

July 18, 2025, at 02:30 pm IST

Q1 FY2026 Earnings Call Transcript

Main 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 Q1 FY26 Earnings Call for Tata Communications. My name is Sudeshna Patnaik and I'll be your host for the call. We are joined by our MD and CEO, Mr. Amur Lakshminarayanan; and our CFO, Mr. Kabir Ahmed Shakir; and our Head of Investor Relations, Mr. Rajiv Sharma.

The results for the quarter ended 30th June 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 the outlook, followed by Kabir on the company's business and 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.

A.S. Lakshminarayanan

Thank you, Sudeshna. Let me begin by welcoming you all to the Q1 FY26 call. Our overall revenues came in at Rs. 5,960 crore, a 0.5% QoQ degrowth and a 6.6% YoY growth, primarily impacted by the SAARC region and the onerous deal exit in TCTS. Data revenue grew by 9.4% YoY. EBITDA grew by 1.3% QoQ to Rs. 1,137 crore.

EBITDA margin came in at 19.1%, an improvement of 30 bps QoQ. On the order book, happy to share that we have a good start to the year, and our order book is up a healthy double-digit QoQ. The growth is robust across India and also the international regions. Our funnel continues to be healthy and well diversified across the core and digital services.

We won one of the largest multimillion-dollar captive SOC deals in India. The deal involves the establishment and management of a full-fledged captive SOC and the implementation and integration of multiple advanced security tools and other complementary security solutions.

We also won a multimillion deal from a leading technology player for diverse network connectivity solutions for their APAC to Europe, Americas DC/DC connectivity. We also won an order for a greenfield Wi-Fi 6 network deployment for a global battery player at their new factory location in India. Data revenue in Q1 is at Rs. 5,130 crore, 0.7% QoQ growth and 9.4% YoY.

Core connectivity business came in at Rs. 2,620 crore, a sequential decline of 1.4% QoQ and an increase of 2.7% YoY. Core continues to be impacted by the SAARC-related issues. Digital revenues came in at Rs. 2,510 crore, increased by 2.9% QoQ, 17.4% YoY. The growth was broad-based and all parts of the digital portfolio reported a healthy double-digit YoY growth.

Nextgen Connectivity, Cloud and Security Fabric reported upwards of 25% YoY revenue growth. Our Interaction fabric has not only seen a healthy growth in Enterprise segment, even the share of non-SMS traffic in voice and other channels continues to see growth, a long-term trend, which we have been highlighting for several quarters. We are taking a critical view of the margin profiles of all the CIS deals, and that has resulted in improvement in NR margins for the digital portfolio this quarter.

Media segment stood out on a quarterly performance basis with 11% QoQ growth and also recorded the highest ever ACV this quarter. We signed a multiyear deal with a prominent broadcaster in India for the playout services. This would be leveraging Tata Communications Media platform for multiple live sports channels. To sum up, we are happy with the progress that we are making across our portfolio. We believe that there is immense white space, and we have the right capabilities, and we are making the right investments to address the same.

Now let me hand it over to Kabir for a detailed discussion on the financial results.

Kabir Ahmed Shakir

Thank you, Lakshmi, and welcome all for this call. On our financial performance, Q1 FY26 revenue growth came in at Rs. 5,960 crore, a degrowth of 0.5% QoQ and a growth of 6.6% YoY. Normalising for ForEx impact, the revenue degrowth is 1% QoQ and improved by 4.3% YoY.

Data revenue for the quarter came in at Rs. 5,130 crore, growth of 0.7% Q-o-Q and 9.4% YoY. Digital revenues for the quarter came in at Rs. 2,510 crore, growth of 2.9% QoQ and a healthy 17.4% YoY. It is encouraging to see all parts of the digital portfolio trending at healthy double-digits. This reflects our digital fabric participation expanding to multiple wallets inside the customer environment. While core connectivity revenues declined this quarter, our core connectivity continues to grow and outgrow the market growth. EBITDA for the quarter came in at Rs. 1,137 crore, up by 1.3% QoQ and flat on a YoY basis.

