“Sterlite Technologies Q1 FY16 Earnings Conference Call”

July 23, 2015

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Moderator: Ladies and gentlemen, good day and welcome to the Sterlite Technologies Q1 FY16 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. Along with this call we are also running a live webcast of the presentation covering the Q1 FY16 results. Investors can download a copy of the slides from the website after the presentation. I now hand the conference over to Mr. Bhavin Vithlani from Axis Capital, over to you sir.

Bhavin Vithlani: Thank you. Ladies and gentlemen, good day and welcome to Sterlite Technologies Limited Q1 FY16 Earnings Conference Call. We have with us today Dr. Anand Agarwal – CEO and Mr. Anupam Jindal – CFO of Sterlite Technologies. Sterlite Technologies develops and delivers Products, Solutions and Infrastructure for telecom and power transmission network globally and is among the leader in all its business verticals. It has operations on a global scale with presence in India and overseas markets. The company has presence across three verticals – with Telecom Products and Solutions, Power Products and Solutions and Power Transmission. The company has recently announced a demerger of its Power business into a separate undertaking and post demerger the listed entity will emerge as a pure play Telecom focus business. The earnings call presentation is also available over a webcast. You may please click the link mentioned on Sterlite's website to access the webcast. You also have an option to listen the earnings call over internet as it is over the voice-bridge.

At this moment without much ado I will like to hand the call to Dr. Anand Agarwal, thank you and over to you sir.

Anand Agarwal: Thanks Bhavin. Good afternoon I welcome you to the Sterlite Technologies Q1 FY16 Earnings Call. We shared our 1st Quarter results earlier today and we hope you have had an opportunity to look at them.

We are pleased to be sharing the Q1 results with you and what are very exciting times for Sterlite Technologies. There are multiple initiatives underway by government as well as private players to enhance and elevate connectivity across the country and this is being supported at all stages of the ecosystem by increased demand from consumers who are rapidly responding to the significant shift towards digital mediums in all spheres of life. All signs clearly indicate that we are entering a phase of exponential growth in data consumption in India. Sterlite is uniquely positioned to address this large and expanding opportunity. This is because all of the current modes of global connectivity technology whether it is Wi-Fi or 3G or 4G or NPE, have their genesis in a backbone that requires fiber connectivity. The proportion of fiber connectivity is directly co-related to the speed and bandwidth of the network resulting in a growing preference for fiber. The enhancement of connectivity infrastructure envisaged across the country to support growing data traffic will result in multi-fold growth of the consumption of fiber.

Sterlite has steadily built up its manufacturing capabilities over several years. We are the only company in India with and integrated glass prefab manufacturing setup starting from basic raw materials. The focus on quality and value addition has driven us to enhance the product mix at all stages. There is an ongoing effort to capture greater value at all stages of the process and this has helped to enhance realizations and elevate the margin profile of the business. In recent years we have taken our optical fiber capacity from 12 million to 20 million fiber kilometers and last quarter we announced an investment of Rs. 150 crores to double our cabling capacities from 8 million to 15 million FKM. And this capacity enhancement is progressing on track. We now have global manufacturing operations in 3 countries serving customers across 5 continents. Our existing capacity of 20 million fiber kilometers in optical fiber and soon to be completed capacity of 15 million fiber kilometers of cables are the largest in the country. Given the visibility of growth in demand we plan to progressively enhance capacity of optical fibers through a mix of debottlenecking and fresh capacity addition.

As many of you would be aware out of our 20 million fiber kilometers of OS capacity, 16 million fiber kilometers is located at two plants in Aurangabad and 4 million capacity is under our JV in China. We have access to key global markets and several of the largest Telcos from these facilities. Further a strong local manufacturing base ties into the ‘Make in India’ focus and the integrated manufacturing model provides us with a competitive advantage. We are better positioned to cater to larger orders as customers are comforted by the standard quality and assured supply of fiber when they award large cabling orders to us.

We also witnessed a variety of requirements between different kinds of customers. Government orders have one set of specifications whereas private customers come in with different specifications. For example, we have created specialized optical fibers and intrusion proof cables for the NFS contract with a unique positioning for this contract. The integrated model provides enhanced flexibility and it allows us to tweak offerings based on these kinds of customer requirements.

