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Q2 FY2020 Earnings Conference Call Transcript

MAIN SPEAKER:

AS Lakshminarayanan - Managing Director and Chief Executive Officer - Designate

Pratibha K. Advani - Chief Financial Officer

Moderator: Ladies and gentlemen, good day and welcome to the Tata Communications Limited Q2 FY20 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 phone. Please note that this conference is being recorded. I now hand conference the over to Mr. Vipul Garg – Head of Investor Relations at Tata Communications. Thank you, and over to you, sir.

Vipul Garg: Good Afternoon, everyone and welcome to Tata Communications earning conference call. We have been joined today by A.S Lakshminarayanan – MD & Group CEO (Designate) and Pratibha Advani -- Chief Financial Officer. The Results for the quarter ended 30th Sep 2019 were announced on Friday 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 Lakshmi who will share his views on the business followed by Pratibha who will share Insights on Financials. At the end of management's remarks, you will have an opportunity to get your queries addressed.

Before we get started, I would like to remind everyone that some of the statements made or discussed on the conference call today may be forward-looking in nature and must be viewed in conjunction with the risks and uncertainties we face. A detail statement and explanation of these risks are included in our annual filing 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 Lakshmi to share her views. Over to you, Lakshmi.

AS Lakshminarayanan: Thank you, Vipul. Good afternoon, everyone. And thank you for joining on today's call. It's been just over a month since I joined. And firstly, let me say I am hugely excited to be here. I am currently in the process of understanding the business, meeting several of our own people, as well as listening to the voice of our customers. In the process of meeting our people, I have met them in most locations and have met customers both in India as well as in one of my trips to the U.S.

As I said, I am very excited about the opportunities ahead. As we all know, in the last few years, the data traffic in enterprise has increased manifold, both in India and globally. This is driven by increasing adoption of cloud, and I think this will only accelerate with the growth in deeply connected technology such as augmented reality, virtual reality, video on-demand and IoT going forward. As per a few estimates, the India traffic is expected to grow at a CAGR of 31% over the next five years, while globally it is expected to grow at a CAGR of 26%.

In this journey of organizations leveraging digital, connectivity has a huge and a very important role to play. Businesses are looking to expand into new geographies, into these new products and services faster, drive their growth, and at the same time become more efficient. As the journeys of the customers move to the cloud, the application environment are becoming more complex, requiring the network which needs to be global, reliable, secure and scalable. Our network has been our biggest strength and differentiator, a wholly-owned submarine cable network which forms a ring around the world and carry 30% of the world's internet routes is a huge asset which is difficult to replicate.

We have a strong terrestrial coverage in India, making us a leader in enterprise data market. Our value proposition for any enterprise looking to expand beyond their home geography is very strong and compelling. We have a very strong international footprint, and we will continue to target global enterprises. Our global backbone, quality engineering, lower latency and highest security has been greatly appreciated by our customers. Our product portfolio is sound and we continue to engage deeper with our customers through our offering across unified communication, IZO portfolio of network transformation, MOVE serving global IoT needs, security, cloud, hosting and media. Through our product portfolio and platforms, we harness the unparalleled reach of our network and empower organization to become truly digital and drive our growth on a global scale.

We believe there is a huge potential. Our clear focus on growing the data business will create higher momentum for us in the future. We will continue to focus and scale our growth and innovation services portfolio and leverage our global network strength.

We are also working on deeper engagement with enterprises, our endeavor is to be as close to the customer as possible and be a part of every digital transformation discussions. Every organization is at different digital maturity stage, and we aim to be a preferred digital transformation partner in our customers' digital journey.

The markets for our data services continue to grow at an attractive pace. Our data business now contributes to around 79% of our overall revenues and 90% to EBITDA. I have met a few customers in the last one month, and they value our solutions and offerings, and they appreciative of the work that we have done with them. From these conversations, I can understand their expectations of Tata Comm and how we contribute to them.

For example, when I was in the U.S., I met with Visteon, a leader in automotive cockpit electronics on their digital transformation journey, with a network transformation across 17 countries using IZO SDWAN for greater flexibility, supporting collaboration infrastructure worldwide with Microsoft teams. Visteon named us recently as the best indirect supplier during an award ceremony attended by more than 135 representatives from 65 global strategic suppliers as well as to the senior leaders. They created a new category of award as our services were not directly related to the design and production of Visteon products, but critical for Visteon's success and their strategic objectives. A recognition like this from a customer reaffirms the strength of our proposition.

