Sterlite Technologies Limited Q4 & FY21

Earnings Conference Call Transcript

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

Pankaj Dhawan: Ladies and gentlemen, good day and welcome to the STL Q4 FY21 earnings conference call. I am Pankaj Dhawan – Head, Investor relations at STL. To take us through the results and to answer your questions, we have with us Dr. Anand Agarwal – CEO, STL and Mr. Mihir Modi – CFO, STL. Please note that 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 the call, I would like to add that some elements of today's presentation may be forward-looking in nature and must be viewed in relation to the risk pertaining to the business. The safe harbor clause indicated in the presentation also applies to this conference call. For opening remarks, I 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 Q4FY21 earnings conference call. First of all, I hope you and your families are all safe and healthy in these difficult times that we are seeing in India.

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Now, coming to the business, last quarter, we continued to see investments in the digital networks space.

Among the Telcos in India, we saw Airtel announcing to invest more than 30,000 cell sites and large-scale FTTH roll out this year. China telecom has earmarked almost $ 13 billion. capex, out of which a significant part will go towards the 5G. Also in the US, what we are seeing is the big 3 companies, AT&T, Verizon and T-Mobile have announced higher capex spend for this year as compared to the previous years.

We are seeing the continued investments from other segments also like cloud companies, private equity as well as the Citizen Networks. And the notable amongst one among these have been the announcement by US President Joe Biden to spend almost $ 100 billion over the next eight years to expand the high-speed broadband access network to the entire United States. We continue to see strong investments by private equity investors in investing in both greenfield and brownfield digital networks. As we have been maintaining over the last several discussion, we are now seeing the beginning of a decade of network creation cycle, powered by such large investments. And the investments are expected to strengthen as we move forward.

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In terms of the technology drivers, for these newer age digital networks, we are seeing that the networks are moving clearly to the edge of wherever the consumption is and newer technologies are powering these newer age digital networks. So 5G is clearly getting into the mainstream both in terms of usage as well as deployments. This year we saw almost over 163 commercial deployments for 5G happening globally. With this, 5G has become the fastest technology to reach 400 million subscribers, just to provide a perspective, 2G took almost 30 quarters, 3G took 25 quarters, 4G took 17 quarters, 5G took just 5 quarters to reach this number of 400 million subscribers. On this we are seeing increased capex across the globe by most telecom companies.

In terms of the fibre-to-the-edge and fibre-to-the-home rollout, Europe continues to witness a furious FTTH build with multiple operators doing more than a million home every year. Just to give a few examples like Deutsche Telekom plans to deploy more than 2 million new FTTH connections in the current year and additionally Telefonica Germany in the same market plans to deploy 2.2 million rural connections in the next few years. In US, AT&T is deploying more than 3 million-plus fibre to the premise and business locations access across more than the 90 cities in the current year. One major shift that we have been continuing to talk about is the shift that is happening with the Open Radio Access network, the O-RAN and in line with our expectations, it is making inroads with major communications providers either starting to deploy or continuing to do trials in integrating this new technology in their networks. Again, Verizon will start to deploy O-RAN gear in terms of commercial deployment from this year. European Operators such as Deutsche Telekom, Orange, Telefónica, and Vodafone have joined forces to support the rollout of open RAN in their future mobile networks. And the same sort of trial, the same sort of focus we are seeing in India also for Open-RAN deployments for the 5G when it starts coming in hopefully in 2022 in the country.

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So that's about the newer technology, if we see that in terms of optical fibre, what we are seeing is buoyed by the implementation of such new technologies, OFC demand is showing sustained long-term growth and is expected to sustainably grow over the next several years.

We have seen the current CRU projections talking about a longer-term growth projections over the next 4-5 years. And this growth is across the globe in different geographies. If we look at the various markets, this year the demand in India is supposed to grow by 19% largely on the back of increasing cell-site connectivity, increasing FTTH deployments as well as deepening connectivity for rural and semi-urban deployments. The geographies like Europe is expected to grow by 7% Y-o-Y on the back of buoyant FTTH activity, that I spoke about. North America, the deployments are going extremely strong and is expected to grow by 8%, and in the China market which is a significant market, is expected to grow by 4% on the back of almost between 600,000 to a million 5G base station deployments.

