"Sterlite Technologies Q2 FY17 Earnings Conference Call"

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MODERATOR: **MR. ABHISHEK JAIN – KR CHOKSEY.**

Moderator: Ladies and gentlemen, Good day and welcome to Sterlite Technologies Q2 FY17 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. Along with this call, we are also running a live webcast of the presentation covering the Q2 FY17 results as well as details on corporate restructuring announced earlier today. Investors can also download the copy of these slides from the website after the presentation. In case participants have any additional questions, they can reach out to the investor relation team post the call. I now hand the conference over to Mr. Abhishek Jain from KR Choksey. Thank you and over to you, sir.

Abhishek Jain: Ladies and Gentlemen, Good day and welcome to the SterliteTech, Q2FY17 earnings conference call. We have with us Dr. Anand Agarwal, CEO and Mr Anupam Jindal, CFO of Sterlite Technologies.

The earnings call presentation is also available over a webcast; you may please click the link mentioned on STL's website to access the webcast. You have an option to listen to the earnings call over internet as well as over the voice bridge.

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

Dr. Anand Agarwal: Good evening, this is Anand Agarwal here. I welcome you to the Sterlite Technologies Earnings Call for the second quarter of fiscal 2017. We have shared the results document earlier today and they are also on the website. I hope that all of you have had an opportunity to go through them. I will share my thoughts on the industry landscape and key developments following which Anupam will walk you through the quarterly performance.

I will start with giving a quick recap on our business and future strategy.

Slide 5:

Over the last few years, we have evolved ourselves from a pure play product company offering telecommunication, fiber and cables into an integrated solution provider assessing the needs of any new broadband infrastructure creation. We remain excited on the opportunity landscape both within the country and globally and accordingly reorganized our customer segment into five verticals:

The first vertical is the 'International markets', where our focus is on deeper penetration into global tier 1 accounts with our suite of optical communication product as well as software offerings.

The next vertical is the 'Indian telecom providers' where our impetus would be to support mobile backhaul creation and fiber to the home roll outs as they sit on the cusp of impending data revolution in the country.

The third vertical we are focusing on is 'defense and similar infrastructure providers' who are emerging as yet another very important customer segment driven by their needs to create an independent, highly secure communication network at a national level.

The fourth one is 'smart cities' where we are endeavoring to build the digital infrastructure of cities in the country by converging our expertise of system integration and software services to integrate infrastructure creation with host of application to make the cities future ready and the fifth one is rural broadband which entails building a nationwide optical fiber back bone to bridge the urban-rural digital divide.

As we embark on all these opportunities, our clear focus as a company will be to bring world class network design capabilities, supplemented by an innovative products to build smarter networks for our customers. We believe that there is a unique opportunity for Sterlite Technologies that specializes in designing, creating and managing database infrastructure integrated with applications which is a missing piece in the market today. The smart city suite appropriately represents the kind of customized offerings we envisage. With our end to end solutions capabilities, we believe that addressable market size now has expanded many times from the product-only market we were addressing earlier. This is clearly reflected in our growing order book which we believe will increase substantially in next few quarters to come.

I will now address the dynamics driving the various elements of our business:

Slide 7:

We have seen a strong surge in global demand for fiber driven by increase in demand from datacenters in US, fiber to the home network expansion in Europe and initiatives to deepen broadband penetration through FTTH in China. The pickup in the momentum is extremely high and is driven and backed by consumer demand. We are seeing global demand of this order, for the first time in the time period of 1999 – 2000, there is global demand and is backed by consumer data growth and new applications being driven by IOT as well as M2M. While China is clearly accounting for the lion share of the market, if you look at the other regions there is a double-digit growth in every one of them. That said, we are clearly monitoring developments in each and every market and we are positioning ourselves to cater to them meaningfully in order to establish a truly diversified global presence. As the appetite of each of these market increases, will be able to respond rapidly with our increased capacity on optical fibers and cables.

Slide 8:

Similarly, for our system integration vertical, which is focused on the addressable services market in India, the opportunity is shaping up very attractively. We can see increasing uptake of services by a diversified customer base across defense, public utilities as well as private telecom player. Each customer has a varied requirement and every project comes with a unique scope and size which goes through a strong internal filtering process before we shortlist the opportunities for participation.

