"Sterlite Technologies Limited Q4 FY18 Earnings Conference Call"

April 25, 2018

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MODERATOR: **MS. SNIGDHA SHARMA – VICE PRESIDENT, AXIS CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Sterlite Technologies Limited Q4 FY18 earnings conference call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

Along with this call we are also running a live webcast of the presentation covering the Q4 FY18 results. Investors can also download a copy of these slides from the website after the presentation.

I now hand the conference over to Snigdha from Axis Capital who is hosting this call. Thank you and over to you, Snigdha.

Snigdha Sharma: Thank you. Good evening everyone, thanks for joining the Q4 FY18 earnings call of Sterlite Tech. Earlier today the company announced their fourth quarter results for FY18 and posted a strong a 66% growth in net profits and also a very strong start to FY19 with an order book of Rs. 5,200 crore.

On the call we have with us today Dr. Anand Agarwal – the CEO and Mr. Anupam Jindal – the CFO of Sterlite Technologies who will walk us through some of the business and financial highlights and also discuss the long-term strategic direction of the company.

I would like to handover the conference to Dr. Agarwal. Thank you and over to you, sir.

Dr. Anand Agarwal: Thank you Snigdha. Welcome to Sterlite Tech earnings conference call. We are very pleased to share a strong set of results for FY 2018. And I trust that all of you have had an opportunity to go through the results document which was shared earlier today and is also available on the website.

I will start with briefly talking about how we see the industry landscape shaping up, our unique positioning to serve the demand of future data networks followed by key business highlights during the last quarter. Anupam will then walk you through the financial performance.

I will start with the industry landscape.

Slide 4:

In this slide what we have captured is it presents an interesting analysis of cumulative CAPEX spent globally by top telcos across various generations of network technologies and corresponding fiber deployment around the same period. What is coming out very evidently is that every network generation has invited higher CAPEX by telcos however the increase in fiber CAPEX has been disproportionately of higher magnitude. Almost three times from going to 3G to 4G generation change. The trend is clearly reflective of the changing constitution of the CAPEX tilting more and more towards the fiber led infrastructure and increasing softwarization of the networks. We believe that this trend will continue with as the networks grow tomorrow with much higher bandwidth coupled with ultra low latencies that will magnify the role of fiber in the overall network CAPEX.

Slide 5:

And the next era in the telecom networks is all about 5G where the performance pools include accommodating a greater number of devices through the fast expansion of IoT, enhanced broadband like connectivity on mobile devices and improving network economics. The transformative impact of 5G and LTE on industries and verticals such as retail, storage, commuting, communication, banking and finance to name a few is expected to be magnified along with the unleashing of newer user case and applications which were till now unfeasible at prevailing network speeds. As 5G will support a multitude of new applications there is a wide variety of requirements including higher peak and user data rates, reduced latency, enhanced indoor coverage and better leveraging of existing infrastructure through greater energy and spectral efficiency. These goals will be probably met by taking fiber deeper into the network supported by the combined use of more spectrum, higher spectral efficiency as well as densification of cells. And it is becoming very-very critical that 5G is inviting a structural change in the design topology of 5G network compared to the previous generation of networks.

Slide 6:

If we to decipher 5G from a simplistic network deployment perspective, it will be 5G is going to be fiber like speed in the last few meters in the form of wireless connectivity. This technical parameter of ultra-high speed with lower latency will be achieved by shrinking the macro cell into multiple smaller cells. Number of small cells in 5G environment when compared to 4G macro site may compound to 5 to 10 times depending on the throughput and latency requirement of the users. Technically small cells are able to extend the coverage of mobile network into indoor areas where outdoor signals do not penetrate well or add to network capacities in areas where there is very dense data usages. Small cell has limited strength when compared to macro cell but drive up network quality through a closer presence to the user. Fiber for backhaul and front haul is critical to realize the 5G goals surrounding data speeds, latency and bandwidth and multiple nodes of fiber connected to every cell in the 5G network through fiber will enable the ultrahigh speed connectivity and low latency. As you seen in this info graphic, fiber requirement for 5G is two and half to five times of what was required for 4G. It is now inevitable that for a seamless 5G experience fiber will need to go deeper in every element of the network.

