

Tulip Telecom Limited
Q2 & H1 FY12 Conference Call
November 8, 2011 at 11:00 am IST

Moderator: Ladies and gentlemen, good day and welcome to the Tulip Telecom Earnings conference call. As a reminder, 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. If you should need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ishan Selarka from CDR India. Thank you. And over to you, sir.

Ishan Selarka: Good morning everyone and thank you for joining us on Tulip Telecom's Q2 & H1 FY12 results conference call. We have with us Col. H.S. Bedi -- Chairman & 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 discussions 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.

Col. H.S. Bedi: Thank you. Good morning, ladies and gentlemen. Very warm welcome and thank you all for joining Tulip's call to discuss its operating and financial performance for the quarter and half year ended September 30, 2011.

The performance during the quarter is encouraging in light of the challenging macro-economic environment. We are glad to report yet another quarter of growth with healthy operational and financial performance. Our three-pronged strategy which includes geographical reach and coverage, product and vertical reach has enabled us to successfully transit from an Enterprise Data Connectivity provider to an integrated Enterprise Data Service provider. Our continued focus is on deepening customer engagement by offering end-to-end data solutions while pursuing a larger share of their shrinking wallets. Also, our management team is now consolidated and robust, as a part of our endeavor to achieve leadership position in the market. Our service levels are strong. Ended consistently higher service end customer satisfaction benchmark. We believe that we are poised to ensure an enduring relationship with our customers. All in all, placing great impetus on such a strong platform will enable the Company to emerge as a true leader in the Enterprise Data Services segment.

Also, our success of getting into the three main lines of business which is Data Connectivity, Managed Services and Data Centers is enabling us to meet all the requirements of customers as we believe it is theirs.

Before I hand you over to Sanjay to take you through the operational highlights, I am glad to mention that the steps discussed earlier were recognized in the Asian Leadership Awards 2011 held in Dubai and Tulip was given the 'Business Innovation' & the 'Best Talent Management Company' awards to honor the continuous spirit of innovation displayed by the Company in the Enterprise Data Services space in India, and the Company's Leadership Action for Talent Management Initiatives.

Overall, the future looks promising as 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 invite Sanjay to share the operational perspectives for the period under review.

Sanjay Jain: Thank you sir. Good morning to all of you. I would share with you my perspective on the Company's operational performance following which CFO Rahul will take you through the financial highlights of the Company.

We believe Tulip Telecom is currently on the forefront of many unfolding prospect that the sector is going to offer and especially given the fact that the initiatives and strategy that the Company has taken, the strategy that the Company has chosen over the last few quarters. The rapid development of the Company's business over the past few quarters is in a way a testimony to the progress over the long-term horizon. The Company has evolved over a period of time and exhibited healthy growth trajectory in the last few years. The Company is making a serious attempt to further deepen its relationship in the markets by establishing regional branch and satellite offices in almost all the states of the country. Earlier, we had a regional presence in Mumbai, Kolkata, Delhi and in Bangalore, and gradually we have been opening branch offices and satellite offices as well so that we stay closer to the customers. There is a serious attempt that when we target the mid-market and corporate channel business, it does not just get restricted to larger metros. For example, we have been focusing on the mid-market business in and around NCR; but now through the branch and satellite offices there is a greater focus on Punjab, Haryana and adjoining markets as well.

The Company's distinct business model backed by its unique strategic approach has enabled the Company to transit from being a bandwidth provider to a Company that offers complete data solutions package to customers through now the wide array of products and services. Our recent integration of the management team which has brought about by employing leading professionals from the industry has also been a determining factor that would drive the business across verticals like BFSI, Enterprise, Channel, IT, ITES, Media, Healthcare, Government, Managed Services, etc.

I am very pleased to inform you that our Chairman has initiated about few quarters back that we would verticalize our sales across Government, Enterprise and Managed Services. We already have now very

eminent leading professionals from the industry. One President for Managed Services, one President for Government and the latest addition two days back is a senior gentleman who has come in from the largest telco has come on board as the President for Enterprise business. And all the vertical heads of BFSI, Enterprise, Channel, IT, ITES, Media, Healthcare are all in place to make sure that whatever assets we have been able to put into our business are gainfully now harness for maximum revenue and profitability.

Additionally, existing employees are entrusted with increased responsibilities coupled with coaching, training with a view to increase productivity while outsourcing low value and non-core activities to improve cost-efficiencies. Over the last three months, the Company has been able to make sure that there is now almost a freeze on headcount which we have been able to achieve through our internal productivity focus and also at the same time outsourcing non-core activities. Also, a senior gentleman joined us in the last quarter, Q1, as the HR Head and he is focusing a lot on training of people when it comes to especially focusing on the wider range of products and services that we want to take to our customers.

Now, allow me to take you through the operational highlights for the quarter under review.

Our last mile fiber network which spans over a healthy 16,000 kilometers plus, through a combination of owned, IRUs and lease fibers, is showing good progress. A testimony to the robust demand from the Fiber segment is visible in the fact that almost 83% of our new orders which are coming in from connectivity are based on fiber. Our strategy in this segment is on having a deeper or wider engagement with existing clients to multiple offerings which in turn are translating to higher contribution from fiber and with every quarter passing by, fiber contribution is increasing in the overall revenue pie. This in turn is also having its own rub off positive impact on the margins wherein on the same fixed cost now we are getting larger tractions on revenue. Our focus in this segment would be able to sweat the existing infrastructure in 300 cities and expand the network within these cities. However, we would continue to explore opportunities to increase our presence to new cities depending on the customer requirements.

