July 29, 2022

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Sub.: TRANSCRIPT OF EARNINGS CALL - FINANCIAL RESULTS Q1 FY23

Ref.: Scrip ID - STLTECH/ Scrip Code - 532374

Dear Sir/Madam,

In furtherance of our letter dated July 15, 2022, please find enclosed transcript of earnings call held on July 25, 2022 in respect of Company's Q1 FY23 financial results.

The same has been hosted on the website of the Company and is available under the tab 'FINANCIAL RESULTS-INVESTOR EARNINGS TRANSCRIPT' drop down available at https://www.stl.tech/downloads.html#qiect

Kindly take this on your record and acknowledge the same.

Thanking you.

Yours faithfully,

For **Sterlite Technologies Limited**

A.V. Deshpande

Amit Deshpande
Company Secretary & Corporate General Counsel (ACS 17551)

Encl.: As above.

Sterlite Technologies Limited Q1 FY23

Earnings Conference Call Transcript

July 25, 2022

MANAGEMENT: **MR. ANKIT AGARWAL – MD, STL**
MR. MIHIR MODI – CFO, STL
MR. PANKAJ DHAWAN – HEAD IR, STL

Pankaj Dhawan: Good day and welcome to the STL Q1FY23 Earnings Conference Call. I am Pankaj Dhawan, Head Investor Relations at STL. To take us through the Q1FY23 Results and to answer your questions, we have Mr. Ankit Agarwal - Managing Director, STL and Mr. Mihir Modi – CFO, STL.

Please note that all participant lines are in the listen-only mode as of now. There will be an opportunity for you to ask questions after the presentation concludes. Please note that this call is being recorded. You can also download a copy of the presentation from our website at www.stl.tech.

Before we proceed with this call, I would like to add that some elements of today's presentation may be forward-looking in nature and must be viewed in relation to the 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 Ankit Agarwal. Over to you Ankit.

Ankit Agarwal: Good day everyone and thank you for joining us for our Q1FY23 Earnings Conference Call.

At a macro level, the overall digital infrastructure industry is growing at a rapid pace, and we see three clear themes playing out.

The network creators including governments around the world are investing heavily in creating digital infrastructure. Themes like 5G, Fibre-to-the-x and Data Center deployments continue to grow at a rapid pace. And overall, the demand for optical network is growing at the back of multiple growth drivers. We shall talk about each of these in the following slides.

So, on the first theme, just to quote a few instances, in the U.S., AT&T has in fact increased its CAPEX from about $16.5 billion to about $20 billion in 2022. Overall, the U.S. is looking to pass nine million households per year for the next three years to reach 87 million fiber connected homes. Similarly, in Europe multiple telecom operators, alternates are actively investing and growing their investments to increase the FTTX coverage.

In India, Airtel plans to spend over $15 billion, which they have announced in CAPEX for subsidiaries over the 4 years. In the data center business, the overall CAPEX has gone up by almost 25% to $150 billion.

On the government side as well, various incentives and programs have been announced. For example, the U.S. Government is spending a massive $65 billion in broadband as part of its Infrastructure Bill. In the UK, the government is investing £5 billion to increase broadband connectivity by 2025. And in India as all of you will be familiar under the BharatNet program, the government plans to connect all the villages through Optical Fibre networks in the next two to three years.

Next, we see that the CAPEX investments are powering deployment of 5G, FTTX and data center deployments. Clearly 5G is becoming the fastest growing technology in the world today. Operators are expected to invest more than $500 billion in 5G networks from 2020 to 2025, just next three to four years.

The total number of subscribers is projected to go up from about 660 million to about 4.4 billion by 2027 and leading the deployments, currently is China, which plans to triple its base stations from about 1.4 million to 3.7 million by 2025. In India 5G spectrum auctions are taking place shortly and we all look forward eagerly to the network investments post the 5G.

FTTX is becoming all pervasive. In the U.S. $125 billion has been year marked for FTTX deployments in North America for the next five years. In the UK, companies like British Telecom Openreach plan to spend about £15 billion over the next five to six years for connecting about 26 million homes.

Data Center deployments are also increasing. The data center CAPEX is set to grow at almost 10% CAGR over the next five years to $350 billion by 2026. Google has announced about close to $9.5 billion investment in building offices and data centers in the U.S. just in 2022.

And lastly Open RAN is also moving from pilot to initial deployments in 2022. And large scale deployments are likely to take on from next year onwards.

This is an important slide which looks at the optical fiber cable demand region wise, in millions of fiber kilometers. This is quoted from CRU, which is one of the leading analysts for the optical industry. As you can see all of these deployments that we spoke of, and the technology shifts are leading sustainable growth in optical fiber cable volumes. As per CRU, the global optical fiber cable demand is expected to reach 610 million by 2024, from about 500 odd million currently in 2021.

The STL focus markets of North America and Europe clearly have high potential for growth and are fast growing. And they also have the highest realizations globally.

