



# Earnings Call– Q3 FY'20

15<sup>th</sup> January 2020



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# 2019 was a year of Pause for the global Telecom Industry while Growth drivers are in place in 2020 and beyond



## 2019

- Global Telco Capex had paused because of 4G to 5G transition as seen in similar transitions in the past.
- Global fiber demand came down by 7%
- Led by fall in China demand to the tune of 13%
- US & Europe demand growth at 4%
- Indian Telecom industry restructuring

## 2020

- Commercial 5G services launched in key economies globally
- Large Edge Datacentres are deployed with network connectivity
- % of data ARPU is significantly going up in total Global ARPU
- Tower fiberisation & broadband connectivity continue to grow
- Indian telecom industry profitability likely to double

# 5G Commercial Services starting to pick pace

## Expansion of 5G network in US

AT&T, Verizon each expand 5G service to new markets

## China rolls out 5G, plans big investment

- ~6mn base stations planned

China rolls out 'one of the world's largest' 5G networks

## Large scale 5G rollout expected in Europe

Europe targets 5G rollout in every major city by 2020

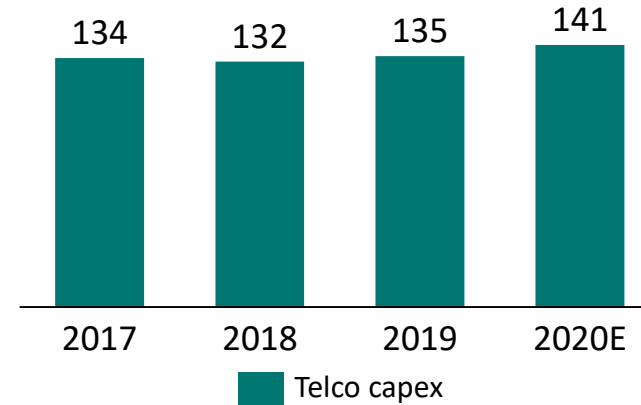
## Profitability to pave way for Future Investments

### Tariff hikes to double telcos' Ebitda: Crisil

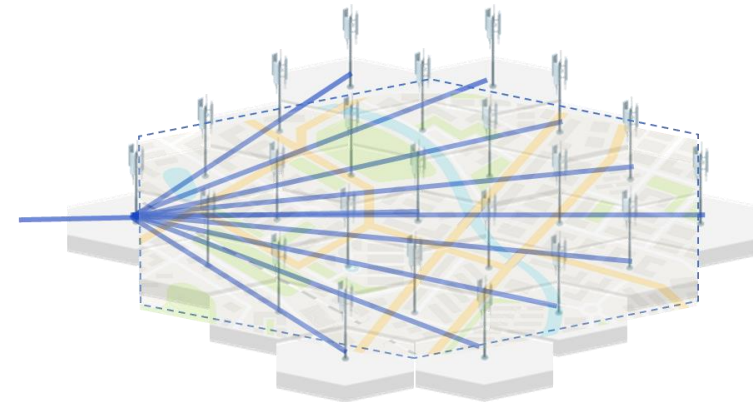
In the last few weeks, Airtel, Vodafone and Jio have increased their tariff- a first since 2016.

## Global Telco's Capex (\$bn)

US (Top 4) + Europe (Top 5) + China



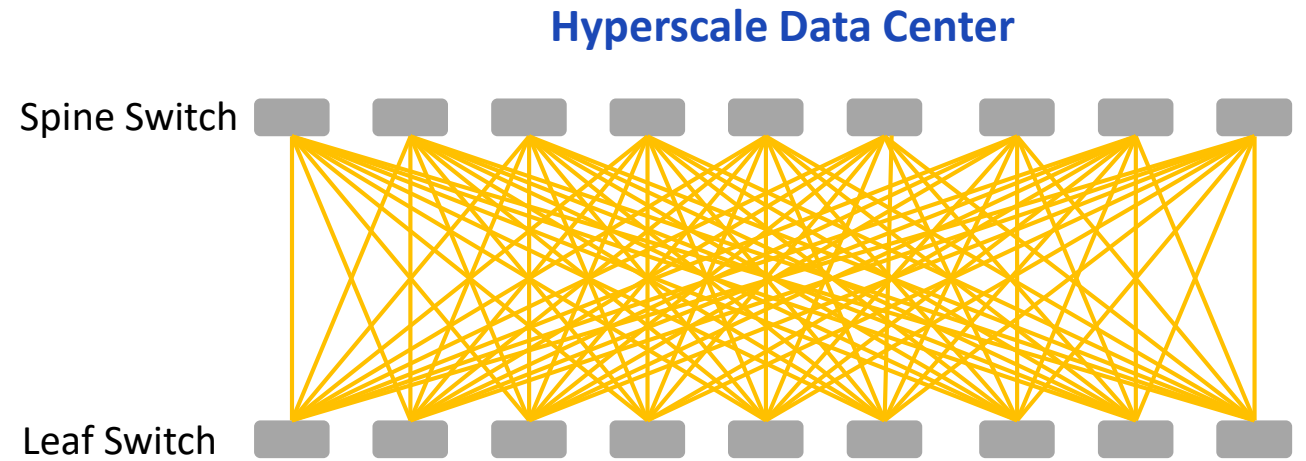
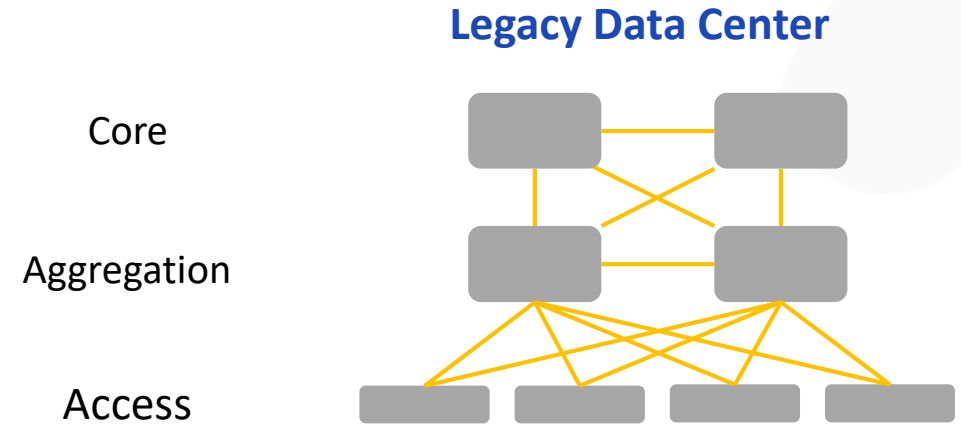
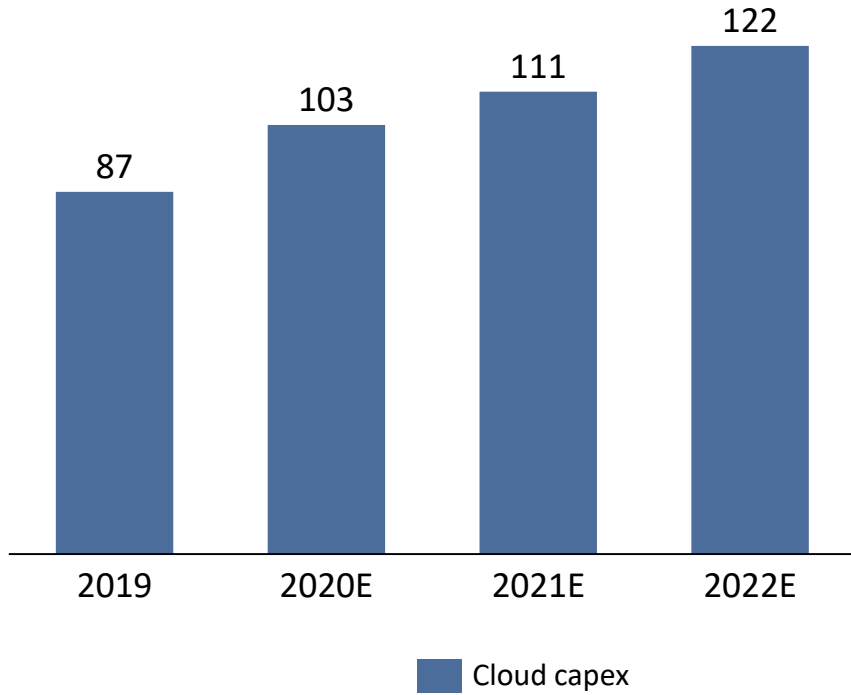
To increase with upcoming 5G deployments



