May 14, 2024

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Sub.: TRANSCRIPT OF EARNINGS CALL - FINANCIAL RESULTS Q4FY24

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

Dear Sir/Madam,

In furtherance of our letters dated April 23, 2024 and May 08, 2024 respectively, please find enclosed transcript of earnings call held on May 08, 2024 in respect of Company's Q4 FY24 financial results.

The same is also being 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 record and acknowledge the same.

Thanking you.

Yours faithfully,

For **Sterlite Technologies Limited**

AMIT VILAS DESHPANDE
Digitally signed by AMIT VILAS DESHPANDE
Date: 2024.05.14 15:40:00 +05'30'

Amit Deshpande
General Counsel & Company Secretary (ACS 17551)

Encl.: As above.

Sterlite Technologies Limited Q4 FY24

Earnings Conference Call Transcript

May 08, 2024

MANAGEMENT: **MR. ANKIT AGARWAL – MD, STL**
MR. TUSHAR SHROFF – CFO, STL
MR. CHETAN WANI – HEAD IR, STL

Chetan Wani: Ladies and gentlemen, good day and welcome to the STL's Q4 FY24 Earnings Conference Call. I am Chetan Wani, Head, Investor Relations at STL.

We are joined by Ankit Agarwal, Managing Director, STL and Tushar Shroff, Group CFO, STL to walk us through the Q4 and full year FY 24 results and to take your questions.

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

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 risks pertaining to the business. The Safe Harbor clauses indicated in the presentation also applies to this conference call.

I now hand over the call to Ankit Agarwal for opening remarks over to you Ankit.

Ankit Agarwal: Thank you Chetan. Good day everyone and thank you for joining us for our Q4 and full year FY24 earnings conference call.

As we reflect on the financial year 2024, we have made significant progress on all of our outlined strategic priorities. Starting from the optical business, we have made significant progress on the strategic goal of increasing our optical connectivity business by securing our first large orders in North America region. We undertook various fixed and variable cost optimization initiatives. And we optimized our cost structure to become more efficient so that we can deliver better returns from future operations. In the Global Services business, we improved our EBITDA margins year on year from 3.1% to 7.6%. We are also very happy to share that our digital services business,we have scaled the business and more than quadrupled our revenues year on year. During the FY24 we also completed our capex cycle with the operationalization of our US facility and we are now fully set up to fulfill demands of US made optic fiber cable products.

We were evaluating options for fundraise and we worked extensively on this priority during FY24. I'm happy to share that we have successfully completed Rs.1,000 crores QIP fundraise in April 24 by onboarding marquee institutional investors who will partner with us on the exciting journey ahead.

Last but not the least we continue our efforts on cash and generation and net debt reduction. In FY24 we divested our holdings in MB Manshaan for Euro 5.95 million. I am glad to share that our cash generation from the business helped us reduce our net debt by Rs.334 crores during FY24. Our cash generation and debt reduction focus aided by the QIP fundraise will enable significant debt reduction and balance sheet strengthening and propel us to achieve our strategic objectives with renewed zeal.

Let us now look at our strategic priorities for FY25. As we enter FY25 our strategic direction remains the same. On optical networking business, we shall continue to grow the optical business by increasing OFC market share and connectivity attach rate. We shall continue our efforts to drive our cost leadership in the optical business. On the Global Services business, we shall continue to build new capabilities and value added services. We will stay focused on improving project mix to improve profitability and we will work towards successful demerger of our services business. Lastly, on STL digital business we shall continue to scale business through focused investments in building new technologies capabilities and focus on profitable growth.

Sterlite endeavors to be a responsible leader and ensuring a connected and inclusive world. This focus reflects in the way we have designed and implemented our ESG agenda. We have diverted 245,000+ metric tons waste away from landfills during FY19 to FY24. We have also reduced emissions of 30,000 tons of carbon dioxide equivalent through various initiatives in the plants during FY21 to FY24. We have recycled 830,000 cubic meters of water during FY19 to FY24. I am proud to share that we are the world's first optical manufacturer to launch externally verified eco label methodology. We remain committed to become carbon neutral company by 2030.

Through our various initiatives in education, women empowerment over 900,000 lives have been positively impacted during FY24. We have also positively impacted 2.7 million plus lives through our various initiatives in the health care during FY19 to FY24. We are proud to share that we have won over 100+ ESG awards for our work during FY19 to FY24.

