Sterlite Technologies Limited Q3 FY24

Earnings Conference Call Transcript

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Chetan Wani: Ladies and gentlemen, good day and welcome to the STL's Q3 FY24 Earnings Conference Call. I am Chetan Wani and I am responsible for 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.

Ankit Agarwal: Thank you, Chetan. Good day everyone and thank you for joining our Q3 FY24 earnings call. I wish all of you a very Happy Republic Day. I look forward to our conversation and questions at the end.

Just to reiterate, our strategic priorities remain the same and as follows. Firstly, we shall continue to grow our optical business by increasing optical fiber cable market share and optical connectivity attach rate. We will continue to drive these initiatives to optimize the raw materials and the fixed cost of the businesses to improve our overall cost competitiveness.

Secondly, we shall continue to consolidate our Global Services business in select segments, work towards achieving profitability in the UK operations. Last but not the least, we shall build the digital business through focused investments in building technology and domain capability and as discussed, progress towards EBITDA break even.

On the ESG front, we remain committed to achieve net 0 emission by 2030. Our ESG ratings MSCI stands at A, we are very proud that we continue to be one of the leading companies in the world in our sector, in the ESG domain.

Let us talk about optical business first. About the demand outlook, CRO has recently updated the estimates from 2022 to 2028. The short-term headwinds in the main markets of North America and India continue with demand projected to contract by 10.8% and 1.7% respectively in 2023 against the 2022 revised estimate. For North America specifically, the demand is estimated to contract by 12% during nine months of calendar year 2023 over 9 months over the same period in 2022. The demand in Europe is estimated to be contracted by 5% during quarter three of calendar year 2023 compared to quarter three of calendar year 2022. The near-term downturn in North America is on account inventory digestion, which is expected to correct steadily by Q2FY25 onwards. While the near-term demand contraction, the medium-term demand volumes are revised upwards to 684million fiber kilometers by 2028, up from 577 million fiber kilometers in 2022. The global demand ex-China is expected to increase to 417 million fiber kilometers by 2028, up from 293 million fiber kilometers in 2022. STL focused markets of North America, Europe and India are high potential and estimated to grow at CAGR of 11.4 percent, 5.2% and 15.6% respectively during the period from 2023 to 2028.

This is an important slide which shows how the global data consumption across traffic categories is expected to rise multi fold in coming years and there's simply no alternative than to expand fiber networks to support such massive traffic expansion. Be It network parameters such as bandwidth offered, latency, data loss or energy savings, and in fact even environmental friendliness and reliability, fiber is undoubtedly the most efficient and reliable data transfer technology. This is recognized and echoed by various industry experts and CEO's. We have shared examples of comments by the Airtel CEO, by Ericsson CEO and also Elon Musk talking about SpaceX and the comparison with terrestrial cellular networks. With the growing use of fiber in various applications, such as fiber to the home, AI in data centers, edge data centers, smart cities, small cells, and the smart enterprises, fiber demand is bound to increase manifold going forward.

Coming to North America, there are certain strong drivers which we believe will lead to sustained growth for the market. In North America, as per Omdia, the 5G subscriptions are forecasted to grow significantly from 173million currently to almost 600million. 5G is expected to become the most dominant mobile access technology by 2028. And as we all know, fiberization will be at the core of this 5G deployment. In the case of fiber to the home as well, US has close to 100 million homes, which are remaining to be passed. AT&T alone is eyeing 10 -15 million additional locations to be passed in the coming years and as per CRU, FTTH homes passed expected to rise with BEAD projects from 8.7 million per year in 2023 to almost 12.2 million per year by 2025, at a CAGR of almost 18%. Data Center for Capex is also forecasted to grow to $139 billion by 2028. Lastly, the BEAD program allocation is progressing steadily and recently Louisiana became the first state to move from planning phase towards the execution phase.

Coming to India, we also see similar strong drivers for sustained growth in the market. In India, 5G subscriptions are expected to grow at a CAGR of 33%, for a total of close to 500 million subscribers by 2028. The Tower 5 realization currently stands at close to 38% and expected to grow towards 70% by 2025 onwards. Telco is expected to spend close to $1.5-2.5Bn for tower fiberization in the coming years. In case of fiber to the home, India is expected to be the second largest fiber broadband market by 2030 and India's FTTH installations are expected to grow fastest globally at CAGR of 26% between 2023 and 2028. India has 15% of the global Internet users, whereas limited data center capacities exist in the country. CRISIL estimates that the tune of 45,000 crores will be invested in data centers between now and FY26. BSNL also has recently released a draft of Bharatnet phase 3 RFP for industry consultation. This program intends to connect the 2.5 lakh Gram panchayats with fiber connectivity and should provide a major boost to India demand, particularly in rural India.

