Management Discussion

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited

Thank you. Thanks, Inba. Thank you. Good evening, everyone, and thanks for joining us today. It's been six months now, exactly six months since I took over as a CEO and MD, and in my last call I had shared with you the best advice I got as I took this job is to first build the team; second, lay out a simple plan in the organization for everyone to align; and third, start executing the plan with discipline. So, Inba, if you could show this first slide, please. So I'm very happy to say that the full team is in place now. We finally have the full team with Narottam Sharma , who has joined us as a Chief Transformation Officer since the last investor call. Narottam will lead our enterprise-wide transformation agenda and ensure that Tata Communications is future-ready. He brings more than two decades of experience in the large-scale digital transformation, and he most recently served as a CIO at Jubilant Networks. With this, I'm very happy that the team is fully in place.

And Inba, if you go to the second slide, I think the next important thing was to roll out a plan which is consistent internally, externally, everybody can align to. As you could see from the slide, we had shared that we'll take care of our customers, we'll take care of our employees, and focus our energy on absolute EBITDA growth. And my single largest focus in the last six months has been profitable growth, and I'm very happy to share our EBITDA has crossed INR1,400 crores and the EBITDA growth is about 21.2%. This is highest year-on-year EBITDA growth ever achieved and since the recent M&As. The other one I'm very personally happy about is that profitability of the digital portfolio has improved significantly. The digital portfolio reported EBITDA margin of negative 3.6% versus negative 6.9% in the previous quarter. Our losses have become less than half of what was in Q1. With this, we are very close to a EBITDA breakeven for the overall digital portfolio.

Growth has been strong too. Order book for this quarter has been robust double-digit growth. Our customer wins this quarter has been almost across all regions and segments. In U.K. and APAC, we are winning strong with financial services. In Americas, we are winning strong with new clouds and hyperscalers is driving the momentum. India market is witnessing a big uptick in the cloud portfolio. And GCC customers, as they continue to expand their operations, we are helping them in setting up their new locations and we are getting repeat business from the GCC customers as well. We're also particularly encouraged that the growing proportion of our recent wins are from AI-led demand. As enterprises focus on scaling AI, customers are increasingly seeking partners that can securely deploy AI, connect it to the enterprise context, and translate enterprise intelligence into business outcomes. In AI, after meeting close to 200-odd customers, I'm very confident that the days of technology-forward experiments which resulted in high cost and no ROI is definitely coming to an end. Our customers are executing new business models with clear ROI and full control over the cost. We believe that this shift represents a significant opportunity and reinforces our conviction that AI-enabled customer journeys will become an important growth driver for the company.

Inba, if you could go to the next slide. Now, I really wanted to share with you our unified stack for AI. I think the three things you really need to make enterprise AI work is first, a trusted AI foundation, an enterprise context layer which can take the enterprise data and turn it into intelligence and an execution layer that enables enterprises to operationalize this intelligence towards workflows at scale. Our hardware, the first layer, is truly sovereign by design. We provide enterprises with secure, governed AI foundations that enables them to deploy AI confidently. It allows them to meet security, compliance, and data residency requirements. Once they are confident that the enterprise data is

secure, the next step is to turning that data into intelligence.

Through our Comotion acquisition, we have the capability to create an enterprise-wide intelligence layer that connects their enterprise data, the workflows, the relationships, and institutional knowledge. This gives the AI system the context required to make smarter decisions and operate within clearly defined governance boundaries. If data is not transformed to intelligence, there is only hallucination. And all that intelligence, if it doesn't transform into actions, it's like having the smartest and highest-paid employee in your company with no real output. I think with Comotion, we transform this enterprise context into action by rapidly deploying AI applications and agents across voice, messaging, and digital channels. By connecting organizational knowledge with execution, our customers are automating workflows, which enhances customer and employee experience and accelerating business outcomes. This capability is enabling our interaction business to evolve from delivering a channel-based solution to orchestrating AI-powered journeys.

Our real moat lies in building that connective tissue between enterprise knowledge and enterprise execution. A lot of this sounds like theory, but let me bring it to life with two significant wins we have had this quarter. Are we on the right slide? Okay. One of our notable AI-led wins this quarter was with Tata Consumer. Tata Consumer, as you know, is a big FMCG company.

They have a lot of people who go on the beat. We have enabled their field sales teams through Sales SATHI, a n AI-powered assistant that delivers personalized guidance, recommendations, and battle cards through multilingual voice interactions. We were not selected for our ability for voice AI, but for our ability to combine deep communications integration with frontline teams, our ability to create a customer-owned enterprise context layer, the ontology layer, which is badly needed by AI. And this layer allows Tata Consumer to keep complete control over business knowledge and insights. It's their ontology, it's secure, it's their property.

