portfolio right so that we are not just looking at top line growth, but delivering the real ROCE and profitability from this investment.

I have promised you that in 6 months, we will come back and tell you the full strategy around the infrastructure business. Overall business, but more importantly, infrastructure. I am personally still bullish on we serving the sovereign infrastructure needs and the inferencing at the edge needs of our customers. We just have to get the right investment discipline around capital allocation and the GTM right. We are not saying that this is the business which got headwinds. I think it's the business which we should win. Let me just get the portfolio right, the mix right, so that we are delivering a profitable cloud and security business.

Sanjesh Jain: Got it. One last question from my side before I join back the queue. How is the order book looking like? As in, we did mention that there's a good order book or a pipeline which is visible in DC-to-DC connectivity, but overall, how is the sales funnel and order book looking for us? Last 1-1.5 year, it's been growing at double-digit. What's been the performance of the order book in last two quarters?

Ganesh Lakshminarayanan: I think the demand situation continues to be robust. From my 100 customers we have met, our right to win in the platform area, which is MCC fabric, DC-to-DC connectivity, next-gen platforms is definitely there. I think the cable investments we have made is also creating us a supply to meet that demand. Our order book continues to be robust, but our focus is equally on accelerating the delivery engine and monetising this deal sooner than later.

We are seeing good wins across the segment. We are investing in cable, we are investing in platforms. I'm very confident that the demand situation is getting better. We have more ways to serve our customers. I think it'll get better.

Sanjesh Jain: Got it, Ganesh. That's very useful. Thanks for helping us understanding and best of luck for the coming quarters.

Ganesh Lakshminarayanan: Thanks, Sanjesh. Thank you very much.

Moderator: Thank you. We take our next question from Vibhor Singhal of Nuvama Equities. Please go ahead.

Vibhor Singhal: Hi, thanks for taking my questions. Thank you so much for this detailed presentation, Ganesh, about the strategy that you are looking to undertake for the company. A couple of questions from my side. On the growth part, I think you mentioned in the opening remarks that I think Sid probably mentioned this in the opening remarks that we are looking at opportunities from the DC-to-DC connectivity segment in the core connectivity business.

Digital, of course, continues to basically grow strongly, especially in the next-gen and the CPaaS business. So up till now, the understanding that we have had for the TATACOMM, the data business was that core connectivity is a business which will probably grow around 3% to 5% because it's kind of a saturated market. And of course, the industry itself is declining, but we will continue to grow somewhere in 3% to 5% kind of range because of the market share gain and our endeavours. And digital is the one which will be kind of pushing the growth envelope into double-digit and maybe towards higher than mid-teens also. Does that mathematic change now to some extent, either for the positive or negative for different divisions because of the, let's say, the new opportunity in DC-to-DC connectivity or let's say some of the headwinds that you are seeing in the digital business?

Ganesh Lakshminarayanan: Let me not use the word headwinds on the digital business. Let me focus on the connectivity side of the business. I think in my customer conversations, it is very clear that they want to work with global comtech company like us, which is purely focused on B2B. Because the quality of the network we have built, which serves exclusively the B2B demands is resonating well.

Second one, which is very resonating is customers more and more, they don't want to build resilience by themselves. They want somebody like us to take care of the resilience. The number of cable strengths we have and the number of routes for those cable strengths we have has allowed us to bring to market this dynamic DC-to-DC connectivity, which is a self-resilient and programmable platform.

You see that the 30% odd growth we are seeing is in this next-gen platforms. The DC-to-DC connectivity is our place, and we have the right to win here. There are totally 112 data centres, which are Tier 3 and 4 DCs in India. We are connected to 102 carrier-neutral DCs and 6 captive DCs. And not only that it's the fibre strength, it's the platform we have built on top. The dynamic DC-to-DC connectivity is offering BFSI customers a network which is fully resilient. They don't have to deal with multiple providers, manage it. They come to TATACOMM. We give them this platform, which makes that network resilient. More importantly, which makes that network programmable.

We have invested in assets which can make bandwidth go up and down based on the needs of the customer. Second thing we are seeing is that the AI which is coming in is increasing the traffic between data centre to data centre. It's the east-west traffic which we have talked about. The east-west traffic is best suited for us because we have the cable strength to monetise that demand. The east-west traffic needs deterministic latency. Not small or big, but deterministic latency.

