Sterlite Technologies Limited Q4 FY20 Earnings Conference Call Transcript

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MANAGEMENT:	**DR. ANAND AGARWAL - CEO, STERLITE TECHNOLOGIES LIMITED** **MR. ANUPAM JINDAL – CFO, STERLITE TECHNOLOGIES LIMITED**
MODERATOR:	**MR. PRANAV KSHATRIYA – EDELWEISS SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Sterlite Technologies Limited Q4 FY20 earnings conference call. As a reminder, all participants' 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 call, please signal an operator by pressing '*' then '0' on your touch-tone 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 Q4 FY20 results. Investors can also download a copy of these slides from the STL website. I now hand the conference over to Mr. Pranav Kshatriya from Edelweiss Securities Limited. Thank-you, and over to you, sir.

Pranav Kshatriya: Hello everyone and thank you for joining the call. It is a pleasure to host Sterlite management today. To take us through the Q4 FY20 results and to answer your questions, we have Dr. Anand Agarwal – CEO of Sterlite Technologies Limited; and Mr. Anupam Jindal – CFO of Sterlite Technologies Limited.

Before we proceed with this 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 hand over the call to Dr. Anand Agarwal. Over-to-you, sir.

Anand Agarwal: Good afternoon everyone and thank you for joining us for our Q4 FY20 results. I would like to start my comments by giving you a quick snapshot of how this year shaped up for us.

Slide 4:

We achieved our highest ever revenues at Rs. 5,154 crore and started the current year with an order book of almost more than Rs. 10,000 crore. We also sowed the seeds of future growth with the launch of the next-generation of solutions. We entered into partnerships with VMware as well as IIT Madras. We acquired IDS which is a data-solutions company based out of the UK and made an investment in ASOCS which is a virtual radio access network company based out of Israel. We became the world's first integrated manufacturer of optical fiber and cable to get a certification of zero waste to landfill. And we finished the year with almost over 358 patents.

Slide 5:

As a Company, we are extremely focused on the needs of our customers and constantly striving to deliver innovative products and solutions for their evolving needs. One of the biggest product launches that we had this year was 'Stellar', the industry's first universal fiber. This leading-edge innovation from STL's optical connectivity solutions guarantees best-in-class data transfer, negligible data loss even with high-fiber bends and compatibility with all fibers in use today. We also launched the second-generation of our hyperscale network modernization solutions called 'Lead 360 Degrees 2.0'. It comes with new technologies like drone-led surveys, robotics cable blowing and, AI bots and further accelerates the deployment of smarter networks of tomorrow.

Another interesting launch was full-fledged programmable FTTx solutions. By enabling programmability at the core of the network and decoupling white-box hardware from software, these solutions bring more flexibility, cost efficiency as well as service excellence to data networks.

Slide 6:

All of these new launches have happened by our continuous efforts in the direction of acquiring capabilities through investments and collaboration with other ecosystem players. We strengthened our offering in cloud segment through acquisition of 'IDS'; we made a strategic investment in 'ASOCS', a Company which is a pioneer in virtual radio access network; we also signed up to collaborate with 'VMware' to develop virtual network functions for 5G access solutions as well as we have signed up with IIT Madras to partner in research and advancements in 5G communications technology.

Slide 7:

As a result of what we saw, we had a nominal growth in FY20 as opposed to a general revenue decline in the industry. We further penetrated deep in customer segments and new geographies. Among notable wins, we won a large contract for an FTTH deployment in India. We have multiyear contracts for optical fiber cables in Africa, entered into 2 of the top 4 global cloud companies and a digital inclusion project from the Telangana government.

We reorganized ourselves to an organization structure that places the customer at its center, and that helps us to offer customer-specific solutions, present a single face to customers as well as create lifetime customer value through co-creation and partnerships. We shall drive more business from our top 20 customers who contribute to more than 70% of our total revenues today.

Slide 8:

In terms of our execution of our key projects, we are running largely as per schedule. The status of the key projects is as follows:

The 'NFS' which is the Indian Army intrusion proof network has been completed and it is moving on to the O&M stage. 'Varun' which is the Indian Navy project is about 76% complete. 'MahaNet' which is a 'BharatNet' project that we are doing in connecting more than 4,000 gram panchayats in Maharashtra is almost 74% complete. The T-fiber project which we acquired earlier this year has started and it is about 3% completed and the FTTH rollout order that we got later part of Q4 has just about started right now.

