TATA COMMUNICATIONS

Q2 & H1 FY2015

Analyst and Investor Meet

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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/Tata%20Communications%20-%20H1FY15%20Results%20and%20Analyst%20Meet.pdf

Mahesh Pratap Singh: Good morning everyone. Firstly on behalf of Tata Communication team a very warm welcome. Thanks for being with us today. We sincerely appreciate your interest in Tata communication. I am Mahesh Pratap Singh and I manage Investor Relations at Tata Communications.

Let me start by introducing our management speakers for today. We are joined by Mr. Vinod Kumar, our Managing Director and Group CEO and Mr. Sanjay Baweja our Chief Financial Officer.

Before we start, I want to quickly cover the Safe Harbor statement. I would like to remind everyone that anything we say today which reflects any outlook for the future, must be viewed in conjunction with risk and uncertainties we face. A detailed statement and explanation of some of these risk factors is available in our annual filings, annual reports, and periodic statements. The Company does not undertake to update these risk factors or forward-looking statements publicly.

Moving along, let me quickly give you a sense of today's program outline. We will start by Vinod giving you a sense of some of the business highlights and talking about industry trends and how are we trying to fine tune our strategy to be able to capitalize on those industry trends. He will be followed by Sanjay who will give you an update on some of the key financial focus areas and discuss Q2 and H1 earnings in detail. After presentations, there will be an opportunity for you to get your questions answered.

Couple of requests for Q&A session, as we are doing a live webcast of the event, so for benefit of everyone if you can introduce yourself with your name and firm name before you ask a question; and secondly just signal an operator to get and use the microphone while you ask the question. For those of you who are joining us on webcast, we intend to take some of the questions from webcast towards the end of the session and we will try and pick some of the questions which have not already been asked by in-room audience. In a remote possibility if we miss your question, we will definitely come back and respond to you by email.

Post the presentation and Q&A session we will request your company for lunch. With that I would now like to invite Vinod to come over and start his presentation and talk you through the business highlights. Thank you.

Vinod Kumar: Good morning Ladies and Gentlemen, thank you for joining us. What I would like to do today is initially we had planned to talk a little bit more about strategy and then the numbers but since most of you are quite keen on hearing the commentary on the numbers, I will begin straight away with a quick overview of the results for Q2 and H1 and then talk about strategy going forward and also I will show you some evidence of our strategy in action.

So if you look at our business and I am going straight to the segmental highlights, you have the details with you and you have probably seen our release with the results. In the data segment which is the segment that we have been focusing on quite heavily and something that we have been communicating with you, we continue to see strong underlying growth, some of the trends that we have been pointing to in the market are very real and getting traction. And within the data segment the growth across service provider and enterprise is a little bit different, we see strong growth in the enterprise segment, the role of networks and ICT in general with enterprises that are using digitization to reshape their business strategies is very clear. The kind of conversations that we are having with customers gives us a lot of confidence that the momentum that we have built in the enterprise segment will continue. Further, the brand recognition that we have got last year with things like the Gartner Magic Quadrant positioning us in the Leadership category are really helping us and I will talk a little bit more about it later.

In the service provider segment, this is where we sell to other carriers who then use those services to offer either consumer or business offerings in their market place. In our numbers you will see that the growth is a little bit sluggish, it is about 2% year-on-year growth. But I would say that here it is a combination of both, some market price pressure, the volume growth is quite good but also in our case I have to admit that with the heavy focus on enterprise we probably, I won't say took our eyes off the ball but we missed a few operational steps on the service provider segment. We made some corrections to our organization and tweaked some of our Go-To-Market activities in the service provider segment to tighten and bring back the focus there. And I am fairly confident that in the coming quarters you will see the service provider growth beginning to pick up as well. It won't reach the levels that we see in the enterprise segment because that's a different market with a different dynamic but I am confident that the service provider segment will be able to move the needle as far as year-on-year growth is concerned.

The other thing which I will show you some data on is the mix of services within our data portfolio. The areas that we have been emphasizing on, like the more complex managed services around MPLS-VPN services, some of the IP transit, although IP transit is not a complex solution but its internet backbone services where we are a leader, continue to show a good growth. And the reason why we are calling out the internet backbone services here is we see there is a fairly fundamental play for us in the market around which we will build New Services.

And finally, above the network services we have been investing in our portfolio of Unified Communication Collaboration services, TCTS service which is our outsourcing business where we offer services to other Telco's as well as some of our hosting services. In these places we are seeing extremely strong growth and good funnel building up. Therefore on the data segment in general I would say that we are confident and optimistic as to where the business is going and we expect that we will be able to maintain and even build on the momentum that we have seen in this area. You see that data has regained 20% target on EBITDA and also EBIT positive in H1 which shows that the strategy that we have been talking about in terms of our CAPEX is also working. I am also pleased to share with you that the free cash flow generation from the data business is beginning to improve.

So in summary, on the data business I expect the growth will pick up, we have seen I would say a moderate growth quarter-on-quarter Q2 over Q1, however, my sort of broader forecast for the next two to six quarters is that you will see the data business beginning to accelerate its top line. And I am sure a question that you will ask me is, you said 20% was your target on EBITDA, where do you think you are going to go with that? What I will say is I feel fairly confident at the 20% level but we also see upside for that to improve in the coming two to six quarters. So in data I believe that our story is quite good. Also if you will make comparisons with the market in general, both in India and around the world, you will see that our performance in data in terms of wins, service offerings as well as growth is better than the general market. But on a more general note what we are saying is there is a greater recognition for the role that networks play in the economy today and that's evident by some of the valuations that you are seeing around the world for people who have similar business profiles as we do at Tata Communications.

Now on the voice segment, we see clearly the numbers speak for themselves in a way but let me try and go a little bit in to the detail and Sanjay will talk more and you also have details in the investor pack. But the overall market conditions I would say for pure wholesale voice are showing weakness and you are seeing migration to OTT, both in the consumer space as well as in the enterprise space. So the use of services like Viber or Skype and so on are not just in the consumer domain but the behavior that each of us are used to as consumers is spilling over into the same behavior when we think and act as professionals. So that decline in the market. The overall non-OTT voice market is still growing by about 2.5% per year on volumes but the price pressure that we are seeing is what we have to keep an eye on.

