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Q4 & FY2025 Earnings Call Transcript

Corporate Participants:

AS Lakshminarayanan, Managing Director and Chief Executive Officer

Kabir Ahmed Shakir, Chief Financial Officer

Rajiv Sharma, Vice President and Head Investor Relations

Sudeshna Patnaik, Deputy General Manager, Investor Relations

Sudeshna Patnaik

Good afternoon, everyone, and a warm welcome to you all. Thank you for participating in the Q4 & full-year FY2025 Earnings Call for Tata Communications. My name is Sudeshna Patnaik, and I'll be your host for the call. We are joined today by our MD and CEO, Mr. Amur Lakshminarayanan; our CFO, Mr. Kabir Ahmed Shakir; and our Head of Investor Relations, Mr. Rajiv Sharma.

The results for the quarter and the fiscal year ended 31st March 2025 have been announced and the data pack is available on our website. We will begin today's call with opening remarks from Lakshmi on the business performance and outlook followed by Kabir on the company's financial performance. All participant lines will be muted for the duration of the call. There will be an opportunity for you to ask questions after the management remarks.

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.

With that, I would like to invite Lakshmi to share his views. Thank you, and over to you, Lakshmi.

AS Lakshminarayanan

Thank you, Sudeshna. Let me begin with the overall year, FY25. Our digital revenues grew by 29.5%, and we sustained the growth momentum over the last two years now. We've had a good YoY growth in enterprise market segment in both India and international. India Enterprise grew by 8.7% YoY, and international enterprise grew upwards of 20% on a YoY basis.

Despite the macro uncertainties the world faces today and potential delays in the enterprise decision-making, our differentiated digital fabric, which is a full stack of infrastructure, infrastructure software and the services on top of that continues to increase our relevance with our customers and positions us well for FY26 and beyond.

Our full-year consolidated revenues came in at Rs. 23,109 crores, growing at 11.2% YoY. Data revenues came in at Rs. 19,513 crores, growing by 13.7% YoY.

Full-year EBITDA margins were at 19.8%. However, FY25 core business EBITDA margins which excludes the subsidiaries and the recent acquisitions, held steady at 23.3%, a marginal decline of 40 bps YoY, but have largely held steady. This decline is due to increased provisions pertaining to some pockets in the South region. In the acquired businesses, which are currently dilutive to the margins, the cost synergy programs are well underway, and I'll ask Kabir to elaborate this in more detail later in his commentary.

Moving on to our quarterly performance. Data revenue in Q4 came in at Rs. 5,096 crores, up 3.9% QoQ and 9.6% YoY.

On the order book front, we had called out a good H1 last year that our order book has substantially increased relative to the previous years, but it had come back to more normal levels in the second half of the year. We see a good H1 order book growth that we had playing out in our revenues in Q4. On the funnel front, our funnel continues to be healthy with a good representation of large deals.

These large deals are also well diversified across India and international, and we are winning multi-fabric deals. For example, in the APAC region, we won a large deal with an integrated healthcare solutions provider. This deal cuts across multiple fabrics of network and also the cloud and security fabric with a complete SASE stack implementation. We won another deal in the European market and in the European market, we are a challenger. In this network fabric deal with the high-tech telecom manufacturer, is to modernise their traditional setup to a more flexible Internet-based architecture that ensures agility, SLA compliance, proactive monitoring and also supports their cost reduction goals.

Core connectivity reported a revenue growth of 2.5% this quarter and 3.2% YoY. We are leaders in the DC-to-DC connectivity segment, and we continue to benefit from a steady demand for dedicated metro network builds in India. Our core business is strategically positioned to capitalise on substantial infrastructure investments in AI, which are currently underway and are expected to only accelerate in the future.

Our digital portfolio revenue came in at Rs. 2,440 crores, growing at 5.5% QoQ and 17.5% YoY. Our Interaction Fabric, which is the collaboration and managed CPaaS portfolio declined by -2.9% QoQ and grew by 8.8% YoY. The QoQ decline is attributable to a temporary customer-specific issue and to seasonality of the CIS business in Q4. During the year, we expanded the channels to programmable voice, video, RCS and WhatsApp. We continue to invest in channel orchestration and also the customer journey led orchestration to make the interactions more intelligent through Kaleyra.ai.

Next-gen connectivity, which is part of our network fabric, grew by 3.9% QoQ and 23.6% YoY. This fiscal year, we closed multiple strategic wins where IZO Hybrid WAN enables large-scale network transformation. Our IZO Multi-Cloud Connect has demonstrated robust growth since its launch and in the last three years, the revenue CAGR has been upwards of 50%. With our Multi-Cloud Connect, we had landmark wins across verticals, including BFSI, automotive and airlines.

