



Q2 & H1 FY2016

Earnings Conference Call Transcript

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MAIN SPEAKER:

**Vinod Kumar, Managing Director
and Group CEO**

**Pratibha K. Advani, Chief
Financial Officer**

Mahesh Pratap Singh: Good morning 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.

Our results for the quarter and six months ended September 30, 2015 were announced yesterday and the results presentation and fact sheet is available on our website. I hope you have had an opportunity to browse through the highlights of the performance.

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

Before we get started, I would like to remind everyone that some of the statements made or discussed on 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 at our website www.tatacommunications.com. The company does not undertake to update these forward looking statements publically.

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

Vinod Kumar: Thank you, Mahesh. Good Morning, Ladies and Gentlemen and a very warm welcome to all of you. To start with, as Mahesh said, I will give you a perspective on our performance and then a quick update to contextualize it with industry backdrop as well as a direction in which we are taking the company forward.

Our Q2 performance demonstrates the robustness of our evolving business model and the benefits of the symbiotic portfolio effort that we have been building. We continue to execute well and we believe we are firmly on the path towards sustained, profitable growth.

While our Q2 headline financial performance is gratifying, more importantly, I would like to say that we have posted impressive metrics across all our key segments. The Data segment has continued to deliver double-digit revenue growth against an industry where people have barely single digit growth and we have improved our margins on the Data segment while doing revenue growth as well. Voice had a strong Q2 which has aided core business performance. This broad-based core business momentum enabled us to deliver a turnaround in both the consolidated and core business net profit during Q2.

Our core business revenues and EBITDA continue to grow at a healthy pace. Q2FY16 core EBITDA has grown 15.5% year-on-year and EBITDA margins have expanded as you can see by

140 bps year-on-year. Similarly, looking at the half yearly performance for the Core business, our H1FY16 core EBITDA has grown 10.6% and EBITDA margins have expanded by 100 bps year-on-year. We have not only continued to post year-on-year revenue and EBITDA growth but the composition of that growth has also been transforming more in favor of lucrative value added services which is the area that we have been investing in. As an example, when you look at our H1 core business revenue and the EBITDA composition, it really captures the essence of what we have been focusing on and what we have been sharing with you in terms of our strategy over the last several years, in terms of how we want this mix to change and how we believe it will evolve over time. We are clearly seeing that these efforts are yielding results. In the first half of FY16, 55% of our core revenues came from the Data segment compared to 49% a year back and you have seen the journey of transformation for the last several years, and clearly, this reflects the Data-led growth momentum of the core business. Similarly, 76% of the H1FY16 core EBITDA is now coming from the Data segment. Pratibha will take you through more specifics on both our H1 and Q2 financial performance and in segmental level commentary.

Stepping back a little bit and looking at the market environment, Telecom continues to remain a vital industry globally, witnessing a big shift to the technology landscape and is also driven by the evolving digital ecosystems across all industries. In previous occasions, we have discussed about several components of the digital transformation including the impact in Mobile, Big Data, Cloud, Social and Internet of Things on the landscape at a macro level. We are steadily evolving our portfolio to make sure that we remain relevant to our customers and partners as these trends unfold and we will continue to do so in a very determined manner. This therefore does require us to make timely CAPEX and OPEX investments whose effect will be clearly visible in the medium-term. A rigid traditional telecom mindset is frankly inadequate in this digital landscape and one has to be ready to adopt change, adapt to the marketplace, and really embrace restless innovation and we are prepared for making quantum change.

Innovation is the key to leap to newer and more sustainable growth curve. And this is what we have been doing. The capability for Telecommunication companies to flourish in this new ecosystem is underpinned by disruption and ubiquitous communication will be a function of their ability to embed innovation in the core of all our operations. I am proud to say that at Tata Communications we are making steady strides in the journey. We are innovating across all aspects, including service creation, go-to-market, how we partner with next-gen and OTT players, internal operational processes and so on.

Let me give you a couple of examples here: We have recently identified media as a relevant segment where our network and data center infrastructure combined with components like hosting and CDN capabilities can create a very powerful and relevant industry-specific offering that will take traditional broadcasters into the new age and new age content providers further into

their business model of disruption. We quickly move to stitch and bundle these various components in our traditional portfolio together to create an industry-specific offering which we now call "Media Ecosystem." We are seeing significant interest with this unique combination of services that we put together; that we are combining with a very high level of flexibility and customer oriented mindset in the way we take this to market. We recently won a very complex and fiercely contested deal from a reputed global broadcaster on the back of this unique proposition of being able to combine as I said the traditional infrastructure components with platforms to create a media-specific industry application that provides most crucially a unified customer experience.

Another example is a Hosted Contact Center Solution which is part of our (UCC) Unified Communication and Collaboration offering. What we have done there is create a plug-and-play Cloud-based Hosted Solution which we can deploy globally to manage diverse customer touch points in any contact center set up. We are one of the only providers and maybe 'the' only provider that has deployed a consistent technology architecture and platform on a global basis and therefore we are able to meet the requirements of large companies for their follow-the-sun contact center applications. Our solutions bring together different customer service elements and components such as Voice, Video, Chat, Co-Browsing and Real-time Analytics providing a multi-channel or omni-channel way of managing customer experience for businesses. We do this while requiring our customers to spend very little CAPEX. We have also partnered with the technology provider to make sure that our CAPEX deployment is also done in a phased manner and in line with customer demand. The service was launched only about four months ago. And in terms of components, while this is the Hosted Contact Center Solution, every time this is sold, it also pulls together voice traffic, internet connectivity and a variety of other components from our portfolio. In the short period since we have launched the service, we already have a couple of large high-profile customer wins on the back of this unique solution and our funnel here is very strong and we feel quite bullish about this in the coming quarters.

