



Sterlite Technologies Limited Q2 FY25
Earnings Conference Call Transcript

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Chetan Wani:

Ladies and gentlemen, good day to you and welcome to STL Q2FY25 earnings conference call. I am Chetan Wani, and I am responsible for Investor Relations at STL. We are joined by Ankit Agarwal, Managing Director and CEO, Optical Networking Business, STL and Tushar Shroff, Group CFO, STL to walk us through the Q2 FY25 results and to take your questions.

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

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 may be based on management belief and must be viewed in relation to the risks pertaining to the business. The Safe Harbor clauses indicated in the presentation also applies to this conference call.

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

Ankit Agarwal:

Thank you, Chetan. Good day, everyone thank you for joining us for our Q2 FY25 earnings conference call, and we wish all of you had a wonderful Diwali celebrations over the last few days.

As we advance to H2 of FY25 directionally, our strategic priorities remain the same, as we have been discussing. On the optical networking business, we shall continue to driving growth by increasing optical fiber cable market share, as well as our connectivity attach rate. To achieve ambition of delivering significant revenue through data center and enterprise segments, we will focus on rapidly building data center suite of products to tap the huge potential in that area. We should also continue to focus on driving our technology and cost leadership in optical business. On our global services business, we shall continue to build new capabilities for value added services, while we stay focused on improving project mix and improving our profitability, we will also work towards completing the demerger of our Services business. Lastly, on our STL digital business, we shall continue to scale the business through conscious investments and building new technology on the main capabilities while keeping our focus on achieving profitability intact.

STL has always endeavored to be a responsible leader in ensuring a connected and inclusive world. Through our various initiatives in education, women empowerment and healthcare, we have positively impacted millions of lives since FY2019. To highlight some of the achievements of our initiatives, through our RoboEdge program, we intend

to empower students with next gen skills or robotics and enable their career growth. We have covered more than 11 schools and more than 5000 students till Q2 FY25. We are proud to share that two teams of RoboEdge had secured positions in the Robotex National Championships, and 12 qualifying students from Aurangabad and Silvassa will represent India in the international championships in Estonia in December 2024. Next to the right is our flagship Jeewan Jyoti program founded by Miss Jyoti Agarwal, which intends to empower underprivileged women by training them in various vocational skills to make them financially independent. We celebrate Jeevan Jyoti 10th anniversary recently. So far, 5100 women artisans have benefited from this program. Program recently collaborated with the ONDC network and Jeewan Jyoti class will now be marketed under the new Akai brand. We also feel proud to share that we have now benefited more than 25 lakhs lives through the hybrid healthcare program we started during COVID for providing primary healthcare as a telehealth facility to marginalize communities in the rural parts of select districts of Maharashtra. We continue to make meaningful contributions to environmental preservation through our first afforestation and water replenishment programs. As part of our social responsibility we will sincerely continue to drive such initiatives in the coming future.

On the ESG front, we are committed to our goal of being net zero emission organization 2030. We present some of our accomplishments on landfill, waste removal, reduction of carbon dioxide emissions, and water recycling efforts. We are proud to share that we now have 100 plus ESG awards for our work. We take pride in being the world's first optical fiber manufacturer to be zero liquid discharge certified and first optical products manufactured to launch externally verified Eco-labelled methodology. When compared to standard products, these Eco-labelled products utilize 52% less energy, carry 75% less global warming potential and use 18% more recycled content, 25% more recycled package material. These products also reuse and recover almost 20% more waste and enhance the longevity of the network by 13 years, therefore benefiting both clients as well as the environment.

In the next few slides, we will cover our optical networking business, and our efforts towards becoming the top three players in the optical connectivity business globally.

As we reflect on the last quarter and half year, as per CRU latest estimates global OFC demand till September, 2024 contracted marginally. This was led by demand contraction in China and Europe markets and slower than expected demand pick up from North America. As per latest estimates released by CRU, calendar 2024 remains projected to stay flattish or marginally contract. Despite the lower fresh demand during the last few quarters, we observed steady fiber deployment and continued client commitments towards fiber network creation. Various analyst reports estimate demand improvement for 2025 and a robust demand growth for medium to long term. As per latest CRU

projections, the medium term demands the optical fiber volumes is to go up steadily to 652 million fiber kilometers by 2028. This projects a healthy 4.3% annual growth in the annual demand and a strong 7% annual demand growth for ex-China during 2023 to 2028. STL's focus markets of North America and India are projected to grow faster. The positive midterm demand outlook by CRU, along with continuous client commitments on increasing fiber deployments suggest steady recovery in the coming quarters.