In addition to that, we also see that as the cable demand continues to strengthen, the cable prices are also on the rise. These are forecasts also by CRU which say that the OFC price is expected to go up by 16%, 28% and 13% respectively, in North America, Western Europe and APAC, APAC is non-China.

So, as you can see from here, that clearly the demand is also expected to improve over the next two to three years. And also the price is expected to stabilize and grow over the next two to three years.

This is in line with our earlier views that the optical fiber demand, optical cable demand continues to grow. And overall from about a 10.7 billion market globally, this is expected to grow at about 12.1 billion market. So, this is something very important to understand that the market in which STL plays, just on the cable part is about 12.1 billion, and probably a similar size on the optical interconnect part, which we will come to.

One part that we do want deep dive on is on terms of China, we do get frequent questions in terms of what is the supply and demand scenario in China. So, we thought we will spend a little bit time on that this quarter.

It's very important to look at this because China continues to contribute about 50% of the world demand and is extremely important and plays a major factor in global pricing as well, particularly on the fiber and cable level.

Here it's clearly important to note that the China cable demand also is growing sustainably and we expect it to continue to grow in the medium term. On the demand side, Chinese carriers combined issued about 235 million fiber kilometers of loose-tube tender volumes, in '21/'22 which was a 17% rise from the previous year. This demand is driven primarily by 5G and GSMA expects 5G demand in China to exceed about 900 million users by 2025. Currently, China has about 500 to 600 million users, so still fairly significant growth in terms of 5G demand.

Another operator called China Broadnet has now become China's fourth mobile operator to offer 5G services, and has recently also started procuring fiber optic cables although at smaller scales.

On the FTTX side as well, we continue to see China needs to deploy significant amount of fiber both to densify networks, but also for Fibre to the Home, particularly in rural parts of Western China.

On the supply side, as per CRU, most major fiber, cable and cable supplies are running at high utilizations in terms of operational capacity. And while the Chinese manufacturers are focused on China demand, the trade barriers including anti-dumping duties posed both by EU and the U.S. continue to ensure that Chinese players don't get undue advantage in these markets.

Also, with the growth of protectionism in the world, local manufacturing, particularly on the cable side, is being preferred, particularly in government projects. As an example, the large government project in the U.S. which is on the infrastructure side, requires 55% of the material to be sourced locally.

Based on all these three themes that we discussed earlier, we confidently reiterate that we are in a multi-year network bill cycle across the globe. The three investment cycles, 5G, FTTX and hyper scale build-out have coincided and they are expected to continue over the next 7 to 10 year timeframe.

With these favorable industry tailwinds, we have deployed focused growth levers to propel us forward. In the following section, we shall talk about this in detail.

We have focused ourselves to build our business primarily on these two growth levers, I) To grow the optical business. II) To globalize our service businesses. We are allocating capital to tap into these strategic growth opportunities offered by these growth levers. And we shall talk about our progress in each of these in detail in the subsequent slides.

In terms of growing our optical business and increasing our global market share, if we look at the optical business, particularly optical fiber cable business, as you can see from the chart here, we have consistently gained market share across all our focus markets. At the end of FY22 we have reach 9% market share globally, if we exclude the China market, up from 5% in FY20.

In Europe, very proud to share that we have now reached 21% market share from about 11% in FY22. And particularly in North America, we have seen very rapid growth from about 6% market share in '22 has gone up to about 14% market share in FY23. All of this from almost a negligible base in FY20 in North America.

Our aim is clearly to become the Top 3 players in the optical fiber market globally in the medium term, and achieve leadership in this market over the longer term.

Through our efforts, of our incredible team and our focused strategy, we have established a foothold in the U.S. in the last three years. We entered the market in FY20 and started partnering with our customers and creating unique solutions for their requirements. Through FY21 and FY22, we added 45 customers and built strong relationships. As we start FY23, I am very happy to announce that we have secured a multi-million dollars, multi-year contract with a North American telecom operator.

[Resumes at 13:32]

Mihir Modi: So, apologies for this little hiccup, ladies, gentlemen. So, continuing what Ankit was saying and we will wait for him to come in and take over but in the meanwhile, as he was saying through the efforts of our incredible team, we have established a foothold in the U.S. in the last three years or so. When we entered the market in FY'20 and since then have started partnering with our customers. Through FY'21 and then '22 we added 45 new customers and build very strong relationships. Even at the start of FY'23 we are very happy to announced that we have secured a multi-million dollars, multi-year contract with the North American telco.

So, we will continue in our journey to support the North American customers with our world-class manufacturing for optical fiber cable which is expected to go live in Quarter 3 of the current fiscal.

So, while the chart comes up, I think we are continuing to grow our optical business, and within that the optical interconnect attach rate which we have been talking about has been on the rise. We have increased our interconnect attach rate from 3% in FY'21 to now double digits 11% in Quarter 1 of this fiscal. Our approach to providing the end-to-end optical solution of the optical fiber cable plus interconnect has yielded us results, and we aim to reach an attach rate of high teens by the end of this fiscal by 4th Quarter, FY'23.

