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August 01, 2023

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Dalal Street,
Mumbai - 400 001.

Sub.: TRANSCRIPT OF EARNINGS CALL - FINANCIAL RESULTS Q1 FY24

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

Dear Sir/Madam,

In furtherance of our letters dated July 18, 2023 and July 27, 2023 respectively, please find enclosed transcript of earnings call held on July 27, 2023 in respect of Company's Q1 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: 2023.08.01 17:51:07 +05'30'

Amit Deshpande
General Counsel & Company Secretary (ACS 17551)

Encl.: As above.

Sterlite Technologies Limited Q1 FY24

Earnings Conference Call Transcript

July 27, 2023

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

Pankaj Dhawan: Ladies and gentlemen, good day and welcome to the STL's Q1 FY24 Earnings Conference Call. I'm Pankaj Dhawan, Head, Investor Relations at STL.

To take us through the results and answer your questions, we have Ankit Agarwal, Managing Director, STL and Tushar Shroff, Group 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 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 risks 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: Thank you, Pankaj. Good day everyone. Thank you for joining our Q1 FY24 earnings call today.

Just to reiterate, our strategic priorities for STL remain the same and are as follows: Firstly, we will continue to grow the optical business by increasing OFC market share and the connectivity attach rate that we've been speaking about. We've also started projects to optimize our raw material and fixed costs in the business to become more competitive.

Secondly, we shall continue to consolidate global services in the segments of our choice. We are building new capabilities for value added services. We are also working to improve the UK operations profitability that we've touched on earlier. Last but not the least, we shall build the digital business through focused investments in new technologies and capabilities.

Let's first touch on the optical business. The 5G deployments continue to remain strong globally. As of June 2023, a total of 532 operators in 160 countries have invested in 5G networks, with over 254 operators having launched commercial 5G services. At least 41 carriers in 20 countries have launched standalone 5G networks. There are already 1.1 billion 5G subscribers in the world, which is expected to reach 1.5 billion by. the end of this year. Leading the 5G deployments is China, which plans to increase its 5G base stations from 2.3 million to 2.9 million by the end of 2023. Also, fiber-to-the-home deployments continue to remain strong. In the US, the number of homes passed in 2023 is likely to remain at similar levels as 2022. As examples, Frontier Communications passed 339,000 homes in Q1 2023, up by 60% over Q1 2022, while AT&T added 600,000 locations in Q1 2023. In the UK, 4.7 million home passes are expected in this year. Similarly, in Germany, Deutsche Telekom plans to pass another 3 million homes in 2023. Lastly, China continues to deploy fibers now more and more for fiber to the room applications to prepare for AI and Internet of Things.

The Biden administration has recently announced the distribution of funding of over $4.2 billion, the BEAD program. The funding shall be used to primarily deploy last mile fiber networks. The funds expected to flow to states early next year and shall start to fund projects by the middle of 2024.

In total, government plans to spend close to 100 billion in building broadband connectivity by 2030. We expect the excess inventory to correct and growth to come back by the end of the year. Therefore, we remain committed to the US market and continue to broaden our customer base. In this regard, we have recently announced a partnership with Windstream, a privately held communications and software company. Our collaboration started in February 2021. We will provide them with advanced optical designs like high fiber count, intelligently bonded ribbon and flat ribbon in addition to loose tube cables. These products are designed to ensure faster rollout and superior network longevity, which aligns perfectly with the Windstream's requirements.

I'm also happy to share that China Mobile has announced the results for 2023-24 tender. The tender volume is 108 million fiber kilometers. While it is lower than last year, the previous tender was actually extended beyond 12 months. The final settled average weighted price remains unchanged from last year in local RMB terms. The big five players in China got a majority of the tender volumes, which is very positive, which will lead to consolidation in the China market. The tender war might mitigate any price risk that we see out of China in the near term.

In addition to the China Mobile, China Telecom has also announced a tender of 50 million fiber kilometers, which I am happy to share that is higher than last year.

Now, coming to the demand outlook, as per CRU, the medium term demand and optical fiber cable volumes expected to go up to 638 million fiber kilometers by 2027, up from 535 million in 2022. In the short term, however, as expected, global OFC demand is contracted by 3.4% in H1 2023, particularly in North America, demand contracted by 11%. However, the demand grew in Europe, Asia excluding China as well as the rest of the world.