We have discussed about AI and anticipated impact on the fiber demand last quarter, and the sheer scale of data center capacity additions planned in India present a great opportunity for your company. As AI and machine learning blends with mega technology trends, the need for massive data center capacities is unabated. Experts are unanimous in their view that overall optical connections and fiber requirements in AI data centers will be significantly higher than traditional CPU based data centers, as per initial estimates, India is expected to boost its GPU based server capability in these AI led data centers to 5.2 lakh GPUs by 2026. These GPU heavy data centers will require 36 times more fiber than CPU racks, driven by an increase in server density and higher bandwidth requirements. We will also require compact, high density optical fiber cables with up to 70% more fiber in the cables compared to traditional data centers. The data center capacity itself is expected to almost double, and the AI data center capacity is expected to be more than 1.5 times in the coming three years. The need to fiberize the core of connectivity within and outside data centers, which is leading to a fiber explosion and the massive data center capacity presents an unprecedented opportunity for STL. Progressing towards our ambition of achieving significant revenues from data center enterprise segment in the medium term, we launched our AI-DC portfolio in the recently concluded India Mobile Congress 2024. Our made in India data center portfolio is also a big boost for Make in India initiative by the government.

As we have been sharing with you globally, the fund infusion in the 5G network creation, FTTx deployments and Cloud data center continues to be strong. The investments in these technologies continue to have healthy demand for optical connectivity products. 5G tiers is one of the fastest growing technologies in the world, and tower fiberization is critical to enable this 5G network growth. 5G subscribers and expected to go rapidly and as we can see, 5G subscriber growth in North America, Western Europe and India, is expected to be robust all the way up to 2029. As per the last report of Analysys Mason, the blended average fiberization of total mobile sites stands at 38% in India in 2024 which is expected to reach 63% by 2029. With higher 5G subscribers, leading to higher number 5G towers requiring fiberization, 5G expansion to continue to drive demand for more optic fiber globally. FTTx connectivity enhancement efforts remain strong globally. In the US alone, approximately 100 million homes await FTTH connections, Europe FTTH passes are now expected to grow over 4% over the next five years, and India is expected to lead the global growth and FTTx installations with a whopping 26%

CAGR between 2023 and 2028. As we discussed, data center capacity additions will continue attracting strong investments in India and the world. North American data center capacity is expected to grow more than 10% CAGR during 2024 and 2029 and Europe data center capacities are expected to grow at 8.5% CAGR between now and 2027. Aiding to the above technology trends, improvement telecom tariffs in India and the mega government projects such as BEAD in the US, BharatNet in India, NBN in Australia, and various other projects in Europe are expected to substantially add to the overall demand of optical connectivity products, both cable as well as connectivity.

We have built significant technology capability across the optical fiber value chain in the past three decades, from creating ultra-pure Glass Preform to Optical Fiber Drawing to Optical Fiber cable and most recently, the optical connectivity. We offer, truly a glass to gigabit connectivity. We are amongst very few companies in the world who offer this end-to-end connectivity. Our high tech and New Age products offering a back by strong patent portfolio of 730 filed and granted patents. We take pride in advanced fiber solutions, and many of our products are first in the world or first in India, such as India's first multi core fiber, which is multiverse. This product should contain ultra thin fiber with seven and four cores, instead of having a single core. And along with multi core fibers drawn from the indigenous developed multi core preform technology. At the recently concluded India mobile Congress 2024 we showcase the power of the optical fiber innovation through a live 4G network transmission with real time traffic simulation. We are also amongst first global companies to develop miniaturized, advanced fibers with diameters of 180 micron and 160 microns, versus a conventional 240 micron, which is the world's slimmest optical fiber. Our make in India innovations is laying the groundwork for scale up and advanced technologies like quantum computing and silicon photonics. At the India Mobile Congress 2024, we also marked entry into the AI data center portfolio segment with full-fledged demonstrations of our integrated optical fiber cable connectivity and interconnect solutions. Our honorable telecom Minister Jyotiraditya Scindia inaugurated this Make in India AI DC portfolio and, in his words, STL AI led data center portfolio significant innovation for the AI ecosystem will also strengthen India's data center capabilities.

As we reflect on our market share on cable as well as connectivity attach rates. Basis the CRU global consumption data, H1 calendar year, we had 8% market share on optical cable ex China. On H1 CY24 market share seem to be 6% amidst a challenging demand environment. Our Q2 FY25 market share, however, seems to have come back closer to 8% and we believe that our market rate should normalize as demand grows steadily and picks up, our intensive sales development efforts have started showing results. Our optical connectivity product line continues to demonstrate strong growth momentum, as we noted, our highest ever quarterly revenue for optical connectivity products an attach rate of 22% during last quarter. We are continuously working on new product

development and commercialization and optical connecting space to further grow attach rate.