Our current portfolio includes the NFS project for defense and 3 smart cities which are Gandhinagar, Jaipur and Ahmedabad. Other than these existing projects we have participated in opportunities worth more than Rs.10,000 crore, some of which we are hopeful of converting into firm orders within the next couple of quarters. On the backdrop of ambitious digital India program, and 4G investments by operators we expect that the opportunity flow will continue in the next 3–5 years which we intend to leverage to build our system integration portfolio. This slide provides you deeper insights into how we have strategically structured our business.

Slide 9:

Our business lines have varied maturity and hence the focus for each vertical is as narrow or wide as required to optimize its growth and profitability while our product and accessories being more seasoned are provided to a global customer base, services focuses more primarily on the Indian market. Software already has an established international customer base, which we are seeking to deepen and widen by cross selling between business lines. Today as a telecom focused company, we have offerings and capabilities which straddle across all the layers of the telecom network. The ability to integrate all the offering is a key differentiator for us. Having said that customers can still opt for specific products or services within the value chain that suit their requirements. With an expanded role within the telecom eco system, our engagement levels with our customers have moved to a much deeper and broader level encompassing CTOs, CIOs alike.

Lastly, the diversification across customer bases in area we have focused on immensely, by serving public utilities, municipalities, public companies, private companies and customers both large and small, and across geographies, we have largely insulated ourselves from shift in demand and position ourselves to capture opportunities across micro markets. This sustains utilization at elevated levels positively impacting business dynamics.

Slide 11:

Now coming to some of the key business updates for the quarter. Our optical fiber capacity is now running at an annual run rate of 25 million fiber kilometers and we expect accelerated ramp up to a stated levels of 30 million kilometers by next year. This is a very positive development for us on the background of growing global demand for optical fibers consecutively for the last several years. The strong demand from the global markets place has led to sharp increase in international revenues which are now at 42% of the total revenues for the quarters.

On the cable business, the current volumes remains subdued due to weak uptake in the India demand, we expect order book to pick up during H2 of the current year.

On macro basis, we continue to remain very confident and ready with our capacities on latent demand that India presents for our cable business driven by CAPEX investment plans of operators as well as the large roll out plans under the rural broadband project. On the NFS project the operating environment has been challenging in the current quarter especially in Kashmir, slowing our progress on the project. Will keep you updated on the developments and progress of this project at regular intervals. At the same time, we continue to invest in the system integration business in terms of building capabilities, hiring skills as well as building the right management team to deliver the upcoming projects. We have overall built a team of around 300 professionals in the system integration business. In this business all the investments into the team and capabilities are expensed off during the period while the ensuing returns are realized overtime. We are very confident on our strategy and are clearly building capabilities for the ensuing opportunities. Q2 has also seen some high quality customer wins and our order booking with traction and product services as well as software.

Our total order book at the telecom level is now almost Rs. 2,324 crore from about Rs. 2,100 crore in the last quarter. We have booked long term orders for optical fibers for 2017 and beyond. We also had a major international win with a major global Telco by being selected as one of the 2 global vendors for supply of optical fiber products to their operations across different geographies. With the recent win of Ahmedabad smart city project, our total smart city portfolio now includes 3 cities, Gandhinagar and Jaipur being the other 2.

Slide 12:

During the quarter, we also announced addition to our advisory board with industry leaders Sandip Das and BS Shantharaju. Both Sandip and Shantha are highly respected professionals and have tremendous experience in creating large customers in service oriented companies. Both are committed to work closely with Sterlite Technologies in creating a smarter broadband infrastructure in the country. We are sure that the organization will be greatly enriched from their valuable hands-on experience and the refinement of the strategic road map will elevate our position and capabilities in the highly evolving digital communications industry.

That's all from me. And I shall hand over to Anupam for updates on our financial performance.

Anupam Jindal: Thank you Anand. Good evening everyone. During my remarks, I will recap the financial highlights from the quarter gone by. And focus on providing you some more contexts to the numbers and our journey forward.

Slide 14:

This slide covers the financial performance over the last 5 quarters for the telecom business on a consolidated basis. Revenue for the quarter stands at Rs.551 crore. EBITDA for the quarter was impacted by the weakness in cabling volume as well as the execution challenges in the NFS project. We also made an ex-gratia payment of approximately Rs.10 crore and this quarter to our employees for the past performance.

