"Sterlite Technologies Q4FY16 & Full Year Earnings Conference Call"

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MODERATOR: MR. ANUBHAV GUPTA – MAYBANK KIM ENG

Moderator: Good day ladies and gentlemen and welcome to Sterlite Technologies Q4 FY16 and Full Year FY16 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. Along with this call, we're also running a live webcast of the presentation covering the Q4 FY16 and Full Year FY16 Results. Investors can also download a copy of these slides from the website after the presentation. I now hand the conference over to Mr. Anubhav Gupta from Maybank Kim Eng. Thank you and over to you Mr. Gupta.

Anubhav Gupta: Ladies and gentlemen good day and welcome to the Sterlite Technologies of fourth quarter FY16 Earnings Conference Call. We have with us Dr. Anand Agarwal – CEO and Mr. Anupam Jindal – CFO of Sterlite Technologies.

Sterlite Technologies now is a pure play telecom focus business, which develops and delivers products, solutions, and infrastructure for telecoms globally and it's among the leaders in all of its business areas. It has operations on a global scale with presence in India and international markets. The earnings call presentation is also available over a webcast. You may please click the link mentioned to Sterlite Tech's website to access the webcast. You have an option to listen to the earnings call over internet as well as over to the Voice Bridge.

I would now like to hand the conference over to Dr. Anand Agarwal. Thank you and over to you sir.

Anand Agarwal: Thank you Anubhav. Good morning everyone. I welcome you to the Sterlite Tech Earnings Call for the fourth quarter of fiscal 2016. We shared our results documents yesterday and they're also on the website. I hope that all of you have had an opportunity to go through them. FY16 was a transformative year for Sterlite Technologies and it marks the emergence of the telecom business into the avatar that has redefined in its offerings, its market approach and its structure. All of this with the intent to set ourselves up to best capture the next wave of growth in data and the overall telecom opportunity.

As more than 700 million Indian users are poised to come online and embrace enhanced connectivity over the next few years. Sterlite is getting more relevant and strategically critical to the service providers who want to facilitate that access. We believe the opportunities ahead are even brighter than those of our past.

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As all of you are aware the High Court has passed an order approving the demerger of the power business in April 2016. This was a final step in the approval for the entire demerger process which will result in the emergence of a pure play telecom business. The demerger is effective from April 1, 2015 and the record date for the demerger will be announced shortly. We have already aligned our investor documents to the new structure to represent the performance of the pure play telecom entities. This restructuring goes beyond a simple segregation of business. As we have stated through the year, both businesses had completely different characteristics, are at different stages of their life cycle and required varied approaches. The power business being capital intensive in nature will have continued requirement of huge capital going forward and that is more amenable for an investor with a long-term annuity type of approach. Telecom; however, is an asset light cash generating business with significant opportunities for non-linear growth, inviting a different class of investors. The demerger is largely external and represents only one facet of the transformation. What we are also doing in the telecom business is strengthening our approach from manufacturing to solutions provider. We have re-evaluated the strategic relevance of each offering in our integrated model; examined precisely what customers find most relevant and focussed on enhancing our strengths while elevating the differentiation of the entire offering.

At Sterlite Tech, we believe much of our success has come from our ability to undertake strategic initiatives ahead of the market. In keeping with that mantra, we are building a more comprehensive and innovative suite of solutions which will offer fresh and more relevant solutions to customers while enabling us to address a larger share of the telecom opportunity. We are confident that the new telecom structure will allow us to demonstrate superior performance through greater agility while serving the objective of remaining at the forefront of the market opportunity.

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The demerger of the power business has allowed the profitability of the telecom business to stand out more strongly. As you can see, the telecom business enjoys a superior operating profile with an EBITDA margin in an access of 20% and of consolidated PAT of over Rs. 150 crores.

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The telecom business also enjoys a much stronger balance sheet position and the demerger has enabled significant deleveraging of the balance sheet. Net debt has reduced from nearly Rs. 5,000 crores last year to just over a Rs. 1,000 crore this year post demerger. Telecom was not asset heavy as a power business and the reduction in net debts will drive a substantially improved debt equity ratio of 1.4x with a meaningful drop of 65% in interest outgo which has fallen from almost Rs. 325 crores last year to Rs. 113 crores post demerger.

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At the heart of all our initiatives and transactions, the focus remains on absolute EBITDA growth, higher free cash flow generation and increasing return ratio such as the return on capital and return on equity which tie up to build superior value for our shareholders.

The impact of the demerger showcases the strong value creation profile of the telecom business and sets the base for us to elevate that even further going forward. As of last year the telecom business registered a healthy ROCE of 18% and post-tax return on equity of 20% which is expected to see an upward trend moving forward.

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The telecom offering is undergoing a concerted and favorable transformation from a majority product offering to a leading one stop solution provider for creating the new broadband and data network. The progression has involved a series of strategic initiatives, collaborations and acquisitions. We continue the transformation agenda in a holistic manner to serve our customers better. We have introduced a new identity supported by a new look, this represents a renewed approach built on key guiding principles of value creation for all stakeholders. Our strategic vision for the business is aligned to the interest of the nation building served through implementation of smarter networks. Customer centricity has always been paramount and our transformed operating model places the customer at the center. The path of financial discipline that we are committed to and the prudent capital allocation strategy that we will follow will ensure superior value creation for shareholders.

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Our integrated presence from manufacturing to services and solutions and software have provided us insights on real world challenges for service providers and deeper understanding of their pain points, allowing us to enhance our own offerings. The center of excellence that we inaugurated last year and the many years invested into R&D have enabled us to offer cutting edge such as bend insensitive optical fiber, intrusion proof cables and customized cables for a variety of application which have helped us with an unmatched competitive edge in the country. These have enabled us to carve a niche with customers who clearly understand the value that we bring to the table.