As we reflect on our financial performance for the optical business, in line with our guidance for Q2 FY25 revenue stands at Rs.1027 crores, which showed a healthy improvement on quarter-on-quarter basis, EBITDA for the quarter stand at Rs.133 crores, at 12.9% of revenues. EBITDA margin reflects substantial improvement on quarter-on-quarter basis and stands lower on Y-o-Y basis because of lower of OFC volumes and change in product mix. The quarter-on-quarter EBITDA improvement also indicated a success of various cost optimization measures undertaken by the company.

As we have been sharing with you, our strategically located manufacturing facilities, completed capacity expansions and CAPEX cycle, and our continuous focus on cost structure optimization, product development and innovation, emphasis on data center portfolio and tier one customer approvals. We are very well placed in India and international markets to capture significant market share as demand picks up in the coming quarters.

Now, let us reflect on our global services business. In the global services business Q2 FY25 revenue stands steady on quarter-on-quarter basis at Rs.356 crores. Our selective order intake and execution focus has helped us achieve Q2 FY25 EBITDA of Rs.24 crores and EBITDA margin of 6.7%. We continue to build our capability towards value added services and improve margins and reduce our fund involvement. On the large projects, execution in global services business, we made steady progress on some of the key projects during this quarter. We are very excited about the opportunity that a large announced and contemplated programs such as BharatNet phase III and NHAI nationwide fiber roll out presents with the extensive large project experience, we are well positioned to tap into such opportunities in the coming course.

Let us now discuss about STL digital and its business performance. In our STL digital business despite the challenging business environment, we observed robust new deal flow from marquee customers across US and India. We acquired a large and strategic global customer in Europe as well. We continue to work with our customers for growing our business in the US, Europe and India across technology and service verticals and expect the future growth to be driven by robust order book of more than Rs.336 crores, healthy order pipeline and executions strength backed by right team of leadership and consultants. In line with our expectation and tough industry environment, with a focus on profitable growth, we have achieved a Q2 revenue of Rs.64 crores. The EBITDA losses for Q2 stand at Rs.15 crores, despite the lower revenues, EBITDA losses trending downward Y-o-Y and quarter on quarter basis.

I now hand over to Tushar our CFO to talk about the consolidated financials.

Tushar Shroff:

Thanks Ankit. Good day ladies and gentlemen. The consolidated Q2 FY25 revenue stands at Rs.1,413 crores showing healthy improvement on quarter-on-quarter basis. The year-on-year basis, drop in revenue is mainly attributable to lower OFC volumes in optical network business. The Q2FY25 EBITDA stands at rupees Rs.151 crores and EBITDA margin stands at 10.7% in line with our guidance. Our EBITDA margins have improved on a quarter-on-quarter basis and for Q2 after tax losses stands at Rs.13 crores. The after-tax losses have reduced on quarter-on-quarter basis. As we look at STL, H1 FY 25 performance. H1 FY25 revenue stands at Rs.2,631 crore. EBITDA stands at Rs.244 crore and H1 FY25 after tax loss stands at Rs.60 crores.

We observed the new orders additions during the last quarter and secured several important orders from our marquee customers. To highlight the few key events, we won the new orders from leading American customer and from leading UK telecom operator. For optical connectivity and fiber solution we have received new orders in Italy for optical fiber cable and specialty cable products. And in India, we won the new orders from Indian private telecom player for enabling their FWA (fixed wireless access) deployment. We also secured long-term orders from another large telecom company for fiber cable supply and deployment. On the back of our global business, our revenue mix as well as diversified during Q2 FY25 we expect the revenue mix to improve towards North America and Europe as the demand for optical product pick up in the global market.

Despite of increased quarter on quarter revenue and significant order descopeing our open order book stands at Rs.8,630 crore at the end of Q2 FY25, backed by steady order wins. And our order book is well diversified across the customer segment and all our businesses.

We place the abridged versions of our reported numbers for your perusal. The net debt of the business stands at Rs.2,169 crores.

Let us go through the updates and the status on our global service demerger. We are progressing steadily on a demerger process. The shareholders and creditors of STL India have approved the scheme of arrangement in a meeting dated 10 July 2024 basis the approval, demerger petition has been filed with the NCLT, and the hearing was conducted on 11th October 2024 with NCLT. We are awaiting the order from this particular hearing from NCLT. The date for the final petition is pending with NCLT Mumbai bench, the final NCLT order is expected in an indicative timeline of next 3-4 months that is Q3, Q4 of FY25 and resulting companies can be expect to get listed on stock exchanges. However, we remain dependent on NCLT progressing on the hearing

of our matter.

