



“Sterlite Technologies Ltd. Q3 FY18
Earnings Conference Call”

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TECHNOLOGIES LTD.**

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MODERATOR: MR. NEERAV DALAL - MAYBANK KIMENG SECURITIES

Moderator: Ladies and gentlemen, Good Day and Welcome to the Sterlite Technologies Limited Q3 FY'18 earnings conference call. As a reminder, all participants' 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 and '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 Q3 FY'18 Results. Investors can also download a copy of these slides from the website after the presentation. I am now glad to hand the conference over to Mr. Neerav Dalal from Maybank Kim Eng. Securities. Thank you and over to you, sir.

Neerav Dalal: Ladies and Gentlemen, Good day and welcome to the Sterlite Technologies Limited's Q3 FY'18 earnings conference call. Sterlite Technologies is a global technology player focused on designing, building, and managing smart data networks for global digital service providers, smart cities, rural broadband, and large enterprises. With customer presence in over 100 countries and riding on strong technology platforms, the company has established itself as a unique global technology player with an integrated silicon to software offerings. Earlier today, the company announced their third quarter results for fiscal year 2018. We have with us today Dr. Anand Agarwal, CEO, and Mr. Anupam Jindal, CFO of Sterlite Technologies who will walk us through some of the business and financial highlights and strategy of the company. I would like to hand the conference over to Dr. Anand Agarwal. Thank you and over to you, sir.

Dr. Anand Agarwal: Thank you, Neerav. Welcome everyone. On behalf of the entire Sterlite Tech. team, I would like to start off by wishing all of you a Very Happy New Year. I trust that all of you have had an opportunity to go through the result document which were shared earlier today and are also available on the website. I will start off by covering the overall industry landscape, business performance and some of the key developments following which Anupam will walk you through the financial performance.

Slide 4:

I will first start with the industry trends and outlook. As is evident, on this slide, the industry outlook continues to be very bullish and all forecast indicate acceleration in data consumption globally by manifolds in the years to come. Cisco's Virtual Networking Index study indicates that growth in data consumption is set to sustain given that the scope of connectivity will only get wider and deeper in the future. Early estimates already indicate that global IP traffic in calendar year 2017 was close to 1.5 trillion gigabytes. In addition to higher proportion of the population gaining high quality access to the internet, the evolution of the device ecosystem as well as trends in internet usage which will drive per capita usage higher are combining to elevate global data consumption into higher orbit.

Slide 5:

The rapid growth in data consumption is being fueled by multiple vectors. These factors will cause a sharp explosion in the number of connected devices and further escalate bandwidth requirements. We have 5G network being developed by multiple organizations across the globe, while there are a variety of players innovating within the Internet of Things ecosystem. There is already immense change in the functioning of the enterprise, while smart cities technology is at the cusp of making leaps globally. What is certain is that these multiple applications covering all aspects of everyday life will push Exabytes of data onto our network, necessitating faster transmission. Connectivity will have to be seamless, invisible and instant, and network requirements will be stringent. No buffering, no lag, and no clog in network will be the norms of tomorrow's network.

In the next few slides, I would like to touch a bit on some of these growth drivers.

Slide 6:

5G is undoubtedly the next big thing on the global telecom and data arena. 5G trials are currently being rolled out across the world. Companies such as Orange, Verizon, Google, Samsung, Ericsson are already deeply invested in this technology and trials are now planned across the globe in the coming years including the current year as well. 5G as a technology not only promises faster data speeds, but also possesses the capacity to connect billions of devices. According to industry estimates, 5G will also bring down the cost of transmitting packets of data on the network to one-tenth of that on a 4G network. The technology is also expected to trigger progress across usages such as autonomous cars, apart from Internet of Things.

Slide 7:

Another key driver of data consumption is the changing contours of the global enterprise. Modified hierarchal structures; new models for employee and customer engagement; heightened information exchange; and collaborative functioning are built on a foundation of better connectivity. We are witnessing an increasing footprint of hardware such as workplace robots, 3D printing, wearables, sensors, etc. which cover multiple aspects from efficiency, safety, environment protection to security within the enterprise. As the penetration of enterprise apps, automation and big data increases there will be a sharp rise in the per capita data consumption by enterprises.

