“Sterlite Technologies Ltd. Q1 FY18 Earnings Conference Call”

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MODERATOR: **MR. ABHISHEK GUPTA – IDFC SECURITIES**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Sterlite Technologies Ltd. Q1 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' and 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 Q1 and FY18 results. Investors can also download a copy of these slides from the website after the presentation. The live webcast also has an option to post your questions to the management and this will be answered along with the questions received from the audio call. In case, participants have any additional questions, they can reach out to the investor relations team post the call. I now hand the conference over to Mr. Abhishek Gupta from IDFC. Thank-you and over to you.

Abhishek Gupta: Hi, good evening everyone and welcome to Q1 FY18 earnings conference call of Sterlite Technologies Limited. Sterlite Tech is a global technology player focused on designing, building, and managing smart data networks for its customers. Sterlite Tech offerings include high-quality optical communication products, system integration services, and software services with three state-of-the-art manufacturing facilities and two software development centers across India, China, and Brazil. The company has global operations touching more than 100 countries and deep presence in Indian market across its customer segments. The company announced earlier today their first quarter results for Q1 FY18. We have with us today, Dr. Anand Agarwal, CEO, and Mr. Anupam Jindal, CFO of Sterlite Technologies who will walk us through some of the business and financial highlights and strategy of the company. The earnings call presentation is also available over webcast, participants are requested to use the link shared on STL's website to access the webcast. You have the option to listen to the earnings call over the internet as well as over the voice bridge. I would now like to hand the conference over to Dr. Anand Agarwal. Thank-you and over to you, Sir.

Anand Agarwal: Thank you Abhishek. Welcome to the Sterlite Technologies Q1 FY18 earnings call. I trust that all of you had an opportunity to go through the result's documents, which were shared earlier today and are also available on the website. I will briefly cover the overall industry landscape, business performance, and our three-year strategy following which Anupam will walk you through the financial performance for this quarter.

<u>Slide 4:</u>

The world is entering a new era of data connectivity. Every aspect of life is coming within the ambit of digital ecosystem. At the core of this expanding digital ecosystem is data consumption, which has witnessed exponential growth over the years. Data growth is happening through wider access as those without connectivity are being provided access and being introduced to the digital way of life as well as deepening of the digital ecosystem with existing users raising their engagement to a sharper degree. The explosion of connections, devices, and innovation are driving a quantum leap in data volumes. At Sterlite Tech, we are really excited with the way this macro opportunity is shaping for us.

Slide 5:

This slide covers the rapidly growing Indian market in particular which is still at nascent stage in terms of digital inclusion and broadband connectivity. As a microcosm of the global market, the improved interfacing means that on average 4G user is consuming almost 16 times the data that was consumed by an average 2G user. Simultaneously, digital content is proliferating with more players entering this space and evolving existing platforms which is resulting in superior content thereby driving consumption. Also industry reports have indicated that the total number of mobile Internet users whereas users with high speed Internet access and overall data consumption of the users are quite expected to rise exponentially. This changing scenario will give a huge boost to the Internet economy in India. The Indian Government's initiatives to move towards the paperless, cashless, and presence-less ecosystem with a focus on digital inclusion underscores the transformation at all levels.

Slide 6:

In order to facilitate the trend of exponential data growth, data networks are evolving and responding to the requirements. These networks are becoming denser at the point of interaction and are coming closer to the consumer. Emerging trends such as 5G and FTTx require very different levels of network performance and fiber is central to the vision to meet the requirements of these networks, so basically fiber will have to go deeper into the networks and closer and closer to the point of consumption. Also contrary to the general belief that wireless technology substitutes the need for fiber, the fact is that enhanced wireless or Wi-Fi experiences is directly dependent on the intensity of fiber backhaul, so wireless technology actually complements the usage of fiber which will be critical for building a high-capacity backhaul and future proofing the network. Optical fiber will remain the preferred medium of data transport and there is no technology today which can replace the speed, throughput, and latency performance of fiber on any standards. The continual increase in global fiber demand provides Sterlite Tech an opportunity to partner with global telecom service providers and matching their requirements of smarter digital infrastructure with the best technologies and innovations.

Slide 7:

Most countries around the world have realized the importance of Internet economy, which is becoming a major contributor to their respective GDP numbers. These countries have been undertaking major positive initiatives to expand the availability, speed, and consumption of Internet at large. As a result, the prospect for fiber demand globally continues to shine brightly. Based on the investments outlined by key players and major global markets, the pace of fiberization is continuing to increase very rapidly. What is equally exciting is that Sterlite

Tech is well-positioned in several of these markets and in the process of enhancing presence in others to participate at the forefront of the next wave of the digital revolution.