In summary, our focus areas for our business are clearly identified as in optical network business we shall target to drive the technology and cost leadership and pursue our ambition to be a global top three. We will increase the sales in our focus market to grow our optical network business and fill the volume gap. We will continue to increase optical connectivity business growth and attach rate. We will focus on rapidly building our data center product portfolio. In a global service business we will continue to focus on select project in tech to improve the profitability and optimizing the net fund involvement. In STL digital, we continue to scale the business and grow our revenue, along with focused profitability. With this now, I hand over the call back to Chetan.

Chetan Wani:

Thank you, Tushar. Ladies and gentlemen, we have now come to the end of our presentation, and we shall take questions from the audience. We will take first question from Nikhil Chaudhary. Nikhil, please go ahead with your question.

Nikhil Chaudhary:

This is Nikhil from Nuvama. Good quarter Ankit, finally we are seeing very strong growth on Q-o-Q basis, especially on optical business. So first thing is around the growth looks like is driven by US and Europe geography, especially the Europe business. So just want to understand and get more clarity about what the driver for this quarter was, such a strong spike in growth and how sustainable is this revenue number. And just addition to it, just want to get some color around BEAD and BharatNet program.

Ankit Agarwal:

Thank you, Nikhil. So, definitely the whole thought process has been that we have been well established in terms of our capacities. We have touched about how all our investments have happened over last 2-3 years in terms of glass fiber, cable, including our capacities in Italy and most recently, in US. So that has set up that kind of technology and manufacturing capacity platform for us. And really, then what we have been talking about is, how do we keep on looking to improve our utilization of the facilities. So that's really what's happened to a large extent between Q1 and Q2 where we have seen an improvement in our optical fiber cable and to some extent improvement in our accessories, our connectivity portfolio. And that's something that we want to continue to see that how we drive these utilizations up from this current 50% levels and take this really back to that 75-80% levels, where then we have meaningful EBITDA performance. So that's really the thought process.

In terms of BEAD probably, versus where we were 4-6 months ago, we do see that the larger volumes of BEAD related cable demand and connectivity demand is probably got pushed out by a few months. So while we have started winning a few initial projects linked to BEAD, the main significant volumes are now expected probably second half of calendar year 2025 and then with it peaking in 2026 and 2027 calendar years. So that's

really what is the general industry understanding. The second part we had spoken about the US was inventory levels that continues to come down. So, in a positive way, the execution of fiber for 5G, for fixed wireless, data center, fiber-to-the-home all of that continues to accelerate in the US, and that is leading to some of these inventories coming down. And again there, I believe that we are probably 1-2 quarters away from those inventory levels normalizing. BharatNet I believe, is a project that will get probably decided during this quarter in terms of the results and then is a probably anywhere between 3-4 year, maybe even 5-year execution period, depending on the complexity of the projects. So that is something that as the results come out that will have an impact on our services business from an EPC perspective, but equally then from a cable and fiber business from a supply perspective.

Nikhil Chaudhary: Sure Ankit. So second is especially regarding the US geography, Corning in its last call, mentioned that the buying and deployment rate is now completely in sync for them. So, is it fair to say that we will see further improvement in us, contribution in our geography going ahead, given that they are other tier I and benefit from the long term contracts and now the player, like Sterlite should benefit?

Ankit Agarwal: Yes. I would say broadly, that's true. If I look at the next 12–15-month window I would have to call out that, particularly this period, November, December, kind of period typically in Europe, North America, things do slow down because of winter months, deployments do slow down, etc. And then they run their budgets on calendar year, so then they start typically on Q4 on a stronger note, which is our Q4 and their Q1. But thematically, what you mentioned in terms of demand in North America, we do see all of those sectorial themes do play out over the next 12-15 months. And of course, from a longer-term perspective as well, North America continues to be probably the most positive growth territory globally, where anywhere between 12-15% annual growth is expected.

Nikhil Chaudhary: Sure Ankit makes sense, next one on margin, while we have seen improvement in margin Q-o-Q of 13% but our revenue is now like more than Rs.1000 crore, and at this scale, we have delivered much better margin compared to what we delivered this quarter despite of having higher optical interconnect business. So just want to understand what happened and why we haven't seen such an improvement in margin compared to what we used to deliver at this scale.