Slide 8:

The third growth driver that we are seeing globally is smart cities. Smart cities leverage technology to serve people, which in process bring sufficient systems to manage our cities. It is the analytics together with IoT that is turning ordinary towns into smart cities. With the development of meters and sensors, and the integration of real-time information from the citizens, vast amount of data will be generated. This data coupled with insights gained from

analytics will make sure that the city's water is clean; transportation is reliable; neighborhood is safe; and the city is much smarter about the way it uses the energy.

Slide 9:

The fourth growth driver which we wish to talk about is IoT. The Internet of Things is removing the separation between the internet and our physical world. In the past many IoT or machine-to-machine communication application transmitted small discrete amount of data on a regular basis. But now more advanced IoT applications are demanding high data rates over LTE connectivity. Going ahead, virtually everything that can be connected will be connected. The combination of increasing bandwidth, sensor technology and artificial intelligence will trigger an explosion of ubiquitous connectivity.

Slide 10:

Now moving forward, we will talk about how optical fiber continues to be a foundation for all the digital transformation and which is closer to where we operate in.

Slide 11:

As network requirements inch upward, optical fiber is clearly emerging as the future of digital communication. Optical fiber enables transmission of images, voice messages and videos at the speed of light. It has a tremendous advantage in terms of speed and distance which no other alternative technology available can match up to. There are other advantages too across aspects such as security, latency, strength, resistance, and ability to withstand extreme conditions, etc. Given these multiple benefits offered at fairly competitive cost, we foresee that optical fiber will remain the preferred medium of data transport and there is no technology today which can replace the speed, throughput and latency performance of fiber on any standards.

Slide 12:

Based on past data, the closest proxy one can see for fiber demand is the data growth globally. We have added the 2017 data also in the chart which we show to you every quarter. With data consumption continuing to show an upward trend it gives a good confidence on continued growth in fiber demand for years to come.

Slide 13:

This chart captures the global fiber demand over more than a decade which has shown growth on consistent basis. As per the latest estimates of 2017, the demand continues to outpace the supply which has kept the availability of fiber tight leading to extended delivery timelines. What is very encouraging is the fact that this demand is driven by all major geographies including North America, Europe, China, India which have demonstrated growth on year-on-year basis. The last few years have seen bulk of fiber investments being driven by a shift towards faster fixed line asset network and fiber backhauling of 3G and 4G sides. As we step into 2018, we see

5G mobile network infrastructure to become a very big driver and equally important contributor of fiber demand as FTTX.

Slide 15:

At Sterlite Tech, we are uniquely positioned to deliver the smarter networks for today and tomorrow. On the backdrop of this massive digital opportunity, we at Sterlite Tech remain very bullish at the prospects. With our unique positioning as the only Silicon to Software player globally, we bring our customers an array of optical transmission products, and service and software offerings which are integral components of future data network. With the fully integrated manufacturing platform, starting from bare silica, extending up to the application layer with our software products, we are not only able to derive industry best margin structure but also engage at the network design and creation stage with our customers as they plan for next generation network.

Slide 16:

Over the last few years we have invested deeply in people, processes and technology to build end-to-end data network creation capabilities. With these new capabilities, we are now uniquely placed to engage with our customers at the network design stage and become the trusted partner for an end-to-end rollout and post execution management to deliver best-in-class network performance.

Slide 17:

In this slide, we talk about how technology is at the core of our offerings. It captures the unique position we have built as we get ready to embark on the growth journey. This position has been built upon advanced capabilities and technological expertise developed over the years that continues to differentiate us from other players. Using technology as a key lever, we are able to serve the diverse and evolving requirements of our customers across 100 countries and executing challenging projects in some of the world's toughest terrain.

Slide 18:

I would now like to share some of the important Business highlights of our last quarter.