Coming to the Chinese players that we have currently in the market. The government and the European Union, UK as well as in India have imposed significant anti-dumping duties on the Chinese optical fiber and cable manufacturers which resulted in significant decline in the optical fiber and optical fiber cable exports from China to Europe as well as to India. These measures from the government are expected to support the overall demand and realizations for non-Chinese suppliers like ourselves.

So even though we observe a minor decline in our market share, we also see a good improvement or minor improvement in our attach rate. Our market share slightly declined to 9% in the first half versus 10% in the first half of previous year. We expect OFC market share to grow from FY25 onwards. Optical connectivity attach rate has improved marginally to 14% in the recent quarter and as we continue to commercialize new optical products, we believe that there should be a further increase in attach rates in the coming quarters.

Coming to the financials for the optical business, as guided revenue in Q3 FY24 has declined on account of lower volumes as stands at 857 crores, which is lower by 42% year on year basis. The 9M FY24 revenue stands at 3053 crores, which is lower by 22% on year-on-year basis; in line with the reduction in revenues the Q3 FY24 EBITDA stands at 104 crores which is 66% lower on year on year basis and for 9M FY24 Absolute EBITDA has declined to 561 crores, which is 23% lower on year on year basis. Due to the lower EBITDA, the EBITDA margins for Q3 FY24 has declined to 12.1%, although the 9M FY24 EBITDA margin has been stable at 18.4% on year-on-year basis.

We are well positioned to grow our optical business with our strategically located manufacturing facilities. Our optimized cost structure and our continued product innovation and customer approvals from our products from Tier 1 telecom operators and customers across the globe. We believe that we are well positioned to capture significant market share, as the demands come back up.

Let us now go through the performance of our Global Services business. In the Global Services business, the Q3 FY24 revenues have increased by 6% year on year to 405 crores. For 9M FY24 revenue stands at 1133 crores, and we have been selective in our order intake and execution which has helped us improve our Q3 FY24 EBITDA to 22 crores and EBITDA margin to 5.4%. Favorable project mix and effective execution has resulted in improved 9M FY2024 EBITDA to 71 crores and EBITDA margin to 6.3%. Our project execution in the services business are on track. Amongst the India public projects, our Bharatnet project and state of Telangana is now 67% complete. The Network Modernization project is 71% complete, fiber rollout for public sector unit is 17% complete and we have progressed well on a large data center project in last quarter and the project is now 70% complete.

On the India private side, fiber rollout for large Indian telcos is 35% complete in phase three, driver rollout for another large Indian telco is 51% complete. Fiber rollout for modern optical network for Indian private customers, 78% complete. I would also like to share with a lot of pride that your company was actively involved in the network build out in Ayodhya and our team worked diligently day and night for seven days to build a world class fiber infrastructure in Ayodhya. So we could have all the amazing videos and pictures over the last several days.

We shall now talk about the performance of STL Digital. In STL Digital, we are continuing the growth momentum. We continue to add new customers in the US and India, across technology and service verticals and observe a strong order flow during FY24. We have more than 25 plus active customers at the end of Q3FY24. We have 46 plus active technology partners and have signed up strategic partnerships with SAP and Google to offer the solutions jointly to our customers. Expect the growth to be driven by robust order book of more than 780 crores and the right team of leadership as well as consultants.

In line with our expectations and despite a tough industry environment, we have achieved a Q3 FY24 revenue at 80 crores and a 9M FY24 revenue of 220 crores. The EBITDA loss for Q3 FY24 stands at 12 crores and 9M FY24 EBITDA loss is at 66 crores. As a result of our efforts, EBITDA losses are now trending downwards on Q-on-Q basis and expected to further reduce going ahead. I shall now hand over to Tushar to talk through the financials.

