Sterlite Technologies Limited Q2 FY22

Earnings Conference Call Transcript

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Pankaj Dhawan: Ladies and gentlemen good day and welcome to STL Q2 FY 22 Earnings Conference Call I am Pankaj Dhawan – head investor relations at STL. To take us through the Q2 results and to answer your queries we have with us Dr. Anand Agrawal – CEO, STL, Ankit Agarwal – Managing Director, STL and Mr. Mihir Modi – CFO, STL.

All participant lines are in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes.

Please note that this call is being recorded. You can download a copy of the presentation from our website at www.STL.tech.

Before we proceed with the call I would like to add that some elements of today's presentation may be forward-looking in nature and must be viewed in relation to the risk pertaining to the business.

The safe harbor clause indicated in the presentation also applies to this conference call.

For opening remarks, I now hand over the call to Dr. Anand. Over to you sir.

Dr. Anand Agarwal: Yeah thank you good day everyone and thank you for joining us for our Q2 Earnings Conference Call. Like what we do normally we'll start off with giving a perspective on the industry, we'll talk about our strategy and then I'll handover to Ankit for discussing about the strategy execution and the performance for the quarter.

So, at a very macro level we are seeing that the overall digital infrastructure industry is really well-poised for rapid and sustained growth. We are clearly seeing four macro things playing out at one end we are seeing that network creators including large governments are investing heavily in creating digital infrastructure.

On the technology front we are seeing the 5G, Fiber to the X, as well as open ran technologies growing at an extremely rapid pace. We are seeing that; at the same time, we are seeing the demand for the optical networking is growing on the back of very strong multiple growth drivers and what we've seen in India the with the recent moves by the government and the reforms that are recently announced are really reviving the spending and the CAPEX within the country and we'll talk about each of these trends that we're seeing in the following slides.

So network creators and governments are largely investing in digital infrastructure what we are seeing is globally whether we see Europe, whether we see US or India, the data center markets, the investment is growing multifold.

On the government side at the same time, we are seeing investments happening whether it is the Bharat net project in India, whether it's the German projects that we're seeing in Germany, in UK we are seeing the investments continue unabated and it's across segments, it's across the network created. It's across the governments as well and interestingly what we're seeing in US there have been a multitude of subsidies and the programs that have been announced both federal and state funds and that is seeing the funding a substantial jump in CAPEX that's coming over the next few years. And this just provides a perspective of the kind of depth.

This provides a perspective of the kind of investments that we are seeing in digital infrastructure and this is happening really at a global level. Other than the quantum of investments we are seeing the good degree of technological shifts also happening.

The 5G is clearly continue to grow at a really fast click. There are more than almost 2 billion connections expected by 2023, at the same time this entire 5G deployment is backed on the back haul of small cells with the optical technology fiber to the x whether it is homes, whether it is enterprises, data centers, is growing at a rapid click across the world.

And the wireless shift moving towards the open ran technologies is continuing. The growth is continuing unabated so what we've been discussing and talking for the last several quarters about that this cycle about digital infrastructure creation is a sustained cycle for the next seven to ten years and this is clearly getting showcased.

In terms of the demand for optical fiber – as optical which is clearly the backbone for all these networks we are seeing the service providers globally are aggressively investing in fiber for their networks. The demand as per CRU from about 490 million supposed to go to almost 610 million kilometers almost, a 20% jump in the next couple of years and we see an evidence of imminent uptick in demand, as an indicator on the China Mobile tender which is almost more than 140 million kilometers is a single telco requirement and the pricing has also gone up significantly in that market. A similar thing that we're seeing on the policy reforms in India. The initiatives by the government in terms of the moratorium on AGR payment, in terms of 100 FDI approval, in terms of the PLI scheme for domestic manufacturing it's all moving in the right directions and we are already seeing signs of that.

In terms of CAPEX coming in from the providers in the country whether it's Airtel, Jio and VI are increasing. So looking at these all of these four themes that we talked about we can confidently reiterate that we're in a multi-year network build cycles across the globe.

The three investment cycles of 5G, FTTX as well as continued investments by the various internet providers are coinciding and these are expected to continue for the next seven to ten years. So in light of these industry developments, we just thought to recap the overall STL strategy.

