



**Sterlite Technologies Limited Q4 FY22**  
Earnings Conference Call Transcript

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**MANAGEMENT:**

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**Pankaj Dhawan:**

Ladies and gentlemen, good day and welcome to the STL Quarter 4 and full year FY22 earnings conference call. I am Pankaj Dhawan, Head Investor Relations at STL. To take us through the Quarter 4 and full-year FY22 results and to answer your queries, we have Mr. Ankit Agarwal – Managing Director, STL and Mr. Mihir Modi – CFO, STL.

Please note all participant lines are in the listen only mode as of now. There will be an opportunity for you to ask questions after the presentation concludes. Please note that this call is being recorded. You can also download a copy of the presentation from our website [www.stl.tech](http://www.stl.tech). Before we proceed with this call, I would like to add that some elements of today's presentation may be forward moving in nature and must be viewed in relation to the risk pertaining to the business. The safe Harbor clause indicated in the presentation also applies to this conference call. For opening remarks, I now handover the call to over to Ankit Agarwal. Over to you Ankit

**Ankit Agarwal:**

Thank you Pankaj. Good day to everyone. Thank you for joining our Quarter 4 FY22 earnings conference call.

At a macro level the overall digital infrastructure is very well-poised for rapid and sustained growth. We see four key themes playing out; first the network creators and governments continue to invest heavily in the digital infrastructure. We can see various instances for the same. Just to quote some of them as you can see on the slide, for example AT&T is increasing its CAPEX from about 16 billion to 20 billion in 2022, Fiber Co. which is out of Italy is looking to invest in fiber to the home coverage of 60% of Italy by 2026. Lumen, Meta, Airtel and so on as you can see are all invested in multi-billion dollars across whether it's on telecom operator side or on the data center side to build out massive networks for their future requirements.

On the government side also, we see various incentives and programs that have been announced. The biggest one we clearly see globally is the US government as part of the infrastructure bill is committed to \$65 billion investment in broadband infrastructure. Similarly, the Italian government has also looked at \$2 billion to provide 5G and connectivity which is now approved and will go into the rollout. Also, another example is Germany where historically they've had largely copper networks across the board are now investing clearly in switching from copper to fiber at a massive speed and scale. The government is continuing to invest about €12 billion to provide gigabit capable fiber connectivity.

Second, we see that this CAPEX investments are powering deployment of 5G, FTTH data centers and Open RAN. It's extremely important to understand that all of these things are happening in parallel. 5G is clearly the fastest growing technology in the world today. Operators will invest



more than \$500 billion in 5G from 2022 to 2025. The number of subscribers is projected to grow from 660 million currently to about 4.4 billion by 2027. Leading the 5G deployments globally is China which plans to triple its base stations from 1.4 million to 3.7 million by 2025. I do want to call out here that historically in the last 5 to 10 years every single projection by the Chinese government has not only been met but by exceeded before time. FTTH is clearly becoming all-pervasive. In Europe Italian broadband operators Open Fiber plans to connect 24 million households, up from 13 million households currently. In the US, Altice is planning to spend \$1.8 billion of CAPEX for fiber to the home. And another example, a customer of ours, city fiber is rolling out and is on track to reach 8 million homes in the UK by 2025 which is just 3 to 4 years away. The data center CAPEX is also set to grow by 10% over the next 5 years to \$350 billion. Google announced \$9.5 billion investment in building offices and data centers in the current year in 2022.

Lastly, Open RAN is moving from pilot phase to initial deployments globally in 2022 and large-scale deployments look likely by next year. In our own conversations with telecom operators at Mobile World Congress it was no longer a concept. It was very clear with our engagement that operators do believe into this technology and are now looking at how to roll this out globally at a certain speed and cost. While Vodafone's first 5G Open RAN site has gone live in UK, Telefonica is scaling Open RAN in more than 800 sites. These are many examples where Open RAN we believe will start taking center stage towards the end of this year and into next year.

The third theme is that in terms of we see playing out large scale fiber deployments globally. In the UK, for example Openreach an important customer of ours is planning to reach 25 million homes by 2026. Netomnia another important customer of ours is planning to pass 1 million homes by 2023, that's just next year and Hyperoptic is planning to target 3 million homes by 2024. Many such examples where clearly a massive amount of fiber in developed countries. Another example in Europe, we talked about the government investing in Germany but Deutsche Telekom is investing to touch 2 million homes by 2022. Open Fiber planning to touch 24 million homes by 2031. A very important example as well for us is North America, AT&T plans to deploy FTTP to additional 30 million homes by 2025. In India, in our home market apart from BharatNet, private telecom operators expect to deploy 200,000 cable kilometers of network in FY23 and going forward for the fiber backbone.

I think this is a very important chart in terms of forecast from CRU, which is the leading provider of the forecast and research in our sector. Clearly as you can see on the chart, 2022 we were at about 544 million fiber kilometers of optical fiber cables. That will continue to grow at least at 5% rate arguably stronger than that into the next 4 to 5 years. This is clearly on the back of all those demand requirements that we had shared earlier. In terms of CRU the global OFC demand is supposed to expect to reach 648, so close to 650 million by 2026. My own estimate and our own view is that probably be even stronger than that given the kind of focus that government and other operators are playing in. STL's focus markets of north America and



Europe are clearly high potential, fast growing and also have high realizations. This is an important element also again looking at CRU data which is industry wide, very important to see that as you look at the pricing we've all gone through this over 2018 into 2019 and 2020. We really believe 2021. Now clearly into 2022 all these tailwinds of the market demand are playing out and starting to look at the trends in terms of prices to starting to go up. If you clearly see from 2020 on to '21 and now into 2022, between about 10% or 20% of price increases are what we expect through the course of the current year. Across again as you see in terms of our core markets of north America, Europe and APAC non- China where we are currently focused on markets like India and Australia. Based on all these four themes that we have just discussed; we confidently reiterate that we're in a multi-year network build cycle across the globe. This is clearly the best network build cycle I have witnessed and as a company we're extremely excited with the potential that that presents to us. The three investment cycles of 5G, FTTH and hyperscale build-out have coincided and we expect that these will continue for the next 7 to 10-year timeframe. With these favorable industry tailwinds our growth strategy is on track. In the following section we shall talk about this in more detail. FY22 as a pivotal year in terms of global expansion, product development and getting tremendous and professional leadership onboard.