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

Tushar Shroff: Thank you, Ankit. Good day, ladies and gentlemen. In line with our lower guidance, the consolidated Q3FY2024 revenue stands at 1322 crores. While 9M FY24 revenue stands at 4338 crores. The drop in revenue is attributable to lower OFC volumes. The Q3 FY24 EBITDA stands at 109 crores. The 9M FY24 EBITDA has dropped to 559 crores on account of lower revenue. Q3 FY24 EBITDA margins are at 8.2% vis-à-vis 9M FY24 EBITDA margins are at 12.9%, which is stable as compared to previous year. On account of lower EBITDA and higher interest and depreciation cost Q3 FY24 profit after tax stands at 49 crores in terms of the losses. Due to Q3 FY24 PAT loss, the 9M FY24 PAT is reduced to 24 crores. In terms of new orders, the optical business, we continue to win multimillion dollar orders for optical fiber cable in our focused markets. In the service business, we secured large fiber rollout orders from a private customer for 5G deployment in India. In light of lower demand from North America, revenue mix has shifted to India in Q3 FY24 versus FY23 and India region started to account for 40% of revenue during Q3 FY24. Our order book at the end of Q3 FY24 is at 9,849 crores. Our order book is well diversified across all our customer segments and our businesses. We have placed the abridged version of the reported numbers for your perusal, our net debt for 9M FY24 has reduced by rupees 174 crore from FY23.

On Global Services, the business demerger status, we have filed the application with NCLT and awaiting the first hearing from NCLT which is expected to get scheduled somewhere in the month of February.

In summary, I would like to say that in optical network business, we will target to drive the cost leadership and pursue our ambition to be global top three. Increase the sales in EMEA, India and APAC market to fill short term volume gaps. Increase optical connectivity growth and attach rate. In Global Services, we continue to focus on select projects to improve profitability and optimize net fund involvement. In digital business we continue to grow our revenue and achieve the EBITDA break even in subsequent quarters. Our guidance on overall business given the softness and demand in North America and Europe, we expect the volumes and revenue to be lower in FY24 vis-à-vis FY23, we continue to continue our significant focus in terms of a debt reduction going forward.

Now I hand over to Chetan for Q&A.

Chetan Wani: 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, Aditya Jhaveri please go ahead with your question.

Aditya Jhaveri: I have a couple of questions. Firstly, disappointing set of numbers from this Q3. So I want to specifically understand on the optical business. What is the gross margin in this optical business? Because I see you mentioned the volume decrease, but I see there is a lot of pricing pressure and the pricing trending toward downwards. Can you throw some light here? That is my first question. And the second question is I want to understand the long-term nature of our optical business. So we are in this industry for quite some time and how can we increase value per cable, suppose it is in the range of 1000 to 1200, how can we maximize that? And there is optical interconnect. Because I see, you said that optical interconnect should be a bigger pie, bigger value addition. But what levers take us through that, and can you explain throw some light on these three?

Tushar Shroff: With respect to the margin, our optical business has a material contribution margin to the extent of almost 54%, so 54% is material contribution margin that we have in the business. This quarter specifically the margins are lower, mainly on account of lower revenue which has resulted into the contribution loss for this particular quarter, which has resulted in a lower margin profile.

Aditya Jhaveri: What is the gross margin in this quarter?

Tushar Shroff: I am talking about material contribution margin is about 54%.

Aditya Jhaveri: So what is the difference between material and gross?

Tushar Shroff: So gross margin includes the plant related specific costs, gross margin when we talk about plant gross margin it includes the plant specific costs. I am talking about material margin because in this particular quarter since the plant was not completely utilized, so gross margin comparable is not right measure to compare quarter on quarter gross margin.

Aditya Jhaveri: OK, generally in this business we are having 54 to 55% gross margin you are saying.

Tushar Shroff: Material contribution margin is what I am saying, that is the revenue minus material cost.

Ankit Agarwal: On your question on cable. So one, just want to highlight that we continue to see at an average the realization still holds up positively for STL. So we want to definitely highlight that we have not seen any material reduction in realizations. This has both been a combination of multiple elements. One is we continue to have strong relationships with our customers globally, even in some pockets, while volumes have come down, we do have multi-year contracts with several of our customers and hence our realizations have been steady. Second part is, we continue to focus on more value-added fibers and cables. That's been part of our focus, which has continued and helps us keep the realizations up. Third is, part of our focus strategy where we see minimal competition, which includes US and Europe where we see minimal competition from Chinese. That is also something that has helped us in terms of the realizations. So this is how we see the markets from the cable as well as from the interconnect, the intent very much is to continue to drive customization to create value added solutions of cable and interconnect together. We would like to have seen probably faster growth and interconnect, but the approval cycle has been longer than we expected. We are continuing to get approval from our customers as we speak and into this quarter as well. So certainly, going into next year, we do expect the attach rate to start improving from next year onwards.

