Sterlite Technologies Limited Q1 FY21 Earnings

Earnings Conference Call Transcript

July 23, 2020

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

Pankaj Dhawan: Ladies and gentlemen, good day and welcome to the STL Q1 FY21 earnings conference call. I am Pankaj Dhawan, heading investor relations at STL. To take us through the Q1 FY21 results and to answer your questions, we have Dr. Anand Agarwal – CEO, STL and Mr. Anupam Jindal – CFO, STL. All participant lines are in the listen-only mode as of now. There will be an opportunity for you to ask questions post the presentation. Please note that this call is being recorded. You can also download the copy of the presentation from our website at STL.Tech 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 harbour clause indicated in the presentation also applies to this conference call. For opening remarks, I now hand over the call to Dr. Anand Agarwal. Over to you, sir.

Anand Agarwal: Thank you, Pankaj. Good day everyone, and thank you for joining us for our Q1 FY21 results.

Slide 5:

At our Annual Investor Meet 'STLeScope 2020' that was held earlier this month, we shared our belief that an unprecedented decade of digital network creation has started. We anticipate unprecedented growth happening in digital networks. With the advent of this digital era, data usage has been growing exponentially and the global traffic has grown almost 7 times in the last 8 years and is expected to grow at a faster rate as we move forward. So that was one of the points that we had talked about in that meet. Another point was the fact that there is a high degree of urgency to build these networks. The year 2020 has triggered a race for creating these digital infrastructure investments. The Digital Service Providers, the Cloud companies, Governments as well as Private Equity investors across all geographies are investing in creating this new infrastructure. The third point that we had spoken about was the fact that these digital networks that are getting created, need to reach everyone at scale and quality. In terms of scale, these networks need to have many more digital lanes to handle 4 to 5 times internet traffic and this can be achieved with high capacity optical fibers complemented with next generation wireless networks. In terms of reach, these networks need to reach millions of new users, covering more digital kilometers that connect every home & enterprise. And thirdly, this network has to have much better quality in terms of superior speeds and faster response. This is being done by virtualizing the networks using software over the cloud to manage the network traffic. And the fourth part that we had spoken about was that the new network, the new digital networks will be built in a fundamentally different way. The first part will be these new networks will be built at the edge with large capacity closer to the consumers. Second, that these are going to be converged networks; which is a combination of both seamless wired as well as wireless combination. The third aspect, these networks would be a combination of connectivity, compute and storage and these networks will be agile and scalable, which means that they shall have disaggregated hardware and software. So clearly, with the developments that we have seen over the last few quarters, we are seeing a decade long network creation cycle which is starting now, and which has been accelerated by the new normal since the beginning of this year.

Slide 6:

And these new generation digital networks require an integrator who possesses the capabilities to integrate all these new technologies - a very comprehensive network systems integrator. We, at Sterlite Tech, have been building our capabilities systematically towards this objective over the last several years.

We have been pioneers in optical connectivity over the last 25 years where we have built in a huge trend from silicon to optical connectivity products on end to end capability. Over the last 5 odd years, we have also built in capabilities in wireless as well as software with the investments that we have done in Elitecore & ASOC in combination with the ecosystem alliances and our last 10 years of experience in large scale system integration with the acquisition of IDS in the data centre space, we are ready to integrate the converged digital networks. So we are clearly in a position to be a digital integrator, a comprehensive networks system integrator for these new networks that are getting created.

Slide 7:

We had also talked about the fact that our roadmap to the future is built on 5 strategic pillars.

1) The first pillar is the 'Technology-led end-to-end solution' where our capability of technology aligned with our customer approach helps us increase market share by integrating the technologies that we have.
2) The second pillar is the key account management towards driving wallet share with our key customers. We are focusing on increasing the overall opportunity funnel and win-ratios in 20 key accounts across the globe.
3) The third pillar is a very large scale complex integration of these converged wireless, wireline networks, to deliver lower total cost of ownership and fast time to market for our customers.
4) The fourth pillar is a very strong ecosystem alliances and investments to increase the total addressable capex through strategic partnerships
5) And the fifth pillar is building top talent and culture towards driving, creating our own knowledge base and delivering returns to our shareholders

Slide 9:

The current quarter, Q1 has validated our digital network world-view and we will talk about this. The first aspect is the fact that digital networks are attracting investments at scale. Throughout Q1, we saw Telecom Operators, Cloud companies, large enterprises as well as Citizen networks investing heavily in creating digital infrastructure and they are also able to attract billions of dollars in capital into these digital infrastructures.

Just to highlight, closer home in India, Jio Platforms has raised more than $20 bn. from financial and strategic investors including, private equity, sovereign funds, as well as large cloud companies like Google & Facebook. We also see the advent of Private Equity giants in the space of Digital Infrastructure investments, as illustrated by the investments from KKR and EQT. This unprecedented capital raise underscores the attractiveness of the opportunity that we have just highlighted.

