"Sterlite Technologies Limited Q1 FY19 Earnings Conference Call"

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MODERATOR: **MR. NEERAV DALAL – MAYBANK KIM ENG SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Sterlite Technologies Q1 FY19 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 the 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 FY19 Results. Investors can also download a copy of these slides from the Sterlite Tech. website.

I now hand the conference over to Mr. Neerav Dalal from Maybank Kim Eng Securities. Thank you and over to you, sir.

Neerav Dalal: Hello everyone and thanks for standing by. It is a pleasure to host the management of Sterlite Technologies today. To take us through the Q1 FY19 results and to answer your questions we have Dr. Anand Agarwal – CEO, Sterlite Technologies and Mr. Anupam Jindal – CFO. For opening remarks, I hand over the call to Dr. Anand Agarwal. Over to you, sir.

Anand Agarwal: Thank you Neerav and good afternoon ladies and gentlemen. Thank you for joining us on this call as we take you through the Q1 FY19 earnings and business update. Anupam Jindal will then give you more flavor on our financial in his comments.

This has been a very exciting quarter for us in addition to the announcement of acquisition of Metallurgica**.** This also has been our best ever quarterly performance and that creates a very strong momentum as we continue to build on our league. Before dwelling into the performance, I would like to share some interesting insights on the way our industry is evolving and the role that Sterlite Tech is playing in the emerging landscape.

Slide 4:

So, clearly data is now basic consumption needs. The pace of digital adoption across individuals, corporations and Government is continuing unabated fueled by new technologies as well as digital inclusion to drive growth and transformation and Sterlite Tech is an integral part of this overall data ecosystem. Today, data has become a basic consumption need and it will continue to see enormous appetite per capita, per user in times to come. Data traffic continues to register sharp rates of growth and with almost doubling every two years.

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And as a result of this what we see is that the CAPEX intensity will continue to remain strong. From an industry perspective, there is a changing mix in the CAPEX intensity of global carrier with evolution of network generation. We observe that while every network generation invited a higher CAPEX on an average globally, the fiber consumption in the net corresponding period showed a much steeper growth that is the ratio of fiber CAPEX to the total CAPEX kept increasing as the generation move from 2G to 4G and increasing requirements demanded of data network is driving the global telecos to accentuate their emphasis on fiber.

Slide 6:

And post 4G now that 5G is now on the anvil. This slide summarizes essentially the pocket of activity across the globe where telecos across the globe are gearing up for the 5G journey. It is expected that the first commercial 5G project will be launched in the United States this year followed by Japan and South Korea next year and China expected to join soon thereafter. Commercial developments are then expected to be launched in Europe and other parts of Asia as well as the Middle East. With 5G now on the anvil, the CAPEX intensity is only expected to pick pace with fiber playing a very-very important and a supreme role in that.

Slide 7:

We expect the commercial deployment of 5G to be a five to seven year cycle with bulk of the deployments to kick off in 2020. All leading operators of the world including the Chinese operators are aspiring to take leadership position in this data only network and are gearing up for the next phase of investment cycle. The next gen Tech 5G which is not equal to 4G on any network parameter will be driven by fiber only technology. As the shift towards 5G progresses, the network architecture too is evolving. Fiber is moving from mainly a backhaul role to dominant role within the network serving both backhaul and front haul requirements which will drive us into an era of deep fiberization.

Slide 8:

This is also driving the emergence of new business model to support the accelerated roll out of higher capacity networks. At the same time, we are also witnessing the emergence of new class of data only web scale players in which the likes of Google and Facebook are aggressively building new age data network as a foundation to their business scalability. So, the communication industry which was predominantly a wireless mobility industry is evolving to become a converged network industry.

Slide 9:

And what we keep showcasing that relationship between data and fiber growth is further becoming close net and strengthening each day. Internet is just about two decades old and we are still at seeding stages of the data consumption cycle. The network of yesterday has been designed and build to support voice traffic and data proliferation has only been limited to the extent of the capacity of that network. With the next wave of data consumption coming in the relevance of fiber will become paramount as no transmission technology can match fiber characteristically because it fundamentally works on the principle of light.

Slide 11:

If we look now the role of Sterlite Tech. Sterlite Tech is the world's only integrated silicon to software Company. Our technology led data only integrated business model strongly differentiates us; thereby enabling us growing faster than the industry and in turn translating into increasing market share at 7% and doubling of profits in the last two years. We serve our customers in over 100 countries with comprehensive solutions and supply of products for large multiyear orders. Our pattern portfolio stands at 196, a 60% increase in the last three years. Most importantly, presence in the entire value chain not only allows us to engage with customers on lower cost and high-speed delivery solution, but also on driving transformation and solutions that are geared towards designing and building smart network.

