TATA COMMUNICATIONS

Q3 & 9M FY2014

Earnings Conference Call Transcript

February 13, 2014 at 10:00 am IST

MAIN SPEAKERS:

Vinod Kumar, Managing Director and Group CEO

Sanjay Baweja, Chief Financial Officer

Mahesh Pratap Singh: Good morning everyone and welcome to the Tata Communications Limited conference call for the quarter and nine months ended December 2013. We are joined today by Mr. Vinod Kumar – our Managing Director & Group CEO and Mr. Sanjay Baweja – our Chief Financial Officer.

Our results for the quarter and nine months ended December 31st 2013 were announced yesterday and the results presentation and fact sheet is available on our website. I hope you had an opportunity to browse through the highlights of the performance.

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

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

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

Vinod Kumar: Thank you Mahesh. Good morning ladies and gentlemen and a very warm welcome to all of you. To start with, I will give you my perspective on our performance and then a quick update on the strategic direction of the Company and the trends which are shaping our business. This will be largely in line with what we have been sharing with you, but we will share some additional insights on these directions and trends. After that, Sanjay will take you through the highlights of our operational and financial performance followed by Q&A.

Our Q3 and year to date performance continued to be strong and is another step forward in our progressive and transformational journey. You will notice that the operational and financial metrics are trending as expected and structural trends in our business remains healthy across all the segments that we operate in.

Firstly from a market environment perspective, I would say that the current period is turning to be quite a transformative period for the global telecommunications industry and the overall IT industry even. Business models are being developed in multiple industries around big data, cloud, machine-to-machine communication, video and mobility. From where we sit, we are seeing that these are more than hype and facts, these are really transforming the way businesses operate. These dynamics in turn are creating significant industry shifts and we believe Tata

© 2014 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

Communications is uniquely positioned to exploit these both by providing components of services to a company that are making these trends, but equally it opens up doors for us to offer some new services ourselves. Each of these trends are closely interconnected and largely require more network usage and the quality of service becomes even more critical. And hence Tata Communications with the unique assets and services that have been built around the data theme stands clearly to benefit. We have been building our capabilities in network and data centers for many years now and we believe that it is the right position to capture what is happening around us.

Look at 'cloud' as an example. While cloud will continue to evolve in its contours, enterprise transition to the 'cloud' is clearly visible and gaining prominence. I do not think there is any question right now whether the shift to 'cloud' is taking place or not, the question really is how quickly is the shift taking place and who is adopting it first and our goal is to be there at the right junction points to make sure that we benefit by serving the players who are making the shift. As enterprises transform to the cloud, network performance and reliability is becoming even more important and the public internet as well as private networks are being used to deliver services. We believe that the combination that we had in terms of a broadly reaching public internet backbone using our IP transit services as well as the extensive assets that we have deployed allow us to create both private and public based solutions, but also hybrid solutions which will increasingly become the flavor of the day.

Our large scale best-in-class network and data center assets allow us to enable enterprises to make such transitions in a very real manner in a reliable manner and in a responsive way. Similarly in our past interactions with you, we have spoken about the growth of mobility in devices which is driving the need for collaboration across distributed platforms and geographies. The growth of BYOD is very real, in fact it is predicted by Gartner that 40% of devices in enterprises by 2017 will be personal devices brought by employees of organization. These changes along with the growth of mobility makes Unified Communication and Collaboration (UCC) critical to the large businesses we serve who operate across multiple geographies and across multiple time zones and this is being translated to the growth that we are seeing in video which is driving our IP traffic and overall network usage. This is reflected in encouraging adoption from our customers of our recently launched Unified Communication and Collaboration offering called Jamvee™. Jamvee™ is an interesting video service that allows conferencing and collaboration in large enterprises and it is a device agnostic and access agnostic service which customers pay by the minute as they use. So these underlying trends in both cloud and the movement to UCC and mobility are really driving our business, driving growth on our various networks that we offer such as MPLS network, other forms of VPN technology, driving traffic on the wholesale IP network and also getting more customers moving into our data centers.

© 2014 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

Within the global data segment, we see very strong demand from enterprise customers for both network and managed services. In our deck, you will see the transformation of the kind of services that we are offering to customers and how that shift is taking place on a quarterly basis. We have been moving more and more towards managed services. In the enterprise space, we are witnessing very healthy revenue growth rates across the entire customer spectrum. Whether there are large MNCs that we serve like the Fortune 500 or Forbes 2000 companies or the ET 500 universe companies in India. For us, Q3 was another strong sales quarter with marquee customer wins in the enterprise space and this set us up quite nicely for the quarters ahead. I am quite pleased that our business development efforts and sales efforts and expenditure made on brand being more visible and acceptable is translating into funnel and translating into sales growth. This is something that we have been painstakingly working on, it has required significant commitment in resources and investments over the years and I am very pleased to see that the enterprise business is taking off in a very tangible way.