Slide 7:

And this is clearly translating that we are seeing the evolution of fiber demand globally. The demand for optical fiber has witnessed a strong growth for over a decade. While China is an important consumer of fiber cables, it is important to highlight that there has been a growth in demand across all major regions of the world. 5G network creation is expected to propel fiber demand to newer heights as the network specification require a ramp up in fiber backhauling which will be used more widely and deeply in the network. Even the most conservative estimates of fiber deployment for 5G network factor a jump in fiber consumption of atleast two and half times compared to 4G. Extensive fiber demand is here to stay for another 10 years based on 5G deployment cycle in next say 8 to 10 years.

Slide 9:

Now I am going to switch to our unique positioning in the overall ecosystem. In this slide we map the manufacturing value chain of the fiber. As you can see the preform stage dictates the supply side of fiber production change. There is restricted competition at this stage as a technology and knowhow to manufacture preform is an intellectual property that serves as the competitive edge and thus derives maximum value. The fiber drawing part of the value chain has led technology intensive and has relatively more number of players than preform manufacturing. And the cabling end of the production chain is more of localized model and requires greater degree of differentiation to drive value creation due to different dependents on the other parts of the value chain. Sterlite Tech is the only fully integrated player in Asia Pacific excluding Japan which manufactures fiber from the bare silicon ore which is the basic raw material going upto the end user product of telcos and enterprises. Initial deployment of 5G networks, emergence of smart cities as well as the increasing propensity of broadband has driven global demand for fibers steadily upwards. In calendar year 2017, we witnessed global demand for fiber surpassing preform capacity for first time ever keeping the tightness in fiber supply demand dynamics. We expect the global demand supply mismatch to persist in 2018 and growth in global demand will continue to enable the absorption of plant capacity additions on the preform side.

Slide 10:

Our end to end capabilities enable us to cater to the needs of future networks and put us in a unique position to serve our customers. Delivering both products and services and measuring outcomes at multiple stages of the value chain has provided invaluable perspective and insights enabling us to reengineer products and processes to solve customers' network requirements and increased asset monetization. As the only company with end to end capability that extends it to software, we are uniquely poised to cater to the present and emerging needs of the networks of the future. Equally important the wide portfolio and relationships with customers in over 100 countries and across the value chain opens up more opportunities for us in new customer segments, regions as well as markets.

Slide 11:

And at Sterlite Tech., technology lies at the core of all our offerings. The products business where we have a legacy of more than 20 years is uniquely differentiated with our deep knowhow of interdisciplinary technologies from glass science, chemical engineering, wave optics and application engineering which goes into the making of a very specialized intellectually protected product. Our growing repository of 189 patents on products and processes is a testimony of our deep reliance on technology that we use to cater to telecom operators as well as enterprises across the world. In our services and software vertical, the core value proposition is built on network design for future broadband networks. Our Center for Smarter Networks in Gurgaon is one of its kind network lab in the country to support our customers' requirements for an end to end solution of all their data network creation across all layers from concept, design to implementation and management.

Slide 13:

I would now touch upon briefly some of the key business highlights for the quarter. As most of you would be aware we are adding another 20 million kilometers to our fiber capacity through our mega green field expansion project to be completed by June of 2019. We are happy to inform that we are on an accelerated path to bring about 10 million of the expanded capacity as phase 1 of this project by end of this current calendar year. This would allow some benefit of the expanded optical fiber capacity which we are currently running over 95% utilization to flow into the current financial year. On our optical fiber cables front, we are seeing a sharp traction in utilization levels which will continue to go upwards as we move forward. On the Services side, we are pleased to announce our highest ever order win with an award of the Rs. 3,500 crore of advance purchase order from the Indian Navy to design, build and manage a state of the art communications network. This is our second large multiyear deal. The first one being the creation of an intrusion proof communication network for the Indian Army. And it vindicates our view of the deep and immense opportunity for large scale system integration in India. As we shared earlier this is the first time that an integrated naval communications network at such a scale is being built in India. Unparalleled in scope and size, the project includes the creation of a high capacity internet protocol, multi-protocol label switching network. Once completed, it will link multiple Indian Navy sites and India administered islands. The project value of Rs. 3,500 crore consist of network designing and building which covers about 75% of the contract’s value and will be completed in two years after receipt of the confirmed purchase order. Following which network maintenance will extend for another seven years. On the Smart City suite offerings, the Kakinada Smart City project is nearing completion and the steady build-up of a reference base places us well as the opportunity landscape for smart cities and Bharat Net is progressing well. In the Software business, we continue to win very interesting orders. The first one being an end to end OSS and BSS deal with India's leading multi service operator that caters to 8 million households. The other one is an enterprise Wifi order with one of the leading operators in India. So overall it has been a great quarter both for production ramp up as well as deal wins across our various services and software businesses.