Slide 8:

Another interesting trend from our perspective is 5G, which is going to be aggressively rolled out in the coming years to deliver real world class access speeds significantly faster to what is available on today's 3G or 4G networks. 5G coverage will require lots of fiber to be successful not just for capacity reasons, but also to meet the other rather formidable 5G performance goals. These performance goals relate to network diversity, availability, and coverage, since all the three of these goals are achieved through a greater number of interconnected paths of fiber. This fiber is a key tool for the National infrastructure imperative of providing consumers with high-speed 5G broadband connection, no matter where they live. 5G's formidable network performance goals are heavily predicted on the availability of fiber, which is considered as the only transport media capable of scaling to 5G. Therefore, there is no option to fiber for the next level of networks which augurs well for the fiber industry, the demand of which is going to increase even more rapidly as we see 5G commercialization across geographies.

Slide 10:

To talk about our positioning in this exciting data journey, as a company our singular focus remains on the opportunity that strength from this entire digital connectivity landscape. We are witnessing new networks being created across the world whether it is a 4G, Wi-Fi, FTTx from the telcos or large-scale broadband initiatives like BharatNet and Smart City under Government's sponsorship or emergence of large enterprises like defense who are building a countrywide network for their own communication needs. As a company, we are uniquely positioned to have an integrated capability of designing, building, and managing such new networks. Over the last few years, we have taken conscious steps to evolve our business from a pure manufacturing-like model deeper into the services and software layer to offer an end-to-end integrated solution to our wide spectrum of customers for their data network creation. With these new capabilities, we are now uniquely placed to engage with our customers at the network design stage and become the trusted partner for an end-to-end rollout and post-execution management to deliver best-in-class network performance.

Slide 11:

Sterlite Technologies have steadily evolved from a product focused optical fiber and cable company into an end-to-end integrated solutions provider. Through our integrated solutions spanning across the three business verticals, products, services, and software, we strive to bring the best-in-class network design capabilities. In addition to being one of the only few fully integrated fiber manufacturer, we have a strong system integration businesses as well which gets further strengthened with our telecom software capabilities for network operations, billing, and monetization. This translates into a unique silicon-to-software capability, which is unparalleled in the world. Today, Sterlite Tech has successfully emerged as a leading global provider which specializes in serving the needs of any new broadband network creation. The company's advanced capabilities and technological expertise developed over the years continue to differentiate us from any other players. Our ability to increase capacity economically and rapidly makes us integral to our customer's growth plans. We are confident in saying that Sterlite Tech is well prepared to take every advantage of this upcoming exponential digitization growth which the world is about to witness in the coming years.

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As a quick recap and for the benefit of newer audience, our principal competitive advantage lies in our integrated offerings and our end-to-end control over the fiber manufacturing value chain. We are the only company in India and amongst few globally who manufacture optical fibers from core silicon and this fully integrated setup lends us significant competitive advantage translating into industry best margins and access to global marquee customers. With our IOT integration services and software adding to our manufacturing core, we are now in a position to address a much larger pie of the digitization spend on network creation which also allows us to remain anchorage with our customers through the entire life-cycle of network by managing their networks.

Slide 14:

On the backdrop of this opportunity and our unique offerings, we have set out a charter for us to maximize shareholder value creation by accelerated growth of the business in years to come. Our growth strategy hinges on three pillars of exponential global reach. Scale our growth in all our businesses and increased value-added offerings. In line with our past demonstrated growth and our recent decision to expand our optical fiber capacity to 50 million kilometers, we are targeting $100 million net profits by 2020 which will be a three times growth in net profits in the next three years. We are confident that our present efforts will help us to achieve our mid-to long-term aspirational goals which we have set for ourselves.

Slide 15:

Our strategic direction for the business continues to be centered across five principles which we follow prudently in our business practices. Our focus continues to remain in driving absolute profitability while maintaining a healthy ROCE of more than 20% levels for the business. We also remain committed to reward our shareholders and in this regard we continue to distribute approximately 30% of net profits as dividend to our shareholders.