The 1,200 Kms of National Long Distance fiber that we have been laying between Mumbai and Chennai which on one hand would cover prominent cities like Mumbai, Pune, Belgaum, Bangalore and Chennai, but at the same time would also connect two main cable landing stations in the country to the Tulip main Data Center facility in Bangalore is well on schedule and we expect the work to be completed by the end of this financial year. To reiterate the strategy of laying this fiber is two-fold; one, given the Company's existing bandwidth requirement in this trunk route, and second, the demand anticipated for its new Data Center venture. Just to recall, given our existing lease fiber usage, our own growing demand and the Data Center visibility of customers, we expect that the payback from this NLD investment should be around two years or so.

On the International Data Connectivity segment, we continue to leverage the Hutchison Global Communication network to expand our global presence. Our teams are pursuing Indian companies which have a global footprint so that we could actually enhance our relationship with these customers. While we

have won a lot of the orders but to name a few, during the quarter one of the prestigious order that we received and delivered was from the Indian Space Research Organization (ISRO) to provide connectivity to Brazil and Brunei. Additionally, we also won an order from Punjab National Bank to provide connectivity to Kabul. This showcases the Company's agility in converting order book to sales, because we actually could deliver them in the same quarter. We believe the segment offers good potential going forward and with our arrangements with Hutchison in place, we expect some healthy traction on the segment going forward.

Government business is expected to provide further impetus to the performance. I am very pleased to share with you that we have commenced billing in U.P. and Gujarat, R-APDRP projects. Though small, but the Q2 numbers already have contribution from these 2 projects. The execution of the other remaining projects is on track. In addition, Q2 FY12; we won an order from Pune Zilla Parishad to connect 600 primary schools on Tulip MPLS Cloud for providing e-learning content. We continue to be at the forefront of this opportunity and given our reach and end-to-end services, we believe we are well-poised to reap more such benefit.

At this juncture, I would also like to highlight the benefits of verticalization. On one hand, we got an order from government organization i.e. Pune Zilla Parishad to connect 600 primary schools and on the other hand an order worth Rs. 4 crore from a leading private sector enterprise i.e. from Tata Interactive Learning for connecting 1,000 learning centers across India. So with the fact that there is a vertical head who is specializing in education, he is able to use its expertise and cross learning to get such deeper inroads into a growing Education segment.

As a result of all these efforts, we have been able to get new customers during the quarter including Sahara India Financial Corporation, Tata Interactive, Euronet, IIHT among others. From Sahara India we actually got order for Rs. 50 crore to connect their entire 1,600 locations. This order was received and delivered in Q2 and we expect to start billing in Q3.

We are witnessing significant traction from Managed Services segment as well. To give you a perspective, we won an order from TCS worth Rs. 19 crore to manage the network for their APDRP projects. I had mentioned in earlier concalls and with various interactions, we are in the process of increasing a broader baskets to include services like co-location solutions for voice, data and video, network solutions, hosting and managed security. The Data Center team in Bengaluru and the new Managed Services President who is on board are making sure that the organization is preparing itself to be in line with the new and upcoming demands of the customer in the managed services area.

Let me now give you an update on the progress on Data Center. We expect to go commercially live in Q3 with the delivery of first tranche of 10,000 sq. ft. out of the order of the 30,000 sq. ft. that we got from a leading global system integrator. We have already in fact handed over the floor to them and some last minute work is underway and we are well on track to commence billing within this quarter. Additionally, we won an order from another large global system integrator for 5,000 sq. ft. and the Data Center is progressing well. On both these orders, the Company will provide space, power, cooling and seating for the employees.

As on date we have a visible funnel of about 1,75,000 sq. ft. and aggressive sales and marketing efforts are being made and we believe we should be in a position to lock in 25% of total capacities. We had earlier anticipated that out of the 4 lakh sq. ft. of capacity, we would have firm orders in place of about 100,000 by the end of this financial year and given this healthy funnel and given that the two orders we have received and the management team in place, we believe we are well poised to achieve that milestone of having committed orders worth about 100,000 sq. ft. by the end of this financial year.

With a view to complete the leadership structure for the Data Center venture, we have appointed Mr. K.M. Aswin Kumar as the Chief Financial Officer of Tulip Data Center Services Private Limited. Aswin brings with him 18 years of relevant industry experience and has earlier walked in various capacities with Indus Towers and ITC. With this now, Rajgopal, who was the CEO and now we have the next layer of the management team in terms of Chief Operating Officer, Head of Sales and Marketing and now the Head of Finance, all these three key guys are well in place to make sure that the TDC has got management bandwidth to achieve its intended objectives. In fact, with a view to further streamline the organization structure, Mr. Rajgopal who was doubling up as the CEO of Data Center and the Head of Southern Region would now focus purely on Data Center as a CEO and we have appointed Mr. Sanjay Bhutani as a new Chief Operating Officer for the Southern Region. Sanjay brings with him 16 years of rich experience of having worked with companies like Bharti Airtel, Vodafone, HFCL and Tata Communications. So, with this I think we have the entire organization largely in place barring maybe one or two small vacancies, we now have the entire leadership in place. Also, as I mentioned earlier the latest entrant to come on board is Mr. Deepak Khanna as President, Enterprise business. He has 24 years of experience and his last assignment was at Bharti Airtel as Director – Operations, leading the SMB business across the entire country for Airtel's entire range of products services. With all functional heads in place we believe we are moving in the right direction and expect to achieve the desired results going forward.

