"Sterlite Technologies Limited Q2 FY2019 Earnings Conference Call"

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Moderator: Good day ladies and gentlemen and welcome to the Q2 FY2019 earnings conference call of Sterlite Technologies Limited. 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. I now hand the conference over to Mr. Vishal Aggarwal, Head - Investor Relations, Sterlite Technologies. Thank you and over to you Mr. Aggarwal.

Vishal Aggarwal: Good afternoon everyone and thanks for standing by. Welcome to Q2 FY2019 earnings conference call of Sterlite Technologies Limited. I have the pleasure today to introduce Dr. Anand Agarwal, CEO of Sterlite Tech., who is joining us today for this call. He would take us through the key industry trends, Company strategy and brief performance update for the quarter. Our CFO unfortunately could not join us today as he is finishing his Advanced Management Program at Harvard University and we have his colleague, Navin joining us today with us. With that said, I now hand over the call to Dr. Anand Agarwal. Over to you Dr. Anand.

Anand Agarwal: Thank you Vishal and good afternoon ladies and gentlemen. We are extremely delighted to share with you that this has been yet another exciting quarter for us in terms of numbers and key strategic developments including the announcement of doubling our optical fiber cable capacity and the completion of our acquisition of Metallurgica Bresciana in Europe. Before I delve into the quarterly update I will share with you key industry insights and the Company strategy and outlook in this emerging landscape. We have uploaded the presentation on our website for those who cannot see it live.

Slide 3:

As all of you know, data growth continues to grow unabated fueled by both video led consumption by users and enterprise need for cloud, industrial automation as well as connected ecosystem. As a focused Data Network Solutions Company, this growth in data is almost a proxy to our market opportunity paving way for a very strong outlook for the Company.

Slide 4:

One emerging trend that is manifesting is a growing relevance of the web scale Companies like Facebook, Amazon that are adding to the existing capex pool of the data network investment. The traditional data network investment was traditionally only driven by telcos and what we see that the pace at which these content driven companies are driving investments now to create ultrahigh bandwidth and very low latency networks is extremely encouraging. From our perspective, it starts opening door for a new capex pool, which continues to grow significantly year-on-year coupled with the State Government led initiate investments to build citizen centric networks for driving the digital inclusion. So while the growth in Telco led capex remains in single digit, the composition of this capex is largely shifting from microwave led voice network to fiber led data network. So cumulatively, this trends of capex conversion between telco capex, internet content Company capex and citizen network capex are enlarging the total network investment tool to almost $300 billion annually, which continues to grow and is the focal area of our offering.

Slide 5:

What we see in the emerging industry landscape, is leading to a major structural shift in the network architecture. The legacy networks where access layers was predominantly wireless is now converting into fixed and wire line architecture, with more and more network densification. The future network will look like distributed computing where the conventional core elements of network are converging and the access is dominated by fiber. Also the network is increasingly getting virtualized where more and more operators are globally investing in trials to revamp the network to bring flexibility and agility. Hardware and software in the network is getting disaggregated with software becoming more open source and is playing a much deeper role in the networks of tomorrow. Also hyper scale data center deployment, which is mainly software led is in sharp contrast to the telco deployment of network. We are now witnessing similar trends in the conventional connectivity industry, which would create efficiency and great quality of service.

Slide 6:

Then another great and interesting phenomenon for our business is the multiplier effect of fiber demand that we see as technology keeps progressing. Recently Corning published the theory on link distance and fiber consumption. They estimate that as the average link distance drops by one-tenth, there is almost a 100 times increase in fiber required to support the network. For example, the average length of fiber use in a metro and long haul application is roughly 100 and one-tenth of the average fiber length of fiber in sub-sea application. The number of fibers required to cover all terminals have been seen to increase by a magnitude much larger than the reduction in average length of fiber led by intense network densification. The growing demand of fiber over the years as it starts coming closer to the end user substantiates the theory. As per industry estimates, the 5G architecture with multiple small cell environment may require almost 10 times more fiber connection.