To enable demand for our products and also leverage our project execution capabilities, a result of successfully launching multiple grid projects, we incubated the network and system integration services vertical.

The portfolio was further augmented by adding the suite of offering acquired from Elitecore which cater to operating and business support software requirement for the telecom service providers. The integrated offering is driving high differentiation in the market place and customer conversations have moved well beyond basic requirements to demands for a problem solving approach through deployment of solution. This also helps to strengthen our presence across the value change enabling greater wallet share of the opportunity.

Our belief in the transformation is further enhanced as the software and services portfolio provide non-linear growth adding diversification to revenues and augmenting the ROCE. We have carefully analyzed both the strategic outcome and financial outcomes of the transformation and are confident that this is the right direction to evolve from the point of view of customer satisfaction as well as stakeholder benefit.

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If you have tracked us closely you will know that STL has succeeded at each generation of the opportunity right from first generation to 4G by evolving its suite of offerings. We were the first and continue to be the only provider to bring the high- end glass manufacturing technology for optical fiber into the country. We have set up capacities ahead of demand and pioneered new business and products within the country. We are convinced that a solution-led approach is the next frontier of the market opportunity. The quality of products will remain fundamentally important and the shift towards customized offerings focus on customer experience and the ability to offer integrated solutions in a comprehensive manner will determine the degree of market penetration into the future.

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As we have explained earlier our model has evolved with a marked strategic shift from a primarily manufacturing play to a solution focus play aimed at providing greater value to customers. Customer requirements have evolved and as a consequence, our customers are responding better to an integrated solution provider than to a consortium offering by multiple providers. Our services portfolio will provide us a niche in the domestic market as we offer comprehensive end-to-end, system integration given our deep knowledge of the domestic landscape and data networks. Products and software will continue to address global opportunities given the track record and established relationships that they enjoy.

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The most fundamental reason for our confidence in the future is that the opportunity which we are addressing is witnessing increasing relevance and is getting immensely deeper. The application of enhanced connectivity in the future is going to be vastly different from where it has been in the past. Globally, the demand for fiber continues to be strong led by underlying data growth and is expected to remain healthy.

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Our industry is strong and growing with people using wireless and broadband in greater degree and in more ways than ever before. India's digital infrastructure needs a significant boost as indicated by any comparable metric, be it fiber deployment, internet speed, penetration so and so forth.

In keeping with the changed landscape the OFC consumption in the country will undergo a massive shift. India is clearly trailing the investments in broadband that have already taken place in developed market like the US and Europe while China has been deploying fiber at an accelerated pace to ramp up its digital infrastructure. Over the last 10 years, China has deployed nearly a billion kilometers of fibers, while the US and Europe have each deployed almost 350 million kilometers of fiber to enhance their networks to cater to increasing demand. The need to catch up is intensifying each year and as India will certainly accelerate its annual investment for fibers over and above the cumulative deployment of only about 90 million kilometers till date. This sets the stage for a massive deployment of fiber for scaling up infrastructure. The digitization of the landscape is throwing up massive opportunities from all corners with equal thrust being provided by the public and private sectors.

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Accelerated growth will come in two ways. The opportunities that we are addressing in the past are scaling up as investment become more intensified. The global telecom industry continues to invest heavily in building next generation networks to keep pace with growth in data traffic. Similarly, unprecedented capital investments are planned over the next 5 years by Indian Telcos and the Government in creating India's next digital infrastructure. The initiatives proposed by Government covering defense Bharat Net and smart cities involve a cumulative spend of over $22 billion by 2020.

Since service providers are experiencing the most rapid revenue growth from data offerings, we will see the CAPEX being directed towards enhancement of these offerings. We see CAPEX in the 5 years 2016 to 2020 more than cumulatively doubling to $60 billion from earlier years.

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The transformation also sets the stage for accelerated growth in addition to benefitting from the growth of market that we were addressing earlier we have widened the market opportunity that we address. The global

OSS and BSS market is close to almost USD 60 billion and offers immense potential for a software vertical expansion, thus, enabling us to capture a larger share of the overall ICD spend Elitecore represented an annual run rate of just under USD30 million in 2016 which clearly indicates the scope of growth under the Sterile Tech umbrella with support of a larger balance sheet.

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The shift in the strategy has seen us straddling newer offering and developing newer capabilities. The evolution is clearly underway and moving up the value chain will enable us to drive non-linear growth which will support our established and profitable offerings. We also expect the end-to-end offerings to carve new niches for us in the market place.

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The progression of Sterlite will proceed along a carefully evaluated strategic path which has been identified based on five central objectives. Sustainable profit growth, expansion in return on capital deployed and disciplined financial control for value creation. This will be used to reinvest into the business organically and inorganically as well as continue the agenda of rewarding shareholders. I will spend a few minutes detailing each of them.

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The market focused approach will see us driving products and offerings with a higher degree of innovation from pre connected intelligent products to innovative business and payment model. These will deliver solutions to our customers while maintaining the building of fiber networks as a core of the offering. Deeper penetration of citizen centric services will be a key enabler for the adoption and increased acceptance of digital networks setting the stage for a continuous upward spiral in data demand.

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A key focus will be to ensure that we are able to drive profitable growth. This has led us to undertake capacity enhancement in a calibrated manner. A higher cabling mix and a higher proportion of value added products will also help enhance yields and drive return on capital deployed.

The fundamental driver of ROCE accretion will be the ramp up of services and solutions. These complete the integrated offering focus and combined with the enhancement of design and engineering capabilities will deepen the differentiation for us. Cost leadership and improved execution complete the levers towards enhanced ROCE.

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Deleveraging is very clearly a key focus area for us going forward. We have already moved towards a leaner balance sheet, structure post demerger and will continue to do more on this front. The demerger has resulted in transfer of Rs. 4,200 crores of net debt out of the company balance sheet. Post demerger the debt equity ratio has improved from 4.5x to 1.4x. We also aim to reduce our interest expense further by proactively working on reducing our average cost of loans through refinancing and favourable structuring of loans.

