TATA COMMUNICATIONS

Q3 & 9M FY2015

Earnings Conference Call Transcript

February 13, 2015 at 11:00 am IST

MAIN SPEAKER:

Vinod Kumar, Managing Director and Group CEO

Mahesh Pratap Singh: Good morning everyone and a warm welcome to Tata Communications Limited Earnings Call. We are joined today by Vinod Kumar – Managing Director and Group CEO.

Our results for the quarter and nine months ended December 31st 2014 were announced yesterday and the result presentation, fact sheet and other material is available on our website. I hope you have had an opportunity to browse through the highlights of the performance.

We shall commence today's call with key thoughts from Vinod who will provide you an overview of the performance, update on market environment and strategic direction of the business. At the end of his remarks you will have an opportunity to get your queries addressed.

Before we get started, I would like to draw your attention to safe harbor statement which is on page #2 of our Q3 FY15 earnings presentation. I want to remind everyone that some of the statements made or discussed on conference call today maybe forward-looking in nature and must be viewed in conjunction with risk and uncertainties we face. A detailed statement and explanation of these risks is included in our annual filing which you can locate on our website at 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 and Ladies and Gentlemen Good morning to everyone and a very warm welcome to our Q3 Analyst Call. I will start by giving a quick overview of our performance and focus most of my remarks on giving you a little bit more perspective and insight into our data story.

I am very excited about the progress we continue to make as a business overall. Momentum in Q3 and really throughout 2014 exhibits the success of our strategy and also validates our position as a truly global telecommunications services provider. A clear story line is emerging and is being growing steadily and that's really what we want to talk about today. The data segment has taken up the mantle of the growth driver in line with our strategic intent and what we have been communicating with you over a period of time. Voice continues to play its role in our portfolio as a steady free cash flow generation story.

From an earnings highlights perspective, our financial performance continues to reflect the healthy operational trends and sustained momentum within the business. The strong performance in the data segment continues to be somewhat offset by the softness in our voice segment and this again is not something surprising, we have mentioned this to you in the past and it is in line with what we have expected. Having said that, brighter side of the story is that as the share of the most sustainable and lucrative data and managed services segment grows, it substantially improves the quality and composition of core business revenues and EBITDA and drives long-term stickier and predictable terminal cash flows.

We remain happy with the voice free cash flow story. Market momentum continues to be challenging in this area and that is driving softness in traffic volumes. We are prioritizing quality of traffic and realizations on net revenue per minute against simply chasing volumes and this is reflected in our Q3 performance. We really believe that from a longer-term stand point the right approach for the voice business for us is to focus on quality of traffic and net revenue per minute and making sure we get more retail traffic directly rather than play in the pure wholesale market or try to just play a middle man role in other words. In the voice business in spite of lower traffic volumes we saw our voice net revenue grow up 3.7% quarter-on-quarter and EBITDA margins saw an uptick to 8.2% in Q3 FY15. However, we continue to remain cautious and pragmatic on the voice segment outlook given the structural pressures in the wholesale voice industry. We will continue to focus as I said on traffic quality, long-term committed traffic contracts, and operating cost structure in the voice business in order to sustain free cash flows from this segment in the range of $90 million to $100 million per year and this we believe is attainable.

We are hitting the expected milestones in the data business, our data business grew 11.8% in the first nine months of the year, and data EBITDA margins sustained a 20% milestone in the last two quarters with Q3 margins being at 21%. Within the data business enterprise remains a fast growth segment and our role in the business case of our customer seems to be quite well established. The enterprise data business grew nearly 24% in the first nine months of this year. Our enterprise business growth rates are significantly ahead of our industry and peers and we expect to continue this momentum and maintain a superior growth profile based on internal capabilities solidifying as well as the customer dialogues that we are having in the market place and the kind of funnel that we are seeing. We are on top of what the enterprise customers need which is speed, good connectivity on a global basis, security of their services but more importantly adaptability and reliability in the way we interact with them. Brand equity is a requisite for the enterprise segment and we are gaining from strength to strength on this parameter and this has translated in us winning several new Forbes 2000 logos that we have been pursuing, generating more RFIs and RFPs and bettering our industry accreditations. This time last year we were named a Leader in Gartner Magic Quadrant for Global Network Service Providers that was for the first time. After having achieved this accolade we wanted to ensure that we maintained our position and I am pleased to say that a year on in the report that just came out, Gartner has kept us in the leadership category and we have retained this spot and our goal is to continue to leverage this and grow this position and make it a constant feature in our accreditations.

