

## Revenue growth comes back; Traction key ahead!

Sterlite Tech's (STL) performance in Q3FY21 was a mixed bag as topline beat (with growth returning after 4 quarters of decline) was offset by lower than expected margins. Revenues came in at ₹ 1314 crore, up 9.3% YoY. Product and services were in the ratio of 55:45. EBITDA came in at ₹ 230 crore, down 4.7% YoY, owing to revenue mix. Reported EBITDA margins came in at 17.5%, down 257 bps YoY. PAT came in line at ₹ 86.6, up 64.6% YoY, as Q3FY20 had one-off tax settlement. On adjusted basis, PAT was down 4% YoY.

## Management expect growth momentum to continue

STL has indicated that capacity utilisations are at all-time high and execution on the ground for services also continues to improve on Q-o-Q basis. It has guided for continued growth in Q4FY21 on QoQ basis. It has indicated that Optical fiber demand has revived by investments in digital infrastructure. Globally, OFC Industry volumes in H22020 have grown by 5% YoY and STL volumes have grown faster than the industry high. STL perceives that unprecedented decade of digital network creation. **Factors such as adoption of open source standard and software defined networking, are some of the drivers of growth for the company ahead, in the medium term.** We bake in revenues CAGR of ~14.5% over FY20-23E. After a decline of 5% YoY in FY21 revenues, we expect FY22 revenues to witness a spurt (up ~33% YoY) driven by improved capacity utilisation as well as continued traction in solutions based business, with FY23 revenues growth at ~19%YoY. We build in margins of 19% for FY22E and FY23E, based on management guidance of margin band of 18-20%.

## Order book visibility remain robust...

The order book was at ₹ 10737 crore (vs. ₹ 10705 crore in Q2), of which O&M portion was 25%. STL expects outstanding order execution worth ₹ 1501 crore in Q4FY21, ₹ 5470 crore in FY22 and remaining in FY23 and thereafter. The Open Participation Funnel has grown by ~15% QoQ to ₹ 13800 crore. The order inflows traction has been encouraging with key order wins in Q3 such as a) five year, multi-million-dollar contract for supply, warranty & maintenance of 5G RAN systems platform, b) Opticonn solution for a leading telecom player in Europe and c) IBR cable (6912 fibers) for a leading hyperscale company

## Valuation & Outlook

The recovery in revenue growth is a key positive, however, we note that the fibre pricing weakness persists. We upgrade to **HOLD** (vs. **REDUCE** earlier), valuing it at revised target price of ₹ 200/share, largely on the back of reversal of revenue decline cycle. We would, however, await improvement in leverage (net debt was at ₹ 2158 crore as on Q2FY21) backed by cash flows generation and pricing improvement before turning constructive.

### Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales (₹ crore)	5,087.3	5,154.4	4,891.8	6,500.9	7,734.8	14.5
EBITDA (₹ crore)	1,127.2	1,069.3	847.1	1,236.8	1,471.6	11.2
Net Profit (₹ crore)	562.8	433.9	287.1	464.4	597.0	11.2
EPS (₹)	14.0	10.8	7.3	11.7	15.1	
P/E (x)	13.8	17.9	26.6	16.5	12.8	
Price / Book (x)	4.5	4.1	4.0	3.6	3.1	
EV/EBITDA (x)	8.4	9.0	11.5	8.1	6.8	
RoE (%)	33.0	25.0	15.1	21.7	23.9	
RoCE (%)	27.8	20.9	14.6	20.7	23.1	

Source: Company, ICICI Direct Research



### Particulars

Particular	Amount
Market Capitalization (₹ crore)	7,646.9
Total Debt (FY20) (₹ crore)	2,448.0
Cash & Inv (FY20) (₹ crore)	477.6
EV (₹ crore)	9,617.3
52 week H/L (₹)	198/ 60
Equity capital (₹ crore)	80.2
Face value (₹)	2.0

### Key Highlights

- STL has indicated that capacity utilisations are at all-time high and execution on the ground for services also continues to improve on Q-o-Q basis. It has guided for continued growth in Q4FY21 on QoQ basis.
- We upgrade to **HOLD** (vs. **REDUCE** earlier), largely on the back of reversal of revenue decline cycle. We value it at ₹ 200/share rolling over to FY23 (implying 7x FY23E EV/EBITDA and 13x FY23E P/E)

### Key Risks to our call

- Faster than expected pricing recovery could lead to better than expected earnings and further multiples rerating
- Continued higher leverage could stall the earnings growth trajectory

