



Q3 & 9M FY2016

Earnings Conference Call Transcript

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MAIN SPEAKER:

**Vinod Kumar, Managing Director
and Group CEO**

**Pratibha K. Advani, Chief
Financial Officer**

Mahesh Pratap Singh: Good evening everyone and welcome to the Tata Communications Limited conference call for the third quarter. 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, 2015 were announced yesterday and the results presentation and fact sheet is available on our website. I hope you have 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 along with context to our Q3 performance. 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 but not limited to what we have outlined in our annual filings, annual reports and associated documents which you can locate at our website www.tatacommunications.com. The company does not undertake to update these forward looking statements publically.

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

Vinod Kumar: Thank you very much, Mahesh. Good evening, everyone and a very warm welcome to all of you. Let me start by giving you an overview of our performance in Q3 and the first nine months of this fiscal year and then share some perspectives on our strategic direction as well as the broader industry development.

We are very excited about the progress that we continue to make as business. At Tata Communications the momentum in Q3 and throughout calendar year 2015 demonstrate the success of our strategy and equally validates our position as a truly global telecommunication services provider. In fact, I should just make an aside that we call ourselves to the market more as a communications solutions provider because a lot of what we do is quite different from standard telco's offering, anyway we will talk more about that later on. The efforts of building a well-defined transformational agenda is progressively reflecting in our performance, steadily transforming our business in favor of the data segment and that is really what we are most enthused about in our near-term results as well as in terms of our long-term evolution and strategy. The data segment has taken up the mantle of the growth driver in line with our strategic intent and road map and something that we have been consistently sharing with you over a period of time.

From an earnings perspective, the financial performance continues to reflect healthy operational trends and also shows good signs of sustained momentum. The improvement in the data segment performance has continued to outpace industry growth significantly both in terms of revenues and margins showing improvement. Our nine month FY16 data revenues grew 16% year-over-year for the same period nine month FY16 data EBITDA margins has hit our stated near-term milestone of 20%. Our interactions of the last couple of quarters, we have talked about expectations of the strong H2 for data segment based on the revenue momentum that we were saying and the trajectory of new services and TCP SL turning around. The Q3 performance is a clear reflection of that where our data revenues are up 17% year-on-year and 4% quarter-on-quarter and data EBITDA is up 21% year-on-year and 18% on a quarter-to-quarter basis, with Q3 data EBITDA margin touching 21.7%. Pratibha is going to talk to some of this in more detail. In nine month FY16, 56% of our core revenues came from data segment compared to 50% a year back and 80% of our nine month FY16 core EBITDA came from the data segment compared to 74% a year back. As share of the most sustainable and lucrative data and managed services segment is growing it is substantially improving the quality as well as the composition of core business revenues and EBITDA, this drives longer-term, stickier and more predictable terminal cash flows.

The transformation into a data driven business has been broad based with both the traditional data portfolio and the growth data portfolio doing well. I have to say that when you look at this in more detail you will see for most of our competitors the traditional data portfolio grows at 0% to 1% in a best scenario, in our case we are doing a lot better. Whereas our growth data portfolio is growing faster than the market and is showing good signs of momentum for the future. Enterprise data business grew nearly 21% in the first nine months of the year with strong traction with our large customers in both the Forbes 2000 list which is an indication of our performance in the global MNC segment and closer to home in India with the ET 500 customers. In the service provider segment we are beginning to see initial signs of growth revival with modest revenue growth in nine month FY16 compared to flat to marginal decline that we saw in FY15. We believe that with the continued efforts that we have in changing the equation and the portfolio of services we have that we are taking to market with the service provider segment will begin to see some modest growth here. While there has not been any really favorable change in carrier market place itself the service provider growth as I said is being orchestrated by fine tuning our operations, sharpening our go to market activities and also changing the value proposition that we take to the service providers from simple connectivity services to enterprise enablement, media and entertainment services, content management and aggregation services. I expect benefits from these efforts to be seen visibly and progressively in the coming quarter.

Strong performance in the data segment however continues to be offset by softness in the voice segment. Admittedly, Q3 has been the most challenging quarter for voice that we had ever seen.

We have anticipated the structural decline in the wholesale voice industry for long period of time. We have adequately cautioned you for the moderation in voice numbers and we made all our efforts to transform our business away from the wholesale segment but the pace of deceleration in Q3 was faster than anticipated. There are two primary reasons driving it, first, there are more prominent structural industry level headwinds such as growing adoption of VoIP based OTTs which is causing the addressable market to shrink at a fast pace. Secondly somewhat irrational competitive behavior on pricing and volumes especially for India termination remains a recurring theme. In Q2 we saw improvement on this irrational pricing but frankly in Q3 it reversed back to what seems to be the norm. In this backdrop we are focused on driving cost and operating efficiencies coupled with fine tuning go-to-market approach to optimize and ensure that our free cash flow prospects in the voice remains. I am confident that we have plenty of levers in opportunities available in our data portfolio to mitigate and absorb any volatility arising from the voice segment. Something that we have proven time and again in the last few years and the Q3 FY16 performance is a good testimony to the same. So I do not believe a declining trend in voice can derail us in any way in our journey of improving free cash flow, deleveraging our balance sheet and attaining a 15% ROCE as a company. We see Q3 as a bump in the road that we had expected to encounter, factored it in our plans, may be the bump has come a little bit sooner than we had expected but at the same time it does not change our strategy in any way. We believe there are things that we have been doing in the data segment have been right if anything we need to accelerate and focus more on it.

