TATA COMMUNICATIONS

Q1 FY2014

Earnings Conference Call Transcript

July 29, 2013 at 12:00 Noon IST

Mahesh Pratap Singh: Good afternoon everyone and welcome to Tata Communications Limited conference call. We are joined today by Vinod Kumar – Managing Director & Group CEO; and Sanjay Baweja – Chief Financial Officer.

Our results for the quarter ended June 30th, 2013, were announced on Friday and the result's presentation and factsheet is available on our website. I hope you had the opportunity to browse through the highlights of the performance.

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

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

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

Vinod Kumar: Thank you, Mahesh. Ladies and Gentlemen, a very good afternoon and a warm welcome to all of you. The objective of today's presentation or monologue for a few minutes is to elucidate on specific business enablers in Tata Communications' key segments. As is the trend I will commence with the highlights following which I will share some thoughts on the direction that we are taking the Company forward with.

Our results in this quarter as you can see have demonstrated the robustness of our business model. We continue to execute well and are clearly progressing on the path that we have set for ourselves towards sustained profitable growth. While our Q1 financial performance is extremely gratifying more importantly we have posted impressive metrics across all our key segments. As a result of this solid start we have built good momentum to head us and place us quite well for the rest of FY14.

The real story lies in how our margins are shaping up. Sanjay will take you through the detailed financial performance and the segment performance but I just want to share my perspective on how we are driving this improvement and how we see this momentum unfold and translate in to results as we progress. We believe we have the opportunity to be more efficient and effective in the way we operate and therefore are very focused on streamlining our business and our processes. These are across the board efforts and these efforts are not just for the sake of lowering cost alone but also to double up as revenue growth initiatives aimed at improving efficiency and putting us in a better position to win in the market. And I will give you few examples of this may be during the Q&A or later. What is also quite heartening is that these initiatives have got a wide organization supporting it, we have multiple functions involved in some of our initiatives and are driving a very strong culture of cost discipline at the grass roots level and associated with significant involvement from management in terms of monitoring and enabling the cost reduction and cost optimization programs. So there is a lot rigour and discipline in the way in which we are looking at our cost structure. Our idea is to hold the cost line as steady as possible while the segments find their natural growth trajectory. Naturally there will be some costs which have to move in line with the revenue but wherever possible we are trying to make sure that the costs remain as steady or close to flat line as possible. The result of these efforts which started several quarters ago are now beginning to translate and are visible in our performance across the segments and our hope is that we will continue to build on it.

The last few years as I have discussed have meant heavy investments for us towards building the portfolio of businesses and the compositions of businesses that we have. We are very pleased with this platform that we have created. Over the last decade we have also transformed the Company as you know from an India focused wholesale voice company to a global, multi product, new age communication provider who is a global leader in many areas such as in wholesale voice, the number one player in enterprise data in India, number two player in enterprise data in South Africa, and a global challenger for network services to global carriers and enterprises. What we have created is what I would term as a moat or differentiator. It is not something that can be easily recreated, it is a distinctive platform which we believe will stand as in good stead as our strategy unfolds. When we look at our best in class infrastructure, the relationships that we have with global service providers that go back many, many years which are quite important, our comprehensive service offerings in terms of the breadth of our portfolio, our global reach of the network, an established leadership in key markets, this is a very potent combination. It is a combination that places us well for the information age that is unfolding around us and we believe that it provides us good competitive advantage. We cannot rest easy, we need to create more differentiators but we have a good position that we are operating from right now.

We believe that we have done a lot of the heavy lifting in terms of building our core platform. This also is reflected in the way our CAPEX and debt levels have peaked and are gradually starting to reduce now. Currently we are focusing a lot of our efforts, management bandwidth and investments in building products, services and solutions that sit on top of the network and infrastructure that we have already built on a global basis. However as I have said in earlier meetings with you, unlike in the past, the investments are more OPEX oriented as opposed to heavy CAPEX since we have built a lot of the platform already. In addition the spends tend to be more aligned or more closely linked both in terms of timing as well as quantum with the revenue lines.

Like I have shared in the past it is our objective to grow the data business very strongly over the next few years. We see a significant market opportunity in the data segment and for many reasons, and the macro growth enablers in this space are very evident and strong. Each day we find new ways as consumers and businesses, in which information and data is becoming more useful and relevant in our lives. We believe that this provides a great backdrop for Tata Communications with the large IP network that we have with the large data network that we have to correctly position ourselves and take advantage of the trends around us. As we continue to scale our data business as an enterprise we will be favourably positioned for improvement in margins and we believe that this can be done in a somewhat sustained way.

