“Sterlite Technologies Limited Q1 FY'17 Earnings Conference Call”

July 25, 2016

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

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

Moderator: Ladies and Gentlemen, Good day and welcome to the Sterlite Technologies Q1 FY'17 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

Along with this call, we are also running a live webcast of the Presentation covering the Q1 FY'17 Results. Investors can also download a copy of these slides from the website. Post management discussion we will take Q&A session and the management will answer questions received from the audio call. In case participants have any additional questions, they can reach out to the Investor Relations Team post the conference. 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 evening, ladies and gentlemen. Welcome to the Sterlite Technologies First Quarter FY'17 Earnings Conference Call. From the Company we have with us Dr. Anand Agarwal – the CEO and Mr. Anupam Jindal – the CFO of the Company.

Sterlite Technologies is a focused pure play telecom company, which designs, builds, manages data networks for its clients. Sterlite Tech offerings include, high-quality optical communication products, system integration and software services. Sterlite Tech is among the leaders in all of its business areas and has operations on a global scale with presence in India and international markets.

The earnings call presentation is also available over the webcast; you may please click the link mentioned on Sterlite's website to access the webcast. You have an option to listen to the earnings call over internet as well as over to the voice bridge.

I would now like to hand over the conference over to Dr. Anand Agarwal. Thank you and over to you, sir.

Dr. Anand Agarwal: Thanks, Anubhav. Good evening, everyone. I welcome you to the Sterlite Technologies Earnings Call for the First Quarter of fiscal 2017. 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.

It has been an exciting start to FY'17 with meaningful developments across all business verticals. In addition to business performance, we have updates on industry dynamics foray and other strategic initiatives to share with you.

SLIDE 5

Global Telcos are witnessing increasing data traffic over 3G and 4G networks, leading to rapid growth in data revenue. And this growth is fueled by demand for high-bandwidth consuming applications and the continuous evolution of mobile devices with internet-based technologies.

As we have depicted here and most of you know by now Sterlite Tech's growth 5 drivers are:

The first one being mobile data broadband infrastructure requirements for 4G or LTE by Telcos. The second one been the Smart Cities requiring basic broadband infrastructure for smart applications. Then rural broadband initiatives like BharatNet. Similarly, the fourth being the broadband infrastructure for Defense and other utilities. And the fifth growth driver is the global data growth that we see through our presence in China, Brazil and Europe.

For these growth drivers, we are well positioned to play an integral role in designing, building and managing the optical-fiber based data broadband infrastructure. And to cater to this we have three clear offerings: So we have our products based optical communication products based offering with the only fully integrated optical-fiber facility in the country. The second offering is our system integration which offers end-to-end services – from infrastructure to applications – for Smart Cities, Defense as well as other utility networks. And the third one being our software services to manage operations support and billing support for the broadband network.

For those of you who have been tracking our evolution, Sterlite Tech now offers end-to-end capability to design, build and manage data network for all its customers.

SLIDE 6

In addition to being in a club of select few global companies which possess technology and knowhow to manufacture fiber, this integrated model provides us clear differentiation in the market place. Customers are beginning to truly appreciate the value of an end-to-end service provider with the tangible and intangible benefits of the integrated presence getting more pronounced as customer needs evolve.

SLIDE 7

In our last con-call, we talked about the transformation and continued evolution of Sterlite Tech into a pure play telecom end-to-end telecom service provider. We have abided by our vision while simultaneously elevating our competencies - all of this has been undertaken with a focus on immediate need of our customers, as well as planning for their future requirements while prudently allocating resources in an efficient manner to benefit all stakeholders. Suffice to say our evolution will remain grounded in our core competencies and will leverage our strong foundation.

SLIDE 9

To talk something about the opportunity landscape, on several occasions we have been facing questions about the size of the opportunities and the pace of adoption in various geographies. There are certainly many variable factors which can and will impact the momentum of the unfolding opportunity. At a fundamental level though, the increasing IP traffic which is data based globally on account of data demand will continue to be the underlying driver for high speed connectivity and creation of smarter networks.

