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STL

The text 'stl.tech' is located in the top right corner. It is written in a white, lowercase, sans-serif font.

stl.tech

Earnings Presentation

Earnings Call Q1 FY23

25th July 2022

Safe Harbour



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Industry Updates



1

**Industry
updates**

2

Future
growth levers

3

STL
financials

4

Q&A
session

The digital infrastructure industry is growing at a rapid pace



01



Massive investments in network build

Network creators investing heavily in digital infrastructure and deployment of fibre networks (esp. in US & Europe)

02



Tech becoming mainstream

5G, FTTx technologies and edge datacentres growing at a rapid pace

03



Optical demand on a growth trajectory

Sustainable demand for Optical networking

Strong Tailwinds of Massive Investment Cycle

Network creators and Governments plan to invest heavily in digital infrastructure



ENHANCED SPENDING & DEPLOYMENT BY NETWORK CREATORS

USA

AT&T Capex set to rise from **\$16.5 Bn to \$20 Bn** in 2022

US to pass 9M households per year with fiber over the coming three years and reach **87 mn fiber connected homes**

Europe

- **Openreach** plans to reach **25 Mn.** homes by 2026
- **Netomnia** plans **1 Mn.** homes pass by 2023
- **Hyperoptic** targets **3 Mn.** homes by 2024
- **CityFiber** on track to reach **8 Mn.** homes across UK by 2025
- **Open Fiber** targets to reach **24 Mn.** homes by 2031

India

- **Bharti Airtel** plans to invest **\$15.0 Bn capex** through 4 subsidiaries
- **Bharti Airtel** aiming for **40 Mn. home broadband** customers by 2025

Data Centers

Meta allocates **\$31.5 Bn capex in 2022**

Hyperscale capex in the last 4 quarters, increases by **25% to over \$ 150 bn.**

US CAPEX SURGE

\$275 Bn.

Investment by Telcos, Cable MSO's, Internet content providers along with Govt. stimulus in 2022

INCREASE IN GOVERNMENT INCENTIVES & FEDERAL SPENDING

US



Aims to invest **\$65 Bn. in broadband as a part of Infrastructure Bill**

UK



Project Gigabit **£5 Bn. for 85% broadband connectivity by 2025**

India



Bharat Net program being **extended to 360,000 villages**



5G becoming the fastest growing technology

- 5G Investments : expected to be **\$500 Bn.** from 2022 to 2025
- 5G subscriptions: **660 Mn.** as of 2021 and expected to reach to **4.4 Bn.** by 2027
- 5G base stations in China: **1.43 Mn.** as of 2021 and expected to reach to **3.65 Mn.** by 2025



FTTx growing massively in Europe, US, India

- **\$125 Bn.** earmarked for FTTH deployments in the North America for next 5 years
- UK's BT Openreach plans to spend **£15 Bn.** over the next 5-6 years
- Italy's Open Fiber plans **\$11 Bn.** investment in new 10-yr strategy

Datacentres

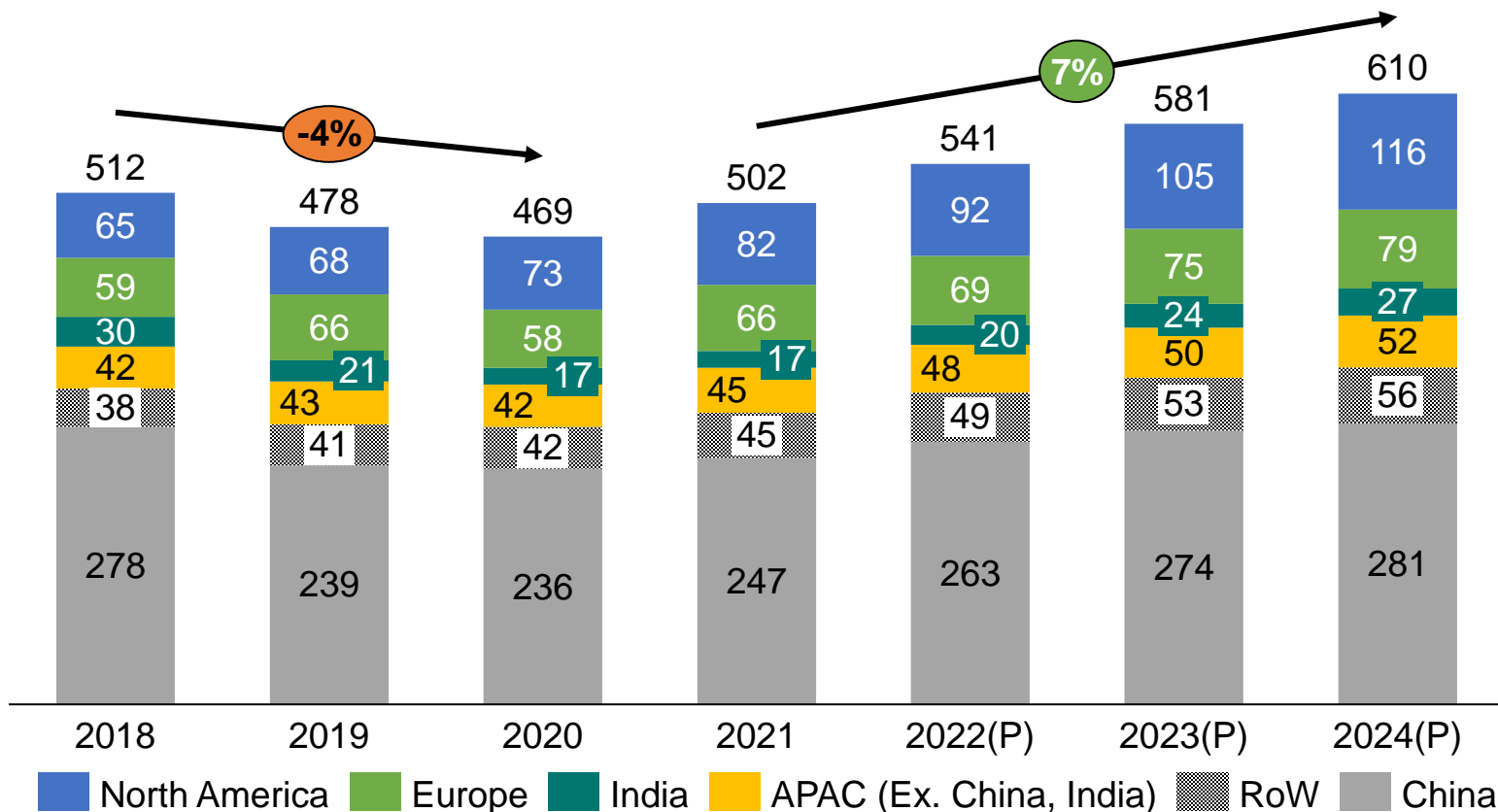
Increasing CAPEX by data centers

- Data center CAPEX to **grow by 10% CAGR** over the next five years, to **\$350 Bn.** by 2026
- Google plans to invest **\$9.5 Bn.** in building offices and data centers in the US in 2022
- **1,200 Hyper scale data centers** by 2026; 314 DC currently in pipeline

03 Leading to sustainable growth in global OFC volumes



OFC Demand region wise (Mn Fkm)