Coming to the second growth lever of globalizing the services business, we acquired and successfully integrated Clearcomm, as you are all aware a leader in optical network design, deployment and integration in the UK. We have also built a global robust resourcing model through our own STL Academy. We train engineers at STL Academy in the areas of Project Management, Installation, Testing, Quality Assurance, etc. And keep the talent pool for deployment ready for the UK. We are ramping up our execution pace in the UK. And we aim to increase the UK revenue contribution to 25% of Global Business Services revenue by FY'24.

While we build our business in the UK, we continue to focus on strategic and profitable projects in our core Indian market. As we are developing new solutions, we aim to expand our opportunity pipeline arising from the 5G deployment. We expect new deployment tenders to come through post 5G auctions which are likely to be in Q2FY23. We are also expecting a large BharatNet tender to come through in the second half, both of these opportunities have the potential to generate significant order book for the India services business.

Ankit Agarwal: No, I think not much to add on this particular slide but clearly still fiber is a challenge in India, so we are still working through it.

In terms of the providing, end-to-end solutions, this is an example we shared to media recently. I think this is a great example of the full value that STL has to offer starting from our bend insensitive fiber going towards really Next Generation cables, our optical interconnect we have been speaking about, and then our Fttx and LEAD 360 Solution. So, it's a good example of where we wanted to showcase the value of this, to the customer, ultimately leading to low cost of deployment, faster speed, as well as less requirement of trained manpower. All of this is something that has been quite positively demonstrated now in the UK. And we will also see how to scale that up.

I think in terms of R&D, this continues to be a cornerstone for STL, where we consciously want to build the right product portfolio and solutions for our key accounts globally. At the end of this quarter, we had about 740 plus patents. And that really is something which we will continue to focus on and invest in. We have invested close to about Rs. 50 crores odd in the Quarter 1. And we do expect to continue this R&D investment.

We have also launched our own 5G R&D center in Gurgaon recently with state-of-the-art equipment linked to Open RAN as well as pFTTx. So, that's something that we continue to commit to, but very focused in terms of spending the R&D cater to our large key accounts.

On the back of these consistent R&D investments in the Access Solutions Business, we have successfully launched 8 product SKUs. We have announced general availability of our Garuda Small Cell, 5G Small Cell, pFTTx and Wi-Fi 6. We are targeting general availability of a 5G Radio unit, and Rake and therefore full portfolio in the current financial year.

In terms of customer engagements on the wireless side, we continue to engage with customers, globally. We have secured five more engagements, which are anywhere between early stage discussions to POCs or orders. In-line with industry, we also aim to acquire customers and build order book for wireless business in FY'23, which we expect to start yielding results and revenue in FY'24.

Over the last two to three years, we have done significant investments in this business and taken the product development to a mature stage. In order to propel the business to next level we are also actively exploring strategic partnerships for others to come and invest in this business.

In terms of capital allocation, our clear priority is investments in the optical business. We are investing in OFC capacity expansion, particularly in the U.S. that we touched on earlier. And Quarter 1 FY'23, we also bought the balance 25% stake in China JV to ensure fiber supply will increase to further serve our cable requirements, as those volumes grow on a quarterly basis.

We shall continue to divest non-core assets in FY'23. As you would recall in FY'22, we had sold our interest in Metis Edu ventures and MTCIL. Post the current investment phase we shall prioritize optimization of debt and our capital structure.

We shall now discuss the financials for Q1FY23. I would now like to hand over to Mihir to discuss the financials.

Mihir Modi: And very good day once again to everybody. Let's start at the top of the Financials funnel, our order book at the end of Q1FY23 stands at 11,200 Cr. In Q1 we have secured overall a very strong new order book, particularly in the optical business, which is a reflection of strong demand in the industry and our dominant position and focused particularly on the optical business. However, we have also short closed an order book of about Rs. 1,615 crores majorly in the Services business. This is in-line with our focus on executing projects at desired level of profitability in the Services business and not executing for the sake of execution.

Ankit Agarwal: Rs. 1,615 crores.

Mihir Modi: Rs. 1,615 crores, yeah. Our order book is well diversified across our customer segments and across all our businesses. We also have a significant O&M order book, which shall start to yield a significant revenue from this year onwards.

Talking about the revenue, our revenue mix is shifting to customer segments and geographies of our choice over the last few quarters. We are increasing our share in the Telco and Cloud segments in terms of geography, we are increasing a share in North America and European markets. What is heartening to note here is that in-line with our strategy, in the last three years, we have increased our revenue share in North American market, the most premium market in the world from near negligible to almost 28%. Again, as Ankit had referred earlier, this is a reflection of our product innovation and reward of investment in the R&D over the years.

