Tulip Telecom Limited
Q1 FY2012 Conference Call
July 29, 2011 at 2:00 pm IST

Moderator: Ladies and gentlemen good day and welcome to the Tulip Telecom conference call. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Ishan Selarka from CDR India. Thank you, and over to you sir.

Ishan Selarka: Thank you Melissa. Good afternoon everyone and thank you for joining us on Tulip Telecom's Q1 FY12 results conference call. We have with us Col. Bedi, Chairman and Managing Director, Mr. Deepinder Bedi, Executive Director, Mr. Sanjay Jain, CEO and Mr. Rahul Ahuja, CFO of the Company.

We will begin the call with opening remarks from the management following which we will have the forum open for an interactive question-and-answer session. Before we begin I would like to add that some of the statements made in today's discussion maybe forward-looking in nature and a disclaimer to this effect has been included in the conference call invite e-mailed to you earlier. I would now like to invite Col. Bedi to make his opening remarks. Over to you sir.

Col. Bedi: Good afternoon ladies and gentlemen. Thank you very much for joining us on a conference call for the first quarter ended June 30, 2011. Our performance in the first quarter of the current year augurs well for the year ahead. We have registered a healthy operational and financial performance, which is a testimony to the various strides undertaken by the Company to shift its focus from an Enterprise Data Connectivity player to an Integrated Enterprise Data Services provider. Our three-pronged strategy driven by the Company's objective of transiting from being an Enterprise Data Connectivity provider to becoming an Enterprise Data Services provider includes geographical reach and coverage, product reach and vertical reach. This strategy implies that we have the sales people covering geographical areas, we have products specialists who handle specific products and we have vertical specialists (sales people) who handle specific verticals like enterprise, alliances, banking, financial organization etc. This will not only enable us to have a deeper engagement with our customers but will also facilitate us in cementing our position as one of the larger players in the Enterprise Data Services segment over the next few years.

As mentioned in the earlier concalls we are in the process of consolidating our management team in line with our focus to strengthen service standards and customer satisfaction levels, which we believe will not only ensure customer stickiness, but will also have a positive bearing on our performance going forward.

As we move forward we continue to map opportunities as they emerge and prudently take investment decisions that are necessary to maintain a leadership position and to deliver sustainable growth. The future looks promising and we believe that we are well-positioned to take advantage of the immense opportunity arising from the Enterprise Data Services market given our end-to-end data and service offerings. I now hand you over to our CEO, Sanjay Jain to take this forward.

Sanjay Jain: Thank you Col. Bedi. Good afternoon ladies and gentlemen. I will present to you the Company's operational performance following which our CFO, Rahul Ahuja, will walk through the financial highlights of the Company.

Let me begin by stating that the steps undertaken by the Company to deepen relationship with the customers especially the existing customers and at the same time getting new customers onboard is showing results and is gradually reflecting in our performance. You might have noticed now that how we have strengthened a business model from just being a bandwidth provider to offering a complete data solution package to our customers through a wide array of products and services.

In addition to what Col. Bedi has mentioned, we are in the process of building a professional team, to help the Company achieve its vision; we have been keeping you informed from time-to-time about the key people joining us. In that sequel, Tulip has appointed now vertical heads for banking and financial services and IT/ITES to bring in additional focus to the high growth segments. One of the leading Telco's National BFSI Head and the Telco's IT/ITES Vertical Head have actually come on board to drive this agenda nationally with us and if you recall we earlier had the mid-market in corporate channel Group Vertical Head who has joined us. Likewise, we also have a Vertical Head now, who would focus on three specific verticals between enterprise, this would-be Media Entertainment, Education and Pharma and therefore we believe there would be now avenues getting opened up for the Company to get larger share of wallet from the existing customer relationship.

We are also streamlining processes to operate the key members and thus bring in a very performance-driven culture, and in that regard we appointed Mr. Ashu Malhotra as the HR Head for the Company. Ashu brings in 20 years of experience in various leadership positions in HR at Bharti Airtel and his last position as HR Head at Alcatel-Lucent.

Additionally, with a view to improve the robustness of our processes and at the same time keep the cost under control, Tulip has successfully implemented ERP which is SAP package, and we went live in May 2011, and after the customary initial teething problems, the ERP is stabilizing very well and we now are looking forward to derive the efficiency from this.