Within data in the service provider segment, market price pressure still exists, nothing unusual from before but it remains, the revenues have largely remained stable in the first nine months of the year. Our focus in this segment has really meant to optimize our operations and to modify and synergize our go-to-market activities and the benefits of these activities of synergy and operational efficiency will start accruing in the coming quarters. This group is also placing a significant emphasis on straightening our partnering related activities with the carriers so we are not only selling to them, we are selling through them and with them and creating new addressable market opportunities in their respective geographies.

One of the questions that we have been getting form the investment community is how to think about our data portfolio. It is a complex portfolio and it has many moving parts and your questions have been around the prospects and strategic direction on a bit more granular level. In that context we thought it will be a good idea for me to deep dive a little bit into data by broad segments and give you my perspective on how we look at the data business and why we are excited about our strategic direction. As you well know by now the data segment is a portfolio of multiple products as well as multiple sub-segments. This has been the result of our conscious efforts in transforming and building a future proof but growth oriented and yet diversified data business. However, being a portfolio of multiple moving parts data headline numbers sometime tend to mask the underlying strength or the momentum within the portfolio and in specific business areas.

What we have done in this quarter in our presentation that I am sure you have seen is to break up the data growth by key products so you get a better flavor of the granular growth within the data portfolio. Our transformation from the wholesale voice to data has been well documented and appreciated but as you now look closely at the data portfolio evolution you will notice and I am sure you will acknowledge there is a similar sort of transformation taking place even within our data portfolio. Broadly, we have been talking about the shift towards less CAPEX intensive services, the push towards more managed services, to drive more usage based services, to drive longer contracts and so on. These are going to start getting evidenced in the numbers as we go forward. Now in FY10 we had 75% of our data revenues come from our mature offerings from the data space such as traditional networking and traditional mobility services. Within our portfolio these services have grown but the share has come down to 44%. We are moving away from purely infrastructure transit sort of legacy business to being a provider of solutions related to network platforms, we are providing components to our wholesale customers but at the same time providing truly managed services to our enterprise customers. Our transition has also been driven by the launch of some of our industry specific managed services and new technologies and solutions and we are placing greater emphasis on cloud enablement platforms, mobility enablement platforms and virtual private network solutions for companies around the world both on a private basis as well as leveraging the power and reach of the internet as evidenced by the IZO™ service that we launched in October last year.

If you look at the last six quarters Q2 FY14 to Q3 FY14, on reported basis our data business's compounded quarterly growth rate or CQGR comes at about 2.5% which is itself ahead of comparable global peers and industry growth rates. However if you take a closer look to really assess and appreciate our enterprise led service and platform focused data story and momentum, one of the things that one needs to really look at is that the data business excluding traditional mature parts such as leased lines, wholesale bandwidth, internet transit and mobility and TCPSL which is more of an industry play in India where our primary focus is profitability. Applying that lenses and on that basis our constant currency CQGR is 5.5% which clearly reflects results of our strategy and the basis of our optimism going forward.

There are two aspects to our growth, one is quantity, and the other is quality. Having given you my perspective on the magnitude of growth let me touch a little bit on the quality of our growth story going forward. If you look at our global enterprise segment where we are seeing growth pick up we are clearly focused on our penetration strategy to win and expand Forbes 2000 universe of companies and those efforts are paying out handsomely. Today, 64% of our enterprise data revenues is coming from Forbes 2000 universe and revenues from Forbes 2000 clients are growing at nearly 30% growth rate for us on a year-to-year basis which is way ahead of anyone else in the industry. This clearly shows that our proposition is working and that we are gaining market share. I also want to highlight here that we are still insignificant in the context of global market share being a relatively new kid on the block who has moved from being a challenger and is just making inroads into the global enterprise segment. Therefore this gives us a long run way and headroom and a broad canvas both in terms the ability for us to grab new logos who we currently don't serve as well as grow with the existing ones that we have captured in the last couple of years and grow our wallet share and grow as their businesses expand around the world. Some of the recent wins and expansions we have in the last nine months reflect the complexity, the depth and breadth of our coverage and the wider range of responsibilities that large global MNCs and enterprises are entrusting on us.