5G will require significantly more fibre than 4G

# Cloud companies continue to invest heavily

Cloud capex on the rise (\$bn)





## National Broadband Mission

### Vision

- Broadband connectivity to all villages by 2022
- Investment of Rs.7 lakh crore in next 4 years from both government and industry

### Features

- Deployment of additional **optical fiber cable of 3Mn Km route km**
- **Fiberization of towers:** From 30% to 70%
- **Tower density:** From 0.42 to 1.0 per thousand population

# Large Indian Enterprises continues to invest in Digital Infrastructure



## Defence



Investing in Network  
Modernisation, Secure data  
Communications & Physical  
Security

## Railways



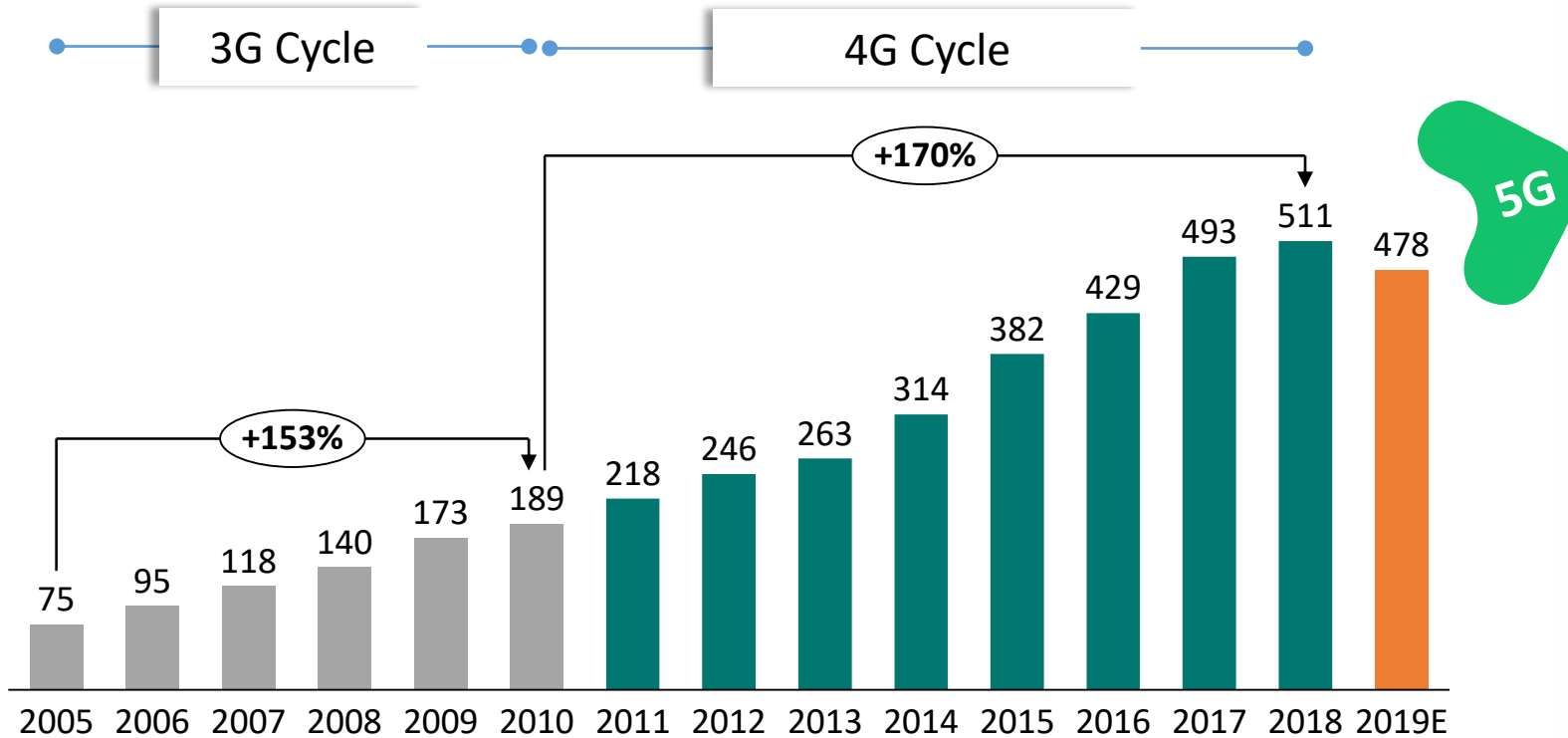
Investing in signalling and  
telecom systems to improve  
speed & safety

