Sterlite Technologies Limited Q2 & H1FY21

Earnings Conference Call Transcript

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

Pankaj Dhawan: Ladies and gentlemen, good day and welcome to the STL Q2FY21 earnings conference call. I am Pankaj Dhawan – Head of Investor Relations at STL. To take us through the Q2FY21 results and to answer your questions, we have Dr. Anand Agarwal – CEO, STL and Mr. Mihir Modi – CFO, STL with us. All participant lines are in the listen-only mode as of now. There will be an opportunity for you to ask questions after the presentation concludes. Please note that this call is being recorded. You can also download a 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 risks 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 Q2 & H1FY21 earnings conference call.

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At STLescope, our investor conference that we had in July this year, we had shared our belief that an unprecedented decade of digital network creation has started. We talked about 4 key points.

The first one is that, we see an unprecedented growth happening in digital networks. Data usage continues to grow. The global IP traffic has grown 7 times in the last 8 years and is expected to grow at a faster rate as we move forward.

The second point that we had talked about was that there is a high degree of urgency to build these digital networks and the year 2020 has triggered a race in these digital infrastructure investments. Telecom Operators, Cloud companies, Governments as well as Private equity investors, across most of the geographies are investing in creating this new digital infrastructure.

The third point that we had highlighted during that meet was the fact that these networks need to reach everyone at scale as well as quality. In terms of reach, these networks need to reach millions of new users, and connect every home and enterprise. And in terms of scale, these networks need to have more digital lanes to handle 4x to 5x internet traffic. And this has to be achieved with high capacity optical fibres with next generation of wireless networks. In terms of quality, the network has to have much superior speed and much faster response time. This is being done by virtualizing the networks using software over the cloud.

And the fourth and the last point we had talked about was the fact that these networks will be built in a very different way than any of the past digital networks. These networks will be built with large capacity at the edge, which is close to the customers. And these will be converged networks with seamless, wired and wireless combination. These networks would be a combination of connectivity, compute as well as storage. And lastly, these networks will be scalable and agile, which means that they will have disaggregated hardware and software.

So clearly, we are seeing that a decade long network creation cycle has been started now and it has been largely accelerated by the pandemic since the beginning of this year.

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This new generation digital network that we talked about, requires an integrator who possesses the capabilities to integrate all these new technologies that we speak of. And we at STL, have been building our capabilities in a very systematic fashion towards this objective over the last several years.

We have been pioneers in optical connectivity for the last 25 years. Over the last 5 years, we have also built in capabilities in wireless, software and cloud with investments in Elitecore, ASOCS Israel as well as IDS, UK combined with ecosystem alliances. And with over 10 years of experience in our large-scale system integration, we are ready to integrate converged digital networks.

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And our future roadmap is built on these 5 strategic pillars.

The first one is the pillar is Technology led end-to-end solutions, where our capability in providing end-to-end solutions is also matching the shift in customer requirements and is also helping us increase our total addressable market.

The second pillar is our key focus on our key account management, which helps us gain a higher wallet share from our key customers. We are focusing on increasing the overall opportunity funnel and win-ratio in the top 20 key accounts across the globe.

The third focus area is large scale complex integration of these converged wireline - wireless networks and connectivity compute networks to deliver a lower total cost of ownership as well as faster time to market for our customers.

The fourth pillar is a very strong ecosystem alliances and investments to increase the total addressable capex.

And the fifth pillar is clearly in terms of building top talent and culture towards driving and creating our own knowledge base and delivering superior returns to our shareholders and community.

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We shall now talk about what steps we are taking to convert vision to reality.

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On the technology front, the first pillar, the technology led end-to-end solutions, we are strengthening ‘opticonn’, which is our optical connectivity solution. This solution includes optical fibre, the stellar fibre as well as cables as well as optical interconnect combined with the total end-to-end solution designed to work as a suite for our customers. There are multiple opticonn solution sets based on the requirements of our customers – from backhaul to towers, homes, data centers as well as enterprise connectivity.

