

Earnings Presentation

Earnings Call Q2 FY23

4th Nov 2022



Safe Harbour



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Strong Industry Tailwinds



1

**Strong industry
tailwinds continue**

2

STL growth strategy
on track

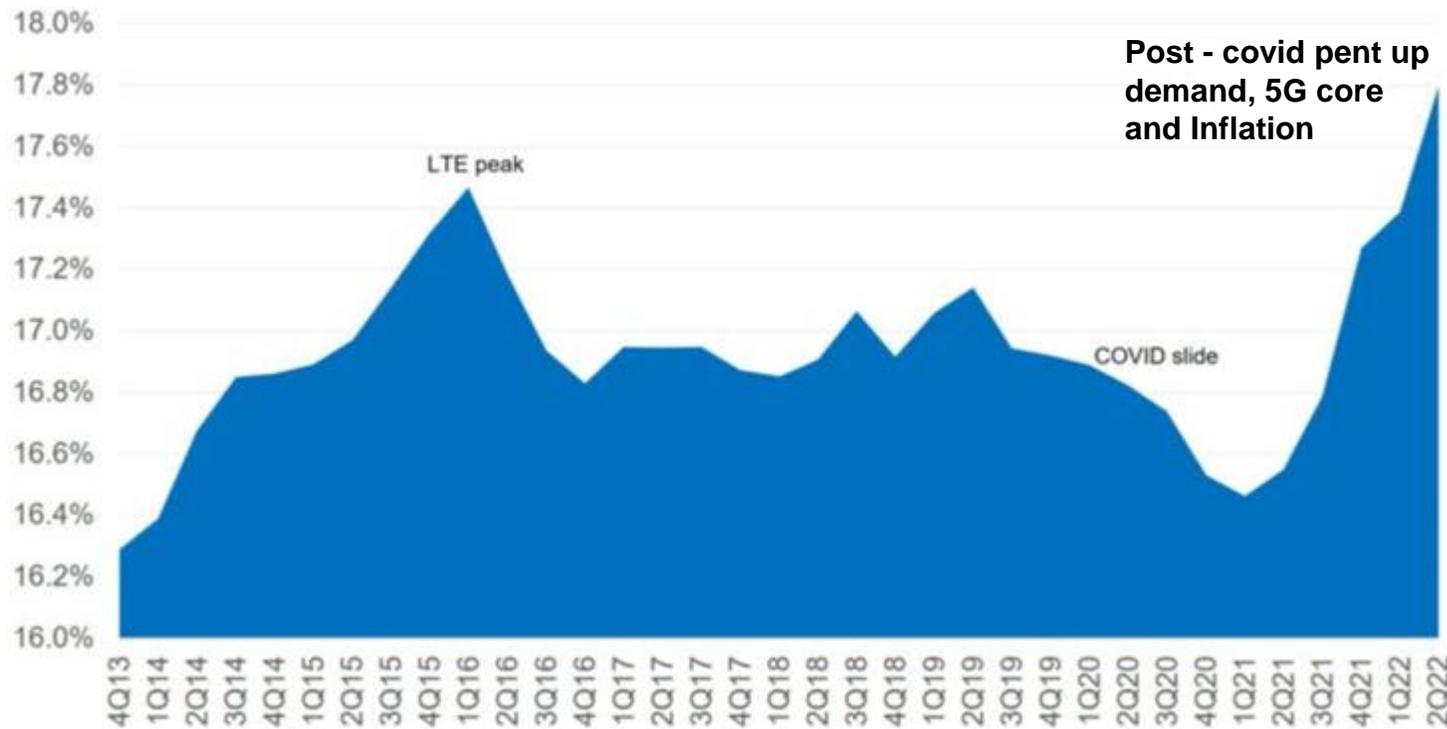
3

Financials continue
to improve

4

Q&A
session

Telco capital Intensity hit 10 year peak in Q2 2022



Strong Capex continues despite economic headwinds

- Telco capex at \$329.5 bn. for 12 months ended June 2022
- Capital intensity (ratio of capex to revenues) at 10 year high at 17.8%
- Many Telcos building 5G standalone networks
- Demand from our key customers expected to remain strong despite economic headwinds

Strong investment momentum in 5G, FTTH, Datacenter and citizen networks

5G

- 5G Investments : expected to be **\$500 Bn.** from 2022 to 2025
- As per Ericsson, **210** service providers have launched commercial 5G services globally
- 5G subscriptions: **690 Mn.** as of Q2 2022 and expected to reach to **4.4 Bn.** by 2027
- 5G base stations in China: **1.97 Mn.** to reach to **3.65 Mn.** by 2025

FTTH

- **\$125 Bn.** earmarked for FTTH deployments in the North America for next 5 years
- AT&T to double its fibre coverage to **30 Mn.** locations by 2025
- Frontier targets **10 Mn.** FTTH locations by 2025
- Brightspeed to invest **\$2 Bn.** to pass **3 mn.** FTTH locations by 2028
- UK's BT Openreach plans to reach **25 Mn.** FTTH locations by 2026

Data centres

- Data center CAPEX to grow by 10% CAGR over the next five years, to **\$350 Bn.** by 2026
- Cloud and colocation data center capex is expected to reach **\$125 Bn.** by 2023
- Google plans to invest **\$9.5 Bn.** in building offices and data centers in the US in 2022
- Data center investments in India expected to surpass **\$20 Bn.** by 2025

