



Q1 FY2015

Earnings Conference Call Transcript

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MAIN SPEAKERS:

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

**Sanjay Baweja, Chief Financial
Officer**

Mahesh Pratap Singh: Thank you Mallika. Good afternoon everyone and welcome to the Tata Communications Limited conference call. We are joined today by Vinod Kumar, Group CEO & MD and Sanjay Baweja, CFO.

Our results for the quarter ended June 30, 2014 were announced on Monday and the results presentation and fact sheet is available on our website. I hope you had an opportunity to browse through the highlights of the performance.

We shall commence today's call with the key thoughts from Vinod who will provide you an update on market environment and strategic direction of the Company. He will be followed by Sanjay who will share the financial highlights during the review period. At the end of the management discussion, you will have an opportunity to get your queries addressed.

Before we get started, I would like to remind everyone that some of the statements made or discussed on conference call today may be forward-looking in nature and must be viewed in conjunction with risks and uncertainties we face. A detailed statement and explanation of these risks is included in our annual filings which you can locate at our website www.tatacommunications.com. The company does not undertake to update these forward looking statements publically.

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

Vinod Kumar: Thank you Mahesh. Ladies and gentlemen, good afternoon to everyone and a very warm welcome to all of you. Like we have done in earlier calls, I will quickly provide you an update on the market environment, the strategic direction of our business and some key performance highlights. Sanjay will then take you through the highlights of our operational and financial performance followed by what I hope will be an interactive session during Q&A.

Reflecting on the quarter that had just passed, our business and the industry trends continue to play out as anticipated. We are off to a steady start in FY15 and are well positioned to deliver on our financial and operational targets. We have successfully built a comprehensive portfolio of solutions on top of our world-class infrastructure and our success has been a result of how we have been able to draw out increasingly from this platform. The team is focused on capturing recurring products and services revenues while also advancing innovation, transformation of our business and discipline of execution across the Company. Many of these efforts, I am pleased to say, are showing their results and in a steady and consistent manner.

Our key performance metrics are improving in line with the progress in strategic initiatives. We have not only continued to post year-on-year revenue and EBITDA growth, composition of that growth has also been transforming in favor of the areas that we have been investing in. As an example, when you look at our core business EBITDA composition, it really captures the essence of where

we have been focused on and what we have been sharing with you over the last several years and clearly we are seeing that these efforts are yielding results. Specifically speaking a year back in Q1 FY14, out of our core business EBITDA 43% came from the Voice segment and 57% came from the Data segment. When you look at Q1 FY15, the corresponding quarter, the one that we just finished, only 30% of the EBITDA in the core business comes from the Voice segment while 70% of the EBITDA in the core business comes from the Data segment which is also where we are having growth of the topline.

Talking about Data little bit more, we are continuing to witness good traction across our Data and Managed services and here we are clearly outpacing the industry peers in each of the segments that we operate both in terms of revenue growth rate as well as in terms of our EBITDA growth. Our growth rate in network services across global Ethernet or VPN and managed services such as data center services in India or in the area of transformation services for global Carriers continues to be healthy and superior to the industry average. A lot of the sales focus for us has been to grow our Enterprise revenues and we continue to take market share both in India as well as internationally and I have to say that I am quite excited by the progress that we are seeing in terms of sales funnel, sales closure as well as the revenue buildup in the Enterprise segment. Historically, this has been a competitive segment but our broad service portfolio as well as recognition by people like Gartner as a leader is bringing us many marquee logos and we are also winning high profile multi-regional deals for VPN services which typically tend to be longer term contracts of 3 years on average.

For global enterprises, we would not have been invited to many RFI/RFPs 2-3 years ago but now we are being invited to those same RFPs and we are being asked to bid. A key factor for this has been the recognition from analysts as a leader not only by Gartner in their Magic Quadrant but also with several other wins that we have had from the analyst evaluations. An example of recent enterprise win unfortunately I cannot share the name with you is a large global bank, the top five bank based out of the UK where we have been chosen to provide their global backbone services as well as their MPLS services in India. In the past, we would have just won their MPLS network in India and would not have been considered for the global backbone. This is only one such example. In the funnel, we are bidding for several network deals which are multimillion dollar annual contract value, average term of about 3 years for global MNCs that require complex network solutions, complex contact center solutions, in many case data center services also thrown in. So we are very encouraged by the feedback that we are getting from the Enterprise market and we hope that we can continue to build on the momentum that we have.

The market in ICT for Enterprises continues to evolve. There is a lot of vitality in this market place especially in an era where people, devices, machines, and cloud based applications are all proliferating and the need for connectivity is only increasing. Another phenomenon like the power of APIs and big data analytics are also becoming mainstream. These are not just fads any more.

