Tata Communications
Q1 FY2013 Earnings Conference Call
July 27, 2012 at 04.00 pm IST

Mahesh Pratap Singh: Welcome, everyone, and thank you for joining us on our earnings call for the first quarter ended fiscal 2013. We are joined today by Vinod Kumar, our Managing Director and CEO, Sanjay Baweja, our Chief Financial Officer, and Srinivasa Addepalli, our Senior Vice President, Corporate Strategy.

Our results for the quarter ended June 30th 2012 were announced yesterday, and these results and presentation are available on the website. I hope you have had an opportunity to browse through and familiarise yourself with the highlights of the performance. We'll start this call with opening remarks from Vinod, who will give you an overview and update of key highlights and financial performance during the quarter. After that, we will begin Q&A session where you will have an opportunity to get your queries answered.

I'd like to remind everyone on the call that anything we say on the call which reflects any outlook for the future must be viewed in conjunction with the risks and uncertainties we face. A detailed statement and explanation of these risks is included in our annual filings which can be found on our website www.tatacommunications.com. The Company does not undertake to update these forward-looking statements publicly. With that said, I'd like to turn the call over to Vinod to share his views.

Vinod Kumar: Thank you, Mahesh. Good day to all of you and a very warm welcome from my side. I'm happy to be sharing my thoughts on the key aspects of our strategy during this call and use this as the basis to explain the numbers and also answer any questions that you may have towards the end of my presentation.

As a Company, Tata Communications is gaining recognition in the marketplace as a technology-led player that has carefully and thoughtfully invested in building world-class infrastructure and technology platforms both in India as well as in key emerging markets. We pride ourselves at Tata Communications on being the youngest and most advanced network both in terms of technology as well as in terms of the features that are available on it. This allows us to constantly innovate and offer value-creating services to discerning B2B customers; we typically serve large enterprises and carriers. I look during the next few minutes to give you a sense of some of the moving parts that drive the performance of the business and what we as a team are focused on, from a strategic standpoint at Tata Communications.

The Core business itself continues to show healthy upside and growth, especially when global markets have been significantly impacted both by slowdown in business spending as well as price erosion and negative pricing trends. Our consolidated gross revenues in the quarter were Rs. 4,107 crore, showing significant growth of 26% on a year-to-year basis.

Looking specifically at our Global Voice Services business or GVS, we have seen significant growth there in terms of volumes where our quarter-on-quarter growth has been significant, with last quarter's numbers being 15.8 billion minutes of traffic carried on our network. What that means really is that we continue to be a growing and a dominant force in the wholesale voice business, with nearly 1 out of 6 wholesale voice calls being carried on Tata Communications' network. I'd like to also point out here that we continue to outpace the market and further strengthen our number one leadership position in the wholesale voice space. Given our scale and network reach, we believe that we are one of the pre-eminent choices for global carriers to transfer voice and the traffic is originating from a broad spectrum of sources; directly from other wholesale providers but also a growing amount of traffic coming from ISPs, next-generation providers as well as those who are generating retail voice traffic, and we have been able to secure this directly.

One of the focus areas for the GVS business has been to make a conscious effort to securing long-term committed traffic and I'm pleased to say that we have made further strides on this front. Compared to about 43% or so in the previous year quarter of committed traffic or long-term committed traffic, for Q1 FY13 around 51% of our traffic was on long-term committed deals having more than six months' tenure. This helps us move away slightly from the commoditised nature of the business and to give us a little more predictability on where the business is going. The focus for us, as I've said before, has also been to source traffic directly from operators who generate business at their end from retail customers; these include next-generation providers, cable companies and so on.

Moving over to our Data business, our Data business also continues to expand faster than the market pace and we are getting increasing recognition in the global markets for the capabilities that we bring to business customers. In 2011 the Company was positioned in the 'Visionaries' quadrant of Gartner's Magic Quadrant for global network service providers and in 2012 we have made further progress where we have been moved by Gartner in its ranking into the 'Challengers' quadrant. This is a clear reflection of not only having a good strategy and vision for our services portfolio but also winning businesses, and showing the ability to execute which is recognised by Gartner.

We believe that the innovative bundle of services that we have in the Data portfolio, in combination with the underlying infrastructure of submarine cable networks and data centres and our leadership position in the wholesale voice business is providing the necessary impetus to build relationships with a large target base of customers who are among the pre-eminent global customers in the large enterprise space, such as the Fortune 500 list of companies, the Forbes 2000 list of MNCs and in India the ET500 list of large Indian enterprises. The contribution to earnings from the Data business has remained stable on a year-on-year basis. Q1 typically tends to be a slower quarter for us and we'll talk about that more during the Q&A perhaps.