As an example, when you look at our recently announced relationship with the KION Group in Germany we are providing global WAN services to the nearly 330 sites across 30 countries. Another example of this is a recently won a large multi-country MPLS solution for a global automobile giant, a top three automobile giant on top of that. These are the kind of opportunities that now our global platform allows us to bid for, these are also the kind of global opportunities that the investment in the brand that we have been making is allowing us to bid for. And clearly the customers are giving us right now an opportunity to serve them with their network needs but very steadily we see ourselves being able to leverage this entry and offer other services to them and grow our wallet share over a period of time.

Another area of growth besides the large enterprise of Forbes 2000 segment where we are seeing strong traction is what we call the NextGen segment. We created this dedicated group about two years ago to bring sharper focus and intimacy with a handpicked group of companies, large names in social media, cloud, enterprise software, devices, ecommerce and content provider landscapes. Every one of these 35 to 40 large companies will be very well known to you. However, due to the confidentiality reasons I will not be disclosing their names, these are large, very global, cash rich companies coming from consumer routes and expanding globally as well as trying to make inroads into their enterprise software space and enterprise communications space. They have somewhat different buying behavior and expectations than an enterprise and we wanted to address that with a differentiated value proposition and go-to-market strategy.

The NextGen group has had great success with its target segment and our relationship has evolved from being just a supplier to these companies to really being a partner with them as well as a co-creator, we'll be now embedding some of our solutions components such as Jamvee, our video collaboration platform into their platforms. Many of these are IZO™ partners and therefore are becoming a greater part of our enterprise, cloud and wide area networking enablement platform. And it creates a symbiotic two way relationship between these NextGen companies and Tata communications. The revenues from the NextGen segment is up 74% year-on-year for the nine months period and we have made encouraging progress in cross selling with the average number of products that we have sold per customer having moved from 3.6 in FY14 to 4.4 level currently. In other words it means that on average we were selling 3.6 products from our portfolio to these customers and that has moved up now to 4.4 and we still see significant room for us to expand on that.

Now let's talk a little bit about product segments. TCTS or Tata Communications Transformation Services remains one of the fastest growth areas and that story is unfolding very well. While we have given you a glimpse of that business in the past, we intend to have the head of that business present that story to you in more detail during one of our upcoming analyst meetings. Other components of our managed services business such as UCC, media, and data center services are continuing strong growth momentum. Our data center business in India and Singapore is picking up successive new client engagement and gaining market share. We picked up market share in a growing market and are scaling up capacity with clear visibility of profitable revenue growth. In mobility, what we have is a mature business with limited growth prospects in the legacy signaling business. H2 you will notice also tends to be a seasonally soft business for the mobility segment given a leaner international travel season in the winter months and the holiday period and this seasonality has impacted Q3 revenue performance for our traditional mobility services. What we are doing however in this space is building some exciting propositions for mobile operators that will give a fillip to mobility growth in the medium term. Our TCPSL operations, or our payment solutions business operations continues to strengthen with now 3,720 Indicash, our white label ATMs, that have been deployed and operational efficiencies as a result of volumes beginning to grow in tandem. TCPSL remains on course as we have said before to achieving operating profitability in the coming financial year.

On the network side, traditional services and internet transit are largely stable with volume growth being seen but the volume growth is being offset by pricing pressure. Some of that is also linked with some sluggishness on the carrier side which I spoke about. We believe that there is room to marginally revive growth rates once we see traction from carrier customers. New age connectivity solutions are continuing to drive growth in the network services segment. Growth rate in market prospects for VPN services remain very healthy, the recently unveiled IZO™ service has generated tremendous visibility for us and mindshare in the market place and we have several trials going on with large customers to demonstrate that we can actually offer an enterprise grade VPN solution using the power and reach of the internet, using some proprietary technology that Tata Communication has developed.

TCL has a truly robust model of continual transformation where we invest in creating new opportunity areas to stay ahead of the technology paradigm. Artificial intelligence is one such area which we are excited about and in this quarter we took a small step towards it with a strategic but minority investment in the silicon startup called Sentient Technologies. Sentient offers next generation infrastructure as a service platform by using scalable distributed computing technology. This association with Sentient will bring both Sentient as well as Tata Communication commercial opportunities and also technical collaboration opportunities.