They are being definitely moved from just a consciousness to the action of businesses that we are talking to. I am sure many of you have read last week's announcement where the UK government has announced that the driverless cars will be on public roads from January 2015. That is less than 6 months from now. Whether it is 6 months from now or 12 months from now is not the point. The point is that this is just an indication of how technology is really beginning to be in the forefront of transforming businesses and opening up several new avenues in the economy and in society.

On the other hand in the enterprise area, cloud adoption is gaining traction. Cloud is not a buzz word anymore. Cloud is definitely on the near term roadmap, not just in the long term roadmap of every CIO conversation that we are having. Cloud adoption is gaining rapid traction. It is also creating massive disruptions in how organizations consume and deploy ICT services. Large off-the-shelf software providers are beginning to move off the perpetual license model and moving to cloud based model. They are even willing to take some of the revenue hits that come when they move from the longer term licensing model to a cloud based model and the reason for that is they really have no alternative. That is what the customers are asking for. In the midst of all this transformation in the IT landscape, there is an evolving landscape that is being changed in the telecom world. Tata Communication is certainly in the heart of this rapidly evolving market place and we are a provider who brings together its global network infrastructure, the emerging market footprint, our extensive ecosystem of carrier partnerships and the big base of enterprise customers that we have and we are bringing it altogether using the strength of our talent pool as well as the portfolio which we have been steadily building over the years which is backed by superior customer experience.

Our innovation program is really important. There is a lot of disruption taking place in the periphery of our industry. The core of our industry on the technology front is quite stable when you look at fiber optics and the technology around that and the changes there we will benefit from. But it is important for us to innovate on the periphery so we create new horizons for our growth. The current digital landscape and how it will evolve presents a unique opportunity for us and we will continue investing in our innovation programs. Our investments are largely focused around Unified Communications and Collaboration (UCC), Cloud enablement and data centre services, and media segment. The one thing I do want to say when I talk about innovation is that we are making several small incremental bets. There is no need for us to make massive bets that will drain the financials in one way or the other. The technology and the ecosystem of partners we work with allows us to experiment a lot without betting the whole Company on it. Therefore I think as investors, you can get some comfort in the fact that while we talk about innovation and talking about trying new things, we are taking a series of small calculated bets rather than few very major ones and that is going to be our investment thesis when it comes to innovation going forward as well. I am sure you will have some questions on that. We have always maintained in this context that collaboration and partnerships is really the way forward to create a truly global and interconnected communication

landscape. We recently announced the partnership with Kaltura that will combine Tata Communications' next generation Content Delivery Network (CDN) with Kaltura's leading open source online video platform and this is an example of how we are taking our underlying infrastructure, combining it with the technology from an innovative specialist company. The integrated offering will therefore enable media companies, enterprises, as well as offers specific applications like in the educational space where we can manage the entire video process from acquisition to delivery in a very simple easy to use interface. This is one small example of many things that we are experimenting with.

Our Data Centre business has been gaining strong inroads with its increasing global presence and also higher utilization across our existing locations. We have been expanding our data center footprint both by way of spending our own CAPEX in our facilities as well as through partnerships. Giving an example of partnership over the last few months, we entered into a strategic partnership with a company called NEXTDC in Australia, Interxion in Germany and in Austria, as well as in Malaysia with Pacific Link Telecom. These partnerships in these countries enabled Tata Communications to expand its data center offerings into those regions but at the same time deliver a uniform customer experience without necessarily having to spend significant CAPEX of our own especially in the early days of market entry. The trends, however, in the domestic market have been extremely encouraging in India and the adoption of virtualization in the last several years is leading the ground work and will continue to make organizations move away from their dedicated private or captive data centers to collocated settings which are managed by third parties and increasingly move the applications to the cloud. This bodes very well for us. The reflection of our confidence in this market is captured in our recent inauguration of our 44th data center in Greater Kailash, New Delhi and this is a great data center state-of-the-art located right in the heart of the city and will cater to the demand for customers who do not have an alternative when you are looking within Delhi which is both convenient in terms of transportation and access but also for customers in terms of reliability of power. As a company, we plan to invest around \$200 million I should say towards doubling our capacity in India from 500,000 square feet to a million square feet over a period in the next three years. Also I want to clarify that this investment will be well within our overall CAPEX envelope that we continuously refer to. As I have discussed before, the CAPEX envelope will see rebalancing. Over the next couple of years, we expect that our spend in data center services will be greater than it was over the last couple of years, but at the same time our spend from the cable projects may come down a little bit in order to compensate for this increase in spend in the data center space.

Moving on and talking about the voice segment, by now I think most of you are aware that we look at the voice business as a free cash flow play. We believe that this business is capable of generating steady free cash flow for us and therefore we are focused on that as our objective here. We therefore only chase profitable minutes available in the system. We do not go after either minutes

or revenue just for the sake of it. This strategy serves us well and we expect that we will continue to generate a healthy free cash flow from this business. There has been generally some softness in overall traffic volumes in recent years, but more than anything we believe that this is a result of how we manage the business rather than any major change, any new change or new trajectory in the voice business. It is known that in the voice business there is a shift towards IP but we are not seeing that any abrupt evolution or change from the trends that we have seen in the past. That is a steady and gradual shift, which we are well prepared to handle. We are the no. 1 player still in the global wholesale voice market by a large gap and we enjoy that market leadership position.