Slide 7:

All these trends towards increasing capex pool, new network architecture as well as growing fiber relevance in network densification opens new potential opportunities for Sterlite Tech. towards creation of digital networks of tomorrow.

Slide 8:

And recognizing these trends, we at Sterlite have been very focused on building our capabilities for catering the needs of the next generation networks. In addition to widening our product portfolio, our strategy to tap into this enlarged capex pool has been to include network softwares as well as services, which enhances our relevance and reduces the response times to our customers. So we have accordingly re-architected our customer segment into four key verticals, which is communication service providers, internet content providers, citizen networks and defence and have a very strong customer engagement model to drive deep engagement opportunities in each of these verticals. We believe that our data network solution strategy will increase our addressable market within this multibillion-dollar capex pool and aiming towards a sustainable value creation.

Slide 9:

The strong foundation of this strategy has been reflected and is getting validated in our accelerating revenue trajectory as well as the enhanced long-term visibility, so multiple order wins, which have elevated our order book backlog at an all time high of almost Rs. 9,500 crore. With almost two-and-a-half years order book visibility at the current revenue run rate, we are now geared towards the next leg of growth beyond FY2021.

Slide 10:

While this is happening at the same time our global footprint continues to grow with strategic manufacturing platforms in key geographies. Our International revenues which has gone up by three times in the last three years, now account for almost 45% of our total revenue.

Slide 11:

And as we embark on the growth journey we remain very, very committed towards our focus on delivering shareholder value. We have delivered a strong growth with solid operating metrics in the last few years and have a history of almost doubling our PAT every two years. With sustained momentum in operations, we remain very much on track to attain our strategic plan of US$100 million in net income by FY2020.

With this, I would now like to update on the key financial and operational aspect of this quarter.

Slide 13:

The revenues for this quarter stood at about Rs.1,100 crore registering almost a 40% year-on-year growth. EBITDA grew 56% on a year-on-year basis driven by both in growth in product volumes as well as improving operating efficiencies. Our profit after tax for the quarter stands at Rs.131 crore registering an 84% growth on a year-on-year basis and this quarter also had a positive impact of consolidating part of the financials of our European acquisition.

Slide 14:

In terms of financial performance at 26% our EBITDA margin remains amongst the best in the industry. We continue to deliver strong growth on all the three matrices of Revenue, EBITDA and PAT and the Return on Capital employed at end of quarter stands at 33% and remains a pre-eminent metric to define our growth.

Slide 15:

The Net debt as you may have observed has increased since the end of FY2018, which has both the function of the growth capex as well as the acquisition that we did in H1 of this year. On a sustainable basis, the business continues to deliver very strong operating cash flows and these investments have geared towards the future growth, and the benefit of which we will start reaping in from FY2020.

Slide 16:

Lastly among the other developments during the quarter, the key ones include major wins with several leading Tier-1 telco operators in Europe for multiyear contracts of fiber cable supplies. We announced the expansion plan for our optical fiber cables to come on board by June 2020. With both fiber and cable expansion on track, once completed, it will place us amongst the top integrated optical fiber and cabling technology providers globally and with a relentless focus on technology and new product development, our global product and process patents now stand at almost 217.

With this we come to the end of our opening commentary and we will be happy to take questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer sessions. The first question is from the line of Anubhav Gupta from Emkay Global. Please go ahead.

Anubhav Gupta: Good evening everyone and many congratulations on another record quarter. So Dr. Agarwal, we have enough evidence that there is going to be a sustainable fiber demand globally for next four to five years. We are seeing the emergence of data networks by telcos, by internet Companies, by enterprise solution providers and we also know that the fiber will be the core to the development of these networks. So given that Sterlite is a unique Company with data-related products and services, what do you think would be the opportunity size for you and secondly apart from fiber where you are expanding capacity and increasing your market share what are the other data-related services which you could offer to a client so that you continue to gain the wallet share from the customers?