In the next few slides, let's talk about optical networking business and our efforts towards becoming the top three players globally in the optical connectivity business. Before we look at the demand outlook, let us first reflect on FY24. As per the CRU latest estimates, OFC consumption for 2023 declined by 7.1% globally. This was led by 12% decline in North American markets for the calendar year. Inventory at multiple layers played a major role during this time and the sub optimal factory utilization was a trend across the industry. It is important to note that we observed continued fiber deployment resulting in healthy inventory digestion during FY24. Analyst report suggests demand improvement Calendar Year 2024 onwards and robust demand scenario from a medium to long term. As we look at the future projections from CRU, the medium term demand for optical fiber cable volumes is expected to go up to 617 million fiber kilometers by 2026 and 666 million fiber kilometers by 2028, up from 536 million kilometers in CY2023, this is a healthy 4.4% annual growth rate from 2023 to 2028 and approximately 8% annual growth excluding China. The positive demand outlook by CRU along with the continued client commitments and increasing fiber deployment and STL's order book surge in Q4 FY24 is indicative of the recovery in the coming quarters.

Let us also look at the major technology trends such as AI and its impact on the fiber demand. As we all know AI is reshaping the technology landscape and influencing every technology theme that is unfolding such as cloud computing, AR, VR, IoT, online video game streaming, online gaming etc. The consumption of these technologies and their overall market size is expected to continue at a healthy pace for the foreseeable future. Moreover, we have 1/3 of our global population which still remains offline and yet to be connected. AI and machine learning are gradually taking center stage and are swiftly blending in with all these technology trends. AI'srole in reshaping the new digital society is undebaated. No wonder various industry reports suggesting 2/3rd of network traffic shall involve AI by 2030, for this high growth of AI and technology users who sustain and succeed the technology backbone shall need massive data center capacities with fiber rich interconnections that smoothly manage the data explosion. It is estimated that the fiber demand and AI data centers maybe 5x to 8x higher than normal data centers. To access these AI data centers and applications at the front end users shall need reliable connectivity through FTTx or 5G or future generation like 6G but fiber again shall be at the core of the connectivity. As we digest this further our belief get stronger every day that denser fiber networks will be necessity for the success of the futuristic AI led digital society. Apart from AI, there are of course three other key themes that are playing out globally on the optical connectivity product demand mainly the global investment in 5G network creation, FTTH deployments and new age data center buildouts. These demand drivers are expected to bring significant growth investments in the foreseeable future. 5G is one of the fastest growing technologies in the world and tower fiberization is at the core of 5G. 5G subscribers are to grow at a very fast pace in the next few years and as we can see 5G subscribers in all key regions such as North America, Western Europe and India are expected to clock a CAGR of more than 30% for the next five years, with high tower fiberization required for 5G. Clearly 5G global expansion should continue to drive demand for more optical fiber. Apart from 5G, FTTx connectivity, demand for homes and businesses globally remain strong. In the US alone, approximately 100 million homes await FTTH connections. Fiber Broadband Association predicts 12 million homes to be passed in US just in 2024. Europe FTTH passes are expected to grow at 4% at least for the next five years and India is expected to lead the global growth and fiber installation with 26% CAGRbetween 2023 and 2028.

Data Center is another driver of optical products demand data center capacity in North America expected to grow at the 10% CAGR during 2024 to 2029 and in Europe expected to grow at approximately 9% CAGR for the next four years. Similarly, India data center capacity is expected to grow even faster with a CAGR of 26% over the next five years. In addition to the demand coming from these technology divisions, departments, the mega government projects such as BEAD in the US, BharatNet in India, and other such programs in Europe and UK can substantially add to the overall global demand of optical connectivity products. The application of anti-dumping duty on Chinese products in India, Europe is expected to balance out the optical connectivity product supply and help non Chinese players such as STL further standing up our global positioning.