Aditya Jhaveri: So what are your debt targets for this year? I see that it is a good improvement for nine months, that is 180 crores. What are debt targets?

Tushar Shroff: So this quarter also we are targeting debt to reduce by 50 to 75 crores, which is the internal target that we are working towards

Aditya Jhaveri: If I take some medium-term guidance from the optical business, what sort of revenue and the margins for next two to three years you will see in this business?

Ankit Agarwal: We won't be giving any specific guidance at the moment. What we can definitely share is our capacity utilizations have been some 50% on a nine-month basis. So certainly the focus in the short term is to make sure that we cover that to other geographies, and it certainly has especially the US demand comes back, the intent is certainly to improve our capacity utilizations from here. We shared in the past our capacity is almost 50 million on fiber level and 42 million plus on cable level. So there are sufficient capacities that we have now invested and as those utilizations improve, you will see a meaningful improvement in top line, but more so on the bottom line basis.

Aditya Jhaveri: Ok thank you.

Chetan Wani: We take question from our next caller, Nikhil. You may go ahead with your question please Nikhil Choudhary.

Nikhil Choudhary: What I want to understand is particularly the problem in North America. While we are seeing some volume and inventory buildup, which is impacting our growth, the industry decline is 10%, but for us the decline is more than 50% when comparing to FY23. That clearly shows that there is a significant market share loss there rather than just industry decline. So just want to understand what is happening there and what is our expectation going there?

Ankit Agarwal: It is a good question. I'll put it into three pockets. One is our own view is that the decline in North America was more aggressive than what CRU has shown which is a third-party house. Our own view is that certainly in the last six months we have seen and experienced the market being a steeper decline than that. As we have been sharing consistently in our conversations and our analyst calls that there has been inventory at 3 levels - at the customer, with the distributors as well as with the manufacturers like us. So we have been tracking those inventory levels. We definitely are confident in saying those inventory levels have been coming down meaningfully, but probably not as fast as we would have liked. So that is where we believe that probably it will take another four to six months for that inventory to come back to normalized levels. But we do believe that the Q3 was probably the bottom from our experience of sales into the market and particularly North America, and volumes should improve in Q4 and going forward. We are watching every quarter, obviously very closely, but given current visibility and our understanding from our own conversation with customers, that probably it will take four to six months for all of that inventory to normalize and the volumes coming back in, in a good way.

Nikhil Choudhary: Just a couple of follow-ups. First, even though there was a material industry decline, 50% is still significant. So anything one-off here or it was all due to industry decline?

Ankit Agarwal: So I think the main factor is definitely the inventory with the customers. We have also seen that the interest rates have continued to be on the higher side. That is also something that we foresee, as that stabilizes and starts to come down, that should also lead to some of the projects which are on the edge, some of those should start coming through in terms of fiber deployment. From our own perspective, we do have the facility in US which is now ready and functioning. We also have our operations in India. So we are very well set up in terms of our capacity product portfolio for the North America market. We continue to engage with our customers, some of whom we have announced. We will be making some more announcements. On top of this we are also looking to grow our interconnect business in North America. So that will also be something that we focus especially as we get into next year.

Nikhil Choudhary: Given you highlighted that we have reached bottom in terms of overall pain in optical fiber, is it fair to assume on an absolute level we have reached the bottom in terms of the value and from hereon on Q&Q basis we should see some improvement from quarter perspective?

Ankit Agarwal: That is what I shared a little bit earlier. We do believe that certainly from a volume perspective that it should improve quarter on quarter. I do not think it will be a significant improvement. As I said it will take time for the inventories in North America to reduce and our sales to improve. But certainly directionally, I would agree with what you have said.

Tushar Shroff: So Nikhil, one good thing that we have seen is that now customer have started engaging in terms of their requirement. They have started floating the RFP, we started participating in some of the RFP's and that is a positive sign. We believe that is a positive sign especially in North America. So probably in next couple of quarters probably all this RFP will get converted into the orders, that is what we believe.

Chetan Wani: We take question from Sohan Joshi. Our next participant. Sohan, please go ahead.