Slide 10:

The second large shift that we saw in the current quarter is the fact that 5G has started to roll out world-wide. The spend of telcos on 5G, roll-outs have accelerated and customers are adopting 5G at unprecedented rates. To give you a glimpse of some of the investments, T- mobile, US has announced to spend $60 bn. on deploying 5G networks over the next 5 years. Chinese telecom companies have announced over $10 bn. worth of tenders awarded in this quarter. As of May 2020, more than 300 operators across the globe are investing in 5G commercial services.

And to give you a sense of the roll out till Q1 FY21, 11 operators have launched commercial 5G networks till now and in total 81 operators in 42 countries have launched commercial 5G networks.

In terms of subscribers, Deutsche Telekom has reached 16 million subscribers. China Mobile and China telecom added 22 million subscribers in one month which is June 2020 alone. So this is now growing at an unprecedented rate, not only with subscribers, but also with use cases, which are both, enterprise oriented as well as Government oriented. So that is the second shift we saw in the current quarter.

Slide 11:

The third shift, again closer to India, is the scheme, which is the 'Atma Nirbhar Bharat', is now becoming closer to reality. We see that Indian companies are rising up to the occasion and developing indigenous technology.

We at STL are extremely proud to say that our radio and virtual access solutions are being designed as well as manufactured, right here in India by our engineers in collaboration with our strategic partners.

Slide 12:

The other shift that we spoke about and which is happening is that the geopolitical environment, that we see globally, is offering new opportunities. In terms of the geopolitical environment, it is now clear that the European and North American countries are looking for alternate partners who can build scaled networks. And this move which is there is leading support to our plans clearly on developing and strengthening new markets outside India.

Slide 13:

The other trend which we saw strengthening in Q1 is the fact that open source standards and software defined networking is getting rapidly adopted. Global telecom majors like. British Telecom, AT&T, Verizon, Jio, Airtel, Rakuten are moving to Open radio access network (O-RAN). And we are seeing that this shift is happening at rapid and unprecedented levels and most of the major players are investing heavily to adopt next generation technologies like Software- Defined Networking (SDN) and Network Virtualization.

Slide 14:

And finally what we saw in the quarter was also the growth in optical fibre demand is coming back from H2 2020. The overall global demand contracted by about 9% in H1 2020, while it is expected to grow by 6% in H2 2020 as compared to the last year. The total demand outlook for 2020 has been revised upwards by CRU from an estimated 456 mn. fkm. in April to 471 mn. fkm in July.

We saw during the months of May and June, we also saw that China Mobile coming up with a large tender, which was almost 119 million km, which was about 13% higher in terms of demand than last year. And in terms of requirement, almost 25% of the total global demand, about 120 million out of 480 million km of global demand. And in terms of pricing, we saw earlier this week that China Mobile tender prices seems to be lower than last year by almost 20% to 25%. We believe that this shall have a negative effect on the profitability of the fiber and cable industry in China. This tender has been mostly participated within the Chinese ecosystem. And we think that the current pricing environment will become unsustainable for smaller players and the industry is going to consolidate, especially within the Chinese ecosystem. And more so, this is happening when the geopolitical environment is also such that, that it is difficult for the Chinese supply chain to find its way outside of the Chinese market. As far as STL is concerned, we have clearly demonstrated that we have been able to minimize the impact of any past price drops that we saw over the last 5-6 quarters very effectively with our strong focus on technology led new products developments as well as deep engagement with our marquee customers. We are continuing to invest in new technologies to come up with value added products to differentiate and at the same time continue our strong focus and efforts in lowering the overall costs structure. In terms of strategy, we shall continue to pursue our strategy of offering technology led end to end solutions. And we are already seeing as I said this technology and this strategy is bearing result.

Slide 15:

So the last 90 days have validated our overall world view. We are continuing to see that digital networks are attracting investments at scale. 5G is now rolling out worldwide at a macro pace. Indigenous technology is now becoming reality with Indian companies developing these for India and to export from India. The overall geopolitical environment currently is offering newer opportunities. Open source and software-defined networking is getting adopted at a very fast pace. And optical fiber demand is poised for growth for the next 5 years.

Slide 16:

All these developments that we talked about, STL is at the center of all of these developments. We are very much involved in all of these developments.

Slide 17:

We are very actively engaged with a large number of customers with a variety of our solutions, from fiber to the home rollout to 5G networks engagement to pan network, nation network connectivity, from Wi-Fi hardware to software-driven network products to data center and Smart City connectivity, we are working on various varied network use cases globally with marquee customers.