Slide 19:

Backed by a strong focus on research and technology, we filed seven new patents in this quarter which takes our total patent portfolio to 169. As announced in the beginning of the year, we are now embarking on next phase of fiber capacity expansion from 30 to 50 million kilometers. This Greenfield expansion which is going to be undertaken in our Aurangabad location, received the necessary approvals from the Ministry of Electronics and IT, and was accorded Ultra Mega Project status as per Maharashtra Government's Industrial Promotion Incentive Scheme. We are progressing well in terms of the overall timeline of the project and look forward to building a

state-of-the-art manufacturing facility with all latest equipment and higher operating efficiency. With our deepening reach in new geographies and our fiber portfolio offerings, our order book stands at an all-time high of Rs. 4,573 crore as at end of Q3 of FY'18. Amongst others, the Sterlite Tech Academy, which is one of its kind initiative in the country to bring global best practices in fiber deployment to local installer base, will be training around 2000 youths from Jharkhand as Smart Optical Fiber Technicians

Slide 20:

Amongst many accolades during quarter, we feel extremely honored for being recognized on multiple platforms for our CSR initiative, receiving multiple awards in that category. Sterlite Tech. was also recently awarded with 'Best Connected City Deployment' award for the successful deployment of India's First Live Smart Services City in Gandhinagar, Gujarat. Since going live in December 2016, this Smart City Services project has brought transformative changes in the everyday lives of its citizens. This global honour is an acknowledgement of our expertise for a project which has set a global benchmark for future-proof smarter digital infrastructure for Smart City development.

Slide 21:

We are happy to report yet another strong quarter from order booking point of view. Our order booking now is at a record high levels of Rs. 4,573 crore, representing almost 70% growth on a YoY basis. This order book is well balanced across the Global as well as the Indian segment. In addition to this, our order book maintains a healthy balance mix between our products and services segment. We continue to strategically enter new markets and regions to enhance and elevate our presence, and build customer relationship for the future. In the current quarter, 60% of our revenues have come from the export market witnessing a significant 78% YoY increase.

Slide 22:

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 23:

Thanks, Anand. This slide provides us the highlights of the quarterly financial performance trend for the company on a consolidated basis. As you can see, we have delivered a strong growth in top line, margins, and the bottom line. Revenue for the quarter stood at Rs.836 crore registering 14% YoY growth. EBITDA grew 44% on YoY basis, driven by the growth in the product volume and supported by the project execution progress, progressing firmly on QoQ basis. Our Profit after tax for the quarter stands at Rs.90 crore, registering a massive 83% growth YoY basis.

Slide 24:

This slide brings you the concise version of P&L for nine months FY'18 compared with nine months of FY'17 and also with full year of FY'17 performance. At about 23%, our EBITDA margin, continues to be the best in industry. As you can also see our nine months' performance on most of the parameters like EBITDA and PAT has already surpassed full year FY'17 numbers. Another important KPI which we monitor and report, ROCE for nine months FY'18 stands at 29% and remains a key metric for our future growth.

Slide 25:

We continue to have a very strong focus on the balance sheet even as we plan for scalable growth in all our businesses. During the three quarters of FY'18 we saw a net cash generation of about Rs.80 crore after CAPEX and taxes. We remain committed to keeping the debt-to-equity ratio below 1.0, which currently stands at 0.8, down 35% on YoY basis. Going forward, we will continue to elevate the trajectory of growth and cash generation to strengthen the balance sheet further. We continue to be extremely focused to keep our balance sheet light and improve our return ratio as we plan for the growth.

Slide 26:

Let us look at the five-year journey in the past. The slide is a reflection of our past performance in the telecom business. As you can see, we continue to demonstrate healthy growth in our business profits with superior return. On five-year CAGR basis, while the revenue growth was 24%, the EBITDA growth was almost 38%, the ROCE profile of the business has also improved over the years and now operating at plus 25% range.

Slide 27:

At Sterlite Tech, we strongly believe in focusing on triple bottom line. We strongly believe that the only way to do businesses is by being responsible socially and environmentally. When it comes to the CSR, Sterlite Tech has taken great strides over the years to safeguard the wellbeing of its community. In recent times, the company revamped its key CSR projects in education, health, women empowerment, and rural and community developments with focus on creating 360 deg. impact.