Sohan Joshi: In India Mobile Congress, you said that there is a lot of opportunities in enterprise 5G. So are we in talks with any of the corporates for the 5G deployment data centers or say tower fiberization, I mean we would like to increase more focus on India since the North America business is not picking up or are there any plans?

Ankit Agarwal: Good question, there is 2-3 parts to it. We do have a very strong fiber as well as copper connectivity portfolio. So, to that extent, we have our own brand called Estelan, which we have launched and looking to sell that to enterprises both in India as well as Middle East. Some of that business is starting to come in. We are also seeing other opportunities in sectors like oil and gas etcetera, which are low volume but high value opportunities. In India as well as you mentioned, especially on the data center side, there is interesting opportunities where there's significant amount of fiber optics required within data center as well as interconnect between data centers. So those are some of the conversations ongoing. Again, these are typically lower volumes but higher value and good margin opportunities. So those are those are things that we are evaluating in India. For example on the fixed wireless side where some of the operators are deploying, even there, there will be some amount of cabling required and we are in some conversations with telecom operators for some solutions linked to fixed wireless.

Sohan Joshi: But then we are not planning to enter into the open Ran segment, right. We are strictly adhering to optical fibers only.

Ankit Agarwal: No, no, absolutely. Just to reiterate, we were, and we had explored that business, we had invested in it. We have clearly exited that. We have very, very focused - our core being on the optical, cable connectivity, we have a services business which does the deployment & system integration, and we have a digital business. These are our three very focused businesses.

Sohan Joshi: Just two more questions, there were some collection issues from one of the receivables in Maharashtra, I think it was put up on the announcements. So, is there any provision made or will it be made in the coming quarters, or it is not required?

Tushar Shroff: This particular Maharashtra project, especially with one of our customers, the matter is presently subjudiced. So, I will not be able to comment very specifically on the provision related to this particular project. But the company has an adequate provisioning policy with respect to unbilled revenue as well as for outstanding debtors. We apply normal economic credit loss provision policy at the company level.

Sohan Joshi: But the talks are going on for the collections, right? Still there are no sign that we may require a provision on it, right?

Tushar Shroff: So, we have a very strong case. That is why we have gone ahead with the arbitration in this particular matter.

Sohan Joshi: And any impact on our container caused to ongoing Red Sea issues or we are we are not impacted at all?

Ankit Agarwal: Nothing. We have not seen anything significant currently, we have seen slight delays in our shipments to Europe and slight price increases, but from a from a value perspective, it has not been significant. As we have done in the past, if this does sustain then we would have conversations with our customers as well, to see what portion of the cost we could share with them. It is not meaningful at this stage.

Sohan Joshi: And when can we expect the right issue? Will it be after demerger, or we may further delay it when the demand starts picking up?

Tushar Shroff: We are exploring the various fundraise options at this point in time. At an appropriate time when we see a larger engagement of investors, that is a point in time we will get into the market and launch the fundraise.

Chetan Wani: We'll take next question from Saket. Please go on with your question

Saket: Just coming to the point which Tushar just mentioned that on better engagement with the investors and at an appropriate time, when we are seeing that at one side, our core business is not performing because of the reasons as mentioned and on the other side, we are trying to develop business in the digital part. So would it not be a prudent exercise on the part of the promoters to infuse funds at this level to put the confidence on track from the promoter itself rather than waiting for an opportune time and then engaging your investors. What's the take of the promoter currently, in terms of infusing capital at this appropriate time, since the valuations are also low, if I may call so, but what's the understanding currently, Sir?

Ankit Agarwal: See, I won't be able to comment specifically on rights issue, but as Tushar mentioned, we are definitely exploring all the options. We have taken the enabling resolution up to 1000 crores from our board and we are evaluating the options. We are definitely very clear on growing the business, taking the business forward. Also you commented on STL digital as we have been discussing, we have been looking at reducing the losses in that business quarter and quarter, which we have demonstrated. So I think that business unit will also be well placed for growth going into next year. On overall fundraise, I would still say that we are exploring all the options. Certainly as the time goes, we will share the update and our intent definitely is to scale up the business and we continue to be very bullish on the business.

Saket: On the US part particularly, you mentioned that our utilization levels have been on an overall basis at 50% on a total basis. So, we have done a new capacity addition for the US factory. What are the current utilizations and Sir, what is the order booking especially for the new facility which we have created?

Ankit Agarwal: For competitive reasons, I won't be able to give utilization at a factory level. What I can share is that it's truly a world class factory that has come up. We have had several government officials, several customers visit the facility and feedback has been very, very positive and it is also really helping us grow the brand and positioning of STL. We are also mindful that there are large government projects like BEAD which are coming up and that is placing the company very well to be qualified to supply for such large projects. So I think we are now well placed to scale up this factory, within the next few months and certainly as these large projects come up, we are very well placed to set up to supply from the factory locally in North America with very quick lead times and turnaround times.

Saket: So this is the $100 million investment we have done?

Tushar Shroff: It is about $40 to $50 million in terms of overall investment in US facility.

Saket: And you said that the debt has been reduced for nine months. Can you give the net debt numbers and the split up between long term and short-term debt?

Tushar Shroff: Long term debt is about 1300 crores and the net debt is 2947 crores.

Saket: And we are about to close at 2900 or lower than that for the current fiscal. This is what our target is - 50 core reduction.

Tushar Shroff: Yeah, 50 to 75 crores that we are targeting for this quarter.

Saket: And one more small point, when you mentioned about interconnect growth going ahead, what factors are you taking into account that will play out in the larger percentage of interconnect because this interconnect story we are harping on it for more than one year. So why have we not seen the anticipated growth?

Ankit Agarwal: I am guilty of harping on it for a year. The reason is that, essentially, we have already great relationships with Tier 1 telecom operators around the world and the whole intent was along with selling cables, the same customers buy large volumes of these interconnect, especially as you go more closer fiber to the home connectivity, then you need more of these interconnect solutions. So we were very clear that we had the relationships, the customers were spending. Probably what we did not factor was the very long approval cycle that happens. These are very, very technical, very, very customized solutions where multiple stakeholders at the customers and installers have to approve the product. So we took time to get the approval process. We are still in multiple approval processes with various customers and then as those RFQ cycles come up for the interconnect, that's where we believe that we will be in a much better place. A lot of product development has happened, a lot of good teams has come in place. We recently also announced David has joined us as a leader for this business who comes from CommScope. So good team is there, good product is there and that gives me the confidence that going forward we will be able to improve this business.

Saket: But any number which you want to provide of interconnect contribution to the total optical fiber business for the nine months and what are you projecting going ahead? And for Tushar Sir, we had a foreign arbitration case also wherein we lost. So what is the status on the same, I missed the amount, it was a substantial one we lost at Singapore Forum. So these two points, if you could answer.

Tushar Shroff: This is one of the suppliers to us and in past we had some kind of a volume commitment from that particular supplier. Due to certain reasons we didn't pick up that kind of a material and that was the reason that entire matter was in arbitration. These are not the current contracts, these are the past contracts and for that past contract, the arbitration award was against us that we have to fulfill the minimum commitment requirement. This was mainly during the COVID time that that the entire arrangement was and because of COVID time we couldn't pick up the material and that was one of the reasons that we got into this particular liability and we challenged this particular order on certain grounds in the High Court also but the unfortunately the decision has not come in our favor. We had adequately provided for this entire loss in our financials and the impact of this in our financials. There will be a cash flow impact. Because there will be some kind of a payment structure that we have agreed with this particular vendor and gradually the payment will have to be made to this particular vendor based on the arbitration award that we.

Saket: Right and value of interconnect number you can give Sir for nine months. How much has been that revenue contribution?

Ankit Agarwal: Directionally what we can share is that the intent has always been to grow this interconnect rate, while we at 14% attach rate currently, clearly the intent is when we look at our global peers and the customer demand as well, the intent is definitely to scale this up. We won't be able to give our forecast at this point, but certainly as we get into our business planning for next year and we look at next two to three years out, the intent is definitely to scale this up.

Saket: Sir can you give a percentage for nine months? What percentage of the total revenue would be from the interconnect, a ballpark number?

Ankit Agarwal: Just the attach rate, we are saying 14% of interconnect to our cable sales.

Saket: Lastly, on the Jio air fiber issue, now broadband being available also on the Wi-Fi. So what kind of threat do you think it is to the structure for OFC. I think one more competitor Tejas has developed one of the AI software wherein we can view videos in mobile without Internet. There was some sort of story on that front also. So what kind of threat for OFC as a product, do you find going ahead with Wi-Fi and these technologies coming into play with more and more focus. Although you have been mentioning that $1.5 billion to be spent by the telcos on fiberization so if you could give this number for the nine months and what is the expected spend by them and also the percentage of fiberization?