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We shall now talk about how these industry events which are happening, how STL is using this momentums as a springboard as well as enhancing our capabilities towards delivering to this new ecosystem that is emerging.

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One aspect, clearly is the aspect is with a wider portfolio our addressable market, that we have been talking about in the last several quarters has been increasing every year. Now we believe, our total addressable market overall is about $ 40 billion and this has significantly grown with the addition of optical connectivity and interconnects to our portfolio. If I just give a break up, in optical connectivity itself, the market opportunity globally is now about $ 18 -20 billion which is split between the cables as well as the optical interconnects. With the fibre moving closer to the edge, towards going to small cells, going to homes, going to enterprises as well as the edge data centers, the interconnect is becoming a significant part of the portfolio that goes to the customers. And with the addition of Optotec in the quarter and the optical connectivity portfolio, our addressable market to the same customers now more than doubles in this segment. And our integrated Opticonn solution is very-very vertically integrated from silicon to optical-interconnects has full addressability to this market segment. So that's the largest of the segment where there is a large amount of focus for the Company.

The second segment that I want to talk about is the virtualized access products, the focus that we have on the wireless as well as the open RAN and open network movement. This market opportunity currently is standing at around $ 15 billion annually. In terms of the sub-segments, the Open RAN as well as the small cell market size is close to about 6 billion and the network software market, the disaggregated software market which goes along with it is about $ 10 to 11 billion. So in totality, this virtualized access and network software addressable market for us becomes around $ 15 billion and we address this segment through both our 5G Open RAN based wireless radio ecosystem for both multi-band outdoor deployments as well as indoor small cells.

System Integration Services for us is a more geography-based market. So the addressable market for us here is about $ 7 billion. This includes all the four customer segments in India specifically of Telcos, of hyperscalers, enterprises as well as Citizen networks as well as the focused Cloud segment in Europe, which we addressed through that acquisition that we had done for IDS couple of years ago in Europe. So, in totality now our TAM has increased to about $ 40 billion.

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Moving on, if we talk about our customer validation that we saw during the year, in FY21, we have won several marquee deals across both all the segments of the market as well as across various geographies in the world.

In the last quarter we are extremely proud of signing the multi-year strategic partnership with BT-Openreach which is UK's largest digital network business to help build its new full-fibre network. And we are going to be delivering millions of kilometers of optical fibre cable to support the network build over the next three years. And this is a three-year partnership which has been signed with BT and we are the most favorable partner for them for this roll out.

In terms of our Virtualised Access Products and network software, we have partnered with a leading US telco both to develop and manufacture comprehensive 5G Open RAN New Radio products. As a part of this partnership, STL will initially deliver dual-band and tri-band Radio Units, specifically designed for this customer. And additionally, both us and the customer have agreed to collaborate on an open architecture suited for enterprise solutions as well as other O-RAN initiatives such as RAN Intelligent Controller (RIC), which increases radio efficiency, as well as service management and orchestration (SMO).

As we had discussed in the last quarter, in the system integration services, we are partnering with Airtel to design and deploy fibre across 10 circles in India.

We have also won a multi-year contract for Opticonn solutions from DU telecom in the Middle-East region and we have also won a large digital transformation project for a leading telco in Africa.

All of these marquee deals validate our strategy to focus on key accounts and it is working in the right direction clearly.

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And we have been able to win these marquee deals on the back of our world-class portfolio. In the year, we have made a significant addition to our optical interconnect portfolio with addition of Optotec. Our product range includes the full fibre management systems for bringing fibre to the edge. These products enable much faster end reliable connectivity for all such fibre to the edge solutions.

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In terms of technology, we have also developed new value-added products and technology-led solutions organically by continuing to invest in technology.

In optical connectivity, as we said, our Opticonn solution fully extends our vertically integrated portfolio. We now offer end-to-end, a full Silicon-to-Opticonn solution with our own glass, our own preforms, fibre, cable and a full interconnect portfolio. And this includes our first-in-the-world developed Stellar fibre which integrates the next gen requirements to the legacy fibre deployments which have happened.