Coming back to the strategy of the Data business itself, our geographic expansion into new markets is a key aspect of what we are doing in Global Data Services as we attempt to deepen our capabilities. We expect the growth trend in GDS business to continue as the scale of our operations widens globally. I should also mention here that we continue to expand by building more metropolitan area networks and local access in India but the growth in international markets is also going to help us considerably in the coming quarters and years. In terms of strategy, when looking at the GDS business, we do look at the services portfolio and the target in the Indian market separately and distinctly from what we are doing in the large enterprise space. There is commonality of services and portfolio but just to put it in perspective, in the Indian market with large enterprises we have about 21% market share, our strategy there is to increase wallet share by offering a larger number of services to the same customers while at the same time looking to see how we can reach a broader number of customers in this market. In the international market, we have built capabilities around the world starting with the wholesale capabilities which are now being leveraged in the enterprise space, but there clearly the addressable market is huge and our market share today is fairly insignificant; although it is growing rapidly, it's still insignificant and we see considerable upside there.

One of the key aspects that we need to focus on to drive growth in the markets outside India with large enterprise is to make our brand more visible. One key programme that we have focused on and we announced recently was the F1 deal with Formula 1 that highlights our international capabilities. We were chosen by someone like F1 to use our network and our services for what is truly a mission-critical application with very high levels of service and uptime that is required. At the same time, the F1 deal will provide us much needed brand visibility when we approach the large enterprises on a global basis. When we look at the capabilities itself that we have, we have around the world global connectivity and we have the fibre ring around the world which offers us the unique capability that none of our competitors have and it's a key part of our fibre optic cable fabric that allows us to offer diversity and scalability to large enterprises.

Now moving on to Neotel, Neotel has shown significant growth on the key parameters. As we have reiterated in the past, profitability has been a key focus for us and we are pleased with the results that are coming out of the work that the local team in South Africa has been doing in terms of both managing costs as well as widening the market reach and serving more customers. The Neotel business has shown significant quarter-on-quarter EBITDA margin growth and now has reached the Company's average EBITDA levels.

We are beginning to make a significant impact in the South African market with business customers and we believe that there is more potential there to earn a larger share of the data pie in South Africa. Neotel has clearly benefited from improved synergies with the Tata Communications global network of capabilities which their local competitors do not really have. Most of the local competitors are pure domestic plays with partnerships, or loose partnerships I should say, for international capabilities whereas the relationship between Tata Communications and Neotel allows us to offer a seamless proposition across both domestic and international to South African businesses. Similarly, Tata Communications' MNC customers benefit from the presence that we have in South Africa through Neotel. So in South Africa today, Neotel offers the only converged network with access to all five undersea network cables that link the continent of Africa both to the west and to the east, and domestically has a superior fibre network, being the newest network built in South Africa. Neotel will also look to expand its national long-distance network to the neighbouring countries and cover the SADC region and therefore tap into the growth in Sub-Saharan Africa.

Looking at another aspect of our business which is growing quite rapidly, I'd like to talk about our industry-specific solutions that leverage our network capabilities. We believe that there is a lot of opportunity for Tata Communications to pick specific industry verticals and offer services that go beyond traditional network and managed services and offer an integrated suite of both network IT infrastructure and applications. The industry verticals that we have focused on are the media and entertainment sector and the banking and financial services sector. In one of our previous analyst meetings we spoke in more depth about TCBIL, which is a 100% subsidiary that focuses on the banking and financial services sector.

I'd like to talk a little bit about our media and entertainment business today, which has shown significant year-on-year growth. We continue to expand and strengthen our content delivery network and streaming capabilities to address the needs of media and entertainment customers and content customers, both traditional as well as next-generation providers. We are one of the Top 3 providers of high-end business video in the world and our flagship offering in this space is called 'Video Connect', and it offers the world's leading global video network that is specifically designed to help broadcasters, studios and production houses to deliver video content flexibly and cost-effectively to media hotspots worldwide. Recently the Video Connect network has been further expanded into key emerging market of Nigeria through a partnership with the Main One Cable Company. This expansion of the reach of the Video Connect network in Africa complements the South African Video Connect presence and this is not something that is going to stop; we'll continue expanding into other markets and aim to create the broadest available video broadcast network over fibre in the world. We are seeing wins in this space. In fact, just to give you some anecdotal view on how this is translating into market reality, this evening, or in a few hours when the Olympic Games are being broadcast to Hong Kong, the entire Hong Kong community will view access via Video Connect, the main provider there is i-CABLE, serving millions of households in the Hong Kong market; the broadcast will be carried over Video Connect. Similarly, in the last quarter we have won about 5,000 hours of broadcast for a variety of sporting events from cricket to football to the Olympics that shows that for such applications where the uptime of the network is extremely important, Tata Communications and its Video Connect service is being chosen by broadcasters around the world.