With this now, I would hand over to Rahul to give you a brief on the financial performance of the Company.

Rahul Ahuja: Thanks, Sanjay. Good morning, everyone. Let me take you through the financial results for Q2 and H1 FY12. Our top-line for the quarter was higher by 20% at 703 crore. This was a result of increasing order flow from high bandwidth fiber services and stable recurring revenues from existing customers. Out of the total order input Data Connectivity contributed 62%; Managed Services including Data Center contributed 32%; while Network Integration contributed to the balance 6%.

Further, to give you a perspective on the annuity business, out of the total connectivity order inputs, 70% constituted recurring revenue and about 30% are one-time charges. EBITDA for the quarter and half year were higher at 203 crore and 388 crore, up by 24% and 27% respectively. EBITDA margins for Q2 and H1 FY12 were higher at 28.9% and 28.6% respectively as compared to 27.9% and 27.5% in the corresponding periods last year. This was on the back of improving contribution from Fiber and Managed Services including Data Center business combined with bulk purchase of bandwidth on account of fiber rollout and economies of scale witnessed by using existing infrastructure for new subscribers. Depreciation stood at Rs.

50 crore and Rs. 99 crore in Q2 and H1 FY12 respectively. The interest expense for the quarter and half year was higher at Rs. 25 crore and Rs. 66 crore as a result of increase in interest rates over the last few quarters. The average cost of funds is currently at 10.52%. PAT for the quarter end and half year ended September 30, 2011 stood at Rs. 87 crore and Rs. 165 crore respectively, translating into a non-annualized diluted EPS of Rs. 5.36 and Rs. 10.2.

Now, to give you a perspective on the balance sheet; our consolidated gross block for the half year increased by Rs. 427 crore to Rs. 2,613 crore. This includes Rs. 285 crore of Capex incurred for the standalone Tulip Telecom, Rs. 98 crore for Tulip Data Center and Rs. 45 crore on account of fluctuation in ForEx relating to the FCCB loans. Net debt of the Company for the period ended September 30, 2011 stood at Rs. 2,221 crore and cash equivalents stood at Rs. 324 crore. Our debt-to-equity stands at 1.61 times and net debt-to-equity stands at 1.36 times.

With this I conclude my remarks and would like to thank all of you for joining us on this conference call. We would be happy to discuss any questions/comments/suggestions that you may have.

Moderator: Ladies and gentlemen we will now begin the question-and-answer session. Anyone who wishes to ask a question may press '*' and then '1' on your touch-tone telephone. Participants are requested to use only handsets while asking a question. We have the first question from the line of Kumar Saurab from Macquarie. Please go ahead.

Kumar Saurabh: How much revenue contribution we are expecting from these new Data Centers in FY13 and how do we plan to compete with few of the operators, which are already big and established in this market?

Sanjay Jain: On the first part, as we have said earlier, at peak level of operations i.e. in three years from now, this Data Center has potential to generate about Rs. 1,000 crore worth of revenue in a given year. Given the fact that by the end of this financial year we expect to sell about 25% of the capacity, we believe by the end of this year, we have orders in hand between Rs. 200-250 crore, because it will take while to convert these orders to revenue.

Col. H.S. Bedi: On your second part, there are two-three things that we need to remember. First, three months back, you may have read an article in "The Times of India" to say that the US government plans to shut down 600 Data Centers but at the moment you read the article it says that US government plans to consolidate 600 Data Centers. The point is that today small Data Centers are inefficient and extremely expensive to run and not green at all. Large Data Centers that incorporate the latest technologies are the way forward. Tulip is building, what we believe is one of the world's best Data Center using the latest technologies. Given the size and scale it has been able to incorporate and the latest technologies give the best option to the customers, one. Secondly, Tulip is probably one of the few companies which have fiber of everybody. We are a service provider agnostic Data Center. What that means is if a customer tries to go into

the Data Center of any of the large telcos they are normally locked in, because these telcos do not allow fiber of other service providers to come in. As far as Tulip is concerned, our very business runs on everybody's fiber and therefore every Data Center of ours has every fiber available and therefore, this gives total independence to the customers. Thirdly, the fact that the largest global system integrators themselves have chosen Tulip Data Centers over the others is a testimony to itself. One last thing that today the world is changing. The world is moving from service to virtualized service, and therefore, Cloud is going to be the way forward. For Cloud there are two-three things that you need. One, connectivity, second, good infrastructure and third is good Data Centers and that is exactly what Tulip provides and therefore Tulip will be ideally positioned to start offering Cloud services.

Kumar Saurabh: How do we plan to repay the FCCBs which are due in 2012, assuming that we are not able to monetize investments till that time?