Our market share remains stable at 11% in H1 of calendar year 2023 versus H1 of calendar year 2022. Our connectivity business also remains stable at 10%. We expect OFC market share to grow from H2'24 onwards. We also strongly feel that new products in the connectivity business should see a jump in attach rate from H2'24 onwards.

Coming to the financials for the optical business, in Q1 FY24 revenue stands at Rs. 1,112 crores, which is lower by 2% on year-on-year basis. OFC volume is lower on QoQ basis and OFC realization is also lower on QoQ basis due to change in geographical mix away from North America.

Even though revenue has gone down, EBITDA has gone up by 53% year-on-year basis to Rs.246 crores. EBITDA margins for Q1 FY24 stand at 22.1%. We have reduced our operating cost on QoQ basis to mitigate the realization impact.

Going ahead in Q2, we're taking the following actions to grow and maintain our operational profitability. #1 we're taking action to increase our share in EMEA, India and APAC markets to fill some of the volume gap from the US market. We continue to drive new product development, approval and commercialization in the optical connectivity business. And we have engaged a tier-one management consulting firm to further optimize our operating costs. We expect these actions to start showing results from second-half of this financial year.

Now, let's discuss the progress in the global services business. In Q1 of FY24, in line with our strategy to win profitable projects with optimal fund involvement, we have won two key orders. The first one, we are a system integrator to provide the ICT infrastructure for data centers and for remote sites along with the responsibility of operations and maintenance.

In the second order, we shall supply optical fiber cables and shall do the fiber rollout for 5G deployment in multiple circles for one of the largest Indian private telecom operators. We expect BharatNet phase-III tenders to be released in second-half of this financial year. As a result, we also expect our order inflow to increase as we go through the rest of this year.

In the global services, Q1 FY24, now revenue stands at Rs.353 crores EBITDA has gone up by 27% on year-on-year basis to Rs.28 crores due to a favorable project mix. The EBITDA margin at Q1 FY24 stands at 7.9% in line with our expectations.

Our project execution in the services business is on track. Among Indian public projects, BharatNet projects, for State of Telangana 65% complete, including all packages. The network modernization project is 68% complete. The fiber rollout project is 3% complete. The new managed services project is 12% complete. And additionally, we've just started the data center project that I spoke about.

In the Indian private side, fiber rollout projects for a large tier 1 telecom operators, 20% complete for phase-III. Fiber rollout for another large telecom operator phase-II is 28% complete. And finally, the fiber rollout for a modern optical network for another Indian private customer is 58% complete.

Coming to the UK, fiber-to-the-home rollout in the UK for projects combined is that 31% complete.

We shall now talk about the updates for. STL digital business. In STL digital, we are continuing to grow with momentum. We acquired new customers in the US and India across technology and service industry verticals. We have more than 20 plus active customers at the end of Q1 FY24. We also had a very strong deal inflow in the Q1 of FY24.

We are happy to announce that we have signed strategic partnership with SAP and Google to offer the solutions jointly to our customers.

We have also expanded our delivery team to 950 plus consultants and our open order book is also very healthy at 900 plus crores.

In line with the expectations and despite a tough industry environment, we have grown our revenues on QoQ basis to 62 crores. Our EBITDA loss for Q1 is at Rs.37 crores. We expect to maintain this growth momentum, but at the same time, we also expect the losses to go down as the revenue ramp up increases.

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

Tushar Shroff: Thanks, Ankit. Good day, ladies and gentlemen. Q1'24 revenue up by 2% on year-on-year basis to Rs. 1,522 crores. EBITDA grew by 42% on year-on-year basis to Rs.235 crores. EBITDA margin increased correspondingly to 15.4%. Net profit after minority interest and share of joint venture increased by 156% on year-on-year basis to Rs.46 crores.

In terms of new orders in optical business, we continue to win multi-million orders for optical fiber cable in Europe and Americas. We have already talked about new orders in service business in previous slides. In terms of a revenue mix, it has shifted to EMEA and India in Q1 FY24 in line with our guidance in previous quarter.