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I would now like to dwell deeper into our products and services business and share key business developments from this quarter perspective. On the product side of the business, we are well on track to reach our 30 million exit capacity by mid of FY18 as stated earlier. To that effect, we exited this quarter with enhanced capacity of 28 million fkm. As announced in the beginning of this year, we are now embarking on next phase of fiber capacity expansion from 30 to 50 million kilometers to be completed by June 2019, which will catapult us into the league of top three fiber manufacturers globally. The expansion would be Greenfield in nature and will come in phases over next three years with total investment of about Rs. 1,200 crore. We expect a significant ramp up in our cable capacity utilization also in the next two years as we increase our global reach and deeper penetration into existing accounts. We will have equal focus on developing newer products for newer applications and networks and increasing the proportion of value-added products to our portfolio as we scale the volumes.

Slide 18:

Our strategic focus to diversify into new markets has helped us to emerge as a global supplier enabling us to drive growth from multiple markets. Our revenues from exports market witnessed a significant 77% year-on-year increase. More importantly, we are able to grow this even in the phase of a shift of demand within micro markets. As is evident, we are getting equally stronger in Europe as we have been in China, clearly the strategy to be present across multiple markets gives us confidence that our revenues from International markets will continue to grow at a rapid pace.

Slide 19:

Our order book stood at about Rs. 3,140 crore this quarter which is an all-time high for this business. This order book is well balanced across geographies with a healthy mix from products and services segment. It is very encouraging sign for us to see our products' order book more than doubling in the last one year. We are consciously building a pipeline of long-term contracts for products' business moving forward and are comfortably placed with more than one year of fiber capacity already booked and locked with confirmed orders.

Slide 21:

I will now cover the key business update for the quarter. I am very happy to share that in the current quarter we had our third Smart City win with, Kakinada Smart City in Andhra Pradesh. This will be designed, built, and managed by Sterlite Tech for over six years. During the quarter, the company also unveiled four new smarter optical communication technologies and fiber to the home offering. With grant of new US patent, the current patent portfolio stands at 155 for the company. All cable products in EU need to meet the CPR qualification and carry the CE mark by July 1, 2017. Sterlite Tech is now providing high-quality optical fiber cables qualified with harmonized European construction CPR regulation. Amongst other feat, the company won the CII award for customer obsession, a testimony towards our high customer engagement in all the spheres of our business.

Slide 22:

The Kakinada Smart City win is a very important milestone in our journey towards becoming a technology partner of choice for all our customers as they embark on creating new smarter networks. It brings many technology first solutions in India in terms of an end-to-end fiber to software offering with horizontal IOT platform integration; LoRA based city-wide wireless sensor network and disaster management system. As part of the complete scope of the project, Sterlite Tech will be the IOT integrator for the Kakinada city starting with base fiber communication layer going up to the application layer. The company will be building the basic optical fiber backbone coupled with the routing and transport layer in the city. Riding on this communication infrastructure, we would bring applications like Wi-Fi hotspot, surveillance, traffic management, automatic number plate detection to name a few. Our engagement in this project goes from the initial design of the network and will continue for six years to managing the operations, post-implementation projects. We are delighted to partner with Kakinada Smart City Corporation to form the pillar for stronger communication between the city officials and citizens of Kakinada.

Slide 23:

This slide gives us a bird's eye view of the state of smart city rollout in the country. While the progress has been encouraging on overall basis, we have been seeing some states being more progressive and with close to 10 cities releasing orders within the country. Sterlite Tech has emerged as one of the leading players in smart city development with the total portfolio of three cities out of which two cities are already in managed services model after the first phase implementation. We continue to be in active engagement with several other smart cities being planned in the country and confident of enlarging our smart city suite bringing in the best-in-class solutions and technology to the citizens of our country.

Slide 24:

The last quarter also saw some senior level hiring strengthening our global leadership team and augmenting our capabilities in technology domain, as we are expanding our manufacturing capacities to 50 million kilometers and smarter network capabilities. To further our International reach, we have appointed Steve Bullock in North America and Richard Eichhorn in Europe, Middle East, and Africa to lead and strengthen our business initiatives and market expansion in these geographies. While Richard and Steve bring their global experience of more than 25 years each in technology and ICD space, to lead our global initiatives, we also had Sanjeev Bedekar joining us as Chief Delivery and Technology Officer for our services business, bringing a rich experience of working across Telco environment and network creation. As the company embarks on the next wave of growth, we also welcome Nischal Gupta who will lead companies digital transformation journey. Nischal comes with more than two decades of experience in transformation, process, excellence, and change management with his last assignment being with Flipkart. We also appointed Anshoo Gaur, ex- Managing Director of Amdocs India as a strategic advisor to scale and build our software capabilities as we enter the new area of digital transformation. We recognize the value of human capital will be a crucial ingredient to take us to the next level. Sterlite Tech continuously and consciously benchmarks HR policies and practices with the best in the industry globally. The company strives to build conducive work environment, which embraces diversity and fosters inclusion. Sterlite Tech has been successful in hiring some of the best experienced talent across geographies in the past few quarters. As we plan for the future, we will continue to focus on hiring the best and attracting the best talent across different geographies with a focused and comprehensive approach to human resources management.