Before we deep dive into the strategy I want to take a moment to look at the year gone by and summarize the progress we have made during the year. On the financial front I'm proud to share that we have achieved our highest ever revenue of (+5700) crores, a growth of 19% year-on-year and we are very poised to grow further in FY23. We have a stable order book at north of 11,500 crores out of which UK services in particular, we are proud to share is now stands at 1,000 crores. We have crossed many strategic milestones we have a long outlined for ourselves. We have increased our OFC, our cable capacity from 18 million to 33 million fkm. We have established a foothold in Americas and proud to share that now we have 6% market share of Americas in a very-very short period of time. We have also clearly established ourselves in the UK for the services business by acquiring and integrating Clearcomm which is an acquisition we had done earlier. Clearly, we have delivered cutting edge solutions in FY22. We launched Garuda, a 5G small cell and programmable fiber to that solution providing 10 gig speed. All of these are currently undergoing field trials not only in India but with our global customers.

We continue to develop our intellectual property and extremely proud to share as an Indian company we have more than 733 patents which are global patents and will serve us very well for the future. I'm also proud to inform you that Gartner has recognized STL as one of the key players in the 5G small cell market which is not a small feat for us. Last but not the least, we have moved towards world-class standards. I'm very proud to share that we are now certified great place to work for third time in a row. We have really committed ourselves to net zero by 2030. We have also onboarded world-class leadership to further build and create a global business.



Looking at the key growth levers as we have shared in the past, we could not have achieved this 19% growth in FY22 with a clear focus on these three growth levers. Just to reiterate them, firstly grow the optical business, second globalize the system integration and third build a strong wireless solutions business. We shall talk about our progress in each of these in detail in the subsequent slides.

As you can see from the chart here, we have consistently gained our market share across all of our focus markets. In the nine months of FY22 we have reached 10% market share globally minus China, up from 8% in FY21. In Europe we have reached 25% market share from 16% in FY21. This is something we're really proud of. I want to reiterate in terms of Europe where we have clearly laid out as a strategy of focus. We're now at one-fourth of the market in terms of cable. And finally in north America and Latin America combined, we have now reached 6% market share from just 2% a year ago. Clearly with this market opportunity and the potential that lies for us, our target and our vision is to be a top three global player in the near term and achieve this global leadership.

In terms of establishing a foothold in US and scaling up the optical interconnect facility, we have now established a foothold in the US and now are strengthening our presence by putting up a world-class manufacturing facility for our optical fiber cables. As you can see on the photo on the left, that's the current facility. We're in final stages of setting this up and running this, so very excited as that facility comes on stream. This facility will go on stream in Q3 FY23. Also, we have established our facility in India for optical interconnect with more than 300 resources and a vast portion of those are women which again I'm very proud of to share with you. We have also increased our optical interconnect attach rate from 3% in FY21 to 11% in FY22. For some of you who may not be familiar with this concept of attach rate, it is essentially for every dollar of cable that you sell how many cents or dollar can you sell or are selling of your optical interconnect and that is the attach rate. As we ended FY22 we were at 11% which is a very strong growth from the 3%. This was at the back of our Optotec acquisition that we have done. I'm proud to share that we are now projecting it to go to 20% by FY23 as we had also been guiding in the past. Our vision continues to be at 100% which is for every dollar of cable we sell we will sell a dollar of interconnect and that's clearly a task cut out for us in the next few years.

Coming to the second growth lever of globalizing system integration; in the UK we expanded our partnership with Netomnia. As part of this partnership, we will provide integrated network deployment services along with our optical solutions. We will enable Netomnia to increase home pass speed and reduce the total cost of ownership. This partnership validates our strategy of providing end-to-end solutions to our customers. Overall, in terms of our services business in the UK we have an open order both of approximately 1000 crores. In the UK market we have ramped up our talent and execution to convert order book to revenue. The market is faced with a tremendous shortage of trained resources and currently it is the only constraint for network deployment in the UK. I'm happy to share that we have multiple customers looking at us as a partner for their multi-year buildout. We are actively looking at how do we augment



our resources and bring in additional resources to the UK to support this build out. We are building a unique competitive advantage by training resources at our own academy STL Academy, providing them the certification in the areas of project management, installation, testing and quality assurance and keeping the deployment team ready for UK deployment. A second batch of 100 trained telecom engineers will be deployed in this quarter, Quarter 1 FY23. We aim to increase our UK revenue contribution to 25% of global business services by FY24.

In the wireless business our product development is on track. On the back of efforts by engineers we have over 120 patents on our name now. Again, something to be very proud of as an Indian company to build this kind of IP in the wireless and access space. We now have eight products that have reached general availability milestone which is a critical milestone to now bring these products into the market and large-scale requirements. We have also announced general availability of Garuda, a 5G small cell, programmable FTTH which will provide 10 gig speeds and WiFi 6. We are targeting general availability of our very important 5G radio unit and RAN intelligent controller and therefore full portfolio of our offerings in the current financial year. In terms of customer engagements on the wireless side, as I shared one example being the Mobile World Congress, we continue to engage with our customers globally. We have secured more than 10 engagements currently which are anywhere between early stage to POCs. We are also very happy to report that we have got very good response at the Mobile World Congress where we showcased all of our 5G solutions and customers are actively looking at how to take these discussions forward. In line with our industry, we aim to acquire customers and build order book for this business in FY23. That we believe will start generating meaningful revenue in FY24.

