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Q4 FY2019 Earnings Conference Call Transcript

MAIN SPEAKER:
Vinod Kumar, Managing Director and Group CEO
Pratibha K. Advani, Chief Financial Officer

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Moderator: Ladies and gentlemen, good day. And welcome to the Tata Communications Limited Q4 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand conference the over to Mr. Vipul Garg – Head of Investor Relations at Tata Communications. Thank you, and over to you, sir.

Vipul Garg: Thank you, Janis. Good afternoon, everyone. And welcome to Tata Communications Earning Conference Call. We are being joined today by Vinod Kumar – MD and Group CEO; and Pratibha Advani – Chief Financial Officer.

The results for the quarter ended March 31, 2019, were announced yesterday, and the quarterly fact sheet is available on our website. I trust you would have had the opportunity to pursue the key highlights. We shall commence today's call with comments from Vinod, who will share his insights on the business and our progress. He will be followed by Pratibha, who will lead the discussion on financials. At the end of managements' 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 risks and uncertainties we face. A detailed statement and explanation of these risks are included in our annual filings, which you can locate at our website, www.tatacommunications.com. The company does not undertake to update these forward-looking statements publicly.

With that, I would like to turn the call to Vinod to share his views. Over to you, Vinod.

Vinod Kumar: Thank you, Vipul. And a very good afternoon to everyone. I extend a warm welcome to all of you for this Q4 and FY19 Earnings Conference Call of Tata Communications. I will begin this call by sharing som e thoughts on the way the business of telecommunications is evolving, along with a perspective on our performance. Pratibha will follow with her analysis on the financials.

Over the last two decades there has been a paradigm shift in connectivity. The first generation of mobile networks was all about voice and gradually evolved to data and its applications. Additionally, connectivity was largely within the enterprise and maybe to their supply chain partners. However, when we talk about connectivity today, it is truly multifaceted and it's all encompassing. It is about video and mobility, it needs to be always on, and it is about including all constituents from suppliers, to partners, and to end consumers. This shift is allowing Tata Communications to play a more active role in the customers' connectivity realm, especially with our introduction of MOVE and our IoT offerings.

Tata Communications bet on IoT and cross border mobility is starting to pay off as initial proof of concepts has started translating into large commercial deployments. We expect this business to grow manifold in the coming years. We are seeing excellent traction in the automotive, airlines, shipping and consumer electronics vertical across the world. Our recent partnership with China Telecom Global is also a positive step that shows our market credibility. Through this partnership, China Telecom Global and Tata Communications are working together to launch a global IoT service in the Chinese market. This partnership will allow companies to deploy and manage IoT devices easily and cost effectively, both within China and internationally.

On the operation scaling of the MOVE services, the integration of the Teleena organization plays an important role. We are actively working to standardize our services and are in the process of transitioning existing customers to the newer MOVE platforms.

The Enterprise IoT market in India is expected to grow at a CAGR of more than 35% through 2023. Enterprises are adopting more used cases of IoT. They are moving away from just control systems for manufacturing or fleet management. We are seeing a clear path to massive adoption in areas like smart street lighting, smart metering from FY20 onwards in India. Worker productivity and worker safety solutions is also another area of keen interest.

The key differentiator for us in India is that we are offering a package solution that is ready for deployment. Tata Communications provides the underlying network and the devices, the applications and the platform. This ecosystem gives us a unique advantage against competition and makes Tata Communications a preferred partner for IoT deployment. We also recently launched a marketplace for IoT solutions to catalyze the IoT industry and to build a large ecosystem for easier solution creation.

More and more businesses are looking to transform how they operate and serve their customers by reimagining their networks. The business rationale for embracing a digital future is quite compelling. A Harvard Business School research study suggests that leading digital companies generate better gross margins, better earnings, and better net incomes than organizations in the bottom quartile of digital adoption.

Our customer conversations have become much more meaningful, and have gradually moved away from network-centric in connectivity and are moving towards how we can make businesses more digitally enabled. This is leading to a better understanding of the customer ecosystem. It is making our services stickier and less price sensitive.

Our efforts have started to yield results. During FY19 total contract value sold, or simply put, our order book was at US$1.4 billion, witnessing a growth of 41% over the previous year. Within this, for traditional services, TCV sold was US$590 million, and for growth and innovation portfolio we sold a collective TCV of US$790 million. These are multi-year contracts and are in various stages of execution. Please bear in mind that we will also witness normal business churn during the year.

