

October 25, 2018

# Sterlite Technologies Limited

## Q2 FY19 Result Update

### Strong quarter; sustained growth trajectory:

Sterlite Technologies (SOTL) reported Q2 FY19 revenue at INR 1,084 crore, up 39% YoY and 24% Q-o-Q; EBITDA for the company stood at INR 273 crore, up 56% YoY and 13.5% Q-o-Q; PAT was reported at INR 138 crore, up 78% YoY and 7.8% Q-o-Q. Higher volumes and optimum utilization led to growth in EBITDA.

The current open order book at around INR 9,455 crore, based on a good mix of international and domestic long-term contracts. This includes the Rs 3,500 crore multi-year system integration contract to design, build and manage the Indian Navy's digital network.

### Board approves capex of Rs 320 crore for expansion:

Sterlite Technologies announced that the company will be making an addition of 15 million fibre km to its optical fibre cabling capacity, doubling it to 33 million fibre km. The enhanced capacity is expected to come on-line by June 2020 in a phased manner. This will provide more bandwidth to the company leading to incremental revenues.

### Acquisition will add to margins:

The Metallurgica acquisition will give Sterlite access to 3mn fkm cabling capacity, which can be ramped up to 5mn fkm at minimal capex. It will help to expand its presence in Europe, tap new tier-1 customers, augment product portfolio and improve prospects due to customer proximity. This, coupled with attractive financing from Europe will lead to higher earnings in FY20.

### Quarter Highlights:

European acquisition: The Company acquired 100% stake in Metallurgica Bresciana, a specialised optical-cable manufacturer, in Italy, to expand its European presence.

Doubling of cable capacity to 33 million fkm: The Company committed Rs 320 crore capital expenditure in greenfield and brownfield expansion to double its cable capacity.

Fibre capacity at 50 million fkm on track: The Company's ongoing capex programme of expanding its fibre capacity to 50 million fkm is on track, and will be operational by June 2019.

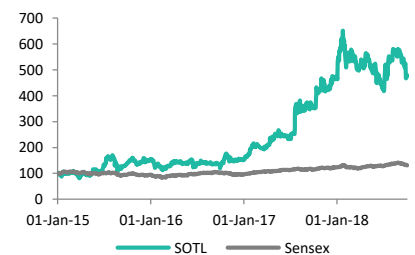
## STRONG BUY\*

Downside Scenario	Current Price	Price Target	Upside Scenario
	323.2	376	
		16% ▲	

Market Data	
Industry	Capital Goods
Sensex	34033.96
Nifty	10228.55
Bloomberg Code	SOTL:IN
Face Value (INR)	2
52-w H/L	414.5/ 255.6
Market Cap (INR Crores)	12960

Valuation Data	FY17	FY18	FY19E
P/E (x)	23.0	34.0	22.6
EPS (INR)	5.5	9.2	14.3
EV/EBITDA (x)	11.3	18.0	12.3

### PSYS Vs SENSEX



Shareholding Pattern			
	Sep'18	Jun'18	Mar'18
Promoters	53.85	53.95	54.01
FIs	6.56	6.51	8.51
DIs	10.41	9.51	7.59
Retail	29.18	30.03	29.89

Financial Snapshot (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	2,144.0	2,448.9	3,177.1	4,030.8	4,818.8
<b>Growth (%)</b>	-	14%	30%	27%	20%
EBITDA	459.2	518.9	749.3	1,099.6	1,299.7
<b>Growth (%)</b>	-	13%	44%	47%	18%
PAT	147.5	217.7	368.5	573.8	755.2
<b>Growth (%)</b>	-	48%	69%	56%	32%
EV/EBITDA	9.4	11.3	18.0	12.3	10.4
P/E	24.3	23.0	34.0	22.6	17.2
EPS	3.7	5.5	9.2	14.3	18.8
RoCE	22%	23%	31%	39%	39%
RoE	23%	28%	40%	46%	41%