This brings us to the end of our initial remarks. I would like to hand it over to the moderator for Q&A session.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Snigdha Sharma from Axis Capital. Please go ahead.

Snigdha Sharma: I have three quick and short questions; one, if you can give an update on the capacity expansion and how has that translated into volumes for us? Secondly, if we can discuss the puts and takes

on margins; we have seen a very good improvement there. Thirdly, if you can provide some more color on the order book.

Dr. Anand Agarwal: On the capacity expansion, the project of 50 million kms is on track and it will be finished by June of 2019 and we will start seeing volume increases from then. In terms of margins what we have seen, in the current quarter it is being relatively more on the products end and that is why you see a slight margin up-kick QoQ, but we will be in the 22-24% range which we have guided earlier. In terms of the order book as we have said about Rs. 4,500 crore, out of that Rs. 4,500 crore, it is about Rs. 3,200 crore is on the product side and about Rs. 1,300 crore is on the services and software side, so about 70:30 breakup.

Snigdha Sharma: On the margins front, can you give us some more color on what drove the margin up? Can you talk about the breakup on the volume and realization front?

Dr. Anand Agarwal: On the margins front, we have been maintaining that we have a great operating leverage on the optical fiber business, so QoQ we see some operating leverage getting better. As we had mentioned a couple of quarters ago, we have done long-term contracts and the pricing is slightly getting better. The proportion of product business as compared to the total business is slightly higher. It is a mix of all of that which has created this quarterly margin improvement.

Moderator: Thank you. We will take the next question from the line of Pranav Kshatriya from Edelweiss Securities. Please go ahead.

Pranav Kshatriya: Sir, my first question is regarding order book. This order book is primarily from the product business. Can you help us understand which geographies have contributed more to the order book increase and how do you see the growth from different geographies? Secondly, can you comment on how the execution in the services business has been and how the growth in that business has been? In Services business, the order book seems to be plateauing at the current level. How do you see this going forward?

Dr. Anand Agarwal: On the order book front, it is a reflection of our sales as well. Bulk of our sales continues to be in Europe and China and our order book is also a reflection of the longer-term contracts that we are doing in both of these geographies. In terms of the second part of what you spoke about the plateauing of the services; services is essentially as we have talked about is more on the project side, we are getting smaller orders which is essentially from either the telecom providers or smart cities and the big shift happens with larger project orders which we are yet to see. So on a proportion basis, our order book is at 70:30 sort of a ratio which we are currently comfortable with.

Pranav Kshatriya: Do you have any visibility on the bid pipeline, how it is looking versus how it was let's say a year back?

Dr. Anand Agarwal: The bid pipeline overall, I would say in terms of the magnitude would be similar. But in terms of the attributes of various players it would be across the segments, so we have bid for

projects which include smart cities, defense, and creating the network for telecom providers. So in terms of diversity I would say it is a good pipeline and we should start seeing some macro orders over the next six to nine months.

Moderator: Thank you. We will take the next question from the line of Alok Deora from IIFL Wealth. Please go ahead.

Alok Deora: Sir, just a couple of questions I had; one was in the capacity utilization front like we are operating with around 30 million fiber kilometers. So are we operating at around close to (+90%) sort of utilization at this moment?

Dr. Anand Agarwal: Yes, Alok, we are actually operating very close to the capacity utilization, I mean, we had achieved this rate almost two quarters ago also but now we are able to achieve at almost close to 100% but with more value-added fiber, so almost 22-23% of what we are producing is higher realization value-added fiber.

Alok Deora: In terms of Cables, we were at around 15 million sort of capacity, so we were doing around 6-7 million. So are we seeing any good traction on that part?

Dr. Anand Agarwal: As we had guided earlier, we would be closer to 70% of the capacity utilization this year and next year should be closer to 90% for which we have a good visibility.

Alok Deora: One question on the services part; like have we won any smart city projects recently? In terms of BharatNet are we looking at any significant orders coming through with the Phase-2 starting now, like I think it is starting in a couple of months' time? So are we looking at any significant order flow from that front?