As Anand mentioned, we continue to invest in the people and capabilities in the system integration business as we see strong opportunities coming our way. We clearly expect EBITDA growth in the second half driven by higher volume uptake both in fiber and cable business and revenue upside from the services business. I am confident of the strategic growth plans of the company and our financial outlook continues to be very strong. The impact on EBITDA has trickled down to profit after tax as well. Post our de-merger of the power business, we continue to make the business and operating structure simpler by collapsing some of the telecom subsidiaries into STL. We had finished the merger of Elitecore into FCL last year itself and this year we have initiated merger of few other businesses in to the company. In the current quarter we had one time tax gain on account of merger of passive infrastructure business of our 100% subsidiary, Speedon Network Limited into Sterlite Technologies which has led to increase in profit after tax in the quarter.

Slide 15:

After three consecutive quarter of delivering fiber volumes of 5.5 million, in Q2 this quarter, we have reached a new milestone surpassing the 6 million FKM mark. The optical fiber capacity now stands at 25 million FKM achieved through a mix of de bottlenecking initiatives and capital investments. We are well on track to take it to 30 million by mid of next year.

Optical cable fiber cable volumes stood at 1.2 million for the quarter. The OFC volumes and cabling mix number have been slow due to focus of operators on the spectrum and enhancing coverage while capacities on the back-haul sides were not added. As mentioned in the previous quarter, we expect volumes to rebound in H2 given the ordering visibility as well as anticipated rebound in demand from some domestic and international customers.

Slide 16:

Revenue from international markets accounted for 42% of the total revenue in the second quarter. This has jumped meaningfully from 30% of revenue in the first quarter.

Within our international market pie, China is a major contributor to exports with a 52% share followed by Europe with 27%. The outlook for both China and Europe remains very strong given the stated intent to ramp up data infrastructure many fold. Further, given the strong penetration in new markets in H1 of this year, we expect to sustain the contribution from exports going forward.

Slide 17:

Given the way the fiber market is shaping up and on the back of our order book of Rs. 2,324 crore, we remain confident of future prospects and meeting growth expectations. We expect our order book to be doubled by the end of this financial year, driven by new system integration projects which are at final stages of being awarded within the coming few quarters.

Slide 18:

This slide reflects the quick overview of the financials. Revenues are at gross level which includes excise duty as per the statutory guidelines.

Our net debt position remains as on Q2 financial year 17 and at Rs.1,024 crore versus Rs.1,039 crore for the previous quarter. Due to the Ind AS accounting impact and re-grouping of interest, the finance cost has increased to Rs.37 crore for the quarter.

Slide 20:

As mentioned earlier, our strategic direction for the business is centered across five principles which we follow prudently in our business practices. Our focus would be to drive absolute profitability while maintaining a healthy ROCE for the business. We are committed to keep the balance sheet strong and any investment or acquisition that we make in future would be from strategic point of view and to augment capabilities and not to scale the revenues.

Lastly, we remain committed to reward our shareholders and in this regard, we came up with a stated dividend policy of distributing approximately 30% of our net profits as dividend to our shareholders. In line with the philosophy of this policy, the Board will consider declaration of interim dividend by circular resolution on November 2nd, 2016. With this, I conclude my opening remarks and welcome specific questions you have and we would be happy to give you our perspective.

I would request the operator on this call to open Q&A.

Moderator: We will now begin the question-and-answer session. The first question if from the line of Vinod Malviya from Florintree Advisors.

Vinod Malviya: My first question was on book keeping. Could you help me with the revenue break up in terms of how much was from product segment, how much was from the service and how much was from the software, for the quarter?

Dr. Anand Agarwal: Largely, out of Rs,550 crore, about Rs.450 crore was from the product business. About Rs.40 odd crore was services and about Rs.60 odd crore was from the software business.

Vinod Malviya: We have seen the International optic fiber prices to moving, spot prices I would say to $8.5 now and your outstanding order books in the product business is around Rs.700 crore. So is the price hike included in that? Also, going forward the revenue which would be reported from product business would be $8 or it would be still at $7 – 7.5?