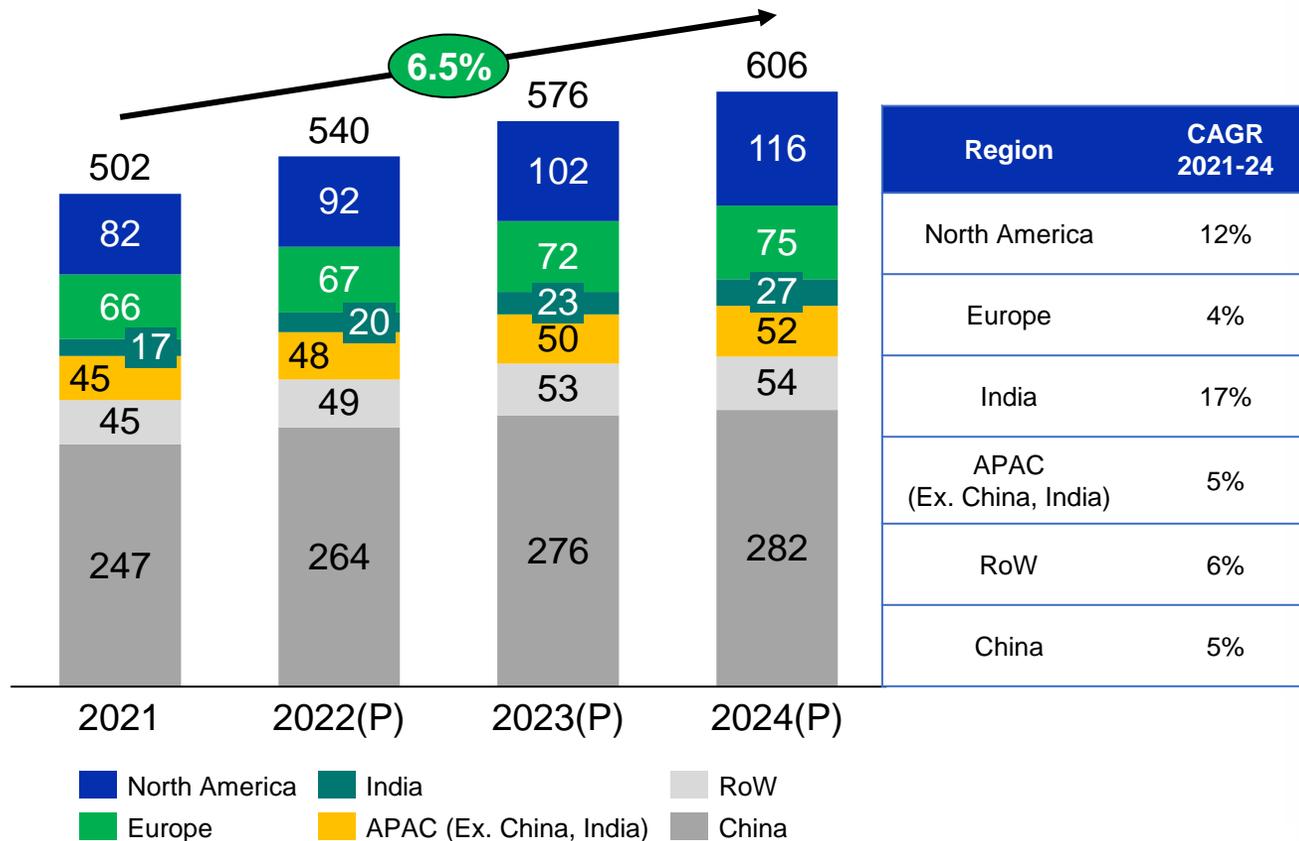
Citizen Networks

- US implementing investment of **\$65 bn.** in broadband as a part of Infrastructure act
- UK aims for gigabit-broadband to be available nationwide by 2030 and to connect **85%** of premises by 2025
- Germany puts nationwide supply of FTTH as a priority for the Federal Government
- Indian Govt. planning for Bharatnet to connect all villages

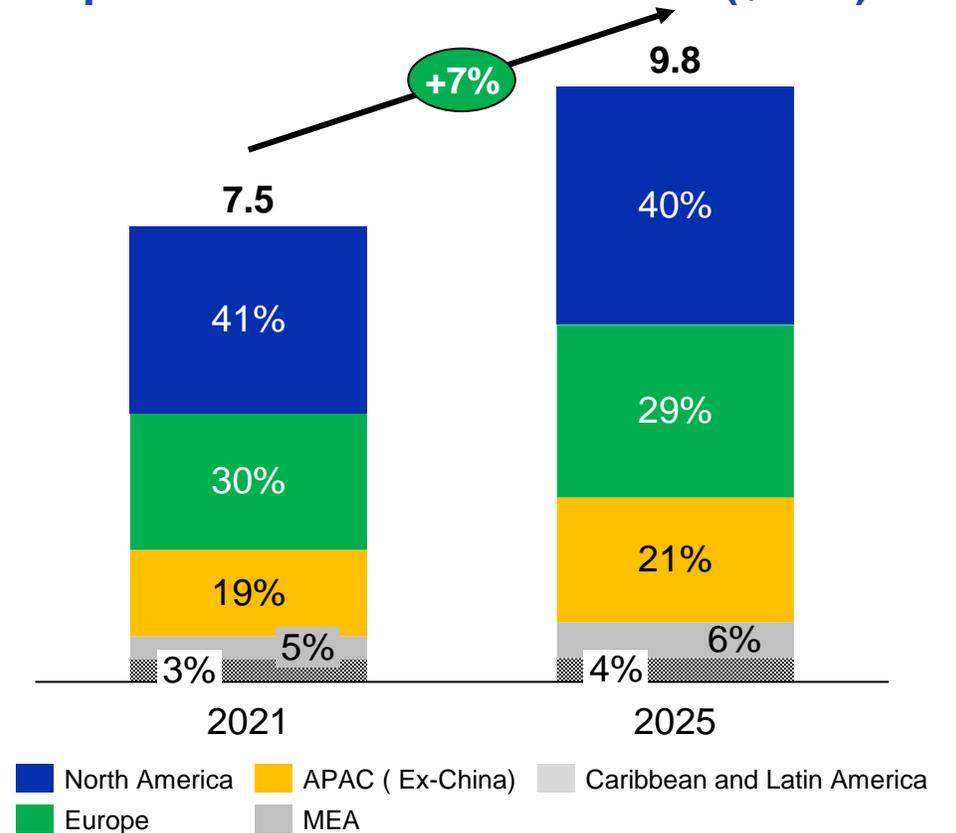
Steady growth in demand in Optical fibre cable & Optical Interconnect



OFC Demand region wise (Mn Fkm)



Global Ex-China Optical Interconnect Demand (\$ Bn.)



STL focus markets are **North America, Europe and India**, which is 2/3rd of ex- China global demand

5G services launched in India by PM Modi



5G Services launched in India

- PM modi launched 5G services in India at IMC
- Bharti Airtel launched 5G in 8 cities; cover India by 2024
- Jio launched 5G in 4 cities; To cover India by end of 2023
- Telcos to Invest \$18 bn. to \$ 22 bn. in non-spectrum capex by FY25

Telco plans fibre roll out

- Telcos expected to deploy more than 200,000 cable kms in next 18 to 24 months incl. preparation for 5G rollout
- Telcos expected to spend approx. \$1.5 bn. to \$2.5 bn. for fibre roll out for next 2 to 3 years

With 5G launch in India, Telcos set to strengthen optical fibre networks

STL Growth Strategy on Track



1

Strong industry tailwinds continue

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STL growth strategy on track

3

Financials continue to improve

4

Q&A session

1

Grow

Optical Business



- Increase global OFC **market share** particularly in **US**
- Increase **OI attach rate**
- Develop industry leading **new products**

2

Consolidate

Services Business



- Focus on profitable projects in **strategic segments** in India & UK
- Build **sustainable revenue** with Operations and maintenance contracts
- **Reduce working capital** cycle

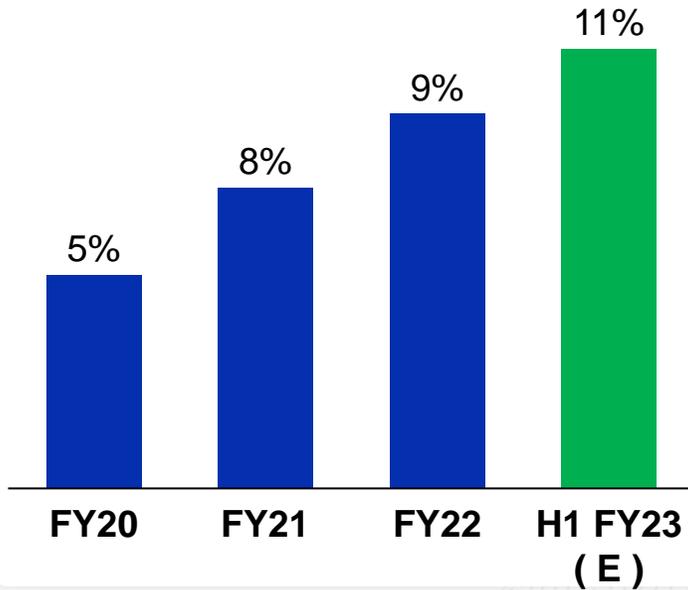
Focus on strategic growth opportunities through a prudent capital allocation framework