And our action layer, which is the voice AI assistant, has strong support for all Indian languages. We are seeing similar trend in customer experience transformation. You might say that Tata Consumer is our sister company, but we are seeing similar success with HDFC ERGO. Our voice AI agents are now live within customer journeys at HDFC ERGO General Insurance, who is India's leading private sector general insurer. They currently support policy servicing in multiple Indian languages with more languages planned soon. This deployment underscores our platform's ability to operate effectively in highly regulated environments that demand stringent compliance and governance standards. These engagements illustrate the growing demand for AI systems that do more than just generating insights. These are models, these are business problems which are purely ROI-backed solutions which we are enabling with our unified AI stack which combines the hardware layer, the intelligence layer, and the action layer.

And demand for our AI offerings remains robust and diversified. During the quarter, we secured a multi-million dollar engagement with a leading global neocloud provider to deliver multi-terabyte connectivity for the interconnection of large-scale CPU clusters supporting their AI data center buildout in India. This win highlights our ability to enable the high-performance infrastructure that powers next-generation AI workloads, and it further strengthens our position within the evolving AI ecosystem. The demand for DC-to-DC connectivity remains robust during the quarter. It's driven by accelerating AI infrastructure deployments. In India, with over 80,000 kilometers of terrestrial fiber and 30,000 kilometers of metro fiber and connectivity across 118 data centers, we have established a strong foundation to capture this growing opportunity.

While we continue to invest in expanding our capabilities, we remain focused on disciplined

execution, remain focused on scaling capacity in line with customer demand, and leveraging anchor customer-led expansion opportunities to ensure efficient capital deployment. Our investments focus on profitability and success with the unified AI stack is really setting the path for future growth. The most important and interesting part is the color of this growth. The color of the growth is changing for us. It's creating new opportunities. It is driving profitability. While execution remains the key we are very excited about what is coming next for us.

With that, let me hand it over to Sid, who will take you through the amazing financial performance in Q2.

Siddhartha Mundra - Chief Financial Officer, Tata Communications Limited
Thank you, Ganesh. Let me start with the quarter performance. The Q2 FY '27 consolidated revenue came in at INR6,688 crores, up 9.6% YoY . Data revenue for the quarter came in at INR5,810 crores, growth of 12.2% YoY. Digital portfolio revenue is up by 18.6% on a YoY basis. Digital revenue growth was broad-based, led by interaction, next-gen connectivity, and the IoT platform. The top line has certain forex impacts accruing from a strengthening dollar. N ormalizing for the same, data revenues saw a growth of about 6% on a YoY basis. The digital portfolio growth at constant currency was healthy double digits. I'm happy to report that EBITDA for the quarter came in at INR1,422 crores, up 21.2% on a YoY basis. For the first half, the EBITDA growth on a YoY basis stood at 14.8%. EBITDA margins for the quarter came in at 21.3%. The improvement in profitability is driven by significant reduction in losses across the digital portfolio. Our digital portfolio reported an EBITDA margin of minus 3.6%. As Ganesh mentioned, we are making steady progress towards breakeven for the digital portfolio.

PAT after minority interest for this quarter stood at INR341 crores, up by 86% on a YoY basis. I am pleased to share that we have reached an in-principle agreement with the Canada Revenue Agency on settling a long-standing tax matter in our Canada subsidiary. The corresponding contingent liability as on 31st of March 2026 stood at INR1,658 crores. The terms of settlement are currently under finalization and we will make necessary disclosures in due course. FCF for the quarter was INR212 crores, a sharp improvement from a negative FCF in the previous quarter. Our EBITDA to operating cash flow conversion improved to 72%, demonstrating our focus in driving agility while maintaining disciplined capital and working capital management.

Cash capex trended up this quarter, reflecting investments in our undersea cable assets and DC-to-DC network expansion. These investments are aligned with long-term demand opportunities. At the same time, we remain disciplined in our capital allocation with a strong focus on capital efficiency and sustaining healthy portfolio-level ROCE. We ended the quarter with net debt of INR11,197 crores. Net debt to EBITDA stood at 2.17 times. The net debt to EBITDA has held steady despite dividend payments this quarter. ROCE came in at 15.9%, up by 71 basis points on a YoY basis, driven by our focus on capital efficiency. Overall, we are pleased with the progress we are making on digital portfolio margin expansion and remain committed to driving the portfolio breakeven. We are encouraged by the improvements delivered across our financial metrics, an outcome of focused execution and increasing operating leverage. More importantly, I'm encouraged to see the uplift in order book this quarter.

With that, we can open the floor for questions.

Questions & Answers

Operator
Thank you very much, sir. Ladies and gentlemen, we will now begin the question- and- answer session. [Operator Instructions] We take the first question from Balaji Subramanian of IIFL. Please go ahead.

Balaji Subramanian - Analyst, IIFL Capital Services Limited
Am I audible?

Operator
Yes.