Slide 14:

The other aspect is the last few years have been phenomenal for our International business with exports more than tripling on the backdrop of our deepening presence in Europe as well as marquee tier 1 telco wins. We now have a very balanced geographical split to our revenues with both exports and domestic business contributing equally to the top line and equally strong future outlook.

Slide 15:

As we start FY19 with an all-time high order book of more than Rs. 5,000 crore. Interesting for our stakeholders is to know that the growth in our order book has been much sharper at almost 73% year-on-year corresponding to our revenue growth of 20% which is a testimony of high expected demand for fiber in times to come as well as our growing customer engagement engine. This leads us to create a very high visibility as well as predictability for future and gives us a much higher degree of confidence on optimum utilization of the expanded capacity.

Slide 16:

As I explained in the earlier section we are happy to share information of the acceleration in fiber capacity addition and target to bring additional 10 million to our fiber capacities by end of this calendar year. On the Cable side we currently have a capacity of 15 million kilometers which if seeing higher utilization quarter-on-quarter and we should be running very close to between 90% to 100% capacity in the current financial year as we see strong signs of a further update from our existing customers as well as new users.

With this I would now like to hand over to Anupam who will take us through the financial highlights for the quarter.

Anupam Jindal: **Slide 18:**

Thanks, Anand. Before I walk you through our current quarter performance, I would like to highlight a strong highway history of telecom business performance. The five year EBITDA CAGR of 44% evidences a structurally strong business model of your company. Very equally excited about the fact that this growth has come with a much higher capital efficiency with a very strong focus on ROCE as one of the key levers of growth. We exit this year at ROCE levels of over 30%. At PAT level, Profit After Tax level we have more than doubled our profits in two years since our demerger from power business in FY16 from Rs. 154 crore in FY16 to Rs. 334 crore in FY18.

Slide 19:

This slide gives the quarterly financial performance trend for the company on a consolidated basis over the last few quarters. As you can see, revenues for the quarter stood at Rs. 847 crore registering a 20% year-on-year growth. But the EBITDA grew 44% on a y-o-y basis driven by growth in the product volume and supported by project execution progress, progressing firmly on a quarter-on-quarter basis. Our Profit After Tax for the quarter stands at Rs. 112 crore registering a 77% growth y-o-y.

Slide 20:

Moving to slide 20 you will observe that balance sheet remains our strong focus as we plan for scalable growth in all our businesses. Our net debt to equity which is another key metric we track closely is now at 0.7x levels. During the year FY18, we managed to generate positive cash generation after funding for growth CAPEX. We are now comfortably placed from balance sheet perspective and will keep a strong watch on key matrices as we plan for our growth.

Slide 21:

This slide brings you to the concise version of P&L and balance sheet for the whole year FY18 compared with FY17. At about 25% our EBITDA margins continue to remain amongst the industry best. We continue to deliver strong growth over FY17 on all key matrices revenue, EBITDA and PAT. ROCE at the end of FY18 stands at 30% and remains a key metric for our future growth.

Slide 22:

Before we move to Q and A, I would like to reiterate that our accelerated growth levers are predicated on exponential growth in all business verticals. The combination of several underlined trends has led to multiplied growth in demand for fiber globally. We are confident about the demand for products and services in India driven by ambition to rapidly upgrade and transform communication platforms and networks. We also believe that the smart cities and software verticals have a potential to scale up rapidly. Addressing multiple scaling opportunities through a simplified business model with predictable outcome has given us the confidence to continue achieving a scalar growth on year-on-year basis and deliver sustainable value creation to our shareholders. This brings us to the end of our initial remarks and I would like to hand it over to the moderator for Q and A.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Varshit Shah from Emkay Global. Please go ahead.

Varshit Shah: Sir, I just wanted some clarity on capital raising, so I think you have passed a resolution for raising Rs. 2,000 crore via NCD. So could you just elaborate on that, what are the plans out there, I mean anything else. Or is it just additional capital or is this to retire debt or anything like that?

Anupam Jindal: Yes, so basically this is our annual exercise where we take shareholder's resolution to raise funds either through NCD or various other debt instruments, as well as any other equity measures. So we have been taking that until last year for about Rs. 1,000 crore, this year we have increased.

Varshit Shah: Right, so that was one of the observations, so any particular number which you are looking at this year or?

