

# Sterlite Technologies Ltd



RESULT UPDATE

24<sup>th</sup> July, 2020

# Sterlite Technologies Limited

CMP INR 135	Target INR 161	Potential Upside (%) 19	Market Cap (INR Mn) 109070	Recommendation BUY	Sector IT/Telecom
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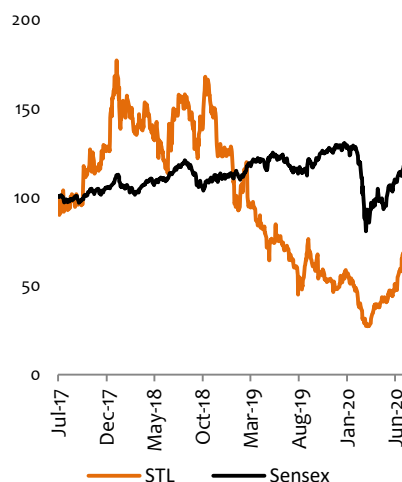
## Result highlights

- For Q1FY21, Sterlite Technologies reported total revenue from operations of INR 8762 Mn, degrowth of 38.81% YoY and (down 24.47% QoQ). This was led by COVID-19 related lockdown which impacted overall performance. Revenue was above our estimate of INR 7720 Mn.
- EBITDA declined by 62.37% YoY and (-43.67% QoQ) in Q1FY21 to INR 1217 Mn.
- EBITDA margin fell 870 bps YoY to 13.89% in Q1FY21 from 22.58% in corresponding quarter last year. QoQ basis EBITDA margin declined 473bps from 18.62%. EBITDA margin was impacted due to lower operating leverage, adverse product mix and higher cost due to lockdown.
- Net profit after tax and minority for the quarter declined 95.78% YoY and (down 92.58% QoQ) to INR 59.60 Mn while net profit margin for the quarter was at 0.68%. Reported profit was higher than our estimate of INR 41 Mn.
- Order book remains robust at INR 103120 Mn. The order book consists of 38% from Telcos, 41% and 20% from Citizen Network and Enterprises respectively. Segment cloud is 1% of overall order book.
- EPS for the quarter stood at INR 0.15 (as against INR 3.51 in Q1FY20).

## MARKET DATA

Shares outs (Mn)	403
Equity Cap (INR Mn)	807.93
Mkt Cap (INR Mn)	55262.10
52 Wk. H/L (INR)	179.95/59.80
Volume Avg. (3m K)	2858.32
Face Value (INR)	2
Bloomberg Code	SOTL IN

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	38128
NIFTY	11194

## Key Financials

Particulars (INR Mn)	FY19	FY20	FY21E	FY22E
Net Sales	50,873	51,543	49,192	60,087
EBITDA	11,272	10,692	8,747	11,555
Profit after tax	5,628	4,333	2,868	4,995
EBITDA Margin %	22.16%	20.74%	17.78%	19.23%
EBIT Margin%	18.32%	15.11%	11.41%	13.96%
PAT Margin %	11.06%	8.41%	5.83%	8.31%

Source: Company, KRChoksey Research

## Resilient performance despite tough industry scenario

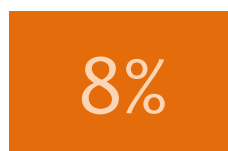
Sterlite technologies (STL) Q1FY21 revenue came in at INR 8762 Mn down 38.81% YoY and (down 24.47% QoQ). Topline performance was impacted by I) COVID-19 related lockdown II) Execution of projects got delayed due to COVID-19 III) Production and manufacturing witnessed multiple headwinds due to supply chain disruption. Gross margin expanded by 163bps YoY and (-128bps QoQ) to 52.26%. EBITDA was at INR 1217 Mn, down 62.37% YoY and (-43.67% QoQ) while EBITDA margin (Ex OI) fell 870bps YoY and (-473bps QoQ) to 13.89% owing to lower operating leverage, lower execution of projects and higher fixed cost. Management expects H2FY21 to be much better than H2FY20 on account of healthy order book and visibility of demand. Current EBITDA margin for Q1FY21 is exceptional given the adverse impact due to COVID-19. As offering are becoming more integrated, Management expects 18-19% of EBITDA margin going forward. Net profit after tax for the quarter declined 95.78% YoY and (down 92.58% QoQ) to INR 59.60 Mn while net profit margin for the quarter was at 0.68%.

