



**FY2013**

**Analyst and Investor Day**

**May 29, 2013 at 10:00 AM IST**

For a copy of presentation made during the analyst meet please visit below link:

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**Mahesh Pratap Singh:** A very good morning ladies and gentlemen and thank you for joining us today at the annual analyst and investor meet of Tata Communications Limited.

I am Mahesh Pratap Singh and I head investor relations at Tata Communications. I would like to extend a very warm welcome to you on behalf of the TCL management.

A quick round of introduction. We are joined today by Mr. Vinod Kumar who is our Managing Director and Group CEO; Mr. Sanjay Baweja who is the Chief Financial Officer; and Mr. Srinivasa Addepalli who is the Chief Strategy Officer.

We have a lot to cover today and I will take you through the agenda and flow of the presentation.

But before we proceed, quickly want to cover the Safe Harbor statement. Just want to remind and caution everyone that anything we say today which can be construed as a forward-looking statement or which has any reference to future must be viewed in conjunction with the risks and uncertainties we face. A detailed statement and explanation of these risks and uncertainties is included but not limited to what we have made available in our annual filings which you can access on our website. The Company does not undertake to update any of these forward-looking statements publicly.

With that out of way, let me just quickly cover today's agenda. We will start with Vinod giving you an overview of strategy and vision, Vinod will also touch upon some of the aspects and some of the existential questions around profitability in certain segments, how do we look at certain pieces of business, how do we see ourselves evolving. Vinod will be followed by Sanjay; Sanjay will present an overview of finance and Sanjay will also focus on Q4 & full year earning which we declared last evening. I hope you had an opportunity to look at our numbers for which we put out a fact sheet and press release and results. If you need a copy of the results, Vikram and Siddharth from CDR India will be able to forward you a soft copy of that, so please let us know.

Post that, Vinod, Sanjay and Srini will join us to address your specific questions. I would like to request everyone to use microphone for asking questions and also for the benefit of everyone introduce your name and institution before asking questions.

We request your company for lunch post Q&A session; lunch will be served in the same hall.

Thank you once again. Now I would like to invite Vinod to start the presentation.

**Vinod Kumar:** Good morning, ladies and gentlemen. What I have to kick off the meeting today with is to give you a quick overview of our vision and strategy and also how we look at the market and how we are positioning ourselves as the landscape around us changes. We operate a business that has many sub-businesses within the Company and therefore sometimes I understand that as an analyst trying to slot us into one category or the other or benchmark us against any one company could prove to be difficult. And I would like to say up front that it has been part of our strategy to create a portfolio of businesses that can allow us a certain level of de-risking because we are playing to different market dynamics, but at the same time also we have built a portfolio that has strong linkages between them and this is what I will try to demonstrate and will be happy to answer during the course of my presentation. And also the technology business and services business, generally has risks because of disruptive forces so on and so forth. Therefore, we feel that having a portfolio of this nature is extremely important as long as there are linkages and associations between the various elements of the portfolio. So without sort of much further ado, there are certain trends that we are facing which are undeniable and unstoppable, and these are taking place in each of our personal lives as well as in our business lives. And I will go through a few slides that try to give you not millions of data points but a few key things which we believe are really going to shape the industry and shape our future and hence we are trying to get ahead of these and be part of the force that shapes the industry rather than just be subject to these or be caught by surprise.

First is if you look at the enterprise market, the enterprise market itself within the enterprise IT environment, there are a quite of few things taking place and many of these are small shifts, but having a profound impact on how companies buy IT services and therefore network services. One key trend is the whole IT-centric business approach. I think now the role of the CIO is very prominent within an organization. No longer a CIO is in the back room just implementing what the sales team or the marketing team or the strategy team thinks of. The CIO is very much at the table, presenting alternatives and options for what a business can do to create competitive advantage using technology, and that is leading to the IT systems and IT elements becoming far more part of business decision-making and very central to business approach.

The other thing that we are seeing and is happening in every business, at different rates but the mobility part is huge, the mobile workforce. And it's not necessarily people who are not coming to or just working from home, it is each and every one of us while during our commute, working over the weekend, working at night, so on and so forth. The impact on mobility everybody views just as a mobile device or accessing data services, it is much more than that. It is completely changing the landscape of IT applications. And what it means is the way data centre requirements grow, changes, where data needs to sit if you are an application provider is changing. Obviously, there are network changes because there is a big growth in the wireless access to these various

applications from multiple devices. So, mobility is going to play a very big part in our strategy both directly and indirectly.

Bring Your Own Device (BYOD), increasingly especially the GenY segment of the workforce who are really seeking the independence of being able to use the same device. Quite often they personally purchase device for both company work as well as for their personal use. And this is not just limited to e-mail, many of our customers now are having to take their business applications and make them accessible from the mobile device, whether it be a platform or a smartphone. So this we believe has a major impact. Now, there is a lot of debate on whether what the life of the laptop is and how long laptops will remain. But I am not going to get into the debate, all we are saying is that BYOD and mobile devices will play a big part.

From our business perspective, the growth of video is huge. Video is the fastest growing application, has been for many years in the enterprise space as well as in the consumer space and therefore we are placing a big bet on video. It is driving our IP transit traffic, it is also driving the way our MPLS network and VPN technologies get used and the need for collaboration is becoming extremely prevalent. It is not just audio conferencing, people want more and more video conferencing and it is not just video conferencing where we can see each other, it is also being able to share documents, work on things together so on and so forth. So integrated video along with other applications is big.

Next slide (slide 7 of analyst day presentation) is just a chart that says that the number of devices which are connected devices will grow to about 19 billion devices by 2016. In the last 2 years, what we have seen is a huge push in M2M or Machine-to-Machine communications and it has very fancy things that you can talk about like diagnostics for elderly people where medicines can be infused depending on health conditions. Okay, those all very complicated things, but there are hundreds and thousands of applications which are far more pervasive unfolding around us every single day, many of which you might not even see. So we believe that all this is driving traffic. It is expected that 50% of the internet traffic will come from the 'internet of things', so things talking to each other, machines talking to each other.

The other thing we are all seeing, I am sure if we do a poll in this room, each of you must be connecting or 80% of you may be carrying more than two devices which are enabled for connectivity. The data usage of each of these devices is significant. Firstly, the frequency of use is increasing on the devices, which are not just what we use as our telephone for voice calls. Also the volume of data consumed from each of these devices is significant. So if you take the M2M module or the machine-to-machine module, even that is expected to consume 9 times a bandwidth of a phone call, whereas if you take a laptop, obviously, it is much heavier duty a number of applications used and so on will be greater, expected to be 368 times the amount of traffic that a phone will generate just when phone voice calls are made and everything in

between. So there is increase in the number of kind of devices but also there is significant increase in the frequency of the use of those devices, all of that is driving much higher data traffic on the network.

I think I need one of my engineers here to explain what gigabyte migration to petabytes and petabytes and zettabytes is, but basically there is a huge surge of traffic on the network is expected to reach the zettabyte era. But the key thing is data traffic on the network is growing at about 29%. So, I think all of you who cover our business will realize and agree that this is not a demand constraint industry in that sense. Other challenges such as price erosion, competition and so on that we need to deal with. But because of the trends that I spoke about in the first couple of slides, we have real evidence of quarter-to-quarter traffic growth, which might not always match revenue growth and that is one of the challenges that we deal with every single day but there is a significant growth of traffic. The other thing to note is the consumers are driving traffic on to the network; they play a much bigger and bigger role as time passes compared to enterprises. We are a largely B2B company, so we are serving in a way directly the green part (refer chart on slide 9) which is the business-to-business traffic, but our go-to-market strategy is through both our carrier services as well as work that we do with and for next-gen providers like Google and Amazon and Microsoft and eBay and so on, is something very important for us. Over the last year we have also put a lot of effort into cementing our relationships and putting more focused effort into these so-called next-generation providers who are straddling the fence, straddling actually multiple fences, they are not just consumer companies, they are also going into the business domain, especially to SME, they are going from being a portal provider to a search provider to also providing ERP and CRM applications. They are all over the place in a sense, their presence is wide across the whole ICT stack so we are doing a lot of work not just with the traditional carriers but also with the next-gen providers.

From a customer perspective, the overwhelming challenge that a CIO faces is the volume of data that they have to contend with. So the users are generating huge amount of data, they are implementing sophisticated applications that are throwing out even more data that has to be analyzed and the speed with which they analyze these mountains of data and the analytics they can perform is going to determine how successful they will be in the marketplace. So every business we speak to is looking for bigger pipes but they are also then saying "Okay, where do we store all of these because we need the information". The domain that we do not play is the analytics piece which is how they are going to analyze all of these to make meaningful and fast business decisions.

The opportunity that Tata Communications finds itself addressing is there are massive shifts from a business perspective, some of which we spoke about, such as networked economy, the IT-centric business approach but also the growth of emerging markets continues unabated in spite of

the recent slowdown we have seen in BRICS and so on, there are other markets where the growth is very high.

Outsourcing continues to be there. When people think about outsourcing they think conventionally of the outsourcing from the US market to the Indian market and so on but it is not that, they are outsourcing even at a country level and outsourcing of whole services, not having in-house IT groups, moving to cloud-based applications and so on. And each of these requires more telecom and needs more distributed presence of things like data centres.

And on the technology side, obviously, mobility is huge, changing the landscape. Video is very big. Cloud continues to be big. The hype around cloud, I do not think it is hype, it is actually very real, but people are now looking at cloud and saying it is not one size fits all, it is not one technology solution for everybody and the market is getting more mature. But there is no question that business customers are increasingly moving applications to the cloud and are comfortable working from a cloud-based solution whether it be a private cloud or a public cloud for pretty much every application that they have.

Big Data we spoke about, the number of applications and platforms just continues to grow. What this presents for us is significant need for network infrastructure and data centre infrastructure as evidenced by the demand that we see. There is a big blurring of the line between hardware, software and the network services; in fact, it is so co-mingled that it is very difficult to separate one from the other. The need for managed services is constant and even the largest customers are having discussions today with us about moving to managed services for multiple reasons. And then we have spoken about video and also ubiquitous need for these services.

In the middle of all of this what are we doing, what are the elements that we provide? We are very much a player in the background if you walk into a large enterprise, they might have never heard of Tata Communications, the person in the organization unless they are in IT or the CTO. But we are enabling so much that in fact it is an untold story which needs to be told much more in order to create awareness as to what a critical role we play on a global basis as far as the information age is concerned.

Voice business we have spoken about repeatedly, none of us has stopped talking because if anything we talk even more now than before because of the devices that are available to us. We continue to maintain a lot of momentum in this business; we are the world's largest Wholesale Voice Carrier for international traffic. Submarine cable capacity continues to be in demand, in fact, over the last year we have seen many more people come to the table to build cable systems. We have had many more discussions and requests from people to buy fiber pairs on our systems. And each time some people come and have these conversations with us, and some of them we entertain where we have capacity that we feel we would not be using, more than anything, the

message that I walk away with is that we made the right decisions to invest in building the kind of infrastructure that we did. These are long-term investments and as you can see, we believe the useful life of these assets are even longer than what was envisaged earlier and hence we have assets which are very powerful in the kind of information age we operate in.

