"Sterlite Technologies Limited Q1 FY20 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Sterlite Technologies Limited Q1FY20 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 the conference call, please signal an operator by pressing * and 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 and M&A, Sterlite Technologies. Thank you and over to you, sir.

Vishal Aggarwal: Good evening everyone, and thank you for taking the time to join us for today's conference call and review of our business results for the first quarter of FY 20. Joining us today are Dr. Anand Agarwal, CEO and Anupam Jindal, CFO of Sterlite Technologies.

Let me quickly outline the agenda for today's call. Anand will provide you a brief update on the industry and then spend some time walking you through our market positioning and performance. Anupam will then follow it up with financial highlights for the quarter, after which we will be taking your questions.

We have also uploaded the presentation on our website for those who cannot access it live. 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.

With this, I turn the call over to Anand.

Anand Agarwal: Thank you, Vishal, and good evening everyone. We have entered FY20 with yet another exciting quarter and have seen excellent growth on both our operational as well as financial numbers. The way I see from a holistic perspective is that on one hand, we are innovating for today with our comprehensive network and data center design and development for the Navy, deploying city networks at 40% to 50% higher speeds and commissioning the one-of-its-kind Industry 4.0 optical fiber plant. On the other hand, we are disruptive for tomorrow by participating with the open source network ecosystem to build disruptive software-defined networking solutions. We ran a full-scale benchmark test on the Open Networking Foundation compliant programmable FTTx solutions that can emulate thousands of subscribers. This is a precursor to STL's launch of our PODS, which is the Programmable, Open, Disaggregated Solutions later this year. We also launched Intellza, which is an AI-powered Big Data next-gen business intelligent solution that helps analyze telco user data to make real-time network and customer-targeting decisions. So all of us at Sterlite are brimming with excitement, looking at what lies ahead of us in the near term and future.

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So with this, I will now come to the presentation. Clearly, what we see are major trends that are shifting in the industry. We see the trends of 5G, we see massive shifts happening on our data centers, both at the hyperscale kinds as well as the edge kinds. We see and are connected everything embraced by IoT, and we are seeing all this being supported with a virtualized disaggregated software-defined networks.

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So we are clearly seeing that early 5G commercial launches have started across major markets like South Korea, China as well as U.S.A.

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We are seeing a massive hyperscale as well as edge data centers are getting built, which have resulted in almost $66 billion of cumulative annual CAPEX by the top 3 cloud providers globally.

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And we are also seeing enterprise and smarthome applications have been growing with number of IoT connections are expected to see a massive jump of almost reaching a number of 25 billion IoT connections by 2022. All these trends are extremely encouraging for us as we continue to serve the requirements of our customers through newer and innovative solutions for varied applications in new-age data networks.

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These new services and applications are driving the need for more capable network infrastructure that must deliver amongst other things, higher speeds, lower latency and 100x more bandwidth density. Densification of network, amongst other trends, is becoming a critical element of data network. It is estimated that the amount of fiber required to connect all expected 5G cells is almost 20 to 30 times greater than that was necessary to connect 3G and 4G microcells. And what is truly encouraging is that our customers themselves have started to openly acknowledge the need of deep fiberization as the plan for their 5G networks. Just to give you an example, it is estimated by Fiber Broadband Association that only the top 25 cities in the U.S. would require close to 180 million kilometers for 5G roll out, which is 3 times the annual demand of U.S. So for each city to be 5G ready would require almost 6 to 7 million kilometer each.

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And where we see India in this is that it is just at the start of the network creation cycle. It is an exciting part because it offers us not only opportunities across the globe but also immense potential in India, which is our home market. India's fiber kilometer per capita is 17 times lower than that of U.S. and 14 times lower than that of China, and that's a huge potential that lies in our country for fiberization.

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All these opportunities that we see in the overall market space are creating extremely unique opportunities for STL. The current operating environment for us is changing as an outcome of the customers evolving needs. What we see are high-density architectures are necessary to carry the optical signal deeper into the network and customers are looking for end-to-end network creation partners, which significantly increases our addressable market. Apart from that, the customers are looking for more and more innovative and open architecture software-based solutions, which in the coming time is the focus of our investments. I would say that the culmination of these levers of new-age networks are continuing to create evolving opportunities for STL, leading to an addressable market of $75 billion by 2023.