Dr. Anand Agarwal: Alok, the last order for Smart Cities that we won was for Kakinada, that we talked about I think in end of Q1. Post that we have made a few bids. So we will get to know the status of that either this quarter or next quarter. BharatNet Phase-2 you are right that the cabinet has approved that spend, and what we are seeing essentially is that several tenders are getting drafted between cable tenders, between services tenders, both centralized as well as the state kind of tenders. So we believe that between now and June or July of the current calendar year we will see a great amount of activity in terms of some of these requirements getting firmed up and we are pretty much in fray for these tenders for the fiber and cables part.

Alok Deora: We have seen a significant improvement in the margin coming close to 23-24%, so going forward on the product business, which is typically the highest margin would be a larger contribution to the top line. So these margins would be sort of sustainable for next couple of years or would we see any sort of pressure in that?

Dr. Anand Agarwal: See the margins as we have all the time maintained that we operate in almost four different business segments with different margins; So we have fibers, we have cables, we have services and we have software. And the resultant margin is a reflection of the mix of the revenues that happen for the current quarter. We would be happy if we are in the range of 22-24%, some

quarterly blip either way will keep happening, but if we see the nine months range we are at 23% range and that is the range we would like to continue to maintain and drive.

Moderator: Thank you. We will take the next question from the line of Jigar Shah from Maybank. Please go ahead.

Jigar Shah: Your presentation gives a good idea about where the industry is going in terms of consumption and that gives me the impetus to ask the question that your data consumption in India should lead to the new network creation by the telcos. So the current order book, does it include any of such orders for the creation of the data networks which I believe you have the capability?

Dr. Anand Agarwal: Thanks, Jigar. Overall, the current order book that we have as you see; large part of the order book is on products and large part of the products order book is global. So the India part in terms of the India telcos orders for products as well as BharatNet is yet to kick in. In terms of services, on our own choice we are doing small contracts for a couple of telecom providers in creating their mobile backhaul for tower connectivity. Wherever we are able to do justice to our set of capabilities of designing and building reliable long-term networks, we are engaging with the few telecom providers. It is currently not substantial, but we believe in the next 9 to 12 months it can be something substantial.

Jigar Shah: Is there any number that you can provide in terms of the bids that you may have in place at the moment?

Dr. Anand Agarwal: The overall bids that we have between services and products would be in the order of Rs. 12,000-13,000 crore.

Jigar Shah: The other thing is on your expansion you mentioned that you have received certain approvals. Now does this mean that if you are under ultra mega project or something you are subject to certain amount of quantified incentives, can you quantify them if it is the case?

Dr. Anand Agarwal: On the state side there are things like you get subsidies for power, water, land, etc. It is definitely not significant in a quantitative manner but what happens is we get a single window fast clearance and the entire project is under a super-fast clearance from a state perspective, and the same happens at a center level. So this is a prestigious project for Ministry of Electronics and IT. So on all those fronts, it becomes much easier for us to move forward.

Jigar Shah: Now that we know the roadmap up to 2020, I think things are very clear for your growth. Anything further on post 2020? We also saw recently I think an acquisition by the Group, of your owner in the glass segment in Japan. So are there any other thoughts beyond the current priorities?

Dr. Anand Agarwal: No, Jigar, we are currently very-very focused on what we do. We believe we have the industry that we operate in has great opportunity. The portfolio that we have chosen for ourselves of products, services and software has great opportunity. Customer base has great opportunities. We are very-very focused on what we do and we are extremely excited about what we are doing.

