



“Sterlite Technologies Ltd. Q2 FY18 Earnings  
Conference Call”

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**MODERATOR:**    **MS. SNIGDHA SHARMA – AXIS CAPITAL**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Sterlite Technologies Ltd. Q2 FY18 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. In case, you need assistance during the conference call, please signal 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 Q2 FY18 results. Investors can also download a copy of these sites from the website. I now hand the conference over to Ms. Snigdha Sharma from Axis Capital. Thank-you and over to you, Madam.

**Snigdha Sharma:** Thank you and Good Afternoon everyone. Welcome to Sterlite Technologies Limited earnings conference for Q2 FY18. A quick introduction of Sterlite Tech, Sterile Tech is a global technology player focused on designing, building, and managing smart data networks for global digital service providers, smart cities, rural broadband, and large enterprises. It is the only company in the world to have an integrated silicon to software offering panning high quality optical communication products, system integration services, and software services. The patent count now has grown to 162. It has three state-of-the-art manufacturing facilities, two software development centers across India, China, and Brazil. The company has presence in over 100 countries currently. The company announced Q2 results earlier today. We currently have with us today on the call Dr. Anand Agarwal, CEO, and Mr. Anupam Jindal, CFO of the company who will walk us through some of the business and financial highlights as well as the growth strategy of the company. Congratulations for a great set of numbers, Sir. We would like to hand over the call now to Dr. Agarwal. Thank-you and over to you.

**Anand Agarwal:** Thank you Snigdha. I trust that all of you had an opportunity to go through the results documents which were shared early today and are also available on the website. I will briefly cover the overall industry landscape, business performance and some of the key developments for the quarter following which Anupam will walk you through the financial performance.

**Slide 4:**

I will start off with the industry trends and outlook. It is clear that the world is now reaching the zettabyte era ahead of expectations. As per the latest Cisco VNI Index, IP traffic has crossed the ‘one zettabyte’ mark in calendar 2016 with data consumption almost doubling every two years. The evolving internet consumption trend indicate a further rise in global IP traffic based on the steady increase in data consumption in mature and emerging markets alike. This is been driven by an upward spiral as the availability of faster data transfer medium has paved the way for new age technology trends which in turn has facilitated creation of millions of applications for connected devices. As this technologies leverage into the main stream, it is furthering the consumption of and demand for data. What really excites us that Sterlite Tech is that the forecasted data traffic is expected to grow at an accelerated pace in the next five years than it has over the last five years.

**Slide 5:**

We are currently in the midst of a steep explosion of data usage. While there is an increase in the overall user base as more and more people get access to the internet, what is really driving the explosion is the intensification of data usage by existing users. There are already more devices connected to the internet today than the overall population on the planet. Upcoming trends such as Internet of Things, Driverless car, Virtual Reality, Smart homes will lead to an explosion in number of connected devices projected to be three times of global population by 2020. As a result of the increase in the number of users and devices, the per capita data consumption is set to multiply nearly five times in next three years.

**Slide 6:**

Fiber has been an integral and most reliable medium for any voice and data network. Across the generation of technologies, fiber plays a role, either in backbone network or mobile backhaul or access technologies like fiber to the x. Fiber has found the core of the network right from the 2G era, connecting major cities. The relevance increases as networks evolve to support the necessary speed metrics, required security, bandwidth, and reliability requirements. Shifting network requirements have revised the pre-eminent position of fiber as it has progressed from core to Metro and is now firmly entrenched in the last mile as well. As new technologies become more data driven, the density and reach of fiber starts increasing at an exponential pace with fiber getting closer and closer to the actual point of consumption.

**Slide 7:**

This is an interesting graph from our perspective, where we have plotted the growth of data and fiber over the last decade. What comes out is a pretty strong co-relation between the data consumption and fiber demand, evidencing the thesis that prospects of fiber industry have a direct relationship with the growth in data worldwide. With data consumption continuing to show upward trend, it should correspondingly translate in continued growth in fiber demand.

**Slide 8:**

In this slide, we have covered global developments which we are witnessing across industry, Government, and global technology as well as social network players which, in a cumulative manner, are driving the explosive growth of connectivity and increasing data traffic.