We are attempting a similar sort of service creation both in terms of technology partnering as well as light CAPEX model in the Mobility space where we think we can take the relationships that we have with mobile operators as well as the legacy signaling strength that we have in order to create new services that can traverse a large range of enterprise oriented mobility enablement applications. This remains work-in progress and we still need to plug some gaps here in terms of technical capability as well as operational readiness but we are working very actively on it.

There are many such examples that I can talk to you about and you are increasingly going to hear more about these as this is clearly the direction in which we are driving our business and over time it will take us to a mix of services which have significant relevance to services that have sustainability as well as much greater stickiness than just selling the traditional telecom services.

We obviously in order to create these capabilities have to invest at the right time both in terms of OPEX as well as in terms of CAPEX.

Our Enterprise segment which is something that you track quite closely continues to witness strong momentum with healthy year-on-year growth. Both across the Forbes 2000 customer list which is an indication of our performance in the global MNC segment, and in India closer to home with ET 500 customers. The Tata Communications brand equity which is an indispensable element in the Enterprise segment continues to benefit from recent efforts such as Heathrow Express initiative as well as wins that we have garnered in the Forbes 2000 list. As you are well aware, the Enterprise segment is less price-sensitive than the service provider segment. Engagement model is longer term and it provides us an ability to make an impact based on service quality as well as superior customer experience, net-net making it a stickier business once we are in. We are also seeing very good traction with the next-gen customers or the OTT players where the emphasis has moved from just selling them components to actually building platforms to them and partnering with them to take their services to market and we will be making some announcements along those lines in the next couple of weeks. And these are creating new market opportunities for us.

I am also pleased to share that we have seen early signs of pick up in the pace of activity and tempo from carrier customers and this has been driven by not any major change in the marketplace itself but more by fine-tuning our operations, sharpening our go-to-market activities. These are the efforts we started putting in place towards the end of last year and we are beginning to see traction and results from those efforts in the activity level and in the revenue performance in the current year. We are seeing a lot more meaningful conversations that span multiple services and the funnel is starting to rebuild but more importantly, we are seeing it being rebuilt in the way that we wanted in terms of mix of services. Because there is an opportunity even with the service provider customers to sell them the traditional services but also take our offering such as CDN, Security, Hosting and Contact Center as well as IZO to them and make them channels to market and therefore include them in the whole journey of shifting to managed services.

Collaborations are the way forward and very much part of our stated strategy. We believe that the partnership program where we are investing in will contribute to the future growth of services both on the service creation side but also on the service delivery and go-to-market side. Recently, as an example, we teamed with Microsoft Corp to connect businesses to Office 365 enabling our customers to boost employee productivity and at the same time streamline business processes with Cloud-based communication and collaboration. By offering Azure Express route, for Office 365 through our IZO private platform, Tata Communications is able to provide customers that enhanced security and reliability that comes with the private connection ultimately taking Cloud-

based communication and collaboration to the next level. This aligns well with what we call a public/private hybrid model which is we realize that due to the shift in Cloud, customers will move certain applications to platform such as Office 365. Using our IZO private platform, we are able to offer them the security and scalability that large enterprise customers need but at the same time provide them the ability to leverage the capabilities of the Cloud that can adapt to an elastic demand on either the compute storage or network side. There will be many more examples of this and we will keep using them selectively to highlight the shift in our strategy in our coming conversations.

Moving on to our Data Center Process which I am sure you want to hear about: The exploratory process continues with very strong interest. I cannot share much more detail at this point other than what has already been said in our filings and what I shared with you in some level of detail in the last analyst call, but all I can say is that the process is moving and the interest remains strong.

Moving on to Neotel, the next regulatory process milestone is the completion of the tribunal hearing which is scheduled to take place from November 23rd to December 11th. Knowing the South African schedule, it is likely that we will hear the outcome of the findings only in early January or middle of January when they come back from the holidays. The outcome of Competition Tribunal hearing will help determine the future steps and timelines of closure here.

To conclude, we believe that the industry is at an inflection point. At Tata Communications, we believe we have built and are continuing to build the foundation to help lead the industry transitions and to keep our relevance in the digital ecosystem. Today, Tata Communications is operating from a position of tremendous optimism and strength. We are helping customers as we speak in the Digital Transformation journey. We see more possibilities on how we can help them in this continued journey and in the evolution of their business models. In doing this we are also seeing a steady expansion of our total addressable market. Even in our current markets, we have been gaining wallet share from our individual customers as well as overall market share. We are doing this by combining multiple leading technologies using differentiated go-to-market models and heavy emphasis is being placed on transformational partnerships both in service creation and go-to-market. We remain committed to deliver profitable revenues, strengthen our cash flows and we have our eye on improving our ROCE profile to the benchmark levels and we will get there steadily.

In the near-term in FY16, we do expect the stronger H2, building on the H1 foundation for the core business both in terms of revenue as well as profitability. Having said that, I do want to say that we need to constantly balance our near-term profitability aspirations with the investment needs to accelerate our medium-term to long-term strategic business transformation. The opportunity is there in front of us to make these transformations to gain customers confidence and to gain market share. But we do need to move opportunistically. We do not want to get ahead of

ourselves, but at the same time we are very conscious that we need to balance prudently both our short-term profitability goals as well as the longer-term opportunities that are unfolding for us. It is a challenge that we have been stepping onto in the last few quarters and we remain confident of continuing to do so.

With that I am going to invite Pratibha to discuss the Financial Highlights of the last quarter. Thank you for your attention.

Pratibha K. Advani: Thank you, Vinod. Good morning, ladies and gentlemen. We do appreciate you are taking out the time in your busy morning schedule and joining us on the call today. At the outset, I will recap the financial highlights from the quarter gone by and focus on providing you with some qualitative context to the numbers and our journey forward. You would have had an opportunity to look at our detailed earnings and hence during my remarks, I am going to focus more on key financial trends and re-emphasize their linkage to our growth strategy.