These solutions enable our customers to save costs by eliminating the need of skilled manpower in field; also saves time with field ready plug and play solutions and achieves a very high quality and reliability of network infrastructure.

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In terms of key account management, we are starting to gain higher wallet share from our customers and that is evident in our partnership with Airtel. We have been entrusted to build a modern optical network across 10 circles in the country covering the length and breadth in India. This order is a validation of our Lead 360 solution, which enables faster launch, enhanced network quality and multiple efficiencies. We have signed a multi-year LOI and the current orders in hand are over Rs. 700 crore.

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The third focus area, which is on large-scale complex integration, despite the ongoing pandemic, we have been able to increase our execution pace in this quarter. And the status of our key projects at the end of Q2 FY21 are as follows:

1) Project Varun which is the Indian Navy Project is almost 83% completed.
2) In Maharashtra, we have 2 projects, MahaNet A and B. The A is almost close to completion while the B one has just started.
3) Again the Telangana, we have 2 projects, both are simultaneously started between 8% - 14%,
4) In terms of FTTH, we are rolling out for one of India's largest telcos, we are at 2% complete,
5) And the Fibre roll out for a large Indian telco, we are close to 5% complete.

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In terms of ecosystem alliance and investments, in the last 3 years, we have been developing our capabilities in the areas of software, wireless, cloud and access by investing & building an ecosystem of alliances.

Our current portfolio consists of wireless radio units as well as open and virtualized distribution and central units and we are working on RAN intelligent controller, network orchestrator and programmable FTTx.

While we are working with our ecosystem partners, which is ASOCS in Israel & IIT in Chennai, we are also developing complimentary software capability in-house by assembling a world class software team.

Currently, our solutions are at various stages of product development as well as proof-of-concept testing stage with various customers. And every single quarter, we increase our investment in capability building in terms of creating a large organic team within the Company.

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The fifth and one of the most important pillar that we have is the talent and culture. We truly believe that a Company is only as good as its people and we are extremely delighted to share that some exceptional talent that have joined us in this current quarter.

Dr. Krish Prabhu, erstwhile CTO at AT&T has joined our advisory board. And before joining AT&T, Krish was Chief Executive Officer of Tellabs, which is an Open Optical Network Technologies Company and he was with Alcatel in various executive positions between from 1991 to 2001. Krish is an experienced leader and has played a key role in the development of several of the many successful and fast-growing companies across the world and his global expertise in areas of technology, product development strategy will provide impetus to our global growth approach.

On the executive management side, we are extremely glad to have Mihir joined us as CFO. Mihir is a finance professional with a wide range of experience in digital businesses. His experience in building deep industry alliances, managing internal efficiencies and delivering shareholder value will help us to bolster our strategy to deliver profitable growth.

In addition to Krish and Mihir, we also enhanced our global leadership team in North America, India and Europe to drive our next phase of growth.

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Talking more about the developments in the industry.

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Throughout Q2, we saw telecom operators, cloud companies, enterprises as well as citizen networks continuing to invest in creating digital infrastructure.

Some of the notable announcements during the quarter was, Telefonica closing in on almost $6bn. to build a fibre optic network in Germany. Airtel along with what they are doing in terms of creating blackhaul they are planning to target 40 million homes with fiber to the home broadband services, Etisalat as well as DU in the Middle East region, increasing their capex by almost 50% to support increase in data traffic. Similarly, we saw several announcements by on the cloud side.

We also saw that the network creators are able to attract billions of dollars in investment from private equity players. Some of the notable announcements during the quarter were, KKR investment in Telecom Italia, Warburg Pincus as well as DTCP acquiring controlling stakes in community fibre as well as Macquarie putting a $3 bn. bid to acquire stake in Open Fibre, Italy.

So we clearly see the investment momentum continuing in the digital infrastructure now.

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And in the Telcos segment, both 5G and FTTH rollouts are continuing. We have seen telcos continuing to roll-out 5G networks as well as launch 5G services. Globally, 113 operators are in various phases of launching the 5G services. In terms of deployment, China is leading 5G with more than 560,000 base station deployments throughout the country.

