



“Sterlite Technologies Q3FY16 Earnings Conference Call”

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MODERATOR: **MR. ANUBHAV GUPTA – MAYBANK KIM ENG**

Moderator: Ladies and gentlemen, good day and welcome to the Sterlite Technologies Q3FY16 earnings conference call. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. Along with this call, we are also running a live webcast of the presentation covering the Q3FY16 results. Investors can also download a copy of these slides from the website after the presentation. I now hand the conference over to Mr. Anubhav Gupta from Maybank Kim Eng. Thank you and over to you Mr. Gupta.

Anubhav Gupta: Good day ladies and gentlemen, I welcome all to this Sterlite Technologies Q3FY16 earnings conference call. We have with us Dr. Anand Agarwal – CEO and Mr. Anupam Jindal – CFO of Sterlite Technologies. Sterlite Tech develops and delivers products, solutions and infrastructure for telecom and transmission networks globally and is among the leaders in all of its business areas. It has operations on a global scale with presence in India and international markets. The company has a presence across 3 business verticals; telecom product and solutions, power product and solutions and power transmission. In May 2015, the company announced a demerger of its power business into a separate undertaking and the post demerger the listed entity will emerge as a pureplay telecom focused business. The earnings call presentation is also available over a webcast. You may please click the link mentioned on the Sterlite website to access the webcast. You have an option to listen to the earnings call over internet as well as over the voice page. I would now like to hand the conference over to Dr. Anand Agarwal. Thank you and over to you sir.

Anand Agarwal: Thanks Anubhav. Good afternoon everyone. I welcome you to the Sterlite Technologies earnings call for the Q3 and 9 months of FY16. We shared our results documents earlier today and they are also on the website and I hope that all of you have had an opportunity to go through them. Before we go into the results and financial performance, I think it might be useful for the audience at large to get an overview of how we see the business shaping up given the significant opportunity we see both in India as well as our global market.

Sterlite's end-to-end offerings in the telecom business continue to drive differentiation for the company in the marketplace. The performance during the quarter and the 9 months demonstrate the resilience of our business model and the value proposition that we have built for a truly leading broadband solutions business with offerings across products, services and software solutions. With the rise of digital transformation and increased focus on enhancing their network infrastructure Telco's are looking for service providers that can deliver flexibility and security alongside industry leading technologies. This is a sweet spot for Sterlite Technologies and is getting increasingly apparent to our target customers. With this comprehensive offering Sterlite is uniquely positioned as one of the preferred experts to deliver high speed database end-to-end network. All of this is further augmented by the global experience of our delivery team. This places us very favorably as we look ahead to the large

and burgeoning opportunity towards developing and enhancement of connectivity infrastructure.

Talking briefly about the way our telecom business is structured, all three of our telecom businesses are shaping up strongly. I have detailed the businesses in the earlier calls, so this time around we will just highlight few key developments. The products vertical continues to be a market leader and the innovation agenda is gaining momentum on the back of our center of excellence in Aurangabad. The focus is on developing next generation customized optical fibers and fiber cables which are high value added and help build stickier relationships with customers. Validation of our excellence in manufacturing and innovation was cemented by a few awards that we received in the quarter. We were adjudged among the top 25 most innovative companies in India by CII. Sterlite also received the accolades such as the Indian manufacturing excellence gold award and the gold award, Greentech environment award 2015 from Frost and Sullivan. Debottlenecking has progressed well enhancing operating leverage. In fact, we are excited to share that we have achieved a run rate of 22 million KM of sales in Q3 itself surpassing our initial expectation through focused debottlenecking and efficiency improvement.

CAPEX spending linked largely to improving capabilities and innovation program is a competitive lever which is serving us well and is going to be the way forward. In recent years we have invested significant amount of capital to take our optical fiber capacity from 12 million to 20 million fiber KM. As many of you would be aware, out of our 20 million KM of fiber capacity, 16 million KM is located at 2 plants in Aurangabad and 4 million of capacity is under a joint venture in China. During the quarter we continued to achieve good progress on the expansion of the cabling capacities from 8 million to 15 million KMs at an investment of Rs. 150 crores and hope to have this done during the next few months. In addition to enriching our leadership position in the products business we continue to enhance our capabilities and offerings to customers in the areas of services and software. This quarter has seen further strides in delivery of service capabilities. Further we are focused on widening our pipeline of projects. We have had several meaningful conversations with customers and believe that there is a greater visibility of the project pipeline today than from a couple of quarters ago. We continue to make inroads in to the telecom services space enabled by strengthened design and engineering capabilities for network and system integration. We are also participating in a very big way for the development of public network under the digital India initiative and a bid for multimillion dollar project expected to be underway in the next couple of years. We have also made a strong start with the software business which has helped to complement our portfolio of offerings as well as marketplace presence in key geographies. I am happy to share that the Elitecore team and its capabilities have merged seamlessly with our operations and the results of which will be visible in the coming quarters. While it is still early days, we believe that the combined offering will further drive differentiation and initial signs indicate that customers are responding well to the combination of equipment, services and software as they seek to upgrade their own infrastructure and service capability rapidly. To sum up our telecom business, in a challenging macro environment, we improved revenues and profits, strengthened