Slide 9:

We have been driving these results through a consistent strategic focus on 3 key areas. On key account management which drives wallet share with our leading customers, and we are focusing clearly on increasing the opportunity funnel and win ratios in these top accounts.

The second focus area is clearly technology-led end-to-end solutions that help us increase the total addressable market of our customers, as we are able to solve larger use case areas for them with better winnability. At the same time, another strong focus area for us is ecosystem partnership and investment which help us enhance capabilities with M&As as well as organic investments.

Slide 10:

At the same time, sustainability and governance continues to be an extremely strong pillar for the Company and we remain very committed to this cause. STL has cumulatively touched more than 1.3 million lives through our corporate social responsibility as well as volunteering initiatives till date.

Slide 12:

Now talking something about the COVID-19 situation. As we saw the pandemic unfolding from China, we formed a business continuity team in early February to focus on 4 key priorities while responding to the situation. Our first priority was on employee and ecosystem safety. We were one of the first few companies to advise our employees to work from home. And in line with guidelines, we issued travel advisories, secured physical as well as digital assets, and reviewed health insurance and hospital tie-ups in case of emergencies. We have an extremely strong digital capability to ensure virtual collaboration, work over cloud communication as well as secure data transmission while working from home.

The second focus has been on customer commitment fulfillment. And in these times, we are continuously in communication with our customers and our customers have appreciated our efforts to maintain deliveries resulting in high uptime of networks and maintaining communication with them wherever the deliveries have been impacted.

The third focus area for us has been cash flow planning based on scenario analysis. We are clearly maintaining a comfortable balance of cash and cash equivalents and if the lockdown situation persists longer than anticipation, we have more than sufficient liquidity to manage all our fixed costs as well as cash outflows.

Telecoms is part of essential services, and they are continuing.

In terms of the fourth focus area for us has been our readiness for a quick restart as the situation is normalizing. All of our plants across the globe are operational. Our network and system integration services are also starting to get operational and are partially operational now. While we have been getting approvals from different districts across the country, challenges remain on the ground in supply chain as well as customer site readiness.

In a nutshell, I can say that even in periods of uncertainty, we remain very true to the well-being of our community. We kept our promises to our customers, and we acted in financial prudence to deliver results to all of our stakeholders.

Slide 13:

As a socially conscious organization, we are also doing our bit for the local community. We have created 'Project Savdhaan' which is a special initiative to train over 1 lakh youth on COVID-19 awareness through the STL Academy. Our team at Kakinada Smart City is playing an important role in creating awareness and surveillance using digital tools. We have provided 20 ventilators, PPE to more than 5,000 health workers, more than 12 metric tons of disinfectant, and 20,000 safety masks to hospitals. And this effort and initiative continues as we speak.

Slide 14:

In terms of business areas, in the short term, we believe, and in concurrence with CRU, that we shall see a negative impact on global fiber demand, mostly due to logistics issues including site access as well as safety concerns. The fiber demand is expected to go down in the first half of the current financial year and is expected to rebound in the second half. And the demand recovery that we are forecasting in the 2021 calendar year is expected to be much stronger than earlier anticipated.

Slide 15:

In the medium term, however, we expect that COVID-19 shall be the inflection point for the data network industry. Some of the trends and the increased shifts to digitalization and data requirements that we are seeing right now may not be temporary and shall have significant positive impact in driving investments in data network creation.

First, we have seen a surge in the Internet traffic by 30% to 40%, which has led to decrease in download speeds because the networks are running very close to their capacity and at several places globally they were choked. The reason that the Internet is able to handle the surge in traffic is because the network is designed by taking into account the increase in data demand, and there is always a buffer. As of now, all the buffer is being absorbed and the network providers shall have to invest to augment the network and create the capacities that the network is now demanding.

Second, we have seen a surge in the cloud demand, especially from the enterprise segment. This is because more and more employees are working outside of the office. You would have heard that TCS has talked about by 2025, more than 75% of its employees will be working from outside their offices. With more employees operating outside the offices with more amount of work in cloud and with more amount of collaboration over digital tools, more workloads are getting migrated to the cloud to ensure that work can be completed.

Also, as more and more enterprise applications are moving to cloud, they also demand a very low latency from the network and a very fast response time. The networks are responding to this requirement by having 'EDGE' data centers and moving closer to customers. Also, another shift which has happened is that the data usage which earlier used to be asymmetric, i.e., earlier it was focused towards downloads, is becoming symmetric. And a lot of the user traffic is both upstream as well as downstream.