As I reflect on FY19, I feel that it was a year that showed the resilience of the company and one of building core strength for our future. In FY19 we faced a lot of challenges, and despite these industry headwinds, we have been able to deliver steady performance.

Operator consolidation in India impacted us, both on the revenue and the cost front. We lost some of our customers on the wholesale side and our access cost went up significantly. We had to invest additional CAPEX in India for a last mile expansion. This operator consolidation affected our traditional services and the Transformation Services business. Both the affected portfolios have since stabilized and will return to the normal growth trajectory in FY20.

Our Voice business continues to decline faster than expected, creating working capital pressure for us. We are working with our vendors and focusing on customer collections, which led to net debt reduction this quarter. We have been able to fight off the decline in voice in traditional services, with growth in our innovation and Growth Services portfolio.

Our growth service portfolio witnessed a year-on-year growth of 15.1% and ended the year with US$398 million in revenues, and turned EBITDA positive. But the scale up of growth and Innovation Services was a little slower than we had expected, as these services are customized and take longer time to deliver. For Innovation Services, we are still in the market making stage and time taken to convert a PoC into commercial contract is much longer than anticipated. And this is partly due to the absence of competition and we are breaking new ground.

Looking ahead, our funnel for FY20 makes us confident that we are on the right strategy and right path for growth. As on 31st March, we have a funnel of close to US$2.3 billion. The final win rate last year improved to 31% from 27% the previous year.

Our internal digital transformation initiatives continue to reap rich dividends. The NPS score for our top 700 customers has now dramatically improved to 59 and our manpower costs productivity has also gone up considerably during the course of the last financial year. We are working very closely with our customers. We have identified 672 customers as those with whom we will deeply engage. These customers constitute 80% of our revenues, and through a better customer experience and diverse product offerings we believe we will be able to up-sell more of our services in the next two years to this customer segment. We believe, out of this list, every Indian customer has the potential of about US$5 million per year in revenue, and every international customer has the potential of US$10 million annual digital infrastructure spends. Our aim is through this focus to increase our wallet share considerably with these customers over the next two years.

The telecom and technology sector have faced a lot of changes and challenges in the last few years. Just to call out a few, we have seen significant technology shifts, pricing pressure, cut-throat competition, market consolidation and macroeconomic challenges like economic nationalism, trade wars, and economic slowdown.

As an organization, we need to be agile to manage these shifts and to manage these challenges and to set out a clear roadmap for future growth. We, at Tata Communications, have grappled with these shifts and have managed to transform the company in the last 15 years. From a government-owned India-focused entity we have transformed into a global digital infrastructure provider. We have successfully transitioned from a wholesale Voice business to an enterprise data provider.

Our data business now contributes to around 77% of our overall revenues. We have also diversified into a global business, making us resilient and immune to country specific issues and volatility. We, at Tata Communications, are in tune with the current needs of our customers and we successfully navigate technology shifts. For example, we envisaged the traditional connectivity will be commoditized and we were proactive to launch our SDWAN services well before our competitors did. We now aim to be technology leaders rather than followers, and our Innovation Services offering is one such step in that direction. We are progressing well on our strategy and are confident of a significant ramp up in the future.

Now coming to our financial performance:

Full year consolidated revenue came in at Rs. 16,525 crore, witnessing a decline of 1.5% year-on-year due to decline invoice. However, strong performance in data businesses has helped mitigate this decline in voice to a large extent Full year EBITDA was at Rs. 2,745 crore and grew at 13.8% year-on-year, driven by strong profitability in the data business. Margins came in at 16.6%, an increase of 220 basis points year-on-year.

Our data business witnessed strong growth. Revenue grew by 10.4% year-on-year on the back of strong performance in our Growth Services, and the revenue uptick in Innovation Services. Traditional services remain stable, despite industry headwinds with operator consolidation. Revenue declined thereby 2.2% year-on-year. This portfolio has now started to stabilize, and we expect it to return to a normal growth trajectory of 4% to 5% in FY20.

Growth services portfolio witnessed strong momentum. Our revenue grew by 15.1% year-on-year to US$398 million on the back of large deal wins in this portfolio. We witnessed revenue uptick in the innovation portfolio and we started commercial deployments in our MOVE an IoT India business. We have strong order book and a funnel for growth in innovation portfolio and we expect significant revenue ramp-up in FY20.