our networks and services portfolio and added revenue linked capacities and move towards being the partner of choice for telco. Going forward our eyes are set on sustaining momentum in all the telecom businesses, while leveraging our innovation engine to capture the available opportunities in the marketplace. We are focused to drive sales and earnings while increasing efficiencies across the company which will result in building a strong cash generating and healthy ROCE business. The stakes are being raised in the telecom sector in India as service operators seek to drive premiumization of service offering and innovation is critical to a stronger and more profitable growth curve and this is what we have been doing. We are clearly on the cusp of explosive demand for data in the Indian market and the conversations with existing customers as well as enquiries from new customers. The point towards very large and significant expansion plans and we remain uniquely placed to address this large and expanding opportunity.

Before we get into the financials, I would like to share a quick update on the progress of the demerger of our power business. A court convened meeting was held 15th December 2015 where the transaction was well received by shareholders, creditors and lenders and approved with significant majority by the shareholders, creditors as well as the lenders. As always we are thankful and appreciative of our shareholders for their support as we embark on the next stage of value creation. The transaction of demerger is expected to complete by April or May of 2016 subject to the necessary approvals and clearances and the record date for demerger shall be notified in due course. Towards the end of presentation there are slide which carve out Performa financials for both the business after giving effect to the demerger. These will help investors to get some sense of what the numbers look like in the post demerger era.

On power business we continue to remain very optimistic of the macro backdrop or the power sector in India and see that the government has shown the same enthusiasm for the sector. Initiative such as power 24/7 and electrification of all the villages will continue to provide good opportunities for the Sterlite power business. The team at Sterlite continues to focus on these opportunities and deliver good performance both operationally and financially. We remain committed to this business and see good opportunities ahead both on the power products and solutions as well as the power infrastructure business. Today, the power infrastructure grid business has a portfolio of 8 project with a capital commitment of over Rs. 9,000 crores of which 4 projects are fully operational and the remaining 4 will become operational over the next few years. The team has been using new age technologies to compress execution times and minimize the risks and have successfully commissioned the project in record time. The first transmission project in India to be delivered before the scheduled time. Before I handover to Anupam to walk you through the financials, I trust that all of you have noticed our renewed focus on building a truly global and world class telecom company providing end-to-end solutions and not just a basic fiber cable product supplier. We are working to renew the Sterlite brand and identity and some of you may have come across some of the recent marketing campaigns that we have run. I am happy to report that our customers and suppliers are responding well and we would appreciate any feedback that you would like to share. That is it from me and over to Anupam for the financials.

Anupam Jindal:

Thank you Anand. We are happy to deliver continued growth, strong growth in both revenue and profitability of the company. The slide depicts the standalone performance of the company which includes both the telecom business and the power business which are housed within the standalone entity. We have traditionally reported a performance along these lines and hence continue to share this information for the benefit of our investors. I am pleased to announce that the revenues, EBITDA and PAT for the first 9 months of the year are better than full year performance of FY15 reflecting the strength of our business strategy and execution capabilities. We have been investing in building the right capacities and capabilities and this performance is a reflection of the investment made over the last few quarters. The revenue for the standalone entity for the quarter was at Rs. 1,134 crores, a quarter-on-quarter growth of 7%. On a year-on-year basis, the revenues were higher by 27%. The improvement has been a result of healthy demand for telecom products and concerted efforts to drive service revenue. The recovery in demand for power products has also helped to drive revenues. The improvement in EBITDA from Rs. 136 crores to Rs. 155 crores is primarily due to higher utilization in power products and improved revenue momentum in services. As Anand indicated earlier, we have created proforma to give effect of the demerger on the financial performance of the telecom and power entities and urge the investors to refer to the next few slides which give more color on the performance of the consolidated numbers of these entities.

On Slide #10, demand for fiber continues to be very strong both in India and internationally. As observed in sustained volume increase of optical fiber. Global volumes for optical fiber have crossed 350 million FK mark for 2015 and continue to show good growth. Inside the quarterly volumes for STL has crossed 5 million mark for the first time ever as we have implemented some debottlenecking initiatives to enhance the fiber capacity to 22 million KM per annum. The OFC volumes have fallen in the current quarter due to delay in the cable pickup in India during the current quarter, but we remain confident of some potential India market has on medium to long term basis. India remains a highly under fiberized market and recent announcements from all the leading telecom operators to strengthen their 3G and 4G networks should only help increase the demand for OFC. In the near to midterm we continue to say this ratio between our optical fiber and optical fiber cable sales improve and our capacities enhancement on the optical fiber cable side are being made in this in mind. The slide covers the performance of the telecom business on a consolidated basis which includes the performance of our JVs in China as well as Brazil operations has also some other subsidiaries including Elitecore. Revenues have been flattish compared to the preceding quarter due to some delays in OFC orders. This has largely been mitigated by increased traction in the optical fiber business and this segment performance of the current quarter is largely reflecting our performance for the full last year performance, a strong growth in or business vertical and also providing huge confidence for continued growth going forward. Going forward we will continue to work on increasing the absolute profitability while keeping a sharp focus on the return on capital employed. This slide covers a few key operating and business highlights of the quarter.