1 Grow Optical Business

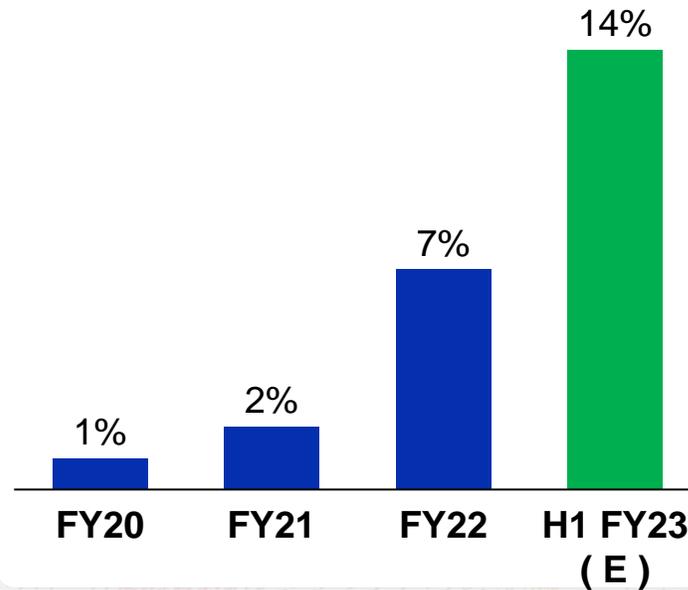
Increase OFC market Share | Won multi year OFC contract in North America



Global ex-China OFC Market share



Americas OFC Market share



Secured

**multi - million dollar,
multi - year contract
with**

***a leading*
North American
broadband connectivity
company**

Gaining market share through long term contracts in focus markets

Market Share = STL Sales Volume / Total Market Demand
Total Market Demand - CRU
STL Sales Volume - Company Data

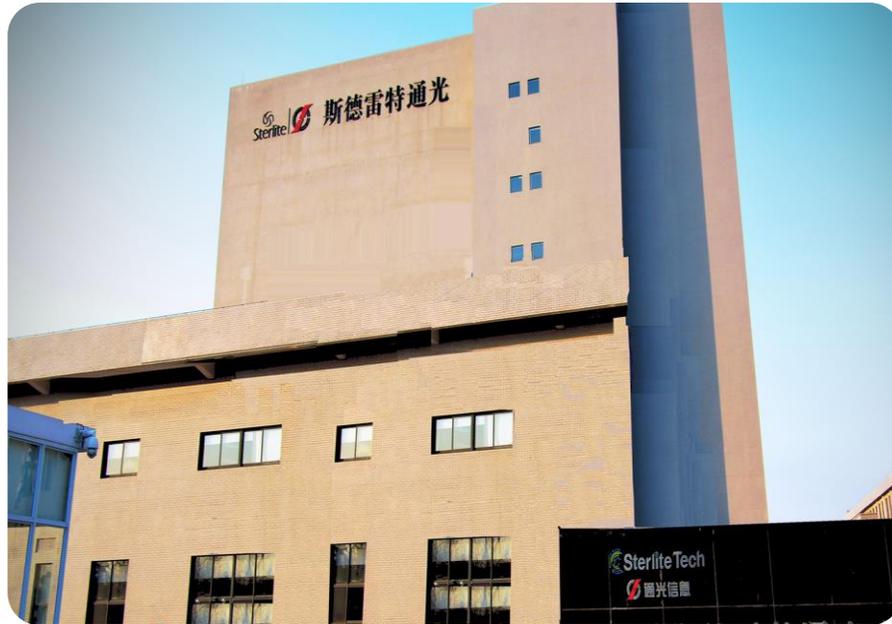
Americas includes North America and Latin America

1 Grow Optical Business

Increase OFC market share | US OFC facility & China OF facility operational



Optical Fibre Facility, China



Optical Fibre Cable Facility, USA



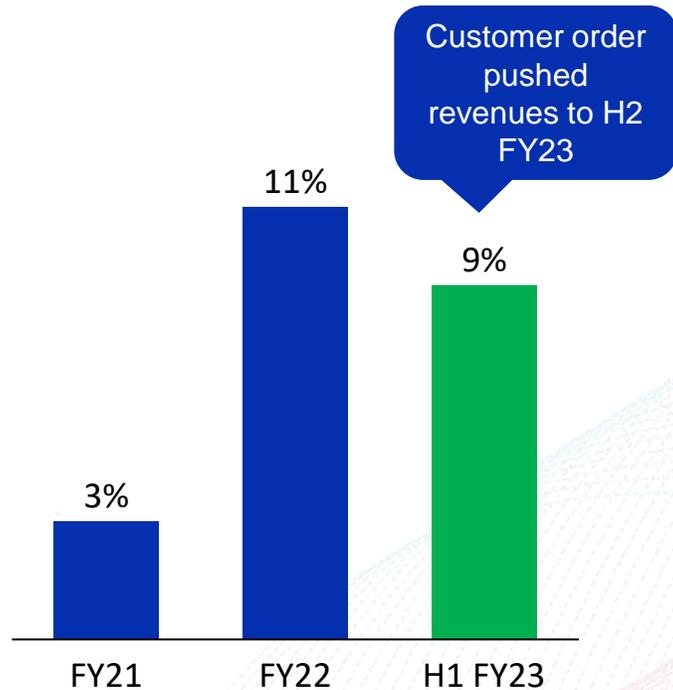
Aiming to reach full capacity utilisation by Q1 FY24

1 Grow Optical Business

Increase Optical Interconnect attach rate



Optical Interconnect attach rate



Opto- Bolt Terminal



Drop Cable



Secured

**multi - million dollar,
multi - year contract**

with

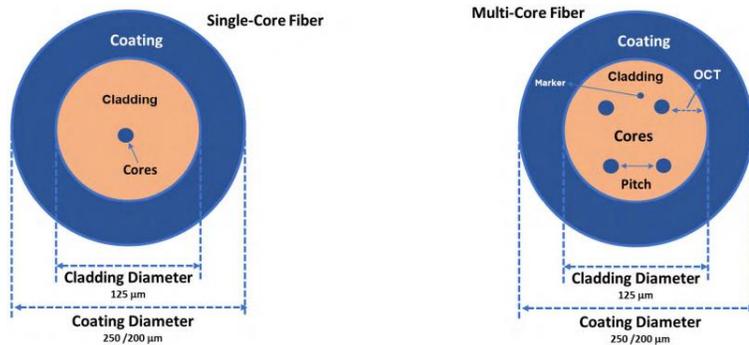
***a leading*
European Telco**

Plan to **reach attach rate** of 40% by FY25

1 Grow Optical Business

Develop Industry first new products & solutions

Multiverse



India's first **multicore fibre** for 4x capacity for 5G networks and Fibre to the x networks

5G Cosmos



Tower and small cell fiberisation solution for 5G networks for Telcos

Gram Galaxy



India focused solution for **rural fiberisation**. Integrated suite for network design, optical products, automated deployment and talent services

"I am excited to see this optical fibre innovation from a homegrown company. STL's Multiverse fibre and cable will enable 4X capacity and play a vital role in 5G scale-up. I wish STL all the very best for their efforts towards supporting network build outs."