Our open order book at the end of Q1 FY24 is Rs. 10,938 crores. Our order book is well diversified across our customer segment and also across all our businesses.

We have placed a bridge version of our reported numbers for your reference. Our net debt is stable on quarter-on-quarter basis.

Also, we have filed a demerger of service business with stock exchange. We expect to complete the demerger by fourth quarter of next financial year.

Based on current US OFC industry situation, we are revising our revenue guidance to 7% to 9% growth for full year. However, we are still targeting net debt to EBITDA to be at 2.5 times.

On this particular slide, one major update is our ESG rating by MSCI has gone up from Triple B to A which is positive.

In summary, I would like to say that we shall target to gain the market share across our focus markets, particularly in EMEA, India, APAC markets to fill the volume gap from U.S market. We shall also optimize our operating cost to maintain the operating profitability.

In global services, we continue to move towards the value added services with improved margin and fund involvement. In digital business, we shall consciously invest to grow the revenue and reduce the EBITDA losses on a quarter-on-quarter basis.

Last but not the least, we are targeting to grow 7% to 9% in FY24 with reduced net debt to EBITDA at 2.5 times by the end of financial year.

With this, we come to the end of our commentary and we shall now open for Q&A.

Pankaj Dhawan: We'll take the first question from the line of. Mr. Mohit. Please go ahead.

Mohit: So my first question is on the North America business, right. I mean there seems to be some slowdown which we have also indicated. So, can you give us some color, what is driving this slowdown, there's a slowdown in 5G, is the adoption slower, is the CAPEX investments have gone down by the telecom players, so what is driving the slowdown in North America because the inventory, has also got built up?

Ankit Agarwal: Yes, absolutely. Thank you, Mohit. So I think as we shared even at the end of our previous quarter results and we've reiterated now, we do see some slowdown in terms of our sales specifically in North America. I think there are two or three elements that are playing out. I think #1 is as we had shared last time and we reiterate, broadly, there is still inventory with the tier 1, tier 2 players in the market. So as they start depleting that inventory, we do expect the demand to come back up. Currently, we do see that probably the depletion of that inventory will still take a quarter or two. So our own view is that we should start seeing good demand coming back in North America probably in Q3 and Q4 onwards. The second point is from the operator perspective, it's probably still taken time to scale up the deployment speed, that is still taking some time in terms of availability of skilled manpower and execution capability, that's probably been slower than what the customers expected. And then of course, lastly, because of the higher interest rates and inflation, I would say, there's some level of caution from the operators in terms of really ensuring they are doing the right projects. But at a macro level, I want to reassure that overall in our conversation with customers and what they have put out publicly, they continue to be committed towards long term deployment of fiber networks for all three elements, whether it is linked to 5G, whether it is fiber-to-the-home, or it is for data centers, all of the requirements continue to be there, continue to be strong. One other part that we just shared was in terms of the BEAD. That has been announced in terms of $42 billion. There have been discussions about allocation to the various states for the connectivity. Our view is the demand linked to the BEAD will come in half of calendar year '24 is when we should start seeing some positive demand linked to that.

Mohit: My one other question is, there's a massive improvement in the gross margin. So is it that also a function of change in geography mix because your raw material consumption will be lesser or is it like the raw materials have cooled off as a whole? Once the demand in North America comes back, we'll just again go back to previous levels?

Ankit Agarwal: So Mohit, I would like to address this particular question. If you see that the material cost percentage has gone down mainly because the prices of some of the material has gone down as well as we have been working on optimizing the consumption of some of our key raw materials, correct, which is also helping us in driving the overall material cost. So, there are two parts to it. Structurally, we see that there is a price impact as well as the consumption impact in overall material cost.

Mohit: So there's an open order book of Rs.900 crores for STL Digital. So can you give us the average tenure of this order book?

Ankit Agarwal: So the average is about three to five years because it's over a period of five years, so we signed the long term contracts with the customer and we continue to provide the services over a period of three to five years.

Pankaj Dhawan: We'll take the next question from the line of Mr. Balasubramanian. Please go ahead.