To just summarize the business priorities again; really want to reiterate that our core is the optical business and we are very clear, we want to be a global leader in this space. In the global services business, we want to focus on profitable segments both in India and the UK. We want to be very straightforward here. We are not chasing revenue out here for sake of it. We're looking at profitable businesses, both in UK and in India to grow this forward. Lastly on the wireless business; we believe that we have built some very positive products. We have started to get some customer traction. We've continued to build out our product portfolio and, in this year, start building some of our order book.

We shall now discuss the financials for Quarter 4 FY22 and the outlook for FY23. I would now like to hand over to Mihir, who will discuss the financials.

**Mihir Modi:**

Thanks Ankit. Hello everybody, very good day to all of you. Let me dive straight into the financials funnel; right at the top is the order book. Our order book at the end of Quarter 4 of FY22 stands at 11,639 crores. The spread between a FY23 and '24 plus is about 5,000 crores in FY23 and 6,600 crores in '24 and beyond. I think it's important that we are moving into the right customer segments that we want across all of our businesses for the order book. We also have a significant O&M order book which will start to yield revenues from FY23 onwards.



Moving down the order; in the funnel coming to revenue. The revenue mix is also shifting to the right customer segments that we are deliberately focusing on and the geographies of our choice. If you notice the 55% of our revenues in FY22 are from EMEA and America. These are the key markets that we are focusing on. Of course, India remains a large chunk as well. We are happy with the shape that the mix is taking. In terms of notable wins this quarter, we've already talked about Netomnia and PGCIL orders. In addition to that this quarter we've also won multi-million dollars' worth of multi-year fiber cable contracts with the leading Italian telco. We have also won new cable orders in the north American market. Overall good progress this year and continuing to win orders in the areas, geographies, segments that we desire to. Looking at our project execution, pretty much on track amongst the India public projects. The T-fiber project is 50% complete including all the packages, PGCIL is close to 47% complete. On the India private side, the fiber roll-out for a large Indian telco is 88% complete for its Phase 1. Of course, we have the second phase which is yet to start for that client. We are also starting the execution of fiber rollout for yet another Indian private customer.

Looking at the UK, the fiber to home rollout has started in the UK in a good way. All projects combined we are at 3% completion and we expect that to continue to improve. In the data center connectivity projects, we have completed 58 projects and are currently working on 21 projects. That continues to have its good momentum.

Looking at the middle line now; as I had mentioned in my newsletter a few weeks back, we are seeing some headwinds in the raw material and logistics costs particularly in the optical business. I'd like to go into one more level of detail into that. If we look at our raw material mix, we can look at four broad categories, polymers, metal, gases and specialty resins. If I look at indices or proxies for these, crude oil prices which can be looked at as a proxy for polymer prices it went up by 29% in Q4 of FY22. The LME index which is a decent proxy for metals went up by 15% in Q4 of this year. Similarly natural gas prices went up by 49% in this quarter. We've seen some key raw material price increases in Q4 itself. Similarly on the freight side if we look at the Freightos index and if we look at the route from China to north America as a representative indicator, it went up by a whopping 175% in FY22 in the full year. Almost three times freight cost increase and it does remain at elevated levels particularly to the US route. I must add here that this in some senses also an accelerating effect for us as our US sales as we saw in the earlier charts continued to go up, US and Europe sales. Our mix requires more freight costs. If we add the pricing of that freight that just makes it a little more adverse for us. But we're tracking this very closely and I'll come to some of the actions that we are taking there.

But for now, let me get back to the revenue growth. Our quarterly revenue grew to 1,582 crores which is about 17% growth quarter-on-quarter and 7% growth year-on-year. We expect to maintain the quarterly momentum as we enter Quarter 1 of FY23. Of course, our Quarter 4 EBITDA and PAT stand at 122 crores of EBITDA and negative 22 crores PAT for the Quarter 4. As I mentioned in the previous chart this was largely impacted because of the raw material prices and logistics cost increases. Obviously, there was a global supply chain disruption and



we were impacted by that as well. I must say that despite that and looking at the potential opportunities as well as the momentum on the demand side, particularly in the UK on the services side where we are expanding, we continue to invest and not hold back in that particular area while we will focus on the right areas. As an overall thought process in the optical business, we're working to optimize costs and we have gone back and started having conversations with our customers for price increases and they've started to trickle in. This should compensate for the raw material and logistics cost increase is what we believe. Of course, the services revenue increase will also help absorb the fixed costs overall resulting in the right direction for the profitability.

Last but not the least; like I mentioned earlier very calibrated and focused approach for our investments will also help us improve the EBITDA margins. As we've shared in the past, we expect our EBITDA margins to normalize by H2 of FY23. We have placed an abridged version of our quarterly and full year financials for your perusal. These are available in the presentation on our website.

If we look at the Quarter 4 and the breakup of our revenues, we delivered 1070 crores of revenues in the optical business. We delivered 502 crores revenue in the services business and 54 crores in the digital and wireless businesses. We expect as a whole to grow between 23% to 25% in FY23 over the full year of FY22. We believe that our revenue mix will continue to be very likely in favor of the optical business in terms of margin, our sustainable quarterly EBITDA margin in the optical business is in the range of 20% to 22% and the services business is in the range of 10% to 12%. As I mentioned earlier, we plan to reach sustainable margins by H2 of FY23. In the optical business the increase in US revenue share, increase in in the cable pricing, the cost saving initiatives, increase in the optical interconnect business which is high margin that attach rate as we know continues to go up and we will continue to push that up will be the key levers for our margin expansion.