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And we, as a company, are at the forefront of these megatrends by offering integrated solutions across all our customer segments. We continue to focus on our 4 customer segments of telcos, of cloud companies, large enterprises as well as citizen networks. And our offerings to our customers are increasingly evolving from component-based products from singular components to system-based solutions. These systemic solutions that we sell are increasingly co-created for specific customer application and typically involve our complete capabilities from silicon to software. We are increasingly offering unique fiber and cable designs for a particular network application, which may include our network monitoring software, or OSS/BSS capabilities.

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And we are doing this with clear focus on our pillars of customer engagement, technology, execution, global delivery and supply chain as well as talent.

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To talk about this approach in more details of how we are adding customer engagement and technology, we will be talking about a few typical engagements, which are getting transformed with our system-based solutions approach. This slide needs your undivided attention because what you see on the screen is a snapshot of such integrated offerings for our customers. So for instance, for one of our large global telco client, for their high-speed fiber-to-the-x application, we are providing our algorithmic FTTx solutions of Sterlite FTTx Mantra as well as iCore. For a hyperscale cloud customer, for their high capacity with extreme low latency demand, we are meeting that with the STL TruRibbon solution which provides 4 times faster installation compared to legacy high-density fiber solutions. And for 2 of the disruptive telcos in Asia, we are providing our STL Programmable, Open, Disaggregated Solutions for their seamless WiFi offload.

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And this provides an example of all the solutions where it is a combination of STL offerings, which provides an integrated, unique unified solution for our customers. These solutions that you are seeing are a demonstration of our shift and focus on end-to-end system-based offerings. These solutions are truly a culmination of our product design, of our services and software offerings that are created on the foundation of technology and deep customer engagement.

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Now we will talk about our execution capabilities and the focus and more particularly on network services, where we have also received feedback from you all on giving more color on our offerings and execution. Our team has done a great job on conceptualizing the entire architecture and are accelerating the pace of the project since its inception. For Navy, we are doing the end-to-end system design engineering right from network to data center to applications for 33 data centers with more than 600 network elements across the country. To name a few capabilities, we are designing and implementing regional, dense wavelength division multiplexing at 7 metro cities in the country for transport layers connectivity at edge locations. We are building data centers in accordance with international standards and first-of-its-kind explosion proof architecture. We are providing satellite connectivity to Andaman Nicobar and Lakshadweep and a centralized hub created in Southern India. We are doing end-to-end storage, compute and security through 2 dedicated NOCs in the country. We are doing umbrella network management systems for managing the entire data network and we are implementing dedicated private cloud on a virtualized platform with our software offerings. The navy communications command control system will support analytics and strategic decisions through Big Data platform and on-prem cloud services with multi-tenancy in defense network. We are incredibly proud to partner with navy to build such a secure world-class communication network, first of its kind, in India. The project is almost 50% complete and is running on schedule.

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Up next, the projects that we are doing, MahaNet in Maharashtra is an example of what we are doing in terms of overall rural connectivity. This project would ensure connectivity from taluka to gram panchayats and horizontal connectivity to Government institutions and facilitate, the delivery of e-governance of services such as healthcare, education, agriculture of Maharashtra impacting almost 7.5 million lives. Our scope includes planning, deploying, end-to-end integration, testing and commissioning of underground and aerial networks along with power and solar infrastructure, which could of course include 100% Sterilite optical products, operation and management, and facilitating service provisioning of the established networks for 3 years post execution on turnkey basis. This project is about 30% complete and is also running on schedule.

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The next example that we want to talk about is our Kakinada Smart City. This is an example of what we have done where we have truly showcased an end-to-end IoT network, which includes the fiber backbone, data routing and switching multiple data centers, IoT sensors across the city and ERP applications converging the city's citizen services. For this project, we worked with the city from conceptualization of the network design to the overall deployment. This project is complete, and we will continue to be engaged with the city for 5 years for network management and this project is true testament of our network capabilities for an IoT-driven infrastructure.