You would also have noticed by now that the data business does not function like one single colossal entity. It is essentially made up of many carefully chosen sub segments and these sub segments or business units are at various stages of their respective business cycles. We have deliberately built this portfolio of businesses for multiple reasons, for complementarity reasons, for adjacency reasons but more importantly to leverage of our underlying infrastructure as much as possible and to also de-risk ourselves from the inevitable commoditization that our industry always faces. So as we are progressing through this phase of having a mix of services some of our traditional services have been delivering high profitability but some of our new services are yet to follow suit. And this is where we have focused on tightening our execution and making sure that in spite of natural forces we can bring all services up as quickly as possible to profitability. But talking about the portfolio again from our vantage point some of these moving parts is extremely attractive and in a few minutes I will take you through a couple of exciting initiatives that we have spoken about earlier but I will elaborate further today. Nevertheless despite these investments we are focused like I said on driving margin improvement and de-leveraging and are quite confident that we will make progress on both fronts.

Now talking about the kind of services we are working on as a company we have been at the forefront of identifying and supporting emerging and innovative business opportunities which are value accretive to the Company and to the market place at large. Our banking subsidiary TCPSL, Tata Communications Payment Solution Limited has been a great example of the innovation and the execution philosophy that we are bringing to these new initiatives. During this past quarter we unveiled Indicash, India's first ever network of White Label ATMs or Automated Teller Machines. TCPSL will deploy about 15,000 Indicash ATMs in a record time of 3 years. 67% of these ATMs will be deployed in semi urban and rural areas while 33% will be deployed in metro and urban areas. Phase 2 of the roll out will be to offer value added and utility services to customers using the Indicash ATMs and to introduce offers and third party promotions. The ATM penetration in India is abysmally low compared to other mature markets and even low compared to other emerging markets and we see this as a sizeable opportunity and we will be pursuing this very aggressively. Now, if you look at the ATM business it started off leveraging our core network connectivity. We started leveraging the relationship we had with banks, we sensed the need for managed ATMs, we got in to that business, grew that business and created a name for ourselves but more importantly got the operating experience on managing an ATM business with a very different set of skills. After which we seized the opportunity of the Reserve Bank issuing licenses to get the white label license and now that is being rolled out. So we have been steadily leveraging each layer of capability and moving up to the next. We also believe that for this kind of service if we keep our minds open, there are plenty of opportunities to participate in how the payment business begins to see the marriage of cash with mobile commerce and other forms of e-commerce. We believe the ATM deployment can help that. Having such a wide coverage in remote parts of the country which are underserved will also give us other opportunities to leverage both the physical presence of the ATMs but also the electronic capabilities that we will create to offer a range of other services both within the payment solutions category but also associated with little or no incremental expenditure. So these are again I would say we have taken from the network business and moved in to the ATM business but we see this as an opportunity to go even further beyond and leveraging the work that has been put in and the investment that is put in of course.

So another example of things we are doing to stay ahead of the curve and we are constantly looking at launching new services, the one that I am extremely excited about that we recently launched it is called JamVee™. JamVee™ is a multi-device compatible cloud-based video conferencing service. So that is quite a mouthful but very simply put JamVee™ is the first of its kind service that will bring the approach of audio conferencing to video conferencing. It will allow you to connect with any kind of device whether it will be a laptop or android tablet or an iPhone or an iPad to telepresence rooms or high end video conferencing rooms all as easy as using audio conferencing. Somebody dials in with the moderator code like we are doing for this call, the participants call and everybody is connected together regardless of device and more importantly regardless of the kind of access. So if you imagine the Skype service and Skype is a point-to-point service but the minute you start conferencing two, three or four people on Skype the quality deteriorates. It is not suitable for business customer use. It has great applications in use in the consumer space. So the JamVee™ service is a business class audio conferencing kind of service that we are bringing to the video world. So it is a great example of how we are leveraging our experience that we have built through coming from the telepresence side to meeting where the world is going now where businesses have more and more users where people are bringing their own devices where their mobile work force is so on and so forth. So JamVee™ is an example of a service where we are creating a space called the Business to Prosumer space which is, you have heard of B2B and you have heard of B2C but many of us operate like consumers within the business with professional consumers, so we call that Prosumer. So it is a new entry for us service wise it is the telecom and collaboration service but in terms of the way we are rolling the service out is very much like a B2C or B to Prosumer service. We believe that this will be required in more and more of our businesses and it is something that we will be building on and we see this translating into quite a significant competitive advantage for us.

Another example to further strengthen our voice portfolio and market leadership, we have launched Voice Business Apps to drive the efficiency of international voice business management and also introduced international HD voice termination service taking HD voice mainstream. And at the same time looking at the media and entertainment segment which is another vertical that we are focused on, during the last quarter we launched the world's first cloud-based broadcast quality video transcoding and delivery service. The new content transformation service is already being selected by Viacom 18, a JV between Viacom Inc. and Network 18 Group to provide high definition content transcoding and delivery via the cloud. So as you can see, we are layering on I should say at new services, targeting specific verticals and moving up the value stack besides the core network and IT infrastructure services that we provide.