Balasubramanian: One of your competitors mentioned optical fiber prices have been declined by 10% to 15% and other expenses also has been decreased by 10% to 15%, that's why the margin improvement will be there in this quarter. Whether this will be sustainable in upcoming quarters and optical networking side also we have witnessed 22.1% margins which is higher compared to past four to five quarters. So like how do we see on the margin side in upcoming quarters? Also, also please provide the realizations in the market for OF & OFC side, that would be really helpful.

Ankit Agarwal: Firstly, I would say that we continue to be focused, as we shared, we do expect healthy mix between the various geographies given some of the lower sales that we have seen in Q1 and we will also see in Q2, we are actively focused and also improving our sales in other markets. As we have shared through our presentations and previous discussions, we do experience higher realizations in U.S. market. So to that extent, our share and volumes increase in other markets. The average realization for STL would come down. So that is our current expectation probably for Q2 and we would need to see how our volumes come back in US as I mentioned probably in Q3 or Q4. So I think it will be a function of these things. In our current quarter, our realizations specifically for cable, I can mention, continue to be steady, it has come down marginally, as I said, because of the mix slightly away from US, but I still believe that looking at our focus, our priorities on improving our volumes which will be a focus for us going forward. We do see a good balance of other geographies as well.

Tushar Shroff: And just to address your very specific questions on a gross margin, as I said, we continue to work to optimize our material cost correct by looking at the consumption of key raw material, we have engaged the leading management consulting firm to help us out in terms of optimizing the productivity in terms of ensuring the better yields as well as we are also looking at the right prices for some of the key raw materials that we procure.

Balasubramanian: Apart from North America, any other countries we are facing slowdown on that export side. So, if you could throw some light on that, that would be really helpful?

Ankit Agarwal: No, sir, I think we continue to see good demand in Middle East, in India, in parts of APAC, we have seen slight slowdown in Europe market. But that we think should come back faster. Specifically, I think again, there it has linked to high inflation and high interest rates which have taken some period of pause. Also, typically, we are also seeing in Q2, for example, August, month and parts of September also slower months in Europe generally in terms of execution of projects. So we are looking at these elements, but overall I would say that we are still bullish on Europe market, we do expect that to bounce back. It is also a market where we have good amount of sales of our optical interconnect. So that's also something that we are bullish that will grow from H2 onwards.

Balasubramanian: Sir, on that digital and technology side, so we made this quarter Rs.62 crores. So, we may see the same kind of run rate for next three quarters?

Ankit Agarwal: I think what we can share about digital definitely, as you can see, we are really getting good order book, good commitment from high quality customers particularly in US and other markets. So, I think that gives us confidence on the underlying business and the value we are creating for the customers. What I would say is, as we had shared last time also, our focus is to make the business breakeven by Q4. That's the current priority and that will happen by further scaling up the revenue and covering the fixed costs and other costs. So that's something that the leadership here, Raman is focused on, and we are confident the way the orders are progressing and the customer conversations that we should break even by Q4.

Pankaj Dhawan: We'll take the next question from the line of Pratik Singhania. Please go ahead.

Pratik Singhania: My question is with respect to optical fiber interconnect business. So as compared to what we had planned at the start of the year and the actuals which are being reported, there's quite a bit of divergence into our expectation at the start of the year. So what steps are we doing to rectify that, how can we grow this business further as compared to its full potential?

Ankit Agarwal: Good question, Pratik, I think absolutely right. In the past, we had looked at how do we scale up this business probably even faster. I think some of our learnings that we did share last quarter as well is that the whole cycle that it takes from understanding the customer's problems, creating some unique innovation, creating the IP, getting that approved through the technical cycle of the customers and then getting large scale, then trial rollout and larger scale rollout. I think that whole time period has probably been longer than we initially expected. We are much more mindful of the entire cycle now. Having said that, we are definitely in trials with various customers globally. And so it's one of those things where as more and more of our customers get comfortable and we successfully pass through this trial phase, we do expect good volumes to come up for the products. Another thing that we have done is very proactively invest both in the product development as well as the team development for this business. So, very happy to share that we have got onboard some very strong talent globally to help scale up this business. And on the customer end, we are also adding resources who are very comfortable with this product portfolio and really is looking at that package solution of cable as well as the interconnect together for our customers. So, I'm confident that probably by Q3, Q4 we should see some improvement in sales and certainly going into next year we are even more confident that the sales will come up. So, I agree with you. In summary, I think versus what we had thought of how this would scale up, there's been a lag. I think we've taken some of the learnings and I'm confident of our actions that this will start stepping up as we particularly go into H2 of this year.

