TATA COMMUNICATIONS

Q4 & FY2016

Earnings Conference Call Transcript

May 30, 2016 at 03:30 pm IST

MAIN SPEAKER:

Vinod Kumar, Managing Director and Group CEO

Pratibha K. Advani, Chief Financial Officer

Siddharth Rangnekar, CDR India: Good afternoon everyone and welcome to the Tata Communications Limited conference call. We are joined today by Vinod Kumar, MD & Group CEO and Pratibha Advani, Chief Financial Officer.

The company's results for the quarter and full-year ended March 31, 2016 were announced on the 27th and the results presentation and fact sheet are available on our website. I hope you had an opportunity to browse through the highlights of the performance.

We shall commence today's call with the key thoughts from Vinod. He will be followed by Pratibha who will share the financial highlights during the review period. At the end of the management remarks, you will have an opportunity to get your queries addressed.

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

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

Vinod Kumar: Thank you, good evening everyone and a very warm welcome to all of you. As you know, in the last meeting or interaction we had, we could not give you details on the results because we were closing it. We are pleased now that we have closed the books and we are able to share the results of Quarter 4 and the last year with you. I will start by giving you a quick overview of our performance and then share some perspective on industry development as well as our strategic direction.

We are very excited with our journey so far in the way our operational performance has progressed. Clearly from the results you can see that our data services have kept up the momentum of the business in Q4 and throughout the year for FY16. The moderation in the voice segment which you can see in the numbers is also something that we have discussed along the way, we had anticipated it long back in 2013 and adequately cautioned and prepared ourselves to gear up to enable and deliver against the backdrop of this change. This significantly affirms the way we understand our business and should hopefully demonstrate to you that we managed to stay ahead of the curve.

From an earnings' perspective our financial performance continues to reflect healthy operational trends and sustain momentum. The improvement in the data segment performance has continued outpacing industry growth with both revenues as well as margins showing steady improvement. The FY16 data revenues grew 18% year-on-year and FY16 EBITDA margins has hit our stated near-term milestone of 21%. In our interactions over the past couple of quarters, we talked about the expectation of a stronger H2 for the data segment based on revenue momentum we were seeing and the trajectory of new services as well as the turnaround in TCPSL. Q4 performance for us is a clear reflection of our stated intent with data revenues up 24% year-on-year and 5% quarter on quarter. Data EBITDA is up 41% year-on-year and 10% quarter on quarter, the Q4 data EBITDA margins are at 22.8%. Pratibha will later on talk through some of this in more details and share some additional texture on the numbers. In FY16, 57% of our core revenues came from the data segment compared to 51% a year back and 82% of our FY16 core EBITDA came from the data segment compared to 74% last year. This again is very much reflective of our strategy and what we have been giving you as directional guidance. As a share of the most sustainable and lucrative data and managed services segment is growing, this is substantially improving the quality and the composition of core business revenues and EBITDA with a higher degree of predictability as well as higher stickiness in the revenues.

I am sure that you may have gone through our recent strategic alliance which we announced a few days back, in which ST Telemedia acquires 74% majority stake in Tata Communications Data Centre business in India TCDC and in Singapore TCX business for an estimated 100% enterprise value of Indian rupees 31.3 billion and Singapore dollars to 232.4 million respectively. This translates to a total enterprise value of roughly US $640 million. This portfolio shift and the re-allocation of capital will allow us to further hone our ongoing focus on the development and introduction of Advanced Managed Services while retaining a key stake in the colocation market which has adjacency with our network services. Both STT and Tata Communications share a very similar ethos, our values match very nicely, we have impeccable commitment to customer service excellence and STT are clearly long term investors who focus both on performance and value as well as growth. We will continue to remain a significant shareholder holding the remaining stake in the business. Tata Communications will continue to focus on the development and introduction of its Advanced Managed Services portfolio including a broader set of services around IP and the internet, cloud enablement and unified communications and collaboration services. We will also continue to invest in strategic partnerships around the world in order to deepen our reach and also strengthen our product and service asset.

