Sterlite Technologies INR 109

Q3 outperforms on robust volumes and execution BUY

Key Result Highlights

(i) Order book increased 15% qoq in Q3 FY17 at INR 26,740 Mn on the back of INR 10,000 Mn worth of new orders during the quarter.
(ii) Launch of Gandhinagar Smart City project
(iii) Fiber capacity expanded to 27 Mn fkm on annualized basis, capacity expansion to 30 Mn fkm by H2 FY18E.

Robust performance on the back healthy volumes and efficient execution

SOTL reported a revenue of INR 7,323 Mn in Q3 FY17, which was 28% above our estimates largely due robust volume growth, healthy realizations in the Optic Fiber (OF) and Optic Fiber Cable (OFC) space and efficient project execution. Revenue improved largely on account of NOFN project execution (SOTL supplied 1/3rd of product requirements for 100,000 villages), resumption of Kashmir project and improved utilization levels. EBITDA stood at INR 1,405 Mn, which was 21% above our estimates and reported a growth of 38% qoq and 33% yoy. PAT stood at INR 491 Mn, 26% above our estimates and reported at 19% yoy growth. SOTL added 4 countries to it's geographic portfolio, thereby increasing the number of countries it caters to over a 100. Order inflows were robust with INR 10,000 Mn worth of order bookings in Q3 FY17, taking the total order book to INR 26,740 Mn.

Expect momentum of OF & OFC volume growth to sustain on the back of strong demand environment

Optic Fiber volumes were up 11% qoq at 6.8 Mn fkm, achieving the highest ever OF volumes. OFC volumes stood at 1.8 Mn fkm, up 33% qoq, indicating higher OFC off-take domestically and globally. Expect volume growth momentum to continue due to robust demand for OF and OFC in the global market as new networks are laid out for transformation from 3G to 4G and increasing number of data centers which are closer to point of consumption. As far as domestic markets are concerned, company is confident of order inflows on account of NOFN project, Defense projects (NFS), non-spectrum capex by telecos and improving software business.

Key Concall Highlights: (i) Executed 7,000 Mn worth orders in Q3 and added INR 10,000 Mn worth new orders (ii) Completed INR 1600 Mn of the expected INR 2200 Mn capex for FY17E (iii) Order inflow momentum is sustainable due to healthy demand environment (iv) Software business (as under EliteCore) is recorded annual revenue run rate of INR 2,000 Mn, an increase of 33% from when it was acquired (v) Expected annual maintenance revenue of ~INR 850 Mn from completed smart city projects by SOTL

Valuation and view

We expect the company to deliver consistent performance through Q4 FY17 and FY18 on the back of speedy execution of order book, pick-up in network capex by telecos, robust domestic and global demand for OF and OFC and new order wins in product, services and software business. We have a BUY rating on the stock and apply a PE multiple of 20x its FY18E EPS to arrive at price target of INR 142 which gives an upside of 30% from current levels.

Exhibit 1: Key Financials

Particulars	FY15	FY16	FY17E	FY18E
Revenue (in INR. Mn)	16190	21,608	26,571	35,682
EBITDA Margin (%)	20.8%	20.9%	20.7%	20.5%
Net profit Margin (%)	7.4%	7.3%	7.2%	8.1%
EV/EBITDA (x)	18.9	8.0	7.5	6.2
EPS (In INR)	3.0	3.8	4.7	7.1
P/E (x)	36.4	28.4	23.4	15.4

Source: Company data, KRChoksey Research

Target Price (INR): 142
Potential Upside : 30%

Market Data	
Shares outs (Mn)	398
Equity Cap (INR Mn)	796.4
Mkt Cap (INR Mn)	42528
52 Wk H/L (INR)	113/56
Volume Avg (3m K)	1038
Face Value (INR)	2
Bloomberg Code	SOTL IN