In the services business not just the incremental profitable revenue from India but also the increase in UK revenues shall be key to margin expansion for us. In terms of capital allocation, a clear priority is timely investments in the optical business. We continue to invest in our optical fiber cable capacity expansion. In addition to the maintenance CAPEX that we need to incur. On the services side we aim to generate strong cash flows from the business and that remains an important focus area. At the same time, we will continue to divest non-core assets in FY23 as well. As you would recall last year in FY22 we sold interests in METIS or adda247 and MTCIL in this quarter. Our goal is to move towards the 20% ROCE at a steady state operation post the investment phase. I think it is important to mention that there's a fine balance that we need to maintain between not missing investment opportunities at the same time keeping our debt under control. Therefore, in terms of cash flows we plan to maintain our net debt levels at flattish FY22 or slight improvement levels. But our investments, particularly in the optical fiber cable side of the business will be from internal accruals. The cash generated from operations will be used to fund CAPEX. Even on the working capital side we plan we have focused to reduce



the outstanding in the services business. As we grow the optical business, we will kind of improve our working capital levels, we will try to keep it flat at least in terms of the absolute numbers for the US markets.

Overall, the year FY23 is in a way a year of inflection for us. As feedback from all of you we are moving away from giving long-term guidance to providing a more short-term to one year outlook. In that context we want to share our thought process and expectation for FY23. Our revenue for full-year shall be in the range of 23% to 25%. Of course, our aspiration is to grow more than that but we expect that to be 23% to 25% over FY22 our absolute net debt shall remain flattish to slight reduction. The objective is to move towards a steady state ROCE of 20%. Besides the financial that we were also very committed on our ESG targets. I think STLs endeavor, our endeavor is to be a responsible leader in ensuring a connected and an inclusive world. If we just look at some of our key and very proud achievements, we have diverted 45000 metric tons of waste away from landfills in the your FY22 we've reduced emissions worth 7500 tons of CO2 carbon dioxide equivalent through various initiatives in the plants in this year. We have announced our commitment to become carbon neutral company by 2030. All in all, we believe and continue to work in this area and have set ourselves environment friendly targets, inclusive targets for ourselves for STL. Net-net through our various initiatives in education, training, livelihood upliftment, we have impacted 1.47 million plus lives cumulatively over the last 2 years. For our work we have won 29 ESG awards in the FY22. Very proud of our focus and work in this area. In summary I'd like to say that the decade long cycle of network creation is in full swing. The global optical fiber cable volumes and pricing are both expected to grow in the next 12 months in FY23. Our capital allocation shall be focused as we said earlier as well on the optical business, we have established ourselves in the US market already by reaching a 6% market share. We would want to continue to grow there. We have increased our attach rate which is what Ankit earlier mentioned. The attach rate of the optical interconnect through the fiber cables to 11% now. And we would want to continue to push that upward as well. In the services business we're focused on profitable projects and cash generation. We already build a good order book in the UK and are ramping up our execution there. The wireless business products are gaining traction and the focus is to now build order book and eventually deliver those products in the form of revenues. Overall, we aim to grow between 23% to 25% in revenues, keep net debt flat and move towards an ROCE of 20% after the investment phase in the optical business.

**Pankaj Dhawan:**

With this we come to end of our opening commentary. We shall now move to Q&A. First question we will take from the line of Mr. Pranav Kshatriya.

**Pranav Kshatriya:**

My first question is regarding the news article which talked about Sterlite Technologies is considering demerger of various businesses into different entities. What is the management thought process around it? Is this a possibility in the near to long-term and how should investors see this? Second question is regarding the margin trajectory; you talked about margin reaching to broadly the sustainable margin of around 18% odd by H2 FY22 but will H1 FY22 see



the current level of margin or how the trajectory will be that is what I would like to know? Lastly what should be the CAPEX for FY23?

**Ankit Agarwal:**

I will just comment on the first part. The company has taken in principle approval from the board that if the need arises and only at a right valuation price, we may consider raising funds at the equity route. The company is currently investing in new verticals as you're aware and at the current juncture these investments are being made primarily through the internal accruals and the company does not plan to increase as Mihir was sharing to increase the consolidated debt of the company any further. Keeping all of these aspects in mind the company has sought in principle approval to keep the options open and if the need arises at the right time and place.

**Mihir Modi:**

On the margin, Pranav, so you're right that we've spoken about the H2 margins. All I will say is that we expect it to improve quarter-on-quarter if not by significant amounts certainly in the right direction in Q1 and Q2 till we get to the H2 numbers that we're talking about. I will not be able to comment specifically on what's the order or magnitude of that because these are variables which are still moving. As you saw it saw the significant increases in Quarter 4 by the indices that we shared. Therefore, talking about a specific number may be difficult at this stage but our objective will be and aim will be to certainly not let it get worse. Lastly on the CAPEX side, we are looking at a cash flow. We are looking at about 500 crores CAPEX, out of which the 400 will be new CAPEX and about the rest will be maintenance.

**Pranav Kshatriya:**

If I can just follow up with one small question on the first part. The demerger is primarily for equity raising and the value unlocking or is it for debt reduction? What exactly is the management thought process if there's a demerger?