Our enterprise sales funnel, just to give an indication, I would not give this specific numbers, but to give an idea of the trend; our sales funnel for large enterprise customers in December 2013 is almost 100% up year-on-year compared to 2012 and this is coming from a couple of things. Obviously there is price erosion and so on which is endemic to our industry, but we are going after much larger opportunities, large customers and multiproduct sales and we are being invited to participate in RFPs in India and outside alike much more than we used to be before as our brand gets more recognized and our service quality is getting applauded in the market place. We are gaining market share in India which is a highly competitive market with some very aggressive players and we clearly growing quite rapidly outside India as well. The good news in the enterprise space is that once we are in, the relationships are quite sticky. We have a track record of going in sometimes with small services, but in every case we managed to demonstrate our value and grow services over time.

This strong enterprise led growth momentum is not entirely being captured in our headline numbers on data growth since the carrier segment has somewhat been slower this year and the slowdown in the carrier segment has taken some of the sheen away from the enterprise side. I will just take a few minutes and give you a bit more perspective on the carrier segment.

We are going to emphasize that our strategy requires us and is built around being both in the carrier space as well as in the enterprise space because we believe that there is a symbiotic relationship between the two. The carrier segment is an important part of the business that gives us significant scale and global reach which in turn is used by our enterprise business to serve at the large enterprise customers. If you look at the market, globally the service providers or carriers are going through a relatively difficult phase. There are significant price pressures that they are facing in the consumer side of their businesses and there is some industry consolidation taking

© 2014 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

place in some markets. Against this backdrop, carriers are being very careful with their network spend and taking a measured approach towards network investments and are looking to optimize wherever possible. This has resulted in slow data revenue growth for us from this segment and we think the sluggishness will persist in the near term. However, keep in mind that the overall traffic demand is something that is explosive because of the growth of the applications the consumer is accessing, the growth of video and the machine-to-machine, and the internet of things is the other traffic stream which will begin to grow. All of this will require the carriers to come back after they optimize their networks to again invest in capacity creation and given the reach and breadth of our network, we believe that we are well positioned. Hence our strategy and commitment to the carrier segment remains unwavering and unchanged. We believe we have the scale and leadership. We have the ability to cross sell multiple services and also enable carriers to make transformations into new business models. In fact if you look at our carrier business, we do not look at it as wholesale business, we look it at as solution business and we are increasingly white-labeling things that we build in the enterprise space to noncompetitive carriers so that they can undergo the similar transformation that Tata Communications has. So we work with carriers in the Middle East and more recently in South East Asia to help them, get into the enterprise space in the SME market for example in their domestic environments, where we do not compete, but using the services that we have in our portfolio.

In recognition for the kind of transformations that we have been making to our carrier business, we were recently awarded the "Best Wholesale Carrier", the World Communications Award 2013 really for the breadth of our wholesale offering and the unique way in which we position the assets and we moving the business away from just a commodity play. Another recent endorsement of our carrier offering came from Forrester Research Inc. who identified Tata communications as a Leader in its 2013 report titled The Forrester Wave™: Asia Pacific Carrier Ethernet Services having "the strongest current offering for carrier Ethernet WAN service portfolio, providing high portfolio quality, traffic prioritization and granular band with options" is how they described our service offering in our cutting edge Ethernet services. So we definitely have as you can tell from the analyst feedback a strong market position and credibility in the carrier segment. We believe the carrier segment will recover from its slower period of growth and we will drive it by being more innovative in the way we take our services to this market segment and this is a relentless drive. An example of that is in the last quarter, we launched our mobile VoIP platform to bolster converged communication capabilities for mobile service operators who are trying to counter the trend that they are seeing in their voice business by the emergence of OTTs (over-the-top) who are taking traffic away from them. That is why we created a platform that they can use to launch their own OTT and mobile VoIP based solution.

Another thing we launched is the revolutionary platform in terms of Mobile Messaging Exchange service. So the large portal and content providers that we are very familiar with, they looking for

© 2014 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

SMS termination and our aggregation service allows such OTT players to connect to a large community of mobile operators around the world. So while we are helping the traditional carriers make the transformation, equally we are supporting the connectivity and the bridge between the OTT players and the traditional mobile network operators. So this is a good demonstration of the versatility of our portfolio in being able to cater to an industry which is under transformation. So from a longer term perspective, we believe that the near-term sluggishness, we will come out of it and we will continue to prudently grow in the carrier space and the focus there would really be about the absolute EBITDA we generate from the segment and will not just be blindly going after top-line, but we do believe there is enough opportunity for us to do that.

