TATA COMMUNICATIONS

Q1 FY2017

Earnings Conference Call Transcript

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MAIN SPEAKER:

Vinod Kumar, Managing Director and Group CEO

Pratibha K. Advani, Chief Financial Officer

Vipul Garg: Thank you. Good evening everyone and welcome to Tata Communications Limited conference call. We are joined today by Vinod Kumar – MD and Group CEO and Pratibha Advani – Chief Financial Officer.

Our results for the quarter ended June 30, 2016 was announced yesterday and the results presentation and the fact sheet are available on our website. I hope you had an opportunity to browse through the highlights of the performance.

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

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

Vinod Kumar: Thanks Vipul and welcome to our team. Ladies and gentlemen, good evening everyone and a very warm welcome to all of you. I will start by giving you an overview of our performance and then share my perspective on industry developments and our strategic direction.

We have been building a pathway to the future through targeted investments in growth businesses and a significantly stepped up innovation process. At the heart of all our initiatives the focus remains on profitable revenue growth, generation of higher free cash flow and increasing return ratios which then tie up to build superior value for our stakeholders. Our earnings are progressively been reflecting our stated strategy.

Q1 FY17 financial performance continues to reflect healthy operational trends and sustained business momentum. Our consolidated EBITDA grew by 18% year-on-year to INR 862 Crore for the quarter with a 307 bps improvement in year-on-year EBITDA margins. The core business registered a growth of 2% in revenues year-on-year while EBITDA increased by 32% to INR 786 Crore. This growth continues to be driven by the Global Data Business which registered a strong growth rate of 14% in revenues and 42% in EBITDA year-on-year. Data Services continue to deliver a strong growth with a 457 bps improvement in year-on-year margins. Pratibha will be taking you through more detail on the numbers.

Coming to the environment that we operate in the Telecom sector continues to be a key pivot for growth innovation and disruption in nearly every industry that you look at. We see that this year is ushering in more changes to the Telecom industry than ever before. Data connectivity continues to be more and more embedded in the fabric of our society today and is key in driving the momentum around many market trends. As we approach the halfway mark to 2016, we see continued focus on the underlying trends of Video Streaming, Mobile Payments, Machine to Machine traffic, Big Data, Cloud and the overarching IoT or Internet of Things trend and more recently a greater emphasis on Artificial Intelligence.

In previous discussions I have detailed on the strengths and how Tata Communications is at the forefront to capture the result and opportunities. Today I would like to spend some time on Artificial Intelligence and how it is already changing industry dynamics from a range of industries from Healthcare to Financial Services to Banking and to Retail. However, we see AI as part of a wider shift, in fact it can be argued this is the biggest shift since the first Industrial Revolution and that is the emergence of the platform economy. The new platform economy is where businesses prosper and grow by turning themselves into a platform upon which others can do likewise. They thrive by building and sustaining communities rather than just facilitating transactions. Companies like Uber and Airbnb are often quoted as the figureheads of this shift. But with the user generally calling the shots the platform business models have now made inroads into all sectors and all areas of life. In the platform economy anyone can innovate and succeed by building on the shoulders of capability that has been built by large companies. Increasingly AI will provide another way to do this by simplifying and automating a host of functions making it so much easier for innovators to operate and experiment with new and different technologies. At Tata Communications we have spent the past few years building our own platforms. As you know we have built a community of partners around the IZO platform that connects more than 70 countries around the world and this count steadily is increasing. We are providing the means through which new innovations including AI can be pushed forward. And, of course, the platform upon which any modern business is built is really the internet at its core.

During this quarter we expanded our flagship IZO cloud enablement platform with the new storage service. The IZO cloud storage harnesses the world's largest wholly owned fibre network to significantly simplify storage management for large businesses as the volume of unstructured data that they have to deal with, data coming from videos, social media, posts, images, emails and customer details is said to constitute almost 80% of the 125 exabytes of data generated by organizations in 2017. This is an example of services that drive the continued momentum in our growth services portfolio which grew by 14% year-on-year. Innovation is deeply embedded in the Tata Communications DNA. We invent ahead of the market and that has kept us in the forefront of this transition from traditional revenue stream to emerging growth areas and we have even more to do. But to illustrate this, during this quarter we launched Wi-Fi Plus. Wi-Fi Plus is a new

Wi-Fi cloud communication solution which enables mobile network operators, customers to access the Internet for calling, messaging and data application more seamlessly than ever possible before. Through access to more than 21 million Wi-Fi hotspots globally the new solution allows mobile network operators to offer their end customers a high quality mobile experience whether it be at home or abroad and generate additional revenues from Wi-Fi-based services. The solution that we have opens up new revenue streams for MNOs without having to make significant CAPEX investments and allows users to keep in touch through voice messaging and video without any fear of bill shock both at home and abroad.

