"Sterlite Technologies Limited Q4 FY19 Earnings Conference Call"

April 23, 2019

MANAGEMENT: DR. ANAND AGARWAL – CHIEF EXECUTIVE OFFICER
MR. ANUPAM JINDAL – CHIEF FINANCIAL OFFICER
MR. VISHAL AGGARWAL – HEAD - INVESTOR RELATIONS, STERLITE TECHNOLOGIES LIMITED

Moderator: Ladies & gentlemen, good day and welcome to the Sterlite Technologies Limited Q4 FY19 earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishal Aggarwal – Head, Investor Relations, Sterlite Technologies Limited. Thank-you and over to you, sir.

Vishal Aggarwal: Thank you, Lizan. Good evening everyone and thank you for joining us today. With me on the call are Anand Agarwal – CEO of STL and Anupam Jindal – CFO of STL. Anand will begin with the key highlights and initiatives of FY19, and then we will round up with our outlook and strategic focus for FY20 and beyond. Anupam will then take us through the financial performance and financial priorities going forward after which, we will open the floor for Q&A. We have also uploaded the presentation on our website for those who cannot access at live, right now.

Before we proceed with this call, I would like to add that some elements of this presentation may be forward-looking in nature and must be viewed in relation to the risk pertaining to our business. The Safe Harbor clause indicated in our 'Presentation' also applies to this conference call.

Now let me turn the call over to Anand.

Dr. Anand Agarwal: Thank you Vishal and good evening everyone. Before I begin with my comments, I wanted to take a moment to thank and complement the entire team of STL for the tremendous performance and accomplishments in this fiscal year. I am extremely proud of our team's passion and zeal to build the STL of today. We have grown from about Rs. 3,200 crore last year to an all-time high revenues of about Rs. 5,100 crore this year, which is a massive jump of almost 60%. And I am equally proud of how we serve as a trusted partner to our customers as they transition from one technology era to the next and as they transform their business model to generate value for their end customers.

Slide 4:

I would start my comments by giving you a quick snapshot of how this year shaped for us and this slide is particularly my favorite because it showcases the seeds of the exciting times that lie ahead of us. During the year, we launched six new 'solutions', we won 35 new customers, we acquired Metallurgica Bresciana, we took decisions on growth and executed capacity expansion and are wrapping FY19 with 271 patents and an all-time high order book of more than Rs. 10,500 crore. And in the next few slides, I will talk about some of these developments in more detail.

Slide 5:

Now coming to what led to our growth in FY19, I think I will break it into two parts. On the connectivity solutions side, which is the Product side, we saw increased fiber deployments in Europe, in India as well as the rest of the world, which are now amongst the strongest markets for our optical solutions. On the flip side though, China's demand was relatively flattish this year, which now accounts for less than 5% of our overall revenue. We also made an entry into two of the top five global cloud providers that are heavily investing into future networks. I would say our inroads into new Tier-1 telco's and high value-added products and solutions paved the way for the growth in this division.

On the Network Services and Software side, we partnered with top two telco's in India on their network design and rollout. We also saw new customer wins of tier-1 telco's for our BSS/OSS Software Platform. And the other part of the demand came from the national broadband initiatives of 'Bharat Net' and State-led initiatives of 'Smart Cities', where we secured orders for network rollout in the State of Maharashtra and we see an equally strong pipeline of orders in coming quarters. From the large Enterprises segment, it was largely on accounts of spend on network modernization by Defense as well as power and utilities, which included our marquees and with Naval defense for building their state-of-the-art digital communication network. On an overall basis, I would say that the company's focus in FY19 has been largely into India, Europe, Latin America, which amounted to almost 90% of our revenues.

Slide 6:

Now let us look at how all of this translates into numbers. If we compare ourselves to what we were three years ago to where we are now, we see that apart from strong growth in revenues, our customer mix also is evolving. We have significantly strengthened the new customer segments like Enterprises and Citizen Networks, and we have created an added focus on cloud companies. A good chunk of revenue, almost 37% now, comes from these new segments, while we continue to deepen our engagements as global telecom providers who will continue to play an integral role in our growth journey. In terms of geographical mix, our export has grown by more than 3x in the last three years with Europe becoming an extremely strong market for us. We are now partners of choice for the largest telco's in Europe, in India with our suite of connectivity solutions. And closer home, we are partnering with a tier-1 operator for one of the world's largest greenfield 4G rollout. And this year has marked the beginning of another new segment for us, which is the cloud provider. We have made our way into two of the largest global cloud providers. At the same time, we remain extremely focused and have deep engagement with select few customers, which is evidenced from our customer profile where roughly top-20 customers account for more than 75% of our revenues.

Slide 7:

As a Company we are extremely focused on the needs of our customers and constantly strive to deliver innovative products and solutions for their evolving needs. This year marked the launch of six 'solutions' aside from our product innovations. One of our biggest launches have been FTTx Mantra, which is an innovative ready to deploy FTTx kit and the TruRibbon, which is a

1,728 fiber count cable for data centers as well as small cell solutions. The other interesting one is the 'S-PODS' which is an addition to our programmable networking segment and our unique lead 360 degree approach is now a key value driver for our customers, who are looking at end-to-end network design and rolling out partners for faster and efficient data network creation. All these exciting launches and partnerships reside on the backbone of 271 patent, three innovation centers and two software delivery centers.

