"Sterlite Technologies Limited
Q3 FY20 Earning Conference Call"

January 15, 2020

MANAGEMENT: **DR. ANAND AGARWAL - CEO, STERLITE TECHNOLOGIES LIMITED**
MR. ANUPAM JINDAL – CFO, STERLITE TECHNOLOGIES LIMITED

MODERATOR: **MR. NEERAV DALAL – MAYBANK KIM ENG SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Sterlite Technologies Limited Q3 FY20 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, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. Along with this call, we are also running a live webcast of the presentation covering the Q3 FY20 results. Investors can also download a copy of these slides from the STL website. I now hand the conference over to Mr. Neerav Dalal from Maybank Kim Eng Securities. Thank you and over to you, sir.

Neerav Dalal: Hello everyone, and thanks for standing by. We at Maybank Kim Eng Securities are pleased to host the management of Sterlite Technologies today. To take us through the third quarter results and answer your questions, we have Dr. Anand Agarwal – CEO and Mr. Anupam Jindal – CFO of Sterlite Technologies. For the opening remarks, I hand over the call to Dr. Anand Agarwal. Over to you, sir.

Anand Agarwal: Thank you, Neerav and good evening, everyone and thank you for joining us for our Q3 FY20 results.

Slide 3:

I will start off with how the year has gone by for 2019 as we have just finished 2019 and getting into 2020. So as we have been talking to you earlier, 2019 has been a year of pause for the global telecom industry. At the same time, we have several growth drivers in place for 2020 and beyond. In 2019, what we saw was that at a global level, telco CAPEX has paused because of 4G to 5G transition; whenever the technology transitions have happened in the past, we saw similar CAPEX pause. We also saw that globally fiber demand had come down by 7% which was largely led by fall in China demand by about 13% and while US and Europe demand growth happened at about 4% in 2019, and Indian telecom industry, as you would all be aware, was restructured into a large extent and that was where 2019 was. At the same time, we see a good degree of growth drivers intact in 2020 moving. One clear point which is coming is the commercial 5G services are getting launched in key economies. At the same time, large edge data centers are getting deployed with network on top of their own network connectivity. We are also seeing that data ARPU is increasing as a percentage in the total global ARPU and both tower fiberization as well as broadband connectivity continue to grow. And with the recent changes in ARPUs and tariff changes in the India telecom industry, we believe the profitability is likely to improve as it moves forward.

Slide 4:

In the last earnings call, we had said that by end of 2019, almost 25 countries will have multicity commercially available 5G services and they shall continue to do rollout in 2020. Further, we want to give some data points on how 5G is evolving. In US, we have seen AT&T

and Verizon, each expanding their reach of 5G services to 20 cities and 30 cities respectively before end of 2019. China has launched one of the world's largest 5G network in 2019 reaching to 50 cities. In Shanghai alone, 12,000 5G base stations have been activated to support 5G coverage and the 3 State-run operators, China Mobile, Telecom and Unicom are offering 5G plans that start at $18 for 30 GB data per month. In Europe, 5G trials are continuing and it is targeting commercial rollout in 2020. So on the base back of 5G deployment, the CAPEX by major telcos is expected to go up to $141 billion in the current year following a pause year of 2019. Further, we also expect that a large part of this CAPEX shall go towards optical fiber spend as 5G network requires significantly much more fiber than a typical 4G network. Coming to India, although 5G deployment is still some time away, the telecom industry profitability is thus going to increase following the tariff hike and we believe that the investments required to create future networks which are pretty much due in terms of tower connectivity etc. should start happening in the country.

Slide 5:

In terms of Cloud, we are seeing a massive hyperscale and edge data centers getting built by global cloud companies. In 2020, the CAPEX by global cloud companies is expected to grow by around 20% to almost US $103 billion. The new cloud network infra's architecture will require many more data centers to be built and additionally, we are also seeing cloud companies owning their transmission, the fiber network between data centers. Going forward, this customer segment shall significantly impact the optical fiber demand and we have also as we have been talking for the last 2 quarters, we have initiated sales in this segment.