In the virtualized access products, we have launched Garuda, which is a smart 5G indoor small cell. STL Garuda seamlessly complements the network capacity, density as well as the coverage of macro networks, and serves as a single board optical-to-radio interface solution for 5G low-power pico-cell applications. This O-RAN 7.2 split small cell can handle more than 30 counter end-user devices and can be backhauled across several kilometers. Moreover, the way it is designed, it can be installed within 30 minutes and deployment can be as seamless as that of a simple Wi-Fi access point.

Another important solution that we have unveiled is an end-to-end multi-band radio solution for next-generation 5G networks. It is a comprehensive Open RAN solution spanning across Radio Units, Centralized Unit as well as the Distributed Unit (DU). STL is now one of the very few in the world, to offer a comprehensive 5G O-RAN solution.

In the system integration services, we launched our Lead-360 2.0, which is our fibre roll-out solution. This new version of Lead-360 uses robotic process automations, drone survey, AR/VR based digital training, design-led planning and integrated remote field management to ensure both fast and efficient rollouts.

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All of the new product developments was made possible only due to investments in R&D as well as new IP developed by our technology team. Our R&D spends is becoming significant Y-o-Y and now stands at over 3.1% of our revenues in FY21. We filed close to 200 patents in FY21 which is almost double of what we did in the last previous year, we had done 96 patents in FY20. And it takes our total patent count to 569 at the end of FY21.

We are also very happy to announce that we got our 5G patent approved in US for Photonics Abstraction Interface (PAI) that enables programmability in 5G fronthaul applications in an extremely vendor-agnostic manner.

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Moving onto the delivery, we have also executed and delivered across all our projects despite the challenges posed by the pandemic. The status of our key projects at the end of last year is; Project Varun which is the Indian Navy Project is now more than 92% complete. The Mahanet which is a rural broadband project, the first phase is almost fully completed at 98% and the second phase is at 61%. The new project that we got in Telangana, the T- Fibre has started off between 26% and 18% complete respectively. And the fibre roll out which we are doing for Airtel is more than 40% complete. In addition to that we did several roll out projects across datacenters in Eupore through our data centre interconnect Company in UK.

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In terms of the new projects and expansions, we have also kept up pace to deliver OFC capacity to 33 million km. The project clearly is on track, and as we had committed the project has moved in modules so we are already running in capacity of almost 25 million km and by the end of this quarter we plan to have reach capacity of almost 33 million km. And the project is on time both in terms of timelines and budgeted cost.

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All this is getting made possible by our world class talent. We are able to deliver on all of our commitments, because we have a great team and we have been fortunate to continue to attract exceptional talent from across the globe. Throughout the year, deep industry experts have joined us across the globe and I am happy to share that in the current quarter, Chris Rice has joined us as the CEO of our Access Solutions Business Unit. As you know, that we have launched the Access Solutions BU, focusing on Open RAN, 5G, programmable FTTx, as well as controller/orchestration software. Chris brings more than 25 years of experience in the domain and the industry. Prior to STL he was associated with AT&T where he delivered on a multi-year technology, strategy and vision for both the networks as well as the underlying revolution. He also led AT&T's pivot to software-defined networking (SDN), leading the team that built the fundamental automation and platform capabilities to drive this shift. And over the last year, we have strengthened our team with leaders from across the world, driving great industry and market expertise.

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Along with talent, the strong focus on the Environment Sustainability and Governance continues to be extremely important to us. Among the key CSR initiatives, we have launched a telehealth-AI-onsite hybrid program covering over 200 villages across Aurangabad, Nandurbar as well as Gadchiroli regions. We have launched an ed-tech program to bridge the digital divide ensuring over 100,000 children have access to quality education across 300 schools in Aurangabad, Nandurbar as well as Silvassa. And we continue to work in a very sustained and focus manner towards a cleaner as well as greener future and towards our target to impact 5 million lives. In the year, as a result of our efforts, we have won DuPont Safety & Sustainability Award for Zero Waste to Landfill which is now featured across all our cable facilities.

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We are also making sure that we are leaving no stone unturned to help our communities in these difficult times. And we continue to provide support in all forms possible to our local communities.

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We shall now talk about the three growth levers that shall drive our future growth.

