TATA COMMUNICATIONS

Q2 & H1 FY2014

Analyst and Investor Day

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MAIN SPEAKERS:

Vinod Kumar, Managing Director and Group CEO

Sanjay Baweja, Chief Financial Officer

For a copy of presentation made during the analyst meet please visit below link:

http://www.tatacommunications.com/sites/default/files/TataCommunications-H1FY14ResultsandAnalystDay.pdf

Mahesh Pratap Singh: Good evening everyone. First of all, a very warm welcome on behalf of Tata Communications management team. Thank you so much for taking time out to be with us today. A lot of familiar faces in the room. and for those of you whom I've not had an opportunity to interact, I'm Mahesh Pratap Singh, and I head Investor Relations at Tata Communications.

A quick round of introductions, we've got today with us Mr. Vinod Kumar, who is our Managing Director and Group CEO; Sanjay Baweja, who is our Chief Financial Officer. We've also got a couple of senior members from our global management committee, Rangu Salgame, who is Chief Executive Officer of Growth Ventures Group; and we've got Tri Pham, who is our new Chief Strategy Officer.

Before we proceed, I quickly want to cover the safe harbour statement. I just want to remind and caution everyone that anything we say today which reflects any outlook for the future, or which can be construed as a forward-looking statement must be viewed in conjunction with the risk 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, which you can access on our website. The Company does not undertake to update these forward-looking statements publicly.

With that out of way, let me quickly take you through today's agenda. We'll start with Vinod giving you an update on market dynamics and the strategic direction and progress we've been making. Vinod will be followed by Sanjay, who will give you an update on financial focus areas and specifically cover earnings performance for the quarter and six months ended September 30, 2013. Post that, we will have a question and answer session.

We'll start with Q&A session from the in-room audience. May I request you to use microphone for asking questions. For the benefit of everyone, if you can introduce your name and institution name before you ask a question, that will be helpful. For those of you who are joining us on webcast, there'll be an opportunity for you to ask questions too. We intend to take some of the questions which have not been addressed by in-room audience towards the end of Q&A session. And in case we are not able to take your specific question today, we will ensure that we get back to you over e-mail. We request your company for dinner after the Q&A session, where the management will be happy to interact with you.

I would now like to invite Vinod to start with his presentation and share his views.

Vinod Kumar: Good evening, ladies and gentlemen. Thank you so much for joining us. What I'll do is take you through a set of slides to give you an overview of the strategic context and also give you some indication of the results, although Sanjay will take you through the Q2 as well as H1 results in more detail. And hopefully we can answer any questions that you may have or provide further clarification in the Q&A.

We have covered the market dynamics and where Tata Communications fits into the overall telecom landscape in past presentations. But for some of you who are new, and also to highlight what changes we are making in our strategy, we'll go through a few quick slides.

Ours is a complex business to understand, and I think it is very critical when looking at the business and looking at the Company and our performance to understand the strategic context under which we operate, the market dynamics which are constantly changing, and how we are adapting to that landscape. One fundamental shift that is taking place is the convergence of IT and communications. Increasingly the lines between what is an IT service and what is a communication service is blurring, and at the same time that provides opportunities to step across those lines and create new services. I'm not saying that we're becoming an IT company, but clearly the convergence of IT and telecom provides us quite a few opportunities.

Some of the major trends which are shaping our business and where you will see us focusing even more as we go forward; without trying to confuse you, I'll stick to a few basic things, one is, mobility is critical. Both in our personal lives as well as business lives, the role of the mobile is becoming important. Now, we are not a mobile company, just so you are clear, a lot of the connectivity services we provide need to now accommodate the fact that end users like us will be accessing the applications or the IT resources, both using fixed line as well as mobility. So we're doing a lot in that space to repurpose the services that we have and also build new services to participate in this change.

Cloud is no longer a fad, it's no longer a fashion statement, it is very real, and business is increasingly using more cloud-based services and applications initially on a limited basis, and increasingly so on a full-fledged basis in their networks. Due to the growth of mobility and the fact that services are now available on a cloud-based model, we're finding that the need for collaboration across borders, across locations becomes extremely important. And therefore, unified communications and collaboration is a critical part of our strategy since it drives the productivity of our customers and the end users within the businesses we serve.

Finally, video is mainstream. I think we spoke about this in the last analyst meeting whether it is the consumer-created content like in YouTube or more importantly this video used for training, video used for communication, video used for collaboration is very ubiquitous and common in the workplace today.

Now, in terms of the business transformation itself, some of the data points around trends, which are disrupting and also at the same time creating opportunities for players like Tata Communications to enter. 20% of the workforce is bringing their own device to work. And there's a big shift as you know, as you've seen laptop sales and laptop volumes decline. It's the tablets and phablets, and I don't know what other jargon people come up with, but the growth of mobility is very much there.

Virtualization, we spoke about the cloud and what is happening there. Video is really growing. One of the trends in video is, if you've seen, video is being integrated into the devices. You don't need separate devices anymore. There's more software-based video conferencing and video collaboration tools, which are becoming device agnostic, which are very popular. And we believe that this trend is really going to accelerate. So a lot of our product development is tied to this.

Voice, all of us continue to talk endlessly, but there is a clear shift taking place between the traditional TDM voice to the voice that is carried on a peer-to-peer basis and on an VoIP basis.

At the end of all of this, the thing that really gives us confidence in our business model is the growth of data. Data traffic continues to grow at 60% per annum, and it doesn't matter which geography, whether it's developed or emerging market, the growth of data is uniform, consistent, and will continue to remain that way based on all the shifts that we spoke about. Now, all this positions Tata Communications, with the unique assets that we have, both in terms of cable assets as well as in terms of the data centres which we continue to expand on, we are sitting at a very great set of junction points all over the world.

Our value proposition over the last few years has clearly matured, and hopefully the visibility that we're providing into our business is reflective of that maturity also. Some of the key building blocks of what we do today and what will stand us in good stead as we go forward is a very powerful set of cable assets. We have a massive undersea network that enables us to connect different corners of the world and also in a very reliable manner. There are different people who assemble assets, but the single ownership that we have of cable systems across the world on all major routes, and that combination of that ownership makes it very powerful.

The wholesale voice business is very important for our financials today, but it also brings a set of powerful relationships, as well as participation in this space, which is going through a lot of change, and consolidation, and as we can see our market share continues to grow there quite rapidly.

Global Ethernet, this is really using the sub-sea network. So it's really not just a raw capacity. But with that network, we've been able to develop services such as the low latency network which you may've heard about. We're building a data centre interconnect product, which is quite revolutionary in that sense. These are possible because we have the undersea cable assets. So very often the undersea cable assets are considered a boring set of assets, but frankly they're very catalytic and very powerful assets, which we can use in various combinations.

And on top of these cable assets and the network that we have, there are very unique platforms that we've built. One is the things you will hear us increasingly talk about in addition to products and services is platforms.

First, platform is a Public IP network. And I'll give you some statistics later on. But we carry almost 10% of the world's internet traffic. About 20% of the world's internet routes are broadcast directly on us, and we are a top-five provider in all the continents that we serve globally as far as IP backbone is concerned. There is no other player in the world that has that kind of uniform presence at the top of the leader chart in all the continents. It's a very powerful platform on which we can offer services both to service providers as well as to enterprises.

The Private IP, which is our MPLS services and so on allows us to offer class of service to businesses as well as service providers.

And finally Data Centres is another big junction point. If you look at it, increasingly with the growth of cloud, your content is getting aggregated into large data centres. And if you connect those data centres with the network, you're controlling really the pipes as well as the major junction points. So we have a strategy of expanding our data centre footprint not only in India but also in select markets in Asia and potentially in other emerging markets as well. It is a big space. It's growing very rapidly. The industry itself is growing at close to 20% CAGR on a global basis. In emerging markets and so on, it's growing even faster. And we have a natural affinity to participate in that space and to also win in that space. And all this allows us to really put together a combination of services as well as geographic coverage, which makes us quite unique in the market place.