Another example is Carlsberg, we did seamless network transformation across Europe using our IZO products and services, making us an important partner in their digital transformation journey.

The strength of our solutions and the offerings has been validated by industry bodies time and again. Gartner has placed us is the Magic Quadrant for network services for six years in a row, and we have scored high on the completeness of vision and ability to execute. This quarter, we were named Asia Pacific Managed SD-WAN Service Award of the Year at Frost & Sullivan.

One of the very important pillars of our business is partnership and alliances, and we work closely with several global product and SI partners. Going forward, we will work to further strengthen this partnership and create new value for our customers. We shall continue to strive for bigger milestones. I shall be sharing with you our progress over the next few quarters as I crystalize our strategy when we move into planning for the next year.

Our financial performance for this quarter has been robust. Consolidated revenue grew by 5% YoY and 2.5% QoQ on the back of strong performance in data business. EBITDA for the quarter grew by 32.3% YoY with a margin expansion of 400bps over the same quarter last year. Margin expansion is on the back of a strong profitable growth in data business and data productivity initiatives undertaken over the last few quarters and also the benefit of IndAS 116.

On QoQ basis, EBITDA grew by 1.0%. While Pratibha will give the detailed financial snapshot, let me tell you the focus of the management remains on steering the business towards profitable and sustainable profitable trajectory, positive free cash flow and enhanced stakeholder value.

With that, I would like to invite Pratibha to discuss the financial highlights for the quarter. Thank you.

Pratibha Advani: Thank you, Lakshmi, for sharing your thoughts. And a very good afternoon to all of you. Thank you once again for joining us on our Q2 Earnings Conference Call. Let's start with an update on significant events during the quarter, followed by a commentary on our strong financial performance.

The scheme for demerger of surplus land has been approved by NCLT, Mumbai on July 12th. The scheme filed by HPIL has also been approved by the Ministry of Corporate Affairs, New Delhi, on August 5th. The record date for the scheme was September 18th. We have provided all the necessary information to HPIL, and HPIL is currently taking further steps for allotment of its shares to the shareholders of Tata Communications. Post demerger, Tata Communications will still be in possession of 756 acres of land at various locations in India, including in New Delhi, where we have land in GK and Chattarpur. We have provided details in our quarterly fact sheet.

We have received the demand from Department of Telecommunication for Rs. 6,633 crores towards license fees on adjusted gross revenue for the financial year 2006-2007 till 2017-2018 for ILD and NLD licenses. This includes an amount of Rs. 5,434 crores which were disallowed by DoT towards the cost that is allowed to be adjusted to gross revenue by the company. We had, however, claimed this on an accrual basis based on the TDSAT judgment in our favor instead of actual payment. For which a revised statement on the basis of actual payment, as demanded by DoT, has been submitted to them. Consequently, we are confident that this demand should come down.

On October 24, 2019, the Honorable Supreme Court had given a ruling on AGR relating to Unified Access Service license. This ruling is not applicable to us, and I would like to repeat that it is not applicable to us, since our case was delinked by order of the Honorable Supreme Court on 11th August 2011, as our licenses are different. And we provide services based on ILD, NLD and ISP license and not on UASL license. We had already filed an appeal towards the license demanded by DoT on certain other income and non-telecom income, which is pending at the Supreme Court and at the High Court of Chennai. The disputed amount for us is as per contingent liability disclosed in our financial statements as on 31st March, 2019. Arguments in our case are still pending and we will be contesting this demand.

During the quarter, from one of our subsidiaries in Spain, we received a demand of Rs. 120 crores from VAT authorities, disallowing some of the input credit on VAT. We have filed an appeal against the matter, and we are in the process of defending our position.

We are witnessing third successive quarter of strong profitable growth. Data business continues to deliver double-digit growth with meaningful margin expansion. Consolidated revenue, as Lakshmi mentioned, grew by 5% YoY and sequentially 2.5% QoQ, and came in at Rs. 4,273 crores. This growth is due to robust performance in data business, which was up 10.7%.

EBITDA for the quarter stood at Rs. 833.7 crores with margins coming in at 19.5%. EBITDA grew by 32.3% YoY with margin expansion of 400bps over the same quarter last year. Margin expansion is on the back of strong profitable growth in data business. And due to productivity initiative undertaken over the last few quarters, and of course, the benefit of IndAS 116 to the tune of Rs. 68 crores this quarter. On a QoQ basis, EBITDA grew by 1% and margin declined by 30bps due to lower TCTSL margins and higher other expenses towards cable break, marketing program and employee recognition event. Strong EBITDA performance translated into a PATof Rs. 53.9 crores in Q2 as compared to a PAT of Rs. 1.6 crores in Q2 of last year and Rs. 76.6 crores in Q1 of the current year.

