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Acquisition of Kaleyra, Inc. Conference Call Transcript

Key Participants:

AS Lakshminarayanan, Managing Director and Chief Executive Officer

Kabir Ahmed Shakir, Chief Financial Officer

Tri Pham, Chief Strategy Officer,

Troy Reynolds, Chief Legal and Compliance Officer

Madhusudhan MR, Executive Vice President, Collaboration & Connected Solutions

Zubin Adil Patel, Company Secretary

Rajiv Sharma, Head, Investor Relations

Chirag Jain, Deputy General Manager, Investor Relations

Chirag Jain:

Good evening, everyone, and welcome to the Tata Communications, Institutional Analysts & Investors Conference Call. We are joined today by our MD and CEO, Mr. Amur Lakshminarayanan, our CFO, Mr. Kabir Ahmed Shakir, our Chief Strategy Officer, Mr. Tri Pham, our Executive Vice President, Collaboration and Connected Solutions Business, Mr. Madhusudhan MR, Mr. Troy Reynolds, our Chief Legal and Compliance Officer, Mr. Zubin Adil Patel, our Company Secretary and our head for Investor Relations, Mr. Rajiv Sharma.

Our acquisition of Kaleyra, Inc. has been announced today and the details of the same are available on our website. I trust you would have had the chance to look through the key highlights. At the end of the management's remarks, you will have an opportunity to get your queries addressed.

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

With that, I would like to invite Rajiv to share the initial brief followed by the opening remarks from Lakshmi.

Over to you Rajiv.

Rajiv Sharma:

A very warm good evening to you all. I hope you got a chance to go through the press release and the investor presentation regarding our announcement that Tata Communications has entered into a definitive agreement to acquire Kaleyra, Inc.

Kaleyra is a global multi-channel, integrated communication services provider, a global CPaaS player, meeting the stringent needs of leading enterprises with robust product and platform offerings and last reported revenues of US\$ 339 Mn in CY2022. The estimated Enterprise Valuation for the transaction is seen roughly around US\$ 250 Million. Equity shareholders will be paid fully in cash and the agreed price per share is US\$ 7.25 per share. The aggregate consideration is expected to be around US\$ 100 million, as may be adjusted by any payments required to Kaleyra warrant holders or holders of restricted stock units which vest upon change of control. This transaction has been unanimously approved today by the Boards of Directors of both Tata Communications and Kaleyra Inc. Consummation of the deal is subject to approval by Kaleyra's stockholders, certain regulatory approvals, and other customary closing conditions. Now let me invite our MD & CEO, Lakshmi, to discuss this further.

AS Lakshminarayanan:

A warm good evening to you all and good to meet you so soon post the Investor Day that we held this month. Let me start from where we left. We are taking another step towards strengthening our Comm Tech capabilities. Foremost, we are really excited about the CPaaS market, and this market is estimated to grow at 25% plus CAGR over the next few years to an estimated US\$ 27 Bn. Most of this growth is seen from India, US, and APAC. Kaleyra Inc has 54% of its revenues from US and 13% from India and is a market leader in Italy which contributes 18% of its total revenues based on their last reported quarter. The company has a stronghold in sectors like financial services (30%), retail, and digital commerce (16%) across global markets. The top ten customers of the company account for 45% of total revenues, reflecting customer stickiness and platform robustness.

With this acquisition we will benefit from a strong talent pool of Kaleyra which will work alongside Team Tata Communications to empower the digital transformation of our enterprise customers. This acquisition brings geographical complementarity to our enterprise play into the CPaaS offerings. For instance, with our Tata Communications DIGO we are strong in APAC, Kaleyra is strong in US and we both have good traction in India with not much enterprise customer overlap. Moreover, with our own enterprise play, recently integrated, The Switch and now with Kaleyra US operations, Tata Communications is gradually strengthening its US foothold.

Our combined capabilities will enable us to serve an expanded customer base across geographies and scale our platform offerings globally. This will help us to drive accelerated growth profitably and our ambition for our combined CPaaS offering will be to achieve EBITDA break even in the near term (12-18 months post approvals) and double-digit EBITDA Margin in the medium term.

I am excited about Kaleyra's talent and their demonstrated capabilities in next-gen technologies. With this acquisition, we will further build intelligent, intuitive, and innovative multi-channel communication solutions and create a category of Customer Interaction Suite that has been our ambition and unlock new growth opportunities that lie ahead of us. Thank You.

Chirag Jain:

Thank You Lakshmi. We will now open the for Q&A. We will wait for a minute for the queue to assemble.