Our Transformation Services business faced challenges this year due to operator consolidation in India, and some shift in revenue in favor of the domestic customers. In the latter part of the year, we picked up some business at lower margins to showcase our wireless capabilities. We have a strong pipeline of international business and we are confident of strong growth, both in revenue and profitability for Transformation Services in FY20.

CAPEX for the full year was at US$267 million, which was in line with the guidance of slightly below the guidance we had given at the start of the year. For FY20, the CAPEX will remain approximately about US$250 million. This year we face pressure on working capital, which led to an increase in net debt. As stated earlier, we are working actively with our vendors, customers and hope to keep net debt at the same level as FY20.

As the world is moving towards digital enablement, our focus remains on offering best-in-class digital infrastructure solutions, ensuring seamless global connectivity and effortless digital transformation. Digital enablement and transformation are key themes that business leaders are pursuing globally and technology is at the heart of these changes. And we believe that our offerings really address the sweet spot.

With that, I would like to invite Pratibha to discuss the financial highlights of the last financial year and the quarter we just finished. Thank you.

Pratibha Advani: Thank you, Vinod, for sharing your thoughts. And a very good afternoon to all of you. I will provide you with the perspective of progress that we made, both during this quarter and for the financial year ended March 31st.

Let me start with the consolidated numbers:

Our consolidated revenue for FY19 stood at Rs. 16,525 crore, as Vinod mentioned earlier, a decline of 1.5% year-on-year. This was primarily due to decline in Voice business by 27.1% year-on-year, which was approximately about Rs. 1,400 crore. Strong performance in data business has mitigated this decline to a large extent. Our data business grew by 10.4% year-on-year.

FY19 has been a challenging year in many ways. We faced industry headwinds, however, despite these challenges we have achieved revenue and EBITDA growth.

Consolidated EBITDA for the year stood at Rs. 2,745 crore, an increase of 13.8% year-on-year. Margins came in at 16.6% and have expanded by 220 basis points year-on-year, largely due to Growth Services turning profitable and shift of revenue towards more profitable data services. Our strategy to focus on data services has started to show results and we expect this trend to continue in FY20 onwards.

We have been talking about cost focus with all of you and how we are reimagining our processes to make them, both future ready as well as drive cost productivity. We have been able to achieve higher manpower cost productivity by reducing our manpower expense this year by Rs. 140 crore as compared to last year. Unfortunately, we were hit by exceptional costs to the tune of Rs. 206 crore, these were for example, the backhaul costs that we incurred earlier on in the year. Adjusted for these costs our operating expenses have been largely flat year-on-year. Through cost productivity initiatives our recurring OPEX is coming down, and we expect to see more benefits in the coming years.

Consolidated loss for the year stood at Rs. 82.4 crore as compared to Rs. 329 crore loss in FY18. The loss gap has narrowed considerably due to stronger business performance and one-time AFA related gains in Q3 FY19.

For the quarter, revenue witnessed a growth of 5% year-on-year, but a decline of 0.6% Q-on-Q. As you would remember, we had a one-time gain in Q3 related to access facilitation charges. Adjusted for that, the gain in revenue grew by 1.2% Q-on-Q. EBITDA for the quarter came in at Rs. 685.3 crore with a margin of 16.1%. EBITDA witnessed a growth of 16.7% year-on-year. On a reported basis, EBITDA declined by 23.2% Q-on-Q, however, again adjusted for AFA gain that we witnessed, a strong EBITDA growth of 8.3% Q-on-Q is what has come in after the AFA adjustment. This quarter we had a PAT loss of Rs. 198.8 crore. This was largely due to equity lost pickup in Singapore datacenter business to the tune of Rs. 173 crore.

Moving on to our segmental performance:

Data business witnessed strong growth this year despite industry headwinds. Globally, operators are witnessing a decline in their B2B data business. However, we have been able to buck the trend and reported strong growth in revenues. Our data revenue for the year came in at Rs. 12,655 crore and witnessed a double-digit growth of 10.4% year-on-year. This growth was led by strong growth in Growth Services, which grew by 15.1% year-on-year and revenue uptick in Innovation Services, which have clocked a revenue of $9.4 million in FY19.