A B2B-only network can provide that deterministic latency. The platforms we have built, the Multi-Cloud Connect and Multi-Cloud Network, it is really helping customers to connect to one fabric, which is the overall MCC fabric we provide and that fabric connects to 80% of the cloud locations globally. So if you are a bank and you spend large portion of your spend on cloud and that's going up significantly year-over-year. The CIOs are looking to this fabric to reduce the cost of connecting to cloud, reduce the egress cost, help them with flexibility, we are winning in this space. So DC-to-DC connectivity is not just about the fibre. It is about the fibre, it's about the platforms we have built on top, the flexibility we have built to connect to multiple clouds, and the service we provide.

Anybody can have a cable, when there is a problem, you need somebody like TATACOMM with the highest industry-leading NPS to be there to help you out. We have seen the situations multiple times because of geopolitical thing. I think the DC-to-DC connectivity is an area we are going to continue to invest. It is a growing field. I can't tell you whether it is a double-digit growth, single-digit growth, but I am very confident that we have the right moat to serve the DC-to-DC needs of our customers.

Vibhor Singhal: Got it. That was quite a comprehensive answer, Ganesh. But just to circle back on my question, does this add incremental opportunity to our core connectivity business? Is that the right way to look at it? If yes, let us say, six months, or let us say a year ago or four quarters ago, if you were looking at some, let us say, X% growth for our core connectivity business, this definitely adds to that growth potential for that core connectivity business. Is that the right way to look at it?

Ganesh Lakshminarayanan: Absolutely. You just heard from us that we grew the highest in the connectivity business in the last 10 quarters. You saw that our platform portion of that business is growing. Even if you take a look at the India market, the DC gigawatts is going to grow 3x to 4x. A DC without connectivity is just an isolated building. I think these DCs are going to need high quality network, which we as TATACOMM has been building and providing for the last 4 decades. I think the market is opening up, and we will definitely be there to serve these customers.

Vibhor Singhal: Got it. Thank you so much. I have one more question for you, and then just one follow-up for Siddhartha. On the digital portfolio, as of now, we have only two. If you see over the past 4-5 quarter trend also, we just have two of the five verticals, or let's say the sub-verticals in the digital business fighting for us, which is the CPaaS and the next gen business. Cloud, as you mentioned, I think that is where you believe we have a right to win, the performance has been tepid. Media, while it might have been impacted by the Gulf War in this quarter, but over the last four quarter also, the segment was quite volatile with very little growth. And of course, the MOVE and IoT business is too small to make a significant impact on the overall business any which phase.

So where do we take the growth from here for the digital business? Do you believe that cloud business and the media business can recover, let's say in some time in the near term, so that we have all the cylinders firing? Or it will be some time, and till that time, next-gen and CPaaS will have to carry the burden of the growth of the digital business?

Ganesh Lakshminarayanan: I think on the digital business, for me, the near to short-term goal is to improve the profitability of the business. You saw that it has gone from 9.6 negative to 6.9 negative. We are getting the growth to get the operating leverage. But I really would like you to step back and look at our business not as cloud business, IoT business, MOVE business. I think we now have the maturity. You heard the structure we are building.

The customer solutions are not sold that way. If you look at a connected vehicle, it starts with an onboard cloud-lite product we already have. It starts with the multimodal connectivity from our MOVE platform. It goes to an edge compute, which can absorb this telemetry. It can have an AI agent who's servicing each of the car based on the telemetry. More and more, and I think this is our future, we can actually build solutions which go beyond what comes. Right. So the second one example I would give you is, when I went to England, U.K., Ireland, there is a definite need of retailers to get robust connectivity in multiple different stores. And that connectivity can be provided by a MOVE platform along with security and to make sure the digital efforts of these stores can happen. And I think this is again, a combination between an IoT platform and a connectivity platform.

I think the opportunity we have ahead of us is to really bridge this together into solutions which can monetise much better than what we have done in the past. I think that is going to improve our ability to drive profitable growth as well. So in the near to short term, we will focus to make sure that this business is healthy, it goes towards the profitability, but the unified infrastructure which we can bring is what I am really excited about. The customer conversation I have had tells me that we have all the ingredients to bring these solutions to market. Now we just have to go make that happen.