The question is from the line of Riddhesh Gandhi, from Discovery Capital. Riddhesh, you have been requested to unmute. You may unmute yourself and go ahead and ask your question.

Riddhesh Gandhi:

I understand that this is obviously a loss-making entity, which we have acquired. So just want to understand the synergies and the path to profitability and with the confidence we have with regards to achieving profitability and the rough timelines on this.

AS Lakshminarayanan:

Hi Riddhesh. As I said, firstly, we look at the market opportunity. The entire CPaaS is a fast-growing market. And within CPaaS, beyond SMS, the market is growing in non-SMS channels, like voice and other means of communication. So, the market is growing and that is one major reason. The second, is obviously this platform in terms of proven capabilities, in terms of scale, and customer base, as I said, complementarity on geographies, and aligns with our ambition to move and position in the customer interaction platform. Yes, this entity today is loss-making but given the scale and the complement and the synergies available we are quite confident that we can make EBITDA positive in the near term, as I said, and double-digit EBITDA in the medium term.

Riddhesh Gandhi:

We expect the profitability to be driven by synergies on the cost side or the revenues growing, which actually, in turn, brings in the operating leverage in the business. I am saying that profitability will be driven by effectively these synergies, which we can derive on the cost side of things or is that effectively revenue growth, which is going to lead to operating leverage and then increasing the profitability?

AS Lakshminarayanan:

It will be both, as the market grows, then we obviously will need to grow. And there is so much growth potential, which is one and the second is there are other levers available, in terms of synergies. From the buying synergies to the other infrastructure and other synergies that we can realize that will help

us to deliver the margin.

Riddhesh Gandhi:

Just the last question is that as we had outlined in the investor day, the aspirational revenue targets of ours, I am assuming, are organic, and anything inorganic will be actually incremental over and above that or will be considering this in the aspiration as well.

AS Lakshminarayanan:

No, I mentioned it during the Q&A at that time. When we put that aspiration up, that aspiration, we also mentioned that we are developing a certain pipeline for M&A, but we are not going to be acquiring to hit the aspiration revenue numbers. So, it is not. So, therefore, I cannot say both of them go hand in hand. And I think in his presentation Kabir called out the rationale and the logic that we would use to, how we would go about doing this. And as you saw, in the case of Switch, we showed that there are complementarities available because of the market and the products and everything else. Similarly, here there are a lot of complementarities available, and the strategic rationale is quite strong. And that is the reason.

Chirag Jain:

The next question is from the line of Mr. Nishit Rathi from Chanakya Wealth. Nishit Rathi, you have been unmuted you may go ahead and ask your question.

Nishit Rathi:

First, congratulations, looks like a really, really good acquisition. Very, very excited about this. Second, I just wanted to understand. This is my understanding of this space. And just would love to get your thoughts on it. So, I see most of Kaleyra's clients right now seem to be large enterprises. Right, and they do not, and it seems like there is a big opportunity on the ILD side of it. Wherein, you have so many countries where you have a proven platform and Tata Comm has a relationship with some of those very, very large customers which are very big ILD customers out there in multiple countries. Is that a big opportunity that can come, with you?

AS Lakshminarayanan:

Do not particularly know what you mean by the ILD customers and presence, but largely, yes. As I said, there is complementarity from their focus on large enterprises, as is ours, so that is, we are all addressing a similar segment of the market. Second, they also have a large global play, but shall I say more focused around the U. S., and they have good interconnects in the U. S. Focus, obviously in India and, and the Italian market. From a market complementarity perspective, Tata Comm has a much broader footprint in terms of the markets. Both in terms of our infrastructure and buying capabilities as well as our presence, for example, in APAC and in broader Europe, even beyond Italy, and so on. So those complementarities will definitely help us to drive the synergies. Both in terms of going to market as well as, the synergies and the infrastructure footprint as well as the buying relationships that we can leverage each other from.

Nishit Rathi:

Correct so what I meant by the ILD market was for some of the very large hyper scalers, like Amazon, Meta, Google, and which have multi-country operations, and which are very, very large accounts, and which prefer to work with a stable platform across countries. And there both Kaleyra and you seem to have the tie-ups with the telcos. But somehow, I did not see them as very large customers. So, that's where I thought was a very big opportunity because given in this sector, trust is a very important factor and Tata brings in a lot of trust in that sector, is that a big opportunity was the question because it looked like you have very, very strong enterprises as a customer, which is very difficult to build, which

is again a very, very, good, complementarity that as you were talking about. So, that was the opportunity about which I was talking.