**Ankit Agarwal:**

So, what I'll just comment. See, one at a high level we are operating clearly four business units. They are also in different stages of maturity. So, you have the core business, so to speak of the optical where we have been for the 30 years is mature. Services business is in India and now UK. Then we have the emerging businesses so to speak of digital and wireless where we continue to put-in investment for future growth. Also, from a capital allocation perspective very clear focus and prioritization is to invest in growth of the optical business. There are certain ongoing investments in the tune of 160-180 crores per year in the current year that we will do in the digital and wireless part. That's the current plan that we have. To the extent that we want to look at opportunities for example of inorganic growth for further growing again in broadly the optical space, we do believe that it will be important to capture this market opportunity. To that extent we will continue to evaluate those opportunities in the current year as well. We've also talked about growing in our focus markets in north America and Europe. Again, there any investments required to grow our capacities, if required based on market demand we will continue to focus on that. So that's the overarching theme. Clearly as we've said while we're not seeing options today to substantially reduce debt. At the very least we're saying we want to maintain the debt we are at or reduce it partially. That's where we stand from a focus and priority. As we have said and also shared in response to the article, currently



there's no immediate plans for any of this demerger or hiving off. We'll continue to evaluate and update the market at the appropriate time.

**Pankaj Dhawan:** We'll take the next question from the line of Mr. Neerav Dalal.

**Neerav Dalal:** One is on the India tendering. When do you see the India tendering to happen on the BharatNet Phase 2? Second is on the investment phase. When do you see the investment phase ending? If one looks at your presentation, you were talking about US being completed by third quarter. There were also plans about UK. If you could clearly articulate what you're going to add in US and then whether you're going to add UK or not? Third piece was on you just commented that you would be putting in 160 to 180 crores in the digital wireless side. If one looks at this year, you have on the P&L side you have put in about 155 crores plus 51 crores that's gone to the balance sheet. How should one look at this 160-180 moving between the P&L and the balance sheet, that is number three. And lastly on the EBITDA side you did answer the question but so you clearly trying to say that EBITDA sustainability will come in second half of FY23 and not by second half of FY23, right? Within that when you are still not clear on that?

**Ankit Agarwal:** I think good set of questions. I think definitely we are in a very positive investment phase in India overall both on private sector as well as BharatNet in particular. Clearly with 5G looking fairly promising to happen soon and getting rolled out, our own view is that 5G should get accelerated particularly in the Tier I cities and a pretty large network investment will be required both to connect your 5G towers and small cells which will need to be almost between 70% to 100% back hauled on fiber so that timing of that looks quite promising. Probably by end of year or early next year 5G services should start coming through and the network build out that will be required are we believe will at least be 3 to 4 years of network for that. On your question of BharatNet, government is looking at some changes to the model versus what they had earlier announced and this has come on the back of some concerns that have been raised in terms of ability to generate revenues and the requirement where the essentially the private sector or the bidders would have to generate the revenues from connectivity in the villages. To that extent the model is getting shifted more to a kind of CAPEX and OPEX model. We do believe the quantum of investment will also increase plus there is a good amount of urgency to create this network probably in the next 2 to 3 years. We do see this as a positive momentum both for our services business as well as our optical business and clearly a large opportunity for STL to take leadership in permanence.

**Neerav Dalal:** Just on this piece. At the moment there is no clarity from the government in terms of first half, second half, when they would start tendering?

**Ankit Agarwal:** So, as I said because the model is getting shifted itself that consultation is going on both internally as well as with the industry. I won't be able to comment on what is the final model but certainly there is a high urgency from the government and a very positive discussion to



conclude the model and then take this out for bidding. Definitely at some point this year that will happen and my own guess it will happen sooner rather than later.

**Mihir Modi:** Coming to the CAPEX question Neerav, so as I mentioned earlier there's expected to be about 500 crores of cash outflow on account of CAPEX. To answer your question about approximately 300 out of that will be on account of UK and US so both included to specifically answer your question. And there is some maintenance cashflow and some past year cashflow that kind of adds to the 500 therefore. We expect that to be it. Of course, some shifts of cash flows between this year and next year maybe possible where if we have an opportunity to get the right terms, we may push out some cash flow on to next year but these are good numbers to anchor on from a cashflow standpoint and a spend standpoint. The next question is on the digital and wireless investment. So, 155 and 51, yes these are numbers for FY22. We expect the OPEX to be a little higher and CAPEX to be a little lower than this, adding up to the number that we mentioned earlier for the total investment benefit also.

**Neerav Dalal:** The OPEX for last year was about 155 crores and we are talking about 160 to 180 so?

**Mihir Modi:** That's right so in short...

**Neerav Dalal:** Largely it will be OPEX?

**Mihir Modi:** That's correct, yes. On your EBITDA point you're right. The EBITDA when we say it will be at normalized levels in H2 or by H2, it is indeed in H2 to be clear about it. We expect that to happen in H2 given all these headwinds that we are facing, we believe that is the kind of time it will take for us to, not just optimize the cost but also our effort on the prices to be increased from our customers. That's the time frame that I see we will need.

**Pankaj Dhawan:** We'll take the next question from the line of Mr. Mukul Garg.

**Mukul Garg:** I just wanted to follow-up on the margin question. Is it possible for you to break the margin impact adjusted of provision for last quarter between raw material cost, freight and increased investment? If you can just help us kind of gauge exactly how much hit came from which particular element?

**Mihir Modi:** Sure. I'll give you a high-level number. I think about a 100 bps came from increased investment, about 200 bps came from freight and thereabouts came from raw material.

**Mukul Garg:** Also, Ankit, just wanted to check on the revenue guidance. The commentary overall seems to be that demand environment continue to improve meaningfully and certainly was better versus last quarter. Then in that scenario what drove the change in revenue guidance versus the previous one which was focused on Q4 23? It seems that guidance has come off a bit?