Our EBITDA margins for the quarter were 19.1%. EBITDA margin improved as digital losses have narrowed and subsidiaries are doing better. This is in line with our broader strategy to get digital business profitable over the medium term. Overall, data EBITDA margins came in at 17.2%, down 30 bps QoQ, impacted by a decline in core connectivity revenues. The PAT for the quarter came in at Rs. 232 crore. Net debt at the end of Q1 is Rs. 10,124 crore. Net debt increase is due to the working capital effects that you see in Q1 normally.

Cash CapEx came in at Rs. 633 crore. FCF for the quarter was negative Rs. 621 crore. On a YoY basis, FCF was impacted by CapEx investments this quarter in AI cloud and tax refunds that were there in Q1 of FY25, which are not there this quarter. Net debt-to-EBITDA stands at 2.2x. ROCE came in at 15.4% and our ROCE, as you all know is based on a 12-month rolling numbers.

On the subsidiary performance, TCTS revenue came in at Rs. 197 crore, declined by 33% QoQ and 29% YoY. This was primarily due to the impact of the settlement in case of an onerous contract exit that we already announced earlier. The structural actions taken together with the exit of the onerous contract is reflected in the EBITDA margin improving to 23.9%, an improvement of 1,200 bps QoQ and over 1,500 bps YoY.

Our focus continues to be around improving profitability and creating capacities across the organisation for capturing future growth. The multiple interventions undertaken in FY25 allowed us to free up the balance sheet, enabling us to multiply resources to capture growth, and our focus remains intact. Let me now ask Sudeshna to open the forum for Q&A.

Sudeshna Patnaik

Thanks, Kabir. We will wait for a minute for the question queue to assemble. Interested participants may click on the raise hand icon at the centre bottom of the pane 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.

Sanjesh Jain

I hope you can hear me, right?

Kabir Ahmed Shakir

Yeah. Sanjesh go ahead please.

Sanjesh Jain

Yeah, thanks. Kabir and Lakshmi, I got few questions. First, thanks for the opportunity. Few questions on the core connectivity side. It's been three, four quarters. We have been trending between 2%-3% earlier Red Sea, then cable cut and now the SAARC region. Can you help us understand really what's happening in the SAARC region? And what has been the growth in the segment ex of SAARC?

Now why is it important is that I think globally, this segment has been declining. We have been doing quite well in this segment with a 5% growth for the last few years. This is the only year where I think the core connectivity has shaken up in terms of growth. So just curious to understand what's happening in the segment? And are we still confident of achieving that 4%-5% kind of a steady-state growth?

A.S. Lakshminarayanan

Yeah, Sanjesh as you rightly said, the core connectivity has had impact all through last year because of the cable cuts and they recover and then the SAARC issues are hitting us now. So if I take the SAARC issue out, our data centre connectivity wins are there. Some of the wins, we are under implementation, and we will see the revenue coming in, in the later part of this year.

Even now, in my commentary now, I just mentioned about a win in the data centre, data centre connectivity space. So there are opportunities. We still believe that the low to mid-single-digit growth in core connectivity is possible. In fact, we are doubling up our efforts there and examining on the back of in the last four years in BFSI segment, we have grown very well. As we called out in the IR Day, we've nearly doubled. And we're looking at all the hotspots in the BFSI space and see what we need to do. So there is a lot of focus on the core connectivity because we see that there is a market opportunity, and it also gives us the margin cushion that we need to continue to invest and grow the digital business.

Sanjesh Jain

And what exactly is the SAARC issue?

A.S. Lakshminarayanan

The SAARC is yeah, I mean, we all know that they are going through various issues economically and otherwise. So there have been payment delays as a result of which we have stopped doing business. There are issues of non-payments that are there. So a combination of many of these is what is hitting us. So that is a sensitive region and we are very carefully navigating to ensure how much service we provide and what we can collect.

Sanjesh Jain

That's clear. But what's happening on the NR margin? It's come down by 200 bps in last 4-5 quarters. I can understand revenue. I thought cost was more because cable cut was there. But I think cost continues to inch up in the core connectivity. What's happening there?

A.S. Lakshminarayanan

It's the same issue in terms of not being able to collect and therefore, we have to provide for that.

Sanjesh Jain

So it's the provision and not really the...

