

April 24, 2018

Sterlite Technologies Limited

Q4FY19 Result Update

Sterlite Technologies (SOTL) reported Q4 FY19 revenue at INR 1,791 crore; up 111% YoY and 34% Q-o-Q; EBITDA for the company stood at INR 315 crore, up 46% YoY and 8% Q-o-Q; PAT was reported at INR 166 crore; up 38% YoY and 12% Q-o-Q. EBITDA margin reported were 18%; as against 22% QoQ and 26% YoY and PAT margins stood at 9% as against 11% QoQ and 14% YoY. Open order book at Rs 10,516 crore, 2.1 times the annual revenue. With these strong numbers, the Board of Directors has recommended final dividend of INR 3.5/ share for FY'19.

SOTL filed 271 patents in FY19. They also launched SPEL for structured networking solutions. The company strengthened its position in Europe and acquired new product and customer portfolios, with the acquisition of Metallurgica Bresciana in Italy. Also, expansion at Aurangabad is ready to come online with 50 million fkm fibre capacity by June 2019, while it is on track to deliver its doubled fibre cable capacity of 33 million fkm by June 2020.

Evolving customer mix:

SOTL has customers across all segments, prominent ones being two of the world's top cloud companies; several tier one telcos, including partnership for network creation for one of the world's largest greenfield rollouts of 4G; and modernising the Indian Navy's digital communications network. With this, India, Europe and LATAM now account for more than 90% of the company's revenues.

Minimal effect of price action in China:

SOTL has very limited exposure to China's Optical Fiber Market, at less than 5% of its total revenues. Moreover, most of optical fiber and cable contracts with service providers across geographies are long term in nature and will not have any significant adverse impact on account of current local pricing environment in China.

Global expansion in sight:

The management expects huge demand for high speed networks across globe. They partner with global telecom companies, cloud companies, citizen networks and large enterprises to design, build and manage cloud-native software-defined networks. SOTL is at the helm of network creation opportunity, as telcos, cloud companies and new digital infrastructure players create hyper-scale networks.

With its data network solutions for Mobility, Last-mile access, Long-haul connectivity, Network modernisation and Data centres, across large customer segments globally, the company's total market will expand to a market size of \$75 Billion by FY'23.

Financial Snapshot (INR Crores)	FY18	FY19	FY20E	FY21E
Revenues	3205.5	5087.3	8165.4	9996.6
EBITDA	749.3	1127.2	1485.1	1876.6
EBITDA Margin	18%	19%	16%	17%
Profit after tax	368.5	577.8	827.7	1088.9
PAT Margin	11%	11%	10%	11%
P/E	22.6	14.4	10.1	7.7
EV/EBITDA	13.6	9.1	6.9	5.3

Source: Company, NSPL Research

* Read last page for disclaimer & rating rationale

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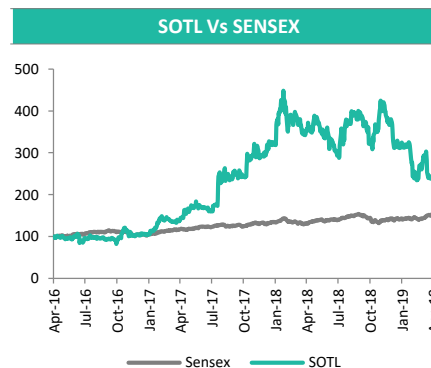
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HOLD*

Downside Scenario	Last Closing Price	Price Target	Upside Scenario
	207.4	216 4% ▲	

Market Data	
Industry	Capital Goods
Sensex	38,564
Nifty	11,586
Bloomberg Code	SOTL:IN
Face Value (INR)	2
52-w H/L	399/ 181
Market Cap (INR Crores)	8347

Valuation Data	FY19	FY20E	FY21E
P/E (x)	14.4	10.1	7.7
EV/EBITDA (x)	9.1	6.9	5.3



	Shareholding Pattern		
	Mar'19	Dec'18	Sep'18
Promoters	53.82	53.84	53.85
FIIIs	6.01	6.2	6.56
DIIIs	10.82	12.08	10.41
Retail	29.35	27.88	29.18



(INR Crores)	Mar-19	Dec-18	QoQ	Mar-18	YoY
Sales	1791	1335	34%	847	112%
Expenses	1476	1043	42%	631	134%
EBITDA	315	292	8%	216	46%
EBITDA Margin	18%	22%		26%	
Other Income	13	10	32%	17	-23%
Depreciation	50	51	-2%	52	-5%
EBIT	278	251	11%	181	54%
EBIT Margin	16%	19%		21%	
Interest	31	27	14%	25	21%
Profit before tax	248	224	11%	155	59%
Tax	82	76	8%	36	127%
PAT	166	148	12%	119	39%
PAT Margin	9%	11%		14%	

