Sterlite Technologies Limited Q3 & 9MFY21

Earnings Conference Call Transcript

January 20, 2021

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Pankaj Dhawan: Ladies and gentlemen, good day and welcome to the STL Q3FY21 earnings conference call. I am Pankaj Dhawan – Head of Investor Relations at STL. To take us through the Q3FY21 results and to answer your questions, we have Dr. Anand Agarwal – CEO, STL and Mr. Mihir Modi – CFO, STL with us today. Please note, 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 Q3FY21 earnings conference call.

Slide 5:

I will start off with talking about how 2020 clearly came as a year of inflection other than what we saw on the pandemic front. We saw that it, in some way, it also created an inflection for the digital networks as these networks clearly proved to be the backbone of the society in the year of the pandemic. We saw that Internet user growth accelerated as almost 2 million new users were getting added every day in 2020, which was unprecedented, increasing the percentage of globally connected population to almost 60%.

We also saw a disproportionate amount of investment coming in to create these networks. We saw strategic investments such as our Jio raised capital of almost $20 billion and financial investments by various private equity players, particularly in European FTTx networks.

And this investment momentum has further gained traction in the previous quarter. Some of the notable investments that were announced in Q3 included Amazon's investment in data centers in India, FCC's allocation of almost an additional $10 billion in the Rural Digital Opportunity Fund in U.S., Telefónica and Allianz private equity investment of close to $5 billion to create FTTH infrastructure in Germany, as well as EQT's investment in Proximus to create fiber-to-the-home networks in Belgium.

And we are seeing this trend, what we have been reporting quarter-on-quarter across geographies. We are seeing the strength continuing and strengthening itself. So, as we have been mentioning, we clearly believe that the decade of digital network creation has started, and this is powered by this investment momentum that we see.

Slide 6:

What we are seeing other than this investment momentum, there is a shift which is happening in terms of technologies also. There are new technologies which are entering mainstream and the networks that are getting created are getting created with both scale, reach and the right kind of quality.

If we look at overall 5G in 2020, multiple operators, more than 100 operators launched 5G services across 48 countries. And almost more than 230 million 5G connections came in globally at almost 4x the adoption rate than LTE in a similar time scale. Plus, 5G is also driving very significantly both data consumption as well as non-human connections. And supporting ecosystem is also clearly getting built up with this, almost 229 million connection. More than 300 5G devices have become commercially available as of now. We are seeing a great amount of network development. China deployed almost 700,000 base stations in the previous year and is planning to almost double that rate and reach more than 1.7 million base stations by end of this current year.

In terms of fiber-to-the-home rollout, we saw that Europe continues to witness great amount of buildouts with multiple operators doing more than a million home pass every year. And in the next 5 years, Germany, Italy, U.K. have announced the most aggressive and frantic FTTH build-outs. Plus, we have seen announcements back home in India as well, both our Jio and Airtel planning to reach between 75 million that Jio has announced and 40 million home passes that Airtel has announced in the same time frame.

On the technology front, as expected, what we have seen, that Open Radio Access Network or O-RAN is making inroads with major communications providers deploying this new technology in the network. Airtel has deployed Open RAN software and is starting to do that across some of the test areas, especially in the rural side of the network. We have seen Telefónica in various parts of Europe. We have seen multiple both trials as well as commercial deployments with Dasa Telecom, Vodafone, MTN, Saudi Telecom. So, with these developments happening, we believe even Open RAN market is very focused towards growing rapidly in the coming years.

Slide 7:

And what this has led to the things that we spoke about in terms of investments, in terms of technology shift, it has also led to a revival in terms of an optical demand. The demand of fiber has come back, as we had mentioned at the end of H1 2020 calendar year, that the demand strengthened to almost 255 million kilometers in H2 of the year, which is annualized more than 500 million kilometers. It was not only better than H1, which was expected, but it was also better than H2 of the previous calendar year.

With different markets, where North American market has seen continued growth in deployment, we have seen China market turning a corner and is seeing growth in volumes on the back of the 5G base station deployments. Europe is improving on back of the FTTH activity, while at the same time, there is the second wave of this pandemic has acted a bit of a dampener in terms of the demand recovery in the current quarter. And demand in the Indian market is also expected to clearly revive based on the backhaul linkage of towers, FTTH announcements done by the telcos as well as the rural deployment focus, which is continued to be there.