Slide 19:

And all these engagements, the engagement that we spoke about, are with marquee network creators from across the globe. These deep engagements with our customers are for end-to-end solutions. Amongst notable order wins that we had in Q1, we won a multiyear contract for the Opticonn Solution from a leading Middle East telecom player. We got additional orders for fiber rollout towards strengthening the MahaNet projects, we are now going deeper in that project. We are continuing to get orders for FTTx MANTRA for a large Southeast Asian telco. And these are extremely strong developments that we saw within the current quarter.

Slide 20:

And just to provide the context on where we are. Our plant operations, all our manufacturing operations globally are back to pre-COVID production levels, and all of our projects have restarted in various stages. The key projects, our status, the project 'Varun', which is the Indian Navy project is almost 81% complete, which was at about 78% at the end of Q4. MahaNet project is almost 82% complete. The Telangana fiber project has just started out and it's on track. And a new rollout for a large Indian telco for FTTH has started out with 2% completion.

Now, I would hand over the call to Anupam to discuss our financial performance.

Anupam Jindal: Thanks, Anand and Good day everyone.

Slide 23:

This is very interesting to report that even during the global lockdown caused by COVID-19, our participation funnel continued to grow. We are deeply engaged with multiple customers across network use cases. These are quality engagements with marquee global customers and we are solving customer challenges using our end to end solutions. If you look at nos. our open participation funnel has increased from around Rs. 7,000 crore in the end of March to about Rs. 10,000 crore at the end of June current year, this reflecting increasing set of opportunities which are building for us.

Slide 24:

This growing participation funnel is also translating into a healthy order book. Our order book continues to grow since the last 4 quarters and our current open order book stands roughly at about Rs. 10,300 crore. Despite Covid-19, we have generated new orders worth Rs. 1,150 crore in the current quarter of Q1 FY21. The order book spread in the balance 9M FY21 is approx. Rs. 3,200 crore, which can convert into revenue, and Rs. 7,100 crore for FY22 and beyond. Our order book is well diversified in all of our customer segments. We are also building an O&M order book which shall start to yield a significant revenue from FY23 onwards.

Slide 25:

Our revenue mix is balanced across customer segments and geographies. In terms of customer segments, our revenue from telcos and cloud segments has increased. In terms of geography, our revenue from outside India, specifically Europe & Middle East Asia has gone up not just in terms of share to the revenue which stands at 51% for the quarter, but in terms of the absolute value also, the sale outside India was higher than in Q4 reflecting very strong traction from the western markets which have started normalizing faster as we speak.

Slide 26:

For Q1 FY21, our revenue is at Rs. 876 crore., EBITDA at Rs. 131 crore., PAT at Rs. 6 crore. The performance for Q1 FY21 got negatively impacted due to Covid-19. The execution on the project sites significantly got impacted due to the extended lockdown. Production and delivery was hurt due to logistics challenges and safety & health concerns. Having said that, in the wake of unprecedented challenges the performance is still very resilient. And Q2 will be a transition quarter as we align our efforts towards improving performance in the environment of easing lockdown conditions. We would like to state that based on our current visibility on the order book and the engagements we are having with our customers, our H2 FY21 performance would be better than H2 of the last year. As stated earlier, we are also expect fibre demand to grow and project execution speed to increase due to return of normalcy.

Slide 27:

Our ongoing buyback program demonstrates our confidence in the business. We have spent more than 50% of the amount mandated for buyback and we shall complete the remaining buyback by Q2. Our share price has seen 112% increase since the announcement of buyback. We remain committed to take corporate actions in the future that create value for our shareholders.

Slide 28:

As stated in our communication earlier this month, we are on track to double our revenue and reduce net debt/equity by half to 0.5 times our equity to deliver our vision of 2023.

Slide 29:

In the summary, I would like to say that:

1) An unprecedented decade of digital network creation has started
2) STL has unique capabilities to be a leading digital network integrator
3) The last 90 days have validated our digital network world view, with investments and next-gen technology adoption
4) STL is at the center of these developments, engaging with marquee global network creators for end to end solutions.
5) With our focus on strategic pillars and continued customer engagement, we are on track to deliver vision 2023

Slide 30:

With this, we come to the end of our opening commentary and we shall now move to Q&A.

Pankaj Dhawan: Ladies and gentlemen, we will be starting Q&A. Please raise hand and we will take your questions one-by-one.

So first question we will take from the line of Pranav Kshatriya.

Pranav Kshatriya: My first question is regarding the comment what Anand made in the opening remark regarding this Chinese demand-supply mismatch need not get transmitted into the other parts of the world. So I just want to check that where are the pricing; not for you, but in general for the industry outside China, how it is behaving? And how should one see this in the medium-to-long term?

Second question is on your order book. You said that almost Rs. 32 billion order book is due to be implemented in this remaining 9 months. Is there a possibility that some of these orders can get pushed out into the future demand? And how are you seeing the new revenue, I mean, typically, the run rate revenue, what you have without the order book, etc. panning out in this period?