I would now like to hand over to Anupam who will take you through our financial highlights for the quarter.

Anupam Jindal: Thanks Anand and thank you all for joining this call. We are happy to report a stronger set of numbers for this quarter with highest ever revenues and order book in history of telecom business.

Slide 26:

Slide 26 gives the quarterly financial performance trend for the company on a consolidated basis over the last few quarters. As you can see, revenues for the quarter stood at Rs. 744 crore registering a 23% year-on-year growth, EBITDA grew 32% on a YOY basis driven by growth in the product volume and supported by project execution progress, progressing firmly on a quarter-on-quarter basis. Our Profit after tax for the quarter stands at Rs. 61 crore registering a 61% growth year-on-year basis.

Slide 27:

This slide brings you the concise version of the P&L for this quarter compared with full year of FY15 and FY16 performance. At 22%, our EBITDA margin remains amongst the industry best. We continue to deliver growth with our analyzed Q1 FY18 performance showcasing a strong growth over FY17 on all key matrixes, revenue, EBITDA, and PAT. ROCE at end of quarter stands at 26% and remains a key metric of our future growth.

Slide 28:

As we have been reiterating, we continue to have a very strong focus on balance sheet even as we plan for scalable growth in all our business. During the quarter, we saw a net cash generation of about Rs. 60 crore after CAPEX and taxes, which led to the overall net debt reducing further to Rs. 860 crore. We remain committed to keeping the gearing ratio under one, which stands at 0.9 as at the end of quarter. Going forward, we will continue to elevate the trajectory of growth and cash generation to strengthen the balance sheet. We continue to be extremely focused to keep our balance sheet light and improve our return ratio as we plan for growth.

Slide 29:

The slide number 29 is reflection of our past performance in telecom business. As you can see we continue to demonstrate healthy growth in our business profits with superior return. On five-year CAGR basis while the revenue growth was 24%, the EBITDA growth was almost 38%. The ROCE profile of the business has also improved over the years now operating in plus 20% range. This brings us to the end of our initial remarks and I would like to hand it over to moderator for Q&A.

Moderator: Thank you, Sir. Ladies and Gentlemen, we will now begin with the question and answer session. The first question is from the line of Anubhav Gupta from Emkay Global. Please go ahead.

Anubhav Gupta: Good evening everyone and many congratulations to Dr. Agarwal and his team for the stellar first-quarter performance. First question, sir you gave quantitative guidance of US $100 million PAT by FY20 which is very aggressive, could you tell us about the qualitative aspects of that, what kind of market size you are looking for in the fiber industry, what will be your market share by FY20, what will be the system integration contribution for you in that year, how do you see the fiber demand panning out and obviously beyond that, once you are reaching 50 million kilometers what kind of growth you are looking post that maybe five years view about the data and networks?

Anand Agarwal: Anubhav, in the long-term we continue to see at least data continuing to grow. I will not put in a five-year perspective, but for the next three years clearly we have a roadmap as well as our plans and our role clearly structured and figured out, so one key aspect would be what we are doing the growth in 50 million kilometers and associated part of it would be the growth that we have started to see on the cable business and we are seeing more growth on that, so the cabling part which was running at about 40% capacity last year is now already at about 60% to 65%. We believe we will do better quarter-on-quarter capacity utilization and maybe take a call on increasing that capacity also sometime later during this year. Additionally on the services business opportunities that we are seeing on smart cities, the opportunities that we continue to be bullish about on BharatNet continues to be strong and it is becoming a good play as we have seen which we have been talking about, a good integrated play of fiber to software with IOT integration and the first validation of that strategy was through this Kakinada Smart City win that we have. So overall we are very bullish on the data growth that is happening, we are very bullish on the role of fiber and fiber-based network on playing a very strong role in that and we are uniquely positioned in this towards taking these opportunities and the number or the target that we have sort of talked about is in that direction only. We have been growing, as Anupam said, our EBITDA growth has been close to 40% year-on-year for the last five years, so on the PAT front also we believe we are targeting 100 million in the next three years.