We are confident that growing the EBITDA profile, tapering CAPEX intensity and lower interest expense will set the stage for us to deliver incremental free cash flows. These cash flows will in turn enable us to reduce debt through internal accruals as wells as use some of the proceeds to reinvest for growth.

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The strategy to evolve the business further will also entail acquiring capabilities to fill gaps or elevate customer offerings further. All transactions will be benchmarked to ensure stronger value accretion with a base case of ROCE of 20% and a payback period of less than 36 months. We are moving towards transforming Sterlite from a capital driven to knowledge and services driven company. We plan to create new inflections in the telecom arena that are in line with Sterlite's long-term goals of being an integrated telecom solution provider. The initial signs from Elitecore provide us with enough validation of the immense opportunity in the space.

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Coming to the primary objective of value creation with the kind of levers that we have put in place we expect to generate significantly improved cash flows. We have already established a strong dividend trend track record even in tough times of business. Going forward the telecom business is expected to generate healthy bottom line and will endeavour to increase dividend distribution to shareholders.

Our Board has already announced our highest ever dividend to shareholders of 50% of the face value for FY 16. So the debt reduction plan coupled with a clear CAPEX and free cash flow road map makes us confident of enhancing the return profile for our shareholders compared to the past. It is with this confidence and agenda that we have also framed a policy to return 30% of our annual profits to shareholders every year.

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We have been building a path way to the future through our investments and growth businesses and have stepped up innovation processes. This chart explains our transformative investments over the last year.

The key strategic initiatives undertaken by us last year which marks the transformations of the offerings are outlined here. Elitecore helped us to add new capabilities including operations and business support software. The R&D center and new products will lead the way for market penetration. We have taken forward that initiative into a next generation customer experience center. In April 2016, we won our second smart city solutions order in Jaipur after winning Gandhinagar. We are ready with several pioneering initiatives that are completely appropriate and relevant to the smart city agenda. What these orders do is enable us to align our offerings with the specific requirements of the urban development ministry on a pilot basis and demonstrated structures of our offerings will leads us to scaling up of implementation.

The more relevant endeavour has been the realigned structures which will see us revamp all segments of our business right from the back end of supply chain and manufacturing represented by the delivery unit to the

R&D solution design and the customers experience represented by the customer's unit. Finally, the front end represented by customer's units has been revamped according to market dynamics. The progress seen in FY16 is only the initial traction and we expect these initiatives to accelerate our revenue growth much faster over the medium to long-term.

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Along the way, we have been recognized for our strategy and approach. We have been awarded as one of the top 25 innovative companies by CII in their industrial innovation award 2015. We won the Frost and Sullivan manufacturing excellence award and have also received a national quality excellence award. These are heartening and they motivate us to work even harder to drive the transformation agenda.

Today, STL is operating from a position of tremendous strength. Our customers know that their success depends on deeper networks and they are turning to Sterlite Tech as their strategic partner. The network is at the center of every market transition and it is the most strategic asset for our customers as they make their businesses digital.

In our view, no one comes close to Sterlite Tech when it comes to laying down the best network. By combining seasoned talent and innovation with a laser focus on deepening customer relationship, we believe we are establishing a superior position in the market and are on track to achieve our stated objectives.

That's it from me and over to Anupam for the financials.

Anupam Jindal: We are happy to deliver continued strong growth on all financial and operational parameters.

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Revenues continued their strong trajectory growing at 34% on year-on-year basis. What is particularly pleasing is that all volumes are at all time high at 20 million FKM and cabling mix is back to 27% from 22% in Q3 as ordering resumed. Further we booked Rs. 479 crores of revenues from services and software in the current year.

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The revenue metrics will help us to assess the progress on strategic objectives that Anand has just outlined. Revenue from exports are at 25% of the total sales within our export pie China is the major contributor to exports with 35% share followed by Europe with 30%. The outlook for China remains very strong given their stated intent to ramp up data infrastructure manifold.

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The key highlights of our performance have been the strong growth in revenues and profitability. EBITDA has grown 35% with an improvement in the margin to 22%. The consolidated balance sheet for FY 16 includes the number of Elitecore which was acquired in September and which added to our debt and working capital position. The increased asset base also captures the investment made to expand our OFC capacity.

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This slide covers the performance track record of the telecom business. We have delivered strong growth in revenue with the last 4 year CAGR growth at 28%. This has translated to strong growth in EBITDA with a 4 year CAGR growth at 36%. EBIT has increased even more with 40% CAGR over the last 4 years. This has helped to enhance the ROCE profile from single digits in FY 14 to 18% in the last two financial years.

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Demand for fiber continues to be strong both in India and internationally as observed in the sustained volume increase of optical fiber. OF volumes have increased in a sustained manner and we are operating at high utilization levels especially over the last couple of years. We have manufactured 20.1 million kilometer in 2016 of a rated capacity of 20 million SKM. This has been done through debottlenecking. The OFC volumes and cabling mix number have dipped, these are temporary, but we have convinced that these will resume the upward trend and have scaled up our capacity to absorb the market opportunity.

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This slide covers the quarterly financial performance of telecom business. Revenue increased by 6% over the last quarter with an EBITDA growth of 18% and PAT growth of 25%. Increasing utilization is helping to drive up the EBITDA to its highest ever water mark of Rs. 134 crores with an increase in the margin on the product business while the blended margin has been influenced by the increasing proportion of software and services in the revenue mix. The telecom order book stands at Rs. 2,200 crores as of 31st March.

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For the quarter, optical fiber volumes remain conclusively above the 5 million mark while OFC volumes have rebounded from the last quarter to 1.5 million. we are confident of raising the cabling mix and going forward.