The last trend that we are seeing is that data traffic has shifted to residential and alternate localities. We are seeing a lot of companies changing their business models for good and asking employees to work from home. This shall mean that the homes will also have good internet connection for official reasons and we feel that they shall push fiber to home penetration.

Slide 16:

In terms of 5G and the investment, what we see now that mobile 5G is now commercially available from 46 operators across 24 markets globally. And it is also estimated that by 2025, 20% of all connections will be on 5G. The current 5G subscriber base in China aas reported by 2 of its largest carriers, 'China Mobile' and 'China Telecom', is almost 48 million subscribers at the end of March 2020. We believe that operators will invest almost $1.1 trillion in their network globally in the next 5 years and a significant amount of this focus will be on 5G, however, in terms of pace of 5G deployment, large operators shall continue to spend while smaller ones will focus on augmenting the capacity of their existing networks.

Slide 17:

Coming to non-telco customers, we are seeing that the current shift towards the digitization is pulling the investments forward in the data network. The UK Government, for instance, has recently announced that there is $6.5 billion investment in creating gigabit capable broadband. We are also seeing the cloud companies increasing their investments seeing the massive surge in the demand and the hyperscale CAPEX is expected to grow at 8% to 9% every year in the next 3 years from about $114 billion in 2019.

In the anticipation of this kind of a demand by cloud segment, our acquisition of 'IDS' in Europe and our capability towards building data center interconnects augurs well for us. At the same time, enterprises are also pulling forward their investments in the new-age data network because of their increased reliability and speed. And the investment of 'Facebook' in 'R-Jio' will definitely accelerate the fiber to the small enterprise connectivity, as 'R-Jio' aims to enable small businesses including kirana stores all across India.

Slide 19:

Talking something about the future and why we believe it's more exciting, the investment by our customers is leading to the creation of new-age data networks that are fundamentally different from previous generation of data networks. These are driven by 3 key trends. The first trend is, we see significant network creation by telcos, driven by data growth, and this will drive dense and deep fiber networks with multiple end points as well as low latency. The second trend that we see other than telcos, we are seeing large-scale network creation by non-telcos.

Anupam Jindal: **Slide 19:** So apart from telcos, we are seeing large scale network creation by non-telcos, cloud companies are driving hyperscale and EDGE data centers. Government and private Enterprises are building campus connectivity. Intelligent mobility, data centers, IoT, Industry 4.0, smart grid, e-health, etc., and fiber infra companies and DC co-location companies are also emerging with new network use cases. We are also seeing the emergence of open source software that is segregated from OEM hardware and virtualized for centralized control. These innovations are enabling the entry of new players like us to drive the next generation of data networks.

Anand Agarwal: **Slide 20:**

STL has been reorganizing itself to make the most of these trends and opportunities and we have been working on the used-cases for our 4 customer segments with the power of our portfolio of 4 offerings and towards developing end-to-end solutions for our customers. These 4 solutions which are our go-to-market approaches bring together an integrated approach to solve customer problem statements as a whole. For instance, our first solution which is an optical connectivity solution, this is across network topologies. We offer comprehensive optical connective solutions. This includes our entire optical product suite design with optical fibers, cables, optical interconnects as well as logistic solutions, all designed to work together as a combined offering for our customers.

The second end-to-end solution is the fiber deployment solution. As what we are seeing as networks are expanding in scale across core, mobile, home, and rural networks, our fiber deployment solutions called Lead 360 helps customer design large-scale networks and drive fiber rollout all the way to activation and management. These solutions use lean, agile approvals, everything surveys, our STL Academy trained professionals, design-led planning, and 360 operations management.

The third end-to-end solution that we are offering to our customers is the FTTx access network solution. FTTx networks are driving higher scale through fiber deployment, but they go beyond scale to low latency and agile network management. Our FTTx Mantra solution designed for scale, latency, and agility with network rollout and activation is enabled by software-driven programmability as well as orchestration.

Our fourth end-to-end solution is the network modernization solution which is for end-to-end enterprise networks that are looking to fully upgrade their networks and data centers. This includes comprehensive network design for future readiness and goes in all aspects of network - compute and security. And an example of this network modernization solution is what we are doing for the Indian Navy in the Varun project.

Slide 21:

Just to give you an example of STL solution, a typical problem statement for a customer is to connect fiber to the premises in the least time at the lowest cost with a long network life and delivering data at high speeds regardless of accessibility issues. With our FTTx Mantra, we designed the solution-based on customer use cases by combining offerings from some or all of our portfolio capabilities to bring together an end-to-end solution. Across our four end-to-end solutions, we are delivering results for our customers.

