Sterlite Technologies Limited Q3 FY22

Earnings Conference Call Transcript

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Pankaj Dhawan: Ladies and gentlemen, good day and welcome to STL Q3 FY22 Earnings Conference Call. I am Pankaj Dhawan – Head Investor Relations at STL. To take us through the Q3 results and to answer your queries we have with us Mr. Ankit Agarwal – Managing Director, STL and Mr. Mihir Modi – CFO, STL.

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 download a copy of the presentation from our website at www.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 Mr. Ankit Agarwal. Over to you Ankit.

Ankit Agarwal: Thank you Pankaj. Good day to everyone. Thank you for joining us for our Quarter Three FY22 Earnings Conference Call. I hope you and your families are safe, especially during this COVID wave and I wish you all the best for the current year. At a macro level, the overall digital infrastructure industry is well poised for rapid and sustained growth. We see four key themes playing out, network creators including governments are investing heavily in creating the digital infrastructure. 5G FTTx and ORAN are clearly growing at a rapid pace. As a result, demand for optical networking is on a sustained growth path. And hence we're seeing massive fiber deployments across the globe. While in India a strong fiber deployment is expected to start in FY23. On the back of revival of Telco CAPEX and the revamp of Bharat Net programs through the PPP model. We shall talk about each of these in the following slides.

Network creators and governments are investing heavily in digital infrastructure. And we can see various instances of the same just to quote a few. AT&T is investing in multiyear connectivity with frontal communications to massively ramp up its fiber across 25 states. Deutsche Telekom is investing in targeting 2 million FTTH connections in FY22. In the year 22, after adding 1.2 million connections in 2021. The Telcos in U.S. are investing to nearly double the fiber footprint between now and 2027. Telefonica in Germany is investing almost €4 billion to connect 50% of the population with 5G. Meta, which was erstwhile Facebook times to increase its CAPEX to $31.5 billion in 2022, up from $19 billion and that will have massive investments on the optic fiber and the data center build out as well. Data center investments in India expect to touch $4.6 billion between now and FY2025. On the government side also various incentives and programs are now being announced. Italy government for recently has announced €4 billion to connect a further 6.2 million people with fiber and 5G. The big program in the U.S. in terms of the investment of affordable connectivity program is $14.2 billion successor program to the emergency broadband benefit, which will help almost 9 million people afford Internet access during the pandemic. And even countries in Africa, like the Rwanda government has borrowed $100 million from Asian Infrastructure Development Bank to fund broadband and digitize public services.

Coming more specifically to the U.S. In the U.S. the various federal and state subsidies including the rural digital opportunity fund RDOF, American Rescue Plan Act and the Infrastructure and Jobs Act are going to provide $100 billion in Federal Stimulus for broadband programs over the next five to seven years. As a result of that the industry will see five to six times increase in Federal Stimulus over 2020 and various estimates peg 2022 spending at approximate $24 billion combined along with a telecom service provider CAPEX, this is the best CAPEX environment in the U.S. since 2001.

These CAPEX investments are powering deployment in 5G, FTTx as well as ORAN technologies. 5G is clearly the fastest growing technology in the world today, as for Juniper research, global revenue from 5G services will exceed 600 billion in just five years from now. And in 2021, the revenue from 5G services is already expected to reach $73 billion, an increase of 250% year-on-year from the $20 billion in 2020. The number of subscriptions expected to increase to 2.6 billion people by 2026. FTTx is becoming all pervasive and fibers connecting every home, business, small cell and data center. As we just shared, Italian broadband operators are investing heavily and they plan to spend $11 billion over the next 10 years and plan to connect nearly 24 million households from 13 million households currently. Another example is Altice USA is planning to spend close to $1.8 billion in CAPEX on FTTH. As we see clearly fiber to the home or building is set to cement its position as a leading fixed broadband technology as well also in the APAC market. In taking over and forward we're very excited to share this recent partnership amongst the five leading Middle East operators Etisalat, STC, Zain, Mobily and **Du Telecoms**, which came together to sign an MoU to support Open Ran deployment. This is a very positive step forward for the Middle East. In Europe, major European telecom operators like Deutsche Telekom, Orange and others are committed to ORAN. Recently, Germany announced €300 million in funding to develop and test ORAN technologies. Similarly, the UK government has announced new initiatives to accelerate the deployment of ORAN in the country. In India Airtel has already committed to ORAN by supporting a number of innovative and disruptive partners, and we're very excited to be partners to all of these initiatives.

Looking at the fiber market, as fiber is the backbone for all of these networks that we've talked about. Communication service providers, as well as hyperscalers are aggressively investing in fiber for their networks, as per CRU, which is the leading industry body. The OFC demand is expected to reach 634 million fiber kilometers by 2026 from 500 million in 21. In the year 2022, the OFC demand is set to grow by almost 8.6% to 544 million fiber kilometers. All the global markets are showing healthy demand. Europe and North America in particular, which are key market for us are likely to grow at around 6.5% to 6.8% respectively. This is a very, very interesting slide which talks about how the network we've built out over the current decade as well as the next decade. If you see the cumulative fiber count across the globe till 2020 was about 5.6 billion fiber kilometers. This is expected to go up to 12 billion fiber kilometers till 2030 which means the current decade will see 6.4 billion fiber kilometers being deployed and making it by far the biggest and the best decade. Going forward also, we further see another 7 billion will need to be deployed between 2013 and 2014 and clearly with the next gen technologies like 6G that will further require extremely intense fiber network.

