

Rating matrix	
Rating	Buy
Target	₹ 350
Target Period	12-18 months
Potential Upside	21%

What's changed?	
Target	Changed from ₹ 400 to ₹ 350
EPS FY19E	Changed from ₹ 13.3 to ₹ 13.7
EPS FY20E	Changed from ₹ 16 to ₹ 15.9
Rating	Unchanged

Quarterly performance					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	1,334.9	835.2	59.8	1,084.3	23.1
EBITDA	293.9	201.7	45.7	273.3	7.5
EBITDA (%)	22.0	24.1	-213 bps	25.2	-318 bps
PAT	145.6	90.1	61.6	131.3	10.9

Key financials				
₹ Crore	FY17	FY18	FY19E	FY20E
Net Sales	2,594	3,205	4,649	6,010
EBITDA	519	749	1,123	1,352
Net Profit	201	334	549	639
EPS (₹)	5.1	8.3	13.7	15.9

Valuation summary				
	FY17	FY18	FY19E	FY20E
P/E	57.4	34.8	21.2	18.2
Target P/E	69.2	42.0	25.6	22.0
EV / EBITDA	24.3	16.7	12.1	10.0
P/BV	13.1	9.9	7.1	5.4
RoNW	22.9	28.7	33.9	29.4
RoCE	20.8	29.7	26.4	26.9

Stock data	
Particular	Amount
Market Capitalization (₹ crore)	11,644.8
Total Debt (FY18) (₹ crore)	1,158.1
Cash (FY18) (₹ crore)	138.4
EV (₹ crore)	12,509.5
52 week H/L (₹)	415/ 155
Equity capital (₹ crore)	80.2
Face value (₹)	2.0

Research Analysts

Bhupendra Tiwary
bhupendra.tiwary@icicisecurities.com

Sameer Pardikar
sameer.pardikar@icicisecurities.com

Sterlite Technologies (STETEC)

₹ 290

Strong show again...

- Sterlite Technologies' (STL) revenues came in at ₹ 1334.9 crore, up 59.8% YoY, ahead of our expectation of ₹ 1155 crore. Services formed ~30%+ (vs. 25% in Q2FY19) of the topline, with remaining being product. Exports contributed 40% to overall revenues
- EBITDA was at ₹ 293.9 crore (I-direct estimate: ₹ 288.8 crore) with EBITDA margin of 22%. EBITDA margin was lower than our estimates of 25.0% due to higher proportion of services revenues (Navy order execution commenced in Q3) that have lower margin profile
- PAT came in at ₹ 145.6 crore (up ~61.6% YoY) against our expectation of ₹ 140.5 crore, aided by beat at EBITDA level and higher other income (₹ 10.4 crore vs. ₹ 7 crore estimated)

OF/OFC capacity expansion on track...

The company indicated that planned OF, OFC capacity expansion to 50, 33 mn fibre km from current 30, 18 million fibre km by June 2019, 2020, respectively, is on track. As part of the phased expansion, OF capacity has now been expanded to 40 mn fibre km. The company is currently undertaking installation/commissioning of the same. The consequent net debt is ~₹ 1800 crore, with TTM net debt/EBITDA at 1.7x. We note that notwithstanding this incremental capex plan, the company has indicated that its gearing (net debt to EBITDA) would not be stretched beyond 2x.

Strong growth visibility; aiming to offer integrated network solutions...

Currently, Sterlite has an order book of ₹ 10231 crore (divided nearly equally into product & services), with TTM book to bill of 2.6x, providing healthy revenue visibility in the next couple of years. Given its presence across OF products, system integration services & telecom software, the company is targeting a unified solution approach. It has also launched fibre to the point solution FTTx Mantra to deliver fibre to home last mile connectivity and a speciality products experience lab in Silvassa to focus on physical layer of connectivity architecture. Consequently, Sterlite has outlined that its addressable market has now expanded to ~US\$75 billion. The medium to long term catalyst include 5G, IOT and domestic government led initiatives like Digital India, Bharat Net (Phase II), which is likely to provide strong growth visibility. Consequently, we expect revenues from the product segments to grow at 31.5% CAGR in FY18-20E to ₹ 4159 crore in FY20E, with incremental revenues driven by expanded capacity. Services segment revenues are expected to grow at 48% CAGR in FY18-20 to ₹ 1810 crore, aided by Navy & Bharat Net Phase II orders execution.

