



“Sterlite Technologies Q4 & FY17 Earnings  
Conference Call”

**April 27, 2017**



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

**MODERATOR: MR. NEERAV DALAL – MAYBANK KIM ENG SECURITIES**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to Sterlite Technologies Q4 FY17 and Full Year FY17 Earning 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 also have running a live webcast of this presentation covering the Q4 FY17 Results. Investors can also download a copy of these live from the website. I now hand the conference over to Mr. Neerav Dalal from Maybank Kim Eng Securities. Thank you and over to you, sir.

**Neerav Dalal:** Good Day, Ladies and Gentlemen and Welcome to the Q4 & Full Year Fiscal 2017 Earnings Conference Call of Sterlite Technologies Limited. At the outset, I would like to thank the management for giving us the opportunity to host the call. Sterlite Technologies is a global technology player, focused on Designing, Building and Managing Smart Data Networks for its customers. Sterlite Tech's offerings include High Quality Optical Communication Products, System Integration and Software Services. With three state-of-the-art manufacturing facilities and two software development centers across India, China and Brazil, the company has global operations touching more than 100 countries and deep presence in Indian market across its customer segments. The company later yesterday announced their Q4 and Full Year FY17 Results.

We have with us today, Dr. Anand Agarwal -- CEO and Mr. Anupam Jindal -- CFO of Sterlite Technologies who will walk us through some of the Business and Financial Highlights and the Strategy of the Company. I would now like to hand the conference over to Dr. Anand Agarwal. Thank you and over to you, sir.

**Dr. Anand Agarwal:** Thank you, Neerav. Good Morning everyone and thanks for taking the time to join our Earnings Call. We are very pleased to share strong set of results for the previous financial year 2017. I trust that all of you would have had an opportunity to go through the results document which were shared yesterday and are also available on the website. I will briefly cover the Overall Industry Landscape, Business Performance and some of the Key Developments following which, Anupam will walk you through the Financial Performance.

**Slide 4:**

I will start with some Global Trends. At Sterlite Tech we are really excited with the way the macro opportunity shaping up for us. The data consumption story today driven by mega industrial trend such as Cloud Computing, Internet of Things, Artificial Intelligence, Machine-to-Machine and Evolving Consumer Trends like Wearable Devices, Driver-less Cars, which continues to grow at an exponential rate.

**Slide 5:**

What we are seeing unfolding before our eyes is the true data revolution. Data band applications, products, devices and systems are permeating each and every sphere of life and this will be

elevated further because the digital way is more efficient, more economical and hold the potential to transform the overall experience. The really exciting development from a business perspective is that this trend is visible in regions or markets that can be considered mature as well as in those that are relatively underdeveloped. So there are multiple layers to the data opportunity and each layer unravels a larger canvas for growth. These multiple trends in the offing today ranging across the Cloud Computing, Artificial Intelligence, Devices like Amazon Echo, Multiperson Video Calls, Augmented Reality are changing the paradigm for consumers today and transforming everyday living. In this increasingly hyper-connected world, technology evolutions like these will continue to dictate the shape of future data networks, which needs to be much more resilient and be able to handle exponential data traffic. The need for speed with mobility at milli second response time will lead to newer data centers handling deluge of information which will start coming closer to the point of consumption. The networks as a result will become denser and denser with ultra low latency to support some of the critical applications. Also, this network is unlike any other infrastructure as each network layer is being built on top of an existing network layer, for instance, globally 4G network was built on top of an existing 3G network layer and a 5G network goes both deeper to the consumer as well as and it is being built on top of the 4G layer.

**Slide 6:**

In India, we recently witnessed the entry of a new player in the Indian Telecom Industry, who triggered the latent data demand within the country with their data focused offerings. The 14 times growth in per user data consumption clearly illustrated the data consuming appetite of Indian consumers who are till date operating in a supply constraint environment. With more users coming online in the next few years, the data demand is only expected to increase multifold. While critics mention that this data growth happened only because it was free, we believe that this will be the norm for most data users in the country in the next few quarters as most of the country's network gets upgraded to 4G, WiFi and then 5G.

**Slide 8:**

I will now talk about how it is relevant for us and how Fiber is at the core of all these networks. It is becoming increasingly evident that with the future networks becoming denser with 1,000x throughput coupled with low latency requirements, Fiber will have to go deeper into the network and closer and closer to the point of consumption. Optical Fiber which works on the principle of total internal reflection will remain the preferred medium of data transport and there is no technology today which can replace the speed and throughputs of the Fiber on any standards. The main difference between the Fiber and wireless technologies is that for wireless based transmission, speed as well as data throughput keep decreasing as you move away from the source, whereas Fiber-based data transmission has both very high capacity and minimal impact of distance. Wireless technologies evolution though will happen in parallel for mobility purpose and will in effect complement the usage of Fiber which will be critical for building a high capacity backhaul and future proofing the network.