To give you a quick update on Neotel, as you know we had concluded an agreement on the commercial structure and terms with Vodacom SA, subject to regulatory and competition authority approvals. We have commenced that process to obtain the regulatory approvals and the competition commission approvals. Both applications have been submitted into the relevant authorities from South Africa and we hope to make progress in the coming quarters. I cannot give you a specific timeframe within which the deal will be concluded; however, I can say that we continued to be optimistic that the deal will get concluded without any major delays.

To conclude, we had a good quarter and our belief around the transformation of Tata Communications continues to be strong and optimistic. The quarter was a steady and solid quarter in my view. You have seen us deliver on what we have been alluding to and in line with the indications that we have given - to improve our financial profile, strengthen the balance sheet and to create a top quartile innovation program to make sure the Company is well positioned to capture future growth opportunities. We believe that our strategy of leveraging our exhaustive network and data center infrastructure to deliver tangible business value in the form of market relevant products and services will continue to materialize strongly as well as increase long term value in the business.

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

Sanjay Baweja: Thank you, Vinod. Good afternoon everyone and thank you for joining us today. During my remarks, I will recap the financial highlights from the quarter gone by and focus on providing you some more qualitative context to the numbers and our journey forward.

I am pleased to report that our Q1 FY15 results reflect healthy trends and continued momentum. We have entered FY15 with strong impetus and are poised to continue building on this performance to grow the business profitably while making the necessary capital investments for the future.

Before I discuss quarterly earnings in detail, I do want to touch upon couple of segmental changes in reporting effective this quarter. Overall, there is no change at consolidated level, however, sub segments of Voice and Data and Core and Start-up have some changes due to internal alignment and the way we are consolidating inter-co elements now. Firstly, our enterprise focused voice offerings have been carved out of Voice segment and now forms part of our Unified Communication

and Collaboration (UCC) offerings, being reported under Data segment. This is to be in alignment with the way we are now running our UCC business. These enterprise focused voice offerings roughly contribute \$ 10-12 million quarterly revenue, making higher EBITDA margins than wholesale voice offerings. Secondly, the way we are now consolidating inter-co elements between core and start-up has changed. These inter-co elements need to be eliminated to reflect gross level adjustments and for the Q1 FY15 this has impact of about 50 bps on core business EBITDA margins. This inter-co number and adjustment flow may vary from period to period depending on inter-co transactions. To reiterate, overall, there is no change at consolidated level. For ease of comparison, we have provided you the quarter's q-o-q and y-o-y comparative periods and FY14 on like-to-like basis for the above segmental changes to make them comparable.

Coming back to quarterly earnings, Q1 has given us a good start to FY15. Given that first quarter tends to be a relatively weak quarter for us we are quite pleased with Q1 FY15 performance. We typically have very low customer churn but of the little churn we do encounter, we tend to see higher proportion in the beginning of the year. This tends to drive softness in Data segment performance as we move in from Q4 to Q1. Q1 also sees some step-up in salary costs given that company-wide increments kick-in. So in Q1 we typically see a softer revenue base coupled with slightly higher salary cost base. As we go through the rest of the year with costs and churn having stabilized, growth in revenues drives improved performance through the year. In that backdrop, Q1 FY15 Data segment revenue performance was particularly strong and it reflects the enthusiasm and growth momentum we have been talking about with global enterprises. Our overall core business revenues are also fairly stable, but for q-o-q currency movement. It gives us confidence for the outlook that we have for the year and we want to emphasize that the tone of the business is strong.

Talking of segments, Voice had a good Q1 where after past few quarters of normalization it reflected stability. Sequentially net revenues were stable and EBITDA margins improved by nearly 50 bps to 7.4%, with absolute EBITDA slightly higher than Q4 FY14. This performance is largely driven by favorable traffic mix driving better realization. Voice segment continues to drive healthy FCF generation for us. Moving on to Data segment, momentum and performance continues to be very strong. Q1 FY15 Data segment revenues were up 17% y-o-y while Data segment EBITDA was up 30% y-o-y. This clearly demonstrates operating leverage in the business that we keep talking about. Our continued focus on driving process improvements and cost-efficiencies is also paying off. Overall, our Q1 FY15 core business EBITDA margins have actually improved y-o-y if you normalize voice segment performance to back out temporary India termination pricing benefit we had in Q1 FY14 also the foreign exchange benefit at that time which peaked. Voice segment was at 10.6% EBITDA margins in Q1 FY14 and if you normalize that to normal 7-8% range you will see underlying structural core EBITDA margins have actually gone up. Start-up segment's (primarily Neotel) Q1 FY15 performance was steady.