Also in the India market compared to Q1 and Q2 of last year when we had the dual effect of very high termination rates for a period of time as well as rupee that quarter was favorable and this is when we look at it from a dollar perspective. We are saying that the prices in India for termination into India have declined to where the Net Revenue Per Minute was about six to eight quarters ago. And that's putting a lot of pressure. Rest of the world, there is volume increase but there is price pressure because of competition. So generally speaking there is sluggishness in the voice business.

Our direction and strategy is still to focus intensely on two things, basically the voice business, as we have said before our focus is on free cash flow generation so we will continue to be very tight on CAPEX, we continue to be very tight on any SG&A and other operating expenses for the voice business and be very prudent in terms of pricing strategy and we are not and will not chase volumes. And based on that strategy and where we see the market going and we continue to have several favorable discussions around doing outsourcing contracts like what we have done before where we get big volumes of traffic. And all that leads us to the statement that I will make is I still see the voice business as capable of generating $90 million to $100 million of free cash flow per year for us for the near to medium term horizon. So the voice segment, yes, it has weakened compared to last year and I think we have cautioned you adequately as to sort of very favorable conditions that existed in H1 of last year and we felt then that it was a signal to you that it was not a sustainable so I think the market is sort of settling down and based on our pricing strategy, the funnel of deals that we have in the outsourcing side as well as general market dynamic, we believe that the $90 million to $100 million is what you can model into your analysis. On Neotel, the operational performance is healthy, we keep in mind that it is a business that is being sold therefore we are not expecting big top line growth and so on, there is some improvement there from mining the existing customers, so a lot more farming activity is going on as well as continued emphasis on cost management and making our margins improve. So you are clearly seeing that in the numbers and Sanjay will take you through that.

And finally on the regulatory approval process, our application continues to be processed by ICASA which is a telecom regulator and once that is completed then it will move to the Competition Commission. We are seeing no red flags and the process is underway but I cannot also give you a specific time on when that will be completed because you are talking about regulatory approvals and there have been recent changes with the Telecom Minister, not recent, in the last three to six months, as well as some key players in the regulator ICASA have also changed, normal rotation nothing unusual but that brings a little bit of unpredictability as to exactly when it will close. But we do not see red flags either from the market or from the process itself.

So if you look at the portfolio of data, this is a slide that we have shown you earlier but we can see that the continuing trend is a favorable one. And it really dovetails well with what we have been saying is a shift to more managed network services as well as shift to the unified communication and VPN services. So the traditional services which continue to be an important part of the portfolio but the account for about 38% of our revenues whereas the managed services and VPN services now account for about 60% of our portfolio. So it is a very healthy mix that we have already reached and we believe that this will be the trend that we continue to see given the pipeline of services we have in data.

Another area which has called for investment in the last few years is around New Services, so these are things like Content Distribution, Unified Communication, Media and Entertainment service, Mobile Broadband as well as the Cloud Hosting Services, not the co-location services, we are talking about the cloud hosting security in those services. And those services in H1 have hit $78 million, that is a 22% growth year-on-year. We believe that there is a lot more headroom in this space because these services have a couple of advantages; one, is they are CAPEX light but also the services are very easy to package and resell through partners. So a major emphasis that we are placing in our business is around creating new channels to market so we don't have to invest in Tata Communication 'Feet on the Street' and we can actually bundle our services with partner solutions; both systems integrator kind of partners as well as service provider partners, so other Telco's taking our services. So in our headcount allocation this year there is a lot of money going into building of New Services in the product and engineering areas but also headcount going into the resources that will work with partners. So we have about depending on how you slice it about 400 direct sales people, so I am not talking about support organization or technical architects, business development, we have about 400 people who go sell services, that are Tata Communication employees. We believe that the number with the right partnering program even within a one year timeframe can be 5X, but therefore we are investing in teams of people who are better equipped to sell through partners and so on. So I would say the New Services growth is both because of the services but also because of our channel strategy.

EBITDA from New Services, again you see a good trend there that we believe that we can maintain. Now on New Services, last week we announced what I think is quite a landmark service in the industry and definitely and a major milestone in our journey and that's a service called IZO. IZO, without going into any of the technical details, is a service that is designed to meet the needs of enterprises because they are seeing the shift of their applications to the cloud and they are seeing that the access of these applications are distributed not just from people working from offices but from remote locations and thus quite significantly through the internet. So in very simple terms if I had to describe it, so you have applications that used to sit in your office or your data center which are now moving to the cloud and to access those applications you end up going from your private network through the cloud to that application. So if you take an SAP or a salesforce.com or a Dropbox or Microsoft Azure or Google application or Amazon web services, whatever it maybe. So you have private networks and then you have the cloud and when you move the application from your private data center or private location into the cloud, the users accessing it come through the private network, have to go through the cloud to reach such applications. So the internet comes into play in that equation.

Other end of the equation, you might have a private network but all of us are employees working, travelling around, we are not always accessing our email or other applications only from the office local area network, you sometimes are in a hotel, you are at home, you are in an airport lounge and you are accessing it through Wi-Fi of you are accessing it through an internet medium. Again, it is not going directly into the private network. On this side of the equation also you have the internet that comes into the equation or the public network that comes into the equation. So in conversations with CIOs for the last 18 to 24 months, we started realizing two things, one is that the shift to the cloud is real, it is not hyped, it is actually happening and it's happening very quickly. And the second is, therefore the CIOs were all looking for a different way to design their corporate networks in order for the distributed users to access distributed applications sitting in the cloud.

Then we looked in our portfolio and we said that we have one of the largest internet backbones in the world. We carry 9% of the world's internet traffic, we are the fourth largest internet backbone provider in the world, and we are top five in five continents. So we looked at the market trend, what the users were saying and what asset was sitting right under our nose and based on that we set about designing a service and our principle when we were approaching this is how do we make the internet fit for business. So everybody thinks the internet as a great mechanism for the consumer. But we said how do we make the internet a platform that is fit for business? So our internal architecture principle was making the internet fit for business. Therefore we are leveraging the reach of our IP backbone with the partners that we have around the world, goes back to the theme of partnering, we have carrier partners and ISPs around the world and we are stitching all of this together and we have engineered a solution that brings predictability and deterministic routing of traffic through the internet. So that is really what IZO is all about.