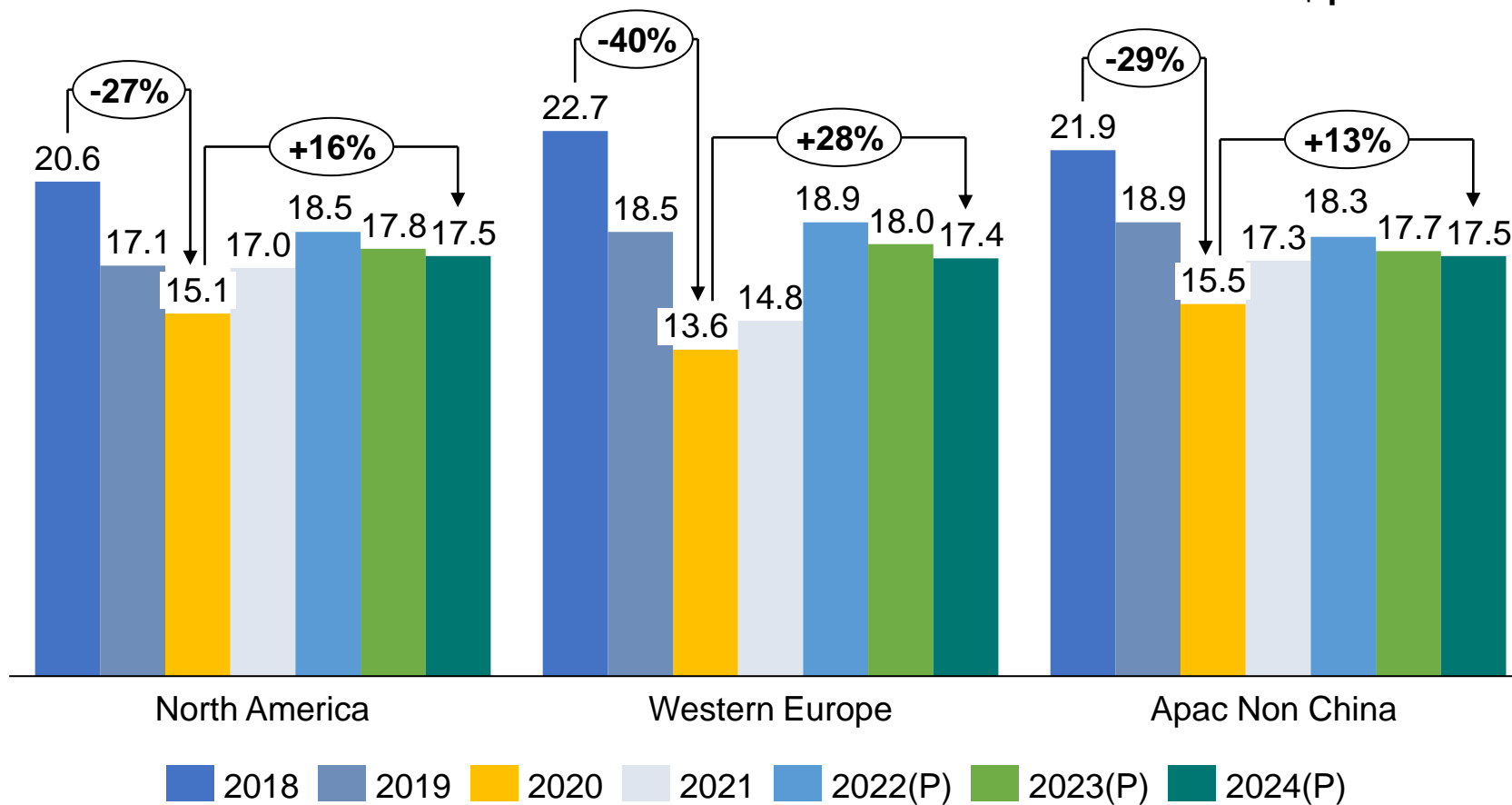


Region	CAGR 2021-24
North America	12%
Europe	6%
India	16%
APAC (Ex. China & India)	5%
RoW	7%
China	4%

STL focus markets **North America & Europe are high potential and fast growing**

OFC prices have rebounded since 2020

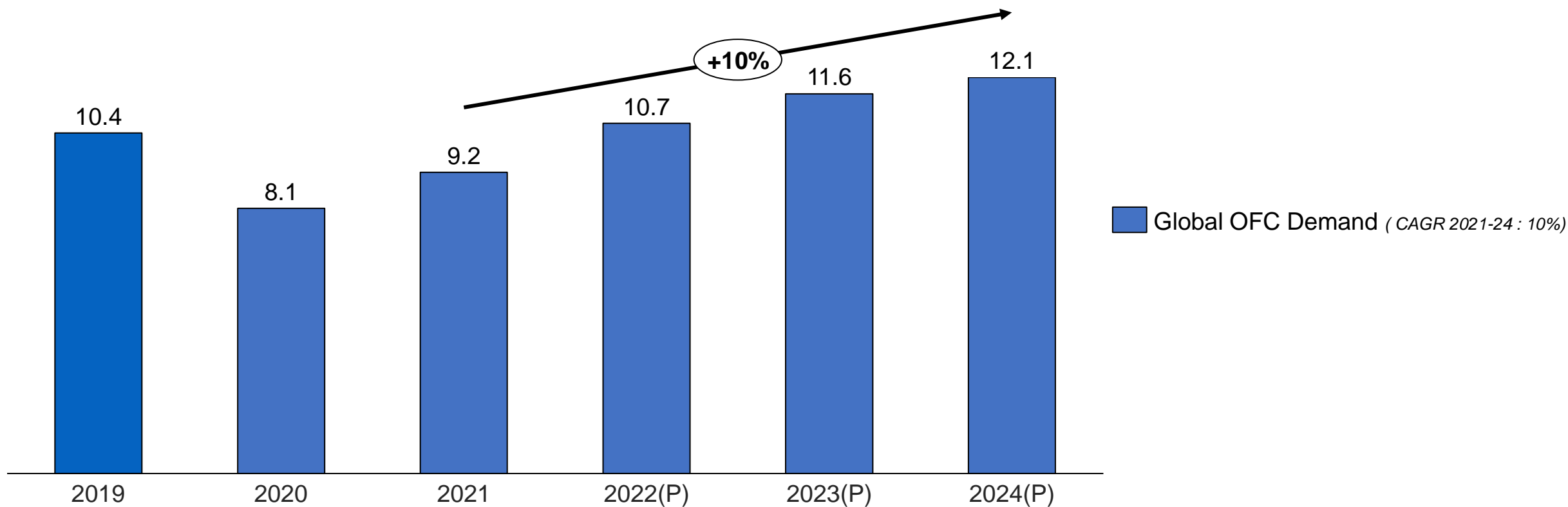
All values in US\$ per FKM



Note: indicative cable prices based on applications within the feeder/local segment

Region	Growth 2020-24
North America	16%
Western Europe	28%
APAC (Ex. China)	13%

Global OFC Demand (\$ Bn.)