Ankit Agarwal: It's linked to the previous view as well. Largely, we typically enjoy better realizations in the North America market. And so, since those volumes have come down, as you would have seen last few quarters, our average realization at company level would have come down compared to maybe last year or two years ago. So that's predominantly what you would have seen and also Europe, as we would have seen, it's been flattish or marginal

there also our realizations have been flattish or slight decline. So that's really what's been driving it. Again as we start moving to increasing our value added products, our products for segments like data centers as well as our accessory, our connectivity portfolio, that should start driving the realization up. Plus, of course, as a share of North America sales itself starts coming back that should drive the improvement in our realizations.

Nikhil Chaudhary: Sure Ankit. The last one from my side, just want to understand the impact of anti-dumping duty, which is introduced in Europe. So any impact on your financial this quarter.

Tushar Shroff: So Nikhil, from the supply chain perspective absolutely there is no impact because whatever customer orders are being placed, we have been able to serve all of them without any kind of disruption. So, which is very positive. However, we have seen that in terms of as we scale up our European facility, we are able to bring down the overall manufacturing cost, and we are able to see the higher profitability coming from the European market as compared to the kind of profitability that we used to enjoy from the European manufacturing side. So, two positive levers are that there is no disruption with respect to the supplies that we make to the European customers. And second, with a kind of a volume and the leverage that we are able to take operational efficiency that we are able to bring at the Italy side, which is also helping us in terms of improving the overall profitability of the site, as well as for the ONB business.

Nikhil Chaudhary: Sure understood. Thanks Ankit and Tushar. Good luck for coming period.

Chetan Wani: We will take the next question from Sunny Gosar. Sunny, please go ahead.

Sunny Gosar: Thanks for taking my question and congratulations on an improved set of numbers after many quarters of basically a sluggish period. So, my first question is on the optical interconnect. We have seen very good performance in optical interconnect with attach rate improving to 22% and calculations indicate that the quarterly revenue run rate should be closer to Rs.150 crore or plus minus of that. So, couple of questions here, what has driven this improvement? Is it more customers in Europe, or have we been able to penetrate better in the US? And the second question is, going forward. How should we look at the growth outlook, and how should we look at the revenue trajectory going forward in the optical interconnect space.

Ankit Agarwal: Sunny, important to remember that the interconnect business is very closely linked to fiber to the home connections. So what we have clearly seen is globally, especially Europe, UK, which are strong markets for this business and of course in the US, there are very strong and aggressive targets for the fiber-to-the-home. And some of our customers, which we have talked about, like British Telecom, Net Omnia, some of the

other customers that we have been very active with, they continue to push forward on not only passing the homes, but also taking the fiber all the way inside the home. That's really where the strength of our interconnect portfolio comes through and something that we have been very proud of doing very well is being very agile in our product portfolio, very rapid product development, and at the same time being competitive and creating value for the customer. So that's something that has served us well. We continue to expand both in UK and in Europe, and we are starting to make some initial inroads in the US market as well. But certainly, as this momentum continues, the whole thought process is for us to continue to sell it as a solution of the cable and the connectivity together to our customers, and then going forward, over the next 2-3 years, we would also look to build a portfolio for the data center segment.

Sunny Gosar: Any outlook in terms of the revenue trajectory or the attach rate, does this keep improving at a steady pace in terms of percentage points? Like, how should we look at the next few quarters or next two years?

Ankit Agarwal: I wouldn't comment on the immediate quarters, etc. As I said this November, December, for example, is a slower month for us, so I won't get into specific orders, but generally, the whole ambition for us has always been to scale up the interconnect business meaningfully and make it a substantial part of our optical business overall, so that vision continues. We continue to invest in our product portfolio, in our IP as well as the team, and so we continue to be quite bullish about this.

Sunny Gosar: And while 22% is the average attach rate over the entire optical sales, have there been customers where we have already reached the 100% or closer to 100% attach rate, which basically will signify that our product has very strong acceptance in the base customers or the base markets.

Ankit Agarwal: That's absolutely true, as you can imagine, as you can do the math, we are disproportionately selling our interconnect in UK and Europe markets. So you can imagine, in some of those customers, our attach rate would be close to 100% or even more than 100%.

Sunny Gosar: That's good to hear. My next question is basically on the US business, so US quarterly revenue run rate has come closer to like Rs.240-250 crores in this quarter, versus a peak of Rs.600-800 crores few quarters before. So, once BEAD demand starts kicking in and some of the other new customer wins, and all of the initiatives that we are trying to drive come through. Basically, can we go back to that Rs.600- 800 crore quarterly revenue run rate? And basically, is there a time frame we can attach, like four quarters, six quarters within which this is possible.