Balaji Subramanian - Analyst, IIFL Capital Services Limited
So thanks for the opportunity and congrats on a great set of numbers. Probably after a long time, you have delivered strong revenue growth in digital, accompanied by significant margin expansion. So my first question is a bit on the high level. So you used to talk about certain revenue growth numbers and EBITDA margin targets. Can we have some color on, with the progress that you have recently achieved, how should one look at these going forward? After this, I will, have a quick follow-up. Yeah.

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
Thanks, Balaji. Thank you very much. I think , since I have taken over the last three calls, Sid and I have completely emphasized our exclusive focus on profitable growth, expanding the EBITDA, bringing the operating leverage. We are on track with that commitment. We are seeing good progress in our EBITDA expansion. We have seen 15% EBITDA growth in first half of FY '27, and we are seeing significant growth in the areas where we want to see growth. We are seeing growth in next-gen connectivity, which is growing up by almost 27%. Our digital portfolio as a whole has grown 18%. We are maniacally focused on getting the right quality of growth. You also see that the EBITDA to OCF conversion is improving, our ROCE is improving. We are definitely on the right track.

The second thing I would point out is the recent wins we have highlighted the color of our growth is different. We are winning with our unified AI stack. We are winning in big network expansion of neocloud operators and AI software companies. I think this year we'll absolutely deliver what we have promised. We are focused on delivering what we have promised. We will come back to you in the investor call in February and talk about the longer-term growth which is ahead of us. With the performance in H1, we are entering H2 with a lot of confidence and momentum. There are opportunities across network, opportunities across cloud and infrastructure and the interaction fabric which you see have all gained significant amount of traction in H1. We are confident of growth ahead, but more importantly, I would want to emphasize that we are delivering on the commitment we made to you in the beginning of the year, that we'll focus on profitable growth in this year. We have delivered 15% EBITDA growth in first half of FY '27, good quality profitability showing up in our cash. So we will absolutely be looking forward to the investor call where we can outline the growth opportunities ahead of us.

Balaji Subramanian - Analyst, IIFL Capital Services Limited
Thanks, Ganesh, for the in-depth answer. My other question was on the margin expansion itself in

digital portfolio, to be more specific. So I can see that a significant part of the margin expansion has come from the improvement in the NR to GR ratio. And that is despite the fact that the contribution of Collaboration and CPaaS is at an all-time high, which is typically a lower margin business. So is it fair to say that the contribution margin in the other parts of digital portfolio, they are all seeing a meaningful uptick considering that some of these newer products and platforms that you have recently launched come with superior margins? So will that be a fair statement to make?

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
That's a fair call out. I think, as I said, the quality of our growth is changing. I have called out that the important driver of profitability is the change in sales contribution margin, which is the NR minus all the costs associated with that sale. And that's showing up in our execution. Our sales team is focused on delivering profitable growth. The AI-led platform wins like Comotion, I talked about in Tata Consumer and HDFC ERGO, our platform-level revenues, which comes with higher profitability, recurring revenues, almost like SaaS businesses. So that is why you are seeing the shift in the NR to GR, and that's what is resulting in our EBITDA improvement in the digital business. I have said that we want to look at our business as platforms, infrastructure, and services and solutions the three buckets and we want to see a healthy mix of these three types of revenues. And what you're seeing in the digital portfolio is the beginning of that execution. You are seeing that the growth is coming from the right products with higher profitability and that's what is helping us to improve the profitability of the digital business.

Balaji Subramanian - Analyst, IIFL Capital Services Limited
Got it. This is quite helpful. Thanks a lot and all the best for the coming quarters.

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
Thanks, Balaji.

Operator
Thank you. Our next question is from Sanjesh Jain of ICICI Securities. Please go ahead.

Sanjesh Jain - Analyst, ICICI Securities
Yeah, good evening. Thanks. Thanks for the opportunity. I got a few of the questions. First, on the order book, Ganesh, you said that this quarter we have seen a double-digit order book growth. I think this is 2.5 years of double-digit order book growth. And if you look at data business adjusted for currency, the growth is around 6%, that's what I think Siddharth said. So when should we see this constant currency growth of double digit in data business now that order book has been quite strong? And some color on the order book in this quarter will be helpful. That's my first question, Ganesh.

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
Thank you. Even in the, even in the order book, Sanjesh, our focus is how do we get more recurring businesses, more high profitability businesses as part of our future revenue. Order book is basically the future revenue. Once we implement, it converts to revenue. And we think we got the best quarter in, in Q2. I'm hoping that there will be more better quarters in the future, but I think Q2 has been great. A lot of our order book has come from recurring business. A higher share of our

business has come from recurring, higher share of our businesses come from the network product. And we are watching current constant currency numbers very, very closely. Our focus is going to be constant currency growth.

You see that even in constant currency terms, Sid, our EBITDA has been around 10% on a year-to-year basis. So I think, we are focused on constant currency metrics as well. We have also invested in undersea cable, in DC-to-DC connectivity. We are seeing some significant demand in the core connectivity business coming up. I think, let's wait one more quarter. You will definitely see I'm hoping that we will continue our focus on profitable growth and the network growth which we have seen in the order book should convert to revenue and and we are definitely looking for better future on the network business.