Both developed and emerging markets are demonstrating and expanding appetite for data consumption leading to continued growth in optical-fiber demand globally.

India is today at inflection point of data penetration which is amongst lowest globally. The next three years to five years in a country will see significant amount of investments in creation of digital infrastructure which will come as a mix of both public and private investments. With our integrated offering Sterlite Technology is well positioned to play an integral role in addressing these opportunities and contributing its bid towards the nation building.

SLIDE 10

To talk a bit about our opportunities that we see, the foray into services and system integration was on the back of a clearly visible opportunity for the integration of systems and networks. While we are currently progressing well on our maiden project the visibility or the opportunity continues to be enhanced. Given the strong pipeline of orders for FY'17 we are confident of scaling this vertical in the manner envisioned with an emphasis on efficient execution coupled with managed services opportunity, translating to sustained cash flows visibility for future. We also do believe that system integration opportunities of such size will continue to surface in next three years to four years.

SLIDE 11

I will just touch upon some of our key business highlights before handing over to Anupam. On the broader side, we expect our fiber capacities to be ramped up to 25 million fibre kilometers by middle of this fiscal year through our ongoing debottlenecking initiative. And in the backdrop of strong anticipated global demand for fiber we have also decided to accelerate the 30 million fkm capacity expansion through the middle of next financial year brining forward the plan which we had originally envisaged to do in 2018.

As you are aware, we recently expanded our optical-fiber cable capacity to 15 million fiber kilometer and we are confident of gradual ramp-up of utilization levels in next few quarters. We have had some significant customer wins in international markets this quarter and we expect the cables volume to pick up traction in H2 of this year.

We also inaugurated an optical-fiber cable application lab at our cabling facility in Silvassa which is a one of its kind facility in India and will elevate capabilities of our teams and delivering value added products.

In the systems integration vertical, we continue to make significant process with both current phase of Jaipur and Gandhinagar Smart City rollout progressing well. We have successfully completed beta testing in Gandhinagar and this sets the ground for going live in the immediate in the immediate future.

We also announced the smarter network initiative which aims to change fiber deployment practices leading to doubling of life of fiber assets. Amongst our other key initiatives and recognition, Sterlite Tech has been appointed to the Board of Directors for Fiber-To-Home council of APAC. This is a meaningful development as it allows us to continue to shaping of the industry and enables us to drive standardization in Smart City development by leveraging our R&D knowhow and adhering to global best practices.

I am also pleased to share with you that we have become a member of the Open Compute and Telecom Infra Projects sponsored and driven by next generation on telecom operators globally. Both projects are contribution driven technical organizations aiming to disrupt the technology paradigms of today.

For the first time under the Sterlite Global Internship Program about 10 management interns have joined the company for a two months' internship with the leadership team. These interns are from reputed international business school like London Business School, NCRD, IESE Spain and NUS of Singapore. Their induction is testimony of the global repute we have built of our company in years and our endeavor will be to continue to increase talent in the company as we embark on scale and growth of our business.

We also launched the Sterlite Academy which will contribute towards the development of certified Smart Network professionals which is integral given the people required to execute the fiber deployment opportunities in the country.

We are also very proud to share Sterlite Tech's focus on increasing gender diversity proved successful as our hiring in Q1 included 28% of female hiring which we believe will grow at a steady rate to have a diverse mix of talent across the organization and following the amendment of the Factories Act of 1948 permitting women employees to work in night shift, Sterlite Tech has been pioneer in implementing it. The company's optical-fiber plant at Shendra and Aurangabad has started B&C that is night shift for women employees.

As a company we will continue to remain agile and build new capabilities to strengthen our position as a one stop solution provider for creating broadband and data networks. Each action we will take will be in that direction purposefully defined by and aligned management team and board and viewed through a lens that is firmly focused on the future.

That is all from me and I shall hand over to Anupam, our CFO, for updates on our financial performance and progress of de-merger.

Anupam Jindal: Thank you Anand. Good evening, everyone and thank you for joining us today. During my remarks, I will recap the financial highlights from the quarter gone by and focus on providing you some more qualitative context to the numbers and our journey forward.