Anupam Jindal: Nothing at this moment we do not have any requirement as such, they are sufficient. So there is nothing on the card right now.

Moderator: Thank you. The next question is from the line of Alok Deora from IIFL Wealth. Please go ahead.

Alok Deora: So I just had two questions. One was on the order book front. So I believe this order book of Rs. 5,200 crore does not include that Rs. 3,500 crore order.

Anupam Jindal: Yes, that's right

Alok Deora: So any particular reason we have not included because that was received in some time in February, so is it like it is not finalized yet or it is going to get finalized in the next quarter or something or what is the situation on that?

Dr. Anand Agarwal: Alok, this is like a defense order and there are processes within defense we had to talk about it because we have received the APO. It goes through and it is paid by the DOT so it goes through a cabinet approval. So all these processes will take another two-three months before which we can receive the final contract such an order.

Alok Deora: Right, but the order is sort of secure. I mean there is no question of?

Dr. Anand Agarwal: Yes, the APO process itself is towards that itself.

Alok Deora: Right and sir out of this Rs. 3,500 crore, how much would be products, how much would be EPC or would it be like significant part would be EPC?

Dr. Anand Agarwal: Alok yes, we do not do EPC, so 75% of this will be system integration, there will be no products and about 25% is O&M for the subsequent seven years.

Alok Deora: Right, so what would be the margin in this?

Dr. Anand Agarwal: The margin profile is very similar to what we have for the other system integration business, about 12% to 14%.

Alok Deora: Right. Just one last question. What would have been our capacity utilization in OF and OFC in the fourth quarter?

Dr. Anand Agarwal: OF we are running very close to 100% and OFC running at about 90%.

Moderator: Thank you. Next question is from the line of Karan Uppal from Haitong Securities. Please go ahead.

Mukul Garg: Hi, this is Mukul from Haitong. So Anand, first question was on the margin performance which you delivered in this quarter. It was quite impressive. How should we look at the long-term margin outlook for Sterlite considering this quarter's performance? Was the Q4 impacted by any sales in the spot market or did you undertook a pricing increase, you know there was a mention of high value products so should we look at in the long-term higher value product increasing further from here, up there by increasing the possibility of further margins from current levels?

Anupam Jindal: See Mukul, this is Anupam here and I will address this question. So overall this margin improvement which we have seen in Q4 is a result of couple of things. One that the products and services the ratio has been more skewed towards product. We have delivered better volume as compared to Q3 particularly on the fiber cable side where we have seen a better utilization coming close to 90% of capacity which was running at about 60% till last quarter. So that is one and that is also given us operating leverage in our operating performance. So that is sustainable. Number two, in terms of contribution of the new product continues to be there, so that is similar to last quarter, so that again plays a role. Definitely the margin coming in from better realization is also spanning out because we are saying that we continue to remain in long-term order book, so we do not have any spot order booking and therefore that revenue or that realization. But overall, we can see part of this margin sustaining. We believe in growing the absolute value of EBITDA, the margin is a derivative of mix while if you look at from the full year perspective, we are still at 25%, so I think as long as we continue to maintain this kind of revenue mix, we would see that 24%, 25% margin. But absolute EBITDA we are quite sure that it will continue to improve on quarterly basis.

Mukul Garg: And Anupam, just on a related question, now that you are coming close to or you will be coming close to the capacity in your OFC production line; any thoughts on the expansion there, do you think it is possible that it will be FY19 or FY20 even considering that the Bharat Net orders would start flowing in soon?

Anupam Jindal: Sure. So we are working on that plan as well but as you see better utilization of capacity we have started working on the ground in terms of preparation for the expansion. We are working in terms of location, existing location or a new location those kinds of decisions we still need to take. Maybe at some point of time in this quarter we may come with some announcement on this.

Mukul Garg: Okay and on Bharat Net Phase II are you L1 in any of the areas and any update there?

Dr. Anand Agarwal: Currently nothing to update there, so we are pretty active in the opportunities both for products as well as for system integration. As anything comes we will definitely inform you.

Mukul Garg: Sure thanks. And if I may squeeze one final thing, Anand. You have seen a very significant pickup in Europe revenues during FY18. How should we see that in the longer term, is that something which is going to continue?

Dr. Anand Agarwal: The mix batch we have of 50%-50% is coming in from a visibility on the order book perspective. So I would not want to comment on Europe versus China, but broadly we would be at those kinds of numbers for the next few quarters or so.