As you would recall our clear business model entails a portfolio of three core solutions which is the optical solutions which is wireless solutions and the software solutions are integrated with our own end-to-end system integration services and this is the for us the entire integrated go-to market model and over the last five years across all these portfolio pieces we have made strategic investments in a very designed manner.

In terms of adding capabilities in terms of adding global footprint and in terms of adding scale so for instance for the in the optical business we increase the scale on the fiber side from 20 to 50 million cable site from 12 to 42 million.

In terms of global footprint, we acquired an entity in Europe called Metallurgica as well as in terms of portfolio augmentation we added up optical interconnect in Optotec and a similar very deliberate focus was there across each of the four areas.

In terms of investing in capabilities in terms of investing in the physical assets as well as investments in the people assets and that is very well played out for us. As a company these strategic investments that we did have led to an increase in overall total addressable market by almost 5x from about $8 billion that we had in 2016 to almost $40 million market.

Optical connectivity is a significant part of this, Market opportunities of almost 18 billion US, system integration about 14 billion and about 8 billion split between wireless and the network software and the wireless piece that we're talking currently is about the open ran only.

So our focus is on gaining market share, continuing to gain market share in this total addressable market and as we have communicated earlier we will gain market share through our three focused levels of growth:

First is towards growing the optical business.

Second part globalizing the system integration business and consolidating the market leadership position that we have in India.

And the third part is building a strong wireless solutions business and we will now move forward towards strategy execution and I'll request Ankit to talk from here on.

As I informed all of you that I shall be transitioning from STL on the 2nd of December and I really want to thank all of our shareholders, Research Analysts, colleagues in the investment community for the continued support throughout the evolution and the transformation phases of STL. The company is extremely well positioned for the next phase of growth with a very focused strategy and a great leadership team.

We had identified Ankit as an overall part of the succession planning exercise that we do in the company and I'm very happy to happy to introduce and welcome as a Managing Director of STL. He clearly embodies the spirit of innovation and brings an exceptional leadership track record. He has strong international exposure and a unique ability to forge long-standing relationship with our customer's partners and our employees. He has successfully led the optical networking business for more than 10 years and I'm extremely confident that he's the right leader for STL for the next phase of growth.

With this I hand over to Ankit to take you to the next part of our presentation.

Ankit Agarwal: Thank you Dr. Anand. I want to thank you for your exemplary service. Taking the mantle from you is truly a privilege and honor for me. My focus will be to propel STL to the next phase of growth journey based on the strategic levers and financial targets that we have checked out.

As always, we shall continue our growth journey adhering to the financial discipline and conforming to the highest corporate governance standards. I'm also looking forward to working closely with all our shareholders and stakeholders in the investment community.

As Anand touched on in terms of growing our optical business, we continue to see our momentum on our Opticonn solution. In the Optical business we are witnessing a favorable momentum of a sustained market expansion since December 2020. Furthermore, the market is shifting towards high value integrated solution approach essentially of the optical fiber cable and the optical interconnect solutions. On the OFC side if you look at the CRU FOCI index on the top left you will see that this is a measure of our global demand price growth estimates and it has grown significantly over the last 10 months.

This is in line also with how we have increased capacity utilization and continue to improve that on a quarter and quarter basis. Optical interconnect is a technology-oriented business which is on the growth path. On the back of increased network connections, we recorded double digit revenue growth in this quarter. In this business STL is well positioned to offer end-to-end optical solutions through the Opticonn offering that we have.

If you look at our journey over the last few years, our optical fiber cable market share for the global market excluding China has grown more than double in the last five years and has now reached almost 10%. Particularly in the European market we have grown our market share in a focused and designed manner from a meager 3% in FY 16 to almost 26%. As of now this has been a dominant part of our strategy framework over the last five years and we intend to follow a similar playbook for optical interconnect products in Europe as well as take the same playbook to other markets globally.