SLIDE 12

While the reported numbers for this quarter is as per IndAS in the published results. Q1 FY'16 and Q1 FY'17 financial numbers are in IndAS while other previous quarter financial numbers are in Indian GAAP.

From Q2 financial year 2017, this year onwards all historical financial performance will also be reflected in IndAS.

SLIDE 13

I am pleased to report that there are several encouraging trends in our Q1 FY'17 results indicating continued momentum. We have entered FY'17 with strong impetus and are poised to continue building on this performance to grow the business profitably while making the necessary capital investments for the future.

Revenue maintained its strong trajectory growth at 22% on Y-o-Y basis, EBITDA grew by 21% on Y-o-Y basis and net profit after tax grew at 30% on Y-o-Y basis

Further we booked 25% of our revenue from services and software business with meaningful progress in the NFS order. ROCE of the business stands at 19% and net debt as on 30th June stands at Rs. 1,039 crore.

With successful completion of the demerger, we are now trading as pure play telecom focused business. On the capacity front, as Anand mentioned, we are confident of expanded OF capacity to 25 million by middle of this year.

SLIDE 14

This slide covers the quarterly financial performance of telecom business reflecting a comparative trend on Indian GAAP basis for FY'16 and IndAS from Q1 FY'17. The telecom order book stands at Rs. 2,100 crore and we are confident of expanding the order book driven by the strong financial control with strong prudence on working capital while maintaining a strong profile and growth expectation.

SLIDE 15

This is the third consecutive quarter, where OF volumes have been well above the 5.5 million mark while OFC volume stood at 1.6 million. The OFC volumes and cabling mix number has been tempered due to the shift in the deployment strategies by Telcos. As mentioned in the previous quarter we expect volumes to rebound in H2 from newer geographies and trends in the product mix.

SLIDE 16

Revenue from international market accounts for 27% of the total revenue in this quarter. Within our international market, China has been the major contributor to the exports with 44% share followed by Europe with 33%. The outlook for China remains very strong given the stated intent to ramp up data infrastructure manifold. Further, given the strong penetration in new market this quarter we expect to increase the contribution from exports going forward.

SLIDE 18

Our strategic direction for the business centered around five principles, which we follow prudently in our business practices.

Our focus would be to drive profitably in absolute terms while maintaining a healthy ROCE for the business. Our five year CAGR for the net profit remains at about 30% and ROCE of the business is closure to 19% as per our stated strategic intent.

We are committed to keep the balance sheet strong and any investment or acquisition that we may do would be from the strategic point of view and to augment the capabilities and not to scale revenues.

Lastly, we remain committed to reward our shareholders and in this regard we have come up with a stated dividend policy of distributing 30% to profits as dividends for our shareholders.

With this, I conclude my opening remarks and welcome specific questions you may have and we would be happy to give you our perspective. I will request the operator on this call to open question-and-answer session. Thank you.

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

Madan Gopal: Can you give split of the telecom and Elitecore and NFS number I missed when you were commenting about it. Can you give the split of revenue for these three?

Dr. Anand Agarwal: Yeah, broadly Madan the revenue for the products is about 74%; the services is about 20%; and the software is about 6% to 7%.

Madan Gopal: Okay. And in case of the OFC which means in three quarters where the disappointment has been there and you are confident of H2, what is the basis for it? Where do you get this confidence from?

Dr. Anand Agarwal: Essentially we have been discussing with various Telco's both in India and abroad and we are seeing our RFQ pipeline. So based on what we see on the pipeline, how we figure out when the orders will get decided , based on our RFQs that we have bided and what the final discussions are happening we are pretty confident that H2 will be better than H1.

Madan Gopal: And in terms of debt what is the current level?

Dr. Anand Agarwal: Rs. 1,039 crore.

Madan Gopal: Can you give the EBITDA between telecom project and software, is it possible?

Dr. Anand Agarwal: EBITDA right now broadly is at 22% overall and it is in the same direction but the products business is about 25%-26% and the services and software is about 11%-12%.