But at the same time we are able to, because we are using public shared infrastructure and to a certain extent underutilized capacity or capacity that is not optimally utilized is probably a better way to describe it, we can deliver between 25% to 30% savings to our customers which is quite significant. So we can offer the similar grade service to a virtual private network or wide area network solution, leveraging the reach of the internet and adding technology that gives quality as well as security but at 25% to 30% savings. We really believe that as the market catches on to this it will be quite compelling.

The other thing for us was we said we are not going to launch this as a concept, we are going to really launch it with wide coverage. So the last 12 months we have been working very hard and my teams have been able to deliver something which was a huge stretch target for them which is going live on day one of the service which was on October 29th where we declared general service availability in 34 countries covering 85% of the world's GDP. Our target is in the next 18 months to reach 75 to 100 countries and essentially cover every part of the world with IZO. The feedback from both the customers and the analysts to the service has been very favorable.

Another point I want to make on IZO is this is another very real example of how we are building a service strategy which is CAPEX light. So we will have to obviously continue building and strengthening our core infrastructure and being relevant and being a magnet but we do not have to invest in the coverage that is required. So in a traditional MPLS deployment or VPN deployment with a private network model that even we have had so far, if you want to go to 35 countries we will to go put POPs in all those countries or we will put routers and switches and things in those countries. With this model we are actually using our partner networks and what we are working is a software engineering between their network and our network. So it definitely will make the CAPEX model for rolling our VPN services shift to a more CAPEX light model. So we really believe that it is multi-pronged.

So now let me just quickly touch on some of the trends we spoke about. I would say the big ones are the move to hybrid cloud and then the growth of mobility, the explosion of APIs which is essentially to drive ICT solutions being built by multiple people, putting the jigsaw puzzle together rather than one company being responsible for the whole picture. Two other things where we believe that there will be a major shift in the next say between one to three years, is the growth of connected devices. Everyone talks about machine to machine and internet of things, from what we are seeing and the conversations we are having, these are real, we really are seeing CIOs having not just conceptual conversation but actually talking about what does internet of things mean to us, what does machine to machine mean for our business and actually beginning to trial applications on a limited basis and that’s the beginning of what we believe will be a fairly big wave.

And the second and associated thing with that is analytics and the growth of big data. So here we are seeing as that as people are collecting data, they are looking at how they can use that data not just to improve operational performance which will drive productivity gain but actually thinking of new service offering. So there are lots of shifts taking place in the market and we believe that we are quite well positioned because many of these things make the playing field a little bit more level and takes the shift away from pure infrastructure to actually being an exchange, being an ecosystem and collecting the data from that ecosystem and deciding how you will monetize that. So these trends are beginning to really influence the way we look at every part or our customer segment as well as what we do as a business.

For service providers, they are all looking for monetizing new revenue streams, just selling the simple pipes and traditional services. Their volume growth is there but just like for us they are saying what more do we need to do to monetize. So we have quite a few things going on to help them with that. The second is to help them utilize their networks more efficiently and we are seeing this translate into more opportunities building for us both in developed markets as well as in emerging markets for TCTS which is Tata Communication Transformation Services, our outsourcing arm and I think in the next Analyst Meeting we will probably have the CEO of that group make a presentation to give you insights into where we are going with that business. But we see that the need for productivity gain in the service provider segment translating into good outsourcing opportunities for us. And the other, the third aspect is we have many local players who have assets that can be better utilized for providing global reach and they don't want to build that network themselves and so we are having conversations about how Tata Communications can facilitate that transformation and that journey.

But you shift gears and look at the enterprise segment which is our fast growth segment, there it is really about enabling speed, enterprises wanting to focus on their core businesses and leave the business of technology to people like us. The second is about deploying cloud and making network suitable for the cloud. Third is around the shifting user base to more mobile users and the fourth is around applications like collaboration that are being used on mobile. Just to give you an idea, if you look at an enterprise user who is using their mobility, they use it firstly for email, the second application is around sales force management or some kind of CRM application and the third application is around unified communication, they are using it either for next generation audio conferencing service or next generation video conferencing service. This is the trend that's being observed with enterprises around the world. So enterprise mobility and enterprise unified communications are actually quite closely linked. So in our service strategy we are taking that into account.

So what does this require us to do is to really look at how we can build hubs, how we can build exchanges aggregation points. Now the good news there for us is that's been our DNA, whether you look our voice business or our signaling business or our IP business, we have always serviced as an aggregator of traffic across multiple service providers. Now we are adding to that mix of service providers we are also adding content providers, OTT providers, the next generation carriers as well as the end user customer themselves. Multi-layered intelligence is very important in the network and being able to extract the trends and patterns from the network is becoming as important as what network you build. So we are putting a lot of emphasis on the tools and monitoring capability that goes on top of the network.

So I can go on and on but I think I have covered some of the aspects in this slide. I will just mention one point here is, the concept of public private hybrid models is fundamentals to us so we are not in the mode right now of just building everything ourselves, it is really about how can we take our private infrastructure and combine it with public infrastructure such as the internet. How can we offer solutions to customers that include their private infrastructure but leverage public infrastructure and this applies whether it is for network, it applies whether it is for data center and it also applies for things like unified communications. And in our case it also helps us being, I am talking now compared to the global players like the AT&T and Verizon and so on. Being able to reinvent our business model and pivot to this CAPEX light public private hybrid model is a lot easier for us to do then the larger established players where the status quo is a bit more difficult to disrupt because of the size and inertia.

So this you have seen so I won't go through it, we continue to build our strength both in private in public networks and our market position continues to remain strong. This is an interesting slide, I don't think you have seen it before so I will just call out how we are so relevant in the digital ecosystem around the world. Four out of the five most popular social network sites use Tata Communications, eight of the world's ten most popular web destinations are directly on Tata Communications, nine of the most 15 popular OTT voices services use Tata Communication voice services as well as our other IP services, 24% of the world's internet routes are broadcast directly on our network so the traffic bounces on to our network before it goes to its destination, three of the five most popular video sites use Tata Communication's infrastructure, four of the five global mobile subscribers actually use Tata Communications in some form or the other either for signaling or for voice traffic. Now we are looking at this and the more we look at it we first recognize the responsibility that sits on our shoulders in terms of powering the global digital economy. And the second is we are really excited about the opportunity this presents to move up from just being a pipe provider and an enabler to actually using this in an intelligent way to create New Services and to become much more relevant in where the world is going today.