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Moving on to our global delivery and supply chain, we are proud to show you pictures of our newly commissioned capacity. Just to share with you our internal designation of this CAPEX project is called Gaurav, which means pride, and we at STL very fondly take pride in building this new facility. With this added capacity, STL is now positioned to be among the top 5 global integrated manufacturers of fiber. We are extremely proud of the team for onboarding this capacity in record time, which has been made possible with strong focus on technology, robotics and automation. The new state-of-the-art Industry 4.0 plant would enable us to speed up the innovation engine for photonics and material science, such as the new fiber technology as well as fiberoptic sensing solutions. This facility is undergoing commissioning currently and would be gradually brought up to capacity between now and end of this year.

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We have also completed our 1-year anniversary of our Europe acquisition, which we did around this time last year, and we are happy to see how beautifully it has weaved into our business. As part of our cabling expansion plan announced last year, we are doubling our capacity of the Italy plant from 3 million kilometers to 7 million kilometers. This expansion is mainly for our niche micro module cable offerings for our European customers. This acquisition has been extremely strategic for our European business, bringing us closer to our customers to serve for their requirements with a much faster response time. And our plan to increase our optical fiber cable capacity from 18 million kilometers to 33 million kilometers in a modular fashion to finish by June 2020 is fully on track.

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And yes, coming to our most important pillar, talent. It has been a continuous endeavor to continue to provide growth platform and opportunities for our internal team and also bring in the best-in-class industry experts. Some of the names that you see on the slide are leaders in their own domain coming with a pedigree of working with globally reputed companies. This talent inclusion is a part of our continuous investments in technology and customer centricity. We are also now a 'Great Place To Work' certified company, which is a step towards our endeavor to continue to make STL a greater place to work every single day.

With this, I now come to an end of the business overview and hand over to Anupam.

Anupam Jindal: **Slide 22:**

Thanks, Anand, and good evening to everyone. Coming to the financial performance, we have delivered yet another strong quarter with more than 60% Y-o-Y growth in revenue and 32% Y-o-Y growth on EBITDA. We have outperformed on our ROCE benchmark and stand at 28% ROCE for the quarter. Our current order book is at almost 10,000 crore and new products with a revenue ratio was 21% during the quarter.

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We have continued to show a Y-o-Y revenue growth of 60% for this quarter after following a great 60% full year growth in FY19. On a Q-o-Q basis, there is a revenue dip, majorly on account of lower revenues in our services business as compared to the last quarter, which is more of a timing issue. On a yearly basis, we expect to execute most part of our Navy and MahaNet project and increase network rollout of some of the leading telecom in the country. The EBITDA in the current quarter was quite impressive supported by operations at full capacity, higher contribution by high value-added products and solutions and increasingly integrated system-based offerings, better operating efficiencies and improved profitability in the services and software business. As we have commissioned the expanded facility earlier during the quarter, this has resulted in higher depreciation in interest as compared to the last quarter. As a company, we continue to be focused on overall revenue growth with profits growth, while maintaining a ROCE in excess of 25%.

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On a geographic basis, India and Europe continue to be our strong markets where our entrenchment and innovative offerings have led to superior financial returns. Export accounted for about 36% to our revenue in the current quarter, showing an impressive growth over the last quarter in absolute terms, and similar to the mix of the whole of the last year.

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On the customer front, our mix is now becoming more balanced amongst our 4 segments of telcos, citizen networks, enterprises and cloud providers. We had some major traction with one of the top global cloud providers with our data center interconnect solution and see this as a start to the many mega opportunities in times to come.

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Our order book visibility continues to be high with more than 750 crore of new order books obtained in the current quarter. We ended this quarter with a healthy open order book of around 10,000 crore with many more orders in pipeline.

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STL focuses strongly on good Corporate Governance practices as key to sustainable corporate growth and long-term shareholder value creation. Sterlite's approach towards growth, earnings and capital allocation are well chartered to help it grow in a value-accretive manner for all its stakeholders. The company's success will continue to be backed by a strong foundation that will enable its sustainable growth going ahead.

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For your reference, we have captured an abridged version of the P&L. Our trailing 12-month performance has been the highest ever and stands at more than 5,600 crore of revenue and PAT of more than 580 crore. Our current debt at the quarter end of June is at around 1,980 crore as compared to 1,733 crore at the end of FY19.

With this, we come to the end of our opening commentary and would be happy to take the questions.

Moderator: Thank you very much. The first question is from the line of Pranav Kshatriya from Edelweiss Securities. Please go ahead.