Source: Company, NSPL Research

\* Read last page for disclaimer & rating rationale



(INR Crores)	Q2 FY19	Q1 FY19	Q-o-Q	Q2 FY18	Y-o-Y
Revenue from operations	1084.34	876.89	24%	779.26	39%
COGS	433.70	333.87	30%	313.25	38%
Employee benefit expenses	134.33	92.54	45%	90.36	49%
Other expenses	243.02	205.59	18%	205.38	18%
Total Expenditure	811.05	632.00	28%	608.99	33%
EBITDA	273.29	244.89	12%	170.27	61%
EBITDA margin	25.2%	27.9%	-10%	21.9%	15%
Other Income	5.98	7.25	-18%	8.59	-30%
Depreciation & Amortization	49.16	44.79	10%	43.67	13%
EBIT	230.11	207.35	11%	135.19	70%
EBIT margin	21%	24%	-10%	17%	22%
Finance cost	24.37	23.05	6%	24.29	0%
PBT	205.74	184.30	12%	110.68	86%
Tax Expenses	65.17	54.84	19%	32.74	99%
Profit After Tax	140.57	129.46	9%	77.94	80%
Net Profit	138.53	128.48	8%	77.94	78%

Source: Company, NSPL Research

#### Quarterly analysis:

- The company reported good growth in topline in the current quarter.
- EBITDA growth has been due to optimum utilisation.
- Increase in net debt was due to capacity expansion and acquisition.
- Metallugica acquisition and doubling of optic fibre capacity will help SOTL to achieve growth Y-o-Y basis.

#### Valuation:

SOTL, which enjoys a 7% market share in the global optical fibre market, is reaping the benefits of rising fiberisation of telecom networks globally, as data demand grows. We believe that SOTL will be the key beneficiary of strong demand for fiber optic cables, leveraging its capacity expansion. The company is strategically expanding its portfolio of services leveraging its knowhow of complex network and relationships from the fiber business.

Going ahead, we expect the company to maintain its operating margins in FY19E/FY20E owing to improvement in utilization for OFC, improvement in average realization from launching new products coupled with growing international presence.

At CMP of INR 323.2, the company is trading at 17.x FY20E EPS and 10.4x FY20 EV/EBITDA. We value the company using an average of P.E. and EV/EBITDA methodology giving an exit multiple of 20 and 12 respectively on FY 20 basis, achieving a target price of INR 376 which is an upside of 16%.

**Conference call highlights:**

- During the quarter, multiple order wins has elevated order backlog.
- The company has 2.5 years order book visibility.
- Global footprint continues to grow; international revenues gone up by 3 times in last 3 years.
- Of the total revenue, 45% of revenue comes from international business
- The management emphasised that the SOTL has a history of doubling PAT every 2 years.
- The target \$100 million net income by FY20.
- The Q2 FY19 EBITDA was significant on account of increase in volumes and high operating efficiency which led to growth.
- The company considers RoCE as a pre-eminent matrix to define growth, Q2 FY 19 numbers stand at 33%.
- Increase in net debt was due to growth capex and acquisition.
- During the quarter, SOTL had major wins with several leading telcos in Europe
- Revenue growth due to cable business almost 100%.
- SOTL's subsidiary completed the acquisition of Metallurgica Bresciana, an European specialised optical cable manufacturer, for €47 million in an all-cash deal during the quarter.
- SOTL won a Rs 3,500-crore advance purchase order to design, build and manage the Indian Navy's communications network.
- Out of the total order, 2500-2600 revenues to be recognized by FY 20-21, remaining INR 900 crore in next 7 years.
- Out of the total order book, products side consists of INR 5000 crore and services side consists of INR 4000-4500 crore.

