Sterlite Technologies Ltd - BUY

Robust performance

Sterlite Technologies Ltd (STL) Q3 FY17 topline performance was better than our estimate owing to stronger than expected pickup across especially in optic fibre cables (OFC) segment. While optic fiber (OF) volumes grew by 26% yoy, cable volumes witnessed strong traction and grew by 17% during the same period. The increased capacity in the optic fibre segment along with strong demand aided volumes. Inline with the strong topline performance, the company also witnessed improvement in operating margins which stood at 19% levels. STL expects cable business to further pick up from current levels. The current order book of STL has increased 15% qoq to Rs.27 bn. STL is witnessing strong traction in its high margin fibre segment and plans to ramp up its fibre capacity to 30 mn fkm by mid FY18. The Company is already operating at maximum utilization despite its enhanced capacity of 27 mn fkm owing to strong global demand. We remain positive on the growth prospects of STL and believe it is in a strong position to capitalize on the opportunity arising from Global demand, 4G roll out by telcos and Governments BharatNet program. We have increased our estimates marginally to factor in the improved offtake in OFC segment. We maintain our BUY rating on the stock for revised target price of Rs.136 (9.5x FY19E EV/EBITDA).

Performance to remain robust during the next few years

STL reported better than expected performance across all fronts. While the fibre business continued to do well, OFC segment also witnessed traction. The revenues contribution from exports stood at ~40% during the quarter. STL has consistently managed to grow its order book on qoq basis and is well on track to deliver superior growth. Being the market leader and with economies of scale coming through, we expect operating performance to be robust with margins at ~20% during next few years.

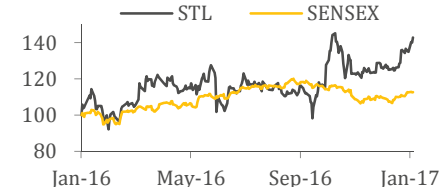
Analyst: Alok Deora, Lokesh Kashikar

CMP (Rs) 109	12-mts Target (Rs) 136	Upside 24.3%

Stock data (As on January 18, 2016) — **Sector: Diversified**

Sensex:	27,258
52 Week h/l (Rs):	115/ 59
Market cap (Rs mn) :	43,344
Enterprise value (Rs mn):	52,520
6m Avg t/o (Rs mn):	90
FV (Rs):	2
Div yield (%):	0.4
Bloomberg code:	SOTL IN
BSE code:	532374
NSE code:	STRTECH

Stock performance



Shareholding pattern (%)

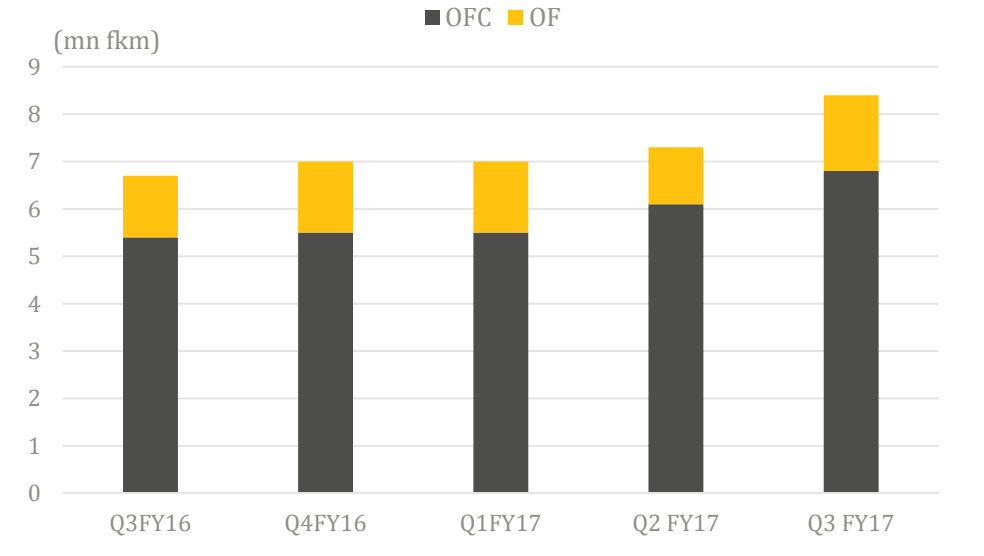
Promoter	54.5
FII+DII	17.2
Others	28.3

Figure 1: Result table (Cons.)