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Before we get into the Q&A, we would just like to leave you with a few thoughts. Our approach to the market clearly reflects our confidence about the opportunity. This is also reflected in the strong and sustained financial performance. We are completely geared up to elevate this further as well as intensify the value paradigm for stakeholders.

This brings us to the end of the update and we now look forward to answering any questions you may have.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the Question and Answer Session. First question from the line of Alok Deora from IIFL. Please go ahead.

Alok Deora: I just had a few questions. You mentioned about getting the smart city project. Can you indicate the value for that because I believe for Gandhinagar, you had mentioned the value, but for the second one, you have not indicated the value as to how much would be the indicative size of the project and we understand it would be executed in, I think, 6 months' period, so what would be the size of that project?

Anand Agarwal: Alok, these projects are coming in various phases - the current phase we are doing for both Gandhinagar and Jaipur is of the range of about Rs. 30 crores.

Alok Deora: There were some news articles that you're also L1 project from BSNL worth nearly 8,000 crore. What's your input on that because we have not heard anything on that from your side, since that number is significantly large compared to the current order book and size, , just wanted your view on that?

Anand Agarwal: Alok, we continue to bid for various opportunities. currently there is nothing material to report. As soon as anything materialises, we shal definitely inform the stock exchanges and our investors. It's not prudent to respond on speculation surrounding order wins.

Alok Deora: Right, , but since we were coming out with specific values and also they're mentioning that you're L1, so just wanted to understand if you have any color on that.

Anand Agarwal: Currently, we would not wish to provide any color.

Alok Deora: Sure. The margin is actually on a QoQ basis if you see for pro forma, our financial is consolidated. For YOY basis, I've seen a decline. So is it primarily because of, the OFC share increasing, which is relatively lower margin segment as compared to the OF. So if that is the case, are we in for slightly more margin pressure because cabling mix would be, continue to – cable share would continue to go up.

Anand Agarwal: What I understand is the margins have been similar. EBITDA was 21% last year its continued to be 22%. So from margin's perspective, we are still in that range at 22%.

Alok Deora: Yeah, sure. But you don't think any impact of the low margin segment increasing in the overall revenue mix.

Anand Agarwal: Our focus more and more as we said the absolute EBITDA is increasing and the return on capital increasing, so OFC may have lower margin, but it has a better ROCE profile.

Alok Deora: Okay. Just a couple of more things. One is what would be the indicative record date for this demerger. Is this like a couple of weeks from now or it will take a beyond a month also?

Anand Agarwal: It'll be around 15^{th} of June. We will send a notice to shareholders intimating them of the details.

Alok Deora: Okay. Just one last question. Previously you were doing one defense project and it was the only project in terms of services offerings. So any significant addition on that or are we in terms of service's project, we have only that project as a key one.

Anand Agarwal: That is there. Then these two, smart city ones are there. They are the several that we have bid for both in private as well as public domain, which we should see some colors in the next couple of quarter.

Alok Deora: Okay. So that could be this, I mean if the BSNL one could also bidded for that as well That could also be for services.

Anand Agarwal: aThere several ones we have bid for both private opportunities and public opportunities.

Alok Deora: All right. If I have more questions, I'll come back. Thank you so much for your answers.

Moderator: Thank you. The next question from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: I request you to share your thoughts about the India market opportunity. Where do you see the biggest opportunity whether it'll be residential fiber to the home or fiber deployment with operators, government contracts, smart cities? Where do you see this opportunity whereas in 3, 4 years? Currently where do you get most of your revenue from like in the Indian markets? Who are your key customers?.

Anand Agarwal: Kunal, we see the opportunities in four macro areas. First area is 4G deployment, which has been driven just by connecting all the towers with fiber. India has over half a million towers, but only 15% of them are connected with fibers. Every single 4G tower needs to be connected by fibers. So that's the one big opportunity if you've been following up the announcement by the Telco also and they're all talking about adding more 4G base stations as well as deepening the fiber in their network. The second one that we see is coming in from this entire defense network which is getting built up across the country. The third one that we see is the rural broadband, which has happened to an extent and continues to happen and will get strengthened and the fourth one we see in is smart cities and all these are long lasting projects. All of these will over the next 3 to 5 years will get built out because these are large infrastructure projects where the build out itself will take long.

Kunal Vora: So you are not expecting anything big in terms of residential fiber to home deployments?

Anand Agarwal: That's also something that some of the telcos are actually talking to us about that fiber to the home deployment. So as people get fibres deeper towards the towers, they move to enterprise and then they move to home. So couple of the telecom providers are actually talking to us about the fiber to home.

Kunal Vora: Currently were any customers? where is the revenue coming from?

Anand Agarwal: Our main customers are continued to be all the telecom providers in India, in China, Europe and different opportunities that we are doing.

Kunal Vora: Last question on the pricing of OFC and OFT. It looks like the volume has increased by 5% while sales have gone up by more than 30%. Pricing I believe would not have gone up, what driving this gap?

Anand Agarwal: You are comparing which period?

Kunal Vora: I am looking at fiscal '16 numbers.

Anand Agarwal: '16 versus '15?

Kunal Vora: Yeah.

Anand Agarwal: Overall sales has gone up by 28%.

Kunal Vora: And volume have not gone up by much like single-digit?

Anand Agarwal: The volumes have gone up also from 17 million to 20 million kilometers.

Kunal Vora: How is the pricing has been?

Anand Agarwal: The pricing has been largely in the range that we speak about. It is between $7 to $8 and as we have been maintaining, fiber continues to be on a tighter demand scenario. So the pricing is more closer towards $7.5 to $8 each. We are running fiber capacity fully. So the last two quarters we have been actually delivering at almost 22 million run rate.

Moderator: Thank you. Next question is from line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: I wanted your last quarter March'2016 breakup of your sales for the consolidated telecom numbers that you have given as Rs. 608 crores between core business and then Elitecore and EPC.