So very quickly, when we look at our service portfolio, we announced earlier in this year internally and we are going more public with what we call our strategy 2.0 right now but we are reassembling our portfolio of services into components so just selling minutes or megabits of traffic, that's the basic, it's an important part but that's what we have traditionally done. Adding APIs to it, API is basically a application program interface that take our technology solutions and plug that into ICT framework more easily so we can have more of a multiplier effect through partners and finally in specific industry domains moving to solutions. I spoke about making the internet fit for business, the other one is we are looking at all our services and saying how do we make them mobility compatible and then third is the public private hybrid model and the fourth is using the sharing economy principles and saying how can we use underutilized or sub-optimally utilized assets across multiple service providers to create new business models.

So the strategy continues to evolve around people making a significant focus on a non-Telco like customer experience, we have a lot of activities underway right now working on aspects of our customer experience to further move up the scale on where we stand. Co- create with partners, the New Services, and finally a big innovation engine internally to create New Services.

I will not go through the slide, I think I have explained it when I spoke about IZO. But we actually did an analysis talking to customers and picked up from them verbatim on why they are buying services from us. And at the bottom part of the slide are actually words that the customers are playing back to us, they see us as a fit company that is quite innovative, really saying that you are agile. They like the quality of our portfolio of offerings, in other words the breadth of what we have built now is being able to help us create bundles that meet their needs. And on the far right is the global scale and reach which you are quite familiar of our infrastructure but I would say most importantly is what we keep getting played back to us by our customers is that we have a real challenger mindset. We have a mindset of challenging the status quo of technology and services but more importantly we have mindset of being a challenger in the market place vis-à-vis the competition.

So that coupled with the kind of recognition we got from Gartner, some of the conversations that we are having like last year for us in terms of, I can't give you names, but in terms of where we saw us being invited to RFPs that we would have never been in a call to before, a lot of the activity was in Europe. And we had some good success in the enterprise space in Europe which is translating into revenues this year. Where we are seeing our funnel growing with customers with whom we never even had conversations before is in the US. So with some very large companies are calling us now and saying show us what you have and this challenger mindset is really helping us over there.

So in terms of our focus areas I would say in managed services we are gaining momentum, hosting services in India and Asia we are seeing good momentum, unified communications is beginning to gain traction, we recently launched our global hosted contact center service along with things like Jamvee that is beginning to see growth. You see growth is probably more outside India than in India at this point. But the other voice services is growing well in the IT segment and the work that we are doing with the next generation segment, these are the big portal companies, the video players as well as, I can't use names but you can guess if you think about search engines and you think about big social sites as they move their business models, we are having some very interesting conversations with them and we are serving nearly all of them. I spoke about partnering already so I don't plan to belabor that point.

So in terms of acceleration, it is really about leveraging our scale and reach. Our brand and industry recognition is serving us well, we are doing a lot of work to embed ourselves in silicon valley in the innovation ecosystem there working with startups, working with some of the bigger companies but really being present there in order to identify trends but also when making us relevant to them as these companies go very global. The emphasis on partnering and building a partner ecosystem using platforms is picking up and we have to continue working on the challenger mindset.

Looking at all of this, some of it you will see in the numbers but we really sense based on market feedback and where we are as a business with new products that there is a big strategic inflection that we are going through.

In terms of vision, we continue to maintain our vision of delivering a new world of communications to advance the reach and leadership of our customers and partners. This vision statement has not changed since the last time we went other than for the last two words which is we added the words 'and partners' to it. Again to signal to the world, to our partners and internally on the importance we are placing on partners. Further, we have crystallized our purpose as a company in a very simple tagline which is to power the internet economy and globalization, because we are playing such an important role already with the reach and breadth of our networks and the kind of services that we offer that we believe that we can play an even bigger role and we are very proud that we are a company that has it's roots in India but actually is now truly a global company in terms of what we are doing both for the internet economy as well as in terms of globalization.

Now I am going to hand it off to Sanjay now to take you through some of the numbers for Q2 and H1 and together we would be happy to answer your questions both on the numbers as well as on strategy. Thank you.

Sanjay Baweja: Thank you Vinod and good morning to all. What I will do is take you through the numbers, how they impacted us, and how our focus continues to be in the manner that we have been speaking and I think that's what has given us good results.

So if you were to look at some of the focus areas which we have been talking about always, the big thing is about the margin profile and here I am talking of data in particular where we have noticed the gradual increase in the profitability. And I am not talking absolute but clearly profitability we have maintained the 20% plus numbers, in fact it is growing beyond that now and our belief like Vinod mentioned in term of the actions that we have taken will continue to grow and over the next couple of years you will notice that things are improving as we go along. And clearly we have seen the New Services which are beginning as we have always said, the New Services which are giving us more profitability. As they get into profitability mode we will notice that our overall profitability mix continues to improve. TCPSL again is an example and I will share with you the detailed numbers but clearly that is also moving absolutely in the right direction with all the efforts that have been put in by the team.

Our deleveraging story, I think that's our biggest other focus that we have, that is something that we have wanted to always make sure that that thing does not go off the rails and our EBITDA is now large enough specially from a data perspective, we are in a sense improved into cash generation on a standalone data basis. And of course, the other aspects of some of the good efforts done by the team and getting some refunds from the tax departments have also helped us in that story.

Vinod talked about our dependence on voice being growing lower and lower and as our profitability for EBITDA continues to grow our overall dependence on voice is continuing to become lesser and lesser. But having said that, we continue to maintain that voice is in the medium term going to give us like Vinod mentioned between $90 million to $100 million of free cash flow and I think that's for our company is critical. Having said that, data itself is generating enough cash for itself and leaving something from a deleveraging perspective.

Coming to TCPSL, clearly we have seen a growth there. You may not actually see this, it is a small growth but please remember that we have let go of two very large contracts which were onerous on us which were not making us money and that reflected here in terms of the profitability or the change in profitability. It is still not profitable but let me point you down to this last line that we have added here. Our focus is that we exit this year on a EBITDA positive note for TCPSL and I think we are on target to achieve that. Clearly, our deployment as far as the MOF, etc., is concerned is now very-very low but our focus is on WLA, we are doing between 300 to 500 deployments every month for that and that's getting reflected here in terms of the numbers that we have put in in the last quarter itself. And the good thing is that despite having such new ATMs coming in the last one quarter our number of transactions on the overall base is actually not dropping but is consistently going up and I think that's what reflects the change which is happening as more and more new accounts are coming into play across India and our focus on Tier-IV, Tier-V, Tier-VI cities continues to play, we will see this business getting more and more profitable as we go along.