Siddhartha Mundra - Chief Financial Officer, Tata Communications Limited
Just to add a little more color on the order book, the order book is very well diversified and we have had wins all across. So there are no large wins which are part of this order book. This is several wins across several businesses. The other aspect is that some of these wins have come against very strong, credible competition and this gives us even more confidence of our strength of our products and our ability to continue this in the future.

Sanjesh Jain - Analyst, ICICI Securities
Great, great. I think that's good news. So we should, we should expect this converting into revenue in the coming years, right?

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
Correct. We should have. Good, good.

Sanjesh Jain - Analyst, ICICI Securities
Got it. Second, Ganesh, you have given us a good detail on unified AI stack that we are building. But just to understand, in the entire Tata Comms revenue, both in core connectivity and digital.

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
Sanjesh, we can't hear you.

Operator
Mr. Sanjesh Jain, are you still there? I think we've lost the connection for Mr. Sanjesh Jain. If he rejoins the queue, we will unmute his connection. [Operator Instructions] We'll take the next question from Vibhor Singhal of Nuvama Equities. You may go ahead, Mr. Singhal.

Vibhor Singhal - Analyst, Nuvama Equities
Hi, thanks for taking my question and congrats to the entire management team for a wonderful performance. Finally, especially on the margins part. So Ganesh, two questions from my side, and then I have one question for Siddhartha as well. You talked about the unified AI stack, basically the strategy that we are kind of following, which kind of combines our GPU infrastructure along with the capabilities that Comotion brings in. So just to get a bit more color on this, you mentioned a couple of projects also that you won with Tata Consumers and all. So are these kind of applications which are -- are they restricted to our, let's say, the sub-verticals of, let's say, the next-gen connectivity, CPaaS, media, and cloud? Or are we actually moving beyond these application offerings, these

offerings that we used to provide to the customers? And does that open up a completely new different field of business that we can actually envisage and that can grow much strongly on those parts. So any color on basically where these deals are coming from, what is the kind of nature of work that we are doing, that would be really helpful.

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
Very, very interesting question you're asking. I think what you're seeing is to scale enterprise AI, a company like Tata Consumer, a company like HDFC ERGO needs multiple layers of technology stack, and we bring all of them. And what we have been able to do in both of these situations and other customer situations is that we have been able to stitch together the solutions which are customer outcome-based. Let's just take this example of product consumer, right? If you want to see what all goes into making that solution, right? First, you need a hardware layer. That's a basic thing you need. That is where you need to run the intelligence. You need to run the model. So we have that. Hardware layer alone is not enough. You really need an ability to securely bring enterprise data, which we have, which is a security fabric we have. On top of that, you need the capability to convert enterprise data into intelligence, which is the ontology layer, which is what Comotion brings. We have that.

Now that's not enough. Now you need to convert that intelligence into action, and for that action to happen, you need a voice AI capability, w hich we have that from Comotion. And there is something even more simpler. To make the voice calls happen, you need the ability to have countrywide voice calling capability with our own phone numbers to give, with a robust voice network we want to provide. We have that. And you have to do this securely, right? We can't do this over Internet. We have to do this over MPLS because voice calls are not allowed public Internet. We have that capability. Now, if you look at this, to make a real high ROI enterprise use case happen, you need all the stack. And Tata Comms has always had the stack. We have built this stack with our acquisition, with our GPUs investments. What we are doing now is really putting that together to create unique solutions for our customers.

You take HDFC ERGO, to make HDFC ERGO happen, you need a contact center software. We have it in our portfolio. We have our own contact center software as part of our interaction fabric. You really need voice AI agents. You need ability to connect enterprise data on secure, high-performance network. You need the ability to make phone calls happen both inbound and outbound. And you have the ability to give them customer the phone numbers they need, unique phone numbers they need for their end consumers to call them. Again, voice fabric, security fabric, GPU hardware fabric, network fabric, intelligence fabric, all of that is needed to make a solution like that happen. And Tata Comms, we have we do have it. For a customer like HDFC ERGO or Tata Consumer, they don't have to go to multiple people. They don't have to go to an ontology software company. They don't have to go to a CRM company. They don't have to go -- to to put that together, they need to go to five different people. And now we've built that in one simple stack. I think that's the power of what we have in Tata Comms, and it's beginning to resonate in the market. We will, we will see more solutions like this offered by Tata Comm. That is our hope.

Vibhor Singhal - Analyst, Nuvama Equities
Got it, got it. Great. Thank you so much for that very detailed answer, Ganesh sir. But it actually opens up two more questions from my side, if I may. So is it fair to say that a deal like HDFC ERGO or a Tata Consumer deal, the revenue that would be accruing from that deal would actually be

spread across different parts? It would some part would be going to the voice business, some part to, let's say, the IoT business, and would be spread across different segments?

