

Sterlite Technologies Ltd



RESULT UPDATE

23rd October, 2020

Sterlite Technologies Limited

CMP INR 156	Target INR 191	Potential Upside (%) 22%	Market Cap (INR Mn) 61620	Recommendation BUY	Sector IT/Telecom
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Result highlights

- Overall performance improved on sequential basis.
- For Q2FY21, Sterlite Technologies reported total revenue from operations of INR 11595 Mn, degrowth of 14.72% YoY and (+32% QoQ).
- Gross profit margin declined by 181bps YoY to 50.21%.
- For Q2FY21, EBITDA declined by 29.84% YoY to INR 2024 Mn while EBITDA margin declined by 376bps YoY and (+357bps QoQ) to 17.46%.
- Net profit after tax for the quarter declined by 65% to INR 552 Mn. Profit declined was on account of lower revenue, increase in depreciation cost and decline in operating margins.
- Order Book remains robust at INR 107050 Mn. The order book consists of 43.9% Telecoms, 36.9% Citizen Networks and Enterprises 18.8%. Cloud segment is less than 1% of overall order book.
- For H1FY21, Revenue from India 51% followed by Europe 30%, China 4% and ROW 15%.
- EPS for the quarter stood at INR 1.46 (as against INR 3.96 in Q2FY20).

MARKET DATA

Shares outs (Mn)	395
Equity Cap (INR Mn)	791.38
Mkt Cap (INR Mn)	59788.70
52 Wk. H/L (INR)	174.75/59.80
Volume Avg. (3m K)	2517.12
Face Value (INR)	2
Bloomberg Code	SOTL IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	40685
NIFTY	11930

Key Financials

Particulars (INR Mn)	FY19	FY20	FY21E	FY22E
Net Sales	50,873	51,544	46,682	62,235
EBITDA	11,272	10,693	8,000	11,653
Profit after tax	5,779	4,244	2,423	5,131
EBITDA Margin %	22.16%	20.75%	17.14%	18.72%
PAT Margin %	11.36%	8.23%	5.19%	8.24%

Source: Company, KRChoksey Research

Utilisation have exceeded pre-covid levels and expected to improve further

STL's capacity utilisation exceeded pre-covid levels; OF utilisation was 60% of the expanded capacity of 50 mn fkm and OFC utilisation was more than 90% and further to see improvement in coming quarters. The optical fibre cable capacity is at 18 mn fkm, STL has initiated the expansion of its OFC capacity from 18 mn fkm to 33 mn fkm which is expected to be complete by June 2021. The capacity expansion is on account of visibility of growth in global optical fibre cable demand and STL's strong customer engagement and solution offerings demonstrated positive long term growth.

H2FY21 is expected to be better than H2FY20

Sterlite technologies (STL) Q2FY21 revenue came in at INR 11595 Mn down by 14.75% YoY and (+32.34% QoQ), the segment share of product/services was broadly in 60%/ 40%. STL's offering are becoming more integrated which is shifting its business towards integrated offerings. Gross margin contracted by 181bps YoY and (-205bps QoQ) ~50.21%, led by higher cost of material and unfavourable product mix. EBITDA was at INR 2024 Mn, down ~30% YoY while EBITDA margin (Ex OI) fell 376bps and (-376bps QoQ) to 17.46% owing to lower operating leverage and decline in gross profit margin. Net profit after tax for the quarter declined 65% YoY to INR 552 Mn while net profit margin for the quarter was at 4.76%. Management expects H2FY21 to be much better than H2FY20 on account of healthy order book and visibility of demand and also expects margin to improve on back of increase in overall utilization rate.

Order book improves; strong RFQ participation funnel

Order book stood at INR 107050 Mn compare to 103120 Mn in Q1FY20, order book is spread across INR 25640 Mn in 6MFY21 and INR 81410 Mn in FY22 and beyond. STL is having diversified order book and it comprises of 43.9% from Telcos, 36.9% Citizen, 18.8% Enterprises and less than 1% from cloud. Strong open participation funnel of INR 120000 Mn in Q2FY21 compare to 101000 Mn in Q1FY21 this was on account of quality interaction with marquee global customers, multiple customer engagement across network use cases.