The foundation of a model like the Video Connect service or our play into the media and entertainment space and other verticals will rest squarely on the high quality and the reach of our global network. I spoke earlier a little bit about our ring around the world. It has been our endeavour to put in place a comprehensive undersea grid connecting not only the high-traffic regions but also creating capabilities where the growth is next going to come from; Latin America is one such geography. You may have seen the press announcement that we made, that in order to extend reach of the Tata Global Network or TGN as we call it, we have been looking at the Latin American market for some time and it is not a region that we have had a direct presence in. But we have announced an intent to become an anchor customer on Seaborn Networks' US-Brazil cable called Seabras-1 which will enable us to further extend our dominance and strength in the undersea cable space by extending our network coverage that we already have in US, Europe, Africa, Asia and India now also into Brazil and the rest of the Latin American region.

Similarly in the IP space, our traffic has been growing significantly. Our ranking over the years has improved and now we are the 5th largest global internet backbone provider. During the course of the last quarter, we expanded further into Europe and Middle East markets, specifically partnering with Turkcell Superonline to create presence in the Turkish market which, as you know, is one of the fastest-growing economies in the world.

In our Enterprise Services or VPN services that we offer to enterprise customers, we have been an aggressive early mover in the Ethernet space and we offer today the world's largest multipoint-to-multipoint service network in the market. Ethernet represents a significant revenue stream for us and we continue to provide cutting-edge services in this space. Leveraging the Ethernet capabilities and our fibre optic network or the fibre fabric that we have, Tata Communications recently launched a product called LOLA, or in other words a low-latency network specifically targeting the banking and financial sector and potentially other industries where the latency or the speed of connectivity is extremely important and the service covers the major financial capitals in Asia, the UK and the United States. We expect to keep growing the low-latency network into other geographies and to make the attractiveness of the offering richer.

I'd like to briefly touch upon the Company's sales approach, which has been key to our overall performance. We have strengthened our human capital base and put in place a sales team which is segregated both according to geographies as well as market segments. The focus has been on garnering business from companies with multi-location, multi-presence and high IT spend vertical exposure and our penetration levels in these segments have been deepening over time.

Now moving on from the core of the business itself, a topic which has been in the news recently is the surplus land issue. We are pleased with the progress on the surplus land, albeit it is one step but it's an important step in getting the Cabinet approval and we hope it will hasten the process of creating a demerged entity. There is still a fair bit that needs to be done but we are awaiting the next step, which will be the notification from the relevant authorities on the exact approvals that have been obtained and also what the enablement's will be to make this process move forward. A favourable resolution clearly is in the interests of our shareholders and we'll be pressing forward and making sure that this project moves ahead to the extent that the Company can support it.

Looking ahead, our focal points for the business, for my entire team is to enhance profitability and to strengthen the performance of each of our businesses within our portfolio, to make sure that each of them are pulling their weight and each of them are making the returns commensurate to the investments that we have made in creating this broad portfolio. While there has been strong growth in our consolidated revenues and EBITDA in the first quarter, we believe that there is more to be done to build on the performance in the coming quarters and to create a steady trend.

I think with that I'm going to wrap up and open it up to the floor to ask any questions you might have. You already have the presentation so you should be in a position to ask specific questions, and Sanjay, Srini and I will be happy to answer.

Mahesh Pratap Singh: Thank you, Vinod. Rowena, we will take questions now so you can open the floor for Q&As.

Operator: Thank you, gentlemen. If you would like to ask a question at this time please press the star or asterisk key followed by the digit 1 on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has already been answered, you may remove yourself from the queue by pressing *2. Again, please press *1 to ask a question and we will pause for just a moment to allow everyone to signal.

And we'll take our first question from Reena Verma Bhasin from Bank of America Securities - Merrill Lynch. Please go ahead.

Reena Verma Bhasin: Thank you very much for this call, just two questions from me. One is if you could help us understand the dramatic improvement in Neotel margins, what's driving it because the top line doesn't seem to have done much quarter-on-quarter, and how sustainable it is? And my second question is with regard to the interest cost, on last quarter's earnings call you had mentioned that, you know, there would be a preferential cap, a restructuring of loan into preferential cap, but your interest expense to the P&L seems to be higher Q-on-Q. I'm wondering whether the preferential cap restructuring has happened or is pending? Those are the questions for me; I'll come back if I have any more. Thank you.