Anand Agarwal: Sure. Thanks Anubhav. So clearly as I pointed out earlier now the scale of opportunity which we are addressing is in the entire data network part of the business. So we are seeing the fact that the capex that I spoke about almost at a global level now is almost 300 billion, which telcos, internet companies and citizen network spent and that is shifting from voice and wireless towards data and fiber and that entire capex, the data network capex is something which becomes an addressable market for us. And the scale of that shift, I mean it is just reflective of the fact that on one hand we have a very strong stable growing fiber business and at the same time we see a tremendous shift in the way we are growing on the services side as well and if you see the overall order book, which at this time last year would have been Rs. 3,000 and Rs. 3,500 crore is now almost close to Rs. 10,000 crore. So that is the reflection of both the scale of the opportunities, which is becoming fair and it is increasing significantly. In one way, I can say that earlier we used to address globally, we were existing in a market of about $10 billion, we should at the current level have addressable market of almost $30 to $40 billion as the data capex become the significant part of the overall capex.

Anubhav Gupta: Right and I remember I mean until two quarters ago, we used to ask you what is the growth outlook beyond FY2020, the guidance, which you gave and now with figures like Metallurgica acquisition with optic fiber cable capacity expansion and obviously the new fiber capacity coming online in advance and with the current order book of Rs. 10,000 crore, so can we see that the growth rate which we have maintained in the past could be maintained for the next two to three years as well beyond FY2020, do we have enough visibility that we can grow as strong as we have done in the past in FY2021 and FY2022 as well?

Anand Agarwal: What is happening, in the past growth rate was achieved with a certain amount of global capex and with a certain amount of capacity that we had. Now at the addressable market end itself, the market is increasing exponentially and our capability to access that market itself has significantly increased. We are at an all time high not only of the absolute number of order book, but even at the multiple of revenue run rate with two-and-a-half years clear visibility of our current revenue I am absolutely clear that revenue growth is not only sustained, but this should be growing at the rate that we have been talking about and delivering on.

Anubhav Gupta: I understood. Thank you so much and best of luck.

Moderator: Thank you. The next question is from the line of Karan Uppal from Haitong Securities. Please go ahead.

Karan Uppal: Thanks for the opportunity. Just first question is on revenue growth. So what were the main drivers for the revenue growth for the quarter? Is it mainly driven by services business because in the products business you are already running at almost 100% utilization?

Anand Agarwal: So Karan if you recall over the last several quarters we have been talking about that. We are very clear that our cable operations is to run at 60% or 65%, we were seeing that it was increased. Our cable business is fully running at more than 100% capacity running right now and that has been the largest driver for what we have seen is the increase and that has what prompted us, one is good order book, second is good capacity utilization to take this call to double the cable capacity, other than the acquisition that we did in Europe.

Karan Uppal: The second is on cost. So your cost have increased from 38% to 40%, the cost of materials I am talking about, so is it due to the Metallurgica business, which you acquired, which has a lower margins than your organic margin?

Anand Agarwal: No, Metallurgica margins are similar to the cables margin, it is a cables business. So the cost that you are looking at is the fact that we have done more cables in the current quarter than fiber.

Karan Uppal: Thanks for opportunity.

Moderator: Thank you. The next question is from the line of Neerav Dalal from May Bank. Please go ahead.

Neerav Dalal: Thank you for the opportunity. I had a couple of questions. One is in terms of the navy order, how do you see the revenues coming in for the contract, if you could explain on that?

Anand Agarwal: So out of overall Rs.3,500 crore about Rs.2,500-Rs.2,600 crore were yet recognized between now and FY19, 20, 21 at least recognized and balance Rs.900 to Rs.1,000 crore will be over a period of seven years, which is more flowing on.