Slide 6:

If we move onto the Citizen Networks, the Indian Government launched the national broadband mission in December of 2019 which aims to fast-track growth of digital communication infrastructure, bridge the digital divide and provide affordable and universal access of broadband for all. The main objective of this mission is to provide access to all villages by 2022 and this envisages almost Rs. 7 lakh crore investment in the next 3 to 4 years. The ambitious project will involve going beyond what BharatNet has been doing and it talks about laying almost 3 million route kilometers of optical fiber cable which will involve increasing fiberization of tower from 30% to 70% and increasing tower density from 0.4 to 1.0 tower per thousand population thereby significantly increasing improving quality of services for mobile as well as internet.

Slide 7:

Coming to the fourth segment which we cover; the Enterprise segment. Particularly India, where we are focused, we see a lot of investments are happening to create digital infrastructure. Example, as the warfare in defense is moving from tactical to digital, Indian defense forces are increasing ICT investments. These investments are in the areas of network modernization, secured data communications as well as physical security. Indian Railways is spending to overhaul its signaling and telecom systems to both improve speed and safety. Power Grid Corporation is investing in Smart Grid in addition to building modern MPLS and SD WAN network for its own use as well as leading out to tenants. And this emphasis in building out networks is creating a good degree of investments as we move forward.

Slide 8:

Now coming particularly to the Connectivity Solutions segment for us; which includes our fiber and cable business. The global optical fiber demand after several years came down in 2019 for the first time by almost about 7% to reduce the overall demand, reduced about 478 million from about 511 million in 2018. This as I said earlier it happened mostly in China. Our key markets of India also degrew while we saw growth happening by about 4% in Europe and about 4% in North America. We expect the global optical fiber demand to pick up as the pace of 5G deployment picks up across the globe and this should happen meaningfully from the H2 of this year.

Slide 9:

In line with decline that we saw in some of the key markets, our volume in Q3 in fiber has come down but our cable volume has remained overall intact. We are currently operating at about 46% utilization for the expanded capacity of 50 million kilometers in optical fiber and 76% utilization in the cable capacity of 18 million kilometers. The cable capacity as we have talked about will go up to 33 million kilometers by June of 2020. So even though global demand in the fiber and cable business will remain flat in the short term till H2 of FY21, our volumes are expected to increase on the back of volume gains through new market entry which lot of emphasis and efforts have been made over the last few quarters. These new markets will give us access to almost a new global demand which is almost 25% of the world's demand which had not been under focus for us. We are planning a phased entry in some of these markets and you would have noticed in the last few years, we have over of our total sales in the fiber and cable business, the International or global sales we have been increasing significantly from about 38% in FY16 to almost more than 68% year to date in the current year.

Slide 10:

In the new product segment, we have launched some of the new products. The one product that we launched called TruRibbon is in March of last year, is finding very good response from the customers. As the networks of the future is requiring dense fiberization, TruRibbon is answering the call by offering almost 2,000 fiber in a single cable and it does it as the most compact cable packaging and superior handling design to enable a first-time light installation. On the fiber side, we have launched the Stellar Fibre which is the industry's first universal fiber in October of last year. as the networks are requiring deep fiberization, they are also requiring bend-insensitive fiber. The Stellar Fibre is one of a kind in the current industry to both have a bend-insensitive design with a mode field diameter which matches the size of a legacy fiber. This leading edge innovation from STL's optical design fusion guarantees bestin-class data transfer, negligible data loss even with very high fibre bends and compatibility with all the fibres which are in use today. We have increased our new product revenue to total product revenue from about 10% in FY16 to 19% in year till date FY20 and we shall continue to work in this direction and keep coming with new products to improve our realizations as well as margins.

Slide 11:

Leveraging on our strength of most integrated manufacturing and supply chain, we also started Project Junoon in January of 2019 to focus on the overall cost structures in the optical fiber and we have formed a cross-sell functional team to work on the cost reduction possibilities across raw material, manufacturing as well as fixed cost. In the raw material costs, we have used the levers of yield improvement, renegotiation with existing vendors, alternate vendors as well as inhouse process improvements. In our manufacturing cost reduction, we have looked at areas like consumables as well as power load optimization and in the fixed cost area we have organized ourselves in a lean and agile organization. We have been able to achieve very significant good results so far and going forward also, there are several projects to further do costs rationalization as we continue to move forward.