Slide 8:

As we have been talking about it, the current focus is different because investment shift is also coinciding with the technological confluences which is happening. So, 4 clear technological confluences, which we have been mentioning and we are keeping a clear eye on. First is the fact that the networks are getting built very-very closer to the edge. As per Gartner, in the next 4 years, by 2025, 75% of enterprise-generated data will be both created and processed at the edge as against just about 10% in 2018.

The second shift which is happening is that the new age networks are no longer wireless separately or optical separately. These are converged networks. So, the 5G networks are as much fiber networks and vice versa rather than it becoming one or the other. So 5G networks build-out is coinciding with fiber to the cell, fiber to the home and fiber to the enterprise networks. So, it is coming together to provide this high-speed connectivity.

The third shift which is happening is that the networks are not only about connectivity. The networks are about connectivity, compute, and storage. And there is data from global market insights that micro data center market, which is the data centers at the edge, will grow fivefold from now till almost 2025 or so.

And the fourth shift which we have been talking about is that Open and Virtual Radio Access Network is now a reality. Dish Networks in U.S. has committed to covering more than 70% of the U.S. population by June 23 with its standalone 5G network, which is based on this Open RAN architecture.

Slide 9:

Moving forward, how all of this is relevant for STL. As we have been talking about it, at STL, our strategy has been based on these shifts and these technology trends, and these are getting validated as we keep moving forward. And we have been building our capabilities very systematically towards this technology evolution. As you know, in the optical connectivity area, we have been very strongly in the industry for more than 25 years now. And now with this acquisition of Optotec, we have clearly strengthened our capability in providing end-to-end solutions. We have built our capability in the wireless area and the software and the cloud with investments in Elitecore that we did 5 years ago, ASOCS and IDS, which we did over the last 2 years. And we combined with the ecosystem alliances; we have a full solution available that we are getting for wireless in software. And then lastly, on the basis of our experience in execution of large-scale projects, which we have built up over the last several years, we have also strengthened our end-to-end capability in creating, designing and deploying a system integrated networks.

Slide 10:

We shall now talk about our focus, our strategy as we see this next decade of network creation.

Slide 11:

We will just update you on the key levers that we have been talking about for the last several quarters, that we are ready and continuing to strengthen our capability and readiness with our 5 strategic key pillars:

The first pillar being the end-to-end solutions with a lot of focus on the technology, which is matching both the shift in the customer requirements as well as helping us address a much larger total addressable market. The second pillar, clearly, is very strong ecosystem alliances and investments towards increasing the total addressable capex. The third pillar is large-scale complex system integration for these converged networks, which are both wireless and wireline networks, compute, and connectivity networks to deliver both speed and value to our customers. And the fifth and very important pillar is in terms of continuing to build top talent as well as the right culture towards driving and creating our own knowledge base and delivering great returns to our shareholders and community.

Slide 12:

So talking more about these individual pillars I will start off with the technology-led solutions. Our flagship portfolio on optical connectivity is now largely fully integrated. We have made great investments and advancements in optical fiber cable as well as optical interconnection kits. In terms of fiber, as we had mentioned, we had introduced and we are now selling industry-leading, first of its kind fiber called Stellar, which offers very high resistance to bend as well as very negligible data loss as the cable has very high micro bend resistance. We have introduced a new cable field, which is a new entire cable, which are very high-density-driven cables with up to 7,000 fibers in those cables being deployed largely for data center interconnects. And this capability with the optical interconnect makes this our solution, which is called Opticonn, a great comprehensive solution. And Opticonn is that end-to-end solution for transmitting data with a very strong plug-and-play component, which decreases the need of skilled manpower in the field as well as significantly saves time with field-ready plug-and-play solutions for our customers.

Slide 13:

We have also done significant technology-led enhancements for our integration and delivery solutions. We launched this STL Lead 360, the second 2.0 version, which is our fiber rollout solution. This new version of Lead 360 has a lot of technology interfaces using the robotics, using drone survey, using VR-based digital training as well as very strong cloud-based planning and integrated remote field management to ensure both very fast as well as long-lasting network rollout. So, a great degree of focus and technology enhancement is also going for our field rollout and project rollout areas.

Slide 14:

The third focus that we have done is we have launched our range of wireless solutions in Q3. Again, the first amongst this is, again, an industry-leading, what we are calling it Garuda, which is a smart 5G indoor small cell, as we all know that 5G signal will require closer proximity to mobile devices. And so, creating a need for short-range networks, and this Garuda will seamlessly complement the network capacity, density and coverage of macro networks and serves as a single board optical-to-radio interface solution for 5G low-power pico cell application.