When we look at the voice business we are also looking at the costs that are associated with the voice business. Some of you may have heard that we did some employee related restructuring in Q3. Some of this was related to the voice business and other parts of our business to improve our cost structure but also to create room for us to change our skill set in order to make us more competitive and more capable in the data segment. A few things that we are doing to optimize our manpower cost which is bulk of cost in the voice segment besides the overhead allocations are the following. One is we have combined some of our go to market activities around voice and data so that we can get better return from the headcount that we have that was only working on a dedicated basis on selling voice. The second we have done is we are turning, pivoting some of our product management and development resources to work on enterprise voice offerings and SIP trunking in particular which is a very rapidly growing part of our portfolio. It leverages the voice infrastructure that we have in the IP backbone and the people have the capability to help us grow that area where the market potential is good and where we are getting good customer traction. The third area in terms of optimizing our cost for the voice business is by using capabilities that we have in areas like our trading desk and fraud management for parts of our data business and mobility business. And we expect to continue doing all three of these in terms of reducing the direct cost of manpower to voice, using the front end of voice to also sell data, and

also repurposing some of the capabilities to not only serve voice but to also serve our data and mobility businesses. So we believe that these activities and also the fact that we have almost no CAPEX let us say very low single-digit CAPEX in millions of dollars that we assign to voice that the free cash flow is not going to disappear and therefore we would only look at Q3 as a bump but as I said again it is a good bump to have because it get us even sharper on our activities of execution related to data.

Switching gears now and zooming up a little bit let me talk about the industry backdrop. 2015 was another transformative year where many innovative ICT technologies are becoming mainstream and offering customer experience and delivering productivity and bottom-line value to our enterprises. In 2016, we expect evolution and revolution of these emerging technologies will continue and will help enterprises meet their expected growth trajectories. We are in a defining period for cloud computing led by the move to hybrid IT organization. We would also continue to see investments in cyber security and internet based WAN technologies to deliver predictable and secure performance to access hybrid clouds. So I spent some time in the last couple of weeks both in Silicon Valley and with several large European customer and I can tell you more so than ever I was convinced by the adoption of cloud, the adoption of hybrid both network as well as cloud enablement platform and the importance that is being placed on security. All these are areas along with mobility where we are very focused as an organization. With the rise of digital transformation, the enterprises are looking for IT infrastructure that can deliver flexibility and agility alongside with failsafe security. Similarly, there are industries which are getting entirely redefined enabled by technology. Another case in point here is the media segment which we are quite focused on in fact in the last six months we have made a lot of strides in terms of dialogs and proof of concepts with cable companies in the U.S. who are looking at redefining their entire business model. In the media segment with the content owners enabled by technology providers are taking control in a world where consumer viewing patterns are changing dramatically both due to consumer life styles as well as a technology available to deliver content and provision content across multiple screens and devices. We believe that 2016 will witness ICT providers offering services that will enable both broadcaster and other media companies to reduce production and more importantly distribution cost while improving the quality of the content delivered on all kinds of access.

Overall vitality and enthusiasm around several emerging components of digital transformation such as mobile, big data, cloud, social and over the top carriers and internet of things is very encouraging and is paving the way for several new growth opportunities. However, these quickly changing technology trends also pose risk and challenges to traditional revenue streams for voice and data. Telco's across the world are taking various transformational initiatives to offset the pressure in traditional service lines by turning to digital services which is essentially identifying new products and services on top of existing base infrastructure and existing product. This is not

an easy transition for every company and this is really where the advantage of Tata Communications lies. We invent before we have to, we have demonstrated an ability to reasonably pick where the market is going and start our activities and leverage all the key ingredients that we have in place to succeed. We innovate quite heavily and this continues to be in our DNA and this deeply embedded innovation advantage as well as a network advantage and the building blocks we have with our products that have been created and also great customer driven focus and the global structure that we have has kept us in the forefront of this transition from the traditional revenue stream to emerging growth areas. Over the years, Tata Communications have successfully move from being a traditional connectivity service provider largely in India to truly global services provider. I believe that this story has been told and the story has been proven. During the nine months of FY16, we have continued to do what we have done throughout our transformation - grow successfully across environments. In a period which is underpinned by comparative challenges and industry disruption we have improved our revenues and profits, we have added meaningful customers, we have interesting opportunities and products and services in the pipeline, we strengthened our brand and we will continue to do so.

The role of Tata Communications in involving digital and ICT ecosystem is being well acknowledged and appreciated by both target customers and industry advisors. I am delighted to state that Tata Communications has been positioned as a 'Leader' by Gartner in its "Magic Quadrant for Network Services, Global" for the third consecutive year. We did it once, then the market thought it was flash in the pan, we did it twice and I will tell you the growth of our customers and the proof points that they gave to the analysts is really what enable us to win along with innovative services that our great employee base has created to win the third time position leader by Gartner in its Magic Quadrant network services globally. Each new service that we have launched is designed to enable new capabilities for our client more reliably and cost effectively. Our IZO portfolio of enhanced cloud enablement service is the great example of that, it uses the unique set of technologies to help business stay one step ahead of the competition through digital transformation. We launched IZO on the network side and then as a pure public service and we moved it to launch the public and private hybrid service and later on in the year we added the hosting and cloud enablement component. So we really are building a business that is perfectly suited for the enterprise adoption of cloud. Our positioning as a cloud enablement company is being well respected and accepted by both the customers as well as the analysts.

