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Q4 & FY2018 Analyst and Investor Meet Transcript

MAIN SPEAKER:
Vinod Kumar, Managing Director and Group CEO
Pratibha K. Advani, Chief Financial Officer
James Parker, Chief Customer Officer

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

https://www.tatacommunications.com/wp-content/uploads/2018/05/FIN-Analyst-Presentation-PDF-20181105.pdf

Vipul Garg: On behalf of team of Tata Communications I extend a warm welcome. Thank you for taking time out to be with us. As always, we truly appreciate your interest in Tata Communications' growth story. I am Vipul Garg, Head, Investor Relations for Tata Communications.

Let me begin by introducing members of management joining us today. We have Vinod Kumar – Managing Director and Group CEO; we have Pratibha Advani – Chief Financial Officer; and we have James Parker who is our Chief Customer Officer.

Before we start, I want to touch upon the Safe Harbor statement prior to moving ahead. I would like to remind everyone that anything we say today which reflects any outlook for the future or which can be construed as a forward-looking statement must be viewed in conjunction with risk and uncertainties we face, which may cause the actual results to defer materially from those expected. A detailed statement and explanation of these risks is included but not limited to what we have outlined in our annual filings, and the company does not undertake to update these forward-looking statements publicly. The event will be archived, and the transcript will be available on our website.

Allow me now to walk you through the agenda for the day. Vinod will share his thoughts with you at the outset giving you a market perspective, his vision of the company while touching upon the progress that we have been making. Vinod will be followed by James who will present updates on global sales, market opportunity for Tata Communications and Company's go-to-market strategy. There will be question-and-answer session after the management presentation where you will get to present your queries for the management speakers.

For the benefit of everyone in the room, as well as those joining via webcast, I request everyone to kindly state your name and the name of your institution before posing the question during Q&A session. There will be an opportunity for the webcast participants to ask questions as well, we intend to take some of these questions which are not already covered by the in-room audience towards the end of the event. And if we cannot take your questions we will definitely come back and respond to you over email. After the Q&A we request your company over dinner, arrangement for dinner has been made in the lobby outside the room.

With that, I would now like to invite Vinod to come over and share his views. Over to you, Vinod.

Vinod Kumar: Thanks, Vipul. Good evening, everyone. Thank you very much for joining us today. I have a presentation I would like to share with you on the results as well as the strategy. But before that, we have a special guest today who has joined us, Mr. Saurabh Agrawal is the Group CFO of Tata Sons and we have him in our midst, he will be here for about 20 to 30 minutes. The principal reason why I invited Saurabh to join us today is to answer some of the questions many of you have asked me repeatedly on the strategic interest of the Tata Group in telecom and how the group views Tata Communications. I thought I will be best that you hear it directly from Saurabh. And we will have a few minutes of Q&A with Saurabh as well, after which he will have to leave, he has taken time out of his busy schedule to be with us.

So I would like to invite Saurabh to just say a few words, after which we will take some questions. But the questions on the results and so on can follow at the end. Thank you.

Saurabh Agrawal: Thank you, Vinod. I am here on behalf of Tata Sons, so Viond invited me to share some perspective and answer any questions that people may have with respect to our overall telecom strategy. I think as many of you are aware we did announce our transaction sometimes in September last year whereby we decided that our consumer business would get transferred to Bharti. And in the portfolio, I think when we looked at the overall different components of the business that we had I think we very quickly came to the conclusion that that is a business which was not sustainable in the hands of Tata Group. And I think that business could do well in the hands of somebody like Bharti as far as different stakeholders in their business is concerned. And I think many of you are aware why I am making this statement is in the context of what the telecom industry is going through. And I think from that perspective it was very clear to us that if we want to remain in that business we have to look at a significant investment of capital. And where the asset was we decided that basically somebody else can add a lot more value. But when we looked at the different components of the businesses, I think one business that stood out us very well in the overall portfolio.

So when I look at the telecom portfolio that we had as a group, we had TTSL, we had TTML, we had Tata Sky and we had Tata Communication, these were the different businesses that existed in the portfolio of the group. Within that I think we have some listed businesses like Tata Communication and TTML and we had some unlisted businesses. And very quickly, when we looked at overall presence within the telecom market I think we are the largest provider as far as the DTH is concerned in terms of quality and service. We had a fundamentally great play in the enterprise space through both Tata Communication and the part of business which was sitting within TTSL and TTML. We had basically the rest of the consumer mobile business which was sitting with TTSL and TTML. So amongst the different components and obviously Tata Communication apart from enterprise is a much bigger global connectivity play and many other value added services areas as you all are aware of. But I think within the context I think we were very clear when we evaluated the strategy that we have a good position as far as DTH is concerned and as far as enterprise business is concerned. And Tata Communication again basically is a significant market leader in whatever it does. And we felt that basically enterprise business is where we have a significant market share and if basically we were to combine these assets it makes a lot of sense. So I think when we announce the overall transaction in the context of Bharti, we said we are exiting the consumer mobile business, we will be combining our enterprise business and offered it to Tata Communication. Now it is up to Tata Communication and its shareholders to decide whether they like that business or they do not like it. It is something which pretty much originated from Tata Communication in the first place and I think as a combined business it is a significant business with a significant market share which has been growing and it has been a market leader. And in the whole digitization and formalization of the Indian economy that we are seeing is not just about pure consumer mobile business, our own view is that the enterprise business is going to be a significant business of the future and I think there are significant synergies that can exist if these businesses were to come together. And overall as a group we would like to have a presence in the enterprise segment overall. We like what we have in Tata Communication, we believe we can grow it significantly and we will support the growth plans which the company and the management brings back to shareholders, so we are committed to that.

And from our perspective I think it is up to the shareholders and the Board to decide whether they would like to take this offer of enterprise business to make it a significant business overall for Tata Communication. So from a group perspective we are pretty much committed to the overall story as far as enterprise is concerned. So we have no doubt that this is a business where we will continue to invest going forward and this is where we think there could be a lot of value added services which be overlaid on top of connectivity solutions which are currently provided.

So that is something which I wanted to give you a little bit of flavor on. And I am very happy to answer any questions that people may have in terms of… this is nothing to do, I do not think we are presenting any transaction, we are making any announcement, it is just a statement of facts in terms of giving a perspective on how at Tata Sons we are looking at this overall portfolio that we have. And it is just to basically share that with you.
Nimit Tanna: This is Nimit from CWC. Two quick questions, one is that if this transaction were to go ahead and it may happen at market multiples, there is a very good possibility that the leverage on Tata Coms balance sheet

goes up significantly. And this happens just at the time that the company is in the middle of a big transformation. So given that how do you at the group level and think about that leverage? And secondly, this leverage can only be solved once post-transaction when the government actually allows equity to be infused, at that point in time what is the group's thought on actually adding equity to the asset to help it de-lever?

Saurabh Agrawal: No, you are absolutely right. I do not think it is for the management team to come back and present what the contours of the transaction are and we are not discussing that. What all I can say at this stage is, you are absolutely right, if it was to be funded purely through debt the leverage would go up. At the same time there are constraints in terms of the overall shareholding where we have government as a shareholder of a certain percentage of the shareholding. Frankly, I do believe I think what we have offered to Tata Communication overall from a shareholder perspective it creates a significant value, because there is a lot of synergy between what they already have and what TTSL's enterprise business offers to the combined entity. In terms of leverage, frankly I think as a group we stay committed in terms of supporting this business in any form, if it needs additional equity we will figure out ways and means of how that equity can be put in, how that can be taken care of. But at the end of the day it is for the management team to present it to the shareholders as well as all the shareholders and figure out what goes through. So from Tata's perspective all I can say is that we are very happy to support the business in any form, whether it is with capital or with strategy or with any other means in terms of supporting the management team in any growth plans that they build out for the business.
Nimit Tanna: And another quick question, if the government were to offer the 26% stake, how does the group think about that to the Tata's?