Slide 12:

Our integrated business global scale and clear technology leadership position has helped us to grow faster than the industry. As we expand our addressable market and continue to take market share with a focus on exposure to high growth market. Today our margin profile stands amongst the best in the industry.

Slide 13:

Our past performance in telecom business reflect robust growth in a business profits with superior returns. On three years CAGR basis, the EBITDA growth was 29% and PAT growth was 47%. The ROCE profile of the business has also improved over the years now and is operating above the targeted range of 25%. Currently this is also with a much higher future visibility. Currently our order book continues to grow sharply on quarter-to-quarter basis. The order book to revenue ratio which stands at about 1.8x has witnessed a quantum jump over the last three years when our visibility in terms of order book was similar to trailing revenues. The doubling of this ratio that is the order book to revenue ratio is an indicator of structural changes happening for us in the industry where customers are keen to enter into long-term contracts for two years and longer in anticipation of possible demand-supply gap over the next few years as fiber ecosystem further expands. This ratio also reflects deepening of our engagement with customers as well as long-term strategic partnership with key marquee clients.

Slide 14:

As we continue to strategically enter new markets and regions to enhance and alleviate our presence and build new customer relationship we expect the order book to grow at a healthy pace. I would like to summarize by saying that the future visibility of our business has never been as better as it stands today. With a two-year visibility in place, we are now geared towards building growth platform for next leg of growth beyond 2021.

Slide 15:

Now talking specifically on the updates on the quarter:

Slide 16:

As most of you know about two weeks ago we announce the acquisition of 100% stake in Metallurgica Bresciana, a European optical fiber cable manufacturer with an extended portfolio of communication cables for new vertical industries like railways, oil and gas, etc. We held a separate call to discuss this acquisition, so I would not repeat too many details. I would just want to reiterate that it is a very strategic acquisition providing us with additional customer access in Europe, 3 million kilometers of cabling capacity, a local presence in Europe and deeper entrenchment in the geography; at an all cash consideration of €47 million for a 100% stake. This acquisition was undertaken at a valuation of about 11 times of profit earned in the calendar year of 2007. The transaction will be earning accretive for us from day one and will significantly enhance our European growth engine for the foreseeable future.

Slide 17:

I would now like to touch upon briefly on some of the key business highlights for the quarter. During the quarter, our Company unveiled a bouquet of all new 5G enabled front haul fiber to the home network technologies. Our new offering provides both high fiber capacity and reduce deployment time. These new products are a testimony to our continuous commitment to disruptive network designs and innovative R&D. The quarter also witnessed appointment of Kumud Srinivasan to Sterlite Tech Board of Director. Drawing on extensive and experience with Intel in various leading positions, Kumud will provide fresh insights to our technology and business priorities. We are sure that the organization and the Board will be greatly enriched from her vast experience and look forward to our guidance. I am also happy to share that Sterlite Tech optical fiber units in 'Waluj' and 'Shendra' were recognized at the 'Frost & Sullivan' and 'TERI Sustainability 4.0 Awards 2018'. The award coupled with other recognitions we got on sustainability initiatives is an acknowledgement to Sterlite Tech. To be able to create a strong economic value while actively contributing to the establishment of healthy ecosystem and stronger communities.

With this, I would now like to hand over to Anupam Jindal who will take us through us through the financial highlights for the quarter.

Anupam Jindal: **Slide 18:**

Good afternoon everyone. In Q1 the revenues stood at Rs. 877 crore registering an 18% growth year-on-year. EBITDA grew 54% on Y-O-Y basis driven by growth in the product volume and supported by a project execution advancement progressing firmly on quarter-on-quarter basis. A profit after tax for the quarter stands at Rs. 121 crore registering a 99% growth on Y-O-Y basis.

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This slide brings you the concise version of P&L for this quarter and also for the full year of 2018 and 2017. At 29%, our EBITDA margin remains amongst the best in the industry. We continue to deliver a strong growth on all three matrices of revenues, EBITDA and profit after tax. ROCE at the end of the quarter stands at 36% and remains a pre-eminent metric to define our growth. Just for clarity, the Q1 numbers shown are not consolidating the financials of our recent acquisition as the closing of that acquisition would happen in Q2 that is in the current quarter and same would be reflective in our H1 numbers.