We are strongly positioned to increase our global market share in the coming years. Optical interconnect is a technology-oriented business with a strong opportunity for solution cell. The market is expected to grow from about $7.5 billion to close to $10 billion by 2025. Optical interconnect business is of the same scale as the optical fiber business globally and is in fact more technology intensive. As fiber is reaching closer to the consumers, it is a large growing segment adjacent to the core strength of STL having the same customers and the same CAPEX area. Optical interconnect is a customized and engineered solution for fiber management and termination as shown in the infographic. Some of the key products for FTTX and data center segment are shown here. STL key differentiation in the OI products are ease of installation, low optical loss, reduced cooling requirements and also lower carbon footprint.

Our confidence with respect to the multi-fold growth stems essentially from this slide. As you can see through the Optotec acquisition that we completed recently, we've been able to increase our attach rate to about 8% currently but we have a long runway ahead of us and we can see that the industry is at attach level of about 100%. So clearly there is room for this business to grow where essentially you would have a one-to-one match of our optical fiber cable sales to our optical interconnect sets. As Opticonn provides faster network deployment, better quality network infrastructure and reduces overall network cost. We believe that this end-to-end optical connectivity solution will continue to grow enabling us to gain market share.

In the last five years we have grown 6x in the system integration business and we're continuing this trajectory in attractive customer segments. In the defense segment, we are executing high profile and critical end-to-end network modernization projects for both the Indian Navy and Army.

in the telco segment we are working closely with both Jio and Airtel for tower fiberization and also fiber to the home. In the citizen networks we're executing projects in Maharashtra and Telangana. In the data center segment, we are building the businesses on a growth path with a marquee customer base market leadership in India.

We're embarking on a global growth journey starting with the UK and have already started getting some good network creation projects. In line with that, we are delighted to announce our follow-on wins post the first order that we announced previously. We have partnered with two leading alternate service providers in the UK. we shall deploy FTTX to connect homes with broadband. These are £42 million projects cumulatively and expected to get completed in the next 12 to 18 months.

In order to further accelerate our system integration and grow business in Europe we had acquired Clearcomm, a provider of end-to-end optical network integration services in the UK we have successfully completed the business integration of Clearcomm with STL. We have now a combined employee strength of more than 100 employees and more than 20 plus partners on board. This traction achieved in the UK underscores our globalization strategy.

In terms of execution our speed has increased in this quarter. A project completion status as you can see is as follows: Project Varun is at 99% completion among Bharat Net projects, MAHANET almost 100% close to 99%. Again, T Fiber is at 34% completion including all packages. Fiber rollout for the large Indian operator is 62% complete. Fiber to the home rollout in the UK the first project is 2% complete and project two and three that I just brought up us at the starting stage. In the data center connectivity projects in this quarter we have completed 44 projects and are currently working on 21 further projects.

In the wireless business, the product development is on track on the back of efforts by engineers. we have 54 patents on our name as of now. We continue to invest in R&D we have invested close to three and a half percent of our revenue in R&D in Q2 and 70% of it has gone in developing wireless solutions. In terms of customer engagements on the wireless side we have almost 11 early-stage engagements and 14 participation stage engagements as of now.

As we have mentioned earlier, we have a focus strategy in place which coupled with our experienced leadership execution of the strategy provides a win-win combination. We have Paul Atkinson, a veteran from Prysmian Group leading optical business. We have Mr. Praveen Cherian, who has joined us as the CEO of the system integration business. He has more than 27 years of experience in the industry on the wireless side. Chris Rice is an experienced leader with 25 years at AT&T. Binding it all is Sandeep Girotra with 25 years of experience in the communication industry and is leading the key account management for us globally.

In the last four to five years we have consistently increased our R&D's investments as a result of these efforts our patent count has reached to 636 at the end of Q2 FY 22 and we will continue to invest in R&D going forward.

We have delivered robust financial performance and I am confident that we are on our path to deliver our financial targets.

To talk about our performance highlights I will now hand over to Mihir to discuss the financials.

Mihir Modi: Thank you Ankit. A very good day to everybody. let me quickly take you through the key elements of our financial performance.

To start with right at the top of the funnel as you see our order book has grown significantly in the last three years essentially showcasing the breadth of our portfolio, the deep customer engagement that we are continuing to build and of course the global footprint.

The order book spread is also very well balanced I think the remaining six months of FY 22 is approximately Rs. 27 billion and beyond that is about Rs. 88 billion.

As you see our order book is well diversified across customer segments and importantly we are also building an O&M order book which has significant revenue from FY22.