Anubhav Gupta: Secondly, on the 50 million expansion plan how do you see the benefits coming in over the next three years, obviously it is difficult for you to give guidance on yearly basis, but how do you see the benefits coming in stages through FY20?

Anand Agarwal: On the 50 million, what we normally do, this one is going to be a Greenfield, however, the way we are still designing it is that we start seeing some impact in phases in FY19 and some impact in FY20, so the design of the plant is being done in a modular fashion so that we do not have one stroke thing, but we do it in a phased manner.

Moderator: Thank you very much. The next question is from the line of Manish Adukia from Goldman Sachs. Please go ahead.

Manish Adukia: I have three questions if I may, my first question is on your International growth which was very strong this quarter and in most of your regions excluding China revenues saw an uptake. Can you help us understand the demand drivers here and if you can throw some light on the order book pipeline for these regions? My second question is somewhat related to the first question. A number of telecom operators across the world are talking about 5G trials and commercial deployment probably earlier than initial expectations. In your view have telcos already started building capacity for 5G or do you expect a sudden uptake in demand closer to the commercial deployment of 5G? My last question is on India, what are the conversations you are having with Indian telcos, we do understand that India is under-fiberized, but are you seeing an uptake in deployment of fiber by the Indian telcos and what is the kind of demand that you foresee there over the next 3 to 5 years?

Anand Agarwal: Manish on the first question about China, we continue to be very bullish and very pleasantly surprised with pace at which China continues to move, so China has taken pretty aggressive targets for 5G rollout over the next several years. China had announced certain investments up to 2020 and they have now announced another 10-year investment from 2020 to 2030 of almost $400 billion in upgrading their 5G and the fiber becomes a very, very integral part of this creation. The China created 4G network, China is now in fiber to the home rollout and then they are already planning for 5G. So we are very, very bullish upon the growth that we continue to see in China. In terms of global 5G penetration, you are right that now it is moving on from trial phase to definitive commercial launch, the first launch that we believe will be with SK Telecom of South Korea has gone public and talked about that they are going to launch it in winter Olympics in South Korea next year, China, all the three telecom providers especially China Mobile and China has talked about launching it next year. Verizon, if you have seen some recent announcements, Verizon has signed up a mega deal with Corning for over a $1 billion for buying fiber cables to support their fiber investment through which is essentially going to be the backbone for their 5G rollout, so we are seeing very encouraging signs for 5G rollout slightly earlier than what we thought. In India, you are right the market continues to be under-fiberized, the discussions with telecoms providers clearly the need is recognized and if you saw the statement of Airtel CEO, I think on Monday, he spoke about the fact that their CAPEX spend on fiber over the next three years will be three times what they spent over the last three years. We are yet to see that in terms of concrete orders and rollouts, but we are absolutely sure that they understand the need for rolling fiber for their 4G requirements and currently they are in various discussions as to how this can be rolled out while they are facing this market disruption.

Manish Adukia: That is very helpful. I just had a follow up question on the comments that you made about 5G. Now when you look at telcos deploying fiber globally, you mentioned example of SK Telecom probably looking to launch by Winter Olympics, so when these telcos are doing a demand analysis for their network, are they looking to do that demand analysis for let us say in the next three years, five years, ten years kind of time horizon, so what I am trying to understand is when they are building these networks of 5G, how do they project demand for it, do you think that as you come closer to commercial deployments, for example, for 5G let us say in 2020, could there be a sudden increase in demand for fiber or do you think these telcos are already taking that into account and building their network in such a manner that you do not need newer investments going to the next decade?

Anand Agarwal: Different telecom providers have different perspective, so people like Verizon etc. they are going by city-by-city approach where essentially, they are saying that a city needs to be 100% covered for 5G by then and it needs to be very, very fiber rich. Verizon is very public about their approach, actually in a city like Boston they are covering every single street of Boston with almost thousand fiber cables, so that is in the approach where they are planning for real long term where every tower sites, small cell sites, fiber to home, all get covered with fiber leading to that, while others would plan in a different way. So the clear understanding and the requirement for them would be that the high capacity core infrastructure gets laid in a city they do that and which has huge amount of room to grow and the cell sites can keep on coming in as the capacity requirement keeps changing.