**Slide 9:**

This slide reflects architecture question of the future ultra-dense network which will serve users with high data speed and giga byte capacity at low latency. We are seeing significant growth in the connected devices ecosystem from cell phone to wearable devices to autonomous cars and almost each device is engaged with the network, negotiating higher speed and quality on the shared infrastructure, placing enormous strain on the network's ability to deliver high speed data and low latency. With every generation change and network getting denser, we are witnessing the cell size shrinking in size and number of cells increasing in magnitude. The next generation network would see a huge proliferation of dense micro site and small cells, all connected through fiber backhaul offering high speed data and connectivity with desired quality of service.

**Slide 10:**

In this slide, what we have tried to capture is the trend in growth of IP traffic over a period of almost 12-years. It is interesting to note that the global IP traffic has grown by almost 36% cumulative growth rate over the last 11-12 years and at the same time, fiber has grown at a rate of 17% cumulative growth rate. We believe that as the data growth further intensifies with an increasingly connected society, the fiber demand will continue to show an upward movement.

**Slide 11:**

Our confidence on the future of Fiber industry is further accentuated with 5G on the anvil and usage of WiFi in a more broader domain in cities and in rural settings. 5G as a technology though still in trial stage will offer peak data range almost 10x of earlier generation. Making this possible will entail a significant rise in the fiber deployment as the intensity of fiber requirement increases sharply with the generational change as we have seen in the past.

The roll-out of 4G networks and FTTH in the last six years has resulted almost a tripling of fiber deployment compared with the fiber volume deployed in the preceding six years in the 3G roll-out. More importantly, the pace of change is getting quicker as each generation of upgrade is coming in about half the time of the previous one, like the timeline for 3G was about half of 2G as the timeline of 4G predicted is going to be about half of what the 3G overall network time was. So it was not surprising when last week one of the US major telecom service provider announced a three year fiber deal with the biggest supplier with the minimum of take of 20 million kms per annum, almost 10 times from their past requirements. The CEO of service provider went on live to openly state that the needs of next generation networks on 5G would be very different from traditional networks which will require a new network topology with fiber at its core. While the global trends are very encouraging, we remain very highly excited about the prospects in the India market which is also on the cusp of increasing data growth.

**Slide 13:**

In this slide, we have shown that with voice penetration reaching almost 80%, the next wave of growth in Indian telecom industry is coming through data which will form a substantial part of telecom revenues in the next 3-4 years. Globally, we have seen that the CAPEX intensity increases significantly when the share of data increases in total revenue pie. India still has almost 65% of population with no internet access, and to bring this section of the population on any means of connectivity would call for large amount of network creation.

**Slide 14:**

The growth of the Indian market has been fairly rapid. In India, users have bypassed desktops and laptops and graduated directly to smart phones to access the internet. India has progressed from no connectivity to nearly 400 million mobile internet users with over 60% of these being smart phone users. This is a huge number clearly indicating the meaningful enroute by digital platform. Interestingly, these trends are very much in line with those in advanced countries with respect to the drastic increase in the amount of data consumed online. Indian consumers are increasingly spending more time online and engaging in more data heavy use like online media and entertainment, clearly indicating that users in the local market have embraced the benefits of going digital. This growth is set to only accelerate as the next wave of digital penetration takes place and data usage continues to intensify.

**Slide 15:**

What is even more exciting is the way and manner the country has leapfrogged generations of financial technologies to build one of the largest digital infrastructure in the world. What is unfolding in front of us is a massive digital inclusion ecosystem, driven by the Government's initiatives to move towards the paperless, cashless and presence-less society. The connected Digital India Stack is unprecedented globally. Never before in the world a billion people are connected on the same biometric base system which is then used not only for identity as eKYC but also for making digital transactions. The India Stack will be one of the major drivers for digital connectivity throughout the country. This connected in ecosystem will further propel the data growth within the country and call for robust networks to be created as a backbone reaching the remotest parts of the country.

**Slide 17:**

To talk about our positioning in this exciting data journey, as a company our singular focus remains on the opportunity that stem from this entire digital connectivity landscape. We are witnessing new networks being created across the world, whether it is a 4G, WiFi or Fiber to the ex-based offerings from the telcos or a new Bharat Net Network or a new defense network across the country or the multiple Smart Cities being created. We are uniquely positioned to have an integrated capability of designing, building and managing such new networks. Over the last few years, we have taken conscious steps to evolve our business from a pure manufacturing-led

model evolving into the services and software layer to offer an end-to-end integrated solution to our wide spectrum of customers for their data network creation. With these new capabilities, we are now uniquely positioned to engage with our customers at the network design stage and become their trusted partner for an end-to-end roll-out and post execution management to deliver best-in-class network performance.

**Slide 18:**

Our prime focus remains on customer engagement right at the design phase for each of our offering and going forward our endeavor would be on integrated offerings to derive maximum values for our customers and the company. Through our Smart City suite, we have been able to demonstrate our unique capabilities that now straddle across the network layer designing and implementing solutions from an application-based requirement. We aim to extend this proposition across our spectrum of customers as they plan for Greenfield network investments.

**Slide 19:**

At Sterlite Tech, technology resides at the core of our offerings and remains the key differentiator. Our state-of-the-art Center of Excellence in Aurangabad is one of its kind globally and focuses on Advanced Fiber Optic Research which has resulted in a strong patent portfolio of 146 patents across geographies. At our recently opened center of Smart Network Lab in Gurgaon, we are building advanced technologies, fiber-enabled solution for 5G network, pre-connectorized fiber kit solution, new applications for smart cities as well as rural India to bring new cutting edge solutions for our customers on next generation network.