On core business we have seen an actuarial impact on account of Canada pension fund to the tune of Rs 17.3 crore during Q1 FY15 and adjusted for that our Q1 FY15 consolidated EBITDA is Rs 730 crore.

As we move below EBITDA, there has been some change in depreciation. With the implementation of schedule II of the Companies Act 2013 from April 1, 2014, there has been change in depreciation on certain assets so as to be in compliance with these new requirements. While it is not entirely visible on headline Q1 FY15 depreciation number, Q1 FY15 has seen an Impact due to this depreciation change to the tune of about Rs 20 crore. Ongoing recurring depreciation impact will be lower than that.

Our Q1 FY15 Core business EBIT is up 14% y-o-y and profit before tax and exceptional items (PBT before exceptional items) is up significantly at 192% y-o-y. This Q1 FY15 core business PBT before exceptional items being 3 times of where we were a year ago, Rs. 52 crore as opposed to Rs. 18 crore in comparable quarter year ago, clearly reflects the significant performance improvement we have been delivering.

In addition to operating leverage which we have discussed in past, we also have financial leverage on all key line items below EBITDA which will help us drive disproportionately higher benefits of revenue growth. While we had a minor step-up in depreciation this quarter due to the Companies Act, structurally given where our capex intensity level is, we expect fairly stable depreciation profile and meaningful leverage on that line item. Similarly, our interest expense as percentage of revenues have consistently trended down and with results of our deleveraging focus and lower interest cost will continue to maintain that trajectory.

Our consolidated PBT continues to be in positive trajectory. Consolidated PBT before exceptional items for Q1 FY15 was at Rs 48 crore compared to Rs 8 crore in Q1 FY14; 6-times y-o-y. The inability to set off tax payments of profit making entities with the other entities has resulted in a consolidated net loss.

Now coming to the third big element of our net financial efficiency, as you know TCL being a global business we have several entities in various countries and not every entity is at steady state level of profitability. Some of those are negative on profitability and when we consolidate everything, tax looks higher in terms of percentage on face of consolidated financials. So it's not that we have abnormally higher tax rate, it's just consolidation of several entities, some at profit some at loss giving you that skewed picture. Going forward, you will notice that as we grow in our profitability over next few years, and almost all our entities across the globe generate more profit, our tax rates will settle down considerably, leading to substantially better tax optimization on a consolidated basis, over next 2-4 years.

So, overall operating leverage in tandem with financial leverage will continue to aid our performance as we move forward.

Moving on to balance sheet side, we have seen some q-o-q uptick in net debt position, up from \$1,380 million to \$1,431 million. This is to do with working capital cycles and something that we expect to get normalized as we progress through the year. So it's more to do with lumpiness in payables and mismatch with receivables, and should correct in coming quarters. Y-o-Y comparison of net debt position is a better reflection of progress we have been making on deleveraging our core business where \$1,431 million net debt in June-14 compares to \$1,519 million net debt in June-13. Average cost of loans at core business has remained fairly stable at 4.24%. Overall, we remain comfortable with our debt profile and like in past will be very proactive in our liability management approach taking advantage of market opportunities in repositioning the debt that we have.

Our core business capex and intensity remains well within our specified range of about \$250-300 mn p.a. For Q1 FY15 our capex spent was \$48 million. Our capex investment strategy is focused on developing new services and adding capacity and expanding our network and data center ecosystem to enable increasing cloud adoption which will accelerate our growth momentum within global enterprises.

As we move forward, our key priority is to drive absolute EBITDA growth with a specific focus on improving EBITDA margins in Data segment, while maintaining existing capex intensity levels. We believe both TCPSL and new services will contribute meaningfully towards bolstering Data segment margin profile in next 2-3 quarters. This will enable us to further step-up our FCF generation and deleverage our balance sheet. Based on macro trends we see in the market place, coupled with strong momentum in our sales efforts, we are extremely well positioned to drive sustainable EBITDA growth and FCF generation and feel very confident of doing so.

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

Moderator: Thank you Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Reena Verma Bhasin from DSP Merrill Lynch. Please go ahead.

Reena Verma Bhasin: I have just three questions. Firstly, I just wanted to get Vinod's inputs on where Tata Communications stands in the vision 2025 that has been unfolded at the group level recently. If you can share some details there that would be great. My second question is with regard to the shape of your balance sheet particularly the debt post the Neotel sale, how are you thinking where would your core business debt stands at and what do you think would be the average cost of debt at that point? And my third question is on your data margins. Sanjay did talk about how

TCPSL will help to improve data margins going forward, do you think you could scale back to the 20% levels that we saw in couple of quarters last year or do you think that would be too ambitious. Thank you.

