TATA COMMUNICATIONS

Q3 and 9M FY2013

Earnings Conference Call Transcript

February 11, 2013 at 2:00 PM IST

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

Our results for the quarter and nine months ended December 31, 2012 were announced on Saturday and the results presentation and fact sheet is available on our website. I hope you have had the opportunity to browse through the highlights of the performance.

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

Before we get started, I would like to point out 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 risks and uncertainties we face. A detailed statement and explanation of these risks is included in our annual filings which can be found on our website www.tatacommunications.com. The Company does not undertake to update these forward-looking statements publicly.

With that I would like to invite Vinod to share his views.

Vinod Kumar: Thank you Mahesh. Good afternoon and a very warm welcome to all of you. During the course of the next few minutes I will touch upon both our performance during the recently concluded Q3 but also I would like to take you through some of the key growth strategies and enablers for Tata Communications.

Quarter 2 for us, as we mentioned earlier, but I would like to highlight again, was a deviation to our operational plans over the past year. We believe that the third quarter is far more reflective of the direction the business is taking and as we can see, the trend for top-line growth has been maintained given a combination of things including our leadership in the Global Voice Services business, the growing strength in our large enterprise and managed services business and also accelerating profitability growth in the near term. The consolidated EBITDA margin for Q3 moved upwards at 13.6% compared to 10.3% in Q2 FY13. Sanjay will take you through the details behind this but we will be happy to get into more specifics in the Q&A as well. As I mentioned on previous calls, we have been taking a very hard look at our cost line and we have already taken several measures in Q3 to improve our cost efficiencies and moving towards benchmark costs. We remain confident of maintaining the cost discipline to make sure that what we are seeing as revenue growth flows more smoothly and directly to the bottom line, which will make our profitability look better. I will let Sanjay get into the nuances of the financial performance and cost initiatives a bit later.

© 2012 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

Today I would like to focus my remarks on talking about some of the transformational trends or the megatrends that are shaping our market place and how we as a company intend to benefit from those. The field of communications and technology clearly is very fast changing and ever evolving; there are players amongst those who study the emergent trends very minutely and we are one of those who do so and we prepare our offerings and solutions accordingly. What I would like to talk about are four megatrends that are shaping our business and how we are responding to each. The first is on outsourcing and out-tasking. The second is related to data explosion. The third is the enterprise transition to cloud and the impact that cloud is having on the enterprise landscape and the fourth is the increasing significance of emerging markets. I will tell you what we are really seeing on the ground from our customers.

First let's talk about outsourcing. Outsourcing historically has helped enterprises focus on their core activities and at the same time reduce costs. We see outsourcing benefits across our whole business portfolio, operators like BT are outsourcing their entire international voice business to us and that has been quite a transformative project in the global wholesale voice business and since then we have had many other such examples, although none of the scale and size of BT. We also have several examples of enterprises outsourcing their networks to us, outsourcing their data centres to us; these in a way you can call run of the mill outsourcing. But in addition to that, within our transformation services business unit, TCTSL, we provide turnkey transformation services to other telcos and other carriers and over the course of the next year you will see us pushing into offering services, not only for fixed-line carriers but also for mobile carriers; this is something that we had not done in the past. In TCPSL, which is our banking subsidiary focused on offering payment solutions to banks, we have banks increasingly outsource their ATM and payment services network to us. So as companies continue to re-evaluate their business models in the face of the tough economic environment, which we see is continuing for some time, outsourcing will become an increasingly important element for service providers and enterprises to stay sharp in their game. And we see a lot of opportunity for Tata Communications through our transformation services, our data centre business, our network outsourcing and voice outsourcing business and also in many other areas and we are constantly exploring these.

The second megatrend is around the explosion of data. I think there has been a lot said about this, but one datapoint that stuck in my mind, it is estimated that from the dawn of civilisation to 2003 humans produced 5 exabytes of data. Today, based on the smartphones, tablets and all the other devices that we have and the proliferation of content, human beings produce 5 exabytes of data every two days. So companies clearly have to think about how they are going to deal with this data, how they are going to analyse it, how they are going to mine it and this is something that you hear about in many different ways, big data, data analytics, the growth of bandwidth, so on and so forth. The data surge is causing a huge surge in internet traffic and we are seeing that on our backbone network. It is also being driven by the proliferation of smart devices and wide

© 2012 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

adoption of video. The next wave and growth of data is going to come from machine to machine communication which will allow everything to be connected. All this, especially the growth of internet bandwidth and the wide adoption of video are very useful trends and very enabling trends for Tata Communications. We have adopted video as one of our major big bets that we are taking. We have created dedicated teams to build products, engineer new services and even sell video-related communication services and solutions. We expect that this will be an important part of our differentiation, through what we are doing in video but also in terms of the door-opening ability for new customers, who are all seeking solutions which allow the adoption of video-based collaboration in their enterprises.

The third and probably newer trend, although the buzz has been there for a while, is the enterprise adoption to cloud. Cloud was very prevalent as an enabler for small enterprise or cloud based services for consumers like you and me. But what we are seeing now is cloud is getting adopted increasingly by enterprises. Cloud first penetrates an enterprise through simple offerings like SFDC or salesforce.com to enable funnel management like a basic CRM system. Soon organisations start looking to the Cloud for many different services. We ourselves for example run our entire HR platform on a cloud-based solution. So large companies like us are looking at cloud not to run every single application but many applications, many basic applications, even those that are mission critical in their enterprise, using the cloud architecture and cloud commercial platform.

Now why am I talking about this? I am talking about this because while cloud is a vast space, it spans from everything, from infrastructure to software as a service, to platform as a service, it goes from consumer to small business to large business. The one thing that we find ourselves having is the big fat pipes that traverse the continents and the large data centres around the world that make us ideally suited to enable both organisations as well as service providers to enter this new age of cloud computing. So we are now not talking about us as a cloud services provider, we have sharpened our focus and our message to the market and the work that we are doing, that Tata Communication is a cloud enabler. And this is going to be key to how you see our strategy rolling out and this will show up in our numbers in the coming quarters and coming years.