Kabir Ahmed Shakir

Two aspects to it. One, provision actually comes below NR. For NR itself, the SAARC region is a high-margin thing, right? So when that high-calorie revenue comes out, the weighted average effect on the mix comes down. So for core connectivity as a whole, we have on-net and off-net. I mean on-net obviously, is like 100% margin because all the costs are depreciation and they come below EBITDA. And off-net is where we pay the last mile and other carriers that when we stitch up the solution. So that's the weighted average mix. And most of the SAARC regions are all completely on-net, yeah. So therefore, the weighted average maths works completely against you when that high-margin business drops off.

Sanjesh Jain

So it's simple that how much the revenue lost is equal to the net revenue lost, right?

Kabir Ahmed Shakir

That's one of them. And also seasonally, you have renewals that come through and there is the churn and the price impact that happens through the renewal cycles, which is BAU that goes through as well. So there are a combination of those factors.

Sanjesh Jain

Okay. That's clear. And then this issue is done because I think SAARC revenue largely should have been now factored in the base quarter. From next quarter onwards, sequential growth should be there for the core connectivity. Would that be a fair assumption?

Kabir Ahmed Shakir

Yeah, large part is done, I would say.

A.S. Lakshminarayanan

We still have some...

Kabir Ahmed Shakir

Yeah, we still have a few continuing businesses there. We are watching very, very closely as to their collections as well. And we need to be sensitive to it. So it's a combination of multiple things, Sanjesh. The economy itself has ForEx pressures, right? And so therefore, we need to carefully navigate that.

Sanjesh Jain

That's pretty much clear. But congratulations on your digital business. I think this is the first quarter after probably a few quarters where we have seen all the five segments or four segments firing quite well. What's going right? We have a good order book, which is now getting executed and across the value chain, and we should see this trend sustaining for a while, right?

A.S. Lakshminarayanan

Sanjesh, I don't think that we have done anything differently, Sanjesh. I think the investments and the focus continues to be there. But in the digital portfolio, there are some lumpy elements when we talk about some of the SOC deals and other deals that we talked about, there are lumpiness in that. So I think reading too much into QoQ would be, I mean, that is always what we have been saying. But overall, we think that across the portfolio, there is good traction and the relevance with all this portfolio is only increasing is what we would say.

Sanjesh Jain

And you called out so many order book this time, Lakshmi. Does that give more confidence on the order book building and revenue growth sustaining?

A.S. Lakshminarayanan

Yeah. The order book has been, I mean, I don't know whether it's anything seasonal. In our business, there is nothing much seasonal as far as order booking goes. In the last year, Q1, Q2 also, we had some good order booking. And then we have been building up the funnel. And Q1 this year, we have done good order booking as well.

And the funnel is also quite good. So no, it's again a testament of our engagement with customers and increasing participation in deals is what I would say. Yeah, and then overall, that is what is giving us the confidence to keep saying that we are in the right direction.

Sanjesh Jain

Lakshmi, when you say double-digit growth, is it fair to assume that the order book has grown upwards of 20%?

A.S. Lakshminarayanan

No, double-digit is in general, greater than 10%. But in this case, I would say, a healthy double-digit.

Sanjesh Jain

So we take it about 20%, right?

A.S. Lakshminarayanan

A healthy double-digit.

Sanjesh Jain

Got it. Just two bookkeeping questions, last from my side. One on the net debt. This time, working capital seasonality appears to be quite steep. Generally, it is Rs. 200 crore, Rs. 300 crore of net debt increase we have seen in the Q1. This time around, it has been Rs. 750 crore. Any difference we have seen in this quarter is much more higher intensity of the working capital consumption, which has happened in Q1. Can you help us explain that? And also TCTS, what's the game plan for it?

Kabir Ahmed Shakir

I'll answer the working capital, and I'll hand over back to Lakshmi for TCTS. Working capital has been a combination. You're right, seasonal Q1 renewals and getting POs from customers and billing, that's always been the nature of the beast. Plus this time, there have been about five, 10 key accounts where the credit period has been extended. So that as a result of that, almost Rs. 210 crore worth of billing was still in the not due bucket. So it was not due for payment. And that is the reason why you see that change in working capital. Why don't you ask Lakshmi to talk on TCTS?