Further down, our revenue mix is moving in geography and segments of our choice. We are increasing our share in the telco space. In terms of geographies, we're increasing our share in EMEA, European markets being largest there and American markets.

Specifically, some notable wins in this quarter: we've won multi-million dollar deals with service providers in the UK to connect homes with broadband. We've also won a significant order for Opticonn solution from a large European telco. Additionally, we have entered into a strategic partnership with the leading Indian public enterprise to deploy a unified network management system.

All in all, happy to share that the revenue mix is moving in the right direction. In terms of absolute revenues and the growth, as expected we are back on growth trajectory both YoY and QoQ. our quarterly revenue grew by 30% year on year to Rs. 15.08 billion and the EBITDA grew 27% year-on-year to Rs. 2.69 billion.

Of course, our optical business and the total business continue to grow on a QoQ basis. Our project execution in India and UK shall further strengthen from Q3 FY 22 onwards as we do expect to continue our QoQ growth momentum.

We are on track as we have been talking about towards reaching the Rs. 100 billion annual revenue run rate by quarter 4 of FY23.

Just wanted to share the three growth levers that we believe will drive us and propel us towards that number from the current 60 billion revenue run rate. The three levers are, the first one being in our optical network business: the OFC volumes are expected to increase to 42 million. As we expand capacities particularly in the US and UK so we expect the volumes there to increase to 42 million annualized rate. We also expect to increase the optical interconnect revenue by increasing attach rates which are currently in single digit closer to the global benchmarks which are which are as high as 1:1. So we're looking forward to using the optical business lever to get to the Rs. 100 billion annualized run rate. The second lever that that will support us and help us is the system integration business particularly the globalization of that the revenue from Europe shall strengthen from quarter three onwards and O&M revenue shall continue to increase. Last but not the least, the wireless solution business is a new stream of revenue being built on the back of new products and we are very excited to take this to market and grow it further from here.

On the net debt to equity ratio as expected, as we have been talking about has now peaked out in this quarter and has will start its journey trending downwards from here on.

We already generated a positive operating cash flow of Rs. 0.71 billion in the first six months of the year. Our cash outflow in organic and inorganic investments at close to Rs. 4 billion in the first half as our investments increased. We paid dividend in line with our dividend policy.

Our net debt at 30th September end of this quarter stood at Rs. 28.15 billion but as we had mentioned earlier our investment cycle for the past few years for capacity augmentation capability building etc. is largely complete. As we look forward, our investments will be more focused on R&D which has grown to now approximately about 3.5% of our revenues and paying a little bit of the balance of CAPEX, which is underway but overall, the larger capital investments are behind us and we expect the debt to start moving downwards from now on.

If I just share a snapshot of how the last three years have been and what we expect from FY22 onwards from a capital allocation standpoint you would see that that we spend considerable amount on organic and inorganic investments and now that is that is almost at the fag-end of the cycle whereas going forward a large part of the cash flow from operations will go towards reducing the debt thus getting us to the goal of bringing the debt equity ratio to 0.5.

We've placed the abridged version of the financials for your reference. I am happy to announce that the growth momentum is back both versus previous year as well as quarter-on-quarter and we hope to continue to do that.

In summary, we are committed to delivering our financial targets revenue run rate of Rs. 100 billion per annum. By the end of FY23 a net debt equity ratio of less than 0.5. Again by the end of FY23 get our ROCE higher than 20%.

I think along with being financially strong STL’s endeavor is to be a responsible leader in ensuring a connected and inclusive world is a very important element for us. As a Company this focus reflects in the way we have designed and implemented our ESG agenda.

We are constantly working to ensure what we call a circular economy where the waste is not only diverted away from landfills but reduced at source, recycled and reused as input by other industries and to make this possible we set ambitious ESG goals for ourselves, We're fully committed to achieving these targets on the ESG side.

In summary, I'd like to say that our strategy to increase the market share in now what is $40 billion TAM on the back of the three growth levers that we discussed is showing results. In the optical networking business, the global OFC market, the cables market share is increasing and optical interconnect attach rate is also on the rise. The system integration business has taken its step outside India into the UK we have integrated. Clearcommx secured new orders in the UK and now we are ramping up the execution there. The wireless solutions business we continue to invest in R&D, develop new products and take it to customers. We plan to reach the 100 billion revenue run rate by the fourth quarter and net debt equity of less than 0.5 and ROCE of (20%).