Moving to the fourth trend, which is the growth of emerging markets, which in an interesting way is a combination of the first three. Emerging markets are important to both enterprises and service providers alike. Emerging markets started off as being the world's outsourcing hubs, whether it be for services or manufacturing - India for services, Thailand for manufacturing and so on and so forth. But increasingly, emerging markets are playing a larger role in the global economy and in the minds of large enterprise customers and therefore for the carriers who serve them, as great destinations for finding growth; finding growth by serving the domestic consumers, finding growth by serving the undermet needs of both consumers and businesses in emerging

© 2012 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

markets around the world. As you know, our focus in emerging markets, which is a large space in itself needs to be carefully driven by where we have network, where we have market access and so on. So Tata Communication is focused principally on South and South East Asia, Middle East and parts of Africa and that is where we see our activity continuing to be in the coming 12 to 24 months. We have some presence in Latin America, that is a big growth market, but we believe there is significant growth opportunity in South, South East Asia, Middle East and in Africa.

The combination of these four mega trends that I spoke about is transforming the landscape that we operate in. They clearly provide opportunities but they also provide challenges because you need to make investments and stay ahead of the curve. Luckily the investments are much more in opex and are more success-based than the capex intensive phase that we went through for a couple of years in order to rebuild our portfolio. Tata Communication is very much at the heart of this transformation that is being caused by these four mega trends and we see a lot of opportunity for us to scale the platform that we have and we are quite enthused with the progress we have made so far and the strategic bets that we have chosen to make until now.

A good way to get feedback on that is to talk to industry analysts. Last month, my leadership team and I hosted 35 global telecom industry analysts who have considerable experience dealing with telcos and with customers around the world. It is a platform that we have held now for the fourth year and we share our progress on the strategic direction, we shared with them the operational details of how the business is doing on execution. And the feedback from the group was very positive in terms of what we are doing with creating capability within the business but also equally positive on how our execution is improving steadily and we are clearly being seen as a global challenger and a company to watch in both the service-provider space where we are quite a dominant player but also more importantly in the large enterprise space in India as well as globally on the back on the services that we have been able to take to market. Our brand is getting more recognition and we have had to spend money on that. The culture of the team in terms of customer orientation and focus on the market is also being well-regarded. The emphasis for us right now is to tighten our segmentation efforts to be more focused on the customers we serve and this was one of the highlights of the summit and the analysts responded very well to our segmentation strategies. Clearly, neither I nor my team are sitting on our laurels, we have a lot of work to do and we believe that we will be able to take this business even further.

We have made many announcements recently and I will just touch upon a couple of these and what this means for our business. We recently launched the 100 gigabits per second enabled services on our TGN-Atlantic (TGN-A) subsea system. This is quite important because what it allows us to do is extract more bandwidth from the fibre that we have already deployed and given that our network is relatively new compared to many other players, this will clearly allow us to leverage these subsea assets for longer than it was envisaged when they were built and I see

© 2012 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

that as having quite an important impact on our numbers going forward. Equally, we launched our inter-provider agreement with AT&T to further unite our video collaboration and Telepresence community. So basically right now, Tata Communications through its global meeting alliance exchange connects 100% of the world's telepresence rooms and this is a very powerful stepping stone for us as we continue to expand our presence in offering these video services to the enterprises. I have chosen to touch upon these because it is a good demonstration of us building infrastructure through cables while at the same time expanding our managed services into what enterprises want. Also we have made several announcements to support the mobile industry's migration to 4G and LTE and that is also quite important because that is where the growth is going to come for the mobile businesses and eventually for enterprises.

Some of the big bets areas for us also include expanding our Data centre foot print expansion, particularly in India; cloud enablement; unified communications and business video; while we will continue to build on our leadership both in Ethernet as well as in the services we offer to mobile operators.

Just to talk about a couple of these, first about our data centre expansion because you are going to hear more about this and see more about this. We see data centre as an enormous growth opportunity, especially in emerging markets. While we are the market leader overall in India enterprise data where we have about 22% market share, we are number 2 in the data centre space and our goal, and we have a very clear path that we see is to become number 1 in India in terms of revenue share of the business. We have an extensive footprint throughout the country but this needs to be augmented and we will do so. We have been steadily increasing our share over the past few years and it is only on that basis that I am confident that we can maintain the trend and get to number 1. You will also recall that we have created a growth ventures group earlier this year, it is more of an aggregation of businesses within our organisation and with a person directly managing it. The reason we did this is to sharpen our focus on these areas and under the growth ventures group initiative we also plan to expand our data centre footprint in India fairly significantly in the coming year and we will be announcing more details of that as the year unfolds. Similarly, on the business side, the growth of video as I said is pervasive and businesses are adopting video faster than ever. We have enough reason to believe based on the technologies that we have created, our experience in creating hubbing services both for enterprise and carriers that someday Tata Communications will be recognized as we are in voice, in subsea, as a leader in the video space. So that is another big focus area for us.

As an organisation, we are excited and optimistic about the opportunities ahead of us. We have a model that offers complimentary businesses in voice and data, in enterprise and wholesale, and in India and internationally. And on this basis we believe we are able to successfully migrate

© 2012 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

traffic on our network but more importantly migrate our business to bigger and different things. We have a differentiated and fundamentally strong business model that is rich in data, having an increasing brand equity that is growing and most importantly, an enviable client base that includes some of the largest multinationals in the world and our solutions portfolio keeps evolving and we keep working on it. We also have an incredibly talented and committed workforce that is building this organisation and this has been a major focus for us in the past year, which is creating our talent, which is capable of building new services and that can also navigate globally since we truly are a global business.