Reduction in corporate tax rate in India has benefited us. On a full-year basis, we expect absolute tax benefit of Rs. 65-70 crores going forward. However, in this quarter, we had a onetime adjustment in deferred tax asset as the realizability of tax asset has been adjusted to lower tax rate. The total net impact of this adjustment is Rs. 26 crores, and has consequently led to lower PATs than expected. If we adjust this onetime PAT impact, profit for the quarter would have been Rs. 80 crores.

Moving on to our segment performance:

Data business witnessed strong growth in this quarter despite industry headwinds. Revenue came in at Rs. 3,399 crores, witnessing a YoY growth of 10.7% and a QoQ growth of 3.7%. Growth in data business was led by strong performance in traditional services, which grew 7.2%YoY; and transformation services that grew by 27.5% YoY.

EBITDA for the quarter was at Rs. 752 crores with a margin of 22.1%. EBITDA has grown by 40% YoY and sequentially by 2.2%. This strong performance is due to profitable growth in both traditional services and growth services where we see margin expansion. Data margin has expanded by 40bps as compared to same quarter last year. This is on the back of sustained productivity measures and growth services turning EBITDA positive with QoQ margin expansion of 90bps. We are working to further optimize our prespective through more efficient sourcing and increasing manpower productivity. We are confident that as the growth scale and implement some of our initiatives, our upward margin trajectory will continue.

As Lakshmi mentioned, data services continue to be our focus in growth driver. Data business now contributes to over 79% of the overall revenue and 90% of overall EBITDA. We have been talking about our focus in growth services and how these solutions help us engage with our customer better and increases stickiness. Our strategy is playing out and the order book of growth and innovation the services is witnessing the strong growth.

This quarter, we sold new TCV worth USD 129 million for growth and innovation services, witnessing a YoY growth of 35.9%. We have seen a QoQ improvement in growth services win rate from 20% last quarter to 23% in the current quarter on the back of large deal wins. Funnel for the traditional portfolio continues to be strong and our win rate for this portfolio, too, has moved up from 33% last year to 36% this year. Overall, order book grew by 12.6% YoY and came in at USD 259 million. We already have orders in hand, and as we execute these orders, we are confident of further acceleration in revenue growth and profitability.

Moving on to our traditional services:

This portfolio, as you are aware, was under pressure last year due to operator consolidation in India but is now stable and has actually started to grow. Q2 revenue came in at Rs. 2,161 crores, witnessing a growth of 7.2% YoY and a sequential growth of 4.5%. Within this portfolio, NPL grew by 44% and ILL grew by 16% YoY. I want to highlight growth in NPL, this product is a domestic connectivity product and such strong growth signifies that worse is behind us. We are witnessing good traction from OTT players. Also, NPL is a high-margin product and has helped us in achieving solid margin in this portfolio.

EBITDA came in at Rs. 817 crores and witnessed a growth of 40% YoY and a sequential growth of 2.7%. Margins for the quarter was 37.8% as compared to 29% during same quarter last year. Margins have expanded on the back of continued focus on driving productivity and efficiency and IndAS benefit. Also, our efforts has been concentrated towards effective churn management which has also helped in expansion of margin.

Growth services continues to scale. For the quarter, revenue came in at Rs. 771.5 crores, witnessing a growth of 13.7% YoYand a margin growth of 0.5% QoQ. This quarter revenue growth was a little lower than expected due to higher event-based revenue in media services in Q1 and some new revenue of this quarter got pushed to future. EBITDA for the quarter came in at Rs. 27.7 crores as compared to a loss of Rs. 3.6 crores in the same quarter last year. On a QoQ basis, EBITDA has grown by 33.2% with margins coming in at 3.6%. EBITDA margin has expanded sequentially by 90bps on account of operating leverage. Within this portfolio, IZO grew by 80%, security services grew by 52% and hosting grew by 21% YoY.

We have also won large piece across our global hosted contact center, media, IZO and other services during the quarter. We are on the right track, and despite Q3 being a seasonally weak quarter, we are confident of strong growth over the next few quarters. We have further strengthened our execution in India, and as we implement these orders, we will see considerable growth in revenue and profitability.