Data Services now contribute to 76.6% of overall revenue, up from 68.3% in FY18. Data EBITDA for the year came in at Rs. 2,409 crore and grew by 16.6% year-on-year, primarily due to Growth Services turning EBITDA positive. Data contributed to 87.7% of overall EBITDA in FY19. For the quarter, data revenue came in at Rs. 3,342.7 crore, witnessing a growth of 14.2% year-on-year, and 0.5% Q-on-Q. Again, adjusted for AFA, Q-on-Q growth was 2.8%.

The above numbers clearly reflect that our strategy to invest in growth and Innovation Services has clearly started to pay off.

Moving to traditional services:

This portfolio has been affected in FY19 due to operator consolidation and pricing pressure. We lost some of the revenue and our access costs went up significantly, leading to pressure on margin. By the end of the financial year, this portfolio, however, started to stabilize and reported full year revenue of Rs. 1.17 billion, witnessing a decline of 2.2% year-on-year. We focused on efficiencies and driving productivity in the business and managed to maintain profitability. EBITDA for the year came in at US$386 million, witnessing a growth of 6.7% year-on-year; but margins coming in at 32.9%, translating into an expansion of 280 basis points over last year.

Growth services continue to witness strong growth. In FY19 revenue reached US$398 million, a growth of 15.1% year-on-year in dollar terms. This portfolio has become significant in size now. We continue to witness a strong uptick in business as visible from TCV number shared by Vinod earlier. The services are platform based and highly customized for each customer. This leads to a longer delivery period, which in turn leads to delay in revenue recognition. With scale we have been able to achieve profitability in this business.

EBITDA loss for the year for Growth Services stood at 7.4 million as compared to 40 million loss in FY18. As we grow scale, we will continue to witness steadfast improvement in EBITDA margins. We are witnessing strong traction in IZO, media and mobility services. On a full year basis IZO services grew by 111%, media services grew by 392% and mobility grew by 59% year-on-year. For the quarter, Growth Services revenue came in at US$110.8 million, growth of 9.2% Q-on-Q and 14.2% year-on-year. In Q4, we received a one-time revenue of US$4 million on the count of early termination penalty on one of our hosted contact center deals. The Growth Services have turned EBITDA positive this quarter. At the top of the quarter came in at US$6 million as compared to a loss of US$4.5 million in Q3.

Moving to Innovation Services:

This is a portfolio where we are still investing, and we believe the services will drive our future growth. At the start of FY19, we were still at market making state and we engaged with our customers and started PoCs. Theses PoCs have started to convert into commercial deployment and we have recorded full year revenue of US$9.4 million as compared US$0.4 million in FY18. We expect revenues to scale up and acquire 20. In Q4, EBITDA loss was higher as transformation cost of US$6.5 million was recorded in this portfolio.

Moving to our Transformation Services business:

The revenue stood at Rs. 1,254 crore for the year, witnessing a growth of 11.3% year-on-year. This business was affected by operator consolidation, as the Vinod mentioned earlier. Despite challenges, we have been able to grow this business on the back of new deal wins. This year we face profitably challenges in this business, leading to a decline in EBITDA. This is due to customer exist, timing mismatch between loss of revenue and cost realignment, and shifting in revenue in favor of domestic business. For the quarter, we saw a decline in Transformation Services profitability. EBITDA for the quarter came in at Rs. 10.1 crore and witnessed a decline of 70.3% Q-on-Q and 8.6% year-on-year.

As part of our long-term strategy in the latter part of the year, we took up a few deals at lower margin to showcase our capabilities in wireless space. We are working with leading operators or next generation advanced radio planning and optimization. We are helping operators design networks using predictive tools and by incorporating social media feed, which can lead to over 20% CAPEX efficiency. We are also working on self-organizing networks in partnership with Cisco, with a strong international business pipeline in the services, we expect improvement in revenue growth and profitability in FY20.

Moving to Payment Solutions business:

We continue to rationalize our ATM portfolio and focus on profitability. In FY19 we closed 3,395 ATM. This business has turned EBITDA positive by focusing on profitability and productivity. EBITDA for the year came in at Rs. 5.2 crore as compared to a loss of Rs. 19.8 crore in FY18. Average transaction per day per ATM team has also moved up from 17 in FY18 to 19 in FY19. EBITDA for the quarter was at Rs. 2.1 crore and was down 66.9% Q-on-Q as we witnessed lower average transactions per day from 92 in Q3 to 88 in Q4. We are witnessing a steady uptick in transaction number and our focus is to keep on looking at efficiencies and enhance profitability.