Globally, 5G subscriptions has reached almost 140 million subscribers, which represents about 1.5% of the entire global mobile market. China tops 5G subscriptions with more than 110 million subscribers. However there is steady increase in subscribers in North Americas, South Korea and a lot of other countries globally. In one of the most mature market of 5G, which is South Korea; 5G driving increased data consumption resulting in both revenues as well as bottom line for the telecom ecosystem.

In terms of FTTH roll outs, Europe is witnessing furious FTTH buildouts with multiple operators doing a million plus home passes per year. And in India, RJIO is planning more than 75 million home passes in next 3 years and Airtel is also planning to reach 1,000 cities with 40 million homes over the next couple of years.

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Not only on the private side, but we are also seeing on the Government side, investments is increasing in digital networks. PM Mr. Modi has announced that in the next 1,000 days, all the 6 lakh villages in India will be connected with optical fibres. While the plan to connect 2.5 lakh gram panchayats is already underway, with this announcement to connect all the 6 lakh villages, digital networks shall reach till the unconnected population and it shall also mean a significant increase in the opportunity size with almost a million km. of new cables to be deployed.

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So overall, buoyed by the investments in digital networks, the growth in optical fibre demand has come back. The global demand is expected to grow by 6% in YoY basis in the second half of current calendar year. So H2 of 2020 will be 6% higher than H2 of 2019.

Despite the pandemic, the North American market has seen continued growth in deployments, especially from tier-2 & 3 carriers. China market has continued to turn the corner and has seen strong growth in tender volumes both from China Mobile as well as China Telecom this year. Europe is beginning to improve on the back of buoyant FTTH activity and Indian market is also expected to revive on the back of FTTH deployments driven by private telcos as well as rural network deployment driven under this new Bharatnet program.

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So overall, with a high degree of visibility that we have on our order book as well as the capacity utilization that we had in the Q2 of the current year, we have reinitiated the capacity expansion of our optical fiber cable facility from 18 million to 33 million kilometers, which is expected to in modular stages finish by June of the next year, June of 2021.

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In terms of our overall financial performance during the quarter.

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Our open, our order book, the growing participation funnel is also translating into a healthy order book. Our open participation funnel has increased from about 10,000 crore. in Q1 FY21 to almost 12,000 crore. at the end of Q2 FY21 which reflects an increasing set of opportunities for us. We are engaged in some large opportunities as well as some pretty strategic ones globally.

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And this growing participation funnel has also translated into a healthy order book.

Our order book has continued to grow for the last 5 quarters continuously and our current order book stands at almost Rs. 10,700 crore of order book. The spread in this order book for the balance six months is about Rs. 2,500 crore of order book for execution in the current fiscal year and the balance is for FY22 and beyond.

And our order book is also well diversified in all of our customer segments. Plus order book has started to have about a good O&M order book which shall start to yield a significant revenue stream from FY23 onwards.

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In terms of our revenue, our revenue mix is balanced across both customer segments and geographies.

Among the notable wins that we had in Q2, we got a good fiber roll out order for 10 circles for Airtel, which we have already talked about. We won a large order for Opticonn solution from a leading telecom player in Europe. We also won a digital transformation mandate from a leading telecom operator in Africa. And last but not the least, we also won some Wifi-6 hardware and service management platform order from a disruptive Japanese digital network creator.

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In terms of our quarterly revenues, our quarterly revenues have grown on a Q-o-Q basis and our revenue for Q2 FY21 stands at Rs. 1,160 crore. The EBITDA for quarter is at Rs. 212 crore and the PAT at Rs. 58 crore. As expected and as reported, we have grown sequentially on all financial parameters for the year.

Our capacity utilizations have exceeded pre-COVID-19 levels and will see further improvement in Q3 and Q4 of the current fiscal. And our execution on the ground for services also continues to improve on a Q-o-Q basis.

We continue to reiterate and are confident that we shall continue to grow in Q3 and Q4 on Q-o-Q basis and H2 of the current fiscal should be better than H2 of the last year.

