

# Sterlite Technologies Ltd



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**“Overall performance dragged by slowdown in fiber demand”**

CMP INR 125	Target INR 190	Market Cap (INR Mn) 50375	Recommendation BUY	Sector IT/Telecom
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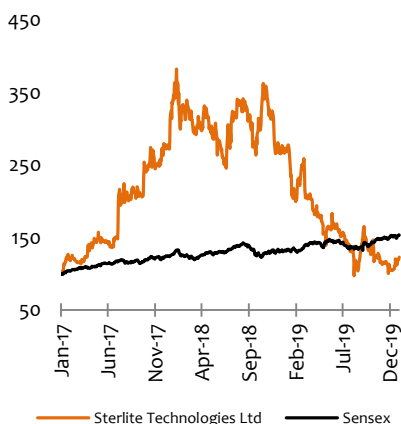
## Result highlights

- STL's revenue in Q3FY20 stood at INR 12027 Mn, which was down 10% YoY (down 12% QoQ), decline in revenue was due to subdued performance from products business.
- Cost of raw material % of revenues has decreased by 277bps to 46.79% in Q3FY20 from 49.56% in 3FY19. The gross margin was flat YoY to 52.70% and improved by 70 bps QoQ on better raw material price negotiations and cost management.
- Consolidated EBITDA declined by 17.86% YoY (and down 16.32% QoQ) to INR 2414 Mn, whereas EBITDA margin contracted by 194bps YOY (and 114bps QOQ) to 20.07% (vs. our estimates of 20.74%). Decline in EBITDA margin YOY was on account of lower utilisation and realization of fiber.
- Order book stood at INR 85350 Mn higher sequentially. The order book consists of 40% of Teleco, 30% from Enterprise, 29% Citizen Networks and 1% Cloud player.
- Net profit after tax stood at INR 526 Mn, down by 63.85% YoY and 67.02% QoQ, on account of higher depreciation, interest cost and exceptional item of INR 507 Mn provided for disputed excise matter.

## MARKET DATA

Shares outs (Mn)	403
Equity Cap (INR Mn)	807.76
Mkt Cap (INR Mn)	53009.30
52 Wk H/L (INR)	301/96
Volume Avg (3m K)	1940.54
Face Value (INR)	2
Bloomberg Code	SOTL IN

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	41932
NIFTY	12355

## SHARE HOLDING PATTERN (%)

Particulars	Dec-19	Sep-19	Jun-19
Promoters	53.65	53.67	53.82
FIIIs	4.94	5.73	5.58
DIIIs	6.11	7.03	7.33
Others	35.3	33.58	33.28
Total	100	100	100

## Key Financials

Particulars (INR Mn)	FY18	FY19	FY20E	FY21E
Net Sales	31,771	50,873	55,585	67,016
EBITDA	7,494	11,272	11,617	13,537
Adj. PAT	3685	5628	5212	6367
EBITDA Margin %	23.59	22.16	20.90	20.20
EBIT Margin%	17.85	18.32	16.00	15.34
PAT Margin %	11.60	11.06	9.38	9.50

Source: Company, KRChoksey Research

## Utilization is expected to pick up from current levels

For Q3FY20, STL recorded capacity utilization of 46% in OF (Capacity 50 mn fkm) and 76% in OFC (Capacity 18 mn fkm). The cable facility is at 18 mn fkm and currently expansion plan is on track to increase optical fiber cable capacity to 33 mn fkm by June 2020. We expect utilization to move upward from current level on back of visibility on demand front with 5G investments, IOT and domestic government led initiatives like digital India, Bharat Net and opportunities arising from global demand.

## Fiber realisations & Absolute EBITDA to improve

STL reported 10% YoY decline in topline to INR 12027 Mn on lower demand from product side, there was almost equal contribution of products and service business in topline. EBITDA contracted by 194bps to 20.07%, EBITDA margin was maintain during the quarter on the back of better margin in services business and better gross profit margin of 52.70% up 70 bps sequentially which offsets the impact of lower utilization and realizations. Management expects in short term absolute EBITDA to improve from current levels on cost reduction measures and incremental demand from new markets.