In Enterprise Data in India, we have been the market leader and we continue to accelerate and grow and we will talk about market share in a second.

South Africa, we are the #2 network operator through our presence in Neotel. Neotel has been a long journey for us and it continues to be important part of our activities. Over the last year, Neotel made good strides towards profitability.

In terms of infrastructure, we have 200,000 kilometres of fiber; we have 400 points of presence, about 20% of the world's international lit capacity. And the data centre business has a large footprint, we are looking as to how we can rationalize the footprint, so we can be more focused and play in a bigger way in fewer markets than being spread out too thin. I am not going to go through this entire slide but the infrastructure that we have in terms of the pipes, the internet traffic that we carry as well as the data centres that we have, positioned us well for riding many of the trends that you have seen in the last few slides.

One of the things that we thought we will show you this time is why our portfolio is so broad, why we have placed bets in multiple places and how it is really looking at the future. While we have created the foundation with the cable assets, the data centres, our switching fabrics, so on and so forth, just chasing the traditional business has limitations because in some of the businesses because of the way customers buy they need to spread risks. You cannot expect that you can grow 15, 20% per year forever for the next 10, 15 years. You got to find ways to start going into other adjacent markets, other addressable markets where you have market permission to play and win, in order to create growth for the Company. The other thing also is buyer behaviour requires us in order to even sell traditional services that we sell many value-added services because that is what they want. They want one provider or a few providers who can offer a basket of services. So, the voice business is the classic case. We are the market leader in voice. We have been eking out more margins and more profit out of that business, but traditional TDM voice is being overtaken by VoIP. We are doing the most innovative things in that space through outsourcing arrangements, through greater focus on the way we route our traffic and many, many things but it can only take us so far.

This chart (Slide 15) just shows you the market growth and how the addressable market changes in a few areas. The bottom blue line you see is Wholesale Voice, the growth here is very flat and we are not expecting much to happen at an industry level, this is not a picture for Tata Communications, it's an industry level view. The red line just above that is our Traditional Network



Services; private line services and some of our basic internet services will see growth, these are revenue growth, not volume growth; the volume growth picture will look different. There is some growth that is expected, and we believe we can grow faster than this as Tata Communications but that is what the industry picture looks like. Now, if you start looking at other services, such as banking solutions, the managed services that this dark blue line you see here, the growth there is 14% CAGR and these are relatively conservative estimates and this is for the addressable market that we have identified so far. We actually believe that there is more that we can go after once we created some initial capabilities. This is an extract from 5-10 year planning exercise we are doing; we are just looking at what our base scenarios will look like. And this is not with a lot of wishful thinking, this is based on products that we already have in flight, segments that we already are operating in and looking at where the growth can come from. This is not global market size, for example, for unified communication, that is much bigger and the growth rates will be higher. This is just looking at where we think we can play. The green line is for our Colo, Hosting, Managed Service, Managed Security and Cloud enablement services. That addressable market is expected to grow by about 20%. And then everything around Mobile Broadband is expected to grow by about 26% CAGR over the next 5 years or so. And hence, with this kind of picture staring at us, there is no option but for us as a business to invest in creating capabilities, but always leveraging the platform that we have built and the strong foundation we have in our network services.

So one of the questions that I know many of you have asked is if you look into the future, what is your aspirational net revenue mix, what will your business look like? I will definitely fall and use the cover of the safe harbor statement for this one; because this is in a bit we are building the foundations. This is what we are working towards and what drives our allocation of resources internally, especially management time as well as the engineering and product development resources to create a business that will have this mix. This is net revenue, gross revenue picture is misleading because the voice business will skew it. So on a net revenue basis, we believe in 3-5 years the voice business will still be fairly significant but about 15% of our net revenues. Our Traditional Network Services we will continue driving traffic on our IP network, selling capacity on the submarine cables, all those services will account for about 40%. Our managed services will account for about 25% and remaining 20% for industry solutions where we are talking about things like what we are doing in the banking space through our ATM business, TCPSL, what we are doing in the Media and Entertainment space and I will speak about that in a little more detail or maybe I can do it now, as well as in the telecom outsourcing business through our TCTSL subsidiary. This is the kind of mix that we believe the business will have in 3-5 years. As we do more work on our modelling and planning and we are doing it with a lot more rigor this year, we will come back and share this with you maybe during the mid-year update in a couple of quarters, we should be able to keep you informed with even more granularity.



But now, the thing I want to say is while some of these might look like independent businesses, there are very clear linkages at least between the Wholesale Voice business, the Traditional Network Services business then the Managed Services business. In the Industry Solutions it would be a mix of things. In the Media and Entertainment business, for example, it is all about network connectivity in a way in order to change the way content is broadcast or distributed. And therefore traditional broadcasters moving from satellite to fiber, a lot of our business today is about that. But as we engage with broadcasters and content companies they are saying what they need to have is a strategy for addressing the four screens that we are catering to. And the TV overtime is going to be less and less where we go to see content or traditional TV is not going to be where signals are beamed up and down might not be how it works, so what can you do for us? So, being in that sector gives us a lot of opportunity to use our IP network, to use our CDN technology, to use many other components, to build solutions. So it is something that is staring under our nose, but it requires us to build certain industry specific capability. That is where investment goes in right now. You cannot get into the spaces and win overnight. You got to build the foundation.

Our outsourcing business is a very interesting one. TCTSL it is not a massive business, but if you think about it we are a little bit like the high end services that Tech Mahindra would offer to their customers. So the only customers who come to us for the services and we have many; some of them are even direct competitors who use us to offer services to them. We will do for example, transmission engineering, project planning, we will do customer project management. These kinds of services you need to be an operator having real domain expertise in order for that work to come to you. So it is not the kind of work which says run a help desk when a router breaks on the network, you manage that call and dispatch someone. We do a lot of access management or network backbone planning. This is the kind of work that we get from our customers in our outsourcing business. Now, what that does is it builds very strong relationship with our carrier customers which then help us to sell network services jointly with them. In this business I will give you a few examples later on; we are now being approached by many Middle East carriers to help them with market enablement. We actually deploy people on the ground, not large numbers, 50, 100 people maybe but people who work with the carriers to help them figure out how they should go to market. Indian or global SIs or others will never be able to do that because what you need is you need people who have actual product management, actual sales engineering, actual sales experience and we transfer that knowledge to the carrier partners and actually benefit from how they succeed in the marketplace. And that builds us closer relationships. So when they find a Middle East customer who wants to go global, like we have had the case of a couple of major airlines, the two largest airlines in the Middle East have both become our customers in the last 2 quarters because of the partnerships we have with the carriers which were possible because of the outsourcing deals we do with them.

I am going to go a little bit faster now, but if you look at our Data business you will see that the traditional services, what you see in the blue part over here, while the revenues have grown over time, in terms of mix of revenues they have gone down over the last 4 years from 67% in FY10 to about 48% in FY13. At the same time, services like our VPN services have grown from 13% to 23%, our broadcasting services have grown and managed services have grown. So we have done a lot of the heavy lifting in terms of building the capabilities and we will continue to invest to drive this mix change.

Now, one of the things when you look at last year's numbers, I am sure you have a question on data profitability. This is in dollar millions, the FY12 EBITDA for Global Data Services. Before I go into the numbers, the New Services include Content Distribution, Unified Communication, that is our Enterprise Voice and collaboration and Business Video services; the Media and Entertainment services, what we are beginning to do for Mobile Broadband where no revenues have been generated yet, it is more product development and engineering effort and Cloud-based services where there are some revenues but not that much but we built a lot of capability within the organization. Some of these things we started in FY12 so it was not that is all in FY13. In FY12, the New Services at an EBITDA level had negative \$9 million, TCPSL which is the banking subsidiary for the managed ATMs is negative \$5 million, leading to \$263 million. FY13 view, we actually doubled up our investments. We said it is important for us for our future to create capabilities and therefore you will see that the EBITDA impact was a negative \$32 million and TCPSL because the volumes are still ramping up, but we were deploying more ATMs but the transactions have not picked up yet, was negative \$23 million resulting in the EBITDA figure that you see for GDS.

The investments that we have made during the course of the period have also doubled from FY11 to FY13. So when you look at the numbers you should look at what our traditional business is yielding which is about 24-26% EBITDA and look at the new services where we are making investments to cater to the addressable markets that I identified earlier which is a function of the trends that we see in the industry. I do not think this is a view we have ever showed but I thought it is important for you to look at how we are investing in new services. The gross revenue during that period has increased from \$48 million to \$106 million. And this is really the tip of the ice berg as far as I am concerned when you look at this list of services. CDN had some revenues last year but you will really see CDN pick up in the current year and next year. Enterprise Voice was a bulk of what you see here. Business Video was quite small but with the launch of the services that we have coming up, Business Video will really begin to accelerate this year and the coming year. Media and Entertainment, we have had some traction, most of it has been in creating capability. You will see that contributing much more during the course of this year. And Mobile Broadband and Cloud is really going to materialize in terms of meaningful revenue only in the next fiscal year FY15. So if you ask me what the number for this year FY14 looks like, the number from these

New Services will be in the magnitude of about \$150-170 million. So that is to give you a feel for how it is beginning to accelerate as we go forward. If you see the change between FY12 & FY13 it is quite small, because we really did not roll out any new services, we were spending money to create capabilities. But the services that we created last year will start yielding revenue during the course of this year.

TCPSL, largely focused on ATM right now, but we think it is a wedge that we can use to drive deeper into the banking and payment services industry to sell more services. A question often gets asked as to why we are doing this, is it not a distraction from our network services or core traditional telecom services? To be honest, we got into this business because of the wide reach of the network. But as the business has progressed, we have realized that that is really not the main sticking point, it is not the only reason why we would be in it. We would be in this business for many other reasons which I will elaborate as we go forward.

Firstly, we are a leading payment solution provider to banks in the country. The payment space is a growing space and there are different theories on how much ATM penetration, how quickly mobile commerce will take off and so on and so forth. The electronic payment processing industry in India is very early stages. Also the linkage between the traditional brick-and-mortar businesses and the payment business presents a lot of opportunities for us to target. It gives from a TCL perspective an opportunity to be in this space and to participate in it but at the same time also cement relationships we have with the banks who are some of our largest customers for our Network services and our Data centre services. We also believe that this gives us a chance to de-risk our portfolio as I said right at the beginning. The ATM market in India is grossly underpenetrated. Over time we have also realized that this is really a scale business and some of the circles that we have bid for especially in the Ministry of Finance bid, were driven by creating scale for our business and we will do the same thing with our White label business or White label roll out and so we do not spread ourselves too thin on a nationwide basis. We will be much more focused on certain geographies where we can leverage the cost base more efficiently. And the penetration for the electronics payment in the personal consumption expenditure is so small in India; 3 to 5% compared to other geographies, similar geographies, we are not talking about the global numbers of 20 to 25% so there is a huge upside that we see.