Neerav Dalal: But the implementation would start on this quarter itself?

Anand Agarwal: Slightly I would not say a huge amount will start happening from this quarter. So Q4 we will see some revenues, good amount in FY2020 and FY2021.

Neerav Dalal: Okay. In terms of the order intake in the quarter if I would just exclude this 35 billion order; the order intake is close to a Rs. 1,000 crore, which was about Rs.1,500-Rs.1,600 crore over the last four quarters, so any comment from this and how do you see the outlook on this?

Anand Agarwal: Overall Neerav, it will be a sum of product, services, global India and we typically see from looking at every quarter and micromanaging every part of it, we see at a macro level how we are growing. At a macro level our overall order book is growing faster than the revenue growth that we are, at a macro level our order book is at 2.5 times of revenue, at a macro level our pipeline continues to look strong and then I do not really worry too much about whether the order came in the quarter or 10 days later.

Neerav Dalal: Lastly you also spoke about you know your service offering increasing over the last few quarters, so if you could in short explain what in your service offerings, what all have you added in your service offerings making it a complete solutions Company?

Anand Agarwal: There is a end to end offering so what we used to do if you recall; we had done two to three Smart Cities, essentially to look at our capabilities of offerings from fiber up to the application layer and these were small orders between Rs.50 to Rs.100-Rs.150 crore, but it created a good amount of capability and learning products. Now this order for Navy is an end-to-end offering from the very base level of transport layer, two IT layers in 30 locations across the Country and if this capability for us to create the whole network from fiber all the way to software, if that unique capability, which you are building that anything to do with the data network we do and our acquisition that we have done at the software Company about two, two-and-a-half years ago, is added to that strength so we have fibers, we have software and we have services and those are the key components of building a full data network.

Neerav Dalal: Thank you. I will come back for more questions.

Moderator: Thank you. The next question is from the line of Harshit Patel from Equirus. Please go ahead.

Harshit Patel: We have seen that our EBITDA margin has contracted a little bit on Q-o-Q basis, so one of the reasons I would presume is that the higher execution on the cable front. So would it also be the case that the services execution was higher than the previous quarter because the typical margins for the services would be lower.

Anand Agarwal: Harshit, you are right the margin shift, which has happened Q-o-Q is on cables and more cables than fiber and we have always maintained that is not an area, which we typically focus a whole lot on, we focus on absolute revenue growth, absolute EBITDA growth and ROCE growth and on all those fronts we have delivered better on that. Our model itself is structured, there is some of parts of margin will keep going up and down quarter-on-quarter.

Harshit Patel: Till last quarter we used to give the breakup of our order book business products and services, but in this quarter we have not given that, so sir could you enlighten us as to what would be the absolute addition in to the product order book?

Anand Agarwal: Overall the product is close to about Rs.5,000 crore and services is about Rs.4,000 and Rs.4,500 crore.

Harshit Patel: One last question from my side, sir out of the 20 million optic fiber capacity expansion that we are doing currently, so out of the 20 how much would be there in China and how much would be there in India?

Anand Agarwal: All the part that we are making the glass part of it is in India then some part of the additional 20, I think about 6 or 7 million is in China and about 13-14 million is in India.

Harshit Patel: Just one last book keeping question for Vishal. So I just wanted to understand one part that when we are doing the execution of the services contract; so would it have any impact on the gross margins, for example - currently we have given an order to Tejas Network for about Rs.111 crore, so does that count towards our costs or that is going to our other expenses. So that is the book keeping question that I have.

Anand Agarwal: So that will be costs only.

Vishal Aggarwal: Whatever additional cost will come for service, part of that will go into COGS and part will go into other expenditure.

Harshit Patel: That is all from my side.