Randeep Sekhon, CTO, Bharti Airtel

2 Consolidate in strategic segments in Global Services business

Focus on strategic segments | Growing order intake from telcos in India



Building high-performance, modern communication network for one of **India's leading telecom operators**



Building order book by selectively targeting profitable projects in strategic segments

- Growing order intake in India
- Sustainable revenue with operations and maintenance contracts
- India margin inching to desired profitability, To further improve with revenue ramp up
- Target to be profitable in Services business in UK with execution ramp up by H1 FY24

Building profitable order book in **strategic segment** of Telcos

2 Consolidate in strategic segments in Global Services business

Build sustainable revenue | Project Execution on track



India - Public

Transformative
Rural digital inclusion

Telangana

57%
Completed



Bharatnet Project in

Network Modernisation

PSU

57%
Completed



India - Private

Modern Optical Network

Fibre roll out

(Large Indian telco)

Phase - 1

100% Completed



Phase - 2

62% Completed



Phase - 3

0% Completed



Modern Optical Network

Fibre Roll out

15% Completed



UK

Gigabit Networks



FTTH , UK

All Projects

4%

Completed



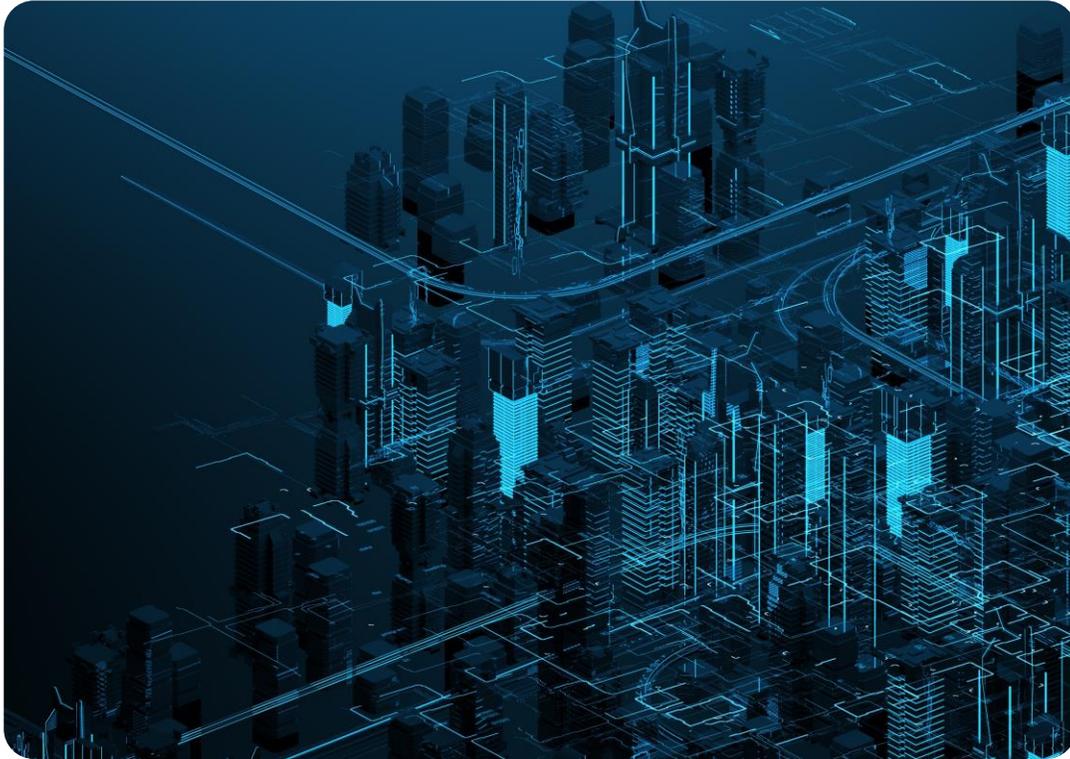
Progress in previous Qtr.



Progress in current Qtr.

2 Consolidate in strategic segments in Global Services business

Focus on Strategic segments | Divested IDS business



Divested Equity interest in IDS to Hexatronic Group AB

- IDS operates in **niche segment** of inside datacentre connectivity & containment solutions
- Initial Consideration at GBP 9.6 mn. for STL stake of 80%, adjusted for cash & debt
- Earn out consideration on actual EBITDA over and above threshold EBITDA for year ended Dec. 2022
- FY22 revenue at INR 133 Cr. and PAT at INR 6 Cr.
- **Gain of INR 25 Cr.** over INR 117 Cr. book value

Non core divestment to **consolidate in strategic segments**

Digital & Technology Solutions

Reallocating capital & management bandwidth



Pivoting to Digital business

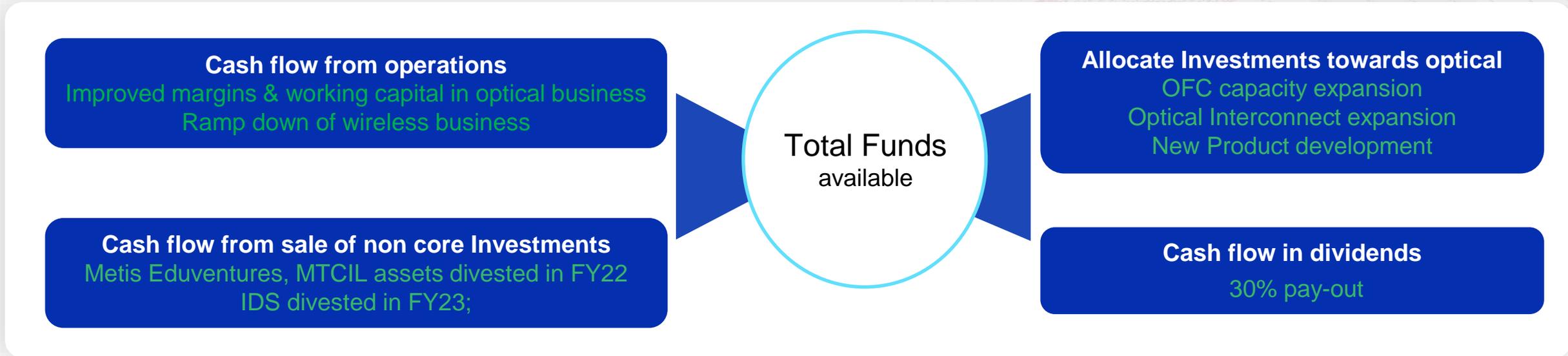
- Building new capability to pivot from network software to digital business

Ramp down of Wireless business

- Envisioned disruption in RAN market through open, disaggregated & programmable Solutions
- Developed GA products & validated through PoC trials
 - Fully O-RAN compliant 7.2x split small cell and macro O-RUs
 - Industry leading RAN Intelligent Controller (RIC)
 - Programmable FTTx
- Ramp down of wireless business with no additional investments in capital & manpower from Q4 FY23 to redirect capital & management bandwidth to the core business

STL Operating profit to go up by **INR 40 Cr. ~ 50 Cr. per qtr.
from Q4 FY23 onwards**

Focus on strategic growth through prudent capital allocation framework



- Improve cash flow from operations by margin expansion & improvement in working capital cycle
- Allocate capital expenditure towards optical business
- Continue to divest non-core businesses

Robust Financials



1

Strong industry tailwinds continue

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STL growth strategy on track

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Financials continue to improve

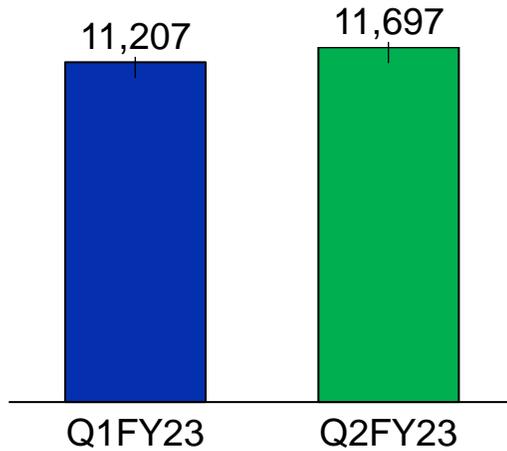
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Q&A session