We continue to see a very massive fiber deployment which is being planned across the globe including in India. In India, we will break up both the public as well as the private sector. On the India public side, the Union Cabinet has approved Bharat Net under the PPP model in 17 states to cover about 360,000 villages. The government has committed to provide around 20,000 crores as a viability gap funding and the private partners are bringing an equity investment of CAPEX, operations and maintenance of the network. The project is bundled in nine packages and each corresponding to one or more telecom circles. The participation in tenders is likely to happen in Q4 22, so in this current quarter and we expect this to have a tremendous need for deployment of fiber for the coming couple of years. On the India Private side, increase in profitability of the Indian Telcos has led to a CAPEX divided. Telcos are expected to deploy approximately 200,000 cubic kilometers in FY23 to strengthen the fiber backbone to enable the 5G and standard 4G and FTTx. Just to reiterate, 5G will require 100% of your wireless points to be connected on fiber and hence a very large cumulative network will need to be built out a fresh fiber network we will need to build out to augment the capacity and latency requirements for 5G. In North America, rural broadband telecom CAPEX is driving the fiber deployment. As we shared earlier, operators like AT&T, and Verizon and many others, like Jio are deploying massive amounts of fiber and will continue to do so for the next five to 10 years. Across Europe, 200 million homes are expected to be connected into full fiber by 2026. And we're seeing some very interesting new ISPs like hyper optic, Community fiber and Netomnia connecting anywhere between 3 million homes to 1 million homes between now and the next three to four years.

Looking at all of these four key themes, we can confidently reiterate that we're in a multiyear network build cycle across the globe. The three investment cycles that are touched on if 5G, FTTx and citizen network built by the governments have coincided, and they expect it to continue for the next 7-to-10-year timeframe. With the favorable industry tailwinds, our growth strategy is on track in the following section we will talk about this in detail.

As discussed earlier, we have three focus levers for growth, first, grow the optical business, second globalized system integration and scale up further in India. And three build a strong wireless solutions business. As you would recall, we had grown our total addressable market to $40 billion and each of our three growth levers that I touched on, were aimed at increasing our market share in this 40 billion time. And this is delivering the desired results. While the optical interconnect and UK services have reached the commercial orders and execution stage.

In the wireless business we have already reached the pilot order stage, and we soon believe we will start building orders for field trials and larger deployments on the wireless side. Let's talk in detail about each of these developments.

On the optical networking business, we have secured orders close to 300 crores in quarter three from the North American market. This is extremely exciting as we are well positioned for growth in this market. As communicated earlier, we are also investing in a fiber cable facility a state-of-the-art fiber cable facility in South Carolina, we shall commence operations by Q2 FY23. As the manufacturing facility becomes operational, it shall help us get access to Tier I telecom operators in the region. And so we're further well positioned to grow our presence in the North American region and grow our revenues accordingly.

In this quarter, we have also won multiyear orders worth about 700 crores for proprietary Opticonn offering. These new orders further validate our strategy of the Opticonn solution. If you look at this slide, very proud to share. As you can see, on the left side, the Opticonn solution and optical interconnect is actually run completely by women. And this is something that we're very proud of in the state-of-the-art facility in India. Some of the product portfolio and solutions you can see on the right-hand side in terms of some of our connectorized systems as well as our drop cables and our terminals which provide extremely fast and efficient end-to-end solutions for service providers to connect homes at a rapid pace and at a very low cost. Our confidence with respect to growing multi fold stems from this slide through Optotec acquisition, we are able to increase our tax rate to 14%. But we also see that we have a large runway ahead of us to increase the attach rate to the level of the industry which is 100%. In quarter three FY22 our tax rate increase from 18% to 14%. And we are confident that in the coming years we will move forward towards the 100%.

Coming to our second growth lever to globalize system integration, we are ramping up execution to convert order book to revenue. We have successfully completed the business integration with Clearcomm. We now have a combined employees with more than 150 employees and more than +20 partners on board. In addition to that, we have started a unique initiative on resource augmentation. Through our STL Academy we have sent our first batch of almost 50 trained telecom engineers to the UK. We shall continue to further send batches to improve the supply situation UK and grow our business. We are confident to increase the UK contribution to almost 25% of our Global Business Services in the medium term.

Our project execution is on track and tilting towards Indian private players as well as global projects. Amongst the Indian public projects MahaNet is now complete and T-Fiber, Telangana Fiber is 44% complete, including all packages. On the Indian private site fiber rollout for a large Indian telco 83% complete for phase one. And the second phase is yet to start. Coming to the UK, fiber to the home rollout for UK and all projects combined is 2%. We see a tremendous runway ahead and in the data center connectivity projects through our IDS business in this quarter we have completed 49 projects and are currently working on 13 projects across Europe.

In the wireless business, our product development is on track on the back of efforts by engineers we have close to 100 patents on our name by now. We have announced general availability forpFTTx, which is our programmable FTTx solution. As well as Garuda, our unique 5G small cell. We are targeting general availability of our 5G radio units, and RIC, which is a Radio Intelligent Controller in the next financial year. In terms of customer engagements on the wireless side, we continue to engage with our customers globally. We have secured pilot orders for Garuda for 5G networks. We are also building the organization capability in areas of telco cloud software and radio hardware and software with more than 300 sellers at this moment.

I'm very excited to say that the new leadership at the helm of each of our businesses have turbocharged the strategy execution. These leaders are industry veterans who have built multimillion dollar businesses in the past, nurture customer relationships and behold an exciting vision of the future. We have Paul Atkinson, who's leading the optical business he's an industry veteran, was led $3.2 billion business at Prysmian. He has a strong expertise in optical space and deep connects with customers and policymakers across UK, Europe and Australia. We have Praveen Cherian who has joined us a CEO of the global services business. In the past, he has delivered close to $600 million of services revenue and built and led 7000 strong delivery organization. He is well connected with private enterprises both in India and across South Asia. On the software business, Raman Venkatraman has joined us as CEO, he has led more than a billion plus dollar industry verticals, with specific focus on high tech services and with 20,000 strong global delivery organization. He has deep connects with enterprise customers, technology providers and OEMs across the UK, U.S. and Europe. And lastly on the wireless side, Chris Rice is leading this business. Prior to STL he had led the AT&T pivot to software defined networking SDN, and led a team of +10,000 as part of AT&T. He has deeper relations with telecom operators, cloud companies, open-source communities, wireless associations, and the U.S. semiconductor ecosystem. With the focus strategy and experienced leadership, we have a win-win combination for the future.

We shall now discuss our financial performance for the quarter. I'll now hand over to Mihir to discuss the financials. Mihir over to you.