Slide 22:

For our optical connectivity solutions, we helped the French telecom major to install a nationwide coverage of the last mile fiber network in a short span of 2 years. For our fiber deployment solution, we have connected over 4,000 villages in Maharashtra - the MahaNet solution - at a speed that is twice of what was the previous benchmark. Our FTTx Mantra solutions are designed for massive network transformation and we have been doing that for one of the leading telcos in India, and our all-encompassing network modernization solution has helped the Indian Navy's project Varun designed with 12 large data centers, 1,500 sites including remote islands with 44 network locations and 33,000 network elements to modernize the entire network. The collective power of these integrated end-to-end solutions is what is helping STL generate tremendous value for our customers and helping us increase our total addressable market.

Slide 23:

With these strategic shifts, our focus is to become the default partners of our customers for all their data and IT networking requirements with our unique integrated end-to-end solution.

Now I hand over the call to Anupam to discuss the financials.

Anupam Jindal: Good afternoon to everyone again.

Slide 26:

Coming to financials, we are starting the year with a stable order book of Rs. 10,037 crore. Our order book is well diversified in all of our customer segments. We are also having a significant O&M order book which shall start to yield significant revenue stream from FY23 onwards.

Slide 27:

We have a spread of order book in FY21 to the tune of approximately Rs. 4,000 crore. Also on the top of it, we have RFQ participation funnel at about Rs. 8,500 crore, which shall generate a significant order flow in FY21 as well.

Slide 28:

This slide shows our annual results in terms of revenue at Rs. 5,154 crore, EBITDA at Rs. 1,104 crore, profit after tax at Rs. 472 crore, and ROCE at 22%. Through our end-to-end solution approach, we shall focus on industry-leading growth and absolute EBITDA to improve return on capital employed. We are also focusing on deferring CAPEX for optical cable for about 6 to 9 months.

We shall continue to work on improving our cost position as one of the key strategic levers to improve the operating margins. We are targeting to reduce manufacturing cost and fixed cost in this regard. We are also working to improve on our interest cost.

Slide 29:

Coming to the quarterly performance, our revenue stands at Rs. 1,160 crore, EBITDA at Rs. 226 crore, and PAT at Rs. 80 crore. We estimate the negative financial impact of COVID-19 on revenue as about Rs. 170 crore. Consistent to our dividend policy, the Board has recommended final dividend of 175% at Rs. 3.5 per share, subject to shareholders' approval.

Slide 30:

Our net debt stands at Rs. 1,970 crore. Our cash and cash equivalents stands at Rs. 478 crore as on March 31, 2020, which reflects our preparedness for the current uncertain times. Also in the current year FY20, we have also been able to generate positive cash flow of about Rs. 100 crore.

Slide 31:

For your reference, we have captured an abridged version of our financials for you perusal.

Slide 32:

Coming to buyback, we announced the buyback on 24th of March to seek fair value of our stock price and improve shareholders' returns. The maximum buyback size is Rs. 145 crore and maximum price is Rs. 150 per share. The buyback is going through an open market route, and the promoters are not participating in it. We have sufficient liquidity to support the buyback. We are extremely bullish on our business, and we feel that we shall come out very strongly from here.

Slide 33:

In summary, we would like to say that STL with its focus on key account management, technology-led end-to-end solutions, ecosystem partnerships, and investment have led to growth in FY20 when the industry has seen a decline. COVID-19 is an inflection point for the data networks industry and it shall accelerate our society's digital transition. STL with its optical connectivity solution, fiber deployment solution, fiber to the home, fiber to the access network solution and network modernization solution is ready to take advantage of the mega opportunity of future network creation.

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

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

We will take the first question from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: I hope the whole Sterlite family is safe and secure in these uncertain times. Anand, just to start with on the Q4 numbers. I'm sure you would have also felt them a little bit below what you guys could have achieved. Can you just help us understand, if you exclude the 170 crore impact from the lockdown on top line, what were the other reasons for the weakness on expected range excluding this year revenues of almost 25% from the Q4 of FY19?

Anand Agarwal: Mukul, thanks for your concern, and I hope and wish everyone is safe at your end too. In Q4 of last year that you're comparing, we had mentioned that, that was a quarter where we had the initial sales and revenues from the Navy project that was the first quarter of a peak of Navy supplies that we had during Q4 of last year. But not withstanding that, if we see quarter-on-quarter, the revenues without the impact would have been closer to 1350-odd crore, which is where our expectation was at the beginning of the quarter.