Looking at the data business from a service line perspective, I would like to reiterate a few messages we have made and that are demonstrated in the deck on managed services. Over the last few years, on top of our network services, we launched as you know several managed services that rely on the underlying infrastructure capability that we have. Our innovations are well recognized in the industry and these services are extremely important to us because they enable a much stickier and longer term relationship with enterprise customers. Even to give you an example in the voice space, when we offer basic MPLS services and we start offering traditional voice services on top of it, the natural progression for us has been to go on and offer unified communication services or host content and data center services and so on. We have enough of a track record right now in order to be able to actually plot how my customers migrate from one service to the other in a steady way and the proposition becomes stronger and our presence in the account become even more stronger. Therefore we have been investing quite a bit in terms of creating these managed services. In the early days, the product engineering and operations capabilities that we create might not generate the revenues to fully recover their cost, but we believe that these are prudent investments in order to keep the quality of service at the levels that the customer expect and as traffic volumes grow, you would see that the profitability will catch up with the cost and then we make these extremely profitable revenue streams for us. We can talk more about this in the Q&A if you have any specific insights you want.

Lastly, I would like to give you a quick update on Neotel. All I can say at this point is our discussions with Vodacom are still in progress. We have been tackling many issues and moving forward. I am sure you have many specific questions, but unfortunately all I could say at this stage is we are moving towards the decision point and I expect that in the next few weeks we will know the outcome of the decisions once we conclude our negotiations with Vodacom in South Africa related to Neotel.

To sum up, we had a strong quarter and we remained focused on progressively improving our financial and operational performance through a combination of solid execution and disciplined focus and at the same time making sure that we are aggressive in the market place in terms of

© 2014 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

innovation and also in market coverage and investing in brand and this combined focus will lead us to meeting our financial objectives. As we turn our attention to the future and as we plan for the coming year, the focus of our team is to continue to drive highly profitable growth, nurture services that provide recurring high margins revenue streams, streams that are sticky ones and that are aligned to customer priorities. We believe that we have a lot in our portfolio that customers find attractive that we can leverage in the near term while we create services that will keep the business growing for the longer term. Our results underlined the effectiveness of our resilient and transformative business model and the strong execution capability that we have, we believe that we are on the right part to achieve our financial goals and to deliver consistent performance in the coming years.

With that, I will hand over to Sanjay to take you through segment highlights and some of our operational and financial performance. Thank you.

Sanjay Baweja: Thank you, Vinod. Good morning everyone and thank you for joining us today. I will walk you through our financial and operating performance for Q3 FY14 and nine months ended December 2013. I believe you have already had the opportunity to look at detailed earnings and hence during my remarks I am going to focus more on key financial trends and reemphasize some of the key messages.

We have maintained the momentum and our Q3 results have been in line with our improved performance trajectory. Q3 has been a quarter of consolidating our performance as we absorbed much envisaged profitability normalization in our voice business. I will discuss individual segments in a bit, but before that let me give you a summary of consolidated results. Our year till date performance is a clear reflection of the way our business is shaping. While our revenues have grown at modest pace, our sharper focus on costs coupled with operating leverage that we are seeing in our business and favorable currency has resulted in 9M FY14 Y-o-Y EBITDA growth of 44%. Profitability picture is very strong all the way and positive turnaround on EBIT, PBT and PAT level is something we are quite pleased about. Even when you look at Q3 FY14, I should point out that previous year Q3 FY13 was our best quarter in terms of financial performance and we have clearly exceeded that performance in both revenues and profitability terms, in-spite of absorbing a quite steep normalization in our voice business. In Q3 FY14 results there is also an "other operating income" of Rs 424 million towards export benefits received. In our EBITDA margin calculations we have excluded this and shown it below EBIT in our investor fact sheet and presentation. Additionally, as you analyze and compare our sequential EBITDA performance (Q-o-Q), do keep in mind that we have an adverse movement of Rs 330 million on account of Canada pension fund. Q2 FY14 had a favorable amount of about Rs 241 million and Q3 FY14 has an actuarial loss of Rs 89 million on account of Canada pension fund.

© 2014 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

With that let me give you a flavour of what we are seeing in each of our segments, starting with voice business. As envisaged and indicated earlier, voice business has seen a sharp moderation in India termination pricing. As we absorb this pricing adjustment and go through this phase of normalization, volumes have also seen some momentary moderation. This reflects in 16% net revenue decline Q-o-Q and Q3 FY14 EBITDA margins coming down to 8.3% compared to 10.9% in Q2 FY14. Looking forward, while we have absorbed a substantial part of adjustment in India termination pricing already in Q3, we do envisage some residual bits still to be absorbed in the current quarter, i.e. Q4.

I also want to spend some time reiterating how we view and drive voice business in our portfolio. While we do talk about EBITDA margins as a % of gross revenue, it's a bit of secondary aspect in our internal thinking. EBITDA margins among many other things is also a function of traffic mix, low cost destination such as India gives us somewhat higher EBITDA margin but lower absolute EBITDA and high cost destinations, as an example may be Europe, gives us lower EBITDA margins but higher absolute EBITDA. We manage voice business for free cash generation, which is largely a function of absolute EBITDA we generate given that the voice business has very little capex. We believe there is significant room for us to continuing to grow our absolute EBITDA and thus free cash generation from this business. As we pursue that objective, we will continue to pursue opportunities those can give us a big push in continuing to grow our absolute EBITDA and increase our free cash generation from voice business, not being fixated to what EBITDA % they translate to. Purely on % EBITDA margins, in past we have talked about a range of 6.5 – 8.5% EBITDA for this business and had recently tightened that to 8.0 – 8.5%. However, with India termination pricing normalization underway and traffic mix we see ahead of us, broad range that we believe we will have going forward in near term will be 7.0 - 8.5% EBITDA margins.