Our Cloud and Security Fabric grew by 18.9% QoQ and 28.8% YoY. The growth was primarily driven by a large deal that we announced earlier this year. Our security offerings have seen a healthy order bookings driven again by the BFSI verticals. We launched Tata Communications Vayu, which is our next-generation cloud fabric. The Tata Communications Vayu addresses the growing challenges of rising cloud costs, multi-cloud complexities and AI infrastructure demands that places on the enterprises. Compared to large cloud providers, Tata Communications Vayu Cloud reduces the cost up to 25%.

Our IoT fabric, which is our incubation portfolio grew by 17.7% QoQ and 57.4% YoY. Sequential revenue growth is driven by new vehicle additions on the platform. Data usage on our MOVE platform increased significantly in FY25, and I see this as an encouraging sign with our approach to drive platform growth in this fabric.

Our Media portfolio witnessed a growth of 13.9% QoQ and also 13.9% YoY. We won a marquee deal with a Middle East broadcaster for transforming their broadcast network.

To sum up, this fiscal year reflected solid operational performance alongside meaningful progress in strengthening our digital fabric proposition, marked by an addition of AI cloud and capability augmentation on the interaction and the network fabrics as well.

With that, I'll now request Kabir to share the key financial highlights.

Kabir Ahmed Shakir

Thank you, Lakshmi, and good afternoon, everyone. Before we dive into Q4 financials, let me take a moment to reflect on the year gone by. FY25 was truly a milestone year. We made remarkable progress on multiple strategic interventions that we had outlined in FY24 like the disposal of TCPSL, a large land parcel monetisation, action on Netfoundry, and improvement in the profitability of TCTS. At the heart of these interventions is one underlying theme shifting focus away from non-core businesses that was tying our balance sheet and management time. With these interventions, we have freed up the capacity allowing us to multiply resources to capture growth for our data business. Our balance sheet is shaping well with improvement in gearing ratio this year and in line with our ambitions.

The Q4 FY25 revenue growth came in at Rs. 5,990Cr, growth of 3.3% QoQ and 6.1% YoY. The topline has certain forex benefits accruing from a strengthening dollar. Normalizing for the same, the revenue growth is at 2.3% QoQ and 4.1% YoY. Data revenue for the quarter came in at Rs. 5,096 Cr, growth of 3.9% QoQ and 9.6% YoY. Digital revenues for the quarter came in at Rs. 2,440 Cr, growth of 5.5% QoQ and 17.5% YoY.

EBITDA for the quarter came in at Rs. 1,122 Crore, lower by 5% QoQ and up by 4.3% YoY. Our EBITDA margins for the quarter were at 18.7%. EBITDA margin was impacted by a couple of factors, there was a temporary customer specific issue as Lakshmi has already pointed out. We also had some spillover costs from cable repairs. In Q4 we invested in marketing and launched our Vayu Cloud.

Full year EBITDA margins were at 19.8%, 100 bps lower on a YoY basis. One of the reasons for lower margins this year is increased provisions pertaining to some pockets of SAARC region; as they remain impacted by geopolitical factors. Full year impact because of this was about 50 bps. Additionally, as Lakshmi pointed out, our core EBITDA margins came in 23.3% for the full year, and that has been fairly stable for us. We had suggested earlier that the subsidiaries and the recent acquisitions have been a drag on our margins. We have taken actions on the subsidiaries, and it is reflecting in higher margins this year. On the acquisitions, we are executing the cost synergy programs. While Kaleyra is 18 months in and Switch is 24 months in , both are approaching the inflection point and we expect the synergies to play out in the coming quarters.

PAT for the quarter came in at Rs. 761 Crore, up 196.5% QoQ and 114.8% YoY. PAT this quarter has benefited from exceptional items to the tune of Rs. 578 Cr. This includes profits received from the sale of land. Full year PAT is at Rs. 1,625 crore, up 44.7% YoY, this is for continuing business. For the full consolidated business, PAT came in at Rs. 1,836 Cr.

FCF for the full year was at Rs. 306 Cr, FCF for the quarter was Rs. 66 Crores lower because of higher cash capex for the quarter at Rs. 730 Crores. Our full-year cash capex is at Rs. 2,206 Cr.

This quarter we received proceeds from TCPSL and land sale and that helped us reduce our Net debt to Rs. 9,377 Cr. Net debt/ EBITDA stands at 2.06x. As we had mentioned earlier, net debt-to-EBITDA ratio will be the first to start coming within our desired range, ROCE will be next followed by EBITDA margin.

ROCE came in at 15.9%, a decline of 10 bps QoQ and decline of 284 bps YoY. Our ROCE is based on 12-month rolling numbers. The recent net debt reduction and gradual improvement in profitability will help ROCE positively going forward.

On the subsidiaries, TCTS revenue growth came in at 15.4% QoQ. EBITDA margin improved to 11.8% improvement of 342 bps QoQ. TCR revenue grew by 6% QoQ and EBITDA margin came in at 72.7%.