Ankit Agarwal: One is, as we said, at a market level, we are probably around 37 to 40% tower fiberization today. That has to go to 70 to 80% at least for good 5G network coverage pan India. So I think that's the work over the next few years, which the operators are working on. To your point on fixed wireless, which particularly one large operator in India is looking at, I don't see that as a threat. I think we look at this technology, we have been studying it. In principle this is really where you're not able to get right of way and other challenges on the last 100 meters or so and this is also getting deployed more in Tier 3 Tier 4 where you see the demand pickup. Most of the telecom operators see that you can get much better ARPU with fiber to the home services as well as bundling that. And so the intent continues to be for operators to balance as much as possible, take the fiber to the home and provide direct fiber service and then the backup alternate is through fixed wireless. There are multiple bandwidth issues, latency issues, uplink downlink issues with fixed wireless and we don't see that as a threat. Anyways, up to the last 100 meters, you would need a very, very large and intensive fiber backbone. So from our business perspective, we don't see it as a threat to fiber demand.

In fact, overall Connectorization is a positive for us because it will mean more dense networks, both on long distance and ultimately within the metros. So we see this as a as a positive development and overall in terms of connectivity, as we shared in one of our slides as well, fiber continues to be the best medium by far compared to copper, compared to satellite, compared to fixed wireless and that gives us a lot of positivity and bullishness in terms of demand for fiber going forward.

Saket: And on the Capex part, you want to elaborate on $1.5 billion figure being mentioned.

Ankit Agarwal: That is a number we have quoted from the research reports, but certainly we have seen that there continues to be investments in fiber networks by the telecom operators in India. On top of that, we will have BharatNet networks getting deployed at large scale. So we continue to be quite bullish on fiber demand in India going forward.

Saket: And for the employee cost also, please show some rationale as to why the employee cost as a percentage of sales is higher. Mainly due to the utilization levels being lower and this will get offset once the utilization picks up. And we also heard about lot of layoffs also.

Tushar Shroff: There is a one-off cost. We have paid some ex-gratia payment which is to the tune of 12 to 13 crores rupees, which is counted in this particular financial period.

Chetan Wani: We'll take question from next participant Sunny Gosar. You may please go ahead with your question.

Sunny Gosar: So just continuing on the last question of the previous participant. So you mentioned that there's an ex-gratia cost of about 12 to 13 crores, which has been paid out. So except that our employee cost comes to around 240 odd crores for the quarter, so I assume that there are basically some rationalizations in our employee strength which has been undertaken. So what should be a revised base post this entire exercise in terms of the quarterly employee cost and is there any other cost item that we are rationalizing? So overall on a quarterly basis, what is the cost savings that we can expect over the coming quarters?

Tushar Shroff: Thanks for this question. As I said that, there is a one-off cost which is provided for in this particular quarter which is related to the ex-gratia payment. Structurally what we are looking at is that, since the capacity utilizations are at lower level, we are also looking at each and every cost, whether it's a fixed cost, it's employee cost or any kind of admin expenses, which is controllable in nature, we are trying to see that all of those costs are rightfully being rationalized. We are also looking at all the discretionary spends in terms of marketing, business development wherever it is required to be rationalized, and that's the way we have been looking at it. So if you see the structurally also if you take out this one-off cost, you will see that the other expenses and the employee cost on quarter on quarter basis has reduced to the meaningful level. And we continue to pursue that path in terms of managing the cost efficiently so that we remain profitable going forward.

Sunny Gosar: Sure, that is helpful. So basically just to get some quantitative understanding or some reference points. So excluding our cost of goods sold, our overall quarterly cost between employees and other expenses comes to about 580-590 crores for this quarter. So, any percentage or any reference point in terms of how much can this come down in terms of overall fixed cost level that will be very helpful to get some context?

Tushar Shroff: As a journey, because the manpower cost and other expenses is also a function, a lot of expenses which is a function of the revenue. So as the revenue goes up, there are certain expenses like freight and other things also which is linked to the other expenses also which starts to go up. So from that perspective, when you look at other expenses it has both the components - it has a component of fixed cost also and it has a component of variable cost also. But structurally we are targeting 100 to 150 crores of a cost rationalization over a period of time, in the next three to four quarters is what we are targeting for. From our perspective if you see the employee costs have gone up mainly from the fact that there is a substantial growing in this digital business, a lot of ramp up has happened in the digital business which is contributing to the increase in the employee cost. Otherwise if you see that the ONB business or GSB business, both are at a sustainable level in terms of employee expenses. Rather it has reduced not increased for sure.