Moving to the Voice business:

We continue to witness a decline in line with industry trends and technology outlook. Revenues for the year stood at Rs. 3,870 crore, a decline of 27.1% year-on-year. This decline has been higher than expected and created working capital pressure on our overall business, as voice is a negative working capital business.

We have been able to maintain our margins through tight cost control, productivity measures, and one-off benefits that we got this quarter. Despite the revenue decline of 27.1%, full year EBITDA has declined by only 3.1%. For the quarter, EBITDA came in at Rs. 96.6 crore, a growth of 27.2% Q-on-Q and 29.3% YonY. This was primarily due to a shift in traffic to more profitable locations and one-time settlement benefits.

Moving to CAPEX:

CAPEX for the full year was at US$267 million, which was well within the guidance given at the start of the year. Year-on-year CAPEX was higher by $32 million due to investment towards India backbone expansion of $25 million. For FY20 CAPEX will remain in the range of $225 million to $230 million. Net debt for the quarter came in at $1.2 billion, or reduction of $55 million as compared to Q3 FY19, due to stronger working capital management.

As the business is shifting towards data, we are working actively with both our vendors and customers to effectively manage our working capital intensity. Our aim is to keep our net debt constant for FY20. Our average cost of borrowing for Q4 was 3.86%, an increase of 10 basis points over Q3. This is due to the average LIBOR movement from 2.35% in Q3 to 2.5% in Q4.

To conclude:

I would like to reiterate that our strategy to focus on data services has started to show results, with Growth Services portfolio turning EBITDA positive on the back of strong top-line growth. And we are starting to see significant traction in our Innovation Services portfolio. We are confident that we are moving in the right direction. And we are focused on not only strengthening our capability, but also strengthening our cash flow and return ratios as we continue to pursue profitable growth opportunities in future.

This brings an end to management commentary, and I would now request the moderator to open the forum for Q&Q.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We take the first question from the line of Ali Asgar Shakir from Motilal Oswal Security. Please go ahead.

Ali Asgar Shakir: I just had a question on our EBITDA margin guidance for the data business, I mean, about a couple of years back we had a guidance of reaching 30% in about three years time, from there onwards our margin have right now come down, I understand that's largely because of the losses that we have done at the innovation business. So first of all, just want to understand, does that guidance stand or how are we positioned on that? And a related question on the innovation business, while you gave upbeat remarks on the innovation segment, I just want to understand what is the gestation period of investment in this segment? And, basically what is a kind of trend in terms of EBITDA losses we should see in this before we see profitability in the segment?

Vinod Kumar: Thank you Ali. Firstly, I think when you are referring to 30% EBITDA, that was when we also had the datacenter business in our portfolio. So, what we, in our Destination 2021 objectives which we shared is, is our aspirational targets, it was more like 25%. So, we will continue to strive and work towards that. It may not be in 2021 that we get there, because we said right from the beginning that it's a stretch number that we are aspiring for. We are seeing expansion in our data EBITDA and we expect the expansion to continue going into the coming year.

As far as innovation itself is concerned, I think the gestation period, so these are services which we are market making in many cases, whether you look at IoT in India, we are the only player actually offering turnkey solutions that include everything and we are creating a market. The efforts to build a marketplace is an example of that. Cross border mobility, we are really a disruptor in the space, we are only known MNO operator that is offering a globally seamless service. With Net Foundry, again, we are providing application aware embedded networking. Again, its market making. Therefore, as I said in my comments and Pratibha also alluded to it, we are having, now we are seeing our proof-of-concepts that we worked on last year turning into revenues. And we will see increasing momentum as this year progresses. In terms of EBITDA profitability, I would say that the innovation part of our portfolio is probably in FY22.

Ali Asgar Shakir: Okay. So this Rs. 450 crore of EBITDA loss that we are seeing in Innovation Services in this year should further go up from here, before it starts coming down?

Pratibha Advani: Ali, I think this would stay at the same level. It shouldn't really go up.

Vinod Kumar: We expect that, obviously, revenues are going to increase in the innovation portfolio. However, we have to spend, continue to make some spending in order to build out the features and also in sales and marketing. But we will contain it and ensure that the losses don't go up further.