Overall I think we continue to remain well entrenched in global markets and our export revenues continue to contribute around 30% of their increased revenue, even when our scale of operations have grown in the last few quarters. This is a testament of superior product portfolio as well as overall value add for the large international telecom operators. The services business also is now progressing well and in spite of challenging terrain and climatic condition in J&K we are seeing good progress. The team is using a combination of in-house capabilities and outside expertise were required to target completion of this ultra-critical network by middle of the next financial year. On the capacity expansion front, we are well on track and hope to complete them by the end of the current fiscal and within the stated budgets. The telecom order book stands at Rs. 1,930 crores and we continue to remain very confident of securing additional orders to grow this number. The net debt for the telecom business remains at similar level to that of September 15 which was around 925 crores. This also brings us to the end of telecom business.

Moving on to the power business, we have seen demand rebound and quarterly volumes of conductors have consistently remained above 30,000 mark, as this business now performs at normal demand level. The grid business has witnessed new project wins, good healthy project execution which has resulted in an overall capital employed of Rs. 5,880 crores and at the end of the quarter versus Rs. 4,911 crores as at end of March 2015. During the quarter we won our 8th grid project against some stiff competition and this further strengthens Sterlite grids position in the private transmission segment.

On the power transmission space, the revenue for this quarter increased to Rs. 145 crores as additional elements became operational on the RTCL project. We have commissioned our RTCL project also in record time. This is the link that has been identified as critical interlink by Ministry of Power. Our focus on using newer technologies and construction methodologies by bringing in world class partners should help us commission future projects within the time and budgets. We have also recently announced the successful closure of the first ever large bond issuance difference in the private transmission segment worth Rs. 925 crores in the current challenging environment. This is also the longest tenure infrastructure bond in the private sector. Consolidated revenues were at Rs. 685 crores while EBITDA at Rs. 176 crores. PAT continues to remain negative given the high interest cost on the grid infrastructure projects. The net debt for the power business stood at Rs. 5,543 crores against Rs. 5,141 crores at the end of September 15. The change was on account of ongoing implementation of the additional projects in the portfolio. In the end, I hope that all of you had a chance to run through our IRF where you get the latest news and presentation as well as financial information on the company. Keeping an eye on the sophistication of information flow and enhanced data uses in all spheres will launch this App to enable investors to keep apprised of development on Sterlite Technologies in a more efficient manner. We hope that you will find this useful and welcome any feedback and suggestions that you would like to share. Before I close, I would like to share that we are well positioned as a company to grow and we see several levels in place. The comprehensive offering bodes well in the marketplace and the strengthening of our innovation agenda is enabling us to deepen and widen our presence in the

key markets. The remaining slides give you some further details of our financials or Performa financials. This brings us to the end of the update and we would now look forward to answering any questions you may have.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: My question is first on Telecom cabling as a percentage of volume has been lower. You highlighted in the initial remark, can you elaborate a bit why such a sharp fall has been lower compared to many quarters in the past and what gives you confidence of this coming back?

Anand Agarwal: Yes, Madan, couple of reasons, like we have a few anchor clients for the last few quarters we have clients which is Reliance Jio, British Telecom and the Bharat Net roll out which was the anchor clients which were driving the optical fiber cable business. In the last couple of quarters, we have seen a bit of a slow down on the Jio roll out essentially and British Telecom was mainly a seasonal issue. We believe this but we are seeing good level of demand coming in, one is the Leap project announced by Bharti Airtel as well as Idea and Vodafone. So we clearly believe that whatever Jio has rolled out over the last 2.5 years or so on the fiber side will start to get matched by the other people who are rolling out 4G and we are already seeing large enquiries and we think partly in the current quarter and partly as the Q1 of next year starts approaching the volume should reach some level of normalization.

Madan Gopal: Generally, cable gives you a better margin but despite being lower the margin in the telecom, EBITDA margin has not fallen sharply, actually year-on-year it has improved also. What explains this and is there any one off in the EBITDA level?

Anand Agarwal: The good part has been we have seen a sharp increase in the fiber sales. So the fiber which was 4.7 million in Q2 has become 5.4 million in Q3 and as we have always talked about fiber business has a huge amount of operating leverage. So on a EBITDA percentage basis fiber has a higher percentage while you are right that the more we sell as cable we get additional benefit on top of it. So fiber business has been strong at a global level. We see good levels of demand coming globally. Our China plants are running fully at capacity and we are almost running at 22 million KM right now.

Madan Gopal: Second question is on Elitecore. Has this been now brought into the company and if so can you share any financial and also can you give some more details on this smart city stuff? What exactly we will do? Government has just released the list of 20 cities for these smart cities just 2 hours back I think. If you can give some more details that will be helpful?

Anand Agarwal: What was your first question Madan?

Madan Gopal: Elitecore, any numbers that you can share for the quarter?

