Change in ☑ Estimates ☐ Rating ☑ Target

Q4 FY16

Sterlite technologies Ltd

Strong performance; outlook bright

CMP: Rs89 1-yr Target: Rs116 Upside: 30%

BUY

Sector: Diversified
Sector View: Positive

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Stock Data

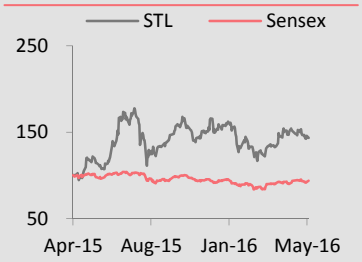
Sensex:	26,367
52 Week h/l (Rs):	110 / 64
Market cap (Rscr) :	3,507
6m Avg t/o (Rscr):	10.3
Bloomberg code:	SOTL IN
BSE code:	532374
NSE code:	STRTECH
FV (Rs):	2
Div yield (%):	1.1

Prices as on May 26, 2016

Shareholding Pattern

	Sep-15	Dec-15	Mar-16
Promoters	54.8	54.8	54.8
FII+DII	13.2	15.1	16.0
Others	32.0	30.1	31.2

Share Price Trend



- Sterlite Technologies Ltd (STL) delivered topline growth of 19% yoy (for demerged telecom business) during Q4 FY16, marginally higher than our estimate owing to higher than expected sales of Optic Fibre (OF).
- EBITDA Margins stood at 22% (decline by 90 bps yoy) in Q4 FY16 owing to increase in contribution of low margin OF segment in the overall revenues. EBITDA margins were largely inline with our estimates.
- During the quarter, the Company sold 5.5 mn fkm of OF and 1.5 mn fkm of Optic fibre cables (OFC). STL has now achieved an annual run-rate of 22 mn fkm production of OF and is operating at full capacity. The Company has recommended a dividend of Rs.1 per share for FY16.
- The overall performance was marginally above our estimates for the demerged entity (telecom business). We have revised our forecasts marginally higher inline with the strong performance. We believe STL would be huge beneficiary of BharatNet program as well as the 4G roll out by the telcos. Also STL would be in a position to capitalize on the opportunity emerging from developing smart cities. We remain bullish on the stock and maintain our BUY rating.
- The Company has completed the demerger process of power business which would be effective from mid June 2016 subject to certain pending approvals. Post demerger, the current stock price and target price would reduce by Rs.22.5 per share. The shareholders would be paid Rs.22.5 for each share held as on the record date or they can choose other other available options like redeemable preference shares for the power business.
- The detailed financials for Q4 FY16 are not comparable on yoy basis owing to the demerger of power business in current year. We have provided below the consolidated proforma financials of telecom business for comparison purpose.
- Post the demerger of the power business, the Company is expected to witness strong growth with operating margins of close of 20% levels.

Result table - Consolidated Proforma financials (Only telecom business)

(Rs cr)	Q4 FY16	Q4 FY15	% yoy	Q3 FY16	% qoq
Revenues	608	510	19.2	572	6.3
EBITDA	134	117	14.5	115	16.5
EBITDA (%)	*22*	*23*	*-90 bps*	*20*	*193 bps*
EBIT	95	93	2.2	77	23.4
EBIT (%)	*16*	*18*	*-261 bps*	*13*	*216 bps*

Source: Company, India Infoline Research

May 27, 2016

Result Update

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Concall Highlights

- STL currently has an order book of ~Rs.2,200 cr most of which is executable during FY17. The Company has recently bagged two smart city development projects totaling ~Rs.50 cr each. The Company expects to win more such projects in coming quarters.
- STL generated nearly ~Rs.470 cr from services business during FY16. The Company expects substantial growth from this segment in coming years. Its at advanced stages of discussion with customers for providing its service business offerings.
- With the rising cash flows and no significant capex requirement, STL expects to reduce debt in next few years. STL expects to incur capex of nearly Rs.120-130 cr during FY17 and dividend payout at 30%
- STL is in advanced talks with major telcos for deployment of fibre. It expects significant traction during next few quarters which would help it to increase its capacity utilization significantly.
- STL expects topline growth at ~30% levels for the demerged telecom business with EBITDA margins at close to 20% levels during FY17.
- The record date for the demerger of power business is expected to be around mid June.

Valuation and Recommendation

STL has delivered decent set of numbers for the ongoing telecom business and the outlook continues to remain positive. The rising demand from end use segments and the incremental capacity of Optic fibre and cables coming onstream would ensure strong topline and earnings performance in the coming years. Also rising contribution from the recently acquired Elitecore business and rising penetration into the services segment would further fuel growth.

We believe the demerger of asset heavy power business has set the stage for delivering strong growth in telecom business. We maintain a BUY rating on the stock with a SOTP target of Rs.116, which implies a potential upside of 30%. The target price includes the valuation of ongoing telecom business and Rs.22.5 for the power business which the shareholders would receive for the power business within a month.

(as on demerger date) and the target price would fall by Rs.22.5.

SOTP Assessment

Particulars	Segment	Basis	FY18E EBITDA	Target Multiple	Target Equity Value	Value per share
Telecom products	Telecom	EV/EBITDA	Rs.575 cr	8x	Rs.3,685 cr	**Rs.94**
Power Conductor and Power transmission	Power	As per scheme of arrangement				**Rs.22.5**
					SOTP Target	**Rs.116**
					CMP	**Rs.89**
					Upside/(Downside)	**30%**

Financial summary (Demerged telecom entity – Consolidated)

(Rs cr)	FY15	FY16	FY17E	FY18E
Revenues	1,619	2,161	2,766	3,080
yoy growth (%)	NA	33.5	28.0	11.3
Operating profit	345	452	530	575
OPM (%)	21.3	20.9	19.2	18.7
Reported PAT	118	151	186	218
yoy growth (%)	NA	27.6	23.5	17.2
EPS (Rs)	2.9	3.8	4.7	5.5
P/E (x)	30.7	23.3	18.8	16.1
Price/Book (x)	4.4	4.3	3.7	3.0
EV/EBITDA (x)	10.2	9.1	7.7	6.9
Debt/Equity (x)	1.1	0.8	0.6	0.5
RoE (%)	19.7	21.3	21.1	20.5
RoCE (%)	19.5	24.2	25.6	25.9

Source: Company, India Infoline Research

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Recommendation parameters for fundamental reports:

Buy – Absolute return of over +15%

Accumulate – Absolute return between 0% to +15%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

Call Failure - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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