Slide 8:

Our capacity expansion plans of 50 million fkm for optical fiber and 33 million fkm for optical fiber cables remains on track. Our new greenfield silicon to fiber plant in Aurangabad is built on world-class industry 4.0 principles with high degree of IoT and automation. This plant is already under final installation and commissioning and will start gradual commercial production from the Q2 of the current year. At some point of this year we would also want to arrange a plant visit for this new facility for our investor community and I would request all of you to come and witness the engineering and technology behind the intricate silicon to fiber manufacturing. Another major development this year for us was the acquisition of Metallurgica Bresciana, which now has given us a point of presence in the heart of the Europe market thus, significantly increasing our market reach in that geography. We are seeing fantastic synergies between our India and Italy plant with integrated planning and supply chain.

Slide 9:

This for me is personally an extremely important slide. I think we don't talk about this enough, but our team at STL is continuing to become stronger by the day. We are attracting great talent for all our business functions. I am glad to share with you that in terms of the talent profile, 74% of our employees are graduates and postgraduates, and 18% are working out of offices and manufacturing facilities outside India. During the year, we attracted some of the best global talent in the fields of technology, engineering, analytics and further strengthening our overall technology expertise.

Slide 10:

Sustainability and Governance continue to be an extremely strong pillar for the Company and we remain very committed to this cause. The Company recently won the Zero Waste to Landfill certification for our cable facilities and STL touched towards 200,000 lives through our corporate social responsibility as well as volunteering initiatives in FY19 with a cumulative impact of over 830,000 lives.

Slide 11:

Okay. So this was FY19, a truly transformative year for us. What's next? We believe that the future looks even more exciting, and let me walk you through it.

Slide 12:

From where we are today, we see ourselves at an inflection point of mega trends impacting data network creation. Our hyper-connected world requires a hyper-connected network. I am sure I do not need to emphasize more on the importance of hyper-scale network in today's day where there are at least a million use cases for building enormous bandwidth and automated networks.

Slide 13:

These networks unlike the traditional ones, have four important characteristics. They will be denser. What I mean by denser is that the strong adoption of 5G macro technologies and LTE small cells will require a huge investment in the access layer, with multiple points of connect wherein each access point of connect is connected by fiber. Next, these networks will be deeply fiberized to fuel the requirements of ultra-low latency and ultra-high bandwidth. They are going to be vendor neutral and disaggregated. By disaggregated I mean that the hardware and software will be de-coupled and software will be open, programmable as well as scalable. Lastly, storage, transportation and computing processing, everything will happen at the edge closer to the point of consumption leading to the creation of multiple edge data centers.

Slide 14:

And these new age networks are being created, not only by telco’s but also by new players like the cloud companies, citizen infrastructures as well as large enterprises. These are characterized by their rapid technology adoption cycles and deployment of best-in-class technology that continue to have a significant influence on the industry structure, network architectures and customer consumption models.

Slide 15:

What really is happening is something very interesting. If you look at the traditional telco’s, they are evolving by moving their focus upwards into the value chain, moving from network arbitrage to platform to apps and the cloud to apps. And what we see, the cloud providers, the social network providers, are moving downwards from apps to platform to network creation. So to add to this network creation pie are the large enterprises like defense, railways and the citizen networks like Digital India, NBN & Australia, etc. This evolving model of data network creation is where the economic mode lies for STL. What is equally interesting is that this new mega opportunity is in making for us, which did not exist in the voice era.

Slide 16:

The emergence of new network architecture and new class of customer segments, both are leading to change in consumption models. The customers are increasing their network volumes, the architectures are per se transforming, the underlying software architectures are transforming leading to new application as well as use cases. And all of this has started to translate into change in the buying patterns and the need for an end-to-end data network solutions provider. We are seeing customers extremely excited and open to engage at a much deeper level on the innovation and end-to-end data network partner model where the focus of our Company exactly lies.

Slide 17:

For us, all these transitions and transformations are creating an enormous opportunity. Our addressable market continues to get expanded multifold. What used to be an addressable market of almost about US$20 billion in 2017, will be expanding to about $75 billion out of the total annual capex spend of $300 billion towards the network infrastructure creation by 2023. And we are going about this through our four-pronged strategy. We want to innovate more and more new products and solutions shifting our focus towards high value-added products. We will enter into new customers and new geographies with market share expansion. And finally, we will expand into new market customer applications and adopt an integrated 'solutions-based offering.

Slide 18:

We at STL are evolving as our customers' expectations are. It is no longer about product features or volume or fiber kilometers or in-time delivery. It is now about co-creation with customers for their unique needs, optimization of total cost of ownership and time to market for new offerings. In fact, FY19 saw a completely different customer engagement model. We revamped our model to move away from customer satisfaction to customer engagement. We now have a dedicated key account management team, with a dedicated, designated key account manager who's responsible to certain customers for their end-to-end needs, and key account management forms an important part of our tracking measures.

Slide 19:

And our evolving customer engagement model came into existence principally for two reasons. One is that the customers' needs are moving towards an application-centric approach rather than a specific-product or service-level approach and secondly to have multiple and layered conversations across our business lines for our customers. This change in the way of engagement is in fact leading to deeper level of partnerships with customers. Internally, we are now beginning to look at the business not as connectivity products and network services but rather as solutions of mobility, access, long-haul connectivity, network modernization and data center based on the end customer application needs.