While we continue to maintain that we have most extensive undersea network in the world, we have also said time and again that we need to continue to make selective investments where we see attractive market opportunities and strategic alignment with our goals. We announced during the course of the last quarter an investment for capacity purchase in Seaborn Networks, US-Brazil cable called Seabras-1. Seabras-1 will provide the first express route or direct route between Brazil and major US commercial centers. We also managed to negotiate as part of this capacity purchase agreement for the Seabras-1 cable to land in the Tata Communication's Wall cable landing station in the east coast of the US in the New Jersey area and the advantage of this is with the Seabras-1 cable coming directly in to our landing station we will be able to offer seamless connectivity and extension to our TGN or Tata Global Network.

Moving on to Neotel, I am sure it is a question on your mind. The regulatory review process is continuing, we remain optimistic of the outcome; nothing has changed on that front. We are aware that there has been a lot of competition and media commentary coming out in the last few weeks from the ICASA hearings but we do not want to get drawn into commenting on those since we have told the regulator that we will let the process follow and we will be respectful of the process and not participate in or respond to or create speculative media activity. I do want to emphasize that none of these comments were unexpected, these are the normal course of comments that one gets from competition during such a process and we continue to be closely following it and supporting the regulators to aid their approval process. We haven't encountered anything that is extraordinary which I need to term as a hurdle or red flag at this stage. We will have to go along the process and till then its business as usual at Neotel. The operational performance of Neotel is healthy, the management team is extremely focused on cost management, making sure we keep customers happy, and making sure that our margins improve.

Finally, on the surplus land demerger issue, there is not any significant milestone or material development at this stage to update you on. We continue to remain actively engaged with the new government and are pursuing this matter at all appropriate levels, however firm timelines for resolution at this stage remain open ended and I am unable to provide any further granularity on it.

To sum up, I would like to say that it is all about execution and innovation at Tata Communications. 2014 was a strong year for us, a strong focus on bettering our value proposition to the customer drove consistent top line growth and led to healthy improvement in profitability and cash flows. In the current year in 2015, we have confidence in our ability to take advantage of the growth opportunities in our key strategic markets which are clearly identified and we continue to remain focused on them without any change. We will continue to invest in our networks as the platforms for future growth and innovation and at the same time from an execution perspective we will continue to drive productivity improvements and operating efficiencies throughout the entire business.

Thank you very much. Those were my opening remarks and comments, sorry they were little bit longer than usual, but now I am happy to take any questions and comments that you may have.

Moderator: Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Vivekanand Subramanian from HDFC. Please go ahead.

Vivekanand S: My first question is on the network cost side which has actually declined significantly on a sequential and an annual basis. Now I can see that some part of this decline could be attributable to Neotel as well but if you could explain this a bit further in terms of the cost optimization measures that you are taking. That's question one. And my second question is on the CAPEX side where what we see is that for the past three years CAPEX has been declining and this year also we are likely to end up at the bottom end of the CAPEX guidance of management. Now going by past commentary you have mentioned that the CAPEX in the core business will continue to be at 8% to 9% of gross revenue which would mean $280 to $300 million of CAPEX. Is there scope for any reduction in CAPEX on account of the business model recalibration that we have achieved in the past? Thank you.

Vinod Kumar: In the network cost reduction as in the primary reason for that is voice termination rates with volume movements have moved and that's showing up in the network cost.

On CAPEX frankly we continue to maintain our guidance Vivek that we will be in that $300 million to $350 million range and within around 9% or so of revenues. There will be years when we continue to be extremely prudent about where we deploy our CAPEX and our internal controls associated with it remain as strict as or even stricter than before. We are also more rigorous with our capital allocation methodologies and have more rigor in the business. However, we believe that the business does have to be fed with certain CAPEX to build on the strategic platforms that we have and we maintain the levels I would not say that there is no change going forward in our CAPEX spend. There will be period when we go a little bit tighter and you will see less but on average we maintain the ranges that we provided before.

Vivekanand S: Okay, understood. And also on CAPEX, the investment that we made in Seaborn Networks, that will get reflected in Q4 CAPEX, right?

Vinod Kumar: No, Seaborn Networks actually it will get reflected in the next financial year or potentially even the following year based on exact cable completion time frame. We have made a commitment to the project but our payments are only when we take the capacity.