Another thing that we have also introduced solution is our end-to-end multiband radio for next generation 5G networks. And this one is a comprehensive Open RAN solutions spanning across both radio unit, centralized unit, and distributed units. And STL is now one of the very few in the world to offer this 5G O-RAN solution for multiband radio.

We have also launched our high-capacity outdoor Wi-Fi access point for high-density deployments. All these products right now have kind of gotten converted towards both lab deployments with some of our customers as well as field deployments. And we believe the commercial rollout of these products will start happening post these phases that we go through our customers towards H2 FY22. So, we are very focused on these products getting rolled out in terms of field deployments.

Slide 15:

In terms of ecosystem investments, we are very happy to announce that we have completed the Optotec acquisition in the current quarter. All the pending approvals, etc. which were there in the local market have been completed, and we have finished this acquisition. And we are very optimistic that with the combined capabilities of STL as well as Optotec, we will start making quick inroads in the global optical interconnect market with a total addressable market of almost between $8 billion to $10 billion globally.

Slide 16:

Also, as we had announced last time, we have the investment from 18 to 33 million kilometers that we had put on hold temporarily, we have this fully running back on. And by June of this year in modular fashion, the entire capacity of 33 million will be fully available in terms of operations. And as we had announced at the end of last quarter, our optical fiber cable capacity is running almost at full capacity. And we believe, between 18 million to 33 million, we will have some capacity also available before we end this quarter in March.

Slide 17:

In terms of another shift for the ecosystem, for 5G access, it is clearly becoming more and more an ecosystem play for us. The ecosystem alliance is bringing together complementary capabilities with us integrating the entire solution. We are working with several companies on the hardware front. We are working with several companies on the virtualization front, both with the partnership as well as investments, including on the go to market. And on the software side, clearly, we are building in-house capability. At the same time, we have formed various academic alliances. We are also a part of various standard forums, playing a very active role in developing these new open networking standards.

Slide 18:

In terms of our large-scale integration capabilities, our large-scale integration engine is running on full throttle. Most of our projects that we have on hand, 'Project Varun', which is for the Navy, is now 87% complete. The Maharashtra project for rural broadband, are again 92% for the Phase 1 and 35% for the additional phase. The T-Fiber rollouts have started in the current quarter. And the rollout for telcos, the fiber rollout has also significantly moved forward, almost 20% complete in the current quarter. So, we have various orders between some getting towards completion, some getting towards start, and that is the right mix as we keep moving forward.

Slide 19:

On the key account KAM side, we have built clearly an account-based organization with global expertise in customer engagement. In addition to that, we are investing clearly in processes and capability. And put together, it is resulting clearly in deep engagement with our key customers globally.

Slide 20:

Moving forward, we have key talents which have joined the Company also in the last quarter. We have Sandeep Girotra joining us as our Head of Sales with this account-based organization. Sandeep has more than 25 years of global experience in Nokia. We have Srini Jagadeesan joining us as Head for Wireless Product Development, Anjan joining us on the policy side, Keith Rowley joining us on the services in U.K. and Saikat joining us on the network software. All these leaders are extremely important, driving key parts of the growth for the Company as we continue to move forward.

Slide 21:

In addition to this, we also have additions to our Board of Directors. We are extremely happy and excited to announce that Mr. BJ. Arun, as well as Mr. S. Madhavan are joining us as Independent Non-Executive Directors. And Ankit Agarwal has joined in as a whole-time Director.

Mr. B.J. Arun is a serial entrepreneur in the technology space and is currently the President of TiE Silicon Valley. Mr. S Madhavan has had multifold experiences and is currently an Independent Director in HCL Technologies, ICICI Bank and a few other companies. And of course, as you know, Ankit is our CEO for the Connectivity Solutions business and now is coming on the Board of STL. These announcements are all in timed to plan for two board members who are retiring at the end of this quarter. And Ankit Agarwal has stepped in place for Pratik, who has stepped down and resigned from the Company. So, the Board will, at the end of March, will continue to have eight members and with four being on the non-executive independent directors.