I am extremely pleased to report that our H1 and Q2 FY16 results reflect healthy trends and continued momentum across all segments. Q2 FY16 is our strongest quarter ever, clearly reflected in the normalized core business EBITDA and core PBT performance before exceptional items and one-offs. I also want to emphasize here that this is a reflection and result of our strong underlying core business performance. While our Q2 performance is somewhat aided by forex translation given a weaker rupee, even excluding it Q2 will be our strongest quarter. We continue to drive our transformational journey and are poised to building on this performance to grow the business profitably, while simultaneously making the necessary capital and operating investments for the future, with an eye on driving productivity & efficiency.

I will discuss individual segments in a bit, but before that let me give you a summary of our Core business results which Vinod touched upon. Our Q2 and H1 performance is a clear reflection of the way our core business is shaping. While our core business revenues have grown at a modest pace, sharper focus on costs coupled with operating leverage that we are seeing in our business has resulted in Q2 FY16 Y-o-Y reported EBITDA growth of 15.5% and H1 FY16 Y-o-Y reported EBITDA growth of 10.6%. Q2 FY16 Profitability picture is very strong and this is flowing all the way to EBIT and PBT with a positive turnaround at PAT level. We are indeed pleased with our performance. Our fact sheet shows you both reported and normalized performance by adjusting reported numbers for Canada Pension hit and other one-offs. When you look at normalized performance, Q2 core EBITDA margins have improved 140 bps Y-o-Y and 180 bps Q-o-Q. Q2 core business PBT is at 1,359 million which is highest ever and up 158% Y-o-Y and nearly 6x of Q1 FY16 normalized PBT. Our story is equally strong when we compare YoY H1, with normalized core EBITDA margin expansion of 70 bps and 31% growth in normalized core business PBT.

With that let me give you a flavor of what we are seeing in each of our segments, starting with data segment. Data continues to be our growth engine and we have been able to maintain healthy growth rates with Q2 FY16 revenues up 16.9% and H1 FY16 revenues up 15.5%. EBITDA growth also remains healthy while we are continuing to invest in growth by expanding and enhancing the products and services and stepping up our front-end engine Q2 FY16 Data EBITDA is up 10.7% while H1 FY16 EBITDA is up 14.5%. Q2 FY16 also saw healthy Data EBITDA margin expansion Q-o-Q in-line with our expectation. While on reported basis you are only seeing about 10 bps EBITDA margin expansion in data business, please do keep in mind that we have an adverse movement of Rs 370 million on account of Canada pension fund between Q1 and Q2 in core business. As Data business grows in its prominence, it also takes its own share of that Canada Pension hit and that is why on reported basis some of the underlying strong margin expansion is getting reduced down to 10 bps.

We are seeing onset of operating leverage in our network services and that is benefitting our EBITDA margins and allowing us to step up our investments in new innovative services, branding, partnership and sales efforts. Progress on managed services also remains quite encouraging and we are operationally hitting the right milestones. We are witnessing broad based growth momentum with transformation services, media, data center services, and VPN connectivity solutions leading growth. We are also seeing path breaking anchor customer deal closures in some of the recently launched new solutions such as hosted contact center solutions suite in UCC or in our media portfolio. These gives us a solid reference point to build on and hasten the pace of funnel to revenue translation in our new service pipeline. 'New services' have also performed well in line with our expectation and continue to gain traction on revenues as well as profitability improvement. New data growth services saw nearly 28% revenue growth in H1 on YoY basis and continue to lead growth. Having said that, we also need to continue making capex and opex investments in to new services to capitalize on growth opportunities.

TCPSL is progressing well on its improvement journey but still remains a bit of work in progress. While we did turn the corner on EBITDA in Q4, we are still driving ATM portfolio rebalancing and rationalization for long term sustainable profitability to take it to a much higher orbit in medium term. In that journey, there is going to be short term volatility as we reposition this business for medium term milestones, taking some short term tough calls around churning ATM portfolio. You will recall that we had changed operating model from opex to capex in TCPSL in Q4 FY15 to get a better degree of freedom and flexibility in our operating strategy. In the first six months, we have reduced 4,749 third party / managed ATMs and added 1,066 indicash WLAs. We do expect improvement trend in TCPSL EBITDA to sustain and are aiming for a positive EBITDA in FY16.

Switching gears now to voice segment, Q2 FY16 was a strong quarter. We did see a favorable market shift in India termination and were able to capitalize on that window of opportunity very

effectively. That is why you see strong sequential net revenue and EBITDA growth with relatively stable volume of minutes and gross revenue. By now you will be very familiar with dynamic volatility of voice business and will appreciate that it is very difficult to predict how long will such market shift opportunities last or how often will they reoccur. From our perspective, we manage voice business for free cash generation, which is largely a function of absolute EBITDA we generate given that the voice business requires very little capex investment. As we pursue that objective, we will continue to capitalize on opportunities those can give us a big push in continuing to grow our absolute EBITDA and increase our free cash generation. We are also driving a lot more synergy between voice business and our carrier data business, leading to operational efficiencies. We remain confident of generating \$80-90 mn FCF from voice this year.

Start-up, primarily comprising of Neotel, has continued to maintain its steady operational performance. Neotel base annuity business and underlying operations remain firmly stable. However, there is sluggishness and volatility on reported quarterly headline numbers driven by nature and timing of some project based revenues and severe depreciation of South African rand (ZAR).