Sanjay Jain: There are two-three concurrent liquidity events that the Company is working on. One, of course, is that we are engaged in terms of possible monetization of the investments in Qualcomm JV, if at all there were any hiccups that came in between from a regulatory perspective they are all behind us. But we feel we are well poised that well ahead of this maturing obligation in August 2012, we should be able to monetize it, that is one. Secondly, I think there is a lot of internal focus, as I shared earlier, we are focusing on bringing internal efficiencies, if at all, there were Rs. 200 crore plus increase of working capital in Q1 and in Q2, there is actually no increase in working capital, it is almost stable. Now, there is a lot of internal focus to bring in the receivable realization and which we believe should bring in 100-150 crore cash from the system itself. Third thing is of course given the fact that now TDC is taking a good shape in terms of customer visibility, handing over the floor place to customers, we have hastened up the efforts for the investors to come in so that would ease out if at all any strain on the balance sheet of parent Company and last we have an enabling resolution in place from our Board of Directors and the shareholders to see that if the situation so demands, we are able to do some equity raise at the parent Company and these resolutions are well in place and if at all FCCB is redeemed and not converted then Company would have saved potential 10% dilution. To that extent, the headroom always exists and we make sure that our homework is always in place and as and when the opportune time comes, we are able to get an equity at the parent Company. So these are three-four concurrent steps which are being pursued concurrently to see that we are well poised for this maturing obligation.

Moderator: Thank you. The next question is from Neeraja Natarajan from Nomura Securities. Please go ahead.

Neeraja Natarajan: In the initial opening remarks you mentioned that is obviously macro uncertainty, etc. and shrinking wallet. Can you just give a sense of broader industry is there some pressure coming through? That would be helpful. Secondly, on the fiber side, what is the revenue mix contribution from fiber now Vs year ahead? Thirdly, in terms of the Hutch tie-up that we have, you have mentioned like a couple of orders in the back of it, are you expecting more, I would just like to get some color on that, because the strategic

tie-up happened much earlier this year, but the order wins does not seem to be strong, so some color on that would be helpful. Thank you.

Col. H.S. Bedi: First of all, as far as the reducing spends, the point is every corporate is under pressure to reduce his cost. Normally most corporate need to go for multiple vendors. Multiple vendors always increase costs. Tulip is one Company which is able to offer everything under one window and therefore we are able to offer a much better service and that is the key. Besides good service, being able to offer every service and therefore increase wallet share of the customers and reduce costs to the customers is what is important to us.

Neeraja Natarajan: So you are not seeing a slowdown as yet in terms of what the spending outlook for corporate in the segment?

Col. H.S. Bedi: This is what we need to be competitive; they want to reduce their costs. Tulip is able to offer multiple services together. One vendor offering all services will always be more efficient and more cost-effective than having multiple vendors. So every customer would like to save money. Tulip gets the best-of-class services under one roof and therefore we are able to offer a much better solution to our customers.

Sanjay Jain: During a tough macro-economic environment, the customer is also under pressure. If there is a balance sheet constraint for whatever reasons customer might have to focus on core vis-à-vis non-core then they would like to make sure that they outsource as much as possible and in fact, leading banks, private sector, public sector banks are considering outsourcing of Data Center wherein they have very sensitive, critical data. But given the Data Center that we are bringing with the highest standards all leading banks are already actively considering us. Therefore a tough environment, balance sheet pressure and need to outsource, if at all, is auguring very well to the Data Centers that we are bringing up. And likewise, if there is a pressure on headcounts, then the Managed Services suite that we are bringing up again is trying to cater to the need of the client in tough times to bring down their own Opex and Capex.

On the second part of the question on the fiber revenue contribution, while on one hand we mentioned that on the connectivity order inflow, 83% comes in from fiber, but in terms of the monetization of that, as of now out of the connectivity revenue, more than 60% is still from the wireless piece and the remaining is what is actually coming in from fiber, wherein we would gradually see fiber proportion increasing going forward.

Col H. S. Bedi: Almost 60% of the revenues of bandwidth are basically annuity revenue and therefore, out of the new orders that are coming in, about 40%, 83% of those orders are based on fiber.

Neeraja Natarajan: What was the Fiber contribution a year ago and how much it has moved?

Col. H.S. Bedi: We really started our Fiber business about two years back and therefore revenues have been increasing. Last year, it was somewhere around 60% of our overall revenues from the new business and now it has increased to about 86%.

Sanjay Jain: On the last part of the question, we did tie-up with Hutchison about a year back and there are a couple of elements to monetizing the tie-up; on one hand, there is a tie-up now in place, then the management team to drive it and then the engagement with the customers and also the initial few wins to get the confidence that we can not only bag the order but we can deliver as well. I think all this is behind us in terms of the ground level work that has been done and if at all with all these as we mentioned earlier, that we have now the leading professionals driving verticals and at the helm of appears in sales. These guys would lead to a more meaningful engagement with the customers. Therefore, I think going forward, we are very positive that one would see more tractions in terms of orders and revenue coming from the Hutchison tie-up.

Col. H.S. Bedi: Also, normally when you look at the connectivity to the mainland to the US, UK, Singapore and all, there large orders keep coming. But it is the orders to Brazil and these kinds of companies which are very difficult to execute. Our ability to have been able to execute even these orders is what sets apart and all this is primarily because of our relationship with Hutch.