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In terms of cash flow, the business continues to generate positive cash flows which we have generated about Rs. 370 crore during the first half of the year. There has been an outflow in terms of capex, dividends and buyback, which has slightly increased the debt levels to Rs. 2,158 crore in terms of the overall debt.

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We have placed an abridged version of financials for your perusal.

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For the buyback we have successfully completed the buyback program by returning Rs. 100 crore. to the shareholders. We bought back close to 88.67 lakh outstanding shares. From buyback announcement to buyback completion date, the share price saw an increase of 158%. We remain committed to take corporate actions in the future that will continue to create value for our shareholders.

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The vision, we are on track on our commitments towards delivering our vision 2023, wherein we have committed to double our revenues to Rs. 10,000 crore, reduce the debt-to-equity ratio to 0.5 as well as have an ROCE of greater than 20%.

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So in the summary, overall I would like to reiterate that

1) An unprecedented decade of digital network creation has started

2) STL has unique capabilities that I highlighted earlier to be a very leading digital network integrator and we continue to invest in both technology and talent,

3) And with continued investment momentum behind network creation with our strong focus on key account management as well as solutions, we believe that our focus, our market share will continue to increase.

4) Our financial performance continues to improve. The participation funnel, our order book, our revenue as well as EBITDA has grown on Q-o-Q basis. We are confident of growth on Q-o-Q basis in the current other quarters in FY21 notwithstanding any surprises global issue and we are on track to achieve our Vision 2023.

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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 now begin the Q&A session. Please click on the raise hand and we shall take your questions one by one.

We take the first question from the line of Mr. Harshit Patel.

Harshit Patel: I had couple of questions. The first would be that I was reading that Chinese telcos are building one single rural network rather than building separate networks so that each of the telcos can save something on the capex front. So now; what kind of an impact that would have on the demand side, especially if this kind of a model is followed globally, especially in the developing countries like India? That would be my first question.

Anand Agarwal: Sure, Harshit. This is a norm that is happening globally itself. We do not believe that multiple networks parallelly need to get created. So what we are seeing is, even for instance, the Bharatnet network, which is a rural network in India, it's supposed to be created to be shared by all the telcos. Currently also, we are seeing the network in the same geographies are duplicated more by capacity reasons rather than ownership reasons. And we have seen that globally in most geographies, that if on an existing geography, second cable is put in, it's more due to capacity reasons and technology reasons rather than ownership reasons.

Harshit Patel: My second question would be on the project execution statistics that you showed in the presentation. So sir, I believe they would exclude the O&M part, right?

Anand Agarwal: Currently, most of the project execution is for the basic build part itself. The O&M part started to kick in for the first project that we had done, which was NFS in J&K. Most of these parts that we talked about was the capital part of the project.

Harshit Patel: So then what was the O&M portion in the MahaNet project? And what would be the time lines for that? I'm asking because I believe now that the project execution is almost 88% complete, I think in the next 1 or 2 quarters, the O&M portion will kick in?

Anand Agarwal: Yes. So the O&M portion, typically, Harshit is about 30% of the total capex. And you're right, for the first project in MahaNet, I don't recall the exact numbers, and we can reach out to you. But typically its 30%, and it's over a period of about 7 to 10 years for different projects.

Harshit Patel: Just a last follow-up question on the same. Sir, what would be the size of follow-on projects of this MahaNet and T-Fiber both? And also, what would be the size of this fiber rollout project with Airtel? Is it Rs. 700 crore that you have mentioned?

Anand Agarwal: Yes. Airtel is close to about Rs. 700 crore. MahaNet, I think, all-inclusive is close to about Rs. 2,000 crore and I think Telangana one is also about Rs. 1,700 crore to Rs. 1,800 crore of that order.

Pankaj Dhawan: The next question is from the line of Mr. Pranav Kshatriya.

Pranav Kshatriya: My first question is good to see some International order wins in the services part of the business. Can you talk a bit about the pipeline? And how do you see the margin and the risk for this business? After that I'll have a couple of follow-up questions after that.