Slide 20:

With this solution-based approach and expansion of our offerings to fulfill their application-centric requirements, we are now working towards a deeper share of customer wallet. Our $75 billion total addressable market is built on the premise of new portfolios, new business lines, new customer acquisition, new geographies and solution-centric model across the three layers of the network.

Slide 21:

We believe that this approach will lead to new and evolved demand drivers for FY20 and beyond. These include, increased FTTx penetration in Europe and India; 5G rollout kicking off in 2020 and taking up pace between 2022-2025. Mobile backhaul fiberization in geographies like India, which is still a heavily under-penetrated market. Increase in investments by OTT players creating opportunity towards the data center interconnecting US. Digital broadband spending towards rural connectivity in India and network modernization by large enterprises like Defense, Railways and Oil and Gas. The increased trend towards virtualization by the operators will also open new windows of opportunity for us as a full stack data network virtualized player.

Slide 22:

So our outlook ahead of us is a growing total addressable market of about $75 billion, out of which our current share is less than 1%. We are strongly positioned towards tapping this opportunity and generating value for our customers through our USP of end-to-end data network solution provider. And we see ourselves directionally continuing to strengthen our global market share in this new TAM as we have done in a structured fashion for all our business areas.

Slide 23:

This slide as you can see, summarizes our present view of our customer segments, our offerings built on our five pillars of customer engagement: technology, talent, delivery & supply chain and sustainability & governance.

Slide 24:

We are off to a promising start to FY 2020, reflecting high energy and positive momentum for our business, an all-time high order book for more than Rs. 10,500 crore and much sharper visibility on growth for the years to come. I would like to reiterate that we remain committed to our important milestone of achieving $100 million net profit in FY20 and delivering growth beyond, creating value for our shareholders.

Slide 25:

And as we step into the new fiscal year, to kick off this new growth part, we have given ourselves a new look with a new logo. The new fresh look symbolizes our transformation as a new age data network solution provider in the hyper-connected world, committed to delivering exceptional, durable and quantifiable value to our customers.

With this, I now hand it over to Anupam for his comments.

Anupam Jindal: Thank you, Anand and good evening to everyone.

Slide 27:

We had a fabulous quarter with all the key financial metrics of revenue, profits and ROCE showing strong growth on Y-o-Y and Q-o-Q basis. On the business side, one of the key developments during the quarter was our entry into one of the biggest cloud providers towards innovative solutions for data center connectivity. We have one of the highest patent filings in the last quarter taking our total patent count up from 234 in Q3 to 271 in Q4. The last quarter also saw an increasing pace of execution of both Navy and Defense order and the start up of the cable expansion in both our India and Italy facilities.

Slide 28:

Coming to the performance of the quarter, this has been yet another record-breaking quarter for us with the highest ever revenue, highest ever EBITDA and highest ever PAT that came with Y-o-Y growth of 112%, 38% and 47%, respectively. The blended EBITDA margin for the current quarter is 18.3% as compared to the previous quarter margin of 22.8%. This is on account of the change in revenue mix, with services and software accounting for roughly about 50% of the revenue. I would say that about 300 basis points can be attributed to the mix, and the rest 150 basis points will be on off-site openings for fiber in China and some parts in India. Going forward, we see percentage EBITDA margins to grow in the range of 18% to 20% based on the mix and industry leading ROCE of 25%.

Slide 29:

I think it is important for us to spend some time on this slide. What we have done here is to show how the company's business is evolving. We are moving towards a much higher total addressable market in years to come and looking at double-digit growth which we will tap to our increase in solution-based offerings and change in the capital employee structure. As we are adding businesses to the portfolio, we are looking at less capex intensive model, which aids higher ROCE to the business, albeit at lower blended EBITDA margin when compared to the fixed asset heavy business profile. As it is evident over the years, following this approach, we have been able to grow absolute profits at double-digit rate and significantly enhance our capital productivity. We expect our financial profile at the Company level to represent a normalized EBITDA margin of 18% to 20% and ROCE in excess of 25% with our evolving business mix. It is important for me to highlight that our guided EBITDA margins are a function of blend of different businesses with different financial profile. On individual business segments, endeavour would be to continue operating the business with a global best margin structure through dedicated business initiatives towards cost rationalization and high value-added products.

Slide 30:

In the process, we remain committed and continue to create value year-on-year for our shareholders. We have more than doubled our size in the last three years, our revenue CAGR is north of 30% and EBITDA growth is 35%. Our profits have grown by 2.8x in the last two years alone, and ROCE's at 34% for this year. As a Company, we continue to focus heavily on, not only growth but also on the cost optimization and capital allocation. We will also prudently continue to invest in technology, talent and customer engagement to drive growth for future years.

Slide 31:

As STL enters its next phase of growth, the Company has laid its financial priorities well-intact on those strong Governance standards. Our approach towards 'Growth', 'Earnings' and 'Capital allocation' are well chartered to help with growth in a value-accretive manner for all its stakeholders. The Company's success will continue to be built by a strong foundation of Corporate Governance that will enable a sustainable growth going forward.