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The first growth lever is to grow, clearly the focus is on growing the fibre cable OFC volumes as well as the Optical interconnect business. If you look at our global market share in OFC, we have steadily increased it from 1.5% to 5% over the last 20 quarters. Specifically, in FY21, our volume grew by over 35% in a flat volume industry for the cables. This has been made possible by gaining a higher share of business in our key accounts. And going forward, this will continue to be a key driver for our growth and we have been maintaining, in optical interconnect business, we will leverage our existing customer relationships across the globe to expand the business going forward. This will happen through our integrated Opticonn Solutions, which is becoming a compelling value proposition to our customers. So this is the first lever.

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Then the second lever is to take the system integration business global while at the same time scaling in India. If you look at over time how we have grown this business, we started with deploying large haul networks for Indian Army as well as the Citizen networks. Post that, we modernized complex pan India networks for the Navy. And in the next phase we designed and deployed fibre networks for cell site connectivity and fibre-to-the-edge solutions in the large Indian metropolitan cities for telcos and also provided data centre solutions to cloud companies. Now going forward, we are planning to undertake this expertise and capabilities to more global areas. And as a first step, we are entering the UK market. We have started building our team and are in advanced discussions with our customers for taking this forward for revenues in the current year. Along with building this business what we are talking about Europe, the focus in India to deepen the market and to scale the portfolio and offerings continues.

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And the third and a very exciting lever is to scale our virtualized access solutions business. We are building a world-class team by leveraging a team of exceptional professionals and ecosystem partnerships. The current team strength is over 200 and we continue to grow month on month in this area. Our endeavor is to become a product of choice for large scale O-RAN deployments in 5G networks. We have already shared that we have partnered with a leading telco in the US to build a greenfield 5G network based on Open RAN technology and currently the trials are being conducted at customer premises.

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Just to summarize, our three growth levers are:

1. Grow the fibre cable and optical interconnect business

2. Taking the System Integration business global as well as scaling in India

3. Building a strong access solutions business, based on disruptive open-source products

With these three growth levers we are extremely confident that we shall achieve market share and target revenues that we have talked about. I will now hand over to Mihir to Mihir to discuss the financials.

Mihir Modi: Thank-you Anand. A very good evening to all and hope everybody is safe. What I will do in the next few minutes is to show how all the efforts that have gone in as Anand described, how that translates into financials and eventually how we create sustainable value for our shareholders. So, jumping right into it.

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Right at the top of the final outcome is the participation funnel, as you see our open participation funnel has grown by more than 50% in what was a difficult year. Our open participation funnel stands at Rs. 11,500 crore which just shows that the demand for our solutions and the industry in general is very high.

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What that translates into is a stable and healthy order book. Our order book stands at Rs. 10,754 crore out of which about Rs. 5,500 crore is executable in FY22 and the rest is FY23 and beyond. Part of the open order book is relating to the maintenance part, 25% of that is relating to that, therefore that extends over a much longer period, beyond the immediate year or two.

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Our customer segment is also well balanced in the order book. Moving onto revenue, our revenue split here is in the direction that we want. If you simply see the bars on the right side, our geography mix shows that our share in Europe, in US, in the American market Middle East has continued to increase. And that's the direction that be believe it will go. We have already spoken, Anand did mention about the key orders that we one, so I would not get into the details there.

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As you see our Q4 revenue stands at Rs. 1,475 crore, that is a sequential 12% growth over Q3 and a good 27% Y-o-Y growth. Essentially, the way is what I would like to highlight is we are back on the momentum to keep growing. This has been a EBITDA of Rs. 273 crore with a PAT of Rs. 124 crore. Essentially our OF & OFC capacity utilization is continuing to grow Q-o-Q and we will continue that momentum. Overall, we believe that the next few quarters and if I am specific then the first half will certainly continue to grow for us.

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We continue to invest in our capabilities as we see we are generating a positive operating cash flows. We are using that to increase plant capacities, acquiring new capabilities. For example, the optical interconnect capability that we acquired and we believe that with this phase the debt will peak out in FY22 and post that the Debt/Equity ratio will start to go down as we are fully invested from the current plan perspective.

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We have put the abridged financials for your perusal. You can have a look at it. These are available otherwise as well. This is for a quick snapshot right now.