Slide 20:

We relentlessly focus on creating shareholder value on ongoing basis. Since our demerger in FY16 to enable simplification of corporate structure, we have taken conscious steps to drive profitable growth and add new platforms to increase our relevance in the eyes of our customer. Last year, we disclosed our aspiration to reach $100 million on annual net profit by FY2020 which remain confident to achieve owing to our growing order book and future visibility. With acquisition of Metallurgica Bresciana, we believe that we will be able to surpass this $100 million mark within the stated period very confidently. I am happy to state that your Company has been amongst the fastest growing Company in communications sector and has been on a trajectory of doubling that income in every two years. We hope to maintain similar momentum as we move forward in our journey.

With this, we come to the end of our opening commentary and we would be open to questions.

Moderator: We will now begin the question and answer session. We have the first question is from the line of Anubhav Gupta from Emkay Global. Please go ahead.

Anubhav Gupta: So the first question; the way we see the record profit generation Q-o-Q for last five quarters it seems that FY20 guidance of $100 million orders plus should be easily achieved. Could you please tell us what are the growth levers, you are looking beyond FY20 and how do you see growth panning out beyond FY20?

Anand Agarwal: If you see our larger period over the last five-six years we have grown ourselves in terms of scope, in terms of geography, in terms of portfolio and we have delivered almost 47%-48% EBITDA growth over the last five years or so. So, we will continue to do that, we will continue to grow in scale in the fiber business, we will continue to grow scale in cable business, the recent acquisition will add on to it and that growth engine that is there, we will continue to deliver on that. Our market share globally is continuing to increase so that will happen. We are also strengthening is our services business, growth will start kicking in as we start moving in, our software growth will start kicking in as we start moving forward. So, in the past four-five years, only engine was the product business fiber and cables and that was delivering a 47% growth, that was delivering a market share growth globally and that is going to continue. So, we are going from 30 to 50 million cables, we are increasing scale this all acquisition helps in increasing scale. So, that growth engine continuous, we add more booster to it with the services and software business. So, clearly whatever this $100 million is one milestone, but the engine continues to move on strengthen by acquisition, strengthen by services and strengthen by software and the core business of fibers.

Anubhav Gupta: So, you also mentioned in your presentation that Sterlite is a unique data play. We understand you have fiber related products and data network solutions. So are you looking to expand the portfolio of offerings as well, are there any new pockets available for growth in data related products or services?

Anand Agarwal: The offerings within the domain of what we do, for instance fiber and cable the portfolio is continuously increasing all the time and that is what is showcasing in terms of value added products, in terms of our access to newer and newer geographies and accounts. In services the portfolio that we have from orders from defense, orders from cities, from telcos now forthcoming orders from Navy. So, that portfolio of offering and services continues to expand. So, we call it as one group of services, but within that the portfolio continues to keep expanding and the same is true for software as well. The software which we acquired essentially was earlier basically billing software which we are now transforming into lot of digital transformation as well as network software. So, at a macro scale the offering will continue to be the same products, services and software. But within each of them the portfolio will continue to get more relevant and wider.

Anubhav Gupta: Sure and the last question; as we understand that the optic fiber industry is growing at 12%-13% CAGR, so how do you see the behavior of the market leaders like Corning and Prysmian, are they equally aggressive in expansion because Sterlite has been aggressive in capacity expansion. So, how do you see the market structure in next two to three years in terms of supply?

Anand Agarwal: Whenever we are taking a decision for CAPEX which included the current decision also, we have taken a decision looking at the supply-demand dynamics globally. So, there have been certain expansion there will be certain expansion, but we believe all of them have been rationale. So, over the next few years almost 120 to 130 million kilometer of demand will increase in the two-three years and the supply side is getting calibrated in that level itself. So, from what we understand in here there has not been any irrational capacity decision taken over the last few years.

Anubhav Gupta: The broader structure in terms of market share should remain same?

Anand Agarwal: Absolutely.

Moderator: The next question is from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: To start with, Anupam can you help us with the basic metrics in terms of what was the pricing you guys saw in optical fiber and cable this quarter, what are the utilization and what are the breakup between products and services and software business lines?