Mihir Modi: Hello good day everybody. I'll take you through the financials, as we've been doing earlier as well. So, if we can move to the next chart, starting with the order book, our order book is growing on quarter-on-quarter basis, order book for this quarter ending December FY22 stands at 117 billion. The spread between the remaining three months next fiscal and beyond is approximately 13 billion, 43 billion and 61 billion as you see pretty much the proportions that we see short term versus the beyond years as we've always seen. Our order book is also now very well diversified across our customer segments. We also have a significant O&M order book which is at 21%, which shall start to yield revenues from FY23 onwards.

The revenue mix is shifting to customer segments by design and geographies of our choice as we increase our share in the telco segment, in terms of geography clearly, we are increasing our share in EMEA and North America markets for absolutely as per the focus that we have on those markets. In terms of notable wins, I would like to share that we've won multimillion dollar deals, multiyear contracts with large telcos in Europe as well. We've also won new orders in the North American market for the OFC business, the optical fiber cable business, we've won a new order in the FTTH mantra area in the UK market. And last but not the least, we won a pilot order for Garuda our small cell for the 5G networks.

So, while this quarter, we have reported a negative 35 crore EBITDA, 0.35 billion, our revenue mix to start with, I'll come back to the EBITDA but our revenue mix continues to have a sustainable momentum. There have been one-time impacts on the revenue as well as on EBITDA. But if we adjust for that we have a fairly stable revenue with growth over last year. There's some slight softening that we saw in our services business, and I'm happy to talk about that as we go into the Q&A. But overall, we have growth versus previous year and we expect the Q-on-Q growth to continue even next quarter onwards, and there about further ahead. On the EBITDA side, while our notes did mention some one-time provision. So therefore, the EBITDA this quarter is not representative of the underlying business performance of this quarter. After adjusting for the EBITDA, there has been slight softening there as well on primarily because of two reasons. One is the system integration on services business, project mix, the contract mix that we've executed by choice this time. And the second is we've made some investments as we expand our services business in the European market UK in particular to start with. What I'd be happy to get into the details of this further as we get into the Q&A section. Before that, I will finish the rest of the presentation.

So, this is an abridged version of our reported financials Rs.13.56 billion of revenue at a reported EBITDA mind you again, because of the provisions a negative EBITDA, our depreciation has come a little high at 0.9. This is largely on account of the purchase price allocation and a 12-month depreciation cumulatively that we took for the purchase price allocation that we did for our acquisition that we made about a year back so it will come back to normalize levels, to what we saw pretty much similar to Q2 of this year.

Our last not the least our net debt is stable, I'd want to say compared to a Q2 level, I'd like to say that, as we are keenly focused on our FY23 end objective of getting to a net debt to equity ratio of 0.5. We are mindful of the need to invest as well. And we will balance that out, having said that, objective remains at a net debt to equity ratio of 0.5 by the last quarter of FY23. So overall, we are committed to deliver our financial objectives that we've set for ourselves and shared with you all, a run rate of Rs.100 billion per annum by the quarter four of next fiscal, net debt to equity ratio of under-five and an RoCE of more than 20%.

Let's go to the next one. There's a business opportunity and then there is a financial translation of that. But what's equally important for us is our focus on the environment, sustainability, et cetera. We have announced our commitment to become a carbon neutral company by 2030. Recently at the COP 26 summit nations discussed the importance of the urgent climate action, and everyone is committed to reducing emissions and limiting the annual temperature rise to 1.5 degrees. According to the estimates, the internet and such supporting network components account for 3.5% to 4% of global greenhouse emissions. And as a global technology company STL aims, we aim towards creating digital networks that are green and sustainable. So, we will continue to aggressively invest in becoming a carbon neutral company. Through these various energy efficiency initiatives. We've committed ourselves to a net zero emissions by 2030.

We're also committed as we've been talking and doing in the past on our ESG initiatives and targets, to be the focus reflects in a way that we've designed and implemented our ESG agenda. For example, we've diverted 139,000 empty waste away from landfills, we've reduced emissions of 7.500 tonnes of carbon dioxide equivalent through various initiatives on the green side in plants, et cetera. We are saving plastic through innovative packaging, so on so forth we are recycling and reusing water in our manufacturing facilities. Till now we've impacted +2 million lives and have 170 ESG awards including 15 global awards in that category. So overall, our focus remains to be a socially responsible corporate citizen. Our purpose remains to impact lives through not just our core business, but through the various other initiatives in sustainability and ESG in general space.

In summary, our growth strategy has started to deliver results we have now started to accelerate in fact Ankit also called turbocharge the strategy execution with the new leadership team that is at the helm. The optical networking business is continuing to become stronger through our presence in the U.S. market. And particularly within that the optical interconnect business that we are focusing on and we continue to be in large orders around the world, including U.S. and Europe. In the services business, we are ramping up capabilities for execution in the UK, we've already spoken about some big order wins there in the global business services space, particularly in the UK. And you will see some of that capability building impact even this quarter in our margins, because we certainly want to make sure that we invest enough to be able to address the great opportunities that lie ahead of us in the industry in this space as well. So, we are we are preparing for a massive rollout across the globe starting with the UK and Europe.

In the wireless business, we've announced the general availability of our 5G small cell and FTTx products, the 5G macro radio unit and RIC shall be ready soon enough by the next fiscal. So overall, all our strategy turning out and panning out in the right way execution has started to take effect. This is panning out pretty much in line with what we have been expecting and forecasting and we do expect that our quarter-to-quarter growth will continue from next quarter onwards. And we remain committed to our FY23 targets that we have shared with all of you all. So, we come to the end of our opening commentary and we can move to the Q&A now.

Pankaj Dhawan: Thank you. So, ladies and gentlemen, if you wish to ask question, please raise your hand and we'll take your question one by one. The first question is from the line of Pranav Kshatriya. Pranav you can ask your question.

Pranav Kshatriya: My first question is regarding this the provisions what you talked about. What exactly is this provision in the top line and what are the provisions which are coming in the cost line, if you can just elaborate that, that will be helpful.

Mihir Modi: Sure, Pranav so, I'll talk about it as a bunch of provisions and then talk about what's the top line and the bottom line. So, essentially, these relate to certain old projects in the services space that we had undertaken. And based on certain developments, we thought it prudent to provide for those while we continue to pursue the recovery of those provisions, the split between why certain part was top line and certain other part was middle line, resulting in an overall bottom line impact was largely an accounting technicality, which we discuss that the provision was taken on certain items where with the auditors' advice and with the right accounting methodology, we chose to reverse part of the top line, and part of it was taken as a cost in the middle line depending on the nature of that line item within that project.