Moderator: Thank you very much. The next question is from the line of Abhishek Gupta from IDFC. Please go ahead.

Abhishek Gupta: The question is largely set on the guidance part, I believe that the guidance for 3x growth in PAT is largely growth led and not much driven by the margin expansion, am I right over here?

Anand Agarwal: If you see our trend over the last five years, when we see a revenue growth of 25%, we see EBITDA growth by 40%. So there would definitely be parts of it which will slow down, but we have looked at a macro reason for our growth, there would definitely be top line growth as well as bottom line growth.

Abhishek Gupta: The reason I am asking is that if we take the margins as flattish at about 20%-21% which is the levels we are at right now, what it means is we should grow revenue by about mid-30s CAGR for the next three years, if that is the case which segments do you think are more likely to grow and are we also building any inorganic opportunities in this guidance?

Anand Agarwal: So currently, Abhishek, it is largely following the growth that we have delivered and seeing the outlook that we can see moving forward. So as I said earlier strong element would be 30 to

50 million, another strong element would be the cable growth, whatever we have delivered till last year was on 6 million of cable, we have 15 million of cable capacity, so there is like a 2.5 times their itself and then last year we delivered only Rs. 300 crore coming from services' business, so there is a large potential that we have, we have an order book of almost Rs. 1,500 crore of services and software business. So whatever guidelines we are putting is the sum of all and it would mean while you are looking at EBITDA, the EBITDA translates into PAT at a much faster pace because below EBITDA the items do not increase proportionately to the other items.

Abhishek Gupta: Just one last question, more like a book keeping question, Anupam Sir, can you give any color on the volume numbers, how was the growth this time and the quarter, any color on fiber and cabling mix would be helpful?

Anupam Jindal: Abhishek, in terms of the volume, we have stopped giving it from last quarter based on our competitive slide which we used to have, but largely we have maintained the volume which has been there in the last few quarters. We are running at about 28 million run rate, so I think that is what we are seeing and we have committed 30 million by September end. So I think, volume they are stable and will move in line with our expansion plan which we have communicated.

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

Neerav Dalal: I have a couple of questions, one is again on the International business, China's share of International business has come down, so how do you see this moving ahead, would China remain at these levels or has there been a change in the strategy by the management in terms of China?

Anand Agarwal: Neerav, overall on absolute basis the numbers continue to increase for China year-on-year basis. This particular quarter Europe has been stronger essentially because in China we sell their fiber while Europe we sell cables and we are seeing a good degree of requirement coming from Europe, so there is no strategic shift, it is just that we want Europe and China both to be strong for us. The relative numbers will keep changing quarter on quarter and there is no direction or a target that we intend to achieve.

Neerav Dalal: The other question is for Anupam, there is an increase in the interest cost in the quarter, q-o-q basis, just your comments on that?

Anupam Jindal: I think the interest cost has been in the range of about Rs. 24 to 26 crore or so, there are certain accounting things which are making quarter-on-quarter number look different because of the difference in foreign exchange, forward premium and all that, but essentially we are in the sub-10% kind of interest rates scenario and as we see sustainable improvement in a fund or in the debt position I think some interest element will go down.

Neerav Dalal: Okay, so we should look at a number anywhere between Rs. 25 crore?

Anupam Jindal: I think that will be the number until there is a substantial and sustained production in the debt going forward.

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

Alok Deora: Just a couple of questions, one was on the smart city project which we have won very recently, what would be the value of that project and the timelines?

Anand Agarwal: Alok, the smart city project every subsequent one the value growth is happening in various projects, the current one is close to Rs. 110 or 120 crore in that range. The previous ones were more in Rs. 30-50 crore range and these are various phases, so we believe that as more and more smart cities start coming up, the range and the order book for which will keep increasing.

Alok Deora: Just one more question, the order book has increased on a quarterly basis and if you see the execution it has been around Rs. 740 crore, so if the order book is increasing then we must have received the orders of worth around Rs. 750 plus crore during the quarter, so is that coming majorly from the product side or the services side?

Anand Agarwal: Order book has been of the order for Rs. 850 crore in the quarter and we have largely maintained the product-to-services ratio, so whatever we executed, for instance on product side has come from product and services. It is currently about half and half, about 50% is product and 50% is services. Over the last one year period if you see, the order book for products has doubled, so we have much better visibility on products for 2017 and 2018 than maybe we had a year ago.

Alok Deora: Just one last question, on the debt going forward if we look at FY18 and even FY19, so would the debt increase for the substantial CAPEX we are looking at?