- Anand Agarwal:** Elitecore, this was the first quarter of operation and they operated at close to about the run rate of about 40 crores per quarter and we will formalize the merger of the company given the current quarter. So by March or April we will be merging Elitecore and then the financials will be an integral part of offering. In terms of the smart cities, yes clearly we see an opportunity of combined offering with system integration and OSS/BSS software from Elitecore to participate in such offerings and pretty shortly we will be announcing something that we have one of the opportunities for one of the smart cities. The job there essentially is to set up the basic infrastructure, the basis telecom and sensing infrastructure and then manage and maintain that network for a period of 5 years.
- Madan Gopal:** Any investment that we have to do here?
- Anand Agarwal:** No, investment would be just capabilities. So we have people, but there will be no capital investment. It will be paid off by the cities.
- Madan Gopal:** Are we working here along with some large construction guys or how is it structured?
- Anand Agarwal:** On a macro scale we are working on what we had announced earlier on smart city front, for the application front we work with Erickson, but there would not be a large construction piece here. If at all required, we would deploy the WiFi or the security or cameras based on existing infrastructure. If the infrastructure does not exist, then we will be deploying fiber optic cables also.
- Anupam Jindal:** Madan, just to clear. This is not a very large project. It has been won by Elitecore. So compared to their size it is, if you know that Elitecore sits on revenues, last year was about 150 odd crores. So this project may be about 10%-15% of their revenue size.
- Madan Gopal:** What is the debt in telecom?
- Anupam Jindal:** This debt number is about 925 crores Madan, which is similar to what we had in September. So broadly in the current quarter, there is no increase in the borrowing.
- Moderator:** Thank you. The next question is from the line of Jigar Shah from Maybank. Please go ahead.
- Jigar Shah:** My question is, how do you see the demand for fiber and fiber cables outside India in particular given that we are hearing a lot of slowdown in various global markets and also how you see the short to medium term picture in India, both if you can throw some light?
- Anand Agarwal:** In terms of the fiber demand we said we continue to see a strong demand. So last year also the demand also increased to all time high of 360 million KM and contrary to other commodities China has taken a decision that it will invest in the infrastructure, the broadband infrastructure investment and they are continuing to grow very solidly. They have announced a total investment of almost \$80 billion in the next 3 years on improving their broadband infrastructure and currently from 4G they are talking about putting several million households

on fiber-to-the-home and currently we are actually seeing temporary fiber shortage globally. In terms of near to midterm that you asked about India, we are pretty bullish on the Indian market and clearly because of the fact that in India data networks have still not been built up. The only network which is of data quality today is the new network which is built in by Reliance Jio and that is the network which has required significant amount of fiber optic cable and we truly believe that for others to provide that kind of data capability, they will all, whether it is Airtel, whether it is Idea, whether it is Vodafone, everyone will need to strengthen their network and recent announcement for Leap or for anyone else and everyone is actually talking about strengthening their backhauling of their towers. So we are pretty bullish on what Indian market especially on the private sector will deliver, the public sector is going to be an addition for that.

Jigar Shah: And one last question from my side is that what is the kind of CAPEX now we are looking at given that you are operating at rated capacity or actually higher than that?

Anand Agarwal: Jigar we will continue to, so one CAPEX which we are finishing is the cable CAPEX. On the fiber front we will, in steps be taking the capacity from the current 20-22 to 25-30 million KM. But we are not going to commit a large CAPEX towards that. We are going to do that in a mix of debottlenecking as well as small capacity enhancement where ever required.

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

Tejas Sheth: On the NBF execution side I thought we were expecting some higher execution trajectory for H2, but again in this quarter we are sub 100 crores, any comments on that?

Anand Agarwal: Yes, Tejas you are right. On the project execution front there are some, on the product delivery side the progress is okay. On the services side there are some last processes which are holding us back from booking some of the revenues and these are certain processes which needs to be sort of aligned with BSNL as well as army. So we think we will start seeing good amount of revenues coming in partly from Q4 and more from Q1 onwards.

Tejas Sheth: So that 18 months' timeline is kind of delayed in terms of now the execution?

Anand Agarwal: The execution, the start date itself has been reviewed because the start was delayed from BSNL perspective itself. The project actually started off in January of the previous year only.

Anupam Jindal: So Tejas just to clarify that we have until September 16, as a timeline, until then we have enough time and it is a matter of getting the entire process of documentation and approvals from the customer which takes time and that is why the revenue is not getting booked. But I think from overall perspective we still remain in control and revenue should not be slipping beyond September.