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So overall on the back of what Anand mentioned about the business, about our capabilities, the specific growth levers, I think I clearly believe that we are set to grow using the momentum in the digital networks business industry. I think the pace of investments is going up. We have the capabilities and we will use the momentum of the industry and on the back of the capabilities that we have built, which we continue to build, we will participate in that specifically in the three levers that Anand laid out, our OFC, our optical interconnect businesses, taking our system integrate business to global markets and then scaling up and building a strong access solutions business. The specific levers that we will use in the immediate term and we expect the growth momentum to continue in FY22 as we invest in better R&D capabilities and grow at a healthy ROCE.

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So with this we come to the end of our opening commentary and we shall now move to the Q&A. Pankaj you want to take it from here?

Pankaj Dhawan: Yes sure Mihir. Ladies and gentlemen, you can raise your hand and we will take the questions one-by-one. First question we are taking from the line of Mukul Garg from Motilal Oswal.

Mukul Garg: Good growth quarter and congratulations on that. First of all, just wanted to get the basic data points on pricing and utilization on the OF and OFC space. What is the share of products and services in Q4. What is the number if you can share with us?

Anand Agarwal: Mukul, we have been maintaining the capacity and the numbers utilization has been going up Q-o-Q. For the fibre cables we talked about that it has grown by over 35% Y-o-Y. We have currently increased our capacity on the fibre cable side in a modular fashion, currently almost running at 24 million run rate. And we plan to maintain that in the current quarter and as the new capacity 33 comes in by June, by H2 or so, we will take that forward. As we have been talking, the products and services businesses are getting to a large extent integrated in several solutions that we are providing services. But broadly it is now close to 55%, 45% ratio, the product and services. That's a very broad number because in some of the offerings it is getting fully integrated.

Mukul Garg: Understood, and Anand now that this quarter you had a 6 million plus quarterly overseas sales and 24 million was the capacity, it looks like even this quarter you were operating close to 100% utilization even after expanding the capacity. How sustainable is this run rate? Like a given year visibility on demand and order book. Do you think this will continue even in Q2 when you will reach 33 million?

Anand Agarwal: The demand continues to be strong, the visibility continues to be high especially on the products, the global segments that we have in. We believe the current sort of capacities definitely we will be able to sustain and the plan is clearly to grow from there in H2 with the new capacities coming in.

Mukul Garg: If I may squeeze one more question, you know on a more longer term, you know Anand, while we have seen prices remain broadly stable in the industry in the last one and a half years, it clearly looks like the demand has started recovering well across all regions. Do you have any sense of timeline when we should start seeing some sort of firming up on pricing front as well given that the volumes have started moving upwards?

Anand Agarwal: I think logically it should start happening at least the ridiculous pricing at some point which was happening is no longer there, so whatever spot pricing people used to speak about, I don't believe a lot is happening anymore. The lead times in key markets have starting to inch up, so logically we believe that price strengthening should be a logical step, going forward. At the same time Mukul, as we have maintained we typically do longer term contracts with our customers, so the impact either ways is not so significant for us.

Pankaj Dhawan: Thanks Mukul. We will now take the next question from the line of Pranav Kshatriya from Edelweiss.

Pranav Kshatriya: Sir, I just want to understand, firstly you know, you talked about this core and solutions as a growth engine for Sterlite Tech., just trying to understand, who typically Sterlite will be competing against when you are offering services in this space? And is it the connect with the Company is a key driver for growth in these businesses, and is displacing the existing player who are already servicing for most of the softwares, is it easy? So how do you think from a risk perspective for growth in these businesses?

Anand Agarwal: Sure Pranav, very important question. So clearly, at a macro level if we start seeing the technologies that we spoke about 5G, fibre to the edge and O-RAN are all getting integrated. So any networks that are getting built right now are clearly converged networks. It is no longer mobile network or an optical network or a data (inaudible). So with 5G the connectivity, the compute and the cloud have all converged. So the wired and wireless network are being planned and being built at the same time. And the shift towards O-RAN is a industry shift. It is a shift which is moving away from the proprietary technologies which used to be there in the industry. So the competition for that matter is at a macro industry level itself, shifting away from the propriety solutions which used to be there. There are several newer companies which have come up in the O-RAN space like Altiostar, Mavenir, Parallel wireless and along with them we are offering this integrated offering. Especially started off with the earlier adopters of this technology and is now moving towards more and more names. So the offering becomes an integrated part while at one end optical takes it closer to the subscriber, the indoor small cell as well as the macro cells that we described; takes the signal to the consumer devices and it is becoming an integrated offering to the customers.

