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January 30, 2017

Sterlite Technologies (STETEC) ₹ 120

Laying the growth fibre....

Sterlite Technologies (STL), an integrated player in the optical fibre/cable space, is in a sweet spot to capitalise on the opportunities emanating from data boom, Smart Cities and Digital India initiative. The company's product business, comprising optical fibre/cable, is likely to be a beneficiary of strong global demand and rising network spends by telcos in the domestic market for high speed data growth. Hence, this would enable 15.7% revenue CAGR in FY16-19E to ₹ 2810.1 crore. STL has transformed itself into an end to end broadband infra play through services & solutions and software foray. This, driven by opportunities from NFS and Smart Cities, is expected to post stellar revenue growth of 41.5% CAGR in FY16-19E to ₹ 1030.1 crore. With strong focus on low capital intensive services segment, RoE and RoCE are expected to inch up to 24.5% and 24.0% in FY19E vs. 21.6% and 16.9%, respectively, in FY16E. We initiate coverage on Sterlite Technologies with a BUY recommendation, valuing it at ₹ 140/share, on SoTP basis.

Data boom, Digital India to propel product business growth

STL commands a leadership position in the optical fibre/cable space and enjoys healthy ~40.0% market share in the domestic optical fibre market. The strong demand emanating from telcos on the back of high speed data network spends coupled with government initiatives like Digital India, Bharat Net are expected to boost OF/OFC demand. Revenues from the product segments are expected to grow at 15.7% CAGR in FY16-19E to ₹ 2810.1 crore from ₹ 1813.2 crore in FY16.

Services & solution business to ride on new opportunities

STL's foray into software, services and solution business includes its offerings like OSS/BSS and System & Network Integration (SI/NI), respectively. Going ahead, opportunities from network for spectrum (NFS), Smart Cities are likely to drive the services/solutions business growth, while software business would benefit from the strong clientele of STL. Consequently, we expect services segment revenues to grow at a stellar 41.5% to ₹ 1030.1 crore from ₹ 363.5 crore in FY16.

Robust growth potential; initiate with BUY recommendation

STL is poised to benefit from its leadership in the optical fibre/cable while its presence in the service segment would enable it to exploit opportunities in the NFS/Smart Cities space. Given the robust growth potential (topline and earnings CAGR of 24.7% and 26.2%, respectively, in FY16-19E), we ascribe a target price of ₹ 140/share, based on SoTP valuation. We initiate coverage on the company with a **BUY** recommendation.

Exhibit 1: Key Financials

Particulars	FY15	FY16	FY17E	FY18E	FY19E
Net Sales (₹ Crore)	1,619.0	2,160.8	2,652.8	3,568.2	4,189.1
EBITDA (₹ Crore)	345.0	452.1	529.2	703.9	823.6
Net Profit (₹ Crore)	119.0	151.1	207.6	248.7	303.7
EPS (₹)	3.0	3.8	5.2	6.2	7.6
EV/EBITDA (x)	13.6	12.8	10.9	8.4	7.1
RoCE (%)	18.0	16.9	18.0	22.7	24.0
RoE (%)	20.6	21.6	24.4	24.3	24.5

FY15 numbers are pro-forma financials ex-power business and ex-excise duty, FY17E onwards the revenues are inclusive of excise duty as per Ind-AS

Source: ICICIdirect.com Research

Rating Matrix

Rating	:	Buy
Target	:	₹ 140
Target Period	:	12 months
Potential Upside	:	16%

Key Financials

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Net Sales	2,160.8	2,652.8	3,568.2	4,189.1
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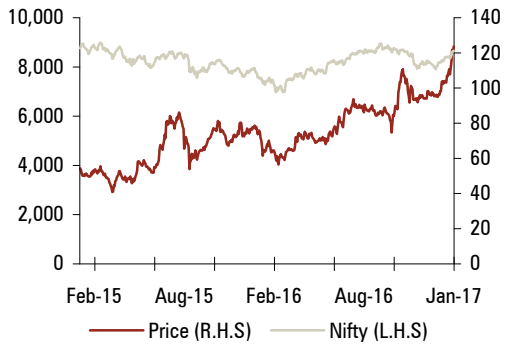
Valuation Summary

(x)	FY16	FY17E	FY18E	FY19E
P/E	31.4	23.0	19.2	15.7
Target P/E	36.5	26.8	22.4	18.3
EV / EBITDA	12.8	10.9	8.4	7.1
P/BV	6.8	5.6	4.7	3.9
RoCE (%)	16.9	18.0	22.7	24.0
RoNW (%)	21.6	24.4	24.3	24.5

Stock Data

Particular	Amount
Market Capitalization (₹ Crore)	4,778.4
Total Debt (FY16) (₹ Crore)	1,089.0
Cash (FY16) (₹ Crore)	80.8
EV (₹ Crore)	5,786.6
52 week H/L	125/70
Equity capital (₹ crore)	79.0
Face value	2.0

Price movement



Research Analysts

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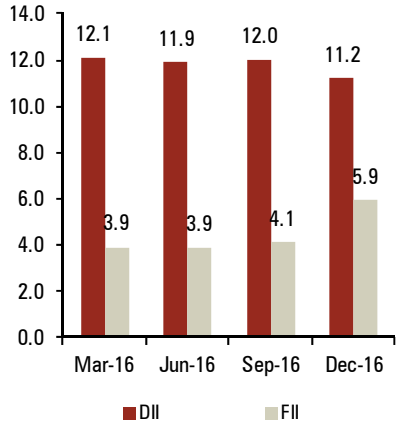
Sneha Agarwal
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Shareholding pattern (as on December 2016) (%)

Shareholder	Holding(%)
Promoter	54.5
DII	11.2
FII	5.9
Others	28.3
Total	100.0

Source: bseindia.com, ICICIdirect.com Research

FII and DII Trend



Source: bseindia.com, ICICIdirect.com Research

Company background

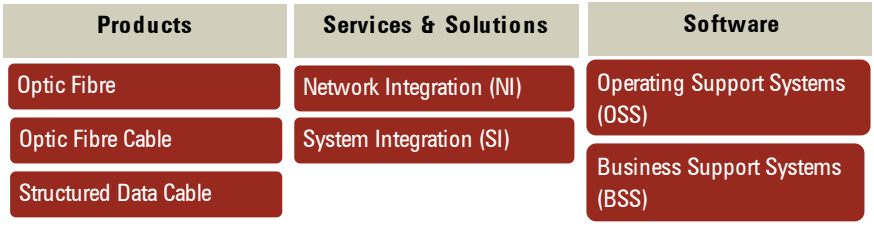
Sterlite Technologies (STL), promoted by the Vedanta group, is a leader in the optical fibre/cable space and one of the few fully integrated players with a well diversified manufacturing footprint across India, China and Brazil. The company is the only Indian player that is vertically integrated and manufactures optic fibre from silica. Hence, STL enjoys cost benefits and competitive advantages over its peers.

The company's optic fibre (OF) capacity is 25.0 million (mn) km. Optical fibre cable (OFC) has capacity of 15.0 mn km, which was ramped up from 8.0 mn km in FY16 given strong global and domestic demand. STL has strong ~40.0% market share in the domestic optical fibre market wherein total fibre and cable consumptions was at 21.6 and 16.5 million fibre km, respectively, as of CY15. International revenues for Sterlite comprise ~24.0% of total revenues with China and Europe being significant contributors. Apart from product manufacturing, the company also provides end-to-end solutions and services for the broadband network in terms of system integration and network integration services to the government and telcos. To further strengthen its non-product offerings, STL had acquired Elitecore Technologies and provides operating support software (OSS) and business support software (BSS) via this arm.

Sterlite Technologies – Business Profile

STL's business can be bifurcated into products (OF, OFC and structured data cable), services and solutions [that includes network integration (NI) and system integration (SI)] and software business (through Elitecore that is primarily in operating software systems and business software system).

Exhibit 2: Sterlite Technologies – Business profile



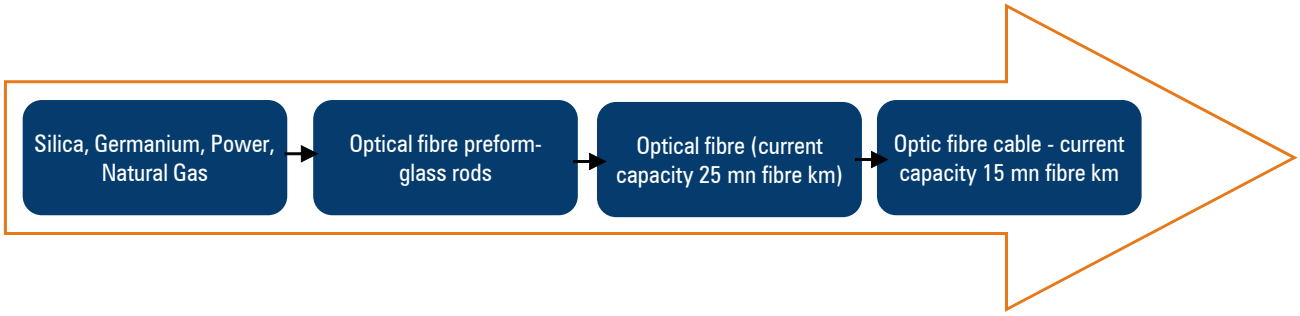
Source: Company, ICICIdirect.com Research

Possesses fully integrated manufacturing facility in products segment

STL is the only Indian player and among 12 global players with a fully integrated cable manufacturing process. The manufacturing of cable is essentially process & technology intensive. STL, through its end-to-end manufacturing process, is able to earn better margins (~700-1400 bps higher than peers). The manufacturing process comprises three major products in the value chain:

- **Preform:** Sterlite manufactures preform, which consists of solid glass rods, by using raw materials silica, power and natural gas. Customisation of dimensions and properties of preform cladding and coating enable STL to develop specialty fibre products with bandwidth speed up to 100 mbps (such as 200 micron bend insensitive optical fibre).