Moving on to Data side, data continues to be our growth engine and we have been able to maintain EBITDA margins at 20% level while continuing to invest in growth by expanding and enhancing the products and services. We are seeing onset of operating leverage in our network services and that is benefitting our EBITDA margins. Progress on managed services also remains quite encouraging and we are operationally hitting the right milestones. Our data centre capacity expansion plans are on track. In addition to ongoing expansion in some of our existing data centres, we expect to have our new green-field data centre in Delhi ready for service by May this year. In TCPSL, Ministry of Finance (MoF) and White Label ATMs (WLA) roll-out is progressing well. We are also pruning non-profitable contracts in TCPSL where we have had profitability challenges, and during the quarter exited contract for about 2,200 ATMs. We remain confident and optimistic about long term prospects of TCPSL and believe this venture will not only contribute meaningfully to our consolidated P&L but also to the brand equity of Tata Communications. We have also talked about some of the new services including Unified communication and collaboration (UCC), CDN, cloud, mobile broadband and media and

© 2014 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

entertainment services. These 'New services' have also performed well in line with our expectation and continue to gain traction on revenues as well as profitability improvement.

Start-up, primarily comprising of Neotel, has continued to maintain its steady performance. I do want to clarify couple of aspects on start-up profitability. In Q3 FY14, there was a write back in network cost in Neotel in respect of earlier years amounting to Rs 337 million and hence you see Q3 FY14 start-up EBITDA margins of 31%. Normalized for that write back, start-up EBITDA margins will be steady at about 25%. Also, below EBITDA line, you will notice somewhat lower depreciation amount compared to previous quarters. This is due to usual reassessment of useful life of assets and that has resulted in some minor reduction in depreciation amount. Q3 has retrospective adjustment to depreciation for the entire nine months (Apr-Dec period) and hence the sequential reduction in depreciation looks somewhat meaningful, however, on a normalized basis it is a very small change.

On balance sheet side, we are also making steady progress on deleveraging program aided by improved operating performance and cash generation. Cash generation during the quarter was strong and received a fillip from the operational improvements and efficient working capital management. We have had a very strong year till date performance and some of that is now reflecting in our cash build-up. While we may witness some lumpiness or aberrations in our working capital cycles on a quarterly basis, long term trend of net debt is clearly downward. We are generating significant cash to take care of our business needs including capex, investments and interest payments and excess cash generated will be directed towards retiring debt. Our capex plans remain consistent with $250-300 million p.a. core business capex outlook we have talked in past.

One last aspect that I wanted to touch upon is our program on monetizing some of our non-core real estate assets that we have talked about in past. We have had some administrative hurdles come up and we are working towards resolving those. This resolution process is taking some time and will be a bit of setback on the pace or timelines of our intended monetization program. Having said that, we believe in next 6-9 months we will be able to address these issues and things will be back in motion as far as monetization of non-core assets are concerned. So, while there has been some set back in terms of timelines in FY14, it is something we are still very committed to and are putting focused efforts in. We hope we will be able to do some catch up in FY15.

With that I conclude my opening remarks and welcome specific questions you have and would be very happy to give you our perspective. I would request the operator on this call to open for questions and answers. Thank you.

© 2014 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

Moderator: Thank you very much. Participants we will now begin with the question and answer session. We have the first question from the line of Vivekanand Subbaraman from Phillip Capital. Please go ahead.

Vivekanand Subbaraman: Thank you for taking my question, a couple of them. One on the white-label ATM space, we are seeing that the rollout plan as per the scheme that was allotted to us was around 5,000 per year for the next 3 years. So far we have done a very muted rollout in the first 7-8 months of receiving the license. Is there any particular reason why this trend remains slow and on this also there have been 3-4 players who have now received licenses. So is there competition concern as well and that is on the white-label ATM side. In terms of the commentary on the data business and competitive intensity, wanted your thoughts on two things - one on the domestic business side where a competitor of ours is also looking to add significant data capacity and secondly what about your thoughts on the cable capacity addition in the global landscape? Thank you.

Sanjay Baweja: Let me first address the white-label space aspect and then Vinod will probably answer the second part of the question. On the white-label space, yes we are going slow, but that is with the clear direction in mind that we will go slowly and steadily, not focused that much on quantity in terms of the ATMs, but going to make sure that the locations that we go in for are more profitable than the others**.** We followed that process for MOF. We are going to follow that process in our WLA. Our though is that we have to go in for profitability right from the very beginning, choose our locations very carefully. So that we do not in a rush to meet the 5000 numbers which has been the license condition we don't ere on the side of getting on to locations which are not so great. So the effort is to go slowly and steadily, but go for more profitability.