Slide 22:

Overall, in summary, what I can say is that:

1) 2020 has clearly brought in a new decade of digital network creation
2) All these new networks will be converged, will be virtualized, will be open compute enabled at the edge
3) We have built in technology solutions as well as scaler capabilities for execution for these new networks
4) And we are clearly creating both capabilities and capacities at the optical and at the wireless as well as on the system integration end and
5) A very strong focus in deep key customer engagement and offering solutions-based model for these customers

I would now hand over to Mihir to discuss the financials for the quarter.

Mihir Modi: Thank-you Anand and a very good evening to everybody.

Slide 24:

As I walk through and talk you through our financial performance, I think at the outset, I am happy to share with you that our financial performance is showing the momentum that the business is picking up over the last few quarters and as it will over the next few as well.

Slide 25:

So, let me start right at the top. Our participation funnel is growing, as you can see on the right-hand side chart, from an open participation funnel of about Rs. 12,000 crore in Q2 of this fiscal, we are now at Rs. 13,800 crore at the end of Q3 of this fiscal, clearly indicating an increasing set of opportunities for us and we believe that it is a deliberate strategy, parts of which Anand mentioned and a couple of pointers on that I will talk about later on as well.

Slide 26:

Translating the participation funnel is indeed the order book. Our order book has been healthy. While it is stable at Rs. 10,700 crore, we are excited (Inaudible) that the spread across our order book and has been Rs. 1,500 crore in this fiscal itself, about Rs. 5,500 crore in the next fiscal and Rs. 3,800-odd crore in the remaining years. Our order book is also quite diversified across customer segments. And we are building an O&M order book, as you see on the right side, bottom chart, which will yield us significant revenues a couple of years down the line, FY23 onwards.

Slide 27:

Translating further the order book into revenues; our revenue mix has been very balanced across geographies and customer segments. But I would like to talk about the key order wins that are listed on the left side of the chart for you. I think that shows the customer confidence that we are able to gain and all the strategic initiatives that have taken gets a good validation. So, I will talk about the three, I think we have bagged a 5-year multimillion-dollar deal for 5G RAN systems which cuts across supply warranty maintenance. Then there is a significant order of an Opticonn Solution for a leading telecom player in Europe. And most importantly, there is an IBR cable, which is an industry-first 6,900-plus fibers for a leading hyperscale Company that we have won and even started to deliver there.

Slide 28:

As we look at these numbers, all that translates into talking about the 3-key metrics of the P&L. Our revenue has continued to grow quarter-on-quarter as expected. Our revenue for Q3 FY21 stands at Rs. 1,314 crore. EBITDA for this quarter stands at Rs. 238 crore and the PAT at Rs. 87 crore. So as expected, we did grow sequentially. We have spoken about that. And we did grow on an annual basis as well. Q3 of this year versus Q3 of last year grew at 9%. And of course, sequentially, Q3 grew 13% on revenues versus Q2 of this fiscal. This is done on the back of capacity utilizations, which have been at an all-time high for us, and we expect that to increase further. Our on-ground execution continues to improve on a quarter-on-quarter basis. As we had spoken about it earlier, we believe we will continue in Q4 to grow on a quarter-on-quarter basis. At the same time, again, like we had discussed earlier, our H2 for the financial year ending March 2021 is expected to be better than not just the H1 of this fiscal, but even H2 of previous year. So clearly, we believe that the momentum that the underlying business is showing is clearly-evident from the financials.

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For your perusal and benefit, we have put an abridged financial version in this chart here.

Slide 30:

While you may look at it, I think I want to, at a macro level, share with you and that you would agree that we have seen an unprecedented decade of digital network creation. And we believe that STL has unique capabilities to be the digital network integrator of significance in this play. Why we believe so is because while we are continuing to show the results, what we do, kind of underlying levers in terms of our capabilities and a few other areas that we keep expanding. So, the capability side, as you are aware, as Anand mentioned just earlier, we have added capabilities in the optical interconnect side. Of course, our access solution capability is building and some of the wins that I spoke about earlier is what I would like to believe is an early success of these capabilities that we see. Even on the optical fiber cable side, again, referring to what Anand had mentioned, the industry volumes have grown in the second half of calendar 2020 versus the previous year, same period, but STL grew even faster. In fact, we recorded an all-time high. And as we scale up our capacity to 33 million, we shall continue to have increasing volumes. Overall, I think with our capability building, with our capacity increases and with the environment continuing to invest in network creations, we believe we are well poised to participate and win in this area.