Pranav Kshatriya: Just to take that question further, if you look at somebody like Huawei and ZTE who actually came out with these kinds of offerings, they had to basically build onto this capability for a much longer period of time; because the technology change in the telecom network tends to be very slow and it takes a long cycle, and at least if I read something like lightreading.com or heavyreading.com I do see Altiostar and Mavenir having a lot of space. So you think given that they are reasonably well established, competing will be difficult? What would be the challenges for growth in this vertical?

Anand Agarwal: Pranav, we see more opportunities, we see these people, Altiostar and Mavenir more as partners rather than competition. We see the O-RAN shift itself, the fact that the wireless market is all shifting towards O-RAN, that is providing a larger opportunity for more and more newer players to get in. So it is very heartening to see that these new players are coming up and growing and it is in that same feet that we are moving forward. As we said, we are working very closely with the new US 5G network greenfield solutions. We will be doing some announcements during this quarter itself. So we are at no point discounting the challenges and the difficulty of getting into this industry. We have always looked at that, it’s a growth driver. Over the period of the next few years, will become a strong avenue for growth for the Company. We have taken a strategic decision and we are investing in that very-very consciously.

Pranav Kshatriya: How should we see the capex for FY22? And you used to disclose the largest exabyte network, the progress used to be there, for last quarter it was 2%. Somehow it is not there in this quarters presentation. So just wanted to check, is that project has discontinued or any update on that?

Anand Agarwal: Sure, Pranav from the capex perspective, the numbers that we saw last year, the number will this year be slightly in the similar range of about 400-450 crore in terms of some flow coming in from last year and the investments that are continuing to go. And after this year the numbers will taper down, extremely low. In terms of the exabyte network, the fibre-to-the-home network that we talked about at 2% currently, that project is on hold. As it starts restarting, we will start reporting on it. And that’s the reason it was not reported in the current quarter.

Pranav Kshatriya: Can you help me with the break-up of this capex, how much of that will be maintenance and how much will be the growth capex?

Anand Agarwal: Maintenance is less than 60-65 crore so the balance is all the growth.

Pankaj Dhawan: Thank you Pranav. We will take the next question from the line of Neerav Dalal from Maybank Kim Eng.

Neerav Dalal: Thank you for the opportunity. I had a couple of questions, one is that we are looking at a large funnel now, but just wanted to understand, how is the deal discussion going in India and overseas? Is there a difference, and in India specifically, are we seeing the slowdown in terms of the Government driven or enterprise driven businesses?

Anand Agarwal: The flow at least for the last year, we have seen it becoming much-much more global for us. We saw a more muted order book in the last year from the India public segment specifically. So the order book you would have seen that has been largely stable to about Rs. 10,700 crore. And in the open order book part both the International segment as well as the private segment in India has significantly grown. And the open order book with the contract that we spoke about, the open reach three-year contract, the DU multi-year contract, the Africa contract is all becoming significantly much-much more global for us.

Neerav Dalal: Just a clarification on this, in terms of the funnel, what would be the India versus International, if you are sharing?

Anand Agarwal: Again, I think it will be about 37-38% is global, India is about 60% and if you see the revenue mix itself, now it has become for the last year was I think about 44% is global versus 56% India. So starting to mirror the revenue mix that we have been reporting.

Neerav Dalal: In terms of the open reach deal that we won, that is only a products deal? Are there any services in that?

Anand Agarwal: No this one is a product deal.

Neerav Dalal: Finally in terms of the EBIDTA margins, we saw EBITDA margins decline Q-o-Q in this quarter, and we have seen strong leadership addition, so how should one look at EBIDTA margins going ahead into FY22?