The market around us continues to evolve rapidly and steadily and we see ourselves being in a unique position to be at the heart of a changing landscape. We will have to work on it and make sure we are at the right places at the right time; we have all the credentials and capabilities to do so. In line with the innovation agenda we continued to develop unique services that sharpen our differentiation in the market place and we see our positioning being enhanced with the clients but also delivering clear business and financial outcomes for TCL and its shareholders. We remain focused on executing our growth strategy, on innovating and nurturing future ready businesses which is critical for the evolution of the Company but always stay in the course in our steady state business and focusing on operational excellence in those areas. We have started FY 2014 on a strong note and we look ahead to maintaining this momentum in the coming quarters.

With that I am going to hand the mike over to Sanjay to take the discussion forward and share some more detailed insights in to our Q1 financial performance.

Sanjay Baweja: Thank you, Vinod. I will reflect upon the key financial trends for the quarter and review and reemphasize some of the key messages that we have.

Firstly, we are extremely pleased with the performance that we have achieved in Q1 especially the EBITDA margin. There has been a visible improvement across all segments and I will go in to the details of each segment in a while.

Our consolidated revenue for the quarter was up 9.5% year-on-year and 2.2% quarter-on-quarter and is largely in line with our expectations and our normal momentum of growth. Let me also reiterate that we continue to focus and continue to expect growth to pick up as we move in to the second half of the year. For the quarter, a weaker rupee has helped us with the reported growth. On a consolidated basis we derived close to 68% of our revenue or gross revenue in the international currencies and 11% of revenues from South African Rand (ZAR), the balance 21% in Indian rupees. We have benefitted from about 3% depreciation of Indian rupee quarter-on-quarter against USD; however, some of that benefit has been compensated actually by rupee strengthening against ZAR about the same 3% quarter-on-quarter. On an operating basis, we have maintained momentum in core business and have seen growth pickup in Neotel.

The consolidated EBITDA margin in Q1 FY14 was 14.5% greater by 340 basis points sequentially and 150 basis points on a year-on-year basis. This EBITDA improvement is driven by a strong core business performance and significant improvement in Neotel profitability. During the quarter, but for the adverse impact for the Rs. 40 crore on account of actuarial loss on Canada Pension Fund, our EBITDA margin would have been higher by 90 basis points to 15.4%.

Moving on to the specific segments, let me start with the Global Voice. GVS had a very strong Q1 and reported EBITDA margins of 11.3% primarily driven by 8.8% sequential growth in net revenue. In GVS we have benefitted from favourable market shift and pricing environment in India termination that has resulted in better Net Revenue Per Minute (NRPM) during the quarter. The exchange rate movement does not give us substantial benefit in voice, though there has been some amount of benefit but the majority of our outperformance is on account of favourable pricing in terminations. As you are aware, we are a global leader in international wholesale voice market with a strong operating platform and this makes us extremely well positioned to capitalize on such market opportunities. This quarter there was an opportunity available and we capitalized on it. We will be on the lookout for such opportunities to advance performance however I do want to emphasize that my belief is that this is a temporary situation presenting a short term opportunity and will eventually normalize. Hence, structurally long term profitability range of EBITDA does not shift and we continue to maintain long term EBITDA range of about 8% to 8.5%. We do not necessarily have a steep normalization back to this range in the next quarter per se but that normalization is quite likely over the medium term.

Coming to GDS, margins showed a 300 basis points sequential advancement. This has been based on cost rationalization initiatives we are undertaking. Like we said previously we have been taking actions to rationalize cost and to increase operational efficiency with an eye on driving profitable growth and those efforts have started yielding results. You will recall we also talked about TCPSL and new services during our analysts meet in May 2013 and which was impacting the GDS profitability. While we do not intend to get in the quarterly granularities or numbers on that, I do want to mention that both TCPSL and the new services have performed well in line with our expectation and continue to gain traction on revenues as well as profitability improvement. In GDS, we do expect growth to pick up in second half of this financial year and believe that there is considerable room to improve margins. Right now a lot of margin improvement is coming from cost line and we expect that this will further get aided by operating leverage as we progress through the years.

So overall, for our core business it has been a very strong performance and core business is PBT positive. Also I want to remind you that when you compare sequential numbers for core business below EBITDA, do keep in mind that Q4 FY13 depreciation have full year impact of the depreciation policy change and hence Q4 FY13 depreciation will be much lower and not a reflection of the quarterly depreciation run rate.

Now moving on to Start-up, which is primarily our South African operations, Neotel continues to outperform the local industry and gain strength in a difficult South African market. Q1 revenues are up about 18% year-on-year and 6% quarter-on-quarter. While we continue to deliver top line growth but equally important have had a strong focus on our path to profitability that we have been talking about. We are extremely pleased with the results of those efforts paying out. Start-up EBITDA margins in Q1 grew remarkably to 21% higher by 810 basis points on a year-on-year basis. We are quite confident to say that Neotel performance is consistent and we believe we can sustain and continue to grow to further build on this performance as we progress. Neotel in terms of profitability is clearly sustainable as we go forward and you must be aware in Q2 FY 2012 we turned EBITDA positive for the first time and in the last 8 quarters we have we have remained EBITDA positive and our EBITDA has grown. In Q4 FY13 we turned EBIT positive for the first time and our aim is to continue to keep that growth trajectory and report PBT level profitability by the end of this financial year. Neotel performance will continue to benefit from market share gains, changing business mix in favour of recurring revenues and sustained cost optimization efforts.