AS Lakshminarayanan:

Yeah, I think, yes, sure I think some of the big OTT-like players are our customers. And there is an opportunity there, yes, I think that the opportunity, they are also present in certain accounts of that nature, and we are present in a greater number of accounts if you will and that certainly presented as an opportunity. The way I would see that is, akin to our core connectivity portfolio, and these are very large customers having buying power, like a large player, and we can get bulk. Yes, it may not be at the level of margins that we might get from other enterprise customers. But, yes, certainly, that is an opportunity on which we will work. But other than that, the other enterprise segments, like the banks, large retailers, the digital commerce companies who are big users of messaging and now moving to more of Omni channels, those who want to, not to have a fragmented buying experience of SMS and voice and trying to integrate whereas, even in our case, the Tata Communications DIGO, the vision was to offer a more converged solution more omni-channel solutions so, therefore, there's a lot of synergies both in terms of vision, roadmap and capabilities and that presence is a great opportunity.

Nishit Rathi:

That is amazing. You get a 640-member team along with it so is it fair to assume that a lot of those people have agreed to carry on out there and, also the team you would have while building Tata Communications DIGO, you would have a very large team inside. So, again, will the road map now be led by Kaleyra, the specialist out there.

AS Lakshminarayanan:

We will work through those initiatives. We have just announced it and it will take time to close the deal and only after that, we can really enter into these conversations more meaningfully, but we do have a vision. We do have a roadmap, but it is too soon to talk about.

Nishit Rathi:

Which is fair and one last thing. Is it to understand Kaleyra was just selling one particular product, but the salespeople of Kaleyra can now sell a full suite of services to the entire customer base, all the relationships that they have in both Europe and US. Is that a fair way to also think about it?

AS Lakshminarayanan:

For Kaleyra, not just SMS, they already have capabilities on multiple channels in terms of video, in terms of voice and other channels. So, they have that capability in the product that they have.

But, yes, I think once we consummate the transaction, I think our ability now to take it to a broader, enterprise segment where we have a presence in a large customer base and have a more holistic conversation in helping them to improve their customer interactions will improve.

Chirag Jain:

The next question is from the line of Mr. Mayank Babla from ENAM Capital. You have now been unmuted please go ahead and ask your question.

Mayank Babla:

The net debt of the company is around US\$ 150 Million and EBITDA is around US\$ 18-19 Million. So, my question is what made this deal so attractive? Is it the client base or is it the uniqueness in the platform, what made it so attractive to go for this?

AS Lakshminarayanan:

I outlined the opportunities in the rationale. Essentially the market opportunity where CPaaS as a market is growing fast. We have an opportunity to strike now with, with a player who has scale in multiple geographies. While we have strengths in India and presence in other markets, they already have a reasonable scale in markets like US. And to get to that level of scale, organically for us will take time. So, it brings therefore certain market strengths, readymade market strength besides the platform that is there. And third is, there is a vision to build out the higher order of capabilities in terms of more intelligence into CPaaS and that is an aligned vision that together, we can unlock greater synergies. The point on net debt is noted, and that is where the, the enterprise value that, we called out is included in the net debt taking that into account.

Mayank Babla:

What is the plan on debt? Will be kept in the books?

Kabir Ahmed Shakir:

We will assume the debt of the of the target upon close, what will happen, whether the bondholders would like to continue, would like to exercise any rights that come from, as a result of the offer document is up to the bondholders. I cannot speculate on that.

Chirag Jain:

The next question is from Santosh Sinha, you may go ahead and ask the question you have been requested to unmute.

Santosh Sinha:

What is expected on the overall margin of the company because the guidance was somewhere around 23% to 25% for EBITDA margin of Tata Communication. So, what will be the impact overall and will this overall target of 25% change?

Kabir Ahmed Shakir:

I can answer that. Firstly, I think I will be tired of repeating myself, it is not guidance, and it is not a target. We always said that 23-25% is our long-term ambition for the margin profile of Tata Communications, and we stick to the 23 to 25% ambition. As a result of this acquisition, when we do the post close, I am sure you can do the mathematics. This business is EBITDA negative, as we speak with a US\$ 339 Million of top line. it will have of course a dilutive impact on the Tata Communications EBITDA performance, but that we believe is going to be, short term hit, and we intend to have this business in the near term get into EBITDA breakeven. And in the medium term, short to medium term, they should get into double digit EBITDA growth. So, we can then get back to our long-term ambition of 23-25 which we continue to maintain. As we mentioned in the investor day, I will repeat we do not mind departing from this 23-25 range for good reasons, and for a short-term period, and this is definitely one of the strategic rationale driven acquisitions for which it warrants us to depart from it for a short-term period.