Anand Agarwal: The EBIDTA margin, we are running at about 18-18.5% currently and this is in spite of us increasing the spend to R&D of about 3-3.1% from about 1-1.2%, so I think we will be in this range, closer to 17-18% and R&D spend especially on the wireless side will continue to go up as we move forward. And as you know that everything for the newer businesses that we are putting in technology and R&D is all expensed out during the year itself. So, the EBIDTA margins will be in the 17-18% range.

Pankaj Dhawan: Thank you Neerav. Next question is from the line of Agastya Dave from CAO Capital.

Agastya Dave: I have two questions; one is a follow-up. You mentioned that lead times are increasing. So can you also quantify this because from whatever I understand most of the people at least in India are either approaching 100% capacity utilization or are there. So, can you quantify the lead time say if I place a large enough order with you today when will I get deliveries?

Anand Agarwal: Agastya, it clearly depends on the accounts, like for us the focus is on key accounts and for the key accounts the order book happens faster. In terms of quantification that I was talking about, we look at different markets, we are seeing North America, the delivery times extending to over six months now, Europe extending to three to four months now. So, it's more macro rather than for us, I mean we clearly provide room for our key accounts and for non-ones, the delivery time should be longer.

Agastya Dave: This six-month number is the previous week, right, where the prices were at the highest point, six to eight months is what I remember. Am I right sir?

Anand Agarwal: I would say at times the lead times have gone higher. I would not pay too much attention of lead time and co-relation of that to the pricing. Definitely in terms of direction, it would move towards strengthening.

Agastya Dave: My second question is on the visibility that you have on the progress on data centers and 5G in India. What are you hearing sir? Other than the trials which have happened in Hyderabad what is the progress on the ground for 5G from the Government side and from the base side?

Anand Agarwal: Agastya, what we have maintained, we think in India 5G will start happening in second half of 2022 calendar or so when we continue to believe that would be sort of a timeline where the roll out in some fashion will start happening. Hopefully by that time the spectrum auctions and the clarity and all that should start coming in. So we are still about a year and a half or so away from that roll outs and see that from happening in the country. On the cloud, we are seeing, I mean other than the current challenges that the country has been facing, on the cloud front we are seeing frantic activity happening both with the hyper scalers as well as the infrastructure, the colo-providers, we believe that that activity has already started and will continue to grow.

Pankaj Dhawan: Thank you Agastya. We will now take the next question from the line of Neelesh Dhamnaskar from Invesco Mutual Fund.

Neelesh Dhamnaskar: On the balance sheet side, in FY21 the contract assets have gone up quite sharply. The con-current liabilities which is the contract liabilities have gone down. So the gap has widened quite sharply. What is the reason for that?

Mihir Modi: Well, the gap has widened in an absolute sense but from a relative, both have gone up if I look at it individually, the gap may have increased because the absolute magnitude has gone up. The reason for it going up is how certain deals have been structured and therefore the link to the billing for those is milestone based and those are still to come in. And that's the reason, once the contractual trigger comes in that will correct itself. The good thing is that we have kept the payables relating to that also going along so that our net working capital is not bloating up because of the billing structure that we have.

Neelesh Dhamnaskar: So, is it that some of the contract liabilities are reflected in the payables which has also gone up? Is it that way?

Mihir Modi: Yes, that is correct.

Neelesh Dhamnaskar: I have been noticing that the quarterly depreciation rate has been going down for the last couple of quarters. So what is the reason for that?

Mihir Modi: So there are two reasons. One is that the Elitecore business that we had acquired and we were putting in the amortization of the goodwill, it has got fully amortized and therefore, that is a Q-o-Q dip that you see. The other reason is as we had disclosed there were two quarter financials taken in our previous quarters relating to the Italian business and therefore that had slightly higher depreciation which is two quarter depreciation, that has also got correct in Q4. Therefore, Q4 doesn't have the impact of those two. Hence that's the more representative module.

Neelesh Dhamnaskar: And this will be recurring till the time your new capacity gets added to the gross block?

Mihir Modi: Yes, that is correct.

Neelesh Dhamnaskar: If I may ask, coming back to the working capital question. So what will be the overall on a normalized basis, the working capital intensity in terms of days, going forward?

Mihir Modi: So we are at about 100 days of net working capital. We have endeavored to get it down a little bit, but you can assume anything between 75-100 days. I think that's a good assumption right now.