Ankit Agarwal:

So, I won't comment on a specific revenue target, because I am not keen to give a specific forecast right now, but directionally, definitely, the whole intent is for us to scale up globally. North America remains our biggest growth opportunity and as you suggested, we have done significant numbers in the past in the market. So, the whole thought process is as inventory has come down and the new demand is there the whole market itself is supposed to go actively from anywhere between 80-90 million fiber kilometers to 130-150 million fiber kilometers. So, the whole thought process is that we should be part of that growth and continue to take good market share from our current customers as well as new customers. And then on top of that, would be a growth of these connectivity products that we spoke about, which should start scaling up in the next 2-3 years. So that's the whole thought process that both combination of cable and connectivity, we should start improving. I think time frame is really tough given that projects to get pushed out, etc. plus it will also be a function of how the interest rate cycles play out, etc. But broadly, the whole thought process is that within 1-2 quarters, market should start seeing some improvement, and then certainly over the next, 12-15 months we do see that improvement.

Sunny Gosar:

Got it, that is helpful. And one last question before I join back the queue. It's related to the debt level. So post the fundraise, in the first half, we have been able to bring down the debt by about Rs.600 crores at a net debt level. So, there are two questions in this. One is when the demerger of the service business happens, I understand the capital employed in the service business, which is your segment assets minus segment liabilities is about Rs.1650 crores. So, at the time of demerger, what is the likely debt that could move with that demerged entity? And second question is, apart from the operating cash flow generated are there any further levers in terms of any non-core assets, or any sticky receivables, which can come back in terms of accelerating the debt repayment.

Tushar Shroff:

So, with reference to the debt, as you have rightly mentioned, we raised about Rs.1000 crores in Q1 which has been used to repay the debt and successfully we repaid the major part of the debt from the procedure that we have received. The current net debt that we have is about Rs.2169 crores and our debt-to-equity ratio is about 0.74 at this point in time. The idea is to ensure that some of the fund which are involved in terms of the execution of the some of the large project, mainly from a T-fiber MahaNet, we continue to see that how we can liquidate that and that itself is almost Rs.1000 crores, kind of a level. So, we are pursuing at various levels to see how best we can liquidate this unbilled and the debtors that we have with some of these particular customers, mainly for BharatNet phase II project. So, structurally we are trying to work with the customers to see how do we get the necessary right of way approval, so that the central government should be able to provide the right of way to the customer, and we should be able to initiate the work which is pending for the right of way, and we should be able to complete the project and liquidate the cash. So that's the topmost priority for us. Of the total capital

employed that you talk about, of service business, as of September we were expecting the net debt to be in the range of Rs.550-600 crores that is what based on the current capital employed. That is something that we are looking at and which will get transferred to the service business. So, these are the things and levers that we have been working on so that we have been able to generate cash and structurally, because this particular demerger is tax neutral process and from a tax neutral process perspective, we need to allocate debt in a certain proportion, in a certain way, in a certain manner, which has been prescribed under the Income Tax Act. So whatever the cash get generated till the time of demerger will help both the businesses in terms of improving the balance sheet of the respective business. So, our all focus and the entire commitment from the management team is to liquidate the working capital that we have blocked in the service business.

Sunny Gosar: Got it, it is related to the debt. The interest cost in Q1 came down to about Rs.70 crores, which saw an increase again in Q2 to about Rs.84 crores. Is there any one off element in the Q2 interest cost and since we have already repaid a significant portion of debt through the QIP proceeds, what should be the quarterly interest outflow or interest expense going forward.

Tushar Shroff: So, yes in Q2, we have incurred one of the expenditures for the necessary approval that we have received from the bank for a demerger and the expenses or charges from the bank for giving the NOC that we have received, those are one of the charges. I would say the interest cost should be in the range of Rs.75-80 crores is something that we have been working on, saying that it should not go beyond Rs.75-80 crores in terms of a run rate of the interest cost.

Sunny Gosar: Thank you for the detailed responses and all the best for the coming for quarters.

Chetan Wani: Thank you. We will take next question from Saket Kapoor. Please go ahead and ask your question.

Saket Kapoor: You mentioned about interest cost to be ranging in the band of Rs.75-80 crore. So, we paid a large chunk of the money for this quarter. So, won't that be very conservative number or what are you factoring in terms of the higher working capital requirement.

Ankit Agarwal: So, as you know that the two large projects that we have been talking about, if we are even able to liquidate at least 50% of that in a next two quarters, substantially we should be able to reduce our interest costs, and that is what we are driving. What I have said is that with respect to the kind of interest cost that we are looking at or targeting is assuming, on a conservative basis, that probably whatever challenges that we have and because of any reason, we have not been able to liquidate then what will be the run rate

that we should be expecting, that is the plan. But having said, we are targeting to collect substantial part of the money in the next two quarters, having said that demerger is closure. So, structurally we are working to see that the benefit of reduction in a working capital and the reduction in our debt overall should help us in terms of bringing down the consolidated interest expenses for both the businesses.