Allow me to now take you through the operational highlights for the quarter under review.

The demand for high bandwidth fiber connectivity remains very robust with over 80% of new enterprise orders now continue to come from fiber in terms of revenues. Our fiber network has already expanded to over 7,200 Kms in 300 cities and a focus is on increasing the density of the fiber networks in the existing cities, while very prudently exploring opportunities to increase presence in newer cities. Our strategy in this segment is to offer end-to-end connectivity solutions and this is expected to translate into a higher contribution from fiber by the end of this financial year.

During the quarter, we added several new customers, namely Matrix Cellular, OICL, Karur Vysya Bank, Reliance Life Insurance, Gamesa, Deccan Charter and many more such reputed customers. We continue to witness traction in the BFSI segment, and the Company has been in fact shortlisted by more than one leading PSU banks for connecting their National networks.

As you also aware, we linked 1,200 kms of national long-distance fiber very selectively between Mumbai and Chennai at a nominal capex of about Rs. 60 crore. The strategy of laying this fiber was two-fold; one given the Company's existing bandwidth requirement in this trunk route, and secondly, the demand anticipated for its new Data Center venture in Bengaluru. We are happy to mention that the route covers prominent cities like Mumbai, Pune, Belgaum, Bengaluru, Chennai and then connects the two main landing stations in the country to Tulip’s main Data Center at Bengaluru. In line with our endeavor to ensure high up times, we have leased bandwidth from multiple service providers to offer redundant ring architecture to that route. Therefore, through the internal cost savings as well as revenue maximization through additional opportunities that would open up, the Company expects that the pay back from this investment could actually come within 2-3 years.

On the International Data Connectivity segment, I'm glad to highlight that the orders we have won in Q4 FY11 have been successfully executed during the current quarter, showcasing Tulip’s agility in converting order book to sales. This has largely been the impact of the Hutchison relationship that we have entered into sometime last year; the relationship has now started giving tangible benefits. During the quarter, we added Reckitt Benckiser, HDFC Bank and Bloomberg as customers on international bandwidth. Tulip’s global network now reaches most countries in North America, South America, Europe, Asia and Australia. Overall, we believe we have just scratched the tip of the iceberg and going forward we are positive that there could be healthy tractions coming up in the ILD segment. Let me also add here that Company is gaining a good foothold in carrier market as well. In Q1, we got orders from domestic and international carriers to use Tulip’s Access Network for their requirements.

To give you a perspective in the government business, the execution of the R-APDRP projects are well on track. We expect to start realizing revenues from Uttar Pradesh and Gujarat APDRP projects to commence from Q2. We continue to be at the forefront of this opportunity given that we are the most preferred bandwidth providers for these projects. The Company is positive that it could actually close one or two more such opportunities in the near future.

Moving on to Managed Services segment, as Col. Bedi mentioned earlier, that we have been focusing on transiting from just being an Enterprise Data Connectivity Company to actually being an Enterprise Data

Services Company. Also, as you may be aware that our current focus is on growing the segment and on that front we are witnessing some positive traction. We are continuously increasing our product basket to include services like conversion solution for voice, data and video, network solutions hosting in managed security.

It's important to note here that today, Tulip's relationship reach out to more than 2,000 customers. So the foray into Managed Services actually is an extension of that, wherein Tulip will not only provide connectivity to customers but also start managing their networks. So it's a very natural extension of the existing services that we are providing to customers.

Given the emphasis on the segment we have appointed Mr. Sanjay Verma as President, Managed Services to head the global Managed Services business. He brings with him 25 years of experience in IT sales, delivery and strategies and was earlier engaged with large organizations like Wipro, Infosys and Satyam. In fact, his last appointment prior to coming on Board at Tulip was actually Head of Business Development for North American markets and his last appointment was actually at Wipro.

Let me also give you an update on the progress at Data Center. We are well on schedule and as earlier conveyed we expect to commercialize in Q2 FY12. We are pleased with the response that we are receiving and I am happy to share that we already won an order for up to 30,000 Sq. Ft. from a reputed global organization wherein the revenue potential is actually Rs. 500 crore spread over 5 years. In addition to this prestigious order we have a visible funnel of about 150,000 Sq. Ft. With the team already on board our efforts now are in the direction of sales and marketing to achieve the targeted booking. With all our functional heads in place we believe we are heading in the right direction and are feeling well poised to achieve the desired results going forward.