Vinod Kumar: Reena, on vision 2025, I think Cyrus in his presentation internally and not all of it got reported outside, basically stressed that each of the businesses need to grow quite rapidly and get global scale and provide a return on capital employed. That was what his expectation was. He called out a few additional areas where the group is going to focus on and the press largely sort of took that as the only area of focus for the group. He was very clear to specify and point out that the existing areas we will continue to be in and the expectation is to drive growth. In addition, there are four clusters where we going to drive activity. So I cannot comment any more on that. That is a question more for Tata Sons. But as I said before, the focus for us in clear direction from all stakeholders has been grow the business for the medium to long term, invest in the future and create a good platform. So that is really what we are focused on because we think the business is on a good trajectory right now and we know that all shareholders will see the value of having a business in the phase that we are in right now.

Reena Verma Bhasin: Vinod, thank you. That is very useful, your clarification that the existing businesses remain. May I follow up with a small question that, there have been several press reports about global telecom majors wanting the bigger presence in the Enterprise space and I was wondering whether Tata Communications had evaluated any strategic proposals in that regards?

Vinod Kumar: None, whatsoever.

Sanjay Baweja: On the balance sheet debt post-Neotel, I think the Neotel debt is depending on the exchange somewhere between \$500 to \$600 million which will completely go off and so that is majorly the reduction which is going to happen and I do not want to talk about the other aspect of it.

As far as TCPSL is concerned, I spoke about that and yes, clearly over the next 2-3 quarters we expect that we will regain the 20% that we have been talking about. That has been the stated number all through and I think we will definitely reach that level as far as data is concerned over the next 2-3 quarters. We came off a little bit in the last two quarters; I think we will regain that almost very sharply in the next 2-3 quarters.

Reena Verma Bhasin: Just again a small follow up on the net debt, the net debt that you have reported for this quarter is up just a little bit even though you hardly spent anything, anything we are missing?

Sanjay Baweja: No, it is just that some lumpiness like I mentioned in my remarks, some lumpiness in payables and receivables mismatch, nothing more than that. This is probably going to ease itself out over the next, in fact within this quarter itself or otherwise in the next two quarters for sure.

Reena Verma Bhasin: The core net debt, will it fall post-Neotel sale. I am not talking about the consolidated net debt, I am talking about your core reported net debt.

Sanjay Baweja: Whatever the cash inflows which come up will reflect in the net debt as it is we are working very feverishly towards making sure that some of our non-core assets get disposed off. All of that is going to help us reduce our core net debt.

Vinod Kumar: Reena if I can add to it. I think rather than looking at just what will happen out of Neotel and so on, Sanjay and I are focused to get overall debt level down steadily and that is an endeavor that we will continue to work on in the both short and medium term.

Moderator: Thank you. The next question is from the line of Naveen Kulkarni from Phillip Capital. Please go ahead.

Naveen Kulkarni: I have actually three questions. My first question is on the reclassification of costs between core and startup. So essentially how do we look at this number because the core business EBITDA has declined roughly by around Rs.100 crore for FY14 whereas Neotel's EBITDA has gone up by Rs. 30 crore. So going ahead once Neotel is actually sold out, then what will be the impact on the core business in terms of the steady state EBITDA numbers and my second question is on the Enterprise voice which has been carved out of the voice services segment. So what could be the steady state margins for this business over the longer term? So earlier we were looking at around 8%, whether this margin will come down. And my third question is on the ATM services business. Could you give some kind of guidance for the number of ATMs that we plan to open in this year, FY15 and apart from that any indications on profitability will be useful. What kind of breakeven target that we are looking at for this business?

Sanjay Baweja: So as far as reclassification of startups is concerned, it will oscillate from quarter-to-quarter. So the way it works is if there is an intercompany sale or purchase between the two companies, then that needs to be moved out of the revenues and the costs on both side. And since now this is a discontinued business we have to show that as a gross number and therefore there is need to change it in the particular manner. And a lot of it depends on voice because voice business can go one way or the other, sometimes we will give them more voice minutes, sometimes they will give us more voice minutes so that can change from quarter-to-quarter in terms of the classification.

As far as Enterprise voice is concerned, I think clearly there is a shift as far as the margin also will get reflected in the data side. In the voice side, I would say it will make a difference. So your 8%, we should rather keep the range from 7%-8%. This has about 30-35 basis points impact on the

voice margins which is already reflected in this quarter. So I would recommend that a range of between 7-8 is a better range rather to peg it at 8%.

On TCPSL, we expect to install in the WLA side itself about 4,000 odd ATMs and then there will be a few MOF ones. But although MOF is now kind of easing off and there is more focus at least from our side clearly on the WLA part which is the future as far as we concerned in this business. Profitability, clearly over the next 2-3 quarters we will see EBITDA getting to a neutral stage. As of now, we were negative as we said last year, there was a significant negative. This year our expectation is overall for the year we will be very close to neutral. But I think definitely in the next 2-3 quarters, we will show that neutrality coming.