Fiber continues to be deployed by all class of players be it conventional Telcos, cable providers, new ISPs or the new emerging class of OTT or content players like Facebook or Microsoft.

At one end of the spectrum are the traditional telco's, who have started investing into deep fiber assets to be ready for next generation of data heavy technologies, whereas on the other extreme we are seeing a new network creation of massive scale by the OTT players, who are

driven by the singular objective to connect the unconnected with high-speed data network, which can support bandwidth-heavy application.

In addition to the megatrend on the consumer side, we are witnessing similar disruptive trends in the B2B segment. Today, 'Virtualization' and 'Cloud' have become integral business strategies for all global companies. Companies are no longer simply running one-off pilot and exploratory project. Instead, they are now rolling out full-fledged digital transformations that affect not only digital products, services, and customer journey, but also operation, supply chain, manufacturing, and the technology function. Today, the need for improved bandwidth from optical fiber has shifted from an expense consideration to a revenue and profit generating dynamics. Fiber is a key tool for the National infrastructure imperative of providing customers with the next gen high-speed network, no matter where they live. Therefore, there is no alternative to fiber for the next level of networks. The expected network enhancements over the next three to five years will expand the large market for fiber networks because of the need for an ultra-high-speed network with low latency requirement.

**Slide 9:**

When you see the fiber demand, it continues to globally rise year on year. While China continues to account for a large share of the total demand pie, we are seeing developed geographies like US and Europe showing signs of increased deployments at levels unprecedented in the fiber industry. For example, North America was the fastest growing geographic zone in 2016. With over 3 billion kilometers of fiber deployed globally, we see an opportunity of replacement fiber demand kicking in as well. Historically, and it continues to happen so, few key global players who control preform part of the value chain have always acted responsibly by matching their preform capacity with the global fiber demand. At Sterlite Tech, we are really excited with the way this macro opportunity is shaping for us and we are very well poised to service this expanding demand.

**Slide 10:**

As most of you are aware; Sterlite Tech is the only company in India and amongst few globally, who can manufacture fiber from base silicone core. This competitive advantage not only helps us in commanding industry best margins, but also helps us to comfortably cater to the growing fiber demand as we have the capability to produce the necessary raw material to create fiber and no dependence on external suppliers.

**Slide 11:**

As a company, our singular focus remains on the opportunity that strengthened from this entire digital connectivity landscape. We are witnessing new data networks being created across the world whether it is 4G, Wi-Fi, FTTx from the telcos, or large-scale broadband initiatives like Bharat Net 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.

Over the last few years, we have taken conscious steps to evolve our business from a pure manufacturing-led 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 12:**

Now, let me give a quick glimpse of updates on our business in the recent quarter that ended September 30<sup>th</sup>.

**Slide 13:**

Backed by a strong focus on research and technology, we filed six new patents in this quarter which takes our total patent portfolio to 162. This quarter also saw the launch of our high-speed 5G ready network solutions, showcased at India Mobile Congress. With our deepening reach in new geographies with our fiber portfolio offerings our order book increased to Rs.3,800 crore from about Rs.3,100 crore in last quarter.

**Slide 14:**

Sterlite Tech was also recently honored with the ‘Golden Peacock Award’ for excellence in Corporate Governance for 2017. This award validates our efforts in establishing industry’s best practice in Corporate Governance. The company was also assigned Moody’s Investor services B1 Corporate Family Rating confirming our position as a leading manufacturer with growing International presence. These developments are a testimony to our strong position on various aspects of the business and we strongly believe that the company is on the right path to achieve its stated objective.

**Slide 15:**

I would now like to dwell deeper into our product and service business and share key business development from this quarter perspective. On the product side of the business, we exited this quarter with enhanced capacity and corresponding sales at the run rate of 30 million kilometers. As announced in the beginning of the year, we are now embarking on a next phase of fiber capacity expansion from 30 to 50 million kilometers. This expansion decision was undertaken after careful discussion with our customers outlook and after looking at the backdrop of growth that we are witnessing globally. We are confident that this next phase of our Greenfield expansion to be done in Aurangabad will be successfully completed by June 2019, which will catapult us into the league of top three fiber manufacturers globally. We expect a significant ramp up in our cable capacity utilization also in the next few quarters as we increase our global reach and deeper penetration into existing accounts.