Slide 31:

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. Pranav Kshatriya from Edelweiss Securities Ltd.

Pranav Kshatriya: I have two questions. Firstly, can you give some commentary, I mean we saw that in H2, the demand for the fiber has come back, but how is the demand and supply environment is matching on the OF and OFC side? And this is particularly important considering you are at an all-time high utilization level. So, on relative basis, we are seeing margins and the top line to be much lower than what you used to do historically. So, from that perspective, we want to get a sense on the pricing, how it is for OF, OFC and how is the supplies coming. And given that China has also started to ramp up, so how should we see the OF, OFC pricing currently? And if you just give us some indication on what the current realization are that will be great. I will come for the second question after this.

Anand Agarwal: Sure, Pranav. So Pranav, what we are seeing clearly is that the demand-supply gap, which had been there, is decreasing, and that is more evident from the lead times that we are seeing getting tightened in markets like U.S., North America, Europe, etc. There has not been any significant change or shift on the pricing front. And as we have been maintaining continuously and then that our pricing typically has been sort of more mandated by long-term annualized sort of contracts. So, either way, our pricing has not significantly moved in the current quarter also. And I think a quarter or two of the strengthening of demand is not going to make a major shift in terms of the pricing. What you spoke about the margin front, as we said, the margin front is a reflection of the mix for our business, which is now getting towards that right between what we do more and more towards cables, fiber and the cable proportion is increasing as well as services. And this is closer to what we have been maintaining and guiding, that it will be closer to that 18% to 20% range. Plus, the fact that we are now increasing our investments also on the wireless side, which is now starting to become significant for it to start, and we are passing it through full P&L effect.

Pranav Kshatriya: Okay. My second question is around the investment which you have done, the acquisition what you have done. So, this acquisition got concluded yesterday is when you have the press release came. So, the consolidation of the revenue will start from now on or it will start from the start of the quarter? And second bookkeeping question would be, there is a fall in depreciation for the quarter, what is the reason for that?

Anand Agarwal: Mihir, do you want to take both?

Mihir Modi: Yes, indeed. So, for the first question on the Optotec consolidation, there is an effective date. We are looking at the technicalities, but if the difference will be about 7, 8 days, whether we are able to do it from yesterday or at the beginning of the quarter. It will be in the first week of the quarter it is a difference between those 2 dates and the difference will not be significant. Of course, we would want to do it from sooner, but that is something that is a technicality. On the depreciation side there are 2 reasons why the depreciation dropped. One is depreciation includes amortization or other included amortization till last quarter for the Elitecore business that we had acquired. The goodwill of that was being depreciated and it got fully amortized last quarter. So therefore, this quarter did not have that amount. And second, last quarter, as we had disclosed in our notes, an extra quarter's financials for Metallurgica MBB Italian acquisition that we had. And the amortization line, depreciation line had some amount of that as well. So, the current quarter is the underlying depreciation without those 2 elements, and that is the reason for the drop.

Pranav Kshatriya: Should we be assuming this as a run-rate depreciation and whatever capex you do that gets added in accordingly, depreciation moves?

Mihir Modi: Absolutely, yes. This is the base number now. This is the ongoing number. And as you rightly said, as we add capex, that will get added to whatever extent it does.

Pankaj Dhawan: The next question is from the line of Mr. Tejas Sheth from Nippon Life.

Tejas Sheth: Dr. Agarwal, just on the new client addition over last couple of years, if you can just throw some light there. And whatever acquisitions which we have done, how are the new clients taking it as a solution from our side? Has there been a ramp-up on those ends, where the solution pickup has really taken off maybe in last one year or two?

Anand Agarwal: Absolutely. So Tejas, this has been a conscious shift for us in terms of both that you are speaking about the shift towards solutions and creating this combined offering for STL, which becomes a sustaining and long-term contract. So, some of the highlights that Mihir talked about in the financials, we are now having pretty strong multiyear sort of engagements with our customers for these solutions in both Europe and something starting off in North America as well. We are not at liberty to disclose the name of those clients but clearly, as we are moving forward, we are moving towards solutions, and we are moving more and more towards both Europe and North America, and you will see that reflecting in terms of our revenue mix, in terms of our order book mix as we move forward.