Anupam Jindal: So again Mukul absolute number we are driving and the percentage of revenue or percentage of export between China and Europe are again derivative and can vary quarter-on-quarter. But as a design we are moving with new customers and new geographies within Europe and otherwise also, because we are increasing volume we need to capture that.

Moderator: Thank you. The next question is from the line of Mayank Babla from Dalal & Broacha. Please go ahead.

Mayank Babla: One question mainly was that our contribution from domestic as in contribution to domestic revenues has come down from 63% to 46% and so in absolute terms it is down by 9.7% year-on-year. So I just wanted your view about the domestic environment in terms of orders and for the next two years at least apart from the Rs. 3,500 crore order that you won other than that?

Dr. Anand Agarwal: So Mayank, overall the domestic part we continue to be overall at a macro level pretty bullish on the domestic segment which is for us which is defense, Navy order is a representation of it, Bharat Net is a representation of it, and we are very-very bullish that the CAPEX spending by all the telecom providers for their 4G backhaul is kicking off. So like, we are not reading a whole lot into the shift in domestic revenues between 2017 and 2018. We are fundamentally continuing to be very-very bullish about the Indian market and continue to play a very strong role here.

Mayank Babla: Okay. And apart from that sir last question, are we looking at any geographic expansion from the current mix that we are present in?

Dr. Anand Agarwal: No, we are pretty focused. So what we have is India, we have Europe, we have China and then some focus in Middle East and Latin America.

Mayank Babla: Okay so there is no plan to expand in to Australia?

Dr. Anand Agarwal: Nothing substantial order or material order.

Moderator: Thank you. Next question is from the line of Harshit Patel from Equirus Securities. Please go ahead.

Harshit Patel: We have told that we could bring about another 10 million fiber kilometer by the end of CY18. So would China contribute to this capacity expansion or everything will happen in India only?

Dr. Anand Agarwal: Harshit, the glass we are fully producing it in India. China we have set up some parts of the expansion in downstream which is in the draw part. So it is going to be a combination of both India and China. The expanded capacity that we are putting in of 20 million, glass is all coming in India and draw is equally coming in India and China.

Harshit Patel: Great okay. Then on the realization part over the last analyst call you had mentioned that the current realization for the contract prices are around $8.5. So have we seen any more uptick on that front or they continue to be somewhere around $8.5?

Anupam Jindal: So Harshit, overall realization from our perspective continue to be in that range $8.5 and as I said the spot prices are higher. They are continuing to be higher, but from our perspective long-term order books which we carry and we serve our revenue from there is on that realization.

Harshit Patel: Okay sir. And sir, just one last question so what would be the growth for the Elitecore for the current fiscal year for the last one I mean FY18 one?

Dr. Anand Agarwal: For us Harshit services and software is now getting fully integrated into what we do, and within that business we saw almost revenue jump for services and software combined of the order of 40%.

Harshit Patel: Okay. And for the current quarter what would be our mix between products and services?

Dr. Anand Agarwal: Quarter wise we do not have those mixes, essentially because it is now getting very-very integrated. All the offerings are becoming network offerings with products, services and software getting integrated.

Moderator: Thank you. Next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao: Two questions I had. One is there an impact of positive or negative on your margins with the shift to International geographies in terms of the revenue mix? I mean we have seen a big shift this year and then improvements in margins so is that something to correlate?

Dr. Anand Agarwal: Srinivas, the margin expansion as Anupam explained earlier is, we have gone from 23% last year to 25% and it is being with better volumes, better operating leverage and more value added products.

Srinivas Rao: And secondly my other question was the 'Idea-Vodafone' merger they both have extensive fiber networks there is a talk of them having some common fiber overlap. Does the merger have any impact at least from your perspective on the medium-term demand I mean can it fall or be lower or you do not think that could be the case given that continued investments in 4G will continue?

Dr. Anand Agarwal: For us we are seeing that the investments will increase only, and all the discussions are in that direction only because the combined map also the 4G backhaul penetration with towers is less than 20% for the combined as well. And that is our market. And for anyone to go further in 4G fiber backhaul strengthening is absolutely required. So for us we see it becoming a stronger company with stronger balance sheet and with greater propensity to spend.

Moderator: Thank you. The next question is from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.

Tejas Sheth: We saw a significant jump in demand from China in CY17. I just wanted to know at what stage of deployment is China for 5G? I mean they have already started and that is why this demand has come or it is still the 4G front haul is where the deployment happened?