Anupam Jindal: Broadly if you look at on the fiber side at 30 million our capacity continues to remain fully utilized so volumes are in-line with that. On the cable side, we did the increase in capacity utilization currently the Q1 we had almost like 90% plus utilization on 15 million capacity, that was a big positive for us and we had anticipated that communicated also in few last quarter that we are seeing a better utilization happening in this. And on the realization side, I think we are also moving currently at upper end of $8-$8.5 kind of realization broadly and this is also reflection of the order booking which we have which again was communicated that we will continue to get that benefit through order book. So, broadly I think these parameters continue to be very-very positive. The cable side is definitely giving us a very good upside, again from a market perspective we continue to be well entrenched in China and Europe. So, that is there and other important part you would see that order book has touched Rs. 6,000 crore as on June 2018. And if you look at it from last June 17 we were just about Rs. 3,100 crore of order book. So, huge increase in the order book and continuous to be there so that is a very positive sign.

Mukul Garg: And the breakup between product and software and domestic and international if you can share that as well?

Anupam Jindal: On the breakup largely, the revenue breakup continuous to be in that 75%, 25% maybe 2%-3% here and there on services side, but nothing material which has changed the current quarter. In terms of domestic versus export, this time domestic is about 55% and export is about 45%, slight lower than last quarter, but I think the longer horizon if I look at export will continue to be closer to 50%.

Mukul Garg: Just to carry forward on this, the pickup in domestic was that because of ordering from private sector or was that you know somewhat impacted by the phase two ordering on Bharat Net side, if you can share some qualitative color on that?

Anupam Jindal: So as I said, on long-term basis it is not going to change materially. So, quarter-on-quarter the volume may vary when we have local demand again Bharat Net demand is yet to kick in a major way, but most of the demand is on the private side and then we have services and software business which is again more on domestic side.

Mukul Garg: Falling on to that if you can help us understand the levers which you have on the profitability, the EBITDA margin this quarter was again at a record high, so how should we look into the sustainability of this, is this something which was impacted by any one-off besides the Ind-AS 115 for Q1 or how should we expect this to moderate going forward?

Anupam Jindal: So, very important question Mukul. So, in terms of first impact of Ind-AS 115 as we have disclosed in our notes to the result that did not have much of impact hardly Rs. 2 crore under declaration of profit rather I would say so it is not material. In terms of the other drivers which are driving the profitability up one that slight impact of you can say realization kicking in through the order book or internal efficiency improvement and more importantly the cable business running at higher utilization of level also is bringing and then some contribution coming in from new products. So, these are the three-four contributors which are giving us higher margin. Now coming on the sustainability of the margin, definitely the individual business wise we would continue to say good margins, but the mix of the business may affect the overall margin profile. But still if you look at a long-term again the Company wise EBITDA margin earlier we used to operate at about 21-22% currently we are in the range of about 27-29%. I think safely we can say that we would be at 24-25% on sustainable basis. For us more important is absolute revenue and EBITDA growth and driven by very healthy balance sheet and ROCE improvement.

Mukul Garg: One final question if I may any update on the Indian Navy order from the Government side?

Anand Agarwal: Mukul that still in processes right now as you would understand. So, hopefully it should come in the current quarter, but we will inform as soon as the confirmation comes through.

Moderator: The next question is from Alok Deora from IIFL Wealth. Please go ahead.

Alok Deora: Just couple of questions; one was on the operating margin front we saw substantial improvement there, so as you mentioned that was more due to the cable volumes moving up and new products. So what could be the sustainable margins going forward because we have always mentioned about 22% stabilized margin, so where are we looking margins now going forward for next couple of years?

Anupam Jindal: So, on a sustainable basis Alok, margin profile would be in excess of 20%-22%. As I said that currently we are in a higher zone as we see other business kicking in example services business picking up or more cable business coming in that is why 27%-29% margin may come down, but what we are targeting is an absolute growth in our earnings EBITDA growth driven and managed within the particular ROCE. So, huge focus on balance sheet and ROCE within that whatever absolute EBITDA we get that becomes a driving factor.

Alok Deora: You also mentioned about this Navy order obviously it is taking some time, but do we expect any sort of contribution to come through in terms of revenue in FY19 because when we get the LOA it will take some time to get things started. So, FY19 any sort of contribution could be expected, or it would be largely in FY20?

Anand Agarwal: We definitely believe that within H2 of this year there should be some revenues coming in from this order, but all that we will be able to get a good guidance as just post us getting the confirmed purchase order.

Alok Deora: Just one last question now the fiber capacity run rate is nearly 30 million fiber kilometer and cable also we are doing at 90%, so are we now currently in a situation where you know the growth will actually only come through by the higher capacity which we are targeting to have, so it become very critical that the new capacity comes up quickly so that we can sort of grow on a Q-o-Q basis?