Slide 12:

So in the current quarter, the connectivity solutions business, the absolute EBITDA has been affected on the back of both lower volume as well as some lower realizations in the optical fiber business. In globally, what we are also seeing some plants starting to get mothballed and capacities shutting down. If further capacity shut down, we believe it will help in price stabilization. In the short term, we expect that this business unit's absolute EBITDA will improve on the back of both incremental volume as well as costs reduction which we are continually doing. In the medium term, we shall continue our work on new product strengthening as well as increasing capacity utilization by entering new markets. We expect that as overall pricing environment improves on the back of global demand, the absolute EBITDA will be going up.

Slide 13:

Coming to the other business segment which we have is the network services and software. It has been a slowly strategic growth engine for STL. I wanted to show you a flavor of what it has grown up. This business has grown from about Rs. 350 crores in FY16 to almost Rs. 2,600 crore annualized in the current year which is translating to almost 7.5 times growth in the last 4 years and this growth momentum is expected to continue in the future. In this context if you see, we are no more a pure play fiber player. We have quietly transformed ourselves from a fiber and cable manufacturing Company to an end-to-end solution provider and this business is almost like between 50-51% of our total revenues for the quarter and for the year and apart from growth, it is enabling STL to become the strategic partner to our customers by providing end-to-end solution from network design to implementation, operation and management. We have also grown our capability from network implementation to complex system integration and we are continuously adding more and more products offerings.

Slide 14:

We also see that the overall total addressable market for network services in India itself can add up to almost US 15 billion from the four segments of telecom companies, citizen network, cloud as well as the large enterprises and as we are taking shape, our clear aim is to become full leader in network services in India while we will initiate a global play through our data center offering with the acquisition that we had done last quarter in IDS in UK.

Slide 15:

In terms of providing update on the key projects, the project that we were doing for Indian Army in J&K which is called NFS has been completed and is moving to the O&M stage. The project 'Varun' which is the Indian Navy project, we are almost 65% completed. The MahaNet which is rolling out the full network in Maharashtra is about 55% completed and the fiber rollout for telecom Company, we have done almost more than 5,500 kilometers for telecom companies in India across mostly Central, West and Southern India. We have also had new order wins that we announced of T-Fiber which is a project to deliver digital infrastructure to 6 million citizens in Telangana. The total value of the project being about Rs. 1,800 crore and for which we received the phase 1 work order for about Rs. 1,100 crore. We also got some multimillion dollar contract from Telekom Albania for the digital transformation program and we are confident that orders shall continue to further flow in Q4, and the growth momentum will continue.

Slide 16:

Our key differentiator in network services is technology led implementation and there are several newer technologies called Lead 360 that we have deployed with drone surveys, robotics cable blowing, AI bots as well as further accelerating the deployment of smarter networks of tomorrow.

Slide 17:

So overall, what we see is that the services business shall clearly expand in 3 vectors. On one side, we will do customer expansion. Till date, most of our revenues which were coming from enterprise and citizen networks, we are also now increasing our order book as well as revenues from telco and cloud segments. We are doing geographic expansion. We have already expanded in India from 3 states to 8 states and we are slowly moving to a Pan India presence. At the same time as I said earlier, we are also moving to global markets with the IDS acquisition. We are also looking at scope expansion. We will continue to develop our capability to take on further scope to provide end-to-end offerings.

Slide 18:

So overall, the business order book has grown from about Rs. 1,700 crore to almost Rs. 5,000 crore in the current year and is expected to continue to grow up in the current quarter. The interesting part is that the business is also now, as the projects are getting completed, the O&M revenues becoming sizable part in terms of providing that visibility. So we have out of the Rs. 5,000 crore order book, almost 38% is O&M which will result in significant revenue stream as well as predictability in the future years.