Pranav Kshatriya: Can you quantify those, please, how much is the top line provision and how much is the cost provision?

Mihir Modi: Sure. So, Pranav our notes call out 48 crores as a top line provision, there is an additional approximately 15 crores on the top line, because it was not material, it was not mentioned specifically in the notes, but I'm sharing that with you. And then there is the middle line, which is called out 115 crores. Overall, this adds up to about 180 crores, and then there is, like in the top line, there is an uncalled out number of 15 crore that I shared, there is an uncalled out, a small number in the middle line. Overall, the total bottom line impact of the one-off provisions is slightly north of 200 crores.

Pranav Kshatriya: Okay. And, can you tell us the nature of this provisions, in the sense you did allude that these were some of the old service projects, what is the status of this projects, because of which these provisions were necessitated?

Mihir Modi: So, we are towards the end of, so this is concentrated in a couple of, very few maybe just a couple of projects, and we are pretty much at the end of those. And from a collection standpoint, we took a prudent call to make sure that while we pursue the collection, we will take these provisions in our books.

Pranav Kshatriya: Okay. And because there is impact on the revenue and the profitability because of this, can you talk about the profitability and the revenue growth for each of the section in the sense, how the growth has been for the product and services business and relatively their profitability?

Mihir Modi: Sure. So, Pranav the products business has been stable and growing versus the previous quarter, the margin has also been pretty much in line with what we expected and what we saw in the last quarter or so, there has been minor impact in the freight increases in the product side of the business. And we're watching that very closely in terms of how we can mitigate that or deal with it, as we go into the next quarter. So, product side has been very stable, on the services side while there have been these provisions, there is also some softening because of the project mix or the contract mix, choice that we made and the shift that we are seeing. So, there are minor couple of reasons of impact which has softened the underlying operating margin other than the provisions in the services business, because of choice of certain lower margin contracts that we had as we shift. We expect that with UK kicking in, or our international service businesses kicking in, we will get back on our sustainable margins, probably after maybe another quarter or so of such softening may exist in the service business, but we expect to pick that back up again in a quarter or two.

Pankaj Dhawan: Thanks Pranav. We will take the next question from the line of Neerav Dalal. Neerav you can ask your question now.

Neerav Dalal: Just wanted to mark on the weakness in the revenue and in the margins. If you could just break out to us what would have been the revenues and the EBITDA for the UK business and secondly, in terms of what is the investment for the quarter in the access solution for you. This will be my first question.

Ankit Agarwal: Sure. Neerav, the UK business is currently a small part of our total revenue, so it's relatively small yet, it is picking up slowly. Having said that, obviously we've built capabilities upfront, and therefore the margin on the UK business would obviously be negative. And there's the softening that is affecting the whole services business that I spoke about. Relating to access solutions, we have spent approximately 35 to 40 crores on the access solutions business this quarter.

Neerav Dalal: So, the investment in the access solution remains flattish, over the last three to four quarters I believe we'll be investing about 35, 40 crores?

Ankit Agarwal: Slightly increasing Neerav.

Neerav Dalal: Okay. And in terms of the UK business, it would be great if we get an understanding in terms of how the underlying business is doing and how the new businesses are doing so that we can gauge the margin performance going ahead. And see in terms of how the numbers will move going ahead, so that will be good disclosure that we can get?

Mihir Modi: Sure. Neerav so let me address that and then if Ankit has anything further to add, I'll request him to do that. So, we've been talking about early teen kind of margins for our services business as a whole. Now, the India part of that, and it was essentially India only, the India part of that is the contract mix that we're seeing, is kind of moving down to a low double digit or a high single digit margin. Having said that, the UK piece that we are seeing now pan out, and mind you barring the initial capability built, which comes as a fixed cost. I just keep that aside for a moment, we see if eventually on a sustainable basis we see high teen kind of margins in UK part of the business, so blended will come down to a back to the numbers that we're talking about, which is about low teens for blended India plus UK business on the services side. Let me let me go one step further and therefore that's a service business blended margin. And when we add the products margin, we are likely to be back at around 17%, or 16% to 18%, blended STL level margins that we've been talking about.

Neerav Dalal: And when do you see this number come, second half FY23 or before that?

Mihir Modi: Hopefully before that, but let's assume second half FY23 for now, don't want to over commit.

Ankit Agarwal: Just to add one thing that's also happening, when it's very interesting in the UK part, it's also now more and more of the similar customers, where we are providing cable interconnect, as well as services. So that's becoming very, very interesting both relationship and partnership with some of these. So, as we scale up, we're already pretty strong on the first two. And as we scale up our services presence in the UK, it'll be very interesting that more and more of our booth Opticonn, as well as services offering will be going to the same customers as an end to end. So that's something that we do expect to scale up, we have about 150 people that we've shared currently in terms of our current UK strength, and also 20 partners. So, there's certainly no shortage of demand and interest from the customers, it's more how fast we can scale up, bring the training and capability to the market, and then execute on those orders.

Neerav Dalal: Just one last question in terms of international business, if you see the international business, for the quarter, the share of revenue has come down to about 51%. We were at about 58-56% in the last couple of quarters. So, we've seen a 15% decline in revenues in the international business, what would you ascribe this to and then how should one then look at this in the coming quarters?

Mihir Modi: So, it's a prioritization at this stage in terms of the choices of certain contracts that we've made. And that's the reason for it, if I look at our order book, and the mix of international in the order book, that continues to improve as well. So, I don't take this quarter as representative of the underlying trend that we see increasing international mix in the revenue mix.

Ankit Agarwal: Yes, also very confident of this focused approach we've talked about particularly Europe and North America, that we will continue to build on and also with the manufacturing sites coming up in both U.S. and UK over the next six months, that will further accelerate our growth in those markets.

Pankaj Dhawan: Thanks, Neerav. We'll take the next question from the line of Mr. MukulMuluk Garg. Mukul, you can ask your question now.