Before I close and hand over to the CFO, I am also glad to announce here that the Board of Directors have approved the issuance of Long Term Capital including warrants to the promoter, promoter group of companies up to 5% of the issued capital in compliance with the SEBI guidelines. Therefore, if it is a warrant issuance, the price actually would be determined by SEBI guidelines in terms of the stock being high of say in the last 6 months high-low average in price or the last two weeks fiber price.

To sum up we are enthused by the progress so far and feel well poised of rapidly scaling up in the future as well. With this I will hand over now to Rahul to give you a brief overview of the financials.

Rahul Ahuja: Thank you Sanjay. Good afternoon everyone. I will take you through the financial results for Q1 FY12, which was been another robust quarter of growth for the Company wherein our top-line was higher by 24.5% at Rs. 653.9 crore. This was primarily on account of rise in order inputs from high bandwidth fiber services. EBITDA for the quarter was higher at Rs. 184.7 crore; up by 30.3%, EBITDA margins for Q1 grew from 27.1% to 28.5%. This was on back of improving contribution from fiber and Managed Services, Data Center business, bulk purchase of bandwidth on account of fiber rollout and economies of scale. Just to add here, bandwidth prices over the last few quarters have stabilized compared to earlier years where bandwidth prices were falling.

Depreciation for the quarter stood at Rs. 49.5 crore. Interest expense for the quarter stood at Rs. 31.9 crore, up by 72% as a result of increase in interest rates coupled with increase in debt over the last 12 months. The average cost of funds for the Company is 10.2%. PAT was higher by 20.2% at Rs. 77.1 crore.

Now to give you a perspective on the balance sheet, we have incurred a Capex of about Rs. 139 crore during the quarter, of this roughly 10% is towards Capex for Data Center business in Bengaluru. This takes our gross block to about Rs. 2,449 crore as of 30th of June 2011. Net debt of the Company stood at Rs. 1,646 crore as of 30th June. Our total debt-equity stands at 1.5 times and debt-to-EBITDA at 2.6 times.

Here, I would like to highlight that ICRA, in addition to CARE, has reaffirmed the A1 rating for short-term commercial paper program that we run and A+ for long-term NCDs.

On that note we conclude our remarks and would like to thank all of you for joining us on this conference call. We would now be happy to take any questions, comments or suggestions that you might have.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Neeraja Natarajan from Nomura. Please go ahead.

Neeraja Natarajan: Is this 25% revenue growth going to be sustainable in the rest of this year? Also, if you can just throw some color as to where the pickup come from and what is fiber as a percentage of overall revenues currently? Secondly on the Data Center the orders that you've announced, you said up to Rs. 5 billion in potential revenue. So is this fully locked in, or is that something that you expect to scale up in time? Also what is the mix of services; is this just for hosting the services, or is there some value-added services that has been built in, any clarity on that front would be helpful?

Sanjay Jain: I think on the first point our overall guidance for growth for the entire year has been in the range of 15% to 20% and the first quarter has helped us lock in a growth of about 24.5%. So I think our guidance would remain around 20% and there is always a potential to do better and there is a possible upside, but at this stage we would not change our guidance for the year. On the second part of your question, I think the order inputs flow over the last couple of quarters has been robust and mainly due to the fiber going into commercial production and our international arrangement with Hutchison. While the arrangement was done 6 to 9 months back, getting in orders take about a couple of months after that. So all of that is now getting executed, there is a lot of internal focus on partial execution of orders and that has resulted into robust growth. On the Data Center order, it is at this stage hosting in line with our original business plan. We wanted to commence our operations in hosting and gradually move on to more services and thus getting high revenue and better margins in year two and year three. In terms of the locking in, about 10,000 sq. ft. is already locked in with the customer, and these contract has been signed is for 30,000 sq. ft. So 10,000 sq. ft. is confirmed and we are very, very positive that given the customers plan, the balance 30,000 sq. ft. would also get lapped up very fast. Few interesting things about this order is that, there is a healthy ARPU that we have got and in fact it's a 5-year contract and the ARPU actually expected to be revised upwards, both in terms of per sq. ft. rate and also the power cost as it is a pass-through cost. Therefore, to begin with it its good order to get.