## Power Grid



Investing in Smart Grid &  
modern MPLS/SD WAN  
Networks

# Connectivity Solutions: Global OFC Demand came down in 2019 but likely to pick up on back of 5G deployment



## Fiber Demand across Geographies CY19 vs CY18

**N. America** ↑  
4% Growth

**CHINA** ↓  
13% Degrowth

**EUROPE** ↑  
4% Growth

**INDIA** ↓  
29% Degrowth

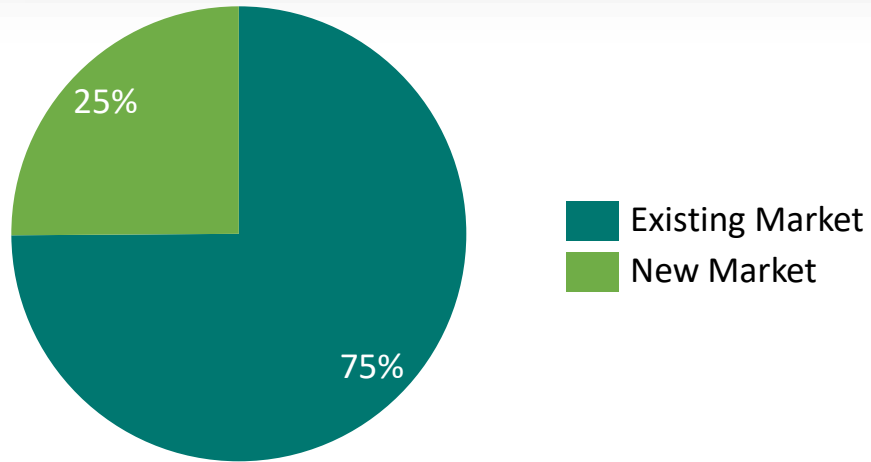
- Demand to pick up as the pace of 5G deployment increases across the globe



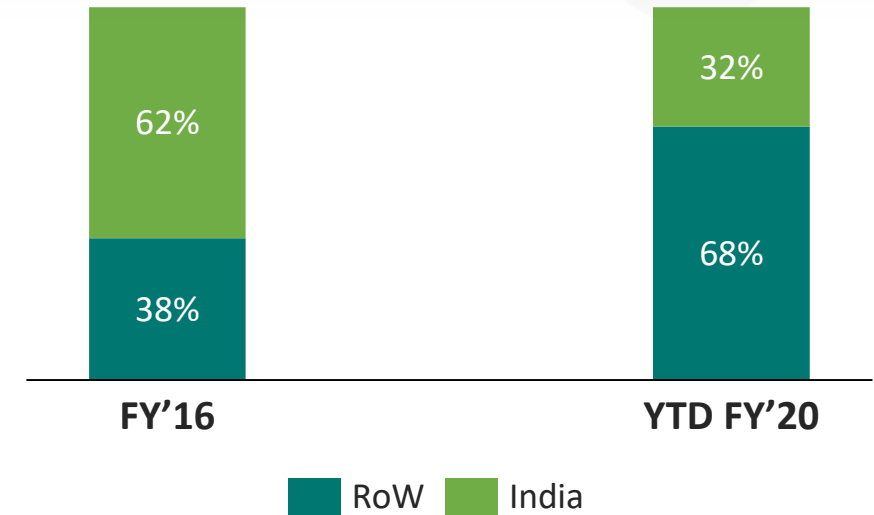
# STL volume will increase through new market entry



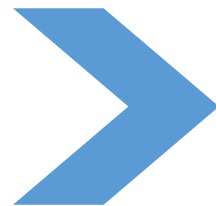
New markets will give STL access to 25% of global demand