Saket Kapoor:

Sir just to get more clarity the fiber rollout project for Telangana, the completion percentage is stuck somewhere in the 69% band. So how much have we invested here or what is the amount stuck, if you could just allude and what is the thought process now going ahead, when can we achieve the nearest milestone and then the release of fund for this T fiber project.

Tushar Shroff:

Saket on the previous call also, we had mentioned that, the current project of T fiber that we have been executing as a requirement of a right of way for a forest area to complete certain part of the activity, to complete the execution which has been defined, as per the tender contract, we need to roll out of the laying of the cable and to ensure that, we are able to connect the entire network in Telangana, which is which is impacted because of the right of way in a forest area in Telangana. So which requires necessary approval from the central government as well as from the state government, which is pending, and this obligation is on the customer. We have been, pursuing regularly with the customers in terms of ensuring that we have a right of way, but because of their internal or complexity that they have, probably at this point in time there are some challenges which we they are trying to solve with the central government to provide us with the right of way. But yes, we have been continuously pursuing with the customer to ensure that they are able to fulfill their obligation with respect to the terms and conditions provided in the contract of providing us with the right of way so that we can complete and execute the contract. With respect to your specific questions on the fund involvement for this particular project, at this point in time, fund involvement is almost to the extent of Rs.700 crores for this particular project.

Saket Kapoor:

And sir, secondly, Ankit Ji for the digital and the technology part, we have seen the growth in the revenue for this quarter, and also, we are flattish on the H1 so what is the thought processes for this segment, has the lower business resulted in lower EBITDA losses, or what's the way forward. You have mentioned order book mentioned Rs.298 crore something closer to that, your thoughts.

Ankit Agarwal:

So, Saket we maintain the same focus that essentially what we want in this business is profitable growth. That's really very clear, so we have been very focused on what kind of orders we take in, with which kinds of customers, and really want to make sure that we start driving our EBITDA upwards and start getting into break even. So that's a clear mandate for the leadership of this business, to get this to EBITDA break even asap, and

then look at growth from there in a measured way. Of course, industry tailwinds itself have been tough in the last one year or so. I think that should also start improving in terms of new orders coming in and new opportunities. But I would say broadly there is a lot of discipline with this team. The new CEO, Naveen who's come in, has done fairly significant cost cutting as well to really make sure that focus is there on getting to EBITDA break even.

Saket Kapoor: How should H2 be for this segment only in particular, because we were flattish here, and the losses have been reduced. Definitely, we are in trend. But how should we close, since we have the blueprint ready for how H2 will behave.

Ankit Agarwal: Yes, as I said there's nothing different. Single priority for the business is to get to EBITDA break even. So that's what we're expecting.

Saket Kapoor: Okay, and no guidance on how the revenue growth will be.

Ankit Agarwal: No, as I said, more than revenue growth we are targeting on the bottom line, so that is looking at deal by deal and making sure that it's at the right margins.

Saket Kapoor: Right and last point, sir, so in your press release part you did allude to the fact of our intent of entering the AI DC segment and garnering 25% share. These are very exciting phrases, and so what we are eyeing. So, if you could give us some color on how our OFC will play a major role and getting to this 25% market share, what is the size of the market? So how have we arrived at this number firstly in terms of that, if you could just give some more color to it.

Ankit Agarwal: So from a simple perspective today, a lot of our focus has been on the telecom segment, internet service providers, as well as large government projects like BharatNet or others. And the whole thought process is that we see data center itself will be much larger user of fiber, consumer of fiber going forward compared to the past. That is something that we see because of this change of AI, what you are seeing is a processor that going from CPU based to GPU based, if you would have heard of Nvidia and other companies. What happens in this scenario is that you need a very high fiber connectivity from each GPU to another GPU and this is a very big change in the data centers that's happening in India and globally, and this will lead to a very large increase in fiber requirement within data centers and to connect large data centers with each other, as well as edge data centers. So looking at this requirement, which we believe will be a build out over next 8-10 years, there will be continuous fiber build out and data center build out. We have taken a target that 25% of our optical business revenue should come from this segment in the medium term, that's the whole thought process. And we also looked at our benchmarks of our global peers, where we do see that some of our global peers of anywhere between 30-

40% of their revenue coming from data center segment.

Saket Kapoor: Correct, sir. And the pricing front, how differentiated are the pricing for the OFC, in terms of that goes into this.