Y/e 31 Mar (Rs mn)	Q3 FY17	Q3 FY16	% yoy
Revenue	**7,323**	**5,956**	23.0
Operating Profit	1,405	1,073	30.9
OPM(%)	**19.2**	**18.0**	**117 bps**
Other Income	46	82	(44.6)
Depreciation	(409)	(363)	12.6
Interest	(301)	(326)	(7.8)
Exceptional item	-	-	-
PBT	741	466	59.0
Tax	(197)	(122)	62.0
PAT	544	345	58.0
Minority Interest	(53)	(42)	25.0
Adjusted PAT	**491**	**302**	62.6

Source: Company, IIFL Research

Figure 2: Optic Fibre and cables witness strong growth



Source: Company, IIFL Research

Management Concall highlights:

- During Q3FY17, STL has witnessed 74% jump in international revenue mainly driven by increased demand from Chinese and European region. Going ahead, the management expects 4G network upgradation and increasing pan-China connectivity to drive demand from China. Planned telecom reforms by the European Commission and FTTx deployment will drive demand from European markets.
- STL has witnessed 15% qoq growth in its order book to ~Rs.27 bn. Services contributed 56% to the order book followed by product with 42% and software with 2%. The Company has added new orders worth ~Rs.10 bn during the quarter.
- STL expects strong growth in global OFC demand mainly driven by densification of network, FTTx and 5G trials, and expects global demand to reach 530+ mn fkm by FY20E in the base case.
- STL is expanding OF capacity to 30 mn fkm by mid FY18E from 27 fkm currently. The demand for OF remains very strong as is visible by the recent capacity addition operating at maximum utilizations.
- STL expects to incur capex of ~Rs.2.2 bn in FY17E and ~Rs.2 bn in FY18E with dividend payout at 30%. The company has incurred capex of ~1.7 bn during first nine months of FY17.
- 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 further increase its capacity utilization.

Valuation and Recommendation

STL performance has delivered strong performance across its product lines and the outlook continues to remain positive. The rising demand from end use segments and the incremental capacity of Optic fibre coming onstream would ensure strong topline and earnings performance in the coming years. The rising contribution of services segment would aid the overall revenues in coming period. **With increased capacity we expect STL to deliver strong topline growth. The market leadership position would ensure strong profitability and higher ROE during next few years. We maintain a BUY rating on the stock with a target of Rs.136, which implies a potential upside of 24% (9.5x FY19E EV/EBITDA)**

Figure 3: Financial summary (Cons.)

Y/e 31 Mar (Rs m)	FY16	FY17E	FY18E	FY19E
Revenues	2,161.0	2,435.4	2,943.9	3,440.1
yoy growth (%)	33.5	12.7	20.9	16.9
Operating Profit	465.0	472.5	575.8	646.0
OPM (%)	21.5	19.4	19.6	18.8
Reported PAT	150.6	178.8	205.3	256.6
yoy growth (%)	27.4	18.8	14.8	25.0
EPS (Rs)	3.8	4.5	5.2	6.4
P/E (x)	28.5	24.3	21.1	16.9
EV/EBITDA (x)	11.0	11.1	9.2	8.1
Debt/Equity (x)	1.1	1.2	0.9	0.7
RoE	22.7	22.2	20.9	21.1

Source: Company, IIFL Research

IIFL Wealth Research bags 2 Best Analyst Awards

IIFL Wealth Research has bagged two prestigious awards at the ***Zee Business Market Excellence Awards 2016***.

Prayesh Jain was conferred the Best Analyst Award for Auto sector and **Bhavesh Gandhi** bagged the Best Analyst Award for Pharma sector.

Besides the twin awards, IIFL Wealth Research was also nominated in the categories of Oil/Gas, Banking and Industrials.

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In the past, the research team has won Zee Biz Awards under different categories; Bloomberg has rated our research as the most accurate, while we have twice been winners of Business Standard Smart Portfolios, having received awards at the hands of luminaries including President Pranab Mukherjee, Prime Minister Narendra Modi and Minister of State Piyush Goyal.

Recommendation parameters for fundamental reports:

Buy = >15%+

Accumulate = 5% to 15%

Reduce = -10% to 5%

Sell = >-10%

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