Vibhor Singhal: Right. Great. Thank you so much, Ganesh, for that. Just one question for Siddhartha. Siddhartha, you mentioned the margins for the digital business was around minus 6.9% this quarter. A significant jump from the minus 9.6% that it was earlier. In terms of sub-verticals here again, which are the key sub-segments which you think we can probably touch a breakeven or might have already touched breakeven in terms of verticals? Is it the CPaaS business, next gen, or cloud?

And overall, if I look at on a quarter-on-quarter basis, the profitability at the company level seems to be pretty much the same. The adjusted EBITDA margins is pretty much the same as it was last quarter, despite the fact that the margins in all our non-data businesses, which is Voice and TCR and others, they have kind of improved Q-on-Q. And if digital business has also improved, does that mean the core connectivity margins were lower in this quarter? If yes, is that a seasonality and we expect that to come back in the next quarter? Otherwise, what would be the reason behind it? That would be really helpful.

Siddhartha Mundra: See, some of these margins may move up or down between quarter-to-quarter. I don't think we should pay too much emphasis on that because we're running a business from a longer term perspective. The mix also change, also impacts the overall blended margin, as we would appreciate. There are segments of the business which are doing very well. Obviously, network business is doing very well. Next-gen is growing very fast and cloud is also doing very well.

So these are segments which we continue to be very confident about. There are portfolios where we need to do more work, segments like media. We need to spend more time and ensure that we get to much more better profitability in these kind of segments. So I would say it will be a different approach across each of these portfolios. But at an overall level, what we're looking to ensure is that we deliver this double-digit EBITDA growth at an overall company level.

Vibhor Singhal: Got it. Just one last quick bookkeeping question. The negative free cash flow and the debt increase in this quarter, I believe this is quite seasonal. In every Q1, I think we tend to have a slightly higher CapEx and negative free cash flow. Is that the same thing or anything different to call out this time?

Siddhartha Mundra: I think nothing different. I mean Q1 generally has a negative FCF. In fact, we are better this quarter than the same quarter last year.

Vibhor Singhal: Perfect. Great. Thank you so much for taking my questions, and wish you all the best.

Moderator: Thank you. A reminder to our participants, if you wish to ask a question, you may click on the Raise Hand icon. Our next question is from Balaji Subramanian of IIFL. Please go ahead.

Balaji Subramanian: Thanks for taking my questions. I have two. The first one is on the core connectivity. While you have done about 6% YoY growth, I believe part of it has got to do with the rupee depreciation. And that means probably the underlying growth was a bit lower, and this is despite you are doing quite well in the DC-to-DC connectivity piece. And Ganesh, on the last earnings call, you had said that DC-to-DC connectivity market is likely to be about $1 billion maybe in 5 years' time. So today, roughly any sense of what proportion of your core connectivity revenue would be coming from DC-to-DC, in case you don't mind sharing that? That would be one.

The second question is on your NR to GR ratio for digital portfolio. While your digital portfolio gross revenue growth has been impressive at 17%, the net revenue is down by about 2%, and that is because the NR to GR ratio has gone down from 36% to 30%. I do understand that there were a couple of one-offs this quarter, but how should one think about it in the longer run? Is it that some of these faster growing businesses have an inherent low NR to GR ratio? So against that backdrop, how does that gel with the EBITDA break even that you are targeting in digital portfolio? So those would be my two questions. Thank you.

Ganesh Lakshminarayanan: Thank you. Let me take the second one first. I mean, you heard me multiple times that our singular focus on the digital side is to improve the profitability of that portfolio. We have multiple businesses inside that portfolio. So first and foremost is to make sure that we get the operating leverage from the increased revenue we are seeing. The second one is getting the right mix so that our platform share of that business keeps going up. That's the second thing we are working on. And the third and most important thing is to make sure that we really incentivise the sales teams on sales contribution margins, so they're getting the right mix of their businesses in every segment. So we're conscience of the NR mix and we'll make sure that by changing the mix of the digital portfolio, we can improve the profitability. I think it's a question of getting the mix right, getting the operating leverage in, and then getting the sales team to focus on the higher profitable portion of that portfolio. So that's the first answer on the digital side.