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**ANALYST**

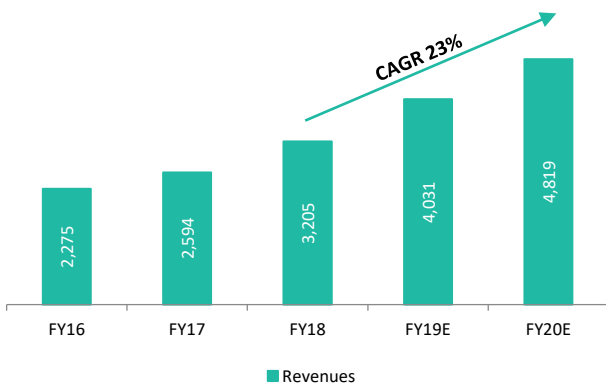
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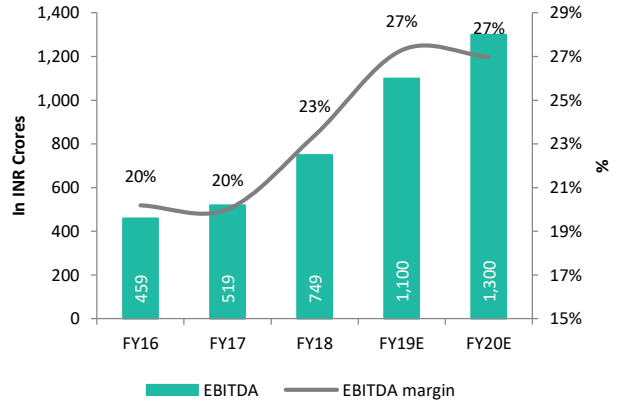
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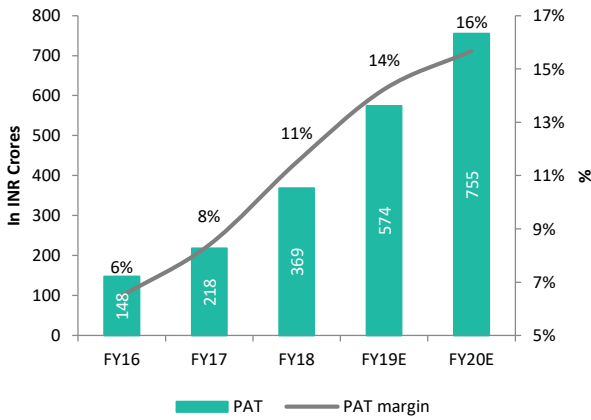
### Revenues (INR Crores)