Anupam Jindal: Alok in terms of the overall debt since we have launched this major capacity expansion program worth about Rs. 1,000 to Rs. 1,200 crore, definitely we can see some part of that project to be funded through incremental debt. We are looking at how much we can fund it through internal accruals because there is an opportunity for us as we are generating good internal cash accruals, so that may happen, but at the same time we are committed to keep the overall gearing, debt equity to less than one, so we believe that we will be able to maintain that.

Moderator: Thank you. The next question is from the line of Mayank Babla from KR Choksey. Please proceed.

Mayank Babla: Sir, my question was that, the services segment has lower let us say 10 to 15% EBITDA margin of margins and the product segment has lower 20s margin and going ahead the company plans to increase the services component to revenue, so how will we achieve the target of around $100 million given that the blended margins will eventually come down because of change in mix?

Anand Agarwal: Mayank, we have done these numbers, as I said the impetus will come from 30 to $100 million means CAGR of net profit at about 50-52% close to 50%, we have delivered 44% EBIT over the last five years, so we have done these numbers for the growth for products, the growth for services and software and again this is indicative number, we are targeting that and we believe that we are well set towards achieving that.

Mayank Babla: Sir, secondly could you throw some light on the L1 status of the bids that we had in certain orders that we mentioned a few quarters ago, what is the development over there?

Anand Agarwal: Mayank, as we said over the last couple of quarters whenever there is a development which is material we will report on that so let us allow to report it whenever there is a development.

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

Augustya Dave: Sir, did India pickup in the quarter, India product business, it has been slow for last one year but has that happened?

Anand Agarwal: We do not look at India product as, so Augustya maybe offline the exact number, I mean at least we do not track India products standalone as such.

Anupam Jindal: Just to give you some color, overall India has been at the same level broadly, there is no material change in the quarter on quarter or yearly number basis.

Augustya Dave: Your cabling capacity, when you are saying that 40% utilization will go to 60-65 and then go to 85-100, is this spread across all geographies or is it more concentrated in India, how is it placed because we do not really talk about cabling so much, this is the smaller piece of the business, but you are clearly very bullish, so is it concentrated in one particular geography or spread across?

Anupam Jindal: So the cabling business, the manufacturing is based out of India. In terms of the demand, it is spread across geographies ex-China because China is bare fiber supply, it is primarily Europe and other markets plus India. So when we are talking about better utilization it is largely coming in from export market at this point of time as Indian market improves that will be further improving the utilization.

Augustya Dave: This is the standard question I ask every quarter or every time I interact with you guys, but in terms of level of positivity, there is a lot happening internationally but very little traction in India I guess, so would you say that the situation has improved broadly across like products and services, India versus International?

Anand Agarwal: Essentially, the way we have structured our business is that on product front we are very global and we see global signs coming in. India for us is both products as well as services. On the services front what we are doing for defense, what we are doing for smart cities, what we are doing for rural broadband, we continue to be being very bullish on those accounts. I understand that there is a short-term issue related to the India in telecom providers, but of our total revenues that we do, it is less than 10% and we see only signs of improvement there, no signs of decrease because fiber is core for 4G role out, so as a part of our immediate revenue outlook or order book outlook we are not concerned and we are absolutely sure that their CAPEX on fiber only has to increase, so we have great engagement and we are patient for them towards increasing that CAPEX whenever they are ready to do.

Moderator: Thank you. The next question is from the line of Bhupendra Tiwary from ICICI Securities. Please go ahead.

Bhupendra Tiwary: I understand that you guys are not giving the product and services breakup, is it fair to assume that it is in the similar range of 80:20, product to services?

Anand Agarwal: Yes, it is largely in that range, so the product part slightly keeps decreasing, the services part keeps increasing. If you see our order book mix is 50:50, we ended the last year with a revenue mix of I think 75:25, it is largely in that range.

Bhupendra Tiwary: Now if we look at the services order book of Rs. 1,500 crore, so just wanted to understand the execution period for this order should be roughly 2 years, am I right?

Anand Agarwal: Twelve to 18 months.

Bhupendra Tiwary: All the revenues from this order should accrue over the next two years?

Anand Agarwal: A large fraction of it would accrue over 12 to 18 months; there would be a fraction which is for **(Inaudible)**

Bhupendra Tiwary: Removing the Rs. 300-400 crore orders of NFS, that is understandable. In terms of similar for the product business, we have an order book of Rs. 1,640 odd crore, so that order is for how much period or does it extend across more periods or something of that sort?

