"Sterlite Technologies Limited Q3 FY17 Earnings Conference Call"

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MODERATOR: **MR. ALOK DEORA – IIFL WEALTH & ASSET MANAGEMENT LIMITED**

Moderator: Ladies and gentlemen, Good day and welcome to the Sterlite Technologies' Q3 FY17 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case 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 Q3 FY17 results. Investors can also download a copy of these slides from the website. Post management discussion we will take Q&A session and the management will answer questions received from the audio calls. In case participants have any additional questions, they can reach out to the Investor Relations team post the conference. I now hand the conference over to Mr. Alok Deora from IIFL. Thank you and over to you, Mr. Alok.

Alok Deora: Thank you. Good evening, ladies and gentlemen. Welcome to the Sterlite Technologies' third quarter FY17 earnings conference call. We would like to thank the management for giving us the opportunity to host the call. From the company, we have with us Dr. Anand Agarwal – the CEO and Mr Anupam Jindal – the CFO of the company.

Sterlite Technologies is a focused pure play telecom company which designs, builds, manages data networks for its clients. Sterlite Technologies offerings include high quality optical communication products, system integration and software services.

Sterlite Tech is among the leaders in the all office business areas and has operations on a global scale with a presence in India and International markets.

The earnings call is also available over the webcast. You may please click the link mentioned on the Sterlite's website to access the webcast. You have the option to listen to the earnings call over the Internet as well as over the voice bridge.

I would now like to handover the conference over to Dr. Anand Agarwal. Thank you and over to you, sir.

Dr. Anand Agarwal: Thanks, Alok. Good evening everyone. I welcome you to the Sterlite Tech Earnings call for the third quarter of fiscal 2017. We declared our Q3 results earlier today and I trust that all of you have had an opportunity to go through them. I am pleased to share that we had a good last quarter in line with our expectations and continue to see business picking up momentum as we advance into the next quarter. Before we delve deeper into the quarter performance, I would like to share my thoughts on the overall business environment and the strategic path that we have defined for ourselves to play a much bigger role that is in India's leading digital network provider.

Slide 5:

As a quick recap and for the benefit of newer audience, our company's business model is centered on the burgeoning data connectivity opportunity. Over the last few years, we have evolved from a product focused optical fiber and cable company to an end-to-end integrated solutions provider addressing the diverse opportunities created through the need for connectivity. With manufacturing operations in three countries, two software development centers and sales presence across six continents we have today emerged as a leading global provider that specializes in serving the needs of any new broadband network creation.

Through our integrated solutions spanning across the three business verticals, product, services and software, we strive to bring the best-in-class network design capabilities. While demand continues to grow on the back of widening data requirements from International and domestic Telco's, there are multiple initiatives under way by the Government in areas such as defense, rural connectivity and Smart Cities aimed at enhancing and elevating connectivity across the country that have opened up new avenues of growth for us.

Slide 6:

This slide in the sense captures the unique position we have built for ourselves as we get ready to embark on the growth journey. First and foremost, as a market leader in fiber manufacturing in India and one among the handful of global players with integrated manufacturing capabilities, we are top of mind for our customers across the spectrum.

This position has been built upon advanced capabilities and technological expertise developed over the years that continues to differentiate us from other players.

Another key player behind our strong market position is our emphasis on differentiating ourselves through R&D led innovation. With more than 130 patents granted across US, China, EU and India and an equally strong patent road map we continue to leverage our R&D focus on new product development and network designing skills as a key differentiator in our offerings to our customers. Those of you who have followed us over the years will also recognize evolution journey that we have been on in the last few years. With a growing data opportunity and new customer requirements, we have responded by scaling up our core offerings and supporting our revolution by adding system integration and software services to our offerings.

The company has moved up the telecom value chain to become an end-to-end integrated telecom player with a rapidly increasing International presence which has opened new opportunities for growth. I am confident in saying that today Sterlite Tech is extremely well positioned to address the needs of digital infrastructure creation globally and in India. Globally we are witnessing the massive shift to upgrade connectivity infrastructure and response to growing customer data needs fiber to its roll out and overall upgrading of data networks. We strongly believe we are today only on the cusp and the opportunities ahead are much larger and wider than one can envisage today.

With a humble beginning two decades ago, it is a drive for growth and performance that has propelled Sterlite Tech to become the market leaders as it is today. We have delivered a five year CAGR of 28% in revenues, while delivering an even stronger growth of 36% in EBITDA.

Our margins have consistently grown in the last few years and our ROCE has expanded in conjunction with improved margin profile for the business. As we progress on all of these objectives we recognize that creating value for our shareholders is paramount. Towards this end we have declared an interim dividend of 25% for the year 2016-2017 following our earlier decision to maintain a dividend payout of around 30% of profit after tax on consolidated financial basis. We truly believe that the combination of all the factors driving our growth will enable us to create deep value for all of our shareholders.