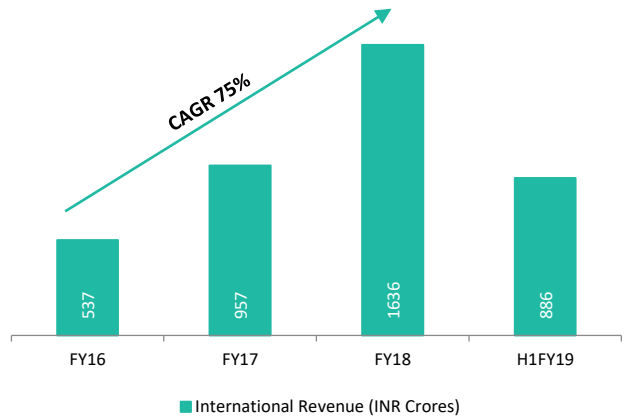
### EBITDA & EBITDA Margin



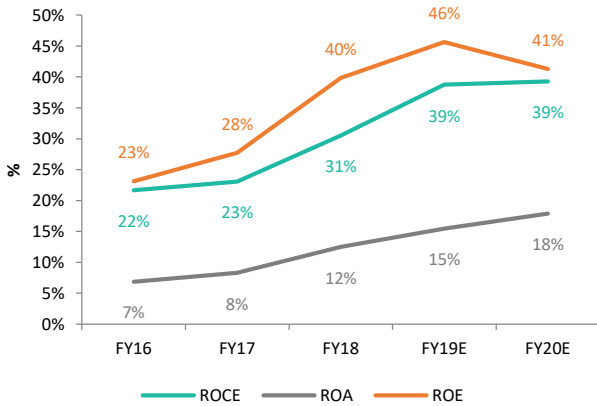
### PAT & PAT Margin



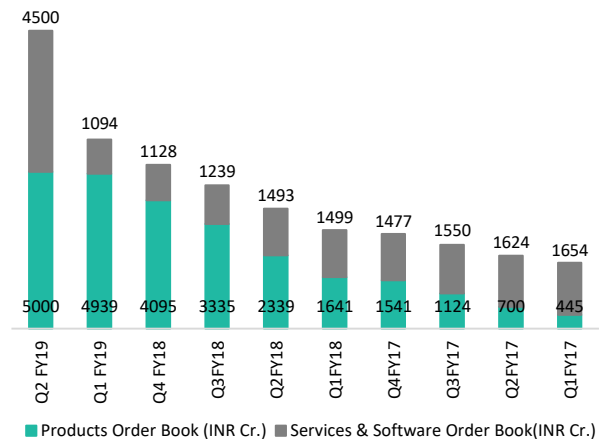
### Revenues from Export



### Profitability Ratios Comparison



### Order Book Comparison (QoQ)



Source: Company, NSPL Research



Profit & Loss (INR crores)	FY16	FY17	FY18	FY19E	FY20E
<b>Net Revenues</b>	2,144.0	2,448.9	3,177.1	4,030.8	4,818.8
<b>COGS</b>	960.8	999.7	1,267.0	1,560.1	1,776.2
Employee Expenses	205.1	298.6	348.8	464.2	632.4
Other Expenses	518.9	631.7	812.0	906.6	1,110.1
<b>EBITDA</b>	459.2	518.9	749.3	1,099.6	1,299.7
D&A	125.6	159.2	182.2	189.0	197.1
Other income	3.9	11.6	25.6	26.1	25.8
<b>EBIT</b>	337.5	371.2	592.8	910.7	1,102.6
Interest Expense	119.2	111.0	90.2	95.2	98.6
<b>PBT</b>	212.7	257.4	501.7	812.4	1,001.7
Tax	147.5	217.7	368.5	573.8	755.2
<b>PAT</b>	147.5	217.7	368.5	573.8	755.2
<b>EPS in INR</b>	3.7	5.5	9.2	14.3	18.8
Balance Sheet (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
<b>Assets</b>					
<b>Non-Current Assets</b>					
Property, plant & equipment	984.8	1183.1	1135.1	1635.1	2135.1
Capital work in progress	172.3	65.9	357.0	198.4	207.1
Investment property	9.2	9.0	8.9	9.0	9.0
Goodwill	133.2	103.6	73.9	103.6	93.7
Other Intangible Assets	19.0	17.1	16.2	17.4	16.9
Deferred Tax Assets	10.1	43.1		26.6	26.6
<b>Non-Current Financial Assets</b>					
Investments	1.6	13.2	19.6	11.5	14.8
Loans	0.0	7.1	35.0	14.0	18.7
Trade Receivables	4.6	4.5	4.1	4.4	4.3
Non-Current Financial Assets	14.4	11.8	7.7	11.3	10.2
Other non-current assets	34.1	18.6	98.1	50.3	55.6
<b>Total non-current assets</b>	<b>1388.8</b>	<b>1477.9</b>	<b>1755.5</b>	<b>2081.5</b>	<b>2592.0</b>
<b>Current Assets</b>					
Inventories	205.3	333.5	337.9	414.6	472.0
<b>Financial Assets</b>					
Investments	0.0	35.0	155.0	63.3	84.4
Trade Receivables	708.4	686.7	867.2	1104.3	1320.2
Cash & bank balance	60.5	129.8	119.6	255.6	375.0
Cash & Cash Equivalents	17.2	7.6	18.9	14.6	13.7
Other current financial assets	95.4	65.6	69.4	76.8	70.6
Other current assets	148.9	214.6	271.9	211.8	232.7
Assets classified as held for sale			116.4		
<b>Total Current Assets</b>	<b>1235.7</b>	<b>1472.8</b>	<b>1956.2</b>	<b>2141.1</b>	<b>2568.8</b>
<b>Total Assets</b>	<b>2624.5</b>	<b>2950.7</b>	<b>3711.7</b>	<b>4222.6</b>	<b>5160.8</b>
<b>Equity &amp; Liabilities</b>					
<b>Equity</b>					
Equity Share Capital	79.0	79.7	80.2	80.2	80.2
Equity attributable to shareholders	785.9	925.3	1257.3	1829.3	2664.6
<b>Liabilities</b>					
<b>Non-Current Liabilities</b>					
Borrowings	467.8	427.1	630.5	508.5	522.0
Other financial Liabilities	103.0	112.3	64.8	93.4	90.2
Deferred Tax Liabilities	38.2	39.7	22.2	33.3	31.7
Employee Benefit Obligation	11.8	14.3	7.9	11.3	11.2
Provisions	14.6	22.9	25.1	20.9	23.0
Other non-current liabilities	0.4	0.0			
<b>Total non-Current Liabilities</b>	<b>635.8</b>	<b>616.3</b>	<b>750.5</b>	<b>667.4</b>	<b>678.1</b>
<b>Current Liabilities</b>					
Borrowings	354.2	591.0	462.7	469.3	507.7
Trade Payables	372.2	448.6	656.2	812.1	876.0
Other financial Liabilities	423.5	286.7	290.8	333.7	303.7
Employee Benefit obligation	10.9	11.7	22.8	15.1	16.5
Provisions	10.4	13.8	28.1	17.4	19.7
Other current liabilities	31.7	57.3	146.4	78.5	94.1
Liabilities directly associated with assets classified as held for sale			97.0		
<b>Total Current Liabilities</b>	<b>1202.8</b>	<b>1409.1</b>	<b>1704.0</b>	<b>1726.1</b>	<b>1817.7</b>
<b>Total Equity &amp; Liabilities</b>	<b>2624.5</b>	<b>2950.7</b>	<b>3711.7</b>	<b>4222.7</b>	<b>5160.4</b>