Pratik Singhania: So based on the revised plan in terms of the scale and the execution, what kind of an exit quarterly run rate you see by say FY24 end and by FY25 end?

Ankit Agarwal: We are not sharing that kind of forecast currently. What we had shared was about our vision of getting to a high attach rate if you remember in the past, versus that, as you can understand today, we are at a 10% attach rate. What I can say is clearly our intention would be to scale that up, both see that as an important lever with our customers and as we have shared the margins on our interconnect are closer to 30%. So, there is clearly an intent to scale it up also from a bottom line perspective.

Pratik Singhania: My question would be with respect to the consultant that we have hired. So, what kind of conservative cost-cutting initiatives that you have taken would result into, and by when we can see the results percolating in our financials?

Ankit Agarwal: We won't be able to share too many details, but what I can share is as I said, it's a tier 1 consultant who has experience specifically working with us on optimization of all our costs, also looking at our consumption, we had shared in the past where we had certain raw materials and gases which had high cost for us. So, we have been actively working with the consultant for a few months now. We do expect some of these benefits to start flowing in H2 of this year and some of it will come in Q2 as well. As we progress, we will share our overall cost improvements. We won't be able to share things directly linked to any specific consultant.

Pratik Singhania: So, if you can quantify how many bps of EBITDA margin you are envisaging because of this entire exercise of cost initiatives?

Tushar Shroff: Overall, the entire management team is presently working on it. So the kind of savings that we have been looking at is, some of the savings are under the evaluation stage. So at this point in time, we will not be able to actually quantify in terms of that whatever is the total savings that we will be able to generate, because these are our technical matters and which requires a thoughtful evaluation before implementing any changes, correct. So that's why at this point in time, it is too early for us to quantify any kind of a savings that we are planning to accrue for this particular financial year. But, definitely, the team is working on it, there are different projects, different teams which are working on various aspects, material costs, material consumptions, indirect spends. So, a lot of other areas that we have been working on to optimize the overall cost structure for this business.

Pratik Singhania: So, in terms of the business environment in US as compared to last con call when we had discussed the environment to be a weaker for a couple of quarters as compared to last quarter, the scenario remains exactly same, worsen, better like what is the feel over there?

Ankit Agarwal: Good question. I would say, on the positive side, I think there is more clarity now with the announcement of BEAD, right. So I think that's clearly a massive quantum, $42.5 billion dollars. There's more clarity now around which states will get what kind of allocation, how will the flow happen and a lot of that will now start getting worked out and clearly we think at least 20% of that quantum there will be procurement and deployment starting to link to that starting in kind of mid of next year. So I think that's positive from a market perspective, and clearly as we said in the past, a vast portion of that will be directly optical fiber as the medium for connectivity. Again, most of the telecom operators have reiterated their focus on optical fiber and fiber deployment. So we continue to track that very closely. I think what we had shared is that probably for two quarters at that point we had shared that we see it taking time to go through the inventory. I would only add that continues to be the case. Whether it's two quarters or three quarters is the only X-factor in our view. So we are watching that closely. We'll certainly update you probably during the next set of results, but certainly nothing more has significantly changed. Our own interactions with customers remain very strong, as you would have seen with for example with our Windstream press release, customers are really appreciating our product portfolio, our innovation, the fact that we are now manufacturing locally in the US and supporting made in America. So I think these things are going quite well for us.

Pankaj Dhawan: We'll take the next question from the line of Mr. Kaushik Poddar. Kaushik, you may ask your question now.

Kaushik Poddar: My question is with regard to the debt-EBITDA ratio of 3.5 that you have projected to be at 3.5 at the end of this year.

Tushar Shroff: I think it is 2.5 that is what we are looking at targeting.

Kaushik Poddar: So will you be able to attain this with the current state of operation or you have factored in a rights issue or something of that sort?