Now moving on to Neotel, as you are aware we had a discussion mutually and revised the transaction structure in December 2015 to exclude Neotel's licenses, spectrum, ECN, ECNS so on. Vodacom will acquire the majority of Neotel's assets related to fixed line business as a going concern. At tribunal pre-hearing in December 2015 it was agreed that, following the outcome of the roaming Offer, Vodacom South Africa and Neotel will re-notify the details of the restructured transaction with the Competition Commission and that the matter would hopefully be dealt with on

an expeditious basis. We are in the process of putting together the roaming offer and then will then approach the other operators to assess interest levels. In terms of timing we are in the close of the final discussions with Vodacom to develop the package that we will take the other operators. We are seeking some advice informally to get some broad guidance from the regulator of the acceptability of such a package. In the meanwhile Neotel's base annuity business and underlying operations remain stable as reflected in the nine month FY16 revenues being up 3% in ZAR. Recent volatility in profitability in Neotel is due to nature and timing of project based revenues and also due to severe depreciation of the ZAR as you know ZAR touched almost 16 to the US dollar in the last quarter. The other challenge that we have in Neotel, part of the issue of being in transaction that is taking so long is that while we are not experiencing any customer churn in our data because the quality of the services that Neotel offers is superior to what is available in market in South Africa, the ability to attract new customer has slowed down. We have been offsetting that by increasing our voice business which is in the wholesale market and service provider market and to certain extent the enterprise market but the margins from the voice business are lower than the data business especially for a company like Neotel where the revenues are mostly on net. However we are trying to do the best we can, we cannot change the situation in terms of customers comfort with Neotel. We are sincerely hoping that we will have a conclusion one way or the other in terms of knowing whether the package that we take will be acceptable or not. We obviously as a company have to think about risk and have been and continue to think of alternatives and plan B options in case we cannot get a spectrum package put together that is satisfactory. I am not saying that is the case but I think as investors you would expect that we are being prudent and managing risk and looking at other options as well in case the regulator does not accept the proposal that we put on the table.

Lastly on the exploratory process for data center infrastructure in India and Singapore, it is tough at this point for me to share much more detail than what has been said. All I can tell you and you should take comfort in the fact that we are active in the process, we are highly engaged, the party that we have shortlisted is still extremely interested in the business. Our underlying business is growing very strong, our revenues are growing, customer pipeline is strong, and we have very interesting discussions underway to keep growing that business. We made recent project approvals to expand our footprint in India in order to make sure that we can meet the demand that our existing customers are showing us for the coming financial year as well as for any new customers who are now looking at India as a market to grow in. So the underlying business is strong, our conversation with the party that we shortlisted is reaching its final stages. We are in active and detailed discussion and that is as much as I can say right now I cannot put specific time on it. I understand there could be a tendency that you are looking at the Neotel process and comparing it with this process, I have to say that they are different projects all together with very different dynamics one is in a foreign market with regulations still evolving and there is a lot of

competitive objection, in this case we do not expect issues and we have a party that is very interested in buying and continues to show strong commitment to concluding the transaction.

To conclude, during the first nine months of the year, yet again we have demonstrated the resilience of our business model, the capabilities of our human capital and the transformational role that we play in our customer's ecosystem. The foundation of our success is network excellence and the service portfolio that we have managed to build on it and the Tata Communications brand which is gaining in strength. This potent combination along with customer centric mind set and a collaborative approach to the partners is what gives you the competitive edge and the platform for growth and for the future. Our eyes are set on elevating and increasing the momentum in our data segment, strengthening the balance sheet by some of the inorganic moves that we are contemplating and move towards strong cash generating and a healthy ROCE business.

With that, I will hand over to Pratibha to take us through the financial highlights for the last quarter.

Pratibha Advani: Thank you, Vinod. Good evening, everyone and thank you for taking out the time to join us on the call today. I will start by recapping the financial highlights for Q3 and then focus on providing you with some qualitative context to the numbers and focus more on key financial trends and re-emphasize their linkage to our growth strategy that Vinod has just shared with us.

We are pleased with our strong data led Q3 and nine month earnings performance. Strong momentum in data for both traditional and growth services portfolio has been propelling our overall business forward. While our traditional service portfolio has been growing at 5% in dollar terms for the nine-month period, the growth services portfolio is growing at a healthy rate of 29%. Just to clarify the composition of the growth services portfolio, this comprises of media services, our unified communication and collaboration services, cloud hosting and enablement and security services.

Starting with the consolidated performance, our consolidated nine month FY16 revenues are up by 2.1% Y-o-Y to Rs. 154,094 million and consolidated Q3 FY16 revenues are up by 3.8% Y-o-Y to Rs.50,995 million. Softness in Voice and start-up segment has been offset by a very strong data performance. I will discuss individual segment dynamics in a short while. Consolidated PBT continues to be in the positive trajectory backed by strong operating performance in data segment. Nine month FY16 consolidated PBT stood at Rs 1,732 million and Q3 FY16 consolidated PBT was at Rs 69 million. Q3 Consolidated net profit was at Rs 219 mn and that is favorably impacted due to tax credit on account of recalibration of guarantee fees charged to our subsidiaries for prior years & current year by leveraging the new regulatory guidelines

recommended by OECD, Rangachary Committee report, APAs executed by tax authorities and backed by latest judicial decision.