Saurabh Agrawal: I think it is a very hypothetical question, we are getting into election year next year, I mean frankly there are too many variables at play. And I think it is for the government to decide the process and timing of such a decision. I think land demerger was an important milestone for them to make sure basically that what was promised to them at the time of initial transaction actually accrues and that is something which hopefully should close before end of this year, we are well on path to do that. I think post that basically it is for DoT and the government to take a call on whether they would like to continue to be a shareholder or they would like to divest it, and decide on the process of doing that. As and when that situation arises I think we will take a call depending on the process which government would like to follow on where we go from there. So, it is too early for me to comment. I think there are too many factors and too many variables to give you a straight answer.

Rushab Sheth: This is Rushabh Sheth from Karma Capital. Just a quick question on this. Where is this process of, the fact that we have been hearing about this enterprise business of TTSL being offered to Tata Comm, but where is the process, I mean, we understand that is the government in favor of this, or what is the status of this?

Saurabh Agrawal: I think I would like Vinod answered that question. Frankly, from Tata's perspective we have offered it to the company. It is for the company and its Board to take a call and revert to us as and when they would like to extend the offer. So, from our perspective, the fact that we own that business pretty much, a large part of it, by taking over all the liabilities related to that business, I mean from our side we offered it to them because we think it makes sense. But it is for all shareholders and the Board to decide as and when they make an offer. And that is when we will look at it what the offer is and take a call on whether it works for us or not.

Vinod Kumar: If there are no other questions, I would like to thank Saurabh for joining us today. And we will carry on with the rest of our presentation. Thanks, Saurabh.

Saurabh Agrawal: Thank you. Thanks, Vinod. All the best.

Vinod Kumar: Okay. I will answer the question on TTSL, maybe after I finish my presentation both in terms of the strategy and industrial logic of it, as well as where the process stands as of now, okay? Okay. So today I plan to cover a couple of things in my presentation. One is to provide an overview of our strategy. The second is to… Actually, three things I should say. The second is to provide an overview of the numbers, the results for Q4 and full year which we published last night, so I am just going to cover that at a high level. And the third will be to give a forward-looking view of our aspiration for what this business will look like in FY2021. One of the things that many of you have asked for is for the management to share, what are the contours of the business in terms of revenue composition, EBITDA profile and so on from a longer-term perspective, and we will be doing that in this presentation. I will be followed by James, and James will provide an overview of our customer activity and our go-to-market strategy, and then we will take Q&A. Pratibha will be joining us for the Q&A.

So, one of the things that we have been talking about or have been talking about several times is the shift from being a telecommunications company to being a digital infrastructure provider. And many have asked what does that actually mean?

So, being a digital infrastructure provider at its core does have what we used to do before, which is the connectivity business and collaboration business. That is the foundation that will remain where we stay grounded. But around that we believe we have created both the product portfolio as well as the market permission and customer access to provide other services that are complementary in nature that are crucial for where customers are going with their digital journeys. And what does this mean? This means we added the cloud piece a few years ago, that was the compute and storage. So, beyond the connectivity and the collaboration we first added the cloud services piece.

The next piece we added was the security services, and the security services, as you realize, both for companies, large and small, whether they are in India or global, it is really a major concern and it is something that every single company that we have conversations with on the network side, asks us for. So the whole portfolio of security services to secure their network perimeter but also to keep all the data that they have is a pressing need with every single customer that we engage with.

The most recent additions to our portfolio have been in the space of mobility and IoT. In the last one year we have started talking more and more about these services, and we have fairly disruptive plays in the mobility space, where without any investment in asset and infrastructure today we offer global mobility solutions both for humans and for machines and things, using a software play that sits on the spectrum and licenses and physical assets of mobile operators around the world. So, it is the kind of thing that others have done to us in our traditional business, we are now doing it to mobile operators.

Our eye on the prize is both on the humans, but far more importantly, it’s not the voice and data roaming, we see the opportunity for connecting things and machines globally as they move across borders to be significant. I believe in one of the earlier presentations we had Anthony Bartolo present this, and when I share the operating metrics later on I will talk about these services in slightly more detail.

We also have an IoT play in India, which is a full stack play where we offer turnkey solutions that includes everything from the sensor, all the way to the application software with the network piece in between, which again is gaining significant momentum.

So with these services we really are now able to have conversations with customers that has moved us away from being viewed by the market as a telco, right? While connectivity is at the core, the conversations that our sales team can now have with customers is truly about anything they need for their digital transformation journey.

The other important thing that this shift has enabled us to do is, previously our discussion, our solutions to customers were really B2B solutions. Today, we are being included in their product strategy, in their go-to-market strategy and so on, so the nature of the business is really become B2B2B or B2B2C. So when we are dealing with an IoT solution for an automobile company, we are actually part of the design of the car that will be used by the consumer in a way. And therefore the proximity or intimacy that we have with customers significantly increases. And what does that mean? It just means that the relationships become stickier and we cannot be easily replaced once we are inside. So the shift from pure B2B to B2B2X is an important shift that our digital infrastructure strategy enables. I am going to move this very carefully and see what this is on.

From a services road map, again, I do not want to get too much into the technology itself, but when we look at our CAPEX spend and how we do things, I feel it is important for you to understand a few things on the shift of the business. The first is, no longer are we thinking build more submarine cables, build more physical infrastructure, the theme for us for the last few years is to shift towards making the internet fit for business. We are the fourth largest Internet backbone provider in the world, we carry 11% of the world's internet traffic, and therefore, we are able to do things with the combination of our subsea infrastructure that is still the world's largest submarine cable network, with the amount of traffic we carry on the public internet to carry internet traffic for our business customers in a relatively more secure way and a relatively more deterministic way. That is the meaning of making the internet fit for business. And we are seeing customers of all shapes and sizes beginning to get comfortable with using the Internet not only for their consumer use but also for business use. And so we have a lot of solutions built around this fundamental premise.

What does that do? What that enables us is to build public-private hybrid solutions. So, in other words, let us take cloud, I will use different services to use examples. We are able to now build solutions for our customers where they partly may be keeping their workload on AWS or Azure, but part of it they want in-house and want it in a more secure environment. They will come to Tata Comm for us to manage this in a very seamless basis, so they can move their workloads depending on sensitivity of application either on the public cloud or something that we manage on their behalf. That is a good example of what public-private hybrid allows. And this, again, is an important design philosophy that cuts across all our services, whether it be network or cloud or unified communications or security.

The third aspect of our services strategy is to build application awareness into all our services. We have many activities going on where we are designing our services in our network so that you do not need a heavy IT organization in between. So the services that we are taking to market will sense based on the customer's application environment, what our service needs to be, right? This is a bit of a visionary statement that I have made but we are taking steady steps towards it to build more application awareness into everything that we do.

Then the next part is how services are consumed by our customers. Again, customers are shrinking their IT departments and they want automatic provisioning. So if it is Diwali season and your traffic volume goes up in your retail stores, you should be able to consume more bandwidth automatically without anything coming in between. And the layer that does this is the API layer. And we are building APIs into all our services that again enables easier consumption of our services. So I do not want to get into the technology of it, but think of this as this, an application awareness, allows easier and more dynamic consumption of our services.

What it also means is that our selling effort can decrease by that extent, our operations support can decrease by that extent. So we do not need people working with the customer saying, we take your order now, we will go put it into a system and process it. The customer's application is talking to our network with no human touch and will get provisioned. Again, we cannot do this for every single service for every single customer today. But steadily, we are chipping away at this and we will create this kind of service experience. These are some of the reasons why, when I talk about margin expansion later, we believe that we will be able to control some of our expenses. It requires some upfront capability building right now, which we are investing in. But in the long run, we believe it will pay off fairly significantly.

And the last one is about creating a customer experience where customers can auto-provision, look deep into the network without again dealing with a lot of layers of management or people on our site. Again, it is beneficial both from a customer experience standpoint but also beneficial from a cost perspective.

James is going to talk about our thinking and what we are intensely working on as far as customers are concerned. I would just highlight two things here, one is about what James calls a deeper with fewer strategy. When you see the numbers of the products we are able to sell into customers, you will see and we have also gained a lot of confidence in the last, say, 18 months that we have very relevant customers with the digital infrastructure service suite and customers are willing to buy more services from us. So, rather than try to go and acquire more customers in the large enterprise space, we are focusing our activities and doubling down our resources into the accounts that we already serve. And our goal is to increase the number of products or product penetration ratio with the customers that we have, right. But at the same time create a digital strategy, a digital outreach strategy to add new logos within the customer segment that which is our target profile. So these are the two big programs that James is driving. And if you give him a chance, he will spend three hours only talking about that, but his whole presentation is only 10 minutes today.

And the third aspect, I think you will start seeing it play out in a very big way in our numbers probably from next year onwards, but we have actually been laying the foundation for this from nearly two years ago. But basically, what we are doing is embedding Tata Communication services like SIP Trunking, like our MOVE IoT service, some of our SDWAN capability, our application-aware networking into the platforms of large SAS providers, large IoT platforms and so on, large collaboration platforms. These are strategic relationships that take a lot of time to win. They only choose a couple of players for global deployment. But once you are in, you are able to actually grow with them as these large players get more successful. And this is something, as I said, if you ask us to peel out the number and show it to you today, it is probably not significant. But personally, this is a trojan horse that I am very excited about because we have interesting force multiplier conversations going on that will pay off dividends for us in the future without significant incremental effort. That is on the external side.

Internally, I can tell you that the last 12 months for us have been quite harrowing in many ways because we have had to make significant organizational changes, which we believe are necessary to both address our cost structure, but also more importantly to make us agile to respond to the market. One such organization change, what James is now leading, he came into the organization about 18 months ago with the responsibility of sales, but we significantly expanded the responsibility to include sales and marketing, service delivery and service management. So in other words, everything to do with customer success, it lies on the hands of James Parker. Also makes it easier for me because I have one neck to choke. But that is a fairly important change that we made last year.

We also discussed with you quite a lot during the last three analysts calls on the investment we are making in the digital transformation. We have taken our time, to be honest, to figure out the right strategy for our digital transformation. Although we had monies in our budgets, we have been very careful not to rush to spend them till we are very clear about two things. One is to know what is the experience we want to create for our customers and only then digitize it, not just to rush into something and then have to rip it apart and redo it. The second is on the in-sourcing versus outsourcing strategy, whether we are going to use off-the-shelf systems or open source, so on and so forth. So I feel very comfortable and happy actually that we took more time than we initially planned, both because we did not spend all the money required, but I feel that the road map that we have is a more robust one. And when we roll it out our customers will feel immediate impact and we will start seeing the savings progressively in our P&L as well. So, a lot of work has gone into this. It is also part of the reason why I feel confident giving a forward-looking view of where we think the business will go.

And finally, we have done some cleanup on how we measure various functions within the organizations and align the whole company in this year’s bonus calculation, if I want to call it that, towards a balanced scorecard that does not create any cross-functional conflicts or misunderstanding, everybody is marching to the same tune.

One of the things where we have been investing is investing into the future, and some of you have said, "Do you need to do it? Don’t you have enough in the portfolio and so on?" But the opportunity that we see around security, around IoT internationally, IoT India and on the application aware networking has been quite, one is an adjacent opportunity where we have the right to play. But more importantly, I will say that the feedback that we have got from customers has been overwhelming, that we have aggressively invested, and we believe that it has been the right thing to do for the shareholders’ interest from a medium to longer-term perspective. I am not saying wait 10 years and the return will come, we believe that the returns will be evident in the next three years to five years. And we have shared this last quarter, and if you look at the results of the operating metrics, across

MOVE, across IoT India, security and NetFoundry, in every one of these, these are not dreams of products, these are real products out there being used by real customers. We have proof of concepts that are increasing, trials which are increasing every single week, to be honest, and number of customers increasing. All of them, I cannot pick a favorite child out of these, but I feel that the ones that will move the needle visibly during the course of this year will be MOVE and security. And where we have significant momentum, we have large wins, many of our customers have come out and made press releases which you may have seen. And we have many others that are not yet ready to talk, but the volumes are building quite nicely and to the extent that we will continue to invest in incubating these services during the course of this year and I will give you an indication of how big they will be in the coming years later on.

External validations continue to pour in. Gartner has positioned us for the fifth year in the row as a leader in network services globally. This is quite important for us because our large customers invite us to RFPs when we are positioned there as a leader and we are the only carrier outside four guys have been there for three decades, or something like that, to break in and hold the space. And it does not come easy and staying there every year is a challenge, but we have been successful for five years. We are also very pleased that we have been positioned for Asia Pacific as a leader by Gartner in their cloud and hosting services, right? This again is a first for any company from this part of the world and we are very proud. And this validation gives us confidence that the growth that we had last year in our hosting services, we will be able to replicate in the coming year as well.

There are many others, and I would not go through it, but we continue to get recognized by industry analysts for what we have managed to pull off. AON, in fact, now I can give the updated news, just last night announced that Tata Communications is one of the top 25 employers in India, which is very important because we need to attract and keep the best talent. So, that accolade for us is something that we are very proud of and we have got similar recognitions in a couple of Asian markets as well.

The next validation is from customers. Over the course of last year James and his team added close to 500 new customers. That is one validation that we are still able to get new logos with our proposition, and we have close to 6,000 customers right now. And the product penetration ratio for our top 300 customers increased to 5.38. So we are able to sell most services into the customers that we have. So we are able to add new logos and we are able to sell more, which again is probably the most important validation, even more important than what the industry analysts say.

The year gone by in numbers, I will talk about what has worked well and challenges that we faced. Our data revenues grew by 4.4% on the back of the strong growth in our growth services category. Growth services experienced double the growth that we had in the previous year. We grew by about 18% in FY17 over FY16. And we grew by 35.6% and that is a phenomenal growth by any standard. IZO grew by more than 300% and our security services grew by 64%. At the same time, our traditional services grew 4% year-on-year on a full year basis, and this is in spite significant industry headwinds that we faced. The services within that, that I would like to call out, which are showing momentum that we think we will be able to carry into this year, are our ILL and Ethernet services that grew north of 10%, and our VPN services also grew by 10% year-on-year. The funnel is good for these services. The credibility that we have in the market is good. Obviously in the traditional data services international IP Transit had some pressure, IPL services had price compression, so the growth was muted. And our traditional mobility services, again, is good for EBITDA, but revenue wise the growth was on a decline.

The traditional services, since we are talking about it, Q4, you have seen the numbers, but for the whole year we had 30% EBITDA margins, which was strong, it is close what we had called. Q4 was 31%, if I recall. And the CAPEX for the full year, while we had guided $250 million to $275 million, I had committed to you that we will only spend if it was absolutely necessary, but that we would spend if opportunity was there. Our teams did a good job of managing our CAPEX tightly and we spent $235 million on CAPEX during the course of last year. Cash flow was maintained, despite investments we had to make in growth and innovation services, and net debt was contained at $1.15 billion.

TCTS started picking up. The revenue grew by 10% in spite of some slowdown we saw in the India domestic market, but we have won more new logos and we have also won work which is of a higher margin profile. So TCTS has entered this year with some fairly good momentum based on the wins they had last year and a strong funnel.

The year had challenges, I can tell you that. On one hand, we were seeing significant growth in our growth services and good pickup in the various incubation, but our traditional services was affected significantly by operator consolidation in India. We have had exits in the market of operators and this had an impact, both in terms of revenue but also in terms of some of our operational delivery with Aircel, RComm and TTSL in some form or the other exiting the market and a few other small ones, too. We lost both revenue and also, we had some challenges on the last mile dependency that we had on these providers. Now this can be viewed as a double-edged sword, it also means little bit less competition on one hand. So, maybe in the longer run it can have some benefits, but we definitely felt the pain of it in our numbers, especially in the second half of last year.

Consolidated revenues and EBITDA declined primarily on lower voice volumes and also price compression in voice and the investment that we made into our future as far as growth services and innovation services are concerned.

Now, growth services, I will be honest with you that I call that we will be EBITDA neutral by March, and I do have it in my face as far as growth service is concerned. And it was simply because it's not that the growth that we expected didn't deliver, we had a combination of two things. One is the mix of services cannot always be predicted in the portfolio of services. So the mix impacted gross margins to a certain extent, but that I believe will correct itself. And the other is the upfront investment we had to make in Q4 with the cost to win some of the new businesses impacted our margins that led us not to be able to deliver the promise that I personally made on delivering EBITDA neutral as far as growth services are concerned in March. However, the fundamental belief that we have, and I personally have in the suitability of our growth services for the customers that we serve and the margin profile that we can achieve remains steadfast.

In Q4, we also had some customer insolvency hits that we had to take in our media and entertainment business that we believe was abnormal and will not be something that will impact us going forward. We will bounce back from it eventually.

TCPSL during the course of the year was impacted, as you know, by limited cash supply. But in the last few months of the year, TCPSL actually turned around and it has reached an EBITDA neutral state. The number of transactions reached 98 in the month of March compared to in the early parts of the year it had gone to less than 20, pre-demonetization, it was about 71, we took a deep dive. Cash availability to us is now about Rs. 60 crores per day, so there is been some increase in that, and transaction count is also up. And so we have managed to contain the costs, redeploy ATMs and stabilized that business. So, I am actually very pleased with what that leadership team did to deal with the adversity post demonetization.

ROCE declined principally on account of the increase that we had in depreciation. Coming to FY18 full year numbers on a consolidated basis, we published this, so I will not go through it in too much detail beyond the numbers shown here. But revenue, due to the impact of voice, prices and volume coming down had a dip of 5.5% year-on-year at Rs. 16,651 crores. Of that, data had a 4.4% increase, coming in at Rs. 11,339 crores. And voice had a decline, a fairly significant decline of 21%, coming in at Rs. 5,311 crores. EBITDA for the consolidated business was Rs. 2,291 crores, a 2.9% decline year-on-year, largely, as I explained, due to the impact of voice. We also had an impact, over Rs. 39 crores, negative impact, due to the foreign exchange movement.

EBITDA for data was Rs. 1,956 crores. It was muted due to the investment we made into growth and innovation services like I have explained. Voice EBITDA was nearly 20% down, coming in at Rs. 336 crores.

Looking at the portfolios of traditional and growth. Traditional, this is data. As you know, traditional revenues grew by 3.9%, coming in at $1.2 billion. Here I am using dollars. And the growth services grew by 35.6%, coming in at close to $350 million. EBITDA was $355 million and $42.8 million negative on the growth services. Those are the numbers for traditional and growth.

Q4 performance, Rs. 4,009 crores for our consolidated revenue. They were down 6.6% year-on-year and down 2.6% quarter-on-quarter. The reasons are more or less the same. On data, our revenue grew 4% year-on-year, 0.4% quarter-on-quarter, coming in at Rs. 2,895 crores. And this was really on the back of strong pickup in terms of our growth services. Voice, the story continued of a decline, coming in at Rs. 1,113 crores. Consolidated EBITDA was Rs. 555.5 crores. I think Vipul liked all 5s, that is why we included the decimal there for the quarter. And EBITDA for data was Rs. 485 crores. And voice was Rs. 71.3 crores, which was in line with the volume and revenue decline.

Q4, taking a portfolio view. Traditional services, revenue was $297 million, growth services was $97 million. EBITDA was $90.2 million, which is a 26.7% improvement year-on-year, and on a quarter-to-quarter basis a 5.5% decline. And on EBITDA, we were negative $13.7 million as far as our growth services is concerned. And as I explained, we had some one-off insolvency as well as upfront investment. The upfront investment will correct itself over time because these are three to five-year contracts and it has been baked into the commercial structure of the pricing.

Q4 portfolio, as far as TCTS is concerned, up 7.2%, coming in at Rs. 296 crores. TCPSL was around number of Rs. 100 crores. Quarter-on-quarter, as I said, there was a good improvement of close to 10% year-on-year, though it was down because we have been getting out or trying to limit our third-party business and focusing more on our white-label business. EBITDA for TCTS, good improvement, both on a year-to-year basis and quarter-to-quarter basis, coming at Rs. 48.6 crores. And TCPSL, as I said, just turned EBITDA neutral at Rs. 0.3 crores and we believe that there will be further improvement in that.

When we were looking at all of this, and before I said that I wanted to use this slide that I am going to show next. To set the context, we talk about transformation and change all the time with you. And it is not that we do not look in the mirror and ask ourselves, do we have the ability to transform ourselves? And one of the slides that we shared actually with our group Chairman that beautifully summarizes that Tata Communications has an inherent DNA for change, is the following. So, we took a snapshot of our business, looking at 2014, and then the business in 2018. And a very powerful story emerges from this. So I will just walk you through it, if you will bear with me. So the NR and GR of our net revenue and gross revenue. So the story basically, you can ignore the commentary on the right, I will give that to you live. In 2014 our voice business net revenue was $267 million. 2018 the same voice business is $109 million. So clearly, a business in decline. We went through a period when we saw this writing on the wall saying we need to invest in data. So we started investing in advance in data. So during that period data grew from $880 million to $1.138 billion. So, we actually offset the decline in voice net revenue by adding $257 million in net revenue on the data side, right?

Equally, at the time, we were realizing that just depending on wholesale data is not going to be sufficient, we need to invest into the trend and create enterprise revenues. So, we started building the enterprise sales organization, putting more money into it, into marketing, products, so on and so forth. Carrier data during this period, this now I am shifting to gross revenue, actually remained relatively flat. $577 million, $598 million last year, grew by $21 million. But the enterprise business during that period added $427 million. So we actually successfully shifted from what used to be a purely wholesale business to a business that has both wholesale as well as enterprise. So we created a new revenue stream from voice to data, but we also created a new customer segment from service provider to enterprise. Within that we said we have our traditional portfolio of services that grew $213 million from $988 million to $1.2 billion. And the growth services grew from $110 million to $346 million, equally adding $236 million. This also shows that we saw that selling dumb pipes is not the future. We have to move into managed services and higher value services. So we built into that trend that we saw, right, and that is proven in the numbers.

So, I can show you the slide and say with great confidence that we have the capability to do two things. One is to look at where the market is going in terms of technology or trend, right, and to build into it. And the second is to deliver the numbers. We may be off by a quarter, we may be off in a year, but these numbers hopefully are very evident, that the capability to change the DNA of who we are is inherent in the organization. During this period, net debt also declined from $1.8 billion to $1.15 billion. Now, obviously with the TTSL transaction that will change, but we are confident as a leadership team that changing the profile of the business, and this is really changing the wheels of the car while it is still moving, right, and you cannot predict exactly how it will go but we do get to our destination, right? And hence, this drives a lot of the confidence we have in what we have invested and the changes that we have made this year, but it is also what gives me the confidence to stand up and share the next few slides with you.

This is to give a forward-looking view as to what people have routinely asked in many analyst calls, Vinod share with us, what will the future business look like? So we can look both at the quarter-to-quarter movement but we can also see how do you think the mix of the business will change over a period of time. So, these are our aspirations, these are the plans that we are working towards. From a revenue mix standpoint, and we just showed traditional growth subsidiaries and voice as the four categories, we believe that the voice business will decline, that is where you are going to see the most dramatic shift in terms of revenue contribution, shifting from 32% to 20% voice.

The next piece will be our traditional data business which will still be extremely important to us, but from what was 46% in FY18, that will decline to about 38% contribution to the overall revenue pie. The big change here, obviously, is the growth services. These are services that we already have, we do not have to build anything new. These are services that are in the market being sold, gaining momentum, we expect we will grow about 2.5x from 13% contribution today to revenues to close to 32% contribution. And the subsidiaries, this is largely TCTS, TCPSL, we are keeping it at relatively flat. If anything happens there, it is upside, but the subsidiaries will grow from 8% to 10% contribution.

EBITDA contribution correspondingly, subsidiaries, which are 7% today, will increase to 9% of the EBITDA contribution. Again, principally, what is baked into this is TCTS. Growth services that are negative 22%, which is a drain right now, a growth in incubation will turn around and be contributing about a quarter of our EBITDA and traditional services will decline from its 100%, if we take it obviously, there’s a negative there. 100% will decline to 60%, and voice will be 6% of our EBITDA. 94% of our future will come from our data services.

Now one of the questions then is corresponding margin, how did the margin profile change? We expect that we have the striking possibility of expanding our margin from 17% to a range of 23% to 25% by FY21. Question then is, how do we get there? It gets there through a combination of two things, through revenue productivity and cost productivity. I will take you through each of those. We believe that our traditional services will expand with the CAGR for revenue growth to be about 5%. Our growth services will maintain a CAGR of 35% year-on-year. And our innovation services, we are not using a percentage here because the numbers are extremely small now, will contribute about $150 million of revenue by FY21, innovation or incubation, those are the four services that I called out there.

What that leads in turn is a 1% expansion in data margin from our traditional services. Growth services will add to about a 1.1% expansion in our aggregate data margin, and our incubation services will contribute 4.5% expansion in our data margin.

And then flipping over to the cost side. Manpower cost, if we take the last three years have been increasing by about 8% CAGR. We have already started taking measures to control that. And we also believe that we will start seeing operating leverage there. Manpower cost will increase but only by about 5% is the revised CAGR that we are projecting. That will contribute about 0.5% expansion in data margin. Network cost, as we change the mix of business, that we are increasing about 9% year-on-year for the last three years, will decrease to about a 6%

increase on a year-to-year basis for the next three years, and that will lead to about a 0.2% expansion in data margin.

G&A, we have kept it relatively flat, we believe that we will continue to keep it flat for the next three years also and that will actually translate to about a 10% productivity gain as cost ratio to revenue will actually improve 10% year-on-year and that will lead to about a 0.6% expansion in data margin.

Aggregate, we believe that this will add about 8% and there will be some that do better, some that would not hit exactly these numbers. But based on this, we are aspiring for a 23% to 25% margin on our data services by FY21.

This just gives another view of it. So data margin of 17.2%, 5% to 6% coming from revenue productivity, and this is from Mr. Parker, who will be driving more sales into existing customers. No pressure, James. And it is the low end of the expectation as far as I am concerned. And 1% to 2% expansion from the manpower and OPEX, leading to the 23% to 25% aspiration that we have.

Key things, I won't go through every single factoid on the slide here, but we see our addressable market significantly expanding because of the services that we have already cleared. James also has a slide later on that he will be showing on addressable market. The numbers are different only because this includes all our services and what he is showing is just network, cloud and collaboration, it does not include IoT and mobility. But today we are targeting a $50 billion market. Our market is expanding to $50 billion by FY21. We expect that our IoT services and our MOVE services to both be $100 million products each by FY21. That is the potential and it is because of this potential that we are investing what we are today and we are seeing the momentum that we believe will get us there.

Growth services contribution to the overall data services, like I said, will expand from 20% in FY18 to 40% by FY21, and the data business will contribute 94% of our EBITDA, voice will only be 6%. And there are other data points here which you can take a look at when we permanently put these slides up.

To summarize, the acceleration we believe that we have seen in growth and innovation services, we believe, will continue. Momentum in our traditional services due to services like ILL, VPN and Ethernet leads us to believe that what we have shown can be maintained. The bundling of services and driving up product penetration continues to be, and will be, a major area of focus for us in the next year and the next three years. CAPEX to revenue ratio, we will sweat our underlying cable assets. We will invest where required into our network, especially the build-out last mile, but we are very focused to try and build out an asset-light business model and we are taking many steps to improve our supply chain efficiency.

The focus on cost remains. We have had to invest in creating skills for our growth services. We will have to do that going forward as well. But we believe that due to our digital efforts and our transformation of business processes, we will be able to shift resources from our traditional or BAU business into the new areas and keep the manpower envelope relatively flat, and that will start shining through as far as operating leverage in our growth services is concerned.

So with that, I will wrap up my presentation. Maybe the only thing I will add since the question came up is on TTSL. I have explained the industry logic before, so I won't redo it. Where the process stands is final reviews by the Board which, obviously, involves the government approval as well that runs, more or less, in parallel. And we are expecting in the coming weeks, we should be able to get to a stage where we can make the final decision with the final number. And as you said, as you heard from Saurabh, from the group perspective, the support is there. They would like to see it happen, but they cannot put the gun on our heads. Together, the shareholders would have to approve it, and they are waiting to hear from us with our offer and we are working through with the government on it. That is it. I would like to invite James at this point.

James Parker: Thank you, Vinod. There is a couple of things that I would like to walk through everyone today on, one, is to take a look at our market opportunity, where we are focused, and certainly where we are going to drive and where we anticipate our growth to come from. And then how are we structuring the go to market to really go after and accelerate that growth opportunity. And secondarily, and then maybe most importantly, do that in a cost-effective way and ensuring that our cost structures are aligned well to that opportunity.

So the first point of view is to take a look at, I will say the macro play is happening in the market. And certainly, for the customers and the segment that we are focused on, two key elements that play really, really well into our strengths. Our customers are either driving to expand globally, they want to drive growth outside of their home market in one form or another or they are looking to use services or expand their capability of getting services from other markets to deliver in their home market. And a core strength of our offering of our services is to execute cross border. And so when we look at our clients outside of the domestic market, they are trying to get into multiple markets and capitalize on their growth potential in more than, let's say, more than one country. And so our typical target customer, they may only have 40% of their estate in their home market and they need to get and operate into five or more countries or five or more markets. And our global network and our foundation gives us that strength and the right to play and the right to win across multiple countries. We are not competing in that domestic market, in that international space.

The second point is the India market is incredibly important for us. And the strength and execution that we have in the Indian market, it certainly plays for us to drive our global capability in the global market. This is a destination where customers are coming to and they want to grow and they want to take advantage of the opportunities in the marketplace in India. And we are extremely well positioned to help our clients get here and help our customers that are Indian based and also go global. And so the trend plays out across the growth factors that we see for the business in which we have to drive and maintain share in India and we have to then be able to monetize on a global opportunity.

So, if we first take a look at India, we talked about the market potential. This is really just laying out where we see the addressable market. There are avenues that this is bigger as we increase the product portfolio. But you can see clearly, we have a market share position in India and we have to maintain that, and we have to grow that and that becomes a strength for us to drive international expansion and certainly performance for us.

The other thing that you notice is on the market is the customer distribution. You can see the 23% international, 77% is India, and I will show you a little bit of the mix when we look at the average deal size for these customers and why it is important that we need to actually drive both. And so our traditional and core market is strong, but when you look at the investment opportunities in the build out of our growth services, we are expanding that aperture of that domestic market, and IoT and MOVE are great examples of how we are increasing that market opportunity for us. And this will become self-evident when I show another slide on the product penetration that off of that base of the customers how can we drive that product penetration rate up in India and do it then also in a cost-effective way and how we deploy our resources?

And so the other market, we have a great opportunity in India. Our growth services, that positions us for strength internationally. And internationally, when we look at our potential, this is a $27 billion - $28 billion market opportunity for us. And underpinning this is the widening of and the investment in growth services that enables us to have a broader play internationally. And these growth services play on two fronts. There is a defensive play because it defends our based and it creates new opportunity and stickiness into our existing base, but it is also an attack play. And so when you look at our international business, this is a lot of acquisition of new customers and it is the growth services that are really driving that acquisition. And so we have a host of customers that we won this year not based on solely the traditional set of services, it is clearly based on our global footprint and our global network as a core but absolutely based on our core services and our ability to do hybrid WAN, to have security, to have unified communications. And certainly, the forward-looking positions that we have on MOVE and IoT gives those customers a lot of confidence and strength that they are coming to a provider that is going to facilitate a host of needs for them over many years to come. And so that gives us a lot of opportunity to drive that growth.

The other piece that you see is just anecdotally on the bottom left, that we are driving a higher average value per customer internationally, and that delivery resource outside of that initial sale is all cost based in India. And so, as we drive and get that premium performance internationally and our cost base and structures are lower in the India market, but also gives us a competitive advantage certainly when we think about pricing, and certainly, as we think about our profit performance as we go forward.

The other dynamic that we see is just a rapid change of the demand that is coming from our customers. And so we went back and looked at our RFP analysis, our funnel analysis and what are the types of deals that are flowing into our business. And you can really just focus on the right side of the slide and looking at the funnel analysis from 2017 to 2018 and the pronounced shift in interest from our customers. And this interest is being grounded in our growth services. And so increase on hybrid and SDWAN solutions, over 500% in the funnel. When I say funnel count, that is the number of opportunities that we have coming into the funnel. And so we will have in the range of 5,000 funnelized per month. And of that, the percentage that we see growing, about 50% of the volume of that is coming in is coming more and more from our growth services. Similarly, we look at our security funnel adds, 63% up, 300% up in bids asking for managed security solutions in India, 142% increase in our UC or unified communication funnel value as well. And so that demand is coming.

And the gearing of the machinery and the resources really and the scaling that we have and investments that we made, one is generating this demand and the market's responding to it; and now two, our opportunities to execute against it in a really compelling way that we monetize it efficiently and effectively. We clearly have the foundation of investments that we have put out there that enable us to identify the opportunity and certainly then go execute against it.

And so the clarity is that we have the opportunity and that we are attracting it and we are going after it, I think in a highly effective way. And when you look at this chart, and Vinod alluded to this before, of maximizing our product penetration rate. And so that top red line, as we look at a client that is the most penetrated that we have, they have 13 products to date. And you can see the cascade, the top 20, and how we have progressed that from 2017 to 2018, all the way through, and then our top 300 customers and our product penetration. If I would just look at our top 300 customers and we get our next product to be penetrated at scale across those customers, this is $150 million and $200 million opportunity.

And so when we look at that and to be able to do that, you have to have a differentiated level of focus. And so the cost structure of the resource pools that we put to our top customers that are driving 90% of our revenue and we have 7,000 customers, and so then how do we think about the 1,000 customers where you can drive high touch and execution? And then how do we think about the 6,000 customers that have a very cost effective, efficient engine that can monetize that effectively. And so what we have done, and looking at our sales force, is we did take the top 1,000 clients and we put that into what we call a high touch organization. And so this is where you have the account manager, we have solution engineers, we have product specialists. And the focus and the goal is to drive that product penetration rate up via growth services. That is the mission. And so when we think about all those base accounts and how we are going to mitigate the churn that we have in the business, it is via the growth service. And success for us is seeing every one of those top 300, frankly the top 1,000 customers, growing. That is what drives customer success, is the improvement that we grow every one of those customers every year, and that is the mission that we are on. What we have done is given the resourcing to do it and so we have increased the specialists, we have increased the solution engineers, we have given less accounts per account manager, so we can drive the depth and we can get that product penetration.

Now the other 6,000 clients, we have put up a digital channel, so a digital marketing channel, a digital sales channel. We have some of that is completely housed in India for some of our market segments. These are also deployed regionally in the US and Europe as well to go after and monetize that business. And there is a clear pathway as customers grow within the revenue footprint and product complexity, that they certainly will migrate up into a high touch model. And this expands our full, I would say, delivery stack of resources. So when we look at how we market, how we sell and how we serve from a delivery side, this notion of that high touch follows through that suite of services of those resource pools that we have also in the company.

The other core thing that we have done is look at how we message, position and target our portfolio into our customers, then the meta point here is how do we have a compelling conversation that drags 2, 3, 4 products within the same conversation. And so we really go to market around these four business themes that every one of our customers is having conversations about. They are trying to have a conversation about borderless growth, productivity efficiency, customer experience and managing business risk. And we have offerings that are compelling and differentiated in each one of those areas. And as we talk about those business themes, we get 2, 3, 4 product pull-through and this is how we can get efficiency in the selling motion, and certainly then drive that product penetration right up and not having to add incrementally more resources every time we need to go do that.

And then lastly, we have this organization change in structure and bringing marketing sales, service operations and delivery together. The core of the success, and I think about destination 21, is how are we going to drive the customer success factor way up. And certainly, the customer experience is part of that. And so we have aspirational goals around our NPS target, to become world class in that position. And this means we are systematically understanding every digital touch, every marketing touch, every sales touch, every service touch and understanding how do we optimize that for customer value and certainly then for performance value back to the firm. For us to drive the end-to-end execution, it requires this kind of change on our customer facing organization that we work seamlessly together to deliver increasing levels of value, but the synergies will come from the structure itself, that we can get performance and higher performance out of the same set of resources.

And then lastly, just to summing it up in my quick time, and certainly we will have time to take questions over dinner, but we are seeing the results in the early days of the improvement and the funnel is that driver. And this is something that we review every month by product, growth services, traditional services. You can see our total funnel improving. But you also see substantial growth in our growth services funnel, 63% year-on-year. And now our focus is, how do we make sure that we monetize that opportunity. And what we do see is our conversion rates are holding. And so as we go forward, if our conversion rates hold, the velocity of these deals hold, the yield improves and we are starting to see that glide path that we are on.

That is all I was going to cover. Thank you.

Moderator: Thank you, James. May I please invite Vinod, James and Pratibha to the dais and we will open the forum for Q&A.

Rumit Dugar: This is Rumit from IDFC. I have a question on the strategic rationale of Tata Tele Enterprise business. So the way I see it is today with $1 billion of capital employed and the guidance that you've kind of given, you will be generating close to $0.5 billion of EBITDA. Now with Tata Tele Enterprise business, obviously, we do not know the valuation, but I assume that you will be nearly doubling your capital employed with that acquisition. And if I look at the presentation that James gave, the growth, the untapped market and the growth in Indian segment is growing at about 7% CAGR, while your growth services internationally are growing at about 30% - 35% CAGR. So what is the rationale to double your capital employed in a market where your new service penetration is not as high? And wouldn't it be more efficient to sort of deploy capital in the areas where you are seeing 35% kind of growth?

Vinod Kumar: Okay. So as I have said before, there are three aspects to what we see as the industrial logic for the Tata Tele acquisition or the interest in their SMB business. One is the small enterprise SMB market, especially the M part of the market in India, is the fastest-growing part of the enterprise segment, and so we see that as a big opportunity to sell both network services that Tata Tele already has, but to cross sell the rest of our products into that customer base. So we see significant revenue synergy as well. Many of our cloud services, security services, our Unified Comm services can be easily sold into that segment and to get more revenue per customer and to create stickiness with those customers. But even before that, I would say that from a large enterprise perspective, strength in our home market, we have realized is quite important for our global story as well. So when we break into a large global bank or insurance company or a retail company, very often, the route into them is by building a relationship in India, building a relationship for services into India. So the stronger we are in India, we have seen a correlation to how strong we can be with our non-India business. And the strength of the network that TTSL brings to the table is quite important for us. The options that we have to go to other players to get network reach into the Tier 3, Tier 4 towns, which is where the economic activity is shifting in India, is limited. The number of players here is consolidating, and last mile options are depleting. So we need to either go build a massive last mile network ourselves or go buy a company like TTSL that has a big footprint on last mile that we can then take to our large enterprise services to sell them network services and progressively other services. Therefore, we believe that due to a combination of meeting the strength in our India footprint, in enterprise, to increase our product reach and to drive our services into another customer segment, which is the midsized enterprise customers in India, all three of those leads us to believe that this is a good acquisition.

Rumit Dugar: So should we assume that potentially given your capital employed is going to double, that, that business will be able to deliver the kind of EBITDA that your current capital employed is delivering?

Vinod Kumar: Yes. We believe that we will get a good return on the capital that we employ to acquire the SMB business.

Shariq Merchant: This Shariq from Quest Investments. So you called out digital transformation as a cost optimization tool. Now could you nuance that a little more by highlighting where all these investments are going and quantify those investments? Also, the time period over which this will start to be visible in cost savings, and how much cost savings should we expect?

Vinod Kumar: When you say where we are spending in terms of what program?

Shariq Merchant: Yes, yes.

Vinod Kumar: That is a bit difficult because there’s a lot of details there, but it’s two things, right? One is we are cleaning up our internal systems, so we can have far simpler processes and avoid duplication of work that today you have either because they’re manual or being done in multiple systems and there’s not a 100% overlap, but there is duplication of work. That is elimination of that. And the other is about digitizing the customer experience. The spend that we are projecting, right, as we are still maintaining that we will be, beginning last year we said it will be a $100 million spend over a five-year period and we are maintaining that although we believe that we can do it for less. The plans are still being fine-tuned, so I do not have a revised number that I will give. It will fit within the CAPEX envelopes that we projected, and we have given the sort of forward-looking view on our cost productivity as well. If I had to split that between what goes into external customer experience and internal, it is probably 60% is related to aspects of the customer experience and about 35% to 40% will be on digitizing our internal workflows, although, frankly, the internal digital flows also have an impact on customer. It is tough to draw that line. But if I had to split, it would be 60-40.

Pratibha Advani: And I can specifically give you the numbers. We have still spent sub-$10 million on our digital transformation journey. And the reason we were able to confidently put forth some of the productivity that we are likely to see in the future stems from the benefits that we are starting to see as we invest it.

Shariq Merchant: So the FY21 EBITDA number that you’ve put out, the margin number, that factors in 100% of the benefits of digital transformation, that is a fair understanding?

Vinod Kumar: The fact is, I did not know whether it’s 100% or not.

Shariq Merchant: Because you are still at the early stage in terms of investments. Are you still at $10 million versus what you earlier...

Vinod Kumar: It factors investments in. We will start seeing benefits of that even in this fiscal year. The reason why we are able to say that we will keep manpower, we will reduce our manpower, cost increase to 5% CAGR is because of that. And over time, it will only improve, but the full benefit will take probably 4, 5 years before it shows up. But it'll start showing up from the second half of this year.

Shariq Merchant: My second question is on MOVE and security. You also called that out as being meaningful growth drivers for FY19. So, I just want to understand how scalable this piece can be over a 3, 4, 5 year period. And when will it start to become meaningfully margin accretive?

Vinod Kumar: As I called out in the FY21 numbers, we believe that MOVE and IoT will be contributing $100 million each. The incubation portfolio as a whole will start being EBITDA accretive in FY21.

Sandeep Kothari: Sandeep from Fidelity. Two questions. First is, you talked about collaboration and embedding yourselves into services which will pay off in one of your slides. If you could just give some more color on what are kind of the things you are talking about? And second is just on the customer metrics. You are focusing more on same customers, the top 300, top 1,000. So how big the customers can become, like 100 million, 50 million? What's the potential as you think about the 2021 journey?

Vinod Kumar: Okay. So I will have James answer the second question. So start thinking, James how much you want to comment, no I mean we have a good shared view on it. But it is very tough to answer the platform question without using names and we are not authorized too. But there are two large collaboration providers in the world who are competing for space right now, the third one coming in. These are all very well-known names. So we are one of the handful of SIP Trunking providers, for example, embedded into their platform. So as they sell their license to a large enterprise that may have 10,000 employees, and those 10,000 employees sign up for an unlimited package for using voice and video communication, let's say, at $10 a month, the traffic that starts flowing through will be on SIP trunks and we start getting a lift from that. So that is a case of a classical B2B2B platform play, right. So we have been embedded in a SIP Trunking into a couple of large global platforms and especially for the customers that will sign up in APAC and India. It is one example. Another one is IoT. Another big platform play will be announced fairly soon where we are one of four global partners that will provide the underlying network connectivity anytime they sell compute, or the application related to IoT. Again, that will be probably, it is also a B2B play, but it also is a B2B to developer community play, because there will be developer communities who will be building applications on top of the compute platform that this provider offers. And there will be an automatic pull-through of our NetFoundry application aware networking that goes with it. So we do no need to go and sell into every one of these customers. The end users, it will be pulled along with the platform. Hope that gives you a flavor of that. James, on large-scale customer?