Source: Company, NSPL Research

Valuation:

SOTL, which enjoys a 7% market share in the global optical fibre market, is reaping the benefits of rising fiberisation of telecom networks globally, as data demand grows. We believe that SOTL will be the key beneficiary of strong demand for fiber optic cables, leveraging its capacity expansion. The company is strategically expanding its portfolio of services leveraging its knowhow of complex network and relationships from the fiber business.

SOTL's order book is at an all-time high of INR 10,516 crore which provides revenue visibility for the next 2-3 years. Three levers that helped transform SOTL from a fiber-only product company to data network solutions company – (i) deep customer engagement; (ii) investment in technology; and (iii) building talent pool.

At CMP of INR 207.35, the company is trading at 7.7x FY21E EPS and 5.3x FY21 EV/EBITDA. We value the company using an average of P.E. and EV/EBITDA methodology giving an exit multiple of 8 and 5.5 respectively on FY21 basis, achieving a target price of INR 216 which is an upside of 4%. We have a HOLD rating on the stock.

**Conference call highlights:**

- Decline in EBITDA margins was due to a change in the revenue mix and lower realizations.
- The services business contributed 52% to revenues in 4Q vs. 25% a year ago. For FY19, network solutions business contributed 37% of revenues.
- An optic fiber plant has commenced operations and another 10mn KM plant will begin operations by the end of 2QFY20. They are expected to contribute to revenues from 2HFY20 onward.
- SOTL signed a new contract from one of the Top-5 cloud providers for end-to-end network solutions.
- Order book increased to INR 10,516 crore.
- Margins were lower due to 1) a change in revenue mix, 2) lower realization, and 3) cost of new capacity addition.
- SOTL has maintained its USD100mn profit guidance for FY2020 despite the softening in OF prices.
- The company has declared a dividend of INR 3.5/share.
- India demand is currently driven by JIO (4G back-haul, 5G rollout, and FTTH) and Bharat Net phase-2.
- The management mentioned that fiber prices globally and in India are at \$7/ km.
- SOTL's realization is currently in the range of \$7.2-7.5 due to higher exposure to Europe.
- Demand continues to improve with internet companies such as Facebook, Google, and Amazon creating their own data networks.

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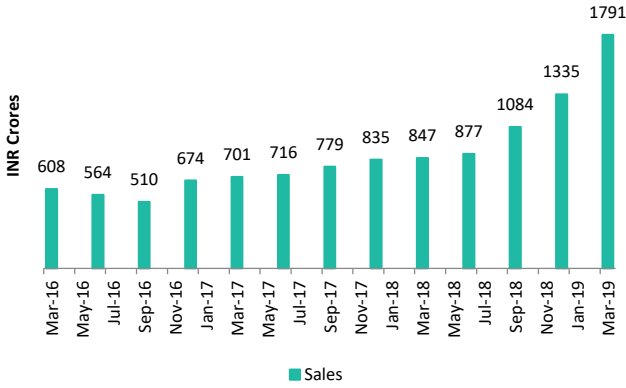
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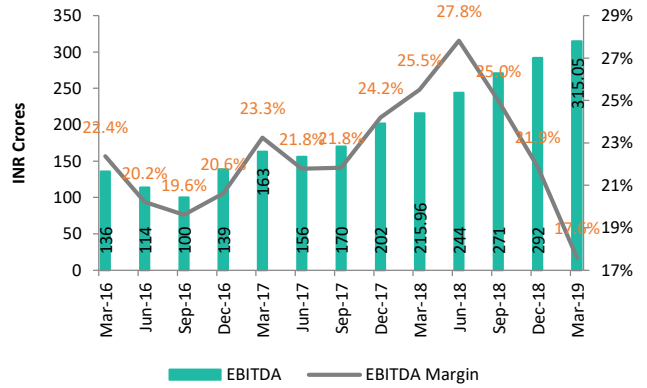
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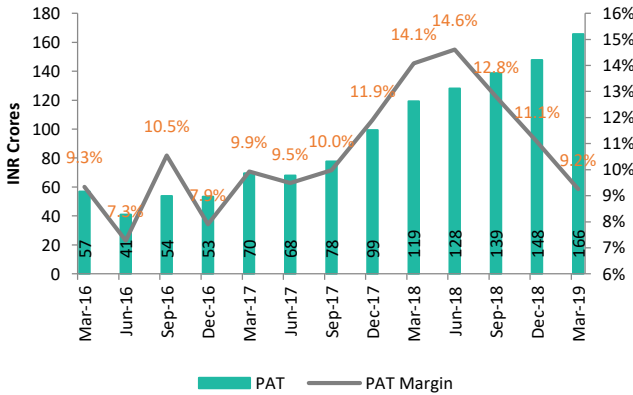
Revenues