Slide 19:

Also, as we announced last week, we have taken our next step to strengthen our presence in the wireless segment through an investment in ASCOS. As a part of the overall transaction, we have acquired about 13% stake in the Company with Board representation. ASOCS is a new edge technology Company. It is pioneer in virtual radio access network and a provider of fully virtualized base station for enterprise and telco networks. STL and ASOCS will partner in creating newer solutions that will address the rollout of private LTE networks as well as 5G networks for our enterprise and telco customers. We will continue to do such capability based investments in the technology areas which are relevant for networks of the future.

Slide 20:

I would also like to just talk about that we have reorganized ourselves to an organization structure that places the customer at its center in an account based organization which will help us to offer both and full power of one offering of Sterlite as well as the industry shaping and customers-specific solutions with presenting a single phase to customer as well as creating lifetime customer value.

Now, I will hand it over to Anupam to discuss the financials.

Anupam Jindal: Thanks, Anand, and good evening, everyone.

Slide 22:

Coming to financials, the first chart shows our continued diversification in terms of customer segments. The second chart shows order book position at Rs. 8,535 crore at the end of Q3 FY20 which is higher than Q2 FY20. It is further expected to grow up by end of this financial year on the back of expected new orders in Q4 FY20.

Slide 23:

We achieved a revenue of Rs. 1,200 crore in Q3 FY20. Starting next quarter, revenue shall grow sequentially on the back of strong growth of services business and volume growth in product. Our EBITDA stands at Rs. 247 crore in the current quarter. At the Company level in the short term, our absolute margins shall improve from here. Correspondingly, net profit adjusted for the provision of exceptional item net of tax stands at Rs. 91 crore. We have made a provision for an exceptional item to the tune of Rs. 51 crore awaiting the acceptance of an application which we have submitted regarding settlement of legacy excise dispute and we found this is a good opportunity to settle that matter forever. At the Company level, we are confident that the current quarter is lowest in terms of performance and the Company will show profits starting from Q4 this year on the back of growth. Our net debt as on 31st December stands at Rs. 2,078 crore.

Slide 24:

In summary, we continue to remain bullish on the Company with a strong outlook. On connectivity solutions, 5G has been commercially launched across the globe. The deployment shall pick pace in 2020 which will lead to structural demand growth of OF. Absolute EBITDA shall grow from Q4 on the back of volume gain through new market entry and further costs rationalization and new product strengthening. And the services and software business, the investments for citizen networks and enterprise in India to continue leading to order book growth in Q4 as well. Strong revenue growth in network services is expected on the back of customer segment penetration, geographic expansion and scope of services expansion and moving towards leadership in India. Investment in technology will also sustain to create network for future and STL shall continue to invest to acquire new technologies and new capabilities and drive the disruptive trends shaping the networks of the future.

Slide 25:

For your reference, we have also captured an abridged version of our financials.

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

Moderator: Thank you very much. We will now begin with the question-and-answer session. We take the first question from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: Anupam to start with, if you can just help us with the data points, the prices on the fiber and cable side, how they have changed on a Q-o-Q level? What is the utilization on an overall basis? I think Anand mentioned utilization on the incremental capacity, so if you can just help us with the data points.

Anupam Jindal: Sure, so in terms of realization, realization for the quarter has been around $6 on the fiber side. On the cable side, it has been mostly passed through, so about $15 or so. In terms of the capacity utilization, as we mentioned in our commentary, the utilization in the current quarter for the entire 50 million kilometer capacity was approximately 46% which was lower than what we had done in the last quarter. On the cable side, we have been able to improve utilization to about 76% in the current quarter which is quite good and in terms of volume; we are looking to improve this further in Q4, going back to maybe normal level of what we were doing earlier.

Mukul Garg: Anupam, just wanted to elaborate a bit more on the gross margin performance. It has been quite commendable despite this price realization reduction, you guys have been able to improve the gross margin. My expectation was that maybe this stickiness will be more on the material costs and employee costs is something where you guys will be able to optimize a bit better, but it seems that the costs reduction, the margin benefit is kind of coming it on the raw material side rather than the employee cost side. So if you can just help us with the puts and takes there and what more levers there are in future?

