



Sterlite Technologies Limited Q2 FY24

Earnings Conference Call Transcript

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MANAGEMENT:

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Lakshmi Iyer:

Ladies and gentlemen, good day and welcome to the STL's Q2 FY24 Earnings Conference Call. I am Lakshmi Iyer, Head, Investor Relations at STL.

To take us through the results and answer your questions, we have Ankit Agarwal, Managing Director, STL and Tushar Shroff, Group CFO, STL.

Please note that all participant lines are in the listen-only mode as of now. There will be an opportunity for you to ask questions after the presentation concludes. Please note that this call is being recorded. You can also download a copy of presentation from our website at www.stl.tech.

Before we proceed with this call, I would like to add that some elements of today's presentation may be forward-looking in nature and must be viewed in relation to the risks pertaining to the business. The Safe Harbor clause indicated in the presentation also applies to this conference call.

For opening remarks, I now hand over the call to Ankit Agarwal. Over to you, Ankit.

Ankit Agarwal:

Thank you, Lakshmi. Good day everyone. Thank you for joining our Q2 FY24 earnings call today.

Just to reiterate, our strategic priorities remain the same and are as follows. Firstly, we continue to grow the optical business, we are increasing the optical fiber cable market share and connectivity attach rate. Initiatives to optimize raw materials and fixed costs in the business to become more competitive are ongoing. Secondly, we shall continue to consolidate our global services business in select segments. We are building new capabilities for value added services and looking at improving the profitability. Lastly, but not the least, we shall build the digital business through focused investments in building technology and domain capability and looking at getting to EBITDA breakeven in the near term.

We shall now cover the outlook and performance of our optical business. Coming to the demand outlook as per CRU, the medium-term demand for optical fiber cable volumes expected to go up to 623 million fiber kilometers by 2027, up from 535 million fiber kilometers in 2022. The short-term headwinds are mainly in the markets of North America and expected to continue with contraction in North America for 7.7% and in China by 1.9% respectively in 2023. CRU has made a downward revision of the earlier forecasts in North America for 2023 by 7%. The near-term downturn in North America is on account of inventory correction and is expected to correct in Q1 or Q2 of 2024 calendar year. Service providers are already in the process of participating in various government funded opportunities including the US\$42.5 billion BEAD program. STL's focus markets of North America, Europe and India are high potential and is estimated to grow at a CAGR between 2023-2028 of 10.1%, 4.7% and 9.5% respectively.

This is something we wanted to share with all of you in terms of how the networks are evolving and the new way in which operators are looking at carpet coverage of fiber. Telcos on a global scale are primed for substantial expansion of the 5G subscriber base. Moreover, we now see 6G technologies starting to create more and more noise in the market and it will be at the forefront by 2028. From being linear with limited applications as you can see on the left-hand side of slide 8, fiber has now become denser and all pervasive. With the growing utilization of fiber in various

applications like Fiber-to-the-home. AI based data centers, edge data centers, smart cities, small cells and the integration of 5G into smart enterprises, demand is expected to increase multi fold.

Presently, 5G penetration is 36% as per Omdia and 5G subscription is forecasted to grow at 184% in the North America, from 173 million to 601 million subscribers. In the case of Fiber-to-the-home, currently 67 million unique homes have been passed out of the 129 million homes. As per CRU FTTH homes passed will increase in line with Bead from 8.7 million per year to 12.2 million in 2025, with a CAGR of almost 18%. Also, the current data center expansion in capex of between \$50 billion to \$60 billion is forecasted to grow to \$90 billion by 2027.

Coming specifically to the BEAD program, as on date, the broadband mapping has been completed and state wise allocations for BEAD funding has been announced. The initial grant will release 20% of the funding, with funds expected to flow into the respective states by early 2024 and should kick start the demand recovery in the market. The final grant will release the balance funding by early 2025 and will drive a continued demand phase beyond that. Since the deployment needs to be completed within four years of the award, there will be an adequate runway of growth beyond 2025 as well. Our US factory in North America is fully compliant with Build America By America ('BABA') regulations. STL is well positioned to capture the growth impetus from this BEAD program.