Maintain BUY on earnings visibility; Chinese growth key monitorable...

We are enthused by STL's progressive approach to focus on unified network solution thereby increasing its targeted addressable market. It remains a key play on rising data demand globally and subsequent need for network densification and deep fibreisation. However, current weak demand sentiments from China (China Telecom fibre demand has been deferred) and pledging of shares (currently ~97% of promoters holding is pledged) on the back of M&A activities in other businesses, needs to be monitored closely. While we maintain our **BUY** recommendation on the stock, we now value the company at 22x FY20E P/E (vs. 25x earlier) to arrive at a target price of ₹ 350. Lower multiple is on account of pledge overhang as well Chinese growth uncertainty.

Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	Q2FY19	YoY (%)	QoQ (%)	Comments
Revenue	1,334.9	1,155.3	835.2	1,084.3	59.8	23.1	Revenues were boosted by execution of Navy orders and integration of Metallurgica revenues of ~11 mn euros.
Other Income	10.4	7.0	6.7	6.0	55.0	74.4	
Cost of raw material and components cons	661.6	427.5	350.2	438.7	89.0	50.8	
Purchase of traded goods	16.7	23.1	13.7	3.3	NA	NA	
Employee Expenses	149.3	138.6	88.9	134.3	68.0	11.2	
(Increase) / decrease in inventories of finish	-48.4	23.1	-28.7	-8.4	68.6	479.5	
Other Expenses	261.7	254.2	209.5	243.0	24.9	7.7	
EBITDA	293.9	288.8	201.7	273.3	45.7	7.5	
EBITDA Margin (%)	22.0	25.0	24.1	25.2	-213 bps	-318 bps	EBITDA margins were lower than our estimates on account of higher proportion of services revenues (Navy order execution commenced in Q3), which have a lower margin profile
Depreciation	51.2	52.0	44.8	49.2	14.4	4.2	
Interest	27.4	26.4	25.7	24.4	6.4	12.4	
Total Tax	76.0	69.6	38.7	65.2	96.4	16.6	
PAT	145.6	140.5	90.1	131.3	61.6	10.9	PAT came in higher, aided by a beat at the EBITDA level and higher other income

Source: Company, ICICI Direct Research

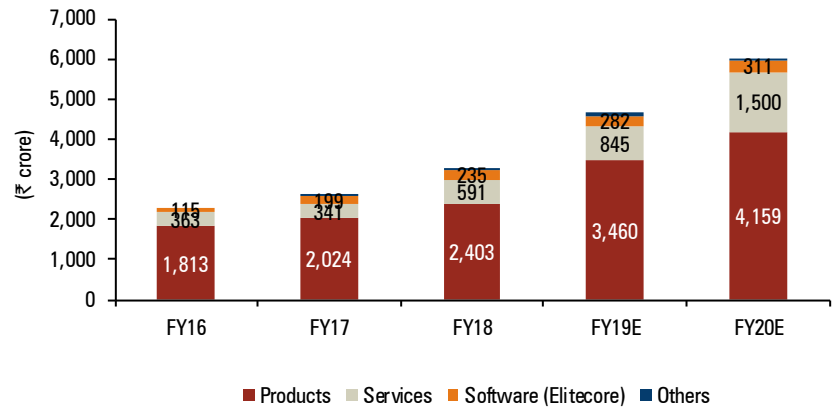
Change in estimates

(₹ Crore)	FY19E			FY20E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	4,490.0	4,649.3	3.5	5,810.3	6,009.7	3.4	We increase the revenue estimates to incorporate Bharat Net Phase II execution in FY20
EBITDA	1,147.1	1,122.9	-2.1	1,336.4	1,352.2	1.2	
EBITDA Margin (%)	25.5	24.2	-139 bps	23.0	22.5	-50 bps	We lower the margin estimates to incorporate higher share of services segment, which commands low margin
PAT	534.7	549.2	2.7	637.8	638.8	0.2	
EPS (₹)	13.3	13.7	2.9	16.0	15.9	-0.3	