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
Fair point. I think you should think of ourselves as putting this multiple fabrics together to stitch a nice suit. And I think the fabric makers will get their portion, but the suit is what the customer wears.

Vibhor Singhal - Analyst, Nuvama Equities
Got it, got it, got it. And you also mentioned the voice part quite a few number of times. Now, does that mean that the voice business of Tata Comms, which kind of we had been just ignoring and we assumed that this would die its own natural death. Is there a possibility of some revival or there is some plan or strategy that you're working on that this voice business could also basically start seeing more traction given, as you mentioned, that you can probably not make WhatsApp calls because of data security reasons?

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
I think it's too early to say, Vibhor. I think voice is becoming the execution layer for AI agents more and more and more. I think with AI agents almost acting as coworkers in multiple different parts of the company, I think there is resurgence in voice calling. I think, the constraints of human agents managing call centers are going away. AI agents are available in plenty. So the service levels are improving in customer service. We are able to make a lot of calls because they are not humans making the calls, but AI agents taking the calls. So there's definitely improvement in that voice part of the business, but it's too early to say whether it's material or not.

Vibhor Singhal - Analyst, Nuvama Equities
Got it, got it. Just one last piece from my side, and then I just have one more question for Siddhartha. On the media business. I think in this quarter also, while we saw some uptick on a Q-on-Q basis, I think on a Y-on-Y basis, it still remains quite a bit of soft. So any color on that as to what exactly ails here and when do you think we could see It's supporting the growth, which is very strong in the other divisions.

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
I think the media business has done really well this quarter in terms of profitability. They're making all the right bets. We are bringing more synergies between the media business and the network business. I think media business is very cyclical. It depends on the big events. For example, media has a big Olympics coming up next year. So we are getting ready to provide support for the LA Olympics. There have been some events which were in Middle East which got cancelled because of the challenges. But we are very, very bullish on the media business. I think we have the right capabilities. We have capabilities across production, playout, and distribution. And if we combine that with an amazing network backbone we have globally, we think that we can capture a bigger share of the growing digital distribution of this media. So we are very pretty bullish. Sid, do you want to talk about it?

Siddhartha Mundra - Chief Financial Officer, Tata Communications Limited
Yeah. So the media business, in addition to what Ganesh mentioned, from a cost perspective, we have undertaken a lot of initiatives to bring down the overall cost structure in the media business. Some of that has already started playing out. Some of that will start playing out in the coming quarters. There's greater interaction, integration that's also happening between the various business units in terms of our network buying that happens on the back end, and a lot of consolidation opportunities and cost optimization opportunities that we see there as well. So both from an NR perspective and from a LOB contribution margin perspective, we see there are a lot of positive growth drivers in the coming quarters.

Vibhor Singhal - Analyst, Nuvama Equities
Got it, got it. In fact, that was my was going to be my next question for Siddhartha. So Siddhartha, on the margins, a very strong performance in the digital portfolio. We're finally moving towards a breakeven and possibly reaching the positive side very soon. As you mentioned, media business was one of the segments in which we pulled up our socks and has improved the profitability. Any other of the digital verticals where you saw maximum traction and most improvement in margins than the other verticals?

Siddhartha Mundra - Chief Financial Officer, Tata Communications Limited
In all across, Vibhor. So our move business also has seen substantial improvement in profitability and we continue to be very strong and focused on that, that vertical. We are seeing margin uptick opportunities across all the, all the verticals actually.

Vibhor Singhal - Analyst, Nuvama Equities
Got it. And the final question from my side, if I back out the digital margins which we have provided for the quarter from the data margins, the implied margin for the core connectivity business comes out to almost 44.8%, around 45%, a very healthy margin indeed. So do you believe that margin is sustainable at these levels?

Siddhartha Mundra - Chief Financial Officer, Tata Communications Limited
So what we have achieved as of now for the quarter and in the coming quarters, we should we believe that that should be achievable. There are no one-offs or there are no such events that are impacting our Q2 performance in any way.

Vibhor Singhal - Analyst, Nuvama Equities
Got it, got it. Great to hear that. Thank you so much for taking my question, and I wish you all the best for the remaining.

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
Thanks, Vibhor. Thank you.

Operator
Thank you. Our next question is from Avnish Tiwari of Vaikarya. Please go ahead. Mr. Avnish Tiwari ?

Avnish Tiwari - Analyst, Vaikarya
Am I audible?

Operator
Yes.

Avnish Tiwari - Analyst, Vaikarya
The first question I have on this AI layer you have. So Comotion, Kaleyra AI, if you can just talk about what's the revenue model and what is if you have, if you would like to disclose how many clients or how many accounts you have seen this uptake, either attached to existing offering or a standalone offering or a bundled deal, whichever way it is, like how many clients have taken it up.