Anupam Jindal: Just to clarify a little more both software and services are generating EBITDA at about 11%.

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

Pranav Kshatriya: Firstly, you gave the break-up of revenue for Q1 FY'17, can you give the similar number for the comparison sake for Q1 FY'16 as well? That is my first question. Secondly, can you tell us what was the CAPEX for Q1 FY'17 and in light of you mentioning some de-bottlenecking work, do you expect the CAPEX guidance for FY'17 to be increased from Rs. 1.2 million to Rs. 1.3 billion what you have given in the last quarter? That is my second question. Thirdly, on order book executable of FY'17, what percentage of it of the Rs. 2,100 crore our order book is executable in this current year? And lastly, in the last conference call you had talked about Reliance Jio and BT demand to be slow which was really impacting OFC. So, are you seeing the demand from these customers coming back in the H2 or you expect demand to be compensated by some other questions? Thank you.

Dr. Anand Agarwal: Let me start with the first one which you said about Q1 of last year comparison. Q1 last year we just had products and services there was no software and mix was about 83% or 84% was products and about 15% to 16% was services and software started from Q3 of last year, that was broadly the mixed. The order book Rs. 2,100 crore, large part of this would get executed in the current year. We have started booking some orders for especially on the fiber business for FY'18 and FY'19 so, that is the part which will sort of get spilled over but a bulk of Rs. 2,100 crore will get executed in the current year.

In terms of BT, Reliance Jio we continue to supply to them at the marginal level and that is why our 1.6 million of run rate of the current quarter is similar to the previous quarters. But as I just mentioned we have now done enough new RFQs from various other telecom providers which gives us great visibility and confidence that H2 will be better than H1.

The CAPEX for the current quarter was about Rs. 60 crore and as we have announced, we have decided to prepone our optical-fiber de-bottlenecking and CAPEX program to take it from 22 million kilometers to 30 million kilometers. So this we are going to finish by the middle of next year and we are totally going to spend about Rs. 300 crore between this year and next year towards taking this capacity to 30 million.

Pranav Kshatriya: Can you give us some sort of idea so, what CAPEX you had mentioned Rs. 1.2 million to Rs. 1.3 billion FOREX by 2017. So, Rs. 300 crore is over and above what you mentioned?

Dr. Anand Agarwal: Rs. 130 crore is what we spoke about last time it included Rs. 40 crore of sustainable and about Rs. 90 crore to take it from Rs. 22 crore to Rs. 25 crore. So against that Rs. 90 crore from Rs. 20 crore to Rs. 25 crore we are going to spend a total of Rs. 300 crore to take it from Rs. 22 crore to Rs. 30 crore. And out of the Rs. 300 crore about Rs. 160 crore to Rs. 170 crore will get spent this year and added the Rs. 40 crore for sustainable so, in totality we will spend close to about Rs. 200 crore to Rs. 210 crore this year.

Moderator: Thank you. The next question is from the line of Mangesh Kulkarni from Almondz Global Securities. Please go ahead.

Mangesh Kulkarni: This is regarding the note number seven mentioned in the results regarding some excise duty liabilities which are mentioned by the auditors. What kind of provisions we have made so far and if the case goes against us and additional provisions we need to make?

Anupam Jindal: This is a note which is coming for last ten years. I was mentioning that this excise duty related liability, the matter has been pending since 2005 onwards and currently this matter is at Supreme Court, and our belief based on the legal opinion is that it is a strong case in favor of us so; we do not have any material provisions against it.

Mangesh Kulkarni: So in case it goes against us do we need to make substantial provisions?

Anupam Jindal: It all depends on the outcome when it will come in what form because the matter is a bit complicated with multiple over lapping liability imposed so, it is not, in our view it is not likely to come against us.

Mangesh Kulkarni: And my second question is regarding there is substantial increase in our staff cost and other expenses in the current quarter, what is reasons for the same?