SHARE HOLDING PATTERN (%)

Particulars	20-Aug	20-Jun	20-Mar
Promoters	54.75	54.16	53.63
FIIIs	3.92	3.76	4.22
DIIIs	6.68	6.68	6.42
Others	34.66	35.42	35.74
Total	100	100	100

10%

Revenue CAGR between FY 20
and FY 22E

18.72%

EBITDA margin FY22E

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Valuations & Outlook

We continue to maintain our positive stance on STL, given the strong visibility of demand in products and services business. There is a strong growth visibility on account of 5G investments, IOT, FTTH roll out and domestic led initiative like digital India and opportunities arising from global demand. STL is set to capitalize on the demand as capacity of 50 Mn fkm in OF and 18 Mn fkm in OFC in place and OFC capacity is expected to almost double by June 2021. We believe, China OF pricing to have limited impact on STL as business is moving more towards integrated offerings and higher value added products. The company has indicated that H2FY21 will be better than H2FY20. Furthermore, over the next 3 years, STL has guided to a) double the revenue to INR 100000 Mn b) reduce the net debt to equity by half to 0.5 and c) deliver a return on capital employed above 20%. Given the current scenario, we have slightly revised our estimates accordingly. We expect revenue to grow at 10% CAGR over FY20-22E. AT CMP of INR 156 the stock is trading at PE of 12.3x on FY22E EPS. We maintain an “BUY” rating on the stock and value the stock at 15x FY22E EPS of INR 12.75 with a target price of INR 191 (earlier 186).

Quarterly Profit & Loss Statement

Particulars (INR Mn)	Q2FY21	Q1FY21	Q2FY20	Q-o-Q	Y-o-Y
Revenues (INR)	11,595	8,762	13,597	32.34%	-14.72%
Raw Material Consumed	5848.4	3965	6226.70	47.50%	-6.08%
Purchase of stock in trade	8	3	20.8	145.16%	-63.46%
(Inc.) / Dec in finished goods, stock-in-trade & WIP	-82	215	277	-138.26%	-129.68%
Employees Remuneration & Benefits	1,570	1,471	1,667	6.73%	-5.83%
Other Expenses	2,228	1,891	2,520	17.79%	-11.61%
Total Operating Expenditure	9571	7545.2	10711.8	26.85%	-10.65%
EBITDA	2,024	1,217	2,885	66.36%	-29.84%
Depreciation	816.4	741.9	750.4	10.04%	8.80%
EBIT	1,208	475	2,135	154.35%	-43.42%
Interest	497.7	500.5	597.2	-0.56%	-16.66%
Other Income	93	95	91	-1.99%	2.19%
Profit Before tax & exceptional items	803.6	70	1,629	1052.94%	-50.67%
Profit Before tax	803.6	70	1629	1052.94%	-50.67%
Tax Expenses	235.5	41	33	471.60%	607.21%
Profit after tax	568.1	28.50	1,596	1893.33%	-64.40%
Loss from discontinued operation	-16.1	-6	-18	0.00%	0
Net profit for the period	552	22.6	1,578	2342.48%	-65.01%
EPS (INR)	1.46	0.15	3.96	873.33%	-63.13%

Particulars	Q2FY21	Q1FY21	Q2FY20	Q-o-Q	Y-o-Y
EBITDA Margin (%)	17.46%	13.89%	21.22%	357bps	(376bps)
PAT Margin %	4.76%	0.26%	11.60%	450bps	(684bps)
RM/Sales	50.44%	45.25%	45.79%	518bps	464bps
Employee/Sales	13.54%	16.78%	12.26%	(325bps)	128bps
Other Expenses/sales	19.21%	21.59%	18.54%	(237bps)	68bps

Source: Company, KRChoksey Research

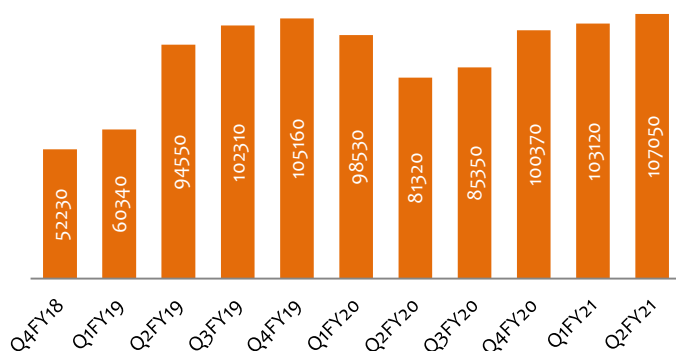
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Concall Highlights:-