Slide 32:

For your reference, we have captured an abridged version of the P&L and the Balance sheet. Revenue, EBITDA and PAT grew by 59%, 48%, and 68% respectively, as compared to FY 2018. ROCE for full year improved to 34% from 30% in FY18. The EBITDA percent for FY19 has dropped by about 170 basis point from FY18 on account of changing business mix with Services and Software business contributing more than 35% of the total revenue. The margin profile for our Product business remain the strong at about 27%-28% and we have started to see some scale benefits accrue to our Services business. This has resulted in EBITDA margins of about 11% to 12% in business. Consistent towards our dividend policy, I am also happy to announce that our Board has declared a dividend of Rs. 3.5 per share for FY19, which translates to about 30% of our net profits, which is up by 75% compared to Rs. 2 per share given last year, which is in line with our profit growth.

Slide 33:

Our debts have largely remained the same as compared to H1 2019 primarily on account of strong operating cash flows and similar level of capex payouts. I am happy to see our net debt-to-equity ratio coming back towards a restrictive range of less than one. Our net debt to EBITDA ratio of 1.5x, we are fairly comfortable much below our stated range 2.5x.

Before I end my commentary and open the floor for questions, I would also like to take few minutes to address two concerns that the market have seemingly gotten worried related to us. Firstly, there have been a series of news flown on the backdrop of one recent China Mobile tender, where the prices for standard fiber/cable saw a sharp decline driven by local suppliers. This has led to a general market perception that the pricing structure of this industry has disrupted, and it would affect all the players globally to the same intensity. I would like to clarify that we see this development as more localized to a particular geography. And while it has some little effect on the global pricing, we do not see this disrupting our financial profile in this business. So a mix of higher volumes, higher value-added products with better realization and our ongoing cost measures, we are confident our profit growth and our Product business next year and even the following years.

Second, related to promoter share pledge in STL, we would like to share some facts and details, which are already in public domain. The Volcan Group which is the ultimate promoter holding entity had taken a loan from International Banks following the delisting of Vedanta Resources from London Stock Exchange. As part of security collectors for this loan, the shares of Vedanta Resources, Sterlite Power and STL were collected last year around September 2018. The current loan outstanding is about $900 million to be paid in tranches over the next three years. The security cover will be tested on quarterly basis, it is not subject to daily margin requirement. To that effect, the last quarterly testing happened in Feb 2019, and the security cover was found sufficient. The underlying structure of facility agreement with Global Bank is such where it is highly unlikely that the promoter share of STL would come under any risk of open market selling. The Group remains fully committed to their shareholding and extremely bullish on business prospects.

With this, we have come to an end of our presentation and would now be happy to take questions.

Moderator: Thank you. Ladies & gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Aniket Pandey from Prabhudas Lilladher. Please go ahead.

Aniket Pandey: Congrats for the strong revenue growth performance in this quarter. So my first question was regarding the TAM actually. So I understand that you are trying to focus on increasing your TAM. So can we get a clarity on what steps you are taking to bring more factors under, I mean, what would be the revenue growth drivers for increasing your TAM?

Dr. Anand Agarwal: Aniket, there are several ones. One clearly is on the portfolio that we have for connectivity solutions; our products business we are increasing the scale, we are increasing the overall size, we are increasing the value-added product and we are increasing geography. And, at the same time, in the Services and Software business where we are doing, where we have a great sort of offering and positioning in India, we are intending to take that business global with one to two customers that will be looking at this year. And the fact that the overall network; the way that data networks which are getting built are being built in a very different fashion. They are being built in a disaggregated manner, they are being built by different providers other than telco's. So all these optionality increases our TAM tremendously. And you would have seen that the fact that our order book itself has grown up from Rs. 2,500 crore to Rs. 10,500 crore because of our capability to access these new markets and these new opportunities at a global fashion.

Aniket Pandey: Okay. And sir you mentioned that your 37% of the revenues came from enterprise and citizen network and cloud, okay. So can we get the clarity on that? So basically, this would be accounted into your services revenues, right?

Dr. Anand Agarwal: So this is across, so as we have been now mentioning that what we are doing is for various sets of customers. So Citizen Network's will be say, for instance part of BharatNet. So for BharatNet, we will be selling them the cables but at the same time we will be building networks. So for enterprises, it will be different. I mean, for them we will be selling the products separately and building the networks. And within Services, at times, the opportunities for both products and software are often included.

Aniket Pandey: What does the revenue mix looks like in this quarter?

Dr. Anand Agarwal: Between?

Aniket Pandey: So sort of, what is the revenue mix in this quarter? I mean Product and Services in this quarter.

Dr. Anand Agarwal: Close towards 50-50. About 52% in services and 48%, something like that.

Aniket Pandey: Okay. And sir in the order book, what is the mix?

Dr. Anand Agarwal: Yes. Order book is about Rs. 5,500 crore with Products and Rs. 5,000 crore is Services and Software.

Moderator: Thank you. The next question is from the line of Kunal Sangoi from Aditya Birla Sun Life Mutual Fund. Please go ahead.

Kunal Sangoi: Congratulations to the management for a very strong set of numbers. My question is with regards to the realization on the fiber side. You did indicate that there has been some softening in the China market as well as in India. So if you can elaborate a little more with regards to what kind of quantum decline has been there in terms of cable as well as fiber?