Anupam Jindal: If we compare it with the Q1 of last year the major reason for increase is acquisition of Elitecore which we acquired from Q3 and since it is a software business they have heavy man power cost so, that reflects in the staff cost.

Mangesh Kulkarni: So going ahead these kinds of staff cost will be the quarterly run rate?

Anupam Jindal: Yes.

Mangesh Kulkarni: And in terms of other operating expenses?

Anupam Jindal: The numbers are not strictly comparable from Q1 of last year to Q1 of current year primarily because of acquisition of Elitecore, so a lot of their expenditure has also come in. And with the growth happening in the revenue and business some of the expenditure at actual level has also gone up. So you can see these kind of numbers on sustainable basis.

Mangesh Kulkarni: And, relating to tax expenses this quarter-on-quarter there is reduction despite higher net profit. So, what are the reasons for the same?

Anupam Jindal: Yeah, tax expenses, we need to see the profit at China largely that is having some concession and some brought forward losses therefore, in consolidation the impact is coming much higher. We are expecting full year tax rate to be lower than 30%. And depending on the China profit mix and this it may vary.

Moderator: Thank you. The next question is from the line of Vinod Malviya from Florentree Advisors. Please go ahead.

Vinod Malviya: Sir, can you just help me with the debtors' numbers as on June?

Anupam Jindal: Yes, currently we do not have this specific debtor number as on June, because we do not have the balance sheet right now available with me but we can help you with that separately.

Vinod Malviya: Can you give some quantitative information like it has moved from March quarter to this quarter?

Anupam Jindal: So generally we have 75 days to 80 days' kind of working capital overall net of debtors, inventory, and current liabilities and there is no significant change in that over this quarter.

Vinod Malviya: Okay. And any specific to like how the NFS receivable been whatever you have booked in the NFS part?

Anupam Jindal: Anand has mentioned that we booked on the services side close to 19% to 20% revenue in the current quarter which is in line with the progress happening on the ground. In terms of collection that is also moving in line with the progress and submission of bill to the authorities.

Vinod Malviya: What would be the number of debtors' days in the NFS?

Anupam Jindal: I am sorry, I not have specific detail right now, maybe we can connect later.

Vinod Malviya: Okay. And the Elitecore revenue that would be around Rs. 40 crore for this quarter. So, if I look at Y-o-Y growth, the Y-o-Y growth has been lower this quarter and even you are expecting the H2 to be better compare to H1 so with the Q2 also being subdued, do you expect your revenue growth for the full year would be lower compare to FY'16 or you would be able to cope up with having better revenue growth in the second-half?

Anupam Jindal: So just let me clarify that more than revenue growth we primarily look at fundamental growth in our volume, growth in our profits, and for us revenue is just a derivative of volume with realization. So our primary focus is on increasing EBITDA and Anand has time and again said that over the last five-year on annual basis we have delivered more than 30% growth and we intend to continue with that. And current quarter number also reflect broadly the same direction.

Vinod Malviya: Yeah, but if I look at the profitability on the standalone basis this time there is a decline at the EBITDA level excluding the other income 7%.

Anupam Jindal: So we need to look at the business on consolidated basis because some of the business which we have set up outside India an extension of our standalone business. So, we do not look at standalone versus consolidated. Our current numbers as Anand said, primarily there has been some de-growth in terms of Y-o-Y basis in overseas volume but apart from that everything is moving in the growing direction.

Vinod Malviya: Okay. So you mean to say your H2 will at least see the similar kind of growth what we had seen in FY'16?

Dr. Anand Agarwal: Yes, clearly. We have given our broad guidelines so we will not be able to guide you on H1 versus H2 but clearly we have a great order book and we have been growing year-on-year and quarter-on-quarter and we will maintain that trend.

Vinod Malviya: Okay. And can you provide some more detail about the fiber-to-home business, how is it been progressing and what was the losses in FY'16 as for the full year and going forward what type of revenue?

Dr. Anand Agarwal: The fiber-to-home business is a part of our overall system integration offering so, we do not see that business separately. That business is continuing, it generate good gross margin and we have revenues of almost Rs. 20 crore annually from that business over 55% growth margins.