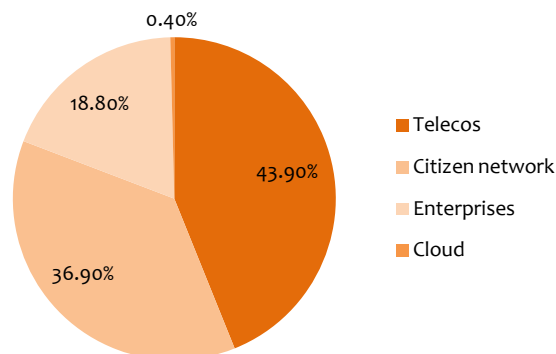
- Unprecedented growth is happening in digital networks that data usage continues to grow, global IP traffic has grown 7x in last 8 years and is expected to grow at faster rate going forward.
- There is a high degree of urgency to build these networks and year 2020 triggered the digital infra investments.
- Telecom, Cloud Companies, Government as well as Private equity investors across are investing to create this new digital infrastructure.
- In terms of scale these needs to have digital range to handle internet traffic and this has to be achieved by high capacity optical fibre with next generation of wireless networks.
- Quality of networks has to be have much superior speeds as well as much faster in response time.
- Upcoming digital networks will be built in a very different way than old systems.
- Network requires higher degree of investments from private equity and network partners to create the same.
- STL future roadmap is built on these 5 strategic pillars I) Technology led E2E solutions II) Key account management III) Large-scale complex integration IV) Ecosystem alliances and investment V) Top talent and culture.
- Trying to increase orders funnel and order win conversion ratio.
- Despite pandemic execution phased increased in the current quarter – Project Varun 83%, Mahanet (A) almost complete, Mahanet (B) 1%, T-fibre (A) & (B) 14% & 8% respectively, FTTH 2% and fibre roll out 5%.
- All network creators investing heavily in Digital infrastructure, notable announced are I) Telefonica to invest \$6 bn to build a fibre network in Germany II) Airtel targeting 40 mn homes for FTTH, expanding footprint through partnerships III) Etisalat, Du increase capex by 50% to support increase in data traffic and many other announced on Cloud, Large Enterprises and Citizen networks.
- Telecos 5G & FTTH roll out continue. China has deployed more than 560000 base stations for 5G. China tops 5G subscribers with more than 110 mn. Subscribers as reported by ministry of industry and information technology.
- South Korea is most matured 5G market.
- FTTH rollouts - RJIO is planning 75 Mn home passes in next 3 years.
- Reinitiated the expansion of OFC to 33 Mn fkm from 18 Mn fkm, which expected to finish by June 2021.
- Open participation funnel has increased from 10100 Cr to 12000 Cr in Q2FY21.
- Current order book stands at INR 10700 Cr (2500 Cr in next 6 month and balance is beyond).
- Order book is diversified across the customer segment. Order book is now getting good O&M flow which should start reflects from FY23 onwards.
- Execution on the grounds for services also continues to improve on QoQ.
- Vision 2023 Revenue 10000 Cr, Net debt/equity <0.5 and ROCE >20%.
- Maintenance capex every year is around 40 to 50 Cr.
- Capacity utilisation exceeded pre-covid levels; fibre was running at 60% of expanded capacity and cable more than 90% utilisation.
- Optical fibre prices realization for cables \$14-15 and fibre \$5-6.

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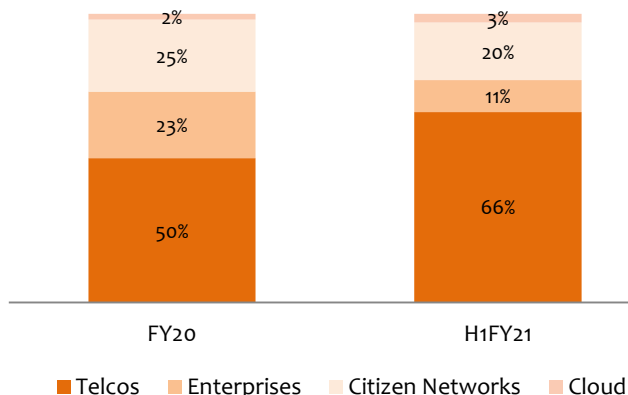
Robust Order Book (INR Mn)