Pankaj Dhawan: If you wish to ask the question you can raise your hand or send us the questions through chat. Mukul, you can ask your question.

Mukul Garg: Anand, we are really going to miss you. it has been a great experience working with you and learning from you. Best of luck for your future endeavors and many congratulations on the new responsibility. We are looking forward to our continued interactions over the next many years. So to start the question on a quick view on how you see OF pricing going forward especially after the surprise which just happened at the China Mobile tender and you would also have started seeing some benefit because of increasing penetration in the US market where pricing has remained elevated?

Dr. Anand Agarwal: So yeah absolutely so I think definitely it was an important development. China Mobile close to 140 million fiber kilometers that that we shared earlier I think that's certainly overall a positive for the entire market and industry in terms of both the absolute volume as well as the pricing. It's also an important measure of possibility that the other telecom operators in China could also look at larger volumes than they've taken previous years. So I think that's positive. we also see that the large players in China possibly would then also be looking to supply into these large requirements that have come up. In terms of the pricing, I think currently at least we continue to see that they are stable and inching up a little bit. As we have shared in the past we continue to have long-term contracts with our customers and we will continue our discussions with them certainly in newer contracts that we see as we said more and more as cable and interconnect. It will be important to see how we place the pricing for those newer contracts on the US part. I would say generally whether it's Europe or US as I was sharing most of our sales are more and more towards the cable and the interconnect side and there we're certainly ensuring that we have the right portfolio and we're selling at the right market price sure.

Mukul Garg: The second question was on the optical interconnect market side, can you just help us understand what is your key competition in that market? How much of that market is serviced by the optical fiber cable guys, your competitors and what are the advantages of buying from the fiber vendor? You said like field to the factory, kind of deployment as one of the key advantages so what are the advantages of that and is that something which is already being done by your global peers?

Dr. Anand Agarwal: A good question I think at a macro level we're certainly very excited, post the Optotec acquisition and are bringing on this capability on board. Since we already had relationships with Tier-1 operators globally and we had strong touch points with their technical teams as well as their supply chain teams, we're very quickly able to leverage some of those relationships and our conversations have moved from just supplying the cable to providing end-to-end solutions and our conversations now are very much around end-to-end offering of how do we ensure they have the best cost for home pass and time to connect. What we will ultimately doing for the customers is solving for some of their biggest challenges. Very often they don't have enough trained manpower or it takes far too long to deploy these networks or the costs are very high like we see in variety of our customers in the UK, US across Europe as well. So what we've been able to do is bring in through this combined solution of the world's leading glass, bringing it into our cables and then along with our connectivity, the Opticonn offering that we have started to offer is very-very exciting for the customers because we are able to demonstrate value and savings across these parameters on a total solution basis. So that's essentially how this is creating value for STL and why we see that our attach rate from where it is 8% that it can go towards this industry norm of about a 100% level. We won't be able to comment on the competition specifically but I think certainly there are other players in the market especially in Europe and North America who do have certain amount of portfolio both on the cable and the interconnect and we certainly see that some of our own unique offerings that we have already filed some patents and we will continue to file. We will continue to ensure that we have our own unique offering to the customer in this space.

Mukul Garg: Sure, just one clarification if I can just get on the receivables and payable side. The receivable especially has gone up this quarter can you help us split out what the break is between the public and private customers?

Ankit Agarwal: Mukul we don't split that out specifically but we have reduced the receivable on the public side. Part of the increase in receivables also because if you see the other assets, which is the unbilled amounts have reduced so some amount of movement has happened from the unbilled to the debtors and therefore the debtors look higher. I think overall what I'd say is the net working capital has improved this this period and the breakup of that is favorable for the public accounts.

Mukul Garg: Sure, thanks for clarifying and best of luck for our rest of the year thank you.