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Thank you for the opportunity sir. I have been a shareholder since 2013 and every quarter I have been pleasantly surprised so thank you very much for your efforts. Sir I have three questions, one is on slide number 5, you have mentioned something about open source increasingly becoming, the network software is increasing and becoming open source. So I was just wondering it is generally when this happens in any particular industry where more and more software has been developed to the open source the margins compressed, am I reading this completely wrong sir, if you could elaborate on that part and also probably give more details on how and what exactly?

Anand Agarwal: You are absolutely right Agastya, thanks for this question. Essentially what is happening is the network, which was traditional a telecom network used to be very propriety and complicated network when there were only a few providers who used to cater to that. The way the data network is being structured, which is essentially being driven by these internet Companies, it is becoming very, very flat and it is becoming to a large extent open where people like us who are at one-end providing the basic conduit, which is the fiber through which the transmission happens and at the other end system integrating the entire network. The integrating the software offering along with that becomes integral part of what we do. Because of the fact that the network is becoming more and more open, more and more flat is the fact that our access towards doing an end-to-end network becomes that much more possible and flexible and doable.

Agastya Dave: Over the medium term this is good for us, it helps us?

Anand Agarwal: Absolutely it provides us an ability to do end-to-end data network, there is no proprietary element left in between.

Agastya Dave: Thanks for the clarification. Sir, in the slide where the two by two matrix that you have drawn which is the link distance versus fiber to cover 100 million connections. Sir what happens to the fiber count in the fibers, so how much do they fall by? I am pretty sure when you are doing sub-sea then you would have I do not know 56 counts I am not sure, but when you are doing excess point you will probably have one, so in terms of adjusting for that which of the four levels give you the maximum revenue per kilometer of fiber deployed?

Anand Agarwal: We do not look the others at revenue per kilometer, we are looking at the absolute, which is happening in the overall fiber demand and the absolute increase is happening by both coverage as well as capacity. So you are right as a coverage moves closer to the access plus the counts decrease, but in that coverage the amount of subscribers dramatically increase and these subscribers are consuming more data, so your interconnects, which happen between the data centers themselves explode by multiple count, so just to give you a perspective, let us say for the access network if you are putting in 300 fibers per cable for the interconnect between data centers you are putting in 6,000 fibers per cable and these are dynamics because once you have the coverage, the capacity needs to get strengthened because at the end the consumers are consuming much, much more data.

Agastya Dave: So sir from 4G to 5G you mentioned during the opening remarks that it is 10x opportunity, but if you adjust for all these then much bigger opportunity right?

Anand Agarwal: Yes, I mean that’s why. If 5G happens in all parts of the world everywhere then you are absolutely right it can be a much scale of opportunity. We believe that 5G will start happening in more concentrated dense areas to start off with and it will progress over a period of time to the entire globe and that is why it is going to be propagated, but for a particular area the scale of opportunity will be extremely high.

Agastya Dave: Perfect Sir. Sir final question for today. Sir we have seen good traction on the defense side, we have got a huge order on that side, but if I just look at the India business and this I keep asking you every time; revenue wise we are now 55% from India and I do not think all the Indians are still firing, so any commentary on what is happening specifically in India in terms of demand from the telco side and also on the Government side because in other areas we are getting people who are catering to those specific areas, for example road EPC they are saying that Government is kind of, there is some sort of a shortfall that they expect. So are we seeing some sort of cool down in demand in India from theGgovernment side on defense and also on the Chinese demand any commentary on that side, so I believe US and Europe are still pretty strong, but is China going at the same pace, sir?

Anand Agarwal: On India side, we are seeing good demand essentially coming in from Jio. Jio continues to drive the fiber to the home project, which will be over a period of next couple of years and it is a very, very ambitious and a large product. We are seeing the order two telephone providers also fully gearing up for providing at one level the 4G backhaul and starting to prepare themselves for the next queue of access part of network. As far as non-defense is concerned, the BharatNet project is very much on offering and the spend there, which is fully funded by USO continues there, in fact right now there are several States who are issuing contracts and orders for BharatNet over the next several months. So for the basic broadband infrastructure, India still today is so underpenetrated. We believe that we are just at the start of a massive built cycle.