Anand Agarwal: So, Pranav, the orders that we are talking about, global ones are more for the data center orders that we are doing based on our acquisition last year as well as on software, the orders that we spoke about in Africa. So I think these, we have been executing, on the core services business that we are doing in India, yet, we have to get the sizable orders globally. So in terms of risk profile or this, nothing really changes for us.

Pranav Kshatriya: Okay. And my second question is, can you give us some color on how has been the utilization for OF and overseas business currently? And how much time will it take to get back to 20%, 22% margin band? I mean because we are talking about the Y-o-Y growth from H2, should we assume that 20%-plus margin should be possible from H2?

Anand Agarwal: Yes. On the product front, Pranav, I mean, as I said, in Q2, we exceeded our pre-COVID-19 level numbers. I think the fiber was running closer to 60% of the expanded capacity of 50 million. And cables, we were running at more than 90% of the utilization of the 18 million capacity. So in terms of margins, as the capacity utilization increases, I think we'll be closer to the 20%-plus numbers on the product front.

Pankaj Dhawan: The next question is from the line of Mr. Alok Deora.

Alok Deora: Just couple of small questions. One is on the order book front. So we have managed to grow the order book even in this quarter. So you generally tend to give a breakup of how much would flow in FY21 and how much would flow in FY22. If you look at what was given in last quarter and what is given in this quarter, for FY21, we see some increase of around Rs. 400 crore to Rs. 500 crore as in for the full year top line. So is that understanding correct that the revenues would be slightly better than what we had initially thought of for FY21? That would be my first question.

Anand Agarwal: Yes, Alok. So what we are saying is that out of the Rs. 10,700 crore, Rs. 2,500 crore we already have, which has to be executed in the current half. Over and above that, we always during the quarters and the halves also, we get certain orders which we execute within the quarter also. So definitely, as we get closer and closer to the time period, the overall revenues should get better. So I mean other way to say is that Rs. 2,500 crore worth of executable orders we already have in hand for H2.

Alok Deora: Sure and during the quarter, what has been the mix of revenue in terms of services and products? I know you do a lot of blended solutions. But if you could just provide a broad mix or the other way, if you could just provide utilization levels in the product segment?

Anand Agarwal: The utilization level I just talked about, I think it's 60% in fiber, 90% in cables of 50 million and 18 million capacities. Ratio wise, I think, broadly, it was more skewed towards the product this quarter. It was broadly, I think a 65-35 or 60-40, something of that range. Because as you rightly said; with this mix, for instance, like this Airtel order is everything end-to-end. And it's difficult for us to differentiate where to take this.

Alok Deora: Sure. Just one last question, your margins have come in at around 17-odd percent during the quarter. And here, we are saying that the product, which is typically the higher-margin segment, is nearly 65%. So going forward, it may happen that the product portion may come down. So are we looking at margins coming down or largely in the same range for the remaining part of the year in FY22, if you could just throw some light on that. This is all from my side.

Anand Agarwal: Yes. So the margin, I mean, at a gross margin level, we have been still maintaining. The fact that the margins what you see is about 18.1% that we have during the quarter. And segmentally, we have done well. It's the scale of business, which as it goes up, we will see the margins moving up.

Pankaj Dhawan: The next question is from the line of Mr. Neerav Dalal.

Neerav Dalal: I had couple of questions. First is on the optical fiber prices, if you could just comment on it. Because if we were to look at the numbers that you are showing, H2 would be about 260 mn, which would be about 520 mn on an annualized basis and I believe the capacity currently would be anywhere between 580 mn to 600 mn. So I just wanted your take on the optical fiber prices currently. And how do you expect them to move going ahead?

Anand Agarwal: Neerav, overall, as we've been saying over the last couple of quarters, now what's happening very clearly that the markets are becoming too. There is the China market and there is an outside China market. The capacity, the additional capacities, etcetera, that we talk about are largely within China. We are already seeing some degree of demand strengthening as well as delivery tightening in markets like U.S., etcetera. So in terms of like fiber, we do not sell much in terms of spot bare fiber. A lot of our sales is now starting to happen for the cables. And realization for the cables is stable and it's close to between \$14 to \$15 blended on average. Fiber, I would say, within that would be closer to between \$5 to \$6 to whatever extent we sell outside; but it is minimal in terms of bare fiber sales that we do.