### Research Analyst

Bhupendra Tiwary, CFA  
bhupendra.tiwary@icicisecurities.com

**Exhibit 1: Variance Analysis**

	Q3FY21	Q3FY21E	Q3FY20	Q2FY21	YoY (%)	QoQ (%)	Comments
Revenue	1,314.4	1,263.2	1,202.7	1,159.5	9.3	13.4	
Other Income	7.7	9.3	6.0	9.3	27.1	-18.1	
Cost of raw material	698.4	568.4	562.8	584.8	24.1	19.4	
Purchase of traded goods	0.0	12.6	-0.5	0.8	NA	NA	
Employee Expenses	164.3	145.3	164.8	157.0	-0.3	4.7	
(Increase) / decrease in inventories	-35.4	18.9	6.7	-8.2	-631.7	330.3	
Other Expenses	257.1	283.0	227.5	222.8	13.0	15.4	
EBITDA	230.1	234.9	241.4	202.4	-4.7	13.6	
EBITDA Margin (%)	17.5	18.6	20.1	17.5	-257 bps	4 bps	Margins were lower owing to revenues mix
Depreciation	68.2	81.6	70.1	81.6	-2.7	-16.5	
Interest	49.8	51.0	55.7	49.8	-10.7	0.0	
Total Tax	33.3	30.1	19.1	23.6	74.0	41.2	
PAT	86.6	84.7	52.6	58.5	64.6	48.2	PAT beat aided by lower depreciation

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

₹ Crore	FY21E			FY22E			FY23E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	5,103.7	4,891.8	-4.2	6,500.9	6,500.9	0.0	7,734.8	Realign after management commentary and Q3 results
EBITDA	917.7	847.1	-7.7	1,236.8	1,236.8	0.0	1,471.6	
EBITDA Margin (%)	18.0	17.3	-66 bps	19.0	19.0	0 bps	19.0	
PAT	320.3	287.1	-10.4	467.2	464.4	-0.6	597.0	
EPS (₹)	8.1	7.3	-10.4	11.8	11.7	-0.6	15.1	

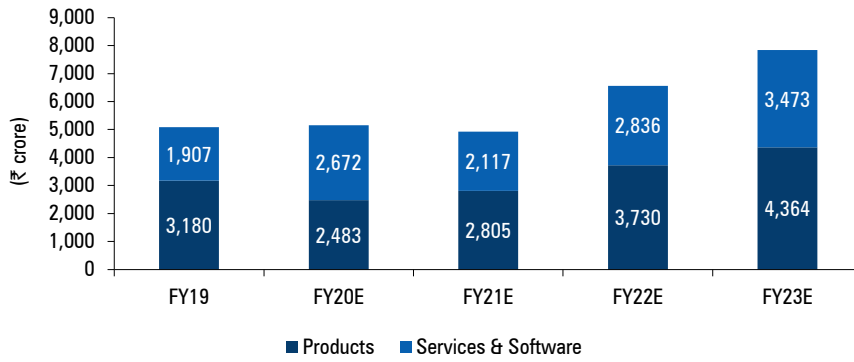
Source: Company, ICICI Direct Research

## Business Highlights

- **Global fibre demand:** Global fibre demand in H22020 have grown by 5% YoY and STL volumes have grown faster than the industry high. STL perceives that unprecedented decade of digital network creation. **Factors such as adoption of open source standard and software defined networking, are some of the drivers of growth for the company ahead, in the medium term.** STL indicated that demand/supply construct is now improving gradually in US and European markets.
- **Capacity expansion:** STL has now reinstated the Cable capacity expansion plan (to 33 mn Fkm from 18 mn Fkm) and expects the capacity to come on ground by June, 2021 in gradual manner.
- **Order Inflow & Project status:** The order inflows traction has been encouraging with key order wins in Q3 such as a) five year, multi-million-dollar contract for supply, warranty & maintenance of 5G RAN systems platform, b) Opticonn solution for a leading telecom player in Europe and c) IBR cable (6912 fibers) for a leading hyperscale company. Project Varun (Indian Navy project) is 87% complete. Mahanet package A is 92% complete, while package B is 34% completed. Key new projects under execution are T-Fibre project (order size ₹ 1700-1800 crore), package A is 18% completed, while package B is 13% completed, and Fibre and FTTH rollout for two large telcos, and 21% and 2% complete, respectively.
- **Others**
  - Decline in depreciation owing to amortization of Elitecore Goodwill which is now fully ammortised.
  - STL is targeting sharp cash generation from H2 FY22 which will enable it to go to retire the debt and to achieve target of net debt to EBITDA at 0.5x
  - Top 21 key accounts generate 80-82% of the revenue. The company is targeting larger wallet share from the same.