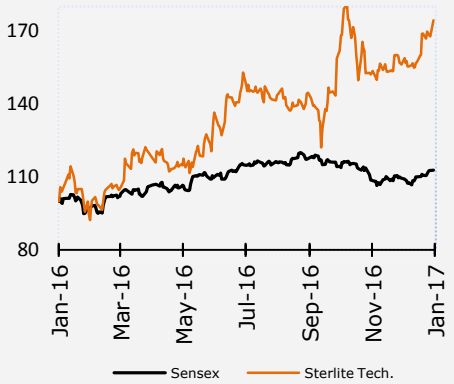
As on 18th Jan, 2017

Market Info:

SENSEX	27236
NIFTY	8398

As on 18th Jan, 2017

Share Price Performance



Share Holding pattern (%)

Particulars	Dec16	Sep16	Jun16
Promoters	54.5	54.54	54.75
IIs	5.92	4.11	3.9
Public	11.22	12.04	11.92
Others	28.36	29.32	29.45
Total	100	100	100

Source: BSE

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Exhibit 2: Quarterly Result Analysis

INR Mn	Q3 FY16	Q2 FY17	Q3 FY17E	Y-o-Y	Q-o-Q	Q3 E	Deviation
Sales	5,402	5,507	7,323	35.6%	33.0%	5,720	28.0%
EBITDA	1,057	1,017	1,405	32.9%	38.1%	1,164	20.7%
Net Profit	413	561	491	19.0%	-12.4%	391	25.6%
OPM (%)	19.57%	18.47%	19.19%	*-38*	*71*	*20.4%*	*-117*
NPM (%)	7.64%	10.18%	6.71%	*-94*	*-348*	*7%*	*-13*

Source: Company data, KRChoksey Research

- Expect interest cost to maintain run rate similar to Q3 FY17 of INR 300 Mn going ahead
- Profitability improved on account of higher execution and improved utilization
- OF realizations were in the range of USD 6.5 – 7.5 per fkm and short of spot prices of USD 8 per fkm globally as SOTL functions on long term contracts. However, going ahead, we expect gap between SOTL's realizations and global prices to narrow.
- Order book in Q2 FY17 stands at 26,740 Mn, of which 56% was contributed by Services, 42% by products and 2% by software
- Company has guided that it has no plans of increasing debt levels going further

Exhibit 3: Profit & Loss Statement

Particulars (In INR Mn)	Mar 15	Mar 16	Mar 17E	Mar 18E
Net sales	**16190**	**21,608**	**26,571**	**35,682**
Growth (%)	41.0%	33.5%	23.0%	34.3%
Operating expenses	12,821	17,087	21,071	28,367
EBITDA	**3,369**	**4,521**	**5,500**	**7,315**
Margins %	20.8%	20.9%	20.7%	20.5%
Depreciation	960	1,309	1,621	2,105
Other income	80.9	128.1	159	232
EBIT	**2,409**	**3,212**	**3,879**	**5,210**
Finance cost	750	1132.5	1,382	1,499
Profit before tax	**1,740**	**2,208**	**2,657**	**3,943**
Tax	550	637	744	1,065
Profit / (Loss) for the period	**1,190**	**1,571**	**1,913**	**2,878**
Minority Interest	-	60.8	65	70
Reported Profit / (Loss)	**1,190**	**1,511**	**1,848**	**2,808**
Adjusted net profit	**1,190**	**1,511**	**1,848**	**2,808**
Margin %	7.4%	7.3%	7.2%	8.1%

Source: Company data, KRChoksey Research

Exhibit 4: Balance Sheet

Particulars (In INR Mn)	Mar 15	Mar 16	Mar 17E	Mar 18E
Share capital	788	790	790	790
Reserves & surplus	10,081	6,198	8,171	10,755
Shareholders' funds	**10,869**	**6,989**	**8,961**	**11,545**
Minority Interests and others	4,321	312	333	418
Non-current liabilities	**46,156**	**6,526**	**7,601**	**8,455**
Long-term borrowings	44,359	4,686	5,271	5,567
Other non-current liabilities	1,797	1,840	2,330	2,888
Current liabilities	**22,576**	**12,578**	**14,121**	**15,867**
Short term borrowings	6,219	3,573	4,023	4,697
Other current liabilities	16,358	9,005	10,098	11,169
Total (Equity and Liabilities)	**83,922**	**26,404**	**31,016**	**36,285**
Non-current assets	**64,290**	**14,014**	**17,284**	**21,156**
Fixed assets (Net block)	62,478	13,201	16,368	20,007
Long-term loans and advances	1,335	737	832	1,044
Other non-current assets	477	76	83	104
Current assets	**19,632**	**12,390**	**13,733**	**15,129**
Cash & current investment	4,347	808	416	445
Other current assets	15,284	11,582	13,316	14,684
Total (Assets)	**83,922**	**26,404**	**31,016**	**36,285**
Total debt	50,578	8,258	9,294	10,265
Capital employed	67,565	17,399	20,918	25,115

Source: Company data, KRChoksey Research

Exhibit 5: Ratio Analysis

Particulars (%)	Mar 15	Mar 16	Mar 17E	Mar 18E
Adjusted EPS (INR)	3.0	3.8	4.7	7.1
EPS (INR)	3.0	3.8	4.7	7.1
Book Value/share (INR)	27.3	17.7	22.6	29.1
Dividend/share (INR)	0.3	1.2	1.6	2.1
Dividend payout Ratio	11.7	31.0	32.0	32.0
EBITDA margin (%)	20.8	20.9	21.0	20.8
EBIT margin (%)	15.4	15.5	15.5	15.7
Tax rate (%)	31.6	28.8	28.0	27.0
RoCE (%)	7.4	7.9	22.4	23.7
Total debt/Equity (x)	4.6	1.1	1.0	0.9
Net debt/Equity (x)	4.2	1.0	1.0	0.8
Du Pont Analysis - ROE				
Net margin (%)	7.4	7.0	7.1	7.4
Asset turnover (x)	0.4	0.4	1.0	1.0
Leverage factor (x)	7.7	6.2	3.6	3.3
Return on equity (%)	21.9	16.9	24.7	25.2
Price Earnings Ratio (x)	36.4	28.4	23.4	15.4
PCE	8.2	10.2	9.6	7.6
Price/Book Ratio (x)	1.6	4.1	3.9	3.0
Yield (%)	0.7	1.6	1.8	2.4
EV/EBITDA (x)	18.9	8.0	7.5	6.2
EV (INR)	63,826	36,151	43,801	44,743
EV/Sales (x)	3.9	1.7	1.6	1.3

Source: Company data, KRChoksey Research

Exhibit 6: Cash Flow Statement

Particulars (In INR Mn)	Mar 15	Mar 16	Mar 17E	Mar 18E
Profit before tax	**1,740**	**2,208**	**2,657**	**3,943**
Depreciation	960	1,309	1,621	2,105
Change in working capital	(156)	(2,877)	(657)	(416)
Total tax paid	(77)	(620)	(645)	(820)
Others	669	1,004	1,332	1,583
Cash flow from operation (a)	**3,137**	**1,025**	**4,524**	**6,002**
Capital expenditure	(63,438)	47,968	(4,832)	(5,657)
Change in investments	(588)	588	0	0
Others	(396)	529	132	205
Cash flow from inv. (b)	**(64,423)**	**49,086**	**(4,700)**	**(5,452)**
Free cash flow (a+b)	**(61,286)**	**50,111**	**(176)**	**549**
Equity raised/(repaid)	788	2	0	0
Debt raised/(repaid)	50,578	(42,319)	1,035	971
Dividend (incl. tax)	(139)	(468)	(631)	(827)
Others	13,819	(10,276)	(620)	(664)
Cash flow from fin. (c)	**65,045**	**(53,061)**	**(216)**	**(520)**
Net chg in cash (a+b+c)	**3,759**	**(2,951)**	**(392)**	**29**

Source: Company data, KRChoksey Research

Sterlite Technologies			
Date	CMP (INR)	TP (INR)	Recommendation
19-Jan-17	109	142	BUY
28-Oct-16	106	133	BUY

Rating Legend	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% - 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than -5%

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