Last quarter we shared with you that we have entered into an agreement to execute the Data Centre stake sale with STT and the deal has already been discussed in our analysts meet in our previous conference call, so I don't intend spending much more time on that. The expected time for closure is in Q2 for the India portion of the transaction and in Q3 for the Singapore portion of the transaction.

During the quarter we also entered into an agreement to hive off Neotel. The shareholders of Neotel, Tata Communications and the minority shareholders led by Nexus Connection have agreed for Liquid Telecom to acquire Neotel at a valuation of 6.55 billion ZAR. Liquid Telecom is partnering with Royal Bafokeng Holdings (RDH), a reputed South African black empowerment investment group which is committed to a 30% stake in Neotel. The proposed transaction is in line with our financial objectives who are paving the way for Neotel to improve its value proposition in the South African market. Liquid Telecom is definitely the right partner for the next phase of Neotel’s evolution.

Currently we are focused on ensuring that compliance with regulatory approval process which started last week and the engagement with competition authorities. The target closure based on what we know now is late Q4 of this fiscal year.

Now moving on to the impact to the arbitrational award issued with respect to a dispute between Tata Sons and entity Docomo on tele-services. As a result of the transaction TCL will be obligated to pay approximately Rs. 1058 Crore to Tata Sons to meet their obligations to buy back shares from Docomo. This obligation continues to reflect as a contingent liability till appropriate RBI and other regulatory approvals are received.

Summing up our performance for this quarter we are on track to achieve the right milestone and successfully execute on our growth agenda. In a period underpinned by competitive challenges and industry disruption we have strengthened on all operational and financial parameters, effected couple of strategic developments and served our clients across the globe while continuing to invest in technology, in network superiority and most importantly in talent, all three are critical to the future of our company. Each year our company has been progressively getting stronger and more profitable. We have started FY17 with some pace and we look forward to delivering a substantive enhancement in the Data segment, improvements in our Balance Sheet and cash generation and ROCE performance in the coming quarters.

With that I invite Pratibha to discuss the financial highlights for Q1 FY17. Thank you.

Pratibha Advani: Thank you Vinod. Good evening and thank you all for joining us on the call today. I will start by recapping the financial highlights for the quarter and then focus in providing you some qualitative context to the numbers and our journey forward. I do hope by now you have had an opportunity to look at our detailed earnings and hence during my remarks I am going to talk more on key financial trends and reemphasize its linkage to our growth strategy that Vinod has just articulated for us.

We are extremely pleased with our strong Q1 FY17 Earnings performance. Before I share the financial highlights I would like to state that the reported financials for all the three stated quarters have been restated to IndAS to make comparison simple. We have in our fact sheet also provided a detailed reconciliation. Our consolidated EBITDA growth year-on-year at 18.3% and Q-on-Q at 6.4% comes with significant margin expansion. Year-on-year margins have expanded by 307 basis points while sequential Q-on-Q improvement in margin is 138 basis points despite softness in revenue on account of continued structural headwinds in our Voice services business. Consolidated depreciation at INR 537 Crore is lower by 26% Q-on-Q because of Data Centre business in India and Singapore which as per IndAS is being treated as discontinuing operation and the impact of which is INR 17 Crore. Last quarter and the depreciation was significantly higher as we had to take the full year depreciation impact for Neotel which was INR 177 Crore. Despite lower interest and other income both Q-on-Q and Y-on-Y and with exceptional expense of INR 92 Crore on account of Neotel impairment our Profit After Tax for the quarter was at INR 42 Crore. We generated significant cash profit at INR 672 Crore a growth of 26% year-on-year and 17% Q-on-Q.

Moving on to our core business, core business registered a growth of 2% in revenue year-on-year on the back of strong double-digit growth of 14% year-on-year in our Data Services business despite decline of 13% Y-on-Y in our Voice business. Q-on-Q and there was a 3% decline in our gross revenue due to 8% decline in Voice while Data Services showed a marginal growth of 0.4% as Q1 is seasonally a weak quarter for us. Poor EBITDA improved by 32% year-on-year to INR 786 Crore with a significant margin expansion both Q-on-Q and Y-on-Y by 58 bps and 381 basis points respectively.

In line with our strategy quality of core business EBITDA is improving on the back of strong predictable performance from Data segment backed by improved performance by Voice. With improvement in Voice margins quarter-on-quarter by 75 basis points a 6.5% and Y-on-Y improvement of 40 basis points. This improvement in core EBITDA margin is driven by productivity initiatives undertaken by us during the course of the year. We are seeing a clear shift in our business with revenue from Data Services contributing 61% to core gross revenue versus 55% for the same period last year. Data Services contribution to core EBITDA stands at 85% versus 79% same quarter last year. Our core operating PBT for the quarter at INR 262 Crore is up 215% year-on-year translating into a PAT of 90 Crore for the quarter. We had generated cash profit of 667 Crore this quarter versus 603 Crore for the last quarter from our core business and free cash flow as defined as EBITDA less CAPEX generated INR 346 Crore for the quarter. I am delighted to share with you that even after absorbing interest and tax our core business has generated free cash flow of INR 121 Crore for the core business.

Coming to Data Services, Data Services continued to deliver strong growth with 457 basis point improvement in year-on-year margins. Data Services clocked 14% growth on the revenue Y-on-Y at INR 2842 Crore for the quarter. This growth in Data Services comes from the back of strong growth both in our traditional services portfolio that is comprising of Network Services like **(16.13)**, Ethernet, VPN, our co-location services and our unified collaboration and conferencing services which grew by 6% year-on-year in Dollar terms. And the growth services portfolio grew by 14% year-on-year and this includes services such as IZO, manage hosting and security services and the media services.

Traditional services continue to absorb the negative impact of growth services which continue to require investment as they scale up. EBITDA grew by 43% year-on-year at INR 669 Crore. EBITDA margin for the quarter for our traditional services are at 32% and these grew by a whopping 535 basis points year-on-year.

I will like to sensitize you that these margins may neutralize over the course of the year when we complete the proposed Data Centre transaction and also backs of the organization with relevant skilled manpower as we scale our growth services portfolio. Data Services generated free cash flow of INR 301 Crore versus 242 Crore same quarter last year, a growth of 25% year-on-year. While the transformation services business had a strong year-on-year growth at 34%, however, Q-on-Q de-growth has been on account of delay in revenue recognition for new orders for which we have booked costs during the quarter leading to a decline in the EBITDA.

Moving to TCPSL, we continue to see topline growth with addition of 600 White Label ATMs during the quarter. While EBITDA is positive for the quarter the quarter-on-quarter decline is on account of one off benefit that we had received in Quarter 4.

Moving to Voice services, Voice EBITDA saw an increase despite lower revenue driven by cost optimization initiative and stability in volume. Voice EBITDA margins have improved by 40 bps on a Y-to-Y basis and the EBITDA stands at 117 Crore which registered a growth of 3.7% quarter-on-quarter and the margin improvement of 75 basis points. Neotel EBITDA margins are back on track at 19.1%. EBITDA is up 181% quarter-on-quarter primarily on account of one off adjustments in Q4 and lower by 42% year-on-year primarily on account of one-time project revenue and related costs that we have booked in Q1 FY16.

At the cost of repetition I would like to reiterate that our core PBT before exceptions grew by 215% year-on-year to INR 262 Crore, a clear reflection of our continuing operating leverage. Generation of free cash flows continues to be our priority. We also see our EBITDA to free cash flow conversion improve by 212 basis points on a year-on-year basis.

Moving to the Balance Sheet, core business Net Debt at 1.43 billion is flat versus the previous quarter. While we generated free cash flow during the quarter this has been offset by the Working Capital gap on account of change in our product mix in favor of Data Services. You would recall that Voice services has negative working capital. As per IndAS, Net Debt will be reflected as 1.419 billion as the balance arrangement fee lying in prepaid expenses will be excluded from competition of Net Debt. However, for ease of understanding we are continuing to show this in our reporting as 1.439 billion. In the current quarter Net Debt to EBITDA is at 3.1x versus 3.7x same time last quarter. Lower interest expense and moderate CAPEX intensity with improved operating performance has set stage for core business deleveraging. Our weighted average cost of loan stood at 2.97% for the quarter. You would recall this was 3.14% so we are continuing to decrease our cost of funds. As I mentioned earlier all the numbers for the quarter have been adjusted for IndAS impact. IndAS impact on consolidated EBITDA for Q1 FY17 is favorable by INR 7 Crore. For Q4 it is favorable by INR 44 Crore and for Q1 FY16 it is unfavorable by 6 Crore. This is primarily on account of Canadian pension fund and other actuarial valuation on pension and medical in our Indian entities now being recognized in other comprehensive income. There are also other IndAS adjustments pertaining to depreciation, goodwill, amortization, which we have already shared a detailed reconciliation in our fact sheet with all of you.

I would like to clarify here that for the current quarter since the Neotel proposed deal announcement happened at the end of the quarter the impact of depreciation is minimal and like what you would have seen for our Data Centre business. Interest expense includes interest on obligation towards medical, gratuity, pension and M2M impact on cross currency swaps interest in IndAS.

Strong Data Services performance coupled with announcement of a strategic partnership for the Data Centre business in India and Singapore, Neotel transaction has set the stage for a strong FY performance.

With these concluding remarks I will now open the forum for Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Naveen Kulkarni from Phillip Capital (India) Pvt. Ltd. Please go ahead.

Naveen Kulkarni: My first question is on the margins in the traditional services business, so they have expanded to almost 32% in this quarter, so what exactly is happening in this business? When the revenue growth is 6% how have the margins expanded almost 32%? Have we cut down any loss-making businesses? What exactly is happening in this segment? And do you believe that margins of 32% in traditional services this would be peak or is there further scope for expansion in the segment?

Pratibha Advani: The margins in our traditional services business are an outcome of the product mix within that business. We had seen significant growth year-on-year in some of our products like ILL, IPL and that is really what has rendered this strong growth in these margins. Again, we would ideally love to retain these margins and grow them but this will be again dependent on a couple of other factors like timing of some of the costs and as the year pans out we will be adding some cost both in terms of up-skilling talent as well as marketing and other costs. So I would just leave it that, we would love to see 32% as our margins to remain.

Naveen Kulkarni: Any color on the revenue growth prospects for this segment because 6% does not look very inspiring. So how do we see the revenue growth in this segment? Is it going to be volume led or is there some pricing which can come in or product mix improvement which can help realization, how do we see this segment performing going ahead?

Vinod Kumar: I think 6% is actually pretty impressive for this set of services given the overall market and the growth is coming through actually market share gain, because this is a segment of services where volumes grow but price erosion continues, so we are also talking about a base of Rs. 2,010 crore which is fairly significant. We believe that we will be able to maintain in the 5-6% kind of growth rates, which I think are industry beating, to begin with.

Moderator: The next question is from the line of Vinay Jaising from Morgan Stanley India Co. Pvt. Ltd. Please go ahead.

Vinay Jaising: The first one is on Tata Sons and the clarity Vinod suggested as well as you in the call. I am confused out here when I read the statement as a good gesture Tata Sons voluntarily offered DoCoMo a deposit and intimated to Tata Comm, something dealing with the rights issue not being considered. So I am a bit confused out here because the contingent liability of Rs. 10.58 billion seems the same as what is there in the Annual Report which you all had published just some time ago. Am I missing something out here? Was the liability even more than expected and part of it has gone away?

Pratibha Advani: The liability of Rs. 1,059 crore excludes rights issue, so this would have been higher by another Rs. 125 crore.

Vinay Jaising: So basically what you all had assumed in the Annual Report is what's coming out to be right but now you have two pay for it in the Escrow account and probably you will lose some interest on it till the case gets solved, is that a fair way to comment on it?

Pratibha Advani: Actually Tata's themselves have deposited this into an account and the interest that they will earn, they will share with us.

Vinay Jaising: So you do not have to remit it to the Tata Sons currently, the Rs.1,058 Crore?

Pratibha Advani: We will be remitting it this quarter to Tata Sons.

Vinod Kumar: We will, but in the interim any interest if they earn on the money that we deposit with them will be paid to us.

Vinay Jaising: On this amount.

Vinod Kumar: Yes on the Rs. 1,058 crore.

Vinay Jaising: On my second question obviously as you did comment even earlier on the EBITDA margins with the actuarial rate of returns now going away from our EBITDA cost, do you have new projections for the future in terms of what you would have in the EBITDA margins, not this year but three years forward? Clearly you are running faster than schedule which is wonderful, but any thoughts on that?

Vinod Kumar: Not at this time. I think we have to do the calculations. We have just been dealing with these conversions for this quarter and this year. We don't have that….

Pratibha Advani: Actually the impact is just going to be USD 5-10 million, so it's not such a significant impact that will make a dent on our margins.

Moderator: We have the next question from the line of Rajiv Sharma from HSBC Securities & Capital Markets (India) Pvt. Ltd. Please go ahead.

Rajiv Sharma: If you could comment on your CAPEX outlook once in the Data Centre business is out. And I also see some CAPEX going this quarter given that you have not taken depreciation so I am just trying to understand why there is still investment going in Data Centre? And your margin outlook on the Voice business, is this 6-6.5% sustainable? In five years do we see that going to 4%? And lastly, I know it's a repeat of last speaker's question, which is 3 to 5-year outlook on the data business margins, ex-Data Centre?

Vinod Kumar: CAPEX as we have said that it will be in order of USD 250 million, that's one. You see some CAPEX going to Data Centre business in this quarter because this is a business that is growing. We do have to make sure that there is adequate capacity that's added, so the customers that are placing orders on us both existing and new, will see their requirements fulfilled and that will be done till we hand the business over to the partnership that we have with STT. So there is some minor CAPEX that we will have to continue making to keep the business going. This is really for expansion and mostly current facilities.

On Voice business I think the 6.5% is a good margin given the market conditions but it's tough to call how India termination rates will move, therefore, my call will be that Voice margins will come off a little bit in the next two quarters, but it's quite dynamic and volatile, it's not very scientific it's just a hunch and I have but probably 6.2-6.3% you can model. Now long term, I don't know we can say whether it is going to be 4 or 5 but we continue to run this business for free cash flow and we see a good potential to maintain $60-70 million of free cash flow from this business for the next couple of years.

And the last question on data margins, we are not making any change to our data margin profile because of the impact of IndAS. As far as the Data Centre business is concerned we have said that it could be anywhere around 200-300 basis points coming off the EBITDA margins, because the Data Centre business being sold.

Rajiv Sharma: So once Data Centre business moves out, let's say, next fiscal so the CAPEX won't come down to USD 200 million?

Vinod Kumar: No. I have said that we still want to maintain a USD 250 million CAPEX outlook because we have a larger base of revenues and the need to continue innovating and growing new services, we do have to make investments. Now clearly the profile of CAPEX is evolving to one where the payback periods are shorter, the incremental investment on individual projects is smaller and that shift we are seeing but 250 for a business for this size that we have is quite reasonable especially if we compare it to ratios of other companies in the same space.

Rajiv Sharma: On the new services in your data portfolio when do you see them getting breakeven? And this Wi-Fi solutions which you talked about is this going to be a meaningful driver in the next 3-4 quarters?

Vinod Kumar: New services we keep adding and a lot of them are quite, as I said, we use partners extensively and the CAPEX commitments are quite light, therefore, the main expense for us and it's not insignificant because we have to build new sales and marketing and product management skills, the typical payback periods on those investments will be in the order of 3-4 years. And what was the question you had on the Wi-Fi service? Could you repeat that please?

Rajiv Sharma: Is this going to be a meaningful product from a revenue perspective going ahead in the next 3-4 quarters?

Vinod Kumar: No, it's too early. These are new services that we are launching, some of them are quite innovative, they won't meaningfully show up in the numbers in the next 3-4 quarters. And it's part of a larger move that we making into mobility services for enterprise which I touched upon in the in-person meeting that we had and in one of the subsequent analysts meetings we would take you through that strategy for our cross-border mobility services in more detail. But it's a portfolio that we are building through a series of partnerships and leveraging our core IP infrastructure.

Moderator: We have the next question from the line of Amruta Pabalkar from Morgan Stanley India Co. Pvt. Ltd. Please go ahead.

Amruta Pabalkar: I have two questions. Firstly, on the growth segment which you have new product portfolio lined up, how do you see the revenue growth of this segment? And secondly on the subsidiary segment where you now have TCPSL and TCTSL, though it had certain one offs, what could be the base EBITDA margin that one can look at? So for TCTSL can it be around 20% and for TCPSL can it be around 10-11% and incrementally can we see an inch up there in the coming quarters?

Vinod Kumar: On growth services we have achieved year-on-year 14% growth and I see based on the funnel of services we are launching and have in the pipeline we will see that growth accelerating in the coming quarters on a year-to-year basis. On TCTSL and TCPSL I am going to let Pratibha answer that question.

Pratibha Advani: The margins in the TCPSL we expect them to be in the range of 9-10% and for the transformation services more in the range of 17-20%. And this will be dependent on the ratio of India versus international revenue, so quarter-on-quarter you will see some change if we have had larger wins from the Indian customer.

Vinod Kumar: If I can just give you some color on the TCTSL transformation services, one of the areas where we are being successful is with mobile operators and that's been in the Indian market, so we are keen on winning that business even if it is a slightly lower margin because once we have that operating track record of managing large-scale operations, large number of base stations, large number of end customers, then those are good case studies for us to take it internationally and with the international transactions the margins will improve. So we are fairly deliberately going after some of the Indian operators even though the short-term margin profile will be impacted for TCTSL.

Amruta Pabalkar: So other way to look at it, maybe when the growth services losses reduce and when you go back to this trajectory of 17-20% and around 10% for TCPSL, you can see your traditional EBITDA which is right now around 100% of your overall data EBITDA because losses of growth are offsetting that subsidiary, your overall data margins can significantly inch up to around 30% in fact in this fiscal itself? Or do you think we are too aggressive on those numbers?

Pratibha Advani: While ideally yes, logically what you are saying should happen but as Vinod mentioned, currently the ratio of our India revenues in TCTSL for example is 55% to international and if we were to look behind a year this was more in the ratio of 45%. So it will largely depend on the revenue mix and do bear in mind that we would also have the impact of the Date Centre business in the short term.

Vinod Kumar: I think 30%, it’s your model, you will have to work it out but I think that would be very aggressive for us to get to for you to model this year.

Moderator: The next question is from the line of Sangameswar Iyer from Subhkam Capital Ventures Pvt. Ltd.. Please go ahead.

Sangameswar Iyer: You have an aspiration of reaching 30% EBITDA margins in Data, so just wanted to know the timelines that you have in mind. And plus around Data Centre if you can give this quarter's revenue as well as EBITDA contribution?

Vinod Kumar: We continue to maintain our targets from a medium term perspective to get to 30% EBITDA and 15% ROCE so that is something that we will work towards, we see this shift of services enabling us over time and the model in which we are building our services to help us get there. And secondly on ROCE with some of the Balance Sheet restructuring we are doing, moving to a less CAPEX intensive model, the 15% ROCE we believe can be achieved and directionally we are headed there. Now on Data Centre revenues and EBITDA, Pratibha will give you an insight into that in a second.

Pratibha Advani: Actually our Data Services revenues would be available on our SEBI listing. Just give me a minute I'll give that to you. So the revenues are Rs. 215 crore. Can I give you the EBIT number which I have?

Sangameswar Iyer: Yes ma'am.

Pratibha Advani: That's Rs. 49 Crore.

Sangameswar Iyer: Ma'am as you mentioned that you will be spending on new talent as well as marketing so in the short term what is the kind of margin that is sustainable for the Data?

Pratibha Advani: Sorry, could you repeat that question? And just before that, I stand corrected the EBIT which would be for both the Data Centre for India and Singapore would be actually Rs. 75 Crore.

Sangameswar Iyer: Okay. I was asking as you mentioned in your commentary that you will be spending on hiring new talent as well as on marketing, so for this year what is the kind of EBITDA margin that is sustainable in Data segment considering these planned investments?

Pratibha Advani: As I mentioned that we should be able to maintain or improve from the current levels, so we will be comfortable with Data margins at 23-24% but do bear in mind that when the stakes sale happens in our Data Centre business we will then see temporarily a decline in our margins anywhere between 200-300 basis points for the year depending on the exact timing of the transaction.

Moderator: We have the next question from the line of Sumit Poddar from Birla Sun Life Insurance Company Limited. Please go ahead.

Sumit Poddar: I had a question as far as CAPEX is concerned. We mentioned that we will continue to do CAPEX as far as Data Centre is concerned, so that was for just this year or is it that we will have to continue it for maybe sometime as such? And the other thing is in case the

USD 200-250 million that we spoke about, have we kind of changed the nature of CAPEX that we would be looking to do going forward?

Vinod Kumar: The CAPEX that we mentioned, now that we are building some of the Data Centres out, but keep in mind even in the future that the Data Centre company will be leasing premises or raw shell buildings from Tata Communications. So let's say we take a land in Pune, as they have a need for building new Data Centres, it's even a preferred arrangement for us that they build in Pune on land we own, so Tata Communications will spend money to build the shell of the building on land that it owns in the Pune campus and that will then be leased to the Data Centre company and we will get a healthy return and good payback on that lease arrangement that we will have. So there will be some CAPEX related to Data Centre business even going forward but obviously it won't be of the magnitude that we have right now because the larger CAPEX actually goes into the M&E equipment for distribution of power, air conditioning and so on. So there will be some CAPEX but not as much as we have right now.

And in terms of the mix of CAPEX, clearly the mix of CAPEX for us is already shifting and has been shifting for several years initially from building submarine cables to submarine cable upgrades, from upgrades to building the switching network on top of it and now it's more on the various managed services and value added services that we have built on top of the network while some sustenance CAPEX is required to keep building out the network as volume grows. But the profile is steadily changing more to CAPEX which is, each tranche is smaller and also the payback periods are shorter than when we are building large infrastructure such as cables.

Sumit Poddar: If we look into FY18 directionally the CAPEX would be lower than FY17 or you would use the cash being released?

Vinod Kumar: It would be lower as a percentage of revenues which are maintained, but we expect that a business of this size will need around USD 250 million of CAPEX in order to support the volume growth on the base connectivity business and for us to create new services.

Sumit Poddar: As you mentioned that we will be looking to build the building for Data Centres, so would you be open to buy land or the building that you mentioned would be on the land that is…..

Vinod Kumar: It doesn't make sense for us to buy land and build, it's really in places like in Delhi, in Chennai, in Pune and so on where we own land and that land can be used for this purpose. It wouldn't make business sense for us to buy land. The data center company can do that themselves if land had to bought.

Moderator: We have the next question from the line of Miten Lathia from HDFC Asset Management Co. Ltd. Please go ahead.

Miten Lathia: Just wanted to make sure I got this right, the EBIT on the outgoing Data Centre business as Pratibha mentioned was Rs. 75 crore and the depreciation that she mentioned earlier on the discontinued operation was Rs. 17 crore, so the EBITDA essentially is about Rs. 92 crore, that would make it a 43% EBITDA margin business for the outgoing Data Centre. Is that correct or am I getting something wrong here?

Pratibha Advani: As this is a discontinued operation so there has been no depreciation, essentially EBITDA and EBIT numbers are same for this quarter.

Vinod Kumar: But I think you have to look at it on a longer term period, the EBITDA for the business typically is around 35%.

Pratibha Advani: And also there is just one off adjustments that come in.

Vinod Kumar: One quarter you shouldn't adjust it on that basis, for your calculations you can take.....

Pratibha Advani: More like 30-35%.

Vinod Kumar: 30-35%, Yes.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to the management for closing comments. Thank you and over to you.

Vinod Kumar: Thank you for joining the call today and we look forward to interacting with you next quarter and in the meanwhile please feel free to reach out through Vipul if you have any questions related to our numbers or any further clarifications you need on the financials. Thank you very much and have a good evening.

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

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