Dr. Anand Agarwal: At any point of time, the order book is a mix of order that has been booked earlier and the order that continue to be booked. So, we typically do not deal with the spot market price and we perhaps do stable longer term contract. So you are right in saying that there would be some volumes of fiber being sold at $8-8.5. On an average, our realization continues to move up and we are happy with the marquee client as well as the order visibility that we have for the subsequent years. As we said, we have booking orders for 2017 and also we are starting to book some contracts for subsequent years with at least locking in the volumes for the subsequent years.

Vinod Malviya: My last question is with respect to the outlook. CFO mentioned that by end of this year we are expecting the order book to double which basically includes the H2 revenue of another Rs.1,000 crore. So, you are expecting close to Rs.3,000 odd crore of order to be announced in the next six months. Could you please mention that how much would be coming from product, how much would be from the service side and how much would be coming from the software side? Could you give me some idea like where exactly you all are targeting this Rs.3,000 odd crore of order to be coming from?

Dr. Anand Agarwal: If we look at the current order book of about Rs.2,300 crore, it is about 2/3 services and 1/3 products. We believe that it would be similar ratio of order books that we go in as we move forward. On the product side, we see orders coming in for the longer-term contract that we do for 2017 and some for 2018 as well. For cables, we are clearly seeing the RFQs and orders coming both from Indian Telcos as well as global. Also, on the services side we have some pending pipeline, we have a total pipeline of almost Rs.10,000 crore for which we have bided; we believe some of them will actually lead to fruition in H2 of the current year.

Vinod Malviya: So, you would be very firm in expecting your order book guidance to double?

Dr. Anand Agarwal: See we have these strong tailwinds of very good pipeline on the system integration side and we are seeing very good pull coming in from the fiber side. Also, off late we have started seeing the same thing from the cable side as well. So what we had mentioned earlier that H2 would be stronger for the cable side and we continue to maintain that outlook.

Vinod Malviya: My last question is with respect to the service revenue. The service revenue is just Rs.60 crore. In the last quarter we had some Rs.100 odd crore of revenue booked in Q1. I understand that J&K issues are there, but are we facing any cost overrun or any impact on the cost side which we had to take because of the delay in the execution of the J&K orders?

Dr. Anand Agarwal: The cost over runs would not be there as this is all covered under force major in terms of the timing of it. The only part which is happening is the team which we have built up. We have invested in that team because we are very confident of the subsequent order that is coming up. Also, as we said the cost of that team investment continues to be expensed during the quarter which is similar to sort of a capital investment that we do for other businesses. So it is an intellectual investment which we are doing, which we are expensing off during the quarter.

Moderator: The next question is from the line of Madangopal from Sundaram Mutual Funds.

Madangopal: You mentioned that the debt in the current quarter is Rs.1,024 crore? Am I right?

Management: Yes.

Madangopal: Also, you mentioned that the interest cost has jumped sequentially because of Ind AS accounting. Could you explain that sir?

Anupam Jindal: Basically on a normal basis, our interest cost is around Rs.30-31 crore. This quarter because we had certain interest sub venation applicable to product business which got added in the interest cost and the reverse side went into the other income, so that was about Rs. 2.5 – 3 crore. In addition to that, there are certain forex related, while we keep all the forex borrowing, fully covered, but under the Ind AS instead of amortizing the cost of premium over the period, there is a different method of fair valuation. So you need to assess all the hedging as per the current forward cost and the difference gets attributed to the interest cost. So you may see that the overall cost of interest over the term of the debt will be same. But based on the forward cost at the end of the quarter, the difference gets positive and negative. So that has created almost like Rs.4 – 5 crore of additional impact in the quarter for interest.

Madangopal: Since we are doing this forex premium in this quarter, would it continue for some time, right?

Dr. Anand Agarwal: When we took the forex cover, let us say it was about 7% per annum and today if it 5.5%. The difference of 1.5% gets booked in the current quarter for the remaining period. This is a crude example but this is how the interest cost will vary. So this is not necessary that the impact will always be negative, it may come positive also depending on the forward cost.

Madangopal: You had given the break-up which I missed; what is the telecom product related revenue?

Anupam Jindal: We had mentioned that it is roughly about Rs.450 crore from products.

Madangopal: Also, what was the projects related revenue?

Anupam Jindal: Projects was about Rs.40 crore and software was about Rs.60 crore.

