"Sterlite Technologies Limited Q3FY15 Earnings Conference Call"

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MANAGEMENT: **DR. ANAND AGARWAL – CHIEF EXECUTIVE OFFICER, STERLITE TECHNOLOGIES LIMITED**
MR. ANUPAM JINDAL – CHIEF FINANCIAL OFFICER, STERLITE TECHNOLOGIES LIMITED

MODERATOR: **MR. CHARANJIT SINGH – ANALYST, AXIS CAPITAL**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Sterlite Technologies Q3FY15 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the management 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. I now hand the conference over to Mr. Charanjit Singh from Axis Capital. Thank you. And over to you, Mr. Singh.

Charanjit Singh: Thank you, Mallika. Good Afternoon, everyone. We would like to welcome all to the Sterlite Technologies Limited Q3FY15 Conference Call. We have with us today, Dr. Anand Agarwal – the Chief Executive Officer and Mr. Anupam Jindal – CFO of Sterlite Technologies.

To give a brief, Sterlite Technologies businesses are segmented into three broad verticals – Telecom Products and Solutions, Power Products and Solutions and Power Transmission – where company has very strong positioning across these verticals. It has operations on a global scale with manufacturing facilities in India, China and Brazil and exports panning across all major regions in the world. Its revenues are diversified across customers and geographies and consists of a mix of high growth businesses of the Telecom and Power Products and stable annuity businesses from the Power Transmission vertical. At this time, I would like to hand over the conference to Dr. Anand Agarwal. Thank you. And over to you, sir.

Dr.Anand Agarwal: Thanks, Charanjit. Good Afternoon. I welcome you to the Sterlite Technologies Q3 Earnings Call. We declared our third quarter results call for the fiscal '15 today and hope you had an opportunity to look at them. We have also uploaded on our website an investor update note and earnings press release for this quarter for your easy reference on the financial and business highlights.

We are happy to report our Q3 results, where we demonstrated revenue growth of 32% which translated into an EBITDA growth of 90% on YoY basis. This quarter was also significant from the perspective that we recorded the highest ever quarterly revenue of Rs.895 crores. The current quarter performance is indicative of the growth prospects that we see for our company and our increasing footprint in global and domestic markets. Moving ahead, we start Q4 with a healthy order book of Rs.4,700 crores.

We would like to highlight that our current order book levels represent almost 80% increase in our order book levels compared to a year back. We have now a healthy balanced mix of orders from both Telecom and Power segment, well-diversified across international and domestic customers.

Before we delve deeper into the financial performance and segment level highlights, we would like to update you with some key company highlights and developments which we believe are important from the company and your perspective. At our current quarterly run rate of 4.6

million for Optical Fiberand 2.2 million Kms for Optical Fiber Cable, we are progressively increasing our capacity utilization rate of our 20 million fiber capacity and 9 million capacity of Optical Fiber Cable, and we should see full benefits from this capacities quarter-on-quarter as we move forward. With Power Conductor volumes of 27,000 tonnes in the current quarter, which is higher than H1 volumes, Power Products segment is on the path to revival. With an order book of Rs.2400 crores with a healthy export share, we should see further traction in the coming quarters.

During the quarter we also commissioned the second line of the east-north interconnect power transmission project which makes us the only private company to successfully commission the "First Ultra Mega Transmission Project" in the country awarded on competitive tariff-based bidding. With the commissioning of two additional lines and two substations of the Bhopal-Dhule Transmission Company, we are hopeful of completely operationalizaing our first three projects over the next two quarters. We have reasonably completed Sterlite's equity investments for the existing portfolio of six projects and should start seeing cash flows from the first three projects during the course of the next few quarters. The current revenue generating elements of all the three projects have already achieved an annual revenue run rate of Rs.287 crores, which has increased significantly from a revenue run rate of Rs.68 crores in the previous quarter.

We would now like to give you specific insights into each of our business segments and financial performance of the quarter. On the Telecom segment, we continue to strengthen our market position with addition of new clients and growing sales in the business. Q3 represented a growth of 44% in our revenues and 132% in EBITDA on YoY basis. We recorded revenues of Rs.412 crores with an EBITDA of Rs.88 crores in this quarter. Our EBITDA for nine-month in this business totaled to Rs.234 crores which has already surpassed our full year FY14 EBITDA of Rs.187 crores. With our China operations running at near full capacity, and Brazil operations ramping up, we did highest ever volumes of 4.6 million km of Fiber and 2.2 million km of Cables in this quarter. Our business mix is also witnessing a positive change with our Cabling-to-Fiber ratio at 42% for nine-month in FY15. This is clearly reflective of our increasing market reach to end users and our focus on capturing larger share of the complete Fiber value chain. We see this ratio further increasing in the coming few quarters which should drive our absolute profitability in this segment at a higher rate than our bear Fiber volume growth. This quarter also saw the revenue flow starting from our recently won "NFS Project." Also, our exports continue to grow stronger in this segment with Europe and China accounting for the largest share amongst our international revenue. We also expect pick up from Latin America and other emerging economies where we already have a presence. We did 30% of international sales in the Telecom segment for the quarter and on a nine-month basis it stands closer to about 35%.

On the industry front, we see that the global Fiber market continues to grow with total utilization close to 295 million fiber kms in 2014, reflecting almost a 12% increase from 2013 levels. Growing data usage fueled by high bandwidth video traffic is the macro driver for most of these installations.