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
Let me not disclose the number of customers yet. I think, we want to keep it a little under the wraps for some more time to come. But our model is a SaaS-based model. It's a platform fee plus they pay for all the consumables. I think it's a very, very healthy business, recurring business. And it is not just about Comotion as a platform. I f you, if you look at the two solutions it is monetization of all our assets, right? It is not just the ontology layer and the voice AI layer. It is the network layer, which is the voice calls, the minutes. It's that, it's our GPUs which get used. So we are providing this as a solution and the pricing varies between solution to solution. Some of it is, the way we want to think about this is platform plus consumables, but it is across our portfolio. It is, as somebody asked me, does the revenue go back? Yes, it does go back into individual towers as well. So right now you should think of this as a platform-led pricing model, which is fixed SaaS-like model on a recurring basis, plus usage based on consumables.

Avnish Tiwari - Analyst, Vaikarya
Okay. And is this what is powering your Collaboration CIS revenue? If I look at last two, three quarters sequentially you have been running quite well. Is this kind of a synergistic AI leverage helping you, or anything else which is helping you accelerate it or give a good growth number in those?

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
Our goal is to make the whole CIS platform AI-enabled. We run Comotion and CIS together as one entity under one leader, as one P&O. I think the customer experience function of multiple different companies, as you saw in HDFC ERGO's case, is going through a massive AI-led transformation. We have these customers, we have been providing that solution before, and with the addition of Comotion to our capability, we are significantly taking part in customer experience transformation using AI because we have that unified stack of contact center software, the AI ontology layer, the voice AI agents, and the underlying GPUs and network to make the whole contact center transformation happen. So our goal is that our CIS business will really become an AI-led platform-enabled business and that will show up in improved profitability of that business as well.

Avnish Tiwari - Analyst, Vaikarya
Just one last question. Apart from this C omotion layer and this Collaboration CIS layer, any other part where AI leverage is you are trying to infuse either AI on network or next-generation connectivity or anywhere else?

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
I think that since Comotion is part of our portfolio, we are undertaking a massive AI-led transformation of our whole company, just not on products we offer to customers. In our own way, we look at our company, we are reimagining our company using the same unified stack we are offering to our customers. You will hear more from us on this, but rest assured that the kind of transformation we are bringing to customer service, to sales, to delivery, to assurance, we will be bringing a similar reimagination of our own company and it's already happening. I think we will share more with you when we talk about on the Investor Day. But your observation is very valid. I think we will be undertaking a massive transformation of our own company using this AI product.

Avnish Tiwari - Analyst, Vaikarya
Thank you.

Operator
Thank you. We'll take the next question from Aditya Bansal of Motilal Oswal. Please go ahead.

Aditya Bansal - Analyst, Motilal Oswal Financial Services
Congrats on a very strong quarter. My question is around the cloud business, relatively muted growth, but what I want to understand is, is it deliberate strategy to focus more on the Vayu private cloud rather than distribution of third party, which is leading to a muted growth but a better profitability. Is that understanding correct?

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
I think, both Sid and I have been very consistent that we want to focus on absolute EBITDA growth. So the shift of the revenue, higher quality revenue, is very important for us. I think selling our own AI cloud, selling our own sovereign cloud is our focus. We want to make sure that we are focused on the GPU utilization which we have bought and we have invested. We are focused on selling our own cloud into multiple different channels. And I think the you will see hopefully in the future that we are, we are definitely investing in the cloud business. We are seeing huge momentum in our order book in for cloud in the India market. I think this business will be a much better business going forward, but your observation is valid that we are wanting to make sure that the revenue we get from this cloud business is on our own platforms and our own products so that the margins are better.

Aditya Bansal - Analyst, Motilal Oswal Financial Services
Thanks for that. Second one is in terms of the digital margins. Obviously a very healthy improvement there, but any medium-term targets? Like obviously I believe you will share more color on the Analyst Day, but any medium-term targets that you are looking at for this business on the first on the profitability and on like what could be the margin potential here given inherently lower margin portfolio? So that would be my last question.

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
I have stated this again already that we are focused on absolute EBITDA growth. Our commitment to make sure that the whole digital business becomes EBITDA positive as soon as possible is our, our everyday focus. So you will hopefully see that in the coming quarters. But I want to -- when I talk to you on Investor Day, I would talk about how we want to look at the business. I am beginning to see

the business as a mix of platform solutions and infrastructure. All three of them have different financial characteristics. Capital intensities are different. I know profitability is different, but we need all three of them to be part of the portfolio, and all three of them will be part of every tower we, we give. So I think the goal would be to have a healthy mix of platform revenue, infra-led revenue and services and solutions-led revenue so that we can balance capital intensity and profitability in the right way. So on the digital business, there's a lot of focus on digital business. We are growing nicely even on constant currency. We have done really well. The color of the revenue is changing. The NR to GR is improving, as somebody noticed, and we are committed to making this profitable at the earliest.

Aditya Bansal - Analyst, Motilal Oswal Financial Services
Thank you and all the best.