Our Sterlite Tech Academy which trains technicians and skills towards Fiber deployment has already trained and certified multiple technical staff across the country including our customer staff.

**Slide 21:**

Given the backdrop of the strong Fiber growth that we are witnessing globally and our increasing market reach, we have decided to go for next phase of capacity expansion towards 50 million Fiber kilometer to be executed in phases. We expect the full capacity to come live by middle of calendar year 2019. This capacity would come in a Greenfield setup at an estimated CAPEX of \$170-200 million. As we scale our capacities, our endeavor would remain to keep the economics of the expansion such that our return ratios, debt-and-equity ratio do not get diluted during the ramp up phase.

**Slide 22:**

To talk briefly also on the Performance, our revenues from International markets have been growing Y-o-Y reaching Rs.957 crore in financial year 2017. This is a significant jump from the previous financial year and accounts for about 37% of the total revenues in FY17. Our strategic

focus to diversify into new markets has helped us to emerge as a global supplier enabling us to drive growth from multiple markets.

**Slide 23:**

As we are engaging more deeply, we have become more and more aligned to our customers' requirement and this is lending a higher visibility to our future business growth given the increased commitments. The order book has now reached an all-time high of about Rs.3,000 crore this quarter and is well-balanced across the global as well as the Indian segment.

**Slide 25:**

To talk some highlights in the business, FY17 has been a highly event full year with significant progress on volume growth, accelerated build out of additional capacity, improved market presence, product innovation as well as scaling of new businesses with new smart city win and entry into new telcos with our system integration offering.

**Slide 26:**

The year also saw some prestigious awards and recognition we received across our business offerings, leadership and human resource practices which reaffirms our commitment to strive for excellence in all aspects of our business.

Before I hand over to Anupam, I will reiterate that the data opportunity is evolving rapidly and the networks of tomorrow will be vastly different from those of the past. We are extremely upbeat about the opportunities for growth given our unique integrated capabilities, our resources, our customer engagement and the width and the depth of our offering.

That is it from me and over to Anupam for an update on the Financial Performance.

**Anupam Jindal:**

Thank you, Anand. I will now recap the Financial Highlights from the Quarter and for the Full Year gone by. I will also focus on providing you some context on the numbers and our journey forward. We are happy to deliver continued strong growth on all financial and operational parameters.

**Slide 28:**

Slide 28 covers the quarterly financial performance for the Telecom business on a consolidated basis. Revenue for the quarter stands at Rs.707 crore, registering a 15% Y-o-Y growth. EBITDA as you can see grew 19% on Y-o-Y basis driven by growth in the products business and supported by the project execution progressing firmly on QoQ basis. This quarter also marked the highest ever EBITDA at Rs.166 crore for the Telecom business. At PAT level, the growth on the Y-o-Y level stood at 16%.

**Slide 29:**

The key highlights of our performance have been continued strong growth in the revenues and profitability. On full year basis, we close the year at Rs.201 crore of net profit which represents a jump of almost 31% on FY16 reported profits. EBITDA has grown 14% with margin maintained at about 21%. The balance sheet remains healthy with ROCE for full year recorded at 21%. On Q4 annualized run rate, ROCE stands at 26%. We are very much focused to keep our balance sheet light and improve our return ratios as we plan for growth.

**Slide 30:**

During the year, we generated free cash flows of Rs.158 crore after funding the growth CAPEX. This has brought down the debt level to Rs.919 crore as at the end of FY17 from Rs.1,005 crore at the end of FY16. As we had committed earlier, we have been able to improve the debt-equity to 1.0x from 1.3x year ago through continuous focus on ROCE and cash generation.

**Slide 31:**

Slide 31 highlights the Key Financial Metrics on five years' basis. As you can see, we continue to demonstrate healthy growth in our business profits with superior return. On 5-year CAGR basis while the revenue growth was 24%, the EBITDA growth was almost 38%. The ROCE profile of the business has also improved over the years now operating in (+20%) range.

**Slide 33:**

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 healthy ROCE of more than 20% levels for the business.

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. In this regard, we are pleased to share that the Board of Directors has recommended a final dividend of 75 paisa per share in addition to the interim dividend of 50 paisa per share, amounts to total dividend of Rs.1.25 per share for the full year.

With this, I conclude my opening remarks and welcome specific questions you have and we would be happy to give you our perspective.

**Moderator:** Thank you. Ladies and Gentlemen, we will now begin with the question-and-answer Session. We take the first question from the line of Pranav Kshatriya from Edelweiss. Please go ahead.

**Pranav Kshatriya:** My first question is alluded to around \$170-200 million CAPEX for the capacity expansion from 30 to 50 million. Can you suggest, will it happen in FY18 itself or a part of it would be going into FY19?



**Dr. Anand Agarwal:** Pranav, the entire CAPEX will go till FY20, so part of the spend will happen in FY18, FY19 and FY20.