Given our global network infrastructure and the backbone that we operate we are very much in the driver’s seat to leverage the infrastructure while at the same time driving transformation on the layers of services that ride above. We are focussed on nurturing our partner relationships to deliver and drive revenue growth because we believe that the service set can be leveraged with a larger sales team that our partners will bring both from systems integrators as well as carriers. The Ecosystem that we are building of Systems Integrators, value added re-sellers and the extensive set of worldwide carrier relationship that we have nurtured over the years is giving us that extra push in the global arena. I am hopeful that the work that we have done in the partnering domain in the last 12-18 months will begin to bare meaningful fruit in the current financial year. At our end we are focused on developing the necessary framework and technologies to leverage these relationships, so that we can sell to, sell with and sell through the strong partner ecosystem. This transformation is working at many levels, while there is overall business mix itself that is changing, we are also driving change within the data business and that is really what our story frankly is all about. You can refer to the fact sheet that we put out every quarter and you will see that the business mix has moved in favor of managed services on a quarter to quarter basis and we believe that this will continue to be the case as we go forward.

Our emphasis on growing the contribution of our innovation based services is beginning to yield results. Enterprises globally are taking note that in Tata Communications they have an aggressive, nimble and agile partner, who can deliver sustainable in rewarding solutions to meet increasingly complex requirements. We are progressively capturing customers, the global networks, multi-product sales and multiyear contracts. Sumeet Walia gave a good overview of where the global enterprise business is going and hopefully you saw cases like the Air France-KLM win which is a great example of how we got into an opportunity with a large multinational against established incumbents and really carve a niche for ourselves and that is a growing opportunity for us even as we speak.

As an organization we have moved forward on the parameters that we have set for ourselves. It is no surprise therefore that we are being recognized as one of the best employers in India as per AON. Getting position for the 3rd time in a row in the Gartner's Magic Quadrant as a Leader for Global Network service providers and the Frost & Sullivan ICT Award, recognized as the enterprise of the year in Telecom, Data, Ethernet, Hosted Contact Center and the VOIP services space, along with being the leader in the third party data center services domain. This is a true reflection of our strengths to be the best in every category of services that we provide, both in India as well as on the global stage.

Now coming to Neotel., Neotel is beginning to see some traction on the wholesale side as the uncertainty around the transaction goes away from a customer and local market perspective. Strategically, though I can assure you that our intent is to exit that market and we are working aggressively and on multiple fronts on steps that will lead us in that direction. In the meanwhile, we are taking steps to strengthen the operational focus on the business at Neotel and rest assured that we are not taking our eye off the ball with the business that we have in hand and to make sure that value is not lost in Neotel. However, we do realize and I hope that you will also understand that the business has been on hold for several quarters. and this does have some impact on employee morale as well as on the customers. Largely, on the wholesale side but as I said in our last meeting the enterprise business both large enterprise and the SMB business continue to show good traction and our customers are loyal and staying with us. On the wholesale business, we have an opportunity now to bring people back to the table and we are doing that and I hope that those would start showing some results in the coming quarters, while at the same time in parallel we do work on our exit plan.

Tata Communications stands with the forefront of technology change and we are prepared for it. We are enabling our customers to make some critical transformations on their digital journeys as well on their effort to go even more global. We are driving forward and expect to continue to stay ahead of the curve in the technology front and we believe that this will help us meet our customer needs. The transformative forces that we have unleashed are guiding us in the right direction, both in terms of revenue and margin profile. The commitment that we have and I am personally very committed to it to improve the ROCE and maximize shareholder values remains steady and central to our thinking and our actions and you will see that focus translating to numbers in the coming quarters as well. As Pratibha will now elucidate on the numbers and through that explanation you will get a better appreciation and a fuller appreciation of our performance in Q4 and in FY16.