Pankaj Dhawan: We will take the next question from the line of Mr. Neerav Dalal. Neerav you can ask your question,

Neerav Dalal: Thank you for the opportunity. A couple of questions. First is that in your presentation you're talking about increasing the OF, so one of the drivers going ahead is increasing the OF volume from 28 to 42 million. The idea for us was were going to increase from 18 to 33 the balance is still to be added so that's the first question. The second question is on the M&A strategy. Now that we've done an acquisition in the UK we've strengthened the UK system integration we've done the Optotec so going ahead what would be the specific areas where we would be looking at M&A? And thirdly in terms of CAPEX if you could just remind us in terms of what would be the split between FY22 and FY23 in terms of CAPEX. That's all from me.

Ankit Agarwal: Sure, I can take the first question certainly as we have already shared previously, we are looking to expand our capacities to take it from 33 million to 42 million fiber kilometers, we believe the timing of that will be in first quarter of the next fiscal year. So the current thought process clearly with the progress we're seeing on these large investments globally and certainly in our engagement with our key accounts. We are very confident. We do see this demand. We do continue to believe we will grow faster than the market is growing. So that's the reason for our continued investments and we're also you would know, we are fully backward integrated on our fiber side at 50 million fiber kilometers. So the plan continues as we have stated previously to be end-to-end solution provider and we are fully backward integrated and to the customer be much more forward oriented in terms of our end-to-end solution so that's on the first question. I think 33 is done so yeah 33 million we finished it in June of this year and we're currently already operating that almost 28. I think on the M&A part I think all of that has been aligned as Anand was also showing in terms of a variety of whether it's capability or adding scale, etc., that we have done through the period of time. So to that extent I think a lot of those levers are in place and we will certainly look on how do we maximize our output from all of those. And we will continue to look to by evaluate opportunities if there are certain capabilities that come to be available, we'll continue to evaluate those.

Nirav Dalal: Any specific areas we would look at because we are we are like now full in I believe in terms of the optical, in terms of the system integration we are we have done UK so what would be the other area that we are looking at the moment in terms of M&A?

Ankit Agarwal: So as I said there's nothing specific that we could share. We've clearly laid out a strategy in terms of growing, globalizing and building the three businesses that we've touched on so that is very much we believe we have the pieces in place to execute that and certainly if there are one-off capabilities or opportunities we would evaluate those but nothing on the table right now.

Dr. Anand Agarwal: On the CAPEX we've spoken about spending about 500 crores that's about Rs. 5 billion this fiscal FY22. More than half of that has been paid out in the first half and the remaining 200 odd crores will get paid out in the second half of this year. Next year we will be in the range of 200 to 250 around that range of CAPEX , which will be more in the nature of sustainable or small.

Pankaj Dhawan: We'll take the next question from the line of Mr. Harshit Patel. Harshit, you can ask your question now.

Harshit Patel: Thank you, So first just a couple of bookkeeping questions. So could you highlight what was the manufacturing capacity utilization for us on both the OF and OFC fronts in the last quarter?

Mihir Modi: So overall the utilization was about 70% on the optical fiber side and as we just shared close to 85% on the cable side so overall fiber capacity at 50 million and the cable capacity at 33 million.

Harshit Patel: And then Mihir sir when you highlighted this almost Rs. 7.5 billion to Rs. 8 billion of CAPEX over next two years FY22 and FY23. so does that number also include the CAPEX payables. I mean at the end of FY21 if I look at the annual report we had almost 450 crore of CAPEX payables left so which were part of our other financial liabilities so does that number include those 450 crores as well?

Mihir Modi: So this is the cash outflow I'm not sure the total 450 related to specific CAPEX or not but I think to answer your question it's a cash outflow so yes it includes the payable. What we are talking about as the as a 750 to 800 crore over the next 18 months includes payable so there's no additional. It's a cash flow number that we're talking about.

Harshit Patel: Just the last bit in a traditional way where you used to share the breakup between products and services in the traditional way so what would that break-up be for the second quarter and that would be my last question?

Mihir Modi: Two-thirds is products and one-third is services this quarter. There tends to be lumpiness sometimes in depending on how the projects are tracking, etc., so this quarter is more like 60-40 to two-thirds for products.

Pankaj Dhawan: We will take one question from the chat which has come from Mr. Venugopal. The question is what type of OF global capacity is built by our peers in last two to three years ex-China. Can you please throw your views on this?