Vinod Kumar: Reena, I'm sure you'll have more questions. Your two questions are not keeping up with your past record but we welcome as many as you have. So in terms of Neotel itself, the first quarter results show that the team there has been very strict on managing costs. There are quite a few programmes that we started working on in terms of productivity improvement, offshoring some work to India to further reduce costs and so on, and those really showed up in Q1 in a big way, and therefore you have seen the EBITDA improvement in Q1.

Your point is valid on revenue growth, the lack of revenue growth or flatness in revenues in Neotel. But we believe that in the coming quarters you'll start seeing the revenue numbers beginning to pick up, which is a function of sales performance in the last three months, and see the top line accelerate and hence we believe that we'll be able to maintain and grow the EBITDA levels in Neotel in the coming quarters. But first quarter was largely based on cost management.

Reena Verma Bhasin: Thank you Vinod. I hate to disappoint you but I'm unable to understand, you had a massive cost restructuring exercise in 2Q last year. Surely if it was only employee productivity gains, you would have got them back then, right? I mean I'm trying to understand which element have you so drastically improved?

Vinod Kumar: It is not just about getting employee productivity; it is also about site rationalisation, taking out off-net costs. The cost management efforts we did, reduced the size of the Neotel workforce, yes, it was Q2 of last year but it's not just about reducing the employee base; it's also about a lot of process improvements. Over time we have been moving some functions on the operations side to our Indian operations in order to take advantage of the lower cost base and also the overall volume-based improvement. We had to run shadow teams for a while. Those things are all now working as we expected and therefore you are seeing the costs improve. So the challenge for us in Neotel now is to improve the top line and I expect that, based on what we have seen on the sales side, we'll see the top line picking up and growing. We can't keep improving EBITDA by reducing costs but we did a lot of work that translated into benefits in Q1.

Reena Verma Bhasin: Pardon my persistence on this issue please, but the drop in your Global Data margins and the improvement in Neotel margins, should one draw any linkage there in terms of change in your cost allocation policy?

Vinod Kumar: No, none whatsoever.

Reena Verma Bhasin: Thank you. No, I just wanted to be sure that I didn't misread your results. Thank you very much.

Reena Verma Bhasin: And my second question was on the interest.

Sanjay Baweja: From an interest cost perspective, there is no change. As far as restructuring is concerned, that had got done at the end of last quarter. The shareholder loans have got converted into preferential capital. Your aspect about the increase in costs, is it related to the core business or to the overall or to Neotel?

Reena Verma Bhasin: No, the overall interest, consolidated interest at Rs. 2 billion compared to Rs. 1.86 billion last quarter.

Sanjay Baweja: From a conversion perspective, most of our costs are foreign currency, although our rate of interest, as far as LIBOR, is a concerned, we are actually at 5.14% as compared to 5.34% but when we consolidate into Rupees, there is an element of exchange which comes in and therefore it might show a slightly higher number.

But otherwise, as far as our borrowing is concerned, the rate has actually gone down from last quarter.

Reena Verma Bhasin: Sanjay, thank you. What is the quantum of preferential cap on your books?

Sanjay Baweja: There is no preferential cap as far as the core business is concerned. The preferential caps are on the Neotel book.

Reena Verma Bhasin: Yes, but wouldn't it be consolidated?

Sanjay Baweja: The preferential cap structuring was to do with the Neotel balance sheet and not TCL balance sheet.

Reena Verma Bhasin: So how much is the preferential cap which shows up in the consolidated accounts as reported in the annual report?

Sanjay Baweja: Since it's our investment then it will get knocked off from a balance sheet perspective.

Reena Verma Bhasin: So basically the current interest expense is a steady-state number.

Sanjay Baweja: Yes you could say that. It also depends on our option in terms of reducing our leverage but otherwise it's steady-state. As far as the current debt is concerned, let me add that, that we don't see our borrowing going up.

Reena Verma Bhasin: That is very helpful, thank you very much.

Operator: We'll take our next question from Gaurav Malhotra from Citigroup. Please go ahead.

Gaurav Malhotra: Thank you for the opportunity. Just had a couple of questions, firstly on the Data business, we have seen that the Data margins have actually been trending down in the last four quarters despite an increasing contribution of the enterprise segment, so just wanted to check how should we read that. Second question is on your wholesale voice, if you see that the gross revenues have actually gone up by 8% this quarter while the Rupee itself would have helped you by 8%-10%. So then should we assume that the revenues were actually flat this quarter versus the previous quarter? And if you could just highlight how much capex has the Company done in the first quarter and how much Neotel has incurred in capex in the first quarter.