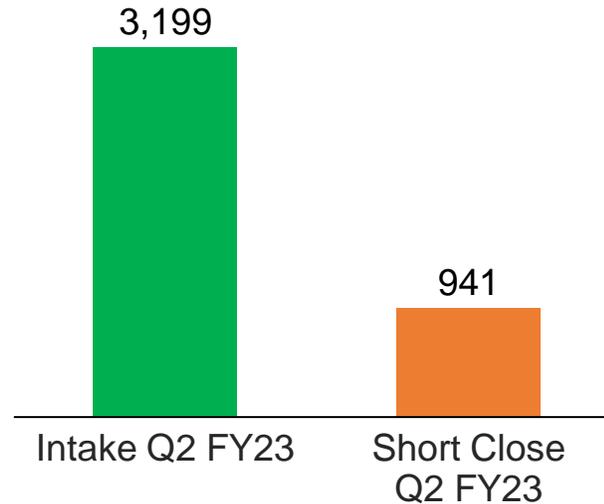
Highest order book intake since last 3.5 years



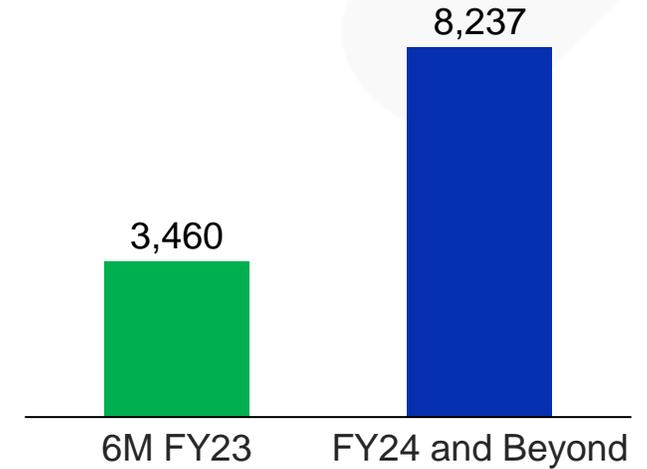
Open Order Book (INR Cr.)



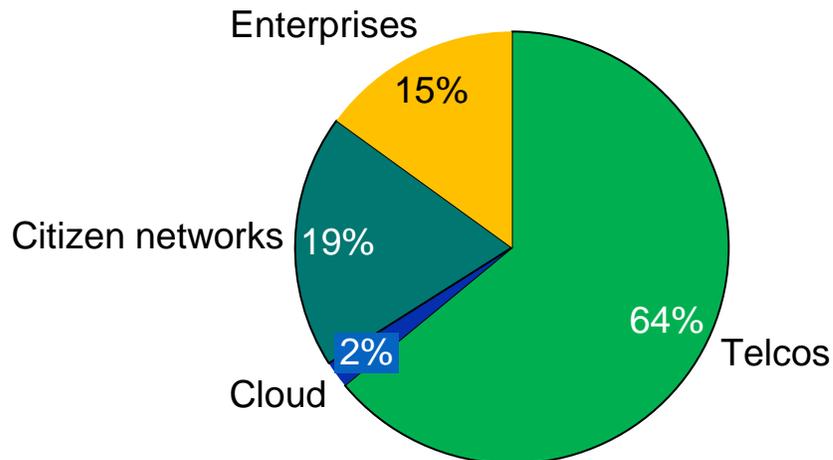
Order Book Intake & short closing (INR Cr.)



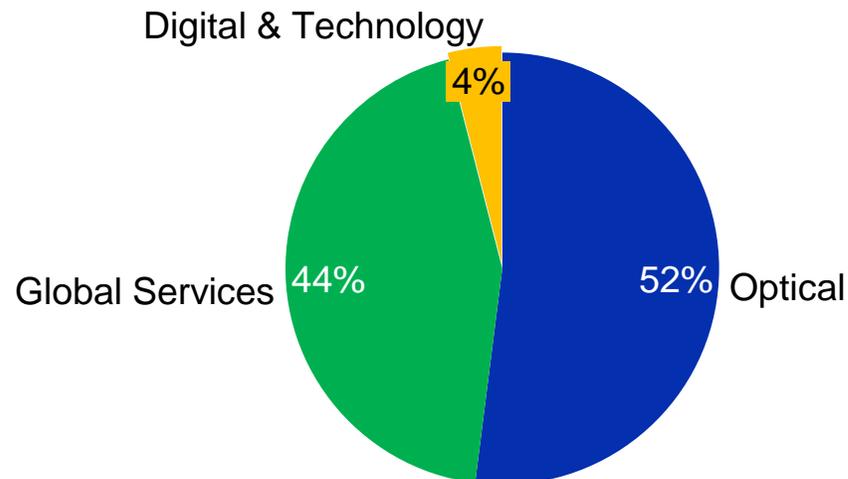
Order Book Spread (INR Cr.)



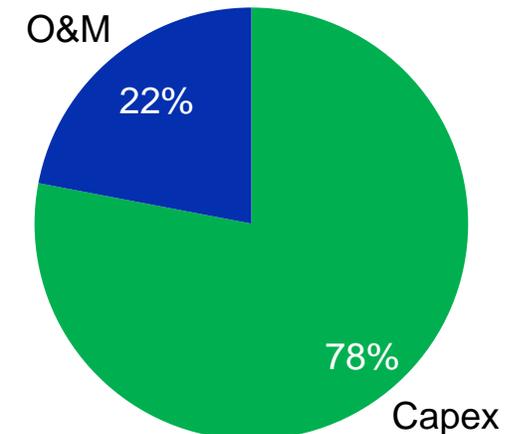
Open Order Book Customer wise



Open Order Book BU wise



Open Order Book Capex vs Opex



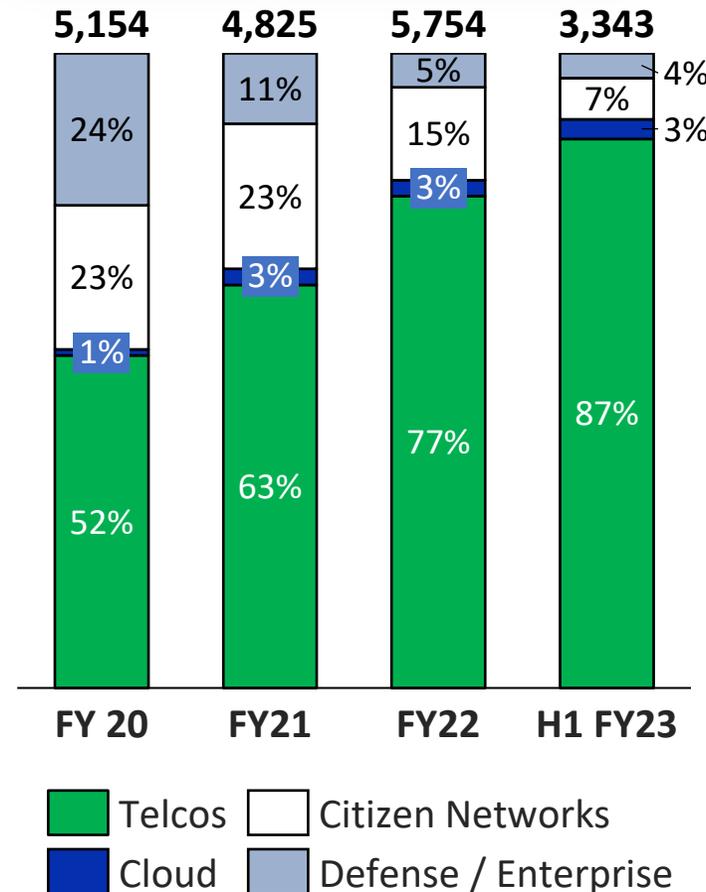
Revenue mix is moving to segments and geographies of choice