Tushar Shroff: So I think it's a mix of two things. One is it is mainly from the current operations at this point in time, because we are also working on cost optimization project and how effectively we are able to serve our customers in terms of the cost. So that's something that we have been working on and I think that also should start accruing over a period of time, and that should drive us in terms of generating better cash and should be able to reduce our debt. Similarly, on our GSB side, we have clear focus on execution. If we have been able to complete some of the projects in terms of a better execution, we will be achieving some of the critical milestone. That also will be able to help us in terms of releasing some cash which is blocked in some of these projects. So those are the two levers that should help us out in terms of releasing the cash and reducing the net debt-to-EBITDA.

Ankit Agarwal: And also as some of the losses in our digital business comes down, to that extent that would improve our EBITDA.

Kaushik Poddar: So you don't have any rights issue in the immediate future, right?

Tushar Shroff: As of now, we continue to pursue, but we have not factored in this particular working at this point in time.

Kaushik Poddar: And this U.S. is talking about making US products and all those things. So, does that help with your operation in US, do you stand a better chance in the bids that are to be bid out in next year or something?

Ankit Agarwal: So, I would say broadly Kaushik, that's been the whole strategic intent of why we set up the cable factory there. It's really a world class facility we've set up there. We're very proud of it. When the whole intent there was to provide world class service locally to tier 1, tier 2 operators, hyper scalers etc., that's certainly I would say helped us in terms of our branding and positioning and really providing that quick turnaround, quick service to the customers. And again to retreat customers like Windstream coming on board and being proud of the partnership. So that's the whole intent. Again with projects either with our current customers or large projects would be the whole intent is to support those projects through our local manufacturing.

Kaushik Poddar: And is the peak of CAPEX behind us and from next year onwards, there will be hardly any CAPEX, is that the way to read?

Ankit Agarwal: So I would say, see, currently we are in that range, if you see last year we were in the range of about 400, even this year we talked about 350, 400, but I think also linked to what Tushar just mentioned, looking very closely are a net debt, EBITDA, etc., We are re-evaluating all the CAPEX even for this year and going forward. We really want to make sure that we generate cash as a business and then can reduce our debt. So, I think those are the elements that we are just balancing. But overall, first priority is whatever capacity we have set up to make sure that we utilize those fully. As given the current lower volumes of Q1, etc., the first focus is to ensure we get the right customers, right orders and we fill up our factories.

Pankaj Dhawan: We'll take the question from the line of Mr. Sunny Gosar. You can ask your question now.

Sunny Gosar: I had a couple of questions. So first is on the US market. So we were doing about Rs.750 crores plus kind of quarterly revenue run rate in US which has dropped below Rs.450 crores in this quarter. So although I understand that the demand is soft, but how should we look at in terms of number, so when this bounces back, say like in Q3 or Q4, do we expect to go back to that 750 crores plus run rate? And second is, is this the bottom in terms of a quarterly run rate, it may not grow, but do you see that this is the bottom in terms of the quarterly performance in the US specifically?

Ankit Agarwal: Yes, good question. So, I would say we're still watching the US market closely. I don't think we can say definitive when the demand will fully come back, because I told you it's a function of these 3-4 factors. How quickly do they deplete the high inventory that they have? Second is, how can they scale up the execution, which is a constraint. And then obviously their internal metrics around looking at the higher interest rate, etc., how quickly they want to deploy their capital. In principle, in our conversation with customers, their intent to roll out continues to be strong. So, it's more a function of going through the inventory and the other elements. That's why what we have been saying is that it will be two quarters. What I just shared a few minutes back is that it could be up to one more quarter where it takes that kind of time. Also, when we look at some of our peers in the industry, that's also similarly what we understand not only for STL, but also for our peers that it could be even up to end of this calendar year that it takes to run through the inventory and the fresh ordering comes through. So to your specific question, this is the time period it will take for us to get back our volumes. Principally, our customers remain committed with us. We are their preferred partners in many of the large customers plus as we have been able to start supplying from our US facility to them, that will also increase. We do share a good relationship with the customers. What we are doing in the meantime is to ensure that to saturate our facilities. We're looking at ensuring that we increase our volumes in other markets like APAC, India and the Middle East.