If we just zoom into the North America region, CRU is projecting the region optical cable demand to grow at a fast pace of 13% CAGR till 2028. More than 9 million homes were passed in 2023 alone. And as we just said another 9-12 million homes pass additional expected just in 2024. Various telecom internet providers in North America have an aggressive ambitions on FTTH home pass targets for the next 2-3 years and announced these targets publicly. For instance, in the very near term, AT&T intends to add 19 million new home passes, Lumen plans to add 9.2 million home passes, and Frontier has announced plans for another 5 million new home passes. The government spending through BEAD and other programs should only add to this fiber deployment plan by the private sector. It is estimated that in North America nearly as much fiber will be deployed to the next five years as it has been deployed through its history. So very strong demand in North America in the coming years.

As we now reflect on our market share optical connectivity attach rates, basis CRU global consumption data during FY24 we had 8% market share and global cable demand excluding China. FY24 was clearly a year of challenging demand environment where inventory digestion impacted fresh procurements and we believe that the market share shall normalize as a fresh demand suddenly picks up. Our optical connectivity attach rates have increased to 13% from 10% last year. We are continuously working on new product development and commercialization in optical connectivity space to further increase our attach rate.

Coming to the financial performance of optical business as guided in Q4 FY24, revenue has declined on account of lower volumes and stands at Rs.777 crores. The full year FY24 revenue stands at Rs.3,830 crores. In line with the reduction in revenues Q4 FY24 EBITDA stands at Rs.60 crores and for the full year FY24 EBITDA stands at Rs.621 crore. Due to the lower absolute EBITDA, the EBITDA margins of Q4 FY24 stands at 7.7%, although full year FY24 EBITDA margins is at 16.2%.

It has been a challenging quarter but with strategically located manufacturing facilities globally, optimized cost structure, continual production innovation efforts and customer approvals for our products from tier 1 customers across the globe, we believe that we are well positioned to capture significant market share and grow as the demand picks up.

Now let's discuss the progress in the Indian market and how we are pivoting the global services. In the global services business Q4 FY24 revenues stands at Rs.323 crores and full year FY24 revenue stands at Rs.1,456 crores. We have been selective in our intake and execution which has helped us improve our Q4 EBITDA to Rs.39 crores and EBITDA margin to healthy 12.1%. Favorable project mix and effective execution resulted in improved full year FY24 EBITDA to Rs.110 crores and EBITDA margins for FY24 to 7.6%. We continue to build our capability towards value added services to improve margin profile and reduce fund involvement.

We made substantial progress on all the projects and as you can see on our slide among the major India public projects include our BharatNet project in the state of Telangana is now 68% complete including all the packages. The network modernization project is 74% complete the data center project with the PSU standard 88% complete and on the India private side fiber rollout for a large telecom operator phase two is 55% complete and fiber rollout for modern optical networks for other private customer is 94% complete.

Coming to STL digital, we are continuing the growth momentum. We're continuously working with new customers for growing our business in US, Europe and India across technology and services verticals as observed during strong order flow during FY24. With more than 25 global customers at the end of Q4 FY24 we have 40 plus active technology partnerships. We have signed strategic partnerships with SAP and Google to offer the solution jointly to our customers. We expect the growth to be driven by robust order book of more than Rs.660 crores and the right leadership as well as consultants. In line with expectations and despite a tough industry environment for IT services we have achieved a Q4 FY24 revenue at Rs.78 crores and the full year FY24 revenue of Rs.298 crores. The full year FY24 revenue of Rs.290 crores is more than four times the full year FY23 revenues. The EBITDA loss of Q4 FY24 stands at Rs.17 crores and for full year FY24 EBITDA loss stands at Rs.83 crores.

I will now hand over to Tushar to talk about the financials.

Tushar Shroff: Thanks, Ankit. Good day ladies and gentlemen. In line with our guidance, the consolidated Q4 revenue stands at Rs.1,140 crore. Full year FY24 revenue stands at Rs.5,478 crores, a reduction in the revenue on year on your basis is mainly attributable to lower optical fiber cable sales volume in optical network business. In quarter four EBITDA stands at Rs.67 crores, the full year FY24 EBITDA stands at Rs.627 crores, while for Q4 after tax losses stands at Rs.83 crores and full year FY24 after tax losses stands at Rs.58 crores.

In terms of new orders in the optical business we continue to win multibillion dollar orders for optical fiber cable in our focus market. We secured large orders in UK for multiple large telecom operators. We also secured large orders in Italy from fiber optic network operator. We secured the first large orders in North America for our optical connectivity products.