In order to leverage our manufacturing capacities and to enhance our market leadership position the focus is now on enhancing capabilities. These will be enhanced across both the areas of Products and Services. On Products we are leveraging R&D efforts to innovate further and our one-of-its-kind lab in the world, our Centre of Excellence in Aurangabad is working on developing products of higher speciality as well as enhancing application of our suite of fiber-based products. The shipment of speciality fiber accounted for nearly 10% of overall shipment and this is a number which has steadily been growing over the last couple of quarters.

On the Services side the focus is to develop a competitive range of design and engineering capabilities for networks. We have already put in place a large team of over 50 members on the Services side which will be geared towards execution of the existing order book as well as target the whole range of new opportunities that are emerging in creating such data networks. Sterlite is uniquely positioned as the only and preferred expert to deliver high-speed data based end-to-end networks through its comprehensive offerings spanning products as well as network design, installation and management capability.

All of this is further augmented by the global experience of the delivery team. This places us in a different league and enhances prospects when bidding for the large pipeline of orders catering to the development of connectivity infrastructure.

Our financial performance over the last few years in the Telecom segment is an indicator of the strong underlying growth in the business. Strong growth in revenue and EBITDA indicated of the sharpening trajectory of the opportunity. The enhancement in margins and return profile of the business also reflects the steps that we have taken to enhance our offerings and shift our product mix. Growth in the order book clearly demonstrates the unfolding of the large opportunity. To give you a sense of the size of the opportunity that we are talking about India has only about 20% of towers fiberized as against a need of 70-80% of fiberization needed to truly provide next-generation data services. Another interesting statistic, India has only about 80 million kilometers of fiber cumulatively deployed over the last several years versus almost 900 million kilometers deployed in China. Hence the government too is serious about upping the network infrastructure of the country. We are very naturally aligned to the Digital India initiative which are materializing gradually but surely. The NOFN project which is now being rechristened as Bharat-Net has already connected close to 2700 panchayats out of the 250,000 target. The NFS contract is also testament to the government's commitment. To highlight our competitive positioning in the emerging landscape while we are building the Army network in J&K we will also be supplying fiber and cables for contracts for two of the other zones in effect catering to almost 3 out of the 7 zones or close to 50% of the cable requirements for the defence contract.

We are well positioned as a company to grow and we see several levers in place. We are strengthening our innovation agenda with an eye on furthering the value proposition of our products and being a partner of choice for global Telcos. Any industry data or trend you look at, whether it is Bring your own device, Cloud, OTT service, fiber to the home or fiber to the antenna, the prospects of the global data story and particularly the Indian data story are clearly visible. As a company we continue to build and add capabilities that will service the future of the converged communication networks. The company is clearly a mainstay of a future that will be insignificant variance to the prevalent technology paradigm.

Before we move to the Power business I would like to summarize with a few important points. We are today positioned as the leader in developing broadband solutions for converged networks and our expanded offering across products and services is unmatched by any other player in the market. We see this as an unprecedented opportunity to partner in the digital infrastructure creation in the country and are best positioned to take full advantage of this opportunity.

We will now talk about our Power business. Now as part of the demerger we plan to carve out this business and the new entity Sterlite Power Transmission Limited will remain as an unlisted business. The opportunity landscape here also is very interesting as the country is witnessing a number of major projects such as 24x7 power for all renewable energy requiring new transmission and distribution capacity and finally the grid becoming smarter. Our Power products and Solutions business is now more focused on higher performance conductors and offering complete turnkey solutions instead of competing on a more commoditized product and we expect this shift to be more evident in the coming quarters. The team has successfully completed two reconductoring projects this quarter and continues to see good traction for additional such opportunity as power consumption continues to increase.

On the Power Transmission infrastructure business the portfolio now has two fully completed projects with Bhopal-Dhule transmission project also coming on stream in the previous quarter and a third project the Jabalpur transmission project expected to be commissioned during the current quarter. Construction work on the other three projects continues as per planned. Our equity commitment into these projects stood at Rs. 1250 crores versus Rs. 1200 crores in the previous quarter as we invested an additional 50 crores as part of the terms and conditions under which Standard Chartered Private Equity had invested in Q1 of FY15. We have recently won the 7th project in our power transmission grid business, the Maheshwaram project which is a 765 kV line in Hyderabad and this project would have levelised tariff of Rs. 55 crores.