Where we are right now? We have deployed about 15,000 ATMs, out of which the Managed Services ATMs where we manage ATMs on behalf of banks, both public sector as well as private sector banks, about 9,500 ATMs. Then we have Brown label deployment; which are about 6,000 ATMs. We have a huge order book which we are right now focused on implementing; we are not focused on necessarily going out and selling more. We have the Ministry of Finance ATMs where we have to deploy about 12,000 ATMs by 2016 and then we have been awarded the White label license by Reserve Bank and we have a commitment to roll out 15,000 ATMs there in the next 3

years. We also manage about 12,000 point-of-sale terminals and there are other things that we do around it like core banking services but they are small revenue streams. And we believe that there is a lot of opportunity here to offer holistic services purely around payment services to the banks that are really looking for solutions.

A little bit more on the Ministry of Finance bids. So we have won the tender to offer services in West Bengal, Andhra Pradesh and Tamil Nadu. We had to bid quite aggressively and I think in the industry the rates at which we won are known, but we believe that by creating overlaps with our Managed Services business as well as with our White label business, we will get the scale in order to make this profitable, but it is going to require a fair bit of effort in order to drive cost efficiency and to make sure that we are quite tight with our execution. At the same time, we are looking at our Managed Services contracts, revisiting some of the contracts which are not profitable based on some of the SLA conditions as well as just the terms of the contracts in some cases, the penalties; overly strict penalties associated with some of them, and during the course of this year we will start cleaning those up.

What we are really excited about is the White label ATM business where we have much more control on where we deploy. We also will be leveraging the Tata brand name, which should give a lot of comfort to consumers to come and use our ATM machines rather than use other providers. And we will focus on looking at synergies with these two areas so we can benefit from scale. As I said earlier, we have a complete choice of where we are going to deploy, we will be looking for group level synergies with some of our retail activities in other parts of the group in order to make sure that we are in the right locations, and as I said, the brand is going to be quite powerful.

The door is always open, it is not going to be something we focus on during the course of this year, to find ways to bridge our ATM deployment with other sources of revenue, everything from third-party advertising revenue to using the screen of the ATM for other services without diluting its principle purpose. Also beyond that with the banks to see how we can link mobile banking and bill payment services, internet payment gateway services and so on using the footprint that we create using the ATM business. But I will be the first to admit that this business is still in the process of building scale. The ATM deployments, once they are deployed takes 6 to 9 months before an ATM gets to profitability, and that is something that we are now tracking with much more vigor.

Coming back and looking at the business before Sanjay touches on the results, in the GVS business during the course of last year in spite of it being a mature business, we managed to accelerate both in terms of traffic and mix of traffic, where we got more traffic from retail providers, such as mobile operators and cable companies in the US, which is stickier revenue, we did that. We also in the second half especially Q4 of the year, managed to alter the mix of terminating countries so we got slightly higher yield on a net revenue per minute basis, and at the same time

we grew from 18 to 19% market share last year which is quite impressive given the nature of the business. During the course of the year, we also renewed the contract we did with BT. BT's contract was initially an outsourcing contract for three years, and in the middle of the year we renewed it for another 2-year period. Since then it was not last year, but you would have seen announcements in the press recently, that we signed a similar deal, not of that magnitude, but equally important with Vonage to do an outsourced voice arrangement with them.

On the Data business, the main story is our Managed Services business, grew by 33%. India MPLS and GVPN business grew by 31% which compared to anybody in the market, we probably at least 10 percentage points faster in terms of growth. And what I mentioned earlier is during the course of last year we built a specific sales team and heightened our go-to-market efforts related to the next gen service providers. We believe that the next gen service providers will really alter the IT space and the ICT space. We have done business with the likes of Google for a long time, but we are really changing the way we engage with them and that yielded results last year where revenues in that segment grew by 20% on a year-to-year basis. We created the growth ventures group in order to put more focus around driving activity in Media and Entertainment, in the Data centre space and in Cloud Security and we started incubating some work in the Healthcare space as well.

Neotel story was really about managing cost, gaining market share in a very tough market in South Africa which was contracting. We gained about 1.5% market share. We beat our EBITDA plans, through changing the mix of revenues; we used to have a lot of one-time contract revenues which were lower margin. We weaned the business off that and have a business where the revenue is far more predictable, it is recurring revenues. That combined with the cost optimization efforts resulted in Neotel showing strong performance on EBITDA as well as on EBIT.

The one thing I would like to touch on is as our business expands, we have created a large footprint and portfolio working with partners and leveraging the partners to reach customers in markets, especially where we do not have direct operating presence; that has been a big focus of what the Company has been doing. And during the course of last year especially in the Middle East, if you look at what we have done with Ooredoo, which is a Qatar Telecom, Qtel changed their brand last year. We have done some very interesting work with them in their home market. They have a subsidiary in Oman which is Nawras, we have done a lot of work with them; we have done a lot of work with Etisalat, both in Dubai as well as with their subsidiary in Saudi called Mobily. We did not do much in Turkey in the past, but during the course of last year, we have also established a strong relationship with Turkcell as well as Superonline. In each of these cases, it is not just about going and selling them some pipes or minutes that we have been doing for a long time but it is really about partner-enablement services. Like I said earlier which creates more traction for us and creates more presence for us in the ground. During the coming year,

especially, second half of this year, we will also start seeding the market for some activity of the same nature in Africa. Keep in mind that this is not high CAPEX and so on, this is more putting effort into countries, deploying OPEX resources strategically and also it is very variable and we can adjust if we see that the results are not coming. We have learnt a lot based on several years of experience on how to do this effectively, it gives us real competitive differentiation when it comes to emerging markets compared to the traditional US and European competitors.

One is about partnerships, but it is also very important to build the right kind of leadership and to infuse new blood who brings different exposures as well as competencies into the business, so we have continued to do that selectively. Rangu Salgame joined us last year. He used to be the head of Cisco for India and APAC, he was also at Verizon in many senior roles before that and he joined us as the head of the Growth Ventures group. Sanjeev Patel joined us from HDFC Bank, was running the ATM operations, and knows the space inside out to run TPCSL, our subsidiary that provides managed ATM services. Our carrier outsourcing business we have sort of kept quiet for a while and it has grown on its own, but last year we got a lot of confidence from the wins that they brought in and also the funnel of business therefore we decided that we need a specialized management to come in to take that business to the next level. May be in the next analyst meeting we will actually take you through the dynamics of that business and how it is growing in more detail. Just a couple of weeks ago we hired Sandeep Bhatnagar as CEO of TCTSL; he comes with rich experience, from Wipro most recently, from the same kind of business background and CMC and HCL before that. UCC, this is the whole collaboration in Video space, we hired a very senior person from Avaya, who has held global product and engineering roles; Anthony Bartolo who joined us about 3 or 4 months ago. We have also done a lot in terms of bringing people to drive the business forward, which also indicates the confidence that we have, and we usually incubate these things and at the right time we say, okay this business is ready to scale, and we bring more senior talent in, which is what we have done.

I have covered a lot of this already but we have a lot going on in our portfolio, a lot of activities, but we do know exactly what we have, what is happening in this, there is a lot of synergy between those. This just gives you a snapshot of what is on top of my mind and what my leadership team is driving day in and day out and I have covered each of these. I would say that we stick with our bread and butter services, our traditional network services, that factory will keep working. We are looking to drive more efficiencies through taking cost out, to streamlining processes so on and so forth. At the same time we have focused investments going on in many areas, but each of these are to take us further up the lines that I have shown in terms of the addressable market that we have identified. Within the business we are very focused as far as our innovation efforts are concerned, where our new product efforts are concerned, and where the investments will go.



As far as investments, Sanjay will be talking about it. Many of the service areas we are getting into do not have the kind of CAPEX intensity that the traditional network services have in the early stages to create capability. As I showed there is a requirement to invest OPEX which we have done and we will do because it is the right thing for business, but these are also far more throttleable or adjustable OPEX expenditures. So, if we find that something is just not working and there will be bets that we take and not every bet will be a winner, we can deploy those resources or scale them down quickly. So we have moved the business into a space where we can react much faster to opportunities in the market but also get out of what is turning out to have been a bad bet. And that is just the nature of the industry that we operate in.

I would not really talk about data centres here since I probably run way ahead of the time I was given. The simple story here is we have a big data centre footprint, we have a million square feet of data centres space, we have spoken about this in the past, about 42 data centres. But we are trimming this portfolio down, we are looking of getting out of assets, which are not scalable or have scale. In many of those cases they are leased assets and we are getting out of leases where possible or just not expanding in many areas. But we are going to double down and increase our bets where we are getting a lot of traction where we have real market permission to win.

India is going to be huge for us and all estimates for the India data centre capacity especially for captive capacity is huge. We are the #2 player or #1 player depending on whether you look at the number of racks available to sell or revenue. I personally feel quite confident that we can with the kind of brand name and recognition we have with large customers in India, with the funnel of activity and discussions we are having with many players both in India as well as outside who want to come here, and with the ability for us to build data centres in the land that we own, we will get to #1 position in data centres in India both on space available and revenue very soon. So, we have already started during the course of last year increasing our data centre footprint in India, also we offer the network services and managed services that go within the data centre, and therefore it gives us the proposition that pretty much nobody else can replicate in the Indian market.

In Singapore, we have had a lot of success with the data centre we have there, therefore we are again going to increase our capacity in the Singapore market and continue to grow there, and look for opportunities in Southeast Asia and other emerging markets. We will use what we have in the US, UK and other European countries to maximize the return on those assets, but where we will double up and create capability will be in the markets of India, Singapore and potentially in neighbouring countries. Last year, we announced a Greenfield data centre project in Greater Kailash, New Delhi for 1600 racks, it is already attracting a lot of interest in the market, and we have many people coming and speaking to us now since that data centre will be ready by the end

of this fiscal year. Singapore, we have added about 200 racks, and then we are looking for 300 more. In the Indian market we will be expanding capacity across all the centres, where we are running out of capacity, principally in Chennai, Mumbai, Bengaluru and Hyderabad, in each of these cases the capacity is being added, it is all within our CAPEX plan so do not worry it is not going to be beyond what Sanjay talks about, it is very much within the plan.

I am going to leave it at that with the summary saying that we have a large addressable market, we have built underlying infrastructure to serve that market well, we already have leadership in many spaces in terms of services as well as markets which we believe give us the platform to leap frog and jump into bigger opportunities and larger spaces. The portfolio is established and we have worked quite hard in creating the portfolio, obviously, we will keep enhancing it, but we have a good foundation. The operating metrics which do not really talk about here but in terms of how quickly we are delivering services, the customer experience so on and so forth have shown improved trend in the marketplace and what we have now is multiple engines for driving the business forward. We clearly have to execute well and in order to strengthen that execution capability we have also brought the right kind of talent into the business. So where I stand right now looking at last year's results and the momentum that we see in the business, there will always be challenges, but we are quite positive of where the business is going.