Slide 8:

I will now run you through some of the industry dynamics driving our business. The evolution of the usage of the internet has set up stage for significant deployment in broadband infrastructure. What started with the 2G network generation to primarily cater to the wide voice requirement of the customers has now evolved to 3G and now 4G in order to serve the high-speed data requirements of the customers along with voice. This transformation in network generation technologies is driven by the growing needs of a better customer experience for the end users who increasingly indulge in high bandwidth usage applications. Every few years there is a quantum leap in technology and the per capita data consumption is only increasing as the better connectivity penetrates wider and deeper into our daily lives.

This acceleration of connectivity requirements is raising the quantum of fiber deployment on a year-on-year basis. The roll out of 4G networks and fiber to the ex-roll outs in the last six years has resulted almost in a tripling of fiber deployment compared with a fiber volume deployed in the preceding six years in the 3G rollout. As we roll over to the next generation 5G networks we expect an even sharper increase in customer data requirements which in turn should ideally lead to a further increase in fiber deployment. This trend that we observed over the last few years gives us additional comfort on the sustainability of global fiber demand in the years to come.

Slide 9:

Moving on to Slide 9, we have seen a consistent growth in the world fiber cable demand growing at CAGR of about 14% since 2009 according to CRU data. Even as we progress further with our own plans of capacity expansion to 30 million kilometers, the current pace of growth in fiber demand that we have seen has been faster than ever. In fact at current levels fiber production is using up most of the glass capacity globally. So we are faced with a highly favorable environment for fiber which is expected to continue into the foreseeable future. Based on the historical trends and the ongoing technological advancement in market dynamics, our base case estimate for fiber demand level for the year 2020 would be north of 500 million fiber kilometers.

Slide 10:

This slide captures some of the trends prevalent today in the key fiber market. China continues to lead the way with fiber demand emanating from upgrading of 4G network and initiatives to create ultra-high internet speeds in metro areas and improving pan China connectivity. Key markets in Europe such as France and Spain have driven the increase in demand for fiber due to an increase in FTTX installations. The North American market has also been witnessing continued growth in fiber deployment on the back of recent trends in consumer consumption driving the appetite for higher bandwidth as well as deployment in densification of networks for 4G as well as 5G trials. There is also consolidation in the telecom and broadcast space and heightened competitiveness is leading to an aggressive role out of new networks and next generation FTTX deployment.

In addition to the positive development in the three key regions, there are several pockets of opportunities across South East Asia, the Middle East, Africa and Latin America which augurs well for the overall fiber industry.

Slide 12:

I will now cover the business updates of the quarter. With our China venture fully functional our optical fiber capacity is now running at an annualized run rate of nearly 27 million fiber kilometers. We remain committed and confident to reach our fiber manufacturing capacity expansion targets of 30 million kilometers by the middle of this fiscal. Cable volumes have bounced back in the present quarter as anticipated, delivering a decent uptake in run rate. In addition to this, the service business has also rebounded this quarter with the NSS project back on track, following some challenges in execution in Q2, on account of forged measure factors.

I am also very delighted to share that Sterlite Tech which has been striving to increase its international presence over the years, crossed phase through 100 countries for optical fiber and cable during the previous quarter. This propels the company into a very niche club of Indian technology manufacturers that have supplied to 100 countries, placing us in an enviable position of having our fiber serving almost 90% of the population across the globe.

As you all know the acquisition of Elitecore has gone a long way in helping us in strengthening our presence across the value chain. We are pleased to share that during the Q3 of the current quarter, our software vertical improved its position from niche to visionary in Gartner's Magic Quadrant for integrated revenue and customer management.

This clearly indicates the progress that we are making and increasing our relevance to the customers in the marketplace.

Other than this, the Gandhi Nagar Municipal Corporation announced the launch of its new citizens centric Smart City at the foundation launch of the Gandhi Nagar Smart City project.

We completed the end-to-end designing and building and will now manage the Smart City infrastructure for this project city.

Lastly in November 2016, we also received CRISIL's long term rating upgrade to A minus stable and a short-term credit upgrade to CRISIL A1 plus from CRISIL A1. This upgrade is based on our sustained improvement in financial risk profile over the medium term and is backed by a healthy and steady net cash accruals.

Slide 13:

During the quarter, we were also bestowed with a number of prestigious awards. These recognitions/awards acknowledge the contribution we have made and motivate us further to put additional efforts to innovate, evolve and grow. At the recent Telecom Leadership Forum, which was a prestigious Annual Meet conducted in presence of Indian telecom leaders and key stakeholders, Sterlite Tech was awarded the broadband infrastructure leader award for transforming India's broadband infrastructure space. We were also featured amongst 100 best companies to work for women in India. We are also pleased to share that recently we have bagged two Frost and Sullivan Manufacturing Excellence Award for our integrated optical fiber manufacturing units at Waluj and Shendra.

Some of the other recognitions that we were awarded with are mentioned briefly on this slide. These are awards a testimony to our strong position on various aspects of the business. And we strongly believe that the company is on the right path to achieve its stated objective.