Pratibha Advani: And Ali, the only other point that I do want to make is, when you look at costs you can contain that up to a certain level and then they step up as the revenues ramp up. And this would happen both for the Growth Services portfolio as well as for the Innovation Services portfolio. So there is a sudden ramp-up that we start to see in revenue, then costs will go up.

Ali Asgar Shakir: Got it. But then it will be offset by the revenues that you make, so to that extent your EBITDA losses will be restrained.

Pratibha Advani: Yes, which is why I said we expect them to be at the same levels.

Ali Asgar Shakir: Got it. And when you say this 25% margin, can you help us understand the levers of reaching there, given that traditional segment is already at its optimum level of 30%, growth segment what kind of margin profile or what kind of upside do you see from here in the next two years? And then since innovation will remain constant over year, then what sort of other margin levers do you have to reach there?

Pratibha Advani: Ali, so if you actually look at it, traditional, I would expect that to remain in the range of 29%-30%, we are not expecting significant expansion in margins. Having said that, our focus is to continue to drive productivity. And our efforts will be to see how we can anyway try to improve these margins.

We then come to Growth Services where we have now seen that we turn EBITDA positive. And from here on you should start to see our margins expand. Again, innovation, as I mentioned earlier, we would try to contain our losses. So there is not going to be a further impact on margins negatively.

Having said that, if you look at our Transformation Services portfolio, there the margins have really come down. And that gives us a very good opportunity as we now start to win contracts in some of the new services that I mentioned earlier on, we will see a significant margin expansion. Having said that, I would also want to add that most of these opportunities that we are sighting today in our Transformation Services businesses are outside of India, that will further provide an uptick in margins. Then our Payment Solutions business, that has turned EBITDA positive. And again, we should start to see margin expansion in that business. So overall, across our portfolio, barring traditional services, we should start to see margins go up.

Ali Asgar Shakir: Got it. This is helpful. And just last thing on the Transformation Services, since we have come down very drastically in terms of the margin profile you did mention about it, what is the kind of order pipeline and what pricing of those order pipeline? What kind of confidence do you have over there to display the kind of margin improvement that we can see from there?

Vinod Kumar: Without getting into specifics at a deal level which I cannot, but we have about three or four significant international deals we are working on, that we expect to close within the next one to two quarters. And this gives us some confidence that we will see about 18% to 20% revenue growth in Transformation Services in the coming years. And further, given the fact that it's largely international contracts that I am referring to, we will see an improvement in the EBITDA for transmission services.

Ali Asgar Shakir: So in FY20 should we go back to the same margin profile that we did in years prior to 2019 or it should take longer?

Pratibha Advani: Ali, actually, we would still want to continue to invest in some of these new services, carry out more PoCs. So, it will take at least another year or more for us to go back to the earlier margin.

Ali Asgar Shakir: You are referring to the Transformation Services, right?

Pratibha Advani: Absolutely.

Ali Asgar Shakir: Got it. And your working capital has gone up and you have mentioned its primarily because of voice going down whereas data requires higher working capital cycle. Should it stabilize at the current level or you should further see increase in your receivable days?

Pratibha Advani: We will try to hold on to our receivable days. Having said that, there could be some quarterly movement, both in net debt as well as receivable. But for the year we intend to keep our net data at same level.

Ali Asgar Shakir: Okay. Any update on the Tata Teleservices deal, now that Bharti has already received a conditional DoT approval?

Vinod Kumar: No further updates from us. That transaction has to be concluded and then we will begin working. Right now no further updates.

Moderator: Thank you. We take the next question from the line Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: I have a couple of question on the order book which you have mentioned of $1.4 billion, which has gained by 41% YoY. Can you share what was the growth in traditional, that $590 million which you mentioned, and in the Growth Services the $719 million TCV which you have shared?

Vinod Kumar: Okay. Traditional, we had relatively flat order book year-on-year. And Growth Services we had a 40% improvement year-on-year.

Sanjesh Jain: You said traditional is flat, right?

Vinod Kumar: Yes.

Sanjesh Jain: But you said the overall has gone up by 41%, mathematically it doesn't add up.

Pratibha Advani: Yes, but he's not adding the Innovation Services.

Vinod Kumar: Yes, I am not adding innovations.

Pratibha Advani: And he is not adding TCV and all the others, right?