Coming to India, the 5G subscriptions are expected to grow at a CAGR of 48% from 100 million subscribers currently to 700 million subscribers by 2028. Telcos are expected to spend between \$1.5 billion to \$2.5 billion for 5G fiberisation as per research reports. Similarly, the data center capex is also expected to grow significantly between 2023, where about \$4 billion currently invested will grow to as high as between \$16 to \$20 billion by FY25. And just one example is Amazon Web Services is expected to invest \$12.7 billion in data centers in India between now and 2030. As you may be aware, the India fiber per capita stands at only 0.25 km compared to China at 2.5 km and US at 1.8 km indicating a massive potential ahead. The government has recently approved the Rs.1.39 lakh crore for Phase 3 of BharatNet which is envisaged for upgradation of the fiber network across the 2.5 lakh gram panchayats of India.

Our market share remained stable at 11% in H1 of CY2023 versus H1 of CY22. We expect the OFC market share to grow from second half of FY24 onwards. Our connectivity business attach rate has increased to 13% from 10% Q-o-Q basis. Commercialization of the new optical connectivity products will further increase the attach rate from H2 FY24 onwards.

Coming to the financials for the optical business, the H1 FY24 revenue stands at Rs. 2,196 crores which is lower by 10% on Y-o-Y basis on the back of lower OFC volumes but are partially offset by improved realization. Although revenue has declined but H1 FY24 EBITDA has gone up by 8% on Y-o-Y basis to Rs.457 crores. EBITDA margins for H1 FY24 stands at 20.8%. Reduction in operating costs have ensured increase in margins.

Moving on to the performance of our global services business, our project execution on the services business is on track. Among Indian public projects our Bharat Net project in the state of Telangana is 66% complete, including all packages. The network modernization project is 71%

complete, our Managed Services Project is 31% complete and additionally we have just started the data center project.

On the India private sector, the fiber rollout project for large Indian telecom operator is 30% complete for Phase 3. Fiber rollout for another large telecom operator for phase 2 is 42% complete. And fiber rollout for a modern optical network from other private customer is 70% complete. In the UK, fiber-to-the-home rollout for all projects combined is 31% complete.

In the Global Services business, H1 FY24 revenue stands at Rs. 728 crores, we have been selective in order intake and execution. H1 FY24 EBITDA has gone up by 81% Y-o-Y basis to Rs.49 crores due to favorable project mix. EBITDA margin for H1 FY24 stands at 6.7%.

We shall now talk about the performance of STL Digital. In STL Digital we are continuing the growth momentum. We acquired new customers in the US and India across technology and services industry verticals. We had more than 20 plus active customers at the end of Q2 FY24. We also had a strong order deal inflow in Q2 FY24. Currently we have 43 plus active technology partners and signed strategic partnerships with SAP and Google to offer the solution jointly to our customers. Growth will be driven by a robust order book over 780 crores and the right team of leadership and consultants.

In line with our expectations and despite tough industry environment, we have grown revenues to Rs.140 crores in H1 FY24, 25% growth on Q-o-Q basis. The EBITDA loss for H1 FY24 is at Rs.54 crores. EBITDA losses are trending downwards on Q-o-Q basis and expected to further reduce with increase in revenue run rate.

I now hand over to Tushar for further talking about the financials.

Tushar Shroff:

Thank you Ankit. Good day ladies and gentlemen. Now we talk about STL Q2 FY24 financial highlights. Q2 FY24 revenue stands at Rs. 1,494 crores. The 11% drop in revenue is on account of the reduction in the OFC volumes which was down on Y-o-Y basis, partially offset by improved realization. Q2 FY24 EBITDA margin is, however up at 14.4%, margin increased by 50 bps on Y-o-Y basis due to improvement in operating efficiency. Q2 FY24 PAT is at Rs.28 crores on account of higher depreciation of US factory and increase in interest costs led by higher interest rates.

We talk about STL H1 FY24 financial highlights, STL recorded H1 FY24 revenue at Rs. 3,016 crores. H1 FY24 EBITDA at Rs. 451 crores which has increased 13% on Y-o-Y basis along with margin expansion of 230 bps. H1 FY24 PAT stands at Rs.74 crores.

Now we talk about the revenue mix, which is now moving from US to other geographies. In terms of new orders, in optical business we continue to win multimillion dollar orders for optical fiber cable in Europe and Americas. In services business, we continue to win system integrator contract in a data center space and fiber rollout for 5G deployment in India. In light of lower demand from North America, revenue mix has shifted more towards EMEA and India in Q2 FY24 versus FY23 with these regions accounting for 72% of revenues.