Pranav Kshatriya: Sir, can you give us some color on how the products versus services business shaped up during the quarter? And secondly, given the commissioning of the capacity has happened during the quarter, can you please share that how much of the gross block addition which has happened? How should we see the depreciation? And how much is the net debt currently? Thank you.

Anupam Jindal: Yes, Pranav, in terms of the overall color on the breakup, I think it is becoming increasingly difficult as we are offering more and more integrated solutions to most of our customers. But in terms of the overall breakup, the product is about 60% and the services and softwares are about 40%. And this is also one of the reasons you have seen margin at a company level showing improvement. The second question in terms of the capacity getting commissioned, so it has got commissioned, there is still some part of the capacity, which is getting commissioned in the time to come. In terms of the gross block, I don't have the exact number, but it would be close to about Rs.900-odd crore, which has got capitalized. In terms of the depreciation, definitely, that's one of the reason and the interest also some impact has come because of the capitalization. So this is what we have.

Pranav Kshatriya: Can you share the net debt number?

Anupam Jindal: Yes. So that was covered in my commentary. So my net debt is Rs.1,980 crore, roughly.

Pranav Kshatriya: Okay. And so can you just give some commentary on how the demand environment is for the OF and the OFCs because when we hear from the commentary of the competition, they are talking about very low OF prices, and how it has any bearing on our business?

Anand Agarwal: So Pranav, we clearly operate in a global market. Our fiber realization is a mix of both the standard products as well as the value-added products that we do. Our value-added products sale has been increasing year-on-year, quarter-on-quarter, which is currently at north of almost 30%

and our realization for fiber where we sell as a bare fiber product is north of $7. I would not be able to comment on a particular competition. But clearly, in the global market, if you see the commentary whether from Corning or from Prysmian or from the people from Japan, the realization continues to be at this level, which is a mix of the current generation products as well as the future generation products.

Anupam Jindal: Plus the kind of customers base.

Anand Agarwal: Plus the kind of customer base, clearly, that people have.

Moderator: Thank you. The next question is from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: Congrats to the team for scaling up the DCI business; I mean it's an interesting new area which is growing quite fast. Anupam, to start with, if you can just help us with the utilization in the product business on fiber and cable side? And what production capacity you had this quarter on the fiber side, given that new capacity came on board in June month.

Anupam Jindal: Sure. So I think if you look at overall existing capacity of 30 million and in fiber cable also about 18 million, I think we have broadly operated at full capacity of that. As far as the new capacity, which has started to come online and getting commissioned, that is still running, I would say, in trial. So that volume will start picking up, I would say, more prominently from Q3 onwards. Currently, the mechanical, I would say commissioning is getting done, and it will take some time for it to start giving revenue.

Anand Agarwal: Commercial sites.

Anupam Jindal: Yes.

Mukul Garg: Understood. Anand, the other question was just on your comment on the bare fiber prices still being north of $7. So should we expect that the margin profile this quarter has been maintained compared to historically where you guys were reporting your operating margins. And a connected question is, if you look at in the past, whenever we had oversupply scenario in the spot market, what has been your experience in terms of divergence between spot and long-term markets in terms of pricing and margins?

Anand Agarwal: For us, what we have seen is that the broad pricing range in the contractual price has been between $7 and $8. When we saw that over the last couple of years, there was a tightness in supply, even the long-term pricing was moving closer to $8. Now we see that the long-term pricing is also moving closer to between, I would say, the range closer to $7 and north of $7. The spot pricing is extremely by nature of it very spot and fickle. And we consciously do not operate in that market because we hear all kinds of pricing, and there is nobody who maintains a trend of that or who is able to give us a good analysis. So for us, we see how the industry leaders globally are trending. We see how the industry reports are, and we see how our contracts with our customers go. And we are currently north of $7, which is a blend of both the standard products as well as the value-added products.

Mukul Garg: Sure. Maybe like if I can ask this slightly differently. If you look back in past and maybe these similar sort of a near-term capacity overcrowding happened somewhere in 2001-2002 period, what sort of price correction can happen in the long-term market if the overcapacity remain, therefore, about like 6 months to a year period? And in conjunction with this, do you think the overcapacity is easing a bit there would have been a tenting of China telecom in China as well; so any sense of that?