Consistently growing presence across the world



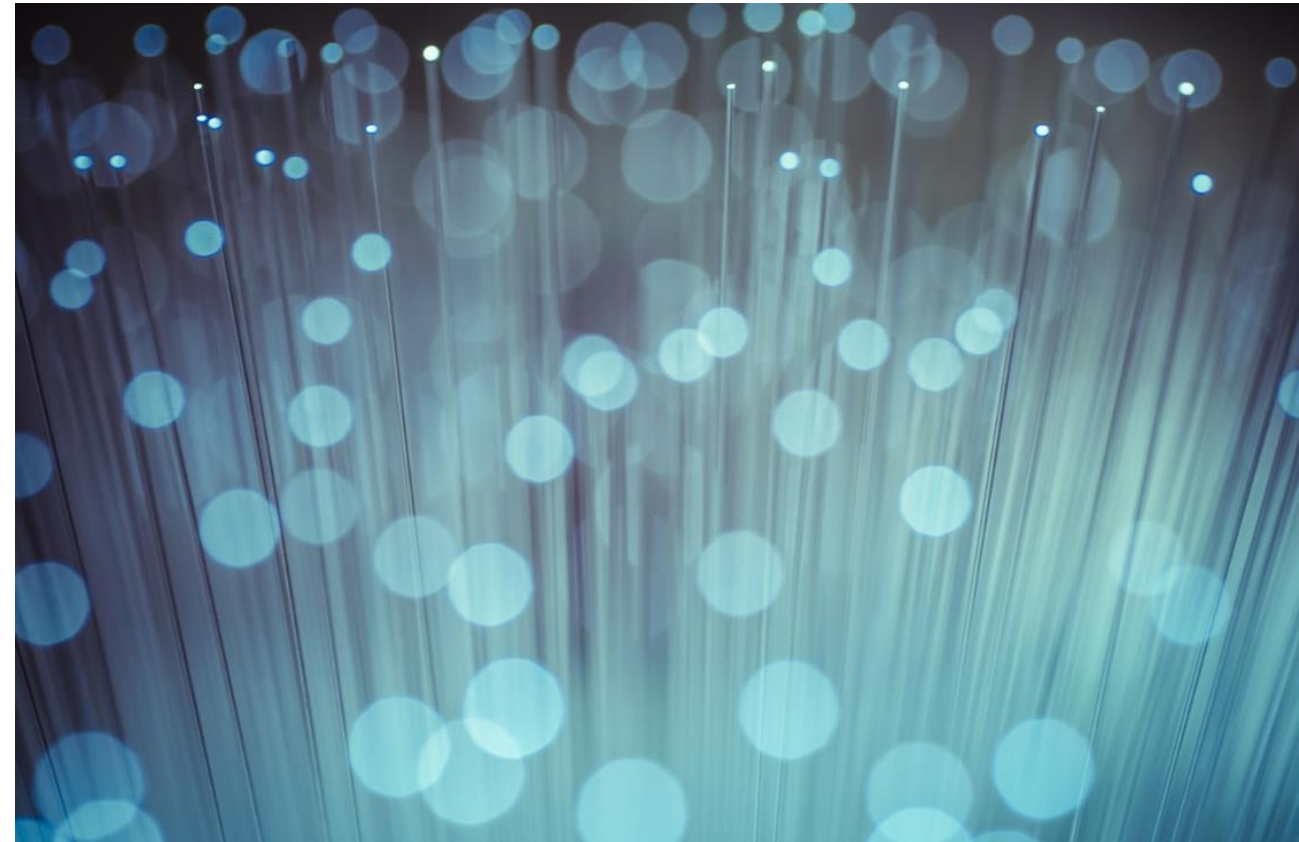
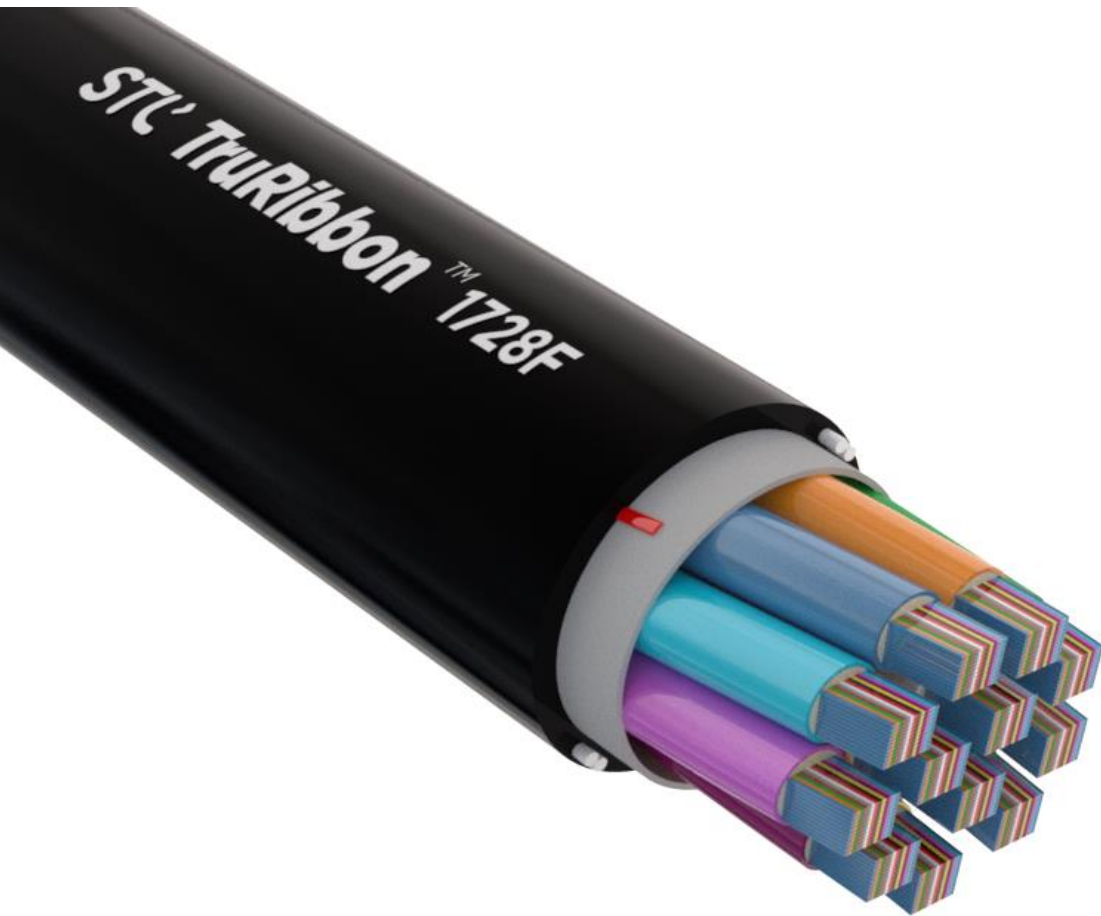
**New Market Entry**



STL today doesn't serve 25% of the world markets.

STL plans to enter these new markets in phased manner.

# Strengthening New Product Portfolio to cater to evolving Network Demands



# Project Junoon: Leveraging Integrated Manufacturing strength to reduce cost



## Levers Of Cost Reduction

- **Raw Material Cost Reduction**
  - Yield Improvement
  - Renegotiation & Alternate Vendors
  - In-house process improvement
- **Manufacturing Cost Reduction**
  - Consumable Cost
  - Power Load Optimization
- **Fixed Cost Reduction**
  - Lean & Agile Organization

# Working Towards Absolute EBITDA Improvement

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## Reasons affecting EBITDA in Q3 FY20 :

1. Volume Decline in OF
2. Realisation decline in OF

## Industry Situation:

1. We are seeing some plants being mothballed & capacities shutting down.
2. If further capacities shut down, it shall help in price stabilisation.

## Levers for Absolute EBITDA Improvement in short term:

1. Incremental Volume from new markets entry
2. Further Cost reduction in Optical fibre

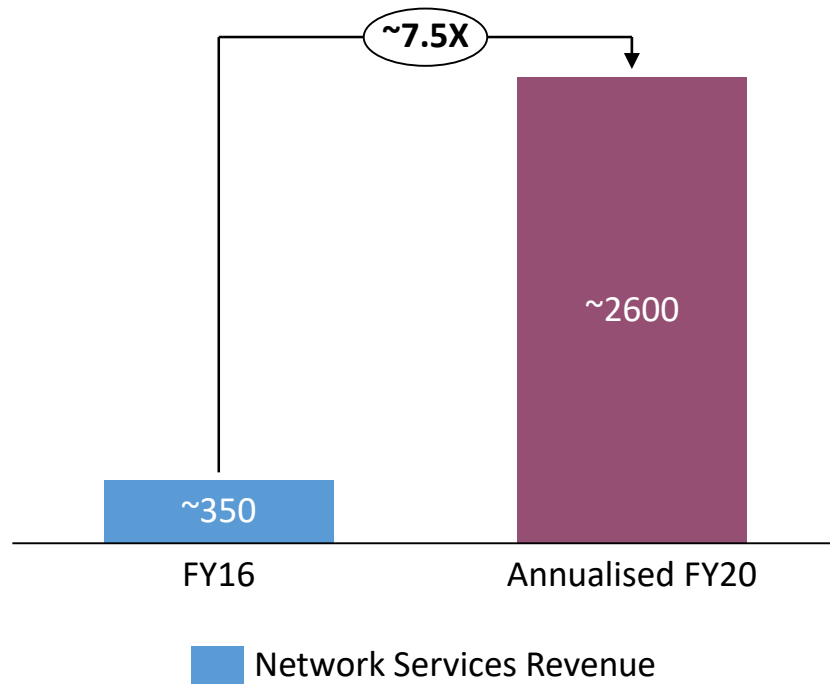
## Levers for Absolute EBITDA improvement in Medium term :