Sanjay Baweja: Let me start by answering your last question first. In terms of our core capex we have spent about $80-odd million in this quarter. As far as Neotel is concerned, it will be about $10-odd million. As far as the dollar exchange gap is concerned, yes there is a benefit that we have got in terms of the exchange rate when we consolidate the entire P&L on an overall basis, that is built in. But if you were to compare last quarter with the current quarter, we also need to tell you that there were a few licence sales that we did in the last quarter, so we had a significant one-time impact in terms of revenue. So to that extent, yes, the growth is not as we would have wanted it but it is not reducing or anything like that.

Vinod Kumar: Yes, if I can just elaborate on that, in Q4 of last fiscal year, we did a deal to leverage one of our CDN licences and it was a good transaction that we did that had a bump-up in revenue, roughly about $13 million one-time revenues. So when you look at Q4 to Q1 that $13 million needs to be factored in.

In terms of the Data business itself, yes, we are investing a fair bit in marketing which is driving our costs up, but we believe it's a necessary investment to fully leverage the capabilities that we have created, especially in markets outside India. We don't have any reason to be concerned based on the size of our funnel and the market activity, and frankly the increasing favourable responses we are getting from customers on our data propositions. So we remain confident as far as the Data business is concerned.

Gaurav Malhotra: Two follow-ups, so on the Data business should we then assume that the margins will continue to remain under pressure, maybe fall a little bit more before stabilising?

Vinod Kumar: Like in our Voice business, there is pressure due to pricing in the Data business, which is why we are broadening our customer base, going after larger MNCs who require complex solutions and who typically sign longer-term contracts, as well as seek managed services. So I don't see any further deterioration in the Data business margins but I believe that where we are, we should be able to maintain and grow back up earlier levels.

Gaurav Malhotra: On the capex, I believe that the capex guidance is around $250-$300 million for this year…

Vinod Kumar: Yes.

Gaurav Malhotra: And you have already done $80, so are we running ahead? Is there going to be a slippage?

Vinod Kumar: No. This is an infrastructure business; you have to build capability to support traffic growth. We look at our funnel, we look at what the utilisation levels in the network and typically in the first quarter, you will have, requests for capex coming in because based on the annual operating plan and the budget, people need to start building their networks and make sure that there is enough capacity available to serve the traffic that we expect. So it's quite typical that in Q1 you'll spend, and it tapers off frankly as the year progresses. We still are very confident that we'll be able to come within the envelope that we have mentioned earlier.

Gaurav Malhotra: Okay, thank you so much.

Operator: The next question from Rajdeep Anand from ICICI Prudential Life. Please go ahead.

Rajdeep Anand: Good evening, I have two questions, the first one being on Neotel. There's no growth in revenues in past three quarters, I think this was asked before, are you people seeing a case for there to be higher growth in the future. What is your market share in South Africa and what kind of revenue expectations should we be having from Neotel? Margins seem to have improved quite a bit now that they are at your company-level margins. Would they stabilise here or would they continue to improve? So that is the first question. And secondly, you said that Data margins seem to be under pressure. Can you tell me about the Voice part of your business, because there the revenue growth seems to be substantial? Is this direct or is this only Rupee depreciation? And there margins also seem to have expanded, so what is the margin trend there that you think would pan out?

Vinod Kumar: Okay, so on Neotel you are right. On quarter-on-quarter basis, the revenue has been flattish and the focus of the team there has been to fix that situation and to improve sales. A lot of effort has gone into that area, which is why we are saying that we expect to see revenue growth in Q2 and beyond based on what we have achieved so far in the programmes we have put in place. Our market share for data services in Neotel, or data services to enterprise customers, is about 6%. We believe that there is scope to expand that given the relatively small base.

Rajdeep Anand: Is this 6% of global market share or specific to the markets that Neotel is present in?

Vinod Kumar: South African market, I'm talking about Neotel's market share in South Africa.

And on the Voice business itself, as I said, we are going after longer-term contracts, we are going after direct retail traffic from ISPs, next gen providers, cable companies and from mobile network operators. That is translated into better margin in the Voice business but the voice business is highly competitive and we will not project that the margins will keep increasing in the Voice business. We expect that to be more or less flat and if we can maintain that, that will be much better than any of our industry peers, who are all suffering significantly declining margins. But our shift towards going after customers or providers who have retail traffic to send to us and who are not just playing intermediary and sending other wholesale traffic to us is working in our favour.

Sanjay Baweja: Please also remember that in Voice business, there is not a whole lot of benefit that one derives from a forex perspective because significant or 80% of the cost is also in the same currency in which you get the revenue. So there is no substantial forex benefit emanating into the Voice business per se from a forex perspective.