**Ankit Agarwal:** Absolutely Mukul and I think this is one at a macro level, there's no question in terms of the tailwinds and the positive tailwinds. Again, growth in our focused markets of North America, Europe and India are clearly there. As some of these capacities come on stream, the price realizations come on stream as well and for example, as we continue to scale our UK services these will all help drive that top line toll. So that gives us a comfort. I think what we are very consciously driving also is both profitable growth as well as ensuring the cash. So, we want to make sure that the projects we're involved in that the cash cycle is at the right levels that we wanted to be. With that intention in mind, we have taken conscious calls in our plan for the current year. We don't want to just drive revenue for sake of it but drive the right kind of revenue growth and so that's been the decision, the focus and also the communication with our teams and that's where we've come out with our plans.

**Mukul Garg:** Probably another word. Does it imply that the caution is more on the India services element where the cash obviously has been stopped for a while?

**Ankit Agarwal:** Yeah absolutely. One, I do want to iterate there has been positive developments in the cash collections and it continues even into Quarter 4 and into the Q1 that we are quite positive about. And then in terms of the services I think there is two parts. One, what we are saying very categorically, we will only do services in India whether it is for private sector, BharatNet or Defense at a certain profitable, minimum profitable threshold so that's one part. And then the second part is so far, we have invested in services opportunities in the UK while we have borne some costs currently; we do believe that as we start scaling up some of these fixed costs will get covered through that revenue. That's the focus for the services business but to answer your question very specifically yes, we've been very mindful of what services opportunities we pick up in India. We had also talked about this in the previous quarter and some of our discussions and that is clearly the thought process in our teams. While there are significant opportunities also that they get played out in India, we're very mindful of which of those we'll pick up at what profitability levels.

**Mukul Garg:** If I may ask just one clarification Mihir, what portion of your product order wins this quarter had a higher price baked in. Is it fair to assume that especially given the price chart which you had showed that at least 10% of the value increase compared to Q3 would be from the higher prices?

**Mihir Modi:** Before I answer that I think it's not necessary that way because a lot of the revenue that got booked in Q4 was actually dispatched much earlier and therefore it's not necessary that this quarter revenue has those higher price increases. So, to answer your question I mean the revenue increase that we've got is on the back of volumes as well in addition to some price increases that we have taken in the last quarter or so.

**Mukul Garg:** No, Mihir I was talking about the booking?



**Mihir Modi:** Order book, yeah, so order book I think we can safely say that about 10% to 15% of our order booking in the cable side was on higher pricing and we continue to have that journey.

**Pankaj Dhawan:** We'll take the next question from the line of Mr. Sunny Gosar.

**Sunny Gosar:** My question is related to the margin and sorry for repeating it again but basically in the current quarter margin, we are at about between 7.5% to 8% versus if we look at our Q3 FY22 adjusted margins, adjusting for the write-off and the provisions was about 11.5%-12%. We have come down by about 5%. What I wanted to understand here is that what elements are being contributed incrementally on the cost side and do we have provisions even in this quarter which has also impacted the margin? Because I see your other operating costs was 449 crores in Q3 and this quarter it is 429 crores and if I remember correctly in last quarter your other operating cost included about 130 crores of provision. So that hasn't moved much. So, some clarity on that will be helpful?

**Mihir Modi:** Yeah, indeed absolutely Sunny. So first at the macro level the 500 bps or the 5 percentage points that you mentioned, I broadly shared that about 1% or 100 bps is because of our increased investments in the digital and wireless space. About 200 bps is in raw materials and about 200 bps is in the freight. Now these are the broader elements, of course these are Q4 versus Q3 exactly the way you're asking. These would appear primarily in the line item that you're referring to. So, 429 crores include the freight, the investments and some of these packing materials etc. So, some of those increases are sitting in that category itself. If you adjust for so that's one point. Second is the line items where the provisions were sitting last quarter, were spread across a few line items and in this particular line items there was about roughly about less than 100 crores sitting in this particular line item. If you adjust for that you will find the increases that are sitting in those line items. Last question on the provisions. No, we don't have any one-off provisions or abnormal provisions this quarter. This is a routine operational business this quarter.

**Sunny Gosar:** But I don't see a that bigger drop on the gross margins assets or is it the right way to look at gross margins because your revenue will also include service revenue. So how should we look at that? How do we compare that?

**Mihir Modi:** Service revenue also, yeah, I mean some direct costs are a part of service revenue as well. If you take only material then yes, the service revenue, gross margin will not show up, I mean the cost will not show up, only the revenues will show up and therefore you'll have to adjust for the service revenue gross margin because the direct cost sits in largely manpower costs.

**Sunny Gosar:** And going forward I understand that the normalized margins will likely come from H2 FY23 but basically how quickly will you be able to pass on the increasing RM cost and have the contracts started to get repriced already or how does that work?



**Ankit Agarwal:**

Yeah sure, happy to take that thought. At a macro level as we've been sharing our teams have been extremely focused on going after what we call our key accounts and that's been the progress that we've also been sharing. These are typically where we work with our customers for their multi-year build out. Some of the examples we have been sharing like Openreach, DU, more recently Netomnia and some of the others and the whole thought process is to partner with them and have multiyear arrangements with them to give them also surety of supply. In each of their cases, there is typically a conversation and negotiation that happens. What we have definitely found is across the board every one of the players in the market is having the same conversations with the customers. It's clearly something that we continue to be convinced is a global phenomenon. Our customers also not surprised with the conversations or our requests for the price increases. They clearly see the underlying elements getting, the costs getting increased. It's typically just a function of (a) the conversation happening, agreeing a certain amount of price increase which is different depending on product portfolio and the negotiation and then as Mihir was referring to, there is a time lag between when the negotiations conclude, then we manufacture and then we sell it and be mindful of the fact that a large portion of our sales today is today coming from pockets of Europe and Americas and also we do see some growth in Australia in the current year. Given just the time period between say 2 months to even up to 3 months there is that time period between when we negotiate, conclude and then be able to see that visibly in our P&L. That's where also where we are saying while we will go through this period lot of the conversations are going on with these large accounts between when we conclude these over the next few months and be able to see it in our P&L, we will see largely the benefits of these towards end of Q2 and into H1.