Open order book highlights, our open order book at the end of Q2 FY24 is Rs. 10,516 crores. Our order book is well diversified across our customer segments and across all our businesses.

The financial abridged version is placed before you, the main highlight of the financial is with respect to the net debt of FY24 for 6 month period has reduced by Rs.111 crores from FY23. We expect to complete the demerger of Global Service business by Q1 FY25.

The current demerger status is that we have recently received the NOC from both the stock exchanges for the demerger scheme and we will be filing the application with NCLT shortly.

In summary, I would like to state that in optical network business we shall target to gain market share across our focus market particularly in India, EMEA, APAC markets to fill the volume gap from US markets. Ramp up of US plant to capitalize on demand surge in North America going forward that is 24-25 onwards. Increase in optical connectivity to drive the growth and the attach rate. In global service business, we continue to focus on select projects to improve the profitability and optimize the net fund involvement.

In digital business, we continue to grow revenue and achieve an EBITDA breakeven by Q4 FY24. With operationalization of US plant, capex cycle has been completed. Our capital allocation priority will be towards the debt reduction.

In terms of guidance, given additional quarters for inventory correction in North America to play out fully, we expect the revenue to decline in FY24. For FY24 significant focus will be towards the reduction in the net debt.

Now we talk about our initiatives on ESG. Our ESG rating from Morgan Stanley Capital International has improved from BBB to A. Major updates for the quarter- STL has become the world's first optical fiber manufacturer to launch independently verified eco label methodology. STL has collaborated with Hygenco for supply of green hydrogen for use in its manufacturing.

Now I hand over to Lakshmi for closing remarks.

Lakshmi Iyer:

Thank you Tushar. Ladies and gentlemen with this we come to the end of our presentation and shall now move on to the Q&A.

So, Sunny please go ahead with your question.

Sunny:

First of all, if you can help us understand that how is the demand situation evolving in North America? And basically, when you say that inventory correction will continue for few more months so how should we read that in terms of the base revenue that you have done in Q1 and Q2 from North America? Whether the worst is over, and things start improving from here on out we do expect things can even worsen from here on.

Ankit Agarwal:

So, I put it in two three areas. One definitely, probably since what we spoke last and guided last we still see more time required in North America market to really get through that inventory and

for the demand and the right kind of demand coming back with full steam. So earlier if you remember we had probably guided that somewhere around Q3 or Q4, we should start seeing that demand come back. We now see that will probably be closer to Q1 of next financial year, where we start seeing some of the regular or the good volume of demand coming back from North America. So that is one shift that we are seeing from the market perspective when we speak to our customers and also look at our peers in the industry. From the operations perspective, that also means what we have shared is, we have also looked at other markets including EMEA as well as India for growing that and making sure that some of the volume drop gets covered in those markets. Of course our realizations as we shared in the past, are higher typically in North America and then in Europe as well. So, to that extent we do expect a decline from a revenue perspective. So that is what we have just shared in our last slide, that overall there will be impact on the revenue of the optical business and then overall for STL for the rest of the year.

Sunny: And by recovery do you mean that basically, we will go back to what you were doing before in Q3 or Q4 of FY23 in terms of the run rate from North America? That is what you mean by recovery, or you mean that things improved from the current base because what is not clear from any of the commentary or the presentation is what the new base is looking like.

Ankit Agarwal: I think that is fair. I would say that there is still uncertainty certainly over next 6 months of how the demand pans out. So, I would say we are still looking and continuing to converse with our customers on how that demand comes through. So, we will probably be able to update you as we see that. What I am structurally saying is that, we do see fundamentally as the inventory comes down, the projects like BEAD and demand for that starts coming in, as well as the other projects start kicking in. We do fundamentally believe that the North America market will continue to start growing back in that timeframe as I shared, from Q1 next fiscal year onwards. So that is when we see that the demand should be strong on the back of that and especially now with a US factory fully ready and fully compliant, we are very well positioned to capture that growth as it comes back. But we don't see it as kind of a hockey stick, there will be quarter on quarter improvement.