With that I would like to invite Pratibha to discuss the financial highlights of the last quarter. Thank you.

Pratibha Advani: Thank you Vinod. Good afternoon everyone and thank you for joining us on the call today. I will start by recapping the financial highlights for quarter 4 FY16 and then focus on providing you with some qualitative context to the numbers in our journey forward. I hope by now you would have had an opportunity to look at our detailed earnings' and presentation. My apologies for the inconvenience caused to some of you on account of a glitch in our presentation. During my remarks, I am going to talk more on key financial trends and reemphasize its linkage to our growth strategy that Vinod has just articulated for us.

We are extremely pleased with our strong data led Q4 and FY16 earnings performance. Momentum in growth of data business continues to drive our business primarily offsetting the muted growth of voice business and softness in start-up business. We continue to gain market share in India enterprise segment and FY16 market share stands at 27% which has moved by 1% over last year. We have during the year added over 600 enterprise customers globally including several key wins from Fortune 500, ET 500 and Forbes 2000 list of customer. Data business has generated free cash flow and our definition of free cash flow is EBITDA less CAPEX of Rs. 86 million during the year, a whooping growth of 145% over last year where data business had generated Rs. 35 million.

Starting with consolidated performance; consolidated FY16 revenues are up 3.2% year-on-year to INR 205,548 million and consolidated Q4 FY16 revenue are up 6.9% year-on-year to INR 51,454 million. Consolidated EBITDA for the year is up 1.5% year-on-year to INR 30,335 million and consolidated Q4 EBITDA is up 6.9% year-on-year to INR 7,665 million. This growth is despite the challenges that we have seen with volume compression in our voice business coupled with lower project revenues in our start-up business.

Moving on to our core business performance, we have witnessed a strong performance in our core business for FY16 wherein revenues are up 5% year-on-year to INR 186,530 million and core Q4 FY16 revenues are up 10% year-on-year to INR 47,786 million. Core EBITDA for the year is up 10.6% to INR 26,823 million and core Q4 EBITDA is up 19.7% to INR 7,395 million. I do want to emphasize that this improvement in core business performance is after absorbing the weakness in voice segment. The compensation of our core business is steadily transforming in favor of data. Quality of core business EBITDA is improving on the back of strong predictable performance from data portfolio. Data services clocked 17.9% growth on top line year-on-year at INR 105,971 million in FY16. Q4 FY16 saw further acceleration in data segment building on the trend from earlier quarters. Q4 FY16 data revenues stood 4.9% higher quarter-on-quarter and 23.5% higher year-on-year at INR 28,295 million with corresponding EBITDA margin standing at 22.8%. We have witnessed 4 sequential quarters of strong EBITDA growth coupled with margin expansion in our data business and this is one of the highest margins this quarter in our data segment. This growth in data services comes on the back of strong growth that we have witnessed both in our traditional services portfolio as well as our new and innovation services. Our traditional services while they have grown by 6% year-on-year the new and innovation services have registered a strong growth of 31% year-on-year. If we look at the second half of FY15 versus second half of FY16 then the growth in the new services is 34%. We continue to be EBITDA negative but that is primarily because we are continuing to invest in this portfolio and as the start to scale up operations we will see turnaround happen. The Company continues to make gains in enterprise business which delivered 23% growth in FY16 Y-o-Y on the back of strong demand for its innovative suite of solutions. Tata Communications Transformation Services and Payment Solutions business continue to stir in the right direction. Transformation services witnessed strong growth of 36% year-on-year in FY16 and 67% year-on-year growth in EBITDA on the back of large deal wins. On the payment solution business our efforts towards ATM portfolio rebalancing and rationalization are yielding consistent improvement across all operational parameters and the business has become EBITDA positive. This is on the back of consistent growth that we have witnessed in transaction per White Label ATM. At the start of the year this was close to 54 transactions for ATM and this has now moved to 74 transactions. Revenue grew 10% year-on-year in FY16 from INR 5,665 million in FY16 versus INR 5,157 million in FY15.