Source: Company, ICICI Direct Research

Revenue growth at 40.7% CAGR in FY18-20E, led by strong global demand

Exhibit 1: Segmental revenues breakup

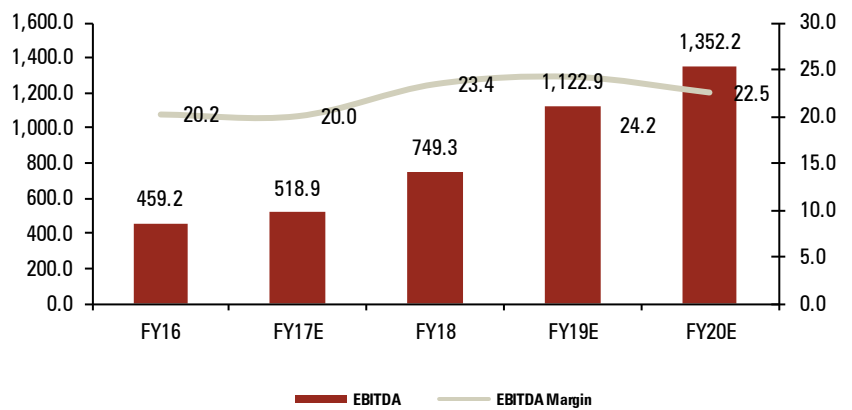


Source: Company, ICICI Direct Research

Margins to be lower in FY20 with higher proportion of service segment...

We expect margins of 24.2% and 22.5% in FY19E and FY20E, respectively, vs. 23.4% in FY18.

Exhibit 2: EBITDA and EBITDA margin trends



Source: ICICI Direct Research

Other Takeaways:

- **Do not see concerns on invoking pledge shares:** The management refused to provide further info on pledged shares but indicated they do not foresee any concerns on invoking pledged shares. Sterlite informed that one of the promoter group companies recently got de-listed from London Stock Exchange
- **Some moderation in global fibre prices; price moderation not a concern:** The management indicated that on account of deferral of China Mobile fibre optic order (30% of global fibre consumption), there was a moderation of the fibre optic prices globally. However, they reiterated that their contracts are long term in nature. The price moderations do not have any material impact on their financials. However, they mentioned that since negotiations of their contracts takes place normally in six months to a year, they do not rule out ~5% downward revision in prices at that time if prices continue at current levels
- **Industry first FTTx Mantra launched; opening of Lab in Silvassa:** The management indicated that it has opened Industry first, fibre to the point solution FTTx Mantra for delivering highly agile & scalable fibre to home last mile connectivity. During the quarter, the company also launched a specialty Products Experience Lab in Silvassa to focus on physical layer of connectivity architecture. It is partnered by Red Hat to develop open and agile solutions that help accelerate telco's digital transformation
- **Capacity expansion on track; ₹ 1500 crore order received in Maharashtra:** The management indicated that capacity expansion from 30 mn fkm to 50 mn fkm is on track and is expected to be complete by June 2019 while cabling expansion to 33 mn fkm, which it announced in September 2018, is expected to be complete by June 2020. The company received ₹ 1500 crore order for Bharat Net II project during the quarter. Sterlite Tech indicated that revenues will start flowing in from Q4FY19 with majority of the revenue coming in FY20
- **Other highlights:** (i) Order book at ₹ 10,231 crore, equally spread across product and services segment