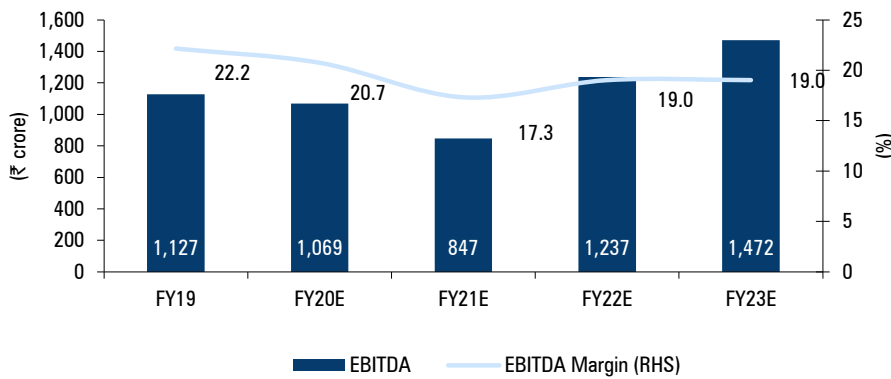
## Financial story in charts

Exhibit 3: Topline growth trend



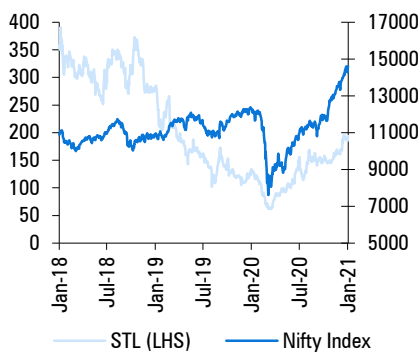
Source: Company, ICICI Direct Research

Exhibit 4: Margins to be in the range of 18-20%.



Source: Company, ICICI Direct Research

Exhibit 5: Price Chart.



Source: Bloomberg, ICICI Direct Research

## Financial summary

Exhibit 6: Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
<b>Total operating Income</b>	<b>5,154.4</b>	<b>4,891.8</b>	<b>6,500.9</b>	<b>7,734.8</b>	
Growth (%)	1.3	-5.1	32.9	19.0	
Cost of raw materials	2,467.5	2,390.9	3,086.3	3,672.1	
Employee Expenses	629.8	645.6	747.6	889.5	
Administrative Expenses	987.8	1,008.2	1,430.2	1,701.7	
Total Operating Expenditure	4,085.1	4,044.7	5,264.1	6,263.3	
<b>EBITDA</b>	<b>1,069.3</b>	<b>847.1</b>	<b>1,236.8</b>	<b>1,471.6</b>	
Growth (%)	-5.1	-20.8	46.0	19.0	
Depreciation	290.3	293.5	344.5	409.9	
Interest	221.0	201.4	305.0	307.2	
Other Income	34.3	35.8	40.0	50.0	
Exceptional Items	59.0	2.7	-	-	
PBT	533.3	385.3	627.3	804.4	
Minority Interest	(9.5)	(8.3)	5.0	5.0	
Profit from Associates	-	-	-	-	
Total Tax	108.9	106.5	157.8	202.4	
<b>PAT</b>	<b>433.9</b>	<b>287.1</b>	<b>464.4</b>	<b>597.0</b>	
Growth (%)	-22.9	-33.8	61.8	28.5	
<b>EPS (₹)</b>	<b>10.8</b>	<b>7.3</b>	<b>11.7</b>	<b>15.1</b>	