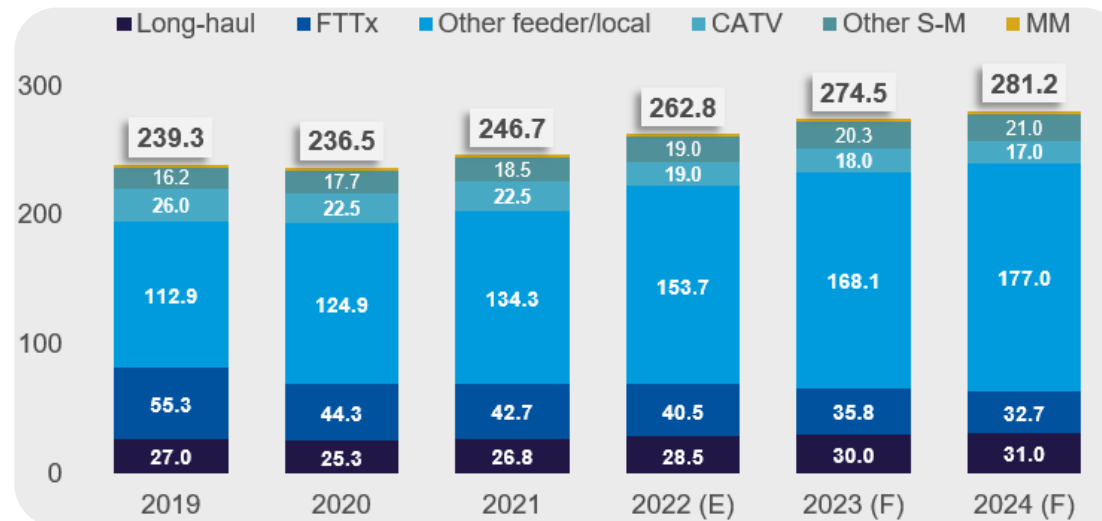
Demand

- China Carriers combined loose tube tender volumes in 2021-22 reached 235 mn.fkm, which is 17% increase than 2020-21
- 5G continues to drive fibre demand. China expects 5G users to reach 900 mn. by 2025
- FTTH build and connecting last 5% of population can be very fibre intensive due to rural localities

Supply

- As per CRU, most major fibre and cable suppliers are running at high utilizations for operational capacity in both fibre and cables
- Trade barriers including anti dumping duties posed by EU and US is leading Chinese players to focus away from these markets.
- Growing Protectionism leading to local manufacturing. E.g. IIJA in US requires 55% domestic sourced material

Chinese cable demand by Application segment



We are in a decade long investment cycle



Multi-year network build cycle

1

5G

Increased demand of fibre due to cell densification

2

FTTx

Increase in FTTx penetration & network modernisation by governments leading to increase in fibre demand

3

Hyperscalers

Increased demand of fibre due to capex increase, particularly for edge datacentres

3 investments cycles are coinciding
(7 - 10 years timeframe)

Future Growth Levers

1

Industry
updates

2

**Future
growth levers**

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session

Two Focussed Growth Levers



1

Scale Optical Business



- Scale global OFC **market share**
- Increase market share in the **US**
- Increase **OI attach rate**

2

Globalise Services Business



- Focus on **strategic segments** in India
- Globalise services with **UK** as the base by leveraging existing capability & customer relationships

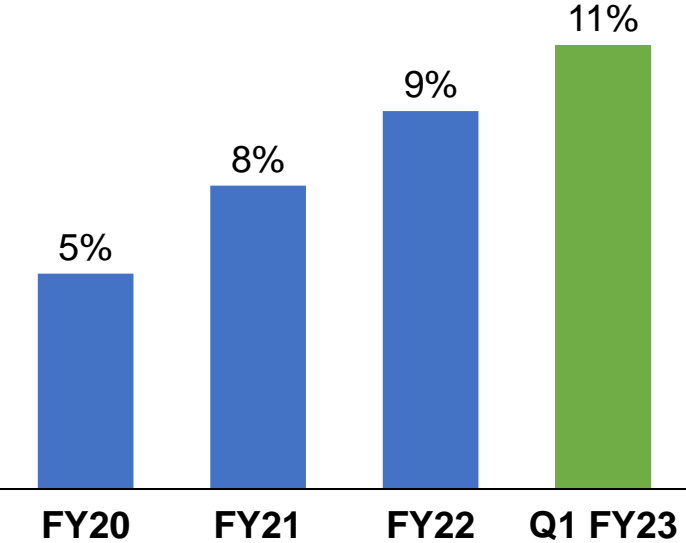
Focus on strategic growth opportunities through a prudent capital allocation framework

1

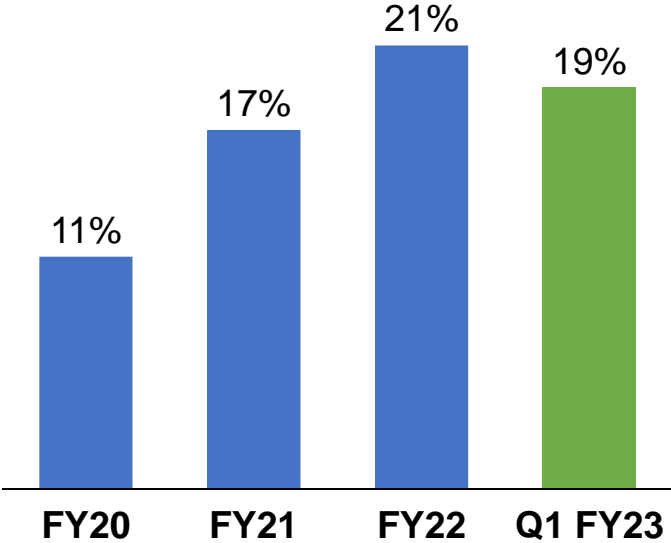
Grow Optical Business
Increase Global OFC Market Share in all focus markets



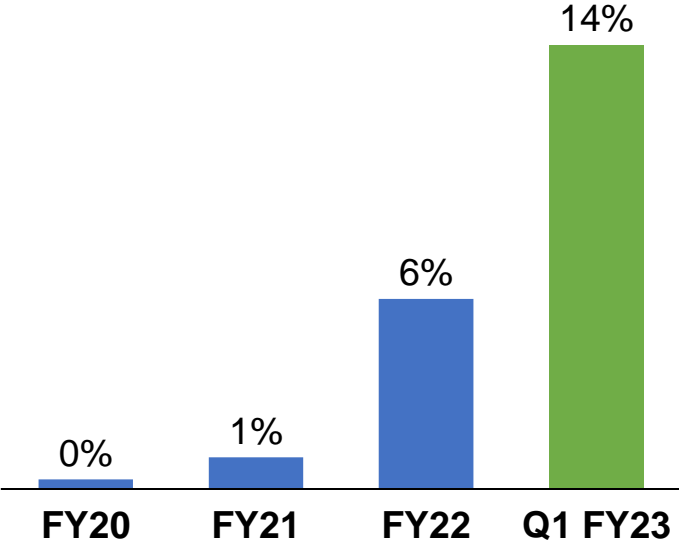
Global ex-China OFC
Market share



Europe OFC Market
share



North America
OFC Market share



Gaining market share in all focus markets

Market Share = STL Sales Volume in the region / Total Market Demand in the region