Dr. Anand Agarwal: So Kunal, overall, we have been maintaining that the business operates in the price range of $7 to $8. And over the last couple of years, we were seeing it on the northern side closer to $8. We are seeing some degree of softening happening essentially in China and India where the pricing has reached closer to $7 level. At the same time, for us as a Company, we have this mix of long-term contracts in Europe as well as what we do in India. So the average pricing has been between $7 and $7.50.

Kunal Sangoi: Right. So do you see incrementally, given that or most of our contracts are long-term, but the incremental contract that we sign up for say CY20 and beyond, there you see the pricing getting tagged at the lower end of that range?

Dr. Anand Agarwal: We haven't seen that, and we haven't even seen the impact of any of this pricing reaching Europe or U.S. And since bulk of our sales for the Product business happens in those areas, we clearly believe that whatever has happened due to this one tender, which was due to stock levels reaching extremely high levels in China. This is more of an aberration rather than a continuous situation.

Kunal Sangoi: With regards to India pricing, I wanted to understand.

Dr. Anand Agarwal: So Kunal, the India price and global; it is extremely similar pricing level. So India pricing has some more localized influence of what we saw in China and Asia, but it's not extremely disaggregated or disintegrated from the global pricing levels.

Moderator: Thank you. We will move on to the next question that is from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: Congratulations to the management for the stellar revenue growth this quarter. First, Anand, if I look at the revenues for this quarter and if I compare that with the increased account receivables and contract assets, it looks like there is a very healthy component of the MahaNet and in the Navy contract in these. Can you help us with the progress on these two contracts? And how much has been completed in fiscal 2019? And how all this will flow to FY20 onwards?

Dr. Anand Agarwal: Mukul, overall, the contract part is fully on track and on target. I can only tell you that of the total revenues that we did in FY19, about 37% of it comes from Services and Software, which includes the Navy, which includes MahaNet, which includes rollout for the telco providers, which includes the Smart Cities. I would not be able to give you numbers contract wise because it's not right. The contracts are all running on time.

Mukul Garg: Understood. And just to continue on the contract assets because this has come in for the first time in your balance sheet; should we expect this to increase going forward as we move more into a steady state on the Navy side? Or this will start clearing off from next few quarters? Just if you can help us with how this will flow through.

Anupam Jindal: Sure. Mukul, this is Anupam, and I will address this question. So in terms of this current FX that are in those other contract FX and receivables; so as we move towards Services businesses and that business is becoming like larger share at 50%-52% right now. So it will flow in line with the revenue mix. And I can't really give what kind of range it will play out, but as we complete the projects, some parts will get into receivable and then collection and all that. So it's a cycle from inventory to current FX to receivables. So it will be in line with what revenue we will have. It's just a classification. Otherwise, it's a part of that inventory receivables and those kinds of things.

Mukul Garg: Got it. And if I may ask one book-keeping question. If you can just help us with the margin profile in the products and services business lines this quarter and any utilization figure for the same?

Anupam Jindal: So utilization, Mukul, has been in line with the previous quarters, almost 100% capacity utilization. We are operating at product level. In terms of the margin profile, the Services business is doing close to 11% and it's moving up now because as we see larger volume, larger revenue coming in, so economies of scale benefits has started coming in. In terms of the product margin, currently it's about 26% for the quarter. Full year, it was about 29%, 30%.

Moderator: Thank you. The next question is from the line of Neerav Dalal from Maybank. Please go ahead.

Neerav Dalal: I would want to know, when would the new facility start to contribute to the revenues? Would it be from the third quarter onwards or second quarter onwards?

Dr. Anand Agarwal: Neerav, the commercial production will start in Q2. I think we will start seeing any material revenue coming in from Q3 and Q4 only, H2 of this year.

Neerav Dalal: Okay. And very quickly, what would be the optical fiber cable prices at the moment?

Dr. Anand Agarwal: Cable pricing is just a derivative of the fiber pricing plus the margin. So it is in a range based on the various types of. We look at that from a margin perspective and the margins for optical fiber cables continue to be the same that we have always had.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir just wanted to understand on the profitability front. FY19, we did about $85 million. Fourth quarter, we were at a run-rate at about $90-$92 million. But we are still guiding kind of $100 million profitability next year. So given that last 4 years we have grown at a CAGR of 54%-55%; so is that what we are looking at tapering of our growth in terms of our profitability maybe?

Dr. Anand Agarwal: Typically as a Company, we do not give out any guidance. We had created a directional frame in 2017 where we said we will deliver at least a $100 million profit by FY20. We are saying we continue to meet that commitment. Definitely, by the way we are performing, you are essentially saying that we should be able to exceed it. Maybe we will, but we are essentially saying what we committed in 2017 we will at least deliver that in FY20.

Deepak Poddar: Okay, understood. And in Services and product mix, how do you see that in the next two to three years in terms of revenue mix?

Dr. Anand Agarwal: Its' increasing year-by-year. So last year, Services and Software was about 26%. This year, it's close to 37%. Order book is close to 50%-50%. So I think it will inch from, say, 37% going towards 50% over the next couple of years.

Deepak Poddar: The next couple of years. And that is what will kind of result in EBITDA margin guidance?

Dr. Anand Agarwal: Absolutely, absolutely. And that's why we are guiding that progressively the EBITDA margin would be in the 18% to 20% range, but the ROCE will start getting **(Inaudible)**.