**Slide 16:**

The smart city vision of the Government is creating new opportunities for telecom providers, infrastructure vendors, networking ecosystem players, application providers, and the entire IoT ecosystem in general. We are very happy to say that Sterlite Technology has emerged as a leading player in Smart City development. Through a Smart City suite, we continue to demonstrate our unique capabilities to design, build, and manage smarter networks. We rolled out the Gandhinagar Smart City services in December 2016, the Jaipur Smart City project is complete and currently in operations and maintenance phase, and our Kakinada Smart City project is currently under execution. We continue to be in active engagement with several other Smart Cities being planned in the country.

**Slide 17:**

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 73% year-on-year increase. Our order book stood at Rs. 3,832 crore this quarter which has grown significantly from previous quarter. This order book is well balanced across the global as well as the Indian segment. In addition to this, our order book maintains a healthy balance mix between our product and services segment. We are confident that our order book is a reflection of our long-term customer engagement and provides a strong outlook and predictability for the business. We continue to strategically enter new markets and regions to enhance and elevate our presence and build customer relationships for the future.

**Slide 18:**

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

**Anupam Jindal:**

**Slide 19:**

Thanks Anand. This slide gives the quarterly financial performance trend for the company on a consolidated basis for the last few quarters. As you can see, revenues for the quarter stood at Rs. 779 crore registering a 42% year-on-year growth. EBITDA grew 63% on YOY basis driven by the growth in product volume and supported by project execution progress, progressing firmly on quarter-on-quarter basis. Our profit after tax for the quarter stands at Rs. 71 crore registering a 40% growth on YOY basis.

**Slide 20:**

This slide brings you the concise version of P&L for Q2 FY18 compared with Q1 and also with the full year of FY17 performance. At about 23%, our EBITDA margin continues to remain amongst the industry best. We continue to deliver growth in our analyzed Q1 FY18 performance showcasing a strong growth over FY17 as well as quarter one of FY18 on all key matrices, revenue, EBITDA, and PAT. ROCE at the end of Q2 FY18 stands at 29% and remains the key metric of our future growth.

**Slide 21:**

As we have been reiterating, we continue to have a very strong focus on the balance sheet even as we plan for scalable growth in all our businesses. During Q2 FY18, we saw a net cash generation of about Rs.78 crore after CAPEX and taxes, which led to the overall net reducing further to Rs. 782 crore. We remain committed to keeping the debt-to-equity ratio under one, which trends at 0.8x currently. 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 22:**

I will quickly touch upon our focus areas to enable us to grow in a value accretive manner for all stakeholders.

**Slide 23:**

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% level for the business.

**Slide 24:**

Sterlite Tech has been transforming itself in the recent years. The company strongly believes that the only way to do business is by being responsible, socially and environmentally. When it comes to CSR, Sterlite Tech has taken great stride over the years to safeguard the well-being of its community. In recent times, the company revamped its key CSR projects in education, health, women empowerment and rural and community development with focus on creating 360-degree impact.

**Slide 25:**

We are happy to announce induction of one of Asia's most respected telecommunication professionals, Mr. Sandip Das, into our Statutory Board. He is one of the founding members of private telephony in India and was part of the group of individuals that founded Hutchison Max Telecom in 1994. His arrival has further consolidated our positions to being industry's best with ever strengthening Corporate Governance. We also thank Mr. C. V. Krishnan for his role on the Board on all the areas of strategy, governance and compliance for the last four years.

**Slide 26:**

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 the years to come. Our growth strategy hinges on three pillars of exponential global reach. Scale our growth in all our business 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 close to three times net income growth 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 27:**

This slide is a reflection of our past performance in our telecom business. As you can see, we continue to demonstrate healthy growth in our business profits with superior return. On five years 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 the moderator for Q&A.

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

**Anubhav Gupta:** Sir, how do you see the future data networks evolving which will further boost the fiber deployment in coming years, is there any way to quantify how much fiber will be required if 5G rollout kicks in as we are already sitting on 3 billion fiber kilometer of deployment worldwide?