With this powerful combination, you will see us in the future, and in the coming quarters consolidating our leadership in voice, adding scale and size in our data business which is critical given the platforms that we have and through this combination aggressively moving towards a better quality of profitability.

With that I will wrap up and hand over to Sanjay to take the discussion forward and share some insights on our financial performance and I will come back later to answer more questions. Thank you, over to you Sanjay.

Sanjay Baweja: Thank you, Vinod. Good afternoon, everyone, and thank you very much for joining us today. I will share the financial numbers and trends for the quarter under review and outline a few key messages around that.

I believe you had the opportunity to look at the results presentation deck that we put online and I am sure you will appreciate the inclusion of the detailed fact sheet also.

I am pleased to say that we have had a very strong Q3 and this strength has been very visible across all segments. Broadly we are in line with our normal momentum of growth; revenues have shown robustness while margins are noticeably better.

Our consolidated revenues in Q3 were up 23% year-on-year and about 3.8% quarter-on-quarter. Consolidated EBITDA margins in Q3 FY13 were 13.6%, higher by about 330 basis points sequentially. Q3 FY13 consolidated EBITDA was up 19.8% year-on-year and 36.8% quarter-on-quarter. We are also back to being EBIT positive on a consolidated basis. A similar picture is present when you look on a year-to-date basis where we have registered 25% revenue growth and 20% EBITDA growth compared to the previous nine months ended December, 2011. Also, our cash profit for the nine months FY13 is up 24% to about Rs. 981 crore.

Talking about Core business, the Core business in Q3 has registered strong growth of 24.9% year-on-year and 4.5% quarter-on-quarter. Both GVS and GDS have supported this upward trajectory with strong year-on-year and quarter-on-quarter growth. Core business profitability performance has been quite strong with Core business returning to being PBT positive before

© 2012 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

exceptional items. Core business EBITDA margin was better by 370 basis points sequentially in Q3, driving a 42% quarter-on-quarter growth in Core business EBITDA. Core business EBITDA margin percentage may look somewhat lower when you compare year-on-year but there I would like to point out that last year Core business had some favourable impact of Canada pension fund, while in this year, including in Q3 we have had an adverse impact on account of Canada pension funds. Year to date FY 2013, we have an adverse impact of about Rs. 311 million compared to a favourable impact of about Rs. 561 million for the same period last year on account of the Canada pension fund. If you normalise that, like we have reflected in our fact sheet, you will see that Q3 core business margins are in line with our historical performance.

Talking about the Canada pension fund, we have seen this adverse impact more often in the last few quarters. This impact relates to the actuarial revaluation of the Canada pension fund and it is something which is difficult for us to predict considering various external factors that go in revaluations such as the discount rates, interest rates prevailing in Canada and also sometimes defined by the Government there. Hence, it is somewhat difficult to say that we will not see this impact in coming quarters, but the hope is that it will stabilize as we go along.

Like we said in the last quarter, we are looking at costs very carefully and optimising it wherever possible and act as quickly as we can do. For us, cost optimisation now is a way of life. Last quarter we undertook a staff optimisation exercise to better align the Company to its current and future business mix and priorities. As a part of this exercise, due to changing business mix and efficiency and increased productivity based on process automation, about 300 roles became redundant. The Company has done its best to assist the impacted individuals by offering a fair severance package as well as outplacement services in most countries. Exceptional item in our Q3 financials broadly pertains to that. Financial benefit from this staff optimisation has started to flow in Q4 FY13 but the full benefit of this will kick in, in Q1 FY14. We also have several other initiatives underway targeted at other components of our cost structure such as network cost and we believe that there is room for us to get some efficiencies and savings there as well in the coming quarters.

Talking about segments of core business, both GVS and GDS had strong profitability rebound in Q3. During Q3, GVS EBITDA margins were about 8.8% and GDS got back to 20% EBITDA trajectory. We are quite enthused with the progress on GDS profitability, considering we had seen margins slip to mid teen levels in the first half of FY13 driven by near term impact of investment in sales, marketing and all front end efforts to make our brand more visible globally. While these are still early stages, these investments are starting to pay off as reflected in the traction we are seeing in the enterprise segment, pipeline activity and sales performance. We will not cut back on investment in GDS and are more than willing to take incremental investments because of the tremendous benefits the GDS piece carries. We are confident that these

© 2012 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

investments will pay off in the medium term and position us favourably for a sustained improvement in overall margins.

Switching to voice, in Q3 the voice margins are back at the top end of the spectrum. As you know, Voice is a strong cash generating business for us and incremental profitability straight away improves our free cash generation. We expect the voice business to continue to be a significant driver of our earnings and cash generation backed by a leadership position, infrastructure edge, long standing relationships with carriers and operators across the world, superior traffic mix and extremely sharp focus on profitability. Today, not even a single minute that goes on our network is below the margin threshold that we have kept for ourselves.

Moving on to Neotel, Neotel has also continued to build growth momentum with Q3 revenues growing by 6.2% in local currency (ZAR) terms, a clear reflection of our focused efforts and investments in accelerating growth there. Neotel has been outpacing industry and peers consistently by a good margin and is on track to further increase its market share in a market that is barely growing. The GDP impact of the South African market will reflect on these numbers surely. In reported terms, you see a slight decline in the start-up revenue quarter-on-quarter and that is because Indian Rupee has strengthened against ZAR quite significantly, more than 7% quarter-on-quarter. Looking at the start-up profitability, we have been able to sustain double-digit EBITDA margin in the start-up segment for the last three quarters and we believe our accelerated growth coupled with strong focus on cost will continue to benefit Neotel and aid in expanding profitability profile in the coming quarters.