Anupam Jindal: Plus, I think, one more thing I would like to add; the fact that we continue to talk about absolute increase in EBITDA growth and second, within the boundary line of ROCE. So as long as these two things are maintained, I think that delivers good growth with the discipline of ROCE.

Dr. Anand Agarwal: And this is happening on the backdrop of the fact that our fiber facilities towards $50 million are getting commissioned. Our cable facilities starts coming online. So we will see good granular growth on both the businesses. Services will definitely grow faster because it's coming from a smaller range.

Moderator: Thank you. We will move on to the next question. That is from the line of Harshit Patel from Equirus Securities. Please go ahead.

Harshit Patel: Congratulations for a very good set of numbers. Sir, I have two questions. The first; so sir, we heard earlier that had 10 million fiber kilometer of capacity would it be operational by March 2019. So will we get to see some amount of volumes in the first quarter of FY20?

Dr. Anand Agarwal: Harshit, that has started, and we are already doing some sort of trial and commercial production for $40 million. But as I said, the material volumes will start coming in from H2. There is some small volumes which are even coming in the current months as we are moving.

Harshit Patel: Okay. So you are saying that we had some sort of benefits from the additional volume in the fourth quarter itself?

Dr. Anand Agarwal: No the current, in Q1, we are seeing some volume coming in, but it will not be material enough for either our volumes, revenues or margins.

Harshit Patel: Okay. Understood. And sir, on to the second question. So what do you think would be a blended capacity utilization for our new facility, which is 20 million fiber kilometers in the next year?

Dr. Anand Agarwal: We are planning to run the capacity at its full level and because fiber runs at give the best operational leverage at full capacity. And we are completely planning that FY21 we will run it at its full capacity.

Moderator: Thank you. The next question is from the line of Ashish Kacholia from Lucky Investment Managers. Please go ahead.

Saurabh Poddar: Hi sir, Saurabh Poddar here. I have a question regarding the order book. Out of the Rs. 5,000 odd crore product order book we have, can you give us a geographical mix, how much is export? How much is within India itself?

Dr. Anand Agarwal: Saurabh it would be almost 70% of that will be exports and largely Europe dominated. So India, currently, we have larger outlook but it keeps moving more in terms of quarter-to-quarter delivery confirmation.

Moderator: Thank you. We will move onto the next question. That is from the line of Riya Mehta from Anand Rathi. Please go ahead.

Riya Mehta: Congratulations on good set of numbers. Sir basically, you said you are diversifying in the geographical locations. So could you give a glance on which all geographies that you are planning to expand into; where do you see the major traction coming from?

Dr. Anand Agarwal: In Europe we are continuing to deepen our presence, and we have seen **(Inaudible)**. We are strengthening our presence in Middle East and Latin America and we are starting to do some forays in North America as well as we have started some things in North America and we will, over the next two to three years, have North America also as an important market for us.

Riya Mehta: Okay. And in order to capture the North American market, do we see any other inorganic form of growth or?

Dr. Anand Agarwal: So the plan is all organic and we have been investing in that market over the last couple of years. And currently it's all in organic.

Moderator: Thank you. We will move on to the next question. That is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Sir, I have to ask like two-three questions. So sir, the appointments, can you elaborate a bit more? There were three new appointments, especially one that was interesting from the data analytics side. Could you elaborate what you are planning there? Second sir, on a quarter-on-quarter basis and on a year-on-year basis, if I do incremental breakdown on incremental turnover, our margins were like really-really compressed? So you mentioned 400 basis points.

Moderator: The line for the current participant has dropped from the queue. We will move on to the next question. That is from the line of Alok Deora from Yes Securities.

Alok Deora: Congratulations on the great set of numbers. So I just had a couple of questions. One was on the capex; so what kind of capex we are looking for FY20 and 2021?

Dr. Anand Agarwal: Alok, in the current year, it is essentially the last part of the capex, which will happen for the $50 million and the bulk of the capex that we will be doing for the cable facility. So we will be between Rs. 500 crore to Rs. 550 crore we will be spending this year.

Alok Deora: Okay. And sir, I just wanted to know like we are reaching around 50 million fiber capacity by June 2019. So currently, what is the capacity run rate we are operating with? Because I believe some bit of it must be already operational, right?

Dr. Anand Agarwal: So we are currently running at the normalized capacity of 32 million-33 million. And the 40 million commissioning is currently happening and as I said, some part is happening, and the 50 million will start happening after June. So in H2 we will see some sort of volume impact of the new capacity.

Alok Deora: Okay, sir, just one last question, if I may. In China, we have a very little exposure. So are we looking at penetrating more in that market? Or are we happy with the demand, which we are seeing from Europe and other regions?

Dr. Anand Agarwal: Yes. We are continuing our presence in China, so China is about 5% of our sales. We will continue to have a presence in China, and we will continue to grow in other markets. And as China markets also improve, we are continuing to be extremely bullish on China as a market as well.

Moderator: Thank you. We will move on to the next question. That is from the line of Shashi Bhusan from Axis Capital. Please go ahead.

Shashi Bhusan: Thanks for taking my question and congrats on a good quarter. So I have couple of bookkeeping questions. There is an odd jump in your trade receivables and in contract asset like an almost Rs. 2,500 crore odd. Is it largely because of some of the navy contract, the Bharat Net contact? Can you give some color on this?