Moderator: Thank you. The next question is from Aryn Pirani from Deutsche Bank. Please go ahead.

Srinivas: You were mentioning in your opening comments that your payback period is two years for the NLD fiber investment. So are you suggesting that lease rates are significantly high and that is why the payback ratio is so low?

Col. H.S. Bedi: We have a fairly large number of customers on this route, one. Secondly, with the Tulip Data City coming up, this segment is expected to have a very high traffic. Also, this route covers the two main landing stations of Mumbai and Bengaluru and therefore we are very confident that the payback period would probably be two years. On the other hand, if we had considered leasing fibre on this route, the cost would have been recurring and hence much higher.

Srinivas: Which means that lease rates are relative to the cost of building is quite high even now.

Col. H.S. Bedi: Yes, you need to remember that fiber by the major telcos was laid 10-15 years back, when the rates of laying fiber were almost ten times higher and as a result, by laying all fiber, we are able to reduce the cost quite substantially especially on a route where the demand is very high. .

Srinivas: One clarification; is it easy to get right of way on Highways?

Col. H.S. Bedi: Normally it is fairly easy to get right of way on highways, but otherwise, right of way in the cities is a challenge.

Srinivas: Is your Data Center a primary Data Center or is it a kind of a backup and is there any pricing difference if a client kind of hires the Data Center for--?

Col. H.S. Bedi: Normally, a primary Data Center would have more service. Secondary Data Center would have less service. Less rakes or more rakes but the rates are normally the same.

Srinivas: For you it would not make any difference?

Col. H.S. Bedi: That is right.

Srinivas: As you mentioned, a large proportion of your revenues especially on bandwidth sales are recurring, how were the contracts negotiated, is there an automatic pricing clause or --?

Col. H.S. Bedi: Normally, these are all yearly contracts. But it is something like a cell phone business where once you enter into a contract; there is a good chance that contracts would continue. Customers at times like to renegotiate but not always and therefore these are normally yearly contracts and can be renegotiated every year.

Srinivas: Our checks indicate that the pricing has been relatively stable over the last six months, would --?

Col. H.S. Bedi: Earlier i.e. 1.5-2 year back, the prices were dropping, there was certainly a higher reduction in prices and today, the prices are more or less stable.

Srinivas: The regulatory issue with respect to the JV with Qualcomm is behind you. So could you throw some light on that where they are right now, what is the status?

Col. H.S. Bedi: We read in the papers actually, that the license has been given to Qualcomm and they have been asked to consolidate these companies but this is all a newspaper report, I would believe that the broad regulatory challenges that they faced.

Moderator: Thank you. The next question is from Gaurav M from Citigroup. Please go ahead.

Gaurav M: Just wanted to check on the pricing front, given that you are primarily more on the Data Center side and given the fact that most of the contracts packaging would be coming from overseas client where the impact of the slowdown is being felt much more, what sort of pricing are you seeing on the Data Center side?

Col. H.S. Bedi: That may not be a correct inference. Although I would like to see a lot of revenue coming from the overseas customers, but as of today, 90 plus out of 100 contracts currently will be from domestic customers.

Gaurav M: But if you could just comment on the pricing, have you been seeing –

Col. H.S. Bedi: As far as pricing is concerned Data Center business is a fairly stable priced business. Normally, prices in Data Center always move northwards in line with the electricity tariffs, but otherwise, revenues in Data Center are quite stable.

Gaurav M: Sanjay had mentioned that currently 60% of the connectivity revenues are coming from wireless. Just wanted to check what was this percentage?

Col. H.S. Bedi: 60% of the revenues are normally an annuity business and out of the new business that is coming in, 83% of the new orders are in fiber.

Gaurav M: One just last question on Capex, what is the Capex guidance for next year? If you have some indication, I know it is little too early to comment on that.

Sanjay Jain: I think we should be sub Rs. 400 crore in the next financial year.

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

Rajiv Sharma: Could you provide this Capex break-up on a standalone basis for Tulip? Secondly your margins have really surprised us. In the last two quarters your total margin is much higher than what your guidance was for somewhere around Q4 on the margins.

Sanjay Jain: Let me take the margin question first. I think our guidance was based on the fact that one was getting increased traction on fiber wherein fiber composition of the order input was gradually increasing. So fiber therefore is a reflection of monetization of investment that we have made wherein while there is revenue coming in, the corresponding costs are much lower, that is sitting on the balance sheet. The second key thing is on the execution front. We have been focused on the internal execution wherein we are making sure that we are able to squeeze costs. In fact, I just gave an indication about having got on one hand leadership team in place and on the other hand being very conscious of the fact that we need to now keep headcount under check and outsource non-core activities. So better revenue mix leading to monetization of the investment made and a careful execution is actually seeing the margins to be ahead of what we earlier anticipated and the management would continue its focus in these directions.

