
STERLITE TECHNOLOGIES LIMITED
Q2FY12 EARNINGS CALL COMMENTARY

Date: October 20, 2011

Speaker: Dr Anand Agarwal (CEO & Director)

Q&A: Dr Anand Agarwal (CEO & Director)
Mr Anupam Jindal (CFO)

(A) Introduction of Speakers (Webex / Chorus Call)

(B) Commentary (Dr. Anand Agarwal)

Good afternoon friends, I welcome you to the Sterlite Technologies Q2 FY12 Earnings Call.

I hope you had an opportunity to look at our results that were declared earlier today. As we had indicated in our last earnings call, we have started seeing improvement in our performance from Q2 of the current year. However, as you would have noted from this quarter's performance, the company continues to face margin pressures on both the core segments. This quarter was significant to us from a topline growth perspective, where we achieved revenue growth of around 30% with respect to previous quarter. The margins and profitability have also shown marginal improvement with respect to last quarter. As a company we remain confident in revenues and margin stability returning to sustainable levels within a short period of time. The outlook for the coming quarter appears better than its previous one, going forward in the current year.

I would now like to take you through the industry outlook and financial performance for each of our business segments respectively.

To start with on the power conductor segment, –

- Amidst news of many power projects getting delayed, the outlook on transmission space still remains quite robust. Bulk of the demand is centered on system strengthening and building of high capacity transmission corridors in the country.

- Power Grid which continues to be our single largest customer, by the virtue of it accounting for almost 50% of the total Indian conductor demand also shows no signs of undercutting their capex plans. The ordering activity has again picked up pace with PGCIL in Q2, with total release of backlog orders of around 50,000 MT of Conductor in H1 of this financial year. We believe that total order releases for this year by PGCIL would show an increase over last year's release of 225,000 MT of conductors.
- Apart from the central sector we are also witnessing a lot of activity from some of the state governments for the construction of power transmission networks. Haryana and Andhra Pradesh were two such states which came out with their respective plans in the last quarter. These developments along with the private-public partnership models are a good indication of the fact that the demand for power transmission networks in the country is growing at a healthy rate.
- In the overseas industry, we believe that there is lot of untapped market potential and we have been continuously striving to increase our penetration in our existing markets and also expand our presence into new ones. Various utilities across the globe are evaluating their respective countries' transmission networks and come up with expansion/renewal plans. Developments across the globe give us confidence to evaluate new markets to enter across the globe in a quest to establish a global footprint.

Now coming to our performance in the last quarter for the power segment, some key highlights include

- We did volumes of about 36,500 MT viz-a-viz 27,100 MT in Q2 last year. Revenues for the power segment were Rs 515 Crores against Rs 330 Crores in Q2 last year.
- EBITDA for the power segment was Rs 24 Crores which translates to an EBITDA/MT of about Rs 6,500. This improvement in EBITDA margins in Q2 vs Q1 margins of Rs 2600 /MT is an indicator of margin expansions which we can expect quarter on quarter in the current fiscal year. By Q3 of this year, we should complete most of the backlog of our low margin

orders and we should be back to operating at sustainable margin levels.

- On capacity expansion plans, our current capacity for power conductors as of today stands at 160,000 MT. We have been indicating to you in past that directionally the company plans to take this capacity to 200,000 MT levels. We would like to apprise you that in the light of growing demand and our growth strategy, we have decided to do a brownfield expansion to increase our capacity to 200,000 MT. The plant and machine installations should ideally be completed by end of this year. We may see some benefit of expanded capacity in our production volumes in the coming quarters.

Moving on to our telecom segment in our product & solutions vertical, I would first like to share some insights on the industry outlook.