Neerav Dalal: Got that. And the other thing I wanted to understand is more on this virtualized access products that you were talking about. When do you see this business take off for us? And what would be the drivers of this business? And in terms of manufacturing of these products, how are you looking at that?

Anand Agarwal: Sure, Neerav. So I'll first address the driver for this business. The driver for this business clearly is the propagation of 5G and Wi-Fi-6. So with this and the propagation of cloud companies moving more and more in delivering the overall the ecosystem of cloud compute connectivity is all getting converged. So what is driving this is the disaggregation of hardware and software. So over the last 3 years, we have focused a lot on software. We have invested in all these entities on the cloud entity, which was IDS, on the wireless entity, which was ASOCS. We believe in terms of our products, real products being shipped to customers, it would be Q2 FY22 for us. And at one hand, it would be software actually being embedded or being merged on to off-the-shelf hardware. So we are not looking at manufacturing any hardware per se, but we are essentially looking at getting off-the-shelf hardware, embedding it with software and doing the interoperability tests with multiple other vendors with whom we are already in the process of doing it, towards providing the entire wireless network. So the way it is being structured is that you have various parts of the network, whether it is the core, whether it is the radio, whether it is the distribution as well as the core unit. And these are all getting separated out both in hardware and software. So we have taken some areas of focus, some other people globally have taken some areas of focus, and the software is getting embedded in off-the-shelf hardware. And our job is in hardening that, making that network ready and making it interoperable with our customers. So as I said, we will see some sizable revenues coming here in this business from the Q2FY22. We are having very small mode test or trial revenues, which are even currently there, but they are nothing worthwhile to speak of.

Neerav Dalal: Right. That would be with respect to the Japanese client, I believe?

Anand Agarwal: One Japanese and one Taiwanese client as well now.

Pankaj Dhawan: The next question is from the line of Mukul Garg.

Mukul Garg: The first question was on the pricing environment. Now you are alluding to the expectation that H2 should be better compared to what previous quarters have been. So should we assume that this might lead to some improvement in the pricing environment over the next 6 to 12 months? Or do you think prices will remain stable because of the demand-supply mismatch, which is there currently?

Anand Agarwal: So Mukul, as I said, so there is China and non-China market. China capacity is high, but the demand is also picking up. And mostly, that is one confined market where we are seeing the prices are mostly stabilizing. On the non-China market, we are seeing actually the demand-supply situation that is firming up a bit more. So in our calculations; etcetera, whatever we are committing right now, we have assumed a stable pricing. Any impact on pricing shift, if positive, would be better for us only.

Mukul Garg: Understood. And Anandji second question was on the order book. If I look at your order book in Q2 versus Q1, it is up close to Rs. 400 crore, while you have added approximately Rs. 2,000 crore from MahaNet and T-Fiber Phase B and Airtel, and the revenues in the quarter was close to Rs. 1,100 crore. So was there some portion of the MahaNet and T-Fiber or Airtel present in Q1 or have you seen some cancellation of existing orders?

Anand Agarwal: No, MahaNet and T-Fiber have been there even before that, Mukul. The numbers that I spoke was not orders added during the quarter. I spoke of the total order size of these orders and the percentages completion which in earlier questions, which were being talked about.

Mukul Garg: No. So if I recall correctly, MahaNet Phase I was about Rs. 1,500 crore, and you just mentioned Rs. 2,000 crore. Phase B was not there in the last quarter commentary. And similarly, T-Fiber, the part one, which came in earlier, was about Rs. 1,100 crore, and now you're talking about Rs. 1,800 crore. So both of this came during this quarter or the second parts were...?

Anand Agarwal: Yes. The T-Fiber, I think, even came in Q1, we did not specifically talk about the T-Fiber during that. And I think part of MahaNet also came in. We can reconcile the numbers, but there is no order cancellation. And the big orders that we got in the current quarter were mostly Airtel, the European order, Middle Eastern order. I do not believe there is a significant part of this MahaNet or Telangana during at least this quarter.