Col. Bedi: Just one thing I would like to add here is that this order is for the customer to provide Cloud services using our infrastructure. So we are going to offer Cloud services to the customer from our Data Center and as a result it gives all of us the confidence that the Data Center is fully geared up to be a good play for offering Cloud services and that is actually a very important thing. This Data Center is perhaps the only Data Center that is truly Cloud-ready and we already have a very large customer sitting here ready to offer Cloud Services.

Neeraja Natarajan: Where is the difference between the ARPU, because it is a bigger size contract and the initial guidance and the kind of revenue potential that you were talking about the Data Center was lower than this. It would be helpful if you could throw some color around this?

Sanjay Jain: When we had initially given guidance, of course, we are a few months ahead in terms of getting closer to commercial activity. But as it unraveled, the potential is even more than our own initial estimations and the customer also seem to like the size and scale. There is a very important factor here that the big cost in running a Data Center, which eventually a customer also has to partly pay in terms of ARPU, is the power cost and unlike any other normal Data Center across the globe, we are aiming at running our Data Center about 20% to 30% cheaper at the PUE level. So the design that we have built with the help of IBM and with the view from Schnabel is giving us confidence to us as well as the customers that this is the place to be. So I think a combination of all these factors have actually led to realizing a better ARPU than our own original estimates.

Moderator: Thank you. The next question is from the line of Varun Ahuja from UBS. Please go ahead.

Varun Ahuja: If I look at your cash flow it seems like the working capital has gone up by near about Rs. 100-odd crore, which is similar to the quarter last year. Secondly, any progress on getting a strategic partner in the DC venture because I presume you were about to announce any on the strategic partner in the 2nd Quarter? Thirdly, the NLD fiber that you laid from Mumbai to Chennai, is it under the ground or is it over the ground?

Sanjay Jain: On the first point, yes, your observation is correct that there has been an increase in working capital and there are some internal issues that have led to this increase in working capital. In terms of good news first, our inventory number of days, as number of days to cost of goods sold actually were 21 days at the end of March quarter and that has actually come down to about 19 days at the end of June quarter. But inventory for us is about Rs. 99 crore. So the relative impact on the overall working capital has been favorable, but small. But where we actually got hurt was on the number of days and we are working towards improving the number of days of receivables. In terms of the systematic inefficiency, we rolled out new ERP and it actually went live somewhere in mid-May and like any other ERP, there is always a little bit of blackout period and some post go-live teething problems wherein there is lack of visibility on the ageing of receivables and on the invoicing. Hence, the collection efforts were little suboptimal. However, I think that is behind us, as I said earlier ERP is stabilizing, and we anticipate that we should be able to bring the receivable cycle back on track this quarter.

On the strategic partner front I think at this stage all I can say is the process is underway and if and when a deal get crystallize in near future, we would be more than happy to inform you all. What is heartening is that the underlying asset is actually witnessing healthy traction on the operational front, project is on track, customer is onboard, so the process is on way and the moment there is deal getting crystallized, we will come back and advise you of the details of that.

The NLD fiber is entirely underground fiber.

Varun Ahuja: It seems like the operating profit has remained same and you must have incurred some OpEx during the quarter. So is it being capitalized or is it going through the P&L?

Sanjay Jain: It's a combination of both, since the commercial activity from a sales perspective is already on. So any cost relating to, for example the sales guys on payroll, the marketing efforts, the business development efforts all of that is actually getting expensed. But anything with respect to people working on the project in terms of setting it up, that is getting capitalized plus the borrowings which are clearly identifiable to the Data Center are also getting capitalized. Now it is a matter of just a couple of months because we are hopeful to go commercially live within this quarter itself.

Moderator: Thank you. The next question is from the line of Ashi Anand from Kotak. Please go ahead.

Aashi Anand: What are the Capex plans for the current year, and it will be very helpful if you could give a breakup of the plans, as you mentioned 10% of the quarter's Capex is towards the Data Center. So if you could just breakup the annual Capex plan towards the Data Center, the NLD line, how much you are spending on fiber and how much is going towards setting of the network?