I will now ask Sudeshna to open the forum for question-and-answers.

Sudeshna Patnaik

Thanks, Kabir. We'll wait for a minute for the question queue to assemble. Interested participants may click on raise hand icon at the bottom of the page on Webex application to join the Q&A.

The first question is from the line of Sanjesh Jain. Sanjesh, you have been requested to unmute yourself. Please unmute and ask your question.

Sanjesh Jain

Hey, hi. Good afternoon all. Thanks for taking my question. My first question is on order book. Lakshmi, you mentioned that first half was strong. Second half was more normalised. When you say normalised, we are still growing at high-single digit to early teens or it has really been muted in the second half? And we were expecting some deal wins to flow through. Is the decision-making getting even more delayed because of all this tariff uncertainty and all? And have you seen customers developing cold feet on already announced deals wins? What has been the reaction because of this tariff things, which is playing out in U.S.? And how do you see order book going into FY26?

A.S. Lakshminarayanan

Sanjesh, the order book in H1 was good. It's been some of the highest compared to the previous years that we had seen. For the overall year, if we look at the order book, the ACV that we booked, it was in good high double-digit number is overall growth that we saw. In H2, it had come back to the normal, H1 had a few large deals we had called out, a few of them in the markets with an OTT player, we had called out the World Athletics, we had called out a large BFSI deal and there were a few others. We didn't see the same extent of deals coming in H2. It had come to the normal levels is what I would say. But overall, we had a good growth for the year.

If I look at the colour of the funnel and how it is panning out, whether the cancellations, we didn't see any cancellations as such. We had a few deals that we were hoping to close in Q4. They are rolling forward to Q1, and we expect to close those. We didn't get any negative sense from the customers that there would be any reactions as a result of the tariff war. So we don't really see an immediate impact on the order book.

The funnel, as I said, the overall funnel additions have been good even in the last quarter. Our overall funnel still is quite healthy. The number of large deals in the funnel is proportion-wise, it's the same. The number of large deals addition in Q4 had come down. While the overall funnel growth has been there. So I don't think with all these, we can really call out something that the customers are either reacting and making decisions while we do see a cautionary approach, at least in the language. We'll have to wait and watch to see what happens.

Sanjesh Jain

Got it. And for the full year, when you say, Lakshmi, double-digit, it is above teens, right?

A.S. Lakshminarayanan

Yeah.

Sanjesh Jain

Got it. Very, very clear. Second question is on the net revenue. Though our total revenue is healthy in the digital services and even in the core connectivity data as a whole, but the translation to the net revenue has been quite weak or inferior in this quarter, while mix hasn't been favourable because the CPaaS revenue has declined sequentially which has a higher direct cost. What has led to the deterioration in the translation from the gross revenue to the net revenue, in fact, it should have improved?

A.S. Lakshminarayanan

Yeah, there are a couple of factors, maybe Kabir can take this.

Kabir Ahmed Shakir

Sanjesh, when I actually called out for the full year as a whole, we did have SAARC as has one of the things where the impact was about 50 bps. We had already highlighted that situation. So we are seeing how the geopolitical thing is anyway evolving in that space. So we had to take some tough calls there and terminate some certain customers also. So that was definitely one. And as Lakshmi pointed out, there was one customer-specific issue, which impacted. It's temporary in nature. We had a fixed cost deal and the revenue, that was a fixed commitment and the revenue, which we were expecting did not come through. And so it's a very, very specific in-quarter thing. I don't expect that to repeat. Those were a couple of things and then also, again, we had alluded to all of you guys, 3 of our cable systems had gone down. This has never happened before in this year. And it took us also longer due to the conflict that we had in those geographies for the ships to even go and repair those systems. It took longer, which impacted both our growth in core connectivity, which has been softer than what it used to be in the good low to mid-single-digit kind of thing. It's been in the low single digit thing this quarter if you actually see core connectivity. So when that comes with a high NR margin profile and EBITDA as well, has a drag on the in-quarter numbers. Now all of this is behind us. And then I alluded to that we invested in marketing in one of our product launches as well. Acutely aware of the things that led to this, plus the conscious investment that we are also making for the future. Those were the one-off things that I would say that impacted us in Q4.

Sanjesh Jain

Thanks. But Kabir, most of this cost, I think are below direct cost, right, what we have talked about.

Kabir Ahmed Shakir

No, they are not. They are not. Like, for example, the customer-specific deal was a direct cost issue, because the fixed commitment was there at the direct cost level and the revenue did not come. So that one directly impacts direct cost and therefore, NR.

Sanjesh Jain

Okay. But what led to the digital services having such an inferior conversion, while we have grown 5.5% sequentially, while on the net revenue, it's a decline of 0.5%?

