Sterlite Technologies Ltd.

Q3FY16 results first cut: Above our expectations

Industry: Technology, hardware and equipment

January 28, 2016

Sterlite Technologies Ltd.'s Q3FY16 standalone results exceed our expectations. Highlights are mentioned below. This will be followed by a detailed quarterly update.

- Revenue rose 26.8% y-o-y (7.4% q-o-q) to ~₹11 billion. The telecom segment's revenue (including revenue from Elitecore Technologies only for the current quarter) grew 20.5% y-o-y (3.7% q-o-q) to ₹4.9 billion. In 9MFY16, revenue grew 54.3% y-o-y to ~₹32 bn.
- EBITDA margin expanded 200 bps y-o-y (61 bps q-o-q) to 13.2%. EBITDA rose 49.5% y-o-y (12.6% q-o-q) to ~₹1.5 bn. In 9MFY16, the EBITDA margin expanded 147 bps y-o-y to 12.6% and EBITDA grew 74.9% to ~₹4bn.
- Adjusted PAT grew 81.7% y-o-y (42.6% q-o-q) to ₹419 mn. In 9MFY16, adjusted PAT grew 103% to ₹916 mn.

CRISIL Research's current IER coverage on Sterlite Technologies Ltd

In our report dated December 10, 2015, we had assigned a fundamental grade of 3/5 (good fundamentals). We are reviewing the results in detail and will release an update after discussions with management. The outstanding fundamental grade and fair value may undergo a revision in the update.

KEY FORECAST (STANDALONE)

(₹ mn)	FY13	FY14	FY15	FY16E	FY17E
Operating income	33,501	27,259	30,399	39,429	43,790
EBITDA	2,531	2,564	3,358	4,731	5,392
Adj net income	436	526	782	1,059	1,477
Adj EPS (₹)	1.1	1.3	2.0	2.7	3.7
EPS growth (%)	(18.5)	20.3	48.7	35.5	39.5
Dividend yield (%)	0.4	0.4	0.4	0.4	0.4
RoCE (%)	8.2	6.5	8.4	11.8	12.9
RoE (%)	3.7	4.4	6.4	8.2	10.6
PE (x)	75.3	62.6	42.1	31.1	22.3
P/BV (x)	2.8	2.7	2.7	2.5	2.2
EV/EBITDA (x)	16.4	16.9	13.9	10.5	9.2

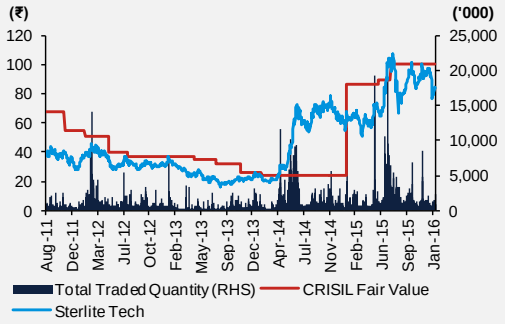
NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimates

KEY STOCK STATISTICS

NIFTY/SENSEX	7425/24470
NSE/BSE ticker	STRTECH
Face value (₹ per share)	2
Shares outstanding (mn)	395
Market cap (₹ mn)/(US$ mn)	32,875/483
Enterprise value (₹ mn)/(US$ mn)	49,434/726
52-week range (₹)/(H/L)	110/48
Beta	1.5
Free float (%)	45.2%
Avg daily volumes (30-days)	925,896
Avg daily value (30-days) (₹ mn)	103.8

FAIR VALUE MOVEMENT



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Sterlite Tech	-12%	-12%	-16%	33%
NIFTY 500	-7%	-9%	-10%	-14%

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Q2FY16 Results Summary (Standalone)

(₹ mn)	Q3FY16	Q2FY16	Q3FY15	q-o-q (%)	y-o-y (%)	9M FY16	9M FY15	y-o-y (%)
Net sales	**11,344**	**10,562**	**8,945**	**7.4**	**26.8**	**31,656**	**20,510**	**54.3**
Raw material cost	7,054	6,846	6,019	3.0	17.2	20,422	13,043	56.6
Raw material cost (% of net sales)	62.2%	64.8%	67.3%	-264 bps	-511 bps	64.5%	63.6%	92 bps
Other expenses	2,293	1,904	1,571	20.4	45.9	5,892	4,151	42.0
Employee cost	503	485	356	3.8	41.5	1,368	1,044	31.0
EBITDA	**1,494**	**1,327**	**999**	**12.6**	**49.5**	**3,973**	**2,272**	**74.9**
EBITDA margin	**13.2%**	**12.6%**	**11.2%**	**61 bps**	**200 bps**	**12.6%**	**11.1%**	**147 bps**
Depreciation	317	309	266	2.8	19.2	914	808	13.1
EBIT	**1,177**	**1,018**	**733**	**15.6**	**60.5**	**3,060**	**1,465**	**108.9**
Interest and finance charges	687	661	516	4.0	33.0	1,967	1,237	59.0
Operating PBT	490	358	217	36.9	126.0	1,093	227	380.7
Other income	55	37	25	51.4	119.8	134	280	(52.4)
PBT	**545**	**394**	**242**	**38.3**	**125.4**	**1,226**	**508**	**141.5**
Tax	126	101	11	25.7	1,007.9	310	57	449.0
PAT	**419**	**294**	**231**	**42.6**	**81.7**	**916**	**451**	**103.0**
Adj PAT	**419**	**294**	**231**	**42.6**	**81.7**	**916**	**451**	**103.0**
Adj PAT margin	**3.7%**	**2.8%**	**2.6%**	**91 bps**	**112 bps**	**2.9%**	**2.2%**	**69 bps**
No. of equity shares (mn)	395	395	394	0.1	0.2	395	394	0.2
Adj EPS (₹)	**1.1**	**0.7**	**0.6**	**42.5**	**81.4**	**2.3**	**1.14**	**102.6**

Source: Company, CRISIL Research

For detailed initiating coverage report please visit: www.ier.co.in

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Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

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Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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