Sunny Gosar: Just to harp on this a little bit more basically, do you expect that whenever this bounces back… I'm not saying, Q3, Q4, but this bounce back will be to the older levels or you feel that may take a much longer time like when you did more than 750 crores in a quarter, from 450 crores to 750 crores, will this bounce back be as sharp whenever that is to happen or that that?

Ankit Agarwal: See, it's a function of both things -- volume and realization, right. So, I think both things we are looking at closely. Again, it's a function of timing of the orders, other things. So, we could have some reduction in realization, but I think structurally from a volume perspective, we continue to see that to be strong. Again, it's a function of how quickly the depletion happens, particularly with our large customers, both in tier 1 operators as well as some of our distribution partners, we do see that volume coming back.

Sunny Gosar: Second question is on the optical margin. So it's commendable that in spite of the operating deleverage, you guys have delivered like a 22% margin on the optical side. So, if you can help me understand like what has changed because we were seeing improvement in quarters before that, from the freight cost and some other cost elements reducing, but what has aided this improvement in spite of an operating deleverage? And once say your revenue goes back to your peak quarterly level, do we now look at a much higher base in terms of optical EBITDA margins going forward versus your earlier range of say 20%, 22% that you had been guiding, so do we now at a higher revenue base, look at much higher margins?

Ankit Agarwal: I'll make one comment and I'll pass to Tushar. I think it's two things we'll have to keep in mind, Sunny. One is how will our realizations particularly in U.S. market move going forward and that's what I was alluding to earlier. Today, we can't fully commit the same realizations, there could be some reduction in realizations going forward. So that's something we just have to watch on where that could take us. I think the second part overall on margins, to your point is also a function of how we see the interconnect scale up, may not be very substantial in second-half and then it could further increase in the next year for example. So I just keep these two X-factors in mind of what could also drive the margins going forward.

Tushar Shroff: To your specific questions, I think this quarter also in spite the fact that we have lower volumes and in spite the fact we have been able to improve on the overall margin, so we are putting our all the efforts to ensure that we are at this kind of a margin in spite the fact that we have the challenges maybe in terms of making the volumes, but as an organization we are committed to maintain that kind of a cost basis, whether it is a direct spend or indirect spend to ensure that we are able to maintain the right profitability for that particular business. So, our approach is more disciplined as compared to in the past. So it is going to balance in terms of whatever we may have the impact in terms of realization, if realizations are at the current level, I'm sure that we will be able to improve on the overall margins, that is what is my outlook.

Sunny Gosar: So on the global service business, we have again shown like very good margin performance. So, again some outlook on how should we look at margin going forward, is this the base going forward, can we see some improvement or this is the level that we should work with going forward?

Ankit Agarwal: So I think there's two parts to it. As we said, we are definitely focused on any projects we take on, whether private sector or in the public, we're very conscious of the margins and the cash flow. So I think that's definitely a very strong discipline with the CEO, Praveen and his team for this business. So I think that's something we continue to watch closely and I think we continue to see how we can keep these margins and see to improve them as well. The X factor certainly for our services business will be the BharatNet project which we should have better visibility in the coming months, but clearly that will be a large 3-4-5 year, execution that will happen and then maintenance of that going forward. So I think that's one X factor to keep in mind. I would give one caveat. We still have challenges with our UK business. We had talked about break-even. it's been in that range of break even or marginal losses. So that's something we're watching closely on how we can turn that around so that overall the profitability of services can also improve.

Pankaj Dhawan: We take a few questions from the chat in the meanwhile which has come. So one is on the digital business. So, when can digital business be EBITDA positive? And second is that can you give some more color on the strategic partnership that we have signed with SAP and Google and how are we looking at in the long run.