Anand Agarwal: Sure. So Pranav, regarding the pricing of China moving to the other markets, there definitely will be some sort of movement of the pricing; however, the situation we believe is different from what we saw 6 quarters ago or so. In the current scenario, we are seeing that overall global demand is increasing at a global level. We are seeing that geopolitically more and more people would not want any Chinese manufacturers towards supplying them any goods, and we are seeing increasingly that shift happening across the globe. And for us, the shift is happening more and more towards value-added products, towards end-to-end solutions. So any impact on the fiber, bear optical fiber pricing, becomes minimal for us. You recall that for the whole of last year, we continued to deliver more than 20% EBITDA in spite of what had happened in China at the end of 2018. That's about the pricing.

The second aspect about the order book; so this Rs. 3,200 crore of order book that we have currently; clearly, we do not see any issue of customers delaying any orders. In fact, we are seeing an opposite trend happening where customers are in a sense of urgency towards expedited deliveries of their orders. The only issue could be force majeure issues due to lockdown, etc, or containment because of the virus, but we do not see any challenges related to the customers.

Pankaj Dhawan: We will take the next question from Mr. Neerav Dalal.

Neerav Dalal: I had 3 questions, actually. First is on this China Mobile or the China market, per se. So if we say that there are 8 to 9 players in the world, who have the glass manufacturing capacity, so when the China Mobile tender has come in, so I believe that the supply of glass would be done by these 7-8, 8-9 companies like Japanese, European and U.S. So how is the environment in China in terms of the competitive landscape? And when you say that there will be consolidation, what exactly are you trying to say? Because I believe that most of the China production would be a park-in partnership with either Japanese or Europe or U.S. companies. So how should one look at that aspect in terms of the China demand and the China supply? And how long the prices can be lower? That is my first question.

Anand Agarwal: So Neerav, regarding what you're talking about the supply situation in terms of, you said, first about the supply of glass and the second one was about the consolidation. So you are right, China continues to be a net importer of glass from other markets. It's in form of preforms as well as in the form of glass cubes that they buy from other markets. And from what we understand and believe, and over the last couple of days have spoken to several people in China, this is essentially a move wherein the fact that within China a lot of downstream capacity got created. And this, you would understand this is a tender the China mobile calls for optical fiber cables. And from that, they derive the optical fiber pricing through a formula. There are 32 people, who actually participated in this tender. This is the largest tender globally, and we believe that a lot of this pricing has been done in a way to somehow get a foothold from tenders for these 32 players. So when we are talking about consolidation, we are talking about consolidation of that downstream industry. On the upstream front, there would still be a supply chain coming in from the other parts of the world. And all of us have seen the performance of the players in China, how they kind of took a nosedive between 2018 to 2019. So that's why we believe these are non-sustainable prices and are more directed towards consolidation within China.

Neerav Dalal: Consolidation in the optical fiber cable manufacturing; is that...

Anand Agarwal: Cable and raw towers, and yes..

Neerav Dalal: Okay. My second question is, see, in FY19, the industry had a pricing decline, we would also have a pricing decline; in FY20 again, the scenario was similar. So is there any data point for us to understand that the FY19, the industry pricing declined by x and we declined by y, the same way for FY20? And if we can break up why we had a lower decline than industry if we had any? So that's my second question.

Anand Agarwal: Sure. So as we have talked about earlier, the fact that for us, the overall product business, which we used to see at that point of time had gone up to 26%, 27%. And in FY22, it came back to a normalized 22% EBITDA. So for us, the price decline was much lesser compared to anybody else or compared at least to anyone in this part of the world, would be a few of the things. One was the fact that we have all the time have long-term orders with our customers. Second is our value-added product proportion is much higher than anyone else. Third is the fact that we sell much more cables. We don't sell bear fiber that much to anyone. We sell, we used to sell more cables now we sell actually more solutions, end-to-end solutions to our customers, where their fiber becomes a very small part of the overall value bucket. It becomes a very strong part of the technology bucket, but a small part of the value bucket. And that's why if you see our profitability between FY19 and FY20, did not get significantly impacted.

Neerav Dalal: Okay. Got that. And just finally, can you discuss in terms of the Reliance, Sterlite Tech, Tech Mahindra tie-up on next-generation 5G telecom network. So if you could speak on that or...

Anand Agarwal: No, there is no tie-up per se. I think you are, I think, referring to a report, which came out in one of the publications. Essentially, the good part is that Jio announced 5G ecosystem based out of India, based on Open RAN technology. Tech Mahindra is working on the software stack for that open RAN technology. We are also working on the hardware and software stack. So what we are seeing that the current opportunity of the industry moving to Open RAN, 5G being disaggregated in hardware and software; focus on a non-Chinese producer, focus towards the indigenous technology is making a very good base and an ecosystem for somebody like us or Tech Mahindra to start playing in this ecosystem, which was earlier not there. 2 years ago, such an opportunity was not there for anyone like that.

