"Sterlite Technologies Limited Q4 FY15 Earnings Conference Call"

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MODERATOR: **MR. CHARANJIT SINGH – AXIS CAPITAL LTD**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Sterlite Technologies Q4 FY-'15 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. Along with this call, we are also running a Live Webcast of the Presentation covering the Q4 and FY-'15 Results as well as Details on the Corporate Restructuring announced earlier today. Investor can also download a copy of these slides from the website after the presentation. The live webcast also has an option to post your questions to the management and this will be answered along with the question received from the audio call. In case, participants have any additional questions, they can reach out to the Investor Relation team post the call. I now hand the conference over to Mr. Charanjit Singh from Axis Capital. Thank you and over to you sir.

Charanjit Singh: Thank you. Good Afternoon, everybody. We would like to welcome you all to the Sterlite Technologies Q4 FY-'15 Conference Call. We have with us today Dr. Anand Agarwal — CEO and Mr. Anupam Jindal — CFO of Sterlite Technologies. Sterlite Technologies operates in two sectors — Telecom and Power. Within the Telecom sector, it focuses on Manufacturing Products and Developing Solutions, and within the Power sector it is involved in manufacturing Power Products and Developing Solutions. Also develops Power Transmission Infrastructure. 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. Sterlite Technologies has announced the de-merger of its Power and Telecom business. During the call the management will also give us an update on the announced de-merger. At this time I would like to hand the conference to Dr. Anand Agarwal. Thank you and over to you sir.

Dr. Anand Agarwal: Good Afternoon. I Welcome You to the Sterlite Technologies Q4 & Full Year FY-'15 Earnings Call. We declared a 4th Quarter and Full Year Results for the FY-'15 today and we hope you have had an opportunity to look at them. Along with the results, we have also announced significant Corporate Restructuring of our business which we will elaborate on shortly.

FY-'15 has been an exciting year for us from many perspectives, and it is reflected in our financial performance as well as underlying business performance. The macros for both Telecom and Power Transmission sector remain attractive and we are seeing clear signs of India opportunity to surface in a big way driven by growing data and power consumption per capita. As a company, we are clearly well positioned to capitalize on these opportunities within the country and also continue to strengthen our global footprint having won new customers and entering new market during the course of last year. As we continue to achieve scale for each of our business, we also continue to build capabilities by adding new product lines to our offerings and building an engineering expertise to offer a full turnkey solution to our customers. In this direction during the year, we won some prestigious orders for Service Implementation across the most challenging geographies in both the Telecom and Power business which has led to substantial jump in our order book and opens up new windows of opportunities to further entrench our position in the two sectors that we operate in. These skill sets and capabilities which we have been built over the years, puts us in a unique position to be able to drive value creation for all our shareholders.

I will now like to spend a few minutes going through each of the businesses and the progress we have achieved over the year: I will start off with the Telecom business. The Telecom business has sustained good volume growth on a quarterly as well as annual basis. For the full year Optical Fiber volumes were at 17.7 million fiber kilometers (FKM) and Optical Fiber Cable was at 7.7 million fiber kilometers. These numbers were up by almost 28% and 49% on a year-on-year basis. Volume growth has been driven by increased spending by public/private carriers on network infrastructure creation both on the backbone side on Fiber backhauling as well as last mile connectivity of the end consumer. Global annual demand for Fiber reached all-time high of 320 million kilometers with India's demand being one of the fastest growing, reaching 17 million kilometers against 11.5 million kilometers in the previous year.

In addition to the overall growth in our Fiber volume, we have been able to increase our Cabling volumes at a faster rate, resulting in higher proportion of Optical Fiber Cable volumes to our total Optical Fiber volume. As of last year we had almost 45% of the total Fiber produced for captive consumption as compared to 32% for the previous year. This is very positive for us directionally as it indicates our growing entrenchment with end customers and also adds to absolute profits in our Telecom business.

In light of the increased opportunities in our existing markets we have commenced work to increase our Optical Fiber cable capacity from 8 million kilometers to 15 million kilometers, and we expect this capacity to start coming on-stream by Q3 of the current year.

Now moving on to the Financials of our Telecom business: The Telecom business recorded revenues of Rs.1487 crores on a full year basis which is 38% higher on a year-on-year basis. EBITDA of Rs.345 crores on a full year basis is 85% higher compared to last year. The mass improvement in business performance and margin expansion is on account of increased product volumes, change in product mix towards higher proportion of Cabling and an initial contribution from services. Revenue from Services this year were at Rs.68 crores, that should scale up as the NFS Defense Project gets implemented over the next several quarters. The EBITDA margin for this business are now at a healthy 23% expanding gradually over the last year on account of both evolved portfolio as well as better operating leverage in the Telecom portfolio. This has translated into a higher ROC for the business. As we embark on new opportunities in the Network Engineering space and invest in our capabilities for sustained growth, our focus would be to further improve capital efficiency in the business.

Now moving on to the Power Products and Solutions business: Conductor volumes for this year at 78,000 MT witnessed de-growth of 17% versus last year volumes of around 95,000 MT. In spite of having good order book visibility, number of deliveries were pushed back given the status of implementation on the ground.