Now, how does this uniqueness translate into actual numbers? Some of it you've already seen before. We continue to be the largest international termination voice carrier by minutes. We are the largest submarine cable owner in terms of coverage and length. In India we're the leader in enterprise data in revenue as well as in terms of number of customers. And in South Africa with Neotel (we'll talk about Neotel a little bit later), we're the second network operator. And in each of these cases, I have to say, in the voice business, in the sub-sea business, and, in the India enterprise business, we have been number one for a while. But at the same time, what we've done in spite of being a market leader, we are gaining market share and continuing to grow, which is a bit of a testament to the scale that propels itself and also the execution-ability of the organization that we have.

The key is also about acquiring customers. We've created a large base of infrastructure; a lot of Capex has gone into it. And when we look at our business, we're looking at how can we sweat the assets that we've created, how can we use the Opex platform that we've created more effectively, and driving topline growth is extremely important for us because the capabilities we've created are quite deep and can scale. Today we serve about 3,000 large corporates including almost 300 Forbes 2,000 companies, and we serve about 1,600 service providers around the world, of which 700 have some kind of mobile service offering. And that's quite important because I spoke about the importance of mobility in which case the mobile broadband growth is going to come with those who have mobile licences, and we're already serving them for signalling and conversion services; and the plan is to keep growing with them as we go up the stack.

Talking about service providers, that is Allan Chan who just walked in, and Allan heads our global service provider business, especially focusing on the data services.

So to give you an idea of acquiring customers, compared to H1 of last year, on the enterprise business, sales volume, not in terms of customers, we've grown nearly 40% on a year-to-year basis. H1 last year sales numbers, not talking revenue numbers, to H1 this year, we've grown about 40%. That's quite impressive because all of you are quite familiar with the global economic environment, the sentiment that you see. So again, the fact that we have that engine that's out there, we're able to bring customers in and grow the scale of our business without altering our fixed cost base very much.

In terms of key segmental highlights, Sanjay will go through the details of the numbers itself, and I can answer questions on some of the trends. But quickly touching upon what was happening in each segment, in our wholesale voice business, we continued to outpace the market. The number two and number three player here are BICS, which is Belgacom International Carrier Services, and KPN; they roughly have 9% market share each. We are sitting at 19% market share and trending towards 20%. The voice business has grown net revenue 20% year-on-year basis. ILD traffic has grown up 5.4% on a year-to-year basis. In this business, we're really not chasing volume, we're chasing margin, and we're chasing the best net revenue per minute rates that we can get in aggregate. It's really a business where we focus on margin and improving the contribution per minute. And at our scale, that translates into improved EBITDA. This is a business, as you know, over the years that has served us very well as far as cash generation is concerned. And in H1 of this year you will see the results speak for themselves. We continue to deliver on that promise. Another trend that we maintain here, or another focus area for us I should say, is to make sure that the minutes we get are sticky minutes and not chase after the spot market where the minute comes and goes. So we go after sticky minutes; and today about 50% of our ILD traffic continues to be contracted with us on a long-term basis, which is good for our predictability of margin when you look at least two to three quarters out.

Shifting gears, on the data business, the gross revenues are up 16% year-on-year compared to H1 of this year to H1 of last year. Again, if you look at this against our industry peers, you are talking about growth which is in the 3-4%; that's on the higher end of the growth; on the mature markets, the growth is really 1-2%; in many cases, flat. And even if you look at our peers in India, you will find that the growth rates, only for the data business, comparing apples to apples, it's in the 5-6% range. So this is happening on the back of market share gain, and selling more services to the same customers.

Talking about selling more customers to services with the foundation we've created, we've been launching many new services. I'll talk about some of what they are in the next slide. And in spite of launching these new services, which are building volume and some of the new services, naturally will be negative EBITDA in the early years. In spite of that, our EBITDA comparing H1 of last year to H1 of this year, grew by 310 basis points. So 16.4% to 19.5% improvement in EBITDA margin is a good trend that we've shown building on past performance. But when we run this business, we realised that investing in new services is important, but it's very important for us to make sure that we are running our capital programmes very tightly, making sure that Capex as a percentage to revenue and Capex as a percentage to EBITDA is being managed very tightly. You will see the trends on that. So capital efficiency and cash generation focus also continues to be equally important for us in addition to new service creation. And that will be what we continue to have to balance going forward in the coming quarters as well.

Neotel is our business in South Africa, as you know. It's had a strong H1 performance. EBITDA is almost doubled on a year-to-year basis when you look at the H1 figures and revenues have grown about 18% year-on-year. Keep in mind that the South African economy is growing at about 1-2%. And again, if you look at Telkom South Africa or look at any of our other peers, the growth rates are very weak. In spite of that, gaining market share and changing the mix of revenue has been quite an important factor driving the growth in Neotel. And that is translated to the EBITDA improvements that we are showing in Neotel.

In Neotel, we've also continued to leverage the assets that we have. And a small step that we took in the space is launching the uncapped LTE service on a very limited trial basis in the Johannesburg area, more to learn the technology and keep the business moving forward; and the take-up there has been good, but it's, frankly, quite limited in terms of coverage to claim any major victories at this stage in terms of market; but it's a good technology breakthrough.

As you know, we took the decision to exit Neotel. We are in exclusive discussions right now with Vodacom. And due to that, we can't say a whole lot in terms of where those discussions stand and what the values are, but at least you know what the intent is. It's also a reflection of how we are willing to look at our portfolio and take calls on businesses. As you know, Neotel for the last eight quarters has been steadily improving in performance. It is trending in the right direction in all the metrics, whether you look at revenue, you look at EBITDA, or EBIT. But in spite of that, we feel that it is at a point of time when an exit of Neotel will make sense with the overall TCL consolidated picture, and hence we took this decision.

There are many industry accolades we get. Based on the effort we put into this, based on the guidance and coaching we get from our Board and audit committee, and also to give you comfort and most importantly give our customers comfort, we got a recognition recently which my team and I are very proud of, and that is we were ranked number one by Transparency International, which is an independent organisation that looked at more than a hundred companies in emerging markets; and Tata Communications along with four other Tata companies came right on top of the list as far as the practices that we have related to anti-corruption, organisational transparency, the reporting that we provide on a country-by-country basis. And also we were ranked first for the kind of anti-corruption programmes we drive. Now, clearly this is a great accolade and we are very proud of having achieved it, but at the same time now we have become the benchmark, and so our goal is to raise the bar even higher. Especially on the back of the New York Stock Exchange de-listing, in the international markets we've had people asking us, "Does this signify in any way that you are going to place less emphasis on reporting and transparency and so on?" And I think this is reflective of the fact that regardless of where we are listed, we are committed to doing business in a certain way, uphold the Tata values and code of conduct, and we will continue to do so. Hopefully, this gives you some comfort in the way we run our business because results matter but how you deliver those results matters even more.

Shifting gears right now to give you a feel for some of the new services, obviously, we've been talking about and sharing some information. I will go into two or three specific services. First is on our Indicash service. I am not sure how many of you in your travels across the cities have seen Indicash pop up. Indicash is Tata Communications' branded ATM offering, leveraging the RBI grant of the first-ever white label ATM license. And, in fact, I believe that we continue to be the only licensed provider. We plan to roll out 15,000 Indicash ATMs across the country over the next three years. Our principal focus is going to be on tier-3 and tier-4 cities. It's a very deliberate strategy because that market is significantly under-penetrated. Even when you take the chart that shows you ATM penetration in India compared to other countries, we are at 98 ATMs per million of population. The US is at 1,390, also leaving them aside, but even if you look at a market like the UK, we are talking about a market potential which is more than four times compared to where we are right now. And even China is more than twice where we are right now. So we believe that this is a good opportunity for us to build a new revenue stream. And through this revenue stream, we believe we can serve banking customers with more services beyond the ATM. It gives us more leverage in our point-of-sale terminal management business and also it gives us a segue into areas like mobile commerce and other payment platforms.