Anupam Jindal: Mukul, let me just take this up. If you look at this talk or discussion around prices having gone down to $4, $4.5, or even sub-$4, it has been talked about for almost like 7-8 months now. And in spite of that, we have been able to talk, I mean, give a confidence that our price range is something close to $7, $7.5, $8, in that range. Now coming to what you are seeing, even if you look at and talk to those guys, they will also be talking that price, even in China or some other places have sort of bottomed out. I don't see that people are talking about prices going beyond what it is today. In fact, we have started seeing some upside, even in some of those markets, but it may take another 6 months, 9 months for even that. But the point is that overall demand continues to move up that is a very clear trend. Even in China or other markets, we are seeing early adoption of 5G happening and therefore the demand coming in.

Moderator: Thank you. The next question is from the line of Parthav Johnson from NVS Brokerage. Please go ahead.

Parthav Johnson: Can you just cite what would be the order book between your software and your product and your services. Can you just give us a small breakup on that front? And what would be the margins from each?

Anupam Jindal: Yes, I think the order book broadly consist 55%, 57% from our products and balances from service. And margin profile is basically similar to what we have been talking. So we continue to say that our order book reflects broadly the revenue profile we have.

Parthav Johnson: Okay. And sir, I believe the cost of materials, as a percentage of the topline, has gone up. Can you just cite the reason for the same for this quarter?

Anupam Jindal: I think, maybe if I can correct, the overall cost of goods has gone down in the current quarter, and that is again a reflection of, as we spoke in the beginning, is a reflection of mix, the products and services, product being higher as a percentage COGS gone down.

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

Pritesh Chheda: Sir, couple of questions. One on the product side that is the fiber side. Last quarter, we had indicated that the margin in products was about 26%. And whatever news flows on realizations etc. have been floating around, just wanted to prick your brain on how would have margins and realization move between the 3 quarters that has got reported in the current results, which is quarter 4 and quarter 1 last year. So is there any material difference on margin and realization on the product side in these 3 quarters or it largely remains where it is?

Anand Agarwal: In terms of, I would say, last year the margins were closer to 32%, 33% at this point in Q1. Q4, we were closer to 26%. Now we are closer to 28% with our value-added product offering increased.

Pritesh Chheda: Okay. And this is after whatever changes in the long-term contracted realization that would have in the backlog and in the revenue number? Or the backlog is yet to see it in terms of maybe whatever $0.5 or whatever contracted realization?

Anupam Jindal: So I think because the revenue is reflecting what we are selling, and that is after considering everything which we have. So if you look at the range, it is 26%, 28%, maybe 1% or 2% here and there because we continue to look at value-added products, continue to look at cost optimization, leverage the opportunity of squeezing the cost on all fronts, and this is getting reflected. So I think, it's a pretty reasonable range to play in. And going forward, also, the backlog we have wherever we will see correction that get's reflected. As I said last 9 months, 8 months, this price discussion has been happening. But if you look at our performance, we have been pretty range bound.

Pritesh Chheda: Yes. Sir, on the backlog side, you would have reasonable visibility in terms of your delivery of fiber and cable. What are the delivery requirements for FY20 in terms of fiber kilometers?

Anand Agarwal: So FY 20 in terms of fiber kilometers, we took order with the kind of visibility that we had on the capacity getting ramped up. We started off the year at a capacity run rate of about 30 million. We think by the time we end the year in Q4, we would be at a run rate of closer to between 40 to 45 million kilometer, and we'll end the year at something between these 2. You won't have the exact number, and we will keep reporting as we go along during the year, but it would be the exit rate; starting was at 30 and ending would be between 40 to 45 million.

Pritesh Chheda: So this is your utilization of your facility exit run rate.

Anand Agarwal: Absolutely, and which is in accordance with how we have done our order booking also.

Pritesh Chheda: Okay. And lastly, on the project side, what was the scope of work or value of work that is expected to be executed this year out of the current backlog that you have?

Anupam Jindal: I think we have been showing a run rate. Currently, like we have software and services put together almost like Rs. 600 crore in the current quarter, and I think that run rate plus is going to continue. And we are going to have good growth because we have these 2 projects, large Navy and MahaNet to be completed, and then we continue to get more orders from telecom operators in India. So I think, it's a good visibility, which we have, plus we also build order book for the next year.

Pritesh Chheda: So these 2 projects would be what portion of your projects backlog?