Sanjesh Jain: Okay, got the point. How to see this order, because we have a very strong order book which is growing like at 40%? Can you give us some sense as in how much of this is project lead and how much is recurring? That's number one. Number two, what is the average age of the order book? And number three, what kind of slippages that we can expect out of this, given your learning in the past?

Vinod Kumar: So, I think the only question I can answer of the three that you asked is the last one. So, our win rate is at 31%. So that's the figure we need to use, further granularity we don't provide. And I think it will also confuse your models. We started sharing this from last quarter to give visibility into the mix and to demonstrate that we are getting traction in our Growth Services and to also show that year-on-year the services that they are offering are relevant for the customers and we are able to expand the order book. So, I think you should use it more for directional than try to use it to build more sophistication into your model, because there are quite a few factors; duration of contract, there are fixed NRCs, there is committed traffic, usage traffic, all those vary by service and it really becomes quite complex to give a general answer.

Pratibha Advani: And some of this also gets impacted by the way, we have to account for it given that IndAS 115 has come in.

Sanjesh Jain: Correct. But some direction, as in, this year if I see, the order book growth has been very strongly like 41%, data revenue has grown 10%. We need to see some convergence in terms of the growth for the order book and revenue, or there will always be a certain gap because of the pricing deflation?

Vinod Kumar: I think as we report this for a few more quarters you will be able to do some correlations between the funnel of the order book number and the revenue number.

Sanjesh Jain: Sir, my follow up question is on the funnel, what is the exact difference between the funnel and the order book? Is that what we are in discussion also includes in the funnel?

Vinod Kumar: Yes, funnel includes everything, so it will be from low probability, anything that's not sold will be in the funnel from low probability to 99%. And then, when that closes it goes into order book.

Sanjesh Jain: And order book is something which we have signed in terms of contract, the deal…

Vinod Kumar: Order book is signed, and it's only a question of how long it takes to implement, which varies by service. And it will have an upfront fee for some services, monthly charge for some services and then usage component. And this spread between these three will depend on the service and the customer’s order.

Pratibha Advani: And the customer himself, the customer himself has to be ready to accept the service.

Sanjesh Jain: Okay. But this is a contracted deal and it's just a matter of time?

Vinod Kumar: That's right.

Sanjesh Jain: Just on the Growth Services of $790 million we have shared, where are we seeing more traction in terms of what service; media, SIP Trunking, where are we seeing this traction in terms of growth?

Vinod Kumar: Unfortunately, I will have to say it’s across the portfolio, but the ones that stand out are MOVE, SDWAN and our UC portfolio.

Sanjesh Jain: Okay. Just one on the digital potential which we shared, where we said that in India we may have a potential of around $5 million per corporate per year and around $10 million for the international customer, what do we mean by this? I did not get the comment.

Vinod Kumar: What do you mean by that? That's a good question. And sorry, I wasn't very clear. It basically means that there are 672 customers with whom we are trying to deepen our engagement. And these have a combination of India customers and customers outside India. The Indian customers, for the services that Tata Communications has in its portfolio can spend up to $5 million a year with us. And international customers can spend up to $10 million a year with us, on average, some will be more and some will be less, but those are average figures.

Sanjesh Jain: But these are incremental we are talking, over and above what the business we are doing?

Vinod Kumar: No, including what they spent with us. The numbers today are much lower. So it would be double of what we currently serve today, if I had to just give an estimate across Indian and international.

Moderator: Thank you. Next question is from the line of Bharat Seth from Quest Investments. Please go ahead.

Bharat Seth: Sir, taking forward previous question, you said we are engaged with the 617 customers, so can you give us some color how many are of domestic and how many are international? And this TCV what we said for the growth, how many pertain to domestic and how much is for international clients?

Vinod Kumar: The 672 customers are roughly about 45% in India and 55% outside. But TCV, we don't split it further into India and international.

Bharat Seth: Sir, on the full year any kind of color on EBITDA for the growth that would like to say, I mean, FY20 or 2021, if not 2020 possible then where do we like to see the size of the business as well as EBITDA margin?

Pratibha Advani: Growth services are actually tracking well, and we expect this portfolio to continue growing at 18 to 20%. On the margins, ideally, the margins should, if it grows at 20% odd should hit 9% to 10%, but I would call out more as 5% to 7% for the year.

Bharat Seth: For FY20?

Pratibha Advani: For FY20, that’s right.

Bharat Seth: And 2021, any kind of words you would like to say?

Pratibha Advani: Let's wait for the next earnings call.