**Pranav Kshatriya:** How much will be the estimated CAPEX which you will be earmarking for FY18?

**Dr. Anand Agarwal:** It would be on the order. Typically, we have been doing about Rs.220 crore to Rs.230 crore, in FY18, the cash flow would be of the order of Rs.350 crore, CAPEX as a part of this total CAPEX between Rs.1,000 crore to Rs.1,200 crore.

**Pranav Kshatriya:** My second question is how are you seeing traction in India business because if I look at for full year basis it seems that India business has declined despite the more services revenue coming in and even project-based revenue also coming in. So what exactly is leading to weakness in India business and how do you see it going forward?

**Dr. Anand Agarwal:** As we said, we are seeing definitely a faster growth rate which is coming from the global businesses. So out of about Rs.3,000 crore of order book that we have, about Rs.2,000 crore is India and Rs.1,000 crore is global. The growth rate of International have been more faster than India, but we continue to be very very bullish on India's potential as well as outlook that we have. The fact that we have currently more than Rs.2,000 crore of order book from India which a significant part will get executed in the current year itself, this showcases a pretty good potential.

**Pranav Kshatriya:** So, would it be fair to say that we will see at least a double-digit kind of growth given the Fiber deployment in India will also start rising because now the CAPEX is getting behind, double digit or mid-teen kind of growth is feasible for India business?

**Dr. Anand Agarwal:** Pranav, normally, we keep the business in totality. As we said over five years, we have grown at 24% top line and 40% bottom line and for us the focus is looking at in its entirety. The only difference is India we do services as well. So clearly, we believe we will see continuous good growth in India as well.

**Pranav Kshatriya:** Are you seeing any postponement, deferment kind of a thing on the CAPEX or on the services requirement because of dwindling revenues of the telecom operators?

**Dr. Anand Agarwal:** For us, India is much larger than the telecom operators. For us, India is telecom operators, internet service providers, cable TV providers, rural broadband, smart cities, defense. We believe industry consolidation is healthy for the industry because to deliver the data which the industry will require over the next few years, we need to have people who are stronger, who have good balance sheet and who have capability to spend. So, in a macro perspective we are pretty confident on the outlook for the country which will be driven by various stakeholders creating the network for the country.

**Moderator:** Thank you. Next question is from the line of Rajeev Desai from Indiabulls Mutual Fund. Please go ahead.

- Rajeev Desai:** Just a few couple of questions; one is regarding your order pipeline. Can you just brief me on where is this opportunity we see have like currently which we have bided?
- Dr. Anand Agarwal:** Our bid pipeline is greater than Rs.10,000 crore and I will give you a perspective, for example, you would be seeing that Q-o-Q our order book has been increasing, like end of Q3, it was Rs.2,600 crore, now, it is more than Rs.3,000 crore. So we have a very strong pipeline and increasingly, the clear focus for ourselves is to choose where we bid as well. Our win ratios as we start moving forward will keep getting higher for the pipeline. We have a strong order book and a strong pipeline.
- Rajeev Desai:** When are we expecting any major bid opening of this Rs.10,000 crore?
- Dr. Anand Agarwal:** Throughout the year, there will be several sorts of bids which will be coming, for us, if you see the growth in order book we had Rs. 2,200 crore order book when we started the year, we have grown it by about 40% to Rs. 3,000 crore. So we are comfortable with the pace of that growth and that is where we are focusing for that phase to continue as we move forward.
- Rajeev Desai:** Sir, we had won some defense orders last year. Have they been part of this book, and are there any new defense orders in this Rs.10,000 crore?
- Dr. Anand Agarwal:** The last defense order we won was more than two - two and a half years which we are executing right now. There is a defense order which we are currently executing. For more granularity, Rajeev, it will be better if you can contact IR team.
- Rajeev Desai:** One more clarification sir. with Sterlite Power demerger and basically listing of it, do we benefit?
- Dr. Anand Agarwal:** Sterlite Power has no linkage with Sterlite Technologies. It has been a pure demerger which has happened more than a year ago.
- Moderator:** Thank you. We take the next question from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.
- Dheeresh Pathak:** Can you give me the revenue mix for the full year into Product, Solutions and Software?
- Dr. Anand Agarwal:** Dheeresh, we normally do not break it up that way, but broadly we have about 75% Product and Services and Software is close to 25%, we do not report Solutions and Software separately.
- Dheeresh Pathak:** What percentage of the full year revenues came from Bharat Net?
- Dr. Anand Agarwal:** Bharat Net was minimal because it was only some supplies that we made for Phase-I, in FY17 there was minimal revenue.
- Dheeresh Pathak:** But on an average for the last two-three years, what is the annual budget on the products side for this? Is it very lumpy or is it like a steady spend that the Government does every year?

**Dr. Anand Agarwal:** Just to give a perspective, Bharat Net, the first phase deployment has happened for about 100,000 villages, for which the Government had bought the products essentially about 2-2.5 years ago. Of that Rs.10,000 crore, Optical Fiber Cables were about Rs.1,200-1,300 crore. The next phase of spend which is going to be another Rs.20,000 crore till December 2018 is getting structured right now. So exactly the breakup between Products and Services is not clear but between now to December 2018 there would be approximately Rs.20,000 crore spend on Bharat Net.