Naveen Kulkarni: So just to clarify on the first point regarding the core and Neotel, so overall impact is primarily because of the voice segment and other than that if I were to look at, there is no change in consol numbers but Neotel's EBITDA has moved up by Rs. 30 crore. So is there anything to read more than that or that this number can fluctuate?

Sanjay Baweja: No. There is nothing more than that. It could change from quarter-to-quarter but for this quarter that is the impact I would say.

Naveen Kulkarni: No, I was referring to the FY14 full year impact.

Sanjay Baweja: Yes, so it will broadly remain in the same ballpark. So it will not dramatically change I would say.

Naveen Kulkarni: Okay. So probably we could look at it from a margin profile and build accordingly?

Sanjay Baweja: That is right.

Moderator: Thank you. The next question is from the line of Rajiv Sharma from HSBC Securities. Please go ahead.

Rajiv Sharma: I have just couple of questions. First question is on the update on the land and this discussion about this Hemisphere Properties government picking up some stake and the Delhi Metro Rail has acquired something. So if you can just expand there a little bit and provide us some color and what has happened to that cash from that sale to Delhi Metro and second is today what is the breakup of your data revenues? You do provide India and international breakup. But I am just more interested in if you were to separate this between TCPSL, data center, Enterprise and others. So if you can just provide us with the revenue mix on the data side and Vinod, how do you see this going forward, say in the next three years this mix changing. That will be very helpful. Thank you.

Vinod Kumar: On the land update, I would say that in the recent budget there is some money which has been allocated to aid the formation of Hemisphere and also for them to assign a

consultant in order to figure out the modality for the transfer of the land which we are taking as a positive sign beyond DoT at the Telecom Ministry level as well and the Finance Ministry. So we will try to use that momentum and push the surplus land issue in order to facilitate that. That is as much as I can share right now because there is nothing which is concrete other than to say that that is a positive sign that gives us some optimism.

On DMRC, the matter is actually being handled in the courts right now. We have a favorable ruling but I cannot disclose the amounts because the proceedings are not complete yet and the money is right now with the court. It has been paid by DMRC to LAC and it is with the courts while the matter is being fully investigated. But again we are pleased with the outcome, the way the courts ruled at least tentatively in our favor and asked them to deposit the money. I think the case comes up to hearing again in the next 2 weeks and we will know more after that.

In terms of breakup of data revenues, the way you are asking for it we do not provide it between India and international but I think there is a fair amount of detail that is already available in Page #13 of the deck that we have uploaded. That gives the breakdown between network services and managed services and within managed services, it gives a very clear split of where the revenues are coming from based on mobility, banking services, TCTS which is our transformation subsidiary, data center, media, unified comms, and other services. So you have a lot of granularity already available. The only thing we have not done is provided a further cut between India and international. What I would say is in the data business, frankly we are seeing pretty good growth across all the services and I believe that growth will continue based on the funnel that we have into the remaining three quarters of this year also.

Rajiv Sharma: Vinod, Thank you very much for the answer. My question was more on where do you see this growing and this revenue split and the second is basically in your last presentation you stated that your data center EBITA margins were around 35% which is almost double if I look at the Chinese names and that is largely because you own most of these properties. So is it fair to assume that all your data centers excluding the international ones, all the incremental which you are doubling the capacity in India will be at the same kind of EBITDA margin level in a steady state and second in this ATM business, what is the steady state EBITDA margin you have plugged in for your future forecast?

Vinod Kumar: Now on TCDC, our data centre business, we said that the EBITDA margin was 30%. So that margin we believe that we can maintain and that is across the portfolio. Some are owned, a lot of it is owned but we also have some leased facilities in that mainly in international and some in India also about a few. So that profile we think we can maintain based on the way we will build and the commercial models that we will use even when we get into new ones.

On TCPSL, we have not given any guidance on what the EBITDA margins will get to. I think we need to see where it will, we have a view but we want to test it out as that business matures. Keep in mind also there we are trying to build other revenue streams around the ATM business and that will also have a favorable impact on the ATM business and also helps smooth out some of the natural seasonality of the ATM business because of holidays, weather so on and so forth. So we are working on that as well. But we are not giving a forward-looking view on an EBITDA range for that business yet.

Rajiv Sharma: Just a clarification. You are doubling your capacity in India from 0.5 million square feet, in data center business.

Vinod Kumar: Yes, over the next three years.

Rajiv Sharma: And just a quick update on your ATM business, how many ATMs are running, what is your targets for the white label and the MOF ATMs and what is the target to roll out in the next 12-18 months?

Vinod Kumar: I think we have that.

Sanjay Baweja: So the WLA itself, we are going to put in about 4,000 ATMs in this year. As of now, we have about close to 19,500 ATMs running. Out of that, about 1,600-1,700 are white label. The balance divided between the existing business with some other private banks and the Ministry of Finance numbers. So that is the way it is structured.