Mukul Garg: The second question was on the free cash flow generation. Now if you look at the H1 figures, it's down quite a bit compared to what you guys generated last year. How much of this decline is related to Q1 and do you think this will improve going forward? And on a similar line, do you expect the net debt scenario to improve or due to the cable capacity ramp-up, this can go up further?

Anand Agarwal: So clearly, Mukul, the focus for us is in two front. One focus clear is on improving our operational cash flows that we generate. And we are seeing good improvement in operational cash flows that are coming out. So we generated almost Rs. 370 crore operationally. There we have paid almost Rs. 260-odd crore in terms of capex. We did some dividends as well as buyback, which kind of impacted the debt level. We believe that the debt levels with this cash coming out from operations would continue to slightly get better. But we believe the bulk of those improvements will start moving towards FY22 and FY23. Because there is still capex payments in totality, we still have about Rs. 550-odd crore of capex to be paid. So part of that will be paid in H2 of this year, and the balance would be paid in the first half or the first 9M FY22.

Pankaj Dhawan: We will take the next question from the chat which has come from Mr. Ganesh S. The question goes like this that with industry players like Qualcomm, Jio, Airtel announcing open RAN-based solutions, how does it affect STL RAN products/investments? With disaggregated networks, do you see customers moving away from custom hardware stack like Huawei?

Anand Agarwal: Yes. So I'll take the second part first. So the entire idea of disaggregated network is towards getting away from like end-to-end proprietary solutions, which were coming from Huawei, Nokia, Ericsson, etcetera. The whole idea is to kind of disaggregate their end-to-end offering. So clearly, the fact that Jio and Airtel have announced moving towards open RAN, the fact that Qualcomm has announced the availability of chips toward open RAN, it is only strengthening the open RAN movement. But we still think it is going to strengthen over the next 3 to 5 years where it becomes a sizable value for people to really invest a large part of their networks towards this. But we see these as very encouraging signs globally that people are embracing open RAN faster than what was envisaged maybe even 9 to 12 months before that.

Pankaj Dhawan: We will take the next question is from the line of Simran Bhatia.

Simran Bhatia: Sir, first of all, I want to ask that your consolidated debt has increased from Rs. 990 crore to approximately Rs. 2,200 crore in the past 4 years. So when we can see the debt levels coming down? And my second question is your sundry debtors are still at 30%, which is close to Rs. 1,500 crore. So if you can give the breakup? How much is it due from the Government PSUs in terms of the debtors? And what is the percentage in terms of other players? And how you are going to bring down your 30% level of sundry debtors, which is increasing from the past 3, 4 years? And third point is, when we can see the 20% to 22% EBITDA margin growth going forward? So if you can tell us.

Anand Agarwal: Sure, so overall debt levels, Simran, it won't be fair to compare 4 years ago debt levels to now because our revenues would have gone up significantly from that period to this period also and we have made considerable amount of investments in capacity and in acquisitions, etcetera. But the focus towards our debt level; both absolute as well as the debt-equity ratio as well as debt-EBITDA ratio is continuously there. And that's where we have gone out and showcased the direction as to where debt-equity will move over the next 2 to 3 years. So that's our focus. That this Rs. 2,100 crore of debt, one aspect is absolute number and the other aspect is looking at it as a debt-EBITDA ratio as well as debt-equity ratio. So on the ratios front, we will continue to improve while absolute that also the focus is there towards improvement. In terms of debtors, what you spoke about close to being about Rs. 1,500-odd crore or so, so part of this debtors is also partly due to the products and partly due to the services business, where the debtor's recognition happens based on the project moving forward in terms of the milestones that get accrued. So fundamentally, we do not have any sort of concern in terms of any of the debtors. The number of days in terms of debtors that we have currently is close to about 90, 95 days or so, including the debtors that we have, what we call contracted assets. The focus will be for continuing to make it better. Over the last couple of months, there had been some challenges, which are now getting better every month. So Q1, we had certain challenges, part of that got collected during Q2. And that shift is something that will get improved as you see in every quarter.