1. New Products Strengthening
2. Capacity Utilisation Improvement (c. 50% to 100%)
3. Improvement in Pricing scenario from H2FY21 onwards

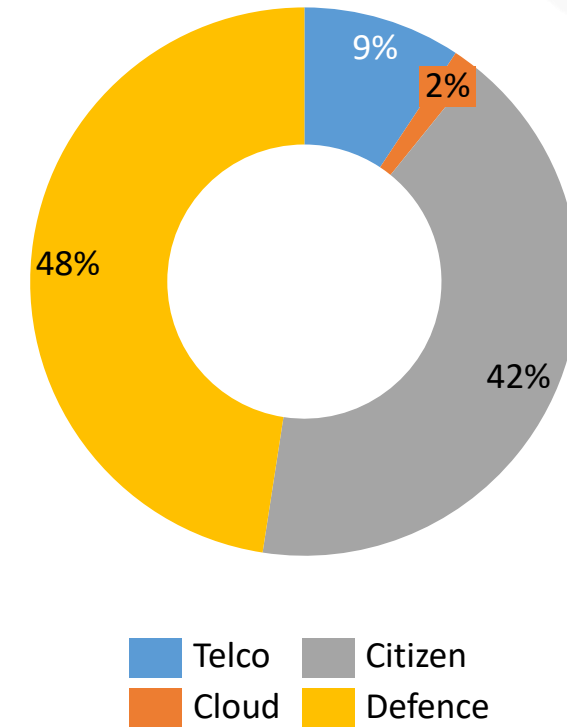
# Network Services: Strategic Growth Engine



Revenue (INR Cr.)



Revenue Split YTD FY20: Customer Segment



Apart from Growth, Network Services is enabling STL to become the strategic partner to our customers by providing end to end solution.

# Network Services: Cumulative (3 Years) Addressable Indian Market Size - \$15Bn



**Telecom  
Companies**

**Cloud  
Companies**

**Citizen  
Network**

**Large  
Enterprises**



**\$6.5Bn**

**\$0.5Bn**

**\$3Bn**

**\$5Bn**

**Aiming for Leadership in India**

# Status on Current Projects & New Order Wins



## Project NFS

*(Indian Army Project in J&K)*

**Completed and  
moving into O&M**



## Project Varun

*(Indian Navy Project)*

**65% Completed**



## Mahanet

**55% Completed**



## Fibre Rollout - Telcos

**5500 Kms Completed YTD**

**STL awarded T-Fiber project to deliver digital infrastructure to 6 millions rural citizens of Telangana**

**Telekom Albania selects STL and Cognition for its digital transformation program**

# STL Differentiation: Technology Led Implementation

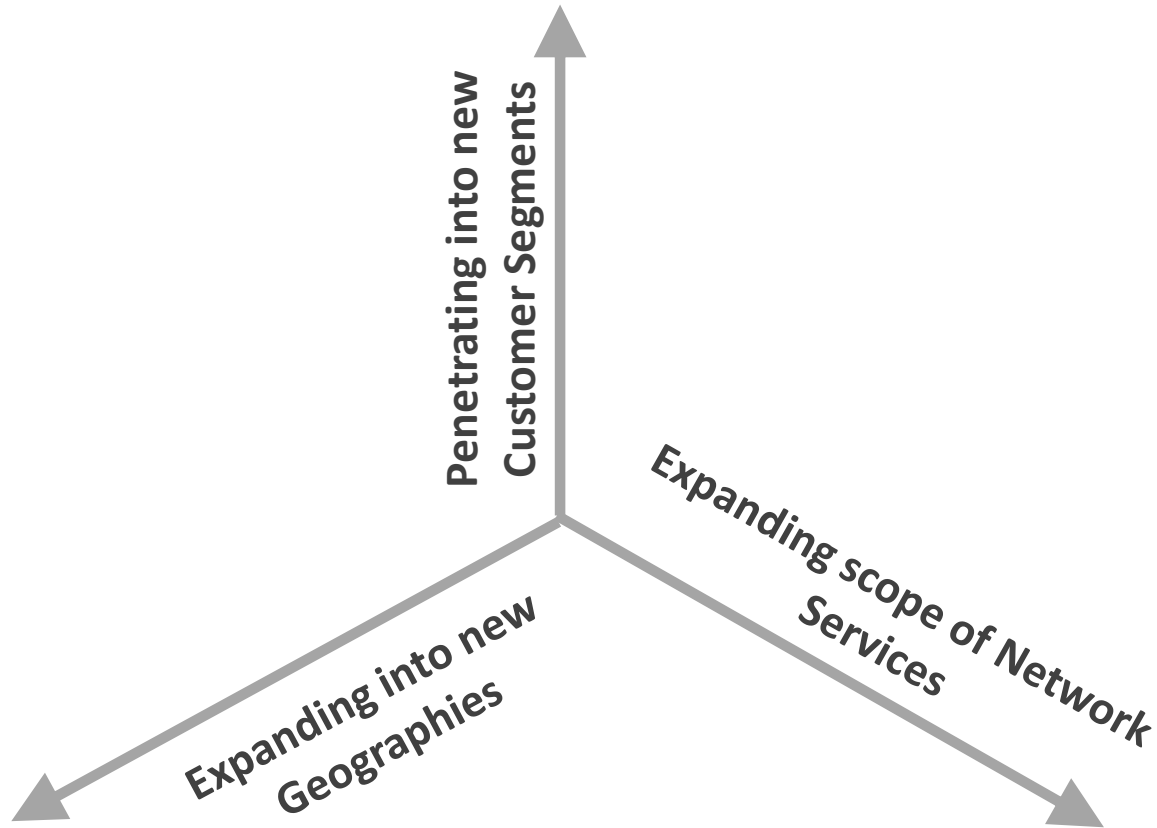


STL launches second generation of Hyperscale Network Modernisation - Lead 360° 2.0 at IMC 2019