Anand Agarwal: As we have guided earlier that the capacity, one capacity which is clearly coming by the end of this year is first module of the fiber expansion which will happen. The second capacity which we are getting is the European capacity through this acquisition which will augment our capacity by at least 20% immediately. So, these two capacities augmentation start creating our revenue growth as well as market share growth from the current quarter itself and 50 million should kick in fully by June of next year. So, quarter-on-quarter there are different triggers which will create different capacity levels and different capacity utilization starting the current quarter itself.

Alok Deora: So, this first module you mentioned that is for 10 million kilometer, is it?

Anupam Jindal: Yes so out of this 20 million expansion on fiber side, the first 10 million we are expecting commissioning by December. So, definitely in FY19, we are looking at some contribution coming in from expanded capacity.

Alok Deora: Now if we are looking at expanding this by December, so say from July onwards till December we are running with the existing capacity which is almost fully utilized so the growth would be then primarily driven by the European Company and some of the pending utilization in the existing cable capacity; is that understandable?

Anand Agarwal: Yes, it will be all three-four engine of cables capacity, Europe acquisition, services additions, software additions; so there are multiple levers as I said which is driving growth quarter-on-quarter.

Moderator: The next question is from Shashi Bhushan from Axis Capital. Please go ahead.

Shashi Bhushan: Just on a strategic rational on Metallurgica acquisition we made recently. So, are we seeing stronger demand in Europe which could he held through this Metallurgica acquisition or just you know want to de-risk our revenue concentration from the emerging market?

Anand Agarwal: Europe revenues for the whole of last year were almost 27% of the total revenues. Of our order book Europe is also more than 30%-35% of our order book. So, clearly, Europe has now become a strong sustained revenue driver for the Company and this acquisition clearly provides us a platform of good customers access, good capacity as well as good products portfolio. So, Europe is a clear engine of growth for the Company and that is where this acquisition helps.

Shashi Bhushan: And in terms of growth in this quarter purely on a revenue basis, were there a negative surprise, I mean is it like lower than what we anticipated or was it totally in-line with our anticipation?

Anand Agarwal: No this is clearly on line with our anticipation because we are adding the cabling revenue which come in and that gets added. On the services side, the revenue kicker starts coming in as we start delivering on the large order.

Shashi Bhushan: Just one book keeping question. On a tax rate it was up during the quarters, so what should be the expect ETR for full year that we should be penciling in?

Anupam Jindal: If you look at from the annual basis run rate of tax it should be closer to 27%-28% maybe on higher side 30%, but I think if you look at from sustainable basis 27% to 28% is the right range.

Moderator: The next question is from Aniket Pande from IDFC. Please go ahead.

Aniket Pande: Sir you mentioned in the start of the call that you have introduced some new platform. Can we get some sense on it I mean what are the new platforms?

Anand Agarwal: The platform that Aniket we are talking about is this Europe only, this new acquisition that we have done is for us essentially a platform for capacity, customer access, and capabilities.

Aniket Pande: Can we get a sense on how the CAPEX is happening in China right now, how is the supply-demand scenario in the geography of China presently?

Anand Agarwal: China overall the CAPEX continues to be strong. It is driven essentially by China Mobile, Telecom and Unicom and currently China Mobile issues biannual tenders. So, currently within the geography people are waiting for the second tender for this year which should happen any time now.

Aniket Pande: Was there any negative surprise on the services and software revenue this quarter or this was in line with our expectation?

Anupam Jindal: In terms of the overall contribution, it was slightly lower than the typical 25% roughly we have this quarter it would have been about 22%-23%, but not a major impact in terms of overall revenue. So no surprise, I think the way we are looking at these two businesses are having a very strong base now and good amount of traction from multiple side, from private telecom operator to public enterprise on software side both from domestic telecom operators, data service providers to overseas customers. I think that base is getting expanded along with overall revenue growth as a Company this businesses are also having proportionate growth in that.

Moderator: The next question is from Harshit Patel from Equirus Securities. Please go ahead.

Harshit Patel: As I understand there was a shortage of preform capacity globally for the past one or one and half years, so are the new capacities coming up right now or have they already come up?

Anand Agarwal: Supply-demand situation continues to be at almost matched right now and what we get our sense of overall is sense from our order book and our order book can continues to improve on year-on-year and people are ready to book orders for the subsequent year. So, the capacity keeps coming onboard, but at the same time demand is keeping a good tie up with that. For instance, our capacity will come on board by end of this year or early next year. But we believe the demand will continue to be strong for that and for us even for the expanded capacity that will come, we have already booked the orders for that. So, demand and supply have been keeping us pretty strong tie up over the last several quarters or so.