We continue to invest in innovation services portfolio. We have started to see some revenue traction and there is a healthy order book and funnel. We will incur some upfront costs in the coming quarter on account of execution of these deals. These services require a longer delivery period which can lead to some delays in revenue recognition as they are highly customized for each customer and are platform-based services. We are certain that we will see a high growth in innovation services portfolio as we start to deliver on these services.

Talking about our transformation services business:

Revenue for the quarter came in at Rs. 323.6 crores, showing a growth of 27.5% YoY and a sequential growth of 8%. EBITDA for the quarter came in at Rs. 18.2 crores with margins coming in at 5.6% due to continued upfront investments in some of the large deals that we have won recently, and this requires rebadging of resources. We continue to have a robust international order book and we expect profitability once transition of international customers is completed, which will be around Q1 of next year when we will start to see margins bounce back to double digits.

Moving to payment solutions business:

Rationalizing our ATM portfolio, with a focus on profitability continues to be our strategy. In Q2 FY20, we closed 249 less-profitable ATMs and redeployed 212 ATMs at more profitable locations. Revenue for the quarter came in at Rs. 85 crores and witnessed a decline of 1.6% YoY and 4.4% QoQ due to decline in average number of transactions due to monsoon season. This is expected to pick up in Q3. We continue to improve our margins by focusing on efficiency and productivity. EBITDA came in at Rs. 19.2 crores and grew by 372% YoY and 0.9% QoQ, with EBITDA margins coming in at 22.5%, witnessing a margin expansion of 110bps QoQ.This business is already EBITDA-positive and we are working towards turning this business into PBT-positive.

Now moving to the voice business:

This portfolio continues to decline in line with industry trends and technology outlook. But the pace of decline has come down from 31% last year to 12.9% decline in H1 of FY20. We have witnessed a decline in volume while the price largely remains stable. Revenue for the quarter came in at Rs. 874 crores, declining 12.5% YoYand 1.8% QoQ. EBITDA for the quarter came in at Rs. 81.2 crores and witnessed a decline of 12.4% YoY and 9% QoQ, in line with revenue decline. We maintained margins at 9.3%.

CAPEX for Q2 was at USD 64.6 million as compared to USD 44.6 million in the previous quarter. Our CAPEX spend has primarily been on expanding our network reach and is led by customer wins. We continue to be judicious in our CAPEX spend, and as I mentioned in our last call, our endeavor will be to keep the full year spend within the range of USD 200 million to USD 225 million.

Net debt at the end of the quarter was USD 1.26 billion, an increase of USD 14 million as compared to last quarter. The marginal increase is due to dividend payout of USD 22 million during the quarter. Our average cost of borrowing for Q2 was 3.77%, which has marginally come down by 16bps in comparison to Q1, due to movement in average LIBOR from 2.5 in Q1 to 2.15 in Q2. Net debt to EBITDA is at 2.8x as compared to 3.7x a year earlier and our efforts will be to get closer to 2.5x. Return on capital employed for rolling last four quarters is at 11.9% as compared to 5.5% a year earlier, witnessing over 2x improvement in one year.

In conclusion:

We are reaping the benefits of focusing on offering the best-in-class digital infrastructure solutions, share of profitable data services have increased and the continued momentum helped to improve the performance during the quarter. Robust growth in enterprise business of 10.8% shows that we have established ourselves as a preferred digital transformation partner. Data business has continued to witness strong performance in revenue as well as profitability. We have a strong order book and we expect this trend to continue as we keep executing on large deals.

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

Moderator: Sure. Thank you very much. Ladies and gentlemen, we will now begin the questions-and-answer session. The first question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: This question is for, Lakshmi. Just want to understand, are there any changes strategically that as you have entered the organization that you are looking to drive through compared to the earlier MD of the company? And also if you can highlight, any potential like cross-sell opportunity you see from the past role effects with TCS with any of TCS customer?

AS Lakshminarayanan: Hi. No, it's too early to comment on the strategy, as we are going to be very focused, as I said, in the last month as well as in the coming months to execute on our current annual plan. In the strategy, I am going to be a lot more focused on the deeper with fewer enterprise strategy, and I think we will play that out even more strongly. And at this point in time, I am absorbing and learning more about our product portfolios, more about the consumer expectations across different segments. And we will comment on the way forward in a few months. But as of now we will be executing on the strategy that we have. I think it is a good strategy, we need to continue to execute on this.

Now your second question on the synergies. Of course, as I said, Tata Communications has the deeper with fewer strategy with its enterprise segment, which is what I am used to in my earlier role as well. And we are focused on engaging with our partners. We have several partnerships in the SI space. And TCS, of course, would be one of the very key partnerships that we already have, and there are several deals that we are jointly working with them. And we will continue to focus on that as we go forward.

Riddhesh Gandhi: And the other question is actually along the lines of the liability. If you could just explain to us, Pratibha, with regards to the Rs. 6,600 crores of notice that you have received, is there a risk that the entire amount is going to be Rs. 6,600 crores? And if not, how much do you think we can connect gap versus risk gap?

Pratibha Advani: Riddhesh, as I mentioned in my commentary, while the demand has come for Rs. 6,600 crores, this is because they have not considered the costs that we are permitted to deduct when we compute AGR. While we have been submitting our auditor's certificate based on accrual, DoT has demanded that we give these based on actual payments made for the call charges and access charges. We have completed that exercise and resubmitted the revised certification to DoT. So we expect this liability to come down from the current demand to what is sitting in our contingent liability, which is close to Rs. 1,200 crores.

Riddhesh Gandhi: Understood. So we would take Rs. 1,200 crores is as high as it could be? And in the event that because our actually case is a bit different from that of the telecom operator, it could be then lower, but you don't foresee it being higher than the Rs. 1,200 crores?

Pratibha Advani: That is right, because way back in 2011 the Honorable Supreme Court has found that our license conditions are different than the terms and conditions from the UASL license. And hence, our case was delinked from the UASL case. The case is sub-judice right now, has not come up for hearing.

Riddhesh Gandhi: And just a last question on the land. Obviously, it's extremely lucrative land that we now own and kind of control. If you could just throw some light on how we plan on leveraging this and potentially sort of exiting this, and the steps required in terms of that.

Pratibha Advani: Riddhesh, We obviously could not do much with the land until this demerger. Now that it's been done, we are putting the plans together. But it's still early days for us to share our plan on the land.

Moderator: Thank you. The next question is from the line of Sanjay Chawla from JM financials. Please go ahead.

Sanjay Chawla: I have three questions. The first one is a little bit of clarification on this whole AGR issue. You said there is an appeal lying with the Supreme Court already, of course, that we are delinked from the UASL case. So the demand that DoT has raised, Rs. 6,600-odd crores, but disputed amount is Rs. 1,200 crore and that is the dispute which is being appealed and the Supreme Court?

Pratibha Advani: That is correct.

Sanjay Chawla: Okay. Then you said Rs. 5,400 crore is due to some costs which was disallowed. So my question is that now you can submit a fresh statement of AGR based on actual cost. So the question is, what are these costs? Are these interconnect roaming expenses? Or in a sense, are these costs allowed us per the ACR definition? Or there is a dispute on these costs itself.

Pratibha Advani: There is no dispute on the cost, as I mentioned. DoT has asked us to come back, as we were doing this on an accrual basis, and we were doing it on the basis of our TDSAT judgment that has come in our favor. Because DoT has raised a demand that we should get back on the cost basis based on the license condition, we have now provided them a certificate on the actual payout basis.

Sanjay Chawla: So these cost reductions from the adjustment to the GR for calculating AGR, these are actually allowed but they are allowed on actual basis but not on an accrual basis. Is that the right way to put it?

Pratibha Advani: Correct. So both call charges and access charges are allowed on actual basis.

Sanjay Chawla: And so my question is why has the DoT come out with such a large number, Rs. 6,600 crores, because that Rs. 6,600 crores seems to be completely ignoring the cost adjustment, right, which need to be made be it on accrual or on an actual basis?

Pratibha Advani: So what they have done is, they just added back the accrual cost that we had deducted from the gross revenue definition. And they said that you can resubmit them based on the actual payments that you have made. And that's why the numbers are looking so large.

Sanjay Chawla: Right. Right. Because you said the final figure could be close to Rs. 1,200 which is similar to the contingent liability that you've mentioned, right?

Pratibha Advani: Correct. That we have in our books as of March.

Sanjay Chawla: Okay. So a related question is, does this amount, whether it's Rs. 6,600 crores or, let's say, eventually Rs. 1,200 crores, does it include the interest and penalty and interest on penalty or some of these numbers are very large in the case of UASL figures?

Pratibha Advani: Yes, it does.

Sanjay Chawla: So then one would have to expect that the final demand from DoT could be 3x, 4x that of Rs. 1,200 crores base figure?

Pratibha Advani: Sorry, could you just repeat that question?

Sanjay Chawla: Should one then realistically expect that demand from DoT, final demand from DoT, could be 3 to 4x Rs. 1,200 crores if one has to do...