Madangopal: Am I right in saying that sequentially the projects have come down even from Q1 levels?

Dr. Anand Agarwal: Yes, they have come down and the reason for that reduction in revenue from services is basically the local condition in Jammu & Kashmir were not favorable for us to continue to execute projects for a substantial period i.e from July onwards.

Madangopal: Okay. In the initial discussions, we were expecting anywhere close to Rs.500 crore of revenue from project execution. So does it look difficult in the second half now?

Dr. Anand Agarwal: The situations are better. We are having access to a large portion of our area. So it will provide us opportunity to fast track some of the projects on those things. There is a very limited area where we have restrictions. Therefore, we are hopeful, but I cannot give what number we will be able to deliver, but then again things are becoming better now.

Madangopal: Okay. You also mentioned about the employee cost jump which happened. If I look at year on year basis, it is something like an Rs.30 crore increase?

Dr. Anand Agarwal: Last year up to H2 we did not have Elitecore in it.

Madangopal: That would have been how much, out of this Rs.30 crore?

Anupam Jain: I do not remember the number but Elitecore being a Software and Services company has manpower as its main costs. If you look from a sequential basis, last quarter we had almost Rs.54 odd crore of manpower cost which included Elitecore also. Also if we see, it has even moved up to Rs.85 crore. So we have our manpower appraisal cycle and increment starting from July. So part of the impact is because of increment, partly because of additions of manpower and this Rs.10 crore was ex-gratia additional incentive given out to employees for the last year.

Madangopal: This Rs.10 crore would repeat every year or?

Anupam Jain: No it was like one-time. We provide for the natural incentive in the current year itself for the year of performance but this was decided in the current quarter.

Madangopal: Also on the market side, given the current spectrum options where you would have an eye on, what is the sense you are getting in terms of the kind of spending that the incumbents might do in your opinion?

Dr. Anand Agarwal: We are clearly seeing that incumbents especially post the Reliance announcement in September are looking at strengthening the fiber deeper into their network. Over the last month itself, we have had RFQs getting floated and discussions happening for two of the three largest operators. We are pretty confident that within Q3, they are going to give out orders for their fiber roll out and they would start. This is because the spectrum was a mega trigger which is now behind us and they are now seriously discussing regarding their fiber roll out. For Q3, we clearly expect orders coming in from the Indian private sector.

Madangopal: Does the order book look healthy from cable point of view? Is that what you were saying, that the cable in the second half would be better?

Dr. Anand Agarwal: Exactly, we continue to maintain that. In India, we will see the order booking coming in from the Indian Private Telcos. Additionally, we are starting to see the demand also coming in from global volumes. We have won a major order in Europe for 2017 from a big service provider and we are now seeing a good amount of interest coming in from the International market also for cables.

Madangopal: My worry is that this quarter has become half from the recent peak that you had done, probably say March 15th. So can H2 see significant rebound or it will be gradual?

Dr. Anand Agarwal: It will be gradual. But what we are seeing essentially the next calendar year, I can clearly tell you that H2 would be very good in terms of order book. This is because cables between the order book and dispatch typically take 2 – 3 months. So next year would definitely be in terms of actual delivery and revenues would be much stronger for cables but H2 will be stronger in terms of order book and gradual in terms of the revenues. We are pretty confident of the fact that we had expanded our capacity to 15 million kilometers and we continue to stand by it because in cabling what happens is you have these demands coming in sporadically and we are pretty confident that it is the right decision, in the right direction and it should start running with that sort of run rate pretty fast.

Madangopal: What would be the CAPEX for FY17?

Dr. Anand Agarwal: FY17 total would be close to Rs.210 odd crore.

Anupam Jindal: Rs.225 crore roughly because we had new expansion coming up.

Dr. Anand Agarwal: So what we had talked about last time about preponing the fiber expansion, good part of that will be spent in FY17 and some part will be spilled to FY18 as well.

Madangopal: Do we expect the debt to go up by the end of the year?

Anupam Jindal: We are not expecting the debt to go up. So if you look at last 6 months, we are still at about same level at Rs.1,008 crore and have started the debt in March. Today we are at about Rs.1,024 crore. So we are working to not increase debt level beyond this point or rather bring it closer to Rs.1,000crore.