Moderator: Thank you. The next question is from the line of Amruta Pabalkar from Morgan Stanley. Please go ahead.

Amruta Pabalkar: I have two questions, one, on the new products like IZO™ which are gaining traction, where do we see these numbers getting reflected in your reporting pattern, is it across the segments or anything we can specifically target? And my second question is on the connectivity segment, with VPN segment being robust how do we look at the network connectivity segment growth going forward, any guidance on that. And secondly, is the traditional segment going to offset the kind of performance? Any guidance on network connectivity will be helpful. Thank you.

Vinod Kumar: The IZO™ was just launched and we are still in a trial phase right now so we do not have revenues growing from IZO™. We will not be reporting IZO™ as a specific product line because it is really part of VPN and IZO™ in the early years will be sold in combination with some of our other network solutions, so we will as we get more information we will share granularity on maybe number of customers using IZO™ and so on but we won't be reporting it as a separate line, it will be part of VPN so if you are looking at it you can look at it within VPN. Our VPN growth rate we believe will be maintained, the CQGR has been about 5.8% as you can see, we believe that that kind of growth rate is quite sustainable for us given the strength of our funnel and the kind of opportunities that we have closed both short and medium term I am comfortable maintaining that. Does that answer your question?

Amruta Pabalkar: Thank you sir, this is helpful. And secondly coming back the traditional segment, is it going to take out the vigor partly from the network connectivity segment, I mean incremental VPN growth and any decline in the traditional leg of the network connectivity segment. So overall what would be the growth of the network connectivity segment that we can expect?

Vinod Kumar: Yes, the traditional network I believe you can expect around 1% growth, it is not going to see a decline. We still see a need for capacity across our various TGN routes, we also see our IP transit service continuing to grow in volume. As I have said overtime maybe there will a little bit less price pressure over there, there will be price pressure but they are at levels that it won't keep declining as fast. So I would maintain traditional network services that are raw connectivity and IP transit about 1%.

Moderator: Thank you. Our next question is from the line of Piyush Chaudhry from CIMB. Please go ahead.

Piyush Chaudhry: Firstly on your enterprise segment which has been doing extremely well with your focus and efforts which grew 26%, based on your sales funnel and deal pipeline can you help us understand how this trend line could look in medium to long-term, could this growth rate accelerate from here? And secondly on IZO™ launch, could you share any major deal wins and which geographies are you winning in?

Vinod Kumar: On enterprise I believe there is a 24% growth; we are already at a very healthy clip in terms of growth. As I said in my opening remarks I believe that that level is around the 20% range is sustainable into the coming financial year and from there it will be a question of how much we not just get new logos but also sell multiple products and services into the same customers base and hence a lot of work has been going last year into strengthening our product set as well as a service capability. So I would say that's an aggressive growth rate that we have achieved and that is something that we can maintain, I won't commit to accelerating it. In terms of IZO™, I cannot give you names but where we are seeing the greatest activity in IZO™, just off the back have been our European customers, we have both existing customers who want to expand to countries using IZO™ as well as couple of Europe based but large multinationals who are doing trials of IZO™, if they are comfortable with it and we can meet their requirements they have the potential to roll it out on a global basis.

Piyush Chaudhry: Wonderful. And if I may ask couple of more, on your service provider segment which you have been saying that the go to market strategy has been tweaked, can we expect like in fiscal 16 that should lead to some growth coming back in that segment? And secondly on your voice segment, you had made some remarks on your strategy so wanted to clarify how you are targeting the direct retail traffic over there as against the wholesale traffic? Thanks.

Vinod Kumar: So on the service provider segment our focus has been on three different things, one is to tighten our account coverage so our large customers that we have traditionally served, to make sure that we are not missing out on any opportunities and so it is really about account management discipline. The second is we are focusing on the cable companies like Comcast, Time Warner those kind of companies as well as several European players and they are within service provider segment but we are creating a small team to target them on a dedicated basis because we believe that their buying patterns are slightly different from a traditional telco and I believe that that will start yielding some fruit next year. And the third area which is where the sustainable or some growth acceleration will come in subsequent financial years is through the partnering program, so we are working with partners in several emerging markets in order to help them make their transformation from B2C companies to B2B companies and from pure mobile operators to those offering the voice data and video services. These things, there is some gestation period but when the revenue stream starts it tends to be quite solid and quite steady. Therefore net-net I think the service provider segment will go from what has been a flat performance this year to slight growth next year in the low single-digit but I see our activities oriented towards that.