Agastya Dave: Reassuring..

Anand Agarwal: You talked about China, the China clearly continues this progression; however, the same time we have seen some degree of sort of slow down by China mobile, which is the largest consumer of optical fiber, which has caused some degree of demand slowdown in terms of the growth rate in China, but in overall global prospective we continued to be very, very bullish.

Agastya Dave: Great Sir. Thank you again for your efforts and hard work Sir. Thank you very much Sir. Good luck for the revenue. Thank you.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs Asset Management Co. Please go ahead.

Dheeresh Pathak: Can you share what was the product revenue in this quarter after the total revenue?

Anand Agarwal: Dheeresh it is typically about 75%. It is in that range only.

Dheeresh Pathak: And like your fiber is running at full capacity right now; so on an aggregate level for the industry what would be your estimate of the capacity utilization of the fiber capacity for the industry?

Anand Agarwal: We believe that people who are integrated. Sowe do not count fiber manufacturing at the draw level. The preformed part of the capacity we believe would be running at close to 100% globally.

Dheeresh Pathak: Who else is adding large capacities apart from yourselves? You are adding about 20.

Anand Agarwal: What we understood and I have heard from announcement there are few people who over the next between now and 2021 should add close to $100 million capacity and we believe that the market would be like by that point of time the demand will be there to cater to do new supplies.

Dheeresh Pathak: So this $100 million is on a base of how much $450 million, $400 million?

Anand Agarwal: About $500 million.

Dheeresh Pathak: What is the annual incremental demand that comes each year?

Anand Agarwal: We are seeing about 12% to 13% at a global range.

Dheeresh Pathak: Alright. Thank you.

Moderator: Thank you. The next question is from the line of Varshit Shah from Emkay Global. Please go ahead.

Varshit Shah: Congratulations for a stellar quarter. Sir my question is more on the broader level. So I think you just mentioned highlighted about China mobiles like tapering off, but the global demand remains robust. So I just wanted to understand from you, so we have seen in the recent times the spot prices which were in the high zone of $14 have probably moderated so that aberration has got corrected because of China Mobile and the long-term demand remains in the range, which we currently operate, am I right in drawing this conclusion?

Anand Agarwal: Varshit we were never in the spot market, so we have never even paid attention to any of that spot market that is not really a proxy for us all. We essentially see the tenders, the demand, the pickup and from that perspective there was a China Mobile tender which was suppose to come in Q2 of this current year, which has gotten delayed. To that extent the China demand has got postponed, but as you rightly said the global demand continues pretty strong.

Varshit Shah: I understand sir we do not cater to the spot market, but I just wanted to get some sense that this aberration has got corrected, but I think the long-term contracts are more or less moving the way they are.

Anand Agarwal: Our contracts are fully on place, I cannot comment on aberration of the spot market because we are not in that market.

Varshit Shah: Sure, thank you sir.

Moderator: Thank you. The next question is from the line of Pradyumna Singhania from Ampersand Capital. Please go ahead.

Pradyumna Singhania: Congratulations on your numbers, good job. My first question is regarding the guidance of your $100 million actually. So this guidance as you have been given in last quarter and a year before that I am assuming since then there has been 15% rupee depreciation, so whether $110 million guidance still based on the same rupee value as well?

Anand Agarwal: We are maintaining the guidance, we are not revising anything, that guidance when we gave was I think in May of 2017 when it was about Rs.65 per dollar, but post that we have done this acquisition also and we have good order book, so we are keeping it a good target for us to deliver on whatever the rupee dollar conversion at that point of time.

Pradyumna Singhania: Right and you also mentioned that your International revenue is around 45% and will be growing because of your acquisition Metallurgica, etc., and I am assuming you have most of your billings in dollar terms, so along on the same lines of 15% depreciation shouldn't you be looking at higher Indian rupee values on recognizing those revenues?