Anupam Jindal: So as we had communicated Mukul that when prices started coming down, we have started working on the cost rationalization as we also spoke about in our commentary today, 'Project Junoon' and we are happy to share that this has resulted into significant internal cost reduction primarily in the direct cost side as we also mentioned raw material renegotiation, internal efficiency improvement, and so on and so forth. So those are the things which have given good amount of benefits and we continue to leverage further on those things including developing new systems in processes which can further improve the cost.

Mukul Garg: Got it. So any possible benefits or possible rationalization on the employee cost side or that will continue to remain sticky?

Anand Agarwal: On the employee cost front, we are not taking any decision. We continue to believe that we have a very good and strong employee base which we will continue to invest as we move forward.

Mukul Garg: Understood. The other question was on the CAPEX plan for FY21 and 22. Anand, you mentioned that you are seeing industry mothballing some capacity. So are you guys also pushing back the CAPEX plan especially on the cable side where CAPEX expansion is planned?

Anupam Jindal: So in terms of Mukul, fiber CAPEX is largely complete as you would know. So there is no question of deferring anything there. In terms of cable, we have seen that we are already in midway through the CAPEX implementation cycle and we would not want to hold onto that. We still believe the long term attractiveness of the industry particularly for the large players like us who are not just volume player, but also technology player will continue to be there and therefore maybe within next 9 months-12 months' time, the business fundamentals will come back again and we do not want to take any short-term measure to defer or cut back on CAPEX which we are doing. But at the same time, we are not looking at anymore CAPEX beyond what we have already commented.

Mukul Garg: Fair enough. If I may squeeze in one final question. You guys planned to enter new markets which are 25%, I imagine a big push on that will be US, so if you can just share some thoughts on exactly what is the plan and duration over which you will enter or would you require to do any acquisitions to kind of get local capacity in the market on the cabling side?

Anand Agarwal: So there are two-three areas that we are looking deeper into. We are looking at Southeast Asia, we are looking at Middle East and we are looking at North America and as we have done in the past wherever we go, we go deeper, we take some time, we invest in those markets. So in all these markets, we have started seeing good degree of traction. Latin America is picking up in terms of volumes that we do, and we are very clear that as we have succeeded over the past in India, in China, in Europe, it is the same methodology that will apply. And North America, you are right, is a market that we are investing in and we have started seeing some initial successes there as well.

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

Pranav Kshatriya: Sir, I had got dropped off. So my question might have been asked before, so sorry for that. My first question is that, can you just elaborate that how the realization in the industries are moving currently and vis-à-vis how your realizations are moving? This is in the background that you used to have a lot of fixed price contract and hence that actually was one of the reasons why we were expecting that realizations will remain fairly high for you. Is that the case is, what we want to know. And secondly on the margin side, can you just elaborate how the margins for the services portfolio is emerging and what are the key variables for tracking margin in that business? These are my two questions. Thank you.

Anand Agarwal: Sure. So on the fiber part of it, industry is currently in the range of $5 to $6. Our realization is closer to about $6 on the fiber side, largely due to the value-added products that we do. Some of the contracts as we said at the end of H1 also while the volume contracts we are retaining, some of the price contracts renegotiation is happening closer to what the pricing structure has been for our customers. And we see that going through. The price fall has stopped, it has come very close to this range of this $5-$6 range and we are in the higher end of it primarily because of the value-added products that we continue to sell larger than the industry. In terms of the services business, as we have been maintaining that we are seeing the margins gradually improve as the scale of the business starts improving. So we are seeing margin in this business currently at about 17%. The projects continue to be between 20%-21% and as we are seeing scale coming into this business, the fixed cost rationalization is happening at a wider level. The margin level at a steady stage will be between 15% to 17% of this business and 20%-22% for the product, at an average level as we have talked about will be in that 18% to 20% range.

Pranav Kshatriya: Sir, one more question is, can you just elaborate a bit on the, how the demand for China is shaping in 2020. Is China expected to get back to growth trajectory in 2020 or we should see more like a low single digit kind of a growth from China or it can be getting back to 10%-12% what it used to do earlier. And second question is, how the demand for the fiber is in India considering there is a sharp decline, is that is expectation of the state net project to drive growth along with fiberization by the private telecos.