Anupam Jindal: Yes, so Shashi, you are right; as we are executing the projects, so a lot of work is happening on the ground and therefore the assets are appearing partly in receivables increasing and partly in other contract assets. So as we continue to move towards our Services, some of that will get into collection mode from the Q1 onwards, and some of that will continue to appear in these categories.

Shashi Bhusan: And also the trade payable has increased by Rs. 1,900 crore. Any input on this as well?

Anupam Jindal: Yes. So basically, the way we are working, we have some of the bough-out materials for which we have the matching payment profile. So this is how we are able to have our contract worked out so that we don't really have to be cash-out during the execution of the project.

Shashi Bhusan: And also if I look at your PP&E and CWIP, that has jumped by Rs. 600 crore in this quarter compared to the last quarter.

Anupam Jindal: So that was essentially the work which we have done in the project for $50 million capex expansion, so that is what we are seeing. So it's not the last quarter maybe you are referring to the September quarter and where we published our balance sheet. So from that perspective, yes, in the last six months or so, that kind of number would have gone up. And plus we also had Metallurgica Bresciana reclassification of certain assets and all those kinds of things.

Shashi Bhusan: Okay. So all those have come in, in this quarter?

Anupam Jindal: Yes.

Shashi Bhusan: And we are guiding for Rs. 500 crore to Rs. 550 crore of capex for the next quarter?

Dr. Anand Agarwal: Next year

Shashi Bhusan: Yes.

Moderator: Thank you. We will move on to the next question. That is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Sir, I am just calculating quarter-on-quarter incremental EBITDA on incremental revenue and also Y-o-Y, same number. And this time the number has **(Inaudible)**. Is it a lot to do with the bought-out components that you just mentioned that we have got a huge bump up in our revenues this year where we will earn very little on the bought-out components? Is that in the biggest reason or is it just what you **(Inaudible)**?

Dr. Anand Agarwal: Agustya, your voice is breaking again. So we are getting part of your questions, but we are not getting the entire thing.

Agastya Dave: Maybe I'll take it off line, sir. Irony of ironies.

Moderator: Thank you. We will move on to the next question. That is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Can you little bit see the; in fourth quarter while revenue has significant increase but margins in H2 almost like collapsed. So was it any one-off, was it any bought-out item kind of thing, which is resulting into higher revenue but lower margin? That is question number one. And a related question is if you are guiding 18% to 20% margin, do you think this kind of a revenue growth was your weakness will it continue at this kind of a pace?

Dr. Anand Agarwal: Rajesh, I think you'll have to understand the texture of our business a bit deeper. So there has been no collapse or anything like that. The margin mix has shifted, and it has been shifting in a very structured fashion from Q1 to Q4. Q3, the margin shift was about 67% was for Products, 33% was Services, which has moved to 52% Services. And these two businesses characteristically have different margin profiles. And that's why quarter-on-quarter, you see a margin shift.

Rajesh Kothari: So from here on, as we move into Q1FY20, the Product business which is 67% it is how much right now in fourth quarter you mentioned?

Dr. Anand Agarwal: 48% in fourth quarter. And we do not look at businesses from a quarter-to-quarter perspective. And that's why...

Rajesh Kothari: And full year how much is this Product?

Dr. Anand Agarwal: Please understand for that overall year, the Products was 63% and Services was 37%. And that's the overall outlook. What I said earlier that in structured way, the Products and Services will move from; last year it was 26% moving to 37%. And in the next two to three years, it will move closer to the 50%, and that's where we are guiding. The margins overall as a Company would be a mix of the two businesses staying between 18% to 20% and with a high ROCE business.

Rajesh Kothari: But in that case your working capital because you said that it is going to enhance your ROCE as we move towards the Services business while it may dilute blended margins. But If I look at your revenue growth versus your full year basis since you said that let's not look at it quarter-on-quarter, on full year basis the increase in working capital is significantly higher than increase in revenue. So how do you justify that?

Anupam Jindal: So basically, if you look at when we are talking about ROCE, it is a mix of fixed asset and the working capital. So in Services business, the working capital, as we have been explaining, is slightly higher than our Products business. But if you look at it, it doesn't require us to invest in fixed asset. So these are the things which you need to understand. Maybe we will have to spend some time with you to understand and make you understand the overall business characteristics. For the Product business, it's asset heavy where we need to invest in fixed plant and capital, and therefore, the growth comes from there. The Services business, which is more of a asset-light model where we have working capital as the only asset.

Rajesh Kothari: Okay. It will be great if you can from the next presentation, probably you can give Products, Services break-up in presentation itself so that we don't ask questions on this.

Dr. Anand Agarwal: We have explained that in our opening commentary, we explained that. And maybe we can explain later.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: So just trying to connect your comments on pricing in the margins performance and the backlog. You said that the pricing is now closer to $7 in that $7 to $8 range. Just wanted to know whether this pricing has slowed down to your margin? And this pricing is now reflected in your new order backlog? And generally, a large portion of your business is fixed price, so just wanted to know if this new pricing is there in the backlog and the margin, what you reported for quarter four.

Dr. Anand Agarwal: Yes, Pritesh. So some part of that pricing has flown into the quarter 4 margins, and that's where we talked about that the margins of the Product business is that used to be at 28%-28.5%, has moved to 26% during the quarter. For the whole year, the margins have remained almost similar for the Product business within FY18 and FY19. But we think the margins, the normalized margin for the Products business will be at 25% to 26%. Services will be closer to 11% to 12%. And the blended will be between 18% to 20%.