On consolidated basis we are net profit positive and that is driven by an exceptional item of Rs. 2,162 million towards input credits on prior period being recognized.

On the balance sheet side, we have had a slight increase in our core business net debt position and I do want to put that in the context as we have had a strong cash generation during the quarter. High net debt is a function of two aspects. Firstly, we are looking at a dollar number and because most of our cash and investments are denominated in Indian Rupees when, we translate that to a USD number based on a close to Rs. 5 movement in closing exchange rate quarter on quarter there is an adverse translation impact. Secondly, we have had some temporary working capital mismatch which was completely a short term situation that subsequently corrected itself as we moved in to July but because of that we have had a temporary increase in working capital. So, overall, normalized for that, our net debt position has not worsened, and has only improved somewhat.

Switching gears, there had been a lot of talk and questions around supply overhang on our stock over the last few weeks; supply coming both from promoter Tata Sons and on ADR front. Tata

Sons have already completed the magnitude of sell off they needed to in order to comply with the SEBI's minimum public holding norms. Promoters (Tata's and the Government of India) now collectively own 75% down from 76.15%, so that bit is clearly behind us and completed as a process. On the ADR front, as you know we have announced our intention to delist on May 15th and the ADRs have stopped trading on NYSE on June 7th. Outstanding ADR holders can approach the depositary, the Bank of New York, until August 13th and take underlying Indian shares. While it is premature to put any number to what supply will come in India from ADRs post that, if any, ADR supply concerns to some extent are likely be overstated. As on 5th July there were about 11.2 million shares underlying outstanding ADRs and it has continued to run down in subsequent weeks. Please note that this number should not be confused with or taken as an indication of supply coming in India. As ADR holders take underlying shares this number will continue to reduce. Please also keep in mind that ADRs have traded for almost two and a half months now, first three weeks on NYSE and then on Over The Counter, in sizeable magnitude and hence a lot of it potentially has already changed hands and are now being held by people who have the capacity and capability to hold the underlying shares. Post 13th August if there are still ADRs outstanding only then Bank of New York will sell the shares underlying outstanding ADRs.

From a financial metric perspective, two key strategic focus areas for us are improving margin profile of our business and de-leveraging. We have done a substantial bit on manpower cost last year and continue to do a meaningful work on the other elements of cost structure as well. These efforts coupled with operating leverage that has started to kick-in in the business will enable us to continue to improve margins.

FCF generation and balance sheet de-leveraging is the second key priority. Core business debt has already reduced marginally last year. Improved profitability trajectory along with reduced CAPEX intensity and interest expense has set the stage for core business deleveraging. Neotel has also shown substantial profitability improvement and we do not envisage a material cash outflow into funding Neotel as we go along. Additionally, like we talked about and demonstrated last year, pace of de-leveraging will be aided and accelerated by non-core asset monetization. While we do not want to get in to the details at this stage, this is something we are driving in a very focused manner and these can have material impact on our de-leveraging. Overall, from a combination of business and non-core monetization, over the next one to two years you should expect reduction in net debt and a more comfortable leverage ratio to emerge.

And while we are driving cost discipline and de-leveraging, we are still not trading-off or compromising on our long term growth objectives. We are still making sizeable investments in newer services which secure future revenue growth for us, be it in the Data Center space or the ATM business in India or the new services around video and collaboration which Vinod talked about. These businesses are revenue drivers for the future; they are also higher margin businesses which would augur well in the medium term for the profitability as well.

To wrap up my remarks, Q1 has already given us a great start in FY14 and moving forward we are quite optimistic about our business and what lies ahead. We are clearly committed to drive better operational performance and are confident that we will be able to demonstrate that as we move forward.

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

Moderator: Thank you. Ladies and gentlemen we will now begin with the Question & Answer Session. We have the first question from the line of Reena Verma Bhasin from Merrill Lynch. Please go ahead.

Reena Verma Bhasin: Firstly on Neotel, can you please be a little bit more specific in terms of what has changed in terms of the margin uplift that we have seen and should we expect now 21% or thereabout to be the new base margin for this business going forward or do you see any potential factor that could disrupt that number from the 1Q performance level?

My second question is in terms of your long term margin outlook during the previous analysts meet at the end of 4Q you had shared some long term outlook for voice and for data, could you please reconfirm what your long term outlook is for both segments and how it compares with 1Q in terms of what are the drivers which will change?