Cost discipline and deleveraging are very clearly two main focus areas for us moving forward. We have already made some good progress on the cost optimisation front and will continue to do a lot more there. Similarly, on the deleveraging side we believe our core business is operating at peak debt levels. With improved profitability trajectory and reducing interest expense and lower capex intensity, we do not need external funding to run our core business and the normal course of operations. This is clearly evident from Q3 FY13 core business performance where EBITDA has exceeded capex and interest expenditure. We will continue to maintain annual core business capex around $300 million or less going forward. Our capex is clearly focused on the areas where we think we are going to earn bigger margins. The investment phase of creating stock of robust operating assets is drawing to a close and we are now geared to ramp up our capabilities and have aligned capex more closely to the market dynamics.

We have also been able to reduce our interest expense consistently by proactively working on reducing our average cost of loans. We believe with growing EBITDA profile, tapering capex intensity and lower interest expense the stage is set for us to deliver incremental free cash flows in core business in the ensuing quarters.

© 2012 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

In January 2013, we also completed a bond issuance in the Singapore market, which was a landmark transaction. Tata Communications (Netherlands) B.V., a fully owned indirect subsidiary of Tata Communications Limited successfully completed a bench mark Singapore dollar 250 million bond issue in the Singapore market with a coupon rate of 4.25% and a maturity of three years. It is the first time that an unrated Indian corporate has been able to raise funds in the international bond market. We received an overwhelming response from investors resulting in 14 times over-subscription and the bond being priced at the lower end of the guidance. This clearly underscores the credibility and strength of our credit profile. Proceeds from this bond issue are being used for repayment of existing high cost debt and will further reduce our average cost of loans. We will continue to evaluate more such opportunities in managing our debt profile.

As I close my presentation, let me state that I am very pleased that our operating metrics have picked up pace delivering an improved performance, as envisaged. As a Company we have been putting our building blocks in place, to assemble a global powerhouse in telecom space. The telecom industry has advanced into a data and managed services regime moving beyond the pure voice or traditional network era; the importance of emerging markets is beginning to unfold and we have been gearing up for this shift. We have the necessary levers in place that ensure a predictable growth in the topline and earnings performance and remain very confident to deliver strong performance on a sustainable and long-term basis.

With this, I conclude my opening remarks and I would now request the operator on this call to open up questions and answers. Thank you very much.

Operator: Ladies and gentlemen we will now begin the question and answer session. We will take our first question from Reena Verma Bhasin from Merrill Lynch.

Reena Verma Bhasin: Thank you very much for the call and also for the detailed metrics that you have put out. I just have a few questions focused more on the third quarter performance. If you could just please share with us what exactly has driven the drop in employee costs because I thought Sanjay said that the benefits will flow in only in 4Q, but you have already seen a nice drop in your wage cost this quarter. Also, if you could please help us understand the drop in your interest cost this quarter because I believe the bond issuance happened in January. So if you can please help us understand those two things with regard to 3Q then I will just ask some more questions thereafter.

Sanjay Baweja: We'll start with drop in interest rates, first off. We have a large loan from a Life Insurance Corporation and we paid about Rs. 400 crore off that in early November, so the balance of the period that cost came down dramatically. That cost was at 11.7% and you have our overall borrowing numbers so you can imagine how that would impact our overall numbers as far as costs is concerned.

© 2012 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

Reena Verma Bhasin: Sanjay, I am sorry to stop you. When I look at the disclosures you gave, your INR debt at the end of 3Q is higher than what it was in 2Q and your dollar loans are actually lower so if anything, the mix on interest cost on overall basis should have gone up but it has gone down.

Sanjay Baweja: No actually, the rupee loans that we have in the Q3 versus Q2 are lower, I think it has gone down from $245 million to $163 million, if you look at page 12 of our presentation.

Reena Verma Bhasin: Yes.

Sanjay Baweja: So from $245 million it has gone down to $163 million, so it has really gone down.

Reena Verma Bhasin: That is the FX component, right?

Sanjay Baweja: No. You see in the debt slide that the lighter shade is the Indian Rupee. The higher one is $1386 million and $1487 million which is the dollar component. So it is the reverse from what you think. Yes?

Reena Verma Bhasin: Okay, so basically this is the substitution which has driven down?

Sanjay Baweja: Yes, that is right.

Reena Verma Bhasin: Sorry Sanjay, so just when I look one quarter ahead this 4.85% of interest costs post your recent bond issue, where do you think it will go?

Sanjay Baweja: On an overall basis, it may not impact a whole lot much but yes it may drop a little more, that is all I will say in terms of numbers, slightly more. If you notice, it has been dropping slowly quarter after quarter. I would retain that it will be a slow drop which will continue to happen.

Coming back, as far as the costs are concerned, of course one part is the exchange which has helped towards, but not as much. But I think also, we have very closely looked at the accruals that we have been doing specifically at the PLI related issues and the bonus-related issues where we have noticed there was an accrual which was probably slightly higher and we have done that adjustment. Let me also say that the benefits started happening in the month of December itself because of the timing from our perspective, employee optimisation happened end of November, first week of December, so the December month itself. The big benefit will start happening or let's say about 70% of the benefit or 75%+ of the benefit will happen in Q4 and then the substantial benefit will happen or the complete benefit will happen in Q1 of next financial year, from an employee cost perspective.

© 2012 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

Reena Verma Bhasin: So this number of Rs. 568 million for this quarter, this has some write-back of some accrual – what do you think? I mean what I am trying to understand is, is this the new trend line number?

Sanjay Baweja: We can very clearly say that.

Reena Verma Bhasin: Thank you very much. And just on Neotel, EBITDA contraction, though it is minor, I just wanted to know what the cost has, you know, why has the EBITDA contracted for Neotel?