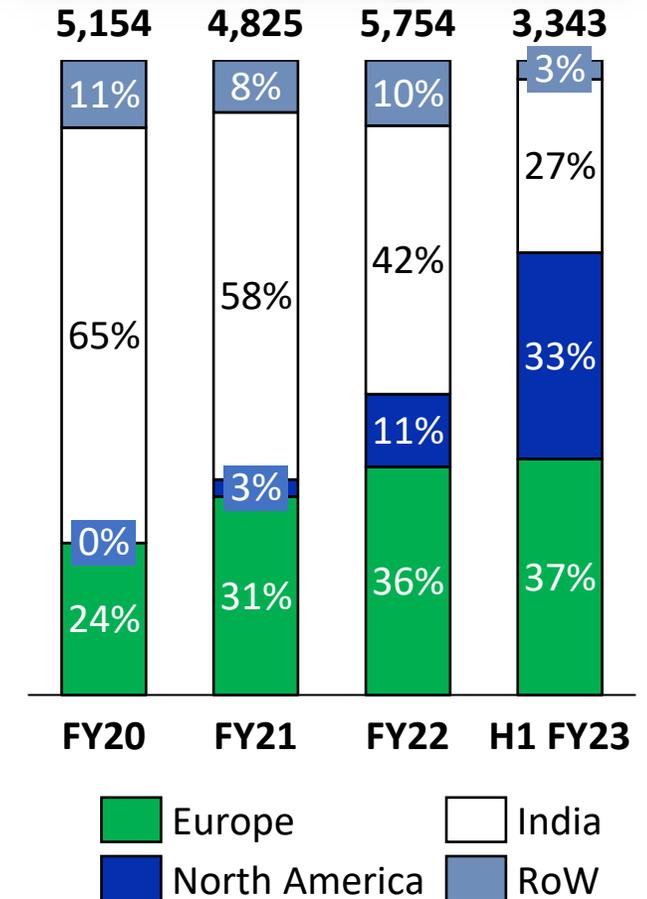
Key Order Wins Q2 FY23

- **Multi million dollar, multi year contract with a leading North American broadband connectivity player** for optical fibre cable
- **Multi million dollar, multi year contract with a European telco** for optical interconnect
- **Optical Interconnect solutions** for a leading European Alt-net player
- Collaboration with **Vocus group, Australia** to provide Optical fibre cables
- National Long distance roll out in multiple states for a **leading Indian telco**
- Fibre roll out for a **leading Indian telco**

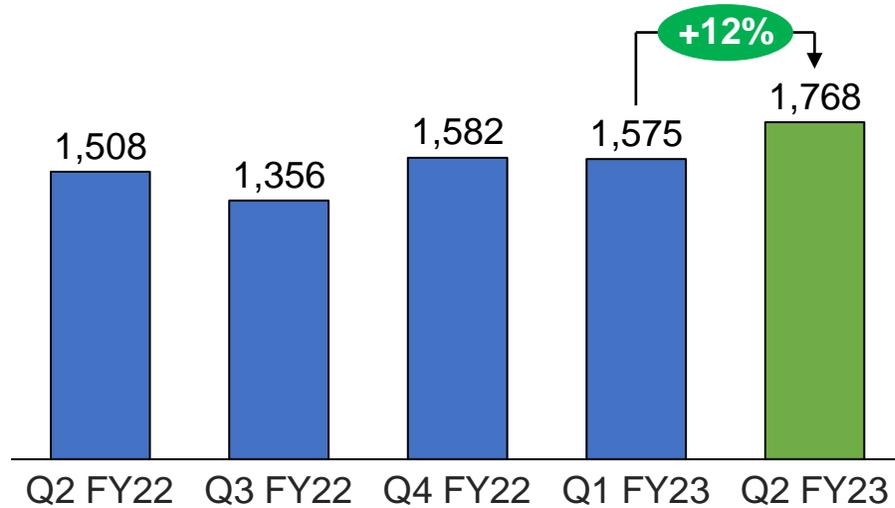
Customer Segments Revenues (INR Cr.)



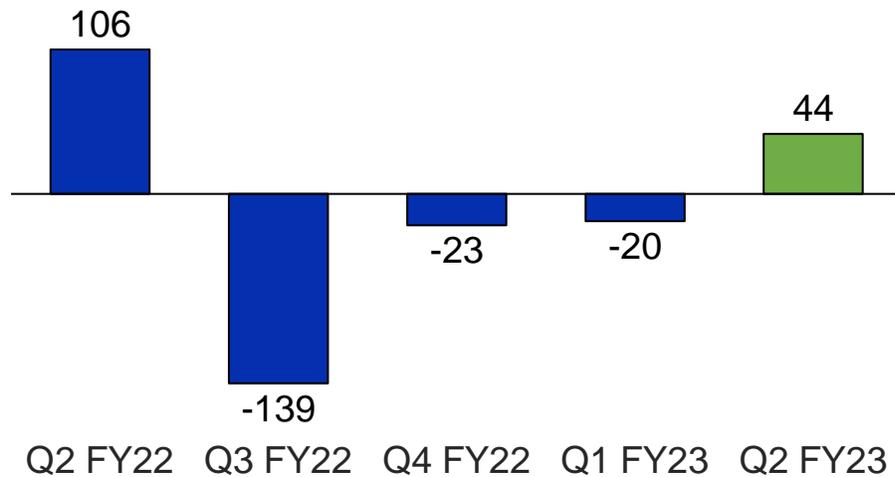
Geographical Distribution Revenues (INR Cr.)



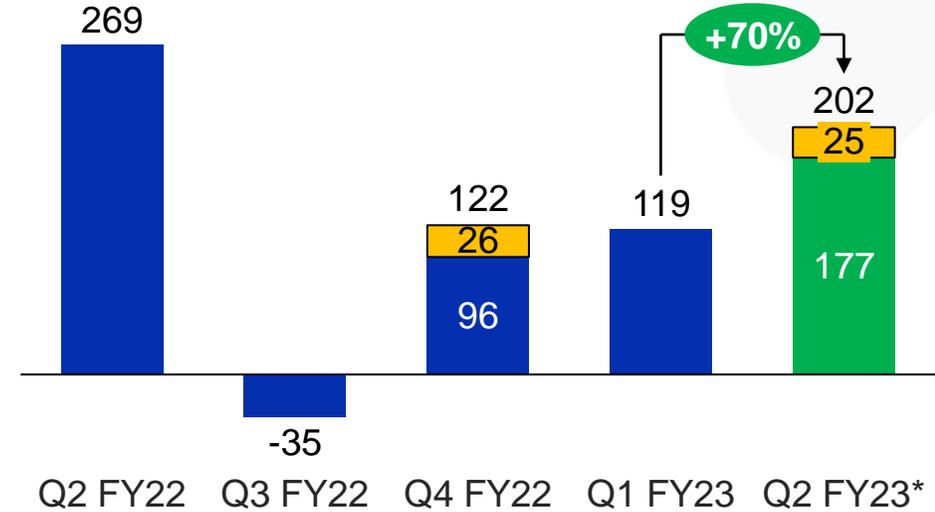
Revenue up by 12%, EBITDA up by 70% QoQ



Revenue (INR Cr.)