Anand Agarwal: Madan, it would be helpful if we can do this off line in terms of breaking up business wide and you can take it up with Vishal & IR team. Rs .608 crores, broadly I would say about 75% is products and 25% is services.

Madan Gopal: what was your total China volume for the year?

Anand Agarwal: China, it is running at capacity. I think it would be about close to 5 million or so.

Madan Gopal: Year-on-year how much we have increased in China in terms of our volume?

Anupam Jindal: Year-on-year Madan, last year also it was running at almost full capacity. China has been pretty much about 5% - 6 % efficiency from it but broadly at the same level.

Madan Gopal: What was CAPEX for the year?

Anupam Jindal: Rs. 220 crores for the full year.

Madan Gopal: And for next year?

Anupam Jindal: Next year we were looking at about Rs 120 - 130 crores.

Madan Gopal: This year most of the cash generation probably would have gone into the CAPEX and some bit into working capital if I am right. For the next year since CAPEX is coming off, can we expect debt to sort of come down next year?

Anupam Jindal: Yes. That's what we are saying that the cash generation which will happen will go towards reducing the debt.

Moderator: Thank you. Next question is from line of Naval Seth from Emkay Global. Please go ahead.

Naval Seth: Couple of questions on the macro part. As Elitecore is already integrated in the company now, have we seen any kind of increase in wallet share from telcos or companies where you have common products and services mapping?

Anand Agarwal: What we are essentially driving, by merging into Sterlite Tech, Elitecore now on its own has a capability to go for bigger opportunities which they could not on their own and definitely for us, being a part of Sterlite Tech umbrella we are going together to common customers where we are providing the required degree of comfort and assurance to the customers, that we are together and we are behind Elitecore. So for certain customers overall we have definitely seeing an increase in the wallet share.

Naval Seth: Second on China as you said China is ramping up capacity and has been ramping up capacity fiber capacity, fiber deployments from last couple of years or more than that. Can you see that in next two years China deployment is kind of over and it becomes a net exporter than the net importer what happens to the commodity prices as China is known for price disruption?

Anand Agarwal: We have been discussing the same thing about China's demand coming down and we are fully prepared for that. So at macro level we have seen at least over next 7 to 8 years China's demand increasing and their capacity is increasing in the line with demand in the country. And we clearly are confident and believe that in terms of both cost structure we are much better than anybody else globally and that is reflective of the EBITDA that we have for the fiber business. So while at a global level that will be a concern but we believe will be the last one to get concerned and affected by that.

Naval Seth: Last question on domestic opportunity as you said $22 billion including government private operators. What kind of tendering activity you might see from the government in FY 2017 and kind of volume uptick you might see in both optic fiber and optic fiber cable for FY 2017 from the private operators?

Anand Agarwal: It is difficult to give exact numbers to it but we are seeing heightened degree of activity. So we are seeing heightened degree of activity from defense in rural broad band as well as smart cities as far as government is concerned. We are seeing heightened degree of activity from all the top 4 telcos in the country and you can see whether it is the project Leap or the String, all of them talk about large fiber deployments. So we are participating in each of the opportunities and we believe the inflexion have started, it is really difficult for us to say how much will be tendered in the current year and how much we can grow. Our growth record has showcased over the last 5 years we have grown at almost 30% at top and bottom line and we believe that is the direction we will continue moving forward.

Naval Seth: My last question is on services part. So as services would grow at a higher pace than the products now going forward as a focus has been now increased towards the services. So what kind of revenues mix you would target say by next end of 4 years? 75 - 25 moving to 50-50 or how you would look at that level?

Anand Agarwal: Yeah. I see the growth as you rightly said services will grow faster because it has a much smaller base. But we are going to continue the growth in the products business as well. May be it will reach 50-50 but we have not set any such target. We are going to look at each opportunity, see our capability to address that opportunity and see whether we can address that as product or services or software or may be an integrated offering.

Naval Seth: My last question is on target net debt for FY 2017?

Anand Agarwal: As we said the cash that we generate post net profits about one-third will go to the shareholders and rest of it will go either towards reduction of debt or towards any growth opportunities that we see.

Naval Seth: But you would not set any target numbers for 2017?

Anand Agarwal: No. Right now we are not setting a targets but as definitely debt is going to come down as the year progress we will inform you more and more about it.

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

Pranav: I have three questions. Firstly you gave us the number of 479 crores from the services for FY 2016. Can you provide the same numbers for FY 2015 also?

Anand Agarwal: Pranav, FY 2015 is just about 110 crores or so.

Pranav: If I look at the volume growth on OF is around 14% year-on-year. If I look at what the telcos are deploying so I was just doing the calculation on how much fiber is added by Bhartis and Ideas of the world in FY 2016 versus what they added in FY 2015, there is a very sharp acceleration around 30% to 40% more than what they did last year but the volume growth here is only 14%. So where is the disconnect?

Anand Agarwal: We have to look at the overall market. So the overall market you are right. Airtel, etc., deployed more while Jio was slightly lower than the previous year which is now again increasing. So the overall market now has the right momentum with everybody starting to deploy and we see the current year, next year, and the year beyond being the year through which the volume will grow through a fast increase.

Pranav: So you expect material acceleration in the volume offtake in OF side right?

Anand Agarwal: Yeah. So OF we are running at 100% capacity so the part of the year we were actually challenged by our capacity level also. So we are now running at 20 million increase debottlenecking capacity to 22 million, will continue to increase capacity by about 10 to 12 % every year by debottlenecking and doing small brownfield CAPEX. So that’s going to be our approach, we are going to keep increasing capacity by 10% to 12 % every year at the same time moving more and more towards value-added products.

Pranav: Ok and you talked about OFC cabling to be limited because of some temporary issue. Can you just elaborate exactly where those issues and how do you see this in FY 2017?