Moving on to balance sheet side, I want to touch upon couple of key elements – consolidated net worth and core business net debt. Starting with net worth, our Sep-15 consolidated net worth is negative and I would like to put that in perspective. The net worth erosion is not a reflection of our operating performance and is a result of exchange rate movement which is an uncontrollable external factor. Given the global nature of business, we have several global subsidiaries which are at different stages of evolution and maturity. Accumulated losses from our international subsidiaries on consolidation gets 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 reserves and surplus. Between 31-Mar-15 to 30-Sep-15 balance sheets, we have seen closing exchange rate move from 62.55/dollar to 65.68/dollar hitting our FCTR and consequently reserves and surplus are getting impacted adversely. From consolidated profitability perspective, we had a marginal consolidated PAT in FY15 and in H1 FY16 there is a modest loss. I would like to reiterate that the external factor of exchange rate movement has caused negativity in our net worth and this is not on account of our underlying operating performance.

Now, let me focus on core business net debt. We have seen some uptick in core business net debt position to \$1,434 million. This is to do with extended working capital cycles and increased capex spends. On working capital cycle there are two components driving it. Firstly, there is a bit of lumpiness in payables and mismatch with receivables, and it is something that we expect will get normalized as we progress through the year. However, second aspect is a structural change. As you are aware, our incremental revenue growth is largely enterprise led and revenue mix is

changing from voice and carrier data to enterprise data. Enterprise business has a typical B2B IT services sort of payment terms (30-60 days) in comparison to our legacy businesses where we used to get paid much faster and in some places even used to have a negative working capital cycle. That structural mix change is also beginning to play out on our overall working capital cycle and this is something which will be an ongoing factor.

Our average cost of loans at core business has seen another significant step down to 3.27%. This is a result of very attractive refinancing we did in previous quarter (Q1 FY16). As you will recall, we took a chargeback of unamortized portion of arrangement fee on prepaid loan in Q1 which had a temporary impact on our average cost of loans in Q1 but from Q2 onwards we are capturing the full benefit of that attractive refinancing. So, on core business debt profile, while you may have seen some uptick in net debt, our interest expense continues to consistently trend down. Overall, we remain very comfortable with our debt profile and like in the past, we will be proactive in our liability management approach taking advantage of market opportunities in repositioning the debt on our books.

Our core business capex and intensity remains well within our specified range of about \$300-350 mn p.a. For H1 FY16 our capex spent was \$167 million. Our capex investment is focused on complex enterprise client deployments, developing new services, innovation and adding capacity and expanding our network and data center ecosystem to enable increasing cloud adoption which will accelerate our growth momentum within global enterprises.

In addition to operating leverage which we have mentioned in past, we also have financial leverage on all key line items below EBITDA which will help us drive disproportionately higher benefits of revenue growth. While we had a minor step-up in depreciation in FY15 due to the Companies Act, structurally given where our capex intensity level is, we expect fairly stable depreciation profile and meaningful leverage on that line item. Similarly, our interest expense as % of revenues has consistently trended down and with results of our deleveraging focus and lower interest cost will continue to maintain that trajectory.

Now coming to the third big element of our net financial efficiency, as you know TCL being a global business we have several entities in various countries and not every entity is at steady state level of profitability. Some of those are negative on profitability and when we consolidate these entities, the tax looks higher in terms of % on face of consolidated financials. So it's not that we have abnormally higher tax rate, it's just consolidation of several entities, some at profit some at loss giving you that slightly skewed picture. Going forward, you will notice that as we grow in our profitability over next few years, and most of our entities across the globe generate more profit, our tax rates will settle down, leading to substantially better tax optimization on a consolidated basis, over the next few years.

So, overall operating leverage in tandem with financial leverage will continue to aid our performance as we move forward.

Our key priority is to drive absolute EBITDA growth with a specific focus on improving EBITDA margins in Data segment, while maintaining existing capex intensity levels and continuing to fund our investment needs. We believe both new services scale-up and TCPSL turnaround will contribute meaningfully towards bolstering Data segment margin profile over the next 3-6 quarters. This will enable us to further step-up our FCF generation and deleverage our balance sheet. Based on macro trends we see in the market place, coupled with strong momentum in our sales efforts, we are extremely well positioned to drive sustainable EBITDA growth and FCF generation and feel very confident of doing so.

On that positive note I conclude my opening remarks and welcome specific questions you have and we would be happy to give you our perspective. I would request the operator on this call to open question and answer session. Thank you.

Moderator: Sure. Thank you very much, ma'am. Ladies and Gentlemen, we will now begin the question-and-answer session. We have first question from the line of Naveen Kulkarni from Phillip Capital India. Please go ahead.

Naveen Kulkarni: I have a few questions on the capital allocation. We have seen that there is a significant step up in the Data growth CAPEX compared to last year, it is almost 40% up while the EBITDA growth has not been that inspiring. Also, if I were to look at the consistent increase in CAPEX in the Data business, what kind of return that we are looking at from this business, and do you believe that we have reached an inflection point where the growth will be on a higher trajectory? Second question is, again on the CAPEX in the strategic projects that also we are seeing a step up. So how do you see this moving ahead -- are these like very long gestation projects and the results will be seen after a while, any color on that will be useful?

Pratibha K. Advani: So you have rightly seen a step up in the CAPEX towards our Data services, and I would like to point out you are also seeing excellent growth both in our traditional as well as our new services. Now, some of this growth is backed by customer orders that we have in hand. So, a large part of our CAPEX allocation is actually a client success-led based CAPEX and that is why you are seeing the spike.

Vinod Kumar: And also this year we have made some investments in Data Center build out only in India to capture customers who are going to bring significant value to us in the long-term both in the Data Center business but also the resulting and associated network business. We have been so successful that we pushed our market share up by 5% to 6% just in the first half of this year based on aggressively capturing these opportunities. So that is what I was saying earlier. Yes, we have general trend line of keeping CAPEX down, but certain strategic moves we have to

make to lock in market position, we have done and we will continue to do so, while still moving the trend line towards lower CAPEX intensity.

Naveen Kulkarni: I understand that aspect. So what I was driving at was, if I were to look at the incremental EBITDA generated from the kind of CAPEX that we are doing, so let us say in this quarter, we have done growth CAPEX of around \$55 million in the Data business and the incremental EBITDA would be let us say around Rs.400-odd crores, so that will translate to roughly around 13% kind of a yield. So, is there a benchmark or how do you look at this CAPEX and the strategic initiatives that you take? What kind of return they can generate?

Vinod Kumar: I do not think you can correlate CAPEX spend to EBITDA performance in the immediate next one to two quarters. Therefore, let me try and give you some color. So when we look at our projects right now typically we are seeing that and even for the Data Center projects or even for network services for sure, other than large cable projects the gestation period between spend and revenue flowing is now about 12 to 15-months, you start seeing that, sometimes you see much faster for customer success based. The payback periods again for Data Center are longer but typically they have come down three to four years range. So we will have to look at return profile and obviously the EBITDA growth in the near term is going to come from sweating earlier CAPEX investments and getting scale effect on the OPEX.

Pratibha K. Advani: And just to add to what Vinod just mentioned when you are looking at the portfolio of our traditional services where we have been investing over a period of time, there is a significant EBITDA expansion almost 100 basis points that we have seen for the first half of this year and similarly that kind of operating leverage or efficiency we will start to see in our new growth services business as they scale up.

Naveen Kulkarni: Second bit on strategic projects the kind of step-up on CAPEX that we are seeing for the first half, when can they translate into meaningful revenues?

Pratibha K. Advani: So, again the strategic projects are primarily the Data Center investments that Vinod mentioned earlier and these are long gestation investments, we do not expect immediate return coming through.

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

Vinay Jaising: My first question is what happened on Voice? You did explain margins doing well, but when I look at margins, largely most of the improvement in margin seem to come from Voice. Is this sustainable? I am assuming traffic growth was as expected tepid, in the Voice part. So what is expected in the quarters to come? I am very happy to believe that if it is sustainable. That is good news. My second question and more so where I want us to focus some time on is Data

Centers. If I look at the growth of Data Centers this quarter, in revenues it is great, it is 11% I understand. So if I take that out from the overall Data revenue growth, that growth of 3% to 4% would be even lower. So why are we planning to hive off or look at doing anything else on the Data Center business when we are investing, as Vinod just said a couple of minutes ago, we are getting good share from the operators, the overall market share has gone up there as well, we also heard from the CFO that the rate of interest has gone down which is why we can see the cost of capital come down on the interest costs. So why do we need more money to bring down the net debt and get out of the Data Center when the business seems to be doing very well?

Vinod Kumar: That was a good question. Let me answer the thing on Voice. Voice margins frankly have softened already. We had a period during the month of August when the margin per minute went higher than what we had seen in the previous three to four months. But, the market continues to be volatile and those margin levels have not been maintained since then. So unfortunately story in Voice is not going to keep continuing. We are doing very well on non-India voice, but India voice continues to be under pressure and we are holding our line on the free cash flow it can generate in the future, but we do not see a big turnaround or even what we saw for a month or six weeks in Q2, not going to be seen in Q3.

Data Center the question you asked is very interesting. Strategically, I tried to explain it during the last analyst meeting. Yes, the revenue growth is good; however, when you look at investment in the Data Center business, the payback periods are quite long and ROCE is quite poor compared to what we believe the rest of the Data business can provide. We believe also that based on where the market dynamics are, the valuations we can get for what we have built are at peak levels right now. I will just leave it at that, I cannot elaborate on multiples and so on.

The profile of customers buying or consuming Data Center space is changing rapidly. They are changing rapidly shifting from retail type buyers and I am still talking B2B, to people who are consolidators or wholesalers. So systems integrators, cloud service providers and so on, who were driving demand and were always comparing build versus buy options; therefore the pressure they put on service providers in the Data Center space for a buy, is beginning to mount, and therefore, we find one, the CAPEX intensity of the business is high; second is the payback periods and the return are long and so beginning to show a declining trend. So while it can add to our revenue growth, we believe that we would not be able to fulfill the expectations of all shareholders on returns. Hence, we have decided to make the strategic shift to focus more on Data Center services where we believe that these revenues are stickier for sure and definitely more margin rich. And in the coming quarters, if you see there are early indications of it already in the new services detail that has been distributed ahead of this call. Our new services funnel for hosting services and security services and CDN services which sit inside the Data Center is all increasing. That funnel you will start seeing converted into revenue and margin in the second half

of this year from Q4 onwards. We believe longer term that is better for the profile of service mix as well as margin profile we are trying to create.

One last point is we are not exiting the Data Center business, we are only selling a stake. So, we will still have the opportunity to both get the financial benefit but also the strategic benefit without carrying it entirely on our shoulders.

Vinay Jaising: Data Center business is 10%, 11% of sales and Data Services would be how much percentage of sales?

Vinod Kumar: It is right now blended and shown together, but just a gut feel right now, the bulk of which may be 80%, 85% it will come from the pure Data Center infrastructure or Colocation business.

Vinay Jaising: Voice, you said we may go back to where we were in the last quarter?

Vinod Kumar: I do not know how far we will go back to be honest but I am just being conservative in saying that, it is not going to remain where it was in Q2 because of that six week benefit we got.

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

Piyush Choudhary: Firstly, on the global Data segment margin guidance, which we had given around 20% for the full year, I wanted to check again in the context of the strong growth which we are witnessing on the Enterprise side, and you also mentioned the funnel is strong. So in that context, are you still maintaining 20% or you are comfortable in inching that up? Any color over there? And if you can share any guidance for the margins for even next year for fiscal 2017?

Pratibha K. Advani: I will just say a few words Vinod and then you can add. H2 margins we expect them to be better than H1 and we are maintaining 20% guidance. Let me also add that the reason we expect H2 to be better, because this is going to be driven largely by the mix change and also some of the cost efficiencies that we are currently driving and the operating leverage that we have.

Vinod Kumar: Only a point that I will add is that for next year we will see that the improvement will grow, I cannot put a number exactly on, we are going to hit A or B number, but we are pretty confident that in the next fiscal year we will see the scale effect of our OPEX showing and going directly to EBITDA. This year I did say that we are going to invest in certain capabilities around brand in terms of go-to-market resource, more product development, we believe we will be getting to a point, where we can hold those and see the results, the scale effect of it beginning to show in terms of top line growth based on the same cost structure.

Piyush Choudhary: In that context, I wanted to touch upon this new services segment portfolio. Looking at the 1H performance, it is already around \$200 million revenue portfolio. In your opinion like from a 3-5-year perspective, how do you see this portfolio moving -- can it become \$0.5 billion revenue portfolio for you in 5-years or could it be \$750 million? Any color and thoughts over there would be helpful.

Vinod Kumar: You can work the numbers out but I believe that mix of services nearly every one of them has ability to grow +20% year-on-year for the next 3 to 5-years. The addressable market is large for each of the services and what we build in terms of capability is unique, especially when we put combinations together.

One of the things when we are looking at our business, we need to realize is, individual services may exist in different service providers portfolios, but we believe that our uniqueness comes from the combinations that we are able to put together and meet the customer transitions that they are making to Cloud or to Mobility or to new digital business models. That is why I feel that together maintaining (+20%) CAGR for the next 3-5-years is very doable.

Piyush Choudhary: The OPEX investments are already done through. So I would assume there is a lot of operating leverage over here?

Vinod Kumar: There is operating leverage there, but I believe for next year we can scale with minimal addition, but I cannot say we will scale for five years with no addition to cost. But it will not be directly proportionate.

Piyush Choudhary: Pratibha mentioned CAPEX guidance of \$300 million to \$350 million. Just want to re-clarify, are you comfortable with the top end because in the 'presentation' it was mentioned \$350 million.

Vinod Kumar: We are comfortable with the range.

Moderator: Thank you. The next question is from the line of Avinash Agarwal from Sundaram Mutual Fund. Please go ahead.

Avinash Agarwal: Just a clarification on this Neotel deal. We have mentioned in our 'Presentation' that the Competition Tribunal will start hearings on November 23rd. There are also reports that MTN and other players have gone to court against the ICASA clearance. So could you just clarify as to when this court hearing is and could they put a stop or could they delay these hearings in the Competition Tribunal, any updates there?

Vinod Kumar: There are two separate processes -- one is the Competition Tribunal which is what we spoke about in terms of timing. The ICASA is something we knew about all along that Telkom had filed and then after that the other players also filed objections which is frankly normal

and par for the course. One of the advantages that we have got is we have got High Court judge who is presiding over the matter to require all the carriers to submit their cases of filing objection, whatever you want to refer to it as together, rather than have to do it in a serial manner. So that process will run somewhat in parallel to the Competition Tribunal. We expect the Competition Tribunal to be the one that clears the matter first and then ICASA will take a little bit longer.

Avinash Agarwal: So this court case will not hamper the Competition Tribunal's hearings in anyway?

Vinod Kumar: No, they are two separate things.

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

Rajiv Sharma: Just a couple of questions: Your CAPEX guidance this \$300-350 million guidance, is this the likely trend for the next couple of years or we could see it coming down? And also just wanted to understand what is the overall strategy in ATM business, shutting down those and gearing up more the Indicash ATMs? So how do you see this impacting the financials over the next three to four quarters and why your network expenses have come down at the consolidated level? Is that sustainable level or is it a one-off? And lastly, on the new client acquisitions, which you have done in media, you said you contested a fiercely competitive deal. So are we taking in lower price points to enter these new market opportunities? Does that affect our yield and probably our ability to improve margins?

Vinod Kumar: CAPEX one I believe will settle around \$300 million over the next couple of years, next year I would like to still maintain it at \$300 to 350 million. But if your models are that sensitive to it, I would look at may be the year after that at \$300 million and hopefully, we will be able to show more growth and justify more CAPEX if opportunities present themselves.

On new acquisitions I will answer it and then maybe Pratibha, you can just quickly look into the network expenses if there is any one-off there. On customer acquisitions your margin might be a bit lower on some of these deals, but the size of these deals are also getting larger. So in terms of the actual EBITDA growth itself, year-on-year, we need these large deals to make them happen. And typically even if you were to go on with more aggressive pricing we do it on the back of a strategy to sell multiple services to bring them up the yield curve very quickly. So we are not necessarily going into the market and being price leaders even in the Data segment or even in the MNC segment if you look at the customer level. On a transaction level, it is very tough to say, you may use price in certain cases, you may use more features and value add in others, but when we say fiercely contested it is more often not about price, it is really about right to play because we are going into some either new segments or new geographies where we do not have an early track record in that segment or that geography.

Frankly speaking, in those cases, we cannot just win on price. Price may get some attention but you do not get the deal unless you demonstrate real value. So I would not take that statement of fierce competition and equate it to decline in the yield. I believe the yield improvement for us will come because we can scale OPEX that we have.

Rajiv Sharma: You have been talking a lot about bundling lot of services once you get a client, and you have been doing product development like IZO and Jamvee and other things. So just trying to understand both the strategies separately, when you bundle a lot of products and give it to the client, does it allow you any kind of pricing power or better yield? You have core products, which you have developed. Is that the big driver for margins going ahead?

Vinod Kumar: When we bundle products, obviously, the yield does go up because you are pricing it at a solution level and also then it is tough for competition to pick line items and price on a line item basis. So that is the reason why we put a lot of effort into driving our Product Penetration Ratio or PPR. Ideally, it is when products are bundled together at the same time or bought as a bundle, but even if they get sold over a period of time, it creates a certain lock in. So either approach is good for us.