- Tejas Sheth:** And second, so we would not see any CAPEX in FY17 right? Most of the CAPEX will be done by Q4?
- Anupam Jindal:** Some spillover payment will be there Tejas. We are not committing any more CAPEX as we said just now. Cable CAPEX is mechanically getting done and we will have the capacity up and running but the payments as you know will slip over to next quarter.
- Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.
- Saket Kapoor:** If you could provide the split up between the interest and the depreciation on the telecom front?
- Anupam Jindal:** On consol basis the interest for telecom was about 27 crores and depreciation was about 31 crores.
- Saket Kapoor:** 27 and 31 for this quarter?
- Anupam Jindal:** Yes.
- Saket Kapoor:** Now that you spoke earlier for which vertical in the telecom segment did not perform as per the...
- Anupam Jindal:** Optical fiber cable volumes were lower than the past quarters.
- Saket Kapoor:** Sir coming to you told about this Reliance Jio part that they were some roll out delays by them. So what is the size of the contract from the Reliance Jio front which we have executed?
- Anand Agarwal:** It is not a roll out delay. It is significant amount of roll out has happened by Reliance Jio, the last two years or so. So essentially the demand from Reliance Jio for the current quarter was lower than the previous quarters.
- Saket Kapoor:** Depreciation for the quarter was only 31 crores on a standalone basis. For the quarter as a whole?
- Anupam Jindal:** It is on telecom consol basis.
- Saket Kapoor:** Telecom consol basis, I am not getting you. You said you have booked revenue of 496 crores for the telecom segment where in the EBITDA is 110.
- Anupam Jindal:** So Saket may be we can discuss this numbers individually. We have all the numbers. If you want standalone, we can have standalone numbers. Currently the numbers which I gave is for consolidated telecom numbers, including our JVs and Elitecore.

- Saket Kapoor:** Sir last question on part, what should be the likely run rate in the telecom segment going forward because this quarter we experience strong jump in revenue around 1,134 crores. So what should be the likely run rates going forward? What should be contemplated?
- Anupam Jindal:** We do not give any run rate or guidance on the revenue or EBITDA. We have been talking about the strong volume growth in our product segment as well as service portfolio. So on that basis we have a strong growth projection. But we do not give any specific numbers.
- Saket Kapoor:** Which should be better quarter-on-quarter sir, if we take like-to-like comparison it should be better quarter.
- Anupam Jindal:** Yes.
- Moderator:** Thank you. The next question is from the line of Hemali Dame from Crisil. Please go ahead.
- Hemali Dame:** I just wanted to ask if you could give me the number of EBITDA in Elitecore Technologies?
- Anupam Jindal:** So in the quarter we had as Anand mentioned about 40 crores of revenue and about 3 crores of EBITDA.
- Hemali Dame:** And at the PAT level if you give us the number?
- Anupam Jindal:** I do not have that but most of it actually flow through PAT minus some tax because they do not have any interest as such and depreciation is very minuscule.
- Hemali Dame:** And another question, what kind of an opportunity do you see in the services business after the defense contract is done with?
- Anand Agarwal:** The defense itself has multiple contracts for which we have bided. Current defense contract is only to connect the optical fiber cables post that there are several system integration contracts for which we have bid which include making the entire transport network, overall routing network as well as providing the overall network managed and services. In addition to that the entire Bharat Net program which is now some states are in late final stages of issuing the RFQ document. So we see a very strong pipeline for system integration project especially from the government and public networks over the next few years?
- Hemali Dame:** Sir can you name some states that you just spoken about, if you could?
- Anand Agarwal:** Andhra Pradesh is in a very advanced stage of issuing the RFQ. It will be followed by Tamil Nadu, Telangana, and Gujarat.
- Moderator:** Thank you. The next question is from the line of Dinesh N from Catamaran. Please go ahead.

- Dinesh N:** I have a two questions. First is in the high voltage power transmission cable segment what will be our market share and what other major players who are there in the market?
- Anand Agarwal:** Dinesh you are talking about the underground cable or the overhead one. We operate in both the segments.
- Dinesh N:** Can you give the figures for both the underground and overhead cables?
- Anand Agarwal:** See on the overhead part our market share would be North of 24%-25%. Other players are people like Apar Industries, etc. In the underground segment our market share, the business has just started. But our market share would be 16%-17%. The other players will be people like Universal Cables, KEI and Niko and all these people.
- Dinesh N:** And the second question is, this high voltage power cables, the contract will be allotted by the government, on what basis are they generally allotted and what will be the tenure of this contract usually?
- Anand Agarwal:** No, I am not understanding, which high voltage tenure?
- Dinesh N:** The high voltage cables which we manufacture and provide install, that will be allotted by the government, right, the contract?
- Anand Agarwal:** Part of it will be by the Power Grid and part of it will be by all kinds of DISCOMs or State utilities or EPC companies.
- Dinesh N:** So those standards, are they lowest bidder basis or on what basis are they generally allotted?
- Anand Agarwal:** No, all kinds of arrangements are there. If it is a government bid then you will need to first get qualified and then it is lowest bid but for all the private sector it is various kind of parameters which are used for selection.
- Moderator:** Thank you. The next question is from the line of Alok Deora from IIFL. Please go ahead.
- Alok Deora:** I just had a couple of questions, one was in the services part of it. I believe the current order book which we have is executable by end of 2016. So is that timeline in place and also have you received any sort of new orders in that or after that there might be some decline in the services revenues?
- Anand Agarwal:** Alok, the current order for this as Anupam said earlier it should continue at least up to September of the current year. Post that then after couple of years, the AMC of the same network will start and we have currently bided for few thousand crores of opportunities which hopefully by that time we should see some light on and so we are pretty confident that some of those opportunities will undergo fruition for a continuity of the services at a current scale.