Showcased next-gen technologies like **drone-led surveys**, **AI bots** and **robotic cable blowing** for hyper scale network design and deployment at the STL booth in IMC 2019







## Penetrating into new Customer Segments

1. Expanding significantly in Telco Segment
2. Expanding in Cloud Segment through leveraging acquired capability

## Expanding into new Geographies

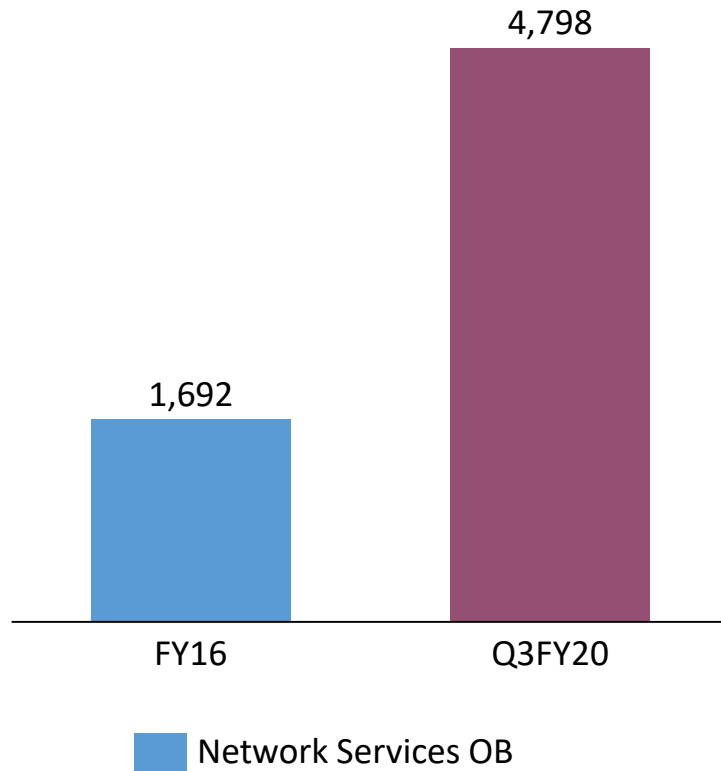
1. Becoming a Pan India Player (Currently operate in 8 States)
2. Exploring Markets outside India

## Expanding scope of Network Services

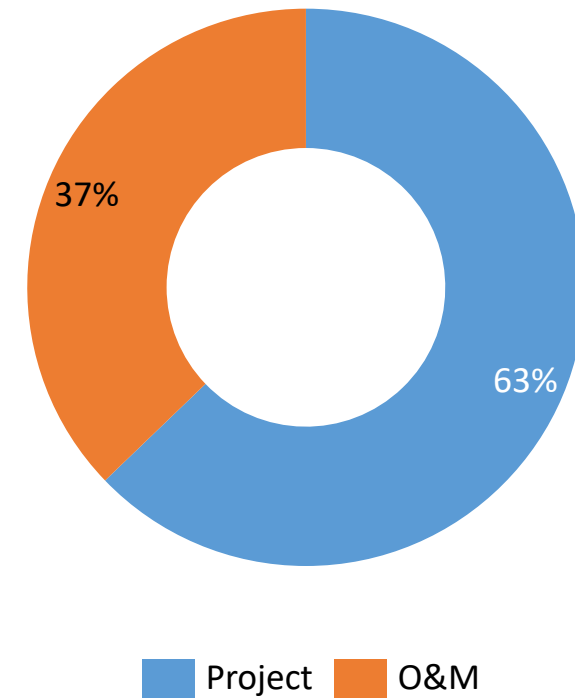
1. Developing capabilities to further increase the scope of services

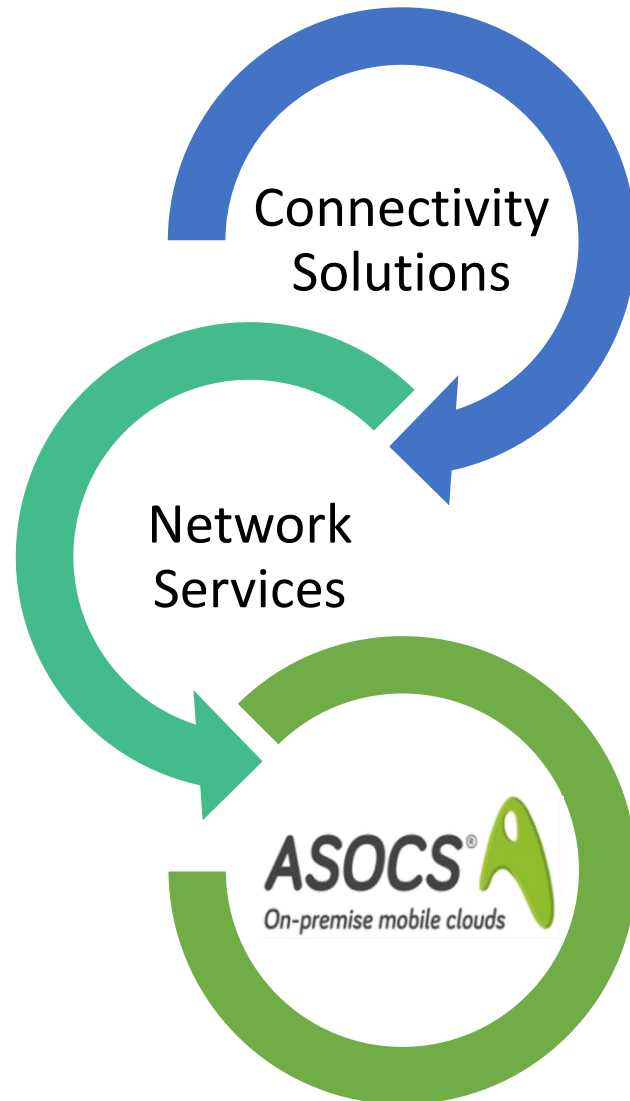
# Continuing unabated growth

### Order Book Growth



### Order Book Split





## Networks of the Future

Vendor Neutral & disaggregated Hardware  
Open Sourced & Virtualized Software

## ASOCS

Provider of fully virtualized base stations for  
Enterprise & Telco networks

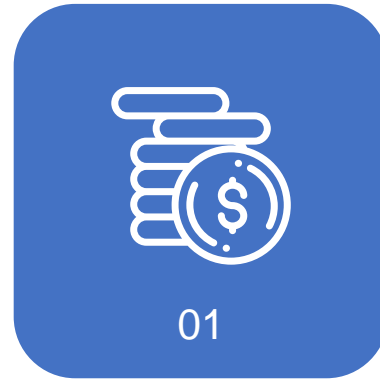
## STL + ASOCS

STL acquired 12.8% stake in ASOCS  
Provide joint solution to customers

# Customer Obsessed Re-Organization

## 01 Customer-Centric Solutions

Deep Knowledge of Customer's Strategy  
Be a Partner vs vendor  
Offer solutions Vs. Components