Mukul Garg: But that is more, I think, suitable for the public sector orders. Generally, Q4 tends to be seasonally a large quarter. Again, if I look at the Indian Navy progress, it's only up 10% from Q3. Were these orders also impacted due to the lockdown? And how are you seeing the progress as we move forward in Q1?

Anand Agarwal: Yes, in Q4, we did have some impact mostly during the last couple of weeks, especially for these projects. In Q1, we have various projects working in almost 45 to 50 areas within the country, and some of these areas are in green zones and they've started operation. But we believe it'll take next few weeks or so to get our projects working fully in tandem because some of the projects are also in red zone and some are within the Navy premises. So, I won't take Q1 as in terms of recovering back on the project level. While we are seeing the plant operations have restarted, on the project, we are taking a bit longer and Q1 will be getting us back to that normal levels.

Mukul Garg: Anupam, just to start with, can you share the data on the fiber pricing and the utilization levels during last quarter on both fiber and cable?

Anupam Jindal: I think from a realization perspective, Mukul, as we had communicated, while the realizations have broadly remained range bound closer to what we had in Q3. As far as the utilization is concerned, we had some improvement over Q3. We were closer to 80% to 85% of the overall capacity before expansion. And more and more, what we are doing, Mukul, is that as more and more offerings have become integrated, we are finding that to the same customers, we are able to give a product as a service product as the integrated offering and the realization is becoming less and less relevant. We are shifting our business model to integrated offerings so that we can actually shift from the realization impact which we are seeing in this industry.

Mukul Garg: On the balance sheet side, the directional move in account receivables and payables were in the opposite direction with account receivables moving up on a YOY basis. Is that something which is happening because of the order on the public sector side or there is nothing unusual there? And also, if you can just help us give a breakup on the other financial liabilities. What portion of that is in the current maturity of long-term borrowings?

Anupam Jindal: In terms of debtors while we don't see anything unusual, these are in general line, we have seen a slight stretch in the working capital, I would say, to a large extent, towards the year-end because of COVID-19 situation. Last 2 weeks or so, we practically didn't have much of collections coming in. While we had some progress, but that caused some of the impact in this. In general, we saw some increase in working capital cycle as we had also seen in the previous quarters, but broadly, there's nothing unusual.

As far as the financial liabilities are concerned, there is about 250 crore of amount, which is towards current liabilities in that and which is included in the net debt position which we have shown.

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

Neerav Dalal: I had a question on the optical fiber demand. How are you seeing it in the current scenario? How would you see it in first quarter and how should it move going ahead? As most international markets are still under lockdown, I wanted your comments on that.

Anand Agarwal: Neerav, what we are essentially seeing is a higher degree of discussions for network strengthening from a lot of our customers globally. While customers are under lockdown, we have seen them expediting and accelerating their network capacity increases. You may have seen the British Telecom which came out with its results 3 days ago on Friday, they are talking about expediting their network capacity and their network investments from a 7-year project to less than 3-year project. What we are seeing is a very high degree of engagement in terms of people expediting their projects and a high degree of involvement towards more RFQ.

In terms of Q1 numbers, as we talked about, we are currently operating at about 60% to 65% of pre-COVID sort of levels. In Q1, the focus has been more till date on meeting urgent demands towards O&M, meeting urgent demands towards network modernization and during the first few days was towards shipping everything that was due in the last couple of weeks of March. So, I won't go by quarterly demand. Q1 will be challenging like for everyone else in the world, but H2 of this year onwards, it looks pretty promising for us.

Neerav Dalal: Anupam, we have CWIP of about 133 crore. What do you think would be the CAPEX for the current year?

Anupam Jindal: Basically we are looking at all the commitments and CAPEX programs which we had done, and we are optimizing that. Recalibrating as we commented in the initial commentary that some of the ongoing CAPEX on cable side particularly, we are having it in pause and we will restart that within 6 to 9 months. With this, we are looking at overall CAPEX outflow to be of about 500-odd crore, which is largely for the CAPEX done on fiber side, which was completed last year.

Neerav Dalal: So, for FY21, our CAPEX would be about Rs. 500 crore?

Anupam Jindal: Yes.

Moderator: We will take the next question from the line of Pritesh Chheda from Lucky Investment.

Pritesh Chheda: From your slide no. 27 where you have put out the order book spread, this Rs. 4,000 crore of order book spread for FY21, does it largely include the service or the project execution or it also generally includes the fiber deliveries also or a cable delivery part also in this Rs. 4,000 crore?