Sanjay Jain: Our initial estimation of Capex for the entire year was about Rs. 450 crore and we have incurred about Rs. 139 crore in the first quarter and about 10% of that, say about Rs. 15 crore exactly on the Data Center. So Rs. 124 crore is actually what went into the run-rate Capex at Tulip Telecom. Now given the Rs. 125 crore capex in Q1 we are well poised to remain within the overall original estimates of Rs. 450 crore.

In terms of where this money is getting spend, its largely 4-5 areas. As I mentioned earlier in the initial remarks, there is a focus on improving the fiber density in the existing 300 cities, so that's where the money is getting spent plus prudently, we're trying to explore adding newer cities, trying to match with the footprint of our customers that is the second area where the Capex is happening. The existing Data Centers, though to a large extent the Capex was done, but the moment there is a customer opportunity spotted they are actually filling up the floor with servers and another related IT equipment depending on the customer needs, that's another area. NLD fiber is about Rs. 60 crore in terms of the overall Rs. 450 crore estimation plus the Pop infrastructure not only the improvement plus also the augmentation, if you recall we already have about Rs. 250-odd crore of APDRP related revenue projects and we had said that about 15%-20% of that would actually go into Capex. So with the fact that UP and Gujarat is expected to go live so that's the fifth area where the money is getting spent. So these are some 4-5 areas where we are incurring Capex.

Aashi Anand: Would it be possible for you to give a breakup in terms of how much you're spending on fiber density, how much on the Data Center, how much on the pop-infra, etc?

Sanjay Jain: In the interest of the larger audience in the call we will be more than happy to take it offline and Rahul and I would be happy to share with you a broad breakup of the Capex.

Aashi Anand: We were spending a lot of money over the 3-4 years in terms of the augmentation of the Pop infrastructure. Now is the improvement largely done or do we foresee similar spends going forward and do we have to keep investing towards improvement and augmentation and therefore other spends on Pop infra likely to remain high?

Sanjay Jain: Before I answer specifically to the question, there is still an untapped immense opportunity out there in the market, for example, leading public sector bank, if one has to really take up the entire Pan-India network it's about 19,000 connects, the Department of Post Phase 1 project is about 30,000 connects and Post Offices operate across remote locations. So there is an immense opportunity. So any Capex that the Company is incurring is not only to serve the existing business in hand, but also with respect to the untapped anticipated revenues. But having said that I think the Capex intensity is in a downward trend and we actually expect the absolute Capex to also come down. Let's take into account that we have five APDRPs up and running and we expect to get one or two more, there will be five or six states where there will be a well-entrenched infrastructure of connectivity, then there are four SWANs up and running, and given the fact that we have been shortlisted for a leading PSU bank orders. So there is an infrastructure to a large extent that has already been created which would get monetized or leveraged going forward. So the Capex intensity should head southwards and the absolute Capex next year should actually be lower than what we expect to be incurred this year.

Moderator: Thank you. The next question is from the line of Shobhit Khare from Motilal Oswal. Please go ahead.

Shobhit Khare: Just wanted to check about the seasonality as to how in the first quarter this year we have managed a higher revenue line versus the 4th Quarter. Is there a change in the business mix or specifically, is there a pricing improvement trend, etc. which is leading to this?

Sanjay Jain: It is actually monetization of the fiber, monetization of the relationship with Hutchison and also partial execution of orders. Yes, of course, there is a favorable change in the mix that is happening wherein Managed Services orders are getting a sizeable portion of the overall basket plus fiber orders getting larger proportion of the overall connectivity basket. It is difficult to point out or draw conclusion that the seasonality is behind us for any specific conclusion; these are some few reasons that I mentioned which has led to the strong Q1 growth. The traction continues and we are hopeful that this good performance should happen in the coming quarters as well.

Shobhit Khare: I was just wondering that, is it like the contracts generally get renewed in the first quarter of the fiscal?

Col. Bedi: Contracts get renewed when they fall due, the contracts are yearly contracts and they always get renewed in line with the time at which the order was received. Every contract is a yearly contract and the payments come, the billing happens at the start of a quarter, the renewal happens at the end of the year when the order was given. It is not that you can pre-pone the order renewal in any quarter.

Moderator: Thank you. The next question is from the line of Malvika Gupta from JP Morgan. Please go ahead.