In the service business we secured large fiber rollout orders from large private telco operator in India for 5G deployments. On the back of our global businesses our revenue mix was well diversified during last quarter and we expect this to further improve towards North America and Europe as the demand for the optical products pick up in the global markets. Our open order book at the end of Q4 FY24 is Rs.10,290 crores we are happy to share that robust order book edition amounting to Rs.2,064 crores happened during last quarter. Our order book is well diversified across our customer segments and all our businesses.

We now place abridged version of our reported numbers for your perusal. The net debt has reduced by Rs.334 crores during the financial year.

Now let us understand the current status of the demerger of the service business. During the quarter, the first NCLT hearing was conducted in April 2024 NCLT has directed us to convene the meeting of the shareholders secured and unsecured creditors to approve the scheme of demerger and we are working on next steps in the approval process.

In summary, I would like to say that in the optical network business we shall target to drive the cost leadership and pursue our ambition to be a global top three. We shall increase the sales of our focus market to grow our optical network business. We will continue to increase optical connectivity growth and attach rate. In the global services, we will continue to focus on select project to improve the profitability and optimize on the working capital. In the digital business, we will continue to scale up and grow our revenue along with focus profitability.

Now I hand over thecall to Chetan.

Chetan Wani: Thanks Tushar. Ladies and gentleman with this we come to the end of our presentation. And we should allow more towards the segment of Q&A with management.

Please note that if you want to ask a question, you can click on the raise hand button and we shall take your questions one by one. special requests we ask we request all of you to limit your questions to maximum two questions so that the management can attend to questions from maximum participate participants the call is now open for Q&A.

We will take the first question from the line of Nikhil Choudhary. Nikhil please go ahead with your question.

Nikhil Choudhary: Hi Ankit and Tushar, thanks for the opportunity. So, this was a tough year for industry and for us, but I want to discuss, especially related to the market share loss which we had during the year. Especially in America we still had negative growth in Q4 . One of your peer, largest optic fiber company globally has reported much better results in Q1 CY2024. So, any comment there?

Ankit Agarwal: Okay, so I think the question was a little unclear but what I understood is in terms of our market share in North America, vis-à-vis some of our global competition. So, I won't be able to comment on the competition, but what we can definitely say is that we do expect and we have talked in the past about principally the market deployment, the fiber deployment continued to be strong. More than 9 million homes have been deployed which is one of the highest ever in history. And that is also leading to strong reduction of the inventory, especially with our end customers and distributors. So that's where we continue to believe that we are probably one to two quarters away from the market normalizing. During this time, we are focused on two or three things. One is improving our product portfolio, both on cable as well as connectivity, as we shared recently in the results, we have also started our first sale of connectivity in North America market which is a positive development. We also focusing on ramping up our US factory in terms of production and output. So, I think these are the focused areas, definitely as the market rebounds we are confident that our volumes for the US sales will improve.

Nikhil Choudhary: Sure, second one is regarding the update on the BEAD project. There are some articles about changing timelines which generally happen with common products. So, any update on how the overall implementation and project development process is going on and when do you expect any meaningful uptake in terms of contribution from BEAD especially related to your US spectrum. Thank you.

Ankit Agarwal: Good question. So, broadly our sense is that somewhere in the timeframe of probably our Q3 or Q4 is where we can see some initial demand coming in. But when we look at our discussions with customers and even what we see with our peers, most people are factoring in probably meaningful demand coming in next year, so calendar year FY25, is where they see meaningful demand for the connectivity. Again, here we are working closely with our customers who we do expect to get the BEAD funding. We are also working both on our product portfolio as well as capacity readiness of our US factory. And recently, we have also made a public announcement to this effect, where we are meeting the BABA compliance which is important for the BEAD requirement. So that's where we stand today. There are efforts going on locally in the US around how the timing can be fast track but currently, the visibility is probably Q3/Q4 of our financial year, is where we can see some initial impact or benefit and then meaningfully next year onwards.

Nikhil Choudhary: Last one question is related to services business, we have seen some changes in this quarter with margin profile has been menaingful at the cost of revenue growth. Is it fair to assume that this will be our strategy where we focus more on EBITDA margin than revenue growth for now in the services business. Thank you.