Moderator: Thank you. The next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao: I have two questions. First is on the pricing environment for the fiber. Telcos, we have been pretty hard to actually get pricing increases, in fact, other telecom vendors continue to also suffer with respect to pricing. So any feedback on your optic fiber pricing would be helpful. What is your outlook for the next 12 months? That is my first question. Second, just want to understand this services products like Elitecore which you sell which you have indicated to Malaysian telecom operator, what is the pricing framework? Is it on a per license basis or it is like is one lump sum project you execute for them?

Dr. Anand Agarwal: So Srinivas on the fiber front you are right that while Telcos continue to see and expect the pricing pressure on the positive and what we are seeing is a global supply increase which is creating the continued shortage of fiber in the global market. So, on that front we have seen quarter-on-quarter prices remaining stable as well as for some spot transaction being in fact pretty higher we have seen in the previous quarter. So the on the optical-fiber front we are running at 100% capacity and we have orders fully booked for the current year and we are booking orders for the next year at current or better levels from current. As far as Elitecore is concerned, the product comes as license for a certain number of subscribers and users than in terms of blocks. So there are three offerings, one is software, the second is installation, and the third one is managed services and we have based on the combination we have different pricing for how it is sold.

Moderator: Thank you. The next question is from the line of Abhishek Jain from KR Choksey. Please go ahead.

Abhishek Jain: Sir, I have two questions, first is basically what is happening currently at Smart City end? And what kind of pick-up you are seeing especially in the second-half because after Jaipur, Gandhinagar, we have not seen any major pick-up at this point of time. So, what kind of opportunity you are seeing? And I want to understand in these kinds of orders what is overall mix of software product and services? Second question, in the Brazilian business because we have done a tie-up with Conduspar in 2013 and what I learn in last few months is one of the leading Telco operator has gone bankrupt, so what kind of investment we are having in that JV and what is your outlook on that JV going forward?

Dr. Anand Agarwal: So Abhishek first let me tell you on Smart City. The Smart City we got our first order in like early 2016 calendar year. The second one we got in I think April or May this year. So we believe the orders will be at this pace only and for anyone to execute these infrastructural orders we are not expecting 5 orders or 10 orders at one go. There are about 33 Smart Cities currently which have been announced and all the cities are in different phases of figuring out their programs like you rightly said, some of them are at the infrastructure and some of them are focused on applications. For a typical order of about Rs. 30 crore the software portion may be about 20% in there. The product portion may be depending on city it is very difficult to say. So, I would say the software portion is typically 20% and the 80% is broken between products and the other applications that need to get created because in certain cities in fact, a full infrastructural roll out is being envisaged and there the order size would be different and the proportions and products and system integration will be very-very different.

As far as Brazil is concerned, over the last year, year and half currently was undergoing a lot of turmoil both at a political front, market front as well as the currency front. We have seen over the last six months at least for our business a lot of stabilizations. We have spent about $3 million in terms of our investment for the first-half million kilometers of cables so, it is not a large investment. And we do not have any exposure to Oi which is Telco which has declared bankruptcy. So we have been very prudent in keeping our scale at a limited level, our exposure at a limited level as well as in terms of who do we get credit out to. So while it is undergoing this sort of upheaval right now we continue to believe that it is a market with a great promise and it is going to be recovering over the next may be a few quarters or a year or two.

Abhishek Jain: Sir, last question what will be our target net debt for FY'17 and FY'18?

Dr. Anand Agarwal: We are typically maintaining working capital at about Anupam said, 75 days - 80 days and so the debt will continue to get repaid but at the same time any debt which is coming on account of growth of working capital will be a number. So we are not targeting an absolute net debt level.

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

Tejas Sheth: Sir, just two questions, one, why have we preponed the CAPEX of OF?

Dr. Anand Agarwal: Yeah, so Tejas as we have seen, we are seeing now almost for the last four months - five months our capacity being fully booked and are actually booking orders for FY'18. So we realized that since we have great visibility in terms of order book for 2018, we are having good visibility in China as well as what the Indian Telcos will do, it make sense for us to set up these capacities which we were earlier planning to do it in a more subdued manner. Since we have much better visibility it makes sense to prepone the CAPEX.