Anand Agarwal: Sure. On China front, at least we are expecting that it will be a flat year unless some projects come out and get announced in China. China is very difficult to project and predict because they have extremely large tenders and the timing of that it cannot be predicted right now. So we at least for our assumptions, we are keeping it a flat year. India as we rightly said will see whatever decline has happened, we believe there will be good degree of recovery happening. We are already seeing activity as we talked about for the Telangana project, the national digital mission and on more immediate basis, we are seeing good degree of action and activity coming in from both Jio as well as from Airtel. And more and more for us the overall value shifting to an end connectivity products rather than just pure fiber, we are looking at it from a full complex solutions which are providing a tower connectivity solution. So we are seeing that good shift and India for us will be definitely recovering in 2020.

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

Neerav Dalal: I have a couple of questions. One is in terms of the volume in the products business, are you seeing volume decline across Jio's or are there some regions where there is flat or decline. So if you could just comment on Europe and the other regions?

Anand Agarwal: The volume decline, Neerav has largely happened in China and India. China about 13% which was big market…

Neerav Dalal: And for us, would we be mirroring that?

Anand Agarwal: So for us, the volume on a year-on-year basis it will be flat for us. We are not seeing a volume decline. Q3, we have seen a degree of decline which happened essentially due to the end of calendar year, but we believe for the overall year we will be either flat or slightly positive volume compared to last year.

Neerav Dalal: Okay, great. And my second question is in regard to the services business, now we have seen Telangana, we have seen Maharashtra. If you could elaborate on which are the other States where you are seeing bidding happening, some information on that?

Anand Agarwal: They are different States in different stages. There is Tamil Nadu going to happen, there will be Gujarat, there is Haryana, so several of these states are looking at setting up these networks, there is Madhya Pradesh going to happen after. So we see the most imminent being Tamil Nadu and Gujarat right now, then Haryana and MP and then a few more States like that.

Neerav Dalal: And the size of these contracts will be similar to what there in Telangana or there would be…?

Anand Agarwal: Different. The scopes are different. The way they break the contract is different in terms of regions like for example in MP they have broken into four regions and the scope, what is happening exactly is every State is looking at it in a very serious manner and it is like becoming a contract where part of the money is coming in from BharatNet Central project and part of the money they are spending their own. At the same time, what we are seeing in an interesting way is also that the telecom companies, the Jio, the Airtels have started also towards spending towards creating networks. So for us what is happening is, on back of the capabilities and the geographical expertise we are creating in certain geographies, we are able to leverage across multiples. So what we are doing for instance for the Navy project, what we are doing for the State project and what we are doing for Telco is all getting leveraged in a larger manner geographically.

Neerav Dalal: Right. I have a couple of bookkeeping questions. One, what will be the tax rate for the full year, would it be 25% or will it be lower than that?

Anupam Jindal: Neerav, we have already chosen the flat rate of 25%, so it will be that for the current year.

Neerav Dalal: Yes, because the third quarter also your effective tax rate is lower, right, just wanted to check.

Anupam Jindal: Third quarter is also similar, maybe some of the other things would have come, but 25% is the rate which we have taken.

Neerav Dalal: Right. And there has been a decline in the depreciation number for this quarter Q-o-Q, so what is…?

Anupam Jindal: Mostly that would be broadly in line with some of the capitalization which we have done. So some of the things what would have got corrected there and I think going forward also, we are looking at the entire capitalization and looking at optimization. So it maybe in that range of Rs. 70 crore - Rs.75 crore.

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

Pritesh Chheda: Sir, just wanted to know what will be the projects and services revenue executed in 9 months FY20 and this Rs. 5,000 crore revenue that we have identified in projects and services within which Rs. 3,500 crore is services, what will be the execution timeline for this sort of backlog?

Anand Agarwal: The Rs. 5,000 crore worth of orders that we have, about 37% is O&M. So about 63%, which is about Rs. 3,000 crore would largely be between 15 to 18 months.