Vinod Kumar: And I think in terms of white-label ATM, just one comment I will add there is on competition. We believe that the experience that we had in managing ATMs is going to come and stand us in very good stead. We have had a lead time already compared to the others, we are live and operating, others are just getting their licenses and the head start to the market, the fact that we are focusing on different areas and the managed services experience that we have, should place us quite well for the future on white-label ATM.

On the data business itself, I do not think if anything new that we are seeing in terms of competition. Each year we find a new player trying to make its entrance in the domestic market in India, typically trying to use price as a wedge to get into the market. The fact that we have long presence in this capability, large enterprises recognized that we are one of the few players who have been consistently focused on large enterprise B2B data and the experience that we have gained over the years is what helps us command even a small premium when we sell in the Indian market. It is challenging, we will have to work through it, but we are seeing the market

© 2014 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

share growth in large enterprise data business in India in the current fiscal year and our aspiration is to continue gaining market share in the next year as well.

In terms of cable capacity addition internationally, there is not a major flurry of activity that is going on, on cable expansion. There is point capacity that is being added on specific routes. Many of the cable projects we are involved in some way or the other to make sure that the cable lands, in one of our cable landing stations or we get capacity by leveraging the currency or assets that we have. We continue to be a leader in that space, continue to be a go-to-player in that space and we will work on maintaining that position.

There is no unusual price erosion trend that we are seeing either India or internationally. And our strategy is to counter it with more of a managed services play and by building hybrid solutions that use our infrastructure and other people's infrastructure.

Moderator: Thank you. We have the next question from the line of Piyush Chowdhury from CIMB. Please go ahead.

Piyush Chowdhury: Thank you for the opportunity. Congratulations to the management on a good set of numbers. I have two questions. One on the voice side, ILD minutes used to be in the range of around 13.8 billion quarterly, it has fell this quarter by 8% through some 12.6 billion. I understand you have mentioned about that traffic mix, but any changes over here in any long-term contracts with clients, just want to clarify that, that is first. Secondly on the managed ATM contracts which you have pruned during this quarter, is there any penalty for early closure which is one time in nature and it is booked in the operating expense? Thank you.

Vinod Kumar: To answer the second, no one time penalties or anything that affect the managed ATM business. We are looking at contracts and Sanjay and his team are pruning out what are unviable contracts for us from a longer term and trying to renegotiate rates and where rates cannot be renegotiated we rather get out**,** but there are no penalties that we have incurred in this quarter.

In terms of ILD minutes volume, again as Sanjay mentioned we really run the voice business for the cash it generates. We are not hung up on anything else. Given our market position actually for us to acquire volume is one of the easiest things to do. In spite of that, we do not chase rates down or just capture volumes. So I would say that you will see different movements on minutes and mix, but it is because we take an approach of how can we maximize the cash that the business generates. Nothing else frankly that you can read into that dip in ILD minutes.

Piyush Chowdhury: Great, Thank you for the clarification. If I can add one more on the global data segment, last quarter you had mentioned of a 20% guidance for this year. Anything in terms of guidance for next year based on your visibility for the contracts and the way the new business

© 2014 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

services and managed ATMs, the ATM business is panning out. So any guidance for the global data segment in terms of EBITDA margins for the next year?

Vinod Kumar: Data business, we maintain our range of 20% on EBITDA. Within that, there is a mix shift that is happening. But again there we have services where we think we can drive more volume which will go for. Because we have created the core capability and the fixed asset that we need to sweat. So 20% is what we are sticking with.

Moderator: Thank you. We have the next question from the line of Abhishek Gupta from IDFC. Please go ahead.

Abhishek Gupta: Thank you for the opportunity. My question is on CAPEX. We maintain our guidance of $300 million CAPEX while the 9 months funded is about $185 million if I am not wrong. So are we seeing some kind of acceleration in the Q4 or how should we look at it? The second question on the house-keeping front is how should we model our FOREX loss assumption going forward because despite little movement on the INR front, we reported about Rs. 16 crore of FOREX loss. So help on this front would be helpful. Thank you.

Sanjay Baweja: So may be from a CAPEX perspective, we have had approvals which have happened already and there is a possibility that some of the spend will happen in this quarter. which is the fourth quarter. But it will probably get extended into the next few quarters. So from an approval perspective, we continue in the range that we have spoken about closer to 300 million, but there is a flow-on effect as far as the CAPEX is concerned.

FOREX loss, bit of a portion of this is to do with SNOSPV where because not only the dollar impacts us little bit, it is also the ZAR which went down a little bit. But we do not expect any major change. In fact after 31st of December if you recollect, there was this big dip in the emerging market currencies for a while and then they have recovered. So I do not see any major thing happening at the FOREX bit. This was a mix of both dollar and ZAR happening at the same time, but going forward I do not expect that to happen at all. In fact ZAR has also recovered so has the rupee.