Rajdeep Anand: I understand. Yes. But your revenues look higher because the currency has depreciated, as do your costs. So yes, that effect would still be there.

Sanjay Baweja: Yes, yes. So no margin benefit out of that.

Rajdeep Anand: On Neotel since market share is only 6% then I think we can assume that probably you will continue to gain market share in South Africa.

Vinod Kumar: Yes clearly, being the second player in the market, having a new network with the ability to offer services that Tata Communications has built globally in the South African market, we see upside in the South African market. Clearly we are not satisfied with 6% market share, it is not bad for a new entrant within the timeframe that we have done it but we see a significant headroom for us to grow there.

Rajdeep Anand: In India this market seems to be not doing well. Is that the case globally also? So is South Africa something of an outlier? Or is it just a pure market share gain probably through better services or better pricing, that kind of a story?

Vinod Kumar: Well, it's clearly not as brutally competitive as the Indian market, also fewer players there, therefore we believe that in terms of yield, the South African market is more attractive. The South African market itself is grown by 2%-3% per year and Neotel has grown by upwards of 25%.

Rajdeep Anand: Right, thank you.

Operator: We'll take our next question from Varun Ahuja from UBS Securities. Please go ahead.

Varun Ahuja: Thank you for taking the question. Most of the questions have been answered, but on Voice, how do you see the domestic traffic annually? How much volume growth are you seeing in that business? And secondly you mentioned that 51% of your volume is, in the Voice segment, is coming from long-term contracts so you do seem to have visibility in terms of your next six months. So how does it look like in the pipeline and how much of growth to come through that. And secondly, on the Neotel side, I think you answered last time, it's more of a growth slowing down in South Africa, so is the issue that the revenue has been flat or where you are losing to the competitive market? And lastly, again to pursue on the interest expense, I believe your interest expense in the core business, if I take out one-time items and the derivatives and FX fluctuation, has increased substantially over the last few quarters. Any reason for that? Thank you.

Sanjay Baweja: No, I don't think there's any increase in the interest cost per se. In fact, our overall average cost as far as interest is concerned has come down because for the last two quarters we actually paid off some Rupee debt. So our overall rate has gone down, our borrowing has not increased so I'm not sure where you are getting this calculation from. We clearly believe that our rate of interest will continue to get softer as we go along and as we continue to focus on a lot of repayments that we do from our internal accruals toward the Rupee loans. In terms of the interest cost increase, it might have been a function of the exchange rate where it has moved from 45 to a dollar three quarters ago to 54 or 55 to a dollar, otherwise our interest rate is not increasing at all.

Vinod Kumar: I'll answer the question on NLD, so our NLD volumes grew to 2.7 billion minutes, that is about 12% growth year-on-year. But the NLD business, frankly, is highly, highly competitive. Most of the operators have their own networks and they are moving their traffic to networks that they manage themselves. So it is a business that still makes a positive contribution but frankly the Voice business grows on account of what we are able to do in ILD both into and out of India and on routes which are not India-related. And the biggest growth for us, frankly, is on non-India routes where we are the market leader in most spaces, but the big growth has come on non-India routes. So NLD, we are happy with the volume growth but margins are declining so it's not what's making the Voice numbers look good. It's ILD that is contributing.

Varun Ahuja: Yes.

Vinod Kumar: Sorry, I missed your question on Neotel. What was the Neotel question?

Varun Ahuja: In Neotel, do you think it's more of a phenomenon of the South African market not growing much which has resulted in such a muted performance from the Neotel revenue front or it is due to competition intensity? You said it's not pretty high but it is that you are losing onto some of the others?

Vinod Kumar: No it's not, our win-loss ratio hasn't really changed against us. The market has been slow and the management team was very focused on the cost management programmes and now we are changing gears and getting them to focus equally on driving the top line up. We are expanding the number of feet on the street in the South African market quite considerably this year. The programme we started about two quarters ago and you'll start seeing that translate into top line growth as well in the coming quarters.

Varun Ahuja: Yes, lastly on the Voice side, so the growth that you are seeing, I believe the market as a whole has been pretty stagnant so it's more of a competitive win on the Voice side that is happening to you, and do you expect to continue on this front the growth in the volumes?

Vinod Kumar: Well, we hope so but the hard fact is that last year we gained 1% market share in the global wholesale voice space, a further strengthening our number one position. We are aiming to do the same thing during the course of this year but only time will tell if we can achieve that same kind of market share growth. But your observation is right; we have grown not on the back of the market growing but on gaining share.