On the core connectivity side, we don't want to disclose DC-to-DC connectivity and all that. It's too much information to give out. You can be rest assured that this is going to be an important focus area for us. We will continue to invest in high quality network which connects these data centres. Not only just bring cables to our customers, but bring the platforms they need. Whatever is the growth in the connectivity business in the data centres in India and in other markets, we'll definitely participating in that upside. We've been proven with our B2B purpose-built network that our latency and our quality is very high level. We would definitely will participate in that growth.

Balaji Subramanian: Got it. And just lastly, I had touched upon it in my first question. Any pricing pressure that you are witnessing in the rest of the core connectivity piece? I do know that you do see volume growth, but there is pricing pressure there. So was it a little bit more pronounced this time? Anything to call out there?

Ganesh Lakshminarayanan: I don't think the pricing pressure is any different. I think B2B in general should see better prices. It will give us incentives to continue to invest. My hope is that with so much investment which is going into the space, there are enough returns for all of us to continue to invest in high quality B2B network. I'm hoping that the industry will continue to make sure that we are pricing it appropriately for the returns to come. We haven't seen anything which is different than what we have seen. I think our focus is to make sure our offering is differentiated in terms of latency, quality, service, as well as the platforms we put on top of that cable so that we get a premium. The pricing question is definitely there, but it's not anything which is different than what we have seen in the past.

Balaji Subramanian: Okay. Thank you. That answers my questions, and all the best.

Ganesh Lakshminarayanan: Thank you, Balaji. Thank you.

Moderator: Thank you. Our next question is from Aditya Suresh of Macquarie. Please go ahead.

Aditya Suresh: Thank you for the opportunity. Ganesh, thank you for laying out the ambitions of the targets. The first one is on your ROIC targets. In the past, we have heard about EBITDA margins expanding towards 23% - 25% at a group level, CapEx intensity being about say 10% of sales. With that, cumulatively you get towards that 25% ROIC, which is a meaningful uplift from where we are today. Just in terms of margin and CapEx intensity, any meaningful departure which we should be thinking about? That's the first question.

The second is, I wonder if you could make any comments around STT and your stake there. Thank you.

Ganesh Lakshminarayanan: Let me first ask Sid to comment on STT, and then I'll come back to you on the capital and intensity.

Siddhartha Mundra: On STT, there's nothing further from what we had spoken last time around. The company is evaluating options, and the board and the shareholders will make a decision in due course.

Ganesh Lakshminarayanan: Yeah. On the capital intensity side, you have seen in the last 2 phases of our company, once we got our financial discipline and the balance sheet right, we have made a lot of investments, both organic and inorganic in interaction platforms, acquisitions like Kaleyra, and Switch. I think our near to short term focus is to bring capital discipline, drive profitability, and make sure that we harvest all the acquisitions we have made. I think our focus on absolute EBITDA growth will continue. But that doesn't mean that we will not invest CapEx in the right areas. You saw that we have invested CapEx in subsea cables connecting very critical routes, which we badly need.

So I would say in the near to short term, our focus will be to grow the EBITDA, continue to have much stricter capital discipline, but not shy away from the things which will help us to grow in the future. So there's nothing which is different than what I have shared in the last two calls. The third phase of our company, which is the near to short term, is to make sure that we harvest all the investments we have made.

I told you six months I'll come back and lay out the longer term plan. At that time, I'll let you know how we are going to look at source of funds and use of funds. But in the short to medium term, you should assume that our focus will be on profitable growth.

Aditya Suresh: And maybe as a follow-up, Ganesh, like specifically to your next gen connectivity segment. Growth there has been strong. I think these industry reports speak to similar levels of growth persisting. Is that your assessment of the opportunity as well?

Ganesh Lakshminarayanan: No, absolutely. I think it a platform player. I think it is question of who can provide a programmable infrastructure v/s a provision infrastructure. It is a question of who can serve these customers globally with a purpose built B2B network. And it's a question of customers don't want to deal with resilience and latency by themselves, except for the top big companies who have a big IT system and group to manage all that.