Pankaj Dhawan: We will take next question from the line of Mukul Garg. Mukul you can ask your question now.

Mukul Garg: Anand, just a few questions from my side. To start with, again, on the China Mobile tender, while we understand that your business is shifting towards solution from pure products, can you highlight some steps, which you are taking to manage any impact of incremental pricing pressure on the product business in the near term? And are you approaching regulators in India to preempt any risk of fiber dumping from China?

Anand Agarwal: So on the impact that we are taking, Mukul, it's just continued impact of what we have been doing, moving more and more towards full integrated solutions, moving more and more towards taking doing cable sales, moving more towards value-added products and strong focus on cost structure. That is how what sustained us between FY18-19, FY19-20, and we have maintained our margins during that perspective. In terms of the Indian scenario, the Chinese scenario is not going to impact only on India, if at all. In terms of Indian, clearly there are various initiatives which are across with on the policy makers. So there is this preferential market access opportunity which is there, because of which Chinese players cannot participate in anything related to the Government of India. There are considerations currently happening on other kinds of methods. Also, there are reports of safeguard duties, etc., which are currently being thought of put in place. So these are things through which the Indian market will get, kind of, not impacted by if at all if there was any Chinese dumping. But we see a global move more and more towards the next-generation high-technology products. And we'll continue to focus on that end, while continuing to reduce our costs. At the same time; in the short term, as you rightly said, taking any initiatives to prevent any kind of dumping in the markets that we operate in.

Mukul Garg: Got it. And the second question was more on the Q1. If I look at the numbers, it looks like a large portion of de-growth was on account of slowdown in your large projects. Can you help reconcile this with the impression that the lockdown, especially the first half of Q1 and the resultant impact on transportation of your products, would have had a meaningful impact? Is this more of a product-led decline or a services-led decline? And any sense you can give on inventory movement quarter-over-quarter?

Anand Agarwal: Yes. So in a macro sense, Mukul, we lost about 1 month in our operations, manufacturing operations at global level, give or take back, and about 2 months on the projects level. So what we see here is about 2 months of manufacturing operations and 1 month on the services front, end-to-end. It didn't happen exactly that, but I'm just giving you sort of a ballpark sort of a thing. Our projects started coming online towards mid of May and actually could get ramped up in June only. Our manufacturing started getting ramped up by mid of April and got ramped up fully by the end of April or early May. Since then, we have been sort of operating at pre-COVID levels. And we are continuing to be pretty bullish on the outlook. And that's why, what Anupam announced, that the H2 of this year, we believe, will be better than H2 of last year because of the tailwind, because of the conviction, because of the order book that we have.

Mukul Garg: Got it. And just one clarification on the; there are multiple media articles on the BSNL 4G tender. What is the opportunity, which is there in front of you? Are you going to participate in it? And what steps you're going to take this time to manage the receivable scenario better than what happened during BharatNet?

Anand Agarwal: No, so one clearly is the fact that BSNL 4G, we are reviewing whether; the initial focus is more from a perspective on the capability and our capacity of doing a large macro rollout. And we are in discussion with and reviewing that whether we want to get into that and in what capacity. So that is our first thing in terms of our capability to roll out a 4G focus, because our focus has been more and more towards the 5G solution. The good part is that the entire ecosystem, DoT, BSNL and everyone is extremely, extremely forthcoming and positive in terms of having the indigenous technology. In terms of receivables, credit worthiness, cash flow management, we are going to take all precautions in terms of whatever has to be done towards managing that there aren't any receivables, etc., which kind of get stuck. Even in terms of BharatNet, etc., we do not have any receivables per se, which have gotten stuck with BSNL or anything. We have a very small amount left with BSNL, which is coming right now.

Pankaj Dhawan: We will take the next question from Mr. Rajat Gupta.

Rajat Gupta: My first question is how are we participating in digital transformation brought in by Jio? And with this I want to ask that how we are helping Jio if, in any way we are?

Anand Agarwal: So Mr. Gupta, Jio, we have multiple engagements and from multiple years. Ever since Jio started rolling out their networks, we have been started off with the supply of products, then we came into rolling out their fiber networks and now the engagement is for their program for fiber to the home, fiber to the enterprise, fiber to kirana, that entire ecosystem, and then there are multiple POCs, etc., which we are engaged with them. So clearly, we are an integral part of the Jio transformation that is happening.

Rajat Gupta: Okay. Second question, sir, how are we preparing ourselves against our competitors in this highly competitive environment that we can see?

Anand Agarwal: So which particular part you're talking about?

Rajat Gupta: The telecom and optic fiber...