Kabir Ahmed Shakir

Yeah. So that's, as I mentioned, it is direct cost. It is in the Interaction business in the CIS business, which is part of this deal.

Sanjesh Jain

Got it. And do you expect these things should get resolved in Q1 and Q1 should have a much normalised net revenue margin?

Kabir Ahmed Shakir

Exactly. This is a onetime in Q4, a specific deal, a specific customer, a specific instance. So don't worry about it. That has no drag in the future.

Sanjesh Jain

And Kabir, what is the bridge for you to grow from this 20% EBITDA margin level to more 23%-25%, where we aspire to be?

Kabir Ahmed Shakir

We will talk more detail of that, the Investor Day is not far away, Sanjesh. We'll talk about our ambition of 23%-25% still stays. I mean that's an ambition. It still stays. We announced that two years ago. We exactly know as Lakshmi talked about, the reason why we separated out the core business to say is that is static. So we have made investments very, very clearly due to acquisition. It's been a drag, and those need to come back up.

Second, we made investments organically to drive innovations as well. They need to give us a return by getting the right revenue and having the operating leverage. And then, there are, I would say, BAU stuff, which I will not offer justification, but that is an explanation that is the one which is shaping us. So we will come back.

Sanjesh Jain

Are we committed to 23%-25%?

Kabir Ahmed Shakir

Yes, we are committed to 23%-25%, because for this business structurally, what should be the kind of growth rate that should deliver. Therefore, what CAPEX does it actually needs to sustain that kind of a growth, and that should come at what ROCE and what margin profile. This has been very carefully thought through, and I do not want to change that because nothing structurally and fundamentally has changed. Yes, the mix will change of our business moving away from core connectivity into digital. But once they scale up, they should give us the same EBIT or PAT, but when we shift that, we are a couple of years away to even get to shifting the marker on margin, but ROCE remains intact. Therefore, structurally, nothing has changed. It's only, I would say, timing issues. It's only external environment, uncertainties, volatilities, customer decision-making delays and deal-specific things, right? Sometimes we get this a good order book, which resulted in a very good Q4, right, that we had in our revenue as a result of the good order book in H1. So those things, we will ride the wave as it comes. So I am not terribly worried about it. These are just the timing issues, and we will ride them.

Sanjesh Jain

And then on these acquisitions, first few quarters went very well. Now it's already 18 to 24 months in the acquisition. Are we happy, satisfied with how those acquisitions have turned up or you think the turnaround has been slightly more challenging than what we thought at the time of acquisition?

A.S. Lakshminarayanan

No. Sanjesh, I think, we're very happy with the acquisitions and the capabilities we acquired. If you look at Switch, the capabilities on production are extremely good. We are winning deals on the back of such capabilities. We announced a win with World Athletics, for example, and some of the deal wins in LATAM that we talked about will include some of the production capabilities in due course, as we transform, so these are capabilities that are good capabilities to have.

On the cost side, synergy execution, while it was being done, we were hit with something that we couldn't anticipate. So that's where you see the margins did not kick in as quickly as we anticipated. But that is on The Switch side. Similarly, on the Kaleyra, I think the capabilities are very good. Again, we are cutting down on a few areas which had low margins, bringing a bit more discipline into how we manage some of the tail accounts and so on and so forth. So that should help improve the margins in the normal terms. And we also said we need to invest in the software layers about these for the channel orchestration expansion of channels. So those investments are also going on. So you're right to say that some of the results are not visible, but the short answer for, if we are happy with these acquisitions, absolutely, yes.

Sanjesh Jain

Got it. One last question from my side, Lakshmi. Going into FY26, where are we very confident on winning order book, revenue transition and acceleration to come in within our digital portfolio?

A.S. Lakshminarayanan

We see across all the fabrics, the opportunities are good. Because I'm visualising the customers today are faced with 2 challenges. One is the uncertainty on the macro side and what they should do about it, which they also don't have control, and they are watching and waiting to see what will happen. On the other side, the customers are seeing that they are going to the hyperconnected ecosystem, where AI and other technologies are going to disrupt in the future, and they have to make investments to prepare themselves. And that is where you will see the opportunities. Now, whether one on the macro will weigh down the other, we don't know yet. And I think, I commented on it earlier, the customers today are waiting and watching. There has been no knee jerk reactions that we're seeing to cancel things or anything. But the opportunity we see is that the customers would have to invest to make themselves more relevant for the future. And that is where all the products that we have launched have absolute relevance to these customers.

Sanjesh Jain

Got it. From the funnel side, which is the segment which is showing maximum growth for us?

A.S. Lakshminarayanan

Both India and international. And funnel, we haven't analysed by industry segment, because that is not how we look at our business. So both India and international side, we have seen good funnels.