Anand Agarwal: So the temporary issues were couple of the key customers as I said like Reliance and British Telecom had slowed down couple of quarters in the last year which we talked about in Q2 and Q3 last year. We see the overall volume uptick again starting to happen. So in the last year couple of quarters we had Reliance, British Telecom as well as this rural broad band offtake being lesser but we see that all of that now is picking up and definitely the current fiscal will be much better than the last one.

Pranav: One last question. If I look at your net debt figures that is gone up by around Rs. 330 crores and you also simultaneously generated cash profit of around Rs. 280 crores. So basically net-net there is a Rs. 600 crores cash which is deployed. I got part answers that Rs. 180 crores is towards Elitecore and Rs. 220 crores is towards the CAPEX so around Rs. 200 odd crores is that the working capital invest?

Anand Agarwal: That’s correct. So Rs. 200 has gone up for increased working capital more in the services business which we will be starting to generate cash over the next couple of quarters.

Pranav: One last question. You said Rs. 2,200 crores is the order book for the telecom business. How much of that is executable over next 12 months?

Anand Agarwal: Large part of it I think almost 85% of it would be executable over the next 12 months.

Moderator: Thank you. Next question is from line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: You have answered what the previous speakers was talking about? If you can just elaborate a bit more – you said OFC cable volume was effected because of Jio and British Telecom. Are they now definitely picking up or we will see another quarter of low OFC volumes?

Anand Agarwal: Current quarter or two would be say a similar run rate at what we have been doing in Q4 and we are seeing more major traction coming from the other Telcos. You would have seen for instance the announcement coming in from Airtel project Leap. Airtel wants to in the next 3 years increase their total fiber kilometers to 550,000 kilometers starting where their current base is about 210 or 220. They are going to more than the double their fiber deployment in the next 3 years what they have deployed in the last 10 years.

Agastya Dave: So how much does that actually translate into OFC volumes?

Anand Agarwal: All that is OFC only. So what I said when they say fiber kilometer, it is laid cable kilometer only. Depending on how much fiber each cable kilometer has its large opportunity and all those decisions they are planning decisions, execution they are in the process of doing.

Agastya Dave: Have they decided or is the ratio known as of now?

Anand Agarwal: Not till now. They will keep increasing and ramping up. Somebody said also that the last year was much better than the previous year. This year should be much better than the last year. We go forth from there.

Agastya Dave: So basically in 2 quarters time we will again short seeing much higher numbers than what we have reported in Q4.

Anand Agarwal: Yeah.

Agastya Dave: Last calendar year government did an evaluation of what is happening to the Bharat Band that is when they renamed it Bharat Net. In that report they are saying they are changing the system architecture design of the entire rural broad band network program and they have in that report mentioned that earlier budget was 20,000 crores and now it has been increased to 77,000-odd crores. I saw that report but have not seen, any subsequent action from the government stating whether they agree with the panel report whether that budget has been agreed? What is the on ground progress on Bharat Net? Can you comment on these two things?

Anand Agarwal: So from what we understand Bharat Net first phase which is the first 100,000 Gram Panchayat deployment is happening right now and lot of the products supplies that we did the year before last. i.e. FY2015 was towards that. The next phase of another 1,00,000 villages is going to start right now and orders will start flowing over next 6 to 7 months. But all this is the still old NOFN (National Optical Fiber Network). Bharat Net deployment will start happening late in 2017 or early 2018.

Agastya Dave: Late 2017 or 18? So that is when we will see the real pick up from government side right?

Anand Agarwal: Some pick up will start happening as it is say but the augmented network what you see converting from 30,000 to 70,000 crores network that will start happening towards end of 2017. But 30,000 networks also will require a great amount of fiber which will start happening in the next 2 quarters.

Agastya Dave: Again in that report where they are talking about district and block level in Gram Panchayat level everything is getting connected to the block level. What they are mentioning is that if the entire project is going to take 70,000 to 80,000 crores their estimate is roughly about 49,000 crores will be just cabling. That is the ratio that they are suggesting. Is that true in the private sector CAPEX side also? So when Bharti is saying let us say that I will do $1 billion of CAPEX what percentage of that is just optical fiber?

Anand Agarwal: It depends; see Bharat Net is pure play fiber to the village projects. But Bharti will also do 4G deployment, towers deployment, etc. So the ratios are very-very different for different kind of programs while for city it will be very different because its application heavy also.

Agastya Dave: In this quarter you are run rating at 6 million kilometers for OFC for entire year if I just annualize it yet your capacity is 15 million so what kind of operating leverage can we see if we go from 6 to 15? Is it going to be huge? We are already doing such a high ROCE but operating at less than 30% I guess. So what kind of operating leverage we can expect?

Anand Agarwal: OFC we get great operating leverage coming from the fiber business because that will be much higher on the capital deployment. OFC the leverage is not that much because lot of expenses are variabilized.

Moderator: Thank you. Next question is from line of Parth Mehta from ICICI Ventures. Please go ahead.

Parth Mehta: Sir, we spoke about various Telcos the towers are about 5 lakhs in numbers and in about 15% of them are connected through the fiber. Rests are going to be connected in the coming few years. So what is our market share in terms of who are the peers that we are competing with and what is our market share in that?

Anand Agarwal: As far as the part of the glass is concerned, which is the pre-form where the technology and the margin is, there is no competition for us in the country. Nobody else makes the pre-form in India. As far as fiber is concerned, which is the bare glass there are few people who import the glass from outside and convert it. As far as cable is concerned, there are almost 7 to 8 people who supply the cables. But for the fiber and cable combined we have almost 40% market share in India. And we are going to maintain or increase that but the larger focus for us is to convert this into value-added products and to increase the market size.

Parth Mehta: Sir, one kilometer of road would convert to how many fiber kilometers? That conversion about?