**Anand Agarwal:** Anubhav, this is just the start, like this 3 billion has been deployed by just about average of 2 gig usage per month globally. As it goes to 10 gig a month, see just like you had radio spectrum which was used for voice, fiber is the part of the transmission media which will be used for data and data network is not built, I mean if five times the per user capita capacity will go up, three times the number of users or devices will grow. The entire infrastructure will need to undergo a change. Just to put in perspective, globally telcos spend annually about \$200 billion in CAPEX. A large part of that CAPEX used to be radio CAPEX that they used for spectrum and antenna which was till date largely focused into to do voice communication. We believe and seeing that some part of that CAPEX will now start moving towards fiber deployment, which will be targeted towards data transmission.

**Anubhav Gupta:** The volume growth CAGR of 15% to 17% which we have seen in last 10 years, you think this can very well continue with the future data networks how they are evolving with the 5G rollout etc.?



**Anand Agarwal:** Yes, the growth rate would be we believe at a similar rate, one part would be for the 3 billion kilometers which is deployed, there will be a maintenance part which will also start coming in, so even if you take 7% to 8% as the maintenance, almost 200 to 220 million kilometers annually will go towards only maintaining the existing infrastructure and then there will be new deployments, so we are not clear exactly what the number would be, but we believe that there will be growth as we have been seeing for almost last 15 years.

**Anubhav Gupta:** How is your company working with its clients and how you have aligned your R&D spends to come out with better products for your clients to meet the future data requirements?

**Anand Agarwal:** Clearly, we are working much-much more closely with customers right now much earlier during the design phase of their networks, so most of the products that we offer are envisaged and conceptualized during that design phase, which is why that we could launch this 5G ready solutions almost while people are structuring their 5G network trials at a global level, so we believe we are pretty well entrenched with a select group of customers and there is a large focus that we are doing towards product development and deepening that engagement.

**Moderator:** Thank you. We have the next question from the line of Augustya Dave from CAO Capital. Please go ahead.

**Augustya Dave:** Sir, can you throw some light on, you mentioned on the presentation regarding the orders that we have got, the programs of the order book has swelled up, can you give some sort of a breakup as to this domestic or export, I know you operate in all the geographies, but still some more granularity, and second, has the Indian activity has not picked up considering what has happened with the consolidation and now Tata is also getting out kind of and the deal on Bharti Infratel side, Bharti Infratel mentioned that they are looking to set up a optical fiber deployment from their end, which is kind of surprising but still have you seen any indication of activity levels picking up domestically. Second, the FTTH business that you have mentioned that you have got in one of the slides, again is it domestic, is it International, what is the scale here and what exactly will you be supplying there? That is it from my side, thank you.

**Anand Agarwal:** Augustya, let me address the first part of the question which you talked about was the order book, the order book as you rightly said it is pretty global; right now what we are seeing that fiber deployment as well as demand is much, much stronger in various markets, which we serve whether it is Europe, whether it is China, Middle East, Latin America, and a bulk part of the current order book that we see is coming in more from global markets. At the same time, we are seeing some trends of demand to pickup in the Indian market also, so for instance the customers currently who are operating 4G data networks are aggressively looking at connecting the backbone, the mobile backhaul with fiber. The Bharat Net project got approved last quarter and we believe in next year, that is, 2018 it will become a significant part of the demand growth for India. The tower companies that you speak about are also looking at the model where the backhaul which till date was microwave, they can be involved in laying fiber which is essentially a global model. Globally, a lot of tower companies do their own fiber and then lease it out. A few of them are in talks with us and as anything materially develops, we

will let you know. In terms of fiber to the home, we are essentially offering it as a service and offering it is a kit to select telcos in India and globally. So right now it is more a concept which is in proof of concept stage. We have a small order I think about eight to 10 crore, which we are supplying, but again as it materially develops, we let you know.

**Augustya Dave:**

This domestic market, you guys have mentioned that in three years you would triple your net profits right, but in terms of revenue exports, domestic products, and services, can you tell me what kind of multiplication will be seen in these four buckets, domestic, exports and then products and services, how do they grow individually and how soon do you think the domestic 20 odd million kilometer that projected number that you have given that becomes let us say 40 or 50, are we seeing any traction there that we can say that it is going to double in next three years?"