On the Capex front, while there is Rs. 100 crore that actually went into Data Center and about Rs. 44 crore was the adverse impact of the FX fluctuations, wherein we have taken the window under AS11 to actually capitalize it and have made suitably disclosures for that. The remaining in the six months was about Rs. 285 crore of which about Rs. 140 crore was in Q1 and the balance was in Q2. In fact, I would be very happy to share the exact numbers in a communication to you but about Rs. 65-70 crore to be precise has actually gone into fiber assets and out of the remaining about 30% or so, a large part of 30% still there is Capex going into the wireless network. Because if you recall we have got about Rs. 270 crore worth of APDRP orders and we had earlier said that about 20% of that would actually go into the Capex investments. So that about Rs. 50-55 crore is gradually getting spent in due course, because two of the projects have actually

gone live. The other thing is that we have given a lot of focus on Data Center, we already had four small DCs in Delhi, Bengaluru and Mumbai and when we say we have got a Data Center in place, it does not mean that one actually goes and refurbish all the floor plates and put in the racks over there and waiting for customers to come, when we got the floor plates ready, but as we are locking in more and more customers, for example, we got some virtualization of server orders, so when these orders are coming in, there is Capex getting spent to further refurbish the Data Centers. This in a way is also having a healthy impact on the margins wherein there is a revenue flowing in the P&L but actually the investment is somewhere happening in the balance sheet in the existing Data Centers. So this is the broad breakup of the margins.

Rajiv Sharma: In terms of margins, are we saying that we could be closer to 29-30% by end of this fiscal and Capex will be well contained within Rs. 450 crore or we could shoot up to Rs. 500 crore?

Sanjay Jain: On the margins, I think as I said earlier, the trend is good, and one should continue to maintain margins ahead of what we achieved last year. I think all indications are good for healthy margins to sustain. On the Capex, every effort is being made to keep the Capex to be well within the original guidance of Rs. 450-475 crore. I think we should be able to contain ourselves.

Rajiv Sharma: What would be your total net debt, which includes the Data Center part of it? Secondly, how much we plan to spend this fiscal on the Data Center Capex and how much of total Capex we have done so far since we acquired it?

Rahul Ahuja: On the Data Center the total planned Capex for the current year is including the acquisition that we did is about Rs. 215 crore. Total Capex that we plan to spend is in the range of Rs. 500-525 crore. So incremental Capex of let us say around Rs. 300 crore minus the acquisition cost. What we have spent currently as of September end, we spent about Rs. 98 crore on the Data Center and as on date it would be about Rs. 120-125 crore that we spent on the Data Center.

Rajiv Sharma: So remaining Rs. 150 crore will be spent this fiscal only?

Rahul Ahuja: Correct.

Rajiv Sharma: And the net debt at the consolidated level?

Rahul Ahuja: Gross debt at consolidated level is Rs. 2220 and net debt is Rs. 1,896 crore.

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

Varun Ahuja: What kind of annualized growth rate you are seeing on the order book? Second, on Data Center, the IBM what kind of pricing did you get, is it similar to what you get from HP? Third is on the government order. I presume last quarter you had some post office connectivity. So any update on that? And lastly, any update on your progress on bidding investor in the Data Center facility?

Sanjay Jain: On the order book, as we have clarified earlier, unlike Infra or a capital equipment Company wherein one actually has a two-three year order book, for us we track order book quarter-by-quarter and our original guidance for the entire year is 15-20% growth and so far on a cumulative six months basis we are at about 20%. And the way the orders are flowing in, given the enhanced products and services we anticipate that we would be definitely able to meet our overall guidance for the entire year.

As you know, government orders could take time much more than anticipated in terms of closure, but there are some two large deals wherein Company is L1, these are in two different states and every effort is now being made to get the orders issued. And I think within Q3, more hopefully, within this month itself we would get these orders out. So there is traction, but I think the predictability of closure because of the nature of customer takes at times sometime.

On the progress for investor, I think as management we went a little slow in between because on one hand a lot of energy was going in to bringing up the Data Center to a shape, and on the other hand we felt that let us achieve some milestone in terms of getting orders in hand, we not only got one, we got second order in hand, developing as we funnel, making sure that we are in a position to hand over the floor plate making sure that there is also a walk through video which is available. So that is able to give a very tangible feeling to a prospective investor. I think with all of this behind us, we have once again hastened up the effort and I am very pleased to inform you that given the fundamental strength of the business, the interest continues. Though, I cannot give a very specific timeframe whether this would close in this month or next, but I think in a finite timeframe we are very hopeful that the deal should be behind us

In response to an earlier question I had mentioned some concurrent three-fold liquidity initiatives that the Company is taking to see that we keep a check on the overall debt-equity, debt EBITDA of the Company.

Col. H.S. Bedi: Broadly, like I said earlier, the pricing for the Data Center is normally quite steady. It has not varied too much and still these two corporate who have placed orders here, they are the two largest system integrators in the world, there cannot be any major differentiation in pricing and therefore, the price points are more or less the same. Just a small point on this something about the Post Office connectivity. Just for information, Tulip had not bid for the Post Office connectivity. Large system integrators had quoted our networks and that is a standard practice as part of our alliances where most large corporates often quote our network. So it depends on who wins and that is where we will come to know who is the winner there. But I think the Data Center pricing is concerned it is normally steady and stable and therefore we would normally be getting most orders at the same prices.

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

Yogesh Kirve: My question pertains to the internal efficiencies that Sanjay talked about in relation to the releasing some liquidity internal system. And I guess Sanjay said is possible to release about Rs. 100-150

crore through this route, just wanted to understand what would we focus on first? Would it be more on the receivables, debtors or is it on getting more vendor to-date, so any more color on the same?