## Order book improves; strong RFQ participation funnel

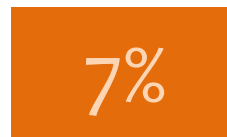
Order book stood at INR 103120 Mn compare to INR 98530 Mn in Q1FY20, order books is spread across INR 32000 in 9MFY21 and 71000 Mn FY22 and beyond. Order book comprises 38% from Telcos, 41% from Citizen, 20% from citizen networks and 1% from Cloud player. Strong open participation funnel of INR 101000 Mn in Q1FY21 compare to 70000 Mn INR Q4FY20 this is on account of quality interaction with marquee global customers, multiple customer engagement across network use cases. We expect this trend to continue going forward, STL has unique capabilities to be a leading digital network integrator.

## SHARE HOLDING PATTERN (%)

Particulars	20-Mar	19-Dec	19-Sep
Promoters	20-Jun	20-Mar	19-Dec
FII's	54.16	53.63	53.65
DIIs	3.76	4.22	4.94
Others	6.68	6.42	6.11
Total	35.42	35.74	35.3



Revenue CAGR between FY 20 and FY 22E



PAT CAGR between FY 20 and FY 22E

# Sterlite Technologies Limited

## Valuations & Outlook

We believe, growth visibility remains intact and strong on account of 5G investments, IOT, FTTH roll out and domestic led initiatives like digital India and opportunities arising from global demand. STL is providing end to end solution and integrated offerings to its client (products are embedded with service which reduces the risk of pricing). We believe, China OF pricing to have limited impact on STL as business is moving more towards integrated offerings and higher value added products. STL is a global leader in end to end data network solutions design and deploy high capacity Fibre and wireless network. STL's is working on its overall cost structure to improve EBITDA margin and return on capital employed from current level. 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 demand scenario, we have slightly changed our estimates and revised our target price accordingly. We expect revenues/PAT to grow at a CAGR of 8%/7% over FY20-22E. AT CMP of INR 135 the stock is trading at PE of 11x FY22E EPS 12.41. We maintain an "BUY" rating on the stock and value the stock at 13x FY22E EPS of INR 12.41 with a target price of INR 161.

## Quarterly Profit & Loss Statement

Particulars (INR Mn)	Q1FY21	Q4FY20	Q1FY20	Q-o-Q	Y-o-Y
Revenues (INR)	8,762	11,601	14,320	-24.47%	-38.81%
Raw Material Consumed	3965.1	5160	6663.10	-23.16%	-40.49%
Purchase of stock in trade	3	4	1.2	-24.39%	158.33%
(Inc) / Dec in finished goods, stock-in-trade & WIP	215	227	406	-5.03%	-47.01%
Employees Expenses	1,471	1,520	1,463	-3.28%	0.55%
Other Expenses	1,891	2,530	2,553	-25.23%	-25.93%
Total Operating Expenditure	7545.2	9440.4	11086.1	-20.08%	-31.94%
EBITDA	1,217	2,160	3,234	-43.67%	-62.37%
Less: Depreciation	741.9	768.2	683.4	-3.42%	8.56%
EBIT	475	1,392	2,550	-65.88%	-81.38%
Less: Interest	500.5	593.1	462.8	-15.61%	8.15%
Add: Other Income	95	104	87	-8.37%	9.04%
Profit Before tax & exceptional items	69.70	903	2,175	-92.28%	-96.80%
Exceptional items	0	0	0	-	-
Profit Before tax	69.7	902.9	2175	-92.28%	-96.80%
Tax Expenses	41.2	131	733	-68.60%	-94.38%
Net profit after tax and share of JV & Associates	28.5	772	1,442	-96.31%	-98.02%
Net profit after minority	59.6	803	1,414	-92.58%	-95.78%
EPS (INR)	0.15	1.99	3.51	-92.46%	-95.73%