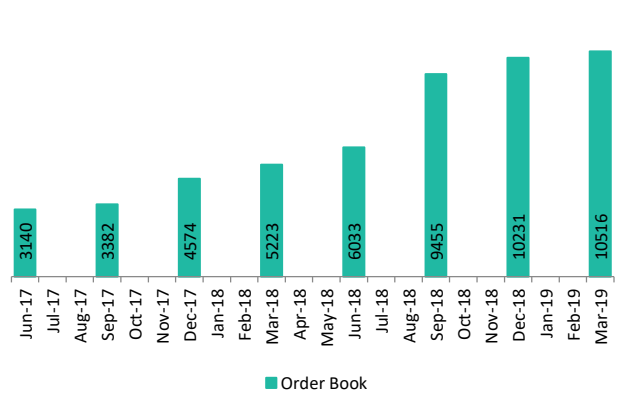
EBITDA & EBITDA Margin



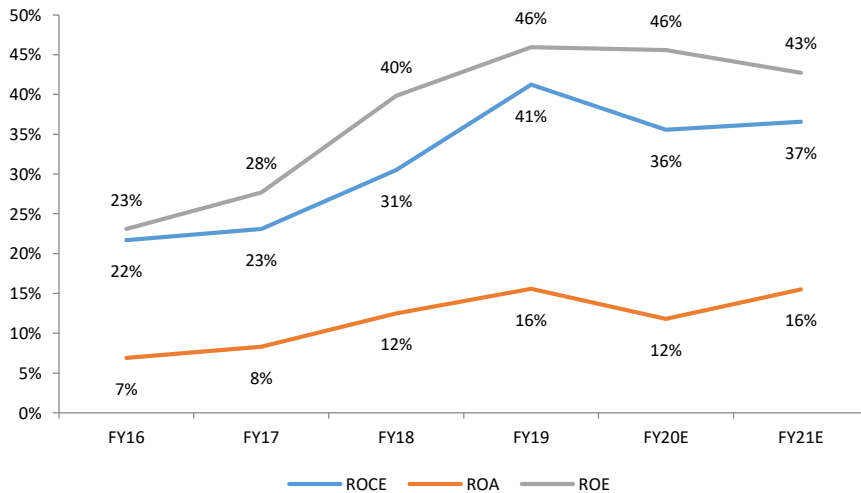
PAT & PAT Margin



Order Book



Return Ratios



Source: Company, NSPL Research



Profit & Loss (INR Crores)	FY18	FY19	FY20E	FY21E
Revenues	3205.49	5087.26	8165.42	9996.57
Total Expenses	2427.76	3960.11	6680.33	8119.98
EBITDA	749.35	1127.15	1485.09	1876.58
Other income	25.62	36.86	31.24	34.05
Depreciation expense	182.21	194.98	188.60	191.79
EBIT	592.76	969.03	1327.73	1718.85
Finance costs	90.18	105.49	97.84	101.66
Profit before tax	501.66	855.95	1226.12	1613.09
Tax Expense	133.15	278.16	398.45	524.21
PAT	368.51	577.79	827.66	1088.88

Balance Sheet (INR Crores)	FY18	FY19	FY20E	FY21E
Assets				
Non-Current Assets				
Property, plant & equipment	1135.10	2317.46	2817.46	3317.46
Capital work in progress	357.02	419.44	280.79	352.42
Investment property	8.88	0.00	8.96	8.92
Goodwill	73.93	107.35	94.95	92.08
Other Intangible Assets	16.17	43.06	25.43	28.22
Investments	19.60	35.30	22.70	25.87
Loans	35.01	42.69	28.26	35.32
Trade Receivables	4.09	1.76	3.46	3.10
Non-Current Financial Assets	7.69	42.40	20.62	23.57
Other non-current assets	98.05	24.74	47.14	56.64
Total non-current assets	1755.54	3034.20	3376.35	3978.44
Current Assets				
Inventories	337.85	589.65	747.00	869.00
Investments	155.00	100.17	96.73	117.30
Trade Receivables	867.19	1354.86	2237.10	2766.17
Cash & bank balance	119.56	143.29	150.14	120.39
Cash & Cash Equivalents	18.92	90.39	38.97	49.43
Other current financial assets	69.41	99.32	78.11	82.28
Other current assets	271.86	393.07	293.17	319.37
Total Current Assets	1956.20	3978.08	3641.22	4323.94
Total Assets	3711.74	7012.28	7017.57	8302.38