Dr. Anand Agarwal: So Tejas, China has been most focused on 4G as well as fiber to the home. 5G trail some trial will start with China Mobile at the end of this year. So 5G demand is yet to come.

Tejas Sheth: Okay. So globally none of the regions are actually seeing deployment of 5G?

Dr. Anand Agarwal: No, because the standards are still being made out. So this year the Esskay Telecom in Korea will do something. We will see 2019 hopefully with the standards getting frozen commercial deployments of 5G. But several places within the world AT&T is talking Verizon, Esskay Telecom as well as NTT Docomo they are all talking about doing trial deployments in 2018.

Tejas Sheth: Okay and are we working with any of these companies?

Dr. Anand Agarwal: Yes we are working with few of them. We are working with a few of them on the cable side and what we see the overall 5G deployment is clearly a eight to ten-year cycle.

Tejas Sheth: Okay. Sir, my second question is on the broad strategy. How you see the ratio of having contracted volume versus playing in the spot market?

Dr. Anand Agarwal: That is absolutely clear Tejas. We have been maintaining this for the last two, three years or so that we do not play in spot market. We are more and more becoming an integrated network provider and a partner to our customers. So for us the short term opportunity does not mean much.

Tejas Sheth: So if you get a offer to play 100% on the contract side you would do that?

Dr. Anand Agarwal: We are actually doing that today also.

Tejas Sheth: And sir lastly, what would be our order bid pipeline as on FY18?

Dr. Anand Agarwal: It would be Tejas we explained that a couple of quarters ago also that we are focusing now in the inability of the bids that we go in instead of increasing the size of the funnel. Size of the funnel now post this navy APO would be Rs. 7,000 crore to Rs.8,000 crore.

Tejas Sheth: And most of that will be towards service side?

Dr. Anand Agarwal: No, it is both, so with Bharat Net, etc., happening, there is a big funnel that we have put in for Bharat Net as well.

Moderator: Thank you. Next question is from the line of Varun Agarwal from BOI AXA Mutual Funds. Please go ahead.

Varun Agarwal: Just trying to understand a few bits from the pricing side. Last time you had answered on the call that the pricing for the contracts which are renewed on long-term are plus minus 10%. So I am just trying to understand what are the change for when it is expected to change for this year or and second question is on the 5G terms, will that alter our open margin profile in the sense the new product which will come out?

Dr. Anand Agarwal: Varun, the contracts that we have been talking about this year the prices anyway flows in. The range that we talked about will be for the subsequent years of the contract. And as far as 5G products are concerned the demand is going up by multifold times. Very early right now to say what that will do to the margin profile, but clearly these are very high density different kind of products where we are taking a lead in manufacturing and designing and developing those products. And as we said earlier, working with some of the telcos in deploying them as well.

Varun Agarwal: Okay, but right now we are not I mean the 5G itself is not contributing anything to our revenue right now?

Dr. Anand Agarwal: No.

Varun Agarwal: Okay on the Services side, how do you see the overall services business panning out over like two-three year period? Do you think the overall because of the kind of orders we are getting the service business also is getting bigger and bigger in terms of size?

Dr. Anand Agarwal: Varun, it is difficult for us, we do not neither predict nor drive our revenue growth over, we look at every opportunity on its own merit, so this is a good opportunity that we have. We are going to focus on getting this order over the next three-four months and start focusing on deployment. There are couple of other opportunities. We are very-very selective in the services business and the numbers whatever happens will be a result of that focus. And if you see the order book currently we are out of the Rs. 5,000 crore about 80% is towards the product side, with the Navy order happening, the overall mix will start becoming 50%:50% but it is very difficult to predict as to how the revenue profile will start looking three years from now.

Varun Agarwal: One more question. If we enter a new geography or new client, generally we are over a long-term contract, but does the margins change for the new client as you said visibility of the order. So just trying to understand how the competition is, I mean if you can help with that?

Anupam Jindal: So Varun if you look at we have increased our volume consistently over last more than seven, eight years and our margins have continued to improve and that is reflecting that our new customers we do not need to compromise on the margins. So margin continues to be the same that which we do with the existing customers or new customers. So that does not have any bearing.

Varun Agarwal: So pricing more or less remains the same for others?

Anupam Jindal: Absolutely.

Moderator: Thank you. The next question is from the line of Snigdha from Axis Capital. Please go ahead.