Anand Agarwal: It includes both. Broad order book breakup is about 4,000 crore of projects, about.4,000 crore of fiber & cable, and about 2,000 crore of O&M. So the 4,000 that we have for FY21 includes both.

Pritesh Chheda: My second question is on the net debt side. What should be the net debt likely next year in FY22 post the execution that you do and the CAPEX that you spend for FY21?

Anand Agarwal: The focus will be towards the net debt, total net debt reduction. And as Anupam said, the CAPEX part since we have postponed the cable CAPEX, the cash flows, we will continue to review throughout the next few months. And the focus will be for us in totality to look at both debt/equity ratio below 1 and seeing that the net debt numbers are put at close to current levels.

Pritesh Chheda: On the execution that flowed in quarter 3 and quarter 4, do the lower prices on fiber now are a part of your margins what we see in quarter 3 and quarter 4 or your EBITDA what we see in quarter 3 and quarter 4 or they are yet to flow in, in terms of lower prices?

Anand Agarwal: As we have been maintaining, our bare fiber sales, just where we sell fiber only to customers is a very small percentage of our total revenue. It's less than 9% to 10%. That's why when we say that the fiber numbers have come closer to $6 or so, it does not impact the company in terms of its total revenues or EBITDA to that extent what it used to be 3-4 years ago. Whatever we are seeing, the margins are a reflection of the current business. The margin ratios are shifting based on as we move more and more towards from selling components towards selling solutions.

Pritesh Chheda: Sir, what would be the execution or utilization of your assets in FY20 on fiber and cable, annual utilization of assets?

Anand Agarwal: Annual on fiber side if we see at 50 million run rate, it would be close to 60% or so; very similar to what we did in FY19.

Pritesh Chheda: 100% on the non-expanded side, right? 30 million FKM, it's 100% utilization.

Anand Agarwal: It'll be slightly lesser. I think last year also, we did 27-28; it would be something like that. So, on a non-expanded side, it will be almost 90% to 95%.

Pritesh Chheda: And on cable?

Anand Agarwal: On cable side of 18 million, I think we did between 80% to 85%.

Pritesh Chheda: This is also non-expanded, right?

Anand Agarwal: Yeah, cable we have not expanded and that's the CAPEX that we are deferring.

Pritesh Chheda: In the expanded capacity from 30 to whatever first phase that you have expanded in fiber, the costs associated with those capacities have started flowing in, in the second half of FY20 that we see, right? In terms of OPEX or depreciation or….

Anand Agarwal: Right.

Pritesh Chheda: Okay.

Anand Agarwal: We have done the full expansion there. So, 30 to 50 has fully happened. The depreciation, etc., is for the full capacity.

Pritesh Chheda: Then, what explains the 500-crore CAPEX next year towards fiber again?

Anand Agarwal: 500 crore is the total CAPEX and some of the cash flows are deferred in terms of how we do supplier agreements as well as what goes post commissioning. A significant part of the structure is with post commissioning area. And 500 is not fully for fiber; 500 is for CAPEX that we are planning to incur. As we shift the cable part, some part of the CAPEX will also shift outwards from '21 to '22.

Pritesh Chheda: Actually, I didn't understand. Initially, you said that the cable CAPEX is postponed by 6 to 8 months. So, I am assuming that cable CAPEX is now next year. You are spending 500 crore which is maybe a part on maintenance CAPEX and part would be on the 30 to 50 fiber, right? That's how you are putting?

Anand Agarwal: Right now, it includes all the three. It includes sustainable CAPEX, it includes the fiber CAPEX, and it includes some amount of spending that we would do for the cable also because 6 to 9 months means fully by March 2021. That's what we have included all in totality. The cable part of the CAPEX we will keep reviewing over the next few weeks and months, and as that defers, the 500 number might change.

Moderator: The next question is from the line of Vipul Kanoria from BlackRock. Please go ahead.

Vipul Kanoria: Can you outline on the debt issuance plans for FY20-21 and you plan to issue any dollar-denominated debt? And the second and the last question is, are you planning to bring in any strategic partners on board given the renowned interest of global investors in Indian tech and telecom sectors?

Anand Agarwal: On the debt side, currently, there isn't any plan of adding any dollar-denominated debt in consideration. All our receivables as well as payables, we convert it and hedge it fully to rupee. So, at least currently, there is no plan. And also on the strategic side in terms of getting any investor on board, nothing on plan right now.

Moderator: The next question is from the line of Harshit Patel from Equirus Securities. Please go ahead.