Anand Agarwal: The telecom and digital is our business only and the way we are positioning, moving more and more towards offering end-to-end solutions, very deep customer engagement, very deep wallet share focus and moving more and more towards network design, network rollout, value-added product sort of solutions, where the competition is of very, very like-minded companies of very high-technology companies. And those competition, we definitely have a way of handling and managing.

Rajat Gupta: So as I can see, there is around 7% market share we have globally. So are we seeing any opportunity to increase that?

Anand Agarwal: So our focus clearly is not in increasing vanilla market share. We have set up a capacity of about 50 million kilometers for fiber. So at the current sort of global consumption, it is going to take us to 10%, and that's what we are focused on right now.

Rajat Gupta: And last one question. We are reducing our revenue share in India, so any specific reason for that?

Anand Agarwal: We are not reducing our revenue share. We are growing and Indian; we do not, as we have mentioned earlier, we do not look at markets and make strategies according to that. We look more at customers and our readiness for that. And the resultant regional share happens more by as a resultant rather than as a strategy. We look at 20 customers with deep focus with them. And based on quarter-on-quarter, which customers buy more or where the deployments happen more, the quarter-on-quarter numbers slightly shift up or down.

Pankaj Dhawan: We'll take the next question from the line of Mr. Nishit Shah.

Nishit Shah: Sir, I just had a question on the cost side of things. So what are the cost control measures, which are being taken at this point of time to ensure that our margins revert back to the 18% to 20% level going forward? And also the measures which we are taking, what proportion of these cost-cutting measures would stick in the longer run?

Anand Agarwal: So Nishit, I would not look at the Q1 margin of 15% as our representative. The Q1 margin of 15%, I mean till Q4, we have been delivering in that 20%-plus range. The Q1 margin is lower just because of the fact that the revenues were lower. And while in a fixed cost perspective, we continue to have those fixed costs which are normal. So for 18% to 20%, we are well structured. But specifically coming to the cost initiative, there are multiple cost initiatives across the Company, in terms of supply chain, in terms of product design, in terms of efficiency. So there are multiple initiatives, which are tracked with a strong program management towards making sure that those costs come down. We also saw a significant amount of costs coming down from Q4 to Q1 just because of these, some of these realignments on travel, offices, infrastructure. And some of these structurally, we intend to keep it down as we look forward as well.

Nishit Shah: Okay. So another question was that as you were talking about that we are turning more into a services Company, integration Company, so would our margins going forward lean more towards the 18%, 17% side of things? Because generally, the product side of the business had higher margins. So would our margins go down because of that?

Anand Agarwal: Nishit, we are moving more and more towards solutions and not necessarily only services. So the solutions is our combined offering of multiple products that we do, more value addition and fiber, cable, hardware along with radio solution also. And we have stopped looking at things, everything that we offer is a solution offered to the customers. And we believe that we would be able to maintain margins in the 18% to 20% range.

Pankaj Dhawan: We will now take the next question from the line of Mr. Harshit Patel.

Harshit Patel: Sir, I had a couple of questions. The first one would be, sir, you have mentioned about an FTTH rollout project for a large Indian telco, for which you have done a 2% completion. So could you give us an idea about the size of the project as well as time lines for the completion?

Anand Agarwal: So Harshit, this is north of Rs. 1,000 crore project. And the time line of completion, a significant amount of it will happen in the current fiscal and a small percentage of it will go to FY22 as well.

Harshit Patel: And sir, next one would be, sir, we have seen a marked improvement in the overall interest cost in the present quarter versus the previous quarter. So sir, would it be because of the softening of interest rates? Or have we actually paid down some of our debt?

Anand Agarwal: Anupam?

Anupam Jindal: Yes, Anand, I'll take that, yes. Yes. In terms of the interest, we have been able to collect last quarter end, in the quarter of March ending. We had collection towards the end of the quarter. And some of the collections were received in early part of the current quarter. So that's where we saw some impact coming in. And then we are also seeing some benefit of mix of borrowing where we are able to have some cost saving on account of interest rate as well.

Harshit Patel: Sure, sir. That is very helpful. And sir just the last bit on the bookkeeping one. So sir, what were our capacity utilization levels for both fiber as well as cable? That would be all from my side.

Anand Agarwal: So for the overall quarter, Harshit, it was close to 47%-48% for fiber and 70% for cables. But as I said, that's an averaged out number because for almost 1 month, the plants were not operating. If I remove that, then the capacity utilization towards June and July goes up significantly higher.

Harshit Patel: So sir, this 47%-48% are we talking on our existing 30 million capacity or the expanded 50 million capacity?

Anand Agarwal: No, 50 million capacity.

Pankaj Dhawan: We will take now next question from the line of Mr. Parijat Garg.