Anupam Jindal: Currently, this is substantial portion of our backlog in the services business.

Pritesh Chheda: Okay. And lastly on the CAPEX side and the peak debt side, so where are we on the CAPEX for the capacity of this additional 20 million FKM in fiber and some capacity that we are going to add in cable? And where will the net debt figure look like?

Anupam Jindal: So currently our net debt was, as I said Rs. 1,980 crore, and overall, we had said that in the current year, we will have CAPEX of close to Rs. 550 crore. That will pretty much cover the CAPEX of this expansion of 20 million, which is taking the capacity to 50 million, and some part of the CAPEX which we are doing for cable capacity from 18 to 33 million.

Pritesh Chheda: So how will the net debt look like?

Anupam Jindal: The net debt will continue to be a function of not just the CAPEX but our operating cash flow including change in working capital. So I think we have a larger ratio to be looked at, which is debt-to-equity, which we are saying that we will continue to maintain at about 1.

Pritesh Chheda: Okay. So you said you'll spend Rs. 530 crore in FY20 and there will be some residual CAPEX for cable, which will come in FY21, that's how it is, right?

Anupam Jindal: Yes, Rs. 550 crore, I said.

Moderator: Thank you. The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.

Jayesh Gandhi: What is the increase in working capital or debtor in-specific for March and June quarter, I mean, quarter-on-quarter before this quarter?

Anupam Jindal: I don't have that specific number, but yes, I mean, in terms of the overall working capital, slightly it is higher than June-end primarily because of the longer collection cycle as we have more exports in the current quarter. Number two, the work in progress for our projects is also going up.

Jayesh Gandhi: Okay. And so say hypothetically, the spot prices of optic fiber is $4 or $5, just in case if we are selling in that spot market, we would be barely doing EBITDA neutral?

Anupam Jindal: I think if you look at last 3 quarters, this discussion has been happening. The prices have gone down to $4, $4.5 below that, and we have always maintained that we carry one long-term order book, which is helping us. We also have good geographical presence with marquee customers, which are not really jumping to low price fiber just because it is available by some Chinese players and value-added products. Fourth, we are also working on costs. So if you look at these things, our performance has been maintained, and we continue to see, going forward also, how do we maintain that. So we are not really getting impacted as we have maintained in the past.

Jayesh Gandhi: But in that case, sir, can you share what would be our cost of production of fiber?

Anupam Jindal: See, this information is not generally available, so I would not like to share it here. But as you can see, the EBITDA margin is reflective of what our operational efficiencies are.

Jayesh Gandhi: And one last question, sir, in one of the slides, you have compared U.S.A. and China, and it says India has huge fiberization potential. But is it fair to compare U.S. and China with India? I mean, geographically U.S. and China are really large, and even if you compare fiber kilometers per capita, U.S.A. and China would be growing horizontally, and maybe India might be growing vertically.

Anupam Jindal: Yes, I think you need to also see that it all depends on the data consumption, which is also driven by the fact that population and the devices which are going to be connected affluence the level of living standard people are going to see in the years to come. And while we have presented 17 times greater in U.S. and 14 times greater in China, the point is that even if it becomes 4 times, 5 times that is the kind of opportunity India has. And Sterlite is not just playing in India but also has global opportunities. So this is the point we are trying to make that the fiber opportunity is quite large, driven by data growth, driven by technology shift in 5G, driven by fiber-to-the-home, which is going to happen; and data centers, which are getting established all over the world.

Moderator: Thank you. The next question is from the line of Sangam Iyer from Consilium Investments. Please go ahead.

Sangam Iyer: Anupamji, in terms of the cable capacity moving from 18 to 33, can you break up in terms of how much would be the exit run rate for FY20 and then moving on to FY21?

Anupam Jindal: So currently, we are at 18, and then by end of the year, we are looking at in excess of 23-24 million. And that also gets impacted by the high-fiber count because capacity is not just in fiber kilometer, it is route kilometer also, so there is also some room for us to play, and we can see some impact coming in. But by June 2020, we are looking at entire 33 million coming in.

Sangam Iyer: Okay. Just to follow up on what Pritesh had asked earlier, regarding the margins, how it spanned over the last 3 quarters. I think the better way to look at it could be if you can also give us how is the mix between fiber and optical fiber cable during the same period because the margin profile of both would be different and while revenue growth would be also different because of the contribution of both?