Now, some of you will wonder and say what is this ATM business, how does it relate to your core. We believe that over time that linkage will be demonstrated. In the meanwhile, our goal is to leverage the platform that we've created. And I think Sanjay is going to share with you some stats on the ATM business itself and how we see it running. I have some indication on EBITDA in the next slides.

Shifting to another service altogether, during the last quarter, we launched the service called Jamvee. As you know, we've spoken about video quite a bit. We were the pioneers in terms of offering managed Telepresence service. Telepresence is the high-end video conferencing rooms which were launched. They cost about $300,000 per room. Fantastic experience, but very expensive at the same time; really meant for Boardroom, senior management kind of collaboration. But we decided to change the paradigm of video conferencing and video collaboration on its head and created the service called Jamvee. It's been in the pipeline for more than a year-and-a-half. We launched it three months ago and it's getting very good traction in the market. But essentially, Jamvee is a platform that allows video collaboration across any device, across any kind of access mechanism and across any screen. So imagine from your iPad being able to talk to a Samsung Galaxy S4, being able to talk to a Telepresence room provided by Cisco, the high-end version, and being able to communicate to somebody coming on traditional video conferencing. You can have up to 48 participants at a time. And just like audio conferencing, you just dial in, somebody can be on Wi-Fi, or some of our 3G, 4G services. There is some dependency on bandwidth, but if you have decent bandwidth, it doesn't matter whether it's fixed or wireless, screen type doesn't matter, location doesn't matter, and everybody can connect and have a lively collaboration.

Services like Skype work quite well for one-to-one, but try adding the second or third person to Skype, it just rolls over. Jamvee is really a business-class service designed for business use, and we believe that the service has huge potential. It will also take the Tata Communications brand beyond the businesses we serve into the people who work in the business that we serve. So we are very excited about this. And the beauty of this is the ease of use, and you also pay by the minute just like you do in audio conferencing. So if you haven't started using the service yet, please make sure you use it and please use it extensively because we need the revenue.

In terms of other key product highlights, I won't go through every one of these. We launched the first ever LTE roaming service pairing with Telecom Italia, Sparkle; that's something that we launched. I will pick a few, just to give you an idea of the breadth of innovation that we are working on. The media and entertainment service continues to be a very important segment for us. We believe we have unique assets that can be leveraged to offer both network services as well as digital aggregation and distribution services to media companies as that whole industry is going through some major transformations both in terms of TV broadcasting, technology in terms of third screen, fourth screen, in terms of non-linear video, so on and so forth. Formula 1 has been a great association for us. It has also planted us into the media and entertainment space (MES), the broadcast space and we are able to showcase what our network can do for Formula 1. It's opening many doors for us in the media and entertainment sector. And there's a lot going on. Over time, we will call it out and showcase some of what we are doing in the MES space in subsequent presentations.

The last one is on connecting the major stock exchanges in Asia using our Ethernet network, using the fabric of the fibre optic network that we have, and the advances we've made in the Ethernet technology. We've been able to offer low latency connectivity solutions for financial institutions who do a lot of high frequency trading and where connectivity speed becomes extremely important. Hopefully this gives you an idea of the multiple areas that we are working. But at the end of the day, keep in mind that what we are doing is in many ways sweating the same of set of underlying assets. But the way it manifests itself in the market, on which segment we target and who we offer the service to, it is different.

New services is something that we push very aggressively because in this business we need to constantly innovate. Just to give you a perspective of how our revenue is growing and how our EBITDA is moving on new services, this shows FY11-12-13 and first half of FY14. We've had about 50% CAGR growth as far as the past three years is concerned. We believe that this is a momentum on gross revenue. And this is revenue from our content distribution services, our enterprise voice services, business video services, media and entertainment portfolio and mobile broadband and our cloud services. So these are all services that we've created in the last few years using the building blocks of the core assets that the big Capex has gone into in the past.

In terms of EBITDA, as I said earlier, these services require investment. We've got to create product teams, we've got to create specialised engineering teams, we've got to create specialised front-end teams that can go and sell these as a solution to customers. And therefore they tend to be somewhat Opex heavy. And therefore the EBITDA is still negative. But you can see the trend between FY13 and H1 FY14 where there've been significant improvements in EBITDA, still negative, but the trend is something which is quite obvious and it is for you to see.

Another area, which is new, is the banking business, TCPSL, which we spoke about, the revenue growth here is very solid. We have a big backlog from orders through the Ministry of Finance contracts. We have managed services contracts, which we've had for many years. In fact, in that area we are pruning some of the contracts to improve our margin mix. And finally we have the Tata Indicash ATMs, which we are deploying very rapidly, and there the transaction volumes will start growing as we move forward. These figures here are in Rupees million. And the first half of this year, we've done about Rs. 230 crore, and we believe that that will continue to grow and improve in the second half of this year. In the past, frankly, in this area, while entering into this business, we didn't understand this business well enough. Probably entered into some managed service contracts where the price and cost match was not really aligned in our favour; hence, we are pruning those contracts. And the focus that this team is driving is on margin management and improving the EBITDA and making sure going forward, we have a very healthy mix of managed service customers as well as White Label business. And we are also running many cost management and cost optimisation programmes here. Keep in mind, we are rolling out more ATMs every single day. Every month, we are adding about 500 to 600 ATMs both under the Ministry of Finance contract and for our White Label programme. So there is an increase in cost, but we are driving cost. You know, the way we do it, we are trying to take cost out ruthlessly. And you will see the improvement in EBITDA from minus 36 to minus 25 from last year to first half of this year.

In terms of investments and where we are going, our Capex plans remain on course for what we've shared with you in the past, no change to that. But where we are expanding is data centre expansion; significant increase in our footprint in India as well as in Singapore for now. We have assumed market leadership in India gaining almost 10% market share in the last two years and we believe that platform can be expanded to become an even stronger player on a pan-India basis. We have a big data centre coming up in Delhi in the first calendar quarter of next year, and we are also expanding in other locations. And the funnel of orders is also quite healthy. Ethernet leadership, I've spoken about, enabling other players to offer more cloud-based services both using our network assets and data centre assets will continue to be an area where we invest in and create more depth in our offerings.

The unified communication and collaboration services with the underpinning video services will be an area that requires more investment, and we will capitalise on the lead that we've created. It's a huge addressable market, and we believe that the upside for us is quite considerable. Also the service is there, scale globally, once you've created for one market, frankly, with slight packaging changes, it can not only be sold directly on a global basis, but also we can create many channel partners and White Label partners on a global basis to leverage the underlying platform that is being created. And mobile broadband enablement is an area that we have been investing in for the last six to nine months. It will be a big part of our Capex programme in the coming one to two years.

So in summary, we see a large addressable market for Tata Communications. As I have said before, we are not a demand-constraint business. It's really about picking the right battles to engage in and making sure that we don't spread ourselves too thin. So we have some very key trends that we've caught on. We've identified market spaces where the profit pool is expanding, where there is an opportunity for Tata Communications. We have a right to go and play in those markets; we don't need to go and elbow our way and get recognition. But with the services that we've created and the foundation that we've created, it gets us an entry ticket into the game. We have to go play the game and win, but at least we have the ticket. The infrastructure is proving itself to be world class as a platform. The leadership in service platforms in emerging markets allows us to continue to grow. And the emphasis for us for the last six to eight quarters, and will continue to be on improving the operating matrix, driving productivity on every single line of the P&L on every function in the organisation and we believe that we have those habits now engrained in our DNA and we will keep driving that.

At the same time, we also need to infuse a lot of innovation into our DNA and drive multiple areas of growth because this is the business where you can't just stop innovating or creating new services because once you do that even the traditional services start getting pulled out. When you are looking at our business, that's something that I urge you to try and understand because it is critical to our continued success in the market place. Finally, all this happens because of the global management team, global operating teams that we have, and the execution culture that we've really brought about; having a great strategy is useful, but executing that is even more important.

With that, I am going to hand over to Sanjay who will deep dive into some of the results for the last quarter and the first half.