Ankit Agarwal: Yeah, absolutely. I think as we have been sharing on the services business in India and overall for the business, we have been very focused on taking on the right kind of projects with the right margins and most importantly right cash profile to reduce our fund involvement so that efforts continue. We do have strong relationships with the telecom operators. We have some interesting projects, which we have and have also recently won on the system integration side. So, I think that's the whole focus, we will continue to drive towards the good balance between the fiber deployment and system integration. One caveat in all of this is that we will see how the BharatNet gets played out over the next one to two quarters. And definitely that will be an interesting opportunity for STL across fiber cable connectivity as well as deployment. So, I think let's see how that gets played out. And again, as long as the terms are to our liking that can be a good opportunity for STL.

Nikhil Choudhary: Thank for giving the opportunity and good luck

Ankit Agarwal: And one more thing to add is that we also had in line with what we had promised, we have been able to get our UK services nearly to breakeven so I think that is also something that's positive and we see good order flow up there.

Chetan Wani: Thank you, Nikhil. We will take the next question from the line of Bala Subramaniam. You may please go ahead.

Bala Subramaniam: Sir in this quarter we have seen more than 80% degrowth in optical networking business. How much impact from volume and realization front and how was the realization on optical fiber and OFC side in this quarter. Are we seeing any improvement on the prices side or it will likely continue to reduce in coming quarter.

Ankit Agarwal: As we have been sharing primarily if we compare to last year, the biggest delta has been lower volumes, primarily in the US and then in Europe. We have increased some of our volumes in some of the other markets. And that also reflects when you look at our geography distribution in slide 25, where you will see our India revenues, for example, have grown from 26% to 35%. So, that's something that we are mindful of, the volumes have reduced as we have shared in a couple of discussion the past, utilizations have also been at sub 50% level. So, I think that's something that we do see good opportunity for the business improving going forward, volumes improving going forward. I think on the realization part, we have seen that to be reasonably steady. And from our perspective, the because of the mix where typically we see lower realizations in India and Europe compared to US, because of that our average utilization would have come down at the optical business level. So, I think these are the two main factors again as we see the US demand coming back, both for cable and then eventually for connectivity, that will be a positive trigger, both for the top line and bottom line for the company. In parallel we are doing we have been doing a lot of work on the cost side, looking at all the elements of costs, which you shared in the past, both fixed costs, administration costs and various other costs. So, that will also help us once we start seeing some of the volumes coming back.

Bala Subramaniam: Got it sir. Sir, what kind of products are in pipeline in optical interconnects from 13% rate in this year to where we can see improvement over the next two to three years.

Ankit Agarwal: Look, I can share at a macro level this definitely remains a strategic priority for us, it's part of our strategy to provide an end to end solution to our customers. And certainly, there is good focus from our side, from product development side, from building the right team and capability both for our global markets, so that continues as a priority. And I think certainly we do we are keen that we increase attach rate as we scale up.

Bala Subramaniam: Got it. On the global Services aside, we have witnessed the highest ever margin at 12.1%. So, what are the key triggers for this improvement and where we can expect from current levels.

Ankit Agarwal: As I shared, principally we are focused on executing the right kind of projects at the right margin and directionally we have shared that we want to keep this business somewhere in the range of at least 8-10% with the right mix. So, that's what we continue to believe in. There is good discipline with the team and the business and good system integration opportunities that are coming up over the next 12 -24 months. So, there is good discipline with the team and then we will see as we discussed with BharatNet that could be an interesting opportunity and upside for this business.

Bala Subramaniam: Okay, so my last question is regarding the situation in Europe, US and Indian markets regarding inventory piled up with operating levels and what are the changes going on in this quarter and coming quarters, is there any order slowdown due to elections in India and US market.

Ankit Agarwal: No, we are not seeing any impact of the elections per se whether in India or globally. And in fact, when you look at our own order book, that has been quite high in the last quarter, overall 2,000 crores plus order book and even in the optical business, very strong order book. So, I think that gives us some level of confidence that the customer inquiries are increasing, orders that we are taking in from variety of customers are increasing. So, I would say that deployment is strong, the inventories are continuing to get depleted, and we are one to two quarters away from some level of normal demand coming back.

Bala Subramaniam: Thanks so much.