Vinod Kumar: Just in terms of Neotel what is contributing the margin uplift has been combination of things. The mix of our revenues as well as the cost structure has been steadily improving in Neotel. So moving away from one time project revenues we are getting more sustained recurring revenue from services, so that helps the margin profile go up. Now the second is the cost optimization programs and there is a lot of streamlining just getting more efficient in Neotel activity just like we have been doing in the larger organization, are beginning to yield fruit. There have also been some small amount of revenues from prior periods which got some settlement, which got resolved which added to the figure and showed the margin at about 21%.

Going forward we believe that between 19% to 20%, let me say 19.5% to 20.5% is a sustainable margin for Neotel based on the kind of funnel that we see, the kind of revenue streams that we see coming in from that funnel and we believe that we can hold the cost structure more or less where it is and so I would not say that is exactly the same number we will maintain but around 20% is our target which is doable.

Reena Verma Bhasin: Vinod, may I just stop you there, just to understand that when you say you are moving away from one time project revenue to recurring revenue, in your cost line items like you have network, salary, and other operating cost, what changes?

Vinod Kumar: What changes is, it actually a gross margin level impact, there is one time project revenue, so a lot of it is money that is passed off to sub-contractors and so on. So it is actually not a bad business for us there is reason why we do those because it allows us to get in to certain opportunities and there are usually other services associated with it. However we are placing less emphasis on that right now so we can build more steady revenue streams and take the choppiness out of the business. And those project based revenues are not sustainable and they give very low gross margin whereas the recurring services, we sell more network services, more VPN services that uses the infrastructure that you have created more efficiently. That is on Neotel.

As far as the overall business long term or the core business long term margin outlook we are maintaining that voice between 8% to 8.5% is where we will operate and data in around 20%. The case of voice as Sanjay said we are very prudent in looking at opportunities in the market to extract more margin and we are not a price leader by any means and then therefore you are seeing the period now voice margins are higher. It would not sort of fall off the cliff overnight but at the same time we are not modelling and planning for our future based on margins remaining at that level because you cannot control and sustain margins, there are many players operating in this space which is fragmented.

Reena Verma Bhasin: You meant in voice or in data, sorry I did not catch that? You are saying you are not a price leader in?

Vinod Kumar: In either. We do not try to be a price leader anywhere because then it's the trend for a slippery slope. But I was referring to the voice business saying that longer term between 8% to 8.5% is where the voice business will operate at. But when we see opportunities in the market to extract more we will clearly go for it as we are doing right now.

Reena Verma Bhasin: And am I mistaken in the notion that you had guided to a lower band of 6.5% to 8% last time or was that just a careless thought with me?

Sanjay Baweja: We have been conservative at that point, now we are saying about 8% to 8.5% we do not want to go beyond 8.5% to say going forward we will have a much higher margin than today. Of course this quarter we had 11% plus but I think 8% to 8.5% is broadly the range that I think it will go.

Reena Verma Bhasin: But were you officially at 6.5% in 4Q?

Vinod Kumar: Sanjay said 6.5% to 8%, yes.

Sanjay Baweja: Yes, 6.5% to 8.5% just to give a range. Now we have shortened or are being more precise in terms of the range is 8.0 - 8.5%.

Vinod Kumar: For the rest of the year that is the level that we are comfortable forecasting but longer term I would say that if you look at three years out and I will model 6.5% just to be fair.

Reena Verma Bhasin: Just very quickly I want to just clarify is this just a rupee depreciation arbitrage that is showing up in voice margins?

Sanjay Baweja: In voice rupee depreciation does not play a major impact at all. In fact voice because also the costs etc also are in the rupee and dollar respectively. It is the India termination which has really impacted and given us the benefit in the termination towards the end of last year improved suddenly and it got sustained over this quarter and this is getting lower but it is still good enough.

Reena Verma Bhasin: So when you say India termination you mean incoming voice right?

Sanjay Baweja: That is right.

Reena Verma Bhasin: So it would still be sitting in voice?

Sanjay Baweja: Yes, it is. I am talking about voice only.

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

Gaurav Malhotra: A couple of my questions have already been answered. Just on the data front you mentioned that longer term you expect data margins to be around 20% but if I remember in the third quarter we were told that if you make margins of 25% in data is when you turn PBT positive so if you can just help us figure out what has changed from third quarter to now?

Second is on the Neotel, I appreciate that there is cost efficiencies in the business but at the top-line growth of 3% to 4% and despite that we are seeing margins shooting up, so I just wanted to get a little bit more clarity on how these margins are coming through?

Sanjay Baweja: So on a data perspective, need to add TCPSL as part of data and therefore the data margins what we talked about a little while ago is subdued. Currently TCPSL is not giving us positive margin which we believe over the next two years will become positive. It was in that perspective that we said that 20% is what we aiming for in the immediate future.

Neotel is clearly like Vinod mentioned I think the margins are sustainable, the costs have come to a level where it is absolutely fighting fit efficient organization. Now revenue is also growing in terms of ZAR, it has grown by about 18% year-on-year. Having said that on a standalone basis, please also remember that ZAR itself as a currency has been a little volatile so that at times when we show our results it impacts us in some way. But we believe that these margins are sustainable and will continue at these levels.