Pankaj Dhawan: We can take couple of more questions from the chat which has come. So the first question is from Mr.Rajiv Dhar. The question is; what is the expected increase in revenue from the optical fiber cable capacity increase? And how do you see the timing of that ramp-up?

Anand Agarwal: Rajiv, this, as I said, from 18 million to 30 million kilometers of capacity will come in modular phases over the next 7-odd months or so. So this is like 12 million kilometers of added capacity, which in a full form potentially can give us about $150 million, $160 million of extra revenue, but that will accrue over a period over the next few quarters or so. But that's the potential, 12 million multiplied by closer to $14-odd per kilometer.

Pankaj Dhawan: We can take one more question from the chat from the line of Jai Tejwani. Could you help us understand the timeline for 5G capex in India? When can we expect 5G-related orders?

Anand Agarwal: Jai, we are or atleast from our expectations and planning, we think 5G-related capex or orders from India will come only by the mid of calendar 2022 in any reasonable form or quantum. So that's the timeline, it is still close to 2 years away from now.

Pankaj Dhawan: One more question we can take from the chat. So Mr. Parijat Garg has asked; Disaggregation will lead to the likes of Huawei to lose power in the market. However, how does power equation shift between customers and technology suppliers?

Anand Agarwal: Clearly, the thing here will become that in this entire part customer will have more power because the whole ecosystem is disaggregated. At the same time, the customer is taking more accountability and responsibility also to aggregate the disaggregated components. So that's where now multiple companies are coming together to formulate the right standard to make sure that there is a plug-and-play interoperability between the disaggregated hardware and software, so that you get the benefits of disaggregation, but you do not create the additional risk of integration to the customers.

Pankaj Dhawan: And one more question from the chat from Mr. Neerav Dalal. He is asking when do you see the system integration business come back to the pre-COVID levels?

Anand Agarwal: So Neerav, we believe in the current quarter in terms of, hopefully, we are seeing from September things getting slightly back to normal. Our clear expectation is that the current quarter in Q3, the improvement is there, notwithstanding anything that we currently do not know about. So that's the expectation.

Pankaj Dhawan: The next question is from the line of Abhishek Shah.

Abhishek Shah: Yes. Sir, just some clarity on the capex; so you mentioned Rs. 550 crore is yet to be spent for our cable expansion. And we have already spent Rs. 280 crore in the first half. So just wanted to check, will this be peak? And post this, there is no major capex that we have planned, at least to get to our target of Rs. 10,000 crore by FY22.

Anand Agarwal: Yes. So just to clarify, this capex that we are talking about is not fully for the cables. So typically, what we do is there is a delta between us commissioning the capex and us having the cash flows, which we do in terms of getting the right suppliers credit through our vendors. So part of this capex spending that we are currently doing is for the 50 million capacity that we commissioned for fiber last year; this Rs. 550 crore total amount for both fiber and cable, which is currently pending. And you are right, post this, there won't be any organic Capex that we do for getting to the scale of Rs. 10,000 crore.

Abhishek Shah: Okay. So again, just clarifying this, so basically, 50 million cables capacity, 30 million of optical fiber capacity could take us to Rs. 10,000 crore of turnover?

Anand Agarwal: Plus everything else that we are doing on the services front, on the software and on the wireless here.

Abhishek Shah: Yes. Fair enough. In the first half, the Rs. 280 crore that we've spent, how much of that would be for cables?

Anand Agarwal: It is largely all fiber because we had paused the cable capex in the first half.

Abhishek Shah: Okay. Got it. Sir, and maintenance capex would be how much annually?

Anand Agarwal: Annually close to about between Rs. 40 crore to Rs. 50 crore.

Pankaj Dhawan: 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 like to thank everyone for attending this call and for showing interest in our Company, and I hope we were able to address and clarify all your queries and comments. For any further questions and discussions, you can feel free to contact the IR team, which includes myself and Mihir and we really look forward to continuing the conversation with you in the future. Thank you.

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