The other aspect, clearly the debt profile and I think there again our continued focus on deleveraging our continued focus on the CAPEX intensity which is reducing as we go along is reflecting in our numbers from a $1.55 Bn net debt to a $1.38 Bn, we are really down now to $1.35 Bn if you were to compare H1 to H1. So clearly the focus is to not only de-lever but also to get our interest rates down and I think to that effect the story continues, we are down to below 4% now on an overall core basis. I think the efforts of the team are to really go and make sure that our profitability remains and whatever we generate as far as our EBITDA is concerned goes straight into the bottom line without the interest cost taking much of it.

CAPEX highlights, clearly again our story on intensity is continuing 171% capex to EBITDA is now down to about in the 60%. Also as percentage of gross revenue 18% down to 8%. Also I must mention that if you were to go a little before that it was around 25% of revenues, so clearly that focus has been there, we have done a lot of good work in that and that's what is reflecting, also here our asset sweating is much more so we are now into a positive mode even in Data FCF, last year full year we have done $45 million, here half year we have already generated $38 million net cash and I think that's what we have been talking about. We will continue to generate more cash to make sure that the business is self-sustaining and we will continue to drive our debt downwards. These things will help, some of you who might have read our annual report must have noticed an aspect about the DMRC, I think that also is very close to closure, and we would expect that money coming in and helping us in our net debt reduction. Of course eventually when the Neotel transaction happens, that also will help us from a net debt point of view. And I think clearly the focus, the agenda for us in terms of reducing our net debt-to-EBITDA to less than 3 will be achieved sooner than later.

Continuing, the focus of CAPEX like we said the heavy lifting has been done and now the focus is on growth. Very little is being spent on sustenance but more of the money is spent on growth CAPEX, on making sure strategic aspects are taken care of and clearly that is getting reflected in more sweating of our assets which then gets us more EBITDA and the more we have in terms of profitability. Our CAPEX range of about $250 to $300 million I think that's what we have been talking about, that is ballpark there, we will be as of now for the first half year we have done $125 so I think we can very safely say that the $300 million will definitely not be breached, it ought to be lower.

Now a little more focus on the exact numbers and I think that's I am sure a lot of you have already really gone through it, data segment continues to perform well, I think that's been our focus area, that's where our profitability, our future lies and I think Q2 EBITDA margin regains the 20% number and as our profitability like I said of the New Services continues to get better we will see this moving upwards going forward.

Voice – there has been a challenge in the last quarter. If I must say, yes, we had a stupendous quarter in last year same quarter but this year not only has the India termination as Vinod mentioned not favored us but also the exchange, relatively the exchange and I won't say the exchange but relatively the exchange is slightly lower. But also one other aspect at the core business level and I am sure we have another slide on that which is this one where the Canada Pension Fund has hit us again this quarter close to about $5 million. Last year same quarter we had an exactly opposite thing, we had a positive, we do get positive sometime so that quarter was the last year Q2 where we had a positive impact of the Canada pension fund. But this quarter again there is a negative. So if you were to look at comparisons between the two quarters, the difference is about $8.5 million. And that's a substantive difference and despite that what I want to point out is despite that our profit margins and EBITDA is growing and I think that's an important aspect that all of you need to keep in mind that the underlying trend of the profitability is continuing. I can't actually now call pension funds one off because we have been having it almost every quarter. But despite these hits as far as the pension fund is concerned, our overall profitability remains strong, the trend is good and we see it getting better as we go along. As the

New Services continue to give us more revenue, more profitability we will continue to see this profitability on the overall data segment improving.

Like I mentioned, we have received this Rs. 580 crores of refund in September and I think out of that our Rs. 127 crores is the interest on that and that pertains to 2000, so there is an element of interest which is Rs. 127 crores which is part of our other income. But what it does definitely is improve our net debt and I think these are the things which we continue to focus on and we will make sure that our deleveraging story continues and of course the consolidated net profit is firmly in the positive direction.

Now to a little more specifics, we have H1 7.8% year-on-year growth. The operating EBITDA margins and I talked about that despite the pension fund and despite the exchange, whatever little, we are consistent and please remember that last H1 was a case when in voice we had 10.5% EBITDA. So please keep that in mind when you compare the 15.7% to 14.4% but what is important is profit before tax and exceptional items and I think that's where the growth is really coming in and that's what we believe is the real strength of the organization as we go along and get into more profitability mode.

Again, looking at the profitability from a core and startup perspective like Vinod mentioned Neotel has been doing well, they are into the profit mode already, and they have made profits in this year as compared to H1 of last year. And core of course on its own is anyway making profits. So now the overall consolidated number are reflecting profitability, there is amount of growth and the gross revenue growth is there and that's despite the slight decrease as far as voice is concerned. So what is important for you to remember is that our core strength of data is continuing to grow on the top line also on the bottom line if you were to compare H1-to-H1 and that's what will hold us in good stead. And like Vinod mentioned there is a lot of focus that we are going asset-light, our focus is to use partners and take partners who will then generate significant traffic into our networks and make sure that our capacity utilization increases and please remember that the more that our capacity utilization increases with a lot of my cost as fixed, we will see profitability improving. And when I say profitability it not only means absolute but in terms of percentage also, although the pricing will be slightly different but our overall capacity getting utilized more and more will see our profitability improving significantly.

Almost to my last slide, talking about voice and data. Voice as you will notice has got eroded a bit from a 10.5% last year H1 to about 6.5% this year, so clearly and we kept telling you all the last year and the last quarter that it is the 6 to 8 band which we need to be focused on, that's the number which is sustainable as far as voice profitability is concerned. And as we go forward the data profitability is what we need to focus on and that's what will continue to improve as we go along.