Harshit Patel: Sir on the NFS order side, so sir the execution has been going on for quite a long time now, so how much of the execution part is still left in the NFS order?

Anand Agarwal: We are left with the last 15%-16% and that should happen I mean it is a last stretch which is just getting close over the next four-five month it should get closed.

Moderator: The next question is from Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir just wanted to know in the last three years how much extra realization you would have got from optic fiber so what $8 to $8.5 is what you are mentioning today, three years back would be what number?

Anand Agarwal: So, the industry has operated at between $7 to $8 for the last eight-nine years. We are currently at a rate which we have been maintaining closer to $8 or so. It is difficult for us to say in last three years what exactly would be, but the industry typically operates at any part of the spectrum at $7.0-$7.5-$8. Over the last few quarters it is operating closer to the $8 range.

Pritesh Chheda: So, if there would be any benefit there would be benefit of about $0.5?

Anand Agarwal: Yes, between $0.5 to $0.6, yes that's right.

Pritesh Chheda: And we are reading new capacity for fiber expected to come up over the next six to eight months. Does it any form distort the demand-supply equation in the industry?

Anand Agarwal: That is what as I said earlier that the demand continues to get stronger and the supply has been coming in accordance with that. Even for instance this H1 has grown compared to H1 of last year and that supply has gotten added, but it was already sold out. Our supply which will come in January next year and post June next year, a lot of it is already sold out.

Pritesh Chheda: In your 30 to 50 fkm fiber capacity how much is coming in phase one and how much in phase two?

Anand Agarwal: About half and half.

Anupam Jindal: So, 10 million is coming by December 2018. So, January to March we will see that volume coming in and additional 10 million by June 2019.

Pritesh Chheda: And corresponding cabling capacity that we have today is about 15 million fkm that is 90% utilized. You have a corresponding cabling capacity coming up?

Anand Agarwal: We have 15, we have now 3 added with the acquisition that 3 can immediately go to 5. So, we now have access to about 20 million kilometers of cabling capacity. As we are contemplating whether it make sense for us to increase capacity for cable also. Cabling capacity does not take more than eight-nine months to increase. So, we will take a call whether we need to increase cabling capacity beyond what we have done through the current acquisition.

Pritesh Chheda: Europe has the cabling capacity, right?

Anand Agarwal: Yes that is right.

Pritesh Chheda: Just kindly tell us what is your CAPEX number for FY19 and 20?

Anupam Jindal: So, in terms of the overall CAPEX which we had planned for the expansion was Rs. 1,200 crore, small portions got cashed out in FY18 so about Rs. 900 crore to Rs. 1,000 crore plus kind of CAPEX on that part is still pending. So, that will be spent largely in FY19 and FY20. Some maybe lower may go to FY21, but I think most of this. So, you can say about Rs. 500 crore to Rs. 600 crore maybe in FY19 because we are trying to bring that capacity faster and balance would be in FY20 and 21.

Pritesh Chheda: This CAPEX is purely maintenance CAPEX and fiber capacity CAPEX.

Anupam Jindal: This is fiber capacity CAPEX then apart from that we have about Rs. 60 crore to Rs. 70 crore of sustainable CAPEX per annum.

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

Pranav Kshatriya: My first question is regarding this OFC capacity expansion in the last quarter call you have talked about possible expansion because you are running at (+90%) capacity. I agree that you know you have added capacity in the Europe by acquisition, but that is already running at 66% capacity utilization so practically the spare capacity available there is only one million fkm. So, how do you see OFC capacity expansion going ahead and how much time do you think it is required to ramp up that capacity from current 3 million to 5 million fkm.

Anand Agarwal: Pranav, clearly as we said last time; this three to five can happen in less than three to four months because it is almost like just balancing things that we need to do. So, that gives us from 15 to 20 million almost immediately to go beyond 20 million we will take a call during the current quarter. As I said earlier, cabling capacity does not take beyond 8 to 9 months to come up. So, even if we take a call during the current quarter by middle of next year we should be having that capacity.

Pranav Kshatriya: Second question is regarding we are seeing very strong order book in the product business. Can you help us understand the composition in terms of the geographic mix of the incremental product book and what has been the duration versus last year?

Anupam Jindal: Pranav just to address this question the Rs. 5,000 crore of product order book is largely export driven currently and in terms of the time profile it is concentrated more towards FY19 and then FY20 and some of the orders are stretching to FY21 and some of them are even at FY22. So, this is the kind of lines we are carrying obviously it is like pyramid kind of order book where the bottom of the pyramid is FY19 and FY20.