As we move to the Financials of the Power business, in terms of business performance we observed a decline of revenues at Rs.1,473 crores against Rs.1,587 crores last year. Correspondingly, EBITDA for the year reduced to Rs.41 crores against Rs.85 crores in the previous year. After a weak H1 for this business, we saw some signs of revival in the second half of the year with both volume and margin improvement. As a conscious choice, we are not chasing volumes at the cost of returns and focusing more on diversifying our customer mix with new export market and transitioning from a commoditized play towards building a portfolio of high performance Conductors, OPGW and extra high voltage power cables from a long-term value creation point of view. In the mid-term we see some revival in volumes if PGCIL ordering to start at normalized levels which should improve the scale and profitability in this business.

This brings us to the Performance Update of the standalone business. All indicators have been showing good growth; we ended the year with a strong quarter with reported sales and EBITDA at Rs.979 crores and Rs.131 crores respectively and PAT at Rs.39 crores.

Board has recommended a dividend of 30% which is 60 paise per share as against 15% which was 30 paise per share last year reflecting of the strong performance in the last fiscal year.

We expect the strong growth trends to continue given the healthy order book position supported by initiatives to improve the revenue mix and drive further operational efficiency.

Our order book as at the start of FY-'16 is at about Rs.4,700 crores and is equally split between our two businesses. In the Telecom business, the NFS order accounts for the bulk of the order book as historically, Telecom business has not been driven by order book but by long-term supply contracts with large Telecom operators. In the Power segment orders from PGCIL accounts for only 12% with the rest comprising exports and other domestic power players.

Now coming on to our Power Transmission Infrastructure segment: I would like to recall some of the key developments in the last fiscal. With the completion of the 225 Kms Bangaigaon-Siliguri line of ENICL We Have Successfully Commissioned the First Private Transmission Asset in the Country in Record Time which is a matter of immense pride for the company. The other two projects of BDTCL and JTCL are substantially completed with some of the line elements already generating revenue, and we expect both these projects to be fully operational in the coming quarter. In terms of financial achievements in this business the equity inclusion of Rs.500 crores by Standard Chartered Private Equity in our transmission grid portfolio marked the first foreign investment in the Power Transmission sector in the country. More recently, in February, we successfully refinanced a loan of Rs.925 crores for the first project of ENICL which led to a release of Rs.150 crores of equity and also lowered our interest cost by 175 basis points. Both of these achievements were in line with our stated objective in our previous discussions to rotate assets post-commissioning and deliver values to a superior project bidding and execution. Our commitment towards the equity infusion in the Grid projects is mostly complete and we do not anticipate any further substantial equity investment from STL into this business given the business is now well funded.

Revenue for the full year was Rs.154 crores with the EBITDA of Rs.132 crores. The first three projects when fully commissioned would hold potential to generate annual revenue of Rs.570 crores. We have seen good level of progress on the other three projects and we expect to commission RKCL and PKTCL by January 2016 and April 2016 respectively. On the NRSS project which is also the largest in our portfolio of six projects, we expect commissioning of one line by 2016 with the other element only due in October 2018.

Now, moving on to our Balance Sheet: Our net debt increased marginally on account of increased working capital requirements. Our debt-to-equity now stands at 1.1x. During the year we did CAPEX of around Rs.90 crores in our standalone core business.

To summarize, we start our next fiscal on a very positive note at the backdrop of strong performance last year, coupled with a healthy order book and future visibility on increasing opportunities in both our sector.

Now, we will move on to the Corporate Restructuring that we announced earlier today: Sterlite Technologies, as you are aware, essentially operates in two distinct sectors — that is Telecom and Power. Currently, both the Telecom business and Power Products and Transmission Grid are housed under the same company though operates as separate business units. With the addition of Power Transmission Grid business which has reached a certain scale, the Telecom and Power business have now distinct business models, risk profiles under the distinct set of customers. Moreover, both these businesses have now reached a certain level of scale, and as they move on next phase of growth, it is necessary taking the different focus towards strategic growth of both business a year. Also, the funding requirements of both businesses are very different, while Telecom business is a high growth, high margin and high cash flow surplus business, the Transmission Grid business is a capital-intensive business with annuity based model with a long gestation period. Hence there was a pressing need to put in place enablers that will provide suitable platforms to each line of business to cease long-term growth opportunities with appropriate sources of finance. Our vision for both our businesses to make them great organization. In our Telecom business we see ourselves as a company with unique ability to provide Broadband Solutions for converged networks taking advantage of the opportunities that we see on the Telecom sphere. While the Power business we seek to become a world-class developer of Power Transmission Infrastructure.

The opportunity landscape today in the country is unprecedented and we have a number of initiatives being driven by government spending as well as private sector investment. In the Telecom sector, the various projects under the Digital India umbrella should see over $18 billion being spent in the creation of Digital Infrastructure. The flagship program of NOFN itself which will bring Broadband Access to over 250,000 gram panchayat will see a capital outlay of over $5 billion delivering e-Healthcare and e-Education applications.