Before I hand over to Anupam, I would like to state that we are very confident about our growth prospects as we lead the way in developing broadband solutions for next generation network with our comprehensive and focused offerings. We are also excited about the unprecedented opportunity ahead of us to partner in the digital infrastructure creation in the country and are fully geared up to capitalize on its benefit for our shareholders.

Anupam Jindal: Thank you, Anand. I will now recap the financial highlights from the quarter gone by and focus on providing you some context on the numbers and our journey forward.

Slide 15:

Slide 15 covers the quarterly financial performance for the telecom business on a consolidated basis. Revenue for the quarter stands at Rs. 732 crore registering a 23% year-on-year growth. We are pleased to report our best ever quarterly EBITDA from the consolidated telecom business this quarter. EBITDA as you can see grew 26% on YoY basis driven by a growth in the products business and supported by the project execution, progressing firmly on a quarter-on-quarter basis.

The improvements at the operating profit level delivered with a stable and capital structure has filtered down to PAT helping it register a significant 63% growth on YoY basis.

Slide 16:

The fiber volume which had surpassed the 6 million Fiber kilometer mark (FKM) in the previous quarter continues to sustain its growth by organically growing to 6.8 million in Q3. This growth was made possible by strong global demand and our continued investment in increasing fiber capacities. The optical fiber capacity now stands at 27 million FKM and we are well on track to take into 30 million by middle of next year.

Optical fiber cable volume also picked up and has stood at 1.6 million for the quarter.

The increase was driven by our long-term contract execution with the key accounts in India and globally, registering 17% growth on YoY basis. We continue to see strong momentum in optical fiber and cable volume pickups, while commanding a strong margin profile growth for both the businesses. The ROCs for the quarter stood at 22% on annualized basis and the net debt level stands at Rs. 1,030 crore.

Slide 17:

Our revenue from International markets continues to increase reaching Rs. 285 crore this quarter. This is a significant jump from the previous quarter and account for 39% of the total revenue in Q3. Within the total International market revenue price, China and Europe continued to lead the way with a share of 53% and 28% respectively.

We remain confident of this strong growth that we have witnessed in the global market as we continue to invest in fiber deployment to support their broad band infrastructure needs. Also as we gain strategic entry into newer markets, we expect to continue the strong momentum in our export revenue going forward.

Slide 18:

The strong traction in the global markets and improved domestic profits are reflected in the order book which continues to grow. There is a second consecutive quarter of normal digit growth in the order book. And we believe it is an indicator of good things to come given the favorable dynamics in the global fiber market. We are also making a strategic entry into new markets and reasons to enhance and elevate our presence and build customer relationships for the future.

The improved visibility is clearly indicating robust prospects and sustainable growth.

Slide 20:

Our strategic direction for the business continues to be centered across five principles which we will follow prudently in our business practices. Our focus continues to remain in driving absolute profitability while maintaining a healthy ROCE for the business. We are committed to keep the balance sheet strong and any investment or acceleration that we make in future would be from that strategic point of view.

Lastly, we remain committed to reward our shareholders and in this regard we continue to distribute approximately 30% of net profits as dividend to our shareholders and we had also approved an interim dividend of 25% for the year 2016-2017 in the last quarter. That is for Q2. With this, I conclude my opening remarks and welcome specific questions you have and we would be happy to give you our perspective.

I would request the operator on this call to open question-and-answer session. Thanks.

Moderator: Ladies and gentlemen, we will now begin with the question-and-answer session.

We have the first question from the line of Jigar Shah from Maybank Kim Eng. Please go ahead.

Jigar Shah: I have two, three questions. One is you have shown very strong growth in the exports. So I want to understand if possible if you can give the breakup of the Rs. 6.8 million in terms of domestic and exports. And I want to particularly understand how the domestic volume is doing and how our domestic market share is doing?

Dr. Anand Agarwal: So Jigar, out of 6.8 I mean I will not have exact break up but it would be about 60:40.

Anupam Jindal: 64% roughly Jigar is to export market and about 36% is roughly to domestic India.

Dr. Anand Agarwal: So we are seeing a very strong momentum up on especially the bear fiber at a global level. And you have asked about the domestic market, the domestic market also we are now seeing good signs of the market shaping up with all the incumbent telcos as well as other parts of the business whether it is cities and rural also taking off.

Jigar Shah: And can you provide any granularity in revenue of the Rs. 732 crore like how much is products and how much is solutions?

Dr. Anand Agarwal: It is about, I believe about 76%, 77% is products and about 22% is services and software.

Jigar Shah: Okay. On your capacities as you mentioned, 30 million by middle of this year, I mean I am wondering actually that with the kind of pace you are having right now, you will exhaust that in one more financial year. So what after that I am tempted to ask that question?

Dr. Anand Agarwal: The chart that we showed we are reviewing that part as to where do we see the global volumes growing and what sort of role we intent have for us. So we are in between that exercise of seeing that beyond 30 million what to be the position and role it will have for us. And before we join for the next quarter's call we would have decided what our position needs to be.