**Anand Agarwal:**

I will address the second question first, the domestic market at 20 million is low. We believe with Bharat Net project as well as some of the telcos just starting their mobile backhaul, it should be doubling at least in between two to three years, we are pretty confident of that. In terms of the breakup that you talked about the profits or revenues in 2020, we neither look at the business that way and hence will not be able to provide, see fundamentally we have provided that as a direction that within three years we should be able to grow at a CAGR bottom line of about 50%. We have looked at what we are doing. We are doing 50 million kilometers of fiber, we are doing cables, we are doing system integration and services, so we do not have it granularly broken down into products, services, software, or domestic exports, it is more a direction which we are moving in based on the confidence that we have and the customer engagement that we foresee. Right now, we will unfortunately not be able to create that model for you.

**Moderator:**

Thank you. We have the next question from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.

**Tejas Sheth:**

I just wanted to understand the FlashFWD high-speed 5G network which we have launched, how does that change our positioning in the global market and is it something which is very significant change for us?

**Anand Agarwal:**

Yes definitely, so Tejas what we are seeing in global markets as 5G is starting to get tried out in select markets globally, so there are few requirements. There is high level of densification which is happening close to smaller cell site, there is a very high degree of latency requirements and datacenters moving at Dahej, so to deliver all that products are required which have extremely high capacity for the next foreseeable future and which can have both capacity as well as flexibility for it to be branched out to various parts of the network. So this product series, the solution series that we have designed is focused towards that sort of application itself. We have deployed it in a couple of geographies globally and it has been very well appreciated. So clearly, it is something it is a range that we are creating for high data speed, high-density, and low latency requirements which are all characteristics of a 5G deployment.

- Tejas Sheth:** Is the pricing very different than what we are currently doing for 4G products?
- Anand Agarwal:** Yes, in terms of the growth margin of the product and the solution, it is better than what we traditionally do.
- Tejas Sheth:** You did mention for last six months or let us say 12 months, we are seeing a huge demand of fiber globally, a lot of long-term contracts have been signed, I just wanted to have an indication how the pricing of fiber has been changing and are we able to capture that price?
- Anand Agarwal:** Tejas, we have all the time maintained that more than we do not operate in the spot margin. So the order book that you are seeing essentially that we have maintained the prevailing prices, but we have looked at deepening the predictability as well as the engagement with our customers.
- Tejas Sheth:** So, in a different way, let us say the 20 million capacity which we are expecting, will those be signed at a larger pricing?
- Anand Agarwal:** No, they are all at the similar price range that we are seeing right now. So as I was explaining, we are looking at a higher degree of predictability for the future and we are booking contracts for the future order book than trying to take advantage of short-term pricing.
- Tejas Sheth:** Last question, on the order bid pipeline which we had about Rs.10,000 crore odd including products and let us say services, what is the status on that and how we see that culminating into orders for us?
- Anand Agarwal:** Some of those orders have culminated, that is what we see, for example, the order book growing by almost Rs.2,100 to Rs.2,200 to Rs.3,800 crore in the last one year, some of the smaller services order keeps getting added up and getting executed quarter on quarter. The larger some orders that we are expecting, nothing has materialized in the previous quarters, but whenever it does we will definitely inform.
- Tejas Sheth:** What would be the bid pipeline as on today?
- Anand Agarwal:** It is of a similar range about Rs.9,500 crore or so.
- Moderator:** Thank you. We have the next question from the line of Neerav Dalal from MayBank. Please go ahead.
- Neerav Dalal:** I just wanted some take on the 'Solutions and Services' business, how is that business tracking and how are the revenues of that business, and how do you see the outlook?
- Anand Agarwal:** Neerav, on that business, currently we are working on three segments on the services and software side. One is the existing defense order which we are completing. Second is the Smart City suite where we have the two cities in O&M phase and third city in construction, and the third is creating backhaul for telecom service providers So in terms of order book we are

currently at about Rs.1,500 crore and with several bids in the pipeline and the focus for us is more and more that we focus on few bids, focus on few opportunities but win them and execute them, so we are consciously, it is going to be at least for the time being India only focus. Within India also we are focusing on areas where there is smart data network requirements and the clear focus is there that we take few projects in few geographies, but execute them and maintain and manage them over a longer period of time.

**Neerav Dalal:** Have you seen margins improving in this business?

**Anand Agarwal:** Margins are at about 12% to 15% EBITDA range which is our desired range and we are at that current level.

**Neerav Dalal:** The mix of revenues would be 18 to 20 at the moment?

**Anand Agarwal:** It will be something around that.

**Moderator:** Thank you. We have the next question from the line of Pranav Kshatriya from Edelweiss. Please go ahead.

**Pranav Kshatriya:** Sir, can you please give some commentary regarding how you are seeing growth in different geographies, I mean any geography which is outperforming for you compared to other geographies and versus domestic, how is the growth that is my first question? Secondly, are you seeing any currency-related challenges or any benefits which we can see impacting the business?

**Anand Agarwal:** Pranav, in terms of growth as I said earlier we are seeing a very broad based global growth in terms of the demand, so we are seeing as I said China continues to be a large-scale but at the same time North America was the one which grew the most in 2016. Europe continues to grow, we are seeing growth in Middle East. So for us the growth is coming from varied market and we are very consciously as we have done in the past kept ourselves across the few selected markets whether it is Europe, whether it is China we have strengthened our position in Middle East and Latin America. So I would say it is a broad demand growth and we very consciously have kept our customer profile to that extent broad as well. In terms of the exchange part, we have a very strong and maintained exchange policy. On the day we get any purchase order, we hedge the sales on that day itself, so whatever margin etc. that we have bid for in say rupee terms and percentage terms, we lock in the day we get the purchase order.

**Moderator:** Thank you. We have the next question from the line of Alok Deora from IIFL. Please go ahead.

**Alok Deora:** Just couple of questions, how has been the utilization trend in the cable segment which was operating, I mean we had increased the capacity but we were not able to pick it up to the optimum level, so how has been the utilization level there and also the new capacity, I mean we are now at around 30 million fiber kilometers, so is it like close to 100% kind of run rate, we are operating that?

**Anand Agarwal:** Alok, so cables what we operated last year is about 40% to 45%, now we are running at about 65% to 70% and we have a good outlook based on which we are saying next year would be between 80% to 100%. So that clear visibility and confidence is there. Fiber, the capacity as we had planned we achieved 30 million by September and we have actually exited the quarter at that current trend rate of 7.5 million this quarter. So the increased revenue and the growth that you see is primarily coming from this upside that we have seen.

**Alok Deora:** Sir, one question on the global availability of fiber, so last two-three quarters, we have been hearing from different end-user players as well that there is a global shortage of fiber and which has seen the fiber prices moving up, but off late like say in last two to three months, we have been hearing that the availability is now sort of there and so the demand-supply mismatch is reducing which will also see the prices coming down, any input on that?

**Anand Agarwal:** So as we have said, for us the focus is more in terms of booking orders for the next few quarters, the kind of trend that you are talking about could be for demand maybe in the short-term or for shorter term opportunities or spot opportunities; we have for the orders that we are booking, we neither saw rapid increase in price nor a rapid decrease in price, it is very much stable in the range that we typically operate in and our customers are comfortable with us operating in that range.

**Alok Deora:** Just one last question, Sir, the order book if we see it has been a very healthy movement quarter on quarter, but the movement is more in the product segment where we have seen significant uptick happening whereas the order book from the services segment its sort of flat, so is it like we are focusing on the product pie or is it like the services segment is not really picking up the way we were expecting it to be say a year earlier?

**Anand Agarwal:** Services, we have always maintained that it is going to be chunkier and sporadic orders which is coming, so the current order book which appears flat is post-execution quarter on quarter which were doing in the services business. So it is currently at a rate where whatever we are adding on every quarter, we are also executing a similar value every quarter. You are partly right, we have consciously decided to be very, very focused on select opportunities on the project business and we see any large or chunky opportunities coming in would show up. Other than that, the order book would sort of be in a range moving from one range to another only when a macro order comes in.

**Moderator:** Thank you. We have the next question from the line of Mukul Garg from Haitong Securities. Please go ahead.

**Mukul Garg:** So Anand, just wanted to get your view on a slightly longer-term timeframe, if we look at from a three to five-year perspective and include the investment in the backhaul, FTTx and on Bharat Net side, where do you see in terms of the investment from the telcos and Government ending in terms of number of kilometers or in terms of value, do we have a sense of that on a three to five-year time horizon, and secondly, do you think that Indian Telcos will start

converging with their global peers in terms of the fiber deployment in the backhaul or will it be a very, very microwave-driven market?

**Anand Agarwal:** Mukul, I am presuming your question is more about the Indian market, is that right?

**Mukul Garg:** Yes, the question is primarily on the domestic market.

**Anand Agarwal:** So India other than what Jio has deployed nobody has even deployed any network for data transmission, so the capacity to provide high data bandwidth is not there currently in incumbent, so we will see in the next few years first the incumbents have to connect all their towers with fiber, then move onto fiber to the home and then move towards densification as and when the 5G gets deployed which will take the sites closer and closer to the point of consumption. So concurrently what is happening is the telcos are putting in backhaul, Bharat Net will connect a portion of the panchayat over the next couple of years and some of the Smart Cities have started deploying fiber in the backhaul and as I earlier said that some of the telcos are also contemplating whether they can do fiber investments to connect the towers and replace the microwave. All of this is playing out in some way, how it all plays out we know that the market size as compared to anywhere else globally is really small, so one thing we are absolutely sure that the market size will increase significantly. When exactly the number would reach, as we see more and more signs of people actually starting to deploy will be able to provide a better color to it, but clearly we know that there is a huge degree of constraint in supplying even to the current set of subscriber that we have.

**Mukul Garg:** In terms of the willingness of non-Jio operators in shifting from microwave to fiber optics, have you seen any discussions with the incumbents where they are saying that over the next three years we would move meaningfully towards optical fiber and cable?

**Anand Agarwal:** That I mean very publicly and in any interview if you see that is their clear intent which has been established because microwave just does not have the capacity for data backhaul. So there is no question of whether they will move, it is a question essentially of prioritizing the capital requirements that they do and some of them are currently going through consolidations and balance sheet alignments which is taking part of the attention, but clearly all of them need to do that and they have gone public stating that intent.

**Mukul Garg:** One final question from my side, in terms of Indian market share, where do you think things will go from here on, do you expect to take additional market share or do you think the number of people who are there in the market share will remain relatively constant?

**Anand Agarwal:** We already have close to 45% to 50% of the market, so are not so much this about taking or increasing the share, we are much more focused that the market scale and size increases. We have extremely good relationship with all the telecom providers, we have extremely good relationship with the cable TV providers and ISPs which have started deploying fiber and rural broadband, so we are not as much bent or crazy about getting market share, our entire focus is

that the scale and size increases and we continue to deepen our engagement with all the customers.

**Moderator:** Thank you. The next question is from the line of Depesh Kashyap from Equirus Securities. Please go ahead.

**Depesh Kashyap:** Sir, just seeing your revenue growth and the order book, it seems that the services growth has been much sharper than the product growth, it will be really helpful if you can give the breakup of services and products mix, please?

**Anand Agarwal:** Depesh, it has been in similar lines, our services and software has been between 20% to 25% of the revenue and products has been between 75% to 80% quarter on quarter, so we have seen similar growth for the half if we compare H1 to H1, we have seen similar growth on both the fronts with services and software being at about 22% in both the years.

**Depesh Kashyap:** Sir, on my rough calculation, it seems that your Chinese product is at a higher pricing than Indian products, will it be fair to say that, is my calculation correct?

**Anand Agarwal:** Now that is not right, the pricing is globally almost the same, what we sell because it is fungible for us, the orders are taken at a global level and we dispatch it from any of the factories.

**Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

**Pritesh Chheda:** Sir, my question is little bit on your three-year out and out target of increasing the fiber kilometer from 30 to 50 which actually means that the revenue multiplies slightly more than half, but your net income which is a profit growth is actually three times what it is today. So is this interpretation right that your revenue actually improves more than one and a half because you would not have considered service in this portion and that is the reason why your net profit growth is three, or you want to elaborate a bit on this out and out targets that you have?

**Anand Agarwal:** Pritesh, we have looked at it differently, we have looked at what we will be doing in 2020. We will be doing 50 million kilometers of fiber, we will be doing 15 million or higher of cables, we will be doing a certain scale of services and we will be doing a certain scale of software. Based on that, we have calculated what the total EBITDA would be and what the profits would be. The 3x is happening more by, so we have not looked at growing 3x, the 3x is happening by chance rather than us focusing on 3x.

**Pritesh Chheda:** What will be your revenue mix in terms of product and service which is 80:20 today or 75:25 today?

**Anand Agarwal:** It will be of the order of maybe 70:30, as I said we have not looked at exactly what the revenue would be or domestic exports mix would be, we have seen what would be our total delivery

that we are doing in that year, where the EBITDA would form rather than revenues would form.

**Pritesh Chheda:** And in your assumption, it is 50 million fkm of fiber and 15 million cable in FY20, right?

**Anand Agarwal:** Yes, that is right.

**Pritesh Chheda:** You gave an exit run rate of quarter 2 of cable and the utilization of cable, I missed it, can you just reiterate that number?

**Anand Agarwal:** Currently, we are running at about 65%, the cable facility.

**Pritesh Chheda:** And what is the volume number, capacity and run rate number of volume run rate?

**Anand Agarwal:** It is 15 million capacity.

**Pritesh Chheda:** Okay, so 15 million capacity running at 65% utilisation?

**Anand Agarwal:** That is right.

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

**Dheeresh Pathak:** The 30 million fiber in the year, how much is, is 100% sold on contract and what is the duration of the contract?

**Anand Agarwal:** Dheeresh, it is almost I would say currently almost everything is sold on contract and the duration of contracts which earlier used to be annual, now is moving towards longer term so we are booking contracts, currently we have contracts which have 2019 and a few contracts even for 2020, so with the changing market scenario we can, we have better visibility but typically the contracts have been more annual rather than anything beyond that.

**Dheeresh Pathak:** Going forward two to three-year contract is the norm, if I understand it?

**Anand Agarwal:** It is happening now, how much does it continue, we will make all the attempts for this to continue, but it depends also on the market demand-supply situation.

**Dheeresh Pathak:** Just to understand in a two or three-year contract, the pricing is fixed or it is linked to some?

**Anand Agarwal:** Pricing is in a range, so we will negotiate at the end of every year within a range that is defined.

**Dheeresh Pathak:** Okay, can you also give a color on, obviously you are not benefiting from any spot price increase, but can you just comment in terms of how the spot prices and like annually let us say



the world is consuming some 460 or 470 as per your presentation, what percentage of the market is spot?

**Anand Agarwal:** We would not be able to comment on that in terms of percentage of market, it is spot by definition would be people, the delta between contractors and uncontracted volume. Since we do not operate in that market, we very consciously have chosen not to neither operate nor track that market.

**Dheeresh Pathak:** Can you can then comment on, let us say the annual contract that came up for renewal on a like-to-like basis, what was the price change that you saw for you?

**Anand Agarwal:** So we have not done price change, we have done the duration change. So the contracts which were annual, we have made it multi-year contracts to increase the visibility, so we tried not to be opportunistic for price change, we tried to give assurance to our customers and our customers were happy to sign of multi-year volume commitments.

**Dheeresh Pathak:** My understanding will be fair to understand that the Greenfield capacity that will come up and you would have tied that up before it starts production in June 2019 and it would get tied up based on the way you are explaining on the current prices, so whatever realization...?

**Anand Agarwal:** On the current range of prices, the nominal price is similar to what we have, and end of 2018, we will negotiate the price for 2019.

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

**Anand Agarwal:** Thank you everyone for attending this call and I hope 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 hope to continue our association and dialogue in the future. I thank everyone for showing their interest in our company and wish all of you and your loved ones a very, very Happy Diwali. Thank you.

**Moderator:** Thank you, Dr. Agarwal. Ladies and Gentlemen, on behalf of Sterlite Technologies, that concludes this conference. Thank you for joining us and you may now disconnect your lines.