## 02 Single Face to Customer

Build an **Account Based Organization** in each Geography

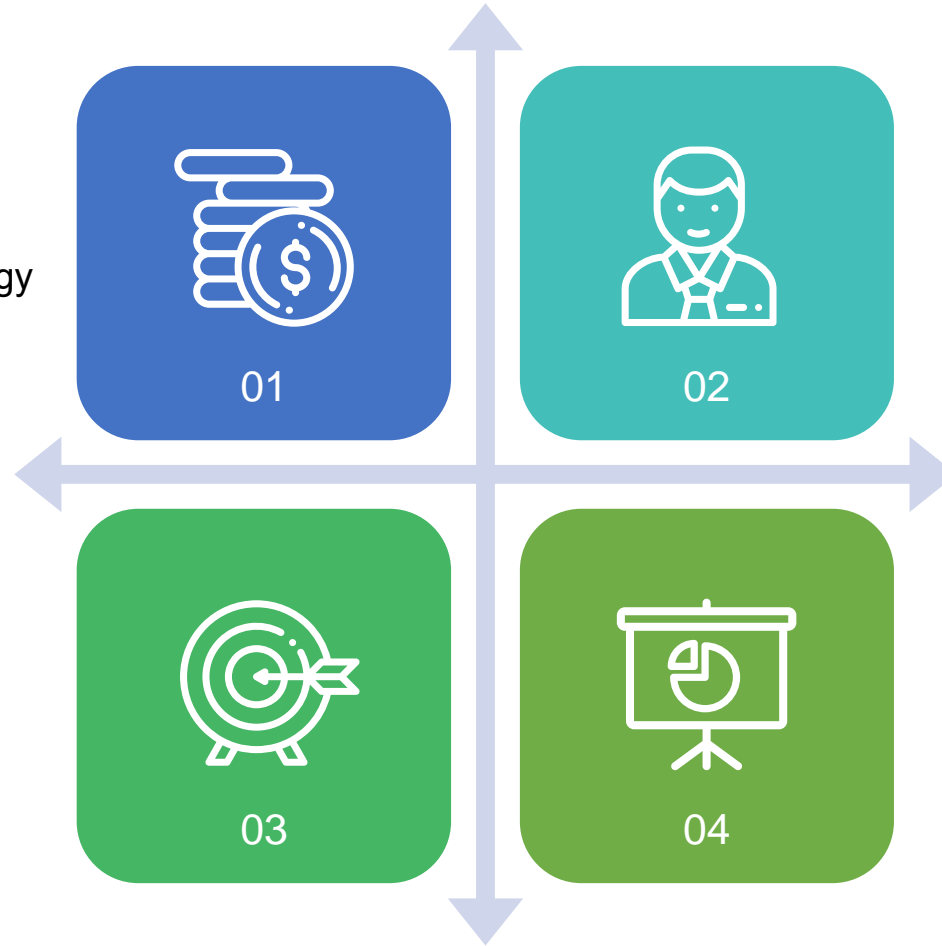
## 03 Focused Business Lines

Enhance **PL Sales across Geographies and Accounts**



## 04 Top 3 in every Market

Organize the Global Organization into **Zones & Regions** to maximize Market Share



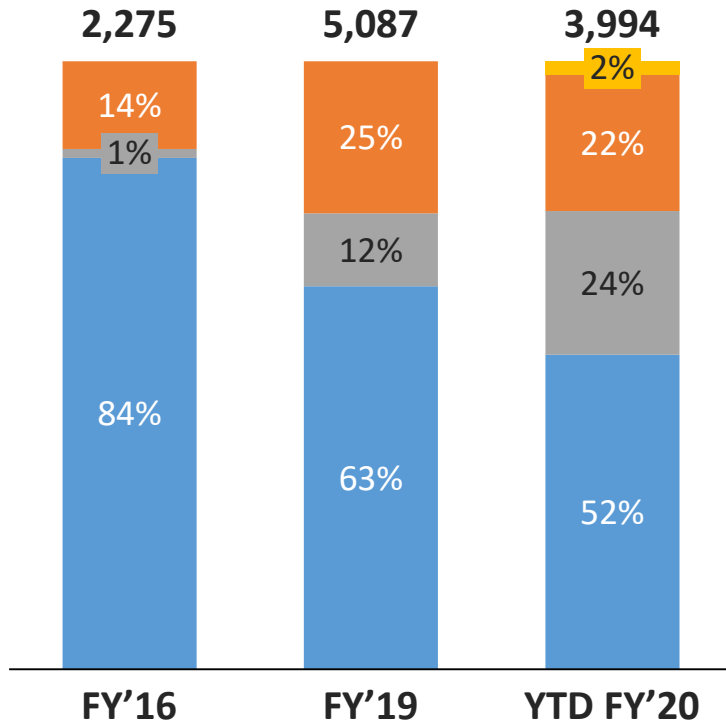
# Financials



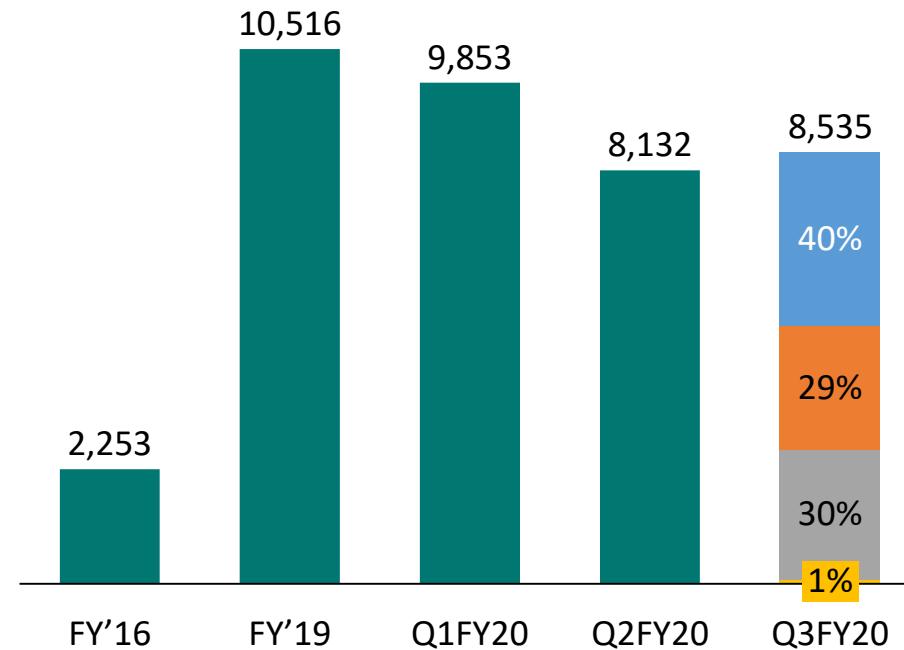
# Financials (1/2)