In terms of notable wins this quarter, apart from the multimillion dollar contract for North American telco, we have secured new orders for optical fiber cables from North America. In the European market, we have secured now orders for optical fiber cables and interconnect solutions from a telco customer. On the Services side we continue to partner with Netomnia to fiberize multiple cities with ultra-fast broadband in the UK. We have also secured new orders for fiber rollout from leading Indian telco.

As we pick up the orders our project execution is clearly on track, if you can go to Slide #25 please. Among India public projects, our BharatNet project in the State of Telangana is 54% complete, including all packages and the network modernization project for an Indian PSU is 52% complete. In the Indian private side fiber rollout for large Indian telco is fully done 100% complete for Phase I and 5% complete for Phase II. And we are yet to start Phase III which we shall do so.

Fiber rollout for a modern optical network for yet another Indian private customer is 5% complete. Coming to the UK, Fibre to the Home rollout in UK for all projects is again picked up and is 5% complete. So, all in all, our project execution is on track across various types of projects, in-line with our strategy.

We talked about very sharp increases in our key raw material categories and freight costs due to global supply chain disruption last quarter. Crude oil prices which can be looked at as a proxy for volume or prices continue to inch up further in Q1FY23, gases, LNG, helium also exhibited price increases. Helium gas prices particularly have increased sharply in recent quarters, due to production problems at major U.S. and Russian suppliers.

Logistics cost though have started easing as shown by the Freightos index for the route of China to North America. We shall also start to see reduction in logistics cost from Q2FY23 onwards that should ease the pressure on our margin a little bit.

In-line with our estimates, quarterly revenue grew 20% YoY to Rs. 1,575 crore. Our operational EBITDA margin grew 160 basis points, quarter-on-quarter to 7.6% in Quarter 1 of FY'23. Revenue growth drivers in the 1st Quarter are OFC volume growth, and increase in optical interconnect attach rate, at the same time increase in UK services revenue. Margin improvement drivers for Q1 in FY'23 are increase in the optical revenue share, increase in North America revenue share and increase in optical interconnect margins. We are working to reach sustainable EBITDA margins by second half of FY'23, in-line with our estimates.

In terms of revenue split optical business was at 72%, services at 27% and digital and access combined at a 3% of overall revenue. In terms of capacity utilization, OFC was at 88% utilization based on production volume and capacity at approximately 37 million fiber kilometers.

We have placed an abridged version of a quarterly reported numbers for your perusal here, I will pause for 30 seconds so that you can have a look at it.

So, along with financial objective STL's endeavor is to be a responsible leader in ensuring a connected and inclusive world. This focus reflects in the way we have designed and implemented our ESG agenda. Like we have been sharing, we have diverted 175,000 plus metric tons of waste away from landfills from FY'18 to '22. We have reduced emissions of 15,000 tons of CO2 equivalent through various initiatives in the plants from FY'21 to this quarter.

We have announced our commitment to become a carbon neutral company by 2030. Not to mention we have recycled 500,000 metric cube of water from Q1FY19 to Q1FY23. Through our various initiatives and education, women empowerment over 700,000 lives have been positively impacted from FY19 to the 1st Quarter of FY23. We have also positively impacted two million plus lives through our various initiatives in healthcare from FY'19 to the current quarter.

For our work, we have won 71 ESG Awards from FY'20 to the current quarter.

So, overall in summary, I would say that the multi-year network build cycle is in full swing. The global OFC volume and pricing expected to grow in 2022 is on track. And our capital allocation shall be focused on the optical business. We are aiming for global leadership in the optical business. We look to achieve strong market share gains in North America and Europe and increase the attach rate in the optical interconnect space.

We are focusing on strategic segments in the Services business, while we are ramping up execution in the UK. We are also working to build profitable order book in strategic segments in India. And in terms of capital allocation, we are allocating most of the capital in the optical business and are simultaneously divesting non-core businesses.

So, with this, we come to the end of our opening commentary. And we shall now move on to Q&A with Pankaj, Anuj and others.

Pankaj Dhawan: Thank you, participants at this point, we will start the Q&A session. If you have a question, please use the 'Raise Hand' button at the bottom of your screen. And I will allow you access to ask questions. Alternatively, you can also type in your question in the Chat box and I will ask the question on your behalf to the Management.

Let's take the first question from Pranav Kshatriya, Pranav if you unmute yourself and go ahead please.

Pranav Kshatriya: I have three questions. Firstly, Mihir, can you please help us with at least ballpark product and services business margin, and how they have trended in last two, three quarters to get a sense of where we stand.

Secondly, again, related to margin, there seems to be considerable cost pressures. But there seems to be some green shoots, one is the logistics cost is sort of trending down, and you have talked about the prices for fiber optic cable moving up, which should drive up the realization. So, how we should be seeing the margin in Q2 and Q3? So, that's my second question.

And last question is, attach rate, which we are growing very smartly, in the first half, or almost entirely in FY'22 seems to have sort of plateaued, I mean, Q3FY22, we had roughly 14%, Q1 we are at 11%. So, what is happening and how much time, how the trajectory will be in that? So, those are my three questions. Thank you.