Harshit Patel: Sir, the first one would be a bookkeeping question. Could you give a revenue breakup between products and services in the last quarter?

Anand Agarwal: Harshit, we are increasingly moving towards.. If I look at it in a traditional way, it might be of the order of 60-40, but now it's getting all integrated. Most of our service offerings are coming along with end-to-end solutions. It would be of the order of 60% & 40%. But increasingly, our offering is now becoming integrated solutions.

Harshit Patel: Sir, the second one would be on the T-fiber project with the Telangana government. Could you tell us the size of the project and how much will it take to execute it fully?

Anand Agarwal: I think the size of the project is about Rs. 1,500 crore or of that magnitude. And it will be executed largely within FY21 and partly in FY22.

Moderator: The next question is from the line of from Rishabh Chudgar from ENAM Holdings. Please go ahead.

Rishabh Chudgar: Just a quick question. Sorry, I missed out the number which you shared on the product and services revenue breakup and the margins in this business for the quarter.

Anand Agarwal: Rishabh, what I was mentioning was that more and more of our total sales is now going in as solutions where products are an integral part of services. Over the whole year if we look at it in a traditional way, we looked at it about 52% went off as just pure-play services and 48% went on in terms of products either sold directly to the customers or embedded within the services as such.

Rishabh Chudgar: Would it be possible to share the margin also for this?

Anand Agarwal: The margin portfolio has been largely similar. I think close to about 24% for the products and about 14-odd percent for the services.

Rishabh Chudgar: Sir, I just wanted some more clarity. We have mentioned that the CAPEX for FY21 is going to be 500-odd crore. Will it be possible to break up this CAPEX in terms of what is going towards fiber and what is going towards cable?

Anand Agarwal: Yeah. I think about 15-odd percentage spending from the fiber side. So, 225 to 250 crore was for fiber, about 50 to 60 crore is sustainable, and about maybe close to 200 crore is about cable, very ballpark numbers.

Rishabh Chudgar: In the last year, we incurred a CAPEX of 421-odd crore. I just wanted to understand in terms of what went towards fiber and how much capacity were we able to create from this CAPEX that went towards fiber?

Anand Agarwal: We have been spending in a structured form on the fiber. The fiber total investment is about Rs. 1,500 crore and what we spent in last year was largely towards the fiber expansion. The expansion of 15 to 50 million is over and the cash flow is happening over a deferred period of time.

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

Alok Deora: Sir, most of the questions have been answered. Just a couple of questions I had. One was on the order book front where you have given the breakup of what would sort of come in FY21 and FY22. It's just around 4,000 crore which is showing up in FY21. Does that mean that the balance orders of around 6,000 crore would only start contributing in FY22? How should we read that number?

Anand Agarwal: Of the orders that we have started the year of about 10,000 crore, 4,000 will get executed in FY21 and 6,000 will carry over from next year. At the same time, during this year, we will book more orders and part of those will be used for revenue during the current year.

Alok Deora: Right now, say, if we are executing around 4000 crore that comes into revenue in FY21 and if we win, say around 1,500 or 2,000 crore worth of orders in the first half, then that will contribute to the revenues. So, what kind of growth rate then we are looking at for FY21? Because we have done around 5,000-odd crore in FY20; any number on FY21 growth or any revenue number on that?

Anand Agarwal: Alok, we normally don't give out guidance, and especially in the current year, looking at how the situation is. As we said, Q1 is going to be low. We believe that H2 will be a good half based on both the visibility on orders, engagement, RFQs that we have. So, maybe when we meet next quarter, we would have a much better visibility on H2 growth. Right now, I would not want to give FY21 growth number.

Alok Deora: And just 1 question on the revenue mix. While you mentioned that it's becoming more integrated, however, you gave some number as far as the Q4 mix is concerned of products and services. What would the same number be for the full year of FY20, if you can just give a broad number on that?

Anand Agarwal: The full year, as I said, the number is about 52% in services, the way we used to look at earlier and 48% for the products.

Alok Deora: Just one last question. This 8500 crore RFQ which you mentioned, that's largely towards the services or it's towards the products or how is the mix like? If you can just broadly indicate that?

Anand Agarwal: Again, most of the new RFQs that we are participating in is an integrated solution. Even when we are doing just a product, it's a product mix as a full solution. More and more of our offerings are being in the form of the 4 solutions that we highlighted during the presentation. And it includes for the current year as well as the multiple years moving forward.