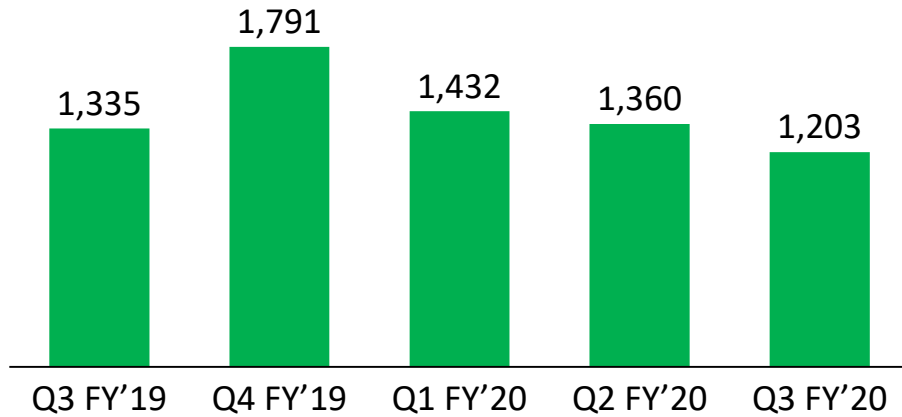
### Customer Segment Revenue Split (INR Cr.)



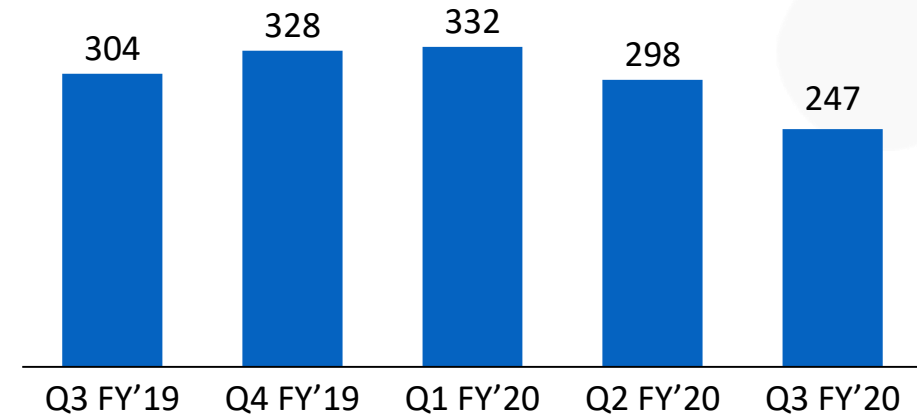
### Order Book Growth (INR Cr.)



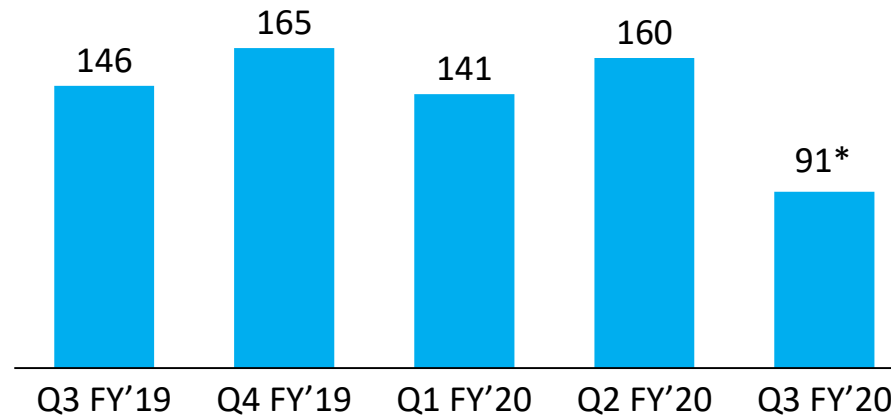
## Financials (2/2)



Revenue (INR Cr.)



EBITDA (INR Cr.)



Net Income (INR Cr.)

\* Adjusted for exceptional item net of tax

# Summary : Why we continue to remain bullish



## 1 Connectivity Solutions:

- **5G** Commercially launched globally; **Deployment** to pick pace; shall lead to structural **demand growth in OF**.
- **Absolute EBITDA shall grow** from Q3 on the back of **Volume gain through new market entry**, further **cost rationalisation & New products strengthening**.

## 2 Network Services & Software:

- **Investments by Citizen Networks & Enterprises in India to Continue** leading to **Order book Growth in Q4**.
- **Strong Revenue growth** in Network Services on the back of **Customer segments penetration, geographic expansion & scope of services expansion** & to move towards **Leadership in India**.

## 3 Investments in Technology to create networks of future:

- STL shall continue to **invest to acquire new technologies & new capabilities**, and **ride the disruptive trends** shaping the networks of the future



# Financials: Abridged Version



P&L (INR Cr.)	FY19	9M FY19	9M FY20	Q3 FY20
Revenue	5,087	3,296	3,994	1,203
<b>EBIDTA</b>	<b>1,164</b>	<b>836</b>	<b>877</b>	<b>247</b>
<b>EBITDA %</b>	<b>23%</b>	<b>25%</b>	<b>22%</b>	<b>21%</b>
Depreciation	195	145	213	70
<b>EBIT</b>	<b>969</b>	<b>691</b>	<b>664</b>	<b>177</b>
Interest	105	75	162	56
Exceptional Item	-	-	51	51
PBT	864	616	451	71
Tax	278	196	96	19
<b>Net Income (After Minority Interest)</b>	<b>563</b>	<b>398</b>	<b>354</b>	<b>53</b>
<b>Net Income <i>Adjusted for exceptional item net of tax</i></b>	<b>563</b>	<b>398</b>	<b>392</b>	<b>91</b>

Thanks