More and more customers are comfortable in companies like TATACOMM solving that problem. I think the advantage we have is we have the GTM. We are serving 300 of the Fortune 500 companies. We have a B2B purpose-built network, and we have been investing in these platforms like ThreadSpan, Multi Cloud Connect Fabric, MCN, DC-to-DC dynamic resilient connectivity, and that is where we are seeing the growth.

I think this is real. You heard me say that our global peers are spending almost half a billion dollars in acquiring similar capabilities. And in our case, we have had these capabilities, not bolted onto our infrastructure, but it has been an integral part of what we have offered. The ThreadSpan, the TC^x, gives us the software layers, which makes our infrastructure programmable. On top of it, we have built these offerings, the MCC Fabric, the dynamic DC-to-DC connectivity, the MCN Fabric. I think that story is real. And the more and more as companies look to scale their AI, their network is becoming an important conversation from the CIO.

And if you look at the conversations we have in the past, network was an admin conversation or a procurement conversation. Not anymore. The CIOs are beginning to see that AI is driving a different type of network demand. If you're running a big bank branch and you are trying to bring an AI agent to distribute loans, and if your bank is running on a 2 MB MPLS, there's no way AI transformation is going to happen. That brings us right into the middle of that transformation. We are the ones who can give them the full infrastructure they need, starting from the branch to the cloud, which can make AI work inside the branches and these platforms are right in centre of that opportunity.

Aditya Suresh: Fantastic. Thank you, and all the best.

Moderator: Thank you. Our next question is from Sumangal Nevatia of Kotak Securities. Please go ahead.

Sumangal Nevatia: Good evening, Ganesh. Thanks for articulating a very clear strategy at the start, and congratulations on being able to put a very impressive team together. My first question, partly covered, but on the DC-to-DC opportunity, is it possible to share broadly what would be our market share range, and is it already at a dominant position at a desired level, or it is still work in progress? And the margin profile here, is it any different from our traditional business? Is it any superior or any colour on that?

Ganesh Lakshminarayanan: I think the DC-to-DC business is going to grow. Traditionally, companies have looked at this as, I will buy one link from somebody, one link from somebody else. I think we are changing that game. I think if you look at our dynamic DC-to-DC connectivity product, they come to us and buy resilience and bandwidth, not fibre. I think that gives us a full 100% market to show, not 50% as one of the links. That's a moat which we have because we have been investing in these platforms. So we should have a very high market share, and I would love to grow this product faster. You can be rest assured, as I said, the 112 data centres which are coming up and in the company, we would be connected, ready to serve with the resilience and bandwidth banks and big companies are going to need. And I'm hoping that we will get a dominant share of this.

Sumangal Nevatia: Got it. Just one small clarification. Our FY 2028 revenue and EBITDA target, which we've set in the past at the Capital Market Day, did you share that you will come out with a revised one in six months? Or if not, can you share some thoughts on these targets in the current environment?

Ganesh Lakshminarayanan: I mentioned it in the last call as well. In the last call, I promised you that 100 days we will come back, Sid and I will come back and give you the view of the near to short term and the view of this year. I think our focus on profitable growth, in spite of Rajiv telling me not to do, I've come out and said what we're going to deliver in profitable growth. That is my plan, and I think that's what I promised. And I also told that give us six months, we will come up on the Investor Day, where we lay out what will be our longer term revenue and EBITDA plans which we already set up. I think we are setting up the dates right now. Rajiv will communicate with you and you'll hear more from us on that day.

Sumangal Nevatia: Got it. That's very useful. Thanks, and looking forward.

Moderator: Thank you. We take that as the last question for today. I now hand it back to the management for closing comments.

Ganesh Lakshminarayanan: Thank you. I think, in the last call, one of the investors asked us to share a pitch deck as well, which is a presentation which will lay out. I hope that we have made our company much simpler for you to understand. We have laid out the team we have built, the plan which we have, and the aspirations we have for this year.

I honestly feel that the team is in place. We have the full 11 people team. I strongly feel that the whole organisation and the board is aligned on the plan which we have laid out, and it's simple, and it's aligned to the profitable growth, NPS, and engagement scores, which is our priority. Let's now go back and execute so that we can deliver the year. Thank you.

Moderator: Thank you. On behalf of Tata Communications, that concludes today's conference. Thank you for joining us. And you may now click on the leave icon to exit the meeting. Thank you for your participation. Goodbye.

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