Sanjay Jain: The initiatives are in fact on all the three fronts, because when it comes to outsourcing the non-core activity, say assembling mass or installation mass or even deployment of the mass on the ground, if it is an in-house activity the inventories relating to that, they all sit on my P&L and my balance sheet. But when it comes to outsourcing, one is able to actually negotiate a contract when the vendor actually makes the mass available at the site where we need it. So one is actually able to not only bring down the overheads but also bring down the inventory and given the fact that our level of activity is going up across various states, one is also therefore able to sit across the table with a vendor with higher volumes and see that on the whole, the pipe has also brought down vis-à-vis what we were achieving by in-house production. On receivables as well, on one hand we have a well-entrenched leadership in place to drive it across verticals. In fact, we have gone a step ahead wherein while we have vertical head to drive sales our regional heads are now renamed and give a larger responsibility that Chief Operating Officers of the regions wherein they have a P&L and balance sheet responsibility. They were earlier being judged only largely on the sales effort, now it is sales, it is billing, collection plus execution wherein each of the functional heads in the region now reports to them. So now there are four COOs apart from Sanjay Jain and Rajgopal in the system in a way which bring in a scalability in the organization and apart from making people responsible, they have also changed the rules of the game in terms of incentives wherein a lot has been linked to collections in terms of incentives. In fact unless and until a sales person meets a cut off for collections, he/she is not eligible for incentive irrespective of order booking or billing. Here, we are not dis-incentivizing people, rather we are facilitating it and making them believe in it and making sure the collections are realized. I think these two are the initiatives on current assets which we are very positive that they would start yielding results. And on the other hand, Rahul is now full into action and he is making sure that the procurement guy move away from LC now to open credit and wherever there is an open credit it is actually stressed upon, because the Company has now established a good track record of healthy financials. So with these three initiatives, we have been able to achieve the first milestone of arresting the increase in working capital and now I think in Q3 and Q4 every effort would be to squeeze it and make sure the internal cash is released.

Yogesh Kirve: We have seen the other current assets including the loans and advances have moved up from about Rs. 250 to Rs. 350 crore in the last six months. Just trying to understand what is driving that, is it more of capital advances?

Sanjay Jain: There are about three-four factors which are driving it. One, you rightly pointed out capital advances for Capex in Data Center as well. The other thing is that as one bids in for more and more government business wherein the EMD deposits that one has to make that is the another factor which is actually driving the demand up. Then when we try to develop a vendor base there are some advances being given to the vendors which would get liquidated in due course of time. So these are the few factors linked to the normal inherent business which are actually driving these loans and advances upwards. And one immediate factor which is in our control wherein we can actually liquidate them is the (EMD) Earnest Money

Deposits and on one hand while there is a growing because of more and more bidding, but there will always headroom to focus on existing EMD and make sure that while one is not successful in winning a contract, the EMDs are recovered back with a lot of internal focus. So these are three things which are driving it up.

Col. H.S. Bedi: Also, as the government business increases, there is a tendency for your book debts to increase and the CEO and his team is working very hard to make sure that every effort is put in to ensure that even the government payments come in time. So as a result, there is a certain amount of change that is being maintained on the settings.

Moderator: Thank you. The next question is from Manish Bishnoi from Macquarie Bank. Please go ahead.

Manish Bishnoi: As you mentioned you have leased around 10,000 sq. ft. when do you expect the revenues to come for this, have you already realized them in Q2 and how much do you expect in Q3 and Q4?

Sanjay Jain: No, revenues have not yet started. But they would definitely start from Q3 onwards.

Col. H.S. Bedi: But the floor has been handed over and the Data Center is operational as of now. The part has been handed over to HP. The first floor plate is operational.

Manish Bishnoi: So this quarter we can expect this 10,000 sq. ft. yield in revenue and then Q4 as you give more floor space to them you may have a higher revenue?

Sanjay Jain: That is right. I think there will be a gradual ramp-up happening, but the key is the floor plate has been handed over and this quarter we may start the monthly billing to the customer.

Manish Bishnoi: Do you expect to be EBITDA positive just on the Data Center part in the next few quarters or do you think the start-up cost will be higher and you may be a bit EBITDA negative?

Sanjay Jain: I think we had earlier anticipated that we would have USD 10-12 million worth of net loss for the entire year FY12 and we should be able to well contain it within the original number. our estimation for the full next year FY13 was that we would actually breakeven. While we would definitely be EBITDA positive but we anticipate to be breakeven because on one hand there will be every effort to get more revenue but at the same time the Opex of Data Center is not very high. It is high but it is pass-through in terms of power cost but the bulk of the investment is actually on the balance sheet and the running cost apart from the power is miniscule and not much headcounts and that power is actually pass on. Yes, in the ramp-up, one would be incurring more and recovering from few customers but net-net by the end of the year we should be EBITDA positive in FY13 and should be able to get a breakeven at the net level.

Manish Bishnoi: Just on this USD 10-12 million loss that you are talking about this year, have you started realizing it in the last few quarters or will it kick in from Q3 & Q4?