Sunny: Sure. Basically, if you can give some color on interconnect because there is no outlook or any description on the interconnect business in the current presentation. So, how is that progressing and what is the attach rate we are operating at currently? And how do we see the outlook of that business in the near future and medium term.

Ankit Agarwal: So, as we share, this continues to be a top priority for growth for the optical business. The key areas for us have been very focused in terms of improving the attach rate compared to the cable that we do. What we have shared earlier also that we have seen some success particularly in Europe, so we want to continue to scale up in that market, but also exploring how we can scale up in other markets including North America. The reason we cannot give very specific forecasts is because of the fairly long cycles that it takes to get the approvals and to get in with some of the leading Telco operators. What I can share is that this is certainly a top priority for us. We currently have improved from 10% to 13%, which is in Q2 and as we have shared earlier as well the intent is to continue to improve that going forward and certainly will continue to give you more visibility particularly as we start improving our positioning in Europe and US.

Tushar Shroff: Sunny you can refer the slide 12 where we have given a little color on OI attach rate in terms of how we are seeing it. In the quarter it has gone up to 13%. So, I think we have provided some information on OI on slide number 12.

Sunny: Sure. Thank you. Basically, on the global service business what is the status of your T-Fiber project? Because the completion rates look to remain stagnant there. So is that project moving very slowly? How should we look at the completion of that because I believe that the large amount of capital employed is stuck in the service business through some of these government projects? So, what is the outlook there, any color will be helpful.

Ankit Agarwal: So, you are right, that is an important project for us. Just to be clear, we continue to make progress in that project. There would have probably been slower execution on the account of factors like monsoon and other things but what is important to also remember is that the way these projects are structured, especially from a cash out perspective, are on achieving certain milestones. And so it is one of those elements where even if smaller amounts from a kilometer perspective is achieved, but as you keep completing those links and milestones, then the cash payouts happen. So fundamentally, we believe that is the focus for us. We want to continue to move and you will see progress in this project broadly over the next 6 months. And then as we see start hitting the milestone there will be disproportionate cash out from these projects, but structurally, there is a good understanding between us, T-fiber and as we complete these milestones, we have good confidence on the cash getting released.

Sunny: Ok. Thanks for the detailed answers.

Lakshmi Iyer: Thank you Sunny. We will now move on to Bala.

Bala: I am Bala from Arihant Capital. Sir, I have one question, in the realization side you have mentioned the improvement on the realization. One of your competitors talked about decrease - on the OFC side they have mentioned Rs. 1,200-1.300 per fiber kilometer price corrections and on the OF side Rs.345/350-380 in that range per fiber kilometers price corrections but we have mentioned about improvement in the realization. How do we understand this in this quarter?

Ankit Agarwal: Thank you, Bala. So, firstly we do not normally comment on our competitors. What we can share at least is that we have strategically always looked at our focus markets being Europe, North America and India which largely contribute to 90% of our sales. These are markets where we have been very focused on selling our innovations, selling our products and also some element of the interconnects that comes through. Specifically on fiber and cable I won't be able to comment on specific realizations, but we have been able to push some of the price increases to our customers successfully and that is what has come through in our realizations improving from last quarter to this quarter.

Bala: Ok sir. On the debt side how much we are focused to reduce in this financial year?

Tushar Shroff: Our internal target is to see that anything between Rs. 200-250 crores in terms of a debt reduction.

Bala: Okay sir. On the volume side you have mentioned some volume drop, this volume drop is specifically in domestic market or in international markets?

Ankit Agarwal: It is largely international market. In fact, since we saw some of the slowdown in North America, we have in fact increased our sales successfully in the Indian market as well.

Bala: Okay sir, got that. Thank you.

Lakshmi Iyer: Nikhil Chowdary please go ahead.

Nikhil Chowdary: First question is regarding the revenue growth guidance. So, on one hand CRU is guiding less than 1% decline in overall volume ex China in '23. Our guidance states that our revenue growth will be negative. Is it fair to assume that we might be losing market share in some geography given our overall revenue growth is negative but overall market is more or less flattish.

Ankit Agarwal: So, I would put 2-3 parts to it, one categorically we are not losing market share. In fact, a big focus for us, is how we in fact increase our market share in this market scenario. As I also shared, we are very well positioned now in North America with absolute tier I and tier II customers we have on board, with the facility that we have now set up as well as now getting BABA compliant for BEAD. We are in fact very strategically well positioned to capture good market share as the market comes back. So, that is one on the US. In Europe also, with our facility of Metallurgica and Optotec acquisition, we are in a strong market position to capture the Europe market. India as well as I just shared, we are in fact increasing our share in the Indian market, with customers like Airtel and some others. So overall, we are quite well positioned. I would not comment on the numbers between how we are growing versus CRU because CRU is also an external market forecast. What we are very clear is that these are the three current markets that we are operating in. Within this period, we are seeing how to maximize our market share on one side with our customers. We are looking to increase our interconnect business that we spoke of and what Tushar has touched on is from an operational perspective really looking at cost efficiency to ultimately improve our profitability.

Nikhil Chowdary: Sure Ankit. Second is again on operating efficiency that you mentioned. Clearly we have seen quite a bit of improvement despite of challenging quarter and margin facing challenges to lower America's revenue. But just want to understand where we are in the journey, how much we have already traveled. And also, we hired external consultancy to guide us in terms of cutting our overall costs. So, maybe a directional guidance you can give where we are, how far we have reached and any color on that will be appreciated.

Ankit Agarwal: So, timing wise probably, halfway or 3/4th into that journey. So, we still have a few months where some of the impacts of these initiatives should continue to come through. I think what is important to understand is the way we have gone about it is that to make sure that structurally, we are in a better cost efficiency base. So that whenever as the market improves and other operations improve we are able to hold on and get the benefit of these costs in the years to come. So that is how we have gone about it, these are structurally focused and structured initiatives we have had, looking at every element of our cost and making sure that we see the benefit of that. So, that is broadly

where we are. We continue to believe that there are opportunities for further cost improvements, and we are focused on that.

Nikhil Chowdary: Sure Ankit. That's it from my side. Thank you. Good luck for coming years.

Lakshmi Iyer: Thank you Nikhil. Now we will move on to Sohan Joshi.

Sohan Joshi: I am from ASC consultants and want to ask one question, what is it timeframe now within which we can achieve the net debt to EBITDA to 2.5 or below 2.5? I mean, want to understand up to what timeframe we will achieve that and are we now factoring the right issues as well in achieving these 2.5 to below 2.5 net debt to EBITDA level?

Ankit Agarwal: So, as Tushar just mentioned, definitely one data point is, we have reduced our net debt by about 110 odd crores in the first half. And overall, we are looking at somewhere between 200-250 crores net debt reduction for the year so that is clear priority in line with what we have guided in the past of generating cash on the business and reducing the net debt. We have also looked at our capex for the full year and broadly looking to reduce our capex from around Rs. 350-400 crores, to probably closer to 250 crores for the year. So, these are 2-3 areas where we are looking at it very closely from cash and second part also from fund involvement, looking at how we can reduce that further, particularly in the services business. So, these are some of the areas that we are very focused on. The last part is also on our digital business, where this year overall we would be spending close to Rs.120 crores as an investment into this business, as that also gets into EBITDA breakeven by Q4 then that cost and cash also comes away. So, these are the areas that we are focused. I would not be able to comment specifically on the net debt/EBITDA at this moment, particularly given how we are looking at the next six months so we are just watching this very closely in terms of the market dynamics and as we get better visibility we will be able to share with you.

Sohan Joshi: Okay, thanks a lot. My second question is that given the bleak outlook on the demand side, will we push back or right issues proposal, any guidelines on that?

Ankit Agarwal: We have got the approval in terms of the rights issue and overall fundraise, we have got approval up to Rs.1000 crores. So, depending on the strategic requirements as well as market conditions, etc. we continue to evaluate. I would not be able to comment on it specifically at this time.

Sohan Joshi: One last question, what is the current order book status from the BharatNet project. I mean, what is the value addition we are now gaining from the BharatNet project?

Ankit Agarwal: So just to be clear the new phase III Bharat Net is almost 1.4 lakh crores project. That is a clear priority of the government to take that forward and the conversations and the discussions are progressing, even since we last spoke, so there is a real intent to get the project executed. The investment is structured broadly as 50% capex and 50% opex, where the execution would happen over 2.5-3 years and maintenance will be for 7 years. So, this presents a very exciting opportunity for STL across, from supply of fiber, supply of cables, supply of interconnect, as well as, of course services and maintenance business. So, this is something that we are very much actively

participating in and as we shared earlier, we are very mindful of looking at this and the government business. So very mindful of the cash and the exposure as well.