Varun Ahuja: Thank you, and that is it from my side. Thank you, sir.

Vinod Kumar: Thank you, Varun.

Operator: We'll take our next question from Rohit Dokania from B&K Securities. Please go ahead.

Rohit Dokania: Good evening. Thank you for the opportunity, just two questions. If you could tell us what's the contribution on the GDS side, from the geographies of India, Europe and US. And the second would be, on any equity raising plans that is assuming if the land demerger happens today, how long could it take for the equity to get raised? Thank you.

Sanjay Baweja: Let me answer your second question. There is no equity raising plan on the table and we can't speculate on the amount of time it's going to take for the land demerger. So as of now, as far as equity is concerned, there is clearly nothing on the table that we are considering.

Rohit Dokania: Sure.

Vinod Kumar: In the Global Data Services business, our contribution is 48% from India and 52% from rest of the world. That mix is fairly steady. It's been that way for the past year or so plus or minus 1% here and there. But roughly equally split between India and rest of the world. In the enterprise space obviously our India business contributes more. I don't have the figure off the top of my head here but in the enterprise space India probably accounts for 65% of the revenues and international or non-India will account for about 35%. And in the data services sold to carriers, there's probably the reverse of that, maybe a 70/30 in favour of international being 70%.

Rohit Dokania: Okay, thank you a lot.

Operator: We'll take our next question from Prabir Adhikary from Ratnabali Capital Markets Ltd. Please go ahead. Mr. Adhikari, your line is open to ask a question, please go ahead.

Prabir Adhikary: As far as your consolidated figure is concerned, your depreciation as a percentage of sales is very high. That may be because of your cable expansion throughout the world. Now, is it over, the expansion? Will be more expansion because that may have an impact on your depreciation side? That is what I wanted to know.

Vinod Kumar: The increase in depreciation was on account of full quarter numbers, on account of our TGN-Gulf and TGN-EA cables. I think we had one month effect in the last quarter and we had the full quarter impact of the two cable systems. Your question fair in terms of the growth in depreciation. As a telecom company that operates globally, clearly we will have, we will be investing capex, you know that the envelope is $250-300 million for this year, but specifically on cable projects itself, at least for the course of this year, most of it is going to be upgrades on existing cables so we don't expect the depreciation impact on account of cables to be significant. During my opening remarks, I spoke about a project we are considering where we are going to be an anchor customer in Latin America but that project is in the drawing board stage at this point, so it will probably be eighteen months before it is commissioned, and keep in mind there that we are a customer on a system and not building an entire system ourselves. So short answer to your question will be you should not see too many increases on the depreciation line on account of cable system, cable projects at least for the next four to six quarters.

Sanjay Baweja: Yes, having said that though, as compared to the last full year, this year will look much higher as far depreciation is concerned.

Vinod Kumar: Yes, because of the two cables that I spoke about. We will have the full year impact of those two cable systems on depreciation.

Prabir Adhikary: Another question, how much kilometres of cable have you laid, so far?

Vinod Kumar: We operate 200,000 kilometres of cables. We don't quite think of it that way but about 200,000 kilometres of cable, but more importantly, we look at what percentage of lit capacity we manage globally, which is about 25%, and we look at the routes that we serve and the only big hole in our network right now is Latin America, which we are looking to address.

Prabir Adhikary: Okay, thank you, sir.

Operator: We'll take our next question from Vivekanand Subbaraman from MF Global. Please go ahead.

Vivekanand Subbaraman: Hello, thank you very much for taking my question. In the past few quarters, management had mentioned that the capex that Company will incur will likely be lower and secondly, it will be oriented towards revenue-generating capex which would entail customer acquisition capex. So could you give us a better idea of what that spend would involve and how much percent of the overall capex would that be? That is number one. And secondly just a book keeping question on the net retention, the US cent rate for this quarter.

Vinod Kumar: Our capex envelope, as we said for the last I think several quarters, will be $250-$300 million and we are confident that we will remain within that. About 70% to 75% of that spend will be on specific customer-related capex, so it's to meet the needs of individual customer commissioning, also to build our backbone capacity and upgrade on the networks to take the surge in traffic from a full blend of customers. So we expect that and that is quite different in terms of profiles this year compared to past year when we were investing in foundational elements and building blocks. So that is on customer, and typically these are, last-mile capex, expanding our NLD network, upgrading capacity on the submarine cable network and this is typically done when we see a high level of utilisation on the network and we look at the funnel and we can very pin pointedly add capacity, and when it talks about customer last-mile build, it's usually on the back of a customer order that we have had.