¹ – CRU

² – Company Data

1

Grow Optical Business
Established foothold in the US



FY20

Entry in US Market

FY21-22

Added new Customers

45 customers till Q1 FY23

FY23 onwards

Partnering top tier telcos
&

Local manufacturing

Secured
multi - million dollar,
multi - year contract
with
North American Telco



US manufacturing expected to *start* in Q3 FY23

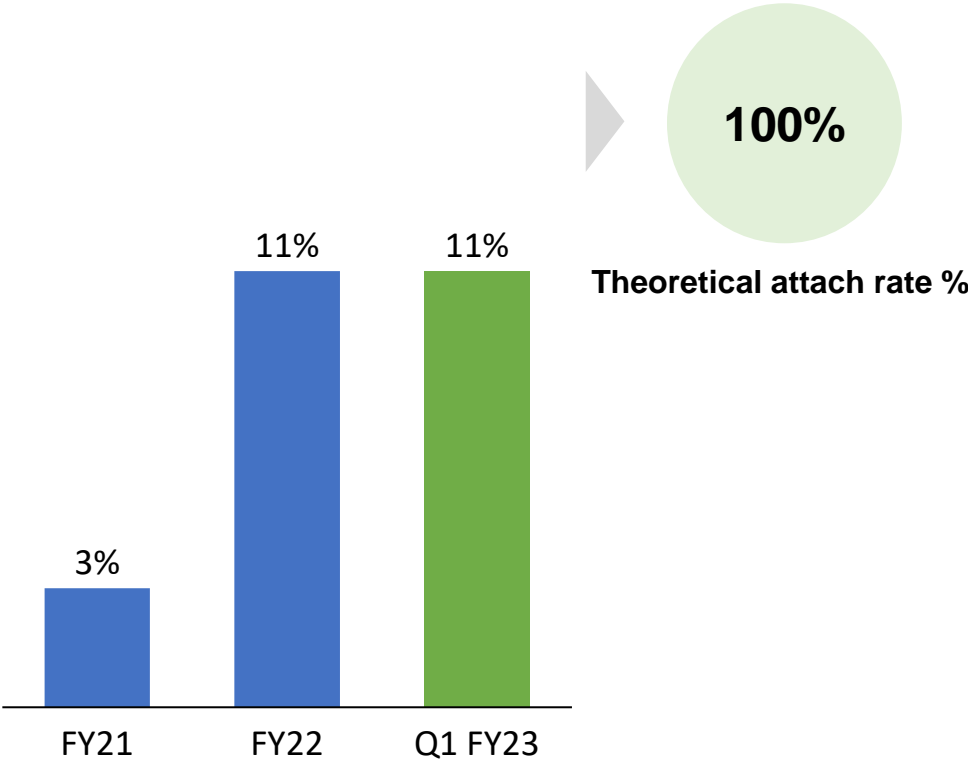
1

Grow Optical Business

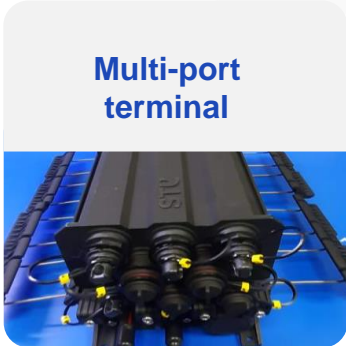
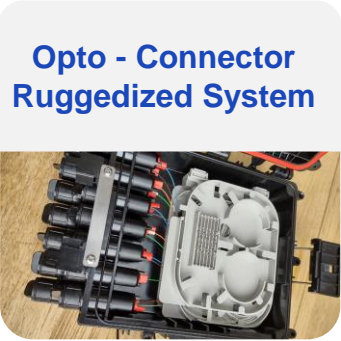
Increase Optical interconnect attach rate %



Optical Interconnect attach rate



Optical Interconnect Product Portfolio



Focus on **growing attach rate** to increase customer wallet share

SCALE GLOBAL MARKETS



- Integrated Clearcomm to complement network deployment capability and expand UK market access
- Robust global resourcing model (through STL Academy)
- Fully integrated solution and delivery engine (focusing on digitization & Automation)

CORE INDIA MARKET



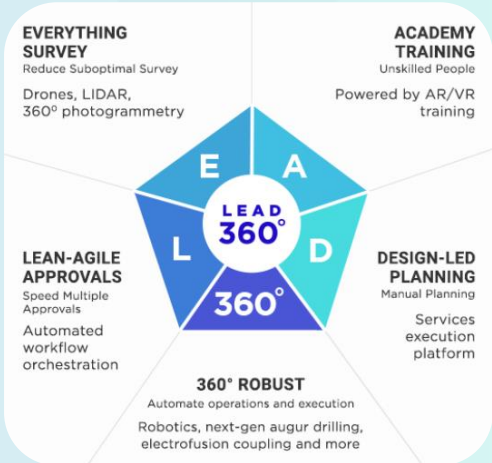
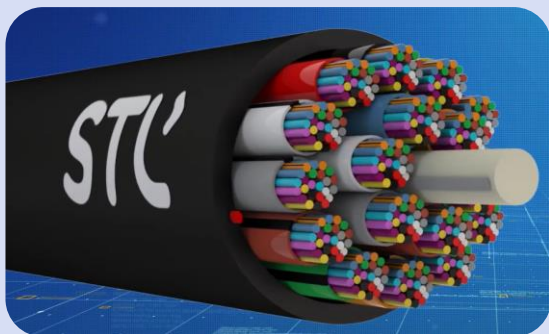
- Expand opportunity pipeline arising from 5G deployment. Increase wallet share of Telco CAPEX spend
- Continued tapping into robust public spending under Bharatnet program
- Continued focus on digital network build-outs



Continue to establish **competitive advantage** by training engineers at **STL academy** and keeping talent pool deployment ready for UK