Valuation

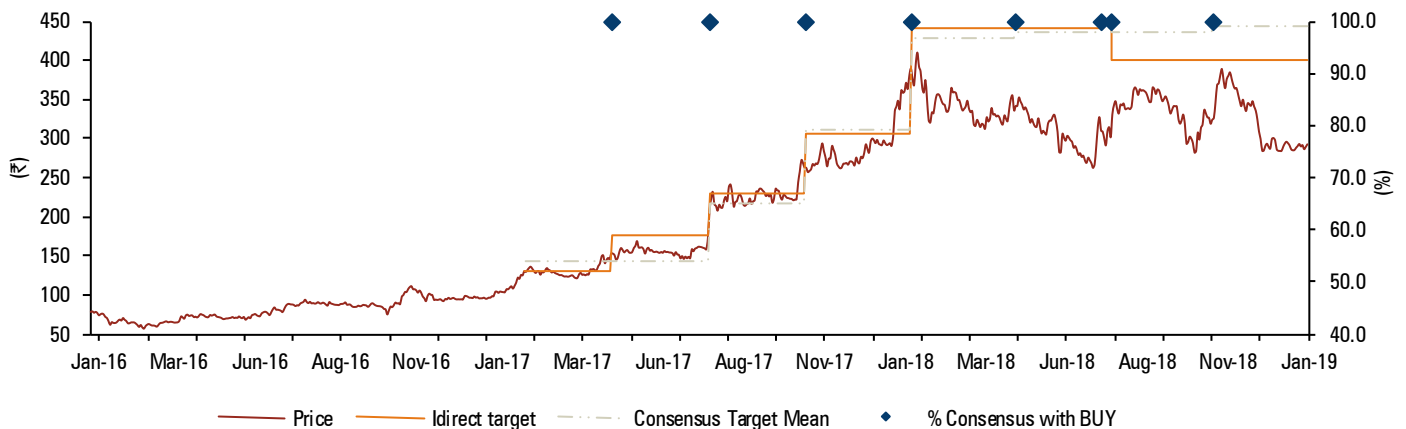
We are enthused by STL's progressive approach to focus on unified network solution thereby increasing its targeted addressable market. It remains a key play on rising data demand globally and subsequent need for network densification and deep fibreisation. However, current weak demand sentiments from China (China Telecom fibre demand has been deferred) and pledging of shares (currently ~97% of promoters holding is pledged) on the back of M&A activities in other businesses, need to be monitored closely. While we maintain our **BUY** recommendation on the stock, we now value the company at 22x FY20E P/E (vs. 25x earlier) to arrive at target price of ₹ 350. Lower multiple is on account of pledge overhang as well Chinese growth uncertainty.

Exhibit 3: Valuations

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	2593.6	14.0	5.1	31.0	57.4	24.3	22.9	20.8
FY18	3205.5	23.6	8.3	64.9	34.8	16.7	28.7	29.7
FY19E	4649.3	45.0	13.7	64.1	21.2	12.1	33.9	26.4
FY20E	6009.7	29.3	15.9	16.3	18.2	10.0	29.4	26.9

Source: ICICI Direct Research

Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Twin Star Overseas, Ltd.	31-Dec-18	52.0	209.4	0.0
2	L&T Investment Management Limited	31-Dec-18	3.6	14.5	1.4
3	DSP Investment Managers Pvt. Ltd.	31-Dec-18	2.1	8.6	-4.4
4	Life Insurance Corporation of India	31-Dec-18	1.9	7.5	-1.1
5	Aditya Birla Sun Life AMC Limited	31-Dec-18	1.6	6.3	0.6
6	Vedanta Resources Ltd	30-Sep-18	1.2	4.8	0.0
7	Vedanta, Ltd.	31-Dec-18	1.2	4.8	4.8
8	Reliance Nippon Life Asset Management Limited	31-Dec-18	1.2	4.8	-0.2
9	Dimensional Fund Advisors, L.P.	30-Nov-18	0.8	3.2	0.0
10	The Vanguard Group, Inc.	31-Dec-18	0.8	3.2	0.0

Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18
Promoters	54.03	53.96	53.85	53.83
FII	8.51	6.51	6.56	6.20
DII	11.03	12.07	12.69	13.23
Others	26.43	27.46	26.90	26.74