Tejas Sheth: Okay. And typically, at the start of the year, whatever order book we have, we execute 50% to 60% of that. So just to reach our target of around, let us say, Rs. 10,000 crore of revenue, would we need order book of around Rs. 18,000 crore to Rs. 20,000 crore to really make it that annual run rate? Would that be a right understanding?

Anand Agarwal: Would be in that range or could be slightly lesser also because, right now, we have almost 25% of the current order book is AMC, which is more long term, and which starts generating revenue post FY23 in a significant way. We believe this AMC percentage will not be as strong as we move forward in terms of 25% of the total order book. But in terms of ballpark, you are right, it would have to be in the order of Rs. 16,000 crore to Rs. 18,000 crore for us to execute Rs. 10,000 crore.

Tejas Sheth: Okay. And just last, on the product offering side, with the recent acquisition, now where do we stand? And are there any gaps? Do you still want to fill in towards being an integrated solution provider?

Anand Agarwal: In terms of product offerings, I think especially on the optical side, we have largely completed the capability piece. So, we are now fully end-to-end capable, and we can offer a complete solution. And on the wireless front, as I mentioned, we are doing a mix of what we are developing internally and with a lot of ecosystem partnerships. So that is how the focus will continue as we move forward to offer the solutions for our customers.

Tejas Sheth: Okay. So, we do not envisage any meaningful or large acquisitions coming in over the next couple of years. Consider our debt also, it connects, but what would be your thought on that?

Anand Agarwal: No. So Tejas, debt, as we had mentioned, that up to almost like September of this year, there will be more focus towards whatever the debt investments that we have done, the current Optotec, the cabling expansion that we are doing. Post September of this year, a lot of the cash that gets generated would go towards retiring the debt that we have. So that is the focus, and we continue to apply our mind and focus towards that target of debt equity to reach 0.5 now.

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

Neerav Dalal: I had a couple of questions. One, you spoke about wireless products starting to become material from second half of FY22. Just wanted to understand, what gives you the confidence? Is it that you have showcased your products to multiple customers, and you are expecting orders coming from there? A little more detail on that. And related to this, in your target of Rs. 10,000 crore of revenue, how do you see this wireless piece playing out?

Anand Agarwal: Sure. We clearly now have contracts with customers, which are milestone based. So, the onus is on us to do these field and lab trials for certain of these products that we talked about. And that is what gives us good confidence that by H2 of this year and we should have revenues coming in from the wireless side as well. And this has been faster than what we anticipated in terms of taking a concept to almost contracting phase. In terms of Rs. 10,000 crore, how much it would be, I do not foresee that being more than 4% to 5% of that revenue. So, this wireless piece is currently a portfolio buildup, and the growth plans that we have put in are not contingent upon the wireless revenue significantly.

Neerav Dalal: Okay. Got that. And the other question was on the margins. We have seen in the last quarter and in this quarter, we have seen margins remaining flat. If one were to look at how the revenues have panned out, revenues from telcos have been flat, but we have seen the other two businesses showing a pickup. So, going ahead, would we remain in this 18% to 20% band? Or where do you see our band moving up from this level?

Anand Agarwal: So Neerav, currently, we believe we would be in largely this band only with multiple things happening focused towards solutions, focus towards services, continuing investments that are going through our P&L largely, especially on the wireless side. So, this issue will sort of be there till we start some of these investments starting to generate returns and creating its own revenue model. But for the next few quarters, the range will continue to be where we have guided earlier.

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

Mukul Garg: Anand, just wanted to again focus on the wireless solutions piece. You mentioned that you will have some investments which will go into this. So, if you can quantify what investment is needed incrementally on building up your product portfolio. What sort of a medium to long-term revenue growth and margin expectation you have from your open-end hardware piece? And another question which kind of correlate with this is, there is obviously a PLI scheme on telecom hardware, which is just coming up. Do you expect any benefit from that in your portfolio margins? And is there an opportunity to kind of build up a bigger piece by acquiring small partners in India?

Anand Agarwal: Mukul, I think we are a bit early for answering each of them in a very exacting manner. But clearly, earlier this year or in 2020, we did this investment in ASOCS that was close to about Rs. 70 crore. We are continuing to invest in our wireless portfolio annually this year would be close to about Rs. 70 crore to Rs. 80 crore of that kind in building the software piece and the hardware piece of that. We intend to do a lot of this through a lot of ecosystem. Whether we would utilize the PLI benefit or not, is currently not envisaged in that manner because we are focusing more on the product, the design and looking at the ecosystem capability, both in India as well as Southeast Asia in terms of leveraging this forward. Our focus is that interface of both hardware and software. So, with ASOCS, we get the CODU software. We combine our Open

RAN hardware that we get from some of the partners, and we create a full end-to-end solution. So that is the piece that we are investing a lot of our money and focus into. And as I said, right now, the visibility for that is in the first phase of the order of Rs. 400 crore to Rs. 500 crore maybe by FY23 or so. And as we keep getting more clarity, we will provide you more color, but that is what we are moving forward.

