

April 1st, 2020

Impact of COVID-19 on business & STL Response

Coronavirus (COVID-19) has been declared a global pandemic and as we speak, the number of infected cases are rising every day. In this unprecedented situation, the Governments across the world are leading the response in their respective countries and we are also working in-line with regulatory directions. As a socially conscious organisation, we are also doing our bit for local communities. We have created Project Savdhaan, a special initiative to train over 1 lac youth on COVID-19 awareness through STL academy.

As we saw the scenario unfolding in China, we formed a cross functional Business Continuity Planning team in early February to focus on 4 key aspects in this crisis. 1. Employee & Ecosystem safety 2. Customer commitment fulfilment 3. Cash Flow planning based on scenario Analysis & 4. STL readiness for a quick restart as the situation normalises.

In terms of on roll & off role employee safety, we were one of the first few companies to advise our employees to work from home. In line with WHO & regulatory guidelines, we issued travel advisories, secured Physical and digital assets & reviewed health insurance and hospital tie ups in case of emergency. We have a very strong digital capability to ensure virtual collaboration, communication & secure data transmission while working from home.

In these difficult times, we are continuously in communication with our customers, and our customers have appreciated our efforts to maintain on-time deliveries. In terms of our plants across the world, Our China plant is operating at Pre- COVID utilisations. Our employees have re-joined and we are planning to fulfill more of our global customer requirements from this plant in the interim. Our Brazil Plant is also fully operational. In Italy, our plant is expected to restart by 6th April, starting with dispatch and then moving to normalised operations. In India also, there is a lockdown till 14th April. We are receiving several enquiries from India and abroad for supply of our products to maintain networks and increase the capacities with the added load on the data networks. we have approached the relevant authorities for plant re-start within the regulations of essential services and continuous manufacturing as applicable. We are not carrying any significant inventory at the moment. Our Services projects in India are on temporary pause and while we have submitted force majeure letters to our customers, there is an attempt to restart some of the critical projects here as well on account of essential services required to maintain communication.

In terms of cash flow, our receivables are not significantly affected. Telecom & Cloud company's services are a part of essential services and they are continuing. In the services business, though our collections have got delayed due to unavailability of full manpower in our customer's offices but we expect to get most of our due payments in the month of April. We are maintaining a comfortable balance of cash and cash equivalents. In the event that the lock down situation persists longer than anticipated, we have more than sufficient liquidity to manage all our fixed costs & cash out flows.

We are very closely monitoring the situation with our BCP team and are preparing ourselves for a quick restart on plant operations & to depute employees at the project sites as

soon as the situation normalises or we get the requisite approvals. Our supply chain & vendor partners are also in state of readiness for a quick restart.

In terms of business implications of COVID-19, we shall see some negative short term financial impact. The global fibre demand is expected to remain weak in the first half of CY20 and should come back in the second half. Overall the demand shall remain flat in the current calendar year & shall rebound in CY21. The demand for our services business is expected to remain strong as expected earlier. We reported an additional order book of about Rs. 1,500 crores during mid-February from a variety of clients and will report the overall order position with our full year results.

In terms of mid-term business implications, we see that world will move much faster towards digitisation. We are seeing at least 5 macro shifts in the current environment of network usage and traffic which will continue even post the current situation.

1. Increase in Traffic - In terms of data usage, most regions in the world are seeing between 30-100% increase in the traffic on the network. A significant amount of this traffic is coming from enterprise use cases like video conferencing, collaboration tools like slack and increase usage of Web based applications on the cloud.

2. Traffic shifting towards Enterprises and Cloud - Enterprise data consumption has significantly increased. Microsoft has announced that there has been almost a 7x increase of Cloud services in the regions which have enforced social distancing measures for its Azure based cloud services. With more employees operating outside the office, more workloads will have to be migrated to the cloud to ensure that work can be completed.

3. Symmetric Traffic The data usage which earlier used to be mostly asymmetric, that is focussed toward downloads, is becoming symmetric – most of the user traffic is both upstream and downstream.

4. Low Latency Requirement We are also seeing that as more and more enterprise applications are moving to cloud; they also demand a very low latency from the networks. The networks are responding to this requirement by have edge datacentres and moving closer to customer. Leveraging on our capability in datacentres, we are talking to customers on building large scale edge datacentres in India.

5. Usage Patterns shifted: The data consumption patterns have also shifted to residential localities amid an upsurge of home internet and video streaming services. To tackle the network congestion, telco's have started to roll out cell on wheels. A cell on wheel site is a piece of passive infrastructure on which base stations and antenna can be mounted and quickly beefed up for capacity and coverage in a local area. While this is a temporary solution, we are already in discussions with telco's towards establishing a more permanent capacity.

As a result of these 5 macro shifts, we have noticed an increase in our customers discussing with us on preponing the network rollouts. Also as the data networks choke across the world, we are getting increased queries on network requirements of the future. We expect our customers to plan for a much higher redundancy in the network in the future thereby increasing the fibre count going forward.

On the Government side, we feel that the governments across the world shall stimulate the economy by increasing investments specially in creating digital infrastructure. China ministry of Industry and Information Technology has published a document calling on localities to accelerate 5G network buildouts and applications to minimise the impact of coronavirus. The country had installed 130,000 5G base stations in 2019 and this figure is expected to go up to 600,000 in 2020. We expect the momentum to get stronger as China plans to take lead in world in 5G. In Europe, we are seeing strong momentum by UK and Germany on creating broadband networks. UK Govt. has announced \$6.5 bn. Investment in creating a rural gigabit broadband network.

In India also, we expect the Government to continue spending in creating digital infrastructure. So we are very positive on the midterm positive implications on our business in the post Corona world.

Looking at the future possibility of the business and to return cash to our shareholders, we had announced buyback of Rs. 145 Cr. on 24th march 2019. The buyback shall be carried via open market route and upto maximum market price of Rs. 150/-. This buyback shall be done over a period of next 6 months.

In the end, we would like to say that though there are short term global challenges across the world, but we are very confident that this challenge would usher in a new era of global digitisation and virtual connectivity, making the world much more connected, much more border less and much more efficient and STL would have a large opportunity to contribute to make this happen at a faster pace.

*Note: The above are the key discussion points discussed in the investor call on 1st April, 2020.