Ankit Agarwal: On the first part, as I said, we are looking at break even in Q4 and probably get to positive EBITDA in Q1. I think as we stated, we have a strong team in place, we have 950 consultants, we have over 900 crores order book. So I think all the investments that STL has done into this business, this is the right time where the business scales up and starts performing. So I think we're at that phase. I think specifically to your question in terms of the details of the business, I can just give you some more details; so essentially, we have tied up a partnership with SAP, which is a market leader in ERP. Essentially, the objective is to help our clients to upgrade to resilient future proof and scale ready operations and we're essentially enabling them to be cloud-enabled for their business modernization and some of the key features of SAP, you might be aware with is for example, their eyes with SAP that they have. So, essentially the partnership pairs our digital services, C-Suite advisory and strategic implementation along with SAP's market leading expertise and enterprise software and cloud solutions.

Pankaj Dhawan: We'll take one more question from the chat. Can you talk about the working capital movement in the first quarter?

Tushar Shroff: So as you know that we have three businesses in terms of optical network, service business and our digital business. Optical network and the service business is working capital-light, while the major working capital requirement is generally for the service businesses. As we continue to execute and progress on some of the contracts that we have been awarded with, the initial… till the time we don't achieve those milestones, we continue to invest in the working capital, that all will get released once we start to achieve the milestone which is required as per the tender conditions. So for this particular quarter, yes, we have made some investment in working capital for our GSB business.

Pankaj Dhawan: One more question in the chat is that for the USA, how much time it will take to clear the inventory, any data points if you can give, that would be helpful?

Ankit Agarwal: I think we touched on it, so broadly as we said earlier in the last performance call, it would take two quarters. Our current view is it's somewhere between two and three quarters is what we see. We're tracking announcements by our customers and in our conversations as well we're seeing how we can support them, and at the same time, we ourselves are looking at other markets to increase the volumes.

Pankaj Dhawan: Probably one last question from the line of Mr. Kaushik Poddar again. Kaushik, you can ask your question.

Kaushik Poddar: Can you give us the rationale for this separation of the service business? And will the service business include your digital also?

Ankit Agarwal: No, so Kaushik, this is a standalone what we call are global services business where we do large scale deployment of networks and we do system integration. So it's purely that vertical. So Kaushik, we had shared the rationale last time. I'll reiterate and Tushar can add. But, essentially, when we look at the businesses we are in, from our perspective, our customers and then we look at various stakeholders, looking at investors and we look at what is the underlying capital model of the business is. We clearly saw that particularly when we look at the optical business vis-à-vis the services business, these are fundamentally very different models where clearly a lot of working capital is required for the services business vis-a-vis optical is essentially more CAPEX-heavy, needs more investment in the manufacturing. One business is fairly global, tier 1 telecom operators where we provide our cables and connectivity, and other is more system integration and more EPC kind of business. And also then looking at feedback from various stakeholders, we also realize that the investor profile is quite different for these businesses. So, clearly the intent is to scale up both the businesses, the optical business as well as services. And then we are looking at feedback, looking at inputs and advice, we felt it's best to look at a demerger. So both the businesses would be listed separately, as a one-to-one ratio and we do believe this will enable the right kind of investment into the two businesses separately and will help to scale up both the businesses. So that's at a high level the thought process. We are confident as we said that probably by Q1 of next year, we should complete this process and it will enable the growth of both the businesses.

Kaushik Poddar: And digital is not part of this service business, right?

Ankit Agarwal: No, that will stay with the current STL.

Tushar Shroff: So, Kaushik, the detailed scheme of demerger is already uploaded on the website, and it's also available with the stock exchanges now.

Pankaj Dhawan: Ladies and gentlemen, with this we come to the end of our question-and-answer session and I now hand it over back to Ankit Agarwal for closing remarks.

Ankit Agarwal: I'd like to thank everyone for attending this call, showing interest in our company and we hope to be able to address and clarify all your queries and comments. I'm personally very, very excited with how we see STL going forward. We really are taking an Indian brand globally and setting global benchmarks for manufacturing. We're really living through our purpose of connecting the unconnected and transforming millions of lives. I'm also very happy with our impact, how we enabling our country to move forward on 5G, how we're supporting our defense networks and we're connecting the remotest people of India on high quality optical fiber. So very, very bullish on playing our own role to take India forward. For any further comments, questions and discussions, please feel free to contact our Investor Relations team, which includes myself and Tushar. We really look forward to continuing the conversation with you in the near future. Thank you. Jai Hind.

Tushar Shroff: Thank you.