Sanjay Baweja: A little bit due to currency. Let me say that from revenue perspective and I want to specifically talk about that. I think revenue in Neotel, the robustness and the mix is changing to being much more profitable than that was earlier, what was there two years ago, where we had a lot of one-off project related revenues, now it is fixed with more annuity related, much more profitable revenue has happened. Yes cost focus has been there, but also the revenue mix has changed towards being more profitable and we believe that that is the way to go as far as Neotel is concerned. Neotel as a company has been focusing on profitable revenue and therefore you have noticed even though the revenue has not been growing that much, the profitability has continued to increase. The economy is now starting to improve, they grew over 2-2.5% in some of the quarters and two quarters ago they grew by about 1.5%. So now that they are beginning to see some growth as far as their GDP is concerned and I think we will see more revenue growth going forward, and EBITDA will also grow as a consequence.

Reena Verma Bhasin: Thank you. Is there a one-off in the EBITDA at this time? Is there a one-time cost or something?

Sanjay Baweja: No, there is no one-off, there is no one-time cost. There is an exchange bit there but if you compared with the Q2 to Q3, in ZAR it has gone up, if you look at the page 17 from ZAR 74 million to about ZAR 87 million as far as EBITDA is concerned. If you look at it in Rupee terms maybe it has taken a hit little bit because ZAR has weakened overall.

Reena Verma Bhasin: Okay, thank you very much. And just one last question, when we look at your overall top-line performance Vinod said that the third quarter was exemplary in terms of what you could do. I am just curious whether we should look at your company in gross revenue terms or net revenue terms now that you are sharing net revenue numbers with us?

Vinod Kumar: Let me just try and answer that. That is a tough question, Reena, because you'd have to look at it in both if I can say. Because the wholesale voice business against the net is more reflective of that business and that is what we are very focused on. However, on the data side, I am equally focused on gross and net. The reason I say that is for some of our services like the managed services, because the mix is changing you will find that the gross growth is not

© 2012 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

translating to net growth sufficiently and that is because those businesses are still acquiring scale and as they acquire scale you will see that the gross and net will get far more aligned because we will using the base of our costs more efficiently. So sorry to give you an answer saying you have to try both because that is really what we do ourselves because the data is going through a major shift in terms of composition of revenues from traditional network services to VPN services and now to all the managed services. And for the VPN services and for managed services, there are more third party costs and off-net costs which are involved that will make the net revenue picture look a little bit different until the volumes have grown, especially in the case of our managed services.

Reena Verma Bhasin: Vinod that is very helpful. So if I may just confirm that the direct costs what you attribute between gross and net revenue, most of it pertains to network costs?

Vinod Kumar: The direct costs pertains to network costs but then in services like hosting or security there may be those third party components also involved.

Sanjay Baweja: And also particularly in the payments solutions business, a lot of the ATM related costs we take it in the direct costs so those are netted off from the net revenue.

Vinod Kumar: Yes, that is quite an important point. With the managed ATM business, there is a lot of costs which is direct, which is netted off.

Reena Verma Bhasin: I see, thank you very much. I will come back in the queue if I have more questions.

Operator: Our next question comes from Naveen Kulkarni from Phillip Capital.

Naveen Kulkarni: Yes, thank you for taking my question and congratulations on good set of numbers. I have a couple of questions. My first question is on the data management services business. We tend to see a lot of volatility, one is in terms of margins seen on a quarter-on-quarter basis from say peak margins of around 26%, in Q2 the margins are around 20.5%. 26% was Q2 FY12, to 20.5% in Q3 FY13 and also if I were to look at the EBIT losses, they have widened on a Y-O-Y basis. So what I want to understand is what level of margins will this business, move to where this business will be profitable? And when do we see margins stabilising in this segment? My second question is in the voice services segment. For the nine months we are seeing the margins in this segment at around 8.1%. Do we see that this to be the stable margins going ahead? Thirdly I would like to know what was the cash capex in this quarter and what was the total free cash flow that was generated? And lastly, could you quantify the total savings that you have indicated in terms of employee costs. I want to know the absolute amount of savings that we will be having going ahead. So those are my questions.

© 2012 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

Vinod Kumar: Yes, I will talk about the margin part and employee cost optimization, Sanjay why don't you talk about the capex .

Sanjay Baweja: Okay, so the cash capex for this quarter was about $73 million. On the voice margin, 8.1% YTD, I think the range that we have and we have talked about in the past calls is between 6.5% and 8.5%. That is the broad range that we believe we will have going forward.

Naveen Kulkarni: Just one minor clarification. This 73 million dollars you just quoted, is it inclusive of Neotel or is it just the core business?

Sanjay Baweja: No, no. This is core business. When we talk about capex we generally talk without Neotel. Neotel if we have any investment then we talk about separately, but overall, when we said that $250 to $300 million of our capex that is related to the core business that we keep talking about for the annual basis.

Naveen Kulkarni: Okay. Okay.

Vinod Kumar: All right in terms of employee costs, we will have about $27 million annualized savings once the termination process is completed, that will be taken out of our manpower costs. So that will be the absolute savings amount.

In terms of data margins, our expectation is that we should be able to grow from here in terms of margins. The figure that you see of 20.5% EBITDA should show an upward trend in the coming quarters. Our expectation is given the mix of the services that we have when we get to about 25-26%, that is when it flows all the way down and that data business on a standalone basis will be profitable.

Naveen Kulkarni: Okay, so if I understand correctly what you are saying is that margins at around 25-26% that is when data business tends to get profitable or is it in a particular case with us?

Vinod Kumar: I can only speak about us because of the mix of the businesses.

Naveen Kulkarni: Okay.

Vinod Kumar: I think for other businesses it may be different. But about 25% I would guess, our modelling shows that that is when it gets profitable. And because our blend includes our payment business, it includes our traditional network services, our managed services business and so on so we really have to look at it in our context.

Naveen Kulkarni: Okay, thank you.

Operator: We have now a question from Piyush Choudhary from CIMB.