Particulars	Q1FY21	Q4FY20	Q1FY20	Q-o-Q	Y-o-Y
EBITDA Margin (%)	13.89%	18.62%	22.58%	(473bps)	(870bps)
PAT Margin %	0.68%	6.92%	9.87%	(624bps)	(919bps)
RM/Sales	47.74%	46.47%	49.37%	128bps	(163bps)
Employee/Sales	16.78%	13.11%	10.21%	368bps	657bps
Other Expenses/sales	21.59%	21.80%	17.83%	(22bps)	375bps

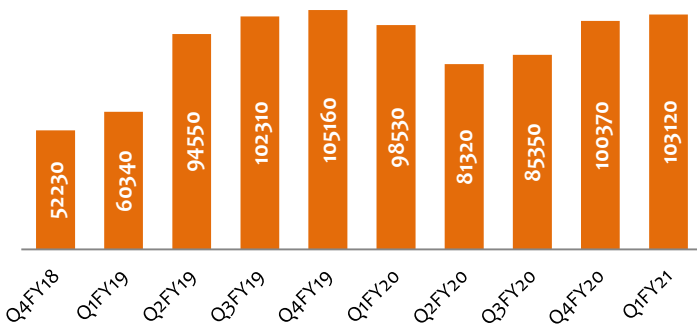
Source: Company, KRChoksey Research

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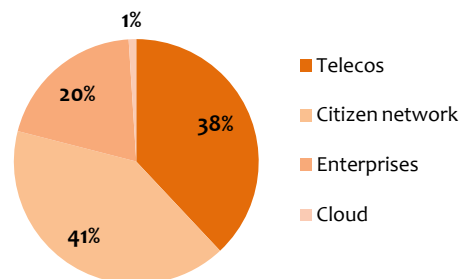
## Concall Highlights:-

- Unprecedented decade of digital network creation has started. Data usage is growing exponentially.
- All network creators are investing heavily in digital infrastructure.
- Future roadmap is built on five main strategic pillar I) Technology led E2E solutions (where increasing market share by integrated technology) II) Key accounts management (Target 20 KAMs globally) III) Large scale complex integration (developing better integration practices) IV) Ecosystem Alliances and Investments V) Top talent and culture.
- Current quarter witnessed 5G rolling out worldwide.
- T-Mobile, US announced plans to spend USD 60 Bn. on deploying 5G networks over the next 5 Years.
- Chinese telecom companies have announced massive tenders for 5G rollout.
- As of May 2020, there were close to 300 operators investing in 5G commercial services.
- Customers are adopting 5G at unprecedented rates. I) Deutsche telekom has reached 16 Mn subscribers. II) Chinese telecom companies added 22Mn 5G subscribers in one month.
- Scheme of AtamNirbhar Bharat to benefit STL as Indian companies are developing indigenous technology. STL is already into Radio and virtual access solution which is designed and manufactured in India with collaboration with strategic partners.
- Due to geopolitical changes, STL has been seeing a move away from Chinese manufactures for orders in Europe and USA.
- Growth in optical Fibre demand is coming back from H2 2020. The overall demand contracted by 9% in H1 2020 while it is expected to grow by 6% in H2 2020.
- China tender pricing seems lower compare to last year by almost 25%. This shall have negative impact on Fibre and cable industry in China. Current pricing environment to become unsustainable for smaller player and industry is going to consolidate in Chinese ecosystem.
- STL is forming deep customer relations and moved much ahead to provide end-to-end solutions. Offering total integrated products to its clients.
- Despite global lockdown due to COVID-19, STL's participation funnel is growing.
- Order participation funnel increased from 7000 Cr in Q4FY20 to 10100 Cr in Q1FY21 current year. Healthy funnel participation is also converting into the order book.
- Revenue mix is balanced across customers and geographies, revenue from Europe and middle east has gone up. Sales outside domestic market remain strong.
- H2FY21 is expected to be better than H2FY20. Margins in the range of 18-20% and ROCE of greater than 20%.