Pranav Kshatriya: In terms of export should we assume it is broadly in similar proportion of the current revenue composition largely coming from this quarter?

Anupam Jindal: So, the order book has a larger export content. So, lot of domestic players still give order on short term basis like three months, six-month one year kind of things. So, that is why the order book composition is different than the revenue composition.

Pranav Kshatriya: For this EBITDA margin expansion I just want to understand what exactly has led to such a sharp jump and a such a consistent move in the EBITDA margin, is it higher margin coming from the services business or is it higher margin because of the pricing in the OFC side, what exactly are the driver or you are doing some cost rationalization which is leading to this margin expansion because if I look at on an incremental EBITDA margin basis it looks very high for a manufacturing Company.

Anupam Jindal: So, there are four prominent reason I mentioned in the beginning. One was that definitely the better cable capacity utilization; the same facility where everything remains same you are actually getting higher volume, so the entire gross margin should see your bottom line. Second, new products end of product category where incremental benefit comes directly through bottom-line. Third is internal efficiency improvement program which continues so, that drives the cost down. So, these are three things and the fourth thing which I also mentioned that marginal price increase which we saw. So, these are the four components are together they are driving the overall margin profile. Service business and software businesses, they are quite stable, they are I think there is no much change which has significant impact on the margins.

Pranav Kshatriya: And one last bookkeeping question. What is the current net debt on the books?

Anupam Jindal: I do not have exact numbers, but roughly about Rs. 1,100 crore partly driven by the CAPEX spend we are doing right now.

Moderator: The next question is from the line of Anuj Gupta from Perfect Research. Please go ahead.

Anuj Gupta: Sir could you please like as you said right now with the capacity expansion happening, so it is going in line with the demand, but in the nearby future do you see any supply exceeding the demand?

Anand Agarwal: Over the last six-seven years we have maintained capacity utilization for the fiber business north of 90% and we have taken decision for capacity expansion so that the supply-demand scenario keeping in mind our order book currently as Anupam said it is already excess of taking care of FY19 and a large part of FY20. So, whenever there would definitely be supply-demand mismatches start happening in the industry, but we are protecting ourselves so that we remain as much absorbed from that as much as possible.

Anuj Gupta: In European, USA how do we plan to compete against well entrenched players like Corning?

Anand Agarwal: Anuj we are already doing that for the last 15 years. Our market share has been growing up 27% of our revenues is in Europe. We are the largest provider to British Telecom so that question is no longer relevant for us to even answer.

Anuj Gupta: The current market share, you said 7% if I am not wrong.

Anand Agarwal: Yes**.**

Moderator: The next question is from Sachin Relekar from LIC Mutual Fund. Please go ahead.

Sachin Relekar: Actually, two question. One is on market share; when you are seeing market share is growing, what is the driving like there is a lack of supply from the competition that giving you opportunity or there is product advantages which you are offering to the customer that is question one. Second is on demand-supply again, can you give some color as to how much percentage of supply likely to get added to the industry and still the demand-supply will be well-balanced?

Anand Agarwal: Sachin our market share has been growing up essentially because of our better customer engagement or better access and our complete focus on this business. 100% of our business is only in telecom and most of our competition which are larger have many other businesses and that is what provides us that is we are fully committed to this business on data and telecom and data network and the customer appreciate us and the deep commitment both through the business and their business growth. Demand-supply situation as we said people do not report how much supply they are going to bring on. The kind of disclosures that we provide in terms of the supply that we will be bringing in terms of time, we do not find it for competition. So, we get a broad idea from what we understand from the industry so what the machine vendors, etc., talking about. But as I said we are keeping ourselves to the maximum extent insulated from it by having deeper customer order book, deeper engagement having the right cost structure, etc.

Sachin Relekar: If someone has to take a decision in capacity expansion, are there any constraints on that the raw material access or is that once you have technology they should not be constraints?

Anupam Jindal: I think the whole unique position which we have is also driven by the fact that this is an industry which is very-very limited from technology point of view, access point of view and capability point of view. So, I think if you look at the overall journey we have cross we are the only Company in India to have this integrated manufacturing and globally also very limited number of players. So nobody can just go and buy or create capacity unless they have a mix of access to technology, the technical knowhow and more importantly the customer access which takes longer in this business to acquire.

Moderator: The next question is from Augustya Dave from CAO Capital. Please go ahead.