PAT (INR Cr.)



EBITDA (INR Cr.)

Note: Q4 FY22 EBITDA includes INR 26Cr. gain on MTCIL sale
Q2 FY23 EBITDA includes INR 25 Cr. gain on stake sale in IDS

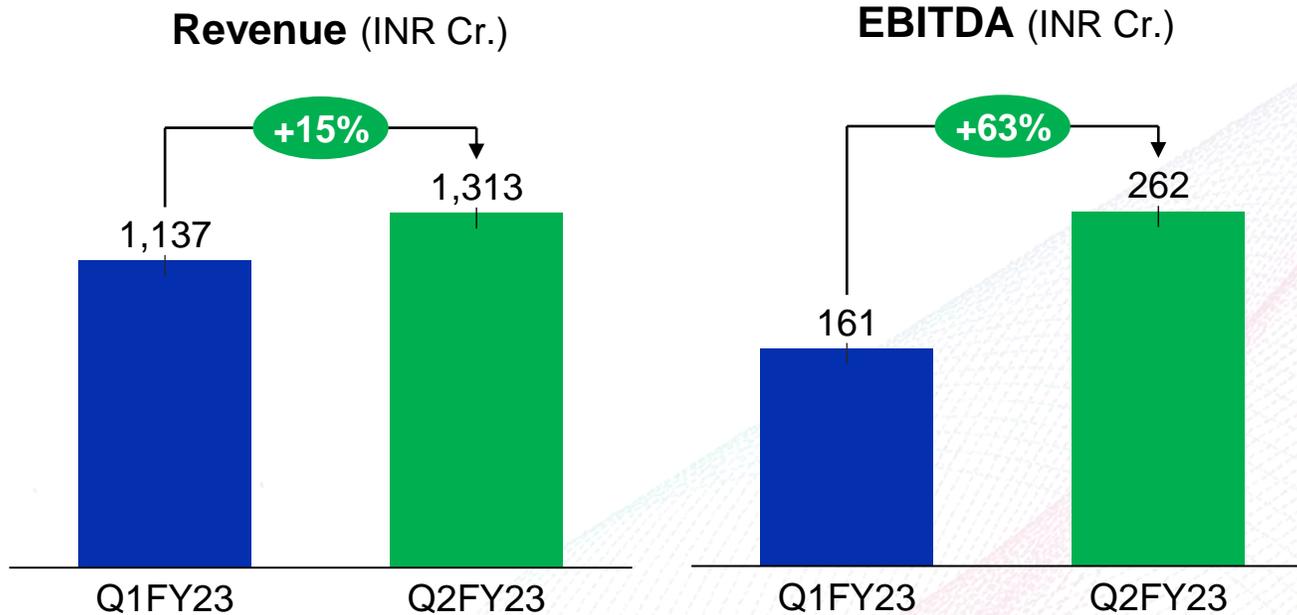
Revenue grew by 12% QoQ

- Strong optical revenue growth
- Services revenue growth in focus segments

EBITDA up by 70% QoQ

- Strong improvement in margins in optical business

Profitable growth in Optical business



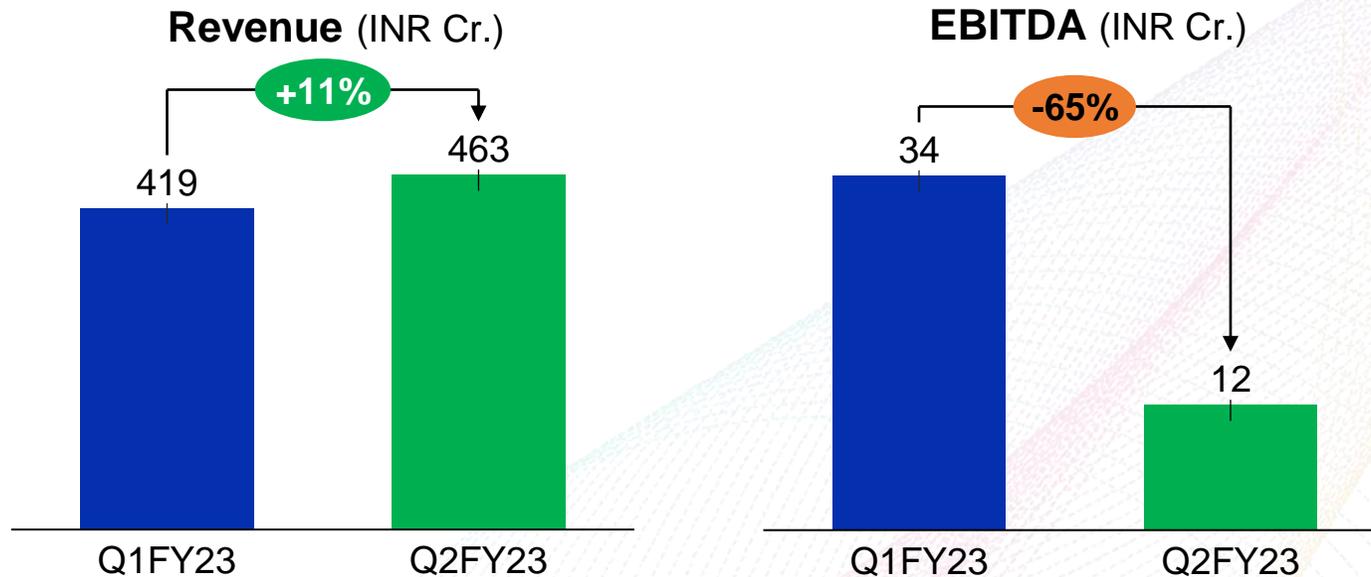
Revenue up 15% QoQ

- OFC volume up
- OFC realization up due to product mix
- OFC realisation up due to price increase

EBITDA up 63% QoQ

- Product mix shift towards higher margin products
- OFC Price increase flow through to margins
- Reduction in logistics cost