Source: Reuters, ICICI Direct Research

Recent Activity

Buys		Sells	
Investor name		Investor name	
Vedanta, Ltd.	+20.10M +4.76M	DSP Investment Managers Pvt. Ltd.	-18.76M -4.45M
L&T Investment Management Limited	+5.84M +1.39M	Life Insurance Corporation of India	-4.77M -1.13M
Aditya Birla Sun Life AMC Limited	+2.52M +0.60M	Sydivest	-1.54M -0.31M
Malhotra (Vimal)	+0.81M +0.16M	Reliance Nippon Life Asset Management Limited	-0.97M -0.23M
Driehaus Capital Management, LLC	+0.63M +0.12M	Lazard Asset Management, L.L.C.	-1.13M -0.23M

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Total operating Income	2,593.6	3,205.5	4,649.3	6,009.7	
Growth (%)	14.0	23.6	45.0	29.3	
Cost of raw materials	998.4	1,267.0	1,979.8	2,704.3	
Employee Expenses	290.3	350.2	538.6	570.9	
Administrative Expenses	786.0	838.9	1,008.0	1,382.2	
Total Operating Expenditure	2,074.6	2,456.1	3,526.3	4,657.5	
EBITDA	518.9	749.3	1,122.9	1,352.2	
Growth (%)	13.0	44.4	49.9	20.4	
Depreciation	159.2	182.2	196.2	288.5	
Interest	122.9	103.8	104.9	160.6	
Other Income	23.5	39.3	30.7	40.0	
Exceptional Items	-	4.4	5.1	-	
PBT	260.2	498.2	847.3	943.1	
Minority Interest	16.3	29.8	23.4	36.5	
Profit from Associates	(2.8)	(0.9)	-	-	
Total Tax	39.7	133.2	274.8	267.8	
PAT	201.4	334.3	549.2	638.8	
Growth (%)	31.0	66.0	64.3	16.3	
EPS (₹)	5.1	8.3	13.7	15.9	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Liabilities					
Equity Capital	79.7	80.2	80.3	80.3	
Preference Share Capital	0.0	0.0	0.0	0.0	
Reserve and Surplus	800.4	1,095.1	1,549.5	2,093.6	
Total Shareholders funds	880.1	1,175.3	1,629.8	2,173.9	
Total Debt	1,130.4	1,158.1	2,008.1	2,008.1	
Others	435.5	468.8	492.1	501.1	
Total Liabilities	2,445.9	2,802.2	4,130.1	4,683.1	
Assets					
Gross Block	2,226.1	2,359.3	3,357.0	4,368.3	
Less: Acc Depreciation	1,016.9	1,199.2	1,395.3	1,683.8	
Net Block	1,209.1	1,160.2	1,961.6	2,684.5	
Capital WIP	65.9	357.0	781.4	320.0	
Goodwill	103.6	73.9	73.9	73.9	
Total Fixed Assets	1,378.6	1,591.1	2,816.9	3,078.4	
Investments	152.7	248.5	93.5	93.5	
Inventory	333.5	337.9	471.3	609.2	
Debtors	691.2	871.3	1,263.7	1,633.5	
Loans and Advances	7.1	35.0	50.8	65.6	
Other Current Assets	280.2	457.7	663.8	686.4	
Cash	137.4	138.4	13.5	73.1	
Total Current Assets	1,449.4	1,840.3	2,463.2	3,067.9	
Creditors	448.6	656.2	955.3	1,234.9	
Provisions	62.6	83.8	122.0	157.7	
Other current liabilities	57.3	243.5	282.5	292.1	
Total Current Liabilities	568.6	983.5	1,359.8	1,684.7	
Net Current Assets	880.8	856.8	1,103.3	1,383.2	
Other non current assets	33.8	105.7	116.3	127.9	
Application of Funds	2,445.9	2,802.2	4,130.1	4,683.1	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Profit after Tax	201.4	334.3	549.2	638.8	
Add: Depreciation	159.2	182.2	196.2	288.5	
Add: Interest paid	122.9	103.8	104.9	160.6	
(Inc)/dec in Current Assets	-149.4	-389.9	-747.8	-545.1	
Inc/(dec) in CL and Provisions	117.0	414.9	376.4	324.9	
Others	0.0	0.0	0.0	0.0	
CF from operating activities	451.2	645.4	478.9	867.6	
(Inc)/dec in Investments	-41.9	-125.5	155.0	0.0	
(Inc)/dec in Fixed Assets	-115.8	-424.3	-1,422.0	-550.0	
Others	-254.2	-16.1	-10.6	-11.6	
CF from investing activities	-411.9	-565.9	-1,277.6	-561.6	
Issue/(Buy back) of Equity	0.6	0.5	0.1	0.0	
Inc/Dec in Minority Interest	14.0	36.8	23.4	9.0	
Issue of Preference Shares	0.0	0.0	0.0	0.0	
Inc/(Dec) in loan funds	205.3	27.7	850.0	-	
Interest paid	(122.9)	(103.8)	(104.9)	(160.6)	
Others	-76.6	-39.6	-94.7	-94.7	
CF from financing activities	20.4	-78.4	673.8	-246.4	
Net Cash flow	59.7	1.1	-124.9	59.6	
Opening Cash & cash equivalents	77.7	137.4	138.4	13.5	
Closing Cash & cash equivalents	137.4	138.4	13.5	73.1	