**Sunny Gosar:**

One last question on the margin side that you have guided say 20% to 22% on your optical products and 10% to 12% on your services side. So, on a blended basis when you talk about 17% to 18%, does this factor in the 3% to 4% R&D spends that you are passing to the P&L or that will be over and above that?

**Mihir Modi:**

No, that will be the over and above that. So, depending on how much we invest in the R&D area and particularly in the digital and wireless space; it will offset that to that extent. That's why this time Sunny we've kind of broken it down for a more clearer communication so that our stakeholders including yourself understand the different pieces that are building up others.

**Sunny Gosar:**

Just to confirm you are saying that 17% to 18% is pre-R&D EBITDA or margins for at a company level?

**Mihir Modi:**

The way I would put it is that for the optical business, we believe 20% to 22% is the sustainable margins, for services business, it is 10% to 12% sustainable. Now if we choose to and if we have to make investments in R&D like I said in digital and wireless space, then we'll adjust it accordingly but we are going to follow a very calibrated investment approach. And to that extent we'll take calls as we go further and whatever impact comes; yes, mathematically we'll have to adjust that to reduce that at a company level when we add it up all.



**Ankit Agarwal:**

Just to add probably to it, one is clearly there is a certain amount of confidence in this 20%-22%. A very important factor also is how we can quickly grow our optical interconnect attach rate. As we have historically shared, we do get better margins in that part of our business and so a very important focus for us is to grow that optical interconnect globally. The second part is that we have incurred certain costs as we have scaled up particularly in UK and we're looking to have very strong margin discipline in our business in India. With these two effects we do believe the margin profile will improve and go to that steady state of 10% to 12% that we have stated. I think these two I would say the steady states that we have shared we do see that panning out especially as we get into H2. On the R&D part and certainly investments in say the new growth areas of digital and wireless, we're very mindful and also feedback from the investors in terms of how do we look at these businesses. We're very closely evaluating what is the investment we want to put into those businesses in the current year. While I've shared that guidance of 160 to 180 crores, we'll continue to evaluate that and share the update on a quarterly basis.

**Pankaj Dhawan:**

We will take the next question from the line of Mr. Tejas Sheth.

**Tejas Sheth:**

One on the margin trajectory side, which you highlighted for H2, how much of that is dependent on the negotiations with the clients and how much of that is dependent on softening of these cost, a thought towards softening of these costs? I just wanted to know where is we more dependent lies for this achieving or moving towards the sustainable margins?

**Mihir Modi:**

Tejas, the way we look at it is so we're looking at about 7% to 9% margin improvement. I mean to break that down we are approximately at about 12%-13% this quarter for the optical business and we are saying it we'll get to a 20% to 22%. Now let me break that down not just in the two elements, two buckets that you mentioned and I'll cover that. There's a third element as well which is the growth of our optical interconnect attach rate in that business because that is inherently higher margin than the fiber cable businesses. If I have to kind of spread it across all three, I expect it to be pretty much so the 7% to 9% will come evenly from each of the three categories as we see currently. If you have to ask me, what would I prefer? I think clearly the customer pricing we are trying to push for more than the cost is what it is to some extent and customer pricing is something that is more valuable also in the long term as we see right now. But if I have to just kind of at a broad level these are three pretty much spread evenly across the 700 bps to 900 bps that we're talking about.

**Tejas Sheth:**

On the demand side, Ankit you mentioned in that the demand guidance cuts or the revenue guidance cut for FY23 is mainly because you don't want to chase a low margin business kind of thing. But I believe that when you said that the sector tailwinds are so strong; wouldn't the business come at a higher margin proposition? I mean why you believe that the margins or the business itself is coming at a low margin. I mean when peers like Corning are talking about, they are running short of supply to meet the high demand scenario. Why we are believing that



or why we are stating that the business which is coming is a low margin business and we don't want to increase that?

**Ankit Agarwal:**

Maybe I will just clarify, that was a completely aligned with what you said. On the core optical business, we continue to focus on our large accounts. We see very strong demand and growing demand and the intent very much, very clearly laid out is with our current capacities, with our new capacities coming on stream and our efforts on price realization improvement, margin improvement that will be a core focus for the team to grow that and I think that will happen profitably. And what we just spoke in terms of growing from this 12%-13% going towards (+20%) that is the core focus for the company going forward. Where we have historically also shared is that we have made a conscious shift where a good portion of our business which is government dependent today has moved more towards the private sector, working with the Tier I operators in particular and we are also making a second shift in terms of just being India dependent to India plus UK. As we do this shift certainly over the next 3 to 6 months etc., we are very conscious that there are margin challenges for example in private sector in India and while that is an important part of our business, we really want to be very selective with what kind of business we pick up. All the operators in my opinion would want to give more opportunities for STL given our quality of execution but we are mindful from our perspective of what of that opportunity we want to pick up given our margins that we want to ensure. That's really the area where we are very conscious of how much revenue vis-a-vis profitable growth.

**Tejas Sheth:**

Just last on the clarification of what Mihir mentioned about 7% to 9% equally divided. That broadly is that the price hikes will be assumed in the range of 2% to 3% but again when in your opening remarks you mentioned that the optic fiber prices are seeing a very upward trajectory, why it is becoming difficult to pass on even 5% to 7% price hike to get the margin back?