Alok Deora: You mentioned about the margin profile of around 24% in products and around 14% in services. When we mention integrated solutions, then should we consider around 18% to 19% sort of blended margin profile?

Anand Agarwal: Yeah, it's something like that. It will be closer towards 18-odd percent.

Moderator: The next question is from the line of Ravi Mehta from Deep Financial. Please go ahead.

Ravi Mehta: Most of the questions are answered, just 1 small clarification. When 20% to 25% of the order book is O&M, which usually staggers over a period of 5 to 7 years; I was just getting a sense that the expected top line what you shared on the presentation, it can't be 4 and 6, right? Can you highlight that?

Anand Agarwal: We are not talking about top lines, Ravi. We just gave a color on the order book time lines of execution for that. You're absolutely right that some part of the O&M part will kick in FY21, but largely, it will be from FY22 and '23 onwards. So about 4,000 crore of the 10,000 crore will get executed in FY21. About the other 4,000 will get largely executed within FY22. The other 2,000 crore will go over a period of 7 to 8 years. This is just to provide a perspective that we are now starting to have a sizable O&M revenue chunk, which kind of starts creating an annuity sort of a cash flow over the next 8 to 10 years.

Ravi Mehta: Since we started with this service segment a while back, there is no O&M at the moment in our numbers?

Anand Agarwal: No. The NFS project, as we said, has just moved into O&M. So, it's not significant. FY21 would have some numbers and '22 onwards, it starts becoming more and more relevant.

Ravi Mehta: And any color on what it could be in '21 or '22?

Anand Agarwal: Typically, you can take at about 3% of the overall CAPEX size of the combined CAPEX. So, FY22, by that time, if we would have done close to 6,000 to 7,000 crore, it could be of the order of 200 crore.

Moderator: The next question is from the line of Manav Madaan from ICICI Bank. Please go ahead.

Manav Madaan: Congratulations on a good set of numbers. My questions have been answered. I just wanted your comments on the ROCE. While we know that since services mix is increasing, ROCE was supposed to be low, but 22%, is that a sustainable number going forward?

Anupam Jindal: In terms of the ROCE, we believe that as we start getting more utilization of the capacity, particularly from second half onwards, and we see more of revenue coming in, we believe that ROCE can improve. But yeah, from a perspective, 20% to 22% is definitely sustainable.

Moderator: The next question is from the line of Shikha Mehta from Equitree Capital. Please go ahead.

Shikha Mehta: Sir, I just have a couple of questions. The 4,000 crore that we have spoken about in FY21, could you give a breakup of product and service for that?

Anand Agarwal: Shikha, we have converted all the way we look at the businesses in the integrated solutions offering. We are just not neither looking at it nor calculating the numbers anymore like that.

Shikha Mehta: Sir, what percentage of the order book would be coming from the Government?

Anand Agarwal: I think, the only order book from BharatNet would be the Telangana, etc. Close to about 20% would be the BharatNet kind of project.

Shikha Mehta: What kind of payment cycle do we have when it comes to the Government? Like what's the working capital?

Anupam Jindal: Shikha, I can address that. Broadly, we have, not from the government, but in the services business overall, we have a net working capital of about 120 days. And across the spectrum of the customers, we have seen that we are able to broadly manage this. This is by design. We are seeing that between 100 to 120 days of net working capital, we need to manage. And broadly, we are able to move in that direction. So, we are not really differentiating between customer to customer. As far as even the government or the public enterprises are also concerned, we have been able to do the work and collect money in reasonable time.

Shikha Mehta: Sir, could you give some update on 5G? Because I think the auction is also going to be getting delayed. What is our view on that?

Anand Agarwal: Our focus, Shikha, is that India currently requires even the 4G overall outlay to be strengthened. Only about 30% of the towers are connected with fiber. We believe the focus that we are seeing from most of the Indian ecosystem is towards strengthening the 4G, leveraging the spectrum that they have. And nobody is in a hurry at least in the Indian ecosystem to do 5G. The focus areas are from the incumbent telcos is towards 4G strengthening as well as fiber to the home and enterprise. And from the government side is focused more and more towards rural broadband. So, real 5G in terms of some investments will happen only in 2022 calendar from our estimate.

Moderator: We'll take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Anand Agarwal: I would like to thank everyone for attending this call and for showing interest in our company, and I hope that we were able to address and clarify all your queries and comments. For any further questions and discussions, you can feel free to contact our Investor Relations team which includes myself and Anupam, and we really look forward to continuing the conversation with you in the future. Thank you very much.

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