Operator
Thank you. Our next question is from Sanjesh Jain of ICICI Securities. Sanjesh, you may go ahead.

Sanjesh Jain - Analyst, ICICI Securities
Thank you. I hope you can hear me now.

Operator
Yes.

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
Yes.

Sanjesh Jain - Analyst, ICICI Securities
Thank you. Ganesh, I was asking on each of these business aspects, I think our emphasis remains very clear that we need to integrate AI. Can you help us understand what are the revenue opportunities both in core business from an AI-led opportunity and in the digital services? And what is the proportion of revenue today and how do you see it shaping up over the next two to three years?

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
As I said in the last answer to the last question, I want to look at our business as portfolio platforms, infrastructure, and services solutions. So I'm not really, I haven't put my mind to saying how much of this is AI revenue. I'm not sure whether we are going to go down that path. But the demand you asked, it's a very interesting question. There is, there is tremendous growth in data center capacity in India. And the data center capacity, not only on an aggregate level, individual data centers are becoming extremely high-powered data centers, which translates that the data center demand for connectivity is going many folds. Our projection is that there's going to be 70 petabytes of traffic needed by 2036. We are at about tw or three right now. A nd the recent wins we have had in, in these neocloud operators, hyperscalers, tells us that the change, the demand of all the three layers of connectivity; subsea cables, NLD cables, metro cables, even last -mile within multiple markets is definitely on the uptick. So that is delivering demand.

The second one which is delivering AI demand is infrastructure. Sovereign infrastructure, the 60% of the future infrastructure is going to go towards inferencing. We believe that the strong network

strength we have positions us well for providing this inferencing edge across the globe. That's a second set of demand we are seeing. And the third set of demand we are seeing is this huge opportunity for the platform layer, the AI operating system we have acquired, the ontology layer which we are providing through Comotion. And the AI OS which actually takes action. That's the third layer of demand we are seeing. And the fourth layer of demand we are seeing is the action layer, the whole voice AI agents, the phone calls you have to make using voice AI and the interactions you have to make on SMS and WhatsApp. So across the multiple stacks of what it really takes to scale enterprise AI, Tata Comms has a play. And we have a -- if we don't have a play, we have a leadership position in the data center-to-data center connectivity. We have a strong share of the submarine cable. We have a strong share of the metro connectivity. And you've seen us invest in that. I think we are well poised to be the unified stack for enterprise AI in the future.

Sanjesh Jain - Analyst, ICICI Securities
That's, that's huge opportunity and demand. But Ganesh, this is largely an Indian market for us or in these stacks, are we also looking at global market?

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
I don't think it's...

Sanjesh Jain - Analyst, ICICI Securities
Because a lot of it looks like India market, right? At least infra layer and...

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
That's not true. I think our network layer is very, very global. Our infra layer, we can build out using we have strong assets across the globe. We have -- ops across the globe which are necessarily small data centers which we can turn into inference edge, right? So I don't think it's restricted to India. Some of the customer conversation we are taking on Comotion is, I have been in Middle East, I was in Europe, and every customer we have spoken to about this, this AI stack, including the ontology layer from Comotion, is definitely resonating well. So I don't think it's India-focused.

Operator
Sanjesh, are you connected? Okay, it looks like we've lost the connection for Sanjesh again. We'll move to our next participant, that is Hardik Goyal from Union Mutual Fund. You may go ahead, Mr. Goyal.

Hardik Goyal - Analyst, Union Mutual Fund
Hello, am I audible?

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
Yes, Mr. Hardik, yeah.

Hardik Goyal - Analyst, Union Mutual Fund
Yeah, hi sir. Congrats on a great set of results and great margin expansion in the digital portfolio. Sir, we understand you will not comment on the trajectory of margins, but can we get some flavor on what led to this 330 basis points of quarter-on-quarter improvement, like operating leverage, gross

margin, or mix change?

Operator
Hardik, sorry, sorry to interrupt. If you're on a hands-free, like, can you take off the earphone and speak? It's not very clear, your audio.

Hardik Goyal - Analyst, Union Mutual Fund
Hello, is it better?

Operator
Yes, better. And could you please repeat your question?

Hardik Goyal - Analyst, Union Mutual Fund
Yeah, hi. Sir, on the margin expansion, can you just give us some flavor on what led to this quarter-on-quarter improvement in the digital portfolio, like operating leverage, internal efficiencies, or margin expansion in the gross margin side? Or some change in the mix among the digital portfolio? Some flavor which helps us see how we can led to that breakeven and subsequent profitability in this segment.