Ankit Agarwal: Pricing is definitely better, but it's also because the products are much more technologically advanced than the approval cycles themselves are very long, anywhere between 2-3 years is quite typical. So, that is the work that we have kick started. We have launched some products, and we will undergo approval cycles with some of these large customers and we will update you quarter on quarter.

Saket Kapoor: Yes, sir, thanks. Thank you and all the best to the team.

Chetan Wani: We will take next question from Rohan Vora. Rohan, please go ahead and ask your question.

Rohan Vora: Thank you for the opportunity. So, the first question was around BharatNet, we have wanted to understand your addressable market across fiber optic cable, your global services business, and the fiber that you will supply to other players and then adding to this, the interconnect product. So, what could be the addressable market that you are looking at in the BharatNet project?

Ankit Agarwal: So, there are overall 16 packages and we have participated across the packages, some directly, some with a partner that those results are expected within this quarter itself. And in terms of the opportunity, of course, overall, is Rs.65,000 crores. Of that it's tough to say what we expect to win. But logically, we would want us to be one of the winners in the packages. So, depends on the size of package that we become as L1, so let the results come out. We will see where we are placed. And then on the cable and connectivity part is roughly in the range of Rs.4000-5000 crores overall. And so again, there, depending on who the winners of the packages are and our partnership with them, we will take a certain market share of the cable and connectivity.

Rohan Vora: Okay. So broadly, this Rs.4000-5000 crores is our addressable market size? Is this right to assume

Ankit Agarwal: For the cable and connectivity, yes.

Rohan Vora: And then for global services, there will be additional addressable market that will be there.

Ankit Agarwal: There is one caveat to this. There are some EPC players who also make their own cable

and connectivity. So to that extent, probably that opportunity may not come to us.

Rohan Vora: Understood. And then about the interconnect products, how big is our addressable market in that, as far as BharatNet goes.

Ankit Agarwal: It's part of that Rs. 5000 crores. Typically, in India, the interconnect attach rate, etc. spend on that is on the lower side. That's why our focus on our portfolio is much more on Europe and North America.

Rohan Vora: Understood. Second question was on the order inflow. So, you also spoke about descoping that happened in the first half. So here on how do you see the order inflow the second half?

Ankit Agarwal: So, that this is an important period. As I said if our focus markets, talking of optical business to begin with there we definitely see that as the budgets get frozen typically between December period and start getting released in in January, February timeframe. So definitely, for our focus markets, probably we should see an order uptake in our Q4 time period. And then equally, for our services business, we have seen an improvement in our pipeline of bids that we are participating apart from BharatNet. So again, we do expect that we should see an improvement in order booking in the Q4 time frame.

Rohan Vora: Okay, so Q3 we might expect to remain slightly sluggish.

Ankit Agarwal: Yes, that is correct. Largely because of what I explained that in November, December is typically quite slow, not much of decision making in this period.

Rohan Vora: Also just one last, so on the non-US, non-India demand, so the other regions, what is the outlook on that and also along with that on the fiber prices. So, any color on that would be helpful.

Ankit Agarwal: So, we are looking at of course, apart from the two you mentioned, Europe has remained flattish but where we are focused like UK market, in certain parts of Italy which is also where we have large manufacturing and we are also looking at some growth in the Middle East markets, where we have been quite active. These markets remain steady for us going forward, we do expect very strong growth in Germany market over the next 3-5 years, as well as eastern Europe like Poland, etc. So, these are 2-3 areas we are watching very carefully and building our product portfolio. In terms of fiber prices, they have been flattish or slight decline in these markets but again, as demand picks up, we do expect them to normalize, and that should probably happen in that Q4 time frame.

Chetan Wani: Thanks Ankit. Ladies and gentlemen, we have come to the end of the planned time. So,

we will come to the end of this Q&A session. Ankit, I hand over the call back to you for giving your closing remarks.

Ankit Agarwal:

I'd like to thank everyone again for attending this call and showing the interest in our company. Despite the challenging market environment that we spoke about we have managed to make progress on key strategic priorities. We continue to focus on all the factors in our control. We look at driving our customer focus becoming lean and agile, and also driving growth based on our technology leadership. I also touched upon our growth and IP portfolio that we have been having now. We continue to aggressively pursue business opportunities presented to us in our focused regions and based on our high technology manufacturing innovation as well as industry leading products. We are very well positioned to execute and deliver robust results going forward and create shareholder value as the demand normalizes.

I hope that we were able to address and clarify all your queries and comments. For any further questions and discussions, please feel free to contact the investor relations team, which includes myself and Tushar. We really look forward to continuing the conversation with you in the near future. Thank you, Jai Hind.

Tushar Shroff:

Jai Hind.

Chetan Wani:

Thank you.

(This document has been edited to improve readability)