Core business performance has also been steadily improving. Core business revenues are up 3.4% Y-o-Y over nine months in FY16 and up 6.1% Y-o-Y in Q3 FY16. Core business EBITDA and if we normalize this for Canadian pension fund is up by 5.3% Y-o-Y as we got some benefit in this quarter and over nine month period this is up by 1.2% Y-o-Y in Q3 FY16. Nine months FY16 core business EBITDA margins have improved 50 basis points Y-o-Y to 14%. After adjusting for Canadian pension fund credit, EBITDA margin improvement is 20 basis points. Nine month FY16 core PBT normalized for Canadian pension fund, one-off other income and other operating income is up by 1% Y-o-Y to Rs. 2,248 million. I do want to emphasize that this improvement in core business performance is after absorbing the weakness in voice segment. As Vinod pointed out, composition of core business is steadily transforming in favor of data segment. Quality of core business EBITDA is improving on the back of strong predictable performance from data segment.

With that let me give you a flavor of what we are seeing in each of our segments. Starting with the data segment, data continues to progress well on revenue growth, profitability and free cash flow. Nine months FY16 data revenues are up 15.9% Y-o-Y and Q3 FY16 data revenues are up 16.7% Y-o-Y. Enterprise and Next-gen customers are continuing to contribute and lead this growth. Talking of profitability, nine months FY16 data EBITDA is up 16.7% Y-o-Y; Q3 FY16 EBITDA is up 20.7% Y-o-Y. As you can see both revenues and EBITDA numbers are extremely healthy. Nine months FY16 Data EBITDA margin have achieved 20% milestones while Q3 Data EBITDA margin have expanded by 250 basis points quarter-on-quarter to 21.7%. You would recall that in May, Vinod has mentioned that at the close of the year we will hit 20% margin for data and sure enough we have hit not only in Q4 but a quarter earlier. Data segment also continues to be EBIT positive for both Q3 and nine-month period. Q3 FY16 data EBIT is higher than overall core interest cost for the first time ever resulting in standalone data to be PBT positive even after considering entire interest cost of core debt in data segment. Nine months FY16 data free cash flow which we define as EBITDA less CAPEX is also positive in spite of significant step-up in CAPEX as we are investing in our growth products. We are seeing onset of operating leverage in our data business and that is benefiting our EBITDA margin and allowing us to step-up our investments in new innovative services, branding, partnership and sales efforts. While there can always be Q-o-Q volatility in margin given the lumpy nature of large deals and associated one-time cost and investments, medium-term EBITDA margins are showing a healthy upward trend.

Our focus on White Label ATMs in our Payment Solutions business is paying off and we are witness consistent improvement in transaction for White Label ATMs. ATM mix change between third-party bank ATMs and our own White Label ATMs coupled with sharper focus on operating

efficiencies has enabled our payment solution business to regain EBITDA positive milestone in Q3 FY16. We are confident of sustaining EBITDA positive trajectory and gradually taking the profitability trajectory higher as ATM base matures and scale efficiencies kick in.

Nine month FY16 has also been a defining period of our Transformation Services business where we have seen strong revenue and EBITDA on the back of some large transformation wins that we have had during the course of the year.

Switching gears now to voice segment, Q3 FY16 was particularly a weak quarter. We did expect some softness in Q3 given that the previous quarter had temporary benefit of a favorable market shift in India Termination. Although Q3 typically tends to be a softer quarter for voice volumes given the vacation and holiday season in December. However competitive pressure on volume and pricing were more accentuated and that led to a sharper decline in voice net revenues. Our Q3 FY16 voice net revenues came in 27% lower Q-o-Q by about Rs. 90 crore, a lot of that net revenue reduction got transmitted to EBITDA driving 50% Q-o-Q and Y-o-Y reduction in Q3 FY16 voice EBITDA. We continue to remain focused on managing our OPEX and CAPEX by driving better operating efficiencies to optimize our free cash flow from voice. Our nine month FY16 voice free cash flow is about \$57 million and we are now expecting a number closer to \$70 million for full year FY16, lower than our earlier indicated range of \$80 million to 90 million but as I mentioned earlier data is filling some of that gap.

Free cash flow generation remains a key priority for us and while we have seen some pressure coming from voice segment in FY16, data on the contrary has done well for us. On standalone basis looking at data EBITDA less data CAPEX and strategic CAPEX data free cash flow for nine months FY16 is \$40 million and FY16 data free cash flow is set to be highest ever making up for the deficit created by voice. We are also revising our core business CAPEX outlook for FY16 and lowering it to about \$300 million from our earlier stated number of \$350 million.

Moving on to balance sheet, let me focus on core business debt. We have a Q-o-Q uptick in core business debt position to \$1,476 million this is largely to do with dividend payout and associated dividend distribution tax which has an outflow in Q3 FY16 amounting to approximately Rs.188 crore. In the past we have touched upon change in our business mix with voice weakness and enterprise data led growth structurally extending our working capital cycle. That also continues to be a factor driving higher net debt. We remain very comfortable with our debt profile and like in the past we will be proactive in our liability management approach to take advantage of market opportunities in repositioning the debt and our books. Our cost of borrowing continues to be extremely attractive at 3.3% having said that in medium-term there could be likely upward bias in our cost of borrowing in a rising U.S. interest rate scenario.

Our key priority is to drive absolute EBITDA growth with a specific focus on improving EBITDA margins and data segment, while maintaining existing CAPEX intensity and continuing to fund our investment need. We believe both maturity of growth portfolio and TCPSL turn around will continue to contribute meaningfully towards further bolstering data segment margin profile. And just to add some flavor on how our New Services are performing, media services over the nine month have grown by 51%, some of the products in the unified communication service portfolio have grown as much as 80% and 90% respectively. This will enable us to further step-up our free cash flow generation and deleverage our balance sheet. Based on macro trends we see in the marketplace coupled with strong momentum in our sales efforts we are extremely well positioned to drive sustainable EBITDA growth and free cash flow generation on the back of our data segment.