Anand Agarwal: In terms of seeing the overall impact of this rupee depreciation as we have been maintaining that we normally hedge a contract as soon as we receive them, so we might see some more rupee realization, but that will happen almost a year and year-and-a-half later because whatever we are booking contracts right now are for delivery later and at the same time what happens is a lot of European contracts which we used to cater earlier from India we are now going to cater a lot of them from our Italy facility. So it is going to pan out over the next few quarters, we would not see any spot increase in rupee realization.

Moderator: Thank you. The next question is from the line of Pranav Kshatriya from Edelweiss Securities. Please go ahead.

Pranav Kshatriya: Congratulations for a great set of numbers. My first question is you have announced certain capex for OFC capacity expansion. Can you please elaborate how it will pan out for FY2021 and do you think that we should expect strong earnings growth similar to what we have seen going into FY2021 as well?

Anand Agarwal: Essentially a lot of the capex it is about 1,200 per fiber and about 300 or 320 odd for cables. So out of 1,500 up the current year, which is FY2019 is the major spend year. FY2020 the capex spend tapers off and in FY2021 actually we will have minimum capex spend corresponding to any of these announcements, but we will see the maximum benefit coming out of both 50 million and 35 million kilometers. So FY2021 would be in that aspect low-spend, but maximum benefit being realized on both the expansion.

Pranav Kshatriya: Given your OFC capex is relatively in the area where capacity is not really a challenge, do you think it will be possible to maintain 30% kind of ROCE on that investment as well?

Anand Agarwal: We believe so because as you rightly said the fixed capital cost is not as significant for OFC as it is for fiber. So maintaining and over the last several years we have been able to maintain between 25% and 35% ROCE, we should be able to do that.

Pranav Kshatriya: And anything you want to highlight from that demand perspective? You think anything will change or the risk you can see in these areas?

Anand Agarwal: Which area specifically Pranav, I did not understand?

Pranav Kshatriya: So basically you are in OFC utilization, last time around OFC utilization reaching 100% took some time. So are there any challenges, which can come up for FY2021 or that is not really a concern at this point of time?

Anand Agarwal: We are not so much bothered by OFC utilization as we have said OFC is a business which is even at 75% to 80% utilization gives very good ROCE. OF utilization is something which we are more focused on and for that we have multi-term long-term contracts. So from an OFC perspective even our model for capex payback, etc., is at between 70% to 75% utilization.

Pranav Kshatriya: So what you basically are saying that 25% to 30% ROC is possible even at 75% to 80%?

Anand Agarwal: Absolutely.

Pranav Kshatriya: Great. That is it from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Nalin Shah from NVS Brokerage. Please go ahead.

Nalin Shah: Congratulations on the excellent set of numbers for Q1 and Q2 both. I have a few questions; one is that your Rs.9,500 crore order book and going forward also it will go on increasing, what is the execution time for this Rs.9,500 crore that is my first question. Secondly I wanted to know that with the economies of scale, which is fast catching up what kind of margins improvement do you see going forward in EBITDA and PAT particularly at a PAT level and whether any advantage of lower tax rate, etc., because of the larger capex which we are incurring, do we have any kind of idea on that and when you expect to hit the billion dollar kind of topline over the next two to three years time, which is the first year you feel that you can hit?

Anand Agarwal: Overall this Rs.9,500 crore consists of this product order book and product order book typically what we have is going to be executed over the next two to three years and there is a large services contract, which is the naval one and that will get executed, a significant part of it will get executed by FY2021 and then there is about Rs.900 crore of O&M which will continue. So this Rs.9,500 crore over the next two to three years, a large part of it will get executed, but as you rightly said we will be building up our order book also and will be seeing our run rate of revenue to order book and that should keep increasing as we move forward while our revenues keep increasing and the impact on the bottom-line will be clearly what you are seeing. I mean if you see H1 versus H1, we have grown 40% in terms of Q2 versus Q2, about 40% is revenue, about 80% in bottom-line. That operating leverage kicks in and that is something that we continue to get better. The fixed cost I am going to go proportionately and you are right that appreciation impact of the investments will come. So overall, we are focused a whole lot on order book, overall we are focused on whole lot on delivering at the right growth margin and everything just falls through after that and what was the other questions you have?