Moving on to the demerger process, to recap as part of the demerger structure the Power business has been independently valued by PWC and Haribhakti at an equity valuation of Rs. 885 crores post transfer of the debt. As part of the demerger process shareholders have an option to either remain invested in the unlisted business and partner in the long-term value creation or to opt for the Redeemable Preference Shares offering two liquidity options, an immediate liquidity option within 30 days of the effective date or to redeem them after 18 months of the effective demerger date. The demerger process remains on track and we expect it to conclude in the 4th Quarter of the current fiscal.

Once again I would like to thank all our shareholders who continue to support us as we embark on the next stage of value creation.

Moving on, I would now like to hand over to Anupam to provide us an update to our financials for the quarter.

Anupam Jindal: Thank you Anand. Speaking on the financials we had a very strong quarter of topline and bottom line growth across our Telecom and Power verticals during a transformational time in our business. The revenue and EBITDA for the quarter were at Rs. 975 crores and Rs. 119 crores which reflects an increase of 73% and 67% over the same period last year.

The Telecom business has been performing quite well and the last three quarters have been consistently witnessing revenue in excess of Rs. 400 crores. EBITDA margins have remained healthy at about 24% with ROCE in the range of about 25%. Going forward we will endeavor to increase our absolute profitability while keeping a very sharp focus on the ROCE.

Moving to the Power business we feel that the worst is behind us as the volumes are now back to the normal level of about 30,000 tons on quarterly basis. This has been an after gap of about 8 quarters. The EBITDA for the quarter was at about 19 crores resulting into ROCE of about 9% annualized.

On the Power Transmission space, the revenue for this quarter increased to Rs. 88 crore as additional elements have become operational on the BDTCL project. We have now completed our investments into the Power Transmission business with the last tranche of 50 crore which we had invested in this quarter.

Looking at the order book there has been some reduction in the order book as some of the export orders we had booked in the Power segment have actually been converted into revenue over the last few quarters. Our new ordering in the Telecom segment continues to remain very healthy as we see a number of telecom operators scale up their networks ahead of launch of 4G and all data based IP networks.

Finally as the demerger would be effective from 1st April, 2015 that's the current financial year, we have also included a proforma of the business giving the impact of change in the capital structure of the demerged entity where current STL willing only be consisting of the Telecom business. This is the proforma number not reviewed by the auditors.

This brings us to the end of the update and we would now look forward to answering any questions you may have.

Moderator: Thank you very much. We will now begin the question and answer session. Our first question is from the line of Anubhav Gupta from MayBank. Please go ahead.

Anubhav Gupta: My first question belongs to the Telecom business. You have mentioned that the standalone debt has increased to 15.9 billion from 13.7 billion this is because of increased working capital requirement in the Service business. We were of the view that the working capital requirement in Telecom business can be easily funded from the internal cash flow generation since the business is high cash flow generated. So what is the need to fund the WC from new debt and how do you see that going up over the next few quarters since there is large amount of working capital required to complete the Defence project?

Anubhav Gupta: This working capital is an initial working capital which is invested in the Services part of the business. We believe this will service this order that we have for about 1500 crores where we are doing the services and we do not believe this will increase any further from these levels and should start decreasing as we start doing the execution on the project level. This is an initial, almost you can say, the feeding capital which we need to put into the services.

Anupam Jindal: Anubhav just to clarify more, it's basically that 50 crore out of the increase has gone towards the investment into the services business and part of the increase has gone into this which is basically that initial buildup of inventory, work in progress and once you start seeing meaningful revenue you will find that it is not increasing further.

Anubhav Gupta: What's the break up between Product and Service revenue for the 1st Quarter?

Anupam Jindal: Service revenues were about 60 crore for telecom business.

Anand Agarwal: My last question is on the drop in the other income on QOQ basis. What is it that was in the last quarter?

Anupam Jindal: In Q1 we had the Fixed Deposit or FMP that's why we had to put the entire income in the last quarter and this quarter it has been more on the quarterly run rate basis. There is a gap of about 12 to 13 crore on account of that.

Moderator: Our next question is from the line of Vivekanand Subaraman from HDFC Securities. Please go ahead.

Vivekanand Subaraman: I have two questions. One pertains to the Bharat-Net Project where we have announced an intent to wrap up capacity on the Product side and also cater to the demand better, so can you shed some more light on this and highlight to us the opportunity that the company faces. Secondly, on the Services side, this quarter we have started seeing significant revenue contribution from that segment. How does this compare with the corresponding quarter last year and last quarter?

Anand Agarwal: The Bharat-Net is a large opportunity where we clearly foresee that over the next 3-4 years. Large amount of fiber deployments will be there connecting. It's an opportunity which is to connect to one and 50,000 Panchayats and it will require more than 1 million kilometers of cables and if we transport it will require almost like between 40-45 million kilometers of fiber over the next 3-4 years. So our capacity expansion in the cabling business from 8-15 million is partly directed towards that and partly towards the upswing that we are seeing and expecting and creating the basic data network for the incumbent Telcos like Airtel, Vodafone, etc. In terms of Services revenue this quarter the services is about 15% of the revenue.

Last quarter also it was at a similar level in Q4 and in Q1 we did not have any material revenue last year to speak of.

Vivekanand Subaraman: A small follow-up on Bharat-Net. Given that NOFN was seeing a lot of delays in implementation can you throw some light on when you expect this 40 to 45 million FKM demand to get satiated, so would it get satiated in 3-4 years or could it take longer or sooner, that is one. And on the Services side a small follow-up, is the Service business also yielding you similar EBITDA margins as the Products business?

Anand Agarwal: The Bharat-Net we think it will take clearly 4-5 years. Right now it's being broken up into several states which are going to deploy it. We believe states like Andhra, etc., will take off in the current year and the other states will move as it moves forward. We have blended margin on the Products business at about 21-22%, Services will be slightly lower than that, will be 15-16% but we believe it will be more accretive on the ROCEs as we move forward.

Moderator: Our next question is from the line of Manav Patel from B&K Securities. Please go ahead.

Manav Patel: I have a question regarding the new transmission projects won by the company. I was just wondering that how will it be funded, the debt equity ratio, would it be same as the earlier projects which was around 75:25? And my second question is regarding the lower offtake in the 1st Quarter for the telecoms in the government project for the OFC number. Just wondering will this slowness will continue for few more quarters?

Anand Agarwal: The debt equity ratio for the Maheshwaram project at least at STL level there will be no more investment going in this project so it will be funded by 75:25 or last few projects have been funded at 80:20 debt equity levels but it will be funded by accruals at the grid level itself. There is going to be no equity infusion from STL in any of these further projects.

Anupam Jindal: Second question related to the investment in working capital of the projects, if you look at the carved out financials the borrowing for the Telecom has increased by about 65 crore, so major portion of the increase is towards the Power business which is anyway proposed to be demerged, so from that perspective Telecom we believe that going forward we are not looking at any increase in the borrowing is on account of working capital for the grid of government projects.

Manav Patel: Why is the volume for the optic fiber low this time? I know you mentioned in your presentation where there were lower offtake for the telecoms and the government projects but can you throw some color on it?

Anand Agarwal: Typically what happens is the Q1 of the year…it's a combination of some uptick on the uptick on the private side and we see Q1 is the year time where normally people are making their business plan and the activity starts stronger towards the later half of the year. So we see this as slightly seasonal and bit temporary, so I wouldn't read a lot into that. The order book from Q2 onwards continues to be strong.

Moderator: Our next question is from the line of Prashant Kanuru from Karvy Stock Broking. Please go ahead.

Prashant Kanuru: The question I have is more about understanding the service side the capability that you are talking about. What exactly do you mean by Service side capability and how much would that be in monetary terms making up the tendering from the government? How much would it be in terms of Services contracts that you can get? What's the total Services contract size in NOFN?

Anand Agarwal: It's difficult to talk about the total….see the Services will occur across various level of the telecom network. There is a broad services wherein you need to integrate the basic fiber network. Then there are services towards creating the major systems layer or the transport layer and then there is the application layer. In one form or the other a large part of the contract would be broken up as a service part only. So the capabilities that we talked about building was building that set of capability that we can offer to build, maintain and manage a full-fledged telecom or data network.

Prashant Kanuru: The systems layer and application layer, do we have the capabilities and could you just put in few words about what does this exactly mean?

Anand Agarwal: See, it's a pretty unique situation right now where in the country this sort of a data network will be built for the first time and it will be built solely on fiber so if you have seen the entire outlay whether it is on the 4G network which is being built by the likes of Jio, Airtel, etc., and the fiber network which the government would be building, is a fiber fully based network where a fiber will first need to get deployed then at the end you will need to put transmission equipment, over and above that you will need to put in the systems layer and then you will need to put in the right applications, the network management, the right SLAs. So the capabilities will be across these three layers and we intend to participate in all of them and accordingly so at one level we will be building in fiber integration capabilities and the other we are building in integration capabilities of the transport itself.

Prashant Kanuru: So we are going to build it organically or we are looking for some acquisition for this?

Anand Agarwal: Largely it will be organically but if there are some capabilities which we believe could be acquired we will be open to that as well.

Prashant Kanuru: EBITDA margin in the telecom business in OF and OFC blended you said Products is around 21-22% and Services 15-16%, so whatever the remaining EBITDA that we have been able to around 24% it all comes through operating leverage? Would it be right to assume that?

Anand Agarwal: It's a question of the mix. So in the current quarter since the mix was more heavier towards the fiber sales which is the higher EBITDA normally 32-33%, that's why the blended has become 24%. But I would say telecom business on a totality perspective would be at 20-21%.

Prashant Kanuru: OFC would still be around 12% EBITDA?

Anand Agarwal: Yes 12-13%.

Prashant Kanuru: About the power conductors business we are yet to see an EBITDA of 9000 or 8500 per ton that we target and 30437 tons being a pretty normalized in normal operating conditions. So where is it that we are losing? Is it the inter-segment eliminations, is it going into our own transmission projects wherein we are selling at a lower cost?

Anand Agarwal: Over the last 7-8 quarters the business has now come to a level of Rs. 6000 per ton. We believe it will take still some more time to reach normalized level of Rs. 8000-9000 per ton. And clearly the transfer pricing is done at market pricing, so there is nothing being lost out internally, it is just a reflection of the current market situation and the levels at which we are running.

Prashant Kanuru: So is it because of the drop in aluminium prices internationally?

Anand Agarwal: Aluminium is all pass through, so it's nothing to do with aluminium, its reflection of the current market and the levels at which we are running currently.

Prashant Kanuru: So the very contracts were entered at lower prices?

Anand Agarwal: Yes.

Prashant Kanuru: Lower margin projects?

Anand Agarwal: Yes you can say that.

Prashant Kanuru: Do we have any back to back positions that we take in commodity exchanges?

Anupam Jindal: Basically the entire business of conductor is a pass through business. So that’s a natural part of our hedging strategy, we don't keep any exposure on commodity or FOREX.

Moderator: Our next question is from the line of Giriraj Daga from SKS Capital. Please go ahead.

Giriraj Daga: Would you like to give some guidance for FY16 in terms of OF and OFC?

Anand Agarwal: Normally OF from 17 should be between 21-22 million next year and cables should be around 11-12 million.

Giriraj Daga: If I had you correctly you said that telecom business will not see any debt increase coming in?

Anand Agarwal: Yes from the current levels.

Giriraj Daga: Even after assuming the expansion from 8 to 15?

Anand Agarwal: Largely the working capital will remain at the similar level, we may be taking some short-term bridge to finance the capital expansion but it will all get marginalized because as we said earlier the business will be generating enough cash flow to fund at that.

Giriraj Daga: My last question is if look on a year on year-wise we have not seen much of growth in terms of volume. Like we have seen 15% growth but our revenue is 31%. So that entirely has come through prices, is that the right assumption?

Anand Agarwal: Part of it 60 crores has come also through Services it was not there year-on-year basis.

Giriraj Daga: Service margin about 15-16%?

Anand Agarwal: Yes.

Giriraj Daga: Any guidance on the service number? Can this number sustain going forward?

Anand Agarwal: This number should be getting better only but right now there is no particular number or guidance for it.

Moderator: Our next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: Volume number that you mentioned for the year in terms of guidance how much you said for optical fiber?

Anand Agarwal: 21-22 million.

Madan Gopal: And for cables?

Anand Agarwal: About 10-11 million.

Moderator: Our next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Could you split up the debt portion which is attributed to the Telecom business and to the Power business because now for an investor, although it is a combined entity but he can focus more as a pure telecom play because the other one is going to be carved out.

Anupam Jindal: The console debt at the Telecom level which was at 674 crore as on 31st March stands at about 741 crore as on 30th June.

Saket Kapoor: Then the interest outgo of 62 crores, how should one split it?

Anupam Jindal: Yes so out of 62 crore 24 crore is attributable to the telecom business based on the balance sheet structure.

Saket Kapoor: What is the working capital requirement if we take the pure telecom play only?

Anupam Jindal: Working capital I don't have the exact number but it should be about 350 odd crore.

Saket Kapoor: Currently also due to statutory regulations we are preparing it in both the segments since the demerger has not gone into, otherwise in principle one can look at as a pure telecom play also with…..

Anupam Jindal: You are absolutely right, this is a transition year where until we get the approval we can't assume that demerger is through hence we need to continue to report the console entity as a whole and once the demerger becomes effective after also the approvals it will be backdated to 1st April, 2015, the current financial year where only telecom will be STL.

Saket Kapoor: Lot has been spoken about this Jammu-Kashmir project also wherein you told that Sterlite is building an intrusive proof communication for the Army in the Jammu and Kashmir segment. What is the size of the project and how much implementation has taken place?

Anupam Jindal: The size of this opportunity for STL its 1500 crore including its cable supply, out of that roughly about 120 crore has been done maybe about 100 to 110 crore has been done until now. On the supply part I am not having the exact number but substantial part of the supply is also getting done as we are speaking.

Saket Kapoor: 10% only of this has been executed, if I have not got the numbers wrong?

Anand Agarwal: That’s correct.

Moderator: Our next question is from the line of Aghast Dave from CAO Capital. Please go ahead.

Aghast Dave: I had two questions; one was on the pricing trends going forward. I kind of missed the early part of the concall, so I apologize if you have already addressed that. It seems pretty stable as of now and given the macro board domestically in the foreign market looks that it will be steady? Am I right in that assumption?

Anand Agarwal: Over the last several years the pricing trend has been pretty stable between $ 7-8 per kilometer and we believe that looking at the demand outlook it should continue in that range itself.

Aghast Dave: Second one is slightly longer. So there are a number of projects which will be consuming the optical fiber cables so I am just naming some of them, if you can just tell me if I am missing anything and then can you elaborate on the level of activity in these today and what would be the peak going forward. So one is your Jio roll out, then you have Bharti, Vodafone doing 3G and 4G, then you have Defence, then government linking the panchayats, then you have FTTH, then you have copper replacement for the existing network and apparently copper replacement in the telecom tower itself. Am I missing anything and if you can add to that? And second is what levels are we doing as a market as a whole what's the activity level today and what is the expected peak and how long is this cycle going to last?

Anand Agarwal: Clearly I will put a different perspective. All the projects that you talked about Yes, largely covers where fiber will get deployed. You have to see this as our infrastructure part of getting created. I will put it into perspective; India has only about 80 million kilometers of fiber deployed. Country like China has almost 1 billion kilometers of fiber deployed. All the projects that you talked about cumulatively if all the fiber is rightly deployed it should consume about 250-300 million kilometers for the projects you talked about. I don’t see any year per se in which the peak immediately needs to happen, this will take the next 6-7 years of fiber getting continuously deployed, first to connect the existing towers then to connect the new towers which will be required for 4G and LTE. The backbone would need to be rebuilt, the government projects, the defence projects, so these will happen in different phases but I see it being a full data network, a full data infrastructure needs to be built in the country which absolutely does not exist today.

Aghast Dave: How conservative should we be in our assumptions? So if 300 million kilometers is the highest possible number that needs to be done, let’s say, and over 6 years so should we assume will we be hitting 50 anytime soon, will it be back-ended, will we be getting this number beyond, let’s say, 2019 or are we going to start at a very rapid pace?

Anand Agarwal: You would have to see it in a different perspective. You have to see the fact that the market was about 7-8 million kilometers 2-3 years ago it has reached 15-16 million kilometers last year. It would be closer to 20 million right now. So we are not looking at it when do all the projects stack up and we hit 50 a peak and then start going down. We think that both capital availability, execution capabilities will get gradually added up. We think growth of 25-30% year-on-year will continue and as I said earlier it's not going to peak up and go down, it's going to continue to build up to it because if you see the data has been growing at 70-80% on a year-on-year basis. To support that infrastructure you require that strong network.

Aghast Dave: You mentioned about looking at the entire thing as an infrastructure activity. I was wondering what kind of EPC capabilities do we have as a country? How many people can actually lay down the fiber? Do we have enough capacity there in terms of, let's say, machinery, manpower? And what about Right-of-way issues and do you require any land permits, can you throw some light on that?

Anand Agarwal: Definitely this strengthening would be required and that would be one of the criteria other than capital in terms of the execution capabilities itself and I think the 25-30% growth that I am talking about is considering both the capital and execution capabilities in the country. So Right-of-way, etc., is an integral part of it, I see it in an opposite way that the country per year deploys 70,000-80,000 route kilometers of electrical infrastructure and for that Right-of-way is acquired and if fiber is becoming a similar utility which needs to be deployed across all the highways, across all the roads in the city and there are enough now both initiatives and policy changes where Right-of-way is becoming easier and more standardized.

Moderator: Our next question is from the line of Sarthik Sayal from Crisil. Please go ahead.

Sarthik Sayal: I heard the OF guidance of around 21-22 million fiber kilometer, so currently we have a capacity of about 20, right?

Anand Agarwal: It has been going up. Like the debottleneck capacity it will be closer to 22 million.

Sarthik Sayal: By the end of FY16?

Anand Agarwal: Yes.

Sarthik Sayal: So we are not explicitly looking for any addition as such?

Anand Agarwal: So currently its focus to more on adding capacity by debottlenecking itself and that’s where we are looking.

Moderator: Our next question is from the line of Rupen Makalia from Khar & Associates. Please go ahead.

Rupen Makalia: I have two questions pertaining to telecom business. One is, telecom being an asset light business so considering future CAPEX plans and business mix especially in Services side can you throw some light the likely ROCE probably over next 2-3 years. This is question number one.

Anand Agarwal: The ROCE for the whole of last year we reached about 23% and as the operating leverage is getting better it will be in the range of 25-26% and we believe this ROCE of 25-26% on the product side mix with the projects that we take, the target would to either remain there for better that ROCE.

Rupen Makalia: Second question is pertaining to Chinese and Brazil subsidiary, Brazil business, so by when do we expect it to be positive at EBIT and PBT levels?

Anand Agarwal: China is clearly positive both our EBIT and PBT level, China is running at capacity. Brazil is still lot of ramping up right now, Brazil we started only about 6 months ago so its ramping up. We believe by Q4 of this year Brazil would also be positive.

Moderator: Our next question is from the line of Vivekanand Subaraman from HDFC Securities. Please go ahead.

Vivekanand Subaraman: I wanted an update on some of the orders that we had made bids for? I had read some news reports and discussions by Dr. Anand where he had mentioned that around 6000-7000 crore worth of market opportunity on the Services side is something that the company is looking to target. So of that what could be the potential order inflow say in fiscal 16 and 17?

Anand Agarwal: We normally keep bidding for opportunities both on the Product side and Services side and Services being a newer area of business for us it's very difficult to talk about what fraction of those opportunities would fructify. So what we can tell you is that there are large opportunities coming in the country. We have clearly stated our intent of bidding for such opportunities which makes sense from a capability and a margin and ROCE sense and we keep informing you as these opportunities get converted into order book. But neither we monitor nor do we have any particular target of creating a certain kind of an order book at the end of the year.

Moderator: Our last question is going to be from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: You have spoken about our capacity being ramped, what is our capacity for India, domestic and for abroad for China and Brazil?

Anand Agarwal: China, see we do all the glass in India, so glass currently is between that 21-22 million we will be having by the end of the year. And draw apart we do partly in India and partly in China. So India does about 16-17 million, China does between 4-5 million and that’s the distribution, while Brazil is a cabling facility, Brazil today is only about 0.5 million kilometers of cable.

Saket Kapoor: One explanation for the investor community, how should one read this optic fiber volume of where 4.5 million fiber kilometers while optic fiber cable, that distinction between the two how to differentiate this?

Anupam Jindal: Just to clarify that optical fiber is the major product and optical fiber cable is a downstream product which is end-use product for the telecom operator so we need to read this optical fiber cable as a captive consumption of optical fiber and it's a subset of 4.5 million.

Moderator: Thank you. I now hand the conference over to Dr. Anand Agarwal for closing comments, over to you, sir.

Anand Agarwal: I would like to thank everyone for attending this call and I hope we were able to address and clarify all your queries and comments. For any further clarification and discussion you can feel free to contact our IR team including myself and Anupam and we hope to continue our association and dialogue in the future. Good evening and thank you.

Moderator: Thank you very much. On behalf of Sterlite Technologies, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.