Ankit Agarwal: So, probably take it, you know, one by one in terms of products and services part of it, I think, broadly, what we have guided is that the, products and services will continue to grow. In terms of profitability, we have targeted EBITDA, margins for products business, optical network business, towards 20% to 22%, towards Q3, and Q4. And similarly, services, we had said that we will target low teens during this period, versus that, we have seen some good improvement on the optical part, which is now closer to about 14% to 15%, as a combination of a couple of these activities, services is still probably in the mid-single digits. And hence, we have combined EBITDA of about 8% that we have. So, this is something that we are confident with these two, three levers that you spoke of as well.

Firstly, some of the price increases that we have done particularly in U.S. that should start reflecting towards the end of Q2 and into Q3, and Q4. Second is we do expect some of the benefits of the container costs starting to come down or even stabilize, start reflecting in the profitability, as well as overall the product mix that we are seeing both within Optical, and the ratio of Optical to the services, all of these should enable better profitability in the Quarter 3 and Quarter 4.

So, I think that's one part, in terms of the cost pressures, that you spoke of, I think, certainly from the peak of container costs that we have seen almost $22,000 per container that has come down to probably around $16,000, or $15,000. And it's largely kind of settled there, it might come down, marginally more going forward. But we don't expect it to go all the way back to probably $7,000 to $8,000 we had seen, several quarters back. So, I think that's something that we will continue to watch.

What's happened is by nature of just sheer volume, that we are now shipping to U.S. and Europe, the absolute amount has gone up which you would have seen in the other expenses. So, I think that's one part that we continue to monitor.

One benefit that we have seen is the lead times have come down in terms of shipping from India to U.S. probably earlier were around 70 days, that's coming down to probably 55 to 60 days. So, to that extent, our working capital should come down marginally, as those delivery times start improving.

In terms of the other costs, linked to oil and gas, to the oil essentially to polyethylene that we continue to stay at the higher level as well as Helium, in particular has contributed to fiber costs increasing versus what our expectations were.

So, these are things that we are working on, we are still working on certain price increases, particularly in Europe market with some large customers. And as those play out, we will see that benefit into Q3 and Q4.

On your last question in terms of attach rate, I think overall, we continue to be very bullish in terms of our growth, in terms of the attach rate, I think one thing to keep in mind is our cable volumes have starting to increase significantly, as we said on the back of U.S. and Europe. So, actually on our absolute numbers are, in crores is actually increasing quite well. What we continue to see is particularly with our large key accounts, we are very keen to have similar values ultimately of cable and interconnect going in. So, we are very confident our products are getting approved by more and more customers. And we are in that phase between approval and starting to supply. So, we are confident that going into Q3 and Q4, you will see both absolute number and percentage grow for the interconnect.

Pranav Kshatriya: If I can just ask one small follow up, you did mention that the working capital should come down and the logistic costs have come down. But I think in Q2 it will be more of a transitory quarter, because from Q3, we will have the manufacturing facility available and hence those costs will be a lot lower. So, should we see significant improvement in the margins from Q3 onwards?

Ankit Agarwal: So, see, I think one part is the, the U.S. facility will start operations in Quarter 3, and of course, that will itself take some time to scale up to its capacity of 5 to 6 million FKM. So, that's one part, but also our supply to U.S. is still more than what just the U.S. facility can serve. So, to that extent, what else we are manufacturing in India or in our global operations for U.S. market to that extent that working capital will continue. And what we are manufacturing locally, then, of course, will be local supply.

So, I think, from working capital perspective, we do see some improvement from Q3 and Q4, plus, as I said, the travel time from India to U.S. should come down probably by about 20 days from current peak of 70 days so all of this will help improve the working capital supply into the U.S.

I think on the margin perspective one is, as I said, the overriding factor will be in terms of the improvement in the passing on the cost to the customers, improving the top line, which we expect in the 7% to 10% range. Some of that has happened with U.S. customers, some we are still ongoing. And as I said, few key negotiations are ongoing with our European customers.

Moderator: Thank you, Pranav. Next question I request Nirav Dalal to unmute himself and go ahead.

Nirav Dalal: A couple of questions from me, first is on the other expenses. So, you did mention that logistics cost is increasing in absolute terms, and hence, we have seen the increase in other expenses. But if one looks at the gross profit margin, the gross profit margin has improved for us. So, if we compare it with the 2nd Quarter of last year, or even if we compare it to FY21, FY21, the gross margins were at 37% and current quarter we are at 37.6%. So, technically speaking, we have seen the business come back in terms of margins. However, the other expenses continue to increase, so the last couple of years, we have seen the expenses actually double for us. So, when do we see these costs, either stabilize or start to decline? That is question number one.

And the second question is, in our presentation, we have given the OFC cable volume at somewhere 36 to 37 million, but we were of the understanding that currently we are at 33 million optical fiber cable capacity so just wanted to clarify on this number as well.