In the GVS segment your question was how we are getting retail traffic. So when I say retail traffic it does not mean we collect the traffic directly from consumers, we are just saying that we would focus on telcos or cable companies or mobile operators who have retail operations and try to get the traffic directly from them in the first handoff and not after it is passed on to some other wholesale intermediary. So that's really what we mean. And we have been doing this for a while, it is not something that is new but we believe that from a quality of traffic and quality of revenue perspective it is a better source rather than to be chasing just minutes in the wholesales space and the pure wholesale space.

Moderator: Thank you. Our next question is from the line of Rohit Chordia from Kotak. Please go ahead.

Rohit Chordia: My first question really is on where are we on getting a new CFO for the Company and who is handling those responsibilities, Sanjay's responsibilities right now?

Vinod Kumar: The CFO we have finalized the candidate but I obviously cannot disclose any names, person who will join is in the process of handing off and will be joining the next three to four months. In the meanwhile I am playing the role of acting CFO that's why we don't have a CFO speaking. However having said that I have a very able finance team that manage to close accounts for example and report results without any hitch or intervention from me, I have my finance colleagues here with me in the room but there has not been any impact to the business at all but we will be getting a CFO shortly since we had to go through a rigorous search process and we have a strong candidate coming.

Rohit Chordia: And what is your plan B on Neotel now, should this deal not go through? Besides your comment but if in case it does not go through what is your plan B now?

Vinod Kumar: In terms of a plan B while your question is valid and it is something we keep our eye on and from a risk management perspective but I do not want to raise any alarm bells that we are working on a plan B because we do not see the need for it right now. Having said that if you look at the business of Neotel it is quite self-sustaining at this point, it will require for us to take a close look at capital allocation for the future but we do not believe that Neotel will be a drain on our resources even if we were to continue operating the business. The one thing to note about Neotel is when businesses go through this kind of sale you would experience customer flight that would be normal, in the case of Neotel we lost wholesale customers who may have left because of the dynamics in the market between various operators. However, our enterprise customers both small, medium, and large who Neotel serves have stood by us and that really is an evidence of the quality of the service that we offer, the choice that we offer to South African enterprise customer. So for whatever reason we have to be in the market which I think is a low probability event we have a platform that can be leveraged. The day to day operating team in Neotel is a team that is very committed and they have been working like there is business as usual for them because regardless of whether the sale happens or not they will have to serve customers and they will have to grow that business, it is only a question of under whose ownership they will do it. So that's quite an important observation to make on the team at Neotel.

Rohit Chordia: Can update us on the latest Net debt on Neotel? And what was the CAPEX in first nine months?

Vinod Kumar: CAPEX, I'll ask one of my colleagues to refresh my memory. Net debt at Neotel remains unchanged; it's still in the order of $450 mn.

Rohit Chordia: When you Neotel is self-sustaining are you really saying it will not need any equity infusion?

Vinod Kumar: No, I don't want to go down that path Rohit because it is a function of, if we keep the business what you want to do, how you want to grow the platform, but the operations as it is doesn't mean that if it does not go through we will have to rush with and put a lot of money. As I said, very low probability event that the plan B is required then we will have to really look at it, I cannot comment on what path we will take Neotel down on if that comes and that's also something that the Neotel Board and the Neotel shareholders together will have to decide.

Rohit Chordia: Sure sir. Just two numbers I just wanted to confirm. One, when you said CAPEX of $300 million to $350 million this is ex-Neotel, the core business?

Vinod Kumar: Correct.

Rohit Chordia: And the second number I wanted to check was on the voice simple free cash flow which is EBITDA less CAPEX, you are talking about $90 million to $100 million, this is a bit of a downtick, earlier it used to $110 million to $120 million, it became $100 million to $110 million and now you are saying 90 to 100; where does this expectation reset stop on the voice side?

Vinod Kumar: Yes, $120 million including the voice termination benefits that we had last year but I think the $90 million to $100 million is a safe zone to model. I said the voice business also has some erratic behavior going on right now and we are just being prudent and giving you that view, if some of the irrational behavior slows down or stops, it could go up a little bit but right now I am giving you a view based on what we see.

Rohit Chordia: Is this business way too unpredictable for you to have any guidance at all?