2

Globalise Services Business Providing end to end solution to Netomnia



Backward Compatible Bend Insensitive Fibre

World's slimmest 432 F Next Gen Micro cable

Drop Cable & Opto-bolt Terminal Optical Interconnect Kits

FTTH Network Design & Deployment



**2x faster deployment
10x scale**



Bringing it all together as end to end solution

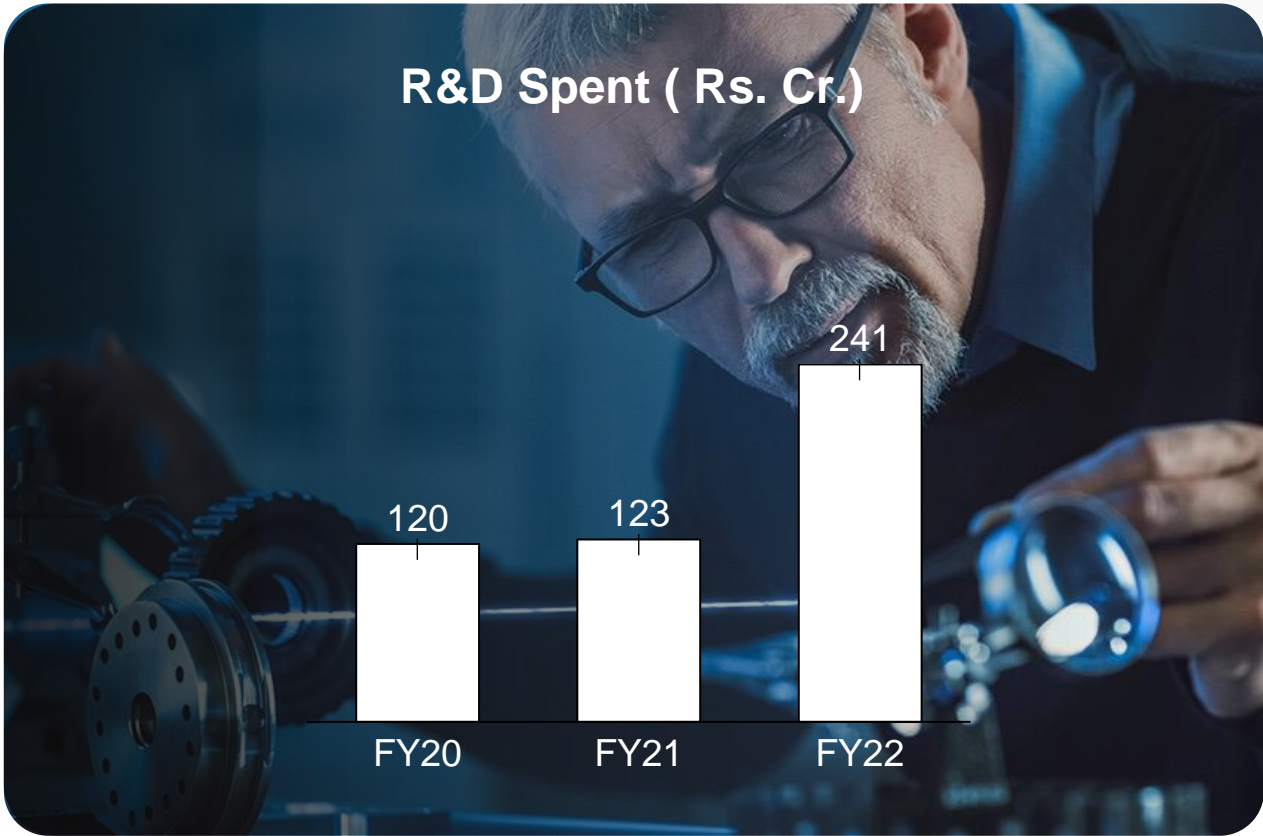


**35% cost saving
50% manpower saving**

Consistent investment in R&D



742¹ Patents
As on end of Q1 FY23



R&D spent at Rs. 53 Cr. in Q1 FY23

Developing next gen world class products for the last mile access solutions



STL at
MWC 2022

SHOWCASED
5G Solutions

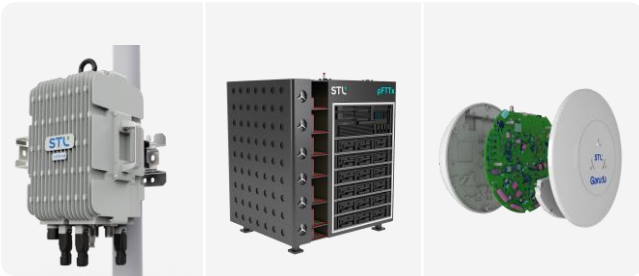


R&D driven
Products

Radio Hardware	pFTTx	RIC
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8*

Product SKU's / versions launched



Traction with global
Customers

Telcos & Alternative Network Providers	Private Enterprises
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5#+

Orders, PoC's, and engagement

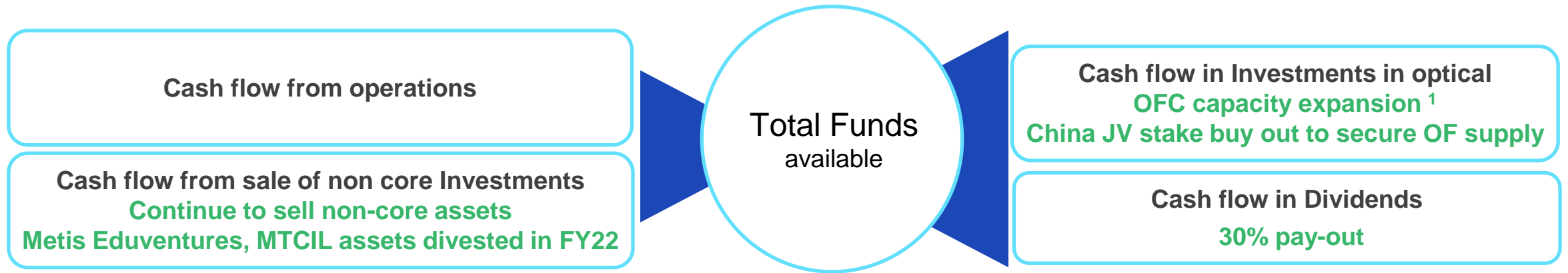
 **netomnia**

Focus on **customer acquisition** in FY23

Exploring **Strategic partnerships** to invest in the business

- 7 SKUs of Radio, 1 of pFTTx
- # – As on date

Focus on strategic growth opportunities through a prudent capital allocation framework



- *Allocate our capital expenditure towards our OFC capacity expansion, particularly in US*
- *Post timely allocation of capex investments, optimize debt & capital structure*
- *Continue to divest non core assets*

¹ – Ongoing investments include setting up US facility and other brown field expansions

STL Financials

STL

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Industry
updates

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Future
growth levers

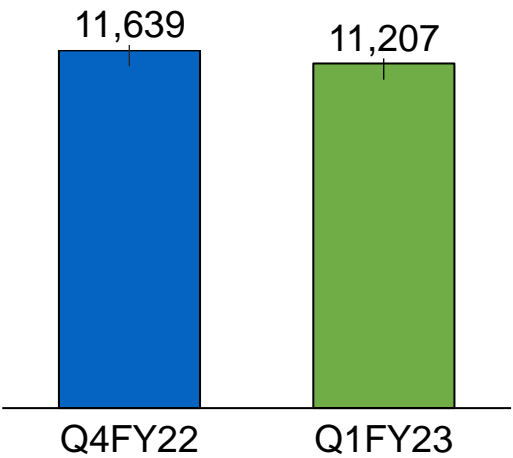
3
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session

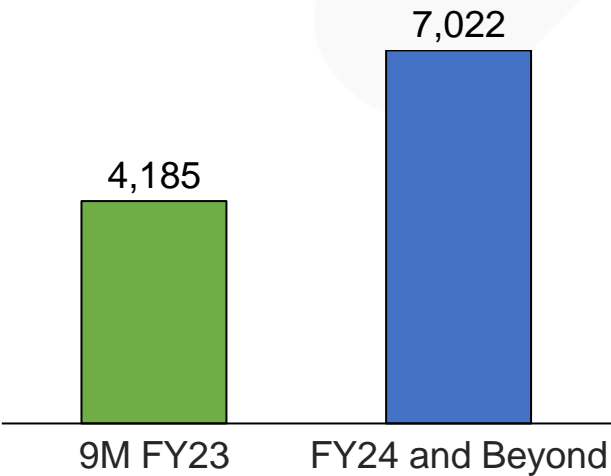
Our order book is stable



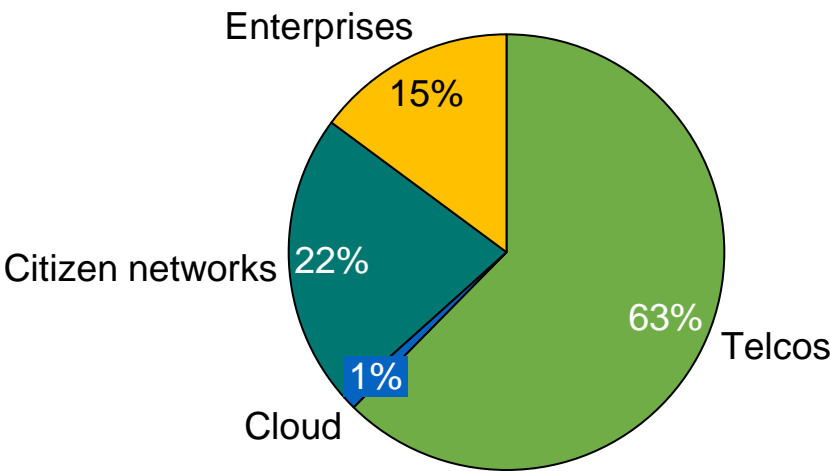
Open Order Book (Rs. Cr.)