Pratibha Advani: No. Let me just explain. Our license condition, as I mentioned earlier, are different from the UASL license, right? Now this Rs. 1,200 crores demand is till March 2018. So it would be trued up for the current period, right? That has not been included in the number that I have shared with you. However, the two reasons why our license is different from the UASL conditions is both on account of definition of other income. As well as on the cost side, our license clearly mentioned call charges and access charges. But as and when the final judgment comes, all the AGR, the interest and the penalties, all will have to be trued up till that time.

Sanjay Chawla: So the question is that once this interest on the delayed payment and penalty on the delayed payment and interest on penalty, once all that is trued and added up, the final figure could be substantially larger than our estimates that we have currently?

Pratibha Advani: Correct. And that is why I said that it could be because, as of now, as March, the contingent liability number is only up till March 18. We would then be adding the liability as of now. But the Rs. 1,200 crores number already has interest and penalty included in it.

Sanjay Chawla: Okay. So Rs. 1,200 crores...

Pratibha Advani: So that Rs. 1,200 crores number for the prior period is not going to increase. But to that, we will have to add the current year demand. Does that satisfy?

Sanjay Chawla: Yes, understood. This is clear now, because I thought Rs. 1,200 crores is just a base amount without interest. But you are saying that already until March 2018, that already includes interest and penalty.

Pratibha Advani: Yes, that is what I mentioned, that the contingent liability number till March includes the license fee demand, includes interest, includes penalty and also includes interest on penalty.

Sanjay Chawla: Okay. This is great. My second question is, what is the lease liability amount on your balance sheet created as a result of IndAS 116? And that's included...

Pratibha Advani: It's close to about Rs. 1,200 crores.

Sanjay Chawla: And that's included in your gross debt, net debt numbers?

Pratibha Advani: That's included in the net debt number.

Sanjay Chawla: Okay. So which means the net debt-to-EBITDA, because EBITDA is now capturing the benefit of lease 116.

Pratibha Advani: You are saying, yes, it has about Rs. 68-odd crores benefit of 116. That's correct.

Sanjay Chawla: Right. But the net debt that you have given does not include this Rs. 1,200 crores odd number, right?

Pratibha Advani: No.

Sanjay Chawla: Okay. Got it. And the last question is can you comment on what sort of impact on Jio you see on your enterprise at carrier connectivity business? I mean on the market in general and your business in particular, in a sense, in your business, which segment could see some churn or significant pricing pressure related to your Government business, large corporate, SMB. If you could give some color on that front.

Pratibha Advani: Actually, it's still early days. On the enterprise segment, our market share is intact. And we haven't seen Jio making much headwind. And we are confident, given both our customer relationship, the fact that we have been delivering on SLAs and the quality of our services, we don't expect much of a dent happening in the segment. We are very confident of protecting our market share. Actually, on the contrary, I would say, we are very confident of growing our market share.

Sanjay Chawla: Okay. Any particular segment there could be potentially some churn? Because you saw Bharti Airtel saw some churn in the enterprise business.

Pratibha Advani: As a matter of fact, in my commentary I mentioned that we have been holding on to our churn, and that is one reason that you are continuing to see high margins in our traditional portfolio.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: One question to Lakshmi. You said that we are looking this growth services as well as innovation service, so when do we really see that will start making a contribution to EBITDA level and then on bottom level? So what kind of a run rate that one really look? Because that kind of what you see that we are getting is around almost 200 million, a little less than 200 million over the last 5-6 quarters. But so how do we see that playing out in the top line number and the EBITDA?

AS Lakshminarayanan: Yes. I think as mentioned, the growth side of the story on that portfolio is quite good. And as we reported in our commentary, it had done EBITDA positive and this quarter is EBITDA positive on the growth portfolio. Innovation portfolio, again, it's a bit early. But I think we had some very excellent solutions and products in that line. And I think it's early for me to comment on exactly when that will turn around, but we will need to continue to invest to capture the market share. Because there are products that are aimed to deliver new solutions, like IoT as well as in the NetFoundry, for example, which is more in the third generation of network. So we will be able to comment on it more in detail in due course, but we will have to stay the course.

Bharat Sheth: So in growth service, what kind ofgrowth potential we see? In YoY, we were looking once upon a time 35 then we scaled it down. And 6 months is because of some push down, around 20%, and when we expect this innovation service and this run rate to come down, investment front end and investment that we are talking?