Sanjay Baweja: Thank you, Vinod, and good evening all of you. I will just take you through some of the details of the financials, a broad summary of which Vinod talked through.

Starting with the key messages that we've been driving and where we are in terms of the progress and the plans that we have. As far as profitability is concerned, that's a stated statement in terms of our improvement focus that we've been on. And I think our results will demonstrate that effort. Our focus on cost and our de-leveraging effort is ongoing, and that effort has just started two-three quarters ago, but will continue at least for the next four, six quarters and it's going to be an ongoing thing. It's a drive that we are going for, and we believe that that will continue as we go along.

Vinod talked about a lot of these new products, new initiatives, the big bets. We will continue to invest in them. And we believe that going forward that is what will drive our revenues up, and that is one capability that we need to invest in so that our future is secure be it in terms of revenue growth, be it in terms of our profitability.. Having said that, those will remain in overall numbers that we keep talking about; we've been always talking about $ 250 to 300 million as an overall Capex number. We will continue to have that number. But in that overall number, we will focus on making sure that we don't compromise on our capability for the future and our growth for the future. Overall, we remain committed to value enhancement as far as our stakeholders are concerned, and also in terms of our customer satisfaction. That to us is the key from an overall perspective.

Just to take you through our margin profile and how we are focused on that. We've shown sustained EBITDA improvement. We are trying to compare a few quarters as we go along from Q4FY12, and clearly at 12.3% we started about six quarters ago to now about 16.9%. So there is a significant jump. And that's all been through our focus on profitable revenue growth and our focus on cost containment. And that's the key. And that is reflected not only in one aspect of the business but across the Board, be it voice, be it data, be it the start-up, which is Neotel. Our focus on profitability is there. It's sustainable and it's going to grow as we go along.

Our cost discipline, our employee benefit expenses as a percentage of revenue, clearly you will see the downward trend. We are making sure that we contain our cost. We started on this journey in Q2 of last year. And since then it's been a big focus area for us to make sure that our costs are in line, be it our employee benefit, be it our network and transmission expenses or our operating and other expenses. Clearly the focus is to keep driving down those costs, keep rationalising our costs, making sure that we get the efficiencies that we've put in place and get the total benefit for it from a financial perspective.

Vinod spoke about cash generation and capital efficiency. We've spoken about that. This is really a good trend that we can talk about, 171% (Core capex as % of core EBITDA) to now even lower than 80%. Last year, we had 85%. Now at the H1 level for annualised, we are at about 57%; and clearly 8.5% (Core capex as % of core revenue) of our revenue. That's really the trend. We are not saying that it will remain at that level. We are saying it will be in single digit. And that's 'the confirmation that we can say with authority that it's going to remain in single digits and not go beyond 10%. Also in terms of cash generation, voice has always been a good cash-generating business for us, but now also data. And that's the change which has happened, and it's getting reflected in the quarter after quarter as we go along. We'll continue to improve in terms of our cash generation. We will continue to improve in terms of our profitability as we go along.

Now, one of the things, which keep coming back all the while is the forex aspect and what is the kind of benefit we get. We do get benefit because a significant portion of our revenue is in dollars. So we get benefit in terms of revenue growth that you see; some part of revenue growth is coming because of the rupee weakness. But a lot of that gets taken away as far as at the PBT level because the depreciation is basically quantified in terms of dollars. Most of my Capex, most of my assets are based overseas. Small bit is also eaten up by my debt because the interest takes away small bit. Also a lot of my costs are also in dollars. Yes, I get significant benefit in terms of revenue, but the value gets diminished as we go into EBITDA and gets further reduced as we get into the PBT level. So we have a little benefit, but not a whole lot. So a lot of the PBT growth that you see is not just based on the dollar aspect, it's based on the cost focus that we've got into and not necessarily should be ascribed to forex movement. That is there, but not a very large number, we would say.

In the balance sheet this time we are sharing the half yearly balance sheet. There is this impact from a balance sheet perspective; no cash loss per se, but a translation impact which gets reflected in our higher loan numbers and a lower net worth to that extent because that gets adjusted into the net worth. And also, our old accumulated losses look larger. So that impact is there from a balance sheet perspective. But at the cash flow level, we do have a benefit. The currency-wise inflows are there. We have a lot of natural hedges. And wherever there is no natural hedge, we try and cover a lot of that exposure that we have. So we would tend to cover about 60% of our exposed hedge. So very little is left unexposed as far as our foreign currency is concerned. And that's why in our P&L, you might have noticed very small movements as far as our foreign exchange gains or losses are concerned. It gets restricted to about 2-3 million in a quarter, nothing beyond that despite our huge number of aspect of revenue in cost in foreign currency.

Now on the specific aspect of revenue from operations, clearly a significant growth as far as year-on-year and quarter-on-quarter is concerned, a 16% year-on-year growth and a 10% quarter-on-quarter. The growth is much more pronounced as far as profitability is concerned; a significant 90% year-on-year growth as far as EBITDA is concerned and a 28% growth as far as quarter-on-quarter is concerned. And as you will notice, the operating profit, Profit Before Exceptional Items has moved up from a Rs. 7.9 crore to Rs.131 crore, really a big jump. And, of course, as compared to Q2 of last year, it's from a negative we are moving into positive territory. And that's the trend we expect to continue as we go along. And what is also significant and we've already talked about it is in terms of the percentage change in the operating EBITDA, 14.5% to 16.9%.

A little more detail in terms of core and start-up; core, of course, being voice and data put together and start-up is largely Neotel. All verticals are growing rapidly as far as revenue and much more rapidly and much more pronounced is in terms of profitability. 81% growth year-on-year in EBITDA and 28% growth as far as quarter-on-quarter. Of course, Neotel, from a small number to a very, very large growth, 157% growth year on year and a 31% quarter-on-quarter reflecting into a 90% growth at the consolidated level and 28% on a quarter-on-quarter. So really a profitability trend which we focused on, our cost focus is bearing the results as we can all see. And at the PBT level, we are showing numbers which are profitable Rs. 7.9 crore, moving up to Rs. 131 crore, clearly a profitable number as we go along. And let me also tell you that last quarter's PBT numbers had an element of an exceptional item. This time, there's no exceptional item, yet, we are profitable from an overall perspective, and at almost at the same level as last quarter.

A detail from a voice and data perspective. Voice, as you are all aware, we've had the benefit of the India termination; and that's tapering off a bit. And therefore, there is a small downturn in terms of the EBITDA percentage numbers. You will notice 11.3% going to 10.9%. The sustainable numbers are in single digits. So it's what we always keep saying. We don't want you to have that impression that this double-digit profitability as far as voice is concerned is sustainable. But we will never be the price leaders. We will keep taking the benefit as we go along in terms of profitability. But let me again say that it may not be so much sustainable. And in data, of course, the number that we want you to look at, 22%, we are onto the 20s. And the belief is that this is the way it will continue. We are at about 20% at the H1 level. And the belief is that that's the number we will continue to get as we go along. And that's the focus area for us. The cost focus, the real benefits of the programmes that we are running and we don't want to put nomenclature to it, but really there is a huge focus on cost. And that impact we will see over the next four to six quarters as we go along.

Now, a look at the H1, the story is similar. A significant growth; 12.8% in terms of revenue, 53% at the EBITDA level, and the Profit Before Exceptional Items from a negative number last year, and a big large negative number to a pretty large positive number. So I think that change is there to see. And that change is what we will sustain, is what we've been targeting ourselves for. Again looking at core and start-up; so both the aspects are making a good progress, be it in revenue, be it in profitability at the H1 level. Core EBITDA, 45% growth as far as EBITDA is concerned, 110% for the start-up. Neotel has really moved along a long way. EBIT numbers have moved from last year negative to a positive number. And that's important for you to notice here, even for Neotel for that matter and an overall, therefore, a positive. What is also important is here at a consolidated level, we are from a negative number to now a positive number all through. And that was true for our quarter and that is true for our H1 as we go along.