Rajiv Sharma: You have these products called IZO and something called Jamvee, so do these command higher pricing power or it is just to drive the Tata Communications brand and build product awareness?

Vinod Kumar: They do not necessarily consume more margin, like in our UCC portfolio for example, we have a service for SIP trunking which is essentially enabling one of the biggest trends in enterprise voice is Microsoft Lync deployment right, or Skype for business as they call it now is gaining a lot of traction. As customers implement it, they are able to move a lot of their on-net and off-net voice onto data network and our SIP trunking service enables customers to do this, and we have a very competitive global SIP trunking capability.

So that is allowing us to take something unique to the customers. That service has to be priced competitively. I would look at it more as to be able to sell more services to the same customer, so you can look at it as our sales effort, our sales costs therefore have scalability.

Second is once you are in with a service like SIP trunking or security, as another example, they sort of grow within the business without having to put in additional sales or service effort. The customers just consume more as their business needs grow. So that is really what we are trying to do with services like Jamvee, with IZO, with SIP trunking. Those are good examples of that.

Pratibha K. Advani: To answer your question on the network cost, as the share in our revenue mix of voice is coming down in our overall revenue portfolio, this is positively impacting the access cost because of which the network costs are coming down.

You also had another question on our Payment Solutions business. Directionally, as I mentioned in my opening statement, we are looking at turning EBITDA positive by late current year or early next year, and this is on the back of some of the initiatives that we have taken on turning our portfolio by shutting down the non-profitable ATMs and substituting them with the white labels ATMs. We are also seeing the transactions in our ATMs portfolio going up quarter-on-quarter.

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

Aliasgar Shakir: I just wanted some understanding on this new service portfolio. So we have been growing there very rapidly; however, the losses have continued, Vinod mentioned that there will be operating leverage as incremental costs will be low. I just want to understand, what is the profitability outlook that we see over there over the next 2-3-years, in the sense that do we have a fixed budget in terms of the cost increase that we will do in new services for the scalability and investments required over there, and accordingly, the profitability will go or how should we look in terms of the profitability growth aligned with the revenue growth in new services?

I just wanted to know, adjusted for the Canada Pension Fund, what should be the allocation towards Data margin improvement and Voice improvement if we adjust the Canada pension fund?

On the ATM business, just wanted to know as we have been consistently investing on the WLA, though we have guided profitability coming in the end of FY'16 or maybe early FY'17, but if we continue to invest in white label ATMs, then would the sustainability of profitability be there or we may have to reduce our WLA CAPEX to be able to scale up our profitability?

Vinod Kumar: I will answer the question on WLA profitability. If you see we have already reduced our rate of WLA deployment, principally to make sure that our ATMs are giving the yield that we require. However, it makes no sense in a business like that to completely stop. We believe that it is a concept that is getting traction and we have the widest coverage. But instead of deploying 500 per month we are deploying 300 per month. But what is actually taking place in the background is about 200 other ones which we are redeploying based on in the first 120 days or so we know whether an ATM even after all the work we do whether in practice is giving us the required level of transaction. So the redeployment that will constantly take place.

We believe that the future of that business lies in the white label ATM business and leveraging the reach of that white label ATM presence to create third party revenue streams, whether it be in monetization of the physical presence or monetization of the data that we are collecting of the usage of those ATM locations.

So I would say TCPSL is the model of the white labels is the crux of that business. We got into that business as I have explained by doing third-party ATMs and MOF business, but the real value that we can extract will be there. And we believe that 200 to 300 deployments per month, we need to maintain in order to get the coverage that is required. Even the TATA Indicash brand we do not go advertise for it, our ATMs are the advertising points that also educate the market that there is something called white label ATM -the TATA Indicash ATM we can go and use any banks card. So we are going to stick with that strategy. We still believe that the EBITDA will turn and we are working very hard on the fronts of continuing to reduce our operating cost as we deploy these ATMs, but also on the new revenue streams like advertising, using the physical ATMs and collecting of aggregated anonymous customer data. That is what we will be sticking with.

On new services, we have explained this many times, saying that we are going through a period of investing, of strengthening the feature set of these services and making sure that we have the right channels to market, supported with the right level of brand support to get these new services out in the market. That is what you are seeing. That is why you are seeing the EBITDA movement compared to last year and even looking back we feel this is absolutely the right thing to do because we believe that the opportunity for the growth and for the scale effect to come, as I said, you will start seeing it in our margin improvement that we have said you will see for the core data business in the second half of this year, but more clearly and in a more meaningful way in the next financial year.

Aliasgar Shakir: A quick follow-up, Vinod. So on new services the reason of that question was that, over the last three years or so that we have seen healthy growth, but it has remained negative EBITDA margin. When do we see healthy recovery in terms of profitability over here. Is this in the near-term as you mentioned that operating leverage will start kicking in from H2, should we see in the next very near-term profitability kicking in or it would still be a little bit prolonged recovery?

Vinod Kumar: No-no, I think you will start seeing the EBITDA slope beginning to turn from Q4 onwards, you will start seeing it move back up, it will still remain negative, but you are going to start seeing the EBITDA margin improving.

Pratibha K. Advani: On your question on the Canadian Pension Fund, as our Data business is growing in prominence and the share is going up, some of that also gets loaded on to the Data business and that is how the split is happening. What is primarily driving that is we are obviously driving on the leverage that we can get from our existing resources both for Data and Voice.

Aliasgar Shakir: So the adjustment can be seen in the same ratio as we have the EBITDA contribution of Data and Voice?

Pratibha K. Advani: I would say more like the ratio of revenue to Data and Voice.

Aliasgar Shakir: On this ATM business, in the backdrop of online payments and payment banks growing very rapidly, what sort of risk that we see of this, on our ATM business?