Malvika Gupta: Does the capex of Rs. 450 crore in FY12 include the DC Capex?

Sanjay Jain: That excludes the Bengaluru DC Capex.

Malvika Gupta: Should we assume that would be about 10% on top of that?

Sanjay Jain: It will go up to about Rs. 200 crore during the current year.

Malvika Gupta: What is the implied rentals, because the number I'm getting too is about Rs. 2777 per month per sq. ft. and clearly that is higher than the Rs. 1600 we had talked about earlier. Also, wanted to know how that was compared with your rentals in the other Data Centers that you run and sort of market averages?

Sanjay Jain: Some customers do want a premier space and therefore are willing to pay premium for what we offer to them, and it is a simple arithmetic, we have mentioned to you Rs. 500 crore revenues and 30,000 sq. ft. as the peak level revenue and the peak level space. Yes, it is much better than our original estimates, because of the reasons that I covered in response to a question from UBS earlier.

Col. Bedi: One small thing to add, some customers who are going in for Cloud computing, etc. they need Data Centers to the custom-built and customers who are taking large spaces, they need to generate into the custom-built and they are willing to pay premium rate for a premium service.

Malvika Gupta: We have talked about a 50% margin on a full utilization basis and whether this particular order would be working towards that or we would be starting off at least from a very low base?

Sanjay Jain: Our estimation, to put things in right perspective, for the EBITDA margin was 45% to 50% at full scale of operation in three years from now and this order is well in line with our estimation. We had anticipated a gradual ramp up to happen and this order is well in that direction.

Malvika Gupta: In the last quarter call, we have been talking about a focus on bringing down debt, bringing down leverage, and I was just wondering if there were further comments to be made on that?

Sanjay Jain: The efforts are two-fold, one is the internal efforts and the second is any external input to bring on the leverage. In terms of internal efforts, as I mentioned earlier, there are areas to focus in terms of inventory and largely on receivables, and which we bring this, there is definitely due, for example, if 99 days are actually brought down to 60-65 days, they could actually be Rs. 70-80 crore of cash that could come in from within the system. So that is some internal effort that we need to really focus upon in the remaining part of this year and thereafter.

In terms of external efforts, as you know, we are working on getting a partner onboard to partly take care of the DC funding requirement. So if there is a Rs. 200 crore anticipated Capex, and if the Company's plans to get a partner successfully, then this entire funding could actually be taken care by the partner's money injection, and then what we need to spend at the parent Company level would actually be sufficiently taken care by internal generations. These are couple of things I think we need to focus on going forward.

Moderator: Thank you. The next question is from the line of Amin Pirani from Deutsche Bank. Please go ahead.

Shrinivas Rao: Could you reiterate the length of the fibre that you have and the number of cities covered.

Sanjay Jain: In terms of last mile access fiber it is 7,200 Kms access fiber in 300 plus cities. In terms of the NLD it will be 1200 Kms, covering cities like Pune, Mumbai, Belgaum, Bengaluru, Chennai and then pan completing the route as well.

Shrinivas Rao: Could you throw some light on what kind of cost you have incurred for the access fiber on a per kilometer basis?

Col. Bedi: Very difficult to say that because it varies very sharply. In the more difficult areas of the major cities, the right of way goes very, very high and in smaller towns it's much less.

Shrinivas Rao: That is why I wanted to just check because since you have laid it across wide gamut of cities which is why a blended number probably is something which I'm looking for.

Col. Bedi: Very difficult to give an average number. It would vary from very high kind of numbers in South Mumbai to very reasonable figures in Nagpur, where no one bothers. So it is very difficult to give an average number.

Shrinivas Rao: The access fiber which you have, is it feasible that the telecom companies would connect their towers on to that?

Col. Bedi: If it is on the route, yes, but do remember that our fiber is primarily for connecting centers. So may not always be on the route where there are towers, but if there are any towers fall on that route, it could be covered. But we are exploring something like this with some Telco's.

Moderator: Thank you. The next question is from the line of Yogesh Kirve from Anand Rathi. Please go ahead.

Yogesh Kirve: What sort of capacity utilization is Company confident of achieving by the end of this fiscal?