Alok Deora: So as we stand today it is around 9-10 months' kind of execution we are looking at for the current order book.

Anand Agarwal: Yes.

Alok Deora: And one more question I had. Once we increase the capacity of the cables and which is say relatively lower EBITDA margin as compared to the fiber business. So do you think the overall margins would be coming down going forward from what you are enjoying currently in the telecom business?

Anand Agarwal: Alok, essentially we look at it in slightly different way. We look at anything that we cable adds on to the margin that we make in fiber and cable business for us is a higher ROCE business than the fiber. So we would always want to do both the business as much as possible in a combined manner and it is a higher value add and higher ROCE even though say on a percentage EBITDA level it may appear to be low, the returns on capital deployed is much higher.

Anupam Jindal: Plus it also has showed to have a direct connect with the end customer because cable is used by the telcos where as in case of fiber you directly sell it to only cable manufactures. So want to have as much proximity with your customers through cable sales than this being a fiber seller.

Alok Deora: Just one last question, what kind of CAPEX we are looking at over the next couple of years?

Anupam Jindal: We have just, we are in the process of completing the CAPEX for optical fiber cable capacity expansion which is about 150 cr. Apart from that we had some debottlenecking and efficiency improvement program. So overall about 200 odd crores in the current year and part of it may spill over next year. Going forward there is no specific major CAPEX announced as such. As Anand also mentioned to some previous question that we look at incremental capacity expansion, actually we are looking at alternative means to increase capacity, so that we do not commit big number and it takes time to actually increase capacity. What we are finding opportunity is through efficiency improvement program, debottlenecking and all these mechanics whatever we can increase and we are getting more confident about it.

Alok Deora: But will still be at around 50-60 crores kind of base case CAPEX right?

Anupam Jindal: That will remain.

Moderator: Thank you. The next question is from the line of Keshav Garg from Equity Mechanic. Please go ahead.

Keshav Garg: Sir I wanted to understand what is the share of imports in the total Indian fiber optic cable market and do you see a threat from imports going forward?

- Anand Agarwal:** There is no optical fiber cable being imported in the country. Optical fiber cable is a sort of an engineered product and you need to be close to the customer for it because typically you have engineered lens which need to be delivered to the customer. There used to be small volumes, 7%-8% but now also that has been replaced by domestic only and additionally there is a 10% customs duty which makes it uncompetitive for anyone to sell optical fiber cable in the country. So currently we do not see any threat per se of cheap cables being dumped into the country and if and when that happens there are enough mechanisms for us to address them.
- Anupam Jindal:** And the cables in India also has a huge capacity. So I think it becomes difficult for any import to come in.
- Keshav Garg:** And sir, an article appeared in Mint on 11th January of this year, in which Mr. Ankit Agarwal is quoted saying that the optic fiber demand is expected to increase almost 3-4x by 2020. So can you just confirm this news?
- Anand Agarwal:** So essentially we are saying that the amount of fiber which is deployed, say India only about 13%-14% of towers today are connected by fiber and this has to increase significantly to become 60%-70% in terms of penetration and India is very low fiberized. India just has 13-14 million KM of fiber consumption per year while China is now in excess of 160-170 million. So there is a huge room for India to grow. I would not be able to comment what it would be 5 years from now but I can only say that the data boom coming in, the opportunity to grow is very large.
- Moderator:** Thank you. The next question is from the line of Rakshit Kachhal from India Ratings & Research. Please go ahead.
- Rakshit Kachhal:** My question was only around the Indian OFC market and if you can give me some sense like, my understanding is that most of it is being the OFC is being used in the backhaul upgradation that all these players are doing. Am I correct there?
- Anand Agarwal:** Rakshit, earlier the definition of backhaul used to be that what is connecting cities to cities and that definition move to okay you are creating ring around the city. Now the backhaul is being said this is a mobile backhaul. So all the data which smartphones need, needs to be backhauled through from tower to tower using fiber. So India does not have that mobile backhaul currently and most of the countries are using fiber I mean China for the last 4 years used all the fibers just to create a strong mobile backhaul.
- Rakshit Kachhal:** So there when we say we see Reliance Jio to be the only data ready network do we mean that they have the capability where they can actually, they have the cell sites actually connected through optical fiber while the others are still based on the radio wave kind of network, is that the sense there?