Anupam Jindal: Yes, I think if you look at both fiber and fiber cable, if you look at, we have said 30 million capacity almost fully utilized, 18 million fully utilized, our revenues are in line with what Anand talked about realization of $7-odd and in this case $17 kind of number, but what we are also looking at is, in cable also we are seeing much more complex customer-specific designs getting built, allowing us to have better margin in that. So I think, in cable also, this technology element is getting built. That is helping us overall blended margin to be at a higher level.

Sangam Iyer: Got it. In terms of the fiber per kilometer, when we look at the mix moving towards higher fiber count, when you say 30% is your innovative products, does that mean that the higher fiber count is kind of factored in that 30% growth?

Anupam Jindal: Yes.

Anand Agarwal: One of the products, yes.

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

Neerav Dalal: I just had a couple of questions. One is that at the start of the year, we had given a guidance of EBITDA of 18% to 20%. Just wanted to know whether it sticks, and the other thing is the 100 million profit target?

Anupam Jindal: Yes, so Neerav, in terms of the overall EBITDA percentage, we said that looking at the kind of order booking backlog, we had mix of 50-50 at that time. And then basis that EBITDA profile, we said 18% to 20%. This quarter, it was 23% because of the shift in the mix. I think in the full year basis, I would still be saying that we will be closer to that range, maybe 20%, towards that. And I think that will be the kind of number to look at because on quarter-on-quarter, it may have some variation. We have been maintaining in the past also. We look at increasing absolute EBITDA and also look at maintaining ROCE in excess of 25%. So that's something these are the 2 things, which we try to look at when we are delivering growth.

Neerav Dalal: Right. And the other part is regarding the order intake this quarter. Though it was still strong, but it was lower than what we've been clocking over the last, say, 7-8 quarters. So any comments on that? How do you see it moving?

Anupam Jindal: So in terms of the order booking in the current quarter, the good part was that it was mostly in the product side. And as you have seen in the services, at times, it can be lumpy. So again, on full year basis, we need to say it. We can't just look at one quarter in particular. So I think some of the things we need to see from annual or maybe long-term perspective. We continue to see good traction from both India and outside India. Within services, also, we have got some small wins, but the large intake, we have some pipeline, let's see how that turns out in the order book.

Neerav Dalal: Are you seeing any delay in terms of the services side?

Anupam Jindal: So I think, we are not getting delayed. If you recall, in October or before October also, this Navy order didn't come and people were just waiting for that, and we had low order book before that. But once it has come, it has given us a runway of more than a year, year and a half, and then MahaNet followed up. So I think we have enough on our plate to deliver what we have to deliver in the current year, and then we have enough time for us to get order book build for next year as well. And then we are also having good order coming in from even private telecom operators. Those orders come in small chunks but they continue to flow in.

Moderator: Thank you. The next question is from the line of Mihir Manohar from CapGrow Capital. Please go ahead.

Mihir Manohar: Just wanted to know on slide no.23 of your presentation. So if you look at that slide, the EBITDA margins have compressed by roughly around 500 bps. So sir just wanted to understand, meaning how should we read these numbers?

Anupam Jindal: I think if you look at FY19 full year number, Mihir, if you look at that, it was about 23%, okay? And this quarter is also about 23%, and just before you, Neerav asked this question, and we said that it could be for full year. Depending on the mix between products and services, it could be closer to 20%.

Mihir Manohar: And second thing, on the MahaNet order, so given the fact that it's a Government order, so are we getting any advances for fulfilling that order? So how is it funded?

Anupam Jindal: So we have regular payment schedule where we deliver certain projects and once we achieve certain milestone, we raise the bill and collect that. So in MahaNet, definitely, we got advance, yes.

Mihir Manohar: Okay. For MahaNet, there was an advance, which was given?

Anupam Jindal: Yes.

Moderator: Thank you. The next question is from the line of Augustya Dave from CAO Capital. Please go ahead.

Augustya Dave: I really appreciate the way company stuck to a certain date and you did it before that. I really appreciate it, sir. I also appreciate the way we are going about executing in a fairly tough environment. I really appreciate it, sir. Sir, I had 3 broad questions. One is that we have taken an enabling resolution for fund raise. I think, that was taken, but we have definitely announced it. So what's the plan there? Second, in your opening statements, sir, Dr. Agarwal, you mentioned that the pipeline is looking good. So can you elaborate a bit more on that? Any specific areas where the orders are coming in from? Also in the previous quarter, I believe you had announced very interesting hirings, I think 3 top level people were brought in for the analytics part. That's definitely something new that we are trying to attempt. What's the long-term vision there? And how are we going about it? And finally, sir, on this China issue, I have seen certain presentations made in different forums of the industry, which are saying that the Chinese demand has actually fallen this year. I have seen total global aggregate demand of somewhere close to 600 million, which has gone down to 510 million. Can you provide some color on that? And how does that get impacted because of the licenses, which were issued recently for 5G to all the big telcos?

Anand Agarwal: Thanks, Augustya. Let me see if I can answer you. First, thank you for your appreciation for delivery aspect of what we have done. Your first question was on this enabling resolution. So this is an enabling resolution, which we have been taking every single year for the last, I think, 3 odd years. And currently, there is no concrete plan, but we always want to keep it as an enabling resolution at every AGM. So that provides us the flexibility. In terms of the interesting opportunities that you spoke about, as we said, there are multiple opportunities that we see as we are integrating the combined offerings, whether it is the data center interconnect opportunities, whether it is services coming in from the telecom providers, whether it is the WiFi trial orders that we are doing and whether it's some accessories orders that we are doing with some cable TV provider in the country. So we are seeing many new kinds of system-based solution, which is combining the capabilities that we have as a company coming through. And as we get more volume, as we get more color, we'll be definitely providing you as we move forward. In terms of the people that we added, in terms of analytics, in terms of the people that we have added in the current quarter, each of them there is a clear part. So we have launched this offering called Intellza. We have sold it to one of the telco in the country, and it is really helping them towards making real-time network and customer-targeting decision. So we are very clear in terms of how the combined sum of parts starts becoming an extremely strong and unique solution for our customers.

And China, you had this question about, so the overall market globally year-on-year, I think between 2017 and 2018, grew by a few percentage points. China was largely flat, but the rest of the world grew. In the current year also, at least the numbers which have been reported till Q1, the growth has been there, though, muted. So we have seen that with the 5G licenses now getting issued and China moving forward for the 5G propagation, we believe that the demand growth will start continue to happen from 2020. China Mobile saw some changes at their executive level etc. also. So 2019, we believe, will continue to be sort of a flat year in China, though growth will happen in the rest of the world. 2020, we believe China should come back to the trend.

Augustya Dave: Great. Dr. Agarwal, I have just one last request. In the next quarterly concall, if you can elaborate a bit more on the service part because it's getting deeper, you're attempting more and more things at more verticals; so if you can take it to slightly a greater detail in your commentary, I would really appreciate it?

Anand Agarwal: Absolutely. Yes.

Moderator: Thank you. The next question is from the line of Riya Mehta from Anand Rathi. Please go ahead.

Riya Mehta: Congratulations, sir, for the good set of numbers, firstly. Secondly, I just wanted a quick update on what is the percentage completion of both major projects, the MahaNet, and the navy projects as on this quarter?

Anand Agarwal: So our navy project is almost 50% done and the MahaNet project is close to 30% done.

Moderator: Thank you. The next question is from the line of Neelam Punjabi from Perpetuity Ventures. Please go ahead.

Neelam Punjabi: Sorry, I might have missed out earlier. Just wanted to know whether we are maintaining our $100 million PAT aspiration for FY20?

Anand Agarwal: Yes, Neelam, directionally, we continue to be bullish in providing that sort of a number. If you see, last year, we closed the entire year at about 80 million PAT. We should be able to deliver $100 million. So directionally where we said we would be, we are very comfortable with where we are right now. How that number actually turns out at the end of the year, we'll all see as we move forward.

Moderator: Ladies and gentlemen, this would be the last question for today. I now hand the conference over to Mr. Vishal Aggarwal for closing comments. Thank you, and over to you.

Vishal Aggarwal: Thank you, everyone for being participating on this call. For any further questions that are left unanswered, please feel free to come back to the IR team and both me, Anand and Anupam all of us are available for any follow-on questions. Thank you so much.

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