© 2012 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

Piyush Choudhary: Yes hi, good afternoon everyone. Congratulations, gentlemen, for a strong set of results. I just have one question. In your presentation you have mentioned about your cost optimisation initiatives which are underway on network expense and other costs. You know network expense being such a big element of your cost, which is around 100 billion rupees on an annualised basis. So could you share some insights on what are the initiatives you are taking on this? Is there an absolute target which you have set in your mind like 5% reduction or something like that?

Sanjay Baweja: Cost focus like I said is now an on-going thing. We keep looking at optimisation, looking at rationalising some of the PoPs, looking at each and every aspect of the network. It is difficult to put a hand on this and say that this is what we are looking at. We are looking at the overall network expenses and there is no absolute number which we can say that this is the kind of saving that we will get but hopefully over the next few quarters we will see noticeable savings.

Piyush Choudhary: And secondly Vinod, earlier you used to talk about your progress in the Gartner's Magic Quadrant. Now we don't get that in your presentation because of copyright issues, but could you share your progress in the same and what is your strategy going forward towards achieving the earlier mentioned goals? Thank you.

Vinod Kumar: Okay, the Magic Quadrant is published only once a year by Gartner, it is not quarterly or more frequent than that. That position hasn't changed since our last earnings call. So that is why we haven't specifically reported it. And we don't want to blow our trumpet too much, we would rather let the numbers do that.

Operator: We have now a question from Srinivas Rao from Deutsche Bank.

Srinivas Rao: First is, Vinod in his opening remarks mentioned about this megatrend of data explosion which has kind of been talked about for some time. The question which I have is not just for you but I think most telcos and other companies, that it doesn't translate into explosion in revenues. So that disconnect continues to remain across the industry and is there a reason to believe that will change? In fact a more sort of pointed question would be, have you seen any increase in the rate of your bandwidth sales or rate of sales of products which support data which is much higher than what was in the past and will the top-line actually follow that volume number which we now hear in terms of exabytes? That is my first question.

Vinod Kumar: Okay, maybe I will take that first because Srini, knowing you, you will probably have a set of complex questions after that. This itself is quite an existential question. Data traffic is growing you know upward of 50% of the network but no, you are absolutely right, it doesn't translate to 50% growth in revenues unfortunately. Price erosion will continue to be a game that we have to play and a factor that we will have to deal with, there is no question about that. However, what we are finding is that with this growth of data, and if you look at it, it is not just

© 2012 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

traffic surge we have seen that for a long time but the importance that is being placed on quality of service, on the fact that people want to outsource things much more and also look for turnkey solutions. That is giving us an opportunity and hence we have been building our portfolio of services. So it is not just taking any data and carrying it on the network. We are looking to see how we can add value to it. So for example, in video what we do we are doing things to enable video on the network. In the mobile broadband space we are launching a service called Hosted Policy Exchange that allows mobile operators to offer their end-customer the quality of experience based on the content that they are trying to download or based on the value of the customer, high ARPU customer gets better value, better performance and so on. Using our CDN network we are helping to use the bandwidth more efficiently and enrich the end user experience. So this is what we have been investing all this while and making the shift and therefore we feel that the growth in data traffic is a positive one because we will be able to offer more value-rich services. Pure dump pipes itself are they going to beat this trend of price erosion? Probably to a certain extent but we are not betting on it.

The other factor which is quite important and I am not sure if you caught it in my opening remarks is, upgrading a network from 10G to 40G to 100G on a wavelength is going to increase the life of our cable systems. It will give us longer life of an asset that can be used to compete in the market. Also because there is so much pressure on the top-line, also on pricing in data, the justification from new people to come and build a lot of cables is not going to be there. Therefore, we expect that over time, some of the competitive pressures will ease off a little bit. I have been in the business too long to call that prices will not drop but I think there are enough macro factors right now that the rate of erosion may reduce a little bit.

And I want to say as well, where growth of data has a big impact is around data centre business. We are seeing that our data centres are getting filled up and also the rush to build captive centres is not there anymore. People are looking to move into data centres with service providers. There we are clearly a beneficiary and in places like Singapore where we have our data centre or in BKC, the fill factor is definitely accelerating.

Srinivas Rao: One more question, Vinod, when you mentioned upgrading your network to 100G. I am assuming that it means upgrading the end equipment right rather than the subsea cable. Is that correct or I am wrong?

Vinod Kumar: You are absolutely right, which is our advantage because we own the fibre, we have the cable already in the ground. It is really the electronics to shoot faster waves through the glasses is what has to be changed, so the end equipment that changes. And it is not that you have to swap for the full, you know, you can have different fibre pairs, you can run different wavelength speeds.

© 2012 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

Srinivas Rao: Understood. On that related note, I mean I think Alcatel which had a kind of a business which was to lift cables, subsea cables, they are trying to kind of sell it I mean does it have an impact on future cable, but not for the industry, because you know the subsea cable built out industry is fairly confident and among few players who actually do that. Is that going to change the dynamics of the cost of laying a subsea cable?

Vinod Kumar: I don't think that itself will have an impact. On one hand you can argue that maybe they are quite a large player and their asset going into somebody else's hands will shrink the number of suppliers. Yes but at the same time there are some new players who have been coming into the market. Also, the way we build cable systems right now, most operators will make sure that there is enough flexibility in the design that yes you contract with one party to lay the cable but after that, ongoing upgrades and so on, they don't get locked in with them. So I don't see the Alcatel move having any change in the fundamental economics of building cables.

Srinivas Rao: One final question at this stage is, on Neotel do you believe there is a need change your business assumptions which you made, A) when you bought it and B) after you restructure it. Is it all on plan or do you think the numbers are coming a bit below what you would want it to be?

Vinod Kumar: It is clearly different from what we expected when we entered the market. We expected the South African economy to be more buoyant than we have actually seen. We also expected an earlier ramp up of the business but that is water under the bridge. That was many, many years ago, or it seems like many, many years ago but three or four years ago.