**Mihir Modi:**

What I said is 2% to 3% of the EBITDA contribution will come from there. How do I put it? So, we will get higher price increases but then part of it will be offset and again we're not necessarily going to get price increase on 100% of our portfolio. The net impact on that so directionally you're right. We are not taking 2% to 3% price increase on any single customer. I mean it's all higher than that but there'll be a mix and the net impact we expect on the EBITDA to be that range, in H2 again. So, we don't want to go beyond that. It's looking quite good like we said in the opening remarks beyond that but if we stick to just the H2, this is a reasonable assumption that we can make there.

**Ankit Agarwal:**

Also, just a one important element in this year is as we start running our US operations and scaling that up, at least to that extent whatever we can manufacture and supply for the current year; to that extent at least some of these say container cost etc. would be minimized. These are some of the plans we have to then further improve the margins.

**Pankaj Dhawan:**

We will take the last question from the line of Mr. Saket Kapoor.



**Saket Kapoor:** Currently if you want to sum up; what are the key areas of concern for our organization and what steps are in the anvil that will guide us to better margin proposition going forward especially from the H2 part?

**Ankit Agarwal:** To almost summarize our conversations today; clearly on the positive side very robust market demand. We believe fundamentally a lot of our strategies and our thought process is starting to play out. Addressing your point on the concerns; very clearly, very important for us as we continue to grow our business globally, we've talked of 23% to 25% growth, very important two things to do that at the right profitability level and to generate cash as a business. I think those are some things that we are very clear of. We're also mindful that we have a certain debt level at the same time we want to make certain investments. So, ensuring that the cash gets generated for the business itself, we are able to utilize that for our CAPEX, also start making our working capital more efficient. These are very important focus areas for our business. I continue to believe that with the market opportunity that we have and the leadership that we've brought in over the last 3 to 6 months; we are very well placed to make those shifts. I also would say that our strategy over last 3 to 4 months in sight of these price increases, our global disruptions, I'm very confident of our own supply chain team and planning team that we will continue to push forward on our cost reductions not only from operations but also from supply chain and from planning side. This is what I would put it this way that while these are concerns, we also have clear plans in place and management in place to execute on these areas.

**Saket Kapoor:** On this 300 crores investment for UK and US which you are planning for this year, the CAPEX part; where is it this going into and what kind of turnover are we going to generate out of it? If you could elaborate where is this investment exactly planned out? How much we have already invested and with 300 crores is the balance amount I think so?

**Mihir Modi:** This is for the fiber cable factory, manufacturing factory that we're putting up in the US and in UK and we've just started that process of investing there. The 300 is the expected total amount that we'll spend across these two. With this we expect to increase our cable capacity, manufacturing capacity by about 8 to 9 million fiber kilometers. That is where it is going. The whole thought process behind this is to get closer to customers in terms of our manufacturing capability and of course local manufacturing in those locations to be able to be more agile, to shorten the delivery times and so on and so forth and that's the reason why we are going ahead with building our facilities in US and UK.

**Ankit Agarwal:** Just to add one thing. If you can see the screen, a lot of focus is also as you go closer to the customers, you also build a very interesting product portfolios for their requirements. This is what I'm holding is as an example of world's largest fiber optic cable. Almost 7000 strands of fiber in it. In India for example they put 48 or 96 strands in a cable. But for this data center customer in US, we are putting 7000 strands in a cable and selling it for their global requirements. This gives you example as, as you go closer to customers, you also build such



kind of niche products for them and that then gives you a long-term relationship and profitable business.

**Saket Kapoor:** So, on an incremental turnover, can you give us some ballpark number? What kind of a business for the 8 million fiber optic kilometer being added? What kind of incremental revenue are we expecting going forward?

**Ankit Agarwal:** Ballpark you can take an average of \$15 for the cable. So, 8 million into \$15 essentially.

**Mihir Modi:** Of course, Saket ji I should clarify that the capacity will be built over a period of time and this is a number; once the full production capacity is in place; this is the kind of incremental revenues that this capacity will be able to generate. I think if we have to look at just FY23, we expect the growth in revenue overall blended to be about 23% to 25% versus FY22 for the year.

**Saket Kapoor:** Mihir question on the net debt level on an absolute number. What is the net debt level and absolute number and what is the cost of debt currently and the current maturity for FY23?

**Mihir Modi:** The net debt levels are around 2700 crores. The cost is approximately at 7% blended. We have a reasonably phased out maturity period over the next kind of 5 to 6 years so that's not a huge concern for us in terms of the maturity period. That is in a comfortable zone as well.

**Saket Kapoor:** We have also seen this increase in inventory over a quarter-on-quarter for December also and now for March?

**Mihir Modi:** That's right. The primary reason for that is that as we increase our revenues or if I may say dispatches to the US and UK, it requires an additional transit time of anything between 45 days to 90 days and that we have to carry it as inventory and that's the sharp increase in inventory that you see because of our revenue mix being more and more skewed in favor of overseas markets. Just to link it back to the question you asked earlier on the manufacturing facility in the US and UK; as we get closer to the customer and as we improve our response time or delivery timelines, this inventory obviously will also come down because then we may not need to see these 45 days to 90 days kind of inventory which is in transit.

**Pankaj Dhawan:** With this we come to the end of our Q&A session and I now hand it over back to Ankit Agarwal for closing remarks.

**Ankit Agarwal:** Thank you Pankaj. I would like to thank everyone for attending this call and showing interest in our company. I hope we were able to address and clarify all your queries and comments. For any further questions and discussions, feel free to contact the Investor Relations team which includes myself, Mihir and we really look forward to continue the conversation with you in the future. Thank you. Jai Hind.