Dr. Anand Agarwal: So I think historically if we step back a little bit we had a phase where some of three or four large players had been adding capacity in China. In addition to that we have seen that in the couple of years again because of seeing this sustained 7 to 10-year network built out we are seeing some of our peers in Europe in particular, adding certain capacity. There have been some announcements and then more recently also in North America a couple of our peers have announced investments anywhere between $50 million to $100 million of investments specifically adding either fiber capacity or cable capacity. So that's what we are currently observing. We continue to believe that both the demand will continue to grow and as we also believe clearly whether it's a government sector or private equity or other sources, there will be sufficient and more capital deployed to ensure this the deployment is there for 5G and FTTH, etc.

Pankaj Dhawan: The next question we'll again take from chat from Mr. Sanjay Gupta. Could you please provide update on status of our PLI application and how we are going to get benefited from it?

Dr. Anand Agarwal: So we have the PLI application that we had done has been approved. We've done it in the name of STL Networks which is a subsidiary company within the Group. We are looking essentially at using that entity for our wireless and telecom equipment, hardware business as it pans out. So the benefit would accrue in terms of the percentage of production linked incentive that come through. So the exact quantum is not available right now but the application has been approved and we are a PLI approved manufacturer.

Pankaj Dhawan: We'll take the next question from the line of Mr. Vikrant Gupta. Vikrant you can ask your question.

Vikrant Gupta: Just a couple of questions firstly, if you could just provide an update on the execution of the large telco project that we had and secondly, given that a couple of our large projects the defense one the navy one and the Mahanet project nearing completion, how do we propose to sort of backfill these or replenish our order book? What sort of pipeline do we have in these segments.

Dr. Anand Agarwal: Firstly, I think the on the private sector we continue to see a pretty strong demand of fiber network build out as well as fiber to the home. There have been large projects and investment decisions already announced by the telecom operators. In addition, as we're clearly seeing the government has announced strong policies towards both improving the health of the sector as well as taking 5G on a strong footing, we continue to believe a pretty large fiber network would need to get rolled out both in advance and then during this this 5G network build out. So we clearly see even in India itself a pretty large and strong demand for that. Within that we believe we will continue to get a strong share and we will be able to provide some of our leading solutions to make sure that we capture this share profitably. In terms of the other the other projects I think was continuing to evaluate a wide variety of projects across the defense as well as the citizen networks. As you would be aware the Citizen Network specifically Bharatnet there's already been an announcement by the government tune of around 20,000 crores which will be available in a PPP format so we're closely evaluating that as a certain amount of projects will come up at some period of time. In addition, we talked about globalizing this business and certainly that continues to be very important. As we just said close to about 42 million pounds of opportunity have been secured in a fairly short period of time with that business and we continue to believe that more opportunities will be made available with that business.

Vikrant Gupta: One follow-up so do we now see the skew of the services of the system integration site more towards Europe and North America rather than India incrementally.

Dr. Anand Agarwal: No, I think this will continue I mean our home so to speak our current projects large portion of system integration will continue to be in India both on private sector and the public sector. We have not talked about a lot but we continue to see large amount of data centers getting build out and probably some role for STL within that as well on the on the data center interconnect side so I think that will continue to be a focus area. We can probably foresee that in a couple of years probably one-third of business will be outside India and two-third business in India.

Pankaj Dhawan: The next question from the chat again from Neerav. Any update on the wireless solutions project that were working in the US? Have we completed the testing phase? Also when we see 11 engagements would mean that we have secured deals and are in testing phase, please explain. Thank you.

Ankit Agarwal: So the US project the testing is currently still underway for on the lab and the field trials. For the 11 engagements that are going they are in various stages between the field trials, lab trials and POC. These are not currently purchased orders but trials in advance stages. The one that we are clearly executing and that we've communicated in the past form of an order is the radio order that we got from Facebook connectivity where we are developing the radios for them as well as we'll be co-marketing them globally as soon as the development portion is done.

Pankaj Dhawan: The next question we'll again take from chat from Mr. Saket Kapoor is how is H2 likely to shape up?