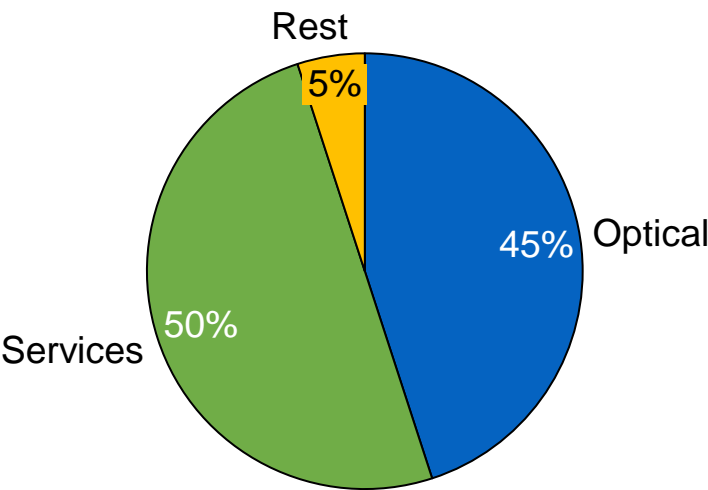
Order Book Spread (Rs. Cr.)



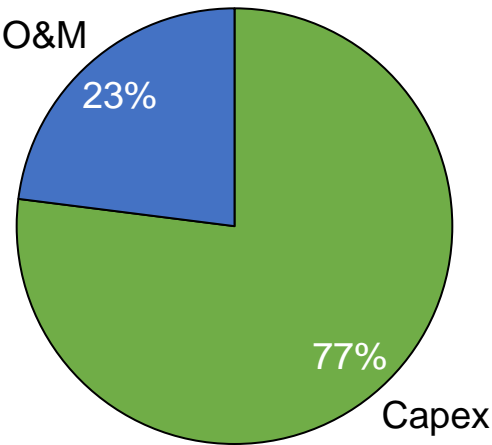
Open Order Book Customer wise



Open Order Book BU wise



Open Order Book Capex vs Opex



Note : Short closed Rs. 1,615 Cr. of open order book in Q1 FY23

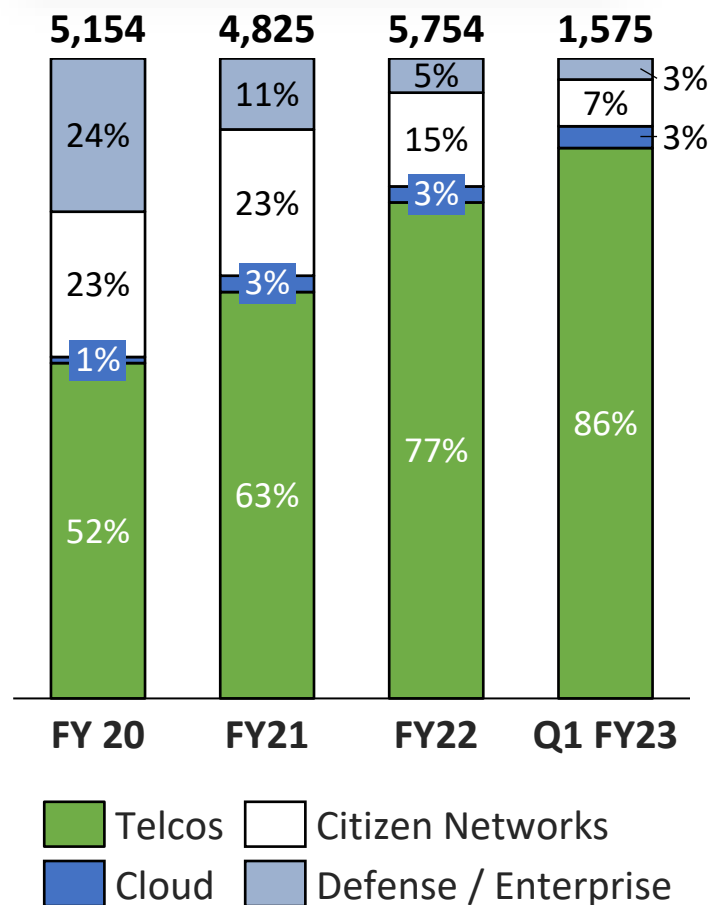
Revenue mix is moving to segments and geographies of choice



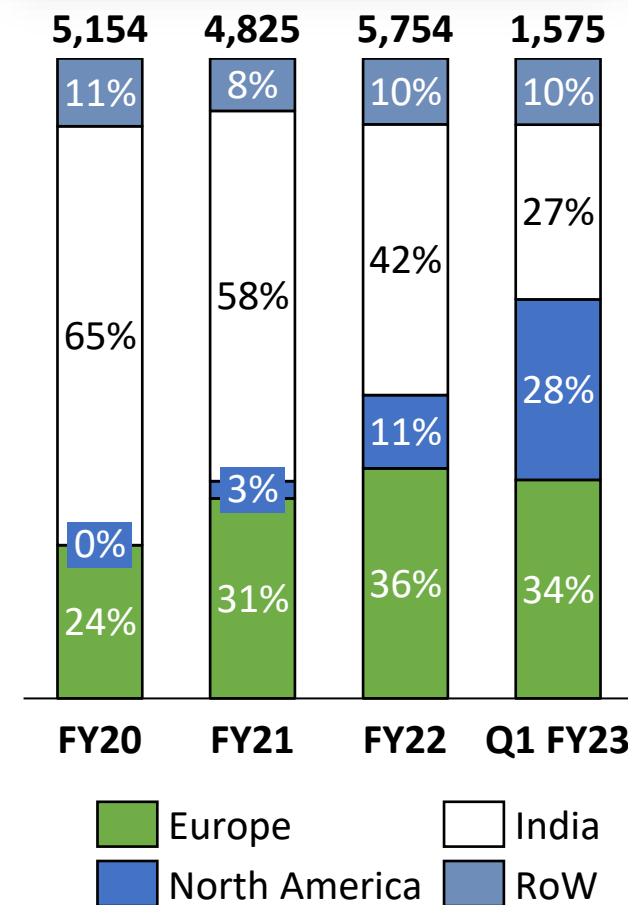
Key Order Wins Q1 FY23

- **Multi million dollar, multi year contract with a North American telco** for optical fibre cable
- New orders for optical fibre cable in **North American market** from distributor partner
- Optical fibre cable & Optical Interconnect contract with **a European telco**
- Enabling **Netomnia** to fiberize multiple cities with ultra fast broadband in UK
- Fibre roll out for a **leading Indian telco**

Customer Segments Revenues (Rs. Cr.)