- Moderator:** Thank you. We will take the next question from the line of Rahul Singh from Ampersand Capital. Please go ahead.
- Rahul Singh:** I have two questions; one is on the margins you mentioned briefly that because of certain contracts the pricing has turned better. So just wanted to get proper understanding of that and whether that pricing environment is going to sustain beyond this quarter? And number 2, on the capacity expansion from 30 to 50 mn fiber kilometers, is it going to be in phases or is it going to be in one shot by June 2019?
- Dr. Anand Agarwal:** Rahul, on the margin front, clearly, as we have said that it is a mix of both the pricing as well as the value-added products that we are supplying. So for 2018 I can say that for the products business we have a great level of clarity. End of 2018 all these contracts have a provision of volume and pricing negotiation within a range. So maybe around this time in 2019 we can talk more about it. The project currently has a bit of a modular part of it which we are trying that by early 2019, we start seeing some benefits of the project and by June '19 the full project gets established.
- Rahul Singh:** Just one quick follow-up; this pricing environment being favorable till 2018 and at least, what is it being driven by in terms of the global demand/supply, what exactly is driving that if we can just try and understand that will be of great help?
- Dr. Anand Agarwal:** The macro driver continues to be the data services. Within that macro driver of data services, a lot of the telecom providers are starting to prepare for 5G connectivity. And as they prepare for 5G connectivity, the fiber is going much deeper and the fiber count in the cables is getting much-much higher, so the fiber count in the cables which typically used to be 40 or 50, now we are consistently seeing them 200-300 fibers per cable. We have ourselves come up with designs of more than 1,000 fibers per cable for the first time in this part of the world. The fiber is getting deeper and the fiber count is getting higher which has created supply/demand mismatch currently. That is why from \$7-8 range, it is at the higher end of that range that we always talk about.
- Moderator:** Thank you. We will take the next question from the line of Harshit Patel from Equirus. Please go ahead.
- Harshit Patel:** Sir, what would be the execution timeline for our services and the products order book if you can tell that?
- Dr. Anand Agarwal:** Harshit, the current services order book would largely be executed in FY'19. The product order book is currently for FY'19, part of FY'20 and some part of FY'21 as well.
- Anupam Jindal:** Harshit, just to add one more thing; on the services business we also have this Rs.500 crore of AMC included which will have a 7-year of execution, it is like Rs.70 crore per annum kind of thing.
- Harshit Patel:** So how much execution for the NFS orders would be remaining now?

- Anupam Jindal:** Harshit, we will have about Rs. 300 crore plus kind of revenue to be booked over next nine months or so.
- Harshit Patel:** On the question that earlier participant had asked, so sir this capacity expansion I understand that it would be modular. So what would be our exit capacity at the end of let us say second quarter of FY'19 or the fourth quarter of FY'19?
- Dr. Anand Agarwal:** Second quarter will remain almost the same. Fourth quarter we are trying to see if we can reach closer to 40.
- Moderator:** Thank you. We will take the next question from the line of Mukul Garg from Haitong Securities. Please go ahead.
- Mukul Garg:** Anand, first question from my end was on the pricing. I know quite a few people have already asked but maybe if I can tackle it from a slightly different angle, in the past you guys have mentioned that your average pricing is between \$7-8 and if we look at spot market it is much higher and also earlier on the call you mentioned that about 22% of your fiber is value added. So if you can give us any indication of what is the blended optical fiber price which you guys are getting right now? Has it reached over \$9, \$9.5 or is it still below that?
- Dr. Anand Agarwal:** Mukul, it is currently closer to \$8.5 or so. As we said that for 2018 that ought to be around the range between \$8 and \$8.5 depending on how much value added fiber business that we do. 2019 and beyond it will be negotiated in the end of 2018.
- Mukul Garg:** The second part was on the India business. You mentioned first on the telco side that still most of the order book is coming from outside and we can see a reflection of that in your current quarter revenues as well. Do you have any indication from the telco's that now most of their pain is behind them, are they trying to be more aggressive in spending their backhaul capacity or is that something their visibility is still low?
- Dr. Anand Agarwal:** We clearly see; I mean intent from all the telco's is absolutely clear that every single 4G tower has to be connected by fiber. That intent is getting converted into purchase orders in different stages of evolution. So we are absolutely clear that this is something that will happen, we are in final stages of signing a few contracts as well. I believe between Jan and June, we will be signing contracts with most of them.
- Mukul Garg:** One question in relation to the first question; is your average pricing also impacted by the breakup between India revenues and International revenues?
- Dr. Anand Agarwal:** The fiber pricing is globally the same pricing. At import parity its air shipped everywhere, so there is no differentiation in India or global prices.
- Mukul Garg:** On the BharatNet 2 order size, there is a lot of discussion on the decentralization and the concerns because the states do not have the money to actually payout on the second phase, the whole thing is getting delayed because of the inability to pay, what has been your interaction with the

Government both at State and Central level and do you think that is going to be a concern like BharatNet Phase-1?