Sunny Gosar: And in terms of digital business, last quarter we were at 78 crores of quarterly revenue. This quarter has been about 80 crores of quarterly revenue, so going forward, how should we look at this business in terms of growth? We have a 750-crore order book but that obviously is over a time period. Basically if I have to project say next two years or three years and I am not looking for any immediate short-term guidance as such but how should we look at this business in terms of the quantum of revenue? Can this be like $100 million revenue over next two to three years and at some stable state, what are the kind of margins that this business can generate?

Tushar Shroff: Specifically on this particular quarter and with respect to the revenue, this particular quarter being a year-end for most of the US customers and always this particular quarter remains dull not only for STL, but probably for the industry as well. So from that perspective, probably we have not seen very significant order book building up for the digital business in this particular quarter. However, we remain bullish in terms of building up the customer base, especially in the US market, the way we have been trying to grow and the way the team has been built up. You are absolutely right. We are targeting that in next two to three years we should be able to make this particular business to the extent of $100 million with a reasonable EBITDA margin of 10 to 15% because the initial 350 to 400 crores will be about breakeven level and that's the incremental revenue which should start to reflect into EBITDA margin.

Sunny Gosar: Got it, thank you.

Chetan Wani: We move to the next participant Ravi B.

Ravi B.: Can you please provide me some update on the T fiber and the UK service as there is really no movement there or progress. And the other thing is, based on the all these conversations, what I understand is like even in this calendar year, we don't see really any growth in our revenues based on all the discussions right now, so I think solely the two important things which could improve are the BEAD project and the BharatNet project, which anyway would take its own time. It will probably be at the end of the year, if not earliest. Is my understanding right, Sir?

Ankit Agarwal: Good questions, I will take a couple of them. One is, on the positive side, BEAD is fully approved bipartisan. There has been allocation to the States and there is phase one of immediately 20% of overall 42 billion getting allocated so our own view is from a calendar year, 2024 basis, probably around Q3 of calendar year is where we expect people to start getting some of the projects, the

States and then on to some of our potential customers. Bharatnet, as we said, the phase three RFP is now out, where it is up for industry consultation. So I think it will take probably a quarter or two for final release of an award, but this is broadly the time frame of these two very, very important projects.

But at least from a from STL perspective, we are not completely dependent on these projects. These would be a further volume upside for the company. We are already seeing, as we mentioned inventory reductions from our customers and as those come down, volumes come back and probably positive triggers on interest rates etcetera coming down, we do expect the volumes to come back for STL.

Coming to T fiber and the UK services - on UK, we had talked about getting to profitability in our last call. Happy to share that we have taken good actions in terms of cost reductions, admin and other travel and all of those costs. So we do believe we are on path to exit the current quarter with at least getting to break even. It has taken us more time than we would like, but we do believe that we have taken some of the actions and those costs should help us come to EBITDA break even towards the end of the quarter.

On T fiber, we are actively both looking at improving our execution. There have been some delays, going to forest clearances in particular, which is responsibility of the state government. But we are in conversations to both, look at how do we get our cash release as well as for whatever we have executed, to remove to complete the milestones and improve our execution percentage.

Chetan Wani: We have come to the end of the question and answer session with this. I now hand it over back to Ankit for giving the closing remarks.

Ankit Agarwal: I'd like to thank everyone for attending this call, showing interest in the company. Despite the challenging market environment that we spoke about, we have managed to reduce our debt by 174 crores and we are focused on reducing it further. We continue to aggressively drive business fundamentals of deep customer engagement, product innovation and sustainability. By using this period to drive all factors in our control, becoming lean, agile and as we discussed, establish industry-leading cost model. While this downturn is temporary, our customer centricity and the capabilities we have built around product design, quality and manufacturing presence globally will reap us benefits well into the future. We are well positioned to execute and deliver robust results as we see the demand normalize.

I hope you were able to address and clarify all your queries and comments for any further questions and discussions. Feel free to reach out to the investor relation team, which includes myself and Tushar. We look forward to continuing our conversations with you in the future and again wish you a very Happy Republic Day. Thank you.

Chetan Wani: With this, we come to the end of the call. Thank you everyone.

(This document has been edited to improve readability)