A.S. Lakshminarayanan

Yes. So TCTS, we're very pleased to see the turnaround, firstly, on the margin profile. I think the discipline approach of now looking at the right deals to go after is paying dividend. Also, our international component of the revenues is growing faster and higher than the India component. And they are developing capabilities across wireless and wireline domains to serve the telcos. We also see quite a lot of work using AI in terms of their tooling and services. We see some of the synergies of the services of TCTS and what Tata Comm takes to the market. So all of them are playing out quite well.

Sanjesh Jain

Thanks Lakshmi, thanks Kabir for all those answers and best of luck for the coming quarters.

A.S. Lakshminarayanan

Thank you.

Sudeshna Patnaik

Thank you, Sanjesh. The next question is from Aditya Suresh. Aditya, you have been requested to unmute yourself. Please proceed with your question.

Aditya Suresh

Hi, thank you for the opportunity. So the first question really was on the order backlog, and so thank you for providing those comments. I was just hoping, if we could get some tieback to revenues, right? So we have the backlog growth. Is there any things you can comment about providing us a bit more visibility on the revenue outlook in itself, maybe recurring revenues or how this kind of backlog is going to be executed over 'X' number of years, so on and so forth?

A.S. Lakshminarayanan

So Aditya, one of the reasons why we don't give out the actual numbers of the order book as others do is precisely because of the difficulty in tying back very clearly. I just want to give you some examples. I think I said last year, in Q1, we won a very large deal, one of the largest in the core connectivity space. And we will just be seeing the first revenues coming through in the later part of this year. So it's a good 18 months' time before we would see that. There are some order books where, as I said, has a higher component of onetime charges and the lumpiness. And there are order books, which are more on the recurring nature, a combination of onetime and the recurring nature. And the third aspect of it is the usage business, where we take a proxy order and then it actually based on the monthly recurring revenues that we get. Sometimes the proxy approximation is right. Sometimes the proxy approximation is not so right based on the usage that eventually happens by the customer. And we are tightening the proxy algorithm to say, how do we get to the right proxy numbers, so we can have a more committed view of the order book. So these are all the moving parts within the various parts of the business based on usage based, based on different fabric. And that's the reason why we don't give that breakout.

Aditya Suresh

Thanks for that clarification, Lakshmi. But would it be fair to say that this large hyperscale order, which you all have called out previously as well, that will basically be to boost the revenue in core connectivity. Would that be correct?

A.S. Lakshminarayanan

Yes, that is right, yeah.

Aditya Suresh

Okay. And is it also fair to call out that core connectivity in India is growing faster than your overseas operations?

A.S. Lakshminarayanan

Yes, that would also be right, but I wouldn't hazard a guess. I haven't looked at it that way.

Kabir Ahmed Shakir

No, Aditya, generally right, especially in this quarter, because some of the SAARC billing happens through TCL and some of them happens through TCIP, right? So in a normal basis, if you actually look at it historically, you're absolutely right. India has been growing, while international had a declining trend per se. But now with DC-to-DC connectivity and all of those things, we are seeing those dynamics slightly change.

And there may be certain issues very, very specific to us on the core connectivity part, which may have a very different in the short term. But largely, you're right that India is where we will see the growth coming through. And especially now with AI cloud and all of those things, we are quite, I would say, confident of getting them to the low-to mid-single digits, as Lakshmi said, clearly driven by India.

Aditya Suresh

Thanks Kabir. And then for the NextGen business and then also cloud, growth here seems to have accelerated in the past two quarters in particular. Now when I was looking at some industry reports, it seems like this pace of growth is norm. So therefore, there's some merit to thinking that maybe this pace of growth can continue. Would you agree with that comment? I mean, again, it just seems like a lot of the investments, which you have been making is in the space thematically, again, there seems to be a good alignment. The cloud business, again, is an area, where you guys are focused on. So I just want to see, do you all have much visibility on the fact that this business could grow maybe

at 25%, 30% or low visibility, we'll see how it goes?