Vinod Kumar: Just on CAPEX, one point I would like to make is in fact you should take comfort from the fact that on our execution side, although where we need to approve CAPEX for growth, we approve it. There is no rush to spend. If we can time it more with a business or wait for the better deals, then the operating teams are doing that which is why Sanjay said we will be approving through our CAPEX committee about $300 million of CAPEX projects by the time the year finish. The spend will come, but there is some staggering that takes place because we want to time it better.

© 2014 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

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

Rajiv Sharma: I have few questions. Vinod, you mentioned in your initial early comments that you are seeing some sluggishness in the enterprise segment. I missed you on that point if you can elaborate there. Second you also talked about some new products on the data side which you are rolling out. So what is the possible impact it can have on the margins from a 4-to-6 quarter perspective? Sanjay you mentioned about non-core monetization facing some administrative hurdles if you can elaborate there what exactly it is and is there some number we can get a feel about in terms of the target you are looking at $100 million or $50 million in terms of noncore assets? Lastly on the white-label ATMs, what is the planned revenue and likely EBITDA from these businesses in FY15? Thank you.

Vinod Kumar: I will take the first two and let Sanjay answer the next two. I did not mention any sluggishness in the enterprise business. In fact quite the opposite, we are seeing good growth in enterprise business and a strong funnel that has moved almost 100% year-on-year. Where I mentioned the sluggishness was in the carrier wholesale data business, where we believe the market will recover and the spend will come back. We have not lost any market share or lost any customers there and there has not been I would say any unusual price erosion either. It is just that people have been buying a little bit less in this fiscal year, but this tends to be a little bit cyclical also. However, in the enterprise space, we are seeing significant growth in India. In fact our revenue in rupee terms in India are up almost 17%-18% year-on-year and in terms of sales on the international side, we have had about more than 30% increase in deals closed. So our enterprise business is definitely at a market beating pace both in India as well as outside and we are gaining share. Carrier business, we are holding share, but we believe that market will come out of it.

In terms of new services, I am not going to call out specific margin numbers, but overall within the portfolio we will be able to absorb the lower margin in their early days; and through margin improvement largely coming from cost optimization and productivity gains in the traditional sides. Overall we will keep to 20% guidance. The blend obviously will change, but new services like you rightly pointed out in the first few quarters will take time to ramp up and cover all their cost and move towards the same level of profitability. But we will manage the blend.

Sanjay Baweja: On the non-core assets, when I say administrative, it will be more in terms of little bit of documentation. In one case, there is some government agency which is there in one of our properties who agreed to now move out and therefore that will happen over the next couple of months. The alternatives have been given to them and they have kind of accepted that alternative. So they will be moving out. So that has kind of taken time. My belief is that within the next 6-9 months, one will be able to capture that.

© 2014 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

As far as the overall number is concerned, we had mentioned it last time the target remains the same. It is between $50 to $100 million so that is the broad range that I will give. It all depends also on the market the way it takes up. But that is the estimate that we have.

As far as WLA is concerned, I do not think we are going to give any guidance. But let me say that and we had mentioned that earlier, that this was in a negative EBITDA domain in this year and our belief and our target is that this is probably the last year that it will be negative, we are targeting to take it out of the negative range in the next year.

Moderator: Thank you. We have the next question from the line of Srinivas Rao from Deutsche Equities. Please go ahead.

Srinivas Rao: Thank you very much for the call. I had two questions. You mentioned earlier in the call that obviously you managed the voice business more for cash flow rather than minute's growth or market share. What I wanted to know is normally this business is the profitability is determined on volumes or scale is a bit determinant of profitability in this business. So would it be fair to say that you are at a level of scale where incrementally adding minutes does not really add to the profitability. Would that be a fair assumption?

Vinod Kumar: Srini I would not go to that extent. We carry about 19.5%-20% of the world's voice traffic. Therefore if we have to go after minutes, we can go after it and get it because we have all the established customer relationships to acquire the traffic. We look at how much voice can we secure and hold onto from a longer-term perspective. We are looking at the mix of traffic so we get more retail than handoff intermediary wholesale traffic and we look at what cash it generates at the end of the day. I think it would be an incorrect extrapolation if you say that if we take on additional minute it is going to not make us gain. It depends on what the minute is. That is why we are constantly scanning the market for, if you can call it arbitrage opportunity between the origination and termination cost. But these are all automated by the way, we do not have to manually do it. But that is how we run it. So you can acquire an extra minute if you are being foolish about it to drive top-line and not have any impact on the bottom-line. But it does not mean that every extra minute you acquire will not contribute to the bottom-line, there are minutes out there that can contribute. The voice is consolidating. We continue to be well positioned to do turnkey outsourcing deals as other players do not want to be in the business of managing their wholesale voice.

Srinivas Rao: Two more questions. One on the status of the Neotel divestment, you mentioned the talks with Vodacom are ongoing. So is the talk more on administrative kind of issues or the pricing still remains an open question. Is there a scenario where the deal will not be done?