Geographical Distribution Revenues (Rs. Cr.)



Project Execution is on track



India - Public



Transformative
Rural digital inclusion

Bharatnet Project in

Telangana

54%
Completed



Network Modernisation

PSU

52%
Completed



India - Private



Modern Optical Network

Fibre roll out

(Large Indian telco)

Phase - 1

100% Completed



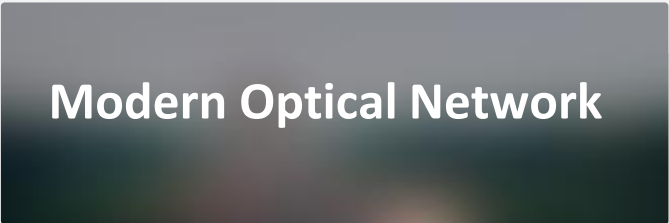
Phase - 2

5% Completed



Phase - 3

0% Completed



Modern Optical Network

Fibre Roll out

5% Completed



Global, UK



Gigabit Networks

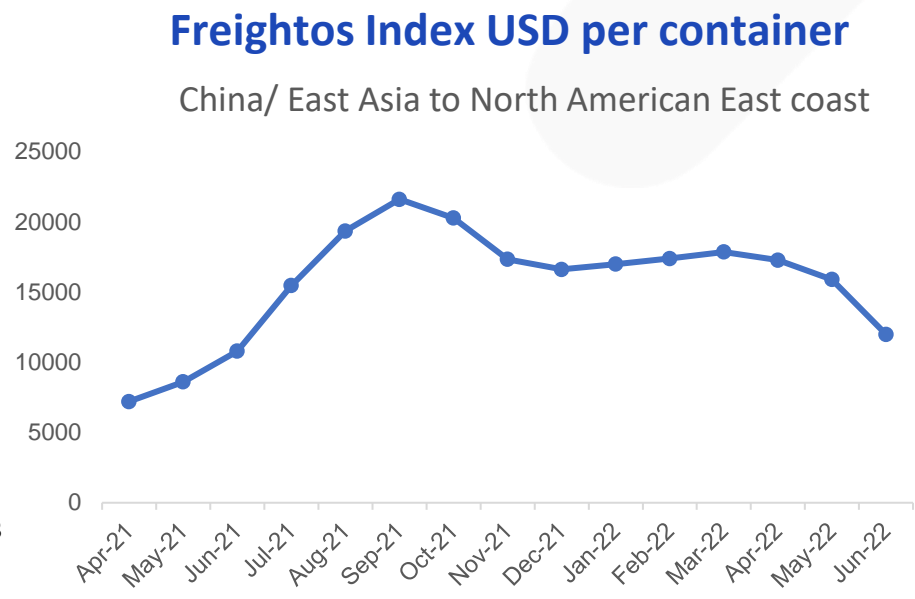
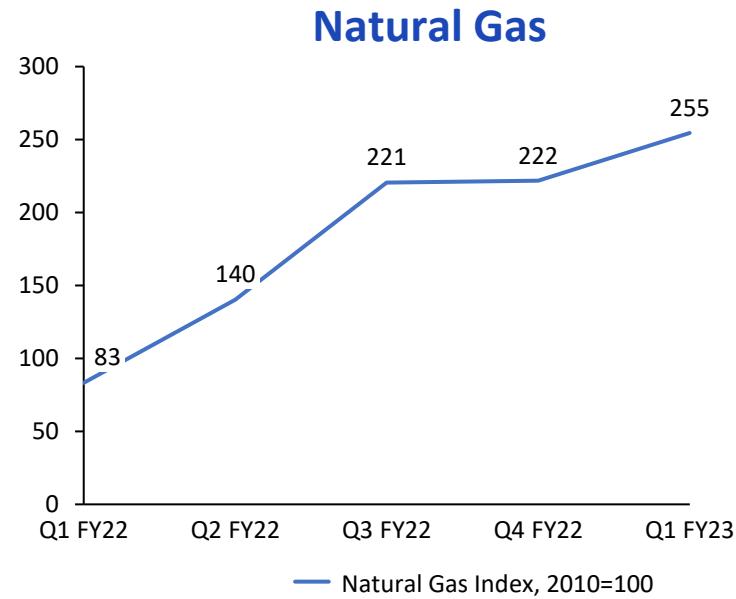
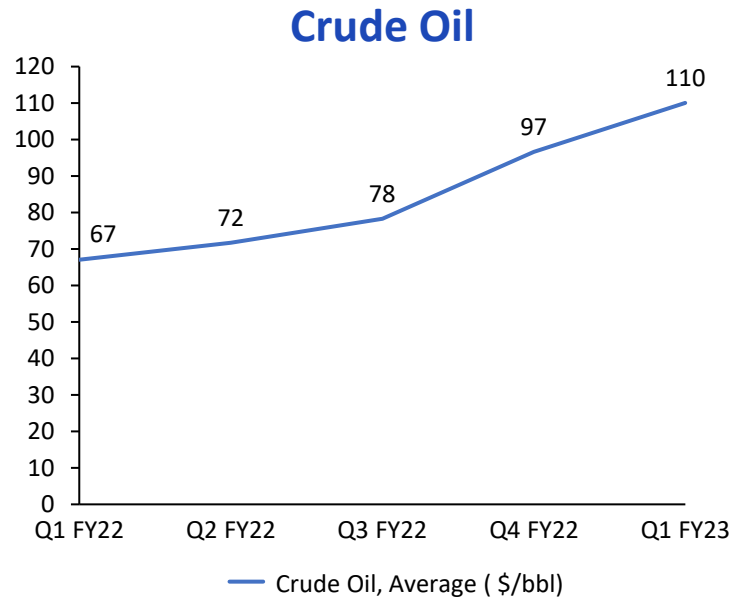
FTTH , UK