Mukul Garg: So Mihir just wanted to start with, if you can go to slide #27 you have bar charts about revenue and EBITDA ex of provision. Can you just help us with the numbers which this bar refers to, the light green one?

Mihir Modi: Sure. So, I break this down into two parts. One is what is called out in the notes to our financials that were published. And then there is some smaller amounts which were not material to call out, but I will share that with you. So, what is called out, on the left side revenue bar was about 48 crore of one time on the revenue side. And there is another roughly 15 crore that was not specifically called out but I'm sharing that with you. On the EBITDA side, so rather let me call it the middle line, there was 115 crore that was called out. So, if I add the 115 crore that was called out, the 48 that was called out plus the 15 that I mentioned, that's 180 crore and therefore there is another amount which is not called out in the middle line, roughly adding up to North of 200 crore of what EBITDA hit overall.

Mukul Garg: Just to kind of use it that, you are trying to say that your revenue ex of provision was 1418 crore and your EBITDA was 128 crores, is that the right way to look at it?

Mihir Modi: Those are representative numbers of the non-provision numbers. Yes.

Mukul Garg: So first, on the margin side your margin ex of the provision this quarter was 9%. That's like a steep dip from what was there last quarter at 17%, while we understand there was impact of the services business mix change, can you just help us walk us through the margin data during the quarter?

Mihir Modi: Sure. So, Mukul if I do the numbers with you, the margin comes to around 12%. So, if I adjust 200 crores from the 35, that's about 165 on a 1,400 odd is 12%. But more directionally let me share with you, we can tie out the numbers one on one later on. But there have been two large drivers of the margin softening. One is some new investments, not new investment, but the investments that we have to make ahead of time in our services business. And a little bit in the software business that we've added people and that is driving roughly 2%-2.5% of our margin dilution versus last quarter. And then, there is an impact of the contract mix choices that we made because of which also the revenue has been lower if you notice compared to last quarter, again on the services side and we've lost some EBITDA again a couple of percentage points on account of that. So that's broadly the bridge from what I call the roughly 12% to 17%.

Mukul Garg: Sure. And in terms of if we look at our visibility till last quarter, we were kind of still guiding for EBITDA margin of 17%. While I understand there would be some intra quarter contract mix choices, but the investment visibility would be quite high by the end of last quarter, three months back, so what really led to the meaningful delta in profitability during last few months?

Mihir Modi: So Mukul what I would say is that, we've always said that our sustainable margin is in that range of around 17%. We've always said that we may speak, our R&D investments may move up a percent, two percent and therefore we've never guided on a quarter-to-quarter basis, you'd appreciate that. So, I maintain that our quote unquote guidance that we speak about, which is very clear about FY23. Last quarter, our expectation of the sustainable EBITDA margin absolutely remains. I'd humbly submit that there will be quarter-on-quarter movements, specifically because we are not guiding quarters, we may not talk about it in detail to the last rupee. But I want to reiterate, the underlying business remains healthy. We are committed to the FY23 numbers, we are running to achieve it. And we expect that we will.

Ankit Agarwal: And also, to iterate on the connectivity business, the optic business, as we continue to sell both the cables and the interconnect solutions, we actually are pretty confident of our margins. And as we've been sharing earlier, the interconnect margins actually even better than the cables. So that's something that we're confident of. The run rate of the interconnect that we showed on another site that's clearly moving quite well quarter-on-quarter. And more and more of our long-term contracts with the customers will be of the cable and interconnect together. So that's one part that gives us comfort and confidence. The second part is as we pivot make these two pivots, we're doing it consciously one from the government sector to private sector in India. And second is a pivot from just India to India and UK. And so as we stabilize our operations in UK, we do expect healthy margins from that business as well. Again, I'll repeat for UK the constraint on services is not order book is constrained by execution, speed and capability, which we are ramping up with every month.

Mukul Garg: Sure. The other question was on the provision, I just want to understand it a bit better. The press release mentioned that there were two items which were final settlement with the customer. While you were indicating that these guys used to have the option to kind of recover the payment. So was that a delay in payment from their side, because of which your auditor asked you to take a provision or was there a dispute in quantifying the value with the customer, which resulted in the provision and then there was another additional 116 crores relating to ongoing projects are these the final value of what is the exposure which is there with the customer outstanding right now or do you think there might be a some pending payment where there might be some further provision which might come up?

Mihir Modi: So, you asked two different questions, and I'll try and address both. One is, the provisions that we've taken are largely on account of being prudent based on the time these are older projects, and therefore we have reached certain parts are relating to our engagement and the developments in that regard, and therefore we've taken the provision to be on the prudent side. If it were a final amount, that was not collectible, we would have written it off. This is not a write off, this is a provision to be on the prudent side so that's something that I want to share with you. The second is from an ongoing basis. So, if you see also the note there is a certain three-month number and then there is a certain nine-month number on one of the items, so these smaller numbers every company, including us, we do take, we make those assessments, and we keep taking provisions as we go along. This time, the number was large, and therefore, we felt it appropriate to call it out. Based on what we see today, we do not expect such significant provisions. As far as we can see, you will appreciate and I want to be completely candid here, you will appreciate that it's impossible to guarantee 100%. But I'm very, very confident that based on our assessment, we don't expect any major such items, at least as far as I can see, today.

Mukul Garg: Sure, thanks. And if I may just ask one more question on the geographical revenue break up this quarter, where you highlighted that there was some prioritization of business which started an international revenue share coming down was that more about the timelines in India based orders or was there you are trying to shift away from some particular global region and resulted in this if you can just help us understand what about that?

Mihir Modi: The answer was in your question it was a timing issue and therefore the delivery schedule, et cetera, we kind of managed it that way. And that's the reason this time the India number was slightly higher. Structurally and that is represented in our open order book change as well, we are clearly increasing the percentage of our non-India mind you as India on its own continues to grow in the mix. The non-India percentages are moving up as evident in the order book. Probably, Mukul more than one unique item in this quarter is for us to talk about, but underlying is the direction that we've always spoken about.

Pankaj Dhawan: Thanks, Mukul. We will take the next question from the line of Mr. Suryanarayanan Manian. Surya you can ask your question now.