Source: Company, NSPL Research



Cash Flow (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Operating profit before working capital changes	480.1	522.1	821.9	1096.5	1297.4
Operating profit after working capital changes	263.4	564.8	842.3	1055.7	1048.7
Less income tax paid	-48.7	-76.3	-110.7	-238.6	-246.5
Cash Flow from Operating	214.7	488.5	731.6	817.1	802.1
Cash Flow from Investing	-155.5	-232.3	-584.8	-365.5	-498.8
Cash Flow from Financing	-80.9	-186.9	-151.5	-321.0	-184.0
Incr/(Decr) in Balance Sheet Cash	-21.8	69.4	-4.8	130.6	119.4
Cash at the Start of the Year	547.8	60.5	129.8	125.1	255.6
Cash at the End of the Year	604.8	129.8	125.1	255.6	375.0

RATIOS	FY16	FY17	FY18	FY19E	FY20E
<b>Profitability</b>					
Return on Capital Employed (%)	22%	23%	31%	39%	39%
Return on Equity (%)	23%	28%	40%	46%	41%
Return on Assets (%)	7%	8%	12%	15%	18%
<b>Margin Trend</b>					
EBITDA Margin (%)	20%	20%	23%	27%	27%
Net profit Margin (%)	6%	8%	11%	14%	16%
<b>Valuation Ratios</b>					
P/E	24.3	23.0	34.0	22.6	17.2
EV/EBITDA	9.4	11.3	18.0	12.3	10.4

Source: Company, NSPL Research



Sterlite Technologies Ltd.				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
October 25, 2018	323.20	376	Strong Buy	Buy	5% - 15%
				Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
Research analyst or NSPL or its relatives'/associates' financial interest in the subject company and nature of such financial interest	No (except to the extent of shares held by Research analyst or NSPL or its relatives'/associates')
Whether Research analyst or NSPL or its relatives'/associates' is holding the securities of the subject company	NO
Research analyst or NSPL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document	NO
Research analyst or NSPL or its relatives'/associates' any other material conflict of interest at the time of publication of the document	NO
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Has research analyst or NSPL or its associates received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates received any compensation or other benefits from the subject company or third party in connection with the document.	NO
Has research analyst served as an officer, director or employee of the subject company	NO
Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO