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Q2 FY2019 Earnings Conference Call Transcript

MAIN SPEAKER:

Vinod Kumar, Managing Director and Group CEO
Pratibha K. Advani, Chief Financial Officer

Moderator: Ladies and gentlemen, good day and welcome to the TATA Communications Limited Q2 FY19 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vipul Garg Head of Investor Relations at TATA communication. Thank you and over to you, sir.

Vipul Garg: Good afternoon and welcome to TATA communication earnings conference call. We are being joined today by Vinod Kumar - MD and Group CEO and Pratibha Advani - Chief Financial Officer. The results for the quarter ended September 30, 2018 were announced yesterday and the quarterly fact sheet is available on our website. I trust you would have the opportunity to look at the key highlights. We shall commence today’s call with comments from Vinod who will share insights on the industry and progress on our business and strategic direction. He will be followed by Pratibha, who will lead the discussion on financials. At the end of management remarks, you will have an opportunity to get your query addressed.

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

Vinod Kumar: Thank you, Vipul. Good afternoon and good evening ladies and gentlemen. I would like to begin my commentary for this quarter with an overview of Q2 financials and then move to my commentary on larger industry trends. Our consolidated revenues increased by 3.2% quarter-on-quarter but declined by 4.2% on a year-to-year basis. This is primarily due to the now predictable de-growth in our voice business. Consolidated EBITDA witnessed a strong growth of 7.4% quarter-on-quarter and a growth of 6.1% year-on-year and came in at INR 630 crores. Volume and pricing pressures continue to remain in our whole sale voice business. Our endeavor for this business is to sustain 6% to 6.5% level on EBITDA, while we will continue to push for further cost efficiencies to maintain free cash flow levels for the GVS business. The data business witnessed strong growth this quarter and grew 9.1% year-on-year and 5.2% quarter-on-quarter. The EBITDA increased by 10% year-on-year and 4.1% quarter-on-quarter.

Our delivery performance was strong this quarter and we had new commissioning of INR 50 crores MRC or monthly recurring charge from new deals that we had won earlier in the year. The performance of our traditional services portfolio has been affected as we have said before by operator consolidation in India and larger pricing pressure. The reported numbers have been affected by currency movement which Pratibha will elaborate. Over a longer term we expect a recovery in telecom sector to be facilitated on the back of a consolidated structure, improved pricing power and increasing data usage. These factors will bring some normalization in parts of our traditional services portfolio such as the IPL and NPL businesses. We expect this portfolio to normalize by the end of this financial year. As we have guided earlier the growth trajectory is back in our growth services portfolio and we are happy to report that our growth services portfolio has turned EBITDA neutral this quarter. This is a big milestone and demonstrates that our strategy of transforming TATA communications into a digital infrastructure provider is paying off.

Our funnel and delivery pipe line for growth services is strong which gives us further confidence for the quarters ahead. The TCTS EBITDA was affected this quarter due to higher project cost. Revenue for which will flow through in H2. Our international pipeline of deals is strong and as new projects get executed the profitability of TCTS will be back on track. Where Pratibha will share more details on the financials, let me give you a few updates on important developments in our business over the last few months. On land demerger to begin with, Hemisphere properties has applied to the MCA for approval and we are waiting for the MCA to grant this approval. As per the latest update this approval can come any time now, post with subsequent steps as mentioned in this scheme will be completed in a matter of few weeks. Regarding TTSL, at this point we have no additional updates. The issues related to TTSL liabilities are being worked out between the TATA's and DoT and will determine the timing of any transaction related to the enterprise business.

A few key updates on activities related to our growth services and innovation portfolio:

In the last quarter TATA communication unveiled a state-of-the-art cyber security response center in Chennai and an advanced cyber security response center in Dubai. The company will introduce a CSRC in Europe later this year to help its customers comply with EUs GDPR regulations and later on in 2019 we are planning for a facility in the US. The move is part of TATA communications longer term commitment to offering global security services combined with deep local expertise. And more broadly the roll out of these services in multiple geographies is in response to the market's needs for distributed network, distributed compute, storage and locally available security. With our global security foot print our aim is to be a one stop partner for managing cyber risks globally while providing regional knowledge and expertise. With the team now of more than 300 highly skilled security specialists the TATA communications portfolio includes cloud-based offerings to match various business needs. With these strong technical foundations and the showcases in place we expect the recurring services from security will start growing steadily in the coming quarters.

During the last quarter we have seen key customer deployments for MOVE and IoT as well as NetFoundry being included in market leading platforms in ecosystems such as Microsoft and Amazon web services. In the media ecosystem the growth has been steady and we are also beginning to offer OTT services into the media and entertainment sectors. We are getting strong traction and a strong pipeline of projects which will get delivered over the next 4 to 6 quarters in the MES segment.

I wish to go now a little bit deeper into the market trends and opportunities that are available to MOVE. MOVE is our solution to address the phenomenal growth rate in global mobility and in the IoT market. By 2021 enterprises' spending on mobility alone is expected to surpass \$1.7 trillion. Furthermore, 5G will be the connective tissue for the Internet of Things movement, for autonomous vehicles and for mobile media. The World Economic Forum predicts that by 2023 there will be a staggering 9.1 billion mobile subscriptions and according to CISCO by 2020, connected mobile devices will produce 30.6 exabytes per month of data and annual global mobile traffic will reach 366 exabytes. These are staggering numbers and honestly we are only beginning to offer and scale up solutions to benefit from these mega trends.

Given the size of the addressable opportunity for MOVE we wish to advance our capabilities further and decided to acquire and build on the capabilities of Teleena mobile, which is an IoT specialist and an MVNO or mobile virtual network enabler. Teleena technology reduces the operational complexity, the cost of mobility and IoT deployments of businesses and we are very pleased to have concluded this transaction in the last quarter which will allow us to continue charting an innovative future in mobility for both our customers and for TATA Communications. These are interesting times for the company backed by a core of advanced infrastructure and technologies, we believe that we really are at the front line of shaping trends involving artificial intelligence, IoT

and big data. The initiatives of the corporate level like our enterprise wide digital transformation program, organizational restructuring for more efficient go-to-market coverage and creation of more inhouse service creation capabilities, are all proving to be enablers and will further strengthen the business in the future.

I would like to wrap up with what I believe is the most important voice, the voice of the customer. Over the past quarter, I personally met around 30 large customers and prospects that we are doing business with here. Every one of these discussions around the world has been around solutions that involve both our traditional and our growth services and this further validates our digital infrastructure strategy and positioning and also shows us the headroom that is available for us to grow into the customers that we currently serve. It is key however, for us to remain innovative and build the right services and offer the right customer experience. Talking about customer experience, equally the voice from the customers that we have on boarded on to our digital work flows under project Optimus are giving very positive feedback on the industry leading customer experience that we are rolling out. What we are rolling out is unique in the large enterprise segment and this is being validated by the feedback from our customers. With that I would like to invite Pratibha now to discuss the key financial highlights for the last quarter and I will join back for the Q&A session. Over to you, Pratibha.

Pratibha K. Advani: Thank you, Vinod. Good afternoon to all of you and thank you for taking the time out to be on our earnings call today. I will be providing an update on the progress we have made during this quarter. We are happy to report strong financial performance delivered across all key parameters, be it topline growth, margin expansion, PAT, net debt reduction and free cash flow. Before I move to consolidated performance, I want you to know that real estate income is now considered business income and reported as a separate segment under data business. All previous quarter financials have been restated to enable like-for-like comparison.

To start with the consolidated performance, during Q2 our consolidated revenues stood at INR 4,068 crores witnessing an increase of 3.2% Q-on-Q on the back of strong growth in data business. On a Y-o-Y basis revenue declined by 4.2% due to de-growth in voice business. Foreign currency translation did help us in revenue to the tune of INR 110 crores while gain in EBITDA was just a mere INR 11 crores as we also have a large share of expense in USD and at an EBIT levels this gain is negated.

Consolidated revenue grew at 0.4% sequentially at constant currency. This is notable because we have been able to bridge the decline in voice revenue through accelerated growth in data business after 6 quarters on the back of strong performance from growth services which in constant currency grew at 10.7% quarter-on-quarter. Consolidated EBITDA for the quarter stood at INR 630 crores witnessing an increase of 7.4% quarter-on-quarter and 6.1% Y-o-Y. EBITDA margins have expanded by 60 basis points sequentially and 150 basis point Y-on-Y. Growth services, as Vinod mentioned, have turned EBITDA neutral this quarter and this has led to significant EBITDA growth and margin expansion. While voice and FOREX has provided fillip to our margins by 50 basis point but major expansion is on account of growth services which contributed 140 basis point to overall margins offset by traditional services which were down by 115 basis point and innovation services by 10 basis points.

I would like to highlight that our traditional business despite operator consolidation impact of INR 35 crores this quarter, grew by 1% sequentially on constant currency. The margins in this business continue to be healthy and the Q-on-Q decline is not because of any structural weakness but because of incremental backhaul cost due to operator consolidation. This cost will smoothen out after a few quarters. I would like to add that this quarter we have also given a wage hike to our employees. Reported operating cost have increased marginally but in constant currency and after excluding the impact of backhaul, operating cost has declined Q-on-Q on account of productivity initiatives that have been underway. I would also like to add that our enterprise business has grown by 12% and even our service provider business has grown by 1%. This quarter, PAT came in at INR 1.6 crores compared

to a loss of INR 58.5 crores in last quarter. The reduction in loss is primarily due to business performance and an increase in EBITDA. Preceding to segmental performance, data business revenues came in at INR 3,069 crores and showed a growth of 9.1% Y-on-Y and 5.2% Q-on-Q on the back of strong performance in growth services. In constant currency growth came in at 2.9% sequentially and 4.6% Y-o-Y. Data business now contributes 75.4% to the overall revenue, an increase of 9.2% compared to same quarter last year.

As Vinod mentioned we had a very healthy monthly recurring charge growth in data business. This quarter we added INR 50 crores of monthly recurring charge on back of strong execution of deals. Data EBITDA grew by 10% Y-on-Y and 4.1% Q-o-Q, led by growth services. You would recall that last quarter this portfolio had negative EBITDA of around \$9 million. Data margins contracted by 20 basis point Q-o-Q due to drop in TCTS margins. In constant currency, margins expanded by 10 basis point on quarter-on-quarter basis.

As you would recall, we took shareholders' approval in our AGM this August and amended our objects clause. Post this change rental income from real estate, which was previously recorded as other income is now considered business income and is reported as a separate segment under data business. Prior to this change, costs for this segment were largely accounted above EBITDA, under data segment which led to a P&L mismatch. This mismatch is now rectified with rental income moving from other income to a separate segment as part of operating revenue. Rental income of INR 31 crores is included in data revenue this quarter as this rental income largely comes from leasing of datacenter space. All previous quarters have been restated to enable like-to-like comparison.

Moving to traditional services performance:

Traditional services revenue for the quarter stood at USD 287.3 million and witnessed a decline of 1.3% Q-o-Q and 3.3% on Y-o-Y basis. In constant currency, this portfolio witnessed a growth of 1% both Q-o-Q and on Y-o-Y for the quarter. Traditional services continue to be affected by operative consolidation and pricing pressure. EBITDA for the quarter came in at USD 83.1 million. EBITDA was lower due to unfavorable FOREX impact of USD 2.3 million, wage hike of USD 1.5 million, backhaul cost of USD 1.5 million and one-off cable cut expense of USD 2.4 million. Growth services witnessed a strong quarter with revenue growth of 13.1% Y-o-Y and 9.2% Q-o-Q. On a constant currency basis, this portfolio witnessed a growth of 10.7% Q-o-Q and 15.9% Y-o-Y. We witnessed good traction and some of our products like IZO, cloud enablement, media and entertainment, global hosted contact center and mobility services. We achieved a very important milestone this quarter as Vinod mentioned, our growth services portfolio turned EBITDA neutral on the back of strong revenue growth and execution with our platform integrated into enterprise ecosystem and an increased in usage-based revenue.

Moving to our innovation services portfolio:

We continue to focus on investing and strengthening this vertical as we believe that it could be a significant contributor to the overall revenue going forward. This quarter we have invested USD 12 million into this portfolio and we will continue to make similar investments over next 2 quarters.

Moving on to the subsidiaries performance:

Transformation services revenue came in at INR 286.5 crores, witnessing a growth of 7.6% year-on-year and 4% quarter-on-quarter. EBITDA for Q2 stood at INR 29 crores witnessing a decline of 6.8% Q-o-Q and 15.1% Y-o-Y. The decline was due to higher onetime project related cost, revenues for which we will see in the future quarter.

Moving to the Payment Solutions business:

We close over 594 ATMs this quarter as these have been less profitable and this has affected our revenues to a certain extent. Also, this quarter is a seasonally weak quarter with low average ATM transactions due to monsoon. Average transactions this quarter were at 86 compared to 96 in quarter 1. Despite lower revenue, we have turned EBITDA positive this quarter on back of continued productivity initiatives.

Voice business revenues stood at INR 999 crores and we witnessed de-growth of 2.7% Q-o-Q and 30.3% Y-o-Y due to decline in volumes and continued pricing pressure. This decline is steeper in constant currency. EBITDA for the quarter was at INR 92.7 crores and was higher by 31.2% Q-o-Q due to one-off benefit. CAPEX for this quarter stood at USD 65 million as compared to USD 72 million during last quarter.

Free cash flow that is EBITDA less CAPEX for the quarter came in at INR 172.4 crores, an increase of 67.2% over last quarter. Even after deducting finance cost and taxes, we delivered positive free cash flow of INR 31.2 crores this quarter versus negative cash flow of INR 51.9 crores last quarter. Consolidated net debt was at USD 1.25 billion a reduction of USD 17 million over last quarter. Net debt has seen a decline despite dividend payout of USD 22 million in Q2. Our average cost of borrowing is at 3.67%, this has marginally increased due to average LIBOR movement from 1.97% in Q1 to 2.11% in Q2.

To conclude, I would like to reiterate our data business delivered strong performance despite industry challenges. Growth services portfolio turned EBITDA neutral this quarter on the back of strong revenue growth of 10.7%, sequentially. Our focus will be to continue showing topline and profitability growth trajectory in our data services portfolio.

Our roadmap for future CAPEX is range bound and we are only investing where it is aligned with our long-term vision. Despite change in revenue mix, we are committed to strengthen our free cash flows further and enhance return ratios through optimum allocation of capital.

This brings me to the end of our commentary and I would like to request the moderator to open the forum for Q&A. Thank you.

Moderator: Thank you very much, Ma'am. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: The question I had was relating to the Traditional data Services and we have been seeing a slight declining trend in that area. If you could just sort of may be emphasis as to the reasons behind this and the reason, we believe that this is not structural and actually kind of temporary and actually could timelines when we would expect this to reverse again to a growth phase?

Vinod Kumar: The effect of consolidation in the Indian market has dampened revenues especially in the first 2 quarters and we expect that in the next 2 to 3 quarters we will start seeing a normalization, it may not go to the growth rates that we saw 2 to 3 years ago. But we expect that the demand for our services like IPL, Ethernet, IP Transit and MPLS are still very much there in the market both in India as well as international. And we expect that this will start beginning to come through as I said in about 2 to 3 quarters. So, in the meanwhile we continue to automate, we continue to drive various efficiencies and will keep looking to squeeze out more operating leverage in that portfolio.

Riddhesh Gandhi: Just so I understand the consolidation has already happened a few quarters ago, is that still a lingering impact of it that is why we are continuing to see it ?

Vinod Kumar: Well it is a hole that was created, right. So, while we have new revenue coming in to make up for it and put it into growth phase takes a little bit of time. That is really it, the loss of those revenues have already happened. But it is filling it back up with other customers is what takes a little bit of time.

Riddhesh Gandhi: The other question was around like Growth Services and is this effectively the breakeven which is in now is it expected to be, can you just sustainable into the quarters going ahead or is this blip that we have seen now?

Vinod Kumar: No, listen, when the number is at a neutral stage especially going into Q3 with the holiday season and so on and having services which are usage driven you could see some movement but frankly, I think we have turned the corner in general we have a healthy pipeline of orders under implementation which will start coming through in Q3 and Q4. Especially in Q4 what I can say is that we expect to be EBITDA neutral on Growth Services on a full year basis. So, between Q3 and Q4 we will see as make up for what is negative in Q1 and after that I think we should be fine. But Q3 could have, I do not want to put any, take any sentiment out of the turn we made on Growth Services but because of the fewer days and holiday season usages services could be marginally impacted.

Pratibha K. Advani: Vinod, if I may just start a data point for Riddhesh although I did mention it my commentary we are already seeing the rebound happening in the Traditional Services and that is why our enterprise business is going by 11% while some of that effect is also from growth. But it is also of the uptick of demand in the Traditional Services and even Service Provider is not a de-growth but a 1% growth year-on-year.

Moderator: Thank you. The next question is from the line of Hari Krishnan from Blue Lotus Capital. Please go ahead.

Hari Krishnan: What I wanted to ask is, you said there is a one-time effect on the voice EBITDA, could you elaborate on that?

Pratibha K. Advani: Typically in voice we do see some favorable market changes and this is one of the changes. We do not know how sustainable it is and that is why we calling it one-off benefit.

Hari Krishnan: So, you basically say that your 9.2% EBITDA for voice is not sustainable?

Pratibha K. Advani: That is right. I mean, we cannot predict it right now and voice has been pretty unpredictable.

Vinod Kumar: And if can add to that, I think, let us not keep 9.2% as a benchmark. We have not touch that in a while, we believe that this 6% to 6.5% range is where it will kind of average over quarters. Obviously, when we say opportunity to ride a market trend in higher termination rates into a certain destination, we will be prudent and avail of that. But there is too much volatility in rates for us to say that 9% will sustain.

Hari Krishnan: And one more question on your the MCA approval for Hemisphere you said it should come any time. Do you see that the other one which is TTSL you said it is status-co, what is the timeline for that?

Vinod Kumar: I hesitate to put a timeline on that frankly we have not been able to predict it, therefore I do not think it will happen within the next 3 to 4 weeks is may be what I can say. But we will have see and the honest answer is I do not know.

Moderator: Thank you. The next question is from the line of Rushabh Sheth from Karma Capital. Please go ahead.

Rushabh Sheth: I just wanted to, have a very simple question. If you look at the business over the last few years, the businesses have not made any money. I mean, actually because of the exceptional loss about INR 1,300 crores-1,400 crores. We are at a INR 20,000 crores balance sheet with negative net worth and we have a quarterly profit of INR 1.6 crores. How do you think, I mean when do you think we will reach a sensible level of profitability in the business. Of course, there are always events which will quarter-to-quarter which will keep sort of dampening for some reason or the other. But I mean, at least some sensible profitability has to come into the business. You cannot keep running a negative net worth business with a INR 7,000 crores of debt and a INR 20,000 crores balance sheet with INR 1.6 crores of profits.

Vinod Kumar: It is a fair question and I think that we have got look at the overall business. This quarter we have generated INR 500 crores of free cash flow, right at operating free cash flows. So, we believe that we are working on the right label and you will see, and a probability profile is not pretty as for the size of the business. But it is improving and I am hopeful that in the next 3 to 4 quarters it will reach a state of stability and then these kinds of one-offs will be less materially impacting quarter-to-quarter numbers.

Rushabh Sheth: So, you think that in the next 3 to 4 quarters we should reach some sensible level of profitability because there is no worry. You are running at INR 7,000 crores debt on a negative net worth something goes wrong somewhere you are in a really difficult situation. So, as an investor and we have been long term investors in this business, this is a kind of worry that at least at some point of time some sensible profitability has to come so that if some another issue comes in the business at least there is some ability of the business to withstand some kind of an adverse event. Because today we do not see that ability with the current level of profitability and current level of debt.

Vinod Kumar: Rushabh, sorry to interrupt but, I got your point. The fact that our business is resilient is why we have been able to take several regulatory norms payment issues we have to make in the case of the TTSL Docomo transaction. The changes in market dynamics in certain products while we explain these to you we do not take this as impact and we have been able to manage our debt debt levels in fact bring them down marginally and absorb it. We have never had any issue servicing the debt never had any issue raising debt when required therefore we will be prudent but I also do not want to get alarmist about any challenges to the business' viability or business' strategy. We are focussed on making the investments and we need to be prudent about where we make those investments. So, that they start yielding real increasing trend quarter-on-quarter at the PAT level. I get your point and I completely by that and be driven by that as a leadership team. But I do not want to swing the pendulum of sentiment the other way also.

Pratibha K. Advani: Also I just wanted to add that the reason for negative net worth is largely because of the foreign currency translation reserve impact and when we look at our loan covenant ratios that is not included. So, we are secured from that end and as Vinod mentioned our ability to raise debt has never been a challenge for us.

Moderator: Thank you. The next question is from the line of Girish Raj from Quest Investments. Please go ahead.

Girish Raj: I just question on IoT and MOVE, so we already have base station of 5,000 approximately. So, I would assume base station would mean gateway and the customer in MOVE would be 116. So, what is the scale that we would require for commercial or the revenue to come in?

Vinod Kumar: They are two slightly different businesses and requires a longer conversation to be honest Girish but I would not measure it yet by we have this much gateway, this much revenue. We have the IoT LoRa base station deployed in order to get a certain level of coverage to support existing customers. So, what we are doing

now is not rolling out before demand. We actually working on specific use cases and then where required, we are deploying. That is why if you see across December 2017 till September we have only added about 700 base stations in one year. And we will remain at that level unless the demand picks up. I think, the better indication is number of devices ordered, the PoCs, number of customers and so on. I do not think you can use this as a formulaic interpretation of the size of the business. In the case of IoT India we are working on multiple smart city projects working on lighting, metering and so on but these are, we are market creating in a way and our offerings are unique there is almost no competition when we go in. But it does not involve the fairly lengthy sale process and a proof of concept process before it turns into usage which grows over time. In the case of MOVE, right obviously the infra-structure that we have is very limited. It is more the software capabilities that ride on the radio local connectivity of mobile operators around the world. And we have our IoT gateways which we are deploying in order to provide seamless architecture and seamless quality of service. And there again you can see the number of customers increasing and we believe that we are still at the very early stages of deployment this number should significantly increase in the coming financial year.

Girish Raj: So, any commentary on competition that is coming up in these 2 space?

Vinod Kumar: In MOVE, obviously there are global players who are some of them our mobile operators. But we find that being non-mobile operator in a way and being carrier agnostic that combined with reach of our IP infrastructure we are able to do certain things both from our technical, commercial and operational diversity standpoints which are unique. And this is putting us into some large RFPs and we will, we were working hard with them and hopefully we can we will be able to publicly report them in the coming quarters. In IoT in India, yes NB-IoT will have eventually become available and compete in this space. But LoRa is ideally suitable for certain used cases. We have focused on smart metering, smart lighting, asset tracking, asset tagging and industrial safety and frankly in those cases as I said it is less about competition it is more about showing the capability and getting the customers to drive adoption.

Girish Raj: Just when can we see a meaningful revenue in this innovation segment and finally that 100 plus million target remains that we had given.

Vinod Kumar: The aspirational target remains, I believe that in MOVE we will start seeing meaningful revenue from next financial year and IoT India is going to be of smaller scale compared to the opportunities in MOVE addresses, one is global and one is very local to India with very fewer used cases.

Moderator: Thank you. The next question is from the line of Amit Jhanvar, an individual investor. Please go ahead.

Amit Jhanvar: I just wanted an update on I believe that we were in the running to pick up Tata Teleservices Enterprise business? Has there been any further progress on that?

Vinod Kumar: That is what we mentioned Amit that right now there is no further progress on that. There are issues related to DoT liabilities, which Tata Sons is resolving with DoT and that is a bit of pacing factor to decide how and when our transaction move forward. So, we are awaiting to hear from that before being able to give any concrete view on timeline.

Amit Jhanvar: And my second is that with the MCA approval for the demerger, have they given any timeline for when they are, I mean is there a hearing date or something along those lines? How does that work out?

Vinod Kumar: I can only go by anecdotal feedback that it was meant to be after the Dussehra and I am expecting that obviously, things take time and there can be unpredictability when it comes to these matters with authorities. So, hopefully post Diwali we will hear from them.

Moderator: Thank you. The next question is from the line of Girish Raj from Quest Investments. Please go ahead.

Girish Raj: On the Transformation Service, we actually increased our revenue in this particular quarter despite we thought there would be some loss of revenue because of the TTSL going through. How do we see revenue going forward and margin to that extent?

Vinod Kumar: I do not have margin figures we expect Pratibha, you can guide me on that. We expect that in Q3 and then more in Q4 will see TCTS show an increase in revenues and especially revenues coming from some of our international contracts which are under implementation which will result in margin expansion in Q4.

Girish Raj: And the traditional business there were couple of one-time expenses in the operating, can you give breakup and what will remain and what will go off?

Pratibha K. Advani: I actually had given the breakup in my commentary.

Girish Raj: Yes, I just wanted if those, so there is a USD 7 million increase in expenses quarter-over-quarter. So, the entire 7 million was one-time ?

Pratibha K. Advani: As I mentioned that wage hikes it will get normalized as revenues pick up in that portfolio and cable cut which is USD 2.4 million that was one-time.

Girish Raj: There was one more one-time which you had mentioned ?

Pratibha K. Advani: No, I had mentioned that the backhaul expense that could continue that on account of the consolidation impact that we are seeing in India. That will continue but over a period of time it will get evened out.

Girish Raj: So, USD 2.1 million would go off, right?

Pratibha K. Advani: USD 2.4 million. That is right and also on your question on margins on the transformation services business those should start to improve from Q3, Q4 as the revenues pick up as I mentioned again in the commentary that there was a one-time project related cost that came in this quarter. That impacted our margin.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I now hand the conference over to Mr. Kumar for his closing comments. Over to you, sir.

Vinod Kumar: Ladies and gentlemen, thank you for participation in the call. We are happy with the results of the last quarter. We believe that it is a turning point. However, as the leadership team and the entire organization is focused to make sure that this performance improves in the second half of the year and then further more after that. But we feel that directionally the product capabilities that we have established are the right one. The operational disciplines that we have put in place are beginning to show signs of traction in turn into positive numbers. So, you have a commitment that we will stay at it and finally I would like to wish everybody on the call a very happy Diwali. Hope it is safe and peaceful and joyful one for each of you and your family. We will look forward to chatting with you again in the next quarters call. Thank you.

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

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