By business unit, again, as we say the story is similar. Yes, the numbers are slightly different in terms of growth for voice at 11.8% and net revenue, about 20%. EBITDA margin as compared to last year, of course, the number is much, much better. We have the benefit of currency; we have the benefit of India termination, both giving us a benefit, 7.8% to 11.1% as far as EBITDA margin is concerned; and EBIT, of course, moving from 5.4% to 8.9%. So really a good story. And even in data as you will notice, net revenue growth of about 11% and EBITDA margin coming up to about 19.5%. EBIT, of course, a large negative number coming down pretty rapidly. And we believe that over time the target is to very quickly get into overall positive territory.

The last slide, really, from a debt-profile perspective, we have been talking about it. Our rate as far as our borrowing is concerned has been really going down. We were at one point in time, two years ago, at about 7.5% or slightly less. Now we are at about 4% in a quarter. I think, that is probably the number that it will stay on. As a percentage of revenue, of course, we have gone down to about 2.5%. Net debt, we have brought it down. Last quarter, I told you that there is a slight bump up. But again, this quarter we have brought it down. And the expectation is as we progress into the next two quarters, we will bring it down further. As you are aware, we don't have much Indian Rupee debt in our books. Most of it is now in foreign currency. And a lot of this is at fixed rates. You are aware of our Singapore bond, we have done that in February and April. A lot of other debt has also swapped from a floating currency to fixed. And our focus is to take advantage of this low-interest rate regime in the global market and make sure that we don't have huge upticks, once the rates start moving up in the global arena.

That was pretty much my presentation. Now, we open the floor for questions and I request Vinod also to join us.

Jigar Shah, Maybank KimEng: Regarding your debt profile, now that you are generating free cash from both the businesses and your Capex intensity is going down, over the next couple of years, what would be the roadmap as regards to debt?

Sanjay Baweja: Our focus is to de-lever. We can't, obviously, specifically, give numbers. But our focus is definitely to de-lever. And we believe that over the next two years, we will have a significant programme to do that. You are aware in Q4 of last year, we did a sale for our non-core asset. We've continued that programme. And over time you will see some of those things happening as we go along. But as you are saying, even cash from operations, we will continue to focus on getting more and more cash and de-lever as we go along.

Jigar Shah: Any thoughts on like, at least, the debt-equity level that you would like to have? Any range?

Sanjay Baweja: As you are ware, our equity base is really small, and 285 crore is the total equity issued, although there were reserves. Our target is not more on debt equity. We rather target on net debt to EBITDA. And that is the number we target ourselves because our cash generation from an EBITDA perspective can be high. So our focus is to reduce net debt to EBITDA rather than to look at debt equity. And today if you were to look at the core asset that we talked about, our net debt is about $1.5 billion, and EBITDA, of course, is in the range of about $400 million. But we want to bring it down, the net debt to EBITDA significantly. I don't want to talk specific numbers here. But the focus is to get it down.

Jigar Shah: And the other question that I have is on the voice business. As I can see from the release, the voice minutes if you see from one-half to the other was almost constant. But you managed to improve your margin in absolute performance. So can you throw some light on that and how far that is sustainable?

Vinod Kumar: You are right. And as I said, we are not chasing volume on voice business. We really want to be selective about the mix of traffic and the focus is on net revenue per minute that we can get. Obviously, a certain volume has to be maintained to get the growth as well. The India route where termination rates have been higher than what we have seen in the past has been a big contributor to the net revenue per minute, being high on the voice side, and net revenues, therefore, being higher. I don't think the current levels have sustained. We have seen some drop last quarter to this quarter. And I believe that it will drop even a little bit more. And hence the voice margins, we are more comfortable, as Sanjay and I have repeatedly said, in the 9-9.5% range than 11%. Obviously, we will manage and make use of opportunities, we have the market share strength that works in our favour, but we don't chase volume for the sake of it.

Jigar Shah: One last thing about your ATM business. Now, given the first half revenue of Rs. 2.3 billion, when you eventually rolled out in three years that 15,000 number and whatever other activities that you are doing pertaining to that once you consolidate, what's the revenue model there and how big that activity in itself could be on an individual level?

Vinod Kumar: We have a clear idea of what that number can be because of the Ministry of Finance, we have contract for a certain number of ATMs across three states we are rolling out. We have a plan to roll out about 15,000 ATMs, the Tata Indicash. I am not going to give a specific number out, but we believe that it can be a sizeable part of our future. Right now the focus is on leveraging the volume of business that we have and driving efficiency. So Sanjay is personally driving that business. And we believe that the EBITDA trend that they are showing will continue. What I would like to focus on there is that on EBITDA, and we probably can make that business move into positive territory next year.

Jigar Shah: So will that business be ultimately a core business or it is an investment for monetisation in the future?

Vinod Kumar: It is too early to say. Our focus is on creating value right now. What we do with that value, we will have to see. As I said, it is an ATM business, but at the same time it can evolve into a payments business, it can evolve into other things in the area of both cash as well as m-Commerce related payments. Because the worlds of cash and E-commerce really will overlap and coexist for a long time especially in the Indian market. And hence, what we do with it, how we extract that value, we will see. And so I am not going to debate and argue whether it is core or non-core. Right now it is an asset we have. We have a great order backlog, we have lots of cost optimisation programmes in flight right now. We will make that business profitable and then we will see what we have to do.

Sanjay Baweja: Just to add, RBI has fixed the rate per transaction for this business which is mandated today at Rs. 15 per transaction. So that is the basis of our revenue model.

Piyush Choudhary, CIMB: Congratulations on a great set of numbers. Two questions, first on the global data segment where we have seen pickup in the margins. Last quarter you had guided of 20% overall EBITDA margin for fiscal 14. In the first half, we have done 19.5%. But the second quarter is already at the run rate of 22%. So I just wanted to get your thoughts over there. Are you inching up your guidance for the full year or what's the mix which has changed in this quarter? Is there any one-off contracts which have come in? And secondly, on Neotel, we know you cannot talk much about that, but in terms of timelines, what should we look at and in terms of next steps whether there will be shareholder approval, regulatory approval, if you can just throw light over there?

Vinod Kumar: In terms of our data margins, we will maintain what we mentioned the last time in terms of EBITDA margins level. Clearly 22% is a great performance. And we will try and keep that. But where we are comfortable right now is the 20% mark. This is the business that does require investment. We haven't been shy to invest in new services on one hand while driving efficiency on the other. The margin will be a function of the product mix that gets consumed. 20% we are quite comfortable with and we will strive for more. I would like to leave it at that.

As far as Neotel is concerned, it is still too early to put a timeline on when the deal can finally get done. We believe that there is still some more work to be done in terms of due diligence and our negotiation with Vodacom and agreeing on a final deal. But once that is done, it is anywhere from a two to three quarter process, if you take competition commission, regulatory approvals and other local approvals that we'll have to get. That is a rough timeline. There are more aggressive views, but I would say two to three quarters is a reasonable estimate.

Naveen Kulkarni, Phillip Capital: Is it possible for the management to quantify the contribution of currency in our data business margins? And also in the total EBITDA of Rs.840 crore, is it possible to quantify the impact of currency on an absolute basis?

Sanjay Baweja: So from an EBITDA percentage-wise, it is even less than a 100-basis points as far as the data business is concerned. It is very low impact as far as the data business is concerned. In the voice business, of course, there is a benefit of India termination. That is one great aspect. And obviously that rate is generally defined in terms of dollars or point of a dollar and if the dollar goes up, in paisa we get that benefit. But in data it is less than even 1%. It is in a few basis points.

Arun Kejriwal, Kejriwal Research & Investment: You said the ATM business is in two parts. One is where you are doing a roll out with the Ministry of Finance and the second is on your own. What kind of an overlap or similarity would there be in these two businesses?

Sanjay Baweja: So the way to look at this is there will be no overlap per se. What we today do is we have reached a stage where we look at every ATM's profitability on a separate note. We are focused as far as the Ministry of Finance is concerned into three states, which is, Andhra, Tamil Nadu and West Bengal. These are the three states that we have got. As far as the WLA is concerned, that is across the country. But we will focus on clusters. And we have complete leeway as far as the location is concerned, as far as the WLA is concerned. There is some amount of input that we get if it is an MoF order or MoF ATM. But as far as WLA is concerned, we have complete operational flexibility to put it anywhere we feel. See, the biggest driver in this is the number of transactions. And that is what we are focusing on. We are picking up targets or markets where our transaction size is much better. So there is no overlap. Yes, the overlap is in terms of benefit of scale in terms of the operational cost. Operational cost is not per-transaction driven. A lot of the operational costs are in terms of expenses or maintenance. So there is where we get the scale benefit in terms of overlap, if I may say.

Arun Kejriwal: My question was coming from the fact that there are some other people also who have been given these White Label ATM permissions.

Sanjay Baweja: That is right.

Arun Kejriwal: So suppose I am one of those persons and I want to set up in these three states, there is no restriction. So is there some way to demarcate between the White Label ATM and the Ministry of Finance ATM which is state-wise?

Sanjay Baweja: No. So we have got contracts for three states. And there are other players who have got others. So the entire country has been divided, just like a telecom circle, the entire country has been divided into circles and there are many other vendors who got the license as well. As far as WLA license is concerned, that is all-pervasive, that is an India license. And there is a demarcation in terms of tier-5, tier-6 cities, you have to do that much percentage. And tier-1, tier-2 cities, you have to have a percentage. So as far as our collaboration with others are concerned, there is no case for that. Our case is in terms of collaborating with ourselves from an MoF perspective to get economies of scale. And as far as anybody else is concerned, nobody has been able to have a tie-up with the bank. We are the only ones as of now who have got a tie-up with the bank to start rolling out. Nobody has been able to roll out as of now, not a single ATM.

Miten Lathia, HDFC Mutual Fund: Congratulations on a great set of numbers. When one looks at your operating cost of this quarter or this half year and it looks at last year, it's almost flat, ex of direct cost. How much more leverage in our non-direct cost do you think is there which is basically something like sweating the intangible asset so to say in the Company that you think you can drive revenues further?

Sanjay Baweja: There is no specific number that we are targeting. What we are making sure is that we analyse and re-look at each and every cost element and think through as to how we can optimise that. And that is the focus for us. There is no specific target that we are going with, that this is the operational efficiency that we can drive. But the focus is to make sure that each and every element of cost is looked at afresh so that if there is an element of efficiency that can be brought into it, we will work on that, and we are working on that. Our belief is that the programme that we started at the end of Q2 last year, the real benefits of that will happen over the next four to six quarters.

Miten Lathia: Is there a way of, sort of, giving a broad range for what that benefit could look like?

Sanjay Baweja: No, I don't think there is a number that I can put a finger on and say this is the number.

Miten Lathia: As I understand, there is a cost reduction or cost optimisation programme, if you want to call it, that is going on. So how should we look at that programme per se? I mean, what are those large heads that you are attacking and how much of that you have been able to take out so far?

Sanjay Baweja: Yes, there is a cost optimisation programme and rationalisation programme. We have just started it, I would say. The impact has not really started flowing in. It started, but it has not really impacted our financials in a big way. But H2 and the next four quarters of next year should see some benefits. Can't put a number to it. But we will notice as we go along, the profitability increase will tell us that.

Vinod Kumar: We are not going to give a number out. So we are working on a very aggressive programme as such. But what I can say is we believe that in spite of the declines in the voice margins, we will be able to offset that with some of the cost savings that we will see from programmes that we are running right now. And also this will allow us to continue some of the money that we free up will go into investing in new services, in new capability creation. And hence, we believe we can sweat our cost base a little bit more than we have so far based on the activities that we have under way.

Miten Lathia: There seems to be a disconnect, I mean, the way we read things. You said data margins from Q2 levels will actually come off on a full-year basis. And on the other hand when we say that our cost optimisation programme is actually going to kick in from H2 onwards in terms of the benefits, which means we need to be looking at really large size investments into some new initiatives which will take away all the benefits of cost optimisation and still bring down our data margins?

Vinod Kumar: That was Q2 where we had that 22%. So for H1 it was 19.5% in aggregate, grew from 16.4%. And the 20% guidance is what we are keeping for EBITDA margins for the second half of the year. Yes, there are programmes. There is a need for us to do more marketing and get our brand out and win more customers. We have been quite restrained about that. We wanted to ensure that we have a certain run rate in the business before we made those investments. Some of the new services that we have to create are a little bit more investment intensive in the early years especially around mobile broadband where we have to build foundational teams. So we want to keep some leeway in our operations for that. So we will be pushing the traditional businesses very hard to show further improvement in the efficiency of those costs, but be proactive in investing ahead to create new services.

Miten Lathia: In terms of the new services that you spoke about, is there a sort of stable state EBITDA margin number that you have in your mind and at what size of business for each of those services do you think you will hit those stable state EBITDA margins?

Vinod Kumar: It is quite tough to say at what stage because each business is quite different and we will have to almost look at it business by business and discuss it. But the new services, we believe, when they reach critical mass, the range can be between two to four years depending on the kind of service. And some of these are services we will have to go in and figure the space out.

For example, in the mobile-broadband space, we know what mobile broadband is, but then the services that we'll offer mobile operators, nobody else is doing right now. So we can't call out very specifically in two years if it will hit critical mass. We will have to innovate and be flexible as we build those services. But 20% to 25% EBITDA margin is possible in those businesses when we reach some level of critical mass. We wouldn't be looking at it otherwise.

Abhishek Gupta, IDFC Securities: First on the quarterly numbers, the other income run rate has moved. If you adjust for forex movement, it has moved from Rs. 10 to 20-crore range to 40-crore range. Second, for Vinod, a strategic one, after doing all the hard work on Neotel, why sell it now?

Sanjay Baweja: Like I said, there are some benefits and negatives that we keep getting on our other income. Last quarter we had a negative about $2.5 million. This quarter we have a positive. So the impact looks about $4 to 5 million. And that's the real reason if you look at quarter-on-quarter impact at the other income.

Vinod Kumar: And that's a very fair question on Neotel, but when we look at it frankly, we look ahead of the business. We have done a lot of good work to bring Neotel to where it is right now in terms of products, services, customer experience, market perceptions, so on and so forth. But when you look at the landscape in South Africa, 1-2 % GDP growth, going into elections next year, they are expected to be sluggish for the next one to two years. Industry is consolidating. At the same time, even business customers in that market are demanding integrated plays, including mobile as well as fixed line, so on and so forth. So if we have to remain in that market, we will have to put a lot of money into Neotel to maintain and grow the platform that we have created. And we look at are there other places where we can put that money to work. We may be able to even afford putting that money in. But we feel that the same money can go elsewhere into the business and generate a better return for our shareholders. So that is really why we took the call that this is a good time, when the trend is right, the business has demonstrated a certain presence in the market and operating efficiency, we leverage that and get out. But at the same time, the transaction has to conclude. On one hand we are also running it like we are going to keep staying in the market forever because till the deal is done, the deal is not done.

Mahantesh Marlinga, FinQuest Securities: I have a couple of questions here. Sir, I just wanted to know the exact impact of forex on the margins. Can you just quantify the exact… you just told there is a marginal benefit, but maybe on the EBITDA and the top line, what's the maybe exact impact?

Sanjay Baweja: So from a forex perspective, the benefit, like I said, in data business would be restricted to less than 1% point. And as far as voice is concerned, there is a dual benefit like I mentioned. One is in terms of high termination rate, which has come off a little by the end of this quarter already, and that of dollar, because the termination is contracted with the parties outside of

India in terms of so many dollars; let's say it's 0.5 cents or whatever cents; and that since rupee has moved from 55 to a 62, let's say, on an average, you get that additional four, five paisa in these billions of minutes, a two, three, four paisa is a significance. It comes to about 2, 2%-odd on an overall basis.

Like I said, we could be back to between 8.5-9.5, that range, once this forex and termination both go off.

Mahantesh Marlinga: Can you just throw some light on the termination part, sir, I mean, what is the benefit that you got there?

Sanjay Baweja: During Q1, there was an increase in the termination rates for the India terminating business. And they had gone up a little. And that benefit flowed to us also because we followed that upsurge as far as the market is concerned. It has come off now a bit, not completely, but it has come off a bit. And we don't want to talk of specific numbers here. But the dollar impact continues to be there. So if whatever the rate was, since the dollar went up, that benefit is there as of now. So if the dollar were to tomorrow move to 50, then of course that would also get eroded in a manner.

Mahantesh Marlinga: And one final question, on the Neotel what's the possible deal size around? I mean, there are a lot of numbers going around. What's the minimum or the range that you are looking at?

Sanjay Baweja: That was a good try.

Vinod Kumar: You asked the question very innocently. So I will innocently say I can't tell you.

Srinivas Rao, Deutsche Equities: Two questions. First, over the last four quarters, actually your voice business seems to have grown almost as much as your data business in terms of growth rate. So if I look at third, fourth quarter of last year, a) is it fair to assume the trend will not continue? Because voice traditionally tends to grow at a lower rate than data. So what happened during this, let's say four quarters, I mean, you had some wins. So that's the first question. And so broad growth rates between voice and data is what, you know if you can help us with that?

Sanjay Baweja: Please remember the last three quarters, there is also this currency bit. A very high percentage of our voice is in dollars whereas not so high percentage of our data business is in dollars. So that percentage difference is always there. So just keep that as a backdrop from a growth perspective.

Srinivas Rao: Can I just clarify? Your India termination rate which you quote, is that quoted in… It's quoted in dollars, right or cents?

Sanjay Baweja: Correct.

Srinivas Rao: So when you terminate into India, you get paid in cents?

Sanjay Baweja: Correct.

Srinivas Rao: Okay.

Sanjay Baweja: Therefore, like I said, the voice, a very high percentage, more than 70% is in terms of dollar dominated. Whereas in data that percentage is much, much lower. And, therefore, the growth benefit that voice sees, at least for the last two quarters clearly because of the dollar is not as much in data, especially at the revenue side.

Vinod Kumar: Longer term view on voice is between 3-5% growth. We believe that will be significantly outpacing the market and will have to come by gaining market share, which we think we can do. In the case of data, you are talking about depending on the kind of service and segment in the order of 10-15% growth rates, which we believe the underlying asset base can create.

Srinivas Rao: Again going back to your ATM business, does it surprise you that no one else is actually rolling out that network? I mean, what edge does Tata Communications have? I could think of probably three, four more companies in that too, probably within Tata Group itself which theoretically have edge over Tata Communications in rolling out the business where the adjacency seems to be quite low. So just your thought process on a) Why do it? I mean, probably is it a distraction which is worth, and maybe I am little bit harsh on that.

Sanjay Baweja: First part of the question as to nobody else, there are twelve people who went in and requested for licenses. Actually, many more requested, twelve people managed to get that license. Now, we were the first of the block because we were planning for it and we made sure that we had a sponsor bank. A lot of them have not been able to get a sponsor bank. The sponsor bank is a bank which will give you the cash. So they have not been able to tie up on that because the expectation of the banks has changed a little bit, having seen what we have done from our perspective. A lot of them have also come to us, “Can you do it for us as an outsource?” So it is not that people are not wanting to do. Most of them who have got licenses are definitely desperate to do it. They have not managed to do that. And as far as business per se is concerned, it is a high growth area for us. Like we said WLA, we are aiming to put 15,000 ATMs over the next three years. And the expectation is as we go along, once we get the economies of scale in place, this will be pretty profitable business. It may not be a distraction as you think.

Vinod Kumar: And frankly, Srini, at this point, we are not sitting and arguing whether it's core or not core, so on and so forth. We are in the business. And we have orders that give us scale both in terms of operating cost in terms of procurement and in terms of a platform that can be used to create new services. Till we get that business profitable and we have a working business model, we will stick with it. And then we will see what can be done with that asset, whether it really becomes by then core to our business. The run rate of the business can take it to a 300-million dollar business. And as I said, we think we can make the business EBITDA positive in the coming year. We will see what we have to do with it. And in the meanwhile we are thinking can we use the 15,000 points of presence we will have with Indicash in other ways. Which is quite unique. If you look at on average, even if we hit a low number of 100 transactions per day per ATM and across 15,000 locations, in terms of footfalls, it's quite significant both in terms of retail presence, eyeballs you serve, number of customers you touch, and there are other monetization streams. I am thinking of those things rather than sitting and debating whether it is core or non-core.

In terms of distraction, it is not a distraction because it's highly a specialised business. We have created a business unit with professionals who have banking operations background. They run that business. Sanjay oversees it, it does take some of his time but it is a specialised business. It is not that my enterprise or service provider, sales team is trying to figure out how the ATM industry works or Madhu's team in operations is trying to figure out where to put an ATM, using the same switch engineers. They are different set of people who are doing it in a contained unit.

Srinivas Rao: That's helpful. One final question. We are coming off a Capex cycle, as you have mentioned. Probably, I mean, one of the reasons for the ballooning Capex in the past was the sub-sea cables which were built, so to say. Is there a possibility because that industry is reasonably cyclical in build-outs of cables? We have seen a lull for some time. Can we expect a kind of Capex increasing after, say, two years again?

Vinod Kumar: I don't think the industry is in a lull. Frankly, there are pockets in the world where cables are getting built. It might not be on principal routes. We think the large cable builds which are Atlantic, Pacific, definitely not in the two-year horizon, we don't see any build being required there. You will have do it not on the basis of any financial justification, not on any economic merit if we had to go do it. And the reason why I say it is with the upgrade of the technology from 10 gig to 40 gig to 100 gig and now we are talking 400 gig, there is no case to be building cables on those big routes which are 500 million dollar ticket sizes. You will see lots of builds which are more local, shorter span, 100 million dollar kind of cables in different places in the world. And that we will look at ourselves, we can afford it within the Capex envelope we have, just to create extensions from branching units we already have in the water to make sure that we can tap into more markets. That we believe we can manage, but those are not big step-up expenses.

Rohit Dokania, Batlivala & Karani Securities: Just one quick question. What has been the total investment in Neotel till date?

Vinod Kumar: We don't put that figure out.

Miten Lathia: You mentioned there is an order book on ATMs. While TCPSL is rolling out its ATMs, is there any revenue that accrues to Tata Communications?

Sanjay Baweja: I think on a standalone business basis, there is enough contribution to make as we go along, as we stabilise this business, as the transactions stabilise. It generally takes about 6-8 months for a new ATM to stabilise in terms of number of transactions. This is a standalone business per se. There is no revenue, which is flowing from TCPSL to TCL.

Vivekanand Subbaraman, Phillip Capital: Just a related question on the ATM business. You mentioned that you are pruning on some of the unprofitable orders that you have. So is there any distinction in the economics of white label ATM versus contracts that you are executing for the ministry?

Sanjay Baweja: Yes, actually there is in terms of per transaction value. There are two variables really, one is the number of the transactions per ATM per day and the other is how much you get in terms of per transaction, both could be different. You could make money at 100 transactions, 110 transactions, you may make money at a certain place at 250 transactions. So these are the two variables. There are different MOF, and it also differs from bank to bank. So SBI, for example, would be much higher in terms of number of transactions. There would be some other banks, which might be much lower. So it is variant as far as bank is concerned, it is variant as far as location is concerned. So there are these two, three variables which impact. The WLA, of course, the rate is fixed and then transaction depends, any customer from any bank can actually access it.

Vivekanand Subbaraman: Just a small clarification. So you are saying that in the contracts that you have with the Ministry, you have to negotiate with each bank for a specific rate, is that right?

Sanjay Baweja: The rates have been negotiated, but in terms of whether they will make money or not will depend on number of transactions in a particular location. And other contracts which Vinod talked about, these are the earlier contracts which we have already had, which we have been running for last two, two-and-half years. Those are the ones, which are trying to exit out some of them.

Vivekanand Subbaraman: Okay, thank you.

Mahesh Pratap Singh: We have a question, from webcast. And this is a question from **Sudhakar Prabhu from Span Capital**. His question is, we depreciate under-sea cable for twenty years. Considering the technology risk, is it too aggressive, and how does that compare with our international peers?

Vinod Kumar: Yes, 20 years, we believe, is conservative. We increased it from 15 to 20 as you know, but most of our international peers on the sub-sea assets are doing it over 25 years. So we believe 20 is comfortable.

Piyush Choudhary, CIMB: Just wanted to check on the deleveraging guidance also which you had stated, 200 million dollars by the next year. The way the business has been shaping up and the way data has also started to throw free cashflow, so I wanted to check if that has been changed, obviously on a positive side. And I would assume that this doesn't include Neotel obviously in that deleveraging guidance.

Vinod Kumar: Yes. We are sticking with the $ 200 million, and it doesn't include Neotel.

Piyush Choudhary: And you had mentioned about the non-performing data centres, which you were looking to exit. Any development over there?

Vinod Kumar: No, we continue to work on that. These are largely leases we acquired when we did acquisitions in the past, and some of them are in North America, some of them are in other places but mostly outside India. We continue to work on getting out of those. There is no time line that we are putting on those but we are actively working on that.

Rajiv Sharma, HSBC Securities: Hi, just questions on the ATM business again. First is, when you say that you have to recover cost, do you mean they are the cost of VSAT and the machine which also needs to be recovered from your end or that comes to you? And what is the number ATMs which you deployed from the Ministry of Finance? 15,000 is your White Label, what is the number of ATM you will do in the first one?

Sanjay Baweja: On the MOF contract, the total deployment is about 12,500 over the next one, one-and-a-half years. And we are focusing on getting those ATMs in place, which have higher transactions, which means we are focusing on those banks, which give a higher transaction. So that's the one focus area for us. If you can repeat the other part of the question?

Rajiv Sharma: Yes. Just a clarification, you mean total 27,500 over next three years?

Sanjay Baweja: Yes. And we have some existing contracts also which will stay. Some of them will go off because some of them are with the public sector banks. So those will actually get converted into MOF portion. So we'll be in the 30-35,000 range as far as number of ATMs.

Rajiv Sharma: And these existing contracts, they will be how much percent of your revenues today?

Sanjay Baweja: As of now, the WLA is very small. WLA is actually non-existent. We just started one quarter ago. So as of now, the entire revenue is actually coming out of the existing contracts. We got about 5,000-odd MOF ATMs already in place. But they are new placements, so there the revenue stream is still small. And most of the revenue therefore is from the existing contracts.

Rajiv Sharma: My second question was on the cost recovery. Does it include Capex plus Opex?

Sanjay Baweja: Yes. From a business perspective, at the EBITA level of course, it will mean operating cost; and then on an overall basis, on a cash basis, the Capex has to be taken up.

Rajiv Sharma: So you Capex projection include this Capex for 27,500 ATMs?

Sanjay Baweja: Yes, all the numbers that we talk about includes TCPSL numbers also.

Rajiv Sharma: Question for Vinod. You mentioned about some new initiatives, new product launches, which could take away the cost programme, which you are running. So I just got confused over that particular angle. If you can just provide some colour.

Vinod Kumar: I was just trying to answer the question the gentleman asked about the dichotomy, the statement between improving EBITDA margin on the data, which is at 22% for the quarter, and at the same time I said that we have cost optimisation initiatives, which are underway where we will see the results in the second half of this year and into next year. And his question was that doesn't gel with the statement that I made that we are sticking with the guidance of 20% EBITDA margin for data. And I said that some of that some of the savings that we get out of these programmes will flow into creation of new services, and hence we are sticking with the 20% guidance.

Rajiv Sharma: But in the long term, will they help you in more market share?

Vinod Kumar: Yes, absolutely. It's wallet share because many of these services can get sold to the customers that we currently have as well as using the whole portfolio we expect to gain market share.

Mahesh Pratap Singh: We have another question on webcast from **Reena Verma Bhasin from Bank of America**. And her question is, is there a commitment to not undertake any further greenfield expansion or M&A in Asia if Neotel is sold?

Vinod Kumar: No. I am not going to give such a blanket statement. We are looking in the market for opportunities to grow. I think that would be a bit foolhardy of me to give a blanket commitment that there won't be anything greenfield. Now, obviously we have lessons we have learned which will be applied, and you can be sure of that.

Mahesh Pratap Singh: And there is another follow-up question, and this is a question on Capex to sales, again from Reena. And the question is that you have been talking about single-digit ratio in terms of Capex to sales. So can you point us to any major global peer who has that kind of benchmark which you are aiming or aspiring for?

Vinod Kumar: There is no one player that we are benchmarking ourselves with, but we think that between 8.5-10% is where the industry is at. And we have got to the stage when we can operate at those levels.

Nimit Tanna, Trust Investment Advisors: Just one clarification on the Capex to sales. The voice revenue effectively needs no Capex. So if you strip it out, the underlying Capex to sales is still pretty high. When you are talking 8.5-10%, you are looking at the data, Capex to sales, you're giving it on an overall basis?

Vinod Kumar: Looking at overall. Voice does require some Capex but the bulk of our Capex as you know goes towards data.

Nimit Tanna: Okay. Because just going by the data sheet, the voice Capex is minimal, it is just like a rounding error.

Vinod Kumar: Yes. Voice Capex is roughly 10% of the envelope.

Yogesh Doshi, Taurus Stock Broking: Can we get out of the non-performing partnership with the government?

Vinod Kumar: I wouldn't characterize it as a non-performing partner. The government is very supportive of everything we have done so far. There are issues like the surplus land issue that needs to get resolved. But as an operating partner in the business, they pull their weight. That's not a question for me to answer. It's for them to figure out what they want to do with the investment in the Company.

Yogesh Doshi: Is there any role of government or 26% partner in our Board?

Vinod Kumar: Yes, the government has two directors on the Board and they have a right to nominate two independent directors.

Yogesh Doshi: Do they have any positive inputs?

Vinod Kumar: As I said, we have had government directors on the Board for a long time. They are very active in the Board and the sub-committees of the Board. And I would say that they contribute to directing management on strategy and operational matters. So I say this sincerely that at the operating level on the Board, we haven't had any issues getting things that we want to do in terms of strategy, direction, investments and so on. The government has its own way of giving approvals. We have to work through that. We have to account for it. But in my association with the Company now which is almost 10 years, there hasn't been a single case that we have hit a wall with them.

Yogesh Doshi: But, sir, capital which we wanted to increase, because of government we could not. Is it so?

Vinod Kumar: Yes, that's a policy issue that they have but frankly it's not the function of the directors who are on the Board. It's at a different level of government. So as a business 13 years we have gone now without raising any equity, and that's been largely because of the government's view on the matter.

Mahesh Pratap Singh: There are a couple of follow-up questions which I will quickly take. These are from **Reena from Bank of America**. Her first question is, can you share the time line for payment on the current liability repayment on the Neotel bit? This is the note she is referring to in the accounts.

Sanjay Baweja: As of now, we have been working with the banks and there is no specific time line per se but the banks can ask for it from the Neotel team in the ongoing 12 months. It's not that they are going to ask it. The banks and Neotel are working together to make sure how they can take care of that.

Mahesh Pratap Singh: The second part is, can you add any more colour on the diminution of Neotel investment in the standalone financials?

Sanjay Baweja: This is based on the assessment that we keep doing on an ongoing basis and the large part of the investment is actually not in TCL, it's in TCIPL. So we thought that it's best that we capture most of the investments in TCIPL. We thought we will take it off from here. That's why we did that.

Mahesh Pratap Singh: Thank you, Vinod, Sanjay. I think, there are no more questions. Thank you so much for joining us today. It was pleasure having you, and we request your company over dinner. Thank you so much.

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