Vinod Kumar: I cannot comment on the last one because it is still in discussion. We have been in it for so long and obviously that means both parties are keen on doing a deal, but the deal has to

© 2014 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

be right. The intentions are positive, but what we are negotiating at the final commercial terms and conditions and that is the package of price as well as terms and that is not concluded yet. So I cannot say anything more really.

Srinivas Rao: Third question is on India. There is an expectation of course the data will grow quite rapidly or mobile data will grow quite rapidly in India over the next couple of years. Are you in any position to benefit from that very directly? I was just saying that one would see data traffic in India go up when somewhere in cable capacity being used that axiomatic. But besides that, is there any other sort to say adjacencies we can see from this growth?

Vinod Kumar: There is actually quite a bit. One is traffic on our cables will increase on our national backbone will increase, but more international than domestic, because the large players may have their own domestic capacity. However, two things we will see in addition to that. One is there are more content players who want to put their content closer to the Indian consumer and therefore demand for international grade data centers will see an increase and we are quite well positioned in that space. The second is the IP transit traffic. We are among the players in India, the only one that has the global tier-1 IP backbone and a lot of content that Indian consumers access still sits outside India and that will remain the case for quite some time, although the mix will keep evolving, here is still a lot of content outside and that content needs to be reached and we are one of the few providers of that IP backbone services that has access to about 20% of the world's content.

Srinivas Rao: Understood and just you had acquired some CDN player sometime back. Does that help or that is not relevant in this discussion?

Vinod Kumar: No, it helps. CDN is sold as a standalone service, but more importantly CDN is used as an optimization platform on the way we route our traffic on our IP network. So it is not just a separate company or product line it is interwoven into the architecture of our business.

Moderator: Thank you. We have the next question from the line of Mahantesh Sabarad from SBICAP Securities Ltd.. Please go ahead.

Mahantesh Sabarad: Two questions from my side. Any value unlocking moves that the Company is doing apart from Neotel? And once again on the Neotel, can you list what are the one, two, three issues that are being ironed out currently?

Vinod Kumar: I do not think we are in a position to do that. Honestly we are in a middle of a very active negotiation and we cannot put our cards out like that.

In terms of value unlocking moves, no, we are not working on anything else at this stage. We believe that the underlying business itself is quite strong and we see lot of opportunity to build more value, and we don't see the urgency to prematurely unlock anything.

© 2014 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

Sanjay already spoke about real estate efforts, which we will do. We keep an eye on the debt levels and our goal clearly is to keep bringing those down. But we don't want to act in haste.

Mahantesh Sabarad: Sorry for me pressing on the Neotel issues. I do understand that some talks are on, but it is very difficult for us to visualize what is really happening. What is so prolonged in the discussion? What is taking it so long?

Vinod Kumar: I am sorry to press back on you, but unfortunately I cannot share details on what we are discussing. I think we will be doing you a larger disservices if we do that.

Moderator: Thank you. We have the next question from the line of Mahantesh Manlinga from FinQuest Securities. Please go ahead.

Mahantesh Manlinga: Just had some question on the export benefits. Going ahead will this export benefit be recurring or it is just only in this quarter that will be witnessing it and the second question is regarding the land sale, the government's role now, anything progressing on that front or it is stagnant until the new government comes in post May.

Sanjay Baweja: On the export benefit, this was a one-off, unlikely that we will have again although we've had it twice in this year. But I think we may have something small bit coming here and there, but otherwise we should not expect any number on that. So, I would not want to hazard a guess on that. So, I would say that this is it.

On land sale, you are obviously talking about the surplus land bit and I think the government efforts, my belief is are continuing. Whether that happens after the new government come in or they want to do something now only they can tell. But my belief is there is that definite desire at the part of the government to resolve this issue. But how much of that happens in the real-time zone, which time zone will happen I don't know, because this has been going on for quite some time now. But really from whatever interactions we've had, they seem to be keen to resolve this.

Mahantesh Manlinga: Can you just throw more light on the export benefits. How has it been derived?

Sanjay Baweja: Export benefit is a license that you get because of the exports that you have done. So based on the net exports that we have done, we have got this licenses which is then used to pay our custom duty. So to that extent, this is cash in. Your cash gets saved in terms of the amount we do not have to pay for your custom duty or excise duty whenever you buy or import anything. So this is called the SFIS scheme.

Mahantesh Manlinga: These exports you are done talking of services or from hardware?

© 2014 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

Sanjay Baweja: Anything, but mostly hardware is when you import. You can do it for services also, but it is basically the element of custom duty and the excise that you need to pay which you can pay through this license.

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

Naveen Kulkarni: I have three questions. First is on the voice services business. What is our current market share and in the voice services, how is our market share in Europe where operators like Belgacom and KPN strong? I guess there is scope for market share gains there and where profitable minutes exist. Secondly in the data cable business, you indicated that we are seeing a bit of sluggishness there. So is it in any which way linked to the cable deployment cycle. I guess submarine cable deployments have happened by 2011-12 timeframe and they have not been incremental deployments. So is that reason why we may not seeing, I would say superior growth there or so these are my questions.