**Dheeresh Pathak:** Of which the Fiber would be like 12-13%?

**Dr. Anand Agarwal:** Typically, about 10-12%.

**Dheeresh Pathak:** This \$200 million CAPEX for 20 million extra capacity, it is almost \$10. This is on the lower side, right, for Greenfield earlier you had mentioned that this CAPEX is about \$16-18?

**Dr. Anand Agarwal:** First, that is mostly for the industry. For us, the Brownfield expansion have been at about \$8. If you recall the previous \$8 million we had done at about Rs.300 crore. The Greenfield is going to be closer to \$10 because we are like adding utilities, infrastructure.

**Dheeresh Pathak:** But why is it lower versus the \$16-18 because in the meetings earlier you only had given this number that Greenfield cost \$16-18, so why is it for us now it is happening in \$10, anything specific?

**Dr. Anand Agarwal:** For us essentially I mean what we have been binding that the overall technology, overall machine, our full integration, we have not gone as to how why others are at \$16 but we are clear that we will be able to do it in \$10. This is reported numbers for others. So instead of going into their analysis, we make sure that we are able to do it in \$10.

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

**Jigar Shah:** My first question is about your network design capability and given the emergence of a major data demand in the country, how do you see potential for this business? Today what is it as a percentage of your total revenue and what is the potential over here, what role will you play, what edge you have vis-à-vis competition, if you can give more idea about that? In your plans for the next couple of years as you saturate your product capacity, is this business can pick up in a big way it can give you some sort of push, so any color on that will be very welcome?

**Dr. Anand Agarwal:** Jigar, what is happening essentially is that the Services business essentially for us we have targeted and focused it on the new networks which will be built out in India. India today as I said earlier only about 150 million people have access to broadband and this is constrained by supply, it is not constrained by demand. Just to put a perspective, if we are all tracking the Reliance sort of numbers, Reliance has put in almost more than \$12 billion or \$13 billion in their network in the last two-three years. They are talking about adding another 100,000 towers in the upcoming year which all needs to be fiber connected. If India needs to go to a data-driven society over the next three or four-years the CAPEX that we believe would need to get done in the next three years would be of the order of Rs.75,000 crore. This CAPEX will happen partly by telecom

service providers, partly by Bharat Net, partly by smart cities and partly by other infrastructure providers. Within this, these are all going to be new Greenfield network being created for transmission of data. This requires somebody to not only build the network but design the network appropriately and post building manage the network because the network, capacity and requirement will continue to grow. Towards that we believe that we have that unique capability and that unique position in the country to be somebody who can design, build and manage that network. So that Rs.10,000 crore pipeline that I spoke about, a large part of it is towards the services business. While our revenue is about close to 25% in services institutions, our order book currently is almost 50% in Services and Solutions, and our pipeline is still stronger in Services and Solutions. So, all the macro indicators, all the leading metrics make us very very upbeat about this opportunity and the fact that we are uniquely placed to cater to this opportunity.

**Jigar Shah:** I just have a related question to this. When you say Rs.75,000 crore of CAPEX needs to be incurred over a period of time, what kind of percentage opportunity is there on a relevant basis for Sterlite Tech in this, not product, obviously the service and the network management?

**Dr. Anand Agarwal:** Essentially in terms of capabilities, we can access a large part of this CAPEX; however, we will choose the right CAPEX in terms of the right customers, the right geographies and our capability to manage that network over a longer period of time.

**Jigar Shah:** If I can extrapolate this, in that situation can this business itself be bigger than your current Products business?

**Dr. Anand Agarwal:** If I see in my order book, order book is already of equal size of products and services. As I said, my pipeline is more service-heavy.

**Jigar Shah:** Some reports indicating that the China fiber deployment is slowing down, there are some issues with Huawei network, etc., Is this true and would you be worried about any slowdown in China, how does it affect us, etc., if you have any comments?

**Dr. Anand Agarwal:** What we are seeing is, Jigar, almost after 15-years global fiber shortage and this is over the next four to five quarters and this is coming in essentially by deployment which is happening globally and by service providers who are moving from 4G to 5G. So in say two or three years ago if China had shown such sort of indications, we would be worried, but none of the indications from China market which has announced their 4G to fiber to the home spend and has talked about 2019 5G launch concerns us. All macro indicators are absolutely clear that new networks will need to be built for 5G, they will need to be dense and we have pretty validated once just like a week ago, we saw as I said one of the US telcos announcing a billion dollar deal for buying fiber over the next few years.

**Moderator:** Thank you. The next question is from the line of Alok Deora from IIFL. Please go ahead.

**Alok Deora:** Just wanted to understand the increase in the fiber capacity which we are now planning to take it to 50 million kilometers. So is it because we are looking at increasing fiber demand or is it

because like the services is not really picking up as we had estimated like say 6-9-months back and since fiber demand is stable and relatively growing, so are we looking to capitalize on that, I just wanted your thoughts?

**Dr. Anand Agarwal:** We are very-very bullish on both the segments and we see it as an integrated segment. Clearly, we took the decision to go from 22 million to 30 million and realize that the 30 million also where capacities getting sold out. We have spoken to most of our customers current as well as potential and are absolutely clear that in the next three years the global volume will be of the order of in excess of 500-550 million kilometers. We have always maintained our share and capacity close to 10% of the global volume. So our decision to move from 30 to 50 million is in accordance with all the macro parameters. Our customers CAPEX plans, our global market share and the growth in the market that we have spoken to various global analysts, customers and based on that we have taken that call. Our service business calls we take independent than the products business.

**Alok Deora:** So with the Fiber business being generating the highest margins of all the segments, so we can then definitely look at margins being at slightly improving from here on because in next say three-four years down the line your Fiber business would be a significant portion of the total pie?

**Dr. Anand Agarwal:** Alok, as I said that we look at each business separately. You are right that the fiber business will continue becoming more and more relevant; however, at the same time what I just told to Jigar, as we are seeing great opportunity in the Services business as well. We are not sure three years later what share of the pie will be but, we look at each opportunity from individual profitability perspective, margin perspective as well as return on capital deployed perspective. We are not too much concerned or worried about the right mix. We look everything at an opportunity and the mix becomes more of an outcome.

**Moderator:** Thank you. The next question is from the line of Abhijith Vara from Sundaram Mutual Fund. Please go ahead.

**Abhijith Vara:** Could you give this volume numbers of Optical Fiber and Cable for this current quarter?

**Dr. Anand Agarwal:** Abhijith, we have stopped giving volume numbers for quarter and we realize that this was becoming for us a competitive issue. So what we have indicated is that there is growth and the Products business have all grown. The fact that our capacity sold out and the fact that we are taking calls for capacity expansion clearly. So there is great growth on the product business but exact numbers we have decided not to share.

**Abhijith Vara:** Secondly, this EBITDA margin expansion in the fourth quarter, what is it driven by? I understand Q-o-Q there will be variances but just to understand is something contributing positively and whether it can continue in the near-term or was it one-off which aided this margin?

**Anupam Jindal:** Abhijeet, as you have rightly said, the numbers are typically ranging between 21% to 22%, 23% sometimes. So it is a mix of Fiber and Fiber Cable plus a couple of good quality orders. So I

think it has been quite consistent at about 21% if you look at from annual perspective. So I would say that this kind of ratio between Products and Services remain, I think this is quite a comfortable level. As far as this particular quarter is concerned, there may be some variation.

**Abhijith Vara:** What will be your debt guidance by 2020 when the full CAPEX is concluded?

**Anupam Jindal:** Abhijeet, in terms of our stated objective that we would like to keep our debt-equity ratio to about 1 which we have already sort of delivered at the end of current financial year. So, our efforts will be to see that with this capacity expansion also happening during the next three years of this growth, we try to maintain at that levels. In absolute number, it may vary depending on what scale we achieve but I would say that directionally that is the number we will be looking at.

**Moderator:** Thank you. The next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

**Kunal Vora:** Can you share your thoughts on Fiber-to-the-home opportunity for residential broadband? So far we have seen very little investment going from telecom or cable companies there, are you seeing any acceleration in investments on FTTH?

**Dr. Anand Agarwal:** We are seeing great degree of acceleration happening, if you would have noticed a couple of days ago, Reliance in their call also spoke about their FTTH investments. So we are seeing trials for that happening. We are seeing several niche service internet providers already deploying Fiber-to-the-Home. We are seeing some MSOs and cable TV providers starting to do that and a couple of big telcos also in trials. In terms of priority, what telcos are doing, they will first connect all with their 4G towers which need to get connected. Like India has one of the lowest ratio of towers connected by fiber globally. So in terms of priority first, the tower gets connected and then they take the fiber from that point of presence to the home. So at present we are either in order or in trial phase with more than five or six different category of operators with fiber-to-the-home. We have a full set of solutions and kit where we are working closely with each of them between internet service providers, telecom service providers as well as cable TV service providers.

**Kunal Vora:** In India, private versus Government orders in terms of your revenue mix, how large is private right now?

**Dr. Anand Agarwal:** Last year 50% of our sale has been to India; if I give you a breakup about, 37% was exports, 50% is private and about 14% is India public.

**Kunal Vora:** 50% India private will be mostly telecom operators?

**Dr. Anand Agarwal:** It is across the segments, it is telecom operators, lot of people do not know or talk about what is happening on the MSO investment side as well as the internet service providers. These are city-based niche players but some of them are announcing plans which are really tremendous and we are very bullish about the niche internet service providers, we have seen them mushroom globally at very-different scale.

- Kunal Vora:** So are they deploying GPONs and DOCSIS 3.0?
- Dr. Anand Agarwal:** These are now changing from DOCSIS to GPON.
- Kunal Vora:** Can you share your thoughts on smart city opportunity, some orders like Bhopal Smart City already been given out, like when we start execution on that and how do you stand to benefit from that?
- Dr. Anand Agarwal:** Two of our Smart Cities are already moved into management mode. We have bid for a few more and very shortly we should announce some more wins on the Smart City. So we are in a focused manner engaged with multiple Smart City. But we are very focused that we do the engagement and bidding only if we are involved in the design of the city as well. So that is our focus and smart city as we have mentioned earlier are done in phases. So once we get in, we need to make sure that we continue to be the ones who are providing the subsequent phases of the upgradation of the city.
- Kunal Vora:** Just to understand this better, the order would be won directly by you or it will be someone like Ericsson or Infratel which will get the order and they will subcontract maybe the procurement of fiber from your side, like how does Smart City orders work?
- Dr. Anand Agarwal:** Typically, if the city is paying for it, then clearly the order is directly won by us. We are not in the business of investing in the city. Bhopal that you spoke about, Infratel is investing and they would then give order to somebody like us.
- Moderator:** Thank you. The next question is from the line of Manav Patel from B&K Securities. Please go ahead.
- Manav Patel:** For the NFS project, how much order is left to be executed and by what time it will be executed? Second question is you had earlier mentioned on the system integration order is around L1 stage around Rs.5,000 crore. So when can we expect orders to come from there?
- Dr. Anand Agarwal:** Manav, on the NFS we have less than Rs.700 crore to be executed and a large part of it should get executed within the current fiscal. The orders that we have in the pipeline, we believe decisions on those in one way or the other should happen in the current fiscal as well.
- Manav Patel:** On the capacity expansion plan which will be commissioned by FY19, I wanted to know that during the time of expansion, would we see some production of the fiber happening?
- Dr. Anand Agarwal:** We are trying to do the same thing in modules and stages. So we believe that we will have something coming from it in FY19, FY20 and FY21 should be the full year of the expansion.
- Moderator:** Thank you. The next question is from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.

- Tejas Sheth:** We are expanding in a big way and I am sure apart from India you did highlighted that there is a huge opportunity at the people level as well. Now with this Verizon deal which we recently had, is it there the deal will be happening globally at kind of in a bulk way and can we participate in one of these deals, we see there an opportunity or it is all on the kind of spot way where the opportunity would arise?
- Dr. Anand Agarwal:** For us also the deals are happening in long-term only. We do no spot transactions. For example, our current order book is close to about Rs.1,000 crore for International which is almost equal to what we did in terms of revenue for the whole of last year. So clearly, our focus is long-term, multi-year deal. If you see our order book on the products front, when we started the year, our product order book was less than Rs.500 crore and that has jumped to almost Rs.1,500 crore when we are starting the current year.
- Tejas Sheth:** China is kind of 50% of the global consumption of fiber. US, we recently heard this deal. How do you see the Europe and US market really picking up which can mitigate threat of slowdown in China, is there any white paper which you can highlight?
- Dr. Anand Agarwal:** We can share some of the projections which marketing agency called CRU does. So CRU has done some projections, others have done some projections and they have looked at various scenarios. Clearly, for us, we are again looking at macros and from a macro perspective this growth is there. So geographically we believe if at all there is some degree of slowdown in China, that happens to be more than canceled by the growth that we see in other markets. But nobody is predicting any sort of slowdown in China either. For us, the decision is more driven by our discussions with our current as well as potential customers. So while we take a macro view, at the same time we take a micro perspective also seeing where we have our current order book, what we can book for the subsequent years, this call has been taken.
- Tejas Sheth:** This Rs.1,500 crore of order book which you said on the products side, is it take or pick or something which is more like MoU?
- Dr. Anand Agarwal:** These are definitive contracts.
- Tejas Sheth:** So can they go back on this order and source it from some other suppliers?
- Dr. Anand Agarwal:** No, these are definitive contracts.
- Tejas Sheth:** How are the other suppliers globally behaving when they are seeing this global opportunity in terms of capacity expansion like we announced, are there large players also announcing this kind of expansion which can again have demand/supply mismatch?
- Dr. Anand Agarwal:** As you know, there are only eight manufacturers of preforms in the world. All eight of them are pretty established, pretty mature players. They have been sort of growing along with supply/demand that has been seen over the last several years. So we have seen and some degree of announcements coming from players like Corning, players like Shin-Etsu have announced



some expansion. But we believe that overall all these expansions which is happening at the gross end is happening in a mature manner to cater to the demand that will happen in 2020.

**Tejas Sheth:** Sir, do we participate in all the global demand opportunity and are we been called to give any kind of quote when these companies source?

**Dr. Anand Agarwal:** We are focused on select markets, if you see from our sales profile and revenue, we are focused on Europe, we are focused on China, we are focused on Middle East, we are focused on Latin America. In all such markets, we have full access to market and then we decide which sort of customers we choose to do business with.

**Tejas Sheth:** But then you would need access to newer markets like US, North America?

**Dr. Anand Agarwal:** Sure, we are reviewing that and if necessary we will look at. Over the last 15-years we have gone into different geographies every three-four years. We are reviewing North America as also one of the potential geography.

**Moderator:** Thank you. The next question is from the line of Jitendra Upadhyay from Athena Divitie Investment Services. Please go ahead.

**Jitendra Upadhyay:** I would like to know the CAPEX for Optical Fiber capacity from 30 to 50 million?

**Dr. Anand Agarwal:** Jitendra, we will spend totally between Rs.1,000 crore to Rs.1,200 crore over the next three years.

**Jitendra Upadhyay:** Are you expanding only Optical Fiber or Cable also?

**Dr. Anand Agarwal:** Cable we have enough capacity of more than 15 million kilometers.

**Jitendra Upadhyay:** Sir, you guys would not provide volume number, right, I think Abhijeet asked you same?

**Dr. Anand Agarwal:** Yes, for competitive reasons, we have decided not to provide the volume numbers anymore.

**Jitendra Upadhyay:** How is the pricing for Optical Fiber capacity moved during the year?

**Dr. Anand Agarwal:** The pricing, as we have maintained, has been stable, so we are doing more long-term deals, we are doing more multi-year deals, slightly on the higher end of the range of \$7-8.

**Moderator:** Thank you. The next question is from the line of Nawaz Sarfaraj from IDBI Mutual Fund. Please go ahead.

**Nawaz Sarfaraj:** Firstly, do you see any possibility of Indian telecom companies going slow in the fiberization project on account of the financial stress that they are facing currently?

- Dr. Anand Agarwal:** Nawaz, there is no way out. Currently, telecom companies' revenue only 25% comes from data, 75% comes from voice. Increasingly, voice revenue is declining very rapidly and it is becoming free. So to just maintain the state of revenue, there will be a large investment which is required for the data investment. We are absolutely clear that the telcos would need to upgrade their network and spend towards creating the database network.
- Nawaz Sarfaraj:** At present, what percentage of revenue are we deriving from Indian telecom companies?
- Dr. Anand Agarwal:** As I said earlier, India non-public segment we have about 50% of our total revenue.
- Nawaz Sarfaraj:** All of it is coming from Indian telecom companies?
- Dr. Anand Agarwal:** Telecom companies, internet providers, cable TV providers, all of them are included.
- Nawaz Sarfaraj:** If we were to find the revenue that is coming specifically from the Indian telecom operators?
- Dr. Anand Agarwal:** We do not track it. For us what is very-very relevant is the macro indicators. So for us we do not go to Level-III.
- Nawaz Sarfaraj:** You mentioned that currently you are witnessing global fiber shortage. So logically it should have resulted in price increase in fiber. So has it happened?
- Dr. Anand Agarwal:** As I mentioned, we do more multi-year long-term contracts and it is on towards the higher end of the \$7-8 range.
- Nawaz Sarfaraj:** Once the contract ends, do you expect the pricing to go up and if yes, then by what percentage points?
- Dr. Anand Agarwal:** As we speak we do multi-year engagements. We are starting to do FY19 bookings as well. It depends on the customers and the geographies for which we are booking. We are not to get a spot increase in the fiber.
- Nawaz Sarfaraj:** But do you expect prices to go up maybe after FY19 if the shortage continues?
- Dr. Anand Agarwal:** Difficult to contemplate after FY19, it is more than two years from now.
- Moderator:** Thank you. The next question is from the line of Shekhar Singh from Excelsior Capital. Please go ahead.
- Shekhar Singh:** Just want to understand from 30 to 50 million in capacity increase, what is the sort of revenue potential in that?
- Dr. Anand Agarwal:** Additional \$20 million at about \$7.5 in \$150 million.
- Shekhar Singh:** So roughly you are taking \$7.5 per km?

- Dr. Anand Agarwal:** Yes, I am taking it at the middle of the range; the range is \$7-8.
- Shekhar Singh:** Just in terms of the capacity expansion by other players, any idea in case if you keep a track of what others are doing?
- Dr. Anand Agarwal:** It is difficult and no one in the fiber industry gives a very kind of disclosure that we provide, no one else does in, if you look at the other seven players other than us. We get indication from the kind of CAPEX that they speak about but no one gives that sort of granularity that we kind of provide. But we are absolutely clear, for us the capacity expansion is happening more by our customer engagements rather than by seeing the demand/supply match or mismatch.
- Shekhar Singh:** Will you be open to such a deal going forward for say, in case there were large service providers who come to you and in a way like try to lock up your capacity with the firm agreement?
- Dr. Anand Agarwal:** Nobody locks up. What we are doing is we are booking order which are portions of our capacity and we believe we have enough capacity to meet most of the people's requirements. So at least we have not faced the scenario like that of people wanting to lock up our capacity.
- Anupam Jindal:** One is that and second just to add one more thing that we would not like to have concentration of customers in our portfolio. So we have very diversified customer portfolio and we would like to maintain that.
- Shekhar Singh:** Sir, with this capacity expansion which is happening, one of your intended goals is to improve your return ratios. With this new expansion happening, we will actually be seeing a dip in the return ratios in the intervening period before you reach 100% capacity utilization and all those things, is that correct?
- Anupam Jindal:** Yes, so we have done some scenario building around it and we find that in our view and general the growth which we are seeing, I think we will be comfortable delivering (+20%) ROCE even in the intervening period.
- Moderator:** Thank you. Well, that was the last question. I now hand the floor over to the management for their closing comments.
- Dr. Anand Agarwal:** Yes, we would again like to thank everyone for attending this call and I hope we were able to address and clarify all your queries and comments. For any further clarifications and discussions, you can feel free to contact our investor relations team including myself and Anupam and we hope to continue our association and dialogue in the future. I thank everyone for showing the interest in our company. Have a good day.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Sterlite Technologies, we conclude today's conference. Thank you for joining. You may now disconnect your lines.