Suryanarayanan Manian: Mihir, I know, you've explained this, but it's still sounding a little cryptic, what we've said about the provisions. So, when you saying that there is an additional provision of 48 crores and on top of that, you've said 115 crore provision. So, is that additive, so do we have to think that this quarter, the total provision is 115 plus 48?

Mihir Modi: That's right, because the 48 is a top line provision, and the 115 called out in the financial is a middle line provision. So, both of them will fall down to the bottom line.

Suryanarayanan Manian: Okay, by middle line you mean at the EBITDA level cost?

Mihir Modi: Yes, in the cost yes, EBITDA will be lower than addition of both.

Suryanarayanan Manian: And is this related to one client or a group of clients, public sector, private sector, will you be able to share any details?

Mihir Modi: So, this is a couple of projects, old projects in the services side large projects is as far as I will be able to share and the reason for not being able to share is, we are considering or rather making efforts to collect it, and therefore, I wouldn't want to go out and identify it with a particular project or more, but these are services side old and large projects.

Suryanarayanan Manian: Okay. And you're saying that this is also an ongoing project, so it's not a completed project, but it's also an ongoing project that you've identified?

Mihir Modi: No, I said this is pretty much towards the end all completed projects. So, collections are ongoing as per the contractual terms

Suryanarayanan Manian: Okay. And how would this affect your receivables from this project, is that then likely to go down or how should we think about that?

Mihir Modi: Look, Surya the way I see it is that, this is a risk assessment which I as a finance head found it prudent to factor it into the P&L, while the teams will continue to make efforts to collect it. So therefore, my receivables remain there. I've just provided that if something part of it does not come or whole of it does not, whole of the provided amount does not come then, we are protected and there is no surprise at a certain point in time. So, the receivable remains there, this is a provision against it, if we collect it well and good, we'll have a pleasant surprise or a positive surprise. And that's the objective.

Suryanarayanan Manian: Okay. And in terms of recourse, is this a legal recourse or it's more of engagement with the client to try and follow up on this?

Mihir Modi: It's both actually, the way it works is you engage with the clients and you parallelly continue to exercise your rights. So, it's a combination of both.

Suryanarayanan Manian: Okay. And from the client's perspective, the reason there is a gap is because they think the milestones are different and where is the cap?

Mihir Modi: Yes, so it boils down to like conceptually shared with, it boils down to interpretation of certain clauses of how the contract is built. And like I said, we're still hopeful of convincing them. But, I just quite prudent that we should make sure that we provide for it.

Suryanarayanan Manian: And lastly, would you be able to share what percentage of the value of the project business right off amount, provision?

Mihir Modi: Yes, we have negligible, it's not even a percentage if I take it between zero to one and a half.

Pankaj Dhawan: Thanks Surya. We will take the next question from the line of Mr. Ashish Jalan. Ashish, you can ask your question now.

Ashish Jalan: Hi, Mihir. I just wanted to ask with regard to your services business specifically in the public sector in India, what would be the total amount receivable and the unbilled revenue the gross amount if you can on an aggregate basis call out your number and what period will this be collected?

Mihir Modi: Sorry, I missed the last part. But I understood what you're asking. The unbilled amount has come down over the last couple of quarters right now it stands at approximately about 900 crores. That's the approximate range in which that amount is sitting. From a receivable standpoint we don't really call out the public versus private. But it is a well-balanced number across public and private on the receivable side that you would have seen at the end of September balance sheet, and that you will see at the end of March as well.

Ashish Jalan: So, given that most of these projects have been completed except the fiber which is an ongoing project, so what timeframe do we expect to collect all these receivables as well as the unbilled revenue by when do we expect to collect them?

Mihir Modi: Yes, so let me first share with you what keeps it stuck and then I'll share with you the timeframe which we expect while can't commit to that given it's a double engagement. Let me share with you, why does that unbilled remain. Sometimes, the contract structure and now sometimes in some of our specific cases it is, the contract structure is such that when there is 100% delivery, which means multiple nodes and hundreds of nodes that are to be delivered, that is the trigger for some last or high chunk of the billing that you can do. Now, when it comes to such complex contracts and particularly with government agencies, et cetera. It so happens that, out of a few 100 nodes there is say x number of single digit nodes or 10, 15 nodes, you are not able to complete for whatever reasons and therefore on technicality, the billing stops. And that's the reason we have unveiled of this nature, now to be able to share with you, second part of your question is, when do we expect that to collect all of that, the efforts are on, I would not want to hazard a commitment at this stage. But I see those as very billable and recoverable or else we would have provided for it so, there are exclusive focus teams doing only that and I don't want to come out with a timeframe, which is not fully under my control, so I hope you appreciate that, Ashish.

Ashish Jalan: Sure. And one last question is, we are pivoting more towards the private sector in the domestic business. So, what is the prime reason is it more of these payment related issues with the state and the central authorities or is it to do with the margin and the attractiveness of the business itself?

Mihir Modi: No, look, in India obviously the private sector is more stable. The government contracts are constrained by some of the terms of the tender and there is only certain amount of influence that's possible on that. So, therefore, the broader shift to the private or the international market is a part of the plan, having said that, it's not that we will not do government contracts, it's just that we want to make sure that the mix is right and therefore the tilt towards private and international. Ankit is that a fair comment?

Ankit Agarwal: Yes. Also, I would add, there is at least in our experience in conversation, there's always a focused effort in terms of moving towards the best-in-class technologies. And that's also something that is better aligned with us in terms of what networks get built out with the latest solutions. So, that's one part and generally the agility that we see in the private sector, both in India& UK, take decisions to move forward and to aggressively invest at a fast pace. Those are some of the things we experienced in those conversations.

Pankaj Dhawan: Thanks, Ashish. We will take the next question from the line of Nilesh. Nilesh, you can ask your question now.

Nilesh: Just a follow up on that, in terms of you can just provide some split in terms of how much of this provision was made out of the unbilled and out of the receivables, if that's possible?

Mihir Modi: No, so we've not looked at it that way. Nilesh, build or not build is not really the criteria. It's just overall our ability, or other the risk that we perceive on certain couple of these is how we've taken the provision. Like I said, we've not written off so also there is no mapping of those lines.