Consolidation towards strategic segments in Global Services



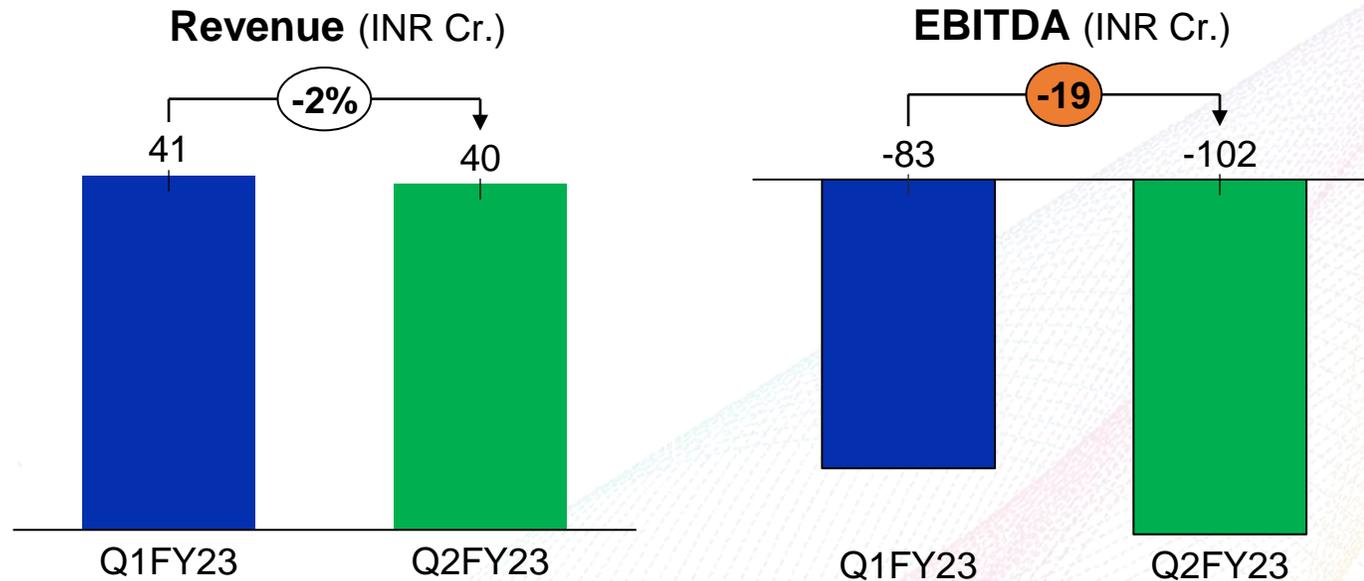
Revenue up by 11% QoQ

- Services India execution up

EBITDA down 65% QoQ

- One time gain in Q1 FY23
- India margin inching to desired profitability
- UK business losses lowered overall segment margins. Target to be profitable in UK with execution ramp up by H1 FY24.

Targeting profitability in Digital & Technology solutions in FY24



Revenue down by 2% QoQ

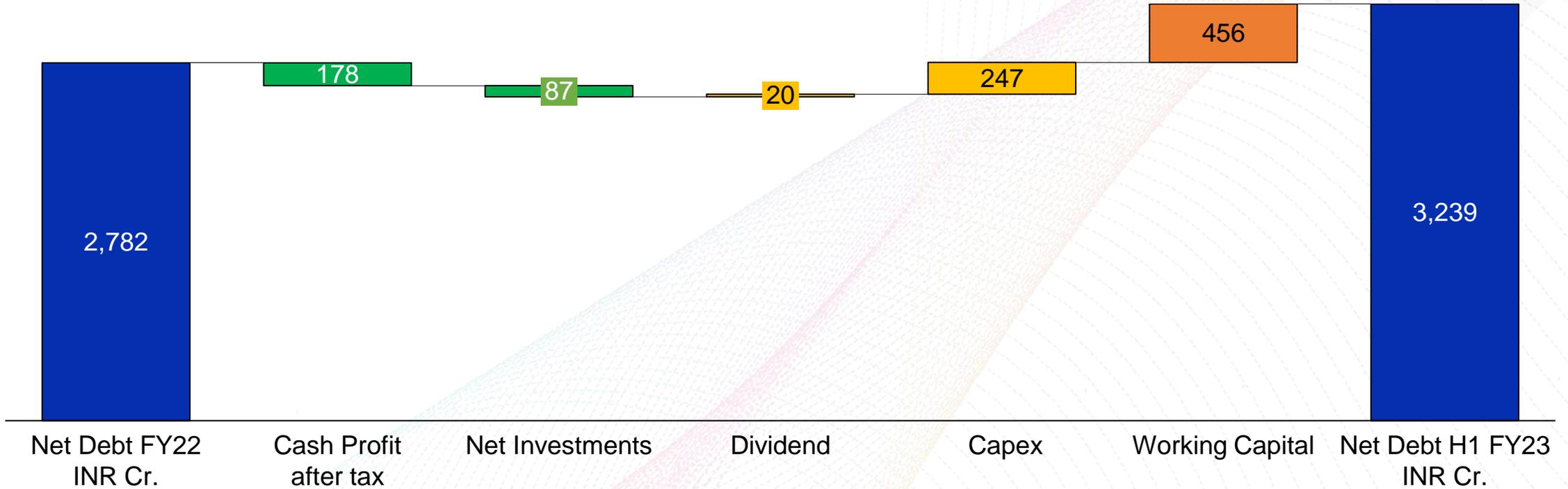
- Building new capability to pivot from network software to digital business

EBITDA down by INR 19 Cr. QoQ

- Higher initial upfront manpower costs in digital business
- Operating profit to improve by INR 40 ~ 50 Cr. in this segment by Q4 FY23

H1 FY23 Cash Flow

Working capital increase due to contract assets in services business



Target to reduce **Net Debt / EBITDA** by Q4 FY23

Consolidated Financials: Abridged Version



P&L (INR Cr.)	Q1 FY23	Q2 FY23	QoQ
Revenue	1,575	1,768	12%
EBITDA	119	202	70%
EBITDA %	8%	11%	
Depreciation	82	82	
EBIT	37	120	221%
Interest	69	78	
Exceptional Gain/(loss)			
PBT (Before share of Associates and JV)	(32)	42	
Tax	(8)	4	
Net Profit¹ (After minority Interest)	(20)	44	

Balance Sheet (INR Cr.)	FY22	H1 FY23
<i>Net Worth</i> (including minority interest)	2,047	2,006
<i>Net Debt²</i>	2,782	3,239
Total	4,829	5,245
<i>Fixed Assets³</i>	3,044	3,085
<i>Goodwill</i>	270	200
<i>Net Working Capital</i>	1,515	1,959
Total	4,829	5,245

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



ENVIRONMENTALLY SUSTAINABLE

Zero Waste to Landfill Certified¹

175,000+ MT

Waste diverted from landfills (FY19-22)

15,000+ tCO₂e

Reduced through energy efficiency initiatives
(FY21 – Q2 FY23)

500,000+ m³

of water recycled (FY19- Q2 FY23)

50%

Procurement (by value) done locally (FY 22)



SOCIALLY RESPONSIBLE

Committed to the UN SDGs²

16

Aligned with 15 of the 17 SDGs

765,000+

Lives benefitted through STL's ed-tech & women
empowerment programmes (FY19 – Q2 FY 23)

2.1 mn.+

Lives benefitted through STL's healthcare programmes
(FY19 – Q2 FY23)



GOVERNED WITH CARE

Strong Internal Governance

Two of the Big Four

as statutory & internal auditors

Executive and Management committees in place

**80 ESG awards won
(FY20 – Q2 FY23)**

STL becomes world's first optical fibre manufacturer to be
ZERO LIQUID DISCHARGE CERTIFIED

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 for Optical Fibre Cable & Optical Interconnect : Multi-year network build cycle in full swing in our focus markets of North America, Europe and India.

Ambition to achieve global leadership in Optical Business: Continue to achieve strong market share gains in North America and Europe, increase attach rate in optical Interconnect and develop industry leading new products.

Consolidation towards strategic segments in Global Services: Building profitable order book in strategic segments in India. Aiming to achieve profitability in UK by H1 FY24.

Focus on strategic growth opportunities through prudent capital allocation framework: Allocating capital to optical business & release working capital from services business

Lets answer your questions



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STL

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 ; Review and divestments of non core assets
2	Customer & Industry Demand	Reduction in Capex done by communication industry may dampen demand	Focus on selling end to end optical solutions and long term contracts 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	Focus on R&D spends for new product development
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	Logistics cost has eased and timely delivery has improved
7	Talent Management Risk	Inability to attract and retain best professional talent may adversely impact	Attrition levels are well within industry norms
8	Commodity Risk	Inflationary pressure can negatively impact profitability	Price increase to offset the impact of higher input cost.
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	Robust contract governance system in place. 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