Mukul Garg: Understood. Anand, the second question, I think this is the first time we are hearing you guys mention about North America in quite a few of the slides and comments. Should we assume that this means that you guys are finally aggressively expanding into the North America, especially American market on the product side? Or is this more a kind of outcome of acquisitions in Europe, which you have done? Any clarity and plans going forward would be helpful.

Anand Agarwal: Mukul, we had mentioned in the previous few parts that we have been investing in small way in America since 2018 or so. And we had said that in calendar year 2021, we will start reporting as well as tracking that more closely. And it is in accordance with that itself that like Europe is now becoming close to 26%, 27% of our revenues. And next phase of focus and growth for us will come from these 2 segments, North America as a geography and cloud as a market segment or data center as a market segment.

Mukul Garg: Got it, and if I can squeeze two clarifications in. First, you highlighted the 5G RAN win, if you can share some key aspect of this deal win. Is this based on your proprietary technology in the Open RAN space? Or are you partnering with someone for supplying this? And if you can give the breakup of revenues between product and software and services?

Anand Agarwal: Right now, Mukul, as I said, it is something which is in work, and we cannot disclose a whole lot about it because it has these phases of development moving into field trials and then deployment. Bulk of this is the product deal for us, and we are partnering with somebody for the interoperability on the software and the services end. As I said, this confidence that the second half of FY22, this will generate into revenue has provided all the requisite milestones between us, our partners as well as the customers flow in the order that we are looking at. As we get, again more color and clarity every quarter, we will provide you more details on the wireless and Open RAN side.

Mukul Garg: Sure, and the revenue breakup?

Anand Agarwal: Revenue breakup for this one is a product deal for us and combined with our partner on software and services will go through their books.

Mukul Garg: No, sorry, I was asking about the revenue breakup between product and services for this quarter.

Anand Agarwal: For this quarter, the product, and services. We have been mentioning, Mukul, this has been merging. Maybe Mihir, do you want to take this?

Mihir Modi: Yes, Mukul, I think we have been saying that it is pretty much half and half in some quarters, 45/55 in one direction or the other, and that pattern remains. We do not kind of break it out specifically both numbers. But to answer your question (inaudible) it is pretty much half and half. And this quarter also kind of one being slightly below the other.

Pankaj Dhawan: The next question is from the line of Mr. Alok Apte from HDFC Bank.

Alok Apte: I have a couple of things I would like to understand. In your India business, you have a large couple of deals, which you are executing for the public sector, which is MahaNet and the Telangana digitalization. So, in that context, where are we on this deal completion? Is your Rs. 10,000 crore order book include a significant chunk of the unexecuted part of this deal? That is number one. Second and since we are dealing with the public sector over here, have you at all in the last eight to nine months through the entire COVID pandemic, and going forward, seen a stretching of your working capital cycles on account of any delays in receivables from these entities? And how do you see that going forward? And the last question I have would be on your exports versus domestic. With your development of Opticonn and the entire 5G, which is globally picking up, are we seeing a shift away from being a predominantly domestic player versus now becoming more of a half and half exports to domestic kind of a profile?

Anand Agarwal: Sure. Alok, I will first take the question, as we showcased in our presentation, MahaNet, the first part of MahaNet was the most significant in terms of our contract. So that one is almost 92%, 93% completed. The extension that we have, which is almost 35% complete, is a smaller part of the contract. And Telangana or T-Fiber has just started off in the Q3 of this year. So, any significant milestones in terms of payment and structure, hasn't really come. Overall, as we had mentioned at the end of Q2, there have been stretching of finances that we had seen from the Government sector due to the pandemic. There was a lot of focus that went there. But we have seen of late Q3 and now that pressure is reducing right now. And money for all these key projects, the funding is already available with the USO fund, and those funding is now clearly coming and moving forward. In terms of what you mentioned about exports, domestic, India and sort of more global revenue, you are absolutely right. So, we are seeing this inching more and more the India percentage, which used to be, for us, 68%, 69% has now come to about 63%, 37% and over a period of few years, while we will continue to grow our presence in India, but relative growth outside India would be faster. So, the percentage, I do not have an exact number, but it would kind of start moving more and more towards what you mentioned, so 63%, 37% would keep decreasing maybe towards half and half over the next few years.