Pankaj Dhawan: Thank you Neelesh. We will take the next question from the line of Saket Lohia from GrowthX Capital.

Saket Lohia: My query is on the vision that you have been sharing over the last couple of quarters and have been working on the same. If you could highlight mainly on the revenues part, how you expect for the next couple of quarters again reiterating the fact that the vision of 10,000 crore as well as the debt that the management was expecting to bring to 0.5 or lesser levels. While still the debt is increasing, so if you could help us understand how that vision is now shaping up and will shape up. That will give us some idea as to where the Company will be headed.

Mihir Modi: Regarding the 10,000 crore roll out, I think that remains and that has been communicated in the past, so directionally that absolutely remains our vision and our goal post to get there. What we want to share with you as we go ahead and which we have been doing is that how we are going to get there on a Q-o-Q basis, on a H-o-H basis. That's how we are now looking at it and making sure that we communicate that to you as well. So while that vision remains, we are well on track through our next few quarters plans, FY22 plans and beyond to make sure that we get to that goal on the revenue side. I will not get into the details of how, I think that we have shared with you as to what levers we get to that in the next few quarters. But at a macro level certainly on track towards that goal. The second part of that again the debt equity ratio, absolutely understand your question on the debt going up but as we mentioned earlier the capex will peak out in FY22 and from thereon it will steeply decline. And that's when we believe the journey to the 0.5 debt equity ratio will start in FY22. We are quite confident of that milestone as well. So, both of those remain. We are just focusing on how to get there over the next 3-4 quarters to start with and beyond.

Saket Lohia: Since you have mentioned that the capex will peak out next year, and we are already on a run rate of almost 2,000 crore, 1,500-1,600 crore of quarter revenue so do you think that the current or the future capex will be sufficient enough for the coming years? The vision that you have taken or would you need more capex for achieving that vision?

Just to understand the capex requirement for the Company, if you have any idea on that?

Mihir Modi: What we believe from a capex standpoint, from a brownfield, building our capacity standpoint, we believe that this should be sufficient for now. We do not see the need to have more capex beyond what we are talking about, at least in the current thinking which is the next 2-3 years.

Pankaj Dhawan: Thank you Saket. We can take a couple of questions on chat. So one question is from Akash Bhipara. The global chip shortage going to be a challenge for 5G/ FTTH etc. deployment. Any steps to mitigate that? Will inventory inflate until this is addressed?

Anand Agarwal: Yes, again a pretty relevant question right now. We are monitoring this chip situation very accurately, at least for current orders etc. that we have taken especially for the macro band and small cell order that is all currently tied up but we continue to kind of widen the supply chain and suppliers so that the impact on someone like us who is just sort of starting off in this area is not there or is not significantly there. And the inventory inflation won't happen again for us because the wireless and access business is the significance to the overall revenue is still not there. And it will start getting significant over the next couple of years.

Pankaj Dhawan: Thank you Anand. Another chat question is from Mangesh Kulkarni from Almondz Global Securities. How do we see risk of one web, like satellite broadband services coming to India and other parts of the world?

Anand Agarwal: Satellite clearly coming is going to be complementing and clear focus of satellite is to connect largely almost three billion people globally who are currently unconnected. So it will clearly compliment and bring this additional connectivity of the unconnected people to the internet. We believe just like 5G created that complementarity for the combined networks, satellite will create that additional complementarity for the connectivity while everything even for the satellite part, the part about compute, the part about connecting to content and data centers, will continue to happen through ground basis which will beam to the satellite image even for the rural and unconnected connectivity. So we believe its all complementary and creates an additional investment in the sector towards creating network.

Pankaj Dhawan: Thank you Anand. Ladies and gentlemen due to the paucity of time I now hand it back to Anand for closing remarks.

Anand Agarwal: Thanks Pankaj. I would like to thank everyone for attending this call and for showing interest in our Company. And I hope that you were able to address and clarify all your queries and comments. For any further discussions and questions, you can feel free to contact the Investor Relations team, which includes myself and Mihir and we really look forward to continuing the conversation. I would again wish and hope that everyone stays safe and healthy. Thank you and good evening.

Pankaj Dhawan: Thanks Dr. Anand. Thank you all of you for attending our call.