Thank you, over to you Sanjay.

**Sanjay Baweja:** Thank you, Vinod. Good morning to all of you and thank you once again for coming here and being part of this analyst day.

Vinod, as you have heard has told you all about our strategy and where we think our business is growing, specifically in terms of the new businesses which could be the growth engines for us going forward. I am just going to share with you the financials and strategy and how we think these will take us in the stated direction.

So in terms of numbers, clearly, we have seen considerable growth over the last 3-4-years, gross revenue has been growing considerably from Rs. 11,000 crore now to about Rs.17,000 crore. Clearly a growth again as far as profitability is concerned; EBITDA is 9.3% about 3 years ago to about 12% now. The year over year dip we are going to talk about in detail where we have had many one-off exceptional items, clearly but for that this story would have continued in the upward manner. Cash profits, we are generating significant amount of cash again, a growth story all across as we go along and we believe the trends will continue in this manner, and we will continue to step up in terms of our cash generation.

Vinod has already spoken to you about the CAPEX and I am going to also talk about that. The strategic focus is barely different. We have sharpened the way we have looked at capital expenditure, we have looked in a much more focussed manner on IRR it generates, the kind of

EBITDA percentages that it generates going forward, we have reduced the payback periods, all of that is helping us generate more EBITDA percentages, more profitability, more cash as we go along. Earlier because we were focusing on larger projects in terms of the cable, etc. that we were investing in, now has come down, we do not have to necessarily put money into cable projects that has reduced our gestation, increased our profitability as evidenced in the results you just saw. The payback is much more accelerated, Voice itself is focused where we go into about 12-month kind of payback, Data we try and look at about 24-30 months pay back. So clearly from the days where we were putting cable projects where we were looking at about 48 months we are now down to these levels, that is really accelerating our payback and you will see the benefits of that going forward.

The other aspect, of course, Vinod talked about the Data centre business where we have been increasing capacity, a lot of focus on Delhi, where we are creating a large data centre space. We are creating data centre space all across be it Chennai, be it Mumbai, be it Bengaluru. In India if I may add to the data centre piece we are at about 87% fill capacity. There are only two places Chennai and Diggri in Pune, where the capacity is marginally lower but otherwise most of the places we are at close to 100%. And that is where we need to add and you would have noticed how we sold much more than what we have added in terms of capacity (refer table on slide 29), so very quickly the capacity is getting sold off. Whether it is in India, or also in Singapore and other places we are trying to enhance our profitability by reviewing how we are going to take it forward, whether we are going to increase the capacity there or not or whether we are going to sell off part of that. The entire focus of the management team especially in the data centre piece is to get more profitability and India is leading the way clearly there.

In terms of margin profile, the Data business I think we have had some one-offs this year and this quarter especially where pension funds, etc. have really hit us in this quarter. We have also got some cable cuts which was exceptional so those have impacted the profitability for this quarter. But if you notice all across we will continue to focus on profitability and we will continue to get higher profitability as we grow. Free cash flow, we have been generating enough cash as we go along. Now, we are able to manage without borrowing, in fact, overall, we have de-leveraged in the current year about \$70-80 million and we believe that trend will continue. We have been able to demonstrate that our CAPEX intensity is going to continue to go down and our cash generation is going to continue to go up as we grow. We will look at some opportunities of getting cash from some of the non-core assets; we have done that in the last quarter through a sale in Chennai. We will do a few bits here and there in this year also as we go along. Cannot share the details per se, but we will continue to look at such opportunities, and we believe there will be opportunities that will help us in deleveraging for the current year.

ADR delisting, I think there is a lot of interest which has got generated; there are a lot of queries regarding that. Clearly one of the things which was forced by SEBI, if I may use that word, as you are aware there is this 75% promoter holding which has been allowed now as the SEBI guideline which is going to get enforced in the second week of June. ADRs we believe are public holding, which is not what SEBI believes although the ADRs are fungible into shares. How they calculate is they reduce the amount of ADRs from the total holding. In our case, we had 5% of our shares represented in ADRs so they would calculate our promoter holding of about 76.15% and they divide that by 95%, so that is what was making it about 80%. By delisting our ADRs are going to well stop getting traded from 7th or 8th of June and that will make sure that we will be at about 76.15% from a promoter holding perspective. The balance of course we cannot talk about it, the promoters will need to decide between themselves as to how they want to tackle the balance 1.15%. Having said that, the way we look at our corporate governance, whether it is Sarbanes-Oxley or otherwise, we will not let down on that at all, in fact our board is very clear that we need to maintain the kind of standards that we built for ourselves in terms of the corporate governance aspects as we go along.

Now, to specific financial data, FY13 revenues up by 21%, I am sure all of you have already looked at the data points that we talked about. EBITDA up by 15%, so clearly our profitable revenue growth continues, yes, it gets helped by a little bit of FOREX or the way the rupee has behaved, but I think overall the trend is very clear, we continue to grow and we continue to grow profitably. Consolidated Q4 revenue up 11% year-on-year despite the FOREX we would have still grown considerably if you were to look at the numbers. Like I said, this Q4 we have had some one-off hits, we had Canada pension fund hitting us in Q4 itself of about Rs. 41 crore; on the full year it is about Rs, 70-odd-crore. Prior period regulatory payments, we have a joint venture in Nepal where we hold 26% that hit we have taken on an overall basis and that hit us about Rs. 27 crore. We also encountered cable cuts which were unusual in magnitude which happened almost altogether, sometime all of you might be aware in Q4, so we have had that one-off hit which is not a general way that our business operates. And of course, TCPSL we have talked about it that business is ramping up and that has impacted us specifically in Q4 where we have looked at various aspects of how we are going to make sure that TCPSL as a business is going to be profitable and regulatory wise we are going to make sure that it meets all the standards.

Segment, Voice has been having a very good run although we keep saying that the broad profitability at gross EBITDA percentage level, we want to keep it between 6.5 to 8.5%, it has been on the outer side of that, so it is at about 8.5-9%. We believe that the numbers that will sustain is about 6.5 to 8.5%. And voice it is generating a lot of cash, I am going to talk about it in the slides later, but clearly it is picking up, it is doing well and voice is leading our growth story. Also although in a very difficult market when we thought that voice will be stable it's been growing pretty rapidly for us. Data, again we have already talked about it. That's been showing stunning

growth, we have seen 18% growth in a market which has been very stable which has not grown that much in terms of volume, and despite the price erosion we have seen considerable revenue growth. Neotel has been a turnaround story for us. It touched EBITDA positive last year. It has continued its growth in EBITDA and in fact this year and the last quarter it has turned EBIT positive. So clearly Neotel has been showing considerable growth and profitable growth.

Monetization, we have spoken about this. We had land with some staff quarters in it which we thought we did not want to use and we were able to sell that for about Rs. 192 odd crore net we have got about Rs.185 crore benefit out of that. Also our focus is on reduction of course and making sure the balance of our portfolio debt. We have gone ahead and last quarter we shared the fact that we did SGD 250 million bond. This quarter we followed it up with another 150 same 3-year dollar bond where we were able to get our bond selling at 3.76%. So last one we did was at 4.25% and this time we were able to manage it at 3.76%. So we added another SGD 150 million. That does not mean we added our overall debt. We have used this money to repay some of our older debt which was expensive. So that's what we will continue to do and we will continue to focus on reduction of debt.

We have done a change in the undersea cable depreciation because we believe that the economic life of the cable is much more than what we have been taking till now. The industry benchmark across the world is between 20 – 25 years. And what we have been taking was 15 – 18 years. We thought its prudent that based on the way the technology has moved from 10G to 40G to now 100G that it was right for us to match ourselves in terms of standard. Also from a schedule 14 perspective the new company law act also will enable us to reach to a level where we put our depreciation at 20 years and that's what we have done. The economic life of the cables we have taken as 20 years rather than 15 or 18 years that we were taking earlier. The industry standard as I said it about 25 years, most of the companies are between 20 and 25 years.

Again coming back to voice, there has been considerable growth as we say, our long term contracts in voice is greater than 50% and in voice, long term means 6 months not 2 years 3 years. But that itself is very different from what the entire industry is at and we are about 50%. Voice is considerably raising and generating cash. And that's the important piece of voice. 4 – 5 years ago, we have seen people have been talking voice is a dying business but for us voice has been generating cash like we said \$67 million in FY11 to \$100 million in FY12 and \$122 million in FY13, this is net of the CAPEX. So for us voice has been generating considerable amount of cash. The profitability again, 6.3% in FY11 to 8% in FY12 to 8.5% in FY13, we believe this is a broad range of profitability that it will continue the same. It is growing pretty rapidly helped, if we look at it in terms of INR helped by the dollar also. It's been a good story as far as we are considered. And also in terms of volume, we have seen considerable volume growth. Traffic was

at 55 billion minutes last year. This year we have seen 62 billion as far the number of minutes that we have been carrying, so clearly a growth story. Yes, the growth is not as much, or the profitability is not as much as data but still it is growing pretty rapidly as compared to the industry in which it operates.

Coming to data again, 17% CAGR for FY10-13 and 15% at constant currency. Like I said despite the benefit of currency we still continue to grow in that and grow profitably. EBITDA margin of 20.8% in FY11, 22.3% in FY12 but for this one-off hits that we have got, we would have been in the same ballpark range of about 20% in FY13. So clearly our focus on getting more profitable is going to help us as we rapidly grow. I think we have got significant amount of recognition be it Gartner, or Frost & Sullivan in terms of the awards. Clearly everybody is recognizing the fact that we are there; the brand, the investment in brand, etc., is helping us in being recognized across the globe. Vinod talked about some of the major wins that we have had. I think the world is changing towards us, world is changing their look at us in terms of, we are the quality provider of networking for them.

Neotel like I said it's been a very clear profitability story. This is how they have behaved in terms of EBITDA and EBIT. If you look at the last 8 quarters, it has been a very good story for EBITDA and EBIT, consistent improvement all across. It was a Greenfield project for us. We started it 5 years ago and now the time we believe that they have turned EBIT positive in the last quarter. We believe we will have a better story to tell when we come next year same time. It may not be EBIT, it may be PBT for all we know but clearly our focus is to get them more and more profitable as we go along. And this is despite the ZAR, which has been depreciating a bit so 9.6 from levels earlier about 8.2 of 7.4. But we have been getting good traction there. This is in ZAR million but overall also even in dollars we have seen profitable trend.

This is the financial performance. Although we have talked about the overall number but 21% year-on-year revenue growth EBITDA growth of 15% and profit, the loss actually has reduced Rs. 718 crore to about Rs. 534 crore. So clearly a good story and getting stronger. And Vinod shared with you, we have had a very strong Q4 in terms of sales and going forward we believe it will continue to help us in terms of profitability in the future quarters. Core and Start-up we talked about it 23% revenue growth in core, 9% in start-up, essentially means Neotel and UTL which is the Nepal company we talked about. Voice again very good story in terms of year-on-year growth, 25.7% growth in gross revenue. 17.4% in Net revenue. EBITDA margin going up from 8% to 8.5%. Data services considerable growth year-on-year in terms of revenue and net revenue. Impacted substantially because of one-offs that we had in this quarter and this year but we believe this will get reversed in the coming quarters.

Now slight focus on Q4, 11% year-on-year and stable as far as the quarter is concerned. Operating margin at 11.1% essentially at the back of the hit that we have got in the current



quarter. Despite the exceptional items we continue to improve; also thanks to the exceptional profit and gain that we got because of the land sale. By segment quarter performance, 12% growth here in terms of core business, 11% overall. Stable EBITDA, Neotel of course an absolute turnaround of the story and consolidated absolute EBITDA at stable levels, clearly at the Q4 FY12 levels. Below that thanks to some of the benefits we got here in terms of the exceptional items, got a significant benefit. So quarterly results are clearly showing improvement, exceptional or otherwise continue to improve as we hold on to base line levels. Q4, by business unit voice and data we talked about full year even if the level of Q4, we clearly have good growth stories for voice whether it is gross revenue or in net revenue level and at EBITDA margin again as I said Q4 has been particularly has been good at 9.7%. But let me caution you, we still maintain that this story is between around 6.5 – 8.5% and we will maintain that. And 9% has happened. May be another 9.55 may happen. Overall on a broad trend we get the caution that it will be in the realm of 6.5 to 8.5%. Data, again good growth as far as revenue is concerned, stable in terms of profitability but clearly Q4 EBITDA margin has is at 13.7%, but for the exceptional would have been much higher if you were to look at the add backs in terms of exceptional one time.

CAPEX intensity, we have spoken about this, we have come a long way where we used to be earlier. We were 171% of our Core EBITDA to now about at about 85% and this trend will continue to go down. Also in terms of percentage of revenue we believe that we will be about 10% level as far as going forward is concerned. \$250 – 300 million is what we say is our CAPEX and this is the level that we will maintain as far as CAPEX is concerned. Of course revenue continues to grow and EBITDA continues to grow so these percentages will look even better as we go along. The governance is on tightening as far as returns are concerned, the IRR number that we look at, the payback time frame that we look at, all of that and getting a more profitable number as we go along.

Interest cost, we have been continuously reducing our average cost of loans. We started with March '11 at about 7.36% and currently we are about 4.97%. There is a slight marginal increase from Dec '12 to Mar'13 that you notice is because we prepaid some of the loans which on the long run will give us a lower cost even lower than this; but we had some one-time cost that we had to pay for this. Our cost of fund is going to be lower than even 4.97%. I talked about reduction in net debt and we have had a slight reduction \$1,555 million to \$1,481 million. So we have been able to reduce our debts. If there is any sale etc. or benefit that we get because of non-core asset that we sell then that will get utilized towards reduction of debt and that's clearly the focus for the Company as we go along.

With that we end our presentation. Now I invite Vinod and Srini to join me and we will be very happy to take up any questions or doubts that you may have.

**Deepti Chaturvedi, CLSA:** Thank you for the presentation. I have two questions. What is your target gearing for the Company in the next 2 – 3 years? And the second question is how much non-core asset do you believe sit in your balance sheet which can help you deleverage?

**Sanjay Baweja:** Actually both are very forward looking things which we generally don't talk about. As far as noncore assets are concerned we can't quantify but there is some amount of noncore assets which are available which we will help us. We keep looking at it, we keep reviewing all these assets and if there is an opportunity we will continue with that. We can't put a number as of now. Gearing, we want to bring it down significantly. Again numbers are difficult to give but we will continue to focus on reducing it substantially in the current year. Especially this year you will notice that the numbers are coming down.

**Deepti Chaturvedi:** So even for the current year, what will be your deleveraging target because current gearing is uncomfortable?

**Sanjay Baweja:** Like I said, it is difficult to give a number but I would imagine that close to \$100 – \$200 million we will reduce in our debt.

**Manish Dave, Investor:** My name is Manish I am a private investor. You talked about lit capacity. How much is percentage of unlit capacity. And what is share of Tata communications unlit versus lit?

**Vinod Kumar:** Lit capacity is about 18%. What is the second part of your question?

**Manish Dave:** Unlit capacity. There is a growth in data. So are we seeing after 5 years or 7 years shortage of bandwidth anytime?

**Vinod Kumar:** It's very tough to answer that question generically because we operate on so many different routes here. We have to look at it cable by cable, route by route and answer it. Suffice to say that if we look at all the routes where we operate given the fiber pairs that we have and the number of cables that we have in some of the larger routes. We have enough and more capacity to deal with the kind of growth over 5 – 7 year period. We will have to look at periods beyond that 7, 10, 15 years, we have to see how traffic grows. Also at the same time, this technology is changing. So right now we went from 10 Gig capacity to be able to deploy 40 Gig capacity on old routes and some routes even 100 Gig capacity. So that gives us significant head rooms. So the life of cables would be longer than that on what capacity we can extract. There is talk about 400 Gig technology right now. So we will have to see how some of that goes.

**Manish Dave:** Next question is on properties, you cannot quantify. But can you get list of properties because there are 60 properties in 27 cities.

**Sanjay Baweja:** No. We use all our properties. You can't put a finger on how many properties, and we would not like to talk about that.

**Vinod Kumar:** And also it has to be done selectively. I think there are some which are more obvious which should be monetized and we will be looking at those. But also we feel that some of it should be kept in the business to give us more options in the future.

**Manish Dave:** So is it a political situation?

**Vinod Kumar:** Nothing to do with politics here.

**Manish Dave:** Next is, there is litigation for earlier termination of monopoly. So where are we standing there in that case?

**Vinod Kumar:** That case hasn't really made any progress in the last year.

**Sanjay Baweja:** There is no real change which has happened there and not much progress.

**Manish:** Has court admitted the case or?

**Sanjay Baweja:** The case got admitted. Beyond that there has not been much progress.

**Vinod Kumar:** And this is not an issue that it will get resolved anytime soon as far as we are concerned and therefore does not pre-occupy me or keep me up at night I can tell you that.

**Manish Dave:** There are some rumors floating in the market that Neotel, that Vodafone is trying to buy Neotel?

**Vinod Kumar:** Now there are obviously rumors in the South African market. We won't comment specifically on it. I can give you the genesis of some of the rumours and we will have to leave it at that. And that is in Neotel over the years we have had many shareholding changes and one of our minority shareholders has an interest in exiting the business because it is noncore to them. So a process was run related to that and that has generated some interest in the market and there is some extrapolation of that by the media. We don't comment on the rumours. So I can't say more beyond that.

**Manish Dave:** Last question, do you expect consolidation in bandwidth industry like global Crossing or level 3 emerged?

**Vinod Kumar:** I think there will always be some consolidation moves. But if the question is will it consolidate in the hand of 2 – 3 players, personally I would say highly unlikely because the space is quite big. The dynamics in each market are so different. There is more regional consolidation or country level consolidation that continues but I don't see anything more than that.

**Danesh Mistry, Tata Asset Management:** My name is Danish. Just one question on the pension hit that we got. Whilst obviously one cannot predict what is going to happen but what are we doing to not make this a recurring thing or how is it that we are looking at it now?

**Vinod Kumar:** I would request Sanjay to answer it. It is a little bit unpredictable that's true. We have to take these actuarial losses or gains as they are assessed. We have 2 pension funds in Canada which was inherited through Teleglobe acquisition. One has surplus and one has a deficit. We are exploring options on how we can potentially combine the two. But it's not that straight forward. It requires approval from the employees. We need specific approvals from their regulators, the trustees of the fund and so on. So we are exploring those but I would say actively working on it but there is no guarantee we will be able to do that.

**Sanjay Baweja:** As Vinod said that's the prime way in which we can ensure a hit to our P&L is not there as much. Let me just tell you that in US GAAP for example the hit doesn't come to the P&L it goes to straight through the reserve. The other way of doing it is asking the government to change the India GAAP philosophy and take it straight to the reserve. That is also a possibility. Although I am saying jokingly but a possibility in terms of change in guidelines could happen. But having said that we are focused on merging the two of these funds and there is a possibility that once that happens our hit will be low. But it all depends on how actuaries look at the lives of people. Also it looks at the interest rate. The interest rate reduction has not helped us. So once the interest rates starts going up which is a possibility, we might actually start seeing gains. Then we will probably like it more.

**Srinivas Rao, Deutsche Equities:** First question is the graph which you showed about the addressable market and the various growth rates and the next slide on your aspirational mix broadly suggests that revenue growth of 13 - 14%, am I right?

**Vinod Kumar:** Broadly right. We believe that with this as a portfolio we have created the assets. 11 – 12% kind of growth we believe there is a platform for that.

**Srinivas Rao:** So then the next question I am just going through, a 12% growth, EBITDA margin let's say, stays flat or improves. So your current EBITDA is about \$400 million. So I am assuming best case scenario EBITDA.

**Vinod Kumar:** You are doing live modelling.

**Srinivas Rao:** Yes. Since it is very hard for us.

**Vinod Kumar:** Sure. Go ahead.

**Srinivas Rao:** So grows at 15% rate or may be 12 – 13% rate. At that rate given your CAPEX is approximately \$300 million every year. It's hard to see your debt levels can come down

significantly even over a 4 year period. The best case scenario we are talking of is may be \$100 million of free cash flows. Actually lets that that because I am just doing EBITDA that \$400 minus CAPEX of \$300 million. You probably will be left with and there are taxes which you can't offset and interest. So let's say \$50 – 60 million of free cash flows net to the bank, like a lala if I think about it \$60 million into 4 – 5 years, \$300 million of net cash which you can pay down organically over the next 5 years. Is that the right way to think about it?

**Srinivasa Addepalli:** I think there are two things happening right. One, some level of debt reduction will happen through organic free cash flows that will come in. Second, some level of noncore asset monetization over this period will further add to the debt reduction. But as the debt reduces from whatever levels is that, also EBITDA improves. The debt then doesn't look as scary as it might look today. Today \$1.4 or \$1.5 billion debt may look big in the context of \$400 million EBITDA. But if that EBITDA was \$500 million and \$600 million, at one point whatever you said \$300 million reduction in debt, \$1.2 billion debt on \$600 million EBITDA is not a bad situation for any company to be in. So, there are two things moving simultaneously, it is not just one item moving. It is just simple back of the envelope live modelling,

**Srinivas Rao:** We will be accurate on this only. Back of envelope works better.

**Vinod Kumar:** It usually does and therefore you are not widely off. But we are little bit more optimistic in terms of how we think the debt will reduce.

**Srinivas Rao:** My second question is particularly this year, voice net revenue or EBITDA actually has much better than what normal business outcome we would have thought. Whereas your data, both revenues and EBITDA adjusting for everything is kind of probably softer than what we had imagined. Would be very keen to know what happened actually?

**Vinod Kumar:** Voice very clearly, we gained market share and towards the end of the year on some routes like India route because of certain market dynamics, we got slightly higher yield and which is not sustainable we believe because of competitive dynamics. The scale of our business continues to help and it grew. Like Sanjay said we were also pleasantly surprised a little bit by voice business. We knew it was on a steady path but there were some positive developments there. I don't believe that 9% EBITDA margin is sustainable for voice business. 6.5 – 8.5% is a broad range but 7 – 7.5% is knowing where the business is going and our market position is possible.

In Data, 1st half of the year was more of a revenue challenge because market was extremely sluggish. Second half it's not that the market changed dramatically but a lot of our re-organization and streamlining of go-to-market activities gave us very strong sales results and translating in to revenues. But principally, in data if you see it was an investment year and we will maintain those investments - putting money into brands and marketing, putting money into new services

innovation. These are fairly sizeable investments that we decided to invest in from the beginning of the year in spite of saying sales number is not looking as robust. Because we felt it is important for the changes we want to make to the business mix, these investments both in terms of people as well as supporting OPEX on the network and so had to be done. And so it was an investment year for us and I think as I showed in the slide, where we put money in to new services did not generate the revenue growth only because they are still early stage. But you will see that coming on to revenues. From this quarter onwards you start seeing that incrementally build. And is not the end of it, we will have to keep it alive but last year was a big step up for us. And for us to move from the stages that we played in, we performed to bigger stages, this was absolutely a must.

**Srinivas Rao:** Based on your CAPEX which you talked about and it is great that we get CAPEX, actually to be honest, no other company gives CAPEX the way you are doing. So thanks to that and unfortunately probably have more questions then. You have shown your strategic CAPEX like you trend down now. Probably the only so called strategy CAPEX As you define is data centre from what I can gather. You have given a guidance of \$300 million broadly give or take for next year. Your CAPEX in voice business is somewhere around \$15-20 million. So are we talking about putting like \$200 million from data centres? Or am I getting something wrong there. I know of course there is sustaining CAPEX in data also.

**Vinod Kumar:** Data centres are bulk of it, but it's not the only thing. Even some of TCPSL is part of it. The data centre CAPEX is not going to be in the range of \$200 million. If I had to pick numbers probably more like \$90 – 110 million that kind of range for data centres. Also data centres will have some spurt, this year and next year we will see big build for data centres. Even going forward TCPSL these would be the main consumers. Many of the managed services tend to be more OPEX intensive than CAPEX intensive and there would be more direct cost involved with some of the data and managed services.

**Sanjay Baweja:** Like Vinod showed that graph where you noticed that we are actually able to sell much more than what we have been building till now in terms of India Data centre capacity. Therefore it is very important that we build so that we quickly get the benefit of revenue which will happen almost immediately. We are kind of late, if I may use the word, in terms of the capacity build up, we needed that capacity as of yesterday to make sure that we get the benefit from that.

**Vinod Kumar:** Another point is you know Sanjay mentioned Chennai and Pune as having low utilization. It is actually not a bad thing, because we built large data centres that allow us to fill up over time and also give us flexibility to respond to some fairly large requirements. In fact both Chennai and Pune having that excess extra space allowed us to respond and win two deals in the course of this quarter which otherwise we would not have been able to. The other reason is, in Indian markets dynamics are changing where it is not like the US where people build 500,000 to



600,000 square feet data centres now. No longer in India can you get the right economics by building 20,000 to 30,000 square feet data centres which some of our competitors are doing. Right, you really need to build at least 100,00 which is like the one we are doing in Greater Kailash, which is a substantial built of 1600 racks, that we will be able to support. So in Chennai and Pune we had done that in the past and now that will help us bring customers in and utilize it. So you can't strictly go by, as the data centre gets built it is immediately filled up, then you are doing something wrong if you build like that.

**Sanjay Baweja:** When I said capacity it means that they are in the 60s, others are above 90s. It is not that they are low; they are filling up as we go on.

**Srinivas Rao:** Fair enough. I will come back for more questions.

**Arun Kejriwal, Kejriwal Research:** Any updates on the excess land? Anything that you have heard as management and the Company?

**Vinod Kumar:** I would say that it is still a case where I cannot put a date on it and say by A, B, C date it will get resolved. However, as management and the Company we have driven a lot more discussion on the land issue both within the government and not just at DOT level, but also in other Ministries and dialogue between the promoters on ways to resolve the land issue. I would say last year the level of dialogue on the surplus land issue has been greater than in the past. There are still open issues where there are no clear answers for. We have answers but they might not be implementable given the way the government works and the political establishment moves. So I can say that there is progress, but no date that I can put to it.

**Arun Kejriwal:** One more question, probably we should be PAT positive in the consolidated level sometime in the current year?

**Vinod Kumar:** We don't give guidance but we are moving in that direction.

**Bajrag Bafna, Sunidhi Securities:** On your TCPSL, we have already seen that the Finance Ministry has awarded close to 67,000 ATMs, which should be rolled out for PSU side and you have fairly indicated 14,000. But as we notice, the bidding was pretty competitive, the rates per transaction which was hovering somewhere beyond Rs 30 has come down in this bidding, it is close to Rs 9 to Rs 10. So do you see the kind of bidding that has happened, post that, there is need to minimize the operating cost to a greater extent, so what you are doing basically to bring down the CAPEX of managing those ATMs and eventually make them profitable, because that is an area which is clearly under the loss making trajectory currently.

**Srinivasa Addepalli:** I think obviously the bidding that you saw cannot be really compared to prices that may be applicable in other contracts. Because each contract in terms of the type of ATM that is rolled out, the type of cost structure that is involved in these ATMs is pretty unique,

because each bank has its own way of doing its ATM build out. As well as the number of transactions vary tremendously from one bank to the other and in fact from one city to the other. So the per transaction pricing as a benchmark cannot be applied across contracts or across even markets. So with that having been said, you are right. We have to focus a lot on cost, both on the capital expenditure that goes into towards building the ATM as well as the operations, the day-to-day operations. In both of these scale is very critical. In terms of procurement of equipment, having a larger scale of procurement obviously helps in lower the cost, even in operations, and that is why we have focused a lot on concentrating our operations in a few markets where the staff that we roll out, the people, the vendors that we work with, we get the economies of scale of doing business. So in MoF, we are in three circles. We will try and do a lot of synergies of our white labelled operations with those three circles. I am not saying it will be only in those three circles, but we will try and be contiguous geographically to ensure that we can use the same staff, the same vendors and all the other infrastructure that goes with it to overall reduce the cost of operations. But like many industries, not dissimilar to the telecom industry, this space has also gone through that rapid growth and excitement phase where a lot of competitive activity has brought prices down. In some cases to a bit unrealistic levels and that is where we believe having a medium to long term strategy for that business and continuing to build with the right talent that we have hired is very critical. The White label operations gives us a lot more of flexibility because it is our brand, it is our strategy, and we are not dictated by what a customer tells us to do in terms of a bank. So that will help us improve our margin profile.

**Bajrag Bafna:** But what does your strategy suggest? The prices have come down almost one-third than what they used to be 2 years back. Whether this '14, '15 or '16 do you see that there is a possibility with the sort of pricing, the entire SPV becomes profitable eventually.

**Srinivasa Addepalli:** It will be. As Vinod alluded to, there are a few contracts that we may have which may not be as profitable, you know some of the managed services contracts which are a few years old, we are reviewing some of those, we will exit contracts that we think are not going to be profitable for us. Please remember in many of these semi-urban and rural areas, the public sector banks are the only source of banking and transaction. So the transaction levels in these markets tend to be quite high. Some of these places, we get 300 transactions every day, whereas in some urban markets and ATM we have 100 transactions a day or 80 transactions a day. So again, per transaction price does not matter. Actually it is revenue per day that we generate per ATM because the cost of ATM per day is fixed. So revenue per day is important. Cost per transaction is actually a metric that is derived from multiple things.

**Bajrag Bafna:** On your Data Services business what is the current capacity utilization or is there a ballpark number that is there in your mind, that before doing the further CAPEX, this is what

something which will be driving force to doing further CAPEX in the data business? If I am not wrong I heard it is 18% currently. So what is that ballpark number?

**Vinod Kumar:** I really wish I could give you an answer but I cannot, only because there are so many elements to it. He is talking about 18% of lit capacity, 87% of data centre utilization. And it really varies by around; I do not want to just throw a number out there to move on.

**Bajrag Bafna:** How do you look at it perhaps from our angle to build in our model, what is that something which you could suggest would be beneficial to us?

**Vinod Kumar:** I was going to say I cannot do it this way, you really have to look at the CAPEX to the revenue ratio, CAPEX to EBITDA ratios rather than try to figure out utilization. Because utilization also we are doing different things in the way we utilize the same network ourselves but also through technology upgrades and so on. I think you will spend a lot of time, you are the experts in modelling, I am not going to try and pretend how you do your job, but trying to figure it out as utilization will be an endless chase.

**Bajrag Bafna:** And my last question is, any plans to demerge the non-core business from the Tata Communications and eventually reward the benefits which perhaps most of the investors are looking for many years?

**Vinod Kumar:** What do you define as non-core?

**Bajrag Bafna:** All the properties, because if I put the market value of those properties, will eventually be higher than the current market cap of Tata Communications. Perhaps this could be one strategy?

**Vinod Kumar:** No plans to do something as drastic as that or as major as that. As Sanjay has said very clearly as we have done where we think there is an opportunity to monetize we will, especially keeping an eye on deleveraging a little bit, but to take all the land that is not being utilized by the Company and to give it off or sell it we have no such plans.

**Amber Singhania, Quant Capital:** My question is towards the CAPEX side. You have done \$291 million last year and this year you are guiding around \$300 million. Majority is going towards growth and strategic side. So, if I take a longer term view, how do you see this CAPEX going forward, let us say 3 or 4 years down the line, is it going to be the similar level in which you are comfortable at \$300 million or do we see this coming down significantly going forward?

**Vinod Kumar:** We believe a business of our nature especially given that we have need to grow the business in the top line much, continue to grow at a over a period of time, \$250-300 million would be our estimate going forward also. As a percentage of revenue and percentage of EBITDA it will come down but we believe that \$250-300 million is what we will invest as CAPEX in future.

**Amber Singhania:** Also, if you can throw some light for Neotel in case of CAPEX?

**Sanjay Baweja:** They do about \$70-80 million. But I think from our perspective although we consolidate the numbers now, overall I think they will start generating enough cash, not to seek any equity or any support from the shareholders. I think that is the threshold we need to look at as a business where till now they were asking for cash on an annual basis. I think that is going to stop like we saw. They are already EBIT positive, going forward they will generate enough cash for their own CAPEX.

**Vinod Kumar:** But given the phase of their business let us say \$70, 80 million per year is a run rate for them.

**Nimit Tanna, Trust Investment Advisors:** Two questions; the first one is I think one of the comments you made was very interesting that one of the strengths for people to look at the data centre is to combine your data centres with your network. Now, the global players have actually been harping on their strength as being carrier neutral and actually not being embedded to one network and creating exchanges because they can take multiple carriers working there. It is very different from what you said. Just wanted to get your thoughts on that. And expanding on that, would be very interested what you think is the data centre addressable market in India or the markets that you are looking at?

**Vinod Kumar:** I do not have the addressable market size of the top of my head but we can give that to you separately. All our data centres to get major customers in you need to have multiple carriers in the data centre. So, in our data centres in India for example, we will have either BSNL, Bharti in many cases and so on. So our data centres in that way are carrier neutral, in the sense that not like 10 years ago when carriers would build a data centre, and all that capacity had to be bought from them. What I was alluding to is the fact that we can offer the network services as well as the data centre service together; it gives us some pricing flexibility, commercial options and so on and we can also engineer solutions that allow people to scale bandwidth up and down must faster. Which if you go to DRT, Equinix one of those guys who true carrier neutrality they cannot do that, because they are only selling the data centre space and you as a customer will have to go and negotiate those network deals independently. Today, data centre capacity requirements are so dynamic and applications needs that drive the bandwidth consumption are so dynamic that we have competitive advantage in our opinion on how we can package our network, with the data centre capacity. But all our data centres will also have other carries, because otherwise you will never get big customers in.

**Nimit Tanna:** You think that is a trend that is going to take place with people like Equinix and so on and so forth, that incumbents like AT&T and Verizon would come back and say that we can offer you both, is that a trend where you could combine network services.

**Vinod Kumar:** I believe that, frankly the platform that the new third party providers claim about neutrality is not a valid one. That used to be valid, maybe a decade or five years ago, but since then even the AT&Ts and Verizons of the world in their data centres, they offer multiple carriers.

**Nimit Tanna:** Okay, the second question, you spoke about a lot of products and lots of things that you are doing. Do you think you are stretching yourself, and I am asking this because of two observations, one is, you are excited about CDN, for example. CDN is specifically a place where AT&T tried very hard and eventually settled at Akami, they are going to move out, like let Akami go ahead and do it and we are going to partner with them. So you are having a big giant deciding not to do it. Second observation was I think, a couple of years back, you spoke about InstaCompute and how excited the entire IAS space. I think in your analyst meet at Jaipur or wherever, you all mentioned that InstaCompute is something you can go a little steady on, so taking both these observations and looking at the number of products and solutions you are looking at, do you think it would make more sense to focus in three or four as opposed to kind of a carpet comb.

**Vinod Kumar:** It is a very good question, what we have done over the years is, launch multiple initiatives, but we have also acquired the discipline to kill things, when we believe that either the market size is not large enough, or we don't have a right to win. In the case of CDN, actually we bought Bit Gravity which is a company in the US which gave us a good starting point, through a licensing deal we did with a large player last year. Almost everything we invested we recovered on a cash basis. Then we have taken the road map of services in CDN and reshaped it to meet what our network needs. Keep in mind that we are a huge IP transit player. CDN also makes your IP network more efficient and so, we look at CDN and IP transit as one technology platform and not CDN separately. Also, we are running a media and entertainment story, where there is a lot that CDN can do. So, in the last year, what we have actually done with our R&D efforts in CDN is to make it build features which are going to be interesting for the MES sector. So, we have adapted that way. I don't think CDN itself, we might not be able to take on Akamai, but the applications of CDN we have many ways of using it. There are elements of CDN technology which we will use for our video services. Especially now I have the freedom that we spent on the acquisition, we have fully recovered. Now we are looking at how we can creatively use it, but at the same time offer a CDN service, and we do compete with Akamai, they are a giant, but we do compete with them. Because after Akamai it drops off, there are many different players.

On InstaCompute, that is a classic case. We thought that there was a big opportunity to offer infrastructure as a service. We created a good technology platform, but later on we decided that the economic viability of trying to offer computing services on a cloud basis going against Amazon Web Services is sort of futile. Therefore we sort of pulled back; we have really cut it down. But what we have learnt there, it helps us in hosting, is helping us build our private cloud offering, and

more importantly, it is helping us think through the commercial structure, and how we will take our private cloud, for example, will be completely different. It may most likely be a white label arrangement where we will use our go-to-market capability and use somebody else's technology platform.

The thing in our portfolio as I said and I will be the first to admit it, there will be things that we will go and launch, but we will monitor very quickly, and things we may kill and those can be called failure, but in the telecom and technology services business, you know, it is bound to happen. But it is looking at redeployability of assets, it is about looking at how quickly you recover from wrong calls that you make.

**Nimit Tanna:** Just a final question, I think it was again very helpful, that you mentioned about, in the data centres, going on the Colo path and not necessary managed hosting. I just want to clarify, because managed hosting, again the same point, going against AWS is going to be very hard. In Colo, you can collaborate with them, is that the plan that you stick to Colo.

**Vinod Kumar:** Within the data centre there are many services, one is, you have raw Colo, and then somebody says, give me managed Colo, which is actually the most profitable one. Because they really want you to do some basic eyes and hands support for the servers that they have, do some maintenance, backup kind of things. And you can use your people across many different customers and that gives you the highest yield per square foot. Then you have managed hosting. Managed hosting and infrastructural service, like InstaCompute, we are going to be very selective. Public cloud, we have an offering, is not going to be a big push, private cloud and managed hosting for Indian customers, for us we have a good traction. We are also working quite closely with some of the large SIs in India, TCS is one of them, but not the only one where we are working with them to win customers and deliver hosting out of our data centres. That is turning out to be quite profitable. So it is not, we are going to do managed hosting for everybody in all the data centres we have, in fact, that we are really narrowing it down only to India largely, a little bit in Singapore and a little bit in one our data centres in the US. So some of these things have also come about because we now have a group only working on data centres, they are able to do the economic modelling, the analysis, competitive positioning in a far more detailed way than having a team that would sell network in the morning and sell hosting in the afternoon, and cloud the next morning. So, that focus is helping us.

**Mihir Shah, Alpa Securities:** Could you tell me the significance of the Formula One tie-up, that is a big landmark deal for the Company, so what are your views and your status on that.

**Vinod Kumar:** We did the deal almost a year ago. We have finished our first season of supporting all 20 races, and that is continuing through this year. So Formula One deal needs to be looked at in multiple ways, first and foremost it was a big validation of our capabilities because



we are offering one of the most demanding customers in the world, very high speed connectivity in 20 locations with very short time to implement. We literally get access to race location on Thursday, and by Friday the network has to be ready. There is pre-planning that happens obviously. Sunday we dismantle, and move to the next location. So being chosen for that, when we competed with all the major telcos in the world, was a feather in our cap. We have also learnt a lot about operating critical applications and so that we are using it as a reference study when we talk in other sectors like banking, tagline is 'if you can do it for Formula One, we can do it for you' kind of thing. The other aspect is about branding, obviously, over the last few years, we have found that we have created a lot of global capability, but often we go to the last stage of the deals and we lose out because our brand is not known. So they might understand at a board level especially if it goes to a large Fortune 500 company for example, they might not even know Tata Communications, but if they know Tata Communications, they may associate us with wholesale only offering services in India. So we needed something to put ourselves in the mind of C-level decision makers. That helped us a lot, but that is an ongoing thing, it is very tough to show a direct correlation between that. But for me, the real big opportunity in Formula One which will happen over a period of time is, the way the races are broadcast to more screens, and with the relationship that we have with Formula One, we are working towards creating a revenue stream by not just a broadcast to the TV, but we are already doing F1.com, the hosting, but that is not real time, but as they get, start wanting to stream content on a real time basis, we should be quite well positioned.

**Mihir Shah:** What is the competition within India and outside India in data and voice segments?

**Vinod Kumar:** In India clearly, our main competitors are Airtel, Reliance Communications, and Tulip and Sify. I think you know the state of some of those players, so that has worked in our favour, because people have realized that going with smaller operators who are very aggressive in the way they do some of their commercial contracting might not be the best thing. So we have gained market share last year in India and have outpaced everybody as far as data revenues are concerned. If you look at our segment, people mix many things; they take the data cards and dongles and add it end to end, if you take those out, if you look at large enterprise data services we have grown. In fact it has been recognized by Frost and Sullivan where we won awards for network services, managed services, contact centre, and managed video conferencing, so more accolades than anybody else has got.

Internationally our competition continued to be the major players AT&T, Verizon, BT, Orange Business Services and Vodafone is coming after the Cable and Wireless acquisition, we see them here and there. But as far as growth in the industry, we have outgrown most of them or all them. Recent wins in the last year have shown that we are able to win large MNC contracts. In fact there is one deal where we partnered with a local Indian SI to win a global network deal, 350 site

MPLS contract, about 60 million Euros contract value, which is currently under implementation. We won that in Q4 of last year, and there we competed against AT&T, BT, Cable and Wireless, Vodafone, Orange and we won. So, we are definitely getting traction in that space also. But we are a smaller player, so our market share is sub 1% but it gives us room to grow.

**Mihir Shah:** Last question, the Company is invested in Neotel, and UTL in Nepal, so how have these businesses merged with the global operations. Have they fared as per your expectations?

**Vinod Kumar:** UTL is a domestic business, we carry their wholesale IP traffic and their voice traffic, but they are largely a local player, it is for historical reasons that we are in UTL. Nepal is neither a strategic market for us nor is UTL. If you ask me what UTL revenues are, I might not know exactly. But Neotel clearly is very strategic; it is very integrated with our business. Neotel uses the TCL infrastructure for all its international connectivity. It leverages off the operational capability that we have, the product management and engineering capability, so they don't have to build it themselves, so Neotel is very well integrated into what we do.

**Reena Verma Bhasin:** Thank you for this opportunity and I have several short questions, so I hope you will bear with me.

**Vinod Kumar:** As always.

**Reena Verma Bhasin, Merrill Lynch:** Just firstly, you know, we saw some deals happening with Reliance Jio in India and also the Singapore undersea cable contract. Were you not in the fray for that business, can you share anything there?

**Vinod Kumar:** No, I have nothing to share, in fact, what Reliance Jio is doing, obviously they are building their network out and they are buying capacity from multiple players. We will supply them as we do every other wholesale provider also. But what I picked up yesterday, the question seems to be more around the fiber pair sale that was made and I'll have to even ask my teams. For me it is normal course of business, we probably looked at it and it did not make economic sense, and we did not do a deal, but there is nothing landscape changing or strategic about these kind of things.

**Reena Verma Bhasin:** No, even the optic fiber deal that they did domestically, I was just curious whether you had any conversation.

**Vinod Kumar:** Yes, as I said, we have, these are normal course conversations and discussions with Reliance Jio even as we speak on multiple things. There are things that we are selling them and others are selling them, so if the question is, are we having discussions with Reliance Jio, the answer is yes. But, do have to advertise every deal we are doing, the answer is no.

**Reena Verma Bhasin:** Okay, given your emphasis on branding, just and perhaps what is happening in a couple of other sectors and other markets, can you please remind us whether Tcom pays any royalty to the Tata Group.

**Management:** We do, we are par signatory to the BEBP (Brand Equity and Business Promotion) Programme.

**Reena Verma Bhasin:** And what is that percentage, please.

**Vinod Kumar:** Annual BEBP payment is lesser of 0.25% of revenues or 5% of PBT for each entity.

**Reena Verma Bhasin:** Right, okay. Is there is a tenor to that royalty agreement.

**Sanjay Baweja:** As of now, no.

**Vinod Kumar:** As long we are part of the group.

**Reena Verma Bhasin:** No, I meant is there a tenor at which it gets revised.

**Sanjay Baweja:** No, no. There is no revision which is going to happen. As of now we don't expect that.

**Reena Verma Bhasin:** Just a couple of other things is, on your data margins, you said that the traditional data services are seeing stable margins, is that because pricing has now stabilized at a traditional level?

**Vinod Kumar:** No, I would not say so, Reena, I think pricing continues to be a pressure, we believe that margins can be held because of all the efficiencies that we are building into the system. As you know we also took cost out last year through manpower reduction, but also other things that we have done. But price pressure continues to remain at the same level, it is not increasing, but the price pressure remains on traditional data services, hence the reason actually why we need to build these new services where the margin over time is higher, and also the contracting periods are longer.

**Reena Verma Bhasin:** Like you have been very upfront about the unsustainability of voice margins, would you say then that at least the traditional data margins is not sustainable at 24 to 25%.

**Vinod Kumar:** No, I would not say that because the voice is far more mature business, and if you look at let us say the next 10 years, I would say, voice I would be more concerned about margin than in traditional data.

**Reena Verma Bhasin:** Okay, and just still have a couple of more questions. On Neotel revenue, we have not seen any momentum. Can you help us understand how we should think of the next two years?

**Vinod Kumar:** Neotel revenue has actually grown if you look at it on a ZAR basis, but the exchange rate weakening quite considerably, like we had in India, with our data revenues, makes it look like it is sluggish. We have to take that into account, Neotel has also gained market share in South Africa quite considerably, last year in Enterprise, and to some extent in Wholesale, overall 1.5% market share gain. But I have to say that in Neotel one of the challenges that we face right now which we are working on is how do we accelerate top line, because we have done a great job in the last six quarters of cleaning the cost and really streamlining the operation. Last year, the management team they also did a good job of cleaning up the revenue mix, and weaning us off the dependence on these contract revenues, which would come and go so they were volatile, but also they were lower margins. Now nearly everything you see is recurring revenue that is running on one year to three years contracts. The key now is how we get the top line going, so we have increased our spending and marketing there in the last couple of quarters. We are putting more feet on the street. Also some of the noise around Neotel's sustainability which we faced about a year and a half or so ago has died down. In fact we track negative articles in the press and there are none whatsoever. So we see Neotel beginning to show up, greater uptick on revenues, but I can't declare yet that we are out of the woods on revenue growth in Neotel. That is something that we are working on.

**Srinivasa Addepalli:** On Neotel, I think what Vinod mentioned about the one-time revenues versus recurring revenues is quite significant because in FY12 and previous years there were large chunks of one-time revenues, FY13 almost had none. So on a like-like basis, just recurring revenues have grown 12 to 15%. The one-time revenues, a lot of those contracts we have stopped pursuing those and focus is on recurring. So there is actually underlying growth which is just not visible because those low margin one-times have been taken out right now. So going forward with the emphasis on recurring, I think we should continue to see growth.

**Reena Verma Bhasin:** Given Vinod's statement that Neotel is very integrated with our overall operations, what it be fair to say that you are not looking at majority stakes sell down.

**Vinod Kumar:** When you are keeping a business, you need to make sure it is highly integrated and operated. Now you asked me the question earlier, will you sell Neotel? I said, depends on the value. Right, we are obviously not trying to hawk it, but if as part of this process and that is what the rumours are coming from, if somebody puts a huge valuation in front of us, on Neotel, we will have to look at it in the context of our overall financials. And being integrated has its advantages as well because we can maintain market presence without actually being an owner. I look at this as two separate things. Integration makes it more optimized. We outsourced roles from Neotel

back to India in order to improve their cost structure. That will benefit even the business regardless whose hands it is in.

**Reena Verma Bhasin:** But given that only last year, you had to support your minority partners because they were probably unable to fund. I mean, if there were takers for this business, would not a deal have happened last year. So what has changed in 12 months that we should be excited about the possibility?

**Vinod Kumar:** I would not be excited about the possibility that is for you to decide. But what has changed, why the interest is, clearly is based on the performance of the Company.

**Reena Verma Bhasin:** Just another question was on the creation of a subsidiary for your data centre business, is there a rationale for it?

**Vinod Kumar:** Gives us more flexibility over time, in multiple ways, both for operations as well as investment.

**Reena Verma Bhasin:** It is always possible for you to have a stake sale in the subsidiary.

**Vinod Kumar:** It is possible.

**Reena Verma Bhasin:** Lastly on financials, Sanjay, your standalone accounts are showing huge blips up in margins for the last two quarters, whereas your consolidated is relatively flat, so what has changed in your allocation policy for expenses.

**Sanjay Baweja:** There is no change in the allocation policy per se, there is nothing which changed. Just that India operations, like Vinod mentioned, that we had some benefit as far as voice is concerned in terms of India margins. We had exceptional sale of land, which happened in India, so all of that has helped us. There is nothing, the allocation has not changed. Let me assure you.

**Reena Verma Bhasin:** But I am talking about EBITDA, I am stripping out Rs. 110 of one-off in the Q1 and stuff like that.

**Sanjay Baweja:** So one-off pension fund, for example is a one-off which happened not in India therefore India will look better to that extent.

**Reena Verma Bhasin:** Your margins have gone from 18% standalone to 28.5% without any change in allocation services?

**Sanjay Baweja:** Yes, there is no change in the allocation policy.

**Reena Verma Bhasin:** On voice then you are saying all of the benefit is happening at an India level?

**Sanjay Baweja:** I am not saying that. I am saying India the benefit is there which has helped us in the overall EBITDA. The hit which have come in the overall business have happened for example the pension fund, the cable cut have not happened in India. Therefore the non-India will look a little lower on an overall basis therefore you are saying it is stable otherwise like I said there would have been a growth even in the non-India business also.

**Reena Verma Bhasin:** So why has India margin improved so strongly over two quarters?

**Sanjay Baweja:** India profitability is doing better there is no question about that. India business is doing better even in data services and in voice we have already talked about. So that remains as an underlined.

**Deepti Chaturvedi, CLSA:** I have two more questions. So just like in your presentation you talked about your revenue mix in three to five years, do you have a profitability targets for margins at a consolidated level in three to five years?

**Vinod Kumar:** We have some targets but we are not putting them out.

**Deepti Chaturvedi:** So you are able to give us revenue guidance but you are not willing to...

**Vinod Kumar:** I am not giving you revenue guidance. I shared with you my aspiration.

**Deepti Chaturvedi:** You have an aspiration for margins?

**Vinod Kumar:** Yes but we are not sharing that.

**Deepti Chaturvedi:** And the other question in your one of answers you said you are seeing a lot of activity from the government on the real estate deals. Is it also that government moving forward on the remaining stake sales here in this Company?

**Vinod Kumar:** I have nothing that gives me any reason to give you answer one way or the other. And frankly it should be really taken sequentially so our key goal as a company is to try and facilitate the process to get the land demerged then the government's stake and so on is to be considered by them.

**Deepti Chaturvedi:** In the longer term can you ever see Tata Communication part of an integrated business for the whole group in the telecom?

**Vinod Kumar:** You need to ask Mr. Cyrus Mistry that. What I would say that is obviously we are doing a lot more with TTSL in terms of operational synergies now than we did in the past.

**Reena Verma Bhasin, Merrill Lynch:** One question since you did bring up Mr. Cyrus Mistry, anything you can share with us in terms of how the emphasis on your growth plans may have changed due to the leadership change?



**Vinod Kumar:** Won't attribute it to the leadership change per se. Clearly Mr. Mistry is very involved with the business now because he is trying to understand the operations of the larger companies in the group so we have been having frequent interactions with him and that's all I can say. But in terms of our growth aspirations and strategy of the business and so on it would probably be unfair on the man to expect him to change it so quickly.

**Sanjay Baweja:** Reena to answer your question on this standalone margin I think you are looking at quarter-on-quarter the annual change is only about 2%. Quarter-on-quarter that has changed like I said for voice one quarter impact can be a little higher than the other but otherwise on an overall annual basis it is consistently better.

**Reena Verma Bhasin:** My only concern there or rather only thing I need to think about it should I be looking at 28% for forward years?

**Sanjay Baweja:** I think you should look at it from an annual perspective and see how the growth is happening rather than one quarter.

**Srinivas Rao, Deutsche Equities:** What is the cumulative investment in Neotel till date?

**Sanjay Baweja:** \$460 million.

**Srinivas Rao:** Which is for your 67% stake?

**Sanjay Baweja:** Yes.

**Srinivas Rao:** Second question is that the Singapore debt is it guaranteed by any group company or group holding like that?

**Sanjay Baweja:** It is guaranteed by the India mother company, the holding company which is TCL. So TCL India kind of guarantees the 100% subsidiary.

**Srinivas Rao:** So there is no Tata group that has supported.

**Vinod Kumar:** That's not how the group operates.

**Sanjay Baweja:** We don't expect it and we don't need it.

**Srinivas Rao:** And what is the debt number which you give for Neotel which you have been giving, is that your share of the net debt or is it a total debt?

**Sanjay Baweja:** Now the consolidation is total so it is total debt.

**Srinivas Rao:** In your fact sheet the number which is there it is the 100% of the Neotel's debt.

**Sanjay Baweja:** Yes.

**Srinivas Rao:** Also just want to clarify Neotel has some CDMA spectrum is that what it is?

**Vinod Kumar:** Yes.

**Srinivas Rao:** Along with this rumour there is a rumour that basically most of the people are interested because of the spectrum.

**Vinod Kumar:** I won't comment on rumor I don't know what basis they are doing it but clearly the spectrum is a valuable asset. We are doing some trial and so on with the spectrum to see what they can do with it and what offerings and revenue stream we can create.

**Srinivas Rao:** But it is a CDMA spectrum right?

**Srinivasa Addepalli:** 800 MHZ spectrum and then there is a potentially LTE spectrum.

**Srinivas Rao:** In which band?

**Srinivasa Addepalli:** Think its 1.9 or 2.1, don't quite remember.

**Vinod Kumar:** It is not only CDMA spectrum but there is a spectrum that can use for LTE.

**Srinivasa Addepalli:** There are some spectrum which is being use for the current CDMA network that they currently rolled out which is in the 800 MHZ. They have some spectrums on which trials are beginning of LTE. There are some spectrum on which WIMAX network has been rolled out for enterprise connectivity. So there is spectrum in multiple bands that the company has.

**Vinod Kumar:** If there are no further questions that will conclude today's discussion. Thank you so much for joining us today.

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