Vinod Kumar: In Neotel also if you look at the average revenue over four quarters in FY12 it was about 650 million Rand per quarter and then if you looked at it in the following four quarters in FY13 then it was roughly around 750 million Rand and in Q1 we had 812 million Rand. So the trend definitely is upwards obviously if you look at it from a dollar perspective the picture looks a bit different because the exchange rate has been weak. But in their trading currency they are actually growing.

Gaurav Malhotra: And we were also made aware of the fact that the because of the economic slowdown there was some pressure on the top line growth, so that has been offset by you getting in to different business models or how should we see that?

Sanjay Baweja: No, so let me say that the 812 for this quarter in terms of ZAR has a little bit of some onetime thing. But I would say that the growth trajectory is very much in place, the market is looking better than we were looking at about let us say two quarters ago. So definitely we believe that we will continue to grow.

Vinod Kumar: Let me just elaborate on that the market looking better for us because some of the noise around Neotel has been subsiding and customers are more comfortable buying from Neotel. Six quarters ago, eight quarters ago there was a lot of noise in the market and so on. That is a noise that Sanjay is talking about. The South African economy in the business sentiment I do not think has improved so therefore we are pleased with being able to grow in spite of that. But it will require sustained focus, it is not going to be spiking up overnight, so we are just going to be realistic.

Moderator: The next question is from the line of Rajiv Sharma from HSBC. Please go ahead.

Rajiv Sharma: Just one question. This is regarding your ATM business. So you plan to deploy 15,000 ATMs over the next 3 years, so what percent of your revenues will be coming from this business over the next couple of years and what portion of EBITDA will be coming from this business and what is the kind of margin you have on this segment? If you can just provide some colour and help me out.

Sanjay Baweja: So ATM business per se is still growing very rapidly some 60%, 70%, 80% growth but it is still a very small business as compared to the overall numbers. So in a year for example if it is Rs.500-600 crore that is small compared to our total size of Rs. 17,000 to 18,000 crore. So it is not that it is very, very large but it is growing rapidly and that is the important piece over the last two years we have really ramped up the number of ATM's that we have. Today we are operating close to 16,000 to 17,000 ATM's and we believe that we will at least add 12,000

ATM's during the next four quarters. So clearly ATM business will grow rapidly but it is not that it is a very, very large portion of our overall revenue numbers. As far as profitability is concerned like I mentioned it has still not reached, to say because the new ATMs take about 6 to 8 months to mature in to the number of transactions that will make it profitable and we keep continuously monitoring each and every ATM that we put in. So since a lot of new ATM's are being added in, as of now the profitability is not there let me say that it is not at EBITDA positive stage but going forward we believe that in a couple of years it will start giving us substantially good revenue which is profitable.

Rajiv Sharma: You have mentioned that you already have about 17,000 ATM's and your revenue from the segment is Rs. 500 crore to Rs. 600 crore roughly today, that is correct?

Sanjay Baweja: Broadly that is the level.

Rajiv Sharma: And out of 17,000 ATMs portfolio, which the ones which would have been deployed over the last 6 months would be what number?

Sanjay Baweja: Significant part of it. Because the major deployment has started over the last 6 to 8 months where we have really progressed very, very high specifically on the MOF contract.

Vinod Kumar: Yes, there are three buckets for ATMs if we want to look at it. One is what we have initially started which is of managing ATMs on behalf of banks. We called those the Third Party Managed ATMs. Then we won the contract award for the MOF deployment in three states which started about 6 months ago like Sanjay said and that is where the volumes were beginning to grow and as they get deployed transaction is also going to grow. And the third bucket is what we just started which is our own white label ATMs the Tata Indicash offering. So those are the three sorts of flavours that we have.

Rajiv Sharma: As you roll out these new ATMs will there be a pressure on your margins incrementally, on your data margins of 20% or you think that no, that will not be the case?

Sanjay Baweja: So as the existing ATMs gain maturity in terms of being there for 6 to 8 months we will start getting profitability in there. But the new ATMs will continue to be a drag so I believe it will continue to be neutral as we go along for some time at least for this financial year for sure.

Vinod Kumar: Within the overall data portfolio, yes we believe that some of the other cost efficiency programs we are running will offset this sort of period of maturing in the TCPSL side business. So we should be able to fold within that overall 20%.

Rajiv Sharma: And one last question, is the CAPEX already in your guidance, the incremental ATMs which you will deploy?

Sanjay Baweja: Yes, the overall number that we talked about will be included in that.

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

Piyush Choudhary: On the CAPEX side any revision on the CAPEX guidance or it stands within the same number?

Vinod Kumar: No, change we will stick to what we have said earlier.

Piyush Choudhary: So around $250 million to $ 300 million for the year?

Sanjay Baweja: Yes, broadly $ 300 million.