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

Piyush Choudhary: Two questions. Firstly on the GDS segment, your Enterprise revenue contribution has been steadily rising. Year-on-year it has increased to 56% from 53%. So just wanted to understand, structurally would Enterprise segment margins be higher than Carrier business that is how we should look at it? And if you can help us understand what is the breakup of Enterprise revenue between India and rest of the world, I know you give the total but if you can breakup for the Enterprise?

Vinod Kumar: Yes, the Enterprise business for us is doing well and as you can see contribution is increasing and we feel based on activity and funnel that we will maintain that kind of growth. The split between India and international in Enterprise business is roughly 65% India right now and about 35% international. But we have good growth rates in international and that probably will change to more like a 60:40 over a period of time.

Piyush Choudhary: Okay and the margin differential between the Carrier and Enterprise segment?

Vinod Kumar: No, we do not publish that. All I will say is Enterprise structurally is better than Carrier.

Piyush Choudhary: Okay. And just one clarification on the CAPEX side, Sanjay you did mention earlier in the opening remarks. So are we maintaining our CAPEX guidance as \$250 million for three years?

Sanjay Baweja: We say \$250-\$300 million. So you guys always want to take the lower number. So let us maintain it will be in a range.

Vinod Kumar: \$250-\$300 million, we maintain that. So there is no change.

Piyush Choudhary: And just a last one. The data center expansion which has come in this quarter, is there margin pressure which can come in Q2 in the near term due to that expansion?

Sanjay Baweja: See basically they will expand as we go along. Since this is our own property, the hit is not going to be so much on the variable expense. So as we start filling it up, we will get the benefit of that. There is no rental which is likely to go up because of that because this is an owned property. Yes, there will be some operational expenses which will be slightly higher, but in the overall TCDC numbers or the overall data center numbers, that will not impact in such a big way.

Moderator: Thank you. The next question is from the line of Gaurav Malhotra from Citigroup. Please go head.

Gaurav Malhotra: Just had 2-3 quick questions. Firstly, your voice margins have improved this quarter but you had also mentioned that around 32-35 bps margins would have declined because of the shift in the Enterprise voice moving to the other segment. So essentially your margins have gone up despite you taking the hit that is my first question and just couple of housekeeping, what would be your consolidated CAPEX for the quarter and what is your consolidated net debt at the end of the quarter?

Sanjay Baweja: Yes, voice has improved, it has stabilized. I think we had last two quarters of voice which were slightly lower. So voice has stabilized, no question.

And CAPEX, we have done about \$48 million for this quarter and that could be a phasing issue. Our overall guidance still remains between \$250-300 million for the year.

And our net debt position is \$1.43 billion at the end of the quarter.

Gaurav Malhotra: Is this the consolidated net debt or this is?

Sanjay Baweja: No, this is core business.

Moderator: Thank you. The next question is from the line of Ketan Shah from Comgest. Please go ahead.

Ketan Shah: Just a follow up question. Sir can you give us a breakup between managed service and network service of the total global data business?

Vinod Kumar: We have the details in the fact sheet as well as on Page #13 of the deck that was uploaded.

Ketan Shah: Sir but it just gives the breakup. But how much of that is the total. It does not give whether managed service is 60-70 odd percent or how much is it?

Mahesh Pratap Singh: Look at Page #6 of investor fact sheet, managed services would be 35%, network would be 65%.

Ketan Shah: Okay, I got it. Sir the next question will be on Tata Teleservices. Can you tell us what is happening on that front and whether there will be any write-offs or anything of that sort?

Sanjay Baweja: I think Docomo and the Tata Group discussions are happening. As we understand, there is some exchange of letters between the two parties. The matter is as far as we are concerned, it is still quite a bit grey in terms of what could happen because there is time for them to be able to sell and all of those things to find another buyer for the Docomo shares. I think there is still lot of grey in that. We do not know how this will pan out. What is the pricing which is likely to be. So it is difficult for us to put a number or put anything in terms of write-off or anything like that for us.

Moderator: Thank you. The next question is from the line of Aditya Karwa from JIPL Capital. Please go ahead.

Aditya Karwa: Just two questions. One is if you can just bifurcate the CAPEX in terms of growth CAPEX and maintenance CAPEX for the year and second what is the kind of debt we are looking at repaying probably three years from now from the FCF generated?

Sanjay Baweja: Yes, so I think the total CAPEX like we said is between \$250 to \$300 million and I think it is divided 50:50. Maintenance would be about \$150 million, growth will be between \$100 and \$150 million. So it is basically broadly 50:50 is what I would say in terms of both maintenance and growth. What was the other part of your question?

Vinod Kumar: How much debt will be expected to pay from the cash flows in the next three years?

Sanjay Baweja: So over the next years, I think the expectation is we will go down, although we do not give a specific number. We said our stated position as net debt-to-EBITDA of less than 3. I think we should be able to attain that most probably within this year.