Anand Agarwal: That is mostly for calendar year 2017 and 2018, so everything of this order book should be executable by December 2018.

Bhupendra Tiwary: Now coming on to the CAPEX part sir, we have a CAPEX lineup of around Rs. 1,000 to Rs. 1,200 crore for the Greenfield capacity and we expect the capacity to turn online by June 2019, if I am not wrong, so the majority of the CAPEX were to happen in FY17 and 18, so what should be the breakup of the CAPEX kind of if you can give a sense?

Anupam Jindal: Basically, Bhupendra, we will have ordering going in the current fiscal and some advance payments, but the cash flow will largely happen in FY18-FY19, and FY19 and FY20.

Bhupendra Tiwary: Fair enough, having said that what should be the kind of CAPEX that we see in FY18 at least if we can get a sense, overall CAPEX?

Anupam Jindal: Overall CAPEX including the sustainable CAPEX and other things, we will expect about Rs. 300 crore in FY18 and the balance will be spent over 19 and 20.

Moderator: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: I have two questions, one is when you say sir, we have a long-term guidance of profitability of $100 million PAT. So in terms of capability or in terms of capacity increase, how much capacity we need to increase to reach that level, and secondly, what are the medium-term CAPEX guidance to achieve that level?

Anand Agarwal: Manish, it is exactly the same what we just discussed, so currently the outlook that we are giving is from what we have already committed to go from 30-50 million kilometers, that would entail between Rs. 1,000 to Rs. 1,200 crore of our CAPEX and with 15 million kilometers of cable, there may be some room to increase capacity for cables which will be not significant CAPEX. So largely on the guidance front, it is largely coming from what we can already foresee and committed.

Manish Ostwal: Secondly, other than this CAPEX, what is the normal CAPEX for the business, sir?

Anupam Jindal: We have roughly about Rs. 40-45 crore of annualized CAPEX on sustainable basis, so I think I just mentioned that overall we have Rs. 300 crore of CAPEX outlay broad number in FY18.

Manish Ostwal: Lastly, you said we have extremely superior pricing and leadership position in this segment where we are operating. So since we are moving into a value-added categories and new offering, so do you see the margin further improve from the current levels?

Anand Agarwal: As we maintain the margin, range will be largely in the current levels and it is going to be a mix of what we do on products, what we do on value-added, what we do on services.

Moderator: Thank you. The next question is from the line of Ronak Shah from SJC Capital. Please go ahead.

Ronak Shah: My question was pertaining to the deals you mentioned which was the Corning, Verizon deal, now I think this is probably one of the first instances where such a large capacity was locked up, kind of three years forward by a telecom operator which I guess shows that there is a scarcity of fiber capacity out there globally, what are your thoughts on this and how do you see kind of capacity ramping up not just from you, but from your competitors as well like Shin-Etsu and Corning?

Anand Agarwal: You are right Ronak, this is after a long time that somebody has gone out and announced a three-year sort of deal. We are seeing demand as well as capacity being put up, so there has been some announcement with people like Shin-Etsu, people like Corning etc. and whatever decisions what we have undertaken is taking all those new supply coming into consideration. So from that aspect we are very comfortable with the decision that we have taken and our order booking for 2018 and moving into 2019 is towards that sort of increased capacity itself.

Ronak Shah: Just a follow up on that, so if I look at the announcement that they made, so I think the deal was for a billion dollars and approximately 30 million kilometers which implies that the pricing obviously looks quite low and I think you have mentioned in the past that the pricing has been about $7-8. How are you seeing pricing currently and also for the forward bookings that you are doing?

Anand Agarwal: From what I remember the deal was for billion dollars and 60 million kilometers of cabled fiber plus some hardware. So if you just look at the cabled fiber it is coming to about $16 to $16.5 per kilometre which is very close to Rs. 1,000 to Rs. 1,100 per cabled fiber which is what we get as well and what we are focusing on is more towards creating sustainable order book position rather than short-term margin, so we are seeing sustenance of pricing but larger volume with larger time periods and that is what we are focusing on.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Dr. Anand Agarwal for closing comments. Over to you, sir.

Anand Agarwal: Thanks. I would once again like to thank everyone for attending the call and I hope that we were able to address and clarify all your queries and 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 once again all the participants for showing their interests in our company. 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. Thank you all for joining us and you may now disconnect your lines.