Chetan Wani: Thank you, Bala. We'll take the next question from the line of Darshil Zaveri.

Darshil Zaveri: Good evening, Sir. We have had like, maybe not a stellar FY24 but any kind of guidance that you would like to give in terms of our growth and margin in FY25.

Ankit Agarwal: No, currently we are not looking to give any specific guidance, because we are still in that phase as I have been sharing that principally, in our optical business we have made all the right investments in our capacities, in our team product capability, but our utilization levels are still on the lower side. So, once we start seeing some of the regular demand coming in, when we start seeing especially in our focus markets in Europe, US and even in India with BharatNet kind of projects. So, once we start seeing that and we are able to get some comfort on that demand, then I think we will be able to provide a better guidance. Right now, as we are sharing is the primary driver specially in US market is inventory drawdown, which we do expect that will lead to demand normalization in one to two quarters.

Darshil Zaveri: Okay, fair enough. So, for a common man like us, what could be an inflection point where we would say that now things have come back to normal,something on the broader sense, what will be the turning point for us.

Ankit Agarwal: Yes, in simple terms we have added a fair bit of capacity, we are fully backward integrated from glass fiber cable, and now connectivity. So essentially, we would like our capacities to be running at least 70-80% plus levels. So, once we are able to get to that level and continue at those utilization levels, that will be where we get that comfort in terms of our volumes and ultimately the profitability.

Darshil Zaveri: Okay, perfect.

Chetan Wani: We will take next question from Ashish Chopra. Please go ahead.

Ashish Chopra: Hi Ankit could you help us with what would have been the utilization levels in this exit quarter as compared to how much it was in the last quarter.

Ankit Agarwal: We won't give specific numbers Ashish for competitive reasons, but it was sub 50% levels. And as I shared, while the volumes have been largely flattish,basically, we have seen that principally they've been lower volumes from North America and more volumes from other markets like Middle East and India, etc. which would have driven down the realization and profitability

Ashish Chopra: Understood, and also on the inventory levels you have been calling out, which has been on its way down and hence the outlook turning slightly positive, any qualitative or quantitative color on how and where do these inventory levels time today. Where were they at their peak? And what is really the steady state, the norm for the industry in general?

Ankit Agarwal: Ashish, it varies a little bit because there is inventory essentially in three places, it's with the manufacturers, the distributors, and with the end customers, it's across three levels. So that's the data that we are tracking closely and in our conversations with more distributors and customers,they do see these draw downs, which we are now tracking monthly and on quarterly basis. So that is why we get the confidence and when we look at what is kind of a basic or bare level of inventory, they would still need to maintain and it will never go down to zero, at which point they need to make sure that they are ordering and replenishing. That is where we are seeing that we are probably at current run rate levels of reductions, that is where we believe that we are one to two quarters away from reaching those levels that they are comfortably needing to replenish and that the whole cycle picks up to a normal level. And if you look at also the CRU forecasts and other forecasts from the industry on optic fiber volumes picking up, you will see that kind of uptick particularly, towards the end of CY24 and into CY25 onwards and quite meaningfully in 25-26 on the back of BEAD and other projects.

Ashish Chopra: And just the last couple of questions from my side, one was on the order booking how was it from the US in this quarter in terms of contribution, did you already see a pickup there. And lastly on the data center business how much would be our exposure and do you think that you need to build separate capabilities under acquisitions to be a significant player in that market.

Ankit Agarwal: So, I would say we have normalized demand from US and probably some good long term orders particularly from Europe market, some from India market as well. Typically, our customers in Europe and US would look at 2-3 years contracts. So, as it depends on where some of those opportunities come up. So that's where we see that and also from distributors those was opportunities will continue to start coming in including in Q1, Q2, etc. for the US. On the data center part I think, definitely, as we shared in our slides it's quite exciting and I think there is more and more of an understanding for the industry and ourselves that clearly these kinds of Gen AI enabling data centers will have fairly dense kind of fiber networks within them. Much more fibers required per rack, and it could be the magnitude of 5- 6x or even more. So, we are trying to understand that more and we are trying to understand what is our own product portfolio required, literally starting from glass fiber, cable and even connectivity, and certainly we would look to increase our own capability and team to cater to this market. But this is something which will take little bit more time probably over the next 2-3 years. We will look to build this and make more of a presence in this market.