Sanjesh Jain

Got it, Thanks Lakshmi, thanks Kabir for answering all those questions and best of luck for the coming quarters.

A.S. Lakshminarayanan

Thank you.

Sudeshna Patnaik

Thank you, Sanjesh. The next question is from the line of Vibhor Singhal. Vibhor, you have been requested to unmute yourself. Please proceed with your question.

Vibhor Singhal

Thanks, Kabir. Thanks, Lakshmi. Lakshmi, a very solid performance in the cloud business in this quarter. I think this has come after multiple quarters of kind of modest growth in this vertical. We've discussed it before that basically, I mean, the cloud business is predominantly India business. So basically, do you think this cloud business at this point of time is kind of turning the corner and we could probably be at an inflection point where we could see some incremental growth, strong growth in acceleration in this vertical? Any colour on this, that would be very helpful.

A.S. Lakshminarayanan

Yeah. This is both the cloud and Security Fabric is what we put together and call out the numbers. And right, it's the cloud has been somewhat static, and we are seeing some uplift from some of the deals we announced in the first half of last year. And as we execute on that, we are seeing the results in this product.

Our funnel, both on the cloud and security is quite robust. And in fact, we are further strengthening our security commitments on both the threat management side. We have been doing good banking sector deals. We are going after some of the local government and other opportunities in that area. And in the network security, we have a very solid proposition now with putting together all the capabilities of what we have in the Edge, the security, the firewall and all those capabilities. We think that will have a lot more legs in the international markets. So as we strengthen that portfolio and continue to invest in these portfolios, both the cloud and security has good upside potential in the future.

Vibhor Singhal

Got it. That was helpful. So is it fair to say that the growth in this vertical and the positive outlook that we are talking about is more driven by our own efforts and our own capabilities rather than something changing on the macro front or let's say, our overall cloud adoption demand front, that enterprises are becoming more amenable to the idea of moving on to the cloud platform? Any visible change in the broader macro level? Are you seeing anything on that front? Or is it more of micro driven?

A.S. Lakshminarayanan

Yes. No, I don't see. I think, I commented on at macro level, we don't see anything either way to talk about at this current point in time. We think, this situation is changing very quickly. At this point in time, we don't have anything to talk about on the macro side.

Vibhor Singhal

Got it. That was really helpful. On the flip side, I think the CPaaS business had a QoQ decline in this quarter. Any exceptional thing that we're talking about there? And what is the outlook that we're looking for the CPaaS business for FY26, given that FY25 was a year in which almost all CPaaS players were chasing profitability, maybe not focusing so much on growth? Do you see that trend to continue or maybe growth taking precedence?

A.S. Lakshminarayanan

No, that trend will continue. I did mention that we are looking carefully at all the low-margin deals and cutting of that out. And this quarter, Kabir explained there was a customer-specific issue, because of which we had to take both hit on the top line and the bottom line, for specific issue. But otherwise, our strategy in CIS is that we are going to expand our channels beyond the SMS, which has become a commodity and look at expanding in the layers above with the software platform capabilities is where we are investing and focusing.

Vibhor Singhal

Got it. Thank you for that. Just one last question on the demand front, then I'll probably have a couple of questions for Kabir as well. A lot of our, obviously, the technology peers, I mean, especially the ISPs have been talking about an elevated level of uncertainty, because of the tariff situation. Now I know you've mentioned this in the past that at our size, there's not too much of coupling with the macro levels. But any basically headwinds that you are seeing or challenges that you're seeing at this point of time? At this point of time, I know things are quite volatile and can change in a matter of weeks from here. But at this point of time in your conversations in the deal flows, any, let's say, delay in deal closures or, let's say, a delay in execution of an awarded deal, anything that we are seeing or any conversations that we're seeing at this point of time? Or is it BAU at this point of time?

A.S. Lakshminarayanan

Yes. I think, I mentioned this, we are not directly impacted. We anticipate indirect implications for us when customers make cautionary efforts. We see caution, but we haven't seen any major reactions of cancellations or anything. I did say that a few deals have got rolled over to Q1. I don't attribute that to the macro condition is just a matter of delays in specific delays from customers. But it is a situation that we will continue to watch carefully. It has to be, and the customers are cautious, and they are all worried. But as I said, they are also wanting to see, while they have to be cautious on this front, they're also worried about the future that they are getting into the hyperconnected world where technology is going to play a major role and AI is going to play a major role. And therefore, how to balance these two considerations is what they are looking at. So there will be investments in that area, albeit in a smaller way. But the answer is, we haven't seen any direct implications, but there is certainly caution in the air.