Anand Agarwal: It depends. In backbone it is like 48 but in cities it can go up to 288 fibers. Like Jio has deployed 288 fibers per kilometer of cable in the cities.

Moderator: Thank you. Next question is from line of Mangesh Kulkarni from Almondz Global Securities. Please go ahead.

Mangesh Kulkarni: I just wanted to know about our top line current year has gone up by 33% and margins have remained in the range of 22%. What is our outlook on the top line and EBITDA margin growth in the FY 2017?

Anand Agarwal: Mangesh, we do not necessarily give out a yearly outlook if you see a 5 year picture we have grown at 28% on the revenue and 36% on margin.

Mangesh Kulkarni: In that case in past our management has mentioned about that reaching the USD 1 billion in 5 years that was in FY 2015. So are we on the track to achieve that in 5 years or we will be achieving it before that now?

Anand Agarwal: Yeah. Now that is definitely the directional that $1 billion. However, we continue to focus much more on the margins and return on capital deployed. I am absolutely sure that directionally we will be close to that number in FY 2020 or may be before that. But we are not focusing so much on revenue any longer. We are focusing much more on margin growth as well as expansion of return on capital.

Mangesh Kulkarni: Can you just provide me a figure for that gross debt?

Anand Agarwal: We have the net debt numbers which we indicated, it would be good if you can get these numbers from our IR team.

Mangesh Kulkarni: Ok and Elitecore Rs. 30 crores project can we see a breakup like what will be the cable deployment and for each and every city?

Anand Agarwal: It is very different because certain cities are cable and certain cities require more application and certain cities require different application. So I can only tell you it is not very cable heavy. Its Cable, its equipment, and its application. Some cities the cable component could as high as 45% some it could be as low as 20%.

Mangesh Kulkarni: What will be the maintenance period contract for these businesses?

Anand Agarwal: Over the additional typically 3 to 5 years.

Moderator: Thank you. Next question is from line of Nikhil Kothari from K R Choksey. Please go ahead.

Nikhil Kothari: My question is what synergies we enjoy due to merger of Elitecore with Sterlite and also what advantage we see from the merger majorly in terms of getting orders? Then what customer demands from us that has led to the shift in our strategy from manufacturing to a complete solution provider?

Anand Agarwal: Yeah Nikhil. Exactly what you said. So from a customer end now we have an end-to-end offering. So we can supply products, we can build their network and we can manage their network and we can do billing support on that network as well with Elitecore. So we have this end-to-end offerings, today we are addressing each opportunity may be in piecemeal way but we are moving more and more into an integrated offering to our customers. And definitely from an Elitecore perspective the fact that we are now as a part of one umbrella it provides them with much greater opportunity to look at larger order size and ticket size.

Nikhil Kothari: Sir, we are expecting that going forward the contracts will be awarded on basis of the complete package and not in the piecemeal form?

Anand Agarwal: For instance, what I spoke about the cities. Cities are all integrated offering, Telcos can still be in terms of products and networks and software separately. But the credibility and the positioning that we get as being an integrated offering is tremendous. So the Elitecore offering has added huge degree of capability and knowledge in the company to have that knowledge of end-to-end network offering.

Nikhil Kothari: What was the revenue from EPC in FY 2016 and if EPC work the key focus area of the company because with the increased revenue from EPC it will affect our return ratios I guess.

Anand Agarwal: We don’t do EPC. There is no EPC in the company. We do system integration and we do software. So that combined was about 470 crores in the current year.

Nikhil Kothari: Just wanted to confirm that company will be distributing 30% of profit as dividend going forward. Is this understanding correct?

Anand Agarwal: Yes.

Moderator: Thank you. Next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: My question on the CAPEX plan for FY 2017 and do we have repayment of debt in FY 2017? Any repayment coming?

Anand Agarwal: Manish, all that debt that we have is all working capital sort of lines. So there is no long term debt. Whatever cash that we generate as we discussed we will pay to shareholders, decrease debt and invest into growth opportunities.

Masnish Ostwal: Secondly sir, this margin sustainability because last 4 to 5 years continuously there is a steady increase in margin but in quarterly basis there is some downward trend in the margin. So where do you see the sustainable margin in the business given the business mix?

Anand Agarwal: The margin will as you rightly said the margin on quarterly basis will go up and down. Because we have 3 different businesses with different margin profiles. But we can assure you that the return on capital deployed continue to strengthen as we move from here.

Masnish Ostwal: Lastly the return of 30% profit to shareholders this is a dividend policy kind of thing or you stick for next few years?

Anand Agarwal: Yes. This is a dividend policy adopted by the Board yesterday in the meeting.

Anupam Jindal: Manish, just to add few more lines on this. If we look at our history even in the past, we have been giving dividend range of about 30 to 33%. So this is in continuation of that so that we are formalizing it but if you look at from history perspective it is there.

Moderator: Thank you. The next question is from the line of Rajesh Agarwal from Moneyore. Please go ahead.

Rajesh Agarwal: Just wanted to understand there is difference in Rs. 30 crores in the PAT in standalone and consol, what is the reason?

Anand Agarwal: Between standalone and consolidated, we have subsidiaries which are in investments done in China, in Brazil, and in fiber to the home. So on EBITDA basis, it is higher by almost Rs. 20 crores it is mainly on account of the interest on investment as well as depreciation accounts that's the reason.

Rajesh Agarwal: So no loss making subsidiaries no?

Anand Agarwal: No.

Rajesh Agarwal: So going forward same thing will continue?

Anand Agarwal: Going forward same thing will continue.

Rajesh Agarwal: Second question is mostly we get huge orders from either government for the products or OST and cables. But still we have capacity constrainta? How do we finish orders? How do we do the needful?

Anand Agarwal: Rajesh, we have increased our capacity in anticipation of demand itself. So 8 million to 15 million of cables is in anticipation of the demand.