Sohan Joshi: Just one thing, are the bids submitted for the BharatNet project, or allocation is pending or even part allocation is there. So, what is the status on that?

Ankit Agarwal: No, we are not at the bid stage, we are before that.

Sohan Joshi: Thanks a lot. That is it from my side. I wish you good luck.

Lakshmi Iyer: Thank you Sohan. Now we will ask Ravikanth to ask the questions.

Ravikanth: I am an individual investor. My question is, a couple of quarters back we heard from you that the China Mobile tender has been released. So, did we get any business from that particular country? We even acquired a joint venture, we had 100% stake from the joint venture so did we get any business from that.

Ankit Agarwal: So, we did acquire the balance 25% stake so it is 100% STL own entity now in China. But strategically just to be clear, we have always set up and built that facility to not just meet China requirements, but our global requirements, both whether it is for our own cable requirements or any other external cablers. So, to that extent, that is how the factory is operating. And we continue to serve our global requirements for fiber from that facility. Guiding specifically to China mobile, of course that tender has come through, the volumes continue to be in the market, we do not supply from that facility into the China market. We do see more strategic reasons to supply to our global cable operations or to external markets, other cablers globally.

Ravikanth: From past 6 months, we have been hearing from North America that there is a lot of inventory pending. So, today we are also saying that it will take about 6 months, so in the past 6 months is there really any commissioning going on there. I mean, why such slow progress. Can you provide some insight on that?

Ankit Agarwal: So just to be clear, there is still deployment going on. And so it's just a function of how quickly does the execution happen across the broader customer base to ensure that the inventory comes off. Essentially, as I have shared earlier, the inventory is in three places, inventory with us as a supplier, inventory with the distributors, and it's also inventory with the end customers. So, it is a function of all that inventory cumulatively coming off and that is what we have been sharing will take some period of time, versus what we had expected in last quarter as well it has still taken more time. Part of that also is because, the execution speed on the ground is actually not picking up as much as we would have liked to hope for in terms of physical deployment on the ground. So, hopefully that also picks up over the next 6-12 months as we get more manpower into the ground to execute. Hopefully that also leads to more execution. In terms of actual funding commitments, interest from private equity or from telecom operators to deploy, we fundamentally see that to continue and also from mid to long term perspective, we continue to be very bullish on the North America market.

Ravikanth: Just one last question, in the UK service business, even there we did not really see much momentum. Can you throw some light on that?

Ankit Agarwal: So, as we shared last time that currently in part of Q1 and then into Q2, the UK services was still looking to scale up but was operating at losses. So, to that extent as we have shared, we have evaluated the business closely and we are closely evaluating strategic options to take the business forward. There we clearly see there is an operating model and a cost base that we are looking to reduce towards, to make the business breakeven and profitable and parallelly we also evaluating other strategic options. So we will come back to you on that shortly.

Lakshmi Iyer: Thank you, Ravi. We will now move on to Aditya Zaveri.

Aditya Zaveri: My question is regarding the North America market. So, everyone is expecting that next year there will be growth right. So firstly, I wanted to ask what our capacity utilization is. And the second part is if everyone is waiting to dump next year, then the pricing pressure also can come here. So, can you throw some light here on the pricing front and the capacity utilization?

Ankit Agarwal: Yeah, so at least on the North America, just to be clear, I think it is not that we expect the market to dump and the price to go down. We have infact even seen in this market, prices to actually be quite healthy and that is just the nature of that market specifically, where you typically have good tier 1 suppliers with you through market conditions, who continue to supply. What we have seen is lead times have come down from its peak which was probably north of 50 plus weeks, have probably come down to somewhere around 8-10 weeks currently. And to that extent, wherever we need to supply from our North America market, we have started supplies from those operations, that the factory is still scaling up and overall at STL level we are operating at close to 60% utilization for first half of this fiscal year.

Aditya Zaveri: So next year, any additional capacity is commissioning, or it is already commissioned with us.