Sanjay Jain: Firstly, let me clarify on the capacity side, and then I would specifically answer your question. The 9 lakh sq. ft. Data Center is equivalent to about 4 lakh plus sq. ft. of wide space or the Data Center space, and we had anticipated that by the end of first year, which is March 12, we would have actually committed or sold 25% of that capacity, which is about 100,000 sq. ft. So as things stand today, we have a commitment of going up to 30,000 sq. ft., so therefore to answer your question, our anticipated utilization in terms of committed orders in hand is about 25% by the end of first year.

Col. Bedi: Just wanted to add one thing here, the Data Center consist of 20 separate floor plates, you keep building one or two floor plates at a time as they keep getting sold you keep investing more and more. So at any one time you will have a fairly high occupancy percentage, but as more and more demand comes in, you keep building more and more. So while you have 20 floor plates, you are building all 20 of them and then any of it 10% or15% capacity utilization, you will not build that part; you only build that part once you need. I hope that has clarified this one.

Yogesh Kirve: How much of Capex that you plan to incur in a Data Center business. If I'm not wrong it should be in the order of about Rs. 200 to Rs. 250 crore in this year?

Sanjay Jain: The anticipated Capex is about Rs. 200 crore plus to be ready for the 100,000 sq. ft. that we expect to sell.

Yogesh Kirve: How much of Capex we have put in this business so far, since you acquired this particular Company?

Sanjay Jain: There is actually Capex of about Rs. 15 crore and there are some advances relating to the Capex of about Rs. 10-12 crore. So in total about Rs. 25 crore is what has actually gone into this Capex for Data Center.

Yogesh Kirve: We are potentially going to see quite a few ramp up over the second half of this fiscal?

Sanjay Jain: As Col. Bedi just mentioned, on one hand, there is a base Capex of bringing the entire facility ready in terms of power back-up, air-conditioning and it is really a modular Capex with a 20 sector DCs. So in line with the order input anticipation the Capex is about Rs. 200 crore; but should there be for any unforeseen reason, there is a flexibility to actually go slow on the Capex to be incurred.

Yogesh Kirve: So what would be that base level of Capex which is really independent of the utilization levels?

Sanjay Jain: At about Rs. 75 crore or so, we can clearly say that our facility is now ready in all respects and the first customer actually can come on board. That is the level of base Capex, beyond that it could really be variable to the level of business that comes in.

Yogesh Kirve: So, out of the Rs. 75 crore you're saying now you have already put in about Rs. 25 crore?

Sanjay Jain: That's right, out of Rs. 75 crore, there is Rs. 25 crore that has already been incurred in advance and there could be another Rs. 50 crore that would actually go into, in terms of base line ready for hosting the first customer in all respects.

Moderator: Thank you. The next question is from the line of Archit Singhal from Jaypee Capital. Please go ahead.

Archit Singhal: Basically, we have a visibility of around 1.5 lakh sq. ft. for the Data Center. So basically wanted to know the timeframe we are looking at selling the space?

Sanjay Jain: If everything goes well, out of this 150,000 sq. ft. pipeline, there is potential to close at least 75,000 sq. ft. within this financial year itself. This is incremental to the 30,000 sq. ft. locked in. There is a potential to lock in another sq. ft. 75,000 in the remaining part of this financial year.

Archit Singhal: Given that we have more visibility as compared to the previous call, do we maintain our target for the EBITDA break even as in FY13 starting?

Sanjay Jain: We would maintain that. ARPU realization has been better than anticipation, but in terms of the sq. ft. to be sold and the break even, we will maintain the original guidance still.

Archit Singhal: Any guidance on the loss from the Data Center in FY12?

Sanjay Jain: We had earlier said that there could be USD 10-12 million of operating loss and I think we should be able to contain it well within that for this year.

Moderator: Thank you. The next question is from the line of Jack Lowenstein from Hunter Hall. Please go ahead.

Jack Lowenstein: What progress has been made on the disposal of the Qualcomm joint venture interest?

Col. Bedi: Qualcomm is working on it, and we are hoping that they will be able to reach some stage in a fairly short time, probably before the end of the year.

Jack Lowenstein: Are you still expecting to make some gain on that investment?

Col. Bedi: Definitely. That is one of the aims.

Jack Lowenstein: When do you expect to recognize the FCCB redemption and premium on redemption in your balance sheet and profit and loss?