On that positive note, I conclude my opening remarks and welcome specific questions you have and we would be happy to give you our perspective. May I now request the operator to open the question and answer session? Thank you.

Moderator: Thank you very much. We will now begin with the question and answer session. Our first question is from the line of Vinay Jaising from Morgan Stanley. Please go ahead.

Vinay Jaising: I have a couple of questions. Firstly on the data business, congratulations on the great set of margin improvement and your commitment of maintaining them or achieving them a quarter in advance. We also spoke about enhancing these margins to I believe 30% in the last analyst meet you had which was a couple of quarters ago, any thoughts about that in the next two years to three years or whatever timeframe you have that is my first question. My second question, how much would data center be as a percentage of your revenues and EBITDA could we have data of that and how much of it would be as a percentage of your CAPEX? My third and final question, is on the voice business, do you see the current quarter has been the bottom for your voice in terms of EBITDA? Thank you so much.

Vinod Kumar: Vinay, I will take the first and third questions and then Pratibha can give the actual percentage of revenue and CAPEX for our data center business, I have rough numbers in mind but she will be able to give you the specifics. On data frankly, Vinay, I think 30% in two years to three years is good target. This performance that we have seen gives us some added confidence that should be achieved. But at this point we do not want to sharpen the guidance any further in terms of timeline or bring it forward. But frankly speaking UCC portfolio is getting good traction. CAPEX light services on the network side also getting traction. Even our traditional services like our IP transit business we are doing some interesting things on how we take it to market and how we improve the routing all of that gives me confidence into the data business we will trend steadily towards the 30% hopefully sooner rather than later hopefully we can surprise all of you positively but we are maintaining our position.

On the voice business, I do not know if this is the bottom that is very thought to call that but I would say that it is getting to a point when on the India termination rate which is where we have seen the most volatility or unexpected declines is not that much room for it to go down any further maybe there is some movement but it cannot be huge drops. Actually the rest of world volumes we continue to play by the rule of only going after any minute of traffic that will make a positive contribution and there the shift to OTT is there but it is a more steady shift. One other point I wanted to mention on the voice business is our enterprise voice business especially the SIP trunking and voice component that we sell to both enterprises and to OTTs is really beginning to pick-up momentum and I think we will start seeing how some of the infrastructure that we have and capabilities we have in the traditional voice business is actually going to be quite beneficial for us. But voice was a quite a shock to the system I do not see the India business going through as steep drop, the room is not there for that.

Vinay Jaising: Vinod, just on that before we move to the data center question, moving actually back to the first question on data growth, you mentioned CAPEX light and you mentioned margins being good, this quarter also you all have given a dividend out to investors so, is it fair to assume that we will be free cash flow positive incrementally now in this data focused business for the next couple of quarters and that should increase because investors are vary of seeing the debt if Neotel does not get done whatever be the reason are there other avenues for you to reduce the net debt but for the data center that I what I am trying to gauge.

Vinod Kumar: Okay. So I think we are at, we will remain very close to, to this position we have achieved in the data business we do not miss the opportunity to make investment in our own CAPEX and so on just with that objective in mind and lose sight of the future. So I think we have made an inflection and I think we will largely remain there and grow that line. One point I want to make on which you brought up which is main reason behind net debt going up it is not because of us losing grip on any operational discipline in the business but the shift in the voice business has affected our working capital position and that is something that we very quickly adopting to which is voice tends to be because of the market leading position we could run it with sort of negative working capital outcome. As voice declines we do not have cushion of that negative working capital from voice anymore. So we have set for ourselves some stringent goals on improving our collections on the data businesses, it is not that we have a worsening problem it is has actually been steady and it has been at industry levels I would say our DSO but we need to do better there because we do not have the cushion of the air cover. So the net debt position is not because of some lack of operating discipline of certain surge in CAPEX, it is really because of this working capital change because of declining voice business.

Vinay Jaising: But that would go on, right, so would we go to free cash flow minus these two events of Neotel and data center?

Vinod Kumar: No, we would not. I am just saying that we will work to reverse that and of that the trend that we will see voice tapering and therefore the negative working capital buffer that we have declining we need to offset by collecting faster on the data business. Keep in mind the data is also growing so we have more cash that we can collect.

Pratibha Advani: But Vinay, just to give a pointed in response to your question, yes, we will be free cash flow positive. And coming back to your data center question our revenues for nine months are close to Rs. 450 crore and our EBITDA margins range from 26% to 28%, the CAPEX spend is roughly around \$40 million - 45 million.

Moderator: Thank you. Our next question is from the line of Pranav Kshatriya from Edelweiss. Please go ahead.

Pranav Kshatriya: My first is regarding the data margin so, if I look at on a nine-month basis the data margins have remained stable and this despite TCPSL turning EBITDA positive or rather burning much lesser cash in this nine-month compared to last year. So what exactly is leading to I mean are there higher investment in some other businesses which is leading to the margin for data business remaining stable? And my second question is you partly answered that question saying that basically the India inbound traffic is where you are seeing most of the impact in terms of rate. So I mean is all the decline in India I mean in the EBITDA and in the revenue is contributed by this India inbound traffic or is there any outbound or hubing traffic impact as well? That is it from my side.