Ankit Agarwal: So, as we shared in the past, our main investment is to look at our US facility, so probably in the second half of this fiscal year, there will be some more capacity getting added as per our current plan for North America. But beyond that, we have no other capacity addition plans and that is also where we have talked about our capex plans for the year coming down from 350 crores to 250 crores. So, we are pretty much done with our capex investment, apart from maybe some maintenance capex etc. And the prime focus will be to look at various markets for our sales and to ensure we improve our factory utilizations.

Aditya Zaveri: Okay, the next question is regarding the demerger. I had one question, how will be the debt restructured there. Can you throw some light?

Tushar Shroff: So, from a debt restructuring for GSB business, it is a function of when we are going to get the necessary approval from NCLT. On the date when we get the approval from NCLT, whatever is the specific debt attributable to the GSB business will get transferred. We looked at a current debt attributable to the STL service business which is about Rs. 550-600 crores.

Aditya Zaveri: Okay, but I think the working capital is high there, so it comes only to the services business and rest of the debt is on the optical business.

Tushar Shroff: That is correct, but the way it is required from the income tax perspective, the debt has to be very specifically attached to that particular business when you borrow the funds for the purpose for which you borrow the funds is important. So, the lines that we have very specifically for the GSB business which has been utilized is about 550-600 crores as on date.

Aditya Zaveri: On product business how much working capital or debt would be required?

Tushar Shroff: So, the working capital cycle for ONB business is in the range of 60 to 75 days. So, the balance debt will be with ONB business at STL level which will be attributable to ONB business as well as the digital business.

Aditya Zaveri: My last question is on the digital, I see that there is a quite a jump up in our revenue. And I know that you are taking a consultancy model here, you are hiring the consultants here but if you think of a long term strategy, if you want to scale this business big, do you think is the right strategy to go forward. And can you talk about the projects here, what kind of projects we are doing that is getting the revenue of Rs.140 crores within a span of one year.

Ankit Agarwal: I would say at a high level it is still very early stages in this business. What we have focused on and what we have shared earlier as well is we want to focus on few segments. Make sure that we have strong customer relationships in those segments, and we create value for those customers. That is really been the focus. And really from a financial perspective, I think we have got a fairly healthy order book close to Rs.750 crores. We have very strong team and leadership in place and very specific near term target for the business is to look at EBITDA breakeven by Q4. We continue to evaluate how we want to take this business forward, how we want to scale it up, what are the areas we want to focus on, what are the capabilities we built, but from a management focus, the immediate priority to breakeven and from thereon we will provide more updates as we get clarity on the plan ahead.

Tushar Shroff: Just to clarify the consultant means these are our own employee having the capability to deliver the requirement of the customers. So they are not third party consultants, they are our own people.

Aditya Zaveri: So how many people are there here?

Tushar Shroff: So, if you go to the slide number 18 of the presentation, we have 900 plus consultants.

Aditya Zaveri: So, then why are we calling as consultants?

Tushar Shroff: It is our internal terminology so, that is why we call consultants but these are our own employees because they provide consulting to the customer that is why we call them internally as a consultant.

Aditya Zaveri: But what kind of work, can you throw some light like is it a typical IT services work?

Ankit Agarwal: It is IT services business, just to be very clear, it is very focused. We have some tier I customers onboard and as we continue to scale up with these customers, that is where we see, particularly by Q4, we see a path where we can get this to break even.

Aditya Zaveri: So, basically it is like banking, retail that we are doing.

Tushar Shroff: So if you go into slide number 18, the service offering that we have in the second bullet, where we have clearly mentioned that we provide an enterprise SAS services, product engineering, cloud and cybersecurity services, data analytics and AI services. So those are the specific services that we provide to some of our customers.

Lakshmi Iyer: Thank you Aditya. We will now move on to Saket Kapoor.

Saket Kapoor: I am Saket Kapoor from Kapoor Company. You did mention that we are reducing our capex target to Rs.250 crores from Rs.350-400 crores. So, if you could elaborate more, where is this reduction going to happen and what was the earlier thought-out plan and why is this reduction now and the capital work in progress is at Rs.180 crores. So that has increased year on year, if you could explain these two numbers.