Moderator: The next question is from the line of Anubhav Gupta from Emkay Global.

Anubhav Gupta: This 25 million kilometer run rate in the second quarter was a big surprise. So can we see that the expansion to 13 million kilometer could be fast track versus earlier guidance of next year?

Dr. Anand Agarwal: Anubhav, we are trying that, but we would continue to keep the guidance because we have already expedited whatever we needed to expedite. So what I can tell you is, quarter-on-quarter would see fiber volumes improving. But how soon that 30 million kilometer can happen, we would give you a quarterly update but definitely from 22 million kilometer to more than 24 million kilometer was a positive move. We will continue that positive move within Q3 and Q4 as well and try to get to 30 million kilometer as soon as possible.

Anubhav Gupta: My next question is with respect to cable volumes. India which has definitely not picked up in the first half, so are you trying to sell the volume in the International market? You have won one contract but are you bidding for more such contracts?

Dr. Anand Agarwal: Yes that is right. So, on the International markets, we are seeing good amount of, because International markets typically contract for calendar years. So we are seeing good degree of RFQs and discussions happening for the 2017 calendar year and as I said, both in Q3 and Q4, we expect to have a strong order book from both India as well as International markets. So, International in terms of RFQs is a positive surprise for us and we are seriously looking at converting some of these RFQs into orders which will then complement what we do in India as well.

Anubhav Gupta: As you are expecting the second half ordering to begin from private telco's, any idea which telecom operators could come up with significant amount of orders?

Dr. Anand Agarwal: As I said, two of the three have already floated a major RFQ. They have had one round of discussions for the cables and I am clearly hoping that by mid-November, this should be starting to release.

Anubhav Gupta: And these are non-Jio?

Dr. Anand Agarwal: Yes, these are non-Jio.

Anubhav Gupta: Also, lastly in the balance sheet which has been given, other current liabilities stand at Rs. 221 crore. So just wanted to check that it does not have any current debt maturities and is it pure short term liabilities?

Anupam Jindal: I mean there are other liabilities. So, some of them may be related to CAPEX and other creditors.

Moderator: The next question is from the line of Alok Deora from IIFL Wealth Management.

Alok Deora: My first question is with respect to the order book. So this order book which you have of Rs.23 billion, what would be the execution period for the same?

Dr. Anand Agarwal: Significantly out of this Rs.2,300 crore, I believe most of it should get executed in the next 4 – 5 quarters. This is because about Rs.700 crore out of that is product orders and bulk of it is for H2 and calendar 2017. About Rs.1,500 crore is services which is NFS as well as other orders. I believe that bulk of it should get executed within December 2017.

Alok Deora: Also on the margin front, we have also seen the EBITDA margin coming down slightly. However, the mix of revenues was mostly driven by the optic fiber segment which has relatively higher margins than the optic cable segment. So why was there this decline in the margins? Are we seeing some pressure on the margins because as the mix actually changed in favor of higher margins and still the margin was lower?

Anupam Jindal: If you look at two reasons, 1) as per the guidelines from SEBI, the revenue has been grossed up. Earlier, we used to have net of excise revenue, so that reduces the EBITDA margin by about 10%. So earlier if you had 28, it automatically became 20. But while fiber continues to be high margin business and this quarter fiber definitely had high contribution in the revenue, but we also had 1) this overall increase in our manpower cost and 2) the capacities also remained underutilized for fiber cables. 3) In NFS, we did not earn as much revenue as we could have, but the manpower cost which we have on the role continued to be paid out. So these are the 2 – 3 factors which have reduced the EBITDA margin.

Alok Deora: So, while the margin is still pretty strong at 18%, do you think the current margins would be sort of the best we would be able to achieve at least further remaining part of the year and we might then see a gradual pick up in starting next year onwards?

Anupam Jindal: So Alok, our objective remains to improve absolute EBITDA because EBITDA comes from a mix of products. So our objective remains that we deliver absolute higher EBITDA. EBIDTA percent is a function of the mix. So while it has been historically at about (+20%) or in fact 22% in the pre grossed up revenue scenario, we have tried to improve that also with a better mix of fiber and better realization in fiber cable. That is more derived number than the designed number.