Tejas Sheth: Okay. Secondly any clarity has emerged on your order which you have bid for?

Dr. Anand Agarwal: It is going through various stages, as you are aware, a lot of these bids have been for public networks in India especially for system integration. So we should see more clarity and as soon there is any material or definitive decision we are definitely going to inform you.

Tejas Sheth: So this quarter we got order inflow of around Rs. 120 crore? The order book has not changed Q-o-Q?

Dr. Anand Agarwal: Yeah, so we sold about Rs. 500-600 crore and the order book was at pretty similar level.

Tejas Sheth: Yeah, so how much was the intake in this quarter?

Dr. Anand Agarwal: Similar levels, I think about Rs. 600 crore as well because our order book which was at Rs. 2,150 last quarter has remained so. So our order book and revenues have matched.

Tejas Sheth: Okay. And going ahead since the mix will be changing more towards your EPC, your margin profile will be little subdued?

Dr. Anand Agarwal: Tejas, as we have maintained we do not do EPC, we do system integration and the margin profile while it is subdued, it has much better return on capital deployed and we choose our order therein so that is why we are not been chasing order book, we have not been chasing revenues, we choose orders which can like where we have this capability to execute with a better return on capital deployed.

Moderator: Thank you. The next question is from the line of Sandeep Dixit from Nest Egg Capital. Please go ahead.

Sandeep Dixit: Just on the system integration opportunities of Rs. 10,000 crore which you have bid for, do you have any timeframe on when we expect that?

Dr. Anand Agarwal: Sandeep, this is the overall pipeline, we believe all this may be about 20% to 25% of this decision should happen in the current quarter and as soon the decision we believe are happening or anything material that happen in our favor will definitely inform you. But this entire Rs. 10,000 crore of pie we believe in the next nine months to 12 months all of this should get decided.

Sandeep Dixit: Sorry, so just to clarify, I just want a timeframe, you have said 25% will happen in this current quarter.

Dr. Anand Agarwal: Yeah, so what I am saying is may be 25% will happen in the current quarter in terms of decisions and the entire Rs. 10,000 crore will get decided in the next nine months to 12 months.

Sandeep Dixit: Okay. One last part of how much additional funding do you believe you will need, talking about Rs. 300 crore of CAPEX plus let us say Rs. 5,000 crore of system integration. What is the funding requirement that you are looking for over the next 12 months?

Dr. Anand Agarwal: We are essentially not looking at any funding requirement, as we have maintained the EBITDA that gets generated part of that goes towards this capital expansion, the other part of it goes towards meeting our dividend obligation as well as working capital augmentation.

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

Pranav Kshatriya: Only one question, sir, we are seeing a good traction in the OFC part, is there something in terms of unit economies which is different to what competitors are doing leading to lower utilization of OFC part?

Dr. Anand Agarwal: Pranav, the OF part which we are seeing is more currently being driven by a global supply demand scenario. In India, we do not see a similar sort of growth that we have seen in OF in India. So, OFC for us is largely an India-dominated play and that is where we are seeing this sort of ironical situation which you described that OF is going through a major shortage while OFC we are continuing to surge for more orders. So we believe this should start getting corrected as we move towards the H2 of this year. But OF we are booking more and more orders which is more global in nature.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Sir, if we look at the consolidated numbers revenue part firstly, is it mainly due to this Elitecore that Rs. 45 crore difference is there from standalone numbers?

Dr. Anand Agarwal: No, standalone to this the difference is we have subsidiaries in China in Brazil, Elitecore is now merged into standalone itself.

Saket Kapoor: Okay. Then sir, just looking at the competitive figure for standalone and consolidated while the revenues have gone up by around Rs. 45 crore, the employee cost and the other expenses have moved up substantially thereby lowering the EBITDA percentage, could you elaborate what is the reason for the same?