But since we restructured I would say we are on plan. I am very happy with the cost management side and how we have been able to streamline the business we have leveraging the capabilities we have in India to make them more efficient as well as improve the way we run the business in South Africa itself. So the team has done well. I am clearly not happy with revenue growth. They have made progress with the mix of revenues changing and I tip my hat to the team. So the one-off revenues associated with the projects has become a smaller component, So it is cleaner and more predictable revenue as Sanjay described. The annuity revenue is the bulk of it right now, that is good. We have also gained market share, we have actually grown from 5% market share to 6% market share in fairly tough operating conditions. But still we thought we would be able to accelerate revenues a little bit faster than we have. So that was the focus. I think I mentioned even in the last call and it will continue being the focus. But with the cost side cleaned up now we can put more attention into driving revenue up.

Also 12 months ago we had a lot of issues with brand recognition and there were a lot of negative sentiment in the market around Neotel, but if you look at the South African press and we now track it as positive and negative commentary, there have been no negative commentary at all in

© 2012 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

any of the press on Neotel in almost three quarters now. So that is beginning to impact buying behaviour and openness to Neotel's propositions in the market place.

Srinivas Rao: This is very helpful, Vinod. One final question I have is on this interconnect costs. You know, the differences in gross and net revenues have been increasing, generally speaking across both, your voice and data verticals. It is particularly more for your data where you know, now the interconnect revenues, at least from the disclosures that you gave, has almost gone from like 15% of revenues last year third quarter to now about 25%. And I know you mentioned the mix is changing and you mentioned that, but does that, you know will it also mean your depreciation to sales comes down because that is the normal expectation one should have, right?

Vinod Kumar: That is exactly where we go with this, you hit the nail on the head. While the mix is changing and we are moving to things where you know services that have more third party opex involved and so on, that coupled with the overall tightening of capex spend as you have seen in the last year, year and a half, we should start seeing the year-on-year growth in depreciation beginning to come down, otherwise we have been doing something seriously wrong.

Srinivas Rao: Fair enough, I will leave it at that. Thank you so much.

Sanjay Baweja: The payment solution business has a lot of fixed costs, what we call the direct costs which gets reduced from the gross revenue basis. So that also had an element to play and that is growing. That is growing at more than 100% per annum so that is something which will have a slight impact but over time it will stabilise, another one year at least. That growth is substantial.

Operator: We have now a question from Rajiv Sharma from HSBC Securities.

Rajiv Sharma: Thank you for the opportunity. So you mentioned that you will be catering to the 4G deployment. I understand this is in India. If you can help us with some colour as to where will you fit in the value chain in terms of 4G roll-out and what are the kind of discussions with the operators and what should we think of your revenues from 4G. Second, where are you in terms of discussion with the regulator on the NLD and ILD licenses and the abolition of roaming charges? So all that being discussed, how do you find the mood with the Ministry? How do you read it?

Vinod Kumar: Okay, let me take those. So it is too early to call a number, you know revenue or profitability on the 4G but let me explain to you what the proposition we are taking to market. One is in Tata Communications transformation services we have just started offering services to some MNOs to manage their mobile networks remotely. We are not talking about network outsourcing nor field operations work and so on. Just talking about the same kind of work we do for fixed-line operators, some of the back-end processes that require a level of telecom operating experience.

© 2012 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

We have started doing beyond fixed-line operators for mobile operators, that we see because of the pressures they are having on cost and margins we see some opportunities coming in the transformation services this year.

The second is, we today serve about 300 mobile operators with signalling and conversion services for their roaming traffic. So we essentially in very simple terms facilitate handshake between mobile operators when somebody roams from one GSM standard network in the US to another GSM standard network in North America or between CDMA network to GSM networks. So through those relationships and some of the hubbing technology that we have been building, we are now looking to see how we can offer the same similar kind of services that enable roaming of data. But roaming of data not just in a simple GPRS roaming way but actually help people; let's say you are a high end user of mobile operator A and you are roaming into the mobile operator B's network, how does your experience be kept consistent while you are downloading content X, Y, Z. So you might have specific enterprise content or you may be somebody who is really into gaming and you want a certain experience when you are playing a certain game. Mobile operators now are trying to offer those kind of services, to offer differentiated services depending on content and depending on kind of end-user. So we are building a portfolio right now to offer these kind of services on a cloud based a hosted based model to MNOs. So that is the other area that we are building capabilities in and with the growth of smartphones and tablets this is becoming very important and also mobile operators are very keen on offering different kinds of service depending on how much the user is willing to pay for the content. So these are the two areas that we are working on, that will help us benefit from the shift to 4G. And we actually just announced the LTE roaming service to mobile operators which is an extension of what we used to do in signalling and conversion.

Rajiv Sharma: My second question was pertaining to your discussion and your reading of the mood of the…

Vinod Kumar: Oh yes on the regulator.

Rajiv Sharma: Yes on the NLD/ILD and the abolition of roaming charges.

Vinod Kumar: Not really, it is not really our issue as such. We are so less dependent on the NLD business in India within our overall voice portfolio that I don't expect any material changes to our business on account of that. What we are closely watching and are anticipating that it comes out sooner rather than later is NTP 12, or now it will be NTP 13 announcement which will allow integration of the more converged data and voice services over IP, especially for enterprise customers who wish to use one fibre and carry all their voice traffic out regardless of whether it is coming from, you know, whether it is PSTN based or IP based, that is a big opportunity for us. Also NTP 12, the draft policy which called for an abolishment of the OSP license that many of the

© 2012 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

BPOs and others needed and that will give them a lot of flexibility in how they carry inbound and outbound voice traffic and that again we see as an opportunity for us. So we are looking at NTP 12 and hoping it comes also.