Dr. Anand Agarwal: No the decentralization is being done along with money coming in from the USO Fund which is being governed by BBNL. So there is no current concern on funding or decentralization. Decentralization is done towards better control and faster execution because some of the States have taken the initiative of managing and monitoring the network themselves.

Mukul Garg: And some portion will still come from Center?

Dr. Anand Agarwal: All the money for connecting the villages, the scope of the BharatNet which is between District and Gram Panchayat, all that money will come from center.

Moderator: Thank you. We will take the next question from the line of Sameer Parekar from ICICI Securities. Please go ahead.

Sameer Parekar: Is it fair to assume that breakup of products and services revenues would be 75:25?

Dr. Anand Agarwal: Yes, that is right.

Sameer Parekar: If I were to see the kind of margins that we make in terms of products, so am I on the right path that we make upwards of (+25%) in the product segment, while the services would be in the teens, right?

Anupam Jindal: Yes, about 10-11%.

Sameer Parekar: Just wanted to understand in the whole scheme of things where we are looking at \$100 million kind of profitability in FY'20, I understand that the capacity expansion comes into picture from FY'20, but your services would also be in the whole part of the reason that you are building in, in terms of the profitability building of the enterprise, right?

Dr. Anand Agarwal: Absolutely.

Sameer Parekar: Did I hear it right that 60% of the overall revenues were exports?

Dr. Anand Agarwal: That is correct.

Sameer Parekar: If you could clarify, is it a pure product or a combination of products and services?

Dr. Anand Agarwal: Both Products and Software. Services we do only in India. Products and software, we are pretty global.

Sameer Parekar: So basically we are talking about the Elitecore part?

Dr. Anand Agarwal: Yes.

- Sameer Parekar:** So elitecore services if we can get a sense will like any other IT player 70-80% of the revenues come from outside India, am I right or is it on the lower side?
- Dr. Anand Agarwal:** Yes, it is about 70% global and 30% domestic.
- Sameer Parekar:** Which means during this quarter we made Rs.500-odd crore of export revenues which again was around Rs.400 crore last quarter. I think, when we sell this kind of thing, so basically our driver would be raw fiber part or the OFC part in terms of the exports?
- Dr. Anand Agarwal:** All three, Fiber, Cables and Software.
- Sameer Parekar:** What would be the realization that we would be getting in terms of the market realization of the Optic Fiber, Cable?
- Dr. Anand Agarwal:** Cable is as we have maintained, cable is a function of fiber, so it is at the margin of the same 13%-14%.
- Sameer Parekar:** In terms of realization, would it be right to assume \$18 to \$19?
- Anupam Jindal:** Yes, it is about \$18 to \$19, you are right.
- Moderator:** Thank you. We will take the next question from the line of Varun Agarwal from BOI AXA Mutual Fund. Please go ahead.
- Varun Agarwal:** In FY'18 end probably you will look for renegotiation of contracts of our products business. So wanted to understand will it help in improving our margins, going forward or will we see the same range?
- Dr. Anand Agarwal:** It is just a range-bound negotiation both on volume and pricing plus/minus 10%. So based on our supply/demand situation starts looking at the end of FY'18 for FY'19 the negotiation is in a tight range.
- Varun Agarwal:** Second question is on the BharatNet. About the Indian telco's, sufficient orders can come in next couple of years. Is visibility there in terms of BharatNet?
- Dr. Anand Agarwal:** Varun, we take a step at a time. So the positive is the fact that the cabinet has approved BharatNet Phase-II. As we said between Jan and June there will be several contracts on the centralized/decentralized products services tenders. And we will keep on updating. So currently the step that has been taken is that the cabinet approval is there. There is a great amount of urgency in trying to build that network by March of 2019 and there is a high level of activities in terms of anything that end. But as soon as there is something more material and concrete to report, we will do that.