Pratibha Advani: Yes, so you rightly pointed out that data EBITDA margins have remained stable and that is on the back of some of the investments that we have doing. In the earlier quarter Vinod had mentioned that we are investing both in our product services as well as front-end and that investment is continuing and is also propelling some of the growth that I mentioned in our growth services which are growing by 28%-29% year-on-year. We intend to continue with this investment. Also Vinod had mentioned earlier that we are deeply embedded in the Silicon Valley and trying to innovate and look at new services and opportunities and layer them on the top of our network. So we will continue with those investments.

Pranav Kshatriya: So if I can just, take a follow-up on that. So should we expect margin to be in this range only because of the continued investment?

Pratibha Advani: Actually despite the investments you are seeing that our margins are expanding and we expect it to take this growth trajectory. Coming to your other question on voice the quarter-on-quarter voice drop is primarily due to India termination margin contraction.

Pranav Kshatriya: But there was 6.7% decline in the volume as well so that is all coming from India inbound or there is some component from outbound and hubing as well?

Pratibha Advani: So that is a 50-50 ratio decline that is happening both from inbound and outbound.

Moderator: Thank you. Our next question is from the line of Piyush Chaudhary from CIMB. Please go ahead.

Piyush Chaudhary: Firstly, I just want to understand in the context of current slowdown in the growth in the global environment how is your engagement or feedback from global enterprises, would there be look into reduce their discretionary technology or network spends or how should we think about in the context of enterprise segment growth? Secondly in voice segment considering the structural headwinds from OTT players, are you seeing any signs of consolidation globally where wholesale voice based are looking to exit and could that be an opportunity going forward? And in voice for the near term is the irrational behavior in price still continuing in 3Q? Thanks.

Vinod Kumar: Okay. So I will answer the voice question. Irrational pricing, no we are not seeing that continue I think there has been a little bit more stability. But we are not seeing rational behavior, the necessary level of rational behavior coming back either.

On OTT players coming in will that drive industry consolidation of traditional players. Personally I do not think so I think there are some there are efforts that are being made but the economic arguments to drive consolidation from a buyer perspective is really not there and so I do not expect see too much of it we will definitely not be leading consolidation. We, however, continue to work on outsourcing deal, looking to see how we can use some of the tools that we have and sell them on a subscription model to some non-competing carriers who operate in a more domestic voice environment that is what we see. I do not think the dynamics are going to change that much by consolidation in the wholesale voice business.

On the global enterprise, this is very good question, for us and I say this internally with a lot more pushiness internally and externally I will say the same which is based on the Tata Communications size, global presence and value proposition, the weakening of the global economic environment frankly does not damp in our opportunity. We found during the last economic crises in Europe, we gained more market share there because we were invited to the table by customers who normally would not. In this the current volatility that we are seeing is also coupled with one other thing which is the very heavy level of digital transformation or digital shock that these companies are going through and that is deriving your CIOs and CEOs to talk about cloud to actually talk about public hybrid network keep only the mandatory mission critical things on a private network, the rest of it put on a public build a hybrid solution between the two. Look at cyber security because it is becoming something that is being driven by regulation, by governance and general cost to the business. So for me on the enterprise side it is a perfect storm. Obviously

I have to prove it to you guys by delivering results on a quarter to quarter basis but we do not have dearth of the funnel, we do not have dearth of opportunities. Our brand could be louder, I wish I had more money to spend on brand to broadcast what our capabilities are but I believe even with what we have invested in and we will continue to invest in brand and sales force, the opportunities are there. For us it is being about selective and picking the ones where we have the greatest chance to win working with a solution mindset not a product mindset and making sure we close deals in a timeframe. As Pratibha and I said in our last call, the great news is we are being called to implement complex solutions and put these custom solutions for large MNCs. The flip side of that and I would not call it bad news is that it takes a little bit longer to close deals and when deals are closed it take a little bit longer to implement then a simple point to point circuit. But once we implement you are talking about three years to five years contact, the days of one year contracts are gone when it comes to these kind of services. And the last point I would say which works in our favor is with the cloud based or subscription based model once you get in and then you start offering something like UCC service or video collaboration service like Jamvee the volume growth steadily over a period of time without proportionate amount of sales effort that goes in, so the farming that is done rather than totally new hunting. So I have gone a little more than the question that you asked for but I thought it is an opportunity to give you a color on the business.

Piyush Chaudhary: No, this is extremely, extremely helpful. And if I may just one thing on the CAPEX guidance if you can provide any color for next year, considering your attempts to get a strategic partner in data center business if it fructify, would it be fair to assume that the CAPEX envelop below \$250 million level?

Vinod Kumar: The CAPEX envelop will be around \$250 million, I do not want to say it is going to be below 250, we are building out our access network in India that is an important project for us from a long-term perspective and a lot of it is growth CAPEX and we want to make sure that we capture the opportunity in the market so, it will be around 250.

Piyush Chaudhary: Yes, but this is excluding once the data center...

Vinod Kumar: That excludes data center, with data center it is just around \$300 million.

Moderator: Thank you. Our next question is from the line of Amruta Pabalkar from Morgan Stanley. Please go ahead.

Amuta Pabalkar: The data margin step-up of 250 bps that you saw during the quarter partly because of the operating leverages kicking in the traditional services plus new services improving. Can we get some rough idea as to what would be the contribution of the two or any new services you would want to specifically point out to? Secondly in to the banking business we turned

EBITDA positive is this sustainable going forward? Secondly on the White Label ATMs addition what was your future trajectory that you expect? Thank you.