Order Book (INR Mn)



Order book customer segment wise



# Sterlite Technologies Limited

## Income Statement

Particulars (INR Mn)	FY19	FY20	FY21E	FY22E
Net Sales	50,873	51,543	49,192	60,087
Total Operating Expenditure	39,601	40,851	40,445	48,532
EBIDTA	11,272	10,692	8,747	11,555
Less: Depreciation & Amortization	1,950	2,903	3,133	3,165
EBIT	9,322	7,790	5,613	8,390
Interest Paid	1,055	2,210	2,002	1,883
Non-operating Income	369	343	297	300
Profit Before tax	8,635	5,922	3,909	6,807
Tax	2,782	1,089	997	1,736
PAT	5,628	4,333	2,868	4,995
EPS	13.99	10.76	7.13	12.41

Source: Company, KRChoksey Research

## Balance Sheet

Particulars (INR Mn)	FY19	FY20	FY21E	FY22E
Cash & bank	2,337	2,440	1,391	2,972
Debtors	13,549	15,631	15,372	15,022
Inventory	5,897	4,518	7,483	6,627
other current assets	17,999	15,088	13,873	16,429
Total Current Assets	39,781	37,678	38,119	41,050
Net Block	23,174	28,400	29,933	30,268
Other non-current assets	7,237.2	5,999.8	5,059.6	5,059.6
Total non-current assets	30,411	34,400	34,992	35,328
Total Assets	70,123	72,090	73,111	76,377
Creditors	19,127.5	14,303.0	15,405.5	12,193.1
other current liabilities	22,274	25,481	25,369	28,076
Current Liabilities	41,401	39,784	40,775	40,269
Borrowings	9,348	9,700	9,148	9,048
Other non current Liabilities	1,226	2,376	792	967
Total non-current liabilities	10,575	12,076	9,940	10,016
Total Liabilities	51,975	51,860	50,715	50,285
Paid-up capita	805	808	808	808
Reserves & surplus	16,388	18,390	20,512	24,209
Shareholders' equity	17,193	19,198	21,320	25,017
Minority Interest	954.00	1,031.80	1,075.48	1,075.48
Total shareholders' equity	18,147	20,230	22,396	26,092
Total Equity & Liabilities	70,123	72,090	73,111	76,377

Source: Company, KRChoksey Research

# Sterlite Technologies Limited

## Cashflow Statement

Particulars (INR Mn)	FY19	FY20	FY21E	FY22E
Net Cash Generated From Operations	6310	6964	6913	8464
Net Cash Flow from/(used in) Investing Activities	(11721)	(6266)	(4500)	(3500)
Net Cash Flow from Financing Activities	5701	(679)	(3456)	(3382)
Net Inc./Dec in cash equivalents	291.20	19.50	(1042)	1581

Source: Company, KRChoksey Research

## Ratios

Particulars	FY19	FY20	FY21E	FY22E
EPS (INR.)	13.99	10.76	7.13	12.41
EBITDA Margin%	22.16%	20.74%	17.78%	19.23%
PAT Margin%	11.06%	8.41%	5.83%	8.31%
ROE%	32.73%	22.57%	13.45%	19.97%
ROCE%	25.63%	18.91%	13.18%	18.21%

Source: Company, KRChoksey Research



# Sterlite Technologies Limited

## 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%

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