Vibhor Singhal

Got it. Sure. Thank you. Thanks for that. Kabir, just two questions from my side. You mentioned in the remarks that ex of Kaleyra and Switch our margins for the core business are already north of 23%. And you would be looking to, let's say, and Kaleyra and Switch are probably at an inflection point, as you mentioned. So what would typically be the margin levers for companies like that? I mean, I know that in technology space when an Indian company, it has to acquire a company outside India, the typical margin levers are you offshore a lot of work, lot of the local people are replaced by people in India, which gives a boost to the margins. What could typically be the margin levers here for companies like Kaleyra and Switch?

Kabir Ahmed Shakir

I think the cost synergies from what you have mentioned, that were done right in the very first couple of quarters itself. Where we are seeing the benefit is as, for example, on media when Lakshmi answered the previous question, it has just enhanced our capabilities and helps us for better deal wins. Let's take the World Athletic deal that we announced earlier in the year. I think the merger of our transmission capability, our global network coupled with the production capabilities has made us a better suitor to win that particular deal. So I would say both these assets were acquired for us not to just strip away cost, but to add capabilities, add to our global presence and become more relevant to our customers.I'm looking at these to give me operating leverage through that. In CIS in specific, right, again, I'm probably repeating what Lakshmi said, we want to move away from A2P bulk SMS, which is more commoditised. Layer two, layer three orchestration and that's why we called it CIS, you're not calling in CPaaS. We're calling a Customer Interaction Suite and we are not flippant with the choice of words, but it has deep meaning, because we are able to, therefore, orchestrate a full customer's journey, omnichannel, make it contextual, make it programmable, make it agile to someone and then introduce AI into each of them. So when you look at some of them, our demos are there in our websites. As to how this comes to life, that is when we will be able to command a slightly higher premium margin for those layers when customers start adopting them. So for me, the levers are that you get more volume, therefore, we don't add more cost to operating leverage. You also get more high calorie volumes, which is more profitable, because of this suite of offerings that we do. And these are the, I would say, the two main and good sources of our revenue to get us to the margin profile that we want.

Vibhor Singhal

Got it. So fair to say that the World Athletic deal would probably be a margin accretive deal and could probably be a higher margin deals than the other deals that we would have done before?

A.S. Lakshminarayanan

This is over a five year deal. And over a five year deal, we are doing a massive transformation for them. And the transformation will involve using our production capabilities. Year one, we will continue to, if there is a transition, we will continue to use the current setup and manage that. So over a 5 year period, this is a very good deal. It brings in all the capabilities that we have to deliver. We don't want to comment on year specific and individual deal as such. But overall, it is a transformation deal, which will give us good margins in the full course.

Vibhor Singhal

Got it. Thanks for that Lakshmi and Kabir. Kabir just my last question on the debt front. So this quarter, of course, I mean, last two quarters, we've had a good amount of cash flows from the land sale and TCPL divestment, and we saw the net debt coming down. What is the way going forward? I mean, we issued a commercial paper, I think, yesterday at around 6.5%. So what is the objective of that? And how are you looking at the debt number moving over the next 2 years?

Kabir Ahmed Shakir

Yes, I stick to what I had mentioned before. Our ambition is to bring the debt down to under 2x and operate at the WACC optimal debt situation. We had earlier indicated and that had we got our growth and our profitability as what our ambition was, our debt would have been under 2x already, but we are almost there, right? So we'll get to under 2x in the next one or two quarters. So I'm not terribly worried about that.

I won't link the commercial paper thing. I mean, a lot of people in the media also asked me this question earlier today. See, once we decide on what is the optimal debt structure, then the debt structure is made up between long term and short term. And then, the short term is commercial paper, because I ride the market depending on my working capital and my cash flow needs. The short-term funds are, therefore, matched with short-term liabilities as well. And therefore, we keep rotating this commercial paper because they are of a short-term nature, 30, 60, 90-day kind of a tenure. And that's what we do. It's BAU for me. I wouldn't link that with it, because then that is the flexibility given to the treasury team as to how efficiently they can source capital for us. At a strategic level and from your vantage point, I mean, you should look at our debt on a BAU basis being under 2x, which is our stated ambition, sans any big activity that we may do for maybe another acquisition or maybe another monetisation parcel or anything that we do that will take it down or up. Like, for example, for a large part of the time before we did the acquisition, our net Debt-to-EBITDA went down to as low as 1.3x. That was a war chest that we were actually building so that we can invest back in. So I wouldn't be married to just 2x and stay at 2x. If cash flows then come in and we don't have an avenue to invest in, that will come down. And we then build the war chest for the right avenue when it comes to invest back both organically and inorganically is what we will use and therefore, stay under 2x.

Vibhor Singhal

So to take it from there, let's assume, we are at around 2.06x. I mean we are at 2.06x net Debt-to-EBITDA and given that our EBITDA is only going to increase. As you said, in the next couple of quarters, we might actually come below that targeted range that we're talking about. Now if that is the optimal debt level that you're talking about, and we are going to generate free cash flow every quarter. So are we going to hold that to the cash reserves to maybe plan for some acquisition at point of time or in the interim, we could see the dividend also increasing?