Moving to our voice services, we saw 11% decrease in ILD volumes primarily contributing to softness invoice which de-grew by 8.2% year-on-year at INR 80,559 million versus INR 87,761 million same period last year. Lower volumes have impacted EBITDA margins for the year which ended at 6% and contracted by 120 basis points during the year. During the quarter however, we have seen a marginal expansion in margins by 70 basis points. This is on account of one-time adjustment. Start-up business de-grew by 11.2% year-on-year to Rs. 19,018 million in FY16 with decrease in EBITDA by 38%. Start-up business performance in FY16 was weak, given that on account of two reasons; one is because of the depreciation in ZAR and also the slower momentum in projected revenues that we have seen during the course of the year. Our focus is on bolstering the performance of this business.

Our core PBT before exception grew by 27% year-on-year to INR 4,872 million, a clear reflection of our continuing operating leverage. Generation of free cash flow continues to be our priority. In FY16 our EBITDA less CAPEX grew by 21% to USD 119 million, and CAPEX for the year was USD 291 million. In FY17 CAPEX spend will be around the range of 200 million-250 million after adjusting for the data centre, our business stake sale that Vinod alluded it to earlier in the call.

Consolidated PAT losses at INR 2,180 million includes the following exceptional items; while we had a positive impact of tax reversal on account of guarantee fee income of INR 950 million, this has been offset by negative impact of staff cost optimization initiative that the Company took during the year amounting to INR 1,028 million to align the skill of our talent pool as we transform our business in favor of data services. Impairment of investment in start-up business of INR 900 million and impairment of investment in Tata Tele Services Limited where we are invested was INR 658 million have resulted in this loss. The Company has declared a dividend of INR 4.30 paisa per share.

Moving on to the balance sheet; core business net debt is at 1.438 billion in FY16 versus 1.327 billion in FY15. While there has been an increase in net debt due to a change in our revenue mix, in favor of enterprise led data services business which has also altered our working capital cycle; during the year we have also been impacted by Singapore dollar debt swap to USD which had an impact of $36 million. Additionally, in FY15 we had a benefit of $94 million towards income tax refund. Low interest expense and moderate CAPEX intensity with improved operating performance has set stage for core business de-leveraging. Our weighted average cost of capital stood at 3.14% at the end of Q4. Majority of USD 235 million long term loans will be maturing towards the end of FY17 and we are well positioned to re-finance these at competitive terms. In medium term, there could be a likely upward bias, in our cost of borrowing on account of rising US interest rate scenario.

I will like to make a mention that our net worth was adversely impacted but the exceptions that I just spoke about and also on account of rupee depreciation. The net worth erosion is not a reflection of our operating performance but is a result of uncontrollable external factors. Given the global nature of business that we operate, several of our global subsidiaries are at different stages of evolution and maturity. Accumulated losses from our international subsidiaries on consolidation get translated to rupee number based on closing dollar-rupee exchange rate as on balance sheet date and that exchange fluctuation sits in foreign currency translation reserve (FCTR) under reserve and surplus. Between 31st March ’15 and 31st March ’16 balance sheet we have seen closing exchange rate moved from USD 62.55 to 66.25 hitting our foreign currency translation result by INR 3,373 million and consequently reserve and surplus are getting impacted adversely. I would like to reiterate that this does not have any impact on the operating and financial health of our business or any adverse impact on the debt covenant ratio.

Strong data services performance coupled with the announcement of a strategic partnership for the data center business in India and Singapore have set the stage for a strong FY17 performance.

With these concluding remarks I will now open the forum for any questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Gaurav Malhotra from Citi. Please go ahead.

Gaurav Malhotra: Just a couple of questions; one is on the data center sale, we have seen that data segment growth has been trending at like 20% with margins of upwards the 20% but with the sale of data center and then whatever you get you will be accounted for below EBITDA, what kind of hit on the segmental EBITDA margins for the data segment should one expect? That is the first question, the second question is that even after the one-off adjustments as Pratibha had mentioned related to the debt, the rupee-dollar debt there is still a fairly significant increase in the net debt on a year-on-year basis, so could you just give us some more explanation as to what is causing this impact.

Pratibha Advani: The data center stake sale would have impact both on the topline and EBITDA. The India Data center business today contributes anywhere between 5% to 7% of our topline and its contribution to EBITDA is approx. 9 -10%, I am sure you can do the maths. There would be a drop in our EBITDA margins near term but going forward we will start to see some of the rub-off effect that will happen to our managed services portfolio; both because we would have a strategic partner and we would be able to leverage that relationship and also because of the growth in our business . On your second question, on the net debt, there as we had mentioned earlier this is because of the change in working capital. As we are moving more towards data services and today data services almost contribute 82% to our EBITDA, this is on the back of wins that we are having in the enterprise segment and this is really what is causing some of the gap and I had also mentioned earlier on the call that we had a swap of SGD to USD, that is close to 35 to 36 million dollars, which has also impacted the net debt.

Gaurav Malhotra: Okay, just last question on the net worth turning negative, any ramifications on the debt covenants or anything on those lines.

Pratibha Advani: I actually called that out in the call that there are no negative implications. The debt covenants actually exclude foreign currency translation, because these are all uncontrollable factors where we have no control on them.

Moderator: The next question is from the line of Vinay Jaysing from Morgan Stanley. Please go ahead.

Vinay Jaysing: Thank you for the opportunity. Going back to the question on data center, 9% to 10% removal of the EBITDA, your margins have been very impressive this quarter and I remember Vinod giving us information on what the margins could be in the longer term of 25%, it seems you meeting that deadline in the next 12 months in my eyes if you go by this rate, so would you want to relook your 3 year or 5 years forward EBITDA margin assumption and your topline and EBITDA growth. That is my first question. May be the second question is more of a financial question and you may want to take that, you did mention the CAPEX is down and with the data centre business gone now, free cash flows should be better with your debt coming in and the CAPEX coming down. Should we take $250 to $270 million as a steady state CAPEX for the next 3 to 4 years per annum.

Pratibha Advani: Yes, I think that will be right. More around 250 is what I would call out.

Vinay Jaysing: Great, sure. My request was the EBITDA margins which the company executed especially in the last quarter has been very impressive. You were giving us a guidance in the last couple of quarters of what your long-term EBITDA margins would be of the overall company and more importantly of data business. The way it looks to me is this margin is going to be coming up in the next 12 months based on the way we are going, especially if you just make losses of whatever that 2 billion number is to zero, so what are your margin estimates now for the data part of the overall business A and B) what is your overall EBITDA growth estimates now for the next 2 to 3 years.

Vinod Kumar: To be frank, I am going to maintain, what I have said in the past, 12 months we are going to peddle very hard to try and get there but I would like to think more 18 months just to be conservative. I rather talk about the mix of where I think the growth is going to come from. We are seeing a very good growth in our security and hosting business and the security business is low CAPEX intensity, so we expect good growth over the hosting business and cloud enablement is also showing good transition. We believe that the IZO business which is managed WAN and especially more software defined WAN services will see some meaningful revenues being posted this year and that as you know largely based on partner networks and therefore we should see a good boost to our wide area networking or the whole MPLS plus service portfolio improving in margin and then the last one I think you are going to see clearly this shift only accelerate, on TCPSL where the transaction count is increasing steadily on a month-to-month basis and that flows straight to the bottom line, so I would say that we are not going to revise what we have said but are confident that we will get there. Now the only reason why I am hesitating a little bit to be honest at painting a different picture is the data center business at an EBITDA level was contributing a fair bit and we will have to absorb that business going away from our P&L, although at a PBT level it is going to be better and we have given you enough logic as to why we are reducing our stake to a minority position in that business but that absorption I want to wait a quarter or may be a little bit longer than that 2 quarters before I set any revised expectation on data margins.

Vinay Jaysing: But, put the question in the other way around. For this quarter, when we look at it on a year-on-year basis assuming the base is the same, assuming data center was not there or whatever, the way you want to look at it, is this is a better way of looking at how your growth in the future would come or should we take the entire year's performance compared to the previous year to look at what should be the year's performance to come in the future.

Vinod Kumar: It's a good question. I will guide you to the second half of the year rather than if we want to, it would have been easier for me to say the full year but I think the second half even if you go back to our last few analyst calls we said we will accelerate in the second half and I think we probably have that momentum going in the business now.

Moderator: Thank you. We have the next question from the line of Nimit Tanna from CWC Advisors. Please go ahead.

Nimit Tanna: This is Nimit. Just two quick questions. One is on the data margins, when we strip out the Canada pension, the data margins quarter-on-quarter look like they are growing 250 basis point from 21 point something to 23.7, so the exit of Q4 looks much stronger, so I just want to get your thoughts what even if you strip out the some of the data centers that number is already close to 24 so you could comment on that. Second question related to data really was that could you help share the new services loss, so we have got the ATM as well as the TCTSL but you also sometimes give new services loss and we have not got them.

Vinod Kumar: Okay, so Nimit, yes but there were also not major but few one-off costs true ups on local access and so on that we did so while we had the Canadian Pension Fund hit we also had some gains, but they come every few quarters as we keep reconciling last mile circuits and taking some cost out, so we had some benefit from that, so you can read into it and I think we probably had more of a drag than we had in addition but I think our margin will therefore improve steadily in the coming quarters as well.

Nimit Tanna: The only reason I wanted to pointed it out is because A) last quarter it was a benefit and this time it was drag and the drag was pretty substantial, so we just want to track it out apples-to-apples it is like 250 basis points sequentially?

Vinod Kumar: Yes mathematically you are right but we also had some gain with the circuit cleanups we were doing.

Pratibha Advani: Coming to the new services data, in FY16 our new services contributed USD 202 million to topline versus USD 154 million last year.

Nimit Tanna: You know I just wanted the new services losses?

Pratibha Advani: So the full year losses are USD 33 million versus USD 22 million last year.

Nimit Tanna: Any chance you have them in halves Pratibha?

Pratibha Advani: Yes I do, so H2 is USD 14 million versus USD 19 million in H1.

Nimit Tanna: Okay and final question is just on Neotel so with all the one-offs and I totally understand that going forward basis some of the operations will come back there was some kind of deal related slow down going on, what roughly is at ballpark would you guess would be margins, so margins have declined from the mid-20s to the low-20s, what roughly would be a good ballpark margin number to look at Neotel going forward?

Pratibha Advani: I would go with about 20% to 21%, that is the run rate that we would be comfortable with.

Vinod Kumar: Nimit what we see there is and we are not projecting any large jump because the wholesale business that we expect to gain back from a margin perspective will be on the lower side than enterprise business but at least it will help the business in total.

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

Pranav Kshatriya: I have a couple of question, first regarding the net debt. You said that net debt has increased due to investment in the working capital towards the enterprise business, can you please quantify how much has been the investment in the working capital? And secondly what is the working capital cycle for the enterprise business and is the investment required because you are scaling up that business and it should subsequently come down or because you are gaining newer customer in that area, so we should continue to see investment in the working capital, that is my first question? Second question is with regards to the depreciation, so despite we seeing a decline in the CAPEX, the depreciation is going up in both the core business and on the consolidated basis, is the CAPEX profile, the average useful life of the asset is changing or how should we see this going forward?

Pratibha Advani: I will take your depreciation question first. The depreciation increase is primarily on account of FX because most of our assets are outside of India and the depreciation that we have seen this year of almost 6% to 7% of dollar to INR, that has really what has impacted our depreciation cost. Coming back to your question on net debt, as I explained earlier, the net debt increase has 3 components, one was because of the altering working capital cycle, which roughly has an impact of about USD 50 to 60 million. The other was on account of Singapore to USD dollar swap that had another $35 million impact, majority of that would go off now next year. If I look at current rate there would be about 5 odd million that would have an impact, so with that negated I think we would stay at around current level and of course the third as I mentioned was because last year we got an Income Tax Refund while this year we did not have a like-to-like benefit.

Pranav Kshatriya: Okay but can you please throw some light on how should we see the working capital investment on the enterprise in the coming years and what is the working capital cycle for those deals?

Pratibha Advani: So basically what is happening now is that our customers are asking for higher credit period, but we are trying to offset some of that with going back with our vendors. So our intent is going to be to contain this but there could be some incremental impact.

Moderator: Thank you, our next question is from the line of Ali Asgar Shakir from Elara Capital. Please go ahead.

Ali Asgar Shakir: First of all, just wanted to check what is our CAPEX expectation for Neotel and you also mentioned our base margin for Neotel should be 20-21%, should we expect to reach that margin in the next quarter or what is your timeline to reach those levels?

Pratibha Advani: We should exit the year with those margins but across the quarter we are not going to see too much of significant movement. At this point I cannot predict one offs but at a run rate we should be around 20%-odd and CAPEX is around 500 to 600 millions ZAR, and that is the run rate and that would continue.

Ali Asgar Shakir: Alright just on the write-off that we have taken in for Neotel and TTSL, would we foresee any such write-off possibly in the coming year and could you also tell me what is the book value at which we are carrying TTSL?

Pratibha Advani: So coming to your first question, very difficult to predict the kind of write-off that depends on the operating performance of the businesses and the future cash flow and as you may be aware IndAS now require for us to do a valuation quarter-on-quarter, so it is really not going to be year but every quarter you may start to see this movement. On your second question unfortunately we have signed up a confidentiality agreement so I can't disclose the value.

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

Srinivas Rao: Two questions, there are couple of cables coming up in South-East Asia, so just wanted to understand do you see any potential impact of pricing in the next 1 or 2 years or is this cable build up in line with the previous build trend, so that is the first question? Second one is on the Canadian pension and the VRS cost, now we have seen this issue actually show up on Tata Communication's financials for fairly long time on an episodic basis. So how long will this continue actually, that is my second question? It happens practically every, I guess every second year I think, I do not have the numbers in front of me, so that any guidance on that would be useful. The third question which you just mentioned on the valuation for your stake in TTSL, I presume will that show up when your annual report is published or that will still remain confidential information even at that point of time, I will come back for more questions. Thanks.

Pratibha Advani: On your last question it would be there in the annual report for you to have isibility. At this time, they have not made it public so unfortunately we cannot share the data. Coming back to your question on the Canadian Pension Fund that is ongoing and very difficult for us to predict but it is not something that is going to go away in a hurry.

Vinod Kumar: Yes, if I can add to that Srini, I think this is something we will have to live with although in the context of the overall P&L, the impact is declining on a year-to-year basis if you look back at 3-4 years the impact was much larger, so we are able to better absorb it right now. But as Pratibha said that obligation will continue as long as we have the employees part of those pension programs living so that is going to be around for a while. In terms of the cables in South-East Asia what we are saying the new biz we are here, we have been across them for a while so I do not think they are going to create any unusual movement in the pricing landscape.

Pratibha Advani: Just to add also on the Canadian Pension Fund going forward the accounting treatment of that will be different, as part of IndAS it is going to move to other comprehensive income and move away from P&L so at least you would not see that kind of volatility in the P&L going forward.

Srinivas Rao: Okay so why will it move to the other comprehensive income? It is effectively a cash cost for you right over time if I am not mistaken.

Pratibha Advani: No that is actually an Actuarial Cost and as per IndAS it moves to OCI.

Srinivas Rao: Okay, no but from actual cash flow perspective it is still a cash out for you, right, I mean when the fund is assessed and you have to make up for the gap. Am I correct in that understanding.

Pratibha Advani: No it is not a cash outflow that is happening. The cash outflow does not happen at that point in time when the actuarial valuation is done.

Srinivas Rao: Okay but it happens on an annual basis or like biannual or whenever the valuation is every 3 years or 2 years right.

Pratibha Advani: No there is no cash outflow that is happening.

Moderator: This is a follow up question from the line of Pranav Kshatriya from Edelweiss. Please go ahead.

Pranav Kshatriya: I just wanted to check on voice business, so this year it was $70 million kind of cash flow which came from this business. How do you see this in the coming year, any color in that would be helpful?

Pratibha Advani: We expect this to be more in the range of around $60 to 70 million going forward.

Pranav Kshatriya: Okay, are there any part of the business which you would highlight, I mean are you losing out on the volume share or is the market itself is declining at such a rapid pace?

Vinod Kumar: We are not losing volume share but we are not chasing anything that does not give us incremental margin. The India market as we said repeatedly has sort of hit a low water mark and we expect that it will remain in that way and so price erosion has been more significant and on international or rest of world termination the trend line that been seeing for the last 5-6 years continues so it is more of a volume contraction rather than steep price erosion. But $60-70 million is the same number that I would have given so Pratibha's prediction and mine are inline.

Pratibha Advani: And just to add to what Vinod has mentioned we still continue to be market leaders and our market share is around 14% to 15% so that has not really come down over time.

Pranav Kshatriya: Has India termination where as you said there is a lot of competition, has there your market share come down in anyway?

Vinod Kumar: Yes it has, because we are not chasing below cost deals and some players have better cost structure than us, so our share for India termination is dropped.

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

Piyush Choudhary: I just have one question on the impact of this change in account of standards to IndAS, Pratibha could you shed some light on what are the major, where our financial reporting will have an impact like you mentioned about Canada Pension Fund?

Pratibha Advani: We are still assessing but some of the areas that would be impacted are revenue recognition , accounting for prov. For bad debts, etc., revaluation of assets ..

Piyush Choudhary: Is there any assessment like for the year gone by if we have to make a pro forma numbers how would our kind of EBITDA and PAT look like on a pro forma basis?

Pratibha Advani: Current numbers have just got finalized Piyush, we are going to actually start work on that from today. We will be able to get back to you on some of the impact in due course of time.

Moderator: Ladies and Gentlemen that was the last question, I would now like to hand the floor back to the management for the closing comments, thank you and over to you.

Vinod Kumar: Thank you all for you questions and for your participation in today's call. I hope that we have given you a good color between Pratibha and I on the numbers as well as where we headed. From a leadership team perspective, we are all focused on driving the transformation towards a less CAPEX intensive business where we see more growth in managed services and as we showcased in the last couple of interactions with members of our leadership team like Anthony Bartolo and Sumeet last time, that the emphasis on enterprise on managed services on CAPEX light services and on continuing to create a new pipeline of advanced software based network, as well as cloud enablement services is our focus.

As every year goes by I feel more confident about our execution capability both in terms of technology depth as well as their ability to deliver a world class customer experience even though our solutions and the services we offer our customers are getting more complex. We expect to continue maintaining that momentum and we hope that we will meet your expectations and we really appreciate the support that you have given us until now and we are counting on it as we move forward. Thank you very much for your time and I look forward to joining Pratibha to give you an update in 3 months from now. Thank you.

Moderator: Ladies and Gentlemen on behalf of Tata Communication that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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