Aditya Karwa: Sir just one more follow up question. Let us say that in the next couple of quarters and if you are able to sell some real estate and deleverage that, how much of that could be used to actually pay off the debt if at all?

Sanjay Baweja: Any money which comes up from real estate sale or otherwise is all, when we give a net debt figure, all of that is towards is reducing our debt. Our entire aim is to deleverage it as much as possible and we continue to focus on it.

Vinod Kumar: The business generates enough cash flow to support the CAPEX for growth. So if we monetize any assets, it will be used to reduce the debt.

Moderator: Thank you. The next question is from the line of Rajiv Sharma from HSBC. Please go ahead.

Rajiv Sharma: Just a small follow up. So Vodafone has been saying that their revenues in the Enterprise segment will significantly increase in the next couple of years 3x, 4x and even you have one more player Reliance Jio which is building a 4G infrastructure and will definitely or likely to enter the Enterprise segment. So how do you see the Indian Enterprise segment competitive intensity impacting you from a 12-month perspective or 18 months' perspective that is my first question.

Vinod Kumar: So I think when looking at percentages or multiples and so on, you have to look at starting points. I think you guys are experts in the field to figure out how big the starting points are for these players and then calibrate on that basis. We are the market leader in India by a long shot both in network services and data center services. We are a B2B company focused on that segment from the minute we wake up to the minute we sleep and there's a little time between when we sleep and when we wake up and that is something that we have been doing for a long time. Therefore we are vigilant about the competition, but at the same time we have seen this market, over the period we have seen players come and go and we are ready for the challenges that these guys will bring up. Our portfolio continues to grow. We have a strong customer base which is growing. Our international capability is also very strong in getting recognized. I would not take any of those factors lightly when assessing the overall landscape. But we cannot be complacent about it, but at the same time we are not quacking in our boots.

Rajiv Sharma: Yes, but can it lead to some kind of near-term pricing pressure which can impact this margin improvement which Sanjay has been very confident about from a 2-3 quarter perspective?

Vinod Kumar: No. I think we factored competition into it and keep in mind that our portfolio is also changing on where revenues are coming from and the kind of services that we are offering to our

customers is constantly evolving and we will not see a margin impact in the next 3-4 quarters because of these players supposed entry.

Rajiv Sharma: And one last question is on let us assume hypothetically that if Tata Docomo was to consolidate with some other operator and how much that impacts your capabilities because today you have easy access, I understand there is commercial agreements but the accessibility is easy but tomorrow that may not be the case. So much does it impact you?

Vinod Kumar: I do not see an impact firstly. It is a hypothetical answer also to your hypothetical question. If anything were to happen on the TTSL side, keep in mind that we work on an arm's length basis and there is no reason why those agreements will not continue and no reason why whoever is the new owner will not desire for us to be customers in partner because we bring considerable operational as well as financial value to that business.

Moderator: Thank you. The next question is from the line of Vivekanand Subbaraman from Phillip Capital. Please go ahead.

Vivekanand Subbaraman: Yes, I have two questions. One is on the Enterprise side wherein with the change in interco arrangements, what would be the sustainable long term data EBITDA margin also in the context of the Enterprise business which is growing faster than the lower margin in Carrier business. That is one and here in Enterprise itself, could you also provide a brief update on the emerging segments that we were investing and essentially media as well. That is one and secondly what about monetization of the surplus land that is within the Company. Last year we had given a deleveraging or rather last year we had highlighted that this would be also a contributor to our deleveraging. So updates on that?

Sanjay Baweja: So on the overall EBITDA margin, I think we mentioned earlier during the call the 20% mark will be maintained and we hope to regain that bit very quickly. So that is something that we want to talk about.

As far as the other aspect of the non-core assets which we talked about, yes there has been kind of a delay if I may call it, but we are focused on that. There were some issues in terms of the documentation that was available in terms of title etc. which we are now sorting out and hopefully within this financial year, we will see some non-core asset sale happening.

Vivekanand Subbaraman: And just a follow up on the first one. So you are saying the near term margin target will remain 20% but what about the longer term when really we expect some of these investments to fructify and contribute meaningfully to margins?

Sanjay Baweja: No, we do not want to give a number to it.

Vivekanand Subbaraman: I am just asking directionally can it be even further than the 20% number that you talk about?

Sanjay Baweja: Correct. So as these services mature and become profitable the new services, it will add to the profitability margin. So that is definitely going to happen.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Vinod Kumar for closing comments.

Vinod Kumar: I would like to say thank you for your participation and the questions that you asked, I hope our answers were clear and providing as much insight as we are in position to provide at this point. As a business we will continue to have a regular dialogue with you and provide the information in increasing granularity and of course consistent transparency and we hope that the dialogue continues. Thank you very much for your participation and we will now go back to working on making sure is that the next quarter is a good one.

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

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