Anupam Jindal: Yeah, so basically Saket the subsidiaries are basically one that China then we have Brazil, then we have the FTTH business also forming part of subsidiaries. So we need to look at business more on the consolidated basis, fiber is also extension of our India facility plus cable. So instead of going into standalone versus consolidated, you can focus on consolidated that is what we have been reporting for last five quarters on telecom business.

Saket Kapoor: Correct, sir. On the consolidated part only if we compare June versus June we find this other expenses part also going up substantially?

Anupam Jindal: So consolidated versus consolidated I explained earlier also. It is primarily because of Elitecore we acquired in the second-half of last year. So that is why these numbers are higher.

Saket Kapoor: So Elitecore integration is completed?

Anupam Jindal: Yeah, it is basically completed the merger finished before 31st March.

Saket Kapoor: And are we losing money from Elitecore activities?

Anupam Jindal: No, we are not losing money it is generating positive EBITDA in the range of about 11%.

Saket Kapoor: And now coming to your net debt level sir, it was Rs. 1,039 crore I think so stated by you.

Anupam Jindal: Yeah.

Saket Kapoor: And what was it in the March 2016 quarter.

Anupam Jindal: Rs. 1,008 crore.

Saket Kapoor: So it has gone up marginally?

Anupam Jindal: Marginally gone up.

Saket Kapoor: And what is the interest cost sir, in percentage terms?

Anupam Jindal: The rate of interest is close to about 9.5%.

Saket Kapoor: Okay, sir. Just a basic understanding, on a revenue of around Rs. 2,100 - Rs. 2,200 we are maintaining a debt of around Rs. 1,000 crore. So how does this split into our business model because the net interest cost is substantially eating up the profit part, just to have an understanding.

Anupam Jindal: We need to look at from the historical perspective. This Rs. 2,000 crore you are assuming it to be constant number, we are saying there is Rs. 2,000 crore, there is growth we are increasing profit, let us look at from debt-EBITDA perspective. We had last year more than 2x debt-to-EBITDA it has come down on run rate basis and we expect it to come down further. So whatever incremental in debt is happening more because of the growth in the revenue and growth in the business which will result into growth in EBITDA. And we also need to look at from historical perspective, before this de-merger the company was having substantial high debt up to FY'15 and from there we have cleared and we believe that over the next few years and next couple of years, the situation will become further strengthened.

Moderator: Thank you. We will move to our next question which is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: The EPC order book as of now what is it, system integrated order book.

Dr. Anand Agarwal: Yeah, the current order book for system integration would be about Rs. 1,300 crore.

Madan Gopal: And what would be as per your timelines and milestones, the current year expectation of revenue from this?

Dr. Anand Agarwal: A large of this may be about 70% of this will get executed within the current year itself.

Madan Gopal: So the Q1 has been very muted in that way, in terms of execution?

Dr. Anand Agarwal: Q1 has been about 20% as we said for the system integration.

Madan Gopal: Only Rs. 100 crore has happened so, there is a huge amount of work in the next three quarters you have to complete to facilitate ramping up?

Dr. Anand Agarwal: Yes, that is true.

Madan Gopal: It will happen in the H2 or Q2 itself we may see some improvement?

Dr. Anand Agarwal: No, partly Q2 and then as we keep moving forward it will happen.

Madan Gopal: Because 70% when you are saying it is almost close to Rs. 900 crore so, the Rs. 100 crore moving to something like Rs. 200 crore even Rs. 300 crore you might have to do…

Dr. Anand Agarwal: This Rs. 1,300 what I said includes our AMC as well. So the left over order would be close to about Rs. 800 crore without the AMC.

Madan Gopal: On that you will do 70%?

Dr. Anand Agarwal: On 800 we will do 70%, yeah.

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

Dr. Anand Agarwal: I would once again like to thank everyone for attending this call and I hope that we were able to address and clarify all your queries and comments. For any further clarification and discussion, you can feel free to contact our Investor Relations team including myself and Anupam and we hope to continue our association in dialog in the future. Thank you and good evening.

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

- ENDS -