Santosh Sinha:

That is helpful. Next question is regarding approvals actually. So, how much time do you think that it will take and what will be the key approvals that will be required? And will the entity be delisted from the stock exchange?

Troy Reynolds:

This is a U. S. public acquisition, and this is also a take private acquisition. So, at closing, they will no longer be listed. There are a number of approvals most importantly, the shareholder approval, there

are also certain competition authority approvals that will be required along with Sifi which is the committee on foreign investment in the United States. Those are some of the major approvals. We expect it to be a 6 to 9-month approval process.

Chirag Jain:

The next question is from the line of Mr. Dipesh Mehta. You have been requested to unmute, please unmute, and go ahead and ask the question.

Dipesh Mehta:

I just want to get a sense of the product mix. You said about the company is an omnichannel platform. So, if you can just provide some sense about how the product mix is currently and with the synergy benefit how you expect it to evolve over the next 3 to 5 years?

AS Lakshminarayanan:

Yeah, I think we would have to see what the publicly stated information is listed. We probably cannot divulge more than what they are divulging in terms of their business. So, we do have SMS and non-SMS products in their mix, but in terms of the future, as I called out, the market for SMS is growing but the non-SMS part will grow faster, and with their capabilities and what we are doing ourselves, we think we can leverage on that market opportunity to grow in the market.

Dipesh Mehta

And just want to understand it from Tata Communications existing capability perspective. What portion of business would be very similar to what Kaleyra does if you can provide some sense. And then how this will overall integrate with both the entities. Once you are integrated, some of the synergy benefits, particularly on the bulk buy side I understand. But in addition to that, anything which way we have similar in operations or customer base?

AS Lakshminarayanan:

Yes, we launched our Tata Communications DIGO platform last year and underneath this platform is what we call it, our messaging capabilities, the A2P messaging capabilities that we have the, the voice capabilities, which had programmable voice elements and others. So, those are the capabilities. We are a relatively new entrant, we were having international large A2P in our wholesale model and the enterprise segment with the launch of Tata Communications DIGO from last year, we have acquired a good set of customers and growing. So, in terms of, the capabilities, product capabilities. I would say Kaleyra is ahead because they have been in the market. It is fairly mature. Their platform carries a lot a lot more volume and scale now. So, it is a lot more proven in that sense. That is a big advantage for us and in terms of other synergies I did call out there are buying, which you mentioned as well as other infrastructure synergies that we can look at in terms of the SMS's where we have the engineering, to deliver these messaging, capabilities. So, those are the places that will work together very well.

Dipesh Mehta:

I missed the answer about the transaction process. How do you expect it to play out and last is about the Tata Communications DIGO platform, which we reported largely we have currently a presence in India, or we have a presence outside also organically.

AS Lakshminarayanan:

Yes, organically we have a presence in India. We have a presence in APAC market, as I said, we launched last year. So, these are the two places where we have a quite significant number of customers. In Europe and the US, we have opportunities that we are pursuing because this was a recently launched product in those markets. In terms of process, I am not sure to what you are alluding. So, we announced

the acquisition today, we called out that it will take 6 to 9 months to receive all approvals and consummate the transaction.

Chirag Jain:

The next question is from the line of Mr. Mihir Manohar. You have been requested to unmute please unmute and go ahead and ask the question.

Mihir Manohar:

Wanted to understand the margins part of the piece. I mean, you looked at, a breakeven kind of an EBITDA number in the near term and double digit, kind of a number in the medium term. If you can throw some more light on the cost part of the piece. I do not know what kind of synergies you are looking for specifically on the cost part.

Kabir Ahmed Shakir:

It is a little premature enough for us to get into every detail of the cost. At the of the day, it is a listed company, and the due diligence process only allows so much insight for us to be able to understand their cost profile. We do believe that since we are also on the journey with Tata Communications DIGO to invest in there and Kaleyra has a very well-established platform, just Lakshmi mentioned that they carry a lot more volume on their platform than us. So, it is very well established. So, we do believe that there are certain investments that we would have otherwise done to develop Tata Communications DIGO, may not be required and we could leverage Kaleyra's capabilities. Now, all of that is something as we close the transaction is when we will probably get insight into it, in a lot more detail and it will become clearer. We have made certain assumptions in the business case on the basis of which it made financial sense for us to go ahead with the acquisition. I do not have any more color that I can give you other than that.

Mihir Manohar:

One more question was there on the evaluation part of the piece US\$ 100 Million valuation. So just wanted to understand the rationale behind it.