Ankit Agarwal: So, there are a couple of things, one, I think overall, on the other expenses, if you look at it, we have increased from about Rs. 429 crores to about Rs. 478 crores. And as I said, some portion, at least as has come in terms of, you know, increasing in terms of sheer volume that we spoke of has increased into Europe and U.S. and some of those costs. We have also had some cost particularly in this quarter related to legal and consulting fees, etc, which we believe is one time. So, I do believe looking at this, we need to break it out, our sales will continue to grow, as I said, even in terms of our export market segments so to that extent, that's something we are mindful of. But some of the other costs will start tapering down towards, you know, Q2 and Q3. So, I think it'll be a combination of, you know, both factors.

In terms of the capacity what we have shared also earlier is that the major investment is in the U.S. So, that capacity will come in to Q3 in terms about 5 and 5.5 million capacity. And we have done marginal capacity increase in India in terms of cable improvement and also again very small capacity in Italy. So, combination of all this has got us to add about 3 to 4 million currently and then this balance 36 to 37 to about 42 which we had needed will come from the U.S. addition.

Nirav Dalal: So, just staying on the other expenses -- just one is what were these legal expenses? And what is the quantum of that? And second is what would be logistics cost as a percentage of revenues for us. And if we could get a QoQ and YoY number?

Ankit Agarwal: So, let us come back to you Nirav, we will get Pankaj, to share the break up with you.

Nirav Dalal: And just lastly, in terms of the China subsidiary, I think we are buying it out, does that mean that we would not be doing any business in China and what about the capacity there? If you could just clarify on that?

Ankit Agarwal: No, actually, it's quite a positive development for us, where we got the opportunity to acquire the balance 25% stake from our JV partner. So, with this, then it will become a wholly owned Indian company and absolutely no issues that we foresee in terms of running the operations. And it's all aligned with our strategy, Nirav about what we said about leading with cable. So, as we move towards now 42 million of cable very soon, it's very important to be fully secured in our own manufacturing of fiber. So, now with this complete ownership, we will be scaling up our China operation. So, full capacity is close to about 12 to 14 million fiber kilometers, so we will scale up our fiber operations, and make sure that we have sufficient fiber for our global cable requirements.

Nirav Dalal: So, all of that technically will be moved, will be used for the international markets rather than China. Is that the correct assumption?

Ankit Agarwal: Yeah, the underlying is to serve our cable, our captive cable requirements. So, wherever they are located India, U.S., Italy, wherever.

Moderator: Thank you. For the next question I would request Sunny Gosar, to unmute themselves and ask the question.

Sunny Gosar: My question is that while the U.S. and Europe business have shown good growth, India business has declined in Q1. Any particular reason for that?

And my second question is, the presentation at one place mentioned that we short closed approximately Rs. 1600 crores of open order book in Q1FY23. So, does this mean that the order was partly canceled or what does that exactly refer to?

Ankit Agarwal: So, I think, India market, I would say, largely what we have spoken of earlier also that we are very conscious of only focusing on taking business, especially on the services part at the right margins, and we are not chasing top-line. That's also a little bit linked to the second part, and I will come back to that. Overall, we actually do believe what I shared earlier also we are a this kind of tipping point for India market to grow. And whether you look at Indian operators, you look at BharatNet or defense, all of the areas we do expect pretty robust spending on the digital infrastructure, probably for the next four to five years. So, we are quite well placed with our current market share, with our brand with our capability. And our teams, of course, relationships are very strong across with our customer base. And as this demand starts picking up, which we do believe should happen in the next six to nine months, we are quite well placed to get the right businesses, the right projects at the right margins that I was talking about earlier. So, we had a very conscious view of what business we want to pick up in India that will continue to be the case. And that's where we saw some reduction in our revenue on the India market part.

In terms of the short closure of order book so at a macro level, this was one of our strongest ever quarters in terms of order book, very proud of our global team and our solutions, where we clocked I think north of Rs. 2700 crores overall for the quarter, and then we short closed about Rs. 1600 crores. This was largely about Rs. 1200 crores in the services business and about Rs. 400 crores in our optical business. And largely these were linked with the same theme where in most of the cases in our conversations with the customers we have had a mutual discussion where we short closed some of the lower margin orders or orders that were just not progressing in terms of time and speed from the customer side. And we are looking at very often with the same customers renegotiating new orders or new customers as well.

So, this is something that we wanted to make sure that we have the right visibility of the order book and that is up-to-date. And so, what we have looked at is about the Rs. 2700 crore that we have booked overall, and then we have reduced about Rs. 1600 in terms of the short closure.

Sunny Gosar: So, that is actually very good, because it doesn't reflect in your net orders inflow, because of the short closure. So, do you believe that this kind of order momentum will sustain or there were some one of large orders which came through in Q1?