Augustya Dave: We really like to see the Company going from strength-to-strength. I had a question on the new telecom policy, I think still on draft, they have not notified it as far as I know, and the cabinet has **(Inaudible 51:47).** Any comments on that are we still missing anything there, will it help, are you guys satisfied with the right-of-way issues, will they get sorted out, will we finally see a pick up domestically? My second question is the way FTTx networks are getting build globally, do you think we will see a situation where multiple parallel networks will get build with individual ISP owning their own networks or will we see just a massive single network getting build out and everyone getting open access to it; how will that infrastructure roll out? Is any Country taking some aims on that front because ultimately on infrastructure question right so how are things developing from the Government side across the world? I have one more question I will come back with that.

Anand Agarwal: On this New Telecom draft policy which has come out; clearly a lot of new ideas, lot of new focus has come out almost after six years and the focus has actually clearly move from voice and telecom towards this, it is also called a Data Communication Policy. So, a large amount of focus on fiber deployment, a large amount of focus on right-of-way, etc. So, the policy has great intent. A lots of inputs provided by us also and we are very well entrenched during the drafting of the policy. I think the success of it will be determined as to how effective it is in terms of execution as well as in terms of monitoring and that something that we would be really watching out as well as creating those suggestions even though RoW policy, etc., get created the need to get implemented on the ground. So, from our perspective it is about the execution of this policy which is going to be critical to look at and watch and facilitate as it becomes final policy takes shape. The second part that we talked about the fiber to the home whether it is going to be a similar infrastructure or multiple infrastructure. Looking at the overall cost of deployment, it is from what most places globally it turns out to be more similar infrastructure that Companies almost create infrastructure in certain localities, in fiber-to-the-home and first person to do that to the consumer actually wins the consumer. The industry still I would say in its infancy wherein somebody comes in and puts in a parallel all the secondary infrastructure or the access part getting shared. We will still see that part as it goes along, but currently it is the first incumbent who moves into any part of the world and is claiming to the customer.

Augustya Dave: Second question is you have mentioned it many-many times that what we have today is a network which is built for voice being used for data especially in India. Now going forward obviously it has I mean it should not have been the case, but it is still not done that badly. Now considering that you are talking about fiber only networks going forward. The kind of networks which are getting deployed, what kind of extra capacity do they build in I mean will we see Bombay getting completely fiberized and then 30 years down the line or 10 years down the line again you need more deployment because you have reached that capacity utilization for the network. Or are we looking at a situation where people are putting in the orders which will come in especially 2020 onwards, they will be there for like more than sufficient for like 20-25 years? How do you design these new age networks if you can throw some light there? I am just trying to gauge the magnitude, as you mentioned in the presentation; 2020 onwards you see an in acceleration in deployment that is 5G and I am pretty sure also because of **(Inaudible 56.43)**. So are we going to see like a massive-massive jump or it will be a big jump and then you will see another step up probably 5 or 10 years down the line?

Anand Agarwal: See it is going to be for a particular geography a massive jump. So as you transform from a 4G to a 5G, the number of tower sides grow up for every tower side you need to have five to six tower side and everything has to be connection by fiber. So, if you give an example of say a Bombay which was consuming x amount of fiber will consume much more and it will go almost utilitarian way where like electricity lines it needs to be in every single lane of Bombay as opposed to maybe today it is covering less than 10%-15% of the cities roadways. In terms of the overall industry, but this overall proliferation of data and 5G will happen at different pace across the world in different geographies as well different population density. So, we see this as a major build out happening over the next twelve to fourteen years and that is going to take care only of the access to the consumer. See you have to also appreciate; the data is the only utility where the consumption per capita is doubling every two years. So, the capacity will keep getting augmented also as the access to the consumer continues there. It is very difficult to predict right now how it will be five or seven years later, but if any of the past indicator in terms of how the e-commerce Companies are growing, how the data network, how the data centers are growing we are just at the start of the cycle.

Moderator: Thank you very much. Due to time constraints we will take that as the last question. I would now like to hand the conference back to the management for any closing comments.

Anand Agarwal: We would like to thank everyone for the continued interest in our Company and really appreciate you joining this call. On behalf of all of us in Sterlite Tech as well as our Investor Relations Team, me, Anupam and the entire team are fully available at any point of time that if you need any direction, guidance, or clarity from us. Good evening and thank you.

Moderator: Thank you very much. On behalf of Sterlite Technologies Limited that concludes this conference. Thank you for joining us ladies and gentlemen you may now disconnect your lines.