Snigdha Sharma: So quick question from my side. One on the margin front, you know you have already mentioned that part of the margin expansion that we saw is sustainable going in to the future obviously subject to realizations. So can we assume that the 24%, 25% margins will sustain in FY19, FY20 and just on that front, you know on pricing, we have most of our contracts like you said are long dated contracts. So can we assume that there is little risk on realizations at least for the next possible future say two to three years?

Anupam Jindal: So Snigdha, just to simplify this thing, business by business if you look at I think we will continue to maintain the margin profile which we are demonstrating. So the final number at a consolidated level will be mix. So if we get this order sometime in early quarter, early this year the execution will also start happening on Navy side. So that may have bearing on the overall margin profile. But as we are maintaining that, that absolute EBITDA we continue to see moving up, number one. Number two, in terms of your question on the contractual orders which we have got and the variability in that, again from the market side which we see, we are not seeing any reduction in the prices. The prices continue to be very-very strong both at the spot level as well as long-term level. And as Anand mentioned that we are partnering with our customers particularly large customers so that we can continue to get visibility of volume rather than the realization, because as you have seen, for us volume certainty is far more important than the realization. Realization have already moved up and we believe for the next couple of years we will continue to play with that kind of number. That will give us this continuity of margin on business.

Snigdha Sharma: Okay and lastly you know on the working capital front, we have seen receivable days move up from 97 to about 115 days. Is there anything to read into that?

Anupam Jindal: So from receivable perspective, there is nothing major in terms of this may be a quarterly kind of thing where some of the things may have gone for higher number. Part of the reason could be our export increasing. I need to dig into more detail to understand the real reason, but I mean that could be the one reason I can think of. As our fiber cable business is increasing and that mostly goes outside the country for a longer debtor.

Snigdha Sharma: Alright, actually I apologize; I think it is just an increase from 97 to 99 days. I apologize, that is all. Thank you from my side.

Moderator: Thank you. The next question is from the line of Pranav Kshatriya from Edelweiss. Please go ahead.

Pranav Kshatriya: I was just trying to understand a little bit in more detail how the margin has improved because if my understanding is correct the OFC typically has a lower gross margin versus OF and the margin performance is largely coming from lower cost of goods and that means higher gross margin. So can you just even qualitatively give some color on how the moving parts are on the realization volume in the different part that is OF, OFC and Services?

Anupam Jindal: Sure. So I think we explained that in the early part of the call; part of it could be mix of the service and the solution business in the quarter being lower. Second part you are right about margin in cable business being lower than their fiber business but at the same time since we are now using better I mean utilization is getting much better, that operating leverage is coming in. So that is how the overall margins are improving and showing in the final result.

Pranav Kshatriya: Is there anything to do with the OFC realization as well going up?

Anupam Jindal: See the OFC realizations are aligned with the fiber realizations so that is anyway captured when we can take into account the fiber realization. So I think more of it is our operating leverage in the fiber cable facility.

Moderator: Thank you. The next question is from the line of Sameer Pardikar from ICICI Securities. Please go ahead.

Bhupendra Tiwary: Hi, this is Bhupendra. So I had a couple of questions. The first one is that since we have expedited this capacity expansion so how does the CAPEX spread looks for FY19 and FY20?

Anupam Jindal: See for the CAPEX I think it will still be spread over FY19 and FY20 equally. We have done the total CAPEX is going to be about Rs. 1,200 crore and a significant part is going to be spread over next two years FY19 and FY20.

Bhupendra Tiwary: What was the total CAPEX for 2018 if I can know that?

Anupam Jindal: Overall Rs. 525 crore which was also having some part of the old CAPEX which we did and that is what it came in the current year. On the top of that, some advances and initial payments for this Rs. 20 million CAPEX. I would say FY19 and FY20; FY19 could be more of similar nature Rs. 500 crore roughly. Since we are looking at expediting the CAPEX so it may be higher in FY19, maybe balance will spill over to FY20.

Bhupendra Tiwary: Okay, so out of the Rs. 1,200 have we actually made Rs. 200 - Rs. 300 odd crore kind of a CAPEX this year itself?

Anupam Jindal: Absolutely, Rs. 300 crore odd.

Bhupendra Tiwary: Alright which means that the spread will be Rs. 500 crore and Rs. 400 crore respectively. Now the second thing was what is the status of the NFS project, have we completed it and how much of it is left in the order book?

Anupam Jindal: So that is still there. This is likely to get executed in the FY19 and the remaining portion is appearing in the service order book.