Parijat Garg: Sir, I've been sort of, we've been seeing this transition from products and in our way from what is now a commodity into the solutions business, I think that was a great foresight. Like from several years ago, we've seen this coming, I suppose. I just wanted to know, as we move to the solutions thing, I want to understand what are the investments you think you need to make to address this big TAM that we are seeing. The TAM is growing very quickly. So what sort of investments do you think we need to make on that side, you know, those capabilities? And what are you thinking about in terms of the ROCEs on that investment? I would really like to understand where you see that trajectory going.

Anand Agarwal: Parijat, what we are doing, it's a great question, in terms of the investments that we are doing, has been a combination of both organic as well as inorganic. And this we have been doing over the last 4 or 5 years, clearly. The organic part of our R&D spend, which used to be less than 0.5% of our revenue base, has moved close to almost 2% of our revenue. We spend more than Rs. 100 crore in R&D annually, organically now. Our patent base has grown up, has doubled year-on-year from what it was in FY19-20, the new patents filed as well as the patent awards. Our inorganic investments that we did, for instance, what we recently did in the ASOCS, we took a small percentage, but got a good amount of foray on the radio side. Just before that, our acquisition of IDS on data center side. All these have been towards widening our portfolio and creating a solution, which becomes more than the sum of parts. The entire perspective is that instead of us responding to an RFQ for fiber or cable or anything like that, we are now actually working very closely with our customer on looking at the entire solution, whether it is fiber-to-the-home solution, whether it is a radio solution, whether it is a data center to data center connection, connectivity solution. All these then become solutions, which we are able to work with our customers, bought the newer kind of products, where in the previous calls we have spoken about the Stellar Fiber, we have spoken about the intermittently bonded ribbon products. These are all products that have been devised based on the network requirements. And there, we are working with our customers so much ahead of the RFQ coming in, that the competition, etc., starts becoming much, much narrower and smaller and irrelevant (Inaudible). And that's what over the last 2 to 3 years; we have been extensively focusing on. We have a very strong CTO organization now, with almost 400 engineers, masters, PhDs, from across the globe working only on the technology end. So it's a very conscious and focused investment towards us moving higher on the overall system level with our customers.

Anupam Jindal: Just one more point I would add is that, with the end-to-end solution offering, what is happening; the recall value in the minds of customer is becoming very, very high. Because now instead of just offering one product or one particular offering, we are now having the plethora of offerings, which can meet the customers' requirement towards new edge digitization. And that's where, whatever they pick up, if they end up thinking about STL as one of the potential sources of solution provider; that is becoming very, very helpful for us to get customer traction.

Parijat Garg: Sure. But also to understand the ROCE profiles that you think, I mean, right now, of course, you are investing. But in terms of when it stabilizes, where do you see the ROCE profile going? And two, so you did mention competitors, I'm assuming your operator profile is changing from the likes of maybe, Corning or Prysmian, the competition profile will also be changing. So it would be helpful if you could share a few names that one could compare from an economics point of view to see what we can expect.

Anand Agarwal: Sure. As a concept, right now, we have not started putting an IRR on R&D investments. It is front looking and we look at the ROI 2 to 3 years down the line. For any inorganic investments that we do, we look at IRR of greater than 20% in same accordance of our line with ROCE of greater than 20% or so. And you're absolutely right that our competition profile is now wherever, if we are selling the products part of it, it's clearly companies like Corning or Prysmian in Europe, etc. And there itself, also the kind of products or the kind of solutions that we are able to bring in, are becoming very, very unique solutions because you must understand for us, at STL, this is our only business. For most of our customers, this is a part or one of their businesses, and that brings in a huge amount of difference to the customers. And the last point I would just want to add, over the last 90, 100-odd days, because of this situation, we would have interacted with the CXOs of more global telcos and cloud companies than we would have interacted in the last 5 years. So what we are discussing and describing is a clear trend that we are seeing that there is a great validation of our solution approach with our current as well as potential customers.

Pankaj Dhawan: We will now take the next question from the line of Mr. Alok Deora.

Alok Deora: Just 1, actually 2 questions I had. One was on the order book. So the order book breakup, which is given, shows that around Rs. 3,200 crore would be coming in this year. So should we believe that, that would be the number we should be working with? Or it could be slightly higher on that?

Anand Agarwal: So Alok, this is the minimum number, which we have because there are a lot of orders that we also get, which is book and bill during the quarter or during subsequent quarters. So this is a minimum number that we will have.

Alok Deora: Okay. Because the reason I'm asking is because so if we just add up like Rs. 3,200 crore plus what we did in the first quarter, it comes to around Rs. 4,000 crore. And so because right now, since we are doing more solutions-based business, even if we win certain orders now, it might not be executable in the second half to the full extent which was not the case earlier when we were doing more of products. So in that context, I'm asking that this order book is the order book, which will come in FY '21, right?

Anand Agarwal: So I'll just, this is a minimum number. The number is going to be clearly larger than that. And that's why, to clarify, we said that based on our current visibility of both order book as well as things which are in the pipeline, we believe that our H2 of this year will be better than the H2 of last year. In the H2 of last year itself, I think we did almost if I'm not mistaken, almost Rs. 2,800 crore to Rs. 3,000 crore.