Pritesh Chheda: 43% is O&M?

Anand Agarwal: 37%.

Pritesh Chheda: So about Rs. 1,600 crore – Rs. 1,700 crore worth is O&M and this execution would be how much cycle?

Anand Agarwal: That execution will continue for about 7 years. So this is an accumulation of all the projects that we keep adding up, the O&M will keep increasing as we move forward.

Pritesh Chheda: Okay. And how much projects and services revenue would have booked in 9 months FY20?

Anupam Jindal: We have done close to about Rs. 2,000 odd crore which is roughly about 50% of the total revenue.

Pritesh Chheda: Okay. And the other two questions are is there any upward movement in OFC prices now since last couple of months?

Anand Agarwal: Not; one aspect is a generic products, we are not seeing any movement at the higher stuff like that, I talked about the TruRibbon, more value added products clearly we see more margins and that is the proportion that we are increasing, that is we are catering to data center market, cloud companies. For us, we are shifting the focus more and more towards that new products and new customer segments.

Pritesh Chheda: And can we share the OFC volumes done in 9 months FY20 versus 9 month FY19?

Anupam Jindal: We just talked about that we are currently operating at about 76% for the cable business.

Pritesh Chheda: So 0.46 of 50 million. So we have done about 23 million FKM?

Anand Agarwal: Yes. That was the Q3 run rate and as we said, the overall year either will be flat or growing compared to last year.

Moderator: Thank you. The next question is from the line of Alok Deora from YES Securities. Please go ahead.

Alok Deora: Just couple of questions. The one time provision which we have taken in the P&L, so there won't be any further provisions, I mean that was like for this quarter it is done or how are we placed there?

Anupam Jindal: Yes, this is under this new scheme launched by the Government to settle some of the old legacy issues of excise and service tax related under which just for the benefit of all the listeners on this call, we had one major matter outstanding on account of excise duty where we had qualification and the matter involved about Rs. 188 crore. We found this is good opportunity to settle that. So we have taken Rs. 51 crore provision. We have submitted the application. Within two weeks we are expecting the acceptance of that and with that, we are not expecting any more provision on account of this.

Alok Deora: And we have acquired ASOCS. So what is the consideration we have paid for the 12.8% stake?

Anand Agarwal: That unfortunately we cannot disclose the number due to confidentiality reasons for the valuation.

Alok Deora: And one last question. So the EBITDA margins we are still able to maintain on a quarterly basis despite I believe the Services portion increasing. So how are we looking at the margins going forward in the fourth quarter and even FY21?

Anand Agarwal: Yes, largely it will be in the 18% to 20% range as a mix as we said the Services will be 15% to 17%. The Products will continue to maintain between 22% to 23% and that is the sort of a range that we are looking for. Quarter-on-quarter, based on the mix between the two businesses that it might shift by a percentage point here or there but that is the range we are looking at.

Alok Deora: Just one last question if I may. So what is the utilization you mentioned for cables because for fiber it was around 46%.

Anand Agarwal: 76%.

Alok Deora: So 76% on capacity of…?

Anand Agarwal: 18 million kilometer.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Sir firstly if you could give the figure on the receivable front, what are our trade receivables and particularly from BSNL point, how much is due?

Anupam Jindal: So in terms of receivables, we are having in the line of about 100 days or so. But in terms of BSNL, if you are talking about the over dues, we have some over dues in the beginning. We had some over dues in the beginning of quarter particularly from a products business which were due for more than 6 to 8 months. Fortunately, we have received Rs. 133 crore in last quarter itself out of total Rs. 300 crore. So we still have about Rs. 160 crore pending to be collected from BSNL which we are expecting over next 6 months we will get that.

Saket Kapoor: On the net debt level, it will be Rs. 2,078 crore?

Anupam Jindal: Yes.

Saket Kapoor: Sir, this finance cost, the practical doubling of it is due to the lower utilization only that we are unable to recover the finance part. What has led to this, our business has not grown in that quantum but the finance costs have doubled in the 9 months?

Anupam Jindal: The finance cost has doubled largely because of the borrowing has also gone up. One, that we have completed the project and the payments are happening and second, some of the capitalization of interest which was happening until last year that has started coming to gain.