## Healthy order book status

Order book stood at INR 85350 Mn which is higher marginally 5% higher sequentially, with Network service comprises of 47980 Mn (56% of order book). Sequential growth in the order book was mainly due to Telangana T-fiber project. T-fiber project is to deliver digital infrastructure to 6 million rural citizens of Telangana and STL was awarded with total project value is INR 18000 Mn (30% of the value is O&M). Management expects growth visibility on order book front continues in Q4FY20 on account of investment by citizen networks and Enterprises in India. The order book consists of 40% of Teleco, 30% from Enterprise, 29% Citizen Networks and 1% Cloud player. STL is expanding in cloud segment through leveraging acquired capability, currently STL generates 2% of revenue from cloud segment.

## To strengthen its wireless portfolio STL acquired 12.5% stake in ASOCS

STL acquired 12.5% in ASOCS, to increase its presence in wireless segment. ASOCS is into virtual Radio Access Network (vRAN) and a provider of fully virtualized base station solutions for Enterprise and Telco-Network. STL and ASOCs to bring end to end capabilities for converged network (both wireless and wireline) to market. STL can offer full solution to its customers.

## ANALYST

 Praveen Motwani, [research2@krchoksey.com](mailto:research2@krchoksey.com), +91-22-6696 5421  
 Prathamash Masdekar, [support-research@krchoksey.com](mailto:support-research@krchoksey.com)+91-22-66965423

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## Concall Highlights

1. Global level telecommunications capex has paused because of 4G to 5G transition in FY19.
2. Global fiber demand has come down to 17% which was largely let by fall in china demand by 13% while U.S and Europe demand growth happen at 4% in 2019.
3. Commercial 5G services getting launches in key economics and are already underway across major markets such as China and US, followed by large scale 5G roll outs in Europe expected by 2020.
4. Global cloud companies are investing towards building massive Hyper scale & Edge data centres. In FY2020 Global cloud companies expected to grow around 20% to almost \$103Bn.
5. Indian Government launched National Broadband mission in Dec 2019 which aims to fast track growth of digital communication Infrastructure and provide universal Access of broadband Investment of 700,000crs in next 3 to 4 years.
6. Volume in Q3 in fiber has come down and currently running at 46% utilization for the expanded capacity of 50 mn fkm.
7. Cable volume remain intact and utilization in cable currently stands at 76% in cable capacity of 18 mn fkm and expected to close cable capacity to 33 mn fkm by June 2020.
8. New product launched are TruRiboon and stellar fiber.
9. New product revenue increased to total product revenue from 10% in FY2016 to 19% revenue in FY19.
10. In Q3FY20 EBITDA declined on account of lower volume and realization in optical fiber business.
11. Project NFS Indian Army Project in J&K is completed and moving into O&M. Project Varun Completed 65% of Indian Navy project and established the first ever Data Centre for Navy's seamless transition to new age applications and 55% of Mahanet project is completed.
12. Industry is seeing some plants shutting down globally and further capacity shut down will help in price stabilization.
13. STL awarded T-Fiber project to deliver digital infrastructure to 6 million rural citizens of Telangana.
14. Investments by Citizen Network and enterprises in India to continue grow STL order book in Q4FY20.
15. Margin in service business 17% (normalized 15-17%), product 20-21% (normalized 20-22%), so EBITDA will be around 18-20%
16. Realizations for OF is around \$6 and cables \$15.
17. Net Debt at INR 2078 Cr and no major capex in FY21.

