Surging data demand coupled with the ongoing digital wave signals bright growth prospects for the country's telecom optic fibre cable (OFC) market. In fact, the success of ambitious government initiatives like Digital India, the Smart Cities Mission and BharatNet hinges on a bandwidth-intensive, scalable and future-ready digital infrastructure, which has fibre deployment at its core. Sterlite Tech, one of the leading players in the telecom OFC space, is geared up to leverage these opportunities. It is already working on three smart city projects. Moreover, fibre requirements arising from 5G deployment will usher in business growth for Sterlite Tech in the next few years. K.S. Rao, managing director and chief operating officer, telecom business, Sterlite Tech, talks about the company's key focus areas, emerging opportunities and the way forward...

What are the major trends and drivers in the OFC market in India?

A major demand driver for OFC is data usage. In India, data usage is increasing at 60-80 per cent every year. All the technologies, be it 3G, 4G, 5G, fibre-to-the-home (FTTH) or Wi-Fi, need optical fibre to backhaul data. Government initiatives like Digital India, BharatNet, the Smart Cities Mission and Network for Spectrum, as well as the private sector's focus on setting up scalable broadband infrastructure to ensure a seamless broadband experience have been the major drivers of OFC demand. With the government trying to match pace with the world for 5G adoption by 2020, we see a long-term increase in demand for OFC.

What are your views on the progress of the Digital India initiative? What opportunities does it promise for the OFC industry?

What is unfolding before us is a massive digital inclusion ecosystem. This is driven by the multiplier effect of the exponential growth in data consumption across users, devices, emerging technologies such as internet of things (IoT), and government-supported missions such as the Smart Cities Mission and Aadhaar. India is unique as the scale here is unparalleled. Identity and financial inclusion have impacted almost the entire population base of the second most populous country in the world. BharatNet is large on a global scale. Once implemented, it will cover an area equivalent to the seventh largest country of the world. All this culminates in a huge opportunity to create fibre-based digital highways that are futuristic and scalable to ride all new technologies coming our way through the digital transformation.

How is Sterlite Tech leveraging these opportunities and contributing to the vision?

Over the years, Sterlite Tech has emerged as the top player in the Indian OFC space with over 40 per cent of data travelling on our fibre. We are deploying solutions for three smart cities – Kakinada, Jaipur and Gandhinagar – and have supplied nearly 50,000 km of fibre cable for the BharatNet project. Our FTTH presence has expanded to six cities, bringing a real broadband experience to the doorstep. As a key supplier to all major telecom operators in the country, we are enabling their network transformation from 3G/4G to 5G and getting the telecom industry ready for the age of a ubiquitous data network.

How is the smart city space shaping up?

The government's smart city vision is creating new opportunities for telecom providers, infrastructure vendors, networking ecosystem players, application providers, and the entire IoT ecosystem in general. Through our smart city solutions suite, we have demonstrated our capability to design, build and manage smarter networks, and bring about complete network and system integration. We have been recognised for our efforts in the Gandhinagar smart city project. The Jaipur smart city project is in the operations and maintenance phase, while the Kakinada smart city project is nearing completion. This project has brought many technology firsts to India in terms of a horizontal IoT platform, long range-based city-wide wireless sensor network and disaster management system.

What steps can the government take for the successful completion of BharatNet targets?

In an era when smarter data networks are valuable to the country's digital transformation, budgetary allocation for broadband infrastructure is a must. Today, broadband infrastructure is the lifeline of a cashless society and provides the much-needed access that helps deliver key services. A certain percentage of the GDP should be allocated for the roll-out of this critical infrastructure. For OFC manufacturing, the government should back high quality "Made in India" products by creating a conducive market environment. Sterlite Tech has played a key role in BharatNet Phase I by ensuring timely deliveries of OFC and is fully geared up to support Phase II of deployment.

What role is fibre expected to play in supporting the 5G ecosystem in India?

Given the requirements of latency reduction (from 50 ms to 1 ms) and speed enhancement from 100 Mbps to 10 Gbps associated with 5G, fibre deployment in the country will need to be increased by at least two to three times annually from the current market of 16 million-18 million fibre km (fkm) per year. To enable early adoption of 5G, Sterlite Tech is working closely with policymakers and other key stakeholders in the industry. The company is actively involved in 5G-readiness solutions such as FlashFWD and is a key member of the Telecom Infra Project led by Facebook to completely transform telecom networks using software defined networking/network function virtualisation and make them 5G-ready.

How has the year been for Sterlite Tech? What are the company's operational and financial highlights?

In the last two quarters, we have seen a strong and increasing global demand for optic fibre. At the start of 2016, we had set a target to expand our OFC capacity to 30 million fkm, which was achieved in the second quarter of 2017-18. We have now begun greenfield capacity addition to 50 million fkm, with a new plant in Aurangabad. This next phase of expansion is targeted for completion by June 2019, and will place us among the top three fibre manufacturers globally.

On the technology side, backed by a strong focus on research and technology, our total patent portfolio stood at 162. Our high speed 5G-ready network solution, FlashFWD, was launched in the second quarter. Our second quarter revenues stood at Rs 7.79 billion, registering a 42 per cent year-on-year growth. Our earnings before interest, taxes, depreciation and amortisation (EBITDA) grew 63 per cent on a year-on-year basis, driven by the growth in product volumes and supported by project execution. Our second quarter profit after tax stood at Rs 710 million, registering a 40 per cent growth on a year-on-year basis. At about 23 per cent, our EBITDA margin continues to remain amongst the industry's best.

The return on capital employed at the end of the second quarter was 29 per cent and remains the key metric of our future growth. The revenues from exports market witnessed a significant 73 per cent year-on-year increase during the quarter. Our order book stood at Rs 38.32 billion and is well-balanced across the global and Indian markets.

What is your broader outlook for OFC deployment in the country over the next two to three years?

The world IP traffic crossed the 1 zettabyte mark in 2016, with data consumption almost doubling every two years. As new technologies become more data-driven, the density and reach of fibre is increasing at an exponential pace, with fibre getting closer to the actual point of consumption. The ongoing competition in the telecom space is also creating a need for network enhancements over the next three to five years, which is likely to convert into a large market for smarter fibre networks with ultra-high speeds and low latency. As 5G becomes a reality in India in the next few years, telecom players will have to bring in 100 per cent fiberisation, connecting all towers with fibre, then move on to FTTH, finally reaching closer to the point of consumption. Understanding the criticality of fibre as infrastructure, smart cities are also deploying pan-city-based fibre networks. All this is likely to result in a huge demand for OFC in the domestic market.

What will be Sterlite Tech's growth strategy and key focus areas?

Sterlite Tech is the only company in the country, and amongst the few globally that can manufacture fibre from silica ore, using an advanced chemical deposition technique. This competitive advantage helps us to not only command industry best margins, but to also comfortably cater to the growing fibre demand.

As a company, our singular focus remains leveraging the opportunities arising from the evolving digital connectivity landscape. We plan to scale up growth in all our businesses and increase our value-added offerings. In line with our past demonstrated growth and our recent decision to expand our OFC capacity to 50 million km, we are targeting close to three times net income growth in the next three years. We are confident that our present efforts will help us achieve our mid- to long-term aspirational goals through our global reach and deeper penetration into the existing markets.

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