Pratibha Advani: Amruta, to answer your question we actually do not look at the break-up in terms of the EBITDA margin for the growth and traditional services split. But just to provide you some color, some of our services like the V-connect or the Global Hosting Solution have actually grown in revenue albeit it is a small base at 96, at 80 odd percent so those are the kind of growth that we have seen. However, I would like to add we are still investing in these services. So at this point we are really not evaluating them from a margin profitability standpoint but more from a potential of the growth opportunities that they are opening for us. But our overall revenue growth in the growth services as I mentioned in my opening comments is 28%-29% year-on-year.

Vinod Kumar: As far as TCP SL is concerned we believe that the EBITDA will strengthen in the coming quarters, we are being very focused in where we deploy ATMs and the target now for us 200-250 ATMs, our number of transactions hit 67 in last quarter and has moved up a little bit in January. So, our focused deployment and also strategy of very quickly testing and redeploying if site does not hit the desired levels in three months paying off. We expect to deploy about 200 ATMs per month for the next financial year.

Amruta Pabalkar: Just one follow-up, after you deploy this 200 ATMs in the next financial year, do you have any regulatory binding of deploying any more incremental ATMs going forward?

Vinod Kumar Not 200 for the whole year it is 200 per month.

Amruta Pabalkar: Yes, so 200 per month is there any regulatory binding on you to increase the number of ATMs in over next three years?

Vinod Kumar: We would have fulfilled our obligation with what we are rolling out.

Amruta Pabalkar: So this 200 ATM additions per month would be discretionary as per your analysis?

Vinod Kumar: Yes, it is discretionary, we will have to see how the business picks-up but we also realize that we need a certain level of coverage for the brand to get visibility and get traction so there is some chicken and egg between number of transactions and number of ATMs we are always evaluating that and balancing it.

Moderator: Thank you. Our next question is from the line of Srinii Rao from Deutsche Bank. Please go ahead.

Srinii Rao: My first question is actually on your data business slightly high level that we have seen Netflix for example last quarter actually do a global launch. Do you benefit from such so to say trends where streaming takes a larger share of we were time and then you have seen some

companies like Netflix scale up more and more is that something even underlying data demand driver or that's not too relevant that is my first question. Second on Neotel, if Vodacom only buys or it is not allowed the spectrum which probably be the case what proportion of debt would you be able to transfer along with structure like that, I will stop here at this stage. Thank you so much.

Vinod Kumar: Thanks, Sridhar. Firstly, the Netflix kind of thing is great for us on two fronts. That is driving other media companies to think of new business models, think of multi-screen streaming, it drives people on the cable side to be thinking of quad play, therefore they need cloud based set-top boxes variety of things so whole media space is being shaken up, we see that as a great opportunity and one that cloud based solutions are good for people to try new business models out and also scale faster and variable as they cost that is one level. The other is it is good for our IP transit business because we are the fourth largest IP backbone in the world and the ability to deliver content around the world is almost unparalleled. Hence, both those will be beneficial.

In terms of Neotel, I think it is very tough for me to comment on the deal structure and how much will be used to pay debt and how much will be left over in the structure because we are working through it but what I will say is we would not do a split deal. For us at least the position right now is that it has to be a package deal where we can get an overall solution for Neotel and not just do part one now and then deal with part two separately. I do not want to talk about specific numbers because I am not in a position to.

Sridhar Rao: Yes, I just wanted to add one more question on the voice side, is it fair to assume that the voice business would over time given the VOIP trends would possibly decline to a half of what it is in about five years' time.

Vinod Kumar: You are saying will voice decline to half of what it is now in five years' time?

Sridhar Rao: Yes, given the steady trends in VOIP and even possibly India also moving to 4G in sometime I am not saying the data will not offset it but for our purpose would that be a fair assumption?

Vinod Kumar: Yes, I would say so that is a reasonable assumption. Our goal is to grow the data business to an extent that in two years we would not be talking about the voice business on these analyst calls.

Moderator: Thank you. We will take our next question from the line of Ali Asgar Shakir from Elara Capital. Please go ahead.

Ali Asgar Shakir: I just had two quick questions, first is on your ATM business, so in our previous analyst meet we discussed about the things we are doing on our ATM centers to try and innovate in terms of add more revenue models over there instead of just simply using it as a ATM counter. Just want to understand, if we have had any developments there and what are they? And second

thing is just a follow-up on your voice business you did mention the 50% drop in the next five years, in our previous calls and analyst meet we have been talking about between \$80 million, \$90 to \$100 million FCF is what we look at it as a business cash cow sort of business so should that sort of now be revised down now and if at all yes, then what should that number approximately if at all do we have any guidance to give there?

Pratibha Advani: So actually in my comments itself I had mentioned that we should now look at voice generating close to \$70 million of FCF and obviously as the business decline this will come down but we really not concern because we are seeing data fill that gap beautifully for us. Vinod, do you want to take the earlier question?

Vinod Kumar: So on the first question non sort of ATM core revenues we are working on, we are selectively investing in it we have just implemented a loyalty platform that allows us to capture customer data with which we can do other things. So we are building revenue stream but frankly we are going a little bit slow on it so the focus right now is to get the core business stabilized but we are getting third party advertising both on the screen and on the ATM premise, we have a big data initiative collecting data using this loyalty program. There are multiple initiatives going on but I think it will improve but not in the next 12 months it is not going to radically change the EBITDA profile from what we are seeing it, the profile will improve but this is not going to be a mega revenue stream in the near-term when we have the right coverage of ATMs and transactions get to 80-100 transaction I think the non- ATM revenues will become more easy to generate. But it continues to be something we are working on, just not showing up in large enough way on the numbers for us to report it.