Q2 numbers now, 2.4% overall year-on-year growth. Operating EBITDA, again at the back of comparison of voice in the last year same quarter but despite that the profitability is up and I think that's what is important PBT up significantly as we go along. And Q2 from a core and startup, again, core is also improving and in core what is important is the data and I think that's what is key to us. And this is where we see the 20.3% coming up, in Q1 we were down slightly but I think and this is mind you despite whatever hits we have got in the pension fund. So clearly the underlying trend for data is strong, the profitability is improving as we go along, the margins are improving, the EBIT is into a positive trajectory, and I think that's what will hold us going forward in good stead.

That was pretty much my presentation. Now, we open the floor for questions.

Vinod Kumar: I also want to just thank Mr. Baweja here for great tenure at Tata Communications as a CFO. As you know this would be the last Analyst Summit that he is doing for Tata Communications and he will be with Flipkart soon. So we wish him the very best and thank him for an amazing job that he has done. Obviously he has worked very well with us in the transition, Sanjay is a dear friend and changes in leadership do take place but he leaves also a very strong team and I am sure that in the next quarter also you will see absolutely the same level of reporting and details and hopefully even greater improvement. So thank you Sanjay.

Piyush Choudhary, CIMB Securities: Couple of things, firstly on a voice side could you elaborate what percentages of minutes now come from the long-term contracts or the other way that in that EBITDA what percentage would be from the long-term because that business is more volatile?

Vinod Kumar: Yes, I know the answer on top of my head on minutes, I don't know in terms of EBITDA Piyush, it is roughly 50%, and it continues to remain from longer-term contracts. And that's what I said, we are much more interested in the quality of the minute in terms of margin, in terms of how long it is contracted for rather than just chasing it for the sake of it. EBITDA, I don't have an answer, if one of my colleagues does we will get that to you.

Piyush Choudhary: Sure. But in terms of realization you would not have that declined realizations in the contracted side, right?

Vinod Kumar: No, even in the contracts there what we have is commitment that the traffic will remain with us, we don't have to compete for it, but usually we have MFN clauses and so on built into it. So even there, there will be some movement. It is just like, okay you may get a slightly better margin then if you had to go fight for it from scratch but you have to move with the market on that.

Piyush Choudhary: Helpful. Secondly on the data side, in your slide you have mentioned that you have recently won some contracts, could you elaborate how big is the order book now in terms of compared to last year same probably first half it has grown, what percentage?

Vinod Kumar: So I cannot give you the specifics in terms of order book, we haven't been reporting that but we are considering doing that in the future also. But I can tell you that we track sales performance of course on monthly recurring revenues and in our large enterprise segment we have grown 17% year-on-year. And that's why when I look ahead at data you cannot translate that immediately to 17% increase in revenues because there is lag time to implement, you also have terminations and so on. But just year-on-year comparison we have 17% improvement in sales to large enterprises and next gen companies.

Vivekanand Subbaraman, Phillip Capital: You spoke a little bit about the partner strategy in enterprise data, could you elaborate a little bit on the long-term CAPEX implications of the strategy on your business?

Vinod Kumar: It is one more activity that is related to keeping our CAPEX sub-10%, so right now we have got 8.5% when we look at our CAPEX to revenue ratio compared to about 17% that we had a few years ago. We believe that we will stay in that band of 8.5% to 9% looking ahead as well. But the partner program is also not about revenue generation as well as service creation. So it's not just about using their networks, it is also to drive top line growth.

Vivekanand Subbaraman: Okay. But what about the implications on your cost structure if I may ask in terms of where would the cost get loaded essentially on the network side or other expenses?

Sanjay Baweja: It will basically hit direct costs so your net revenue will go down but the rest of your expenses because you are using partner channels, you are using their brand power, they are using their back office and so on so you should see an improvement in the cost items below net revenue. So your direct cost will go up for data but net revenue will come down. So that's for operating cost that will be the impact and then depreciation should not take up as fast because you've been deploying that CAPEX.

Rajiv Sharma, HSBC Securities: Three questions. First is, is your voice margin bottomed out at 6.5%? What can take it further down, that's what I am more interested in understanding. Second, is your partner strategy margin dilutive, it will be top line positive I understand, you can gather a lot of sales momentum but will it sustain 19% data margins? And third is, you have not talked about data centers which you have been talking of for the last couple of quarters, some color there, what's the progress and any demerger plans, listing plans something around that.

Vinod Kumar: Okay, all really good questions. So on the first one, I would say voice margins at 6.5%-7% bottomed out I will leave that definition to you. But I would say I see them stabilizing around that. You may have near term movements but generally speaking I feel that that number is a doable number in terms of percentage. But as I said voice, we continue to look at the mission for the group running the voice business, get us a $100 million of free cash flow. And that's what we are focused on and I believe we should be able to maintain that.

Second question on margins, no, I do not believe that would be margin dilutive, in terms of margins I believe it will not have a detrimental effect, we would still be able to maintain that 20% range, in spite of having partners come in that will have a direct cost associated with it. Because you will have your direct cost coming off but I don't need us being a support organization because a customer acquisition, customer relationship management, the planning for the network, all that is not something that we have to do to the same extent because the partner would be doing it because they are sharing the responsibility of this. So we will run it, I can assure that, in a way that it's not margin dilutive.

As far as the data centers are concerned, it continues to be an area of focus, we just didn't cover it because we have had a lot of ground to cover. In addition to the growth of the colocation business which is coming frankly more from the next generation operators and OTT players, at faster rate than coming from direct enterprise in colo, where we are seeing fairly good build up from direct enterprises in the hosting and virtualization and cloud infrastructure services space. And we have built and strengthened our service offerings there and there will be more that we will continue to work on in that space. So we are seeing a fairly good funnel of activity from larger enterprises for private-public hosting deals.

Rajiv Sharma: Lastly, you talked about 500 being your sales force and you taking it 4x or I misheard something?

Vinod Kumar: No-no, I was saying that if you look at our direct sales force at our enterprise side we had about 400 people who are bag carrying sales people. The effect that we believe that partners can have on that is to actually increase that number 5-fold within say 18 months to 2 years. That's the impact, so partnering needs to be viewed in the context of service creation, in terms of go-to-market as well as helping us in reducing our CAPEX intensity.

Naveen Kulkarni, Phillip Capital: Looking at your strategy what I can see is that you are significantly enhancing you capabilities in terms of types of products that you would be capable of delivering. What I would like to understand is what are we working in terms of our reach, what are geographies that we could be targeting, and second is what kind of customers that we could be looking at considering the strategy and the types of products that we are rolling out? And also with sale of Neotel we would have only one home market which is India, are we looking at more home markets like earlier we looked Cable and Wireless which was Europe, what is the strategy there? Thank you.