Ashish Chopra: Thanks, and all the best.

Chetan Wani: We will take the next question from line of Vipul Shah. Vipul you please go ahead

Vipul Shah: So, since you are reluctant to share your absolute production and utilization levels, may I ask at what percentage of capacity utilization will break even in our optical fiber business.

Tushar Shroff: So, Vipul at above about 60% kind of utilization, we see that at 60-65% of utilization we should be back on track in terms of the profitability for the optical network business from OFC perspective.

Vipul Shah: So, what was your exit rate for Q4.

Ankit Agarwal: It was sub 50% that is what I shared.

Vipul Shah: Okay and do you see any near term improvement overall.

Ankit Agarwal: I mean, that is what I have been sharing, that it's really a function of how we see the inventories going down and the demand coming up. And that's where we are broadly guiding that we are one to two quarters from there, but directionally of course we do believe you know, Q1 and Q2 will be better than previous quarters.

Tushar Shroff: And Vipul the good part is that what we have seen is that the kind of an order booking that we have for this particular quarter, which gives us the confidence that this order booking will start to roll in the coming quarters which will help us in terms of booking at revenue and facility both.

Vipul Shah: So last question, if you can directionally comment the prices of the exit of last quarter as compared to two years back how much they are down.

Ankit Agarwal: So, I don't think I will be able to give us a specific answer there because the pricing really varies by geography both on fiber and cable quite a bit between prices locally in China, prices in India, Europe and US as they are distinct markets. I would at least comment that in the last couple of quarters the market has been fairly stable and at least from our focus markets, we don't see any reduction in realization. We are continuing to focus on our solution offering of cable plus connectivity together, which will help us increase our attach rate and profitability in the next 1-2 years.

Vipul Shah: Okay, thank you.

Chetan Wani: Thank you, Vipul. We will take next question from line of Saral Shah. Please go ahead.

Saral Shah: This is a really great job on the reduction of employee cost. So, one I just wanted to understand how much of this is coming from a reduction in contract labor or production cost or production manpower. Some idea,as we ramp up volumes again how much of this cost will come back.

Tushar Shroff: So, with respect to the employee cost, if you see the manpower cost, it's all about the permanent employees. While the labor costs which is generally it's a contract labor, which is not part of the manpower cost, it's getting reported as the other expenses are part of the line item. So, from that perspective, you see on a like to like basis, we have been able to reduce the substantial amount in terms of the manpower expenses. So, some part of this particular expenses as we built up, some kind of a capability on optical interconnect side. That is something that we will have to keep investing to build up the entire portfolio in terms of an R&D, as well as on the marketing side, as well as the sales engineering support side. So, as we structurally grow that particular business, we will see that the structure increase in this particular cost, but from the OFC perspective and for OF perspective, whatever the cost optimization that we have done and we continue to drive to reduce this particular cause further down for these two segment of the business.

Saral Shah: Yeah, great. So firstly, I think it's great to hear that we made some breakthrough in the US, but in terms of our overall journey, in terms of capability development, whether it is the range of products or R&D or sales capability on the interconnect side for the US market. So where are we in our journey from zero to 100.

Ankit Agarwal: I will put it this way, there has been a lot of work over the last 12 months, I will say overall, both for Europe and US markets and also for some of the other global markets. There's both been focused on building our intellectual property, there has been focused on product development, prioritizing it. We also look very closely at cable plus interconnect development together because of the linkages between the two. So, I would say particularly to your question on US, we have a good strong base of products but one of the areas where we do see our strength is our agility to customize for our customers. And so that's something that we continue to co create with our customers and as those solutions get developed and put into the field that will be an important driver of our business particularly in the US. We are also building some strong technical resources and capability in the region. So as those teams come on board and they help support us on the ground, that will also have been a positive driver.

Saral Shah: So, do think they should be like 2-3 years journey or a really long term journey for us.

Ankit Agarwal: No, a 2–3-year journey is fair. It also takes some time to build credibility in the market, to get a deep understanding of on ground, how the network behaves and network requirements. So that's the phase where we are in and typically it takes one to two years and sometimes in that period, to even get some of the customer approvals.

Saral Shah: Sure. And last question, we of course on the IT services side, we are very close to breakeven we had a little bit of a blip this quarter, but how is next year overall looking on IT services growth and profitability.