Bhupendra Tiwary: And this Navy order is executable over how many years? I could not hear it.

Anupam Jindal: About two years after we get it.

Bhupendra Tiwary: About two years after you get it, and we are likely to get it up to the second half of the year, is it a fair assumption?

Dr. Anand Agarwal: Up to the end of H1 of this year.

Bhupendra Tiwary: Yes that is fair enough. I think in terms of realization I think like we said that OF realization continues at around $8.5, so OFC should be at the same level of $18 or $18.5, am I right in my assumption?

Anupam Jindal: Absolutely. You are right.

Bhupendra Tiwary: And in terms of the overall product and services, I hear you saying that services grew by 40%. And we are talking about the services revenues grew by 40% this year FY18, right? In the call you mentioned that the services and the system integration that software revenues grew by 40% for the year this year?

Anupam Jindal: Yes, roughly about that.

Bhupendra Tiwary: So which means that these mix of product to services would have changed from 70:30 or how is it looking right now, for the year I am asking?

Dr. Anand Agarwal: Yes, so to that extent the services part is closer to now.

Anupam Jindal: Also it was around that little less than 25, so right now it is around 25 plus.

Dr. Anand Agarwal: And Bhupendra, what is happening is now a lot of the contracts that we are doing, the products and services or services and software is getting included in the whole thing. And it is becoming difficult to create this clear classification.

Anupam Jindal: There are lot of products are also going in our service delivery. So elimination comes into play and then it becomes difficult to sort of explain it in terms of breakup.

Bhupendra Tiwary: Yes so actually you see I was working out with the margins things also and I understand the broader margins that we make across the segments which is the OF, we make 30% plus kind of a margin when OFC comes around to 20%-22% kind of a margin. So how has the utilization changed this margin trend? Have we actually trended upwards with so far?

Anupam Jindal: Yes, that is visible over the last few quarters or last few years rather the margin profile has been improving because of the better utilization.

Dr. Anand Agarwal: And the whole volume itself because the fiber business has great operating leverage and on OFC the capacity utilization is increasing quarter-on-quarter.

Bhupendra Tiwary: So the previous year and a half, two years back we were talking about making a margin of 31%, 32% in OF and 22%, 23% in OFC. How does it look like now in terms of the typical margin I mean at this kind of utilization? I just wanted to know.

Dr. Anand Agarwal: Yes, those numbers Bhupendra are not correct. So it is not 20%, 23%. It would be better if you can on the offline have a discussion with our IR team.

Moderator: Thank you. The next question is from the line of Depesh Kashyap from Equirus Securities. Please go ahead.

Depesh Kashyap: Just one quick question. Sir currently we understand that prices are increasing mainly due to global preform shortage? So you have mentioned in the slide that it may continue in CY18, but can you give us some sense of how much preform capacity is in the process and going to come by let us say CY19?

Dr. Anand Agarwal: Depesh, we keep a tab of it, it is difficult to know exactly when. The industry continues to be slightly not very open but what we are looking essentially is that the supply demand situation will continue to be tight, which is reflecting of the fact that we are actually now booking orders for the calendar year 2020 as well. So we are fully booked for 2018, we are largely booked for 2019, with the expanded capacity and we are booking some for 2020 as well.

Depesh Kashyap: That is great. Sir, like the capacity shortage mainly came in CY17 according to your slide. So if I typically look at it, it is a two year cycle for the new capacity to come, so will I be right to assume that the capacity supply can actually come in excess in CY19 globally if all the players are increasing it right now?

Dr. Anand Agarwal: It is difficult. As we said it is difficult. The reflection for us comes from what we hear from the suppliers and what we hear from our customers. The fact that our customers were wanting to give us contracts for 2020 gives us the confidence that the supply tightness might continue till then.

Moderator: Thank you very much. Due to time constraints we will take that as the last question. I would now like to hand the conference back to the management for any closing comments.

Dr. Anand Agarwal: So I would once again like to thank everyone for attending this call and I hope that we were able to address and clarify all your queries and comments. For any further clarifications and discussions, you can feel free to contact our investor relations team including Anupam and myself. And we really hope to continue our association and dialogue in the future. I thank all the participants for showing their interest in our company. Thank you and good evening.

Moderator: Thank you very much. On behalf of Sterlite Technologies, that concludes this conference. Thank you for joining us, ladies and gentlemen you may now disconnect your lines.