Kabir Ahmed Shakir

Well, see, we have announced dividend in line with our dividend policy. Our dividend policy is 30% to 50% of consolidated profits. This dividend is about 38.8% is what the Board has announced. So it may look I mean, high and that's because of the exceptional gains that we actually got, and we have no higher PAT. So it's not like I said, we've declared anything bumper. We have declared in line with policy. It is not that we will, when we get extra FCF, we're going to give it away in dividend. That is not the intention. The Board will continue to remain within the policy and we will, therefore, like how we have said in the past, we will build this warchest for funding growth, both organically and inorganically.

Vibhor Singhal

Got it. Just one last one bit from my side. I know I've said last multiple times. Just on the guidance for FY27. Now for the 4-point guidance, I think you've clarified that ROCE margins and probably the debt levels will definitely come through. On the growth part, I think the Rs. 28,000 crores number for the data revenue looks to be quite steep from the current levels. So are we maintaining that guidance? Are we basically talking of it more as an aspiration? Do you see it spilling over? What is our final point of view as we end FY25?

Kabir Ahmed Shakir

I mean, I'm sure Lakshmi will want to chip in. First, I want to clarify, this is not a guidance. I've said it plenty of times. This is our ambition. Does it goes to doubling our data business? 100%, yes. Yes, when we announced it 2 years ago, it was a different set of business environment at that point in time, different set of environment that we are facing, and we are navigating that through.

The Investor Day less than two months away, I think we'll talk a little bit more in detail at that point in time as to what the ambition, the ambition and how we will bring that to life. And therefore, I wouldn't worry about that aspect. So I don't know if Lakshmi wants to add anything further.

A.S. Lakshminarayanan

Nothing. You answered.

Vibhor Singhal

Sure, great. Thank you so much. Thanks for taking my question guys and wish you all the best.

A.S. Lakshminarayanan

Thank you, good luck.

Sudeshna Patnaik

Thank you, Vibhor. The next question is from Sumangal Nevatia. Sumangal, you have been requested to unmute yourself. Please unmute and ask your question.

Sumangal Nevatia

I have a couple of quick questions. First, on the Red Sea cable cut issue. In last quarter, we mentioned that we are in the process of winning back customers and some lost business. Can you give some update? Have you normalised in fourth quarter? Or should we see some further low base benefit in coming quarters flowing?

A.S. Lakshminarayanan

So we said the Red Sea cable cuts, we said we are over that, and the repairs are done. And we are in the process of going back to the customers. So there is nothing specifically we want to comment in the quarter.

Sumangal Nevatia

Understood. Second, I mean, we've seen some good progress on the overall strategic corporate measures and on land monetisation. In the coming years, I mean, is it fine to assume that a large part of heavy lifting has been done as far as monetisation is concerned? Or we should expect something to continue on an ongoing basis?

Kabir Ahmed Shakir

Well, at an overall level, this is ongoing. I mean, the strategic review that we will do of both non-core and also, I would say, core because end of the day, every business needs to perform for its growth, margin and return aspirations that we have set for that business. So yes, there will be more of that review that happens. And as and when we find an answer to it, and we get the approval from the Board, then we will come and disclose that for you. That also holds good for monetisation of the land parcels. Two years ago, when we came out and then told all of you that we have a real estate strategy that's approved by the Board, and we are working towards that. We've been monetising a few land parcels here and there. Outside of this land parcel, I mean, we also sold something in the beginning of the year a Vikhroli property. There are a couple more smaller properties like that, which is and will and that will continue to happen. We have some large land parcels in the North. And even this Chennai land parcel took us a little over 2.5 years to get through all the paperwork and title clearances and approvals. And like, for example, I mean there was a shareholder approval that we've taken because the buyer was a related party. So it took us just 4-5 months just to go through even that last hurdle. So all of this will take time. So we do have a road map. We do have a plan and some more large land parcels are yet to come. The timing of it, I will not be able to give you a finality to it, because actually, I don't know. And as to how they will unveil at that point in time, and we will, therefore realise the value. The last thing that I would say is on each of them, I've very clearly articulated that it is the best intent of the management to match the inflows and the outflows. I would like even to clarify to an earlier point that Vibhor asked. The idea is not to monetise this and dividend it out. Dividend will be done because that is BAU, and we need to maintain our dividend policy and give consistency to the market. That's what we will do. And all of this, we will try to match to the internal needs of the company to support growth organically and inorganically. That's how you should look at it.

Sumangal Nevatia

Got it. That's very clear. Just one last question. I mean, with respect to the cost synergies which you are expecting to kind of play out for all the acquisitions, we're expecting, I mean a good inflection point. Did we share that it's about to be in the coming quarter or it's more of a medium-term target or kind of ambition or guidance we are looking at?