Ankit Agarwal: So, we as we did talk about one specific large order out of the U.S., but even apart from that, just looking at the momentum, we see, as I said, both in U.S. and Europe, we are confident of maybe not at this scale Rs. 2700 but somewhere in this range kind of order book. And again, as I said, we will look at very closely with 5G in India and BharatNet over the next six to nine months that will play out. So, we will see out of this what orders do we capture.

And again want to reiterate, we are very mindful, especially in India market to take projects at the right margins. So, while we are confident we can book lot of orders, we are very mindful now of both looking at right margins and also I would say mindful of the cash and the collection cycle.

Sunny Gosar: And in your outstanding order book of Rs. 11,000 crores do you foresee any similar order closures, which are lower margin or not so focus segments? Or now the order book is more or less cleaned up in that sense?

Ankit Agarwal: No, I would say we continue to evaluate, I mean, it's literally a month-on-month process. We are very clear in terms of our focus markets, what margins we want to take them on, as well as our how do we perceive risk at a collection with all of these cases want to retain these are mutual discussions with the customers and done on a friendly basis. So, this is something that we keep evaluating month-on-month, at any point we feel for a particular quarter we feel that the orders we do not want to pursue then we take those calls in terms of short closing them. So, I won't be able to comment, but at least for now, we have obviously taken a good amount in terms of Rs. 1600 crores and we feel it was a prudent thing to do for the business.

Sunny Gosar: And one last question, what is the expected CAPEX outflow for FY23 and FY24. And you had also planned for a facility in UK. So, is that plan currently on or has that been like deferred or cancelled?

Ankit Agarwal: So, overall as we had guided earlier also it continues in terms of overall CAPEX about Rs. 500 crores. Currently in Q1 we had a CAPEX about Rs. 160 crores out of that. And as we said most of this is linked to our U.S. facility as well as probably some CAPEX payments from past investments etc. So, I think that is something that is we are confident of. And optical interconnect requires some marginal CAPEX for that growth. So, overarchingly linked to our point on capital allocation, majority of our investment almost all of it will be focused in terms of our optical business.

In terms of the next year, currently, we foresee in the range of about Rs. 350 crores in terms of CAPEX. So, this is broadly for current year next year. And to your question on the UK part, I think, overarchingly our plan was to look at $42 million, which we believe we can, we can ensure through combination of U.S., India and Italy that I spoke off in terms of cable. So, we continue to evaluate the market and the requirements for a local facility. And that's something we will probably update you as we make any progress. As of now we are focused on the other regions, particularly on the U.S. part in terms of the new facility out there.

Moderator: Thank you. For the next question I would request Saket Kapoor to unmute himself and ask the question.

Saket Kapoor: Taking into account the way the fiber prices have moved up, the cable prices have not commensurate to that. So, what is your current stake, meaning how much have been the external sale of fiber out of the total production?

Ankit Agarwal: So, you are right Saket there has been a time lag and I think we have shared this last quarter as well, between fiber prices improving vis-à-vis seeing the correspondence improvement in cable. Having said that, you know, we have been consciously talking to our key accounts, especially our large customers in U.S. and Europe for improving the prices and passing on some of the costs. That improvement and benefit, we should certainly see into Q3 and Q4 that we have shared.

In terms of fiber prices, and cable prices, ballpark we would say five, our prices are probably in the $6 range, in terms of standard fiber. Of course, there are many varieties. And then in terms of, say cable prices, especially in the markets we operate in, would probably be in the $15 to $16 range. So, that's the ballpark, we are not seeing any major upward or downward movement in the prices since we last spoke. But again, these are all standard prices, each contract, each customer is different. And for us also, more and more of our sales is moved much more now on cable and interconnect. I think we would almost have marginal if any fiber being sold in the open market, most of our fiber is consumed for our cable requirements.

Saket Kapoor: So, on the finance cost part, if you could give, I missed the net debt level, and the finance cost as an absolute number remains at Rs. 69 to Rs. 70 crores per quarter. So, what should be the annualized number, we should look? And taking into account what the Quarter 1 performance have been, it was informed to us earlier that also that it would be muted till the first half and H2 would be the one where we will see some light at the end of the tunnel, sorry for the phrase, but do we stand there that worst is behind, for the sector, because the numbers are certainly reflecting of other optic also. So, do you think the worst is there or still we have more pain left and maybe this Q2 would also reflect the same?

Ankit Agarwal: So, I think one, so finance cost, as you said, were in the same about Rs. 69 to Rs. 70 crores. And we are very mindful that of course there is discussions globally in terms of interest rates rising etc. so we are watching that very carefully. Our net debt has increased by about Rs. 380 crores to about Rs. 3200. So, we are very mindful that we have to create that balance between investment into the business and the CAPEX that we spoke of, but at the same time, get very strong cash from the operations to reduce the net debt.

So, currently, while we create this balance, our target still at the company level is probably to settle back to the Rs. 2800 crore levels we were at previously, while still ensuring we invest for these growth areas, particularly in the cable expansion that we have spoken of. So, I think that's the focus.