Mihir Modi: I'll answer that in two ways I think one is given market opportunity and our readiness to address that we are absolutely on track to hit what we've shared as the objective six quarters from now which is a 100 billion or 10,000 crore annualized run rate. Having said that I think from an immediate sense as this quarter results show our momentum on growth quarter-on-quarter and year-on-year is continuing and we will keep focusing on that every quarter to make sure that we continue to grow. So the next two quarters are hopefully expected to go up that trajectory.

Pankaj Dhawan: One next question will again take from chat is from Mr. Vipul Kumar Shah. He is asking when you reach Rs. 100 billion turnover at the end of FY23, what will be the split between fiber cable optical, interconnect solution and services?

Mihir Modi: So let me answer it this way, we expect the chunk of optical networking business which is the fiber cable and the optical interconnect put together to be for 55ish percentage. We expect system integration to be about 40% and we expect the access solutions business to be about 5%. I think that's the broad split that I would be comfortable with sharing because that's the way we look at our businesses. Within that I think just one more level of color that that I can give you in terms of how we are looking at it as Ankit also referred earlier that between the optical interconnect to our cables business the current attach rate is in single digits it's about 8% and we would want to raise that as we go further and that will give you a sense of what the optical interconnect versus cables mix within the optical networking business would be like.

Pankaj Dhawan: We will take the question from the line of Mr. Nagendra Maurya. Nagendra, you can ask your question now..

Nagendra Maurya: I have just one or two questions basically regarding the debt position. As Mihir Sir said this quarter the debt has been peaked out and from the current level it will be going down so how much by the end of year we are looking to decrease this debt, this is one question and secondly on the question you have currently not any M&A capacity is sufficient to increase our current quarterly run rate of 60 million to 100 million run rate?

Mihir Modi: So let me take the debt related question, completely agree that as per the plan and as we had communicated in the past, we believe that the net debt has peaked out for us and it will start trending downwards now. While we'd want to reduce it as much as possible in the immediate term, I think I would say that our eyes are set on the 0.5 net debt to equity ratio and to kind of indicate anything in the short term may be unfair given that we may need to make business decisions which may move some things from one quarter to the other. So at this stage what I would I would say is that we are all we will be starting a journey of reduction of absolute net debt in rupee terms as well as reduction of the net debt to equity ratio. I don't want to make simplistic assumptions but over the next six quarters it will reduce.

Dr. Anand Agarwal: There was a question on the M&A part. To the extent I heard it I just want to reiterate that we do believe that we have our pieces in place for our three-prong strategy on the grow, globalize and build. Specifically, on the wireless part of business we continue to invest in R&D and we believe that's critical for future growth of that business which is obviously all done with our own teams internally. So at this stage we do not see any immediate requirement for M&A but we continue to evaluate options from a capability requirement as I stated earlier.

Nagendra Maurya: New product development in line which we are planning to launch in next couple of quarters?

Dr. Anand Agarwal: I think broadly we continue to have a very strong pipeline as you can also sense from our number of patents we have now built close to more than 630 now so we're continuously innovating and continuously looking to bring products to line. Our intent is always to do this working very closely with our accounts as we have stated earlier. So I'm sure you will continue to see strong portfolio products in the quarters to come and we will certainly share those announcements in the near future.

Nagendra Maurya: One more question about I believe there is a book to bill revenue also in the overall revenue. can you give a split between this quarter how much book to bill revenue and how much from the order book?

Mihir Modi: So typically the book to bill in a different business would differ but I would say 20% to 25% is a good assumption every quarter that may not have been a part of the open order book at the beginning of the quarter. While I must quickly add that it differs from quarter to quarter but one can assume a 20% to 25% book to bill.

Nagendra Maurya: So we can assume this ratio for the annualized OB also?

Mihir Modi: Every quarter this is the number so depends on what is what is the starting point for the open order book that you that you take that will decide how that percentage pans out.

Pankaj Dhawan: So with this we come to the end of question and answer session and now I now hand it over back to Mr. Ankit.

Ankit Agarwal: So I'd like to thank everyone for attending this call and for showing interest in our company and I hope we are able to address and clarify all your queries and comments. For any further questions and discussions, feel free to contact the investor relations team which includes myself and Mihir and we really look forward to continuing the conversation with you in the future. Thank you.