Sanjay Baweja: And that will also get reflected in the capex intensity. Two years ago our capex intensity as a percentage of revenue was closer to 30% plus and now we are moving in the regime of about 10%-12%. So clearly the focus is on capacity augmentation wherever it is needed from a customer requirement perspective and not necessarily the new build which we have done over the past two to three years where we have spent a lot of money. Now going forward, it will be more towards augmenting that capacity that we have already built.

Vinod Kumar: Yes, the ILD net retention per minute was about 0.48 cents per minute for the last quarter.

Vivekanand Subbaraman: Okay, thank you.

Operator: We'll take our next question from Ravindra Agarwal from Capital Markets. Please go ahead.

Ravindra Agarwal: I have two questions, first is on the recent report on the hiving off of data centre. What is the take on this event, what are the plans? And secondly, I had a question on the employees. Could you give a break-up on the employees for the Voice and the Data business, apart from the Neotel? I mean like Neotel has been mentioned but specific to Voice and Data, thank you, I mean.

Vinod Kumar: Okay, on the data centre business, hive-off itself I can't comment on because it is one of many alternatives that are being considered but the principal strategy for us is we are the second largest player in the India data centre market right now. We have a marquee list of customers and have very high capability for services provided in data centres, everything from collocation to hosting services to cloud. We see the market opportunity in India as being significant for data centres. We already have presence in seven cities. We are the only provider in this space that has data centres in seven cities, which is considered quite valuable by customers who are looking for combinations of data centres to build the right kind of support for the applications they need to run. So we, in one form or the other, we will expand our footprint in the data centre space, and our goal is to double our capacity from the current 350,000 square feet that we operate to at least 700,000 square feet within the next three years.

Your question related to employees, it is very tough to really look at Voice and Data separately because there are lot of common teams that support these businesses, both from a corporate perspective but also from other shared services. So, if I had to look at the employee base only working on Data and Voice, it's about 250 people working on the Voice business, and roughly 900 people working on the Data business. But the if you are trying to understand the profile of our people and how they are split by function, and this is not for Voice or Data, across all business units, 25% of our staff, of 7,124 employees in the core business which doesn't include Neotel where we have roughly another 1,000 people, 25% are in sales and marketing, 8% in product management, 55% in engineering and operations and about 12% in corporate shared services. All our headcount growth is really in sales and marketing, account management and product management area. And in product management it is almost entirely in creating new services, so I'd say all our headcount growth is coming in functions which will be related to driving business growth.

Ravindra Agarwal: Okay, so sorry, I did not get the data point which you mentioned like for the core business, I mean like did you mention some percentage of total employees that would be into the core business?

Vinod Kumar: No, no, I said that we have 7,124 employees in the core business and then we have roughly 1,000 employees in Neotel in South Africa, it's on page 17 of the slide deck. Neotel has 958 employees all together.

Ravindra Agarwal: So there's no specific break-up between the Voice and Data that you can provide?

Vinod Kumar: Frankly that becomes quite difficult to do given that there are lots of common supporting functions that enable both the Voice and the Data business.

Ravindra Agarwal: The earlier question on data centre hiving off, I think the reports mentioned a requirement of around Rs. 1,500 crore, would that be a fair amount to look at, I mean considering that you are looking to double the capacity?

Vinod Kumar: No, it's not anything that we have published. It is, you know, what the media is speculating so I can't comment on that.

Ravindra Agarwal: But the fund requirement, would it be in the current financial year

Vinod Kumar: No it's not included in that. We don't have funds allocated to double our capacity from the current 350,000 to 700,000 square feet.

Ravindra Agarwal: Okay so the current capex does not include those particular requirements or the data centre requirements?

Vinod Kumar: We have some data centre capex, we will have facilities where the shelves are already built and as we see our utilisation increase, we will need to expand capacity. There is some capex included but not enough to double our capacity nationwide and we are not looking to do that in one year in any case. We don't need to; we will do it as the market grows.

Ravindra Agarwal: Okay. Thank you.

Operator: Thank you. Ladies and gentlemen, that was the last question. I would like to hand the floor over to Mr. Vinod Kumar, Managing Director and CEO, for closing comments.

Vinod Kumar: Ladies and gentlemen, thank you very much for participating in the call. It's been a pleasure to interact with you and to receive your questions. We thank you for engaging with us, but more importantly for your continued interest and support in Tata Communications. If you have any further questions or clarifications that we could not address on this call today, please do not hesitate to reach our Investor Relations desk or myself and we'll be pleased to answer your questions and provide any clarification. Thank you and have a good evening.

Operator: Thank you Sir. That will conclude today's conference call, thank you for your participation. You may now disconnect.

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