Vinod Kumar: Let’s wait for two more quarters, I would say, before talking FY21.

Bharat Seth: And on this innovation series we have three, I mean, services like IoT, then on Teleena platform, MOVE and Net Foundry. So, in which segment we are seeing the traction and you say that by 2022 we expect it to be EBITDA positive or breakeven. So at what level we expect it to be EBITDA positive or what kind of numbers that you have in mind?

Vinod Kumar: In terms of a blended basis, it will be low single-digits. In terms of the services that will have the most contribution for revenues from the innovation portfolio in FY22 it will be MOVE. And then IoT India and Net Foundry will be roughly equal, is our current projection. But some of these are our estimations, MOVE we are already seeing very good traction, as I said, in multiple sectors across geographies around the world. So that bit we are quite confident of. Net Foundry and IoT India, we are still discovering the best use cases for them. So, I would bet equally on them for FY22. In terms of quantum, the innovation portfolio, we saying we will be between around $150 million.

Bharat Seth: Okay, and any color you would like to say on the pricing pressure on this traditional in FY20? What pressure was there, I mean, how much erosion we saw in 2019 and where do we see, I mean, flat or again we would like to have some growth in that?

Vinod Kumar: I think we will see some growth. We are expecting around 2% growth in our traditional services for revenues. Pricing pressure, I am not forecasting any unusual price pressure in FY20 for our traditional services. They are going to continue at the past levels that we have seen, which we will absorb through volume growth.

Bharat Seth: Any update on this HPIL and land transfer thing?

Vinod Kumar: The next MCA hearing is on May 17. Right now, it’s really procedural steps that have to be completed. We are tracking it very closely, but it's with the MCA now.

Bharat Seth: Where its stuck? I mean, I think we were expecting somewhere by end of year itself.

Vinod Kumar: The transfer of the matter from one ministry, i.e. Ministry of Communications to Ministry of Urban Development caused some slow down. But besides that there's no red flag as such.

Moderator: Thank you. Next question is from the line of Riddesh Gandhi from Discovery Capital. Please go ahead.

Riddesh Gandhi: Just a quick question on the traditional data, you are saying 2% growth –this is revenue, how about on the EBITDA front, would you expect any kind of margin expansion on traditional data?

Vinod Kumar: We would like to maintain that it's going to be stable at about 29% to 30% for the coming year.

Riddesh Gandhi: Got it. So effectively the revenue growth is going to be in line with EBITDA growth for the traditional data?

Vinod Kumar: That’s right.

Riddesh Gandhi: Got it. And with regards to this MCA thing which you have mentioned, is this effectively the last step which is there or is there anything additional?

Vinod Kumar: That will be the last step.

Moderator: Thank you very much. Next question is from the line on Nirav Dalal from Maybank. Please go ahead.

Nirav Dalal: Thank you. Most of my questions have been answered. Just on the write-off of goodwill in the associate company, if you could just elaborate on that and how are we placed now after the write-off, so some color on that would be useful.

Pratibha Advani: This write-off has happened in STT datacenter business in Singapore where we have 26% stake. There they have taken an impairment of goodwill. And because we have a minority stake, it got accounted for as part of our minority accounting. The valuation of that business has now come down $110 million dollars.

Nirav Dalal: So, you do not expect any further impairment or is there still any goodwill left on their books which is which needs to be impaired, or something?

Pratibha Advani: No, we don't expect any further impairment.

Nirav Dalal: Okay. So, this is for Singapore. Do you also have another datacenter, you had taken another business as well.

Pratibha Advani: Yes, we also have a 26% stake in the India datacenter business, that business is doing very well. In Singapore, actually, the competitive environment led to decline in price erosion, and that is why STT had to take impairment. Given that they have reached full capacity in this datacenter.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question for today. I would now like to hand the floor back to the management for their closing comments.

Vinod Kumar: Ladies and gentlemen, thank you for joining the call. As I said, FY19 was a year that really tested our core strength. We believe that we passed it successfully and the resilience of the business shone through. We have been doing some fundamental transformation work in our internal digital processes and strengthening our go-to-market. It's on the basis of this we are confident that we would show the growth in both revenue and profitability that we have shared with you today. We look forward to your continued support and to speaking to all of you in the next call. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Tata Communications, that concludes this conference. Thank you all for joining us. You may disconnect your lines now.

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