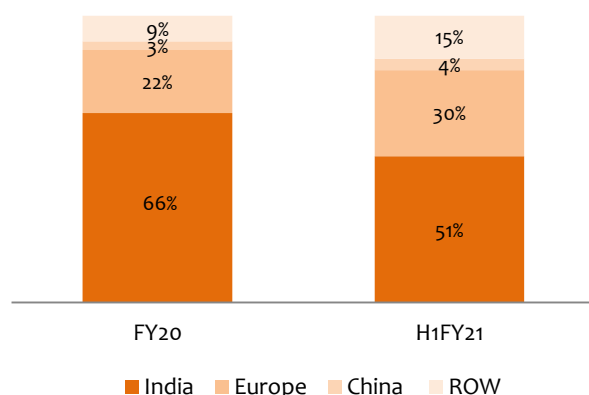
Order book customer segment wise



Customer Segments (Revenue %)



Geographical Distribution (Revenue %)



Income Statement

Particulars (INR Mn)	FY19	FY20	FY21E	FY22E
Net Sales	50,873	51,544	46,682	62,235
Total Operating Expenditure	39,601	40,851	38,682	50,582
EBIDTA	11,272	10,693	8,000	11,653
Depreciation & Amortization	1,950	2,903	3,199	3,321
EBIT	9,322	7,791	4,801	8,332
Interest Paid	1,055	2,210	2,002	1,883
Other income	369	343	327	311
Profit Before tax	8,635	5,923	3,126	6,760
Tax	2,782	1,089	797	1,724
PAT	5,779	4,244	2,423	5,131
EPS	14.37	10.54	6.02	12.75

Source: Company, KRChoksey Research

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Balance Sheet

Particulars (INR Mn)	FY19	FY20	FY21E	FY22E
Cash & bank	2,337	2,445	1,900	2,402
Debtors	13,549	15,631	12,285	15,559
Inventory	5,897	4,518	4,469	5,958
other current asset	17,929	15,088	13,158	16,765
Total Current Assets	39,711	37,683	31,812	40,685
Net Block	23,174	28,403	29,714	29,892
Other non-current assets	7,237.2	6,001.8	5,987.8	6,031.4
Total non-current assets	30,411	34,405	35,701	35,924
Total Assets	70,123	72,090	67,514	76,608
Creditors	19,127.5	14,303.0	13,879.9	18,504.2
other current liabilities	22,274	25,481	20,823	22,575
Current Liabilities	41,401	39,784	34,703	41,079
Borrowings	9,348	9,700	9,148	8,148
Other non current Liabilities	1,226	2,376	1,774	1,954
Total non-current liabilities	10,575	12,076	10,922	10,103
Total Liabilities	51,975.8	51,860.4	45,625.4	51,181.5
Paid-up capital	805	808	808	808
Reserves & surplus	16,388	18,390	20,055	23,581
Shareholders' equity	17,193	19,198	20,863	24,389
Minority Interest	954.00	1,031.80	1,031.80	1,031.80
Total shareholders' equity	18,147	20,230	21,895	25,421
Total Equity & Liabilities	70,123	72,090	67,514	76,608

Source: Company, KRChoksey Research

Cashflow Statement

Particulars (INR Mn)	FY19	FY20	FY21E	FY22E
Net Cash Generated From Operations	6320	6964	7372	9426
Net Cash Flow from/(used in) Investing Activities	-1173	-6266	-4500	-3500
Net Cash Flow from Financing Activities	5702	-679	-3512	-5488
Net Inc./Dec in cash equivalents	291	19	-640	438

Source: Company, KRChoksey Research

Ratios

Particulars	FY19	FY20	FY21E	FY22E
EPS (INR.)	14.4	10.54	6.02	12.75
EBITDA Margin%	22.16%	20.75%	17.14%	18.72%
PAT Margin%	11.36%	8.23%	5.19%	8.24%
ROE%	33.61%	22.11%	11.62%	21.04%
ROCE%	25.63%	18.91%	11.40%	19.09%

Source: Company, KRChoksey Research

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Rating Legend (Expected over a 12-month period)

Our Rating

Upside

Buy

More than 15%

Accumulate

5% – 15%

Hold

0 – 5%

Reduce

-5% – 0

Sell

Less than – 5%

ANALYST CERTIFICATION:

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