Source: Company, ICICI Direct Research

Key ratios					
(Year-end March)	FY17	FY18	FY19E	FY20E	
Per share data (₹)					
EPS	5.1	8.3	13.7	15.9	
Cash EPS	9.1	12.9	18.6	23.1	
BV	22.1	29.3	40.6	54.2	
DPS	1.5	2.4	2.4	2.4	
Cash Per Share	25.5	29.9	34.8	41.9	
Operating Ratios (%)					
EBITDA Margin	20.0	23.4	24.2	22.5	
EBIT Margin	13.9	17.7	19.9	17.7	
PAT Margin	7.8	10.5	11.9	10.6	
Inventory days	46.9	38.5	37.0	37.0	
Debtor days	97.3	99.2	99.2	99.2	
Creditor days	63.1	74.7	75.0	75.0	
Return Ratios (%)					
RoE	22.9	28.7	33.9	29.4	
RoCE	20.8	29.7	26.4	26.9	
RoIC	17.8	26.5	27.6	24.7	
Valuation Ratios (x)					
P/E	57.4	34.8	21.2	18.2	
EV / EBITDA	24.3	16.7	12.1	10.0	
EV / Net Sales	4.9	3.9	2.9	2.3	
Market Cap / Sales	4.5	3.6	2.5	1.9	
Price to Book Value	13.1	9.9	7.1	5.4	
Solvency Ratios					
Debt/EBITDA	2.2	1.5	1.8	1.5	
Net Debt / Equity	1.1	0.7	1.2	0.9	
Current Ratio	2.6	2.3	2.3	2.2	
Quick Ratio	1.9	1.8	1.8	1.7	

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (Telecom)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Bharti Airtel (BHAAIR)	333	380	Buy	133,033	2.7	-2.7	-5.7	121.0	NM	NM	7.7	9.7	8.5	5.6	2.3	3.5	2.7	-0.9	-3.9
Bharti Infratel (BHAINF)	291	285	Hold	53,731	13.5	12.5	13.5	21.5	23.2	21.6	7.6	7.5	8.4	21.1	19.9	21.1	14.7	14.6	16.7
Idea Cellular (IDECEL)	37	40	Hold	40,574	-9.6	-10.1	-12.4	NM	NM	NM	11.3	19.8	27.4	-2.3	-3.6	-3.0	-15.3	-21.3	-28.4
Sterlite Tech. (STETEC)	287	400	Buy	11,515	8.3	13.5	16.0	34.4	21.3	18.0	16.5	18.0	11.7	29.7	27.0	27.0	28.7	33.4	29.4
Tata Comm. (TATCOM)	522	540	Hold	14,877	-11.5	0.1	9.2	NM	NM	56.8	9.8	10.1	9.3	5.9	4.2	6.6	9.4	1.3	89.2

Source: Company, ICICI Direct Research

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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