Vinod Kumar: I think last year we said when the India termination rates were quite high that we knew enough about it then we said it was not sustainable. But actually within this band it is okay, I do not think it is that volatile that the bottom will completely fall out. Because the India termination part has been the volatile one, rest of the world business is not as volatile.

Rohit Chordia: And one last question from my side, again on the service provider side, the argument in the market that one hears quite often is that the mobile wireless data boom in various emerging markets and even some developed markets will feed into your service provider business on the data side, but one has not seen that benefit yet. Where are we missing the link if you could just help us understand that?

Vinod Kumar: I don't think we are not missing any opportunity there to be frank. But with there is significant wireless data growth right and that's going to continue on the consumer side. Telcos need to figure out how they are going to be able to monetize it and that pressure is building up in many ways and that's a debate that one can have for many hours separately. But I believe that eventually it will start translating to revenue growth in our service provide business which is why in spite of a flat year this year I believe that next year we will see some growth in our service provider business.

Also to answer your previous question that you asked on Neotel CAPEX, our FY14 CAPEX was 500 million to 550 million and year-to-date is about 450 million. Sorry, ZAR 450 million I am talking Rand not Dollars

Moderator: Thank you. The next question is from the line of Pranav Kshatriya from Edelweiss. Please go ahead.

Pranav Kshatriya: I have three questions. Firstly on Forbes 2000 you have seen a very good growth, can you tell us the number of customers you had among Forbes 2000? My second question will be on voice cost, if you look at the voice cost that is below net revenue the other expenditure that used to trend between 160 crores to 170 crores per quarter which has now come down to 140 crores in this quarter, so is there any one-off and how should we see it going forward? My third question is around TCPSL, can you provide us the EBITDA loss figure for this quarter, and secondly how do you see it with this payment bank coming in the picture? Thank you.

Vinod Kumar: So on Forbes 2000, we don't disclose these numbers but we have the range of about 200 to 250 customers of the Forbes 2000 that we are already serving. One of the things that I am committed to doing is going forward to give you a little bit more granularity on customer count by revenues but we will do that in the coming quarters but we have about 200 to 250 Forbes 2000 customers and in the ET500 we have close to 60% of them using our services already.

In the voice net revenue, we had an adjustment for Canadian Pension Fund which is the actuarial adjustment that results in that movement on a quarter-to-quarter basis. For TCPSL, we disclose the EBITDA figures on a half yearly basis and so we will give you the numbers in the next quarter. However, in that business what we said is the EBITDA is improving and we will be in an EBITDA neutral position on a monthly basis by the end of this year and we should be EBITDA positive territory next year.

Pranav Kshatriya: I think last part of my question is unanswered, how do you see TCPSL business with this payment bank coming in?

Vinod Kumar: See, the way we look at it as is payment bank there is more financial inclusion initiatives and as the card pace grows we see all these as favorable outcomes for TCPSL. We are seeing the average transactions per Indicash ATMs steadily go up both on an average basis but also as Indicash ATMs are maturing in other words ATMs that are there for 6-9 months now since that base is increasing we are seeing clearly an increase in usage which means the acceptance of Indicash concept and consumers being comfortable going and withdrawing from a neutral white label player like us is improving and hence we are focused on ensuring that we are deploying between 500 to 600 ATMs per month and that run rate is something that we hope to maintain and we are capable of maintaining for the next one year.

Moderator: Thank you. The next question is from the line of Aliasgar Shakir from Elara Capital. Please go ahead.

Aliasgar Shakir: I just had one small query regarding the cash flow, we have done close to about 525 crores odd in terms of PAT plus depreciation in our core business and about 370 crores in terms of CAPEX. So I was wondering the balance 150 crores I mean where has that gone and I was actually expecting some kind of debt repayment possibly to have happened. So just wondering where is the gap that I am missing?

Vinod Kumar: Yes, so I will give you the details, I will give you a little bit more explanation for it but that is largely due to working capital adjustment, you said 120 crores odd variance, right?

Aliasgar Shakir: 150 odd.

Vinod Kumar: Yes, the other reason why that movement that you cannot explain is because of our investment in Sentient which we have not called specifically yet.

Aliasgar Shakir: Okay. And just a small follow-up over there, so how do we see the debt repayment outlook over the next two year period and what kind of debt levels you think you would be comfortable with over two year period?