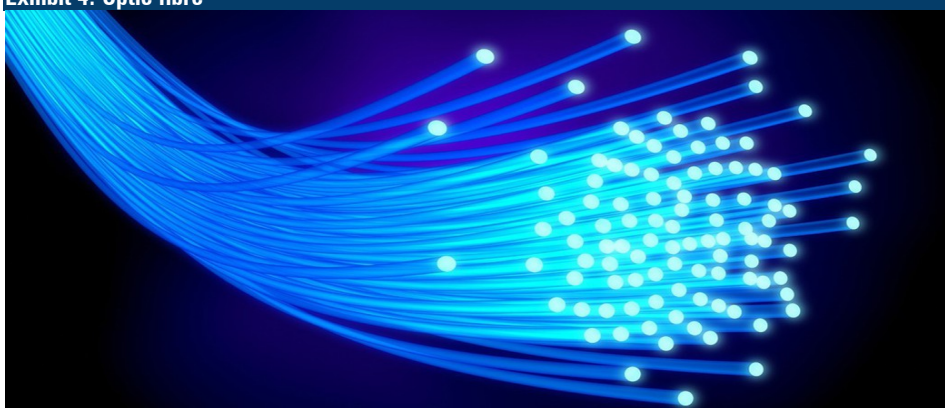
Exhibit 3: Optic fibre cable manufacturing process



Source: Sterlite Technologies, ICICIdirect.com Research

- **Optical fibre (OF):** Optical fibre has become a necessity for telecommunication companies as a preferred transmission medium catering to their most aggressive bandwidth demands. Optic fibre is manufactured by a drawing process from fibre preform. Sterlite Technologies (STL) offers a complete range of end-to-end optical fibres [conventional single mode fibres (SMF), non-zero dispersion shifted single mode fibre (NZDSF) and bend insensitive single mode fibre] for a variety of applications ranging from long haul, regional, metro, access and FTTx networks. Currently, the company has an optic fibre capacity of 25.0 mn fibre km and plans to increase it to 30.0 mn fibre km by FY17E. STL has guided for a capex of ₹ 300 crore to increase the capacity to intended levels.

Exhibit 4: Optic fibre



Source: Cormsquare.com, ICICIdirect.com Research

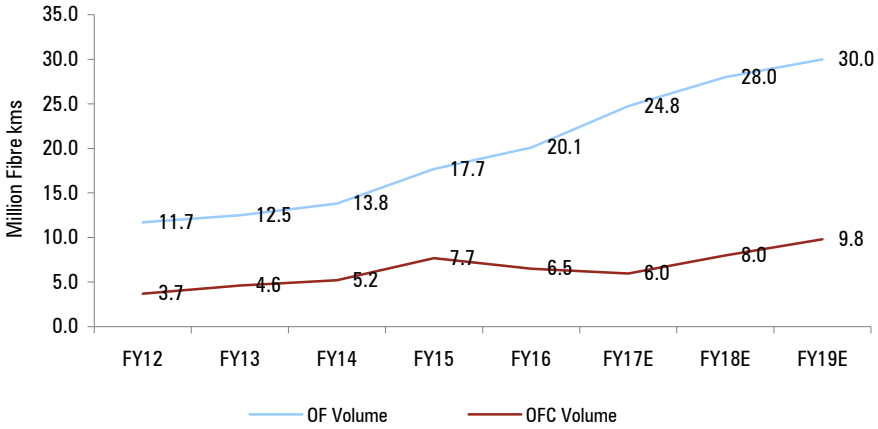
- **Optical fibre cable (OFC):** Optical fibre cable is used across the backbone, aggregate, and access networks. Fibre to the home (FTTH), fibre to the antenna (FTTA) and fibre to the building (FTTB) applications are key factors driving demand of OFC. Sterlite Technologies has an optic fibre cable capacity of 15.0 mn fibre km, which is currently under utilised with total demand for FY16 at 6.5 mn fibre km

Exhibit 5: Optic fibre cable

			
Underground Applications- Multi Loose Tube	Aerial applications - Unitude/ drop cables	FTTH Application- Flat drop cable	Tactical application - Armoured cable

Source: Company, ICICIdirect.com Research

Exhibit 6: Sterlite Technologies OF/OFC sold over years



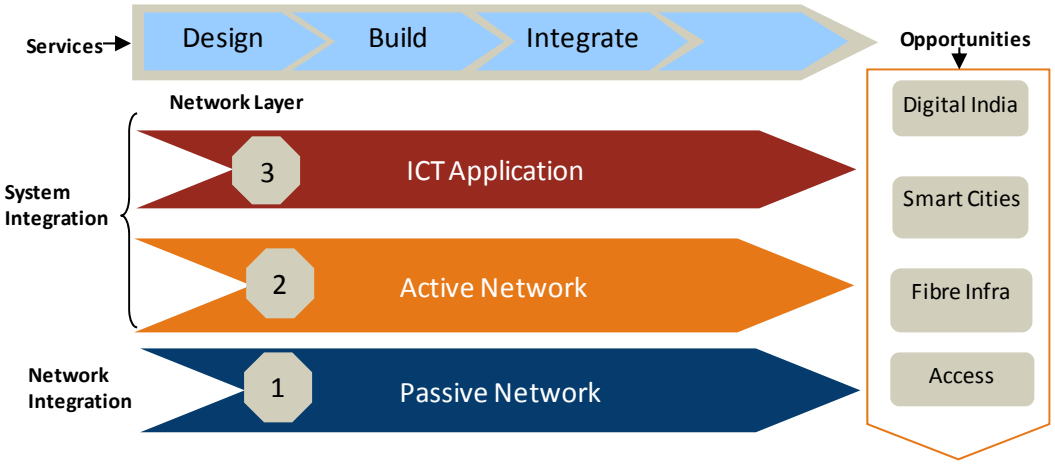
Source: Company, ICICIdirect.com Research

Transforming into end-to-end broadband infra play through services, solutions and software

In the recent past, the company has transformed itself from a manufacturing play to an end-to-end broadband infrastructure providing software and value added solution & services. In order to compliment STL's services arm, it recently acquired Elitecore Technologies, a strong OSS/BSS telecom software company with a global customer base. The services arm now includes key offerings such as network integration (NI) and system integration (SI). The software solutions comprise operating support software (OSS), business support software (BSS), etc and are a high RoCE business with low capital requirements. The ex-products arm contributed ~22% to total revenues in FY16.

Services & solutions: STL provides SI/NI capabilities to the government as well as private telcos. The company is already working on a network for spectrum (NFS) order in J&K for defence worth ₹ 1620 crore (including maintenance contact of ₹ 500 crore), ~80% of which would be apportioned to the services segment. The company is also working on the Jaipur, Gandhinagar and Ahmedabad Smart City project and expects more such wins in future. STL is expected to benefit from the unprecedented capital investments by telcos and the government planned over the next five years. The company is expected to be a significant contributor to Digital India, Make in India and Smart City initiatives.

Exhibit 7: Network and system integration business overview



Source: Sterlite Technologies Investor Presentation, ICICIdirect.com Research

Software business: The company has a presence in the OSS and BSS domain post the acquisition of Elitecore Technologies. With the help of its operating support systems (OSS) offerings, STL helps operators plan, build and optimise their network. In layman language, when an individual makes a call, sends or receives a file, watches a video, the OSS makes sure the network can handle the user's request irrespective of its location.

Business support systems (BSS) enable operators to manage accounts and payments, customer support and service modification. In order to service consumer requests of buying a new service, top up on pre-paid accounts, bill payments and enable them to check their data consumption, telecom operators have to avail the services of BSS.

STL acquired Elitecore Technologies in 2015 from the Carlyle group for a consideration of ~₹ 180 crore. Elitecore is a global IT product company providing OSS/BSS services globally. Elitecore has over 150+ network deployments for 52 service providers with a presence across 40+ countries, revenue of ₹ 179.5 crore in FY16 and EBITDA of ₹ 19.0 crore. The acquisition gives STL an entry into the software space whereas Elitecore will benefit from the strong clientele of Sterlite Technologies.

The company recently demerged its power business. The value unlocking for the telecom business has already commenced with an improvement in balance sheet, higher cash flow visibility and return ratios. The telecom business registered a topline of ₹ 2160.8 crore in FY16 (on a net basis ex-excise duty) with EBITDA and PAT at ₹ 452.1 crore and ₹ 151.1 crore, respectively.

Investment Rationale

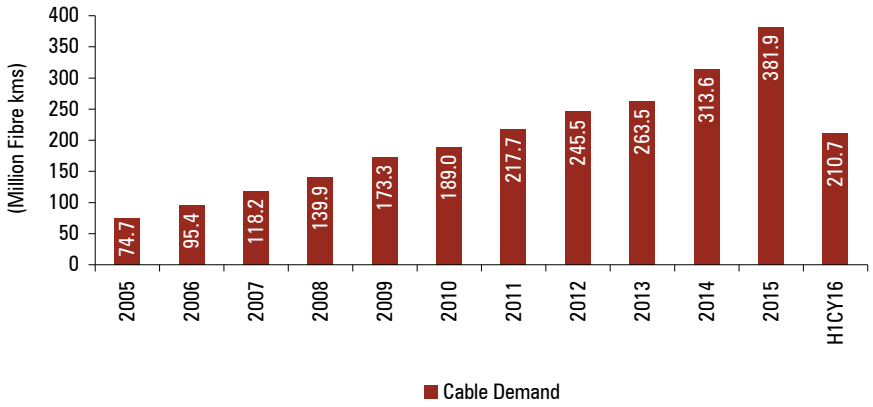
Optic fibre/cable to see exponential demand in domestic, global arena

Global fibre/cable demand to be fuelled by sharp increase in data traffic

The global telecom landscape presents a huge opportunity in terms of expected data traffic growth at 53.0% CAGR in FY15-20E (growing nearly 8x) to 30.6 exabyte per month by 2020 from 3.7 exabyte per month in FY15 (1 exabyte = 1 billion GB). An exponential growth in demand in data traffic paves the way for an equivalent increase in infrastructure solutions to support such a huge quantum of data.

Apart from the impending data growth, the upcoming 5G revolution with telecom giants like Verizon already building their 5G blueprint, creates another massive opportunity for telecom infrastructure especially fibre. As per the International Telecommunications Union (ITU), ongoing capital investments related to fibre infrastructure are expected to reach a staggering $144.2 billion between 2014 and 2019, primarily led by the 5G rollout. The US has always been ahead in terms of technological development, which is then followed the other nations. A successful upgradation towards 5G networks would be replicated across nations.

Exhibit 8: World OFC consumption in last decade



Source: CRU Monitor, ICICIdirect.com Research

In line with growing data traffic and network rollouts, there has been an increase in world optic cable installations by 11.6% YoY in H1CY16 to 210.7 million fibre km against 188.6 million fibre km in H1CY15. Fibre demand in H1FY16 suggests FY16 demand would be well above 440 million fibre km. Total world optic fibre cable installations were at 381.9 million fibre km in 2015. Going ahead, world OFC demand is expected to grow by at least 15.0% CAGR to 768 million fibre km by 2020.

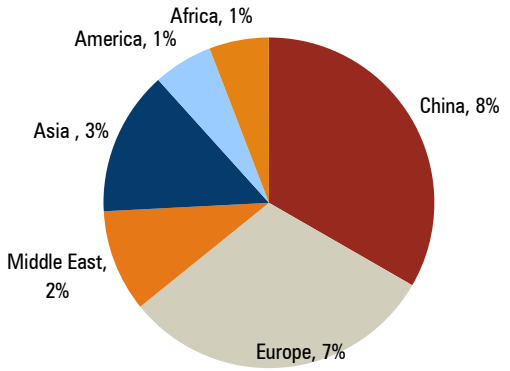
Exhibit 9: Global optical cable demand and bare fibre production (Annual)

Million fibre Km	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	H1CY16	CAGR 2005-15 (%)
Cable Demand													
N. America	20.4	25.4	26.2	29.6	26.6	28.6	37.6	37.3	33.8	40.8	45.8	24.2	8.4
Europe	12.2	14.7	20.2	23.9	19.6	25.3	29.8	29.3	32.2	40.3	40.4	21.3	12.7
China	17.3	23.3	32.8	42.5	80.4	87.0	98.5	120.5	131.6	155.5	215.7	120.6	28.7
Other APAC	18.8	23.5	27.0	28.5	29.8	28.9	27.8	30.8	36.9	44.7	46.4	27.0	9.5
ROW	5.9	8.5	12.0	15.4	16.8	19.3	24.0	27.6	29.0	32.2	33.6	17.6	18.9
Total	**74.7**	**95.4**	**118.2**	**139.9**	**173.3**	**189.0**	**217.7**	**245.5**	**263.5**	**313.6**	**381.9**	**210.7**	**17.7**
Bare Fibre Shipments													
Americas	25.2	32.3	38.1	45.4	50.2	53.0	58.1	57.8	52.9	52.0	52.6	27.1	7.6
China	17.7	23.8	35.1	44.5	68.3	79.8	103.4	127.0	144.3	193.6	256.7	143.1	30.7
Other Asia	26.8	34.4	39.6	44.0	51.6	53.0	52.5	57.5	63.8	71.0	80.5	43.2	11.6
Europe+ME	10.8	12.6	14.6	16.3	16.4	17.4	20.0	21.7	22.4	22.6	23.6	12.9	8.1
Total	**80.5**	**103.1**	**127.4**	**150.3**	**186.5**	**203.2**	**234.1**	**264.0**	**283.4**	**339.2**	**413.4**	**226.3**	**17.8**

Source: CRU International, ICICIdirect.com Research

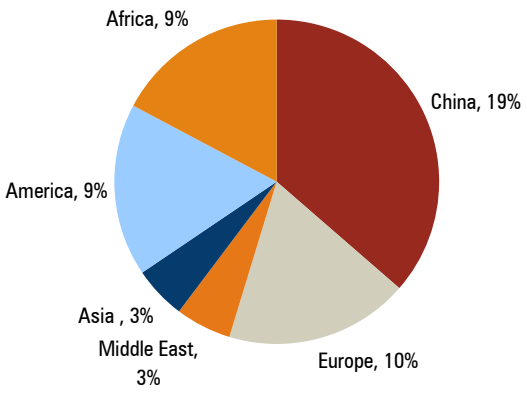
All leading telecom ecosystem solution & service providers would emerge as key beneficiaries of such growth. Sterlite Technologies (STL), as one of the leading optic fibre/cable manufacturers globally, is poised to benefit from such a trend as fibre acts as an enabler to achieve high speed internet. STL is a strong player in the international market, with international revenues comprising ~24.0% (FY16) of its total revenues with China, Europe being significant contributors. The percentage contribution of international revenues continues to increase with strong demand therein. The same has increased from 24.0% in FY16 to ~36.0% in H1FY17 with major incremental demand coming in from China.

Exhibit 10: International revenue to overall revenue (FY16)- 24.0%



Source: Company, ICICIdirect.com Research

Exhibit 11: International revenue to overall revenues (H1FY17)-36.0%



Source: Company, ICICIdirect.com Research

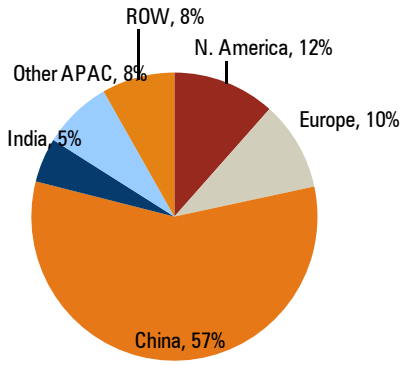
However, cable demand is growing at a faster pace than growth in the preform capacity being added globally. Such a phenomenon is expected to lead to an increase in global OF prices. Hence, this will be further beneficial to players engaged in preform manufacturing. Spot prices of OF have increased from $6.5 to $9.5 in the recent past. A structural increase in price owing to continued shortage would benefit STL, which currently has long term contracts with vendors and remains relatively unaffected by changes in spot prices.

China – Largest consumer of OF/OFC with ~60% contribution to total OF/OFC world consumption

China has been one of the largest consumers of OF/OFC with 256.8 million fibre km of OF consumption and 215.7 mn fibre km of OFC consumption. However, as cable demand exceeds fibre supply, it continues to witness shortage in preform capacity. Though there have been new capacity installations by some players viz. YOFC, Shin-Etsu,

Qinghai Zhongli Optical Fibre Technology, etc, capacity is less likely to be visible until FY17. Consequent to this, China continues to see a steeper price increase in fibre in the short-term.

Exhibit 12: China – Largest consumer of world OFC as on H1CY16



Source: CRU Monitor, ICICIdirect.com Research

The country posted strong OFC demand of ~33.1% in FY15. Such strong growth is expected to continue owing to continuous 4G investments, FTTH rollout and broadband infrastructure expansion as an initiative of the Chinese government. Going ahead, Chinese fibre demand is expected to grow at 10.0% CAGR and expected to reach 650.7 mn fibre km by 2020.

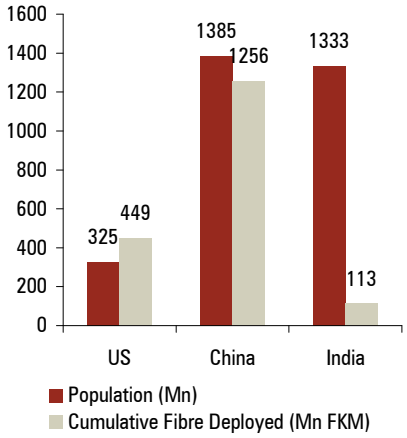
Both upcoming demand and preform shortage would benefit Sterlite Technologies, which is an end-to-end integrated manufacturer. STL via its 75:25 JV with Jiangsu Tongguang Communication is able to capitalise on huge Chinese demand and opportunities therein. The plant capacity of the JV is at 6.0 mn fibre km wherein fibre is drawn from glass exported from India. The JV enables STL to effectively manufacture market and distribute optical fibre in the largest optical fibre market in the world. China contributed about 8.0% to total revenues of STL in FY16. The strong demand has led to an increase in contribution to 19.0% of revenues in H1FY17. The revenue contribution from China is expected to remain upbeat in line with the strong demand expected in the country.

Europe - Another bigger market for Sterlite

Europe is ranked after China and North America in terms of OF/OFC consumption by contributing ~11.0% to the world OF/OFC consumption and is at ~46.0 mn fibre km by volume. France, Spain and Germany are some leading fibre consumers in Europe. The European telecom market continues to grow by leaps and bounds while the country is rapidly installing FTTH and improving its network connectivity. Europe contributed about 7.0% to total revenues of the company in FY16. The contribution has inched up to 10.0% of total revenues in H1FY17. The European market demand is expected to grow ~7-10% annually and, hence, lead to export revenue benefits for STL as well. The company also recently won a major order in Europe for 2017 from a large service provider.

STL also has a 50.50 JV in Brazil with Conduspar for fibre cabling with a 0.5 mn capacity. Such a JV enables Sterlite Technologies to get local access in international markets.

Population versus cumulative fibre deployed

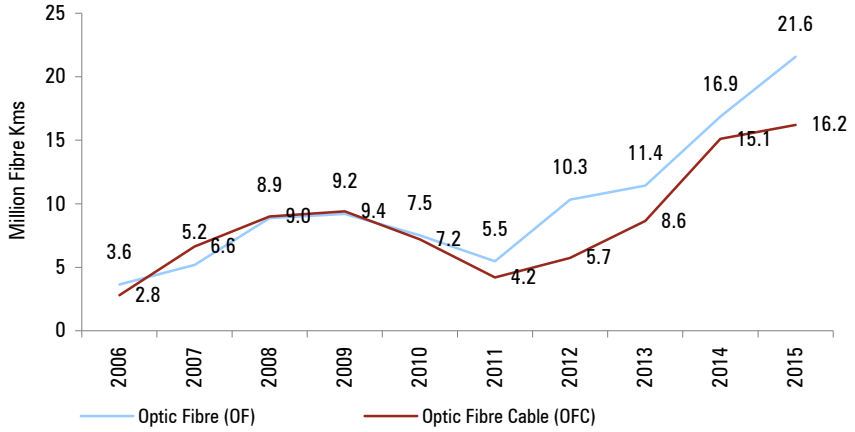


Source: Company, ICICIdirect.com Research

Domestic Market: India's fibre demand on upswing with rapidly progressing digitisation, government's Digital India initiatives

India's OF/OFC market is up for a multi expansion phase owing to the ongoing data boom and huge network investments by both telecom operators and the government. India consumed total OF and OFC volume of 21.6 and 16.2 mn fibre km, respectively in 2015. The sudden spurt in OF consumption seen in CY14 can be attributed to Reliance Jio. All other players are also actively investing in building 3G/4G infrastructure, hence, creating huge demand for fibre. India continues to remain highly under-fiberised, with cumulative fibre-deployed-to-population ratio at ~ 0.1x (vs. US: 1.2x and China: 0.7x). Moreover, though India hosts ~400,000 towers, only 15% of towers are fiberised in contrast to 50-60% in China and 80-90% in developed countries like the US and Japan, which is essential to support high speed data networks. India is expected to follow the trend and undergo fiberisation of towers, thus creating demand for OF/OFC. As per industry reports, Reliance Jio has fiberised nearly 40-50% of its tower base. This is expected to lead other players to make similar investments in the network.

Exhibit 13: India OF/OFC consumption

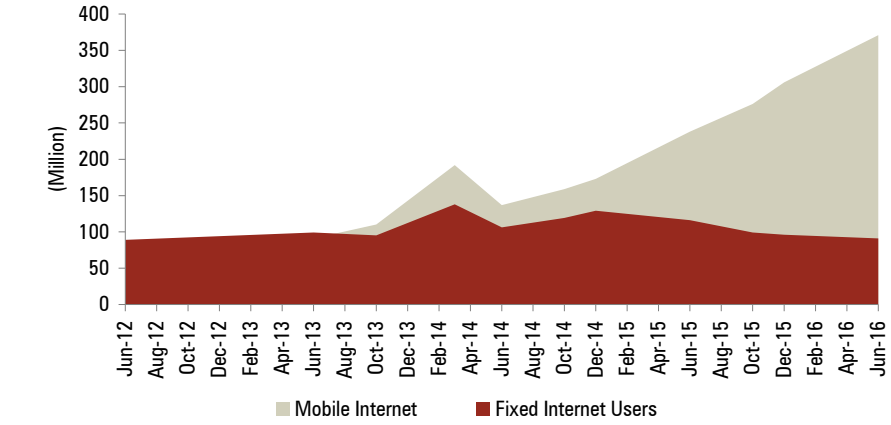


Source: CRU Monitor, ICICIdirect.com Research

Data boom, increasing smartphone penetration require network backbone

Internet adoption in India is growing at a stellar pace as seen from the 60.0% CAGR in FY13-16 to 371 million users in growth of mobile broadband users. As per Cisco VNI estimates, mobile data traffic in India is expected to grow 12-fold from 2015 to 2020, at a CAGR of 63% to 1.7 exabyte per month in 2020, up from 148.9 petabyte per month in 2015.

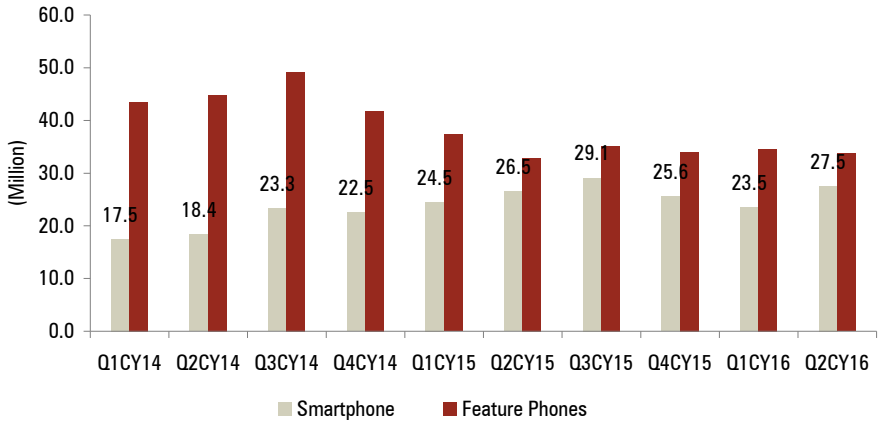
Exhibit 14: Growth in internet users in India



Source: IAMAI Data, ICICIdirect.com Research

In early 2016, India became the second largest smartphone market topping the US with ~250 million smartphone users. It is expected to lead the smartphone growth reaching 702 million users by 2020. The stage has been set for low priced handsets with recent launches of several devices in the ~$40-50 range.

Exhibit 15: Smartphone shipments to India



Source: IDC, ICICIdirect.com Research

With growing smartphone adoption, consumption patterns would shift in favour of high data consuming videos and audios. India's mobile video traffic is expected to grow ~21-fold from 2015 to 2020, at a CAGR of 83.0% to 1.2 exabyte per month by 2020 from 59.8 petabyte per month in 2015. Hence, this would entail a need for superior network rollout to facilitate a seamless experience to users.

Telcos to prop up investments in telecom infrastructure, fibre to form one of the top spends

Voluminous growth in data traffic owing to increased penetration of high speed 3G/4G data against the initial 2G has created a need for additional fibre support to existing data networks. Majority of incremental capex would be towards network rollout and would be beneficial for STL. The Indian market consumption is expected to reach 40-50 mn km of OF/OFC in the next three years.

As data suggests, the OF, OFC rollout by telcos has been continuously increasing with Airtel, Idea, Vodafone having fibre network of 218799, 115500, 149800 mn route km, respectively. The translation to fibre km depends on the kind of engineering used in deploying fibre. We expect

OF/OFC growth to be even more profound with telcos having stepped up their capex guidance. Bharti Airtel had recently announced its "Project Leap" wherein there would be a capex outlay of ₹ 60000 crore over the next three years towards network overhaul. The company intends to deploy more than 0.55 mn km of domestic and international fibre via its project. Airtel, Vodafone, Idea and Reliance Communication are expected to incur ₹ 500 crore, ₹ 400 crore, ₹ 350 crore and ₹ 130 crore of non-spectrum capex, respectively, in FY17E-19E. Reliance Jio has actively deployed ~270000 route fibre km of optic fibre. The company intends to remain active in its fibre deployment and is aiming at a fibre to home network in 100 cities, which will create further demand for OF/OFC.

Digital India plan of government, Bharat Net to bring in incremental fibre growth

The government needs tremendous broadband infrastructure support in order to fructify its goals of Digital India viz. Bharat Net, Smart Cities, Network for Spectrum, etc. These initiatives would create incremental OF/OFC demand, thus creating opportunities for broadband infrastructure players like Sterlite Technologies.

Bharat Net Project/NOFN: Under the Bharat Net project, the government aims to connect 250,000 Gram Panchayats (GPs) in the country and provide 100 Mbps connectivity to all GPs. The objective is to be achieved by utilising existing fibres of PSUs (BSNL, RailTel and Power Grid), which is at ~688000 and through incremental fibre deployment, thus creating additional fibre demand. The project cost is estimated at ~₹ 72,700 crore with total estimated fibre demand of ~60.0 mn fibre km. STL has already supplied nearly 1.2 mn fibre km to the project out of nearly 3.6 mn fibre km (approximately as route km is multiplied by a factor of 24). The first stage of the project had a target of connecting 100,000 GPs by March 2017. However, the project seems to be delayed owing to certain implementation challenges. A sudden spurt in demand may be seen once the project is back to its intended timeline and benefits STL in terms of higher product demand as well as system and network integration capability.

Exhibit 16: Bharat Net progress as on December 25, 2016

S.N	Description of Work	Status
1	OFC Pipe laid	1,85,424 Kms (79,067 GPs)
2	Optical Fibre laid	1,53,871 Kms (67,129 GPs)
3	Tenders Finalized	3304 Blocks / 1,23,270 GPs
4	Work Started*	2957 Blocks / 1,12,513 GPs
5	Current Weekly performance of Optical Fibre laying	1827 Kms
6	Current Weekly performance of OFC Pipe laying	2850 Kms
7	Optical Fibre Cable Delivered on site	1,96,643 Kms
8	GPON Integrated & Tested (Lit)	15,759 GPs

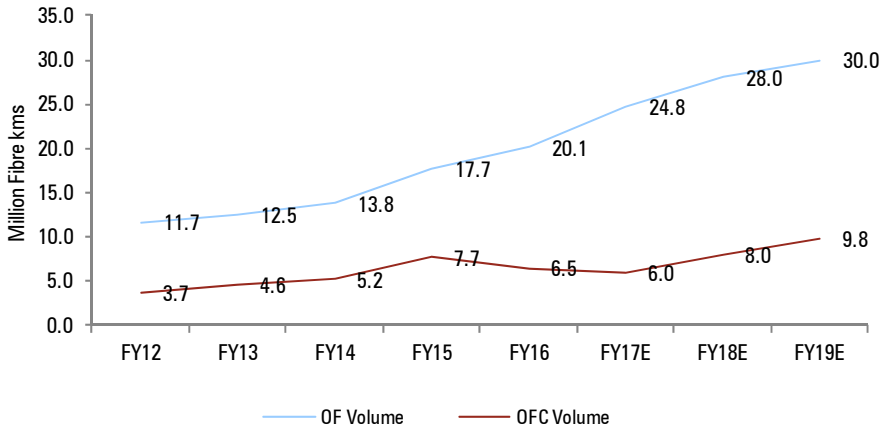
The km mentioned here is route km. Fibre km would be dependant on the kind of fibre architecture chosen. The data excluded details for Andhra Pradesh

Source: Company, ICICIdirect.com Research

The current domestic optic fibre demand is at ~16.0 million fibre km (as on CY15). The same is expected to grow to 25.0 mn fibre km with incremental fibre demand from telcos in the coming two or three years. The Bharat Net project will bring in incremental OF/OFC demand. Total domestic consumption would be seen at 40.0 million fibre km in the coming two or three years, thus directly benefiting STL, which has a 40.0% market share in the domestic optical fibre market.

STL, with an OF and OFC capacity of 25.0 mn and 15.0 mn fibre km, respectively, had recently doubled its OFC capacity to cash in on the upcoming fibre demand. India accounts for 49.0% & 69.0% of total OF (includes utilised for OFC production) and OFC sold, respectively. The end to end manufacturing process also gives the company a competitive advantage in manufacturing certain value-added products viz. bend insensitive fibre, etc, which have slightly better realisations owing to additional features. Going ahead, the company could also see an increase in the percentage contribution of such value added products, which are at 10% in FY16 to ~20.0% in FY18E.

Exhibit 17: OF/OFC sales volume chart till FY19E



Source: Company, ICICIdirect.com Research

With both domestic and international growth levers, we expect OF and OFC volume to inch up to 29.7 and 9.8 mn fibre km by FY19E from 20.1 and 6.6 mn fibre km in FY16. Though OFC capacity is at 15.0 mn fibre km, the offtake has been relatively slower compared to OF with demand from telcos yet to come in full flow. We highlight that we have been conservative in our OFC volumes estimates and would incorporate upward revision as and when there is higher visibility of order inflows from telcos.

In addition, the company will also witness some benefits from the increase in OF/OFC prices, which are on an increasing trajectory owing to preform shortage globally. The benefits of a price increase are, however, relatively less for STL as the company enters into long term contracts. We expect the company to clock revenues of ₹ 2810.1 crore (15.7% CAGR in FY16-19E) from the products segment.

Strong order pipeline for solutions and services segment with Smart City, Network for Spectrum (NFS) & defence initiatives…

STL, through its system integration (SI) capabilities, helps service providers capture the fastest time-to-market and revenue with its deep domain expertise and the strength of consulting services.

Total cumulative domestic SI opportunity in FY17E-19E by virtue of government projects like Smart City, Bharat Net, Network for Defence and other telecom operator requirements is at ₹ 69,645 crore. The company believes it has projects to the tune of ~₹ 16000 crore in its kitty. STL is already in the process of executing an NFS project for defence in Jammu & Kashmir. The company has bagged two Smart City contracts in Gandhinagar, Jaipur and, recently, in Ahmedabad.

The order book was at ₹ 2674.0 crore as on Q3FY17 with the services order book at ~₹ 1497.4 crore (56.0% of total order book). The management expects the total order book to double in the coming year. The company has already executed projects worth ₹ 363.5 crore in FY16 and intends to do another ₹ 500 crore in FY17E. STL has participated in bids worth ₹ 10000 crore and is awaiting the results. The company expects further ₹ 5000 crore bids to open up in the near future. We would, however, build such orders in our revenue forecast once order wins are formally announced and the execution timeline is known.

Exhibit 18: SI, NI opportunity in domestic market

SI market opportunities	₹ Crore	SI opportunities for Sterlite	₹ Crore
Defence + PSU's	22520	Under Execution	>1000
Smart Cities	9500	Bid Participated- result awaited	>10000
Bharat Net	32000	Pipeline	>5000
Telco-NI	5625		
Total SI market Opportunity	**69645**	**SI Total opportunity**	**16000**

Source: Company, ICICIdirect.com Research

Smart Cities – Potential revenue driver for STL

The Government is in the process of building 100 new Smart Cities with cities well equipped in terms of core infrastructure solutions viz. e-governance & citizen services, energy management, waste management, water management, etc. The Government of India's Smart City project envisages an outlay of ₹ 98,000 crore, of which the company expects ~₹ 9500 crore to be allocated towards system integration (SI), which could directly benefit companies like STL. The work on 20 cities has already begun. Of this, the company has bagged contracts in Gandhinagar, Jaipur and Ahmedabad.

Gandhinagar Project: The company has already bagged a Smart City project worth ₹ 30-40 crore in Gandhinagar, Gujarat which entails creating 400-500 access points for Wi-Fi with applications such as smart parking and lighting.

Jaipur Project: The company has also won the second phase of the Jaipur Smart City project wherein it is responsible in creating network architecture. It includes setting up citizen services kiosks with environmental sensors and interactive information kiosks, Wi-Fi network extension, video surveillance for public safety and security at key locations, enabling remote expert government services, and provisioning of bandwidth. Additionally, STL will integrate the newly deployed network with the existing one and be responsible for the maintenance, operations, and monetisation & facility management services for three years. The project is worth ₹ 30-40 crore.

The company has been making additional investments to augments its solutions capabilities in e-education, e-healthcare and emerging segments such as IoT and sensor networks. Investments are also being made in bandwidth heavy applications and services such as telemedicine, tele-diagnostics and live interactive education delivery. These investments are most suited to ride on the projected exponential growth of high-speed data consumption in the country and enable STL to grab more such project wins in the coming Smart City phases. Since prospective revenues are totally dependant on wins by the company, we will factor in revenues only on project wins. Currently, we include only revenues from actual order book in financials.

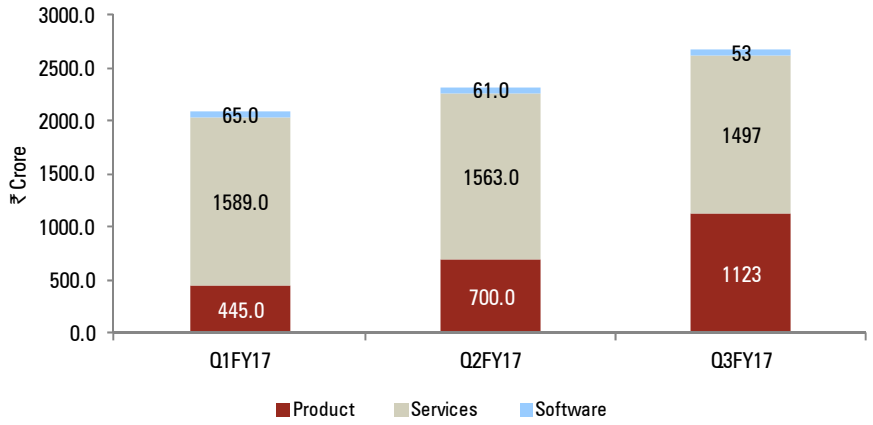
Network for Spectrum (defence)

The Defence Ministry is expected to release 150 MHz of telecom spectrum for growth of cellular services in India. The defence forces would, in turn, have a new communication network for exclusive use by armed forces. The alternative defence network is being built using optical fibre and satellite links.

BSNL has floated tenders for the project in which STL bagged the project for creation of a defence network in Jammu & Kashmir worth ~₹ **1620 crore.** This entails rollout of ~9495 km of optic fibre cable. The company is also responsible for designing, planning and implementation of this countrywide secure multi protocol converged network.

STL is also a key partner in creating OFC networks in other parts of the country as a part of the NFS rollout and is also contracted to maintain the J&K network for an additional period of seven years at ~₹ 500 crore (included in the contract value of ~₹ 1620 crore).

Exhibit 19: Order book details



Source: Company, ICICIdirect.com Research

The services arm will gain momentum as various government projects such as Bharat Net, Smart Cities, etc, come to the fast track mode, which, so far, had slow momentum. The execution rate of the projects is mainly expected to gain pace in FY18E and FY19E. We have factored in revenue growth of 41.5% CAGR in FY16-19E to ₹ 1030.1 crore from the services segment.

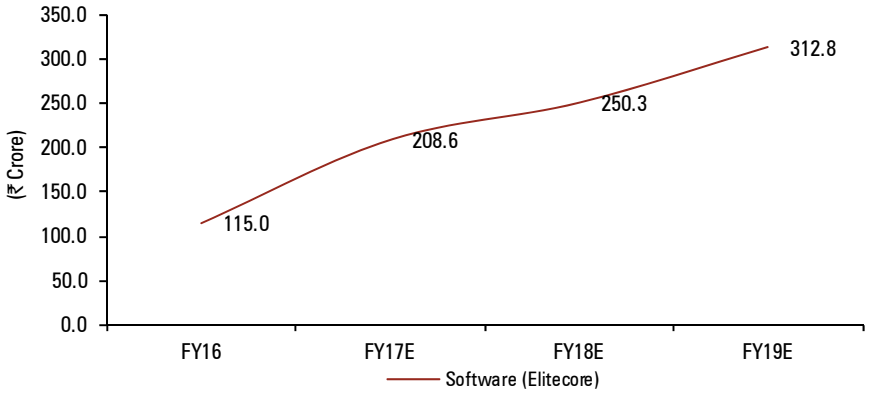
Establishing foothold in software arena; acquires Elitecore Technologies

STL has transformed itself from a capital intensive growth driven player with focus on hardware to an end-to-end service player by providing services in the OSS/BSS arena. The global opportunity for OSS/BSS is at $8.2 billion as on FY15. The company expects the pie to grow ~50.0% to $12.3 billion, as it explores new geographies.

STL received entry into the software arena with the acquisition of Elitecore Technologies, a global IT product company providing OSS/BSS services globally. The acquisition was done for a consideration of ~₹ 180 crore from the Carlyle Group in 2015. Elitecore has over 150+ network deployments for 52 service providers with a presence across 40+ countries and had revenues of ₹ 179.5 crore in FY16 (₹ 115.0 crore consolidated into STL's numbers as the acquisition was complete during the year) and EBITDA of ₹ 19.0 crore. Though the company is a small player in terms of global software service providers, the acquisition gives STL entry into the software space and helps it to tap the global OSS/BSS opportunity. Elitecore will also benefit from STL's global clientele and

enjoy wins of higher values. The company is targeting revenues of ~₹ 500 crore from Elitecore and expects the margin profile to grow to ~14-15% from the current ~11% n the coming two or three years. We expect revenues from Elitecore to grow at 20.3% CAGR (calculated on actual revenues) to ₹ 312.8 crore.

Exhibit 20: Revenue from solutions and software division



* Actual revenues for Elitecore were at ₹ 179.5 crore in FY16 but the amount consolidated into STL's book was ₹ 115.0 crore

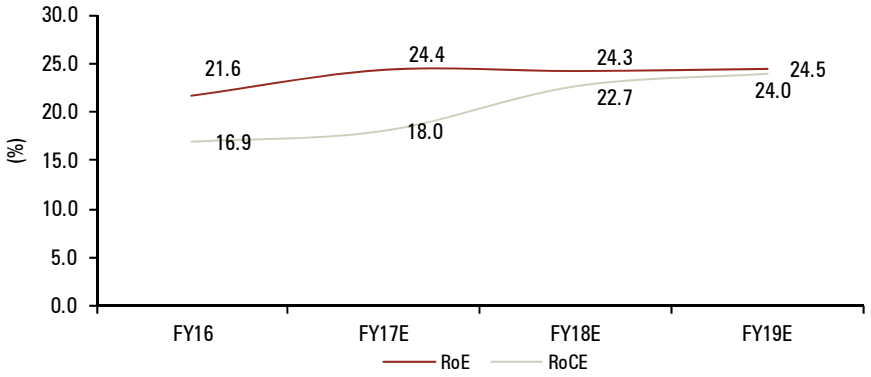
Source: Company, ICICIdirect.com Research

Return ratios to improve, stable dividend policy in place

The management has strong focus on the services segment, which is low capital intensive in nature with only working capital requirement to the tune of 30.0% of project costs. The same is funded through internal accruals. Though the services segment is a low EBITDA margin segment in nature with margins in the range of 11.0%, the absolute EBITDA generation is accretive to the return ratios of the company.

In addition, the company has a stated dividend policy of distributing ~30% of its net profit as dividend to its shareholders, which is again return ratio accretive. We factor in a total outflow on account of dividends of ₹ 74.6 crore and ₹ 88.6 crore in FY18E and FY19E, respectively. We expect return on net worth (RoE) and return on capital employed (RoCE) to inch upwards to 24.5% and 24.0% in FY19E from 21.6% and 16.9% in FY16, respectively.

Exhibit 21: Return ratios trend upwards



Source: Company, ICICIdirect.com Research

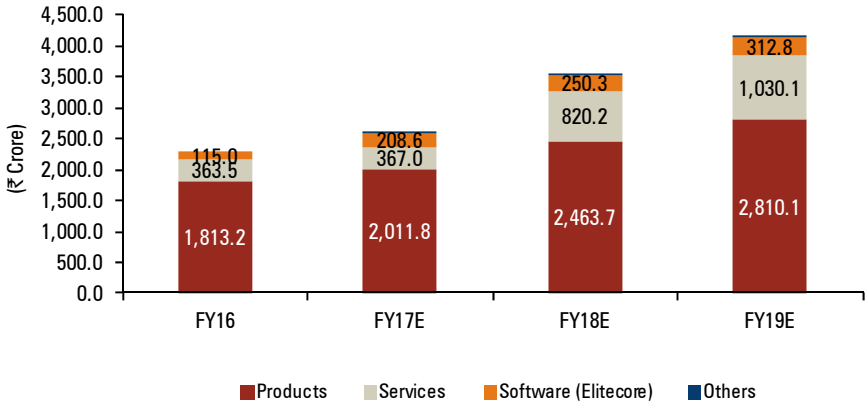
Financials

Revenue to grow at 24.7% CAGR in FY16-19E, led by strong execution in services segment…

Sterlite Technologies (STL) continues to witness strong demand in both its products and services with the management expecting the order book to double from current levels of ₹ 2674.0 crore in the coming year. We build in healthy 24.7% revenue CAGR in FY16-19E to ₹ 4189.1 crore. The company has ~40.0% markets share in the domestic fibre market and also continues to enjoy huge demand from international markets. International revenues comprised ~24.0% of its total revenues in FY16 with China and Europe being significant contributors.

The company is in the process of increasing its OF capacity to 30.0 mn fibre km. The current fibre capacity of 25.0 mn fibre km remains fully utilised. The OFC capacity was also increased to 15.0 mn fibre km from 8.0 mn fibre km recently. The strong demand emanating from telcos as well as government initiatives like Smart Cities, Bharat Net will bring about strong growth in OF, OFC demand. We factor in OF and OFC sales volume of 24.0, 28.0, 30.0 and 6.0, 8.0, 9.8 million fibre km in FY17E, FY18E, FY19E, respectively. Hence, revenues from the product segment are expected to grow at 15.7% CAGR in FY16-19E to ₹ 2810.1 crore from ₹ 1813.2 crore in FY16.

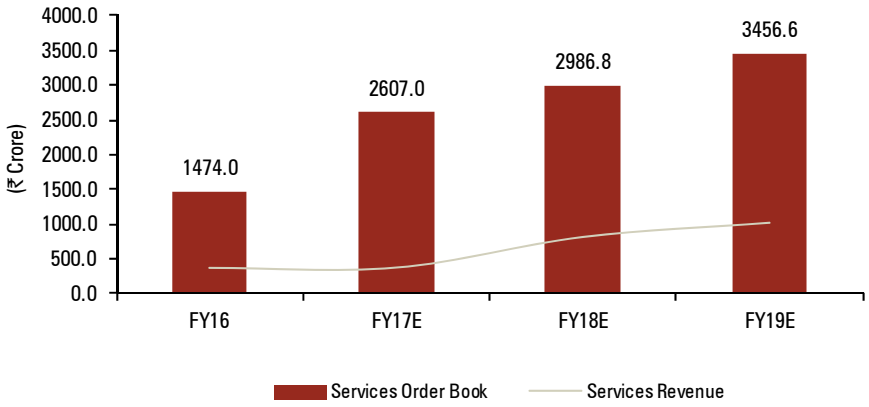
Exhibit 22: Revenue break-up between different segments



Source: Company, ICICIdirect.com Research

STL has moved up the value chain by providing various end-to-end broadband solutions and software services. The services order book is at ~₹ 1497.4 crore (56.0% of total order book). The company has already executed projects worth ₹ 363.5 crore in FY16 and intends to do another ₹ 500 crore in FY17E. STL has participated in bids worth ₹ 10000 crore and awaits the results. The company expects further ₹ 5000 crore bids to open up in the near future. We would, however, build such orders in our revenue forecast once order wins are formally announced and the execution timeline is known. We expect services segment revenues to grow at a stellar rate of 41.5% to ₹ 1030.1 crore from ₹ 363.5 crore in FY16 with strong order execution coupled with fresh order inflows.

Exhibit 23: Order book details for services segment



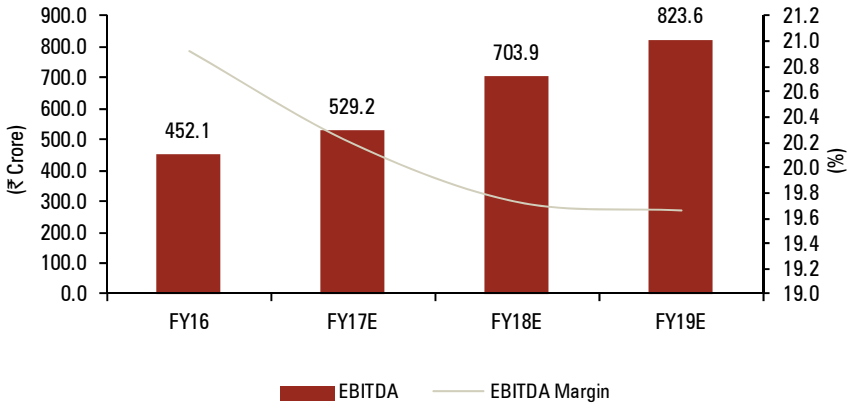
Source: Company, ICICIdirect.com Research

On the software front, though Elitecore is a small player in comparison to global software service providers, it is targeting revenues of ~₹ 500 crore with an expected margin profile of ~14-15% from the current ~11% levels. We expect revenues from Elitecore to grow at 20.3% CAGR (calculated on actual FY16 revenues vs. ₹ 115.0 crore consolidated into STL) in FY16-19E to ₹ 312.8 crore.

Margins to remain stable, services & software run at lower margins

STL enjoys a competitive advantage over its peers owing to its fully integrated manufacturing plant. It has nearly 750-1000 bps higher margins in the product space versus competitors. The realisations of OFC are at ~$18.0, which is nearly 2.5x of OF realisation. Though the OFC sale is accretive to absolute EBITDA, it is slightly margin dilutive with profitability at 15-20% versus OF margins at 33-35%. Moreover, the management has a strong focus on the services and solutions business, which is return ratios accretive owing to low capital requirement but operates at relatively low margins of 11-15%. Hence, as the revenue contribution of services and solutions business increases further, margins would remain subdued at ~19.7% levels in the coming fiscal. However, the company is expected to post a strong 22.1% CAGR in absolute EBITDA to ₹ 823.6 crore in FY19E.

Exhibit 24: EBITDA and EBITDA margin trends

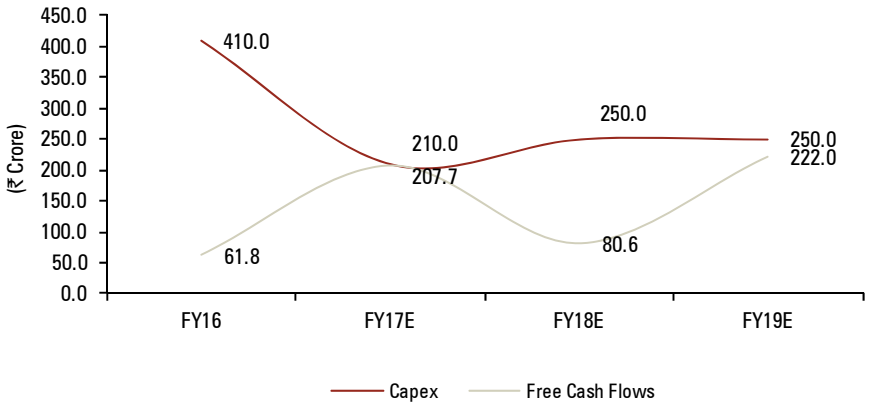


Source: ICICIdirect.com Research

Strong cash flow generation, capex to be funded through internal accruals

The company has outlined a capex of ₹ 320 crore towards increasing the OF capacity to 30.0 mn fibre km and is well placed to fund the capex through internal accruals owing to strong cash flow generation. STL has a strong focus on the services arm, which does not require any major capex other than working capital requirements for projects, which is at ~30% of project costs. We expect the company to post a strong free cash flow of ₹ 510.3 crore cumulatively in FY17E-19E. We expect cumulative capex of ₹ 710.0 crore over the same period.

Exhibit 25: Capex and free cash flows trend



Source: ICICIdirect.com Research

The balance sheet situation has substantially improved for STL post the demerger of its power business. The net debt to equity improved from 4.5x pre-demerger to 1.4x post demerger leading to a consequent reduction in the interest burden from ₹ 327.0 crore to ₹ 113.0 crore. We expect STL to incur interest costs to the tune of ₹ 147.4 crore in FY19E. The reduced interest burden and strong earnings growth are expected to lead to 26.2% PAT CAGR in FY16-19E to ₹ 303.7 crore.

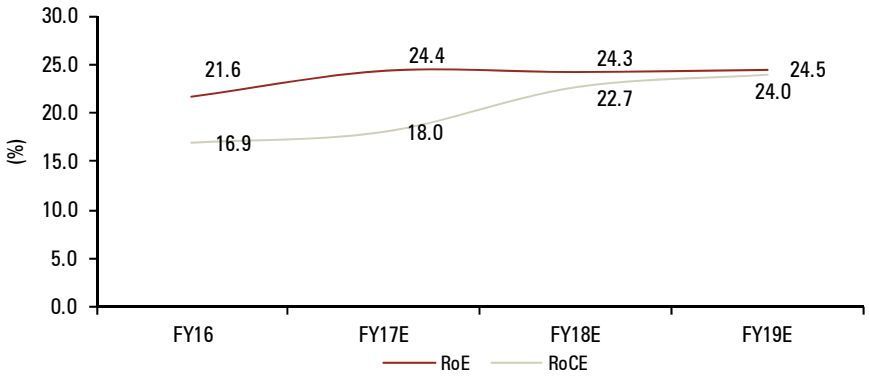
Return ratios to improve, stable dividend policy in place

The management has a strong focus on the services segment, which is low capital intensive in nature with only working capital requirement of ~30% of project costs. The same is funded through internal accruals. Though the services segment is a low EBITDA margin segment in nature with margins in the range of ~11%, absolute EBITDA generation is accretive to the return ratios of the company.

In addition, the company has a stated dividend policy of distributing ~30% of its net profit as dividend to its shareholders that is again return ratio accretive. We factor in a total outflow on account of dividends of ₹ 75.2 crore and ₹ 89.3 crore in FY18E and FY19E, respectively.

We expect the return on net worth (RoE) and return on capital employed (RoCE) to inch upwards to 24.5% and 24.0% in FY19E from 21.6% and 16.9% in FY16, respectively.

Exhibit 26: Return ratios trend upwards



Source: Company, ICICIdirect.com Research

Risk & concerns

Delay in execution of projects

Though the company has a strong order book profile with ₹ 2674 crore, delay in execution of projects leads to deferral of revenues. Hence, this is a risk to our revenue estimates. The delay could be due to any hurdles faced by the company in the project site or any other force majeure events. Revenues from the services segment are expected at ₹ 810.0 crore in FY18 and ₹ 1022.6 crore in FY19E. Thus, an execution delay could lead to downside risk to our estimates. Nevertheless, we have been conservative in our estimates. There could also be upside risks in case of speedy execution.

Lower-than-expected order inflows

Revenues from the services segment are based on assumptions with regard to the expected order book inflow and execution rate. The management expects the order book to double from current levels owing to the expected positive outcome from some bids in which it participated in various government contracts. The company has participated in bids worth ₹ 10000 crore till now and awaits the outcome of those bids. We note that we have built in order inflow estimates of ₹ 1200.0 crore and ₹ 1500.0 crore in FY18E and FY19E, respectively. Therefore, lower than estimates inflows may impact our revenue estimates.

Telecom space competitiveness may lower investments by Indian telcos

The Indian telecom space is undergoing a bloodbath in terms of data and voice realisations, which is affecting the profitability of players and leading to further stretched financials. In such times, Indian telecom operators could exercise restraint in their network capex. This will pose a downside risk to our OFC estimates and, hence, consolidated revenues. We have built in conservative estimates for cable volume sold at 6.0, 8.0, 9.8 mn fibre km in FY17E, FY18E, and FY19E, respectively. We highlight that current intensity of competition makes it difficult to forecast the fortune of players with certainty. The situation can turn out to be worse.

Sensitive to realisation rate OF/OFC

Prices of OFC are a derivative of OF prices, which are at an increasing rate owing to global preform shortage. Spot OF prices have begun to reflect the trend with a steep increase in spot prices to as high as $8.0. STL enters into long term contracts with vendors and is relatively insulated from changes in spot prices. There would, however, be downside/upside risks to revenues once prices reduce/jump up structurally.

Technology Risks

The company is exposed to direct as well as indirect technology risks. There could be a drop in the product demand as the telcos begin to share the fibre network in line with the other passive infrastructure being shared in the network infrastructure. Moreover, the evolution of any cheaper alternative to the OF/OFC, over the long term could impose a risk on the demand situation for the products of the company.

Valuation

Sterlite Technologies is a story of a company moving towards a "leaner" organisation by demerging its "capex intensive" power business and focusing on rising data growth and digitisation of the economy. The residual business is a superior proposition with stronger balance sheet, higher cash flow visibility and return ratios.

To put this into perspective, the company commands a leadership in the telecom infrastructure (residual) business and enjoys a healthy ~40% market share in the domestic optical fibre market. The strong leadership was evident through healthy revenue growth in the telecom business at 28.2% CAGR in FY12-16, with margin expansion from 17.1% in FY12 to 21.5% in FY16. The residual business enjoys a healthy RoCE of ~18% (FY16). This is likely to witness an expansion as the services segment moves to speedy execution.

Going ahead, the company would also benefit from its transformation from manufacturing play to end-to-end broadband infrastructure providing software and value added solution & services. This is likely to open up opportunities in the OSS and BSS segment from telecom operators. Furthermore, the company's system and network integration (SI/NI) would provide opportunities in the network for spectrum (NFS) and Smart Cities initiatives.

In valuation terms, the company is available at inexpensive valuations of 7.1x FY19E EV/EBITDA. **We highlight that the company, over the last decade, has commanded average one year forward EV/EBITDA multiple of ~9x, taking into account the capex heavy power transmission business, which was a drag on overall profitability.**

We value the company on SoTP basis to capture the superior attractiveness of the services segment, which would be return ratios accretive. We value the services segment at 9x FY 19E EV/EBITDA (higher multiple to account for superior RoCEs), product segment at 8x FY19E EV/EBITDA (cash cow business with strong leadership) and software business at 1x FY19E EV/Sales, to arrive at SoTP based target price of ₹ 140/share.

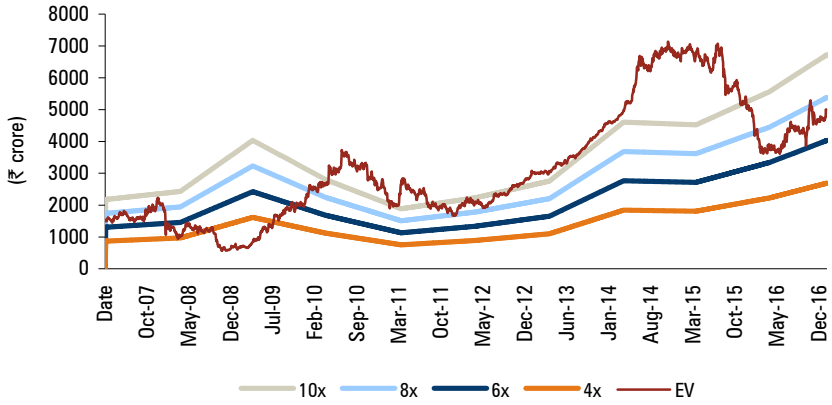
Given the robust growth potential (topline and earnings CAGR of 24.3% and 26.1% in FY16-19E) and expansion in return ratios, we initiate coverage on the company with a **BUY** rating.

Exhibit 27: Valuations

Particulars	FY19E EBITDA	EV	Rationale
Product business	674.1	5392.4	8x FY19E EV/EBITDA
Software	44.4	312.8	1x FY19E Sales (in line with deal valuation)
Services	105.1	946.0	9x EV/EBITDA (being a superior ROCE generating business)
EV		6651.3	
Net Debt		1092.7	
Target Market Cap		5558.6	
Per share value		140	

Source: ICICIdirect.com Research

Exhibit 28: EV/EBITDA



Source: ICICIdirect.com Research

Supplier to domestic peers; commands superior margins…

We note that there is no comparable peer for STL in the domestic market as it remains the only backward integrated player. Players like Vindhya Telelinks, Aksh Optifibre, etc, source their optic fibre requirement from Sterlite, which manufactures optic fibre from preform at its facility. Consequently, the company is able to earn superior margins compared to its peers.

Exhibit 29: Domestic peer comparison

	Sterlite Technologies	Vindhya Telelinks	Aksh Optifibre
Total Revenues (FY 16 ₹ Crore)	2,160.8	1,016.1	448.78
Revenue CAGR (FY14-16) (%)	37.2	48.8	37.1
Products as a % of sales as on FY16	84.0	50.0	90
EBIT Margin of the product business (%)	~19-20	16.8	14.3
RoCE (FY16) %	16.9	22.5	7.8

Source: ICICIdirect.com Research

YOFC closest global peer

In the global market, the company's peers include Prysmian group, Fujikura, Corning Inc and YOFC. While for the first three companies, the telecommunication segment ranges from 15-25% of the business respectively, YOFC is the closest global competitor with a pure play on telecom infrastructure.

We can clearly see that STL, despite its superior growth prospects in revenues (24.3% CAGR in FY16-19E vs. YOFC's 16.6%) and operating profitability (margins of ~19.7% in FY19E vs. 13.4% for YOFC), is available at a relatively cheaper valuations of 7.2x FY18 EV/EBITDA vs. YOFC's FY18E EV/EBITDA multiple of 7.7x.

Exhibit 30: Global peer comparison

Particulars	YOFC	Sterlite (₹ Crore)
Revenue CAGR (FY16-19E) %	16.6	24.3
EBITDA CAGR (FY16-19E) %	17.8	21.8
EBITDA Margin % FY16/19E	13.0/13.4	20.9/19.7
ROE% FY16/19E	17.9/22.7	21.6/24.7
EV/EBITDA (x) FY16/18E	9.8/7.7	11.1/7.2

Source: ICICIdirect.com Research

Exhibit 31: Idirect vs. Consensus

₹ crore	Consensus	I-Direct	Deviation over consensus (%)
Revenues			
FY17E	2572.1	2621.2	1.9
FY18E	3281.7	3568.2	8.7
FY19E	3795.7	4189.1	10.4
EBITDA			
FY17E	511.3	529.2	3.5
FY18E	673.7	703.9	4.5
FY19E	767.5	823.6	7.3
PAT			
FY17E	183.5	207.6	13.2
FY18E	241.5	248.7	3.0
FY19E	288.5	303.7	5.3

Source: ICICIdirect.com Research

Financial Summary

Exhibit 32: Income statement

(Year-end March)	FY16	FY17E	FY18E	FY19E
Total operating Income	2,160.8	2,652.8	3,568.2	4,189.1
Growth (%)	33.5	22.8	34.5	17.4
Cost of raw materials	970.3	1,034.0	1,548.6	1,838.9
Employee Expenses	210.8	302.0	388.0	466.7
Administrative Expenses	527.5	787.6	927.7	1,059.9
Total Operating Expenditure	1,708.7	2,123.7	2,864.3	3,365.5
EBITDA	452.1	529.2	703.9	823.6
Growth (%)	-14.2	17.0	33.0	17.0
Depreciation	130.9	152.0	178.4	209.5
Interest	113.3	142.6	147.4	147.4
Other Income	12.8	27.4	27.9	29.0
Exceptional Items	-	-	-	-
PBT	220.8	262.0	406.0	495.7
Minority Interest	-	15.2	21.7	26.5
PAT from Associates	(6.1)	(2.7)	-	-
Total Tax	63.7	36.4	135.6	165.5
PAT	151.1	207.6	248.7	303.7
Growth (%)	-32.8	37.4	19.8	22.1
EPS (₹)	3.8	5.2	6.2	7.6

Source: Company, ICICIdirect.com Research

Exhibit 33: Balance sheet

(Year-end March)	FY16	FY17E	FY18E	FY19E
Liabilities				
Equity Capital	79.0	79.0	79.0	79.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserve and Surplus	619.8	771.0	944.5	1,158.9
Total Shareholders funds	698.9	850.1	1,023.5	1,237.9
Total Debt	1,089.0	1,189.0	1,189.0	1,189.0
Others	187.1	202.4	224.1	250.6
Total Liabilities	1,975.0	2,241.4	2,436.6	2,677.5
Assets				
Gross Block	2,003.9	2,213.9	2,463.9	2,713.9
Less: Acc Depreciation	857.7	1,009.7	1,188.1	1,397.6
Net Block	1,146.2	1,204.1	1,275.7	1,316.3
Capital WIP	174.0	174.0	174.0	174.0
Total Fixed Assets	1,320.1	1,378.1	1,449.7	1,490.2
Investments	1.6	1.6	1.6	1.6
Inventory	215.5	261.4	355.9	401.7
Debtors	702.8	809.9	1,124.2	1,331.3
Loans and Advances	182.8	199.5	244.5	258.3
Other Current Assets	135.4	156.0	180.6	212.0
Cash	80.8	204.9	84.6	96.3
Total Current Assets	1,317.3	1,631.8	1,989.7	2,299.6
Creditors	370.1	448.9	611.0	700.1
Provisions	96.9	105.8	144.0	165.0
Other current liabilities	198.4	216.6	250.7	250.1
Total Current Liabilities	665.4	771.4	1,005.7	1,115.3
Net Current Assets	651.9	860.4	984.0	1,184.4
Other non current assets	1.4	1.4	1.4	1.4
Application of Funds	1,975.0	2,241.5	2,436.7	2,677.6

Source: Company, ICICIdirect.com Research

Exhibit 34: Cash flow statement

(Year-end March)	FY16	FY17E	FY18E	FY19E
Profit after Tax	151.1	207.6	248.7	303.7
Add: Depreciation	130.9	152.0	178.4	209.5
Add: Interest paid	113.3	142.6	147.4	147.4
(Inc)/dec in Current Assets	-320.9	-190.5	-478.2	-298.2
Inc/(dec) in CL and Provisions	94.4	106.0	234.3	109.6
Others	38.0	0.0	0.0	0.0
CF from operating activities	206.6	417.7	330.6	472.0
(Inc)/dec in Investments	218.6	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-222.6	-210.0	-250.0	-250.0
Others	-140.8	0.0	0.0	0.0
CF from investing activities	-144.8	-210.0	-250.0	-250.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/Dec in Minority Interest	1.8	15.2	21.7	26.5
Issue of Preference Shares	0.0	0.0	0.0	0.0
Inc/(Dec) in loan funds	74.5	50.0	-	-
Interest paid	(113.3)	(142.6)	(147.4)	(147.4)
Others	-44.8	-6.4	-75.2	-89.3
CF from financing activities	-81.8	-83.7	-200.9	-210.2
Net Cash flow	-19.9	124.0	-120.3	11.8
Opening Cash & cash equivalents	60.9	80.8	204.9	84.6
Closing Cash & cash equivalents	80.8	204.9	84.6	96.3

Source: ICICIdirect.com Research

Exhibit 35: Ratio analysis

(Year-end March)	FY16	FY17E	FY18E	FY19E
Per share data (₹)				
EPS	3.8	5.2	6.2	7.6
Cash EPS	7.1	9.0	10.7	12.9
BV	17.7	21.3	25.7	31.1
DPS	1.2	1.4	1.9	2.2
Cash Per Share	21.7	25.4	29.8	35.1
Operating Ratios (%)				
EBITDA Margin	20.9	20.2	19.7	19.7
EBIT Margin	14.9	14.4	14.7	14.7
PAT Margin	7.0	7.9	7.0	7.2
Inventory days	36.4	36.4	36.4	35.0
Debtor days	118.7	112.8	115.0	116.0
Creditor days	62.5	62.5	62.5	61.0
Return Ratios (%)				
RoE	21.6	24.4	24.3	24.5
RoCE	16.9	18.0	22.7	24.0
RoIC	16.8	18.1	21.6	23.1
Valuation Ratios (x)				
P/E	31.4	23.0	19.2	15.7
EV / EBITDA	12.8	10.9	8.4	7.1
EV / Net Sales	2.7	2.2	1.6	1.4
Market Cap / Sales	2.2	1.8	1.3	1.1
Price to Book Value	6.8	5.6	4.7	3.9
Solvency Ratios				
Debt/EBITDA	2.4	2.2	1.7	1.4
Debt / Equity	1.6	1.4	1.2	1.0
Current Ratio	2.6	2.6	2.5	2.5
Quick Ratio	2.2	2.1	2.1	2.1

Source: Company, ICICIdirect.com Research

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