Kabir Ahmed Shakir:

Well, it is a good value for both Tata Communications and Kaleyra shareholders. I cannot say anything more than that which is there in the public domain already to what the share price was trading and what the enterprise value is. If I look at a 30-day VWAP, it is a 25% premium on enterprise value. If I look at the last closing price, it is a 17% premium on enterprise value. So, there are multiple data points. It all depends on how you actually skim it. We look at it from enterprise value and these are the two data points that I can give you. And it is a 0.8X EV to sales multiple that we have actually offered to Kaleyra, which we believe is great value. And both the shareholders have a win-win out here.

Chirag Jain:

We have a couple of online questions to address. The first question is from the line of Mr. Avnish Tiwari from East Bridge Capital.

Avnish has asked, "Kaleyra had US\$ 15 Million EBITDA in CY22, but adjusted for stock-based compensation and one-off costs it was US\$ 19 Million+ in CY22. Are you using the -US\$ 15 million as EBITDA base, while aspiring for EBITDA to break even in the near term. How will the stock-based compensation and one-off costs move?"

Kabir Ahmed Shakir:

Yes, we are taking the US\$ 15 Million as our base Avnish, the stock-based competition is something,

which is WIP, and it is something which needs to be discussed both internally, our HR teams upon close to decide what we will, offer at that point in time. We need to offer a competitive, overall compensation package, for the Kaleyra employees to remain engaged. And therefore, that is something which is work in progress.

Chirag Jain:

Thanks Kabir, the next question is from Anmol Grover, “Kaleyra’s CY22 P & L showed a US\$ 50 Million impairment. How many of these write-downs are still to come through and what are these related to exactly? How do you plan to reduce the debt of the company?” There is one follow-up question, which you can address afterwards.

Kabir Ahmed Shakir:

Well, these are related to their older acquisitions that they have done in the past, it is notably, from mGage, but I do not have any color on going forward. I am sorry I will not be able to give you a forward view on it.

Chirag Jain:

Thanks Kabir. The follow-up question is on the EBITDA margins that we plan to break even in the near term and increase to double digit margins in the medium term. Could you quantify what do you mean by the near term and immediate medium term?

Kabir Ahmed Shakir:

Well, near term is near term, medium term is medium term. I do not. If I could have quantified that, then I probably would not have used the words near term and medium term in the first place.

Chirag Jain:

Thanks to the next question is from Sanjesh Jain from ICICI Securities, he has typed his questions and sent them across. “What is the difference between Tata Communications DIGO and the target company? What is the contribution of the SMS and the WhatsApp business?”

Chirag Jain:

What is the difference between Tata Communications DIGO and the target company’s offering, what is the contribution of the SMS and WhatsApp business to the product portfolio?

AS Lakshminarayanan:

It is from the offerings perspective as I mentioned, the A2P messaging, WhatsApp voice, and all of those are similar. The difference being that, while we have launched our product and are beginning to acquire customers in the early stages of some of these areas, which are non-bulky A2P. Kaleyra has a platform that is already proven and, has scale and volume that it manages. So that would be the difference. In terms of the second question, what is that?

Chirag Jain:

The contribution of SMS, and WhatsApp business to the revenue line...

AS Lakshminarayanan:

So, as I said, I do not think I can give the color on that as, for them as to what their mix is, while we have some information. But I do not think I will be able to give that color of SMS and WhatsApp for them at this stage.

Chirag Jain:

Thanks Lakshmi, we have a follow up question from Sanjesh. "We have a gross profit margin of 25 to 50%. How is T Comm planning to bridge the gap? Are there synergies possible as Tata Comm. has strong relations with global operators."

AS Lakshminarayanan:

Yes, I think our model and what we are looking for is at the gross margin levels we should become much better as we get and leverage the buying capabilities of both the companies. And also, as we increase the non-SMS part of the mix, whether it is the voice or other channels, that mix will definitely improve the margins better. Those are the levers available and obviously below the NR line, there are other levers available to deliver the EBITDA margins, the double-digit EBITDA margins that we have called out in the in the medium term.

Chirag Jain:

Thanks Lakshmi. That brings us to the end of the call today. May I request Lakshmi to make his closing comments?

AS Lakshminarayanan:

Thank you all. Thank you for joining this at short notice. We are very, very thrilled about, this transaction, this presents a major opportunity for us to establish the customer interaction platform meaningfully in a very fast-growing market, not just in India, but in other meaningful geographies like the USA, APAC, and Europe, so with that excitement I will sign off for now. Thank you.

Chirag Jain:

Thanks Lakshmi. Thank everyone, a recording of this call will be available on our website in the next 24 hours. You may refer to the same. Thank you so much. Any other questions may be written down to investor.relations@tatacommunications.com. Thank you. You may disconnect now.