Nilesh: Right. But since you mentioned that this is project completed or near completion, is it fair to assume that all of this is already billed, and hence it's a provision where I'm just confused to get clarity as to how the revenue item got reversed. So potentially, it was unbilled and hence reversed is that the understanding correct or am I missing something?

Mihir Modi: Yes, accounting wise that does play a role in that as well. So, your interpretation is correct Nilesh...

Nilesh: Understood, got it rest clear. And second thing is on the receivables, you highlighted unbilled today now it's approximately 900 crores, would you be able to share the receivable number?

Mihir Modi: So, because we don't publish the balance sheet at the end of this quarter, but let me just give you a color on it. it's slightly improved two flattish in a compared to a September end numbers that we've published.

Nilesh: Understood, right. And just one last thing, are there any other projects, clients, which you are reviewing on similar lines just to get us a sense of how much is old, new, then similar kind of, and anything else which is there under pipeline, which potentially can slip or is this done, just some color on this what exercise which you are doing that will helpful.

Mihir Modi: So, we've reviewed this as we do pretty regularly and at this stage based on this review and the numbers that we've taken, I do not foresee any large need for provisions based on our risk assessment. So, in fact, let me add very quickly in the same breath, that even within this, we've not written it off and it's a conscious effort by the team to make sure that this is not lost yet. So, to answer your question in simple words, as far as I can see very confident, I don't see any further such numbers coming up.

Nilesh: Right. And sorry one more thing, you mentioned about that goodwill purchase price allocation restatement of whether goodwill is declined and which has gone into, the differential model has gone into the residual hard tangible assets or something, which is why the depreciation going up, is that what you were saying is the right understanding?

Mihir Modi: No. So the assets were held without getting allocated line by line, and therefore depreciation could not be charged on it. Now that we've done the PPA, the bunch of assets that needed depreciation for the full period of last 12 months has come together in this quarter as a hit. So that's the reason it is showing up from next quarter onwards obviously it will be a hit even on those assets pertaining only to that quarter. So, it's a backlog of the last 12 months on our acquisition assets.

Pankaj Dhawan: We'll take the next question from the line of Tejas Sheth. Tejas you can ask your question now.

Tejas Sheth: On the opening remarks you mentioned that the India service business would be higher single digit margin business. And then we have these issues pertaining to recoveries. Why do such kind of business only, going ahead as well, considering the margin profile is low. And then we have a lot of capital and bandwidth allocation and then there's a huge recovery issue in this public service business. What's your thoughts on that?

Mihir Modi: So, let me again go first, and then Ankit will request you to chip in if you have anything to add. So Tejas these are the recovery issues. I'll put them in two categories. One is, like we've shared in the past, there are contract structure issues, because of which some of the recoveries tend to be delayed. We have started to fix that in our future contracts and future tenders. And wherever the tender is not favorable we have refrained from bidding on those. That also ties up with the conscious shift towards the private and international businesses. So that's the way we see it. So, it's not a 01 game, it's not binary that we see it, there are projects, which do not have the pain. And that is what we want to focus on. Having said that, what we see as provisions in this quarter, like I was mentioning to one of the earlier questions, it's approximately above 1% I would say of the project value and therefore I wouldn't call it unrecoverable. Even assuming let's say it does not, I would not want to paint the picture. So, I appreciate your question saying look it's a difficult business it's high single digit to 10% kind of range. But we want to be careful in what we do, and not make it a binary decision.

Tejas Sheth: No, my question was, on the product side you have so much opportunity which you highlight during your presentation. And the service side of the opportunity takes away so much of your bandwidth, and even the capital allocation resulting to much lower return ratios. Wouldn't be it be prudent to focus on the much more productive and lucrative side of the industry? Rather than going towards the side?

Ankit Agarwal: So, Tejas it's something that the way we think about it, there's two, three elements to it. The intent has always been to focus on certain large key accounts both in India and globally, and become a larger part of their wallet share, become more relevant to these customers. And that's been the intent that today, whether it's wired or wireless, in the near future, we become their largest partner through our portfolio of products as well as on the system integration. That's exactly where we're driving with certain large private accounts in India. And also, now increasingly in the UK, with our large customers on the product side, we are also finding solutions for them on the services part and hopefully soon on the wireless. So that's been the intent that we want to focus on few large accounts and have a larger wallet share with them. So that's the underlying principle. One element we have to also be conscious of is on the fiber cable and connectivity yes, very positive tailwinds. We have a very strong brand globally which we are continuing to grow in our large accounts. But we also have to be conscious that it's extremely capital intensive in terms of CAPEX, and we really want to make sure that you have strong customer orders in advance so that once the facilities come up, they're always running at 80%, 90% at a minimum. So that's something that we continue to evaluate, we have already announced investment of almost 9 million fiber kilometers additional cable, which will take us to probably top three in global leadership. So, we're not reducing our investments on the cable side, on top of that, optical interconnect continues to grow. We believe that with our learning's certainly in the last four, five years of the services, we are making these two conscious pivots, one on the private sector in India, and again, on private sector we are looking at the full stack of wire today and also wireless probably in the future, as well as then we look at the UK market where there is both strong profitability, and our focus is on building a strong execution. So that's the current thought process. I fully respect your views and we will continue to evaluate this shift that we're doing.

Tejas Sheth: Okay, on the 10,000 crore of revenue guidance how much do you see coming from service side?

Mihir Modi: We see approximately between 35% and 40% to come from services. And very little from about so we have spoken about 5% from our wireless business access solutions and the largest chunk clearly from the products business.

Tejas Sheth: Okay. And just made on your comment on this 1% of the project value so 115 crores plus additional 20 crores at the EBITDA level, so 135 crores and typically we make 11% margin. So, that would be broadly 11, our 1300 crore worth of projects where this value right off?

Mihir Modi: Yes, some of these are old projects which cumulated over the last few years.

Pankaj Dhawan: Thanks, Tejas. Ladies and gentlemen, due to paucity of time we will only take a couple of more questions. So, the next question will take from the line of Mr. Sunny Gosh. Sunny, you can ask your question now.