Do we see light at the end of the tunnel? We are in the light business optical business is the light business. We are, as I said, we continue to see the tailwinds quite strong, we continue to see market demand for next few, at least four to five years quite strong. And it will now be a function both of how do we ensure some of these external costs get normalized, as well as from our own operational efficiencies and our customers, we start getting some of our prices and costs passed on to them.

So, as we continue to guide, we do believe Quarter 3 and Quarter 4 will be better. And certainly into Q4 we have confidence that we will be moving towards the better margin profile, particularly of the optical business.

Saket Kapoor: So, the small point what we can make sense is that from Quarter 4 onward will be the normalized quarters. And how have been the collections for the ones we had made some provisions, I think so two quarters earlier. What is an update on the same sir? How is the collection currently?

Ankit Agarwal: Overall, we had made a provision close to about Rs. 200 crores on the balance sheet. And I think that's something at that time also we had shared, we wanted to make sure that we did based on prudent accounting, we took those as provision, they were not write offs. There have been some very small collection on the back of those provisions, but still work cut out in terms of the entire Rs. 200 crores. So, that's something still work in progress for our teams.

And during the quarter, we had probably working capital increase also north of about Rs. 200 crores. A good portion of this is linked to the increased sales into the North America market, which then, and all of these then contributed to the net debt going up, which we spoke off. So, I think we are very conscious of these elements. We are also as I said, conscious of exposure, particularly to government projects. And we are very mindful of even any collections that are due we have very strong focus on it from a cash perspective.

Saket Kapoor: The year-end target for net debt numbers would be, in what vicinity are you working?

Ankit Agarwal: That's what I spoke, we want to bring it back to normalized levels of about Rs. 2800 crores.

Saket Kapoor: And what are the numbers as on June?

Ankit Agarwal: About Rs. 3200 ballpark.

Saket Kapoor: And this increase in inventory also – is baked into this increase in debt?

Ankit Agarwal: That's right. So, we spoke of the working capital, we have also spoken of CAPEX of Rs. 160 crores as well as what we call contract assets, some of that has increased as well in our services business. So, combination of this has increased the net debt by about Rs. 380 crores.

Saket Kapoor: So, just to summarize, is it the inflationary part only that is creating the trouble for an optical company OFC manufacture company like us? Or what are the other issues wherein in the PBT numbers are looking lower or, in fact, if you look at the PBT numbers, negative PBT numbers for us. Where are the gaps, that this was not the trend what the company used to post earlier?

Ankit Agarwal: Sure so I would break it into two parts. One is structurally we have seen some pretty large, non-normal increases in our costs, right, specifically for us we have container prices go up threefold to fourfold, as I said, from about Rs. 7000 to almost Rs. 22,000. That happened at a time where a very large portion of our sales shifted from India and Europe to Europe and U.S. So, that is one big factor contributing to costs increases.

Second is all the raw materials linked to oil has also seen a pretty large increase in costs. So, I would say it's a couple of these factors. In addition to that, we continue to have invested close to Rs. 40 to Rs. 50 crores per quarter on development of our new businesses like the wireless and software. So, it's a combination of these three, four things. As I said, we do believe that some of the improvement and we have been able to pass on some of these costs to our customers on the optical side. And so improvement or our value from that you should start seeing in Quarter 3 and Quarter 4.

Moderator: Thank you. Let me take one last question, due to time constraints from the chat from Agnel Peter. He is asking why does North America business is better for margins?

Ankit Agarwal: So, one, I think just to reiterate, there's two three things happening in U.S. in particular. One is the growth itself is for a pretty large market, I think it's at 80 to 85 million fiber kilometers, that itself is going rapidly towards 100 million fiber kilometers. So, market itself is going quite strongly.

Second is government has announced this massive fiber project, which is about $65 billion so, that is giving a lot of comfort that this will grow for next four to five years. But we believe that there is a very strong opportunity for STL because we have the right product portfolio, our products are certified by Telcordia, we have very strong sales and technical team and we have now the local presence. And just to be clear some of the Tier I operators, they also get tax benefit for buying from local manufactured companies. So, all of this plays quite well for us.

In addition to this at a macro level, U.S. really values quality, they value technology, they value innovation, and so a lot of our high-end products so to speak in terms of cable and soon probably interconnect will be getting the right premium pricing in the North America market. And this is equally true for a few customers in Europe as well, where with our key accounts, we do really engage with them in a solution basis, and then we get a premium for it.

Moderator: Thank you. Unfortunately, due to time constraints, that was the last question that we could take. Thank you, everybody, for participating on behalf of Sterlite Technologies Limited, thank you for participating in today's earnings call. Management if you have any closing comments, please.

Ankit Agarwal: I want to just appreciate and thank everyone for attending this call and showing interest in our company. I hope we were able to address and clarify all your queries and comments. For any further questions and discussions feel free to contact the Investor Relations team, which include myself and Mihir. And we really look forward to continuing the conversations with you in the future. Thank you.

Moderator: Thank you, everyone.