Ankit Agarwal: I would actually mix the two as you said, we are looking at profitable growth. So, that's really where Raman and the team are driving that, while there could be many opportunities we are really keeping that focus and discipline that while we want to grow, how do we find that balance and still make sure that we first get to break even as we have been discussing, and then look at profitability. So that's something that we are aware that probably overall IT services sector is currently a little bit challenging. But certainly, overall environment improves over next 1-2 quarters, the intent is certainly first to get to break even quickly, and then look at profitable growth. So, we are also mindful of our own investments into the business so far, and hence it's important that going forward the business creates a profitable growth.

Saral Shah: All right, thank you.

Chetan Wani: We will take a last question. And that will be from the line of Sohan Joshi.

Sohan Joshi: Hi Ankit, we do you expected allocation of tenders in the BharatNet project. Will you have any growth coming this year from that.

Ankit Agarwal: Yeah, good question. Basically, there is, some of the responses to the inquiries, etc. to the Bharatnet tender, and so current visibility is probably in the next one to two months, there could be a response to the tenders and then there could be some more work around that. So, practically, some work could happen towards our financial year Q3 or maybe Q4 is where there could be some impact. Again, it will vary depending on whether it's business to us on the fiber deployment side or its business for us on cable supply, or possibly even fiber supply to other cablers. So, broadly we do think that there will be some activity on the ground, probably by Q3 and Q4 of our financial year.

Sohan Joshi: Okay, second question, how are we seeing the demand of tower fiberisation in India. Since India has a rate of say just around 37% odd tower fiberisation and with 5G rolling out very fast, do we see any big upside in demand coming from India itself physical to tower fiberisation.

Ankit Agarwal: Yes, it will at least be steady and maybe some healthy growth. Primarily, I would separate the two that probably we do see particularly, the demand from at least one of the two large operators to scale up given that they want to get a higher tower fiberisation probably at 70-80%. So, definitely one of the two large operators will scale up. The good thing is both the large operators, Jio and Airtel have very ambitious plans for fiber to the home as well fiber to enterprise. So, all of this is converging. I would say so, one look at it as one ubiquitous network, whether it is fiber for towers, fiber, enterprise, fiber to home, all of it is getting built including fiber for data center requirements is all getting built at one time so we do see this kind of coming together and definitely on top of this you will have the BharatNet requirements, which will be in rural India. So, we are bullish on India. It's our home market and we do hope that that demand increases over the next three to five years.

Sohan Joshi: Okay, thanks a lot. One small question, with this prolonged high interest rates and US elections coming up, do you see any impact on BEAD project or it will continue irrespective of which of the political parties coming to power in USA.

Ankit Agarwal: The BEAD project bipartisan is approved by both the parties, both the houses, so to that extent, we don't see any negative impact on BEAD based on the elections. On the interest part definitely at least a STL it's been positive to the extent with our fundraise now, we will be utilizing that for our debt reduction. And to that extent, our interest costs will come down to some amount for the current year.

Sohan Joshi: Okay, thanks a lot, and all the best for the upcoming quarters.

Chetan Wani: Thank you Sohan. Ladies and gentleman with this, we come to the end of the question and answer session, and Ankit I hand over the call back to you for closing remarks.

Ankit Agarwal: Thanks, Chetan. I would like to thank everyone for attending this call and showing interest in our company. Despite a challenging market environment, we have managed to make progress on our key strategic priorities. And we have reduced our net debt by Rs.334 crores majorly through internal accruals. We have successfully completed the QIP and onboarded marquee investors which is a testament to our capabilities and future potential. I thank these investors when placing their trust on STL. During the last FY24 we have worked on all factors in our control and attempted to become lean, agile and establish industry leading cost model. In this new financial year FY25 we will continue to aggressively pursue business opportunities presented by the market on the tenets of deep customer engagement, product innovation, sustainability, and we are confident that we will reap benefits of this into the future. We are well positioned to execute and deliver robust results and create shareholder value as a demand normalizes, I hope we will be able to address and clarify all your questions and comments for any further questions and discussions please feel free to contact the investor relations team which includes myself and Tushar. We look forward to continuing the conversation with you in the future. Thank you.

(This document has been edited to improve readability)