Alok Apte: Probably the last thing I would like to squeeze in is I am not sure you have given this update in the last quarter, but there was a large sort of an excise dispute that is pending settlement. Is that over and done with or is there something?

Anand Agarwal: Yes, that was done, Alok, last year itself. So, if you see the Q3 corresponding in FY20, that is where we had a onetime expense, which was all settled. So, it has been a year of settlement now.

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

Alok Deora: Yes. My question was answered in a way, just if you could elaborate. So, the margins currently are close to 17% to 18%, and our share of services is around 50% in the overall portfolio. So how do we see the margins improving towards the 20% mark? Because I believe the services would be at least 50% or slightly more going forward as well, which is a lower margin segment as compared to fiber. And even the capacity, which we are increasing, it is more in the cable side, which is, again, the lower margin as compared to fiber. So just wanted to understand how we would be able to scale up towards a 20% or higher than that over the longer-term period.

Anand Agarwal: Alok, we believe that as the scale starts coming for us, so structurally, we are looking at the gross margins of the businesses, and we are looking at the fixed expenses below the gross margin. So structurally, we believe that as the revenues start growing up the growth, the fixed cost is not going to grow in clear same pace as the revenues that is going up. That would be one contributor if we continue to maintain that 50%, 50%. The other would be as more and more we start doing solution sales, and value-added product sales, it should move up the numbers. But the focus that we are putting in a lot in terms of the development and R&D investment over the next few quarters, that would become a significant part of the fixed cost that we are putting in. And that is why we are not currently guiding anything 20% or above. We are saying this would be a range and our focus would be to maintain our numbers in this range. As we keep increasing the revenue, you have seen the revenues moving quarter on quarter by about 10%, 12%, which is increasing. Our clear focus is that the fixed expenses do not increase in that kind of outage as well.

Alok Deora: Sure. And also, in your presentation, you have mentioned that the order book flow as to when the execution would come, in what period, so you have also given for Q4. That is around, I believe, around Rs. 1,500-odd crore. Does that mean that at least Rs. 1,500 crore revenues will come through in Q4 and FY22, there is another revenue number, the execution for which should come through? So at least that number can come by. That is number one. Also, in this quarter, have you seen any loss of revenues because of there have been selected lockdown in Europe. So, has there been any, say, certain amount of revenue which we have not got, which we could have gotten in the ideal scenario?

Anand Agarwal: Yes. Both these are true. So, the way we have panned these out are the contractual numbers that is as per our contract that we have to deliver. So pending any unforeseen circumstances, that should be the number that we should deliver. In terms of the impact, I think there was some small impact, not very significant, about Rs. 30 crore, Rs. 35 crore of additional deliveries could have happened if there was no shutdown in Europe for the second time.

Alok Deora: And that could continue in fourth quarter as well?

Anand Agarwal: Again, difficult to say right now, and that is why we have put in that contractually we can deliver Rs. 1,500 crore provided there are no untoward circumstances.

Pankaj Dhawan: Due to paucity of time, we will be taking the last question from the line of Mr. Deepesh from Hem Securities.

Deepesh: Yes, Anand, one small question from my side. What are we expecting the key accounts, which we have going with Sandeep? What is the revenue share from those accounts?

Anand Agarwal: For the 21 key accounts, that we have, generate about 82%, 83% of the revenues. And that is where our focus is on both ways in creating a larger addressable market of their wallets and a deeper penetration of their wallets. And moving forward, that is what is going to be our focus. But for the 21 key accounts, the revenue is close to about 82%, 83%.

Deepesh: Okay. Some of these are domestic or all are export oriented?

Anand Agarwal: About four of them are domestic, the rest are export.

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 just like to thank everyone for attending this call and continuing to show great interest in our Company, and we get excited with this participation. I really hope we were able to address and clarify all your queries and comments. For any further questions, discussions, you can feel free to contact the Investor Relations team, which includes myself and Mihir and we really look forward to continuing the conversation with you in the future. Thank you.