Sanjay Jain: When I said the loss for the Data Center I think if we go by the earnings release that we have, we have already shared the operating and financial performance of the Data Center wherein we have incurred operating loss of about Rs. 1.6 crore and of course if one loads the interest and depreciation charge, then the loss could actually be higher at about Rs. 5-6 crore. I think as I said while this is the position of loss in the first two quarters, the overall estimation was USD 10-12 million, that is about Rs. 50 crore plus. So we would be well within the original estimated number. I think we should be able to contain it to a large extent.

Manish Bishnoi: This Rs. 50 crore is at the net level?

Sanjay Jain: That is right.

Manish Bishnoi: I was just going through your current accounts and there are two lines; advance for capital goods and advance for stocks. And you explained that advance for capital goods for Data Center. But advances for stocks are that EMD deposits or do you stock, I mean, what could that be?

Sanjay Jain: EMD deposits are separate. Both are as the name signifies, one, capital advances for the capital goods and the stock advances. At times, we keep exploring various avenues to bring down the costs because a lot of what we deploy i.e. radios, etc. are commodities at the end of the day. So if one is able to leverage a higher discount from the customer by making sure that the advance is given on one hand my annual cost of debt is 10.5%, but I am able to get some 12-15% discount by making some advance payment. So we get encouraged and do that. So as the name suggesting summarizing answer to your question these are advances for capital goods, and advances for stock in the normal consumption of business.

Moderator: Thank you. The next question is from Aryn Pirani from Deutsche Bank. Please go ahead.

Srinivas: Could you throw some light on the competitive landscape at this juncture for Data Center business as well as the fibre connectivity business, which companies you are seeing kind of being more aggressive and which are not?

Col. H.S. Bedi: Remember that we were the last player to come in as far as fiber connectivity is concerned. And similarly, we were the last player to come in as far as the bandwidth business is concerned. But we have been able to achieve a leadership position in the bandwidth business. All the other telcos continue to run their business the way they were running it earlier. But we do not see too much of expansions as far as the networks are concerned. We do see a lot of collaboration amongst the telcos and as a result while we use intercity fiber from everybody, everybody uses our networks for the last mile, and as a result, there is no need for people to invest more and more as far as the last mile was concerned because we offer a network to them, and in case therefore we are not seeing too much major competition in this space.

As far as Data Centers are concerned, although we had four smaller Data Centers, this scale of a Data Center does not exist as of now. This Data Center will be almost 12 times bigger than the largest Data Center that exists in the country today and therefore, we do not see too much of inventory coming up. However, remember that when we are building a Data Center, we are calling it Tulip Data City.

Moderator: Thank you. The next question is from Rajiv Ghosh from Wealth Management. Please go ahead.

Rajiv Ghosh: I would like to know about what could be the energy cost for your Data Center in terms of net sales and how would you compare with peers?

Sanjay Jain: At the peak level of operations, 60-65% of Opex would actually be power cost. So given the fact that we expect to make 45-50% as EBITDA margin and if 60% of the Opex is power, so net-net power would be about 30% of net sales at the peak level of operations and when it comes to comparing with the competition, I think when we are looking at EBITDA margins then the leading US Data Center Company is already achieving 45% plus margins while leading European Company is already achieving closer to about 50% margins. But restricting the response to power cost, I think the power efficiency of a Data Center is measured by (PUE) Power Utilization Efficiency and every Data Center that is built up is always green state-of-the art and on an average if one does a browsing of PUE of existing Data Centers one could find DCs between 1.75-1.82 as a Power Utilization Efficiency. What we aim to achieve is around 1.5-1.9 therefore to a given customer we could actually bring in 20% efficiencies in power cost over a period of time. So therefore, we are well placed vis-à-vis any competitive available Data Center when it comes to power consumption.

Rajiv Ghosh: In FY13 you are guiding that you will be EBITDA positive and net profit will be breakeven. What kind of revenues will you require to have to achieve such a number?

Sanjay Jain: As I said in response to an earlier question that we would have got orders locked in of about Rs. 250-odd crore or so by the end of this financial year. So somewhere I think anything between Rs. 150-200 range is where we could actually claim at being kind of breakeven at the net level.

Rajiv Ghosh: What is the revenue share of fiber? You are saying 80% of new orders are coming in fiber space but at current revenue run rate, what would be the revenue share from fiber?

Sanjay Jain: As Col. Bedi explained earlier 60% of the existing revenue is recurring revenue which is largely coming in from the Erstwhile deployment and the remaining 80% is on the incremental basis fiber order input. So to specifically address your question, I think the fiber constitution in the overall revenue basket would not be more than 20-25% as of now but it will gradually ramp up as the order inflow is converted into revenue going forward. The aim is to actually bring fiber in about two years; and with two quarters already behind us, in about another 6 quarters we expect fiber to constitute at least 2/3 of the connectivity revenue.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand over the conference back to the Tulip Telecom management for their final remarks.

Sanjay Jain: Ladies and gentlemen we hope we have been able to answer all your questions. Should you have any further questions or clarification or would like to know more about the Company we would be happy of being of assistance to you. Our investor cell contacts are already there with you. On behalf of our Chairman and the entire Tulip management I would once again like to thank you for taking time to join us in the call. Thank you, have a good day.

Moderator: Thank you very much. On behalf of Tulip Telecom that concludes this conference call.

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