Ali Asgar Shakir: All right, fair. If I can just slip one more question on your data margins, well you have already spoken on this but I was just trying to understand it from little deeper point of view, this 250 bps improvement should one look at it more from an operating leverage point of view that your new services has brought out because of which your margin improvement has come through or is this specific to a deal project implementation which is on a higher pricing that may have laid to this margin improvement?

Vinod Kumar: It is not very specific deal, frankly there is no unusually large deal that bump the numbers up in Q3 it is largely the growth of new services but also the traditional services in data showing operating leverage where the margin profile is improving. Pratibha, I do not know if you want to add anything to that?

Pratibha Advani: No, that is right Vinod, it is both of them coming together is that is driving the expansion in the EBITDA margin.

Vinod Kumar: But it is nothing one-off right?

Pratibha Advani: Nothing one-off but our traditional services for example VPN continues to grow at 10% so we are still seeing healthy growth in our traditional services portfolio as well.

Moderator: Thank you. Our next question is from the line of Bajarang Bafna from Sunidhi Securities. Please go ahead.

Bajarang Bafna: On the growth side we hear the data could grow 15% to 20% that is what has been the trend but could we see the trend moving to 20% to 30% kind of CAGR category over next two years to three years because as you rightly pointed out that we want to accelerate that segment much faster. So just some color on that side and if you could provide some more color on the IZO how is the experience so far and can it be a bigger growth driver going forward? Thank you.

Vinod Kumar: The data growth will continue to accelerate I am not going to put a number on it but we see good momentum for us to pick-up steadily improving pace on data.

On IZO as I said, IZO is becoming a cloud enablement platform on network side as well on the hosting side. So we will have meaningful revenues from IZO in the coming fiscal year. But we have to look at IZO also in the context to what it pulls through with IZO we have component of IZO which we call IZO private which is essentially pre-established connectivity to the large cloud providers whether they be infrastructure as service, software as service or there is applications as service. What that enables our enterprise customers to do is to access these there is cloud platforms in a secure and scalable manner without having to separately build out reach to them. And the dynamic that is evolving now as some of these cloud providers are now coming to us and bundling IZO along with their cloud solution and that is increasing our channels to market and creating more penetration to enterprise customers so that is another pull through benefit of IZO that we are beginning to see. And based on these factors I feel that data can pick up even more speed than we have shown so far.

Moderator: Thank you. Our next question is from the line of Aditya Yadav from Transient Capital. Please go ahead.

Aditya Yadav: I just have one broad question regarding your data business, you had mentioned in the past the you will see deflation in the pricing with data. So the 16% data growth we are seeing in the past few quarters is it a result of deflation that the volume growth is much higher over there? And are the pricing trends similar in the enterprise part of your data portfolio? Thank you.

Vinod Kumar: Sorry, I did not get that question so could you repeat that or maybe Pratibha if you got it you can answer it.

Mahesh Pratap Singh: I think the question Vinod was that the 16% data revenue growth we have seen year-on-year for last few quarters presumably that is after absorbing what happens on pricing deflation on some of the traditional pieces. So is it fair to assume that the volume growth is higher than the 16% and how is the pricing scenario playing out?

Vinod Kumar: So clearly yes, that is right it is after the pricing drop. So, the price drop erosion in data is to be expected but as I said in previous meetings, international data services price erosion is stable. We are not seeing any steep price drops, India and some of the other emerging markets continue to be higher growth markets where the price drops can be a little bit greater but typical data price drops will be in the 15% per year range in the more competitive markets about 5% to 10% we are getting on the developed market.

Aditya Yadav: My feeling is on a three years to five years rolling basis would you require much more CAPEX to full fill the volumes which you might be getting would you require more CAPEX on the data side because...

Vinod Kumar: Not necessarily because the model we are using now is to use more third-party networks, services we are building more CAPEX light, it is just a traditional services, your assumption would be right but we believe that our services portfolio are becoming more software enable using third-party infrastructure therefore we are confident that we can manage within this kind of CAPEX range. As I have said it will be in the \$250 to \$300 million without data center business CAPEX. Next year we are saying \$250 but as the business grows maybe \$300 but we do not believe it will be more than that.

Aditya Yadav: And the contracts you have on the enterprise side in the data two years to three years we were talking about are we seeing stable price trends over there of the fix price contract?

Vinod Kumar: There will be fixed price for the term but then after that clearly you will come up for renewal and the price erosion will apply but that is a generic answer. There are contracts which will be a five year contract with the mid-term price renewal for example but that depends on what the starting price is.

Moderator: Thank you. That was our last question. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Vinod Kumar: Okay, I think we have covered a lot. I have said more in my opening then you probably wanted to hear but we are confident about what we are seeing in the data growth. Voice we took a big hit in Q3 but as a business and leadership team we are not panicked about it, we believe that the steps we have taken to grow the data services, to repurpose the team and reorient our cost structure have all been preemptive moves. And so it gives us chance now to focus on what is really important which is the data business while we make sure we maximize our

position and keep generating free cash flow to the maximum extent possible from the voice business. So the market is receiving our message well, customer funnel looks good, now it is really about execution and that is the focus for my entire organization, my leadership team and myself. So thank you for your attention and joining the call and hopefully, we will be able to share steadily improving news with you in the next quarter and the coming quarters as well. Thank you.

Moderator: Thank you very much members of the management. On behalf of Tata Communication, that concludes this conference call. You may now disconnect your lines.

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