Sunny Gosh: I would like to understand basically, when we are guiding about 10,000 crores exit run rate for FY23. Basically, for on an annualized basis we may look at about 7.5 to 8000 crores around that number of top line. But if we look at the order book for FY23, basically the order book spread in terms of the current order book is only about 4300 crores. So, if you can help me understand, basically is there any part of the revenue which comes or gets booked outside of the order book. What is generally the quarterly run rate for that kind of a revenue. And what gives us the visibility incrementally to be confident about this 3000, 4000 crores of incremental revenue over the current order for FY23.

Ankit Agarwal: I will take the last part Mihir and then you can grab the split. So, Sunny good question certainly from an order book perspective and then order book to billing. We are continuing to see one at a macro level that we shared of very, very large investments by our current customer base across India, Europe and U.S., which are our focus market. So, we're continuing to see very strong demand both on our products, as well as I shared increasingly on our services. We've also as I said, we've been investing heavily on building a virus portfolio we have a team of almost 300. So, we continue to believe that as we move from lab trial to field trial, and then to large scale deployment, that should also start generating our top line for us. So, from the market perspective we certainly see an acceleration. We've continued to build very strong teams both at CEO level and at regional levels on sales and technical and that gives us a lot of comfort that there are some strong essentially bids that are coming up other tenders that are coming up, which we will be able to continue to bid and win and continue to grow use that new order books to also execute and build the revenue so that's the macro thought process. And one element of that is also our product portfolio, which we clearly seen very positive response from the markets. And that gives us also confidence that our right to win is as strong as it's ever been.

Mihir Modi: Thanks Ankit. So, to specifically address, Sunny your question on the numbers. So let me share with you, number one is that where we stand today vis-à-vis FY23. As we get closer, we will keep building our order book as we get closer. So that's point one, but a broader point is that pretty much every quarter, we have anything between 15, sometimes 20, sometimes even higher than that what we call is booking bill revenues, which means the order comes in that quarter, and we execute it and therefore book the revenues in that quarter itself. Therefore, before I go to FY23, if you look at Q4 of FY22 we expect obviously a certain book and bill in that quarter also. And therefore, there will be two impacts on the FY23 number. If I have to share one, as we get closer into the year, we will have a little more order book bill. And as we go quarter-on-quarter we will keep building the order book. And from the start of any quarter, we will have pretty much about 15% to 20% roughly sometimes higher proportion of our revenues coming from book and bill. So that's the comfort that we are deriving in addition to what Ankit said in terms of just the market being what it is.

Sunny Gosh: Right, thanks. My second question is around the margin built. So basically, we also read about optic fiber prices strengthening and we being fully integrated. Do you see that benefiting our product margins going forward and basically your guidance of say 17% to 18% on margins for H2 FY23 do they factor in any improvement driven by the optic fiber price improvement or this is assuming status quo of optic fiber?

Mihir Modi: So, market I would say that yes, we do see that market is firm and positive. As we've been sharing both in previous discussions and currently our focus has been on securing long term contracts. Large portion of how we sell our fiber is through cable and now through cable an interconnect together as a solution, ultimately leading to savings on cost per home pass for our customers. So that's been the go-to market strategy for us. And it's been successful certainly in the last quarter as we shared almost 700 crores of orders in such kind of solutions. So that's the area we are moving towards and we believe these solution offering will help us intimately secure the right kind of orders as well as with the right margin. So that's the direction we're broadly going. We do believe that also as our capacities come on steam on cable, that will also have a good impact both on our top line and bottom line for these facilities. One element that we do have to be mindful of is that we have seen certain raw material cost increases, as well as container and shipping costs increases. And as you can appreciate, we have increased ourselves to both Europe and U.S. markets. So especially the shipping elements, shipping costs are one part that we are closely watching and looking at how do we mitigate those costs increases.

Pankaj Dhawan: Thanks Sunny. We will take the last question from the line of Mr. Krunal Shah. Krunal you can ask your question now.

Krunal Shah: Question on the fiber side. How are you seeing the prices move towards the China Mobile tender on the fiber and cable side, that is one. Secondly, I would like to know the quarterly volumes for fiber and chip in Q3.

Ankit Agarwal: Sure, so basically what I would like to share the macro level is, China is very categorically talked about globally being a global leader in 5G and also 6G as a result of which they have rapidly deployed 5G close to probably North of 400 million subscribers already. And 1.2 million base stations just for 5G which they want to almost triple by 2025. So, we believe this will be a sustained investment in China by all the three large operators towards 5G and linked to that then the fiber optic investment. So, that's a positive sign from the market side. And as we've said we also see positive demand in Europe, U.S. and of course with Bharat Net other opportunities with like 5G, we also think that the Indian markets to start growing from here. Linked to all of this we have seen prices form up; I don't think they are going to grow meaningfully higher like we saw in certain periods in the past. We are as I said much more rather than looking at the monthly price shifts, et cetera we are much more consciously looking at our solutions to our customers. And that's something that we are very confident of and through that our margin improvements should happen. In terms of volumes Mihir, if you want to share that.

Mihir Modi: Sorry, the voice went away when the volume questions were asked, Krunal can I request you to repeat that part please?

Krunal Shah: I just want to know the quarterly volume from date.

Mihir Modi: So, for the fiber we are at a volume capacity utilization of about 75% to 80% and on the cable side we are close to 8 million.

Pankaj Dhawan: Thanks, Krunal. So, with this, we come to the end of our Q3 earnings call, I now request Ankit to make the closing remarks.

Ankit Agarwal: So, I would like to thank everyone for the time to attend this call today. I really appreciate all your questions. As we shared during the call, we're extremely excited about the opportunities across our business verticals. Globally, as well as in India, we have a extremely strong leadership team that has now come in place and will drive the growth across the business units. We continue to invest in R&D at around 3.5% to 4%. And we believe this is critical for our technology leadership going forward. We're also committed to our sustainability efforts and we are very proud that we have now committed towards net zero carbon emission by 2030 and zero waste to landfill across our global manufacturing. We're excited with our operations further growing in the markets of U.S. and UK. And also, that we're very proud of building India's probably first full 5G stack, which we believe we can take to customers in India and globally. We are of course available our teams are available to answer any further questions. And lastly, wish you and your family all the best for the current year and please be safe.