A.S. Lakshminarayanan

We have some visibility. So these two are different. The next-gen connectivity, the drivers are very different. From the time we book the order to time we deliver in the international markets. So for example, next-gen connectivity includes our IZO WAN. And when we get an order for a global deployment for, let's say, 200 sites, customer would phase it out by region. So the realisation of the revenue is really in the hands of the customer at the speed at which they want to implement. So the conversion speed varies based on customer-to-customer. And therefore, even if you book the order, the realisation of the revenues is not very exactly predictable is what I would say. But the opportunity, especially now also the Wi-Fi 6 and LAN solutions are also part of the next-gen connectivity. We see quite a lot of upside. I mean, I did call out one of the deals that we won in the Wi-Fi 6 space. And we've been saying that the LAN and the WAN will converge, and that is where we see the opportunities to come. On the cloud side, I mean, the cloud and security is how we together report. This time around, it's more around the largish security deal that we won. To the question on cloud and security, we do believe there is market and there is room for growth consistently in this space.

Aditya Suresh

Thanks Lakshmi. And just one final bit was on the digital portfolio and the margins there. Now my understanding is that this is going to be the moderation in losses and then the path towards a positive margin is going to be driven by one is kind of just scale of operations and two is potentially any discretionary actions which you all take. So is there anything which you all can provide in terms of maybe a scale of revenue which you need to kind of get to, all else equal, which could get you on this journey from minus let's say, 10% margin towards zero?

A.S. Lakshminarayanan

It's not only the scale, you're right. The operating leverage comes from the scale, but there are levers to get the cost down as well as we implement some of the AI for even product code development and other areas. The second is also the mix within the product. So for example, if you look at our Interaction fabric, as we move more into non-SMS revenues into voice, particularly the programmable voice and RCS, we believe the margins would grow both at the NR level and therefore, fall through to the contribution margin and the EBITDA numbers. So the levers are efficiencies within each of the business units. Second is the scale. And the third is the mix within that portfolio itself. There are things that we can do to deliver a more healthy margin.

Aditya Suresh

Thank you Lakshmi. Thank you Kabir. All the best.

A.S. Lakshminarayanan

Thank you.

Sudeshna Patnaik

Thank you, Aditya. The next question is from Vibhor Singhal. Vibhor you have been requested to unmute. Please proceed with your question.

Vibhor Singhal

Yeah, hi. Thanks for taking my question. And congrats Lakshmi, Kabir and team. Congrats on a very solid performance. So just checking on the cloud business again. The cloud business here, if you see, seems to have been doing well for us. You mentioned that in this quarter, the growth was probably driven by the security deal that has started execution. But do you believe the cloud business, which is predominantly India for us, is there some kind of a change at the ground level that we might be seeing in terms of, let's say, more adoption of cloud and more clients forthcoming in that sense, which could probably sustain this growth momentum? Or anything that you could talk about the headwind or tailwinds that you're seeing in this specific vertical?

A.S. Lakshminarayanan

So as the numbers are, as I said, and I repeat, it's cloud and security put together. But to specifically, the question on cloud, how do we see the market? We definitely believe that there is a market for private cloud such as ourselves, which is where certain workloads can go to this cloud as opposed to a hyperscaler cloud to deliver the right value for the customers. And that is what we are targeting. And I think that the overall cloud migration, there is much more applications that are waiting to go to the cloud. And that is where we see the upside for us. So we are targeting across all the enterprises and also the public sector opportunities.

Vibhor Singhal

Right. And what would be the kind of enterprises that we are targeting in this kind of a cloud migration business? Typical are they majority of them in BFSI? Or do you see more retail or D2C companies also coming in forth? Just a colour on what kind of clientele would make up for this cloud opportunity that you're talking about?

A.S. Lakshminarayanan

This is fairly across the board for us. We have set up a cloud for BFSI customers, which we call as a FinCloud that complies with all the RBI regulations. We do have customers in the manufacturing space. We have customers in the logistics space and retail. So we have fairly a distributed base of customers on our cloud.

Vibhor Singhal

Right, right. Got it. Thanks Lakshmi. Just some more colour on the CPaaS business as well. CPaaS business seems to be turning the corner. I think last year, we had talked about the overall market being driven by the two leading players focusing more on profitability. Is that the trend that we have seen still and we expect that to continue in this upcoming quarters? Or there is some more focus on growth or, let's say, profitable growth returning to the industry?

A.S. Lakshminarayanan

No, as I said, the industry is also, they recognize that can't be a race to the bottom. So there is that recognition, which is auguring good for everybody else. We are very focused on a very profitable growth. In fact, this quarter, as Kabir called out, we cut down on some of the revenues in order to see how we can make it more profitable. And our efforts would be that.

And secondly, as I said, as we move across other channels, other non-SMS channels, the profitability will grow as well. And third is, obviously, which we haven't talked much about is the intelligence layer where we can bring a lot more of platform and software capabilities. That is a big upside that we are in very, very early stages there, and that's where our focus and investments are.

Vibhor Singhal

Got it. Thanks for that Lakshmi. Kabir, just two questions from my side. The digital business has grown almost 17% kind of growth Y-on-Y for the past two quarters. Given the target that you had outlined in the Analyst Meet about taking this business to first to a breakeven and then to a positive margins. Do you believe the 17% growth is basically a good growth for you to basically chart out that trajectory? Or in your opinion, you would need slightly higher growth for this business to basically move the trajectory that you are expecting margins to take before?

Kabir Ahmed Shakir

Well, firstly, as you all have observed, it is a quarter, first quarter where all engines have started to fire. And as Lakshmi said, it's not something magical that we've done this quarter. We've just been consistent at it, in terms of our input and effort and focus. And this quarter has started seeing that benefit come through. Am I happy with 17%? Yes. Would I want more? Absolutely, yes. I think this is a business that needs to be looking at 25% to 30% kind of growth, that's the kind of potential that exists.

But at the same time, as Lakshmi called out, we are making that calibrated effort. CIS in particular, when we called out in our commentary, there were certain low margin deals that we chose not to renew and focus on a profitable

growth. So had we continued with that renewal, then our growth would have looked slightly higher, I mean, about 2%, 3% on higher, but the margin profile and the NR would have dipped and EBITDA would have been probably flattish. So it's a very, very calibrated view that we are actually taking tower-by-tower, sector-by-sector. And that's how we are moving at? So Vibhor, if I have to say in sum & substance, is the combination of this level of growth with this level of profitability is the right move forward? Yes, I think that's the focus that we have.

Vibhor Singhal

Right. So if I were to just maybe peel the onion a bit more, Kabir. I mean, I know there are multiple businesses in the digital. So every particular business has its own peculiar characteristics in terms of profitability. But let's say, if I were to, let's say, take an example of a cloud business or a media business, typically, how it works in, let's say, a technology company is that if growth comes in, your utilisation increases, and that automatically provides an operating leverage for basically margin expansion. I would assume a similar thing would play out in cloud as well. But any other, I mean, are there similar levers that you see in, let's say media business also, where growth automatically provides you that operating leverage and margin expansion opportunities?

Kabir Ahmed Shakir

See, there are three levers that we need to be cognizant of and it changes, and the weightage of the three, all three present in all businesses and the weightage changes. Yes, more volume coming through, there are elements of fixed costs that get applied over a larger base. So operating leverage kicks in. Absolutely no point for guessing that.

The second element is also the mix of the profitable SKUs that we are able to sell within itself, right? So if just doing an SMS to selling more value-added channels, what's happened and RCS and more. And that drive and changing the mix of the business will also result in a healthier margin profile.

And finally, I would say, in businesses like cloud, when instead of just selling it when the moment we move from day one and day two service wraps as well and we give a complete holistic solution, that's when the margin profile also will pick up and also the customer stickiness and our ability to really to develop and grow with the customer also will pick up.

So I would say all elements are important, and they are important in all facets. If I double-click on media, media will have elements of, we talked about the World Athletics deal last time as well. So it has more pre and post that we can bring into the equation to be able to add value to the customer. So the nuances might vary. But yeah, there are three, four levers, not just scale alone.

A.S. Lakshminarayanan

I think just to add to what Kabir said on the media side, particularly, I think there are different types of opportunities in media. The one that I called out in my commentary is a channel playout opportunity that works everything on our media cloud, and that will have a different profile. The one where we are going into a new customer such as the World Athletics and beginning to manage the full value chain of the contribution, the distribution and the production now for the first time. And that's a five year deal. There will be some transitional elements that we will have in the first year before we fully transition to our production-based technologies and so on. So some of these profiles have different characteristics, but I think Kabir gave you a broader picture.

Vibhor Singhal

Yes, pretty much, Lakshmi. I think that was a comprehensive answer. Just one last thing on Kabir. I missed your remarks about the increase in debt in this quarter. If you could just maybe repeat that? Was it due to some seasonality factor? And do you expect that to come down in the coming quarters?

Kabir Ahmed Shakir

No. This quarter, we had some investment on AI CapEx as well and the FCF is also. But next quarter, we have dividends as well, Vibhor. So let's not forget that. So we have Rs. 700 crore of dividend payment that will be there next quarter. So you will see the improvement in net debt in Q3 onwards. I mean that's the typical cycle that we actually follow Q1 and Q2 has the stress, in Q3 and Q4 the debt profile starts to get better.

Vibhor Singhal

Got it. And in between, if there is any action on the divestment or any other thing, which is an ongoing exercise, then we might see some cash flows from data?

Kabir Ahmed Shakir

And that I'm going to keep it completely outside. So any M&A activity buying on this, I would like to keep it aside. We had mentioned debt-to-EBITDA coming under 2x that with all things remaining same, you should see that coming due in the second half.

Vibhor Singhal

Got it. Great. Thank you so much for taking my questions. And wish you all the best.

Kabir Ahmed Shakir

Thank you, Vibhor.

Sudeshna Patnaik

Thank you, Vibhor. To reiterate, participants who want to ask their question. Please click on the raise hand icon at the bottom pane. The next question is from Sriram Rajan. Sriram, you have been requested to unmute yourself. Please proceed with your question.

Sriram Rajan

Okay. Thank you, Lakshmi. This is a question, not specifically for the quarter. But on your cloud business, cloud is a fairly big market in India. It's about, maybe \$4 billion-\$5 billion. Who would you consider as competition? Would you say AWS, Azure? They would count as your competitors or you have a different niche you're operating in? And what would be your differentiators?

A.S. Lakshminarayanan

Yes. So on the cloud, you're right about the overall market size. See, the nature of the private cloud and our differentiation comes from the fact that we have a very solid Infrastructure as a Service offering. We have some PaaS offerings, which will not have all the bells and whistles that a hyperscaler public cloud would have. So we are targeting more those workloads in customers that are more stable in nature that doesn't have the same elasticity requirements of saying it suddenly on a Friday, it has to go up 200% kind of elasticity. So these are more stable workloads. And we believe that for those stable workloads, we offer a much better value proposition in terms of cost performance. The second is we offer truly a unified proposition that we integrate our network and more importantly, the security with hyperscalers, security is actually is a responsibility of the customer. Whereas when they work with us, we ensure that we make it completely secure for them. So the unified nature of the service, including the network, cloud and security is another major key factor. And lastly, there are no hidden costs. With us, we give them a more predictable cost and predictable performance. There are no bill shocks with data egress costs and others that the customers face. So these tend to be the key value propositions. Besides that, as I said, the more compliance with RBI regulations and the sovereign nature of our cloud are the key factors that the customers choose to work with us.

Sriram Rajan

Thank you, Lakshmi. Very, very clear. Thank you.

Sudeshna Patnaik

Thank you. This brings us to the end of the Q&A session. Balaji, I see that you just raised your hand. Balaji, I'm requesting you to unmute yourself. Please ask your question.

Balaji Subramanian

Hi, thanks for the opportunity. Most of my questions have been answered, and congrats on the strong performance in the digital portfolio piece. It would be helpful if you could just quantify what was the revenue impact from the SAARC-related issue?

A.S. Lakshminarayanan

We don't want to call out any customer-specific issues, because it's a bunch of customers there. We can't call out customer-specific information, Balaji.

Balaji Subramanian

Okay. Sure. Thank you and all the best.

A.S. Lakshminarayanan

Thank you, Balaji.

Sudeshna Patnaik

Thank you. I would now request Lakshmi to please share his closing comments.

A.S. Lakshminarayanan

Thank you all. It's been quite a satisfying quarter. We saw good data growth YoY, good digital portfolio growth as well as a tad improvement on the EBITDA margins, had good order booking. Our funnel looks good. We have to just navigate the other conditions that are prevailing out there, and we are very committed to keeping our heads down and executing on these. Thank you.

Sudeshna Patnaik

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

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