- Anand Agarwal:** Reliance Jio has almost 60%-70% of their cell sites connected by fiber while the others have actually progressed from a voice network to a data network. So others have maybe 13%-14% of the towers connected by fiber and for them to really become truly data ready, the percentage has to increase significantly.
- Rakshit Kachhal:** Lastly so when we say the projects like project Leap or higher CAPEX being announced by other players as well, be it Idea or Vodafone, we would expect them to be actually putting in lot of this CAPEX being utilized for upgradation of the mobile backhaul as we call it now and this would actually provide us good opportunity in future.
- Anand Agarwal:** Definitely.
- Moderator:** Thank you. The next question is from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.
- Tejas Sheth:** Just wanted to understand, see our optic fiber has seen a good growth this quarter while cabling has not. So how does the trade work? I mean we supply to whom and who are the vendors and who in short supply to the end consumer?
- Anand Agarwal:** Tejas, it is just a geographical issue. For optical fiber we are very globally present. So anytime, any point there is global demand we see a reflection of that in our cyber supply, while for optical fiber cables we are largely regional. We are strong in India; we are strong in Europe and we are strong in Latin America. So from some of these markets the demands were lower in the previous quarter and that is why we saw a growth, well, fiber can be shifted anywhere and we saw very strong demand continuing to coming from China for the fiber business.
- Tejas Sheth:** Secondly we have bided for many defense projects, even AMC projects but I think 6000-7000 crores worth, is there any timeline towards ordering on that?
- Anand Agarwal:** It is a longish process. So the process has been moving in terms of the technical approvals in terms of qualifying where we have been moving very, we have been approved at all the stages. We hope that by Q1 of next year there should be some clarity and we should see some amount of order books coming our way.
- Tejas Sheth:** And lastly how has been the pricing of optic fiber over last 6 months. Is any substantial change, meaningful change?
- Anand Agarwal:** I would say it has been in the same range. We have seen some sort of strengthening happen for spot orders that we acquired in the last quarter but I would not say that it is sustainable so we saw 3%-4% decrease in pricing last quarter.
- Moderator:** Thank you. The next question is from the line of Prashant Kanuru from Karvy Stock Broking. Please go ahead.

- Prashant Kanuru:** Just wanted to under the Elitecore Technology, you talking about service projects which you have bid for around 6000-7000 odd crores. So how much of that would be Elitecore and smart town project in Western States or say I think Maharashtra. So what would be the size of that order?
- Anand Agarwal:** Prashant, this 6000-7000 crores has nothing to do with Elitecore, this is for system integration opportunity which we have bid for almost now a year now. So while Elitecore on the area of versus OSS/BSS continue to operate globally and book order. The smart city opportunities Anupam has already said. There is a small part of Elitecore's revenue for the subsequent year, it is not this scale of the opportunity. It is the position that we create under potential that we are positioning ourselves being that integrated vendor who can go from setting up optical fiber's backbone to providing a full end application-oriented services with software is the positioning that we are creating and the capability that we are creating as a company.
- Prashant Kanuru:** This Elitecore business what would be the revenue, has it been consolidated in Q3, Elitecore?
- Anupam Jindal:** Any project which we get.
- Prashant Kanuru:** I mean Elitecore revenues have they been consolidated in Q3 revenues?
- Anupam Jindal:** In the consolidated telecom yes. The standalone performance does not include. We are in the middle of merger process which will get completed by April.
- Prashant Kanuru:** So how much is the consolidation in the 100% revenue in the Q3...?
- Anupam Jindal:** Yes, we are 100% owner of this company, still has 100% ownership of Elitecore. So all the revenues of Elitecore has got booked because this was the Q1, full Q1, where it got merged.
- Prashant Kanuru:** So what was the revenue like for Elitecore?
- Anupam Jindal:** 40 crores revenue and about 3 crores EBITDA.
- Prashant Kanuru:** So that is less than 10%.
- Anupam Jindal:** That is why we were saying that we cannot have it as a run rate basis. We need to give it some time because we were seeing this company having enough potential, last year it had given about 11,500 EBITDA and a 150 crores revenue.
- Prashant Kanuru:** So this NFS, coming to the service part of the telecom business, if I remember it correctly you were talking about scaling up telecom business to around 1.25 to 1.5 billion and you were saying the main growth engine would be the services and I think the services EBITDA margins would be significantly below what you get on optic fiber and would be similar to what you get on optic fiber cable of around 12%-14%. So would that understanding be correct as in scaling up the revenues?

Anupam Jindal: Yes you are right, absolutely. But we had said on the product profile we will have limited opportunity because it will be driven by CAPEX, right and for any new capacity we will have to put in CAPEX. So the minimum CAPEX, whatever capacity we can add we will continue to add and sales side we will not make capacity as a bottleneck. Wherever we will get opportunity to sell our product or our capabilities we will source the material, that it is not an issue. Now services are going to become much larger. The aspiration is that it can become 1 billion, 1.25 billion kind of market for STL, for the services.

Prashant Kanuru: The services or the everything taken together?

Anupam Jindal: Services, plus products also. Those products will be about 2000 crores roughly on annual basis. So this is the kind of approach we have and in terms of margin also you are right that it will not be that lucrative because we are not having any CAPEX again in this business. So we look at from return on capital perspective. So even a double digit, 10%-12% margin it is a decent business.

Prashant Kanuru: So what you are saying is 1.25 billion, which means the bulk of it would be from services and so your EBITDA margins would be tapering down to 15%-16% on telecom.