- The fiber industry, in the first half of calendar year 2011 i.e. Jan to June 2011, has witnessed the highest demand ever for optical fiber totaling to 105 mn fkm. This demand is higher than 2000-2001 time period. According to CRU this trend is expected to continue for the second half as well with this year's demand expected to cross the 200 mn mark.
- We continue to have a good future outlook for this industry backed by fundamental demand drivers. The growing bandwidth demand and broadband impetus plans by governments across the globe is going to be the key driver of fiber deployments in the coming time. We have been hearing announcements by various governments across different countries guided towards increased focus on building national broadband networks. One such interesting development happened in Europe this quarter. As per reports, the European Union is considering a proposal to impose penalties on telcos which are not rolling out their fiber networks and trying to prolong using their existing copper networks as far as possible. This is a positive signal indicating that the intent of governments is clear, wherein either by providing incentives or by imposing penalties they want ensure faster execution of high speed networks for the

country. We have also been talking about the Indian fiber demand which should ideally see a significant boost sooner or later. The new Indian telecom policy draft which was unveiled last week, talks about "Right to Broadband" with plans for the rollout of fiber optic cable networks to support the broadband infrastructure. It also has some other positive signals such as infrastructure status and benefits to both wireline and wireless providers. These are signals which give us a stronger conviction that Indian fiber demand is expected to jump significantly in the years to come.

On the performance front for the telecom segment for us in the last quarter

- We did volumes of around 2.8 mn fkm for optical fiber and 0.8 mn fkm on optical fiber cables. The revenues from this segment were Rs 193 Crores as compared to Rs 179 Crores in the same period last year. The EBITDA for this segment was Rs 30 Cr vs Rs 51 Cr in Q2 of last year.
- Margins for this segment are subdued this quarter essentially because of flatter realizations this quarter as compared to Q2 last year as well as some cost increase due to high power and oil prices and some plant related stabilization issues for our expanded capacity. These stabilization issues are more internal in nature and we are working towards resolving the same in coming months.
- Our capacity expansion to 20 million fkm is underway and as planned we expect to complete bulk of the capex by the end of current financial year. The benefits of the expanded capacity will start getting visible from next year onwards.
- Our system Integration business and data cables business together contributed around Rs 32 Crores of sales as compared to Rs 45 Crores in Q2 of last year.

Now moving on to our infrastructure vertical, in which we have total portfolio of 3 power transmission projects on BOOM basis. To give you an update on that -

Our first BOOM project – (The East-North Interconnection Project) the work is running on schedule and we have completed 30% of the total project work.

For our second project , Bhopal-Dule Transmission project (BDTCL), we crossed an important milestone this quarter when we awarded orders worth of Rs 500 Crores through an international competitive bidding process for substations and EPC related work.

Key performance metrics for the quarter are

- We finished the quarter with sales of Rs 707 Crores. There has been growth in volumes in both our core business of conductors and fibers as compared to Q2 of last year.
- EBITDA for Q2 FY12 were Rs 54 Crores vs Rs 94 Crores in Q2 of last year. The margins have been suppressed for the past few quarters for reasons discussed earlier.
- The net debt for the company was 650 crores at the end of this quarter. As we have been indicating, with the rising interest rates and higher working capital, our interest costs have gone significantly higher than last year's levels. We are trying to keep our working capital low in order to tackle these costs.
- The current open order book for the company stands at Rs 2400 Crores, with power segment accounting for a bulk of it.

Coming to our FY 12 outlook,

- At the start of the year we had indicated to you EBITDA guidance of Rs 400 Crores for the full year. In the current situation and based on the near term visibility we have, it appears certain that we will fall short of that guidance for the current year. Some of the orders in the power segment which we had anticipated executing in the current year, are getting spilled over to next year, which has resulted in shift of profitability. On the telecom side, as mentioned earlier, with the ongoing capacity expansions in optical fiber we are facing some short term cost issues related to oil and power as well as stabilization issues in the plant which have put pressures on our margins. We are consciously not giving you a revised guidance at this stage because of some short term uncertainties

surrounding the business but we can definitely assure you of business performance improving on quarter on quarter. The bulk of the profitability for this year would come in H2 and H2 performance will be significantly better than H1 performance.

Anupam and I would now be glad to take any questions that you may have.

(C) Q&A Session (Webex / Chorus Call)

(D) Closing remarks (Dr Agarwal)

I would again like to thank everyone for attending this call.

We do realize that our performance has remained muted for the last 4 quarters in a row now, which has resulted in some disappointment. Some of it was on account of unexpected external challenges and part on account of internal operational issues. From our side, we would like to thank you for your continued support and belief in the company even through turbulent times. We also would like to assure you that all relevant measures which need to be taken to keep internal issues under control are in process and we should see results of the same going forward. We look forward to providing value to our investors inline with their expectations in the times to come.

Hope to continue our association and dialogue in the future.

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