Vinod Kumar: Frankly right now we feel quite comfortable with the debt level that we have and also our cost of borrowing is at 3.8% which is extremely a good rate for us. So our goal clearly is to retire and bring the debt down to less than 3x EBITDA which will be our endeavor and we will continue to do that but in a steady way.

Aliasgar Shakir: Okay. Just one small query. In the earlier question I think you mentioned, did I listen it correctly about $300 million to $350 million worth of CAPEX, is that what you mentioned because it think in your presentation it is mentioned between $250 million to $300 million as your CAPEX guidance?

Vinod Kumar: We said $250 million to $300 million is CAPEX guidance that we have given and we will keep it around 9% of our revenues. At the same time I have said that there will be period when we have investment opportunities that are in line with our strategy that we will take into consideration. So 300 is a safe number for you to be using.

Aliasgar Shakir: Okay. And in your ATM business, this quarter we have seen the revenue per ATM doing pretty well, so could you just give me some color in terms of the ATM business, how are we looking of course you have mentioned that in terms of growth we are adding white label ATMs and kind of focusing on profitability but in terms of cross selling and in terms of addition of more services in your ATM which was earlier mentioned in one of the analyst meet, is there any endeavor which has led to this 5% kind of an increase in your revenue per ATM?

Vinod Kumar: No. Right now frankly speaking Ali the improvement is purely on account of number of transactions but what we are doing though is building other revenue streams around the ATMs but frankly this will take a few quarters for it to fructify and begin showing up in the numbers. So right now it is really increased number of ATMs, the coverage is improving, our number is increasing, and the transaction per ATM is slightly going up on quarter-to-quarter basis. And for the next two quarters that will remain the trend, new revenues will begin to kick in after that.

Aliasgar Shakir: So the revenue per ATM growth that we are seeing should be sustainable?

Vinod Kumar: Yes, we believe on transaction volumes we believe they will grow as we deploy more ATMs and the transaction count per ATM slowly goes up.

Moderator: Thank you. Our next question is from the line of Vivekanand Subramanian from HDFC. Please go ahead.

Vivekanand S: On the data business, you have already crossed the margin guidance that you have been providing, so in this context I wanted to understand two things, one is has this margin improvement come in primarily because of the reduction in new losses in new services, and in the new business in TCPSL and is there any scope for us to revise that guidance slightly upwards as you are predicting a turnaround in the TCPSL business next year?. That's one. And secondly a small wish list on TCPSL, if you could provide some granularity with respect to number of transactions and if you could also provide a bit on the maturity profile of the ATMs that would be very helpful. Thank you.

Vinod Kumar: So I think on the data business it is a combination of factors as we sell more VPN services and also UCC services and security services and so on become a larger pace, we have been able to hit this margin level. I would maintain that as a level going forward for your modeling purposes.

In terms of ATMs I think what we have been reporting is the number of ATMs, we will definitely look into your request for including the number of transactions per ATM. The only thing we have to keep in mind is then we have to give a lot more granularity because there is an average and then you need to look at it on an aging basis depending on how long ATMs have been deployed. So we look, it is not to make anything opaque but we also do not want to make it too complex, we will see how we can provide some additional data points that will help you sharpen your financial modeling around the ATM business. And as the previous person asked we are also working to build non-transaction related revenue streams but those will take a few quarters to kick in so that also needs to be built into your model. That today we cannot give a number because we do not have, we have some but it is insignificant revenues but over time those will grow. But I take your point, we will see what more we can provide on the ATM business.

Vivekanand S: Okay. So if I understand correctly, in the data business we could be looking at sustaining the margins that we reported in the current quarter, right?

Vinod Kumar: Yes.

Moderator: Thank you. The last question is from the line of Gaurav Malhotra from Citigroup. Please go ahead.

Gaurav Malhotra: Just one small question, what is the net debt on Neotel's books currently?

Vinod Kumar: $450 million is what the Neotel debt is.

Moderator: Thank you. I now hand the conference over to Mr. Vinod Kumar for his closing comments.

Vinod Kumar: Thank you very much for you participation and your questions. I look forward to speaking with you in person I guess the next time when we share the Q4 as well as the annual results that will be in early May and we will announcing the details of that well in advance. Thank you very much for your participation and have a good day.

Moderator: Thank you very much members of the management. 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.

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