Anand Agarwal: Prashant, as we said earlier we do not look at it from an EBITDA margin perspective, talking about the scale of opportunity. Scale of opportunity, in the current we are operating at a run rate of about 300-400 million just from the products business and the product business will show a natural growth and we are going to supplement it with the services business. We do not know where that number is going to take us. We are going to take every single opportunity, look at it from capability competition and that it provides high return on capital employed. The resultant EBITDA margin can be anything which is going to be a blend of the products and the services. But we are pretty confident on the scale of opportunity and on strengthening our return of capital employed. So that is the number which we are tracking looking at it more closely that the total return on capital employed is stronger and we are actually not caring about what the mix EBITDA would be as long as for each part the EBITDA continues to be stronger.

Prashant Kanuru: Just one last question about optic fiber because earlier you were giving the optic fiber demand in India which you said has grown to 18 million odd KM, fiber KMs from around 13-14 and this jump happened in one year. So what is it like because the OFC volumes have come off. So is that a few client specific reasons or because R-Jio has tapered down its order to you or else are they some of the reasons and basically what I want to ask you is where do you see India's optic fiber demand heading, like next 2-3 years?

Anand Agarwal: As we have said earlier we said that India needs to be clearly in the next couple of years a 25 million KM market and we maintain that and we neither run nor look at the business from a quarter-to-quarter basis. So we are very bullish that on the overall demand trend that we see whether it is Airtel, Idea, Voda and we think that Jio is going to also put in a next set of

demand which will be penetrating the fiber deeper and this is all without any significant amount of public networks. So a single state can actually push the countries demand by 15%-20%. So we are currently almost running at a maintenance run rate in the country.

Anupam Jindal: So just for more clarification we have not lost the market share. Our market share is still the highest. We still have 35%-40% market share of India, so I think it is not that Sterlite is losing out on the opportunity but opportunity from the larger player has shrunk which again is going to be revived by Reliance and some other players like Airtel and all other.

Moderator: Thank you. The next question which is the last question is from the line of Laxminarayan from Catamaran. Please go ahead.

Laxminarayan: You mentioned that you have 35% market share in the OFC thing and just to understand right, so in terms of the top 3-4 players how much would have been the market share. Is it very concentrated and who are the others who are strong in the thing in addition to you?

Anand Agarwal: The top ones are pretty concentrated and then there could be a longish tail of few fragmented players. So along with us there are players like Vindhya Telelinks, HFCL, Finolex which will comprise of almost 70% of the market and then there will be a few who will be doing 5%-6% each.

Laxminarayan: And in the OFC business you think it is much more a regionalized business that you do not find any imports coming in, right?

Anand Agarwal: That is correct.

Laxminarayan: And you mentioned that there is a 25 million KM is what the prospect is and now where are we in terms of market size?

Anand Agarwal: In the current year we believe it should be between 15-17 million KM in FY16 and FY17 should be North of 20 or so.

Laxminarayan: What is the maximum it can actually go to in your opinion because you also alluded to a reference in one of the newspapers that it can actually go 3x, right. So what happens after that? Is it that the road from this segment is kind of tapers off and how do you think about the business, once the critical mass is reached.

Anand Agarwal: This business the proxy to fiber deployment is data requirement. So as long as people continue to use data, videos, entertainment or otherwise fiber will continue to be required. See it is very difficult, the Bharat Net program itself is almost like 50-55 million KMs program. Whether it gets deployed Bharat Net in 2 years or 5 years will showcase the market. Overall, we think India needs to at least deploy 100 million KM of fiber over the next 3-4 years. How that gets spanned out is going to depend on people CAPEX, people capability to spend, people's capability to execute. So I do not think we should take 3-4x in a literal sense, it is in a sense

that the market is very under fiberized today. India market was built for voice networks. For data networks for it to significantly become a part of the telcos revenue that needs to be a large amount of fiber deployment which all the telcos today are talking and discussing and I am sure in your own interactions of their CAPEX breakout you are seeing much more higher mention and percentages of fiber deployment.

Laxminarayan: And do you think that market will continue to be concentrated with like four players which you mentioned. Even to capture that entire 100 whenever it happens will be among these four players.

Anand Agarwal: We believe so but we are not going to be sitting on the current share. We will continue to be watching out. We will continue to offer more service and we will continue to be consolidating our position.

Laxminarayan: Then you do not see any new players coming in per se, because the opportunity seems to be much higher, right?

Anand Agarwal: The opportunity is driven by, it is cable plus fiber plus glass and the glass capacity it is only us having in the country and that is what is determining what, where the value will come from us. So we like to see that how much of the glass market share in the country we are capturing and we are capturing a much larger market share through the glass. Then fiber and then cable. So we do not believe on the cable side would be many more people coming in. Over the years we have seen people come in but not in market share and the engagement which we have with the customers, the offerings that we have the services that we have and we will continue to better it to clearly maintain and consolidated our market share.

Moderator: Thank you. I would now like to hand the conference over to Dr. Anand Agarwal for closing comments.

Anand Agarwal: I would once again like to thank everyone or attending this call and I hope you are able to address and clarify all your queries and comments. For any further clarifications and discussion, you can feel free to contact the investor relations team including myself and Anupam and we clearly hope to continue our association and dialogue in the future. Thank you and good evening.

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