James Parker: Yes. And so when we look at there is a couple of things that we track. First, we track how many customers buy tranche of revenue. So how many do we have at $1 million? How many do we have at $5 million? How many do we have at $10 million? How many do we have at $25 million? And then look at that shift of customers over time. And so we just actually looked at that data over the last three years. And so where we are driving, obviously, the penetration, we are seeing that migration up the stack. When we look at share of wallet per customer as a percentage of IT spend, that is where you start to define what your thresholds are. And so can we get 20% share of wallet for any client's IT spend, and then that would be your theoretical upper end for a customer as a function of their IT budget. And then with that, how much percentage or share can you get realistically. And there is always going to be this notion of diversity that a client is going to want to have in their infrastructure, certainly, on a network side. And so those percentages vary. We have clients that I just met this week in India, where we have 100%. They completely outsource their full network. We are a sole source, sole provider for them in this market. And then we have other clients where we are 10%, 20%, and realistically we should be breaking this up to that 50% and some of it are, let's say, traditional products at the network side under diversity. And then other areas that under grow services, it should be 100% penetration. So if we win our unified communication stack, we should have all the seats in the business and so that is like a full penetrated account. So the gating factor is the size, the customer, their IT spend, and some will have a disproportionate amount of spend within our services. But on average, it can, say, around 20%, we will start to find that. And we do have clients that are north of $20 million in revenue for us today. And so our opportunity is, as we see in that chart, it's significant. There is a lot of headroom that we have in each client to grow and take share of wallet.

Vinod Kumar: If I have to give you a number, a I will stick my neck out, $10 million to $12 million would be a midsized customer for us based on the PPR that we are aiming for, right, and that is where we expect to grow. We have customers, like Jim said, who are north of even $25 million. But that takes time to build, especially on the services side, we are not talking about IRU and so on. But we will have that number grow but the sweet middle will be $10 million, $12 million, $15 million range. And our sales teams are driving that kind of product penetration strategy.

Vipul Garg: We have a question from one of the participants on the webcast. It is from Mehul Patel of M.J. Share and Stock Brokers. He says with TCS reporting more than 25% of revenue coming from digital and looking at the fact that Tata Communications business is nothing but digital, do you see future collaboration with TCS?

Vinod Kumar: We constantly look for opportunities to work with TCS, but you know how the group is structured, we have to work when there is compelling benefit. We are not forced to buy or sell from each other, nor are we forced to do any go to market unless there is benefit on both sides. Having said that, I will say that the level of work we do at TCS over the years has steadily increased. And with services like MOVE and IoT, the opportunity is actually increasing, and we have more organic activity that we are doing, but it really is based on merit, I want to be very clear about that. But we are becoming more relevant to some of the large digital transformations they drive. So, I am confident that it will grow based on the strength of what we have. I will say equally that we are growing with some other SIs as well, where we are becoming more and more relevant to what they do.

Moderator: Any other questions from the participants in the room? I think people liked our presentation too much.

Vinod Kumar: Just for your information, we have, I do not know how many of them are listening, but for the first time, we have opened up this analyst call and we will do every quarterly one to our top 200 managers in the company because I want them to hear the questions you ask me, and I want them to hear what I commit to you. So they are also in it with me. Hope you are listening, guys.

Neerav Dalal: I am Neerav from Maybank. Wondering, in all the CAPEX plans going ahead, is there any change in the CAPEX plans with the 2021 strategy?

Vinod Kumar: We are maintaining CAPEX in the range of $250 million to $275 million, but we will continue to maintain the same rigor and discipline that we showed last year.

Pratibha Advani: And I can promise you, I do not allow them to spend.

Vinod Kumar: Yes, boss.

Pratibha Advani: And that's why you know why my finger is injured.

Miten Lathia: This is Miten from HDFC Mutual Fund. Innovation services revenue was practically nothing this year and we have put a number of $150 million in fiscal 2021. Is there a very large item to it? Or what gives us the confidence of being able to reach $150 million out of that suite of services?

Vinod Kumar: We are seeing that on the back of the funnel activity and the orders that we have in hand and the momentum that we see picking up.

Participant: So is that essentially MOVE?

Vinod Kumar: No, it is MOVE, IoT, SDWAN. I had those all four listed in security.

Trupti Agrawal: I am Trupti from White Oak Capital. I just wanted to understand that in the growth services that you are talking about, what would be like some of the relevant competition, could you just give me a few names so that I understand this?

Vinod Kumar: In growth, okay. Growth, if you look at SIP Trunking or UC portfolio, we have SDWAN. So UC is probably more, it is competition from telcos. Typically, it will be an extension offering from telcos. When it comes to SDWAN, we have both telcos but also some start-ups, but the start-ups like Viptela and so on tend to compete more in the domestic U.S. market. But in the growth services, I would say, by and large, we are dealing with other telecom companies as far as UC and SDWAN are concerned. We also have the hosting services, the cloud compute storage services. There, it fragments, we will have systems integrators, we will have some of the OEM companies as well as the telcos competing. So that is the mix.

Trupti Agrawal: Sure. And I just have one more question. So you said that one of the strategies would be to make inroads in the SMEs, right. Just, I mean, I do not know if my understanding is right. Please help me understand this better. The IoT kind of services, do you think are they really relevant for SME?

Vinod Kumar: I will clarify what I said. Mr. James Parker here will focus on large enterprises, and that will be the single-minded focus that we have. And our customers tend to be fairly large customers, right, like ET 500 companies, big Fortune 500 companies, companies which are in $10 billion to $25 billion in revenue is kind of our sweet spot. That is where we will be selling services like IoT and so on. I was talking about the SMB market in India, which is growing very rapidly, which is what we will acquire through the TTSL business, there the selling model is low touch, it is heavily through small partners and small systems integrators. It is across 35 cities in India, ticket sizes are much smaller. It is a self-provisioning kind of sales model that we will pursue. We would not be trying to sell IoT into that customer segment. There, it will be connectivity, our compute and storage has some relevance, some of our off the shelf security services, not the complex portfolio that James will go and sell. So there are elements there that we can pick and bundle along with connectivity and sell into that segment.

Miten Lathia: Just to be clear about this. Innovation services, you said, will be about $150 million in FY 2021 and you included MOVE and IoT in that. And separately, you mentioned that both will be $100 million each by FY21. So I was sort of excluding them and looking at that $150 million.

Vinod Kumar: $150 million to $200 million.

Miten Lathia: No, but you said SDWAN and security is also part of that.

Vinod Kumar: No, SDWAN is in growth.

Pranav Gandhi: Pranav Gandhi from Discovery Capital. Consistently, on the growth services, we saw your 2021 projection is becoming a large part of the revenue, as a higher percentage of revenue as well as the EBITDA margin. So even if you would achieve your 35% growth on the revenue side, what is the level of comfort you have over the risk you see in terms of EBITDA margin being achieved considering that we missed EBITDA targets earlier in this segment? So when are the benefits going to kick in? Because to achieve those revenues, wouldn't you have to spend a similar amount of money in terms of the investment aspects?

Vinod Kumar: I will say early days, it is actually more difficult to predict the mix of the services. So, if you look at the funnel that we have, we have a very good blend of services. But how they are commissioned and get delivered over to customers has a shorter-term impact on the margin profile, which is what we called wrong for this year. However, when I look at it from a longer-term perspective, I know the blend will be more a balanced blend across services and the margin profile is easier to predict. So I am more comfortable with the three year view than saying, okay, this month, we will get to this, especially now when we are building operating leverage. So I feel confident about that mix rather than saying next quarter, what it will be or in the next 6 months.

Moderator: Vinod, before we end, there is another question from the webcast participant. Can you please update on the status of land demerger?

Vinod Kumar: Land demerger, as you know, as part of the NCLT process, we had the shareholder meeting yesterday and 99.9% of the shareholders were in favor. So that moves to the next stage. We expect, I know it is obviously a guess, there are some approvals that are required from various government agencies at different points. But by around September, the land merger should conclude based on our estimate now.

Moderator: If there are no more questions in the room, we would like to end the event. I will just call once again, any other questions? Thank you. On behalf of Tata Communications, I thank you all to join us for this event, and you may please join us for the dinner. Thank you so much. We will see you again next year.

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