Alok Deora: Sure. And one question was on the margins. You mentioned that the margins were now, of course first quarter was quite challenging. So what is the sustainable margins we are looking at now in the second half, not the second quarter? I mean 1 quarter might still take to sort of normalize. In the second half, what kind of sustainable margin run rate we are now looking at?

Anand Agarwal: We're looking at maintaining our 18% to 20% margin guidance. While we have been operating at the higher end of it, we believe we are going to be in the range of 18% to 20%.

Pankaj Dhawan: We'll take now the last question from the line of Mr. Abhishek Shah.

Abhishek Shah: Sir, I had 2 questions. The first one is, we seem to be very optimistic on the global optical fiber demand with 5G coming in and FTTH. So I'm just taking out, so on Slide 14, sir, we are assuming a single-digit growth in the optical fiber demand for the next 5 years, especially when we you know, so if my understanding is correct, 5G needs at least 3x more optical fiber cable compared to 4G. And I'm, again, going back to slides of 2016-17, where we've seen the optical fiber consumption going up by 17% CAGR from calendar year 2005 to 2017. So I mean, are these assumptions really conservative or am I missing out something out here? That's the first one.

Sir, second question that I have is, you set a target of Rs. 10,000 crore turnover by FY23. What could be the potential obstacles that we could face for us in achieving this target?

Anand Agarwal: So, Abhishek, the first part, you're absolutely right that these estimates, and we have reported what this CRU, which tracks the market comes with. I fully agree with you that the numbers are going to be higher than what they are coming up with. And as we said, they themselves have upped the demand from their April report to the June report, for FY20 and forward as well. The only caveat I would want to add is that the fiber demand globally at times gets constrained by the deployments that happen. So which you would have seen the highest growth that happened was of 17%, 18% year-on-year because at times, it gets, even if the demand is there, the deployment speed year-on-year does not go up by 30%, 35% and that is something which sort of constrains it. But I'm absolutely fully agreeing with you that looking at what 5G is going to require fiber, that looking at, just by looking at how other operators are doing what Verizon is deploying, what other operators are looking at, the total outlook should be better. I mean just to provide a data point, in spite of this COVID scenario in H1, the H1 for North America for FY20 was 6% better than H1 in FY19. So there's a lot of pent-up demand, which has to start getting released as we start moving forward.

As far as the Rs. 10,000 crore is concerned, Abhishek, clearly for us, the clear focus is going to be on executing the strategy. Whatever we have looked at in terms of, is the strategy getting validated, the answer is extremely yes. The second aspect, is there capital behind it? The answer is becoming yes, and that is getting really translated by both our funnel as well as our order book. And the focus is going to be us executing this new solutions-based, services-based, value-added, product-based strategy to our customers. And that's what we are focusing more and more on. The fact that we have done it, albeit at a lower base, in the past 3 years also, we have doubled our revenues while maintaining the high-return capital deployed, gives us a high degree of confidence as well as credibility. But at the same time, we will, we have multiple programs across the company charting out as to how Rs. 5,000 crore to Rs. 10,000 crore will happen, which are broken up into customer-wise revenues, into solution-wise revenues, with plan As, plan Bs, plan Cs in place. So trust us, we are going to be looking at it extremely, extremely closely. And if we see any kind of a shift, either positive or negative, we will definitely inform you about it.

Abhishek Shah: So just one small thing. So I think earlier, we were looking in the solutions business, we were looking at an addressable market of $75 billion. I think we scaled up that portion. So just trying to understand, has that improved? Or we're working towards even increasing the further potential of that?

Anand Agarwal: Currently, we are, in fact, leaving that $75 billion. So we are not looking at increasing a potential TAM and taking a smaller share. We are looking at a focused TAM and taking a larger share. And that's why we are focused towards 20 key account markets. And this $75 billion we had talked about was by FY23. So again that, we are looking from a current TAM of about $30 billion towards reaching $75 billion. What are the solutions that we need to offer to go up the value chain and which are the customers that we need to address, if they are currently not a part of our existing customer base. So we are clearly not in chasing high TAM or high funnel size. We are chasing right customers and right order book and a high winning percentage.

Pankaj Dhawan: And with this, we come to the end of question-and-answer session. And I now hand it over back to Dr. Anand Agarwal for the closing remarks.

Anand Agarwal: I would just like to thank everyone for attending this call and showing such a great level of interest and insights, and the right questions for our Company. And I really hope that we were able to address and clarify your queries and comments. For any further comment, ideas, we would welcome your interaction with our Investor Relations team, which includes myself as well as Anupam, and we really look forward to continuing the conversation with you in the future. Thank you, and good evening.

Anupam Jindal: Thank you.