Pratibha Advani: Bharat, I will take this question. Now if you actually look at our growth services portfolio, we are talking about six months' revenue of Rs. 1,500 -1,600 crores. That's a 20%, 21% YoY growth, yes? On that kind of base growth, I think it's very commendable. The fact is, that today, growth services is contributing Rs. 48 crores, Rs. 49 crores to the overall company EBITDA. So I think this whole portfolio has taken up very well. I have already given you the comfort on how our order book has grown. Our TCV has grown YoY. Our win rates are improving. So that is testimony of the potential of this portfolio.

Coming back to innovation, as Lakshmi said, these are early days. While we thought that customers' adoption is going to be faster, it has taken some time. But today, we see that in the trajectory and the fact we just talked about a very large deal for move. So we are seeing good momentum in this portfolio, but we would refrain from making a commitment on when the losses on this portfolio are going to come down because we still want to invest in this portfolio.

Bharat Sheth: So this kind of investment run rate, when do we expect over a period just kind of figure over the next 6 months or 9 months or 12 months will come down and top line will grow faster than the front end investment?

Pratibha Advani: The top-line is anyway growing well, right? To your point, as Lakshmi mentioned, want to get into a planning process, where we would be doing a more granular analysis strategy for this portfolio. And hopefully, in the Q4 earnings call we will be able to spell out the growth further.

Bharat Sheth: And Pratibha, on adjusting this impact of 116, our EBITDA works out between 34% and 35% for traditional services. So how do we see the sustainability of this or any further room to improve.

Pratibha Advani: I will hold to something that I have been speaking in every earnings call, we expect margin in this portfolio to be in the 35%- 36% range. Again, it depends on the product mix. But that is where we should see our margin stabilize.

Bharat Sheth: Even factoring, I mean, IndAS 116 impact. Is that correct or...?

Pratibha Advani: Yes. That's right.

Bharat Sheth: Okay. And Pratibha, did we hold up this NetFoundry in separate subsidiary and we have a different kind of plan. So if you can give some color on plan. I mean, over next two years, what would it be for this NetFoundry?

Pratibha Advani: We have held into our subsidiary as part of business strategy and there's no other plan as of now. When we have a definitive plan, we will definitely come back to you with it.

Bharat Sheth: Okay. On this demerged land there was one condition required, it is made for telco use only, telecom-related. So are we seeing when we expect that multipurpose use will be able to get it?

Pratibha Advani: Too early for us to comment right now.

Moderator: Thank you. The next question is from the line of Rohit Chordia from Kotak Securities. Please go ahead.

Rohit Chordia: Pratibha, a quick couple of questions for you. One, does it have DoT liability when you've done your math on cash versus accrual? What does that map tell you? On cash basis, is there some liability, clearly because of timing? Because I am assuming that years in which there is something due from DoT, you are not going to get it back. But when cash accounting shows a higher license fee, then accrual accounting that is something that DoT will demand. So is there any liability? Even if the matter is accepted, is there any liability or is that a meaningful number?

Pratibha Advani: Rohit, in the numbers that I just gave out, we factored that. It's a very small liability, and we factored that.

Rohit Chordia: So the 12 billion plus a little bit?

Pratibha Advani: No. As I have said, the number will be Rs. 1,200 crores as of March 18, plus the current full year added on to it.

Rohit Chordia: And the difference in this cash versus accrual? So should we, I mean, again, I am now looking a bit at some sort of...

Pratibha Advani: No, as I mentioned, you see this demand has come for the last 12 years. When I mentioned Rs. 1,200 crores contingent liability as of March, we have already factored in the little incremental impact that comes from paid. On that we will add the current liability that we would have to pay, and that liability towards interest penalty and interest from penalty.

Rohit Chordia: And given that this 12 billion that you are talking about is on account of more fundamental differences on definition of each year, are you changing anything in terms of the way you book other income, etc, to ensure that this liability is minimized in the future?

Pratibha Advani: No. As I mentioned, the matter is sub-judice. And the fact that it has been delinked by Honorable Supreme Court, we are not making any changes in that.

Rohit Chordia: And would the bulk of this pertain to the data center sale, capital gains on that?

Pratibha Advani: Well, I mean, there are a number of line items that you would've seen that came out in the UASL that...

Rohit Chordia: And I am just trying to understand which has the most...

Pratibha Advani: Yes, it would cover DoT demand which includes interest, dividend and towards some capital gains.

Rohit Chordia: Understood. The second is more the margin picture going forward. If I look at some of the comments you have made, you expect TCTSL to remain some margin pressure for the next 6 months as you ramp up other deals. Same with innovation where so far we were incurring funnel build-up costs, more deferred sales effort costs. Now we are suggesting that even ramping of this deal could be margin dilutive and will require investments in the initial phase.