On the private side, the quantum leap in Data Consumption will lead to growing demand for communication facilities. The growth in Data Consumption from the entire Internet of Things phenomena will continue to require significant investments and upgrades in Telecom networks. In addition to this, the merging of Wired and Wireless Access would result in the need for solutions offering converged networks.

Sterlite Telecom today views itself as one of the very few if not the only player to be able to capture a larger share of this opportunity. From being a fully integrated Optical Fiber Cable player to a provider of System Integration Services and Application Development, we should be able to capitalize on this opportunity. We are seeing ourselves transitioning to the Ericssons and Ciscos of the world while participating in the Data growth story of the country as solution providers of a future converged network.

Now, moving on to the Power sector, the opportunity here too is very exciting: Projects such as 24/7 Power For All and Smart Grids and the Growth in Renewable Energy will need significant investments in Power T&D Infrastructure creation. There is a huge planned investment into the T&D sector over the next few years. And given our capabilities we will focus on creating this Transmission Infrastructure as one of the leading private transmission players. Considering the differentiated attributes, the inherent business models, and the capital requirement of each of these business we feel that the equity shares of the Telecom business will be better suited for public market, while the Power business in similarity to the global models will be better served by remaining unlisted. Looking at global models for such infrastructure companies, it is very clear that such regulated assets with an annuity-like distribution profile, benefits significantly from remaining unlisted and not affected by quarterly public market reporting requirements, while also offering operational freedom and capital structure flexibility.

This restructuring will essentially allow investors the choice to continue to be associated with all these businesses or only specifically invest in businesses that best suits their respective investment philosophy. It also creates an opportunity for value discovery of each business independent of the other. The Power business as part of this restructuring will be moved into an unlisted company and the value for this business has been ascertained by reputed independent valuers to provide a fair valuation to shareholders. Axis Capital have provided financial advice as well as a fairness opinion on the independent valuation carried out by Pricewaterhouse & Company and Haribhakti & Company, KPMG is providing tax advice and Khaitan & Company are providing legal advice. Post the transaction STL will remain balance sheet-light allowing a greater financial freedom to pursue additional growth opportunities including strategic bolt-on acquisitions.

Our shareholders today have multiple options and all of these options ensure shareholders have flexibility to choose the best option given their investment philosophy as well their sectoral preference. The valuation of Rs.884 crores for the de-merged business has been arrived on the basis of valuations conducted by both PWC and Haribhakti separately. These firms carried out a detailed valuation exercise on a discounted cash flow basis taking into account past and future performance. Their report indicates the range of Rs.804 crores to Rs.884 crores, and the board has selected the valuation at the higher end of the range as the appropriate value for the purpose of this transaction. Shareholders have an option to either remain invested in the unlisted business or to opt for redeemable preference share depending upon their investment mandate and liquidity criteria. The scheme allows immediate liquidity option within 30-days of the effective date or to redeem them after 18-months. We believe these options offer shareholders a fair and equitable treatment and they can choose the most appropriate structure based on their operational, tax and regulatory point of view. This transaction is subject to the usual regulatory and legal clearance from the High Court, SEBI and other agencies, and we expect to complete this by the Q4 of the current fiscal.

We remain confident that both businesses are well poised in their respective segments with multiple growth drivers. Given the urgent need to further develop the Telecom and Power backbone in the country, respective of growth of both these business is expected to continue strongly.

In summary, we are very confident that the de-merger will help unlock value for all the stakeholders of STL and create two independent companies focused on Telecom and Power pure play respectively which will enhance their prospects for accelerated growth. This brings us to the end of the update and Anupam and I will now be glad to take any questions that you may have.

Moderator: Thank you very much, sir. Participants we will now begin with the question-and-answer session. We have the first question from the line of Jigar Shah from May Bank. Please go ahead.

Jigar Shah: I have some questions mainly on the telecom business starting with the existing Telecom business and the outlined vision for that entity in terms of products and services, where do you see that business 5-years from here? I think it is currently around US$250 million in size with primarily Product business, where do you see it over a 5-year period in terms of capacities in the Product business, and also the proportion of the services in the Product business over time so that will be really useful? And secondly, if you could also give the data for the net worth of the Telecom business for FY-’15?

Dr. Anand Agarwal: Telecom business as you rightly said the last year we did close to about Rs.1500 crores and we are sitting on almost like $250 million and we are sitting on order book of almost Rs.2300-2400 crores. So we have a great visibility looking forward for great growth and we grew by almost 50% year-on-year from Rs.1000 crores to Rs.1500 crores in the current year. The growth largely which happened over the last year was happened by growth in volumes of the Telecom business. And as we move forward, it is going to be a mix between product as well as growth in the Solutions and Services. In terms of outlook where do we see ourselves 5-years from now the business should be at least 5 to 7x larger than where we are right now, it should be a business which at least should be generating between US1.2 to 1.5 billion, this is on the backdrop of the great opportunities that we see in the country backed by the private investment, backed by the Digital India investment, and by virtue of the fact that India continues to be very-very under Fiber penetrated, and the next 5-years we will see unprecedented growth in Fiber penetration across the country. In terms of the mix between the Products and Services we think a prudent mix would be 50-50%, but that we will continue to see as we move forward in terms of the right ratios.

Jigar Shah: What sort of investments you see in this business over time and how it will be financed?

Dr. Anand Agarwal: The investments in these businesses have been mostly to create capacities, currently, the major investment is about Rs.150 crores which we are using to increase 8 million to 15 million in Fiber Cable. So that investment will be financed essentially by accruals. The other sort of investment will be in just building in-house capabilities on the services, on the solution, and possibly towards looking at acquiring certain capabilities over the next several quarters.

Jigar Shah: Since you have disclosed the ROCE for the 4th quarter and FY-'15 which appears quite attractive for the Telecom business so will the focus be on improving the ROCE and ROE or if there are acquisitions, etc., that again creates a bit of a distortion, so just want to know whether in the short-to-medium term the focus there is further possibility of ROC expansion?

Dr. Anand Agarwal: So definitely we are looking at ROC very-very closely in terms of taking prudent decisions towards any capital investments and making sure that the assets and the capital that have been deployed are definitively towards creating value. So any decisions that we take for any new capital deployment will take into account that we do not discount or dilute the ROCs.

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

Madan Gopal: Sir, if you can explain the de-merger because I was going through it, I could not get the finer details, I understood that you are keeping the Telecom business as a listed entity separated, while the Power business is going to be kept as an unlisted entity, I would like to understand where would be the BOT if you can explain that?

Dr. Anand Agarwal: BOT will be a part of the Power business itself, Telecom Products and Solutions becomes one company which is the Sterlite Technologies Limited, which will have very low levels of debt and it will be a pure play Telecom Solutions company, Power Products which is Conductors, Cables and the power projects which is the BOT projects will be de-merged into a separate entity called Sterlite Power Transmission Limited, this will be an unlisted entity but with a mirror shareholding as same as the STL.

Madan Gopal: And in case of an investor wants to exit how do you give the exit? You mentioned preference shares at ….

Dr. Anand Agarwal: The liquidity option are provided through the redeemable preference share which would be redeemed either within the first 30-days or it gets redeemed over a period of 18-months.

Madan Gopal: From the Power point of view you are seeing a healthy order book right now, you yourself said like it has been Rs.2600 crores. Are you seeing some volatility ahead and what is the reason behind splitting at this point of time and there are a lot of government programs which are positive for the Power sector?

Dr. Anand Agarwal: The entire idea is that the two businesses have moved to a different level of scale and the business models become largely different — while the Telecom business is high growth, high margin leveraging the opportunities through solutions, the Power business is investment-focused creating asset-heavy and capital investment-heavy business. So we found that the investing class is very-very different for both the two businesses while one is looking at high margin, high growth returns, other one is focused more on annuity kind of returns for a very long period like 30-35-years. So ….

Madan Gopal: Sir got it. My question was, like since you have done this you could have left it as a listed entity also right, you could have created a mirror image and could have left it as a listed entity also because there are many BOT road companies also in India which get valued. I was just trying to wonder why you kept it as unlisted entity?

Anupam Jindal: So Madan, this is Anupam here. If you look at, currently also this is a mirror scheme wherein investors are getting equity shares of unlisted entity also, it is only the additional options which are given to them to provide liquidity. Now in terms of how, I mean can the entity be listed or kept listed, the issue is that that this kind of debt restructuring, if you look at the pro forma financials as in 1st April or 31st March 2015, this would be quite debt heavy business, if you look at currently also Sterlite Technology is perceived to be a heavy debt company with more focus on the grid assets than the telecom. So the goodness of telecom was getting lost in the overall thing and the debt heavy nature of this business makes it difficult to sustain in the public market because of the less appreciation as you found during last one year of our active investors interaction that this business is something which is not generally perceived to be investor friendly from the retail or even FIIs perspective this is something which is long gestation, long investment cycle.

Madan Gopal: Okay. Thanks for that. I have just last question, continuing from the previous question. Your outlook on the telecom business, the current order book, what kind of execution period does it have and can we expect in terms of growth next year also be good year and margin also to continue at same levels, what is your hope on that?

Dr. Anand Agarwal: Yes, on the telecom business we expect that we have good visibility so the growth will continue, the margins where we are at about low 20% should be around this range itself and the proportion of services as a proportion of services to the entire business starts increasing we will see a different revenue as well as margin profile as we going forward.

Madan Gopal: But generally this additional margins are lower or better than, how is it you see that?

Dr. Anand Agarwal: The margins are best for the fiber business and then followed by cable and services business.

Madan Gopal: Okay. And this year out of this 50% growth that you have seen, how much would have been contributed by the government related projects and how much would have been contributed by private sector investment and how do you see next year how the mix to be?

Dr. Anand Agarwal: Essentially government is not a very big part of our performance that we did about 17 million, 18 million kilometers, I do not believe more than 12%, 13% would have gone to government financed projects. So it continues to be the mix between India private sector, China, Brazil, other geographies, the government part of the project is more relevant for the defense services opportunity which we have undertaken. But as we move forward we continue to see good level of movement happening from the India private sector as well as the public projects.

Madan Gopal: So the mix would slightly move towards the government defense this year?

Dr. Anand Agarwal: Yes, on the services side that's correct.

Moderator: Thank you sir. We will take our next question from Vivekanand Subbaraman from HDFC Securities. Please go ahead.

Vivekanand Subbaraman: Hi. Congratulations on a good set of numbers. And also wanted to tell you the demerger comes across as a pleasant surprise as this is the recurring feedback that we have been getting from investors in our client interactions. So just couple of questions, one is in terms of the fiber and cable business which is the products business, what are the pricing trends that you are seeing right now and what leads you to believe that pricing is likely to remain steady and then enabling us to sustain the current EBITDA margins? That's one. And secondly, if you could help us understand a little bit more on the NFS implementation and the potential revenue EBITDA and investments that we would need. That would be helpful. Thank you.

Dr. Anand Agarwal: Sure. On the pricing front we have seen broadly the pricing has been relatively flat with plus minus 5% over the last several years and we continue to see that the demand supply situation is pretty much evenly matched so we do not believe there would be radical pricing change in the businesses. And as we have mentioned earlier also that below the current pricing level a lot of the western capacities will become unviable and we have seen that pricing has maintained at these levels. So we can safely assume that for fiber and cable business the EBITDAs if not increase would continue to remain at largely around current levels. In terms of NFS, there are various parts of the order, there is a cable order which we are supplying to our own project as well as cable orders which we are supplying to two other zones, there is a services order which we do in the Jammu and Kashmir portion and then there is a O&M order which goes on for the next six, seven years. So a good fraction of the services order that we have will be booked in the current fiscal and small part of it will be spelt in the next fiscal. So we believe in the current year from the NFS business as an overall we should be doing somewhere between 800 crores to 1000 crores of business.

Vivekanand Subbaraman: Okay. And sir what about the economics of the services business?

Dr. Anand Agarwal: As I mentioned earlier the economics of the fiber business is the best with about 30%, 32% EBITDA, the cable and services businesses are relatively lower margins, in 12%, 13% EBITDA and the blended margin which we currently get is the factor of the mix which we do quarter-on-quarter.

Vivekanand Subbaraman: Okay. And sir just a follow-up, on the services business also if you could throw some light on the unique capabilities that we have that would also be very helpful for us to understand the recurrence of this business and the capabilities that we bring in.

Dr. Anand Agarwal: Sure. On the capabilities side, right now this is the first time that such large networks are being built in the country and globally and towards that there are various aspects, there is a network integration aspect, there is a system integration aspect which we are participating in and building internal capabilities. The capabilities are towards doing the right network design, getting the right network engineering and then executing the project and monitoring and managing it over here. So we have being doing extensive levels of team building over the last almost 12 months to 15 months and now have a decent sized team of almost 90 to 100 people who are in system and network integration on various aspects of the business. And as we move forward between the defense network itself getting built to fully active network between the new opportunities that we are seeing on the national optical fiber network between the opportunities that we are seeing on the smart cities and the opportunities that we are seeing for fiber back hauling for towers as well as fiber to the home projects. We believe there are enough opportunities in the front which requires services like and expertise which we have built and there is no other company similar to us which has this pure play telecom capability end to end from almost silicon fiber going all the way to application engineering and application development.

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

Rahul Gajare: If I recollect, maybe a year or year and a half back we were actually discussing with, where you were discussing scenario where there is slower demand coming from some international market including that from China. Could you throw some light, what exactly has changed in this business both… In India actually you already spent some time, on the global aspect, which countries are really driving the demand?

Dr. Anand Agarwal: Rahul, essentially what we see, let me first take China because that’s like almost 45% of the global demand. China has gone through three, four different cycles of demand growth while maybe five, six years ago it was a 2G demand growth followed by a 3G demand growth, now they are spending a lot of infrastructure on 4G demand growth and they have given a strong outlook for fiber to the home growth. For instance, they are talking about connecting 100 million homes by fiber to the home this year. So from this and up to the next three years we believe the concerns all the time for us as well as anybody globally in this business has been what happens when the China demand goes down and we have seen a quarter or two quarter of this happening in the past that you had mentioned. So we believe China demand if it will not grow at least it will not grow down, that sort of gives us a good threshold of growth and we are seeing good levels of growth coming driven essentially by data demand from even countries like US, Europe, Africa, Latin America and definitely India. So for us the entire proposition is that we continue to, our China facility is running at capacity, we continue to run it at capacity. Our rail facility has started, we address the Latin America market towards from that and the balance that is India, Middle East, Africa and Europe, we continue to feed on through the Indian capacities and we see good visibility that's why we are increasing our cable capacity from almost 8 million to 15 million kilometers.

Rahul Gajare: Correct. Sir my second question is on the power side, now power continues to remain subdued, what do you think is the reason for this despite the fact that spending on T&D is expected to increase significantly?

Dr. Anand Agarwal: Rahul, couple of years we had this power grid situation whereas essentially if you recall five, six years ago we were 85% power grid to 2.5 years ago we were almost 50% power grid, now we are like 15% power grid. So with the high level of dependence that we had on power grid and the fact that power grid couple of years they change their method of buying and we got impacted. So on a macro level I agree with you that there will be huge level of transmission demand but for it to translate into the actual orders, translate into actual dispatch it will take the next few quarters. But as I said earlier, we are not really chasing volumes, we are shaping this business more and more towards high performance conductors, better margins and with the right volume mix our focus is going to continue to be to improve the margins on this business as well as to make the ROCs better.

Rahul Gajare: And what are the targets that you have in mind, both on margins and return ratios?

Dr. Anand Agarwal: See, on the margin front the first target clearly is to come back to Rs.9000 to Rs.10000 per metric tons which we have delivered earlier and the ROCs which today is on a single-digit we need to immediately come to mid teens and then take it to higher than that.

Rahul Gajare: And sir my last question is on your demerger, now the grid business is basically a drag on both P&L and balance sheet, I mean you have de-merged the telecom business but you have kept the conductor and the grid business together. Could we see a further demerger in future of conductor and grid business because conductor all said and done is a product business and specially since you are particularly targeting niche areas in the conductor itself. And would you consider listing up the power business in future?

Dr. Anand Agarwal: Currently there is no such thought, we wanted to create two pure play companies, one telecom company and one power company. You are right that and the power company has two aspect, one is a product and the other is project. In terms of their balance sheet structure, they may be slightly different but currently we have we think the power company would remain best suited unlisted because of the balance sheet structure.

Rahul Gajare: And future listing plans, given the fact that you have a private equities inside?

Dr. Anand Agarwal: Look, the private equity has alternate options of liquidity and as we have stated our desired intent is post operations to churn the equity, so we believe that that issue can be addressed through equity churn itself.

Rahul Gajare: So there is clearly no plan of listing of your power business?

Dr. Anand Agarwal: Currently, none.

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

Prashant Kanaru: I just wanted to understand, starting with the demerger, the 885 crores that you have taken is for the power business valuation?

Dr. Anand Agarwal: Yes, so this valuation is 885 crores net of debt which has been allocated to the power and the grid business at standalone current level.

Prashant Kanaru: That's conductors plus transmission, there are six projects?

Moderator: Yes. So the debt which is already there in the SPVs that remains there, it is a debt at the standalone level which has been allocated to the power and power grid business at a standalone level.

Prashant Kanaru: As in you have a debt of 4400 crores consolidated long-term, so all of that would be going, I mean bulk of it would be going out, right?

Anupam Jindal: Yes. So currently let's say we have a 4884 of debt, our of which 4200 crores is going towards the power business and the residual company, which will contain the telecom business will have 674 crores of net debt in it's balance sheet as on 31st March.

Prashant Kanaru: Long-term borrowings?

Anupam Jindal: This includes long-term because it's differentiation between long-term and short-term needs to be done but it will be…

Prashant Kanaru: It will be including short-term borrowings?

Anupam Jindal: Yes.

Prashant Kanaru: Okay. Coming to this again just the valuation part, what was the discount rate at which it was done by the company?

Anupam Jindal: So basically the valuation has been done by PWC and Haribhakti independently and we don't have the details of what discounted rate they have applied on this individually but based on the current cost of debt as well as certain expectation on the equity based on that VAT has been applied to value the grid independently and the power conductor business independently.

Prashant Kanaru: Okay. Because certain estimates were higher than this. Okay fine, I will come back to you on that. So it is not going to get listed, so the option is either you sell it off in 30 days or you can liquidate your preference shares in one year?

Anupam Jindal: One and half year. The primary option is to remain holder as equity shareholder or if you want liquidity then these are the options.

Prashant Kanaru: Okay. What was the IRR that was seen by these companies for these projects, just want to understand the calculation to reach this.

Anupam Jindal: So in terms of the project which are going to become operational, one project which has already become operations so he will see IRR in the range of about 11% or so. And the project which will get operational over next three years or so they may have IRRs in the range of about 14% or so.

Prashant Kanaru: Okay. So you have taken a discount rate which is say at least higher than the IRRs?

Anupam Jindal: So currently yes, currently the value which is getting, I mean this is implied in this and this is we are getting a premium to the book value of the grid assets lying in the scale books as well as premium to the book value of conductor business.

Prashant Kanaru: Okay. Net worth?

Anupam Jindal: Yes, net worth.

Prashant Kanaru: Okay. So how much is the net worth?

Anupam Jindal: The recasted balance sheet, the business will have net worth of 479 crores.

Prashant Kanaru: So that's conductors place grid?

Anupam Jindal: Yes, 469 crores net worth as on 31st March pro forma numbers.

Prashant Kanaru: Okay. Because equity infusion is around 1200 odd crores, right?

Anupam Jindal: Yes, but that is in the investment, that does not change the net worth at the STL level, STL network consolidated with this was about 1100 crores.

Prashant Kanaru: Okay fine, I will take this off line. Sir just wanted to understand, the telecom business when you said your potential is to reach $1.2 billion to $1.5 billion revenues in three to four years' time, so what is the basis for this like how much do you see, like this is what you are saying would be the recurring annual revenue, right sir?

Dr. Anand Agarwal: Yes. Essentially we are saying that in the next five years there should be that potential to take it to $1.2 billion to $1.5 billion, the clear basis essentially is the CAPEX, the telecom CAPEX that we see in India as well as globally and our capability to attract a significant part of that CAPEX.

Prashant Kanaru: Okay. Okay fine sir, thank you sir. And sir just one last thing, this 400 odd crores of thing shown as optionally converted preference shares that would be mainly for Standard Chartered?

Anupam Jindal: No, so I think let me clear this structure. Standard Chartered has come as an investor in the company called Sterlite Power Grid which is sitting below Sterlite Technologies and this demerger is happening at Sterlite Technologies so it will be for the public shareholders, non-promoters shareholder.

Prashant Kanaru: So what is this optionally converted preference shares, can you just, I am not able to understand that.

Anupam Jindal: So the Standard Chartered has invested in the form of OCRPS.

Prashant Kanaru: So that's what, it is for Standard Chartered right, that's what I am asking?

Dr. Anand Agarwal: Yes, that's a level below the level of the demerged company and that will not get impacted by any of this demerger. If you want to understand it more it would maybe better that we can do this offline.

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

Rajesh Agarwal: Sir, after the demerger what would be the net worth of the telecom business?

Anupam Jindal: Debt in the telecom business…

Rajesh Agarwal: Will be 674 crores, what would be the net worth?

Anupam Jindal: Net worth will be 600 crores.

Rajesh Agarwal: Net worth 600 crores, okay. Sir we have a plan of 150 crores CAPEX for the optical fiber cables, right?

Anupam Jindal: That's right.

Rajesh Agarwal: And there it will near about double our capacity?

Dr. Anand Agarwal: Yes.

Anupam Jindal: Fiber cable capacity will get doubled, yes.

Rajesh Agarwal: Okay. It will be taken over next one year?

Dr. Anand Agarwal: Yes in the current year, mostly in the current year itself.

Rajesh Agarwal: And that much business potential and outlook is there?

Dr. Anand Agarwal: Yes, sure. We are seeing may be by the next financial year that is FY17 we will be running very close to the capacity.

Rajesh Agarwal: Okay. And any CAPEX for the fiber business?

Dr. Anand Agarwal: We are looking at it, currently no decisions have been taken.

Rajesh Agarwal: The capacity of fiber will get over, right, in the current year?

Dr. Anand Agarwal: Yes, we are already running at capacity levels of 20 million we did close to 17, 18 million last year.

Rajesh Agarwal: Okay. And the future growth which we are talking about, suppose we don't increase the capacity of fiber, then how will we achieve the $1.5 billion run rate for our five years?

Dr. Anand Agarwal: See, one is clearly this cable that we are doubling from 8 million to 15 million, other is the services part and on the fiber side as I said we have not taken a decision now and the growth that I am talking to you is a five year perspective for which all the calls have not been taken.

Rajesh Agarwal: And services, any plan came, from the day one we will start growing or we will acquire any company and any acquisitions plans?

Dr. Anand Agarwal: Currently we are looking at opportunities, we will go opportunity to opportunity, and we are currently building in-house capabilities. If required then acquisition for any capability or scheme we'll consider it at that point.

Rajesh Agarwal: Acquisitions, at what range your acquisitions will be…..

Dr. Anand Agarwal: Currently there is no such discussion.

Rajesh Agarwal: What was the overall CAPEX for the telecom business for next one or two years, overall CAPEX?

Dr. Anand Agarwal: The CAPEX largely is 150 crores that we have talked about on the CAPEX.

Moderator: Thank you. Our next question is from the line of Akash Pariya from SBI Cap Securities. Please go ahead.

Akash Pariya: It is regarding the demerger, what is the percentage share equity or share which is calculated for Standard Chartered in this valuation process?

Dr. Anand Agarwal: As we said Standard Chartered valuation is not at all a part of this, we are doing it at the, Standard Chartered is invested in a subsidiary below the company, we are doing a demerger at the top level of the company which includes the power conductors business and which includes the investment which STL has put into the grid business.

Akash Pariya: Okay. But what is the total percentage of currently in this grid business Standard Chartered's stake?

Anupam Jindal: Yes, so that’s 27.1% on diluted basis.

Akash Pariya: 27 point?

Anupam Jindal: 27.1%.

Akash Pariya: Okay. And sir on this unlisted entity, the OPGW cables and your entire cable and conductor business will be 100% and to entrap this 27% Standard Chartered stake will still be your business partner in the unlisted entity, right?

Dr. Anand Agarwal: That’s correct.

Moderator: Thank you sir. Next question is form the line of Sarthak Sayal from CRISIL. Please go ahead.

Sarthak Sayal: Sir, to what factor would you attribute the expansion on margin on the telecom side and as well as on the realizations on a quarterly basis on a Q4 basis? And also how would you break up the margin on the domestic and by export side on the telecom front?

Dr. Anand Agarwal: Essentially the margin expansion that we have seen is more due to operating leverage rather than increase in realization. So and as we have maintained continuously that the business is pretty global and there is per say no difference in margins between domestic or global. So the growth that we see on margins is with the mix between fiber and cable and with the operating leverages which are operating at currently.

Moderator: Thank you. Our next question is from the line of Sameer Raj from Reliance Mutual Fund. Please go ahead.

Sameer Raj: Sir just wanted to clarify this, if somebody was say holding 100 shares of Sterlite, how much per share he will get for this demerge business?

Dr. Anand Agarwal: Rs.22 per share.

Anupam Jindal: Rs.22.46 per share.

Dr. Anand Agarwal: One share of Sterlite Technologies and one share of Power which is valued currently at about Rs.22.46.

Sameer Raj: Fair enough. And secondly, in last quarter on standalone basis your significant other income of 16.78 crores, so this is on account of what?

Anupam Jindal: Other income includes 14.5 crores of FMP which due to accounting we need to take it in the quarter of actual cash receipt.

Sameer Raj: Okay. So on full year basis the entire other income of 44.81 crores does not include any one-off by and large?

Anupam Jindal: So full year basis there were some one-offs, some creditor write-backs so effectively you can say that it is not actually the other income but due to accounting it had to come in the other income. So other than this, yes, you can say generally there was no one-off in the annual…

Sameer Raj: So this is the other income which we can maintain in the years to come, is it fair to assume?

Anupam Jindal: No, so I will correct that. Other income will be in the range of let's say 16 crores to 20 crores per annum basis, what I am trying to say is some of the other income is actually reverse of other expenditure which primarily coming in the other income because of accounting requirement otherwise those are operating expenditure reversal.

Sameer Raj: Right. And lastly, you said standalone net debt would reduce close to 650 odd crores?

Anupam Jindal: So currently at standalone 1377 crores is the net debt and on pro forma basis for telecom which will be remained in the STL it will come down to 600 crores.

Sameer Raj: And that kind of debts will be sufficient considering the improvement in the cash generation and profits to fund the growth plan of remaining businesses?

Anupam Jindal: Absolutely.

Moderator: Thank you. Our next question is from the line of Rishabh Chudgar from Enam Holdings. Please go ahead.

Nihar Shah: Hi sir, this is Nihar Shah here from Enam Holdings. Sir just an observation from my side, if I take a book value of the investments in 1200 crores that is being invested in the Sterlite in the power grid business and the 300 odd crores in the power conductor business and if I just add the difference between the debt which will be sort of staying in the technology business in the telecom business versus what the current business is plus the market cap. The business that is being taken private is being valued at the same level as the book value which seems a bit short or understated. If you can just maybe explain the thought process behind the valuation then that will be useful.

Anupam Jindal: So if you look at from the method you have just calculated, 1200 investment in the grid and for the conductor the book value let's say closer to 300 so it makes it 1500 and the enterprise value which is coming with this evaluation of 885 crores it is in the range of about 1800 crores.

Nihal Shah: 885 plus, if I take the difference in the debt it is about 700 crores odd, right, so it is about 1585 is my number that I am getting unless I am mistaken.

Anupam Jindal: So I will clarify that, the debt at a standalone level in telecom is about 500 odd crores so we are transferring about 870 crores from the standalone level, about 140 crores out of additional debt which you see is primarily for the other businesses which we have in China, Brazil and the network business. That’s why consolidated level you are seeing telecom as 670 crores so EV value of the business being transferred is about 1780 crores and I don’t have the exact book value of conductor but may be taking the number it comes to about 1450 or 1500 crores.

Moderator: Thank you. Participants, that was the last question. I now hand the floor back to Mr. Charanjit Singh for any closing comments. Thank you and over to you sir.

Charanjit Singh: Thank you. We would like to thank the management of Sterlite Technologies to give us an opportunity to host the call and patiently addressing the queries of the investors. Over to you sir for any final remarks.

Anupam Jindal: See one more clarification Charanjit before we log off the call, that the current allocated book value of the grid business plus power conductor business will be 470 crores, against that 885 crores valuation is being given, so that’s premium of 420 crores on the top of book value, so it is almost working out to be double of the book value. So that is the point we wanted to clarify for the audience just to have clarity.

Charanjit Singh: Thanks a lot for the clarification.

Dr. Anand Agarwal: And I would like to thank everyone for attending this call and hope we were able to address and clarify your queries and comments. And for any further clarifications and discussions you can feel free to contact our IR team including myself and Anupam and we will be happy to interact with you and share our plans and insights for the business and the industry and continue our association and dialog in the future. Thank you and Good evening.

Charanjit Singh: Thank you sir.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Sterlite Technologies that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.