All Projects

5%
Completed

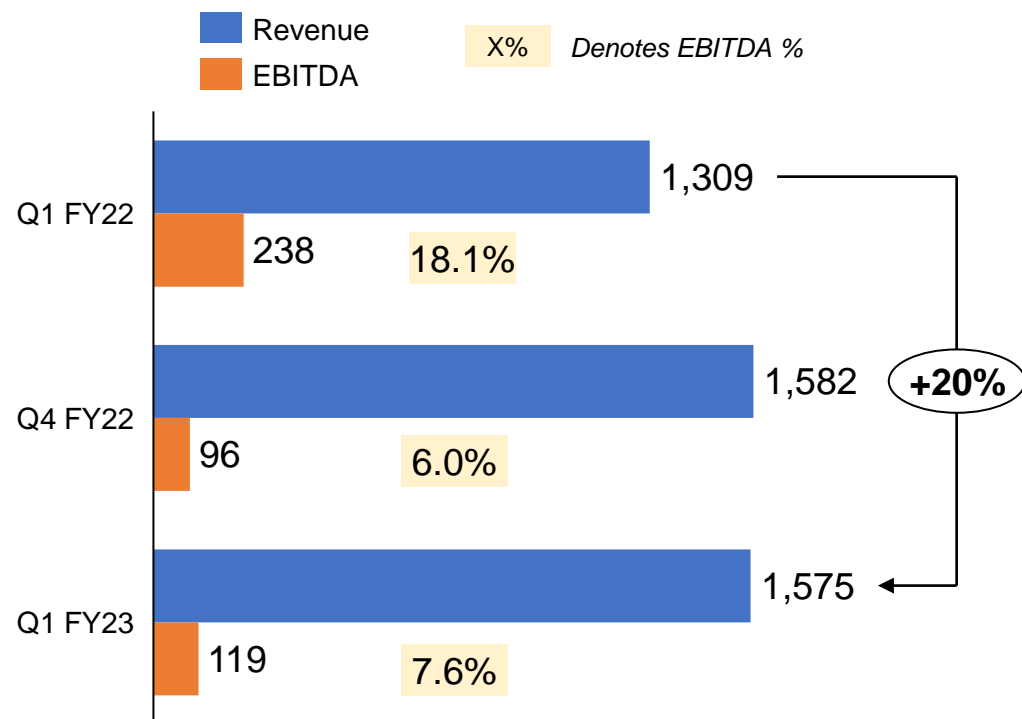


Q1 FY23 saw inflation headwinds continue in major raw materials, However logistics cost has started to ease;



- Raw material prices particularly polymer prices linked to crude oil have strengthened in Q1 FY23
- Gas (LNG and Helium) prices have also exhibited increases. Helium gas prices have increased sharply in recent quarters due to production problems at major US and Russian suppliers.
- Logistics cost have started to come down towards the end of Q1 FY23

Revenue grows 20 % y-o-y in Q1 FY23; Operating margins improve QoQ



All figs in INR Cr

Note: Q4 FY22 EBITDA excludes one time gain of Rs. 25.57 Cr. On sale of MTCIL to compare operational profitability

Q1 FY23 Revenue Split

	Optical	Services	Digital & Access
Revenue	Rs. 1,137 Cr. 72%	Rs. 419 Cr. 27%	Rs. 41 Cr. 3%

Note : Q1 FY23 Capacity Utilisation for OFC at 88%, calculated on production volume & OFC capacity at 36.8 mn. fkm.

Growth Drivers < 20% YoY >

- OFC volume growth
- Realization increase due to mix change
- Increase in UK services revenue

Margin improvement drivers < 160 bps QoQ >

- Revenue Mix shift towards Optical business
- Revenue Mix shift towards North America
- Increase in OI Margins

Consolidated Financials: Abridged Version



P&L (Rs. Cr.)	FY20	FY21	FY22	Q1 FY23
Revenue	5,154	4,825	5,754	1,575
EBITDA	1,104	854	594	119
EBITDA %	21%	18%	10%	8%
Depreciation	290	285	329	82
EBIT	813	568	265	37
Interest	221	203	241	69
Exceptional Gain/(loss)	(51)	-	16	
PBT (Before share of Associates and JV)	542	365	40	(32)
Tax	109	111	14	(8)
Net Profit¹ (After minority Interest)	434	275	60	(20)

Balance Sheet (Rs. Cr.)	FY20	FY21	FY22
<i>Net Worth</i> (including minority interest)	2,023	2,085	2,042
<i>Net Debt²</i>	1,970	2,410	2,782
Total	3,993	4,495	4,824
<i>Fixed Assets³</i>	2,502	2,664	2,935
<i>Goodwill</i>	122	292	296
<i>Net Working Capital</i>	1,369	1,539	1,593
Total	3,993	4,495	4,824

¹ Profit for the year attributable to owners of the Parent (including share of net Profit of Associate & Joint venture) and Profit (loss) from Discontinued operations

² Net debt = Gross borrowing (-) cash and cash equivalents (-) current investments

³ (PPE + CWIP + Intangibles - Capex creditors - lease liability - redemption liability + advance for FA) and Investment in JV & Associate's.

Driven by our purpose to transform lives

Committed to Net-Zero Emissions by 2030



Zero Waste to Landfill Certified¹

175,000+ MT

Waste diverted from landfills (FY18-22)

15,000+ tCO₂e

Reduced through energy efficiency initiatives
(FY21 – Q1 FY23)

500,000+ m³

of water recycled (FY19- Q1 FY23)

56%

Procurement (by value) done locally (FY 21)



Committed to the UN SDGs²

15

Aligned with 15 of the 17 SDGs

700,000+

Lives benefitted through STL's ed-tech & women
empowerment programmes (FY19 – Q1 FY 23)

2 mn.+

Lives benefitted through STL's healthcare programmes
(FY19 – Q1 FY23)



Strong Internal Governance

Two of the Big Four

as statutory & internal auditors

Executive and Management committees in place

71 ESG awards won (FY20 – Q1 FY23)

Source : ESG report for which independent assurance has been provided by DQS (Statement in FY 21 Annual report)

¹ Certified by Intertek, a U.S. Quality Assurance provider

² Cumulative till FY 21, SDG – Sustainable Development Goals

Strong demand and pricing outlook for Optical Fibre Cable : Multi-year network build cycle in full swing. The global OFC volume & pricing expected to grow in 2022

Aiming for global leadership in Optical Business: Look to achieve strong market share gains in North America and Europe, increase attach rate in optical Interconnect

Focussing on Strategic segments in Global Services: Look to ramp up execution in UK; Build profitable order book in strategic segments in India

Focus on strategic growth opportunities through prudent capital allocation framework: Allocating most capital to optical business ; Divesting non-core assets

Lets answer your questions

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beyond tomorrow

Annexure : Key Business risks



S.No.	Risk	Risk Definition	Comment
1	Geo Political & Economic Risk	Uncertainty in economic (Inflation, increase in interest rate, etc), political conditions may lead to adverse effects.	Focus on cash generation
2	Customer & Industry Demand	Reduction in Capex done by communication industry may dampen demand	Focus on selling end to end optical solutions, Geographic diversification particularly growing share in North America
3	Competition & Product Pricing	Competitive bidding on long term contracts may adversely affect pricing	Focus on reducing product cost & improving product mix
4	Product Portfolio & innovation	Inability to innovate, adapt new technology may negatively impact business	New products across businesses, particularly wireless business are undergoing field testing
5	Service Delivery Risk	Delay in ROW permission, covid lockdowns can delay project timelines	Project execution is as per planned schedule; No significant delays
6	Supply Chain Risk	shortage of containers and supply chain disruptions. Inflationary cost pressure	Price increase to offset the impact of higher input cost. Logistic cost is coming down
7	Talent Management Risk	Inability to attract and retain best professional talent may adversely impact	Certified Great place to work 3 rd time in a row
8	Commodity Risk	Inflationary pressure can negatively impact profitability	Price increase to offset the impact of higher input cost. Logistic cost is getting stabilized and trending down
9	Liquidity Risk	Inability to raise capital, manage indebtedness can negatively affect investments	Credit rating AA by CRISIL and ICRA
10	Litigation & Dispute	Disputes with customers, vendors, partners, competition may adversely impact	Adequate provision in books based on risk assessment
11	Cyber Security Risk	Ransomware, malware, phishing, data privacy breaches may adversely impact	Adequate IT systems protection in place