## Attractive Valuations

We continue to maintain our positive stance on STL, given the strong visibility of demand in products and services business. STL is a global leader in end to end data network solutions design and deploy high capacity fiber and wireless network. We expect, STL to benefit from government push towards broadband connectivity, digital infrastructure, and roll out of 5G network which will require significantly more fiber than 4g along with ramping up of services business faster than expected. STL is set to capitalize on the demand as capacity of 50 Mn fkm in OF and 18 Mn fkm in OFC in place, OFC capacity is expected to double by June 2020. New entry into the markets like South east, Middle east and North America likely to generate incremental demand for products business. Further, we believe that demand landscape remains intact with increasing addressable market for STL. Given the current slowdown, we have revised our estimates and target price accordingly. We expect revenues/PAT to grow at a CAGR of 14%/6.37% over FY19-21E. AT CMP of INR 125 the stock is trading at PE of 9x on trailing EPS, and 8x FY21E EPS. We maintain an "BUY" rating on the stock and value the stock at 12x FY21E EPS of INR 15.80 with a target price of INR 190 (earlier 212).

## Exhibit 1: Quarterly Profit & Loss Statement

Particular INR (Mn)	Q3FY20	Q3FY19	YoY	Q2FY20	QoQ
Net Sales	12,027	13,349	-9.91%	13,597	-11.55%
Total Operating Expenditure	9612	10410	-7.66%	10712	-10.26%
EBITDA	2,414	2,939	-17.86%	2,885	-16.32%
EBITDA Margin (%)	20.07%	22.02%	194bps	21.22%	114bps
Less: Depreciation	701	512	36.77%	750	-6.61%
EBIT	1713	2427	-29.40%	2135	-19.74%
Less: Interest	557	274	103.39%	597	-6.68%
Add: Other income	60	104	-42.28%	91	-34.14%
Profit Before Tax & Exceptional items	1216	2257	-46.11%	1629	-25.33%
Exceptional items	507	0		0	
Profit Before Tax	709	2257	-68.58%	1629	-56.46%
Tax Expenses	191	760	-74.86%	33	473.87%
Profit after tax and before non-controlling interest	518	1497	-65.39%	1596	-67.53%
Non-controlling interest	-26	20	231.34%	-18	47.49%
Loss from discontinued operation	-18	-21	13.33%	-18	1.68%
Profit attributed to shareholders	526	1456	63.85%	1596	67.02%
EPS (INR.)	1.31	3.62		3.96	

Source: Company, KRChoksey Research

### ANALYST

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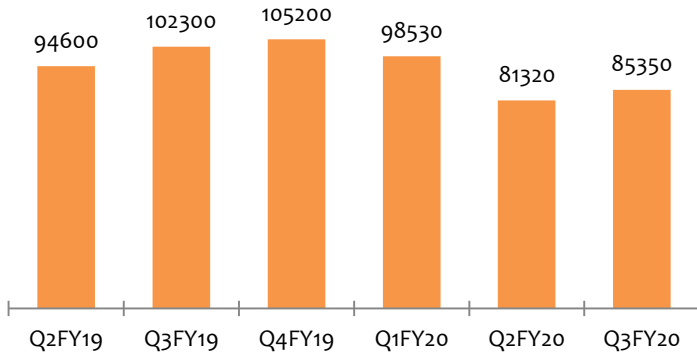
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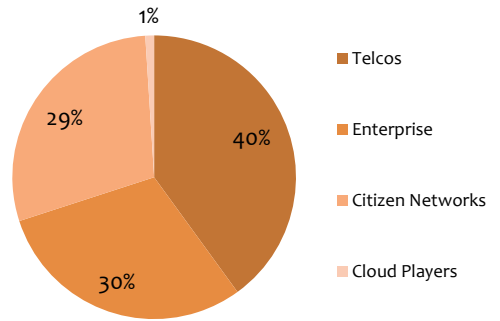
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**Order Book (INR Mn)**



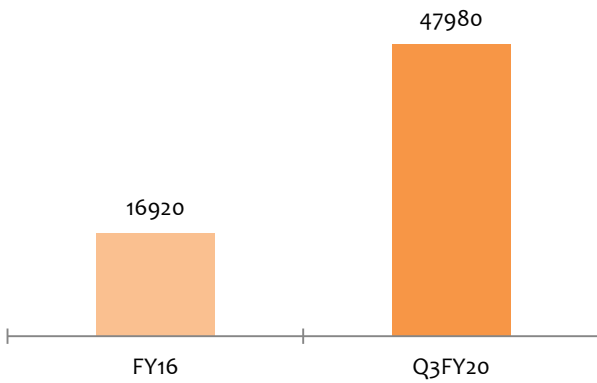
Source: Company, KRChoksey Research

**Order-book mix (Q3FY20)**



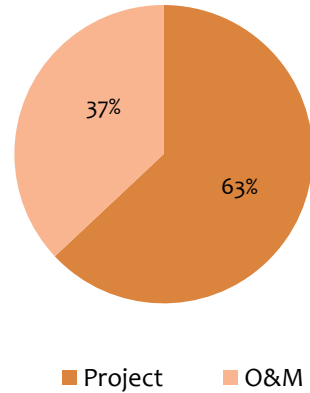
Source: Company, KRChoksey Research

**Network Services Order Book (INR Mn)**



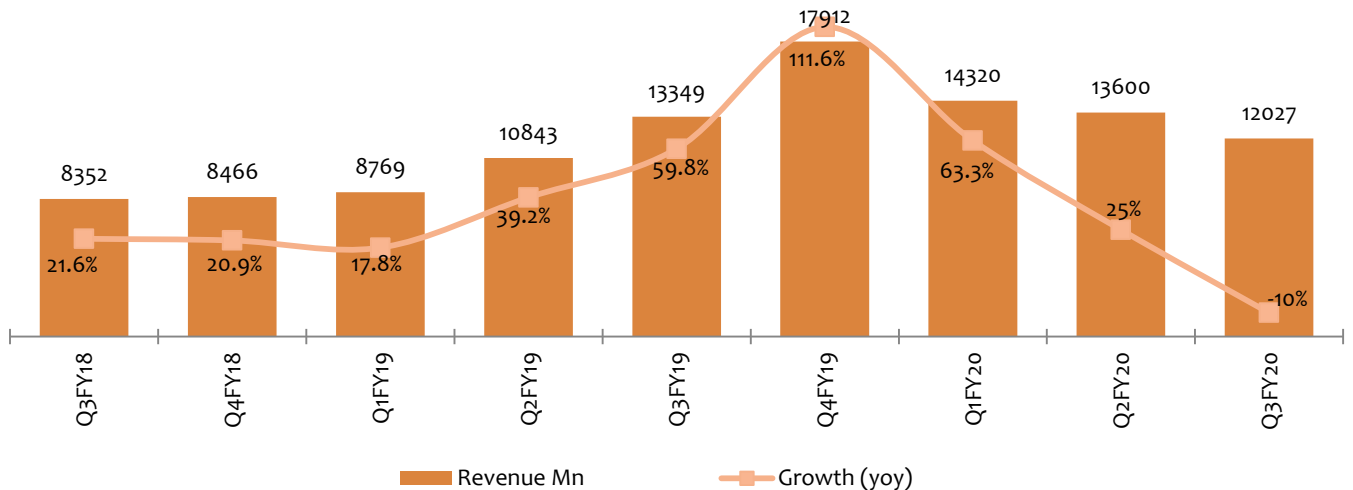
Source: Company, KRChoksey Research

**Order Book Split**



Source: Company, KRChoksey Research

**Revenue QoQ & Growth YoY**



Source: Company, KRChoksey Research

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## Income Statement

Particulars (INR Mn)	FY18	FY19	FY20E	FY21E
Net Sales	31,771	50,873	55,585	67,016
Total Operating Expenditure	24,278	39,601	43,968	53,479
EBIDTA	7,494	11,272	11,617	13,537
Less: Depreciation & Amortization	1,822	1,950	2,724	3,260
EBIT	5,671	9,322	8,893	10,277
Interest Paid	1,038	1,055	2,175	1,936
Non-operating Income	393	369	348	335
Profit Before tax	5,026	8,635	7,067	8,676
Tax	1,332	2,782	1,802	2,212
Adj. PAT	3685	5628	5212	6367
EPS	9.33	13.99	12.95	15.82

Source: Company, KRChoksey Research

## Balance Sheet

Particulars (INR Mn)	FY 18	FY19	FY20E	FY21E
Cash & bank	1,385	2,337	1,557	3,314
Debtors	8,672	13,549	12,335	15,239
Inventory	3,379	5,897	5,517	7,585
other current assets	6,127	17,999	18,511	22,112
Total Current Assets	19,562	39,781	37,919	48,250
Net Block	11,351	23,174	25,654	24,894
Other non-current assets	6,204	7,167	7,167.0	7,167
Total non-current assets	17,555	30,342	32,821	32,061
<b>Total Assets</b>	<b>37,117</b>	<b>70,122</b>	<b>70,740</b>	<b>80,311</b>
Creditors	6,561	19,127	13,982	16,343
other current liabilities	10,478	22,274	24,983	28,337
Current Liabilities	17,040	41,401	38,966	44,681
Borrowings	6,305	9,348	9,248	8,448
Other non current Liabilities	1,200	1,226	895	1,079
Total non-current liabilities	7,505	10,575	10,143	9,527
Total Liabilities	24,544	51,975	49,109	54,208
Paid-up capita	802	805	805	805
Reserves & surplus	10,951	16,388	19,821	24,196
Shareholders' equity	11,753	17,193	20,627	25,002
Minority Interest	819.50	954.00	1,004	1,101
Total shareholders' equity	12,573	18,147	21,631	26,103
<b>Total equity &amp; liabilities</b>	<b>37,117</b>	<b>70,123</b>	<b>70,740</b>	<b>80,311</b>

Source: Company, KRChoksey Research

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## Cashflow Statement

Particulars (INR Mn)	FY 18	FY 19	FY 20E	FY 21E
Net Cash Generated From Operations	7316	6320	7822	8589
Net Cash Flow from/(used in) Investing Activities	-5572	-7315	-5000	-2500
Net Cash Flow from Financing Activities	-1515	5702	-3487	-4331
Net Inc/Dec in cash equivalents	-48	291	-665	1758
Opening Balance	1298	1196	1432	767
Closing Balance Cash and Cash Equivalents	1251	1432	767	2525

Source: Company, KRChoksey Research

## Ratios

Particulars	FY 18	FY 19	FY 20E	FY 21E
EPS (INR.)	9.3	14.0	12.9	15.8
EBITDA Margin%	23.59	22.16	20.90	20.20
PAT Margin%	11.60	11.06	9.38	9.50
ROE%	31.35	32.73	25.09	25.32
ROCE%	25.00	25.63	22.15	23.34

Source: Company, KRChoksey Research

# Sterlite Technologies Limited

Sterlite Technologies Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
16-Jan-20	125	190	BUY	<b>Buy</b>	More than 15%
25-Oct-19	125	211	BUY	<b>Accumulate</b>	5% – 15%
24-July-19	158	232	BUY	<b>Hold</b>	0 – 5%
25-Apr-19	194	267	BUY	<b>Reduce</b>	-5% – 0
27-Apr-18	343	423	BUY	<b>Sell</b>	Less than – 5%
18-Jan-18	381	439	BUY		
16-Oct-17	263	348	BUY		
20-Jul-17	172	308	BUY		
27-Apr-17	150	227	BUY		
19-Jan-17	109	142	BUY		
28-Oct-16	106	133	BUY		

## ANALYST CERTIFICATION:

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KR Choksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.

## ANALYST

Praveen Motwani, [research2@krchoksey.com](mailto:research2@krchoksey.com), +91-22-6696 5421  
Prathamesh Masdekar, [support-research@krchoksey.com](mailto:support-research@krchoksey.com)+91-22-66965423

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