Tushar Shroff: So, I take your first question with respect to our capex program. So, when we started the financial year, we looked at what was the overall capex program which was required, it had US specific phase II capex plan. Now, looking at the current demand in US, we will have to defer some of those things till the time the demand picks up and we see sustainable demand and then we will try to revise the second phase of any kind of capex program that we may have for US plant. So, that is your first question.

Saket Kapoor: Just one second, is it capacity building or operational efficiency building at the US part, which you are deferring right now.

Tushar Shroff: The US part is a capacity building, the phase two of the capacity building based on the demand. So, at this point in time since the demand has still to pick up, I think we have curtailed this particular capex in order to manage the cash efficiency

Saket Kapoor: And point 2, the current capital work in progress. I think it was around 180 crores. So, when are we going to capitalize this and where is this money deployed?

Tushar Shroff: The large part of the capex is related to US, which will be capitalized once we are able to commission some of these particular lines. So, as we commission some of these lines, the capitalization will happen.

Saket Kapoor: Right sir. When we look at your employee cost as a percentage of sales that has remained elevated at the consol level. So, what is your comment on the same, is it because of the ramp up exercise for the US facility or how should we take this number, the run rate of Rs.250 crores on a quarterly

basis. And also Ankit when you mentioned that we are looking at muted numbers going ahead. So, on an H1 basis, do we look at the exit of H1 as what we can look for H2 as of now or H2 will be comparatively lower than what we have done for H1.

Tushar Shroff: So with respect to your employee cost, we need to understand that we are into 3 separate businesses, the 2 businesses are highly employee intensive or people intensive. I would say that service business as well as a digital business, which requires headcount that is required to serve the customer that is the reason that we are into high employee cost as an organization, because we are into 3 different businesses.

Saket Kapoor: The revenue trajectory for H2 versus H1. What we exited H1 at 2200. The pessimism is towards the optical network business, our core. It is not regarding the global services neither for the digital part. There I think you are looking at better times, but for our core business, things look on the lower side. So, what should be the impression going forward in H2 for the 2 segments

Tushar Shroff: So, I think these both segments will continue to grow and serve the customers based on the execution plan that we have. So, on a sustainable basis these 2 businesses will grow on a quarter on quarter basis except for ONB business.

Saket Kapoor: So, how should we look at the ONB business? My question is ONB is on a declining trend. So, this is done with or more decline is expected for H2 going ahead. What should we be factoring in?

Tushar Shroff: I mean, the guidance that we have given is with respect to the overall situation, we see that this year we may see the decline with respect to the previous year and the large part of the revenue comes from the ONB business.

Saket Kapoor: Okay, so no percentage you can guide as to where we can get.

Ankit Agarwal: No, as I said we are watching the market closely and particularly impact on North America. So, as we get better visibility, I think it will be fair for us to comment at that time

Saket Kapoor: Two very small point for the receivable part, from T fiber project how much is the receivable pending and what kind of milestones are we going to complete so that these receivables get liquidated.

Tushar Shroff: Our working capital employed in this T fiber business is about Rs.700 crores. The T fiber as Ankit mentioned, is a very complex project because it requires the entire state level in the network to get built up. So, each Panchayat, then the district, then the village, then the city and then the entire state needs to be built up to ensure that we have built up the entire network at the state level which is a little bit of complex project because each and every segment of the network should work efficiently to get the necessary approvals from the customer, which we call it as ATC (Acceptance Test Certificate). That is the way we have been working on to ensure that we complete progressively on each and every segment so that we move ahead on this particular project faster.

Lakshmi Iyer: Thank you Saket. With this we come to the end of the question and answer session and now I hand it over back to Ankit for closing remarks.

Ankit Agarwal: **We would** like to thank everyone for attending this call and showing interest in our company. Despite the challenging market environment we have managed to maintain EBIDA margins at consistent levels. At H1 FY24 we have reduced our debt levels by Rs.111 crores and the capex cycle has been completed with operationalization of the US facility. We are thus well positioned to execute on our growth strategy of being world top 3. We will be able to deliver more robust results when the demand, particularly North American market recovers. I hope we are able to address and clarify all your queries and comments. For further questions and discussions feel free to contact our Investor Relations Team, which include myself and Tushar. We really look forward to continuing the conversation with you in the near future. Thank you.

Lakshmi Iyer: Thank you everyone for attending the call.

(This document has been edited to improve readability)