Kabir Ahmed Shakir

This will gradually start playing out and as I said, this is about driving the right revenue synergies on the top line and building that in while rightsizing the organisation is a continuous thing. It is not just I would say for the businesses that have been acquired, even for other businesses also. We are going through exactly the same principle. So the rightsizing and being competitive to the market from a P&L perspective, is something ongoing that we will do. So you will see that gradually coming through.

Sumangal Nevatia

Got it. Thank you and all the best.

Kabir Ahmed Shakir

Yeah, thank you.

Sudeshna Patnaik

Thank you, Sumangal. The next question is from Balaji Subramanian. Balaji, you have been requested to unmute yourself, please proceed with your question.

Balaji Subramanian

DC to DC connectivity large deal that you had signed earlier in FY25, so is it right to say that the revenue contribution from that is yet to begin? And whenever it starts contributing, we could see a step jump in revenue? And a related question would be that, that would be part of next-gen connectivity or core connectivity?

A.S. Lakshminarayanan

That will be part of core connectivity, and we will see the revenues coming in to more towards a later part of this year.

Balaji Subramanian

Okay. So okay. So it's fair to say that it's more of a 2H FY26 event?

A.S. Lakshminarayanan

Yes.

Balaji Subramanian

And this would also have a margin profile similar to core connectivity or it would be similar to the revenue in businesses?

A.S. Lakshminarayanan

It's core connectivity.

Balaji Subramanian

Right. So that means, effectively, the core connectivity revenue will see a sharper jump compared to the 3%-5% that you have always guided for, right?

A.S. Lakshminarayanan

We take all of these into account, and we say that the number 3%-5%.

Balaji Subramanian

All right. Got it. And just a clarification on the margins for this quarter. So the net revenue to gross revenue ratio deterioration that we have seen, you did mention in passing that there were a number of issues. And is it fair to assume that most of the drop which we saw from 3Q to 4Q, that was because of all these one-off factors mentioned? And going forward, it should be similar to 3Q levels? The question I'm trying to ask is, it is not the case that the cybersecurity deal that you have won comes with inherently lower margins, right? That is not the case, I presume.

Kabir Ahmed Shakir

Let me answer, because the answer lies in the middle. Is it a temporary one customer issue? Yes. We have said that and that happened in the interaction business, and that is the one which actually resulted into Q4. Are the DPS margins inherently lower than my overall margins and my vis-a-vis my core connectivity margins? Absolutely, yes. But that's been factored in our ambition to say that they will have a negative mix. But despite that, they should be able to get countered by operating leverage at an overall level as well. So the answer is yes to both, Balaji. Yes, it was a onetime thing in Q4 and for CIS that NR margins should come back to the normality levels at the Q3 of that level while coming into Q1. And the answer is also yes for the cloud and security, the thing that you mentioned.

Balaji Subramanian

Right. Got it. My final question would be on your thoughts on the data centre associate. So what is the plan there? Would you like to exit the stake there completely? Or would you look at consolidating by taking the stake up? Just wanted to get your thoughts on the way forward there, especially since I know the data centre business has seen a fair bit of rising competitive intensity in the last 12 - 18 months.

Kabir Ahmed Shakir

We hold a 26% stake in STT and our position is that we will maintain that stake. So whenever there is any capital raise that's come from STT, our management is absolutely supportive of it and we will continue to maintain our 26% stake. If there is any decision to do increase or decrease or exit is something that the Board will take a decision on and whenever we take the position, then we will communicate to the market. But as of now, there is no such proposal in front of the Board. There is no such discussion. We continue to be committed to our 26% stake, and we continue to support STT in their venture.

Balaji Subramanian

Okay, got it. Thank you and all the best.

Sudeshna Patnaik

Thank you. That brings us to the end of the Q&A session. We are running out of time here. So I would thank all the participants on the call. With that, I would request Lakshmi to please share his closing remarks.

A.S. Lakshminarayanan

Thank you. Thank you all. It's been a very good quarter in terms of the QoQ growth, in terms of our overall growth for the year has been very good. We were in FY23 at Rs. 4,500 odd crores in digital revenues, today we are at Rs. 9,100 revenues, getting close to 50% which is a marker that we said that we would need to touch when we talk about our margin strategy. As Kabir outlined, the margin profiles, there is a programme, there is a plan and we will ensure that we can execute to that. We'll get to the ambition levels of 23% - 25%. But overall, I think the sentiment, the comments, the internal energy, the investments we are doing are all very high. We're very happy about it.

Sudeshna Patnaik

Thank you, Lakshmi. Thank you, Kabir. This brings us to the end of the management call. In case of any queries please write in to investor.relations@tatacommunications.com. Thank you for joining the call, and you may disconnect your lines now. Have a good day.

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