Rajiv Sharma: You are not having any direct discussions on this whole issue even though there could be some direct impact or you think that government will come out with some kind of compensation anyway and as it is a small part of the business.

Vinod Kumar: We have contributed when the industry has been asked but we are not specifically doing anything outside that.

Rajiv Sharma: Okay. Lastly on the capex, Sanjay mentioned that this capex will be on high margin business. Should I read this on purely on the data side and data centre side or is there any granular break out you are presenting.

Sanjay Baweja: We are not providing any granular breakout but yes most of it will be on the data side, including the data centre.

Rajiv Sharma: Okay, thank you. That answers my questions.

Vinod Kumar: Thank you.

Operator: Our next question comes from Rahul Singh from Standard Chartered securities.

Rahul Singh: Good afternoon and congratulations on a decent set of numbers. I had two questions. Firstly on the numbers, if I look at the GVS and the GDS business on the operating expenses below the net revenue, there is a decent downward trend in this quarter so a related question to some of the other issues which were discussed in this call is should we take that as the new trend line of the operating expenses both in GVS and GDS? On the balance sheet, the debt to EBITDA still remains pretty high if you took a look at it on a consolidated basis and I understand that from this quarter or for a few quarters we have been seeing at least sufficiently in terms of cash, but when do we actually see a meaningful reduction in leverage because that is something which continues to constrain value creation for the equity holders?

Sanjay Baweja: I think from a GVS and GDS cost numbers we can be fairly certain in terms of the trend lines and we believe that our current margins are sustainable margins and it should improve over time. And as far as the total cash profitability is concerned and net debt to EBITDA I think our focus is to deleverage going forward. We will continue to take actions which will take us to lower Net Debt to EBITDA levels. We are not at liberty to talk about some actions but surely and certainly our focus is to reduce Net Debt to EBITDA. We can't talk specific numbers but we see going forward the leverage going down. As you might have noticed, over the last couple of years in fact, our capex intensity has been going down and we believe that is the trend line. We

© 2012 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

are at about 10% levels or below if we were at about two years ago you would notice 30% or closer to that number in terms of capex to our revenue. So we are clearly focusing on generating more cash from the business and our deployment needs are also not that high as they were earlier because as far as a large cable projects are concerned we are through with that. So we believe that our focus now will remain to deleverage and over the next couple of years we should see some significant deleveraging happening.

Rahul Singh: Just one follow-up on that. I mean organically I agree that it will only deleverage from here. Just the pace of it is still going to be a bit gradual. So is there anything else which has crossed your mind in terms of either dilution or anything else. Any inorganic route to kind of get that pace faster?

Vinod Kumar: Let me answer that. This is something that we will look at and we are exploring different things but it is probably too early or definitely premature to be providing any details at this time unfortunately.

Rahul Singh: Okay, thank you Sanjay, thank you Vinod.

Operator: We have a follow-up question from Reena Verma Bhasin from Bank of America.

Reena Verma Bhasin: Thank you again. Just a couple of quick questions please. One is you know on data. Vinod you mentioned that at 24-25% margins you think the business will be profitable. Any time horizon there please in terms of how quickly you think one could get there assuming everything worked out as per plan? And my second question is last time if I remember on the earnings call you had talked about how there was increased activity around the real estate demerger though you were hesitant to qualify it as progress. So is there any change in that? Are you still seeing a lot of activity? And my final question is on your capex. You know that was a big swing versus last year where you know you seemed to have a high degree of control and visibility in terms of what you do there. So is there clarity that at least as of now for fiscal '14 there is no strategic project on the anvil?

Vinod Kumar: Okay, let me answer that in the reverse sequence. Yes, there is no major strategic project as such but we have our data centre expansions that we will have to fulfil and building new services and supporting the volume growth of the business. So more BAU than strategic is what I would say and there is no big cable build that is in the horizon or no new market that we are going into.

In terms of activity around the land demerger, as I said even earlier, it is not something entirely within our control, but the activity level that I was basing my comment on in the last call continues to be at the same level. Therefore we are watching it closely with some level of optimism that maybe at least the formation of Hemisphere which is the receptacle company to receive the land

© 2012 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

when it is demerged is moving forward. So I would say that the activity level on the government side is encouraging and actually the dialogue is quite intense. That is as much as I can say. But timing and so on clearly is out of our control and I don't think anybody can predict that with any certainty.

In terms of when we will hit the threshold, again that really would become a very specific forward-looking statement but we see four to six quarter timeframe, we should be trending strongly in that direction.

Reena Verma Bhasin: So just if I may follow up on the data bit, Vinod, the managed services business, the margins in this business typically are in what range please?

Sanjay Baweja: Currently, we don't give that breakup. Maybe over the next few quarters we will start giving you breakup of these things. So Reena bear with us for a little more.

Reena Verma Bhasin: Ok. Thanks a lot. No, I have no complaints with your disclosure, it has only gotten better. Thank you.

Operator: Ladies and gentlemen, that was the last question. I would like to hand over the floor to Mr. Vinod Kumar for closing comments.

Vinod Kumar: Okay, just I will take from where Reena finished. We will continue to strive on providing more information and more granularity in our reporting going forward. As always it has been a pleasure interacting with you on the call and as you know we spoke both about the numbers but also the strategy and hopefully you are seeing the correlation between the two. We sincerely value your continued interest and support for Tata Communications. If there is any query or doubt that we have left unaddressed today, please do not hesitate to reach out to us through our investor relations desk. We will be looking forward to speaking with you to share the next quarter results and the year-end results. Thank you so much.

Operator: That will conclude today's conference call. Thank you for your participation, ladies and gentlemen, you may now disconnect.

This is a transcription and may contain transcription errors. The Company or sender takes no responsibility for such errors, although an effort has been made to ensure high level of accuracy.

© 2012 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries