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Q3 FY2017 Earnings Conference Call Transcript

MAIN SPEAKER:

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

Vipul Garg:

Good afternoon everyone and welcome to the Tata Communications Limited conference call. We are joined today by Vinod Kumar, MD & Group CEO and Pratibha Advani, Chief Financial Officer.

Our results for the quarter and nine months ended December 31, 2016 were announced yesterday and the results presentation and fact sheet are available on our website. I hope you had an opportunity to browse through the highlights of the performance.

We shall commence today's call with the key thoughts from Vinod who will provide you an update on market environment and strategic direction of the Company. He will be followed by Pratibha who will share the financial highlights during the review period. At the end of the management 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 conference call today may be forward-looking in nature and must be viewed in conjunction with risks and uncertainties we face. A detailed statement and explanation of these risks is 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 over to Vinod to share his views.

Vinod Kumar:

Thank you, Vipul, and good afternoon, everyone, and a very warm welcome to all of you. I will start by giving you an overview of our performance and then share my perspective on industry developments as well as our strategic direction.

The telecom industry remains the pivot for growth, innovation, and disruption for nearly all industries. The number of "connected things" is progressively increasing and businesses are looking to increase their digital footprint. The coming together of two trends, one being consumer shifting rapidly to a digital lifestyle enabled by networks and the embedding of networks, clouds, and platform technologies into the core fabric of businesses makes this an opportune time for Tata Communications.

With our current portfolio of services, Tata Communications is no longer seen as a mere provider of pipes. Our customers see us as an essential provider of technologies that help them make the shifts to digital business models; in addition to the platform we had earlier which is being a globalization enabler. The other shift that our investments and innovations is enabling us from being viewed as an OTT player more than as a Telco. This is an important shift that we are trying to make, I will reemphasize that, and the shift is being viewed as an OTT player rather than just as a Telco. These evolutions of the business have been orchestrated by a holistic and cross functional effort where technology, marketing, and sales functions have come together to create a customized solution for enterprises. We are creating a culture anchored in innovation and in execution discipline. I see the need to ensure that these big shifts are solidified with adequate investment to ensure that the leap that we make as a company is a big one and not a small one.

Our financial performance continues to be steady and robust. Q3 numbers, after excluding one-offs are a testimony to that fact. There were a few one-offs this quarter and also the India Data Center deal closed due to which the reported numbers are not easily comparable at the surface level. Pratibha will explain the financial numbers to you in detail. Let me tell you that on a normalized basis, our data business continues to grow well. This quarter, the payment solutions business was adversely affected by demonetization. But we can see now that these early signs indicate that the business is slowly getting back to normal and the performance will hopefully be back on track and regain the momentum that we saw in the next couple of months with an increase in money

supply. The need for cash in ATMs was adequately demonstrated in the early weeks after the announcement of demonetization. While there will be a shift in consumer behavior towards other modes of payment the early signs that we saw and the behavior that we saw at the time after demonetization was announced is that cash continues to play and will continue to play an important role in this economy.

Moving on, alliances and partnerships helped speed up our time to market and will be a significant way forward for us at Tata Communications. Our go-to-market strategy is focused on enterprise enablement and we are seeing a growing appetite for partnership with service providers, with independent software vendors, and with cloud providers. Each of these players wished to leverage either the Tata Communications service capabilities or our customer access. Partnering with Tata Communications allows service providers to speed up time to market by offering a wide range of services on a white label basis or a sell-with basis without necessarily having to invest in building these capabilities themselves. That is one reason why we have established our global partner program supporting our partners in delivering a full portfolio of cloud mobility, managed security, and UCC services. During the quarter, we forged several fruitful partnerships, including the most recent announcement we made with BSNL.

I will call out two examples of partnering to illustrate our strategy.

One, Tata Communications joined forces with Constantin Medien AG to create a media hub in Germany. The new partnership opens up a fast-growing addressable market for Tata Communications and Constantin Medien in content distribution, content management, storage, and computing across Germany, Austria, and Switzerland. In addition, Constantin Medien has chosen Tata Communications as its preferred provider for network and cloud infrastructure solutions. I would like to amplify here, that these kinds of partnerships open up markets where we do not have direct customer access and the partner in turn leverages the capabilities of our global network and unique services in this case media vertical services that we have available on our shelves.

And another partnership the company entered was with Hitachi Sunway, a leading one-stop IT services and solutions provider in ASEAN predominantly focused on the Malaysian market. With this partnership, Hitachi Sunway will now be able to provide its more than 1,000 enterprise customers in ASEAN access to Tata Communications robust portfolio of managed network services, managed security services, and unified communications and collaboration offerings. Our constant efforts have started showing results and we are witnessing a pickup in sales funnel and uptick in deal conversion rate. Just anecdotally, I would also mention here, since I am quite familiar with this relationship myself that this has been in the works in terms of creating this partnership, building trust with them for them to package our services with their capabilities and take it to their enterprise customers for more than a year and a half. And the funnel of activity that we have now, especially in the Malaysian market as I mentioned, is quite considerable with Hitachi Sunway and there is still more headroom for us to expand this partnership.

Moving on from partnerships to products and services, we continue to invest and stay relevant and this is critical in our business that goes through steady waves of transformation. But what we are doing is also getting recognition. I am pleased to share that Tata Communications along with Comcast Business, ECI, Sparkle, and Viavi, won the 2016 MEF Excellence Award for Third Network Proof of Concept Innovation. So, this basically is around Ethernet services, demonstrating where network services will go in the future and we were able to demonstrate this capability and the innovation that we have in the space of Ethernet services.

IZO, which is something that you are tracking quite closely, gained further traction during the quarter. The Company launched its latest addition to its IZO Cloud Enablement Platform called IZO™ SDWAN, SDWAN standing for Software Defined Wide Area Networking. As a myriad of different applications, clouds, data sources, and connections create complexity for organizations. IZO SDWAN helps them detangle this complexity and propel their growth through seamless, secure, and easy to manage connectivity across 130 countries that span both developed and emerging markets. The expansion of Tata Communications IZO portfolio with an SDWAN service strengthens the Company's offerings with new capabilities that allow enterprises to take advantage of greater

service agility and automated provisioning. And underscore the automated provisioning part because that will be a big emphasis for us in customer experience and where our investments go in the future.

Moving on to the brand, getting our brand out there in position for the new services that we are creating is critical. Towards the end of the quarter, we launched a major multi-channel brand campaign in India. The campaign is designed to highlight the Company's diverse services portfolio that enable digital transformation for businesses and its contribution to the Make in India narrative. The campaign rolled out in early December and will continue to play out till the end of June 2017. The campaign looks to celebrating the Company's customers and partners in India and you probably have started seeing some of these ads as you travel across the country.

Let me give you a quick update on deleveraging. Simply put it's on target. As many of you would be aware, Neotel has received unconditional approval from ICASA for the acquisition of Neotel by Liquid Telecom. This was an important milestone from the deal perspective and now we expect to conclude the deal in the present quarter. There is a lot of work going on the ground in South Africa between Liquid's teams and the Neotel shareholders to get the deal completed as quickly as possible. Further, we completed the India data center transaction with ST Telemedia. The Singapore data center deal is on track and expected to close this quarter which will help in strengthening the balance sheet even further.

The ambit of the data business is expanding and they are continuously building our growth services platform in order to broaden the addressable size of the market. As the usage of these services picks up, we will see commensurate conversion of orders into stickier revenues from our target audience of MNC and enterprise customers. Strategically, we have embraced an asset light model where we are focusing on partnerships and the Neotel and the Data Center transactions are proceeding per plan thereby freeing up capital for more gainful use.

Looking ahead, since its budget time all over, I would like to share some thoughts on where we will focus. 2017-2018 is going to be a year of transformation for us at Tata Communications and by this, I mean, organizational transformation. The business mix is changing and we have to stay agile to respond to the dynamic needs of our customers and our partners. While we drive our traditional and growth services in the data portfolio, we have initiated work and investment on three key transformational programs around which we will galvanize the whole organization. We are revamping our go-to-market structure. The essence of what we are doing is creating a structure that will allow us to go narrower and deeper into geographies, into customer segments and into specific customers themselves. It is all about focus and all about increasing wallet share. Second, transformation, we are going heavily digital within Tata Communications. This will call for an investment in systems and processes. The goal here is to improve longer-term productivity, enrich customer experience, and allow decision making based on deep business insights and market insights. We have realized that some of our back-end pieces have not quite kept up with the pace of our evolution on the front end and this needs to be addressed in order to remain competitive and become more productive as the future unfolds. Third, we will invest in inflection creating services in the IoT, security, and mobility space. I have alluded to this in several conversations in the past and you will start seeing announcements come out on these lines in the coming months and quarters. All these transformation projects will require re-skilling our team, inducting new and next generation skills, and investing in systems and tools. We will be making these bold moves since they are critical to secure and improve our future prospects. As I mentioned earlier, this is not a question about taking the organization through small jumps but to take the organization into a big jump.

With that, I invite Pratibha to discuss the financial highlights of the last quarter. Thank you.

Pratibha Advani:

Thank you, Vinod, a very good afternoon to all of you. I will share highlights of our performance for Q3 and for the nine months' period for FY17. I assume that you would have had a chance to go through our quarterly factsheet. I am going to talk on key financial trends while correlating these with our overall growth agenda and also the impact of one-offs in Q3.

Let me start by explaining the one-offs. This quarter, India Data Center revenue was accounted for only 18 days as the deal closed on October 18th, 2016. The revenue was lower by Rs. 137 crore and the consequent EBITDA impact was Rs. 87 crore which led to a data margin decline of 200 basis points during the quarter. There was one-off impact due to change in past regulations towards access facilitation agreement, wherein TRAI regulated the fee in 2012, 2013. While we have been showing this as a contingent liability in the annual accounts however, we did not receive a favorable outcome at the lower court in November last year and have hence, taken a conservative view providing for the same. We will be challenging this decision and are confident that legally, we have a very strong position. The change impacted both revenues and cost adversely. While the revenue impact was Rs. 47 crore, the EBITDA impact was Rs. 76 crore, due to which data margins were impacted by 250 basis points. The performance of payment solutions business as Vinod mentioned earlier, was adversely impacted due to demonetization as the supply of cash was very low which led to a fall in number of transactions. The adverse impact on revenue was (RS.) Rs. 32 crore, while impact on EBITDA was to the tune of Rs. 23 crore. This led to deterioration in data margins by 60 basis points. We expect that the business shall get back to normal over the next couple of months as the cash supply comes back into the system. We are already seeing a 30 plus improvement in the number of transactions for our white label ATMs.

Moving to our consolidated financial performance. Our consolidated Q3 FY17 revenue was Rs. 4,872 crore showing a 4.3% Q-o-Q decline whereas; consolidated EBITDA was at Rs. 722 crore down by 16.8% Q-o-Q and 3.7% Y-o-Y. Margins stood at 14.8%. The numbers were affected due to India Data Center sale that I mentioned earlier not being part of the overall numbers, and one-offs which contributed Rs. 99 crore. Coming to the nine months FY17 period, consolidated EBITDA stood at RS. 2,453 crore and corresponding EBITDA margins expanded by 160 basis points year-on-year. Consolidated PAT came in at RS. 1,413 crore. This was higher by over a 1000% on Y-o-Y basis due to the one-time profit on sale of the Data Center business in India which contributed to RS. RS. 2,138 crore. Also, there was a RS. 250 crore impairment on investment in Neotel in Q3. The PAT for nine-month period came in at Rs. 1,495 crore.

Core business which stands for consolidated accounts without Neotel came in as a revenue of Rs. 4,419 crore which was lower by 5.6% Y-o-Y and 5.8% Q-o-Q during the quarter. Core business EBITDA during the quarter was lower by 24% at Rs. 592 crore, the impact of Rs. 186 crore were on account of one-offs that I had mentioned earlier, bringing down the core margins by 320 basis points and the margins came in at 13.4% for the quarter. For the nine-month period core EBITDA stood at Rs. 2,157 crore growing 9.9% year-on-year. The core adjusted EBITDA for the quarter was Rs. 636 crore with a margin of 14.4%. Let me clarify what we mean by adjusted EBITDA this includes the rental income and the shared service fee on account of the professional services that we will be rendering to STT for the Data Center business which amounted to Rs. 44 crore. Core PAT stood at Rs. 1,359 crore during Q3 and the same was at Rs. 1,478 crore for the nine-month period. The core EBITDA normalized for all the one-off would have grown by 17.5% year-on-year with a normalized margin of 16.8% showing an improvement of 20 basis points on a Q-o-Q basis.

The business is generating robust free cash flows. We arrive at this number by deducting CAPEX from our EBITDA. During the nine-month period, we had free cash flows of Rs. 1,013 crore a growth of 53% year-on-year. Even after accounting for interest and tax expense, we generated positive free cash flows of Rs. 458 crore during nine-month period FY17. This is a growth of 156% year-on-year.

The underlying business levers are in place and the free cash flows growth momentum will continue as we grow in scale. The underlying trend of enhancement in data business has been maintained and is countering the decline in revenues from the voice segment.

In Q3 FY17, reported revenues of data business grew by 2.6% with EBITDA decline of 12.3% on a Y-o-Y basis. As mentioned earlier, the margin impact due to Data Center deal was 210 basis points, which is in line with our earlier guidance. The one-off margin impact due to access facilitation charges was 240 basis points and there was a 60-basis point impact due to the payment solutions business.

The normalized Q3 data revenue was Rs. 282 crore and grew at 10.6% Y-o-Y while EBITDA came in at Rs. 694 crore and grew at 19.8% on a Y-o-Y basis. The normalized data EBITDA margins are at 23.3% which is an improvement of 60 basis points over last quarter. With the macros in place we are focusing on pushing further the enterprise data services with the help of our partnership approach.

Traditional services witnessed revenue decline of 4.1% in Q3 and EBITDA decline of 17.2% on a Y-o-Y basis. Margins in the traditional business came in at 25.6%. Let me assure you that the traditional business continues to grow well and this quarter was affected due to seasonality in our mobility services. The normalized revenue was USD 327.2 million and USD EBITDA was 99.5 million after taking off one-offs on account of Data Center stake sale and access facilitation charges. On a normalized basis, revenue grew by 4.7% and EBITDA grew by 7.5% year-on-year. The normalized margins were at 30.4%.

In growth services, Q3 FY17 revenues grew by 19.2% on Y-o-Y basis and 6.7% on Q-o-Q. We are creating a pool of new growth services with the long-term objective of driving business transformation within data services. Our recent investment in Teleena is a step forward in this direction. As these offerings grow in scale, we will see commensurate growth and profitability.

Revenue from transformation services during the quarter grew sequentially by 6.3% and Y-o-Y by 28.4% coming in at Rs. 262 crore. We witnessed a significant EBITDA margin expansion of 617 basis points on the back of new deal wins and cost productivity initiatives.

Let me discuss the trends in our voice business. During Q3 FY17, we saw a revenue decline by 6.8% Q-o-Q as domestic volumes were affected due to seasonality. The EBITDA decline was 28.3% on a Q-o-Q basis while margins stood at 5.1%. This quarter we witnessed both volume decline and price erosion.

Moving to Neotel, we had the benefit of a stable operating performance with revenues showing 12.7% improvement Q-o-Q, with a corresponding 46.5% sequential growth in EBITDA. The EBITDA margins during the period were at 28.8%.

The Singapore Data Center and Neotel deal, as Vinod mentioned, are on track and closure of both the deals will further strengthen our balance sheet.

The core business net debt stood at USD 1.26 billion as against USD 1.57 billion in the previous quarter. This is a reduction of USD 312 million. This is post adjustment for the India Data Center transaction in its entirety where we have received inflows of USD 250 million post taxes deal cost and debt adjustment. As stated earlier, we had used parts of these proceeds to pay down debt and the rest will be used towards initiatives on expanding our business and looking at other investment opportunities.

Our strategy of deleveraging the balance sheet systematically along with business growth is on the right track. The core net debt-to-EBITDA was at 2.9 times at end of Q3 FY17 with a corresponding weighted average cost of loans slightly up at 3.48%. This increase on the cost of loan was impacted due to arrangement fee on prepayment of loans without the arrangement fees, the weighted average cost of funds would have been at 2.91%. We are generating sufficient free cash flows to meet our interest obligations.

As Vinod mentioned earlier, we will be investing in systems, processes, and people over the next 12 months to 18 months to further enhance our service offerings and maintain higher standards of quality of service. The business is undergoing a transformation and we need to invest in our front-end and back-end processes and digitize them to cater to the dynamic requirements of the business. In finance, we are looking to automate a few processes through robotics to enhance productivity. This investment will make us digitally future ready as the company transforms from being a connectivity provider to a complete communications solution provider to its customers.

Core business CAPEX capitalized for nine months stood at USD 171 million and the CAPEX capitalized for Q3 was 55.3 million. We maintain the guidance for full year CAPEX of around \$250 million excluding Data Center.

With that, may I request the moderator to open the forum for Q&A?

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. First question is from the line of Pranav Kshatriya from Edelweiss Securities Limited. Please go ahead.

Pranav Kshatriya: I have a couple of questions. Firstly, on the net debt reduction, which has happened, so can you just break it down what is the free cash flow generated from the business and what has actually come from the sale of Data Center? Secondly, you talked about further investment in improving productivity where exactly are we likely to see this investment going into and what sort of quantum will it be? Will it go into more into CAPEX or would it be reflected in the lower EBITDA margins? And my third question is, on your payment solution this quarter there was a clear impact because of demonetization. However, there is a reduction in number of ATMs as well on a quarter-on-quarter basis. What exactly has led to this? And how do you see this business in the long-term given that you do not clearly have an arm to become a comprehensive provider on the digital platform as well. So, how do you see this in the medium-term to long-term? That is, it. Thank you.

Pratibha Advani: So let me take the first question, the break-up of the free cash that you wanted from our operating activity, as I had mentioned earlier, year-to-date we have generated Rs. 1,013 crores and from the Data Center business, we have received Rs. 1,797 crores.

Vinod Kumar: Okay, so let me take the next two questions. On investment, I cannot give you the exact numbers but it is spend on both CAPEX as well as in OPEX. When it comes to the new services that I called out, IoT, mobility, and on expanding our security services portfolio the investment is more in OPEX. Therefore, yes, it will have an impact on EBITDA to that extent but we believe that these are significant opportunities for us that not just strengthen our current portfolio but also open up large addressable markets for us.

In the case of our digital transformation and that is across various operational aspects as well as our financial systems and so on the spend will be more CAPEX rather than OPEX. So, it is a combination of the two and obviously it falls within the CAPEX numbers that Pratibha called out but we will be prudently deciding on the CAPEX-OPEX split. But there is a requirement for new skills in some of these new areas for which we have to do the appropriate hiring.

As far as TCPSL is concerned, I will quickly pull out the ATM numbers. Obviously, we have suspended deployment of new ATMs right now and we are waiting and watching to see how the market pans out before we restart any deployment of ATMs. So in the meanwhile, we continue to be disciplined about re-grooming the capacity that we have and where ATMs do not perform in order to save OPEX, we will take them out of service. From a longer-term perspective, we believe that our Indicash business is still a sustainable business. The number of transactions were growing, the demand that we have seen even due to the demonetization for cash to fuel the economy remains but we will be very prudent about where we deploy the ATMs and the number that we deploy, keeping a very close eye on EBITDA as well as in the return that can be generated and we will continue to explore strategic options for that business. But at this point the focus is really on optimizing things given the volatility in the market around cash. The ATMs that we shut down in Q3 were 661 in white label and 100 related to the Ministry of Finance project.

Pranav Kshatriya: If I can just squeeze in one more question, how do you see voice business in terms of free cash flow generation? Do you see any further challenges to the number what you mentioned in the last quarter?

Vinod Kumar: I think we are maintaining what we said in terms of voice for the future. We still see there is a healthy business from a free cash flow perspective. We are just doing everything we can to reduce the cost

associated with supporting that business while maintaining or growing the free cash flow from it. But it is still a business where we are the market leader. There is some structural shifts that we just have to adapt to it and work around as far as traditional wholesale voice is concerned.

Moderator: Thank you. Next question is from the line of Amruta Pabalkar from Morgan Stanley India Co. Pvt. Ltd. Please go ahead.

Amruta Pabalkar: I had three questions. Firstly on the TCTSL, the segment has shown considerable margin pickup. Can we see this as a new normal and there is more scope for expansion over next few quarters? Secondly, on the traditional business segment you said there were two key impacts - one on Data Center and second on the AFC recognition. Can we see that the Data Center impact that is the absorption of cost overhead is now fully priced in and we can see a pickup in the next quarter, so we can see margins going back to a trajectory of 27%-28% from the next quarter? And lastly, do we maintain the thesis of overall 30% data EBITDA margin by fiscal 2019 or do you see it advance with pickup in the subsidiaries and the growth segments?

Vinod Kumar: On TCTS - I will take that question and the last one. The margin pickup was clearly due to some of the mix in revenues but also several productivity enhancing steps that we have taken. I am not going to say that the same momentum will be maintained. But we will see margin improve in TCTS. As far as overall data business getting to 30% is concerned, the traditional business is showing good trajectory and you are seeing the margins if you look on a year-on-year basis how they are improving. When it comes to the new and growth services obviously, we are focused on as I mentioned, also making investments in order to secure the future and to be competitive. Therefore, there is some pressure there in terms of margin profile you will see an improvement but how quickly it will pick up we will have to call. I do not see the 30% target being achieved any sooner. What we have already called out is a stretch and then we will be working towards it but the focus for us will be on improving productivity in our traditional business and getting economies of scale and operating leverage and in the growth services continuing to see the improvement and on new and innovation services, we will actually be investing, for example, in IoT, and mobility more than what we had thought just because the size of the opportunity there is considerable and should not be missed especially given that we have created a right to play.

Pratibha Advani: Also just to add to this point Amruta, I think it is now important to look at our business with the Data Center out of our fold at an EBIT growth than just mere EBITDA growth. And in the next two years to three years we should start to see a significant growth in our EBIT. To answer your second question, you will definitely see expansion in our margins in Q4 since the bulk of AFA impact has already been taken, so there will just be the impact for the quarter and impact on account of the TCX transaction which would not be significant.

Moderator: Thank you. Next question is from the line of Nakul Manaktala from Samaira Investment Advisors Pvt. Ltd. Please go ahead.

Nakul Manaktala: So two questions. First was obviously in regard to your debt. So, I mean, how much debt do you think you are going to service for the rest of the year and FY18 and what levels of debt are you comfortable holding in your books? And second question would be related to the voice business, I mean, I understand it is like a melting ice cube where volumes and prices are kind of de-growing sequentially. But is there anything we can do to kind of revive that business, provide more value added services leveraging the infrastructure that is already available? Are there any other opportunities there to kind of gain more from this heavy infrastructure development that you have already done?

Vinod Kumar: Okay. So from a debt perspective the headline is that we will be maintaining where we are right now and we think it is a very comfortable level. So that is on debt. As far as voice is concerned well firstly, it is not a heavy infrastructure area, the infrastructure that we have on voice or that is used only for voice is not significant in the overall scheme of things. But, the capabilities that we have in the voice business for example, we have a very strong trading capability that buys and sells minutes. That is being leveraged now for our MMX business, which is our SMS P2P, and application-to-person opportunity. The other area where we will see the

voice business getting leveraged is on the trading and fraud management capability and least cost routing capability for our mobility business. So those frankly create a bigger multiplier effect than just leveraging the CAPEX. In any case, in addition to the traditional voice, the big growth for us in our UCC portfolio is in SIP Trunking and we are already seeing the shift to more data driven voice services. So we are leveraging the voice business and the capabilities to its maximum and we will continue to do so. We by no means throwing in the towel on the voice business. We want to maintain our market leadership and we are making some organizational changes to actually bring more focus from fewer resources but teams would be dedicated only to working on voice in order to make sure that we can hit the free cash flow targets that we have set for ourselves.

Nakul Manaktala: Understood. So, these value-add services that you are talking about they will be captured in the data piece of the business but it is going to be leveraging the CAPEX of the voice piece, is that correct?

Vinod Kumar: Yes, I just want to underscore the CAPEX in voice is very small. So that is clearly I would say think of it more as OPEX being leveraged rather than CAPEX being leveraged.

Moderator: Thank you. We have next question from the line of Raj Gandhi from Sundaram Asset Management Co. Ltd. Please go ahead.

Raj Gandhi: See, just here on the adverse ruling, in your Press Release you mentioned the impact of Rs. 76 crores. However, your notes to account mentioned that there is expense provision of about Rs. 98.78 crores. So, could you explain the difference?

Pratibha Advani: The difference is on account of one-off adjustments that have been adjusted. That is why the EBITDA impact is only Rs. 76 crores.

Raj Gandhi: Okay. And will this ruling have any ongoing impact on the margins?

Pratibha Advani: Yes, it will, because we do get revenue from our customers and we have had some good wins in this business in the recent months. So, going forward next year you can build in an additional impact of 5 million to 6 million in EBITDA.

Raj Gandhi: Okay. \$5 million to \$6 million?

Pratibha Advani: That is right.

Raj Gandhi: Okay. And just could you give on a steady state basis, let us say, what would be the revenue and the EBITDA impact of Data Center sale of India and the overseas Data Center business?

Pratibha Advani: Well, the India we have only accounted for 18 days; so you can normalize that impact...

Raj Gandhi: And annualize the same so that would give us the India...

Pratibha Advani: Yes, that is right. And for the Singapore leg, the impact on revenue would be about close to 5 million which would translate into an EBITDA impact of 1.5 million to 2 million. This is per quarter. Again, you can extrapolate it for four quarters.

Raj Gandhi: Okay, sure. And also I believe there was some overhead, which were being absorbed by both India and the overseas Data Center business which will now come in the core data business outside. So how do we build that?

Pratibha Advani: That is right but the impact is already there in the numbers.

Raj Gandhi: For this quarter that is but...

Pratibha Advani: That is right, it is already there. So, you can use the same run rate.

Raj Gandhi: Okay. And let us say now, ex this Data Center business any particular revenue growth targets for the data business that we should see?

Vinod Kumar: We are still maintaining what we had before, which is the range of 10% to 15% growth.

Pratibha Advani: Even now if you actually look at our numbers our year-to-date data growth is in double-digit and we will maintain that growth momentum.

Raj Gandhi: Right. So this revenue growth target is dollar or in rupee terms just to...

Pratibha Advani: Dollar terms.

Raj Gandhi: And just for this voice business, as you had guided, there were some cost saving initiatives and all of that because of which the voice margin held well in H1. So, any particular reason, do you expect the margins to come back to (+6%) that you held in H1 or how do we see that?

Vinod Kumar: I would not call that yet. We will continue to work on managing the cost but there is also price pressure. So I think I would not commit to any expansion in voice margin.

Moderator: Thank you. Next question is from the line of Nimit Tanna from CWC Advisors. Please go ahead.

Nimit Tanna: Just one clarification and two quick questions. So, the clarification was that whenever you guys get the chance to figure out whether the 30% margin is met and not met. Would it be fair to assume that re-investing whatever you are in these new services would actually lead to higher revenue growth and therefore the absolute EBITDA or absolute EBIT that you had would be more or less what you would meet or exceed?

Vinod Kumar: The answer is yes, Nimit and I would like you to focus on absolute EBITDA and EBIT, and when we look at this business in the future from the free cash flow that we will generate.

Nimit Tanna: Great. So then two quick questions, one was on free cash and one more on the business. So on free cash and again assuming free cash is after interest, tax, and working capital, are we broadly in line to do the Rs. 1,000 crores for FY 2018? And the other question was if you could expand a little bit more on Teleena. So, it looks like a very interestingly play on MVNO and the IoT piece that you are looking at and I think from their Website they say they are somewhere around EUR30 million profitable. So, how does this fit into our overall strategy? Is it going to be part of UCC or multiple services? Anything you can share would be most helpful. Thanks.

Vinod Kumar: So Teleena is going to be at the heart of our cross-border mobility services and we will be announcing this fairly soon. So I do not want to steal the thunder from the product launch itself. But essentially, we will have the capability to offer global footprint for connect cross border applications for both IoT as well as for voice and data roaming for humans. Where we think the bigger opportunity is actually in machines and things, rather than just provide an alternative for roaming for people. Having said that, we will leverage the data network that we have and the Internet backbone we have. Therefore, when we offer our data roaming services for example, on a global basis it would not just be a value proposition about cost but it will significantly be a proposition built around being always connected, always on and having a high performance data service wherever you go. That will be the proposition and we will target use cases that need that and from a things and machines perspective, we see huge opportunities in the B2B space for cross-border applications in the automotive space, around connected cars, in transportation and logistics and supply chain management, asset tracking, fleet management, and some applications in the MedTech and healthcare space. So it is a whole new ball game for us

but we think the proposition that we are building will be quite compelling and also keep in mind that we will offer global service coverage for mobility without having spent one penny on acquiring spectrum or licenses or deploying assets around the world. So, we are replicating what we did with our IZO WAN build out in the mobility space. So, that is probably as much as I can say right now probably I have said too much already.

Nimit Tanna: And on the free cash?

Vinod Kumar: On the free cash flow, I think we will be able to do that. I just want to make sure that I have some allowance for investments that we will be making in the transformation projects that I called out.

Pratibha Advani: And Nimit, I mentioned earlier in the call, that even after adjusting for interest, and tax we have still generated for over Rs. 400 crores of free cash, so that momentum is going to continue.

Nimit Tanna: And does this include working capital, Pratibha?

Pratibha Advani: No, this does not include the change in working capital.

Moderator: Thank you. We have next question from the line of Aditya Karwa from JIPL Capital Services. Please go ahead.

Aditya Karwa: Just two questions. As you just now said that, the CAPEX will be maintained at \$250 million I believe 50% of it is maintenance. Can you just elaborate a little more that, where exactly the other 50% will go, considering that the Data Center is already out of the foray?

Vinod Kumar: Well, it is into transformation, it is into creating the new services like IoT in India where we are building out a nationwide footprint of using LoRa technology and there is also some investment that goes into expanding our WAN footprint, especially using the SDWAN technology. So, those are some of the key projects.

Aditya Karwa: And just another question on the land deal, I know there must not be great progress in terms of around what the government is trying to do. But will it have any sort of impact on the current shareholders in terms of balance sheet....

Vinod Kumar: You will get the benefit, yes.

Pratibha Advani: You know as shareholders of Tata Communications, you will become shareholders of the new entity, which will hold the land and consequently whenever there is any land sale, that benefit will flow through to the existing shareholders of the new company.

Vinod Kumar: Sorry, is that the question you asked? It was not really clear, what you were alluding to.

Aditya Karwa: Yes, actually this was the question that I asked. I mean, there are various notions about the kind of impact which it would have on the current shareholders or the existing shareholders back then when it was VSNL, so there was some confusion in my mind. So I just wanted some clarity.

Pratibha Advani: That is right. So, the minority shareholders of Tata Communications become the shareholders of this new entity that will hold the land and consequently, they will get the benefit. It is only Tata Sons who do not get the benefit.

Moderator: Thank you. Next question is from the line of Dikshit Mittal from Subhkam Capital Ventures Pvt. Ltd. Please go ahead.

Dikshit Mittal: I had two or three clarifications. Like you mentioned, that impact of India Data Center business is Rs. 174 crores on the top-line and Rs. 87 crores on the EBITDA. So, just wanted to clarify is it a 50% margin business or there were some one-offs in this quarter?

Pratibha Advani: This is not a 50% margin business. We will hold on to our earlier numbers that we have given that is anywhere between 28% to 30%. The margins are only looking higher because Rs. 44 crores now comes into other income. You have to add back, this would have been a cost in the Data Center business earlier.

Dikshit Mittal: Okay. So the reported EBITDA includes the rental and fee income for the Data Center?

Pratibha Advani: No. That will come in other income, so the reported EBITDA excludes this.

Dikshit Mittal: Okay. So you mean to say the normalized margins were 30% in the Data Center?

Pratibha Advani: So add back the Rs. 44 crores, then the margins would be like 30%-31%.

Dikshit Mittal: Okay. And secondly, you mentioned impact of this TRAI charges will be around \$5 million to \$6 million. Is it per quarter or per annum?

Pratibha Advani: Per annum.

Dikshit Mittal: Per annum. Okay. And finally, can you give any status like what is happening on the land monetization side because earlier, the process of demarcation and all that that was happening. So what is the current status if you can clarify?

Vinod Kumar: We do not have anything notable to report. We are working on the scheme of demerger. That is where it stands right now. We are just seeking some final clarifications before the scheme is passed. Both the Tata, Panatone in this case and the government are working closely together on this.

Moderator: Thank you. Next question is from the line of Aliasgar Shakir from Motilal Oswal Securities Limited. Please go ahead.

Aliasgar Shakir: I just wanted to understand on your free cash flow and debt levels. Vinod, you mentioned that you will maintain your debt levels at the current level whereas you will be generating higher free cash flows as your CAPEX also remains maintained at \$250 million. So, just wanted to understand, how do we plan to deploy our high free cash flow generation over the next two years?

Pratibha Advani: If I can take that question, and I did partially cover this in my opening comments. We would want to keep our top-line growth momentum going and that would mean looking at interesting investment opportunities like Teleena to see how we can bring them back into the business and further expand our data services portfolio. I am now going to ask Vinod to add some more color.

Vinod Kumar: I do not want to call out where we are exactly with investments but I will rather talk about areas we are interested in. The mobility is a space especially around IoT we think the time is right for us to strike and do things there so Teleena type of investment interesting. Second area is around security services, while we are mostly going to work on a White Label strategy there may be opportunity in security for us to make some strategic investments to secure technology with certain startup. And the third area will be around transformation services where we want to move to a platform kind of model and move away from the headcount based model especially around wireless capacity planning and value-added services in that space and it is something that we are watching closely. So there would not be big ticket investments necessarily but a few smaller ones that we will keep looking at.

Aliasgar Shakir: Okay. And should these incremental investments also be looked upon in terms of what sort of margin profile they will cater to or I mean, that depends on what sort of investments you do?

Vinod Kumar: We would be very focused on the margin profile of the companies that we choose to invest in.

Moderator: Thank you. Next question is from the line of Pratik Singhania from Param Capital. Please go ahead.

Pratik Singhania: Sir, my question is related to the Neotel and the Singapore Data Center. Once this deal get closed in the current quarter if it does, how would be the structure of receiving the consideration? Would it be at one go or in a staggered manner?

Vinod Kumar: From the Neotel transaction we are not expecting anything material in terms of consideration for us I think we have been quite transparent about that all along. Singapore Data Center there will be roughly \$110 million of proceeds coming in from that leg of the transaction.

Pratibha Advani: And it will come in one go.

Vinod Kumar: Yes, that will come in one go. That is right.

Moderator: Ladies and gentlemen, this was the last question for today. I would now like to hand over the conference to Mr. Vinod Kumar for his closing comments. Over to you, Sir!

Vinod Kumar: Thank you very much for a good set of questions. As I communicated earlier, we are seeing good growth in the data business. The organization and the team is very focused on execution. We see some good opportunities in areas for us to invest both internally to improve our productivity and businesses agility as well as some exciting inflection opportunities around mobility and IoT in the external domain. So, we will treat these opportunities and investments that we make, they will be reviewed very carefully.

You can be assured that we would not be putting money into low margin businesses. If anything, they will improve the margin for our core business over time and also create some much larger addressable markets for us in the future. It is important in our business to keep creating this transformational capability in the engine and that will service the engine of growth while we drive productivity gains in whatever we do today. So, that will be the focus of the entire leadership team and the larger organization and we will keep the process transparent and keep sharing with you what our thinking is and obviously, the results hopefully will keep getting better and meet your expectations. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Tata Communications Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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