Nalin Shah: What is the first year when you feel you could hit the billion dollar target top-line?

Anand Agarwal: We are not targeting that; it will happen when it happens, we are at Rs.1,100 crore run rate now, we have a Rs.10,000 crore order book; as a Company we do not target billion dollar topline, we are targeting more I continue to grow, I have great margin, I have great ROCE, I have great order book. Whenever the billion dollar happens it will just happen.

Moderator: Thank you. The next question is from the line of Prajwal Gote from B&K Securities. Please go ahead.

Prajwal Gote: Congratulations on a good set of numbers. My question was more to do with the pledging part as I could see nearly 35% of promoter stake was pledged as a quarter before and that has increased to

97%, which accounts for 50% of the total market cap. I just wanted to understand what is it pledged for and what is the timeline which promoters are to clear it off and what is the ultimate use of this pledge basically?

Anand Agarwal: This pledging has been done by the promoters for their alternate investments outside STL. The pledging is to JP Morgan for the promoter Companies taking the larger stake in M&A activities in other parts of the business and clearly the focus I think all of them and us that there will be focus towards releasing this pledge at the earliest, I cannot give you in terms of a clear timeframe, but there is nothing from any investment perspective to be concerned about from this pledge, it is more of a collateral which is essentially used for additional M&A done by the promoters for their other business.

Prajwal Gote: Thank you. My next question is on the pricing part. Can you please elaborate more on the optical fiber pricing, what is the scenario and what is your take on it for the coming period as you know you are rightly said that capacity addition is coming and how will that play a part in your total revenue growth?

Anand Agarwal: The pricing continues to be closer to the higher end of the $8 per kilometer and we have more booking orders for future, we have more booking orders for FY2021, etc., and our focus is more and more on long-term order booking, so for us it is extremely important that we have a higher degree of visibility as well as predictability. So for us the price never increase very dramatically nor decrease very dramatically.

Prajwal Gote: That is it from my side. Thank you so much and thanks for the opportunity.

Moderator: Thank you. The next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: Congratulations for very good set of numbers. What will be the peak debt when we expand this capacity for both fiber and cable?

Anand Agarwal: The current debt about Rs.1,700 crore is with both this investments which have kicked in of the fiber investment, which we have done almost Rs.600 crore in the current half and almost Rs.500 crore of this acquisition. So peak debt we look at debt more in terms of debt equity, we look at it in terms of the debt to EBITDA ratio, so we do not believe it is going to reach Rs.2,000 crore, but at the same time as the Company grows we are looking at various ratios, Debt/EBITDA as well as interest coverage ratio and there we believe we are extremely comfortable, so we will continue to look at those ratios as we grow further.

Vipul Shah: And these both expansion plans are going to be completed for both cable and fiber, it will be in phase manner?

Anand Agarwal: Fiber is fully done by June 2019 and cable by June 2020.

Vipul Shah: Thank you and all the best for the future.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question. I now hand the conference over to Dr. Anand Agarwal for closing comments.

Anand Agarwal: Thank you and I would like to thank everyone for attending this call and I hope that we were able to address and clarify all your queries as well as comments. For any further clarifications and discussions, you can feel free to contact the IR team including myself and Anupam and we really hope to continue our association and dialogue in the future. I thank all the participants for showing their interest in our company and wish you all the best for the festive season. Thank you.

Moderator: Thank you. On behalf of Sterlite Technologies that concludes this conference call. Thank you for joining us. You may now disconnect your lines.