Pritesh Chheda: Okay. And the new backlog that you have, or let’s say the backlog that you have is on the new pricing.

Dr. Anand Agarwal: Absolutely.

Pritesh Chheda: Okay. So just to clear here, incrementally what we see is about 26% odd margin on the Products business which was also in the quarter four.

Dr. Anand Agarwal: In the quarter four, it was 26% where a large part of it has moved in and the Products business, this has been the characteristics margin between 24% to 26%.

Pritesh Chheda: Okay. My second question is on the working capital intensity. So just wanted to understand, when you do the projects business because this was one full year where we have a huge change in the mix as well as the acquisition. So now the working capital intensity which we see in the balance sheet is at about 20% of sales. Is that the working capital intensity which we should look forward with a rising bias because your Product mix will keep on changing in favor of Services or do you have any other comments here?

Dr. Anand Agarwal: No essentially, in terms of the overall number of days for our net working capital they have not changed significantly. So we were at about Rs. 555 crore when the revenues were about Rs. 3,200 crore, so closer to about 70 days of working capital. And we are closer to about 75 days of working capital with Rs. 1,000 crore of net working capital on Rs. 5,000 crore of revenue. So as an overall mix, as we continued to run both these businesses prudently and the reason why we are expecting the return on capital employed to be high is that we continue to operate this business with similar or slightly higher net working capital but without any fixed assets.

Pritesh Chheda: But at the ROCE level is it similar to Products business or higher than Products business?

Dr. Anand Agarwal: See it is higher than Products business and that's where we have continued to maintain a guideline that we will generate ROCE’s of north of 25%.

Pritesh Chheda: Okay. On the capex side, sir, you mentioned Rs. 500 crore, that was for FY20, and that's growth capex. What will be the maintenance capex if any or it includes here? And what will be your capex for FY21?

Dr. Anand Agarwal: So that Rs. 550 crore also includes maintenance capex. And as we move forward in FY21, it will come down to about Rs. 200 crore to Rs. 250 crore, something of that order. In FY21, it will be the final stages of our cable capex actually getting established. And post that, we do not have any current program.

Pritesh Chheda: And what optic fiber volumes would you record in FY20?

Dr. Anand Agarwal: It's difficult to say that right now. Let us have the plant establish, commissioned and we can give you more color on this at the end of Q1 and Q2.

Moderator: Thank you. We will move on to the next question. That is from the line of Varinder Bansal from Panthom Act. Please go ahead.

Varinder Bansal: Most of the questions in my mind have been answered. So just can you update us on what are the latest pricing on the OF side in China right now? Spot and long-term rates?

Dr. Anand Agarwal: Varun, we do not, I mean, as we said, we focus more on overall market scenario. For us it is between $7 to $7.50. And we do not operate in spot market in any case. So for us it's difficult to comment on these numbers for China.

Varinder Bansal: Have you been requested at all by the long-term players for the upcoming capacity for renegotiation at all?

Dr. Anand Agarwal: No. Not currently.

Moderator: Thank you. The next question is from the line of Nitin Rao from Alpha Ideas. Please go ahead.

Nitin Rao: So my question is related to the Services business and it is going to play a very big part in our revenue mix, going forward. So my question is, the Services that we provide to our customers, are they similar to IT services in the sense they are sticky revenues. So let's stay after one year in the contract chances are very high it will get renewed? Or is this one time when we deploy the network?

Dr. Anand Agarwal: So, Nitin, initially there is a capital part of the revenue of the order book typically about 70% of that is the capital part, which gets deployed on a two year basis. And the 30% of it is in terms of annuity for typically seven to eight years after that. So the way we look at it, see, we finished one contract for army which was the Rs. 1,500 crore contract. So now it's moving on to our AMC phase, which is about Rs. 500 crore. Our Navy order, which is Rs. 3,500 crore, about Rs. 2,500 crore is capex, Rs. 1,000 crore is AMC. So that AMC part start getting accumulated and from FY22 and FY23, the AMC part starts becoming a significant part as we move forward. Right now, the bulk of our revenues is coming in from the capex part. But as we have executed, say over Rs. 10,000 crore of orders, the AMC part starts becoming more and more important as well.

Nitin Rao: Great. Just a follow-up to that. So are we saying that our Services business will only come in to those customers whose networks were deployed?

Dr. Anand Agarwal: Yes. That's clearly our focus. We do not do Services at least the management of network we do not create. That's a conscious call. And since we are seeing great opportunities of network creation across customer segments, across geographies, we will be maintaining that approach.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Dr. Anand Agarwal for his closing comments.

Dr. Anand Agarwal: Thank you and this concludes the STL Q4 FY19 earnings call. I would again like to thank everyone for attending this call and for showing interest in our Company. I hope we were able to address and clarify all your queries and comments. And for any further questions and discussions, you can feel free to contact the IR team, including myself and Anupam. And we look forward to continuing the conversation with you in the future. Thank you.

Moderator:	Thank you. Ladies and gentlemen, in behalf of Sterlite Technologies Limited, that concludes today's conference. Thank you for joining us, and you may now disconnect your lines. Thank you.