Sanjay Jain: The conversion or the redemption is in August 2012. So if it doesn't get converted and we have to pay it off, then the entire charge of interest would be booked in that particular year, given the flexibility I believe that exist in the accounting standards. There could be capital account transaction flowing through the balance sheet. So there could be an impact on reserves, but not on the P&L so that's where we are on the timing of the interest provisions.

Jack Lowenstein: In addition to the work with the funding which will come from the conversion of the warrants, do you have a plan in place to replace that debts, will you replace that bank debt for example?

Sanjay Jain: Yes. There are some very concrete plans in place. To name a few, firstly, I would always focus internally to squeeze cash, we touched upon the inventory and receivables throwing some about Rs. 70-odd crore. Then of course you just asked a question about possible monetization of Qualcomm which Col. Bedi said we would actually expect to happen within this financial year, that's a second internal source to take care of this requirement. And in terms of the external sources, our CFO is already in touch with banks, and the banks would be keen to actually give in another long-term 5 to 7 year funding be it foreign convertible or a rupee lending. So these are some concrete available sources internal and external. So we feel comfortable and well poised that we should be able to take care of this likely redemption obligation next year.

Moderator: Thank you. The next question is from the line of Rohan Gala from Subhkam Capital. Please go ahead.

Rohan Gala: Can you give me the flow on the order book which you have?

Sanjay Jain: The order input flow is well on track to meet the overall anticipated growth of about 20%. In revenue and in terms of the breakup of this order book, as we have also mentioned in the earnings release there is about 60% on connectivity and about 33% on Managed Services and remaining about 7% on Network Integration. So the order inflow is in line with the anticipated growth of 15%-20% and remaining for the entire year.

Rohan Gala: Can you just quantify that, number?

Sanjay Jain: It is difficult to quantify because we are not like kind of power sector or a capital goods Company, wherein there is a long-term order book commitment. The moment we have Data Center in place, wherein there is a long-term visibility of revenue, in fact we have been very vocal about the fact that there is a Rs. 500 crore potential order for 30,000 sq. ft. but for the recurring business that we are into, quantifying the order book honestly may not be a very good indicator of the estimation of revenue going forward.

Rohan Gala: As you said the bandwidth price have been stabilizing, so going ahead how do you see the margins panning out. Also, do you still see the bandwidth stabilizing going ahead or you see some up and downs in the pricing of that?

Sanjay Jain: It's difficult to predict the behavior of bandwidth prices, while there could be minor ups and downs, but in a medium to long-term bandwidth prices would actually head down south, they would actually go down. Hence the Company needs to be prepared where there is focus on the high-value fiber-based projects plus the services part of it. it is difficult to predict the future as the current trend is witnessing hardening of bandwidth prices. Answering specifically your question on margins, given the shift in revenue mix that's happening and other related aspects that Rahul covered in the financial aspects of the numbers, we expect the healthy trend in margin to also continue for coming few quarters.

Rohan Gala: Going ahead where do you see like the last mile contributing more or the fiber contributing more?

Sanjay Jain: One really have to differentiate the category of customer, if there is a government customer to be addressed wherein there is a huge untapped potential, the Capex will be a last mile Capex even the widespread location in a given state for a state government or a central government, it could be therefore largely a wireless network or last mile access fiber that induced up to serve a potential government order. But when comes to enterprise customer we believe we already have a large revenue share in terms of the MPLS VPN connectivity of these customers, the focus now would be on getting the high-value fiber base connect, the amenity connects and the international route connects. Therefore, the Capex really would go in both the directions right now, it all depends on what is the mix of revenue that is coming in from quarter-to-quarter whether it is largely enterprise or the government is gaining larger share of the order input.

Col. Bedi: As things stand today, almost 80% of the new revenues are on fiber. The fiber segment is a much bigger market constituting to 75% and the wireless market would be 16% of the overall market. Therefore we do expect to see a majority of our business coming from fiber. It is very important to continue to grow your wireless business because your reach comes from wireless. So therefore both of them will continue.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to the management for closing comments. Please go ahead, sir.

Sanjay Jain: Thank you. We hope we have been able to answer all your questions. If there are any further questions or point of clarifications and you want to know more from the Company we would be happy to be of assistance. On behalf of management I would once again like to thank all of you for taking the time to join us on this call. Thank you so much.

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