Rajesh Agarwal: But when we talking about our single order of 4,000 to 7,000 crores still that capacity is sufficient to fulfil the demand?

Anand Agarwal: Those orders are the numbers and rumors that you are speaking about.

Rajesh Agarwal: I am not speaking about rumors. I am guessing about the market sized opportunity, market sized about 7,000 to 8,000 crores order comes to you for the product side so do you have enough capacity to fulfill that order?

Anand Agarwal: We believe our capacity is good and our outlook is in accordance with where we see the market increasing. We will keep reviewing that we have gone from 20 to 22 million on fiber side over the next few years we are going to take 10% increase take it to 30 million. So we have done well in terms of market anticipation in the past and hopefully we will do equally well as we see to it.

Rajesh Agarwal: Any thoughts suppose if the order comes and capacity has a constraint then we can go for inorganic route, is that opportunity available?

Anand Agarwal: See its all hypothetical right now. When it comes we will see all options.

Anupam Jindal: You will not do any inorganic for one-time kind of opportunity.

Rajesh Agarwal: If the outlook is for next 3 to 4 years, government is spending on Digital India and private CAPEX also on higher side?

Anand Agarwal: Rajesh, when it comes we will take a call. We believe we have good capacity for what we see right now.

Rajesh Agarwal: Can you focus on what is the scope of services business including Elitecore and others?

Anand Agarwal: Services as we said it has been growing. We did about 100 last year and we are doing 100 in ‘15 and about 500 in ‘16. And it will grow as we move forward.

Moderator: Thank you. Next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor: Sir, coming to the point of we are getting order book position at Rs. 2,200 crores and you told 80% will be executable over a 12-month period. What should be the revenue booking on a quarterly basis on a pattern wise so that we can get an alignment of what sort of revenues are we expecting over the years?

Anand Agarwal: Saket, I would only showcase this trend which is on the screen we are revenue wise we have grown by almost 28% year-on-year basis. We believe we will be able to maintain that sort of trend as we move forward as well. But it is very difficult to predict revenue on quarter-to-quarter basis.

Saket Kapoor: But there will be a linear trend in there in the new booking or there can be up quarter and a down quarter in the way?

Anand Agarwal: It can be since we have amultitude of businesses and you can have a stronger quarter and you can have weaker quarter based on project booking, etc., and we don’t neither run the business nor think of business of a quarterly basis. So very difficult to give any projection like that.

Saket Kapoor: Sir, now this Elitecore integration is through so what kind of opportunity has Elitecore provided as of now. And what are the opportunities that we are looking forward going into future?

Anand Agarwal: Elitecore offers us integrated offering. Till date we were selling products and started doing system integration with doing software through EliteCore almost sort of completes the circle of being end-to-end provider. The opportunities are multifold in terms of network management, in terms of operation support as well as billing support software and it is just a start I mean the integration has happened just a couple of months ago. So we believe it is going to keep strengthening both companies are going to gain from each other and the customers in turn will get a much integrated offering from us.

Saket Kapoor: Out of the Rs. 2,200 crores what order book have we gained only due to the Elitecore capability if you could quantify? Just to get the potential of the company.

Anand Agarwal: It is difficult right now to say that what has come because of Elitecore and what has come because of products? It is an integrated offering. Elitecore has on it certain own order book but it is a brand, it is a positioning you can’t break it into pieces and we do not intend to break into pieces. We are an integrated offering our customers see us in an integrated way and that’s the conviction that we are drawing it into that.

Moderator: Thank you. Ladies and Gentlemen, we will be taking the last question from the line of Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: I just want to know what is the value addition we get when you convert fiber to cable? What are the rates we get for the plain fiber and what are the market rates for cable if you canquantify?

Anand Agarwal: Our fiber business is close to about 30% EBITDA business, when we cable it we add another 13 to 14 % EBITDA on it.

Vipul Shah: So cable will be around 40 to 45 % EBITDA?

Anand Agarwal: No. 30% EBITDA on fiber sales. That's one book when we sell cable on that cable sales the fiber EBITDA is taken in additional 15%.

Vipul Shah: Yeah. So total will be around 30% plus 15%?

Anand Agarwal: Yeah. It is better to take it off line and understand it. Most people understand it.

Anupam Jindal: Basically $7-$7.5 we make 30% and when it is sold as cable, it gets sold at about $20 on that we make about 13%.

Vipul Shah: $7 per kilometer?

Anand Agarwal: Both are per kilometer.

Vipul Shah: That is for fiber and $20 is for fiber cable.

Anand Agarwal: Yeah. Per kilometer of fiber cable.

Vipul Shah: Lastly you have given balance sheet of Sterlite Tech demerged business of telecom. But will you be publishing power business results for the last time? Because after that it will be an unlisted entity.

Anupam Jindal: Vipul, this demerger is effective from 1st April, 2015 and that time balance sheet demerger has been done. Basis that valuation has been arrived at. So effectively the last balance sheet of the listed power piece is from 31st March, 2015.

Vipul Shah: There will be no balance sheet published for power business for year-ended March 2016?

Anupam Jindal: Sterlite Technologies will not publish it.

Vipul Shah: Will SPTL publish it or no idea?

Anupam Jindal: That's separate.

Moderator: Ladies and Gentlemen, I now hand the conference over to Dr. Anand for closing comments.

Anand Agarwal: Again I would like to thank everyone for attending this call. I hope we were able to address and clarify all your queries and comments. For any further comments, clarifications and discussions, you can please feel free to contact our investor relation team including myself and Anupam. We sincerely hope to continue our association and dialogue in the future. Thank you.

Moderator: Thank you very much the members of the management. Ladies and Gentlemen, on behalf of Sterlite Technologies that conclude this conference call. Thank you for joining us and you may now disconnect your lines.