Vinod Kumar: So I want to emphasize again that in enterprise data we are growing, it is in the carrier data that we are seeing some sluggishness and that is important to note.

In market share as I said in voice, we have got 19% market share globally. We expect to have some growth in this fiscal year, but as you know we are just not chasing that blindly. In Europe, market share varies by region. I would say Europe, our market share is still number one, about 15%. In North America, it is a little bit higher, it is about 21%-22% market share, it is a bigger market. And in markets like Asia, we still maintain the market leadership. So I do not know what other nuance you are looking for, but between 15% and 21% market share is what we have depending on the geographies that we operate in for voice. About 50% or 51% of the traffic that we carry is mobile generated and that is another important fact to note. And more than 50% of the traffic we have on longer term contracts, i.e., they secured for at least 6 months and beyond.

The question on data, the data in the carrier business or the wholesale data business, the sluggishness is really on account of people curtailing their spend and optimizing their network. Again this is something that keeps happening. So there will be periods when people are expanding capacity, going to new systems and so on and then they are combing their network and optimizing it and grooming the traffic for a period of time, but that can only get you up to a certain point. With the kind of growth that people are seeing on their networks, eventually they will have to operate the capacity and add. There is only so much you can squeeze out by grooming and becoming more efficient. That is really what we are seeing, nothing else.

Naveen Kulkarni: Just one bit on the carrier data services, what portion of this segment would be denominated in foreign currency?

© 2014 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

Vinod Kumar: In this segment, very high portion I would say about 80% would be sales made to carriers outside India.

Naveen Kulkarni: And in the enterprise segment?

Vinod Kumar: Enterprise is about 60% in India and 40% is outside.

Moderator: Thank you. We have the next question from the line of Avinash Agarwal from Sundaram Mutual Fund. Please go ahead.

Avinash Agarwal: Just couple of questions. One on the voice side, you have kind of broadened your margin guidance from 8%-8.5% to 7%-8.5%. Just to understand do you see a possibility of de-growth in your absolute voice EBITDA. And second question is in the carrier business like you have mentioned people are curtailing their spend, but is that normally followed by a price war or some kind of cut in the pricing as well.

Vinod Kumar: In this business, regardless of that, there are always price cuts. So we learn how to live with it. So it is not as sensibly driven in the market unfortunately. But no, we do not see that leading to steeper price erosion. In fact on some routes, we are seeing some price stability.

On the voice business, we maintained that. At an absolute level, we should sustain what we have delivered and I would not get hung up on the EBITDA percentage as such.

Moderator: Thank you. We have the next followup question from the line of Srinivas Rao from Deutsche Equities. Please go ahead.

Srinivas Rao: Just one question. We have seen global trends in the voice market where Skype minutes or VoIP minutes actually are practically the entire incremental growth in minutes; a) is that something which we should be concerned with or b) is that the market where you have a footing.

Vinod Kumar: It is a good question Srini. It is not something new; it has been there for a while. Our strategy compensates for that because there is still a traffic that does not go over peer-to-peer and pure VoIP network and we have done well by doing large outsourcing deals like the BT deal and Vonage deals and so on. Also given the volume that we have, we are able to maintain the same level of cash generation for the business.

If you look long-term, that is something we have to be mindful of and plan for it. But that is why we are introducing services like our own managed and VoIP platform for carriers to deploy in their network. And hence the reason also we have been investing in creating data services because keeping in mind that when the peer-to-peer guys carry the traffic out of the TDM network or SDH network, it goes over the IP network. And being an IP, data connectivity provider and an IP backbone provider, we see some of the traffic or revenues coming back to us.

© 2014 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries

Srinivas Rao: But broadly as I said Skype or peer-to-peer traffic would obviously be lot less impactful for you at this stage compared to your TDM traffic?

Vinod Kumar: What do you mean?

Srinivas Rao: My question is that the incremental growth in the peer-to-peer traffic like the Skypes, that is not a market where you can address as much as you are right now doing in the rest of the normal voice minutes markets?

Vinod Kumar: Not directly. They are being carried on their networks. We provide them pipes to build their network.

Moderator: Thank you. Participants that was the last question. I now hand over the floor to Mr. Vinod Kumar for closing comments. Thank you and over to you sir.

Vinod Kumar: Thank you. It has been a pleasure interacting with you on the call. As you can see, we are focused on the business and our execution continues to be strong. We thank you for taking the time out and engaging with us today and we are very grateful for your continued interest and support. If you have any questions or clarifications that you need, that we could not address today, please do not hesitate to reach Mahesh and the Investor Relations desk and we will be prompt in our feedback and response to you. Thank you very much for your time.

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

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.

© 2014 Tata Communications Ltd. All rights reserved. TATA COMMUNICATIONS and TATA are trademarks of Tata Sons Limited in certain countries