Vinod Kumar: It is something that we are very mindful of. It is a good question. We do not believe that cash as a mode of doing transactions in India is going to be displaced overnight. We believe cash has a long role to play. That is one. Second is we are looking for models where these banks get licenses and they want to expand their physical footprint along with their digital capabilities. They will not deploy their own ATMs and they are having conversations with few banks right now on doing jointly labeled ATMs for example. And we have to do those kind of new business models as well as look at how we can build other revenue streams such as advertising on the screen, advertising on the physical ATM presence as well as on building data set of the consumers especially in the Tier-3 and Tier-4 towns. That can then be used as an asset to either create services ourselves or in many case package and sell that customer data set in an anonymous way to those marketing other goods and services. These new revenue streams that we are attempting to build and will build in TCPSL. We will go straight to the bottom line, very little that we have to do, there is no CAPEX involved, it is really a few people required to build this, collect information and package it. And whatever we generate most of it goes to the bottom line. That is why we feel these kind of things combined with the efforts we are doing on cost as well as better deployment in the right locations will lead to an EBITDA turn around.

Your question on payment banks, on shift to mobile cash. Those are the things which will happen over a period of time, but we believe that the underlying need for cash, also with more bank accounts being opened, especially in the Tier-3 to Tier-4 towns, we should be in a good position to build a viable business model there.

Aliasgar Shakir: Is our WLA investment therefore largely in Tier-2, Tier-3 towns?

Vinod Kumar: Mostly.

Moderator: Thank you. The next question is from the line of Rahul Maheshwari from IDBI. Please go ahead.

Rahul Maheshwari: I just wanted to ask the startup business which is there, which you have just guided that it would be growing year-on-year. Why in H1 2016 there is de-growth by approximately 5% and EBITDA is also de-growing by 27%. Can you throw light on the numbers please?

Pratibha K. Advani: Actually this is something that I did cover in my comments earlier. There are some project-led revenues that we got last year and those have come down in the current year,

and the margins also on those is significantly higher, which is why you see the de-growth, but if you see our annuity business, that is very stable.

Rahul Maheshwari: So coming quarters onwards or year-to-year it would be coming into positive way for growth rate?

Pratibha K. Advani: Annuity business will continue to grow, the project-led revenues are anyway lumpy. So those are difficult to predict.

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

Amruta Pabalkar: This is Amruta. Just to continue on the Data Center question, you said that 85% of the current incremental growth that you have had is from the Colocation business. Roughly Colocation would be approximately around 70% to 80% of your revenues. On the balance part of the business which you intend to be in, which you would be largely the hosting arm as well as the Cloud arm, could you share your strategy as how do you intend to be a Cloud player and lever up your businesses. And around one-fourth of the CAPEX spent until now this year, how much has been dedicated to this kind of a business other than pure Colo.

Second question would be on the sustainable Data EBITDA margins. So, if we exclude the losses, your stable Data EBITDA margin would be around 26%. So how do you see this number trend up if we just exclude the losses in your businesses?

Vinod Kumar: On the second point, Pratibha, you can give some thought about it, I do not have an immediate answer to that. In terms of our hosting services strategy, Amruta, what we really are building in the portfolio for the last two years or so is we moved from dedicated hosting to offering virtualized hosting solutions in a private environment to our customers and we continue to see some demand for that.

Our customers are now asking us to offer combination of service of public and private model. So they want to run certain workloads and store certain information in a private environment but managed by a company like Tata Communications. Then they have certain workloads typically testing and development related or non-mission critical applications which they are comfortable keeping in a public cloud environment. That public cloud can either be Tata Communications through private/public cloud or Amazon web services or Microsoft Azure or IBM Softlayer or somebody else, but they want one provider to manage this on an integrated basis and to handle their workloads across what is dedicated or private environment and the elastic public environment.

Our strategy around this is called a "Single Pane of Glass" strategy. In fact there is a press release that has already gone out about our offerings in this space, and this is the first time we

are taking it to market. We have been offering it to customers, but launching it as services today and we are doing it under the IZO Cloud Orchestration Services what we call it. So essentially the customer can handle their entire compute and storage workload, or Tata Communications can handle it for them I should say and build a customized solution for how much they want to keep private and in-house and how much they want to keep public and external, and it will be packaged with all our network and security services. So they do not have to worry and it will be the turnkey offering. So this is the niche that we are playing in and we see a good healthy and addressable market and also good funnel building over here.

Pratibha K. Advani: Amruta, to answer your two questions, our traditional data services margins are in the range of 25-26% and our capital investment into data center for the half year is \$43 million.

Amruta Pabalkar: So if we look at the stable portfolio, not just the traditional but just excluding your loss making businesses, the underlying EBITDA margins are at 26%. So how do you see this product mix shape up going forward? Is this something as a stable normally we should look at and just look at the reduction and losses incrementally driving your margins or we can expect and inch up even this stable 26% margin number?

Pratibha K. Advani: As Vinod mentioned earlier we are continuing to invest in our new services. So that will happen over the next couple of quarters and thereafter you should start to see these margins improve as we gain scale and operational efficiency.

Moderator: Thank you. That was the last question for today. With this, I would now like to hand over the floor to Mr. Vinod Kumar for his closing comments. Over to you sir.

Vinod Kumar: Thank you for the questions and I can tell from the nature of the questions that the depth of understanding of the business is improving. So hopefully we are doing something right in terms of sharing information in a more structured way, in a more granular way.

Mahesh, Pratibha and I are committed, along with the rest of our team to continue doing so, so that you can better understand the business, create more granular models and have a better understanding of the company's evolution. We also find these questions and comments that you make extremely useful given the perspectives that you bring to the table, so thank you for that. And we will continue working on the results and showing the scale effect will apply both to our CAPEX and our OPEX and that you will see our margins expand in H2 and beyond.

Thank you and look forward to speaking to you during the next call.

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

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