It was also interesting to note that 2014 saw the highest ever optical cable installations in US of around 40 million fiber kms which surpassed level seen during the internet boom in 2000. China continues to remain the largest consumer of fiber globally at almost 140 million km fiber cable deployment annually and did not show any signs of moderation in cable buying by the three telcos. Closer home, prospects continue to become brighter, with data replacing the voice story till date. India market which was essentially a 7 million km market till about two years back has almost witnessed doubling of demand driven both by private spending and government initiated broadband projects in recent times. Total Fiber deployed in 2014 was close to 16 million km of Fiber and it is continuing to show positive growth in coming years.

From macro fundamentals point of view too, the numbers speak of good potential, awaiting for Fiber deployments in the country. For a country of our size and population, coupled with increasing smartphone penetration, we are highly under fiberized. To give you a perspective, China cumulatively would have deployed close to almost 850 million optical fiber kilometers in the ground against about 80 million kilometers in India. We expect close to 100 million kilometers Fiber deployment in the country to happen in the course of next 4-5 years. Bulk of the growth in the country would be driven by fiberizing the mobile backhaul on backdrop of network rollout by operators to offer 3G, 4G, coupled with the government-driven broadband projects.

In light of the growing opportunities on the Optical Fiber market, we have taken a decision to increase our Optical Fiber Cabling capacity from the current 8 million to 15 million kilometers. This decision has come in view of expanding domestic market and our increasing reach to top tiers telcos globally. With all these developments, we remain excited on the opportunities that will surface in coming years and our focus will continue to grow our profitability driven by volume increase and larger portion of Cabling in our portfolio.

In addition to Products revenue, we are also seeing a good turnkey opportunities at domestic front on line similar to the NFS project that we have started executing. As a company, we have built in some specialized capabilities which places us in a unique position to capitalize on some of these opportunities. We expect our service revenue stream to also increase in the coming few years and start contributing to Telecom profit from the Products businesses.

Now, moving on to the Power segment, our focus will remain on strengthening our position in the High Voltage Transmission space. Over the last few years, we have been investing in our resources in expanding our product portfolio by adding High Performance Conductors, (OPGW) Optical Ground Wire, and Extra High Voltage Cables to our power offerings. We believe that this will allow us to address a larger opportunity pool in times to come as the markets for these products grow to a sizeable demand. Q3 was indicative of revival trend in the Conductor volume which should see further traction in coming quarters. On the demand front, we have started seeing an uptick in ordering from PGCIL as well as traction in our exports market and this has been reflected in our volumes going up to almost 27,000 MT this quarter, translating to a revenue level of Rs.461 crores. Q3 EBITDA at Rs.14 crores for the segment continue to show improvement compared to the previous two quarters for this financial year and we work our way into a more normal operating range. We have good visibility going forward with an order book of Rs.2400 crores for the Power segment, that is well-diversified with exports accounting for nearly 40% of the book.

On the overall industry front, we continue to remain bullish on the prospects of this sector and with the government's prerogative of electricity for all 24x7, investments in generation and T&D will continue to grow. The export market will also continue to present opportunities and our endeavor would be to continue increasing our footprint in new markets and add new customers.

Now, I want to turn to a Power Transmission Infrastructure segment. During the quarter, with the completion of the 225 Kms Bongaigaon-Siliguri line of ENICL, we have successfully commissioned the first ENICL project. The other two projects of BDTCL and JTCL are substantially completed, with some of the line elements already generating revenue. We expect both these projects to be fully operational in the next two quarters. The current revenue generating elements of all the three projects have an annual revenue run rate of Rs.287 crores, which has increased significantly from a revenue run rate of Rs.68 crores in the previous quarter. We do not envisage any major further equity investments from STL into this vertical and once the first three projects are fully operational we will focus on monetization of these in line with our stated objectives for this business.

On the opportunity side, we do not see any dearth of projects and would continue to participate in bidding, ensuring that incrementally increases the portfolio level returns and does not stretch our balance sheet. Fundamentally, we will continue to believe the transmission assets are among the most attractive asset class within the Infrastructure segment because of their low risk profile and assured cash flow.

Finally, to throw some light on our balance sheet and investments; our standalone debt marginally decreased from Q2FY15 levels. At the end of December 2015, we had a net debt of Rs.1430 crores on our balance sheet which has marginally reduced from Rs.1490 crores in end of September 2015. We have capped our investments into the Transmission business up to Rs.1200 crores and that did not have any additional outgo during the last quarter.

As we come towards the end of this call, we would like to summarize that we remain very confident of the inherent value in all three of our business verticals, and our ability to capture this value for our shareholders, the Telecom business is clearly moving on a strong growth trajectory given the opportunities we see for this business, both in India as well as globally. On the Power Products front, we are on the path to recovery and we will benefit greatly once domestic demand factors return to more normalized levels. On the Transmission side, we have a portfolio of good assets which are well equity funded and we will focus on developing the remaining three assets in the portfolio and also remain opportunistic to bid for any new projects that come in the near future. As a company, our singular focus would be on sustained profitable growth as well as ROCE improvement. This brings us to the end of the update and Anupam and I would now be glad to take any questions that you may have. Thank you.

Moderator: Thank you. Participants, we will now begin with the question-and-answer session. The first question is from the line of Prakash Goel from ICICI Securities. Please go ahead.

Prakash Goel: I have two queries. One, with regard to the Power Products segment. We are seeing an uptick. We would like to know what is the kind of order inflow has happened from the Power Grid side and what has been the trend in general, like in case of over-inventory at Power Grid which has led to slow down in the demand in the Cabling system, just want to get an update on that?

Dr. Anand Agarwal: Prakash, what we are seeing essentially is overall inventories in Power Grid coming down, so the capital work-in progress on the Conductor side which had gone up to almost Rs.7,000 crores is now less than Rs.3,000 crores. They have started both the RFQ process, tendering process, as well as order process. But for us, what is happening, as we would have informed you over the last couple of quarters, our order book was increasing strongly on the exports side as well. So, in our order book, we are seeing Power Grid coming backing; however, in terms of our performance for the quarter, it is the previous order book which was there, which is bringing it back to more normalized levels now.

Prakash Goel: And building an EBITDA margin of going back to 5% would be the right way to look at it or the operational volumes picks up further?

Dr. Anand Agarwal: We have metric of about Rs.10,000 EBITDA per tonne, we have achieved close to about Rs.6,500 this quarter and we will be going up to those normalized levels.

Prakash Goel: So 5% EBITDA is something that is achievable?

Dr. Anand Agarwal: More than percentage we see it per tonne

Prakash Goel: On a per tonne basis. So fluctuating prices can have a bearing on the EBITDA as a percentage?

Anupam Jindal: About 9,000-10,000 is something is the target.

Prakash Goel: Coming to the Power Transmission business, Rs.287 crores annualized revenue, would generate what kind of PBT?

Dr. Anand Agarwal: This business would generate about 97% of EBITDA and then post the interest and depreciation on those assets we will need to calculate what is the PBT for the full rate, maybe we will work that out and let you know.

Prakash Goel: No problem, basically I appreciate that initial year you will have the higher hit on account of interest which will be going down, but more from a consolidated profit point of view, wanted to know what kind of PBT will be there in this business.

Dr. Anand Agarwal: Sure.

Moderator: Thank you. The next question is from the line of Jigar Shah from Kimeng Securities. Please go ahead.

Jigar Shah: My question pertains to the Optic Fiber business. Given the explanation that you have for the growth, would you be increasing capacity beyond 20 million Kms, is that on the anvil?

Dr. Anand Agarwal: First, what we have taken illustration is that on the Cabling side, we want to capture all the opportunities that we are seeing. So, we have decided to take 8-15 million capacity expansion. On the Fiber side, since it is more CAPEX oriented, we are in the midst of taking that call as to what would be the right trigger for us to take that call, but maybe by next quarter we will be able to give you better perspective on that.

Jigar Shah: The other point is can you give us some idea about the recent realization in the Optic Fiber and Cable business in both local and domestic market?

Dr. Anand Agarwal: The Fiber business essentially over the last few months has seen a tightening of supply in the global market. In terms of realization, Fiber was let us say about Rs.414 as compared to about Rs.397 in the previous quarter. If it continues to be in that tight range, if I see over the last 7-8 quarters, it is between Rs.395-415 range.

Jigar Shah: The other question is on your interest cost. So, if we see the first nine months of this year versus the previous year there is a very sharp increase. So how do you plan to address that?

Dr. Anand Agarwal: This increase in interest cost has essentially come, as you are aware, we converted part of the investment as debt into the equity into these projects.So the interest cost addressal would essentially happen through a couple of different sources — one would be by partially monetizing the projects where the investment has gone in; and secondly, by the cash which we are continuing to generate from the current businesses.

Jigar Shah: Are there any specific targets identified for reducing debt or interest cost over the next couple of years?

Dr. Anand Agarwal: The debt level reduction on a totality basis will come from the cash flows which we are generating from the current business itself, and the fact that most of these projects are now moving to a revenue generating phase, they would also take the required kind of impact of the interest towards the revenue part itself.

Anupam Jindal: Basically here what we are trying to say is that we had set out a limit of about 1.2 on the debt for that standalone level as a maximum debt which we are trying to contain it to, and then we have also said that our investment in the grid has been sort of kept at Rs.1200 crores, and as far as the reduction is concerned, two to three sources; one the operating performance should generate positive cash flow going forward, second, as the assets are getting operationalized within the next six to twelve months, we will see some action happening on the grid monetization which will reduce the exposure which we have in the grid.

Jigar Shah: Are you witnessing any interest cost reduction due to the recent rate cut and what might happen during the rest of the year, so how well are you geared up to probably change your cost of borrowing?

Anupam Jindal: Very valid question, the things could not have improved at a much better time and we are fully geared up, these projects which are getting operational, we will see a lot of action and interest in our refinancing of these projects and that will bring in the rate reduction as well, so every 1% will have potential at the company level, which includes the Grid business as well, roughly about Rs.40-45 crores kind of benefit.

Jigar Shah: One last thing is, if I am not doing a mistake, FY10 was probably the best year in which you did about Rs.400 crores EBITDA.So do you think FY16 you can surpass that?

Dr. Anand Agarwal: We believe so.

Jigar Shah: Given this quarter’s trend and if that continues, you should be able to cross that right?

Dr. Anand Agarwal: Definitely.

Moderator: Thank you. The next question is from the line of Anand Shah from Birla Mutual Fund.Please go ahead.

Anand Shah: A couple of questions; you spoke about Rs 10,000 per ton is your benchmark in terms of an ideal scenario as far as the Power Products business is concerned, and that currently you are at about Rs.6500?

Dr. Anand Agarwal: That is correct.

Anand Shah: What kind of timeframe are we looking for?

Dr. Anand Agarwal: Maybe in the next couple of quarters, we have reached about 27,000 tonnes, we believe at a level of 33,000 to 34,000 tonnes we should be between that Rs.9000 to 10,000 EBITDA per ton.

Anand Shah: In about two to three quarters, we should start seeing about Rs 10,000, right?

Anupam Jindal: 9 to 10 is the number, but I would say 9000 as a benchmark.

Anand Shah: Second, on the Telecom products business is there any seasonality as such, I am looking at from a quarter-on-quarter perspective, while you have done exceedingly well on a year-on-year basis, looking at Q3 versus last year, EBITDA margins have come offof 500 bps despite top-line growing quarter-on-quarter?

Dr. Anand Agarwal: EBITDA margins, Anand, is more reflective of the mix between Fiber and Cable.So the ratio of Cable to Fiber that we do is much higher in the current quarter than it was in the previous quarter. Cables have a lower EBITDA percentage, so we donot look essentially at margin of the blended Telecom business, we look how on an absolute basis we can add more value, so we add value at the Telecom at the Fiber stage, then we add increasing value on the Cable stage.So, our endeavor essentially to absolute wise add more value in every kilometer of Fiber that we make and sell.So for us the fact that almost 42% of Fiber that we sold last quarter was in Cable form is in line with our strategy.

Anand Shah: So there is no ideal mix that you are really looking for which will have much significantly better margins as well as obviously higher absolute EBITDA?

Dr. Anand Agarwal: It will be higher absolute EBITDA rather than profitability, we are going to take it up to 50%.

Anand Shah: The question again coming back on the Power Transmission business.You spoke about the three projects, which are now having an annual run rate of Rs.287 crores. My question is on these, what is the total cost of these projects?And is my understanding of the business right that the minute the COD is done, you have the COD date, and it starts, your revenue is fixed irrespective of the volumes, so this Rs.287 crores is kind of cast in iron right, it will not go up, it will not go down?

Dr. Anand Agarwal: Your understanding is correct on the revenue side, it is irrespective of the load on the line.

Anand Shah: Either way.

Dr. Anand Agarwal: Either way. The second part is this Rs.287 crores is reflective of about half the elements of the three projects coming on board.By June or July of this year, all the elements of all the three projects will be running, giving revenues of close to about Rs.570 crores, and we would have a corresponding project cost of about Rs.4,600 crores.

Anand Shah: For those three projects only?

Dr. Anand Agarwal: Three projects only.

Anand Shah: So you are looking at about Rs.500 crores and we have spent about Rs.4700 crores, mix of equity and debt that does not matter, total project cost of Rs.4700 crores?

Anupam Jindal: Rs.575 crores of revenue and about Rs.4600 crores of CAPEX.

Anand Shah: We have a total of six projects.How is progress in the other projects been, any change in the COD dates that you have given us in your presentations earlier for the other three, are we delayed, are there issues, because return on capital employed would obviously be dependent on being on time, so right of way is a major issue that I would think would be there, so can you throw some light on those other three projects?

Dr. Anand Agarwal: Other three projects, there are two smaller projects which are in totality close to about Rs.800-900 crores, fourth and fifth project...

Anand Shah: Combined?

Dr. Anand Agarwal: Yes, which will get operational by April 2016, so in the next one year, we will have additional about Rs.800-900 crores of projects coming in, and then we will have the sixth project, which is about Rs.2600-2700 crores, which has a timeline of up to FY18.

Anand Shah: So that April 2016 that you said, we are on track, there is no delay on that?

Dr. Anand Agarwal: We are very much on track, maybe in fact, we are trying to prepone it by a month or two.

Moderator: The next question is from the line of Alok Ramachandran from SBI CAP.Please go ahead.

Alok Ramachandran: Just wanted to know in the Power Products division, how much proportion of this revenue has actually come from the exports side out here, and also how much revenues have been actually billed towards the Grid business or the under construction projects from this segment altogether?

Dr. Anand Agarwal: The Power, about 23% came from exports, and I donot think more than 20% of it would be to Grid business, it could be even lesser, out of the Rs.470 crores I donot think more than Rs.80-90 crores would have gone to the Grid business.

Alok Ramachandran: For the new lines, right?

Dr. Anand Agarwal: That is correct.

Alok Ramachandran: How do you see the traction especially on Power Grid ordering which has been quite lull for the first half, how has been the order picking, or is ordering actually picked up, if you could give us some color that would be great?Is it right to estimate that you will end up about a run rate of revenues in the Grid business at around Rs.140 crores this year, would that be a correct estimate given that these two lines would be operational in this quarter or so?

Dr. Anand Agarwal: I will take the first question first, on the PGCIL side, we are seeing the tendering and RFQs coming back, in the current quarter PGCIL would have done tenders of 40,000-50,000 tonnes, so that is a healthy sign, which is coming back almost after 7-8 quarters.

Alok Ramachandran: And we have bid out there for how much proportion?

Dr. Anand Agarwal: We have bid for most of those requirements and once the results come, we will get to know how much of those we are getting.

Alok Ramachandran: So maybe some proportion of it comes in should flow in next year or maybe even further?

Dr. Anand Agarwal: Next year, once it gets awarded, it should flow in next year.And then the second part of it was, as we said, on the Grid projects we are currently at a run rate of about Rs.287 crores, so we see run rate on a quarter-on-quarter basis, that run rate may improve by the end of Q4, and in the next six-odd months it will go up to annualized run rate of about Rs.570 crores.

Alok Ramachandran: Any state specific ordering or tendering that is seeing any pick up that you are visualizing in the state?

Dr. Anand Agarwal: Pretty normalized, nothing out of the normal.

Moderator: Thank you. The next question is from the line of Anubhav Gupta from MayBank.Please go ahead.

Anubhav Gupta: Could you give some update on the NFS project, how has the execution been in Q3, is it in line with your expectations?

Dr. Anand Agarwal: As we mentioned, we just started initial dispatches, in the current quarter, we would have made sales of about Rs.40 odd crores or so, the execution has started in the Kashmir area, and we will see some more revenues both on the products and services side in Q4 current quarter.

Anubhav Gupta: So what is the revenue target for FY16 from this order?

Dr. Anand Agarwal: We have not really broken it down, we have milestone-based requirements for delivery of products as well as execution, so we are pretty much on that target, I will not off hand have the revenue number for FY16 for this project.

Anubhav Gupta: You donot see any pressure on the margins while executing?

Dr. Anand Agarwal: No.

Anubhav Gupta: As on today, how much CAPEX has gone into the Transmission projects, you can give the figure as on 31st December 2014?

Dr. Anand Agarwal: The overall project…

Anupam Jindal: Close to about Rs.4500 crores.

Anubhav Gupta: Breakup between equity and debt?

Anupam Jindal: Breakup is Rs.1650 crores has come as equity and rest is debt.

Moderator: Thank you. The next question is from the line of Prashant Kanuru from Karvy Stock Broking, please go ahead.

Prashant Kanuru: Looking at PGCIL, their capitalization of CAPEX looks to be improving till H1 the balance sheet numbers.So would it be correct to assume that the normalcy in Power Conductors business will be reached by Q1 of FY16 and thus it would be reasonable to factor an increase in EBITDA for FY16 and FY17 going ahead?

Dr. Anand Agarwal: Prashant, we definitely believe so, exactly what you are saying, the capitalization is increasing, CWIP is coming down, we have seen RFQs and tenders coming out for newer projects and newer business, ordering will follow. We definitely believe FY16 and 17 would be on more normalized lines than what we saw over the last few quarters.

Prashant Kanuru: And since FY13 was pretty weak in capitalization by PGCIL and '14 and '15 have seen continuous improvements, would '16 and '17 see increased activity from PGCIL, like which might take it to a bit above normal levels also, possibility, because the CAPEX plans, or would it be more reasonable to assume that there will be spill-off of the 12thPlan into 13thFive Year Plan.So it would not be very correct to assume more than normal ordering from PGCIL for the next two years?

Dr. Anand Agarwal: At least for our plans we are taking more normal levels of ordering, if it goes above that it is going to be only better, and we have from that perspective, no dearth of capability to address those orders, so from our perspective we are seeing normalized levels only.

Prashant Kanuru: Like ballpark would it be possible to give like for analysis sake, if say a circuit kilometer is laid, how many tons of aluminum would be needed for that so that we understand?

Dr. Anand Agarwal: It is very different, because a typical circuit kilometer can have between 6 conductors to 24 conductors, so it is different to correlate it with a circuit kilometer. What we essentially do, we see it in terms of Power Grid's total capital outlay, and this is normally about 27% to 28% of the Power Grid's capital outlay demand, so if they are doing say 22,000 crores, there would be Rs.5,000-5,500 crores.

Prashant Kanuru: For the 12thFive Year Plan, they had Rs.1.1 lakh crores.So out of that say if it is Rs.28,000 crores or Rs.30,000 crores for Conductors how much has already been ordered by them?

Dr. Anand Agarwal: We donot calculate it by five year plan, we are essentially looking at the order book we see the overall Conductor ordering, and for us the last couple of years it was not at a macro level, it was essentially the fact that they had lots of CWIP. I believe that from next year onwards they should get back to Rs.5000 crores to Rs.6000 crores of ordering and that is going to be sort of in accordance with the normalized rate of affairs.

Prashant Kanuru: What about the (EHV)Extra High Voltage revenue this quarter, because Haridwar JV, how is it shaping up, is it done, like transferring the stake to the…?

Dr. Anand Agarwal: That will happen by March of this year.In terms of revenues, we would have done I think, I donot have exact numbers, but it would be of the order of Rs.25 crores to Rs.30 crores.

Prashant Kanuru: You expect that to go up to Rs.75 odd crores right,sir, that is what you said last time?

Dr. Anand Agarwal: Yes.

Prashant Kanuru: We will be transferring stake and it will be done at book value or?

Dr. Anand Agarwal: It is being valued effectively.So once the stake and transfer and all that happens, then we will announce it at an appropriate time.

Moderator: The next question is from the line of Arjun Sehgal from Reliance Mutual Fund.Please go ahead.

Arjun Sehgal: I wanted to ask you, you are increasing your optical cabling capacity from 8 million to 15 million, what would be the CAPEX that you would have to incur for this?

Dr. Anand Agarwal: Close to about Rs.150 crores.

Arjun Sehgal: Of which how much would be debt?

Dr. Anand Agarwal: The bulk of it we believe should come from accruals only, this will be invested over the next 15 to 16 months, and we should be able to generate cash to pay for it.

Moderator: The next question is from the line of Rahul Gajare from Edelweiss.Please go ahead.

Rahul Gajare: I have got one question each on the Power business and Telecom business.On the Power side, in some time we would see a scenario where PGCIL CAPEX will actually plateau, and you will see an uptick on the SEB side.So that in scenario, and SEB conductor I am sure will be of low range compared to 765 kV what Power Grid essentially uses.So our realization, would that get impacted if that were to happen, proportion of Conductors that we are supplying to SEBs, if that were to increase significantly?

Dr. Anand Agarwal: You are right about Power Grid, so Power Grid ordering which used to be around Rs.20,000 crores annually is moving to Rs.22,000 crores to Rs.23,000 crores, over the next three to four years we are well set on Power Grid volumes. On the SEB side, actually what we see is opposite happening;essentially, while SEBs buy the Low Voltage Conductors but these are the areas where there is the most level of congestion around the cities. We are doing several projects with SEBs, where our high temperature conductors are being deployed, and for those the realizations are in fact significantly better than the traditional conductors.

Rahul Gajare: Sir on the Telecom side with increase in capacity that we have got, now we are also seeing a scenario where China is essentially slowing to an extent.Do you see a risk to our export growth and realization also on the Telecom side, Optic Fiber essentially?

Dr. Anand Agarwal: The growth in the global market, Rahul, has been much better than envisaged;we saw a 13% global market growth between 2013 and 2014, and we saw as I said earlier, in North America, almost 40 million kilometers getting deployed, which was higher than the internet boom so what we are seeing is while the China relative growth stopped, the volumes continue to increase, and we are seeing many markets contributing to the growth numbers. On a macro perspective currently at least that is not the top concern for us of China slowing down, we are very much focused in the growth that India is seeing, and the other markets, while we continue to consolidate our position in China.

Rahul Gajare: How is your China business shaping up,you had a JV there right?

Dr. Anand Agarwal: JV is fully running at capacity; it is a JV about 4 million, we are doing at 4 to 4.5 million kilometers run rate from that joint venture,and we are pretty comfortable with our presence in China at those levels.

Rahul Gajare: If I remember right, that was essentially for the Chinese market.Now are we seeing a scenario that we are exporting out of the Chinese factory or that is not something which is going to happen?

Dr. Anand Agarwal: No, that is for the Chinese market and it will continue to be so.

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

Abhishek Puri: I had a couple of queries on your consolidated numbers.When I am seeing the difference between consol and standalone is it largely to do with the Grid business only?

Dr. Anand Agarwal: Yes, that is correct, it is largely to do with the Grid business only.

Abhishek Puri: And if I heard the numbers correctly, you have spent Rs.4600 crores and Rs.1200 crores is the equity in this ENICL project?

Dr. Anand Agarwal: Rs.1200 crores is the total equity in all the projects in the overall portfolio.So ENICL out of this Rs.4600 crores would be about Rs.1100 crores.

Abhishek Puri: The revenues that you mentioned will be about Rs.570 crores for this project?

Dr. Anand Agarwal: For the three projects, yes.

Abhishek Puri: Would this mean that this project will continue to report a negative PBT for the initial few years till the time we pay off the interest or the debt?

Dr. Anand Agarwal: At Rs.570 crores of revenues with Rs.4600 crores of total capital employed, post depreciation it would have a negative PBT, but the cycle starts improving better, at a cash level it is positive, and as we start paying off the debt, the PBT would become positive.

Abhishek Puri: In terms of monetization plans, what would be your game plan be going forward — would this be listed entity or it is like stake sale or is there anything else which we can do?

Dr. Anand Agarwal: Two to three levels, Abhishek.So at a first level it was to get equity partner at the holdco level, which we have Standard Chartered investing about Rs.500 crores in the business.At the second level we are increasing the debt level of operational project, so for instance, in ENICL, out of Rs.1100 crores about, we are just finishing debt refinancing to get almost about Rs.1000 crores as debt, so that will get some equity out.And at the third level as the projects are showcasing clear revenue and availability, we would be looking at selling the balance equity also to interested investors and we are already in the process of discussing with several of them.

Abhishek Puri: I think with the current bids, would you still look at new projects; are they really attractive do you think in the Transmission space, I think in your initial comments you mentioned that T&Dis the best investment in the infra space?

Dr. Anand Agarwal: Yes, we continue to strongly believe that, and the projects that we have, the next three projects are relatively better returns than the first three, and we are strongly believing that the capabilities over the last four years, which we have developed as an organization are the best in the country and transmission has no credit risk, no traffic risk, and it actually generates you an annuity kind of return which is guaranteed by AAA entity, PGCIL collects your entire money.So we strongly believe that Transmission is the best infrastructure investment category.

Abhishek Puri: In terms of the Transmission projects, I think government has eased out certain clearances and has given a level playing field to the private sector also. Has that been operationalized already for this environment and forest clearances?

Dr. Anand Agarwal: Over the last four months, all the forest clearances which were there have been cleared for all our projects.So we donot need to go to Delhi for any forest clearances anymore. Earlier there was a requirement that we had to acquire land for forest clearance vis-à-vis PGCIL which did not need to do that,now that has also been leveled.So we are seeing a lot of policy level changes, which makes the sector attractive and it is actually a level playing field with PGCIL.

Abhishek Puri: So you mentioned two things; one is you donot have to acquire land for forest clearances or afforestation you do have to acquire land?

Dr. Anand Agarwal: We need to pay up for afforestation, and second is that every project needed to go to Delhi to the environment ministry, now that is not a requirement any more.

Abhishek Puri: So state pollution control board can still give a clearance?

Dr. Anand Agarwal: It goes up to a regional forest committee; for every, out of 26 states, you have about 6 regional committees, it goes to a regional level, no longer need to go to Delhi.

Abhishek Puri: In terms of your Transmission projects, what is the kind of interest level from the banks — are you getting funding at some preferential rates for this project, since it does not have much of credit risk, or it is the same as you know 13% odd percent where the average interest cost is for most of the projects in the country?

Anupam Jindal: Abhishek, right from the beginning we have said during the construction phase also, have been attracting the best of the interest rate for the infrastructure space, so we never had to pay 13% kind of rate, yes, these are about 12%, and as the rates scenario is improving, we expect that to come down further during the construction period also. For the assets which have already become operational like the ENICLwhich has become fully functional now, we are seeing a very good set of interest coming in from the banks**.** So from the lending side, definitely, it is quite attractive during construction as well as post-construction.

Abhishek Puri: Regarding your Power Products business, I would have assumed that Power Grid has accelerated its commissioning activity, so your Conductor business and Products business should have shown better margins I think going forward? Would that be a correct assessment?

Dr. Anand Agarwal: Abhishek what has happened is, they have started utilizing the capital work-in progress which they had, that accumulated a lot of capital work-in progress, so with accelerated capitalization that is going down, which is leading to a normalized ordering activity.

Abhishek Puri: But when I look at their balance sheet they donot have significant inventory as such apart from the HVDC project?

Dr. Anand Agarwal: The CWIP number if you look at would be significant.

Abhishek Puri: No, the construction work at site is more important from an inventory point of view.

Anand Agarwal Again, we look at a number which is capital work-in progress which used to be Rs. 7,000 crores which have come down to Rs. 3,000 crores for Conductors and that sort of indicate something.

Abhishek Puri: Would you expect the ordering to pick up in the coming quarters?

Anand Agarwal Absolutely.

Moderator The next question is from the line of Kamna Motwani of Crisil. Please go ahead.

Kamna Motwani Just some few book-keeping questions. Firstly, I just wanted to understand the tax rate has been quite fluctuating;So, this quarter also I think we have paid some 11% odd on PBT, so just wanted to understand what are we expecting from here on in terms of tax rate?

Anupam Jindal So, Kamna, the tax rate last quarter it was something different like we had certain credits, old litigations which went in our favor. This quarter, we have about Rs.1, Rs.1.5 crores of such kind of credits coming further. Some of the matter has got decided at tribunal level in our favor. Impact of that has come. In addition to that if you aware the government in the last budget of FY'13 had an announcement on "Investment Allowance" under which the entities can claim benefit of investment in the form of CAPEX done in the business. So, with the threshold of Rs.100 crores we have achieved in the current year including for the last year and current year,from that we have taken a credit of about Rs.5 crores in the current quarter.

Kamna Motwani Assuming that gets renewed, you would continue to get the benefit which you already have Rs.150 odd crores in the pipeline?

Anupam Jindal Yeah 150 crores will start from now,so, it will essentially go to the next year and all. So, the point is having cross this Rs.100 crores, whatever we incur in the current year that will further give some benefit, and assuming the scheme is continuing in the next year as well. So, next year also you may also have some benefit depending on how much CAPEX we incur.

Kamna Motwani So, what is the CAPEX already done in the 9 months?

Anupam Jindal I guess it is about Rs.50, to 60 crores.

Kamna Motwani Full year we are expecting how much?

Anupam Jindal It will be roughly about Rs.90 crores.

Kamna Motwani FY'16 and '17, roughly Rs.100 odd crores each year?

Anupam Jindal So, this time since we have just announced this expansion of Fiber Cable capacity and bulk of it may happen in the next year,so, it may be higher than Rs.100 crores in the next year.

Kamna Motwani Sir, if you could just give your comments on how the working capital cycle moved in the particular quarter?

Anupam Jindal So, working capital cycle was pretty much in line with average number of days which we used to have. So, if you look at, our revenue has gone up, so in line with that, our working capital also moves slightly. At the same time, our borrowing had come down marginally from Rs. 1490 to Rs. 1430 crores. So, we could have squeezed in some sort of working capital along with cash generated from profits.

Kamna Motwani Any updates on the NOFN project offtake,because there also we have won a couple of orders, so have we seen some offtake which has started?

Anupam Jindal It is a slow offtake,it is not moving in the desired direction,but as you see that without that also we have done about 2.2 million of dispatches on the current quarter. So, we are really not bothered about that particular order because we are seeing good demand coming in from exports as well as domestic market other than that. So, that remains in the order book nevertheless and we keep delivering as they require the material.

Moderator Thank you. The next question is from the line of Sagar Parekh from Deep Finance. Please go ahead.

Sagar Parekh So, you mentioned that is Rs.150 crores CAPEX; so, if I just calculate on an incremental 7 million circuit kilometers of capacity, and if I take $4 of margins, then I am coming to roughly about Rs.170 crores of EBITDA for the incremental CAPEX that you will be doing in your Cables, right?

Anupam Jindal This $4 is not the right number, roughly about $2. So, then it comes to about $2x7 about $80-85.

Sagar Parekh So, still it is about 50% ROC on the incremental CAPEX; am I right or I should add…?

Management Yeah, broadly you are right. Definitely, it will take sometime to achieve this kind of volumes. While we try to have mechanical capacity by the end of next year or may be early Q1 of '17, but you will appreciate that even for us to reach in terms of volume '15.

Sagar Parekh But on a whole capacity basis, you do Rs.85 crores of….

Anupam Jindal Fully utilized; it will have that kind of ROC.

Sagar Parekh But sir, why only $2 because currently, if I just take your blended Optical Fiber EBITDA, it is about Rs.155,so, that is about $2.5.

Anupam Jindal So, Fiber in the base form we are anyway selling. So, we cannot really factor that margin into this CAPEX calculation. So, I am calculating the incremental margin which I will be making in the form of Cable because if I were not making this cable, I would have sold their fiber and made my $2 there.

Sagar Parekh What would be the working capital that would be required for this? So, I am just trying to calculate the total capital employed for this incremental capacity, so that I can come at an ROC figure. So, this 50%...?

Anupam Jindal Yeah, you are right. Generally, we have about 75 to 90 days kind of net working capital for Optical Fiber Cable business. Realization is about Rs.1000/Km.

Sagar Parekh On your interest cost, you have mentioned that the debt has come down Q-o-Q, but your interest has gone up. So, what is the reason for that interest cost going up and debt coming down?

Anupam Jindal It was basically capital;we had the investment in the Grid business in the form of debt which end of July we had done that conversion into equity. So, the recovery of interest from the Grid business had happened for one month in last quarter whereas it did not happen in the Q3. So, that is why that remaining same or a bit lower, interest came higher because effectively for one month, we did not have a recovery of interest.

Sagar Parekh Going forward then this should be the normalized run rate if debt remains at this level?

Anupam Jindal Yeah.

Moderator Thank you. Next question is from the line of Pooja Swami from Span Capital. Please go ahead.

Sudhakar This is Sudhakar here.Just a follow-up on this debt thing. What is your consolidated debt as of now?

Anupam Jindal Consolidated debt is about Rs.4,400 crores.

Sudhakar What could be your interest cost for both your standalone and consolidated entity?

Anupam Jindal Standalone, we are in the range of just about 10% p.a., for the consolidated, since most of the debt has been taken for the projects under construction, the rate is about 12% or sub-12%.

Sudhakar Anupam, the reason I am asking you is your quarterly standalone interest cost is around Rs.50 crores. So, that comes to more than 10%.

Anupam Jindal So, we have certain line charges and other things also coming in this. So, the overall cost is more than 10%.

Sudhakar Secondly, next year what kind of cash flow do you see from your Transmission business?

Anupam Jindal Next year, as Anand mentioned, we will have first three projects fully operational by end of Q1 and that should give us a revenue in excess of about Rs.500 crores and 97% of that category comes to us as EBITDA and depending on the interest cost we will have the balance coming as cash flow.

Sudhakar Would you like to give any outlook for next year FY'16 in terms of volume guidance for your Optical business?

Dr. Anand Agarwal Optical business, currently, this year as we had guided in the beginning of the year, we should be doing 17, 18 million, we should be there and cables we should be close to 8 million, next year we should be closer to 22 million of Fiber and maybe about 10 to 11 million of Cables.

Moderator Thank you. Next question is from the line of Rajesh Agarwal from Money Ore. Please go ahead.

Rajesh Agarwal You have provided for Rs. 6.8 crores in the other expenditure this quarter?

Anupam Jindal That Rs.6.8 crores is basically income on sale of subsidiary in the last quarter.

Moderator Thank you. The next question is from the line of Alok Ramachandran form SBICAP. Please go ahead.

Alok Ramachandran I guess there is a reversal of about Rs.6.8 crores.Has this been booked in this quarter or previous quarter?

Anupam Jindal It was in the last quarter and since this note had come in the last quarter, we have continued this.

Alok Ramachandran So there is nothing happened this quarter?

Anupam Jindal Yeah.

Alok Ramachandran And, also regarding the Power Products business, is there a classification in sense of what is the tonnage that you might end up in this fiscal, is the amount can we have a color on that, will that be a similar run rate of this quarter?

Anand Agarwal For the current Q4, the run rate should be this quarter or better.

Alok Ramachandran And also the realization should be in the same range?

Anand Agarwal The margins should be marginally better as we increase capacity utilization.

Moderator Thank you. The next question is from the line of Charanjit Singh from Axis Capital. Please go ahead.

Charanjit Singh Sir, in the beginning of the call, you gave a commentary on how the Optical Fiber market is shaping up.So we would like to understand whether this demand which you are seeing in the Optical Fiber industry is a sustainable demand? How the volumes in the Indian market we are looking at in terms of ramping up and what could be these drivers for the sustainable demand?

Anand Agarwal Charanjit, the numbers that we initially gave out for the global volumes, globally the volumes have been increasing Y-o-Y;what we said to be in '13 and '14 the global market has increased by 12%, 13%. The India base is very-very low;the India base as I said was about 7, 8 million Kms 2 years ago went up to 14, 15 million Kms last year. We clearly believe that India is grossly under-fiberised and India needs to deeply at least 100 million Kms of Fiber over the next 3 to 4 years. So, Indian market should see a good level of growth which will come from the government initiative, the RJio initiative, all the 4G deployment, the 3G fiberisation. So, we have stacked all that up and we feel very comfortable that the Indian market is poised for a good growth for the next 3 years.

Charanjit Singh In terms of the market share, what gives us confidence in terms of that we can grow the market share in the growing market as well as how the competitive scenario is panning out with the other Cabling guys coming into the market,how is the positioning what Sterlite Technologies is bringing into the market?

Anand Agarwal We are the only company in the country which is making Glass. We are the only company globally to be fully integrated from Silicon all the way to Cables. So, we are very-very strong in terms of our internal capabilities as a product. We are equally strong in terms of our customer engagement and relationships. So, we are not counting a whole lot and improving market share,our clear focus in India is increasing the market size, and as the market size increases, we have a good market share. So, without disturbing the competitive positioning, we should get a good benefit out of it.

Moderator Thank you sir. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

Anand Agarwal Thanks. I would again like to thank everyone for attending this call and I hope that we were able to address and clarify all your comments and queries. For any further clarifications and discussions, you can feel free to contact our Investor Relations team including myself and Anupam and we will be very happy to interact with you and share our plans and insights for the business and the industry, and we hope to continue our association and dialogue in the future. Good Evening.

Moderator Thank you very much, members of the management. Ladies and Gentlemen, on behalf of Sterlite Technologies, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.