Jigar Shah: Okay. And when do you think the non-fiber business will scale up? Partly, I want to understand you know if you have more idea now about Elitecore's strategy for the long term and also for the system integration business which is medium to long term you know big scalability potential for the company with now this Gandhi Nagar kind of showcase for you and other opportunities. If you can give some idea of the size of opportunity and from when you think this will start showing some sort of big tangible results?

Dr. Anand Agarwal: Yes, so we are clearly focused that we have been maintaining on getting the right kind of order for system integration piece especially. On the software bit we are seeing growth and the growth is on, at similar sort of rates at which we are seeing the growth for the products business and in terms of percentage it appears to be largely the same. So the product business has grown almost at same rates as what we have grown for the products business. For the system integration business, we continue to have this defense opportunity as well as these smart cities.

The pipeline continues to be strong but we are very, very disciplined and focused in terms of the opportunities which we take for this business clearly keeping in mind our profitability as well as our return on capital deployed targets. So we are not as we have maintained in previous discussions also neither are we chasing order book, nor are we chasing revenues for this business. We are clearly chasing sustained margins and are involving in projects only where we can focus on design build and managing the networks. And I can assure you and tell you that the role that we are playing is towards shaping those requirements and that is what the focus is. The growth is absolutely certain to happen but we are neither impatient nor are chasing numbers.

Moderator: Thank you. We have the next question from the line of Sandip Agarwal from Edelweiss Capital. Please go ahead.

Pranav Kshatriya: Hi, this is Pranav Kshatriya. Sir, I have a couple of questions. Firstly, your order book stands at Rs. 2,674 crore and in the last quarter it was Rs. 2,124 crore. So I just want to understand how much is the original order book execution happened during this quarter? So that is my first question.

Dr. Anand Agarwal: So what we have done is we have added Rs. 1,000 crore, we have sort of consumed Rs. 700 crore. Most of the Rs. 700 crore would have gone from the Rs. 2,300 crore and this Rs. 1,000 crore kind of gotten added. So for us, the most important is that all these orders that we are booking right now is towards strengthening our forward position. We are booking order for FY17 and FY18 and some for FY19 as well.

Pranav Kshatriya: Okay, so my second question is if I look at your International revenue profile, China constitute a very significant portion of the revenue and International revenue seemed to have grown quite fast. So how sustainable is the demand for China business and how do you see this going ahead? Any color on the competitive positioning and you know the market share there?

Dr. Anand Agarwal: See clearly we have seen over the last several years China continues to be a strong part of the market, China is almost half the fiber market and we have consciously kept our market share, we have not let ourselves get very swayed by the market there. So for us, International revenues have remained between 35% to 40% and China as a fraction of our overall revenue has always been between 16% to 17%. So at that sort of a number we are pretty comfortable with and we believe it is necessary to have that sort of China mix in our revenue profile, just by virtue of their scale and the growth that the country is seeing.

Pranav Kshatriya: So you expect the demand environment to be stable and I mean consistent with the past trend and the competitive intensity to remain where it is?

Dr. Anand Agarwal: We definitely believe so because China continues to have very strong investment plan at least till 2019, including fiber to the home roll outs as well as 5G roll outs and they have announced their CAPEX spend till that time. So, we are pretty bullish that China should at least maintain their current consumption if not go beyond it.

Pranav Kshatriya: Okay sir. My last question for now is on CAPEX. So you had alluded to around Rs. 2 billion Capex for FY17. How much of that is already done and is there any change in that guidance what you had given?

Anupam Jindal: So Pranav, we had talked about Rs. 220 odd crore kind of CAPEX number for the full year FY17 and we are on track. We have done approximately Rs. 160 odd crore up to now and other Rs. 50 crore to Rs. 60 crore may happen in Q4.

Moderator: Thank you. We have the next question from the line of Ashok Shah from ICICI Securities Limited. Please go ahead.

Ashok Shah: I had a couple of questions. Globally what are the prices of optic fibers as we see today vis-à-vis they were six months ago or maybe the last quarter?

Dr. Anand Agarwal: Ashok, typically we do as we have talked about in previous discussions also, we typically do more longer term engagements. So the prices have been in the range of $7 to $8. So say a year ago, it would be on the lower end of that band and closer to now it is slightly at the higher end of the band. We do not see any dramatic shift in the volumes and we typically do not play on the spot market either.

Ashok Shah: Okay, so the Indian prices of the optic fibers are also around the same thing?

Dr. Anand Agarwal: Yes, because in India it is all import parity pricing. Other than us, there is nobody else who makes glass in India.

Ashok Shah: Okay, so we are into glass preform manufacturing?

Dr. Anand Agarwal: Absolutely.

Ashok Shah: Okay and we are the only company in India which are manufacturing glass preform?

Dr. Anand Agarwal: That is right.

Ashok Shah: Okay. The other question sir, have you started getting orders from the Government on the NOFN and Bharat Net and the NFS from the last quarter?

Dr. Anand Agarwal: Ashok, for the first phase of NOFN which is 100,000 villages we have already supplied the products and it is finishing execution by March of this year. The next phase of the next 150,000 villages, the orders should start after that.

Ashok Shah: Okay sir, for the 100,000 villages in the first phase more or less all the products are from our side or what would be the contribution to the revenues from that?

Dr. Anand Agarwal: About one third of the products we had supplied and this was supplied in the previous fiscal year, so I will not have the exact numbers right now.

Ashok Shah: Okay fine. Also, out of the Rs. 1,000 crore orders that we have booked in last quarter how much were from the Government side?

Dr. Anand Agarwal: Not much. I would say less than Rs. 50 crore.

Ashok Shah: Okay, so going forward that composition would change to be towards the Government?

Dr. Anand Agarwal: No, it all depends on opportunities. So, we do not have any targets for Government or private or exports. We look at every opportunity on its own merit and take the call accordingly.

Ashok Shah: Okay, so Rs. 1,000 crore were majorly from the export side?

Dr. Anand Agarwal: It was a mix of both exports as well as India.

Ashok Shah: Okay so 60:40 the same as the contribution of revenues or how was it?

Anupam Jindal: So we are not giving breakup in terms of domestic versus export, Ashok. So overall, it came from product mostly and it is a little long term order booking we are doing right now.

Ashok Shah: Okay, so going forward we are looking at Government coming back with the orders?

Anupam Jindal: As Anand mentioned that for us everything is an arrangement and we are not differentiating or chasing any particular segment.

Ashok Shah: Okay and after the auction have Telcos started giving out orders for the upgradation?

Anupam Jindal: Yes, so it is a good mix of fiber and cable. We are getting good traction from cable business as well directly from Telco.

Moderator: Thank you. We have the next question from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.

Tejas Sheth: I just want to understand this export side of the business, I mean how is really the opportunity arised I mean for last two quarters and what has really changed on the global landscape?

Dr. Anand Agarwal: See Tejas, overall the macro opportunities that are coming from the same driver, it is the data which is driving. Increasingly what we are seeing is that globally what is happening is the new networks which is getting built up, say 3G to 4G which is happening, it is happening as a new network, it is not over the same fiber, but it is almost a network being built on top of another network. So what was 3G network now for 4G it requires a full next generation network built out. Additionally what we are seeing is a high amount of data centers being built up closer to the point of consumption.

So as more and more newer applications are coming in, the response time is becoming very, very important. And especially in markets like Europe and like US we are seeing a lot of new built roll out happening especially because of the data centers coming closer to the points of consumption. And we believe we are at the start of that cycle that will continue for some time.

Tejas Sheth: Okay. Are we cannibalizing the market share of the competition or it is overall market size which is really increasing and hence our market share remains kind of same?

Dr. Anand Agarwal: It is a combination of both. So while CAGR what we have shown at a global level is about 14%, our CAGR is much larger than that. So there is a market growth but we are growing much faster than the market.

Tejas Sheth: Okay so we were not able to really meet with that demand because of our supply side constraint?

Dr. Anand Agarwal: That is a temporary thing but clearly if we see over the last couple of years, our sales have doubled from approximately 8 million to 27 million and will be very shortly in the next couple of quarters should be touching 30 million or so.

Tejas Sheth: Okay so in a way this would be quite recurring right I mean it will not be like one off type utilization?

Dr. Anand Agarwal: No, for the last three to four quarters we have been running at full capacity utilization. So we have been prudent in terms of taking the right decisions at the right time and not sort of indulging one side or the other.

Moderator: Thank you. We have the next question from the line of Neerav Dalal from Maybank Kim Eng. Please go ahead.

Neerav Dalal: The first question is regarding interest cost. Though your net debt is flat QoQ, the interest cost has come down, so any outlook on that?

Anupam Jindal: Yes, so Neerav, I had explained last time also that our interest costs are typically in the range of about Rs. 30 crore - Rs. 31 crore for the given set of debt that we have. Last quarter, it was abnormally higher because of certain Ind-As adjustments. That is why I was explaining there are certain elements of foreign exchange curve which gets added or reduced from the interest cost based on the movement in that. But I think this is more consistent level of interest we have seen.

Neerav Dalal: Okay. The second question is regarding the domestic business. The domestic business got back to it is Rs. 440 crore number this quarter which was Rs. 310 or Rs. 320 crore in the last quarter. So was this driven by services coming back? Also, do you see this number sustained going ahead?

Anupam Jindal: So this was again a combination of all the factors which you mentioned, service business putting up Q2 we had a substantially lower number because of certain issues in NFS. We have picked up that momentum. We have also picked up domestic cable volumes so that is getting reflected in numbers. And overall domestic volume is picking up. So, I think it is a combination of multiple factors from across various businesses.

Neerav Dalal: So this number, the Rs. 430 crore - Rs. 440 crore should be sustained, going ahead?

Anupam Jindal: We are committed to deliver overall revenue growth within that whether it comes from export or domestic. See, we are not micro managing these things. We continue to look at opportunity on overall.

Neerav Dalal: Okay and so NFS would be back to the Rs. 120 crore number or would be lower than that?

Anupam Jindal: No, it is around that number.

Neerav Dalal: Around that number.

Anupam Jindal: And we will look at accelerating that number in next financial year.

Moderator: Thank you. We have the next question from the line of Vinod Malviya from Florintree Advisors Pvt. Ltd. Please go ahead.

Vinod Malviya: Just wanted to understand the pricing. So this quarter we have seen an improvement in your EBITDA margin excluding the other income both YoY as well as sequentially. Is it to do with some improvement in your pricing or it is more to do with your higher revenues coming from the cable business and the optic fiber business?

Dr. Anand Agarwal: Vinod, we have very high **(Inaudible 38.35)** powers we have discussed this at the operating leverage as the capacity utilization and the volumes increase especially on the fiber business. We see an uptick on the margins and that is what we are seeing.

Vinod Malviya: Okay, so in terms of realization there is not much improvement from sequentially?

Dr. Anand Agarwal: Realization it is most of our order books are long term, so what we are booking today we will be booking for a year forward.

Vinod Malviya: Okay and you all gave the order book breakup in terms of products, services and software, so current order book in terms of product is around Rs. 1,100 crore, considering the Rs. 1,100 crore of order book this 1.6 million optic fiber cables what you all have clocked in this quarter. Will this run rate be sustainable or it will come down again? I mean, how do you see the optic fiber cable business going forward, considering the current order books?

Dr. Anand Agarwal: Yes, so Rs. 1,100 crore is an all-time high order book for the products business. That is the first part and 1.6 million what we have done we definitely we have been talking about in the previous two quarters that H2 would be better for cables business than H1 was, and we are pretty confident that similar rates or better relation we will be able to maintain.

Vinod Malviya: And just last on the software part, what would be the EBITDA from the software for this quarter?

Dr. Anand Agarwal: Quarterly EBITDAs for the businesses we do not provide. It is essentially in the range of about 10% to 12% and that is what the businesses are maintained.

Vinod Malviya: Okay it is not dragging down, it is not negative, right?

Dr. Anand Agarwal: Absolutely not.

Vinod Malviya: And what is the net debt level for the quarter?

Anupam Jindal: Rs. 1,030 crore, Vinod.

Moderator: Thank you. We have the next question from the line of Kalpesh Gothi from Veda Investments Managers Pvt. Ltd. Please go ahead.

Kalpesh Gothi: Sir, can you give me some more light on the opportunity in this Smart Cities in terms of volume and in terms of absolute amount over the next two to three years?

Dr. Anand Agarwal: Kalpesh, I wish I could give you that. I do not think most of the cities themselves know that. It is a very evolving and emerging area where the word smart is getting evolved, the rate of funding between tender and cities is getting evolved and then the spending whether it will happen on base infrastructure or fiber or whether it will happen through of applications. But the good part is like we have done two cities, we are doing a third one, we are actively engaged with at least nine to ten cities right now and there are almost thirty cities in which some level of activity is happening.

So it is very difficult for us to actually and we would exactly the same question you have asked we have tried to get but it has evolved and emerging so far. So it is very difficult for us to give. In terms of fiber demand and the total overall development, we believe this is a longish term program. City-by-city it will keep evolving and emerging and it will keep deepening in different phases. For instance to give you an example of Jaipur, Jaipur started about nine, ten months and it is already in Phase 3 and they are talking about Phase 4 also.

Kalpesh Gothi: Okay. Do we see any CAPEX coming up in future?

Dr. Anand Agarwal: CAPEX for whom? The city or assets?

Kalpesh Gothi: Yes, Smart City orders?

Dr. Anand Agarwal: So CAPEX whose CAPEX are you talking about?

Kalpesh Gothi: For us.

Dr. Anand Agarwal: For us, the CAPEX would be only if we decide to increase capacities. So there is currently no such decision and if we take a decision we will inform you about that.

Kalpesh Gothi: Okay. So what is the full year CAPEX for FY17 and FY18?

Anupam Jindal: We have said Rs. 220 crore for current financial year up to FY17 and next year I think it will be in that range of about Rs. 200 crore.

Moderator: Thank you. We have the next question from the line of Sneha Agarwal from ICICI Securities Limited. Please go ahead.

Sneha Agarwal: Sir, basically I wanted to understand like once the Smart City execution and NFS execution happens, so after that like what would drive my order book basically as in I wanted to understand the sustainability of my services order book?

Dr. Anand Agarwal: Sneha, we have a very healthy pipeline where we have already bided for several opportunities. So we are very confident that post NFS as well as Smart Cities we will have enough services business to do and as I said earlier we are very-very disciplined about which opportunities to get involved in, in terms of the RFQ stage which opportunities to bid for and which ones to win. So we can assure you clearly that the business is going to grow rapidly but at the same time with a very-very high amount of fiscal discipline and responsibility.

Sneha Agarwal: Sir, can you cite an example as to I mean I do not want the details, but I just want for an understanding purpose if you could cite an example as to what other kind of service projects would we be involved?

Dr. Anand Agarwal: There are four different kind of projects which are evolving. One is the Telcos themselves building out the 4G networks. It is 4G base and there we are getting involved and creating a new kind of digital smart network where we are engaged with all of them. The second opportunity is the defense network which has got and created, there are multiple layers for this network to be built out, we are involved in that opportunity. The third opportunity that we are building for is the Smart City, which I spoke earlier. And the fourth opportunity is the rural broadband roll out beyond the 100,000 villages. And all these are multi Rs. 100 crore opportunities and we are as I said actively engaged in each of them. Some of them we are bided for also. So we are absolutely confident of the growth.

Anupam Jindal: These are also multiyear opportunities. These are not one time opportunities which will come and go. We have Smart Cities which will happen over next four to five years or maybe beyond that. The rural broadband again three to four year, five-year kind of opportunity and then private telecom operators building up. So these three opportunities are clearly long term and sustainable opportunities.

Sneha Agarwal: Okay fair enough. And sir one question was on the book keeping side like I just wanted to understand the proportion between services and software to gauge the performance of Elitecore? Like I understand you have given the 22% number, but just wanted to understand how is Elitecore performing so that is there. So if you could just give some light out there?

Anupam Jindal: We do not give the specific break up of individual businesses. But just to give you some more understanding, the software business is running at more than Rs. 200 crore of annual run rate and this quarter is also in line with that and we see a huge traction coming in. When we acquire this business, in that year it was doing about Rs. 150 crore, today we are already running at above Rs. 200 crore run rate on per annum basis. So if you look at from an overall revenue perspective of the company this is below 10% but it is going. And as Anand mentioned a couple of minutes back the margins at current level are about 10% to 12%. With our NIM and the balance sheet coming in we are looking at expanding that profitability over next two years.

Moderator: Thank you. We have the next question from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Sir, my first question is with reference to the exports. You mentioned that China is as a percentage of your total revenue is kind of a very steady. So just trying to understand if China is steady then which are the regions which are growing faster than the Chinese market?

Dr. Anand Agarwal: Steady Rajesh, is on the growing revenue base. So we have consciously kept our revenue breakup at China to a certain level. We have about 6%, 7% market share in China which has been growing rapidly. Our revenue has been growing rapidly and our revenue share our China share of our revenue is between 16% to 20%. So China has been growing our revenue has been growing and hence the China share of our revenue has been in that range or so. And all the other markets that I spoke about Europe, Middle East and India has also been growing. So overall what we have seen is a 21%, 22% revenue growth year-on-year.

Rajesh Kothari: But if I am not wrong the International revenue as per your slide is 74% growth, am I right?

Dr. Anand Agarwal: Yes. So in that the growth in China has also so in the last year International revenue was about 33% of our revenue in Q3 now it has become about 39% on a higher revenue base.

Rajesh Kothari: Understood. Sir, we just trying to understand on YoY basis when International revenue is 74% growth, which regions are growing faster compared to other regions, just trying to understand the components?

Dr. Anand Agarwal: Yes, so China is growing fast for us, Europe is growing fast for us. China and Europe make up almost 80% of our exports. So, both of these regions are regions which are showing a great level of growth. I do not have a number what of our revenues what China was in Q3 of last year. But the Chinese proportion has been growing as well as the European portion and from an overall perspective we continue to focus on these areas and there is a relatively lower percentage of Middle East and Southeast Asia but it is almost like a 80:20 sort of a breakup.

Rajesh Kothari: And between exports and domestic margins are the same or margins are higher in exports?

Dr. Anand Agarwal: No, it is pretty similar, it is a global product.

Moderator: Thank you. The next question is from the line of Mayank Babla from K.R. Choksey. Please go ahead.

Mayank Babla: I just want an update as to post the launch of the Gandhinagar Smart City project what kind of revenue flows would you be looking at from the managing perspective, post the launch?

Dr. Anand Agarwal: Mayank for this phase of the launch it would not be too much. It might be of Rs. 2 crore to Rs. 3 crore annually. But with every phase the same kind of a thing builds up. Currently the project which we are doing, each of them has a management phase and as we start doing it the management part becomes about 7% to 8% of the annualized O&M revenue moving forward.

Mayank Babla: Okay so any number you could throw may be one or two years down the line just from this managing point of view as maintenance?

Dr. Anand Agarwal: It could be of the order between if we see the projects in our hand today it would be of the order of say Rs. 80 crore to Rs. 85 crore annually.

Anupam Jindal: Including NFS.

Moderator: Thank you. We have the next question from the line of Amish Kanani from JM Finanical Services. Please go ahead.

Amish Kanani: Sir, you alluded to the demand from the four legs that you see as a multi-layer opportunity. What I wanted to ask is, in this quarter we saw the demonetization leading to higher digital focus from the Government and also Reliance extending its 4G free offerings which has seen a decent offtake. The point I was asking is do you see sir, with these two events are you seeing increased traction in your order book and/or enquiry levels which is relatively at a different level than say it was a quarter back and both these events if you can just tell us whether it means great higher demand of our products in a short to medium term?

Dr. Anand Agarwal: Medium term what you are saying Amish is all right. So Reliance launch has clearly created a sort of a disruption and there is a sense of urgency amongst all the incumbents in terms of strengthening and building new networks which is where lot of 4G rollout and a lot of activity towards building the next generation network is towards. The demonetization perspective and the shift towards the digital payments and mobile payments we believe will create the right impetus for the rural rollout where lot of the focus is also going. So directionally we believe all of this is positive for us. And clearly it will create the right kind of demand as we move forward towards the medium term.

Amish Kanani: And is there any change in the enquiry levels during the quarter, sir the order book is what I was shared but is there a pipeline or enquiry which is much higher or something like that?

Dr. Anand Agarwal: See the order book is a reflection of the enquiry itself and as we sort of discuss quarter-on-quarter it will. But I can tell you clearly the degree of urgency especially from the Reliance launch is pretty high.

Moderator: Thank you. We have the next question from the line of Abhinav Ganeshan from Canara Bank Securities Limited. Please go ahead.

Abhinav Ganeshan: I have only one major question is that sir, you have alluded in your opening remarks saying that you are moving from a product company to an integrated player but what I am seeing is that the product revenue still contributes around 75% to 76%. So when would we see that the software and services move up beyond the 30% marks?

Dr. Anand Agarwal: Abhinav, we have been maintaining throughout the discussion. Our order book is at approximately 60% services and 40% products. Our revenue is about 77% products and 23% revenue. Just by virtue of that order book shift and moving forward we will see that happening. But as we have said as we have maintained we are not chasing a mix, we are not chasing a mix of products versus services, we are not chasing a mix of exports versus domestic. We look at every single opportunity from a perspective of how we are different and how we will create value. So unfortunately I cannot answer that question exactly. But clearly the shift for us is happening and we are very comfortable and happy with the shift that we are seeing.

Abhinav Ganeshan: Yes, sir one more question if you could throw some light in your presentation you have mentioned about 5G. So when do you see the world transitioning into 5G?

Dr. Anand Agarwal: It will be happening beyond 2019.

Moderator: Thank you. We have the next question from the line of Jayesh Gandhi from Harshad H. Gandhi Securities Private Limited. Please go ahead.

Jayesh Gandhi: Sir, I have a little technical question. As we have transitioned now to 4G and then say in next couple of years to 5G. Does it require a technically better optical fiber or does the connectivity to the sites that is required?

Dr. Anand Agarwal: Jayesh, both is required. So the optical fiber requirements keep getting more and more stringent. So that is one of the reason why people when they build a new network they expect a much higher kind of specification of fiber. So it is a mix of fiber specification, connectivity as well as densification of sites. So as 5G happens there will be more and more small cells and getting more and more denser also. So it will be new fiber, it will be more fiber and it will be having different specifications.

Jayesh Gandhi: And see when we are transitioning to 5G, the fiber which is laid for 2G and 3G do they get redundant and do they create a replacement demand for us? I mean how does it work?

Dr. Anand Agarwal: All these networks continue to work concurrently. So on a 2G network for instance lot of the voice traffic etcetera would still be going for Telcos and Telcos what they build is they build one network on top of another. So there will be a 2G network which would be largely on microwave then there would be a 3G network. Now 4G is getting built up on top of that. And you would see that switch happening. So whenever a 4G congestion happens you would see on your phone it moves to a 3G or a Edge or a 2G network. So all of them are concurrently working.

Jayesh Gandhi: Sir, my next question is what is an idle life for an optic fiber?

Dr. Anand Agarwal: It should be about 25 years. In India it is about 8 to 9 years and this is what we are actually going to change.

Jayesh Gandhi: And sir, my last question is do we have any telecom companies in India who have their own manufacturing optic fiber units. I mean inhouse units?

Dr. Anand Agarwal: No.

Jayesh Gandhi: And how about world over? I mean how is the trend?

Dr. Anand Agarwal: No, nobody in telecom manufacturer’s fiber. And nobody in fiber manufacturing does telecom services.

Moderator: Thank you. Ladies and gentlemen, that was our last question. I would now like to hand the conference over to the management for closing comments. Thank you and over to you.

Dr. Anand Agarwal: We would again like to thank everyone for attending this call and we hope that we were able to address and clarify all your queries and comments. For any further clarifications and discussion you can feel free to contact our IR team including myself and Anupam. And we sincerely hope to continue our association and dialogue in the future. And thank everyone for showing their interest in our company. Thank you and good evening.

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