- Varun Agarwal:** We are taking our fiber capacity from 30 to 50, so just wanted to understand, it definitely will result in better ROE incrementally because more revenue is slated to come from our fiber, is it right to assume?
- Dr. Anand Agarwal:** We focus on ROCE maintaining closer to 25% or so. So you are right, with greater capacity utilization the ROCE would be high.
- Moderator:** Thank you. We will take the next question from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.
- Tejas Sheth:** Sir, typically these contracts on the pricing side are for what – one year, two years or three years?
- Dr. Anand Agarwal:** Tejas, volume contracts and the price contracts typically are like right now we are seeing between two to three years; the first year the pricing is certain, the second year and third year the pricing and volume can be negotiated in a range.
- Tejas Sheth:** Let us say this 480 million of fkm which was there in CY'17 assuming that there will be obviously growth in coming years, what part of the global supply would be this contract based and how much will be on the spot side?
- Dr. Anand Agarwal:** We do not do any spot. As we said exports is about 60-65%, bulk of the exports currently are in Europe and China and the order book is also a reflection of our deepening presence in those geographies, there is definitely some kind of newer customers that we have developed in Middle East, in Latin America, etc. But bulk of the contracts are in Europe and China.
- Tejas Sheth:** No sir, actually I was trying to understand the Global supply. How much of that would have been tied up in terms of contracts?
- Dr. Anand Agarwal:** It is very difficult to say that; I mean in the industry nobody reports how much supply has been tied up.
- Tejas Sheth:** In our last 12-to-18-months of this contract negotiation, how has been the tying up when the client really negotiates, I mean is it more of the buyers' market or is it more of the sellers' market right now?
- Dr. Anand Agarwal:** So it is a supply/demand situation. For us the focus has been more and more getting into tier-1 accounts, more and more getting into longer-term contracts. So there is healthy discussion as we maintain. We are not in the spot market. So for us we are using this opportunity of supply/demand tightness to get into more marquee clients, to get into more tier-1 clients and there is a mutual spend between both the buyer and the seller.
- Tejas Sheth:** Lastly, you mentioned the number of 22% of value-added contribution to the fiber. What was this a couple of years down the line?
- Dr. Anand Agarwal:** It was in low single-digit.

- Tejas Sheth:** What were the industry levels?
- Dr. Anand Agarwal:** Again, very difficult, if we see the CRU data, this number at a Global level would be about 9% or 10%.
- Tejas Sheth:** So maybe a much ahead of the market.
- Dr. Anand Agarwal:** Yes, correct.
- Moderator:** Thank you. We will take the last question from the line of Vipul Shah from Sumangal Investments. Please go ahead.
- Vipul Shah:** I just want to know at the end of our expansion what will be the contribution of value-added products in terms of percentage which is you said 22% to 23% right now?
- Dr. Anand Agarwal:** I think we will maintain at this kind of level. As we said that this is again a much higher than the industry averages. Look, this is a industry in which the spec keeps shifting. So we will continue to be at the leading edge of changing this spec. And if it is between 20% to 30%, we will be happy.
- Vipul Shah:** What is the blended realization we got for fiber and cable in this quarter?
- Dr. Anand Agarwal:** Fiber was closer to 8.5 and Cable was between \$18 or \$19 per fkm and maybe that detail and how we do that if you can get in touch with our IR, that might be better.
- Moderator:** Thank you very much. I now hand the conference over to Dr. Anand for his closing comments.
- Dr. Anand Agarwal:** I once again like to thank everyone for attending this call. And I hope we are able to address and clarify your queries and comments. For any further clarifications and discussions, you can feel free to contact our investor relations team; which includes myself and Anupam. We hope to continue our association and dialogue in the future. I thank all of you for showing your interest in the company. Good Evening.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Sterlite Technologies Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.
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