Alok Deora: The order book now is now significantly driven by the services segment, which again is relatively low margin segment. So while of course, you are focusing on the absolute EBITDA but do you think because of this margins could i.e even if we want to look at the EBITDA margins figure it could be slightly lower than what we are achieving now?

Anupam Jindal: Alok, traditionally our order book has been dominated by service orders. The product business is generally a quarter-on-quarter ordering and in this quarter we have seen very good upswing which will increase by almost like Rs.200 crore in the quarter and that is what Anand was reflecting that we are seeing a good momentum, both in fiber and cable. The order book will not give a direction of EBITDA mix in the next few years or few quarters. The flow of orders on the product side is more frequent unlike services where you get one order then after that take some time to get another large order.

Moderator: The next question is from the line of Neerav Dalal from May Bank.

Neerav Dalal: My first question is regarding the BT, where you are seeing some weakness. Does it still continue or you see some pick up over there?

Dr. Anand Agarwal: Neerav, which weakness you said?

Neerav Dalal: British Telecom.

Dr. Anand Agarwal: No, BT is now clearly back to normalized level. So BT in fact we are seeing 2017 very strong volume and other than that some other Telcos also are seeing strong volumes.

Neerav Dalal: Also, what would be the normalized tax rate for the company?

Anupam Jindal: Normalized tax rate is slightly below 30%.

Moderator: The next question is from the line of Ashok Shah from ICICI BANK.

Ashok Shah: We have been seeing an uptick in demand for optic cables abroad i.e in US, Europe and China. So the prices are buoyant there at about $8.5, but India has not being seeing that uptick in demand as yet. So are we likely to see the prices move North to those levels? Would the demand revive in India in H2?

Dr. Anand Agarwal: For the fiber, since we are present pretty global, we are gradually seeing uptick in our average order book price also getting better as we move on. But as I said earlier, we do not typically deal on the spot market either in terms of order book or in terms of revenues. But clearly since we are in the global market for optical fibers, we are seeing this supply demand mismatch, we are seeing that people are now more willing and ready to book contract for the subsequent years. So our focus is more in terms of booking volumes for 2017, booking volumes for 2018, as we are expanding our capacity to 30 million, rather than trying to chase spot market opportunities.

Ashok Shah: What I meant was the demand in India is likely to revive from the second half onwards. So that means again there will be a uniform revival or there will be a dip in the first half for the next financial year as well?

Dr. Anand Agarwal: We clearly believe now that whatever orders would start coming now, would actually be for execution for the next 3 – 4 quarters. There has been a significant delay in terms of ordering activity for the Indian Telcos this year. There is no seasonality. It is just a delay based on their own CAPEX outlook.

Ashok Shah: Okay so the delay is not going to be there in the first half of the next financial year and so on?

Dr. Anand Agarwal: We do not believe so. The current rate contracts are actually going to be 12 – 15 months' rate contract.

Ashok Shah: And the demand is going to be from the Telcos as well as the Government roll out?

Dr. Anand Agarwal: Yes, definitely. So the Telco is one large thing, for Government the large thing is the rural broadband roll out, where Phase-1 has happened and the Government is now focusing on doing Phase-2 post March 2017.

Ashok Shah: Okay, so that will be reflected in the next financial year, more or less?

Dr. Anand Agarwal: Yes.

Ashok Shah: And the last question is in the market that we opted, who are the competition we are dealing with, in Indian market?

Dr. Anand Agarwal: For fiber market essentially since we are the only people who are fully-integrated, we see people mostly are in some form of import. We have people like Corning for the fiber in India, we have people like Vindhya Telelinks, which is a Furukawa who wants to draw the fiber here. So the fiber market, we essentially see import substitution, on the cable we have several, 4 or 5 relatively decently sized people who compete with us on the cable. This is for India.

Ashok Shah: Okay, so related to that, Aksh Optifibre is one of them, so we compete with them as well for the fiber to the home, and the optic fiber cable?

Dr. Anand Agarwal: Overall we have close to 45% market share of India. We would compete with most people in multiple opportunities but clearly we have an offering which is of a different class and we prefer to play in those sort of an offering itself.

Moderator: The next question is from the line Tejas Seth from Reliance Mutual Funds.

Tejas Seth: My question pertains to the Telco which you said, which have been floated. Could you give any indication on the size, which you are seeing there?

Dr. Anand Agarwal: We are seeing for both of them, between 30 – 40% higher RFQ size than what they brought last year.

Tejas Seth: Okay, I just see every time in this sequential Q2, the other expenses have jumped. Even in the present quarter, it has jumped substantially by nearly Rs.42 crore. What are these expenses? Why did we see this kind of jump?

Anupam Jindal: Other expenses as compared to last quarter you are saying?

Tejas Seth: Sequentially. Even in last Q2 over Q1, there was substantial jump.

Anupam Jindal: No**,** if you look at the other expenditure on a sequentially basis, I do not think they have gone up from Rs.176 crore to Rs.180 crore. Also, the staff cost has gone up from Rs.65crore to Rs.84crore which I just explained.

Dr. Anand Agarwal: That is on consol basis.

Tejas Seth: Okay, so on the staff expenses now we see this kind of run rate?

Anupam Jindal: On run rate basis, we should be at about Rs.72 crore to 75 crore?

Tejas Seth: Excluding the Rs.10 crore, be the number.

Anupam Jindal: Absolutely.

Tejas Seth: And with NFS order, I thought we are majorly on the Ladakh side.

Dr. Anand Agarwal: So it is 3 zones, it is Jammu, its Kashmir, it is Ladakh. It is throughout the J&K region.

Tejas Seth: Ladakh region is not facing issues?

Dr. Anand Agarwal: No, Ladakh region is not facing issues. So Ladakh region, we are all overall progressing well. We have now done more than 50%, more than 5,000 kilometers of the T&D in the overall region but we tend to book revenues and profits once we start reaching close to the finishing path by the POCM method as well as once we get the completion certificate for the link from the customers. So the Ladakh region worked well during the summer months. Now it will be closing towards the end of November. But bulk of it i.e out of the 10,000 kilometers almost 85% is between Jammu & Kashmir.

Tejas Seth: Okay, so how is the situation now you are saying?

Dr. Anand Agarwal: Jammu has revived back to normal, Kashmir we believe there is nothing else and within the next 3 – 4 weeks we should be back to normal.

Moderator: The next question is from the line of Vipul Shah from Sumangal Investments.

Vipul Shah: What are the operating margins for all 3 verticals, i.e product software and services?

Dr. Anand Agarwal: Vipul, typical margins are for the product business is about 22 – 23% which is a mix of fiber and cable. Fiber is about 30%, cable is about 13%, system integration is about 12 – 13%, software is also about 10 – 11%. So that is what the typical margin profile is.

Vipul Shah: Could you repeat. Are fiber and cable margins same?

Dr. Anand Agarwal: No, Fiber and cable the blended margin is about 22%.

Vipul Shah: And within that what will be fiber and what will be cable?

Anupam Jindal: Fiber is 30% roughly and cable is 13%.

Vipul Shah: Sir you have replied in length regarding compression in the margin but still I can see profit before tax was Rs. 55 crore in the corresponding quarter of last year and this year it is Rs. 35 crore and our fiber volume is highest around Rs.6 million. So what is happening? Could you again elaborate? I missed some part of your answer.

Anupam Jindal: I was explaining that we have a typical margin profile which Anand has mentioned and in current quarter we had underutilization of capacity and cable business which was one reason. Second reason was lower delivery, lower revenue on services and the NFS project. Thirdly, the one-time extra manpower cost, which we thought have reduced the margin. So these are the 3 major reasons you can attribute for lower profitability in the current quarter.

Vipul Shah: How much we have spent till date on J&K project?

Dr. Anand Agarwal: We have spent close to about Rs.400 crore in the project and we would have recovered almost half the money coming from the Government as well.

Vipul Shah: Okay, so approximately Rs.200 crore remains to be recovered.

Moderator: Due to time restrictions we will now hand it over to Dr. Agarwal for closing comments.

Dr. Anand Agarwal: I would once again like to thank everyone for attending this call and I hope we were able to address and clarify all your queries and comments. For any further clarifications and discussions you can feel free to contact the IR team including myself and Anupam. We hope to continue our association and dialogue in the future and from all of us at Sterlite Technologies, we wish you and your family a very happy Diwali and the festive season. Thank you.

Moderator: Thank you. On behalf of Sterlite Technologies, that concludes this conference.