Saket Kapoor: Sir, the point which you were telling was that for the 9 months we have been at 46% utilization level for the cable segment?

Anand Agarwal: For the fiber segment in Q3, it is 46% at 50 million run rate and in Q3, it is 76%.

Saket Kapoor: For the fiber?

Anand Agarwal: Yes.

Saket Kapoor: And for the cable part sir?

Anand Agarwal: 76% for Q3.

Saket Kapoor: And sir how much will be closing the year with average utilization level?

Anand Agarwal: As we have said, overall during the year we will be either growing or flat compared to the previous year.

Moderator: Thank you. The next question is from the line of Bhupendra Tiwari from ICICI Securities. Please go ahead.

Bhupendra Tiwari: Basically just wanted to understand what is the kind of CAPEX that we should build for FY21 and just wanted to understand that is this net debt level the peak net debt level because I understand that with 50% of the CAPEX of the cable left, I think the net cash flow generation should be positive from next year onwards. Am I on the right track?

Anupam Jindal: So in terms of the CAPEX, as I said in one of the question that we are not having any new CAPEX plan and whatever CAPEX we have sort of completed and are undergoing that will continue. In terms of the number, current year we had roughly about Rs. 500 plus crore of CAPEX, we might be doing under less than that. Next year, we will work out the number, but since we are not committing, the numbers will not be significant in the next year. In terms of net debt, can you come back with your question?

Bhupendra Tiwari: So just wanted to understand that since most of the CAPEX is done, is it the peak net debt level that we have hit right now and I think the debt reduction should start?

Anupam Jindal: So we are actually, we continue to work on debt reduction. From quarter-on-quarter, debt may vary some time, but we have stated that our net debt to equity will be below one and we are very confident that again by March we will be in that range and even going forward we are working to bring down the leverage significantly.

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

Mihir Manohar: Just wanted to understand when is this new capacity of cable which is roughly 15 million fiber kilometer going to come on stream, so when is the commercial utilization going to start of this capacity?

Anupam Jindal: So that we had said that by June 2020 this capacity will be fully up. In terms of commercial utilization while we would want to have it as early as possible, but due to current market situation it might get bit delayed. So that is how things will pan out. We are expecting market from volume perspective to revive in next few quarters and that would allow us opportunity to scale up utilization and also as we are moving into new territories that will also help us get better volume.

Mihir Manohar: Just to extent, can you share your expected utilization, your target utilization levels for FY21 for both the divisions fiber and cable?

Anand Agarwal: For both the divisions, we should be between 75% to 80% for FY21 of the expanded capacities.

Moderator: Thank you. The next question is from the line of Shubhankar Ojha from SKS Capital & Research. Please go ahead.

Shubhankar Ojha: I wanted to double check basically if I heard it correctly. So did you say that quarter 4, you are likely to see a sequential growth in revenue?

Anand Agarwal: Yes, that is right.

Shubhankar Ojha: And what would be driving that revenue growth in quarter 4?

Anand Agarwal: One, we are clearly seeing volume growth happening on the fiber and cable business as compared to Q3 and we have significantly more both visibility as well as order book for the services business which we currently have, the execution of that will drive that.

Shubhankar Ojha: And what is your 9-month CAPEX. I think H1 we have done somewhat Rs. 330 crore?

Anand Agarwal: About 550 would be overall. So we may not have the number exactly.

Anupam Jindal: So as I said that we will be actually doing less than 550 in the current year. I do not have actual number of 9 months, but we will be well within that.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to Dr. Anand Agarwal for closing comments.

Anand Agarwal: I would like to thank everyone for attending the call and for showing great interest in our company. We are overly pretty bullish on the overall segment and the position that the company has in the overall data network segment. I also hope that we were able to address and clarify your queries and comments. For any further questions and discussions, you can feel free to contact our IR team, which includes myself and Anupam, and we really look forward to continuing the conversation with you in the future. Thank you and good evening.

Moderator: Thank you very much. On behalf of Sterlite Technologies Limited, that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.