Vinod Kumar: Okay. So in terms of geographic reach, it is tough to give a generic answer for it because we operate truly globally and our value proposition has to be global when it comes to network services. Our internet offering for example we touch more than 100 countries now with customers, similarly in voice, similarly in signaling. So those kind of services are very global. When it comes to enterprise services using things like IZO, again the service has to be very global. So the large MNCs need coverage pretty much everywhere. However, the way maybe I can try and answer that question for you is to say where we are trying to create truly differentiated capability? Where our service offering both in terms of reach, the level of local presence that we have, and the kind of comprehensiveness in our portfolio being strong will be more around Southeast Asia, Middle East and Africa. So obviously our presence in the US, UK, France, Germany, China, Hong-Kong; China and Hong-Kong, these days a politically a difficult answer and so on. But where we differentiate ourselves in the market recognizes us for differentiation is in the emerging markets specifically Southeast Asia, Middle East, and Africa.

The question on home market, let me try and answer that, is yes, when we exit South Africa we will have one less home market but for the last two years almost we have sort of shelved the idea of creating more home markets. We believe our sweet spot is cross border communications and collaboration and that's what we are focusing on. So we are quite content with having one large growth market of India being our home market and in other places really working with partners and leveraging their capabilities to offer services into those countries and from those countries. It also makes us very non-threatening in that way because we become more of an enabler and an aggregator rather than actually going in country and competing for domestic business.

Furthermore, the experience in South Africa has taught us that when you go local in a country, the investment required to create your brand, to create a broad network and to create a vertical offering is fairly significant. And I would say it is a lesson that we have learnt that we will not go and replicate a similar strategy in other markets. You will see us increasing local presence in multiple countries but that does not make them home markets. I am not sure if I answered your question entirely, in the middle you asked me multiple questions in that if I missed something out please do tell.

Naveen Kulkarni: Yes, I was referring to what kind of customers you would be targeting with the types of products that you are rolling out?

Vinod Kumar: We are very clear, we are B2B company, we serve 1,600 service providers around the world, we have about 5,000 to 6,000 large enterprises that we target and then we have sub-systems integrators who are another 100 odd companies around the world that we target. So putting all of that together we will remain focused even in the next two to three year on about 10,000 B2B companies and our whole strategy is based around that. Through them we will serve other smaller medium businesses, through them we will serve consumers but that is not where we are building our direct touch point, it is not where our brand has to be relevant so we will maintain that focus and I think that's quite important because trying to combine B2B with B2C is extremely challenging and there are a very few players around the world who can successfully pull that off unless they are very large incumbents who have a long track record of investing in both B2B and B2C, so we are B2B.

Jeetu Panjabi, EM Capital Advisors : Couple of questions, one, if you take that top line number on the data side which was up 7.2%, can you break it up into what was price deflation versus volume growth or give us some sense of what's happening on volume side and the pricing side.

Vinod Kumar: Jitu that's a tough question to answer unless you really take it product by product but I will try to give you a sense. So price erosion for us across services is probably running at about 10% odd. Sanjay please correct me, about 10% odd, some services would be little bit more and it used to higher frankly so I think compared to our own internal planning the market is and I think the last analyst summit or call I mentioned that we do see some level of, I won't say price erosion stopping or stemming but flattening and it is about 10%. Volume growth on the other hand is a little bit higher than that, so we are talking in the upper teens, so that's what you are seeing offset and the revenue growth.

Jeetu Panjabi: And what would the same thing be for voice?

Vinod Kumar: Again, voice is difficult to say because if you take India, your termination rate has gone down by 35% year-on-year, around 35%. So that is quite a big jump but non-India, its much less than that, it has declined but it's probably in the 7%-8% range.

Sanjay Baweja: Just on specifically voice, I think that there is this issue of termination per se overall that we would pay and then the net margin. Our net margin has gone down in some places because we have gone and have higher gross revenue because we have gone some destinations which are high revenue at the gross level. But the net margin is lower in terms of absolutes. So net margin is not reducing dramatically down but what has happened is the gross revenue per se is slightly up because of the high destination volume and therefore that gives us the confidence like Vinod mentioned that overall this steady level will remain because the net margin is not substantially getting eroded in that sense.

Jeetu Panjabi: So here is another bigger equation, pardon me if I misunderstand this but the core USP of this company right now is you have got CAPEX that's been spent, cash flow that's rising, and an inventory that's sitting out there that you can utilize and in your inventory the pricing on your inventory that is sitting out there at 10% per annum for the next years going forward that means the value you potentially create is deflating at 10% a year and you got to neutralize that through volume. Do you think that trajectory changes at any point or am I misunderstanding this?

Vinod Kumar: I think you summarized it very well, the only dimension I will add is two nuances I would like to add building into the central themes that you mentioned. One is around the building blocks in place we are able to create New Services at a much faster clip and which are higher margin services. So with the assembling of things across our portfolio with a few partner components and so on is we are able to do a lot more of that and do it quickly. So we see revenue growth opportunities from there. The second is also the partnering opportunities to take services to market are increasing because of that pipeline that we have. But other than that its affect you are seeing in the numbers, the scale effect of both are CAPEX that we spend in terms of infrastructure as well as the OPEX having adequate headroom to continue to grow. Now obviously we will have to step up investment but then we feel that there is very sufficient headroom for what we build to sweat and produce more results.

Sanjay Baweja: Just one more aspect to this to just to add is the technology is also helping us, the 400 gigs, the 100 gigs, that technology change is helping us create in your words much more inventory which will be available to us at a much-much lower cost per unit. So that's an added aspect.

Jeetu Panjabi: So that's basically telling your utilization is lower than what it actually is if you were using the new technology?

Sanjay Baweja: Yes, so there is therefore huge amount of opportunity as we utilize more and more as we go along because we are able to create much more.

Sanjay Baweja: Your denominator is changing.

Jeetu Panjabi: Yes, that's the point. And actually one final question, what is the depreciation policy that you broadly use on your CAPEX on your assets?