Moderator: Thank you. The next question is from the line of Malavika M from NVS Brokerage. Please go ahead.

Malavika M: On a consolidated basis your profit after tax has turned positive. Now can we expect a sustainable positive bottom-line from now on considering that most of the turnaround for Q1 FY14 came from exceptional item gains?

Sanjay Baweja: Let me say that there has been this exceptional item which has helped the overall number. But overall the business is looking good on a standalone basis, core business is looking profitable, Neotel is close to being PBT profitable. So I am saying that the sustainability of profitability is there but overall PAT positive got helped by this one time input credit that we got.

Moderator: Thank you. The next question is from the line of Shyam Madhusudan from Kotak Securities. Please go ahead.

Shyam Madhusudan I just had a query regarding this import credit, is there going to be any cash inflow from this in the coming quarter or is it all a non-cash item?

Sanjay Baweja: No, this has all been cash items. We have taken the benefit as we have gone along for the last 12 to 18 months and we will continue to take some benefit of it over the next two or three quarters. This is absolutely a cash benefit that you get in terms of the duties, etc. So let me leave it at that. This is not a non-cash item, this is cash benefit that you get in terms of your payment.

Shyam Madhusudan: And this will continue for another two or three quarters?

Sanjay Baweja: I mean the amount is the same. We have already taken part of it, the balance will get taken over in the next two to three quarters.

Moderator: The next question is from the line of Sudhakar Prabhu from Span Capital. Please go ahead.

Sudhakar Prabhu: I just had a couple of questions. My first question will be on debt. What is the kind of debt de-leverage plans that you have over the next two to three years?

Sanjay Baweja: See I cannot give a specific number but clearly we want to improve our net debt-to-EBITDA ratio. Today for core business it is at about 4 we want to bring it closer to 3 as much as possible and that is the focus for us. We will continue to reduce our debt I think over the next couple of years definitely by about $200 million what we keep saying and we will continue to focus on that and make that happen.

Sudhakar Prabhu: That $200 million you said is this year or next couple of years?

Vinod Kumar: We do not have a specific timeline to put on it but over the next say 6 quarters and if we take it we believe that is a doable number.

Sudhakar Prabhu: And secondly my question is on the profitability. This quarter you have already broken even at PBT level, so in the next two to three years what kind of ROE are you targeting for your overall business?

Sanjay Baweja: We are still going step-by-step and the first focus is to get PBT positive on a sustainable basis and then we get in to calculation of ROE etc. The effort today is to continuously improve our profitability and we are focusing on that. We have not gone into this ROE calculation.

Vinod Kumar: Yes, we look at that but frankly I think the couple of quarters does not make a trend yet, which is what you guys as an analysts always say. So we also have that view, we believe things we are doing are very sustainable but we do not want to get ahead of ourselves as Sanjay said. So we clearly have a steady set of improvements that we have to hit which we believe we can and then we will clearly keep escalating the goal that we want ahead.

Sudhakar Prabhu: And lastly my question will be on the technical obsolescence, is there any risk of that?

Vinod Kumar Well, that is clearly why we are constantly investing in new services and staying ahead of the curve. I do not see anything around the corner which completely challenges our profit pool or makes us obsolete but we can never rest easy in our business. And the underlying network, underlying IP technology, Data centers, these are the things that there is only more demand for it. Maybe there are ways to do things more efficiently. But obsolescence, getting wiped out is not something that we have to be worried about.

Sudhakar Prabhu: And the amount which you have spent on your cable network and all these things, what is the kind of depreciation you take? Over how many years?

Sanjay Baweja: So we now depreciate the cables over 20 years.

Moderator: The next question is from the line of Sanjay Parekh from Reliance Mutual Fund. Please go ahead.

Sanjay Parekh: My questions have been answered on the same on de-leveraging but one part is just on the capital intensity I mean watching this for a decade now the capital intensity of this business is quite high. So in terms of managing the network or the cable networks I mean at a point can we say that that will reduce since we have invested over the last few years substantially?

Vinod Kumar: Sanjay can give you the exact number but if you just look at our capital intensity over the last three years it is steadily it has been coming down.

Sanjay Baweja: In fact it is now down to about less than 10% of our revenue, it is close to about 70% of our EBITDA. So it has really come down. There was a time when we were at about 200%

Vinod Kumar: And we are almost at industry levels now, right and our hope is to get even better by working on the mix of business.

Sanjay Parekh: Sir, this 10% where do we see this over the next three to five years, I mean in broad would it come down to may be and that would mean that we were substantially invested and now we do not need to invest because we have enough capacity?

Sanjay Baweja: No, we will continue to be in that ballpark of an 8% to 10%. I do not see that coming down dramatically below this. But having said that $300 million that I keep on talking about, I think over the next couple of years that is the number that we want to target in terms of spending on the business as usual and if there is anything else we will keep you informed.

Vinod Kumar: And going back to the last question on obsolescence right if you do not invest you are going to fall out of the race and also if you want to create new services, the ticket sizes may be smaller and so on but we still have to invest in these things.

Moderator: The next question is from the line of Amitabh Sonthalia from SKS Capital and Research. Please go ahead.

Amitabh Sonthalia: I joined the call late so I am not sure if this question has been asked or answered but I had a question regarding your surplus land assets which we keep reading about from time-to-time in the media about a potential sale. So again I am sure it is well documented and talked about but if you can just for my benefit tell us…

Vinod Kumar: No, do not worry you are the first one who have asked this question in today's call, so everybody else will be grateful to you. Unfortunately I do not have anything new to report from our last interaction. The formation of Hemisphere which is the company that will be the receiving entity for the land when demerged and moved in to is what has been told again by DOT is that most of the issues around that have been resolved and Hemisphere will become a 51% DOT owned entity and that is what we are waiting for. That has to happen and then there are also a couple of other things that need to get resolved but I do not have any progress to update which is a formal milestones that has been achieved since the last quarter and that is where things stand.

Amitabh Sonthalia: So longer term what are the possible scenarios from the real estate side, is the company's objective to eventually, I know you cannot comment on the time lines but to exit from the whatever real estate exposure you have?

Sanjay Baweja: I do not want to call it exposure really, it is an asset that we have. But yes, I think the government objective and what was agreed between the two partners was that it will eventually get demerged into a separate company and that is why we will then try and monetize the value that is what was agreed upfront when the divestment happened and Tata's took over the company. At what stage and when that happens one does not know but obviously efforts are on by us we would want it to happen. The Tata's I believe want it to happen. I think now the Government is also very keen that it should happen. The question is the steps that it takes for them to do that, that is taking some time. So I believe that is where it is today. We do not exactly know when this is likely to happen but we believe that it is closer now than the last couple of years.

Amitabh Sonthalia: And what is the potential value which can accrue to the net effective value because as I understand there is some value growth accrued to government and the erstwhile shareholder?

Sanjay Baweja: Yes, the details of what land is there which is called surplus is there in our 20F it is in public knowledge. Beyond that we as a company do not ascribe any value to it. All of you have actually been ascribing values to it and I am assuming that those must be well researched. So we would not like to hazard a guess on the value. I think the details of where the land is, is now public knowledge. So I would leave it to people to actually make an assessment of what the value is.

Moderator: Thank you. The next question is a follow up from the line of Reena Verma Bhasin from Merrill Lynch. Please go ahead.

Reena Verma Bhasin: Just two small questions again. One is on Neotel. Is there any update on the shareholding pattern or in terms of any update on the talks that your shareholder partners have been having in terms of placing their stake elsewhere? And my second question was that as the overall outlook for India growth is looking a bit slower than before. Would you say data is going to be more vulnerable or voice less?

Vinod Kumar: Firstly those are small questions but they need big answers. But I will try to keep my answer also small. No update on the Neotel shareholding process by some of the shareholders. I cannot comment any more at this point since things are still in flight. That is one.

The second is yes, there is definitely weakening of the Indian economy and business sentiment; however, our funnel in India is very strong. We are well positioned in the market because customers are saying Tata Communications is a very steady operator in this space whereas both our larger as well as smaller competitors are either having trouble or they are focused on other parts of the business. So I would say in India we expect that we continue to keep the momentum going in spite of the market conditions at least for the remainder of this fiscal year. The growth is in data as well as in voice both segments are performing well, both segments have strong funnel and in the case of voice as Sanjay said they are seeing improved termination rates for traffic coming in to India which is aiding us and in data it is overall on all services as we are getting good market traction. In fact our growth is coming on account of market share gain rather than the overall market itself growing.

Reena Verma Bhasin: So data growth you are seeing due to market share gain but in general at a macro level is the data kind of correlated with GDP or you have largely seen secular growth pattern?

Vinod Kumar: I would say it is little bit secular, right? Because if you look at the growth of internet traffic and even business customers are becoming more IT savvy. So it is a little bit decoupled in a way. Obviously what happens is decision making and so on gets tied more closely with business sentiment but the shift is very clearly there towards businesses adopting more IT to gain productivity and consumer consumption of data is only on the rise. So we are well positioned for both.

Reena Verma Bhasin: Based on what we can see today there is absolutely no reason why core business margin should pull back from 14.7% level next quarter?

Vinod Kumar: You are way too seasoned to expect an answer from me that says absolutely no way. I think I would not say that. There is good momentum we believe that we can stay within this range is all I will say.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would like to hand the floor over to Mr. Vinod Kumar for closing comments. Please go ahead, sir.

Vinod Kumar: I would like to say thank you all for joining the call. I hope it gave you some insight into where our business is, how we performed and also where we are headed. Thank you for tracking us and engaging with us. We value your continued interest and your support. If you have any further questions or you would like anything clarified please do not hesitate to contact

Mahesh or our investor relations desk. Thank you and look forward to speaking to you in a few months.

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

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