Equity & Liabilities				
Equity Share Capital	80.20	80.51	80.51	80.51
Equity attributable to shareholders	1175.32	1638.79	2546.96	3716.35
Total Equity	1257.27	1814.70	2546.96	3716.35
Non-Current Liabilities				
Borrowings	630.54	934.84	1200.00	921.79
Other financial Liabilities	64.82	14.88	64.00	47.90
Deferred Tax Liabilities	22.16	74.39	45.41	47.32
Employee Benefit Obligation	7.86	32.35	18.17	19.46
Provisions	25.12	1.01	16.34	14.16
Total non-Current Liabilities	750.50	1057.47	1343.93	1050.63
Current Liabilities				
Borrowings	462.74	982.69	954.00	1024.00
Trade Payables	656.18	1820.31	1612.00	1887.00
Other financial Liabilities	290.76	708.54	428.68	475.99
Employee Benefit obligation	22.77	22.34	18.93	21.35
Provisions	28.07	11.46	17.76	19.10
Other current liabilities	146.44	81.77	95.17	107.79
Total Current Liabilities	1703.97	4140.13	3126.54	3535.23
Total Equity & Liabilities	3711.7	7012.3	7017.4	8302.2

Source: Company, NSPL Research



Cash Flow (INR Crores)	FY18	FY19	FY20E	FY21E
Profit before tax	501.66	855.95	1226.12	1613.09
Net cash flow from operating activities	731.61	1678.01	548.76	721.97
Net cash flow used in investing activities	-584.84	-1338.80	-357.91	-568.71
Net cash flow used in financing activities	-151.52	-321.00	-184.00	-183.00
Net increase/decrease in cash and cash equivalents	-4.75	18.21	6.85	-29.74
Cash and cash equivalents as at year end	125.08	143.29	150.14	120.39

Ratios	FY18	FY19	FY20E	FY21E
Margins				
EBITDA Margins	18%	19%	16%	17%
PAT Margins	11%	11%	10%	11%

Return Ratios				
ROCE	31%	41%	36%	37%
ROA	12%	16%	12%	16%
ROE	40%	46%	46%	43%

Valuation Ratios (x)				
EV/EBITDA	13.6	9.1	6.9	5.3
P/E	22.6	14.4	10.1	7.7
EPS in INR	9.2	14.4	20.6	27.0

Source: Company, NSPL Research

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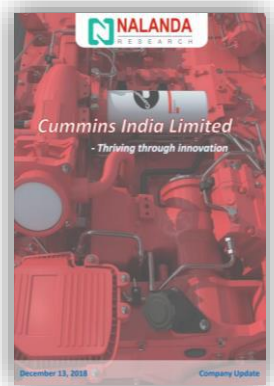
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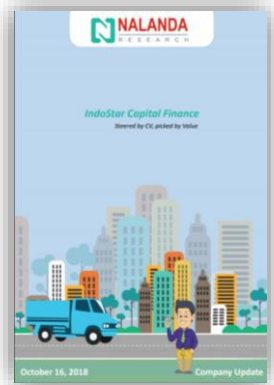
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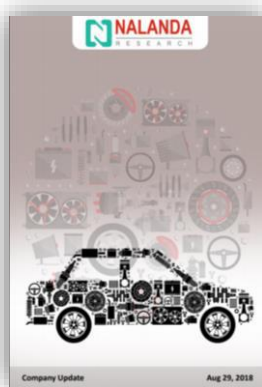
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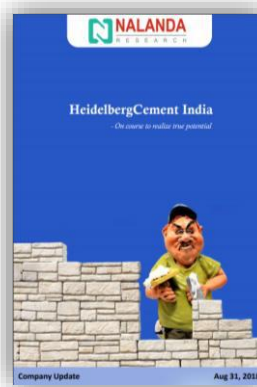
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Sterlite Technologies Ltd.				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
April 24, 2019	207.4	216	Hold	Buy	5% - 15%
October 25, 2018	323.20	376	Strong Buy	Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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