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
I think it's solid execution on all sub-products across the portfolio. So first one, our revenue has grown, right? Our digital business revenue has grown 18% year -over -year. It's led by top line growth. Even on constant currency basis, we have grown significantly. So one, there is tremendous growth in the digital portfolio. Second, the mix of the revenue is changing. As you could see, the GR/NR ratio is changing for the digital portfolio, so the quality of revenue is improving. And third and most important, the operating leverage is kicking in. I think our razor-sharp focus on cost and keeping the cost in control while driving growth is definitely what is resulting in this. I think we are pretty pleased about our year-over-year performance on the digital portfolio. Our commitment is to turn on the absolute EBITDA growth, making sure that we deliver double-digit EBITDA growth this year and turn the digital portfolio to EBITDA positive at the soonest, is going to continue on these three fronts: grow the top line, grow it, grow it the right way, the right mix of revenue, and continue to keep control on cost.

Hardik Goyal - Analyst, Union Mutual Fund
Perfect. That helps a lot. Thank you, sir, and all the best.

Operator
Thank you. Our next question is from Bharat Sheth of Quest Investment Managers. Please go ahead. [Operator Instructions]

Bharat Sheth - Analyst, Quest Investment Managers
Am I audible now?

Operator
Yes.

Bharat Sheth - Analyst, Quest Investment Managers
Hi, congratulations, Ganesh, and super result. Ganesh, my first question is that in your initial opening

remark, you said that you are seeing some good traction in the core connectivity. So if you can give some color and what will drive and when do we really start seeing in our number and how that will help us in growing EBITDA.

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
I think, and as you guys know, that connectivity business is high EBITDA business.

Bharat Sheth - Analyst, Quest Investment Managers
Correct.

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
Maintain leadership in all four forms of connectivity: subsea, NLD, metro, and last -mile. And we have continued to invest in connectivity. There are two parts to connectivity growth. I think the first part is the underlying infrastructure. The second part is the innovative platforms we have built on top of. And if you look at our business, the next-gen connectivity platforms is growing at 27% year -over -year. And just to give you an idea of that platform, right? If you are a company connecting to cloud and you are connecting to multiple different clouds, ou are spending a lot of money by duplicating that connectivity, duplicating security, duplicating the landing zones with no flexibility. Our MCC Flex, which is the Multi-Cloud Connect product today, which is up and running for some of the biggest banks in the world, allows these banks to connect to the cloud in a simple mesh with full control over their security in one place, not duplicating across multiple landing zones. It reduces the egress cost, gives them much control over the security and other costs.

And this concept of MCC, Multi-Cloud Connect platform, which sits on top of our underlying infrastructure, which connects to 80% of the cloud locations across the globe, is a big differentiator in the profitability of the business. And if you look at the dynamic DC-to-DC connectivity product we have launched, we just launched over six months and we have seen tremendous traction among global customers who are really looking for connecting their data centers in west to east using a very deterministic latency path, which is very important for them. It's not about resilience alone. It's a self-healing network which can say, okay, if I if the first path fails, if I take the second path, what is going to be my latency? And we are the only one provider who can do this globally.

We can actually provide deterministic latency path to our customers using this dynamic DC-to-DC network. Take a look at our product, which is the Multi-Cloud Networking. We have built a software platform which helps our customers to connect between two clouds using our underlying infra. I think if you look at the, the, the across the globe, there are platform companies who do this and there are telco companies who don't have this capability. And we are bringing these two together. I think that is the future of our network business. We will continue to be the leader in the infrastructure, but we will be the innovator in the platform side. And this combination is going to help us expand this business and keep the profitability alive.

Bharat Sheth - Analyst, Quest Investment Managers
How should we think? In past it was growing as a core connectivity 1% to 3% kind of, I mean, range. So can we see, I mean, here the growth rate to improve? And when do we expect that growth rate to improve? Some color on that.

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
I think, in the past growth has been also impacted by cable cuts. But if you, if you look at what is happening in the world the AI-led traffic growth is east-west traffic. It's not north-south traffic alone. It's connecting data center to data center growth. And that AI growth is coming from not the old size cables which were offering 1 GB, 2 GB. Now people are asking for 500 gig connectivity and people are asking for connectivity which is latency sensitive, right? A B2B network which we operate and if you take in India, we are, we are one of the very few people, actually the only one who operate a high-quality B2B network which doesn't carry B2C traffic. Our network is designed to connect two data centers at the shortest path. So the latency we provide to our customers is very different than the network backbones other B2C customers, telcos would use. So more and more customers are choosing our data center to data center connectivity because it's purpose-built for B2B.

And there are new demand which is coming. I called out one of the biggest wins from a neocloud operator who's setting up a data center. In India, we are providing with them, the whole connectivity between the metro connectivity as well as the subsea connectivity they need between the data centers they have in here and data centers they will have in the U.S. So I think the network business is exciting. It is very good.

Bharat Sheth - Analyst, Quest Investment Managers
Okay, thank you and all the best. Hello?

Operator
Thank you.

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
Inba, one last call and, this question and then we'll close.

Operator
So we can take that as a last question.

Ganesh Lakshminarayanan - Managing Director & Chief Executive Officer, Tata Communications Limited
Okay, thank you.

Operator
[Operator Closing Remarks]