Now I do not know whether this investment phase from a delivery standpoint would be 9 months, 12 months or 18 months for some of these large deals, but it could be a reasonably long period. And so these two business segments will perhaps remain under pressure. Payments is under pressure anyway. So can you squeeze out meaningful margins on the traditional and growth side so that our overall data business profitability stays intact for growth? Or are we looking at potential decline in overall data business margins for the next 6 to 9 months?

Pratibha Advani: No. Actually, I also commented on this in my commentary, that we expected growth trajectory in our margins to continue. And this is on the back of the traditional portfolio in which we are seeing excellent top line growth. Again, growth services QoQ you will see margin expansion happening. Innovation, our efforts are going to be start to actually get the economies of scale as top line growth in the innovation bucket.

And TCTSL, we have factored in the fact that there is rebadging happening and there is this upfront cost. But hopefully, from Q1 next year, we will start to see the portfolio will start to give us double-digit margin. TCPSL, actually, the margins are very strong, Rohit, so your comment that, that is under pressure is something I cannot tell you.

Rohit Chordia: That may not be a source of margin expansion. The best is to see where it is.

Pratibha Advani: Yes. That is right.

Rohit Chordia: Correct me if I am wrong. I mean, if you could expand margin there and if you are doing something to do that, but please correct me if I am wrong.

Pratibha Advani: There could be an opportunity, but it's still early days for me to talk about it. Hopefully, on our next earnings call, we will be able to share more with you.

Rohit Chordia: Sure. Any progress on the TCTSL monetization?

Pratibha Advani: As of now, no.

Rohit Chordia: Sure. My last question, you spoke about Carlsberg, you spoke about Visteon and a couple of client situations. Any other marquee events recently that you want to talk about? Anywhere where you've been able to sell some of your new services on the growth innovation?

Pratibha Advani: There have been marquee customers. We have won some good logos. But unfortunately, we haven't got approval from our customers to talk about it.

Rohit Chordia: Sure. And you are so happy about the quality of the funnel and conversion?

Pratibha Advani: Absolutely.

Moderator: Thank you.The next question is from the line of Utkarsh Somaiya, who's an individual investor. Please go ahead.

Utkarsh Somaiya: On the CAPEX of $200 million which you mentioned, could you please tell us how much of this will be growth CAPEX and how much will be maintenance CAPEX?

Pratibha Advani: A large part of our CAPEX we are spending on network expansion and on customer success wins. Growth services, typically our CAPEX spend is between 15% to 20%.

Utkarsh Somaiya: Okay. And what impact could we expect on the top line, from the growth of top line?

Pratibha Advani: Impact of?

Utkarsh Somaiya: On the top line, on the revenue.

Pratibha Advani: Of the CAPEX?

Utkarsh Somaiya: Yes, the growth CAPEX.

Pratibha Advani: Which is actually are seeing the conversion happening already in our top line. Our top line YoY is growing by over 20%.

Utkarsh Somaiya: Okay. My second question is, and I am sorry to be repetitive, but it's again on the AGR liability, which you mentioned includes your interest and penalty upto March 2018 or March 2019?

Pratibha Advani: March 2018.

Utkarsh Somaiya: Okay. And above that, you mentioned there could be a possible Rs. 1,200 crores liability. I missed that out, can you please repeat that if you don't mind.

Pratibha Advani: No, I mentioned that if you look at our financials in March 2019, we have factored a contingent liability of Rs. 1,200 crores. This liability is inclusive of license fee, interest, penalty and interest on penalty. We have to add another 6 months of the license fee and the penalty and interest on penalty to this number.

Utkarsh Somaiya: And that should be not too much, right?

Pratibha Advani: Correct.

Utkarsh Somaiya: Okay. And one more question. You have been maintaining EBITDA margin of 20%. Do we expect the same going forward?

Pratibha Advani: Actually, we are looking at improving this.

Utkarsh Somaiya: Okay. Any guidance on that? Any number you can throw?

Pratibha Advani: Unfortunately, we don't give guidance. So I will leave it with a more qualitative comment.

Moderator: Thank you. That was the last question in queue. I would now like to hand the conference back to the management team for closing comments.

AS Lakshminarayanan: Thank you all once again. I think as I commented, it's been a very robust performance last quarter. And from my personal point of view, talking to customers and listening to the market, there is a huge potential as the organizations are driving the digital transformation and we intend to stay relevant. And you should hear more from us. Thank you.

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