Sanjay Baweja: I mean it's different generally the new Company Law has suggested. For example, the biggest asset in terms of cables we used 20 years as our number. Most other companies we are aware use between 25 to 30 years but we have been using 20 years, we had about 15 to 18, we now stabilized that at 20 years, the others are just normal as anybody else would do computer 3 year, etc., in normal Companies Law.

Jeetu Panjabi: On the aggregate basis what would the weighted average number be?

Sanjay Baweja: 9.5-10.

Mahantesh Manlinga, Finquest Securities: I had three questions for you. Like the present government is quite aggressive on the broadband rollout over pan India, so what kind of traction can Tata Communications expect from this? And the second question is, are any more tax refunds expected in a near term, and when is the final closure of the Neotel sale going to come through I mean there were some regulatory approvals required or something like that?

Sanjay Baweja: Let me answer the tax refund part and then balance I will request Vinod. We are in the court or in the tribunal for a lot of cases. We believe our position is very-very strong but these things can never be predicted, they take long time, this case for example pertains to 2000. Yes, there is a possibility that we will get more but we cannot work on that basis, but the hope is that we will get more.

Vinod Kumar: Yes, it is not something that will be factored into our operating plans, even this one, so I would say there are opportunities but they will come when they come given the process. On Neotel, it is tough to put an exact time frame on it just because of the nature of the process and the public hearing that they have to go through. So we are tracking more on risk associated with it and being engaged in the process and there we don't see any significant risks to the extent we can say that for such a regulatory and government lead process. I cannot commit to a timeframe.

Mahantesh Manlinga: Broadly sir, broadly around six months to one year around?

Vinod Kumar: Broadly you still commit, so I'd rather refrain from that. But it won't be years let me put it that way if you want me to say broadly. And the first question was on…

Mahantesh Manlinga: The national broadband rollout.

Vinod Kumar: So, see the growth in broadband will only be a huge benefit to us, a huge benefit to us because we directly get influenced in terms of the traffic that we will carry on the internet given the position that we do because the broadband would be used for that. The second is increased broadband means the enterprise offerings will also increase. So more broadband connectivity means more ecommerce activity, you have more outreach in the market and therefore it will benefit us. So we are entirely in favor of it, enable it and we see that as opportunity.

Piyush Choudhary, CIMB Securities: This is Piyush again. A couple of questions on the non-core side actually, you have talked about in the past about that asset monetization on the non-core, so any tangible progress over there? And secondly on the Hemisphere Properties, we saw in the budget there was an allocation of some amount towards Hemisphere Properties, so are there any progress on that front?

Vinod Kumar: The second one is easier to answer because there is not anything specific that we can report. The topic continues to be discussed and maybe with the new government there is a greater interest in finding a solution given the broader disinvestment focus that the government has. But honestly I do not have anything to report in terms of specific milestone that has been accomplished or a milestone that is coming up, we continue to keep the pressure, give the information, educate various authorities on obviously when change of government, change of bureaucrats it is always a shuffle of people so we are constantly keeping the information flow going and suggesting solutions and possible ways to address some of the concerns around capital gains which is a major issue. So activity is there but nothing that you can build a model on.

In terms of monetization of non-core assets, we continue to keep that as an important agenda item on our management dashboard. We are doing some ground work to enable that to happen but we are not putting a timeline on it. But at the same time I have to say that we are not desperately trying to do it. Our cash situation is quite comfortable, we bring the debt down, and we see Neotel happening that will help contribute to the debt reduction. Therefore we don't want to sort of leave money on the table by doing something hasty but generally the market conditions are improving now so I am glad that we didn't do anything for example a year ago or even six months ago. I think what we will realize when we do it will be better now than it was then. I am not an expert in real-estate in India but if you look at the broader economic indicators and looking at correlations, there should be some improvement and hopefully get us a better return when we exercise the decision to sell something. We are working on it and it's much more under our control and influence but it's about timing.

Piyush Choudhary: Yes, I was asking from a perspective that you were thinking of something to happen this year. I know there is no present need from cash flow management and you have mentioned that short-term debt you have more cash balance against that. But just from timeline perspective as analyst like to put timelines to everything.

Vinod Kumar: I expect in the next two quarters something will happen, I don't want to put a number to it but between DMRC and other things we are looking at, one of them should happen. DMRC is progressing quite favorably for us but it's in the court so we will see where it ends up.

Mahesh Pratap Singh: There are a couple of follow-up questions which I will quickly take from webcast session. First one is, what will be the target clientele and what is the target size company has put forward in terms of size of segment over next few years on IZO, is there any specific market size we are working with?

Vinod Kumar: Yes, so size of customer continues to be large MNCs with multi-country coverage so there is no change in that which is a good thing because we don't have to go and invent a whole new go-to-market strategy, who we sell to the service is very relevant to them. However, what we can target is better with IZO and some of the other service that we have rolled out or will roll out in the next six months; we essentially are changing the size of our addressable market from a $33 billion addressable market for those services to a $50 billion addressable market. So we got a $17 billion bump in addressable market size for some of these New Services that we are offering. So that's quite a significant increase in size.

Mahesh Pratap Singh: Okay. There is another question which talks about what is your market share in India datacenter space?

Vinod Kumar: India datacenter space or colocation services, we are the number one player in the market. In terms of revenue, our estimated market share is between 27% and 30%.

Mahesh Pratap Singh: I think we covered this to an extent, this asks about going ahead what would be the CAPEX requirement for 2015 and 2016 and out of that what would be upgrade CAPEX, I am not sure what it means by upgrade but that's the question.

Sanjay Baweja: I think we covered maybe that, we continue to have the broad range of $300 million in terms of CAPEX. The upgrade, etc., is a very small component so it's not a very large number to that. But like is said this is the technology benefit that we have and a very small cost we are able to get much larger inventory into play.

Mahesh Pratap Singh: The last question through the webcast. This one asks about what would be the magnitude of debt reduction post-closure of Neotel?

Sanjay Baweja: So I think again the numbers are not finalized yet because. It is a moving target depending on how much cash there will be at the time of closure with Neotel, etc., and how the numbers pan out whenever the closure finally happens. So it's difficult to put a number to it but definitely there will be very-very positive improvement from a net debt numbers perspective.

Mahesh Pratap Singh: Thanks. Well, thank you so much for being with us today. Really appreciate your interest and time in Tata Communications. Please join us for lunch outside. Thank you.

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