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after Tax	433.9	287.1	464.4	597.0	
Add: Depreciation	290.3	293.5	344.5	409.9	
Add: Interest paid	221.0	201.4	305.0	307.2	
(Inc)/dec in Current Assets	319.3	171.7	-1,051.8	-806.7	
Inc/(dec) in CL and Provisions	-577.1	-87.7	537.1	411.9	
Others	0.0	0.0	0.0	0.0	
<b>CF from operating activities</b>	<b>687.4</b>	<b>866.0</b>	<b>599.3</b>	<b>919.4</b>	
(Inc)/dec in Investments	-197.9	150.0	50.0	50.0	
(Inc)/dec in Fixed Assets	-580.9	-500.0	-300.0	-300.0	
Others	203.1	-9.7	-10.7	-11.7	
<b>CF from investing activities</b>	<b>-575.7</b>	<b>-359.7</b>	<b>-260.7</b>	<b>-261.7</b>	
Issue/(Buy back) of Equity	0.3	-1.7	0.0	0.0	
Inc/Dec in Minority Interest	7.8	-8.3	5.0	1.3	
Issue of Preference Shares	0.0	0.0	0.0	0.0	
Inc/(Dec) in loan funds	345.8	150.0	50.0	0.0	
Interest paid	-221.0	-201.4	-305.0	-307.2	
Others	-233.7	-286.9	-238.4	-238.4	
<b>CF from financing activities</b>	<b>-100.9</b>	<b>-348.3</b>	<b>-488.4</b>	<b>-544.3</b>	
Net Cash flow	10.9	158.0	-149.8	113.4	
Opening Cash	233.7	244.5	402.5	252.7	
<b>Closing Cash</b>	<b>244.5</b>	<b>402.5</b>	<b>252.7</b>	<b>366.1</b>	

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
<b>Liabilities</b>					
Equity Capital	80.8	79.1	79.1	79.1	
Preference Share Capital	0.0	0.0	0.0	0.0	
Reserve and Surplus	1,839.0	1,839.2	2,065.2	2,423.8	
Total Shareholders funds	1,919.8	1,918.3	2,144.3	2,503.0	
Total Debt	2,448.0	2,598.0	2,648.0	2,648.0	
Others	1,270.1	1,261.8	1,266.8	1,268.1	
<b>Total Liabilities</b>	<b>5,637.9</b>	<b>5,778.1</b>	<b>6,059.1</b>	<b>6,419.0</b>	
<b>Assets</b>					
Gross Block	4,625.4	5,125.4	5,425.4	5,725.4	
Less: Acc Depreciation	1,687.6	1,981.1	2,325.7	2,735.6	
Net Block	2,937.8	3,144.3	3,099.7	2,989.8	
Capital WIP	132.8	132.8	132.8	132.8	
Goodwill	121.8	121.8	121.8	121.8	
Total Fixed Assets	3,192.4	3,398.9	3,354.3	3,244.4	
Investments	455.1	305.1	255.1	205.1	
Inventory	451.8	428.8	569.8	678.0	
Debtors	1,563.1	1,483.5	1,971.4	2,345.7	
Loans and Advances	36.6	34.7	46.1	54.9	
Other Current Assets	1,317.9	1,250.8	1,662.2	1,977.7	
Cash	244.5	402.5	252.7	366.1	
Total Current Assets	3,614.0	3,600.3	4,502.3	5,422.3	
Creditors	1,430.3	1,357.4	1,803.9	2,146.3	
Provisions	10.9	10.4	13.8	16.4	
Other current liabilities	279.4	265.1	352.3	419.2	
Total Current Liabilities	1,720.6	1,632.9	2,170.0	2,581.9	
Net Current Assets	1,893.4	1,967.4	2,332.3	2,840.4	
Other non current assets	97.0	106.7	117.4	129.1	
<b>Application of Funds</b>	<b>5,637.9</b>	<b>5,778.1</b>	<b>6,059.1</b>	<b>6,419.0</b>	

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
<b>Per share data (₹)</b>					
EPS	10.8	7.3	11.7	15.1	
Cash EPS	18.0	14.7	20.4	25.4	
BV	47.7	48.5	54.2	63.3	
DPS	4.2	4.2	6.0	6.0	
Cash Per Share	41.9	50.1	58.8	69.1	
<b>Operating Ratios (%)</b>					
EBITDA Margin	20.7	17.3	19.0	19.0	
EBIT Margin	15.1	11.3	13.7	13.7	
PAT Margin	9.3	5.9	7.1	7.7	
Inventory days	32.0	32.0	32.0	32.0	
Debtor days	110.7	110.7	110.7	110.7	
Creditor days	101.3	101.3	101.3	101.3	
<b>Return Ratios (%)</b>					
RoE	25.0	15.1	21.7	23.9	
RoCE	20.9	14.6	20.7	23.1	
RoIC	15.7	10.9	15.8	17.7	
<b>Valuation Ratios (x)</b>					
P/E	17.9	26.6	16.5	12.8	
EV / EBITDA	9.0	11.5	8.1	6.8	
EV / Net Sales	1.9	2.0	1.5	1.3	
Market Cap / Sales	1.5	1.6	1.2	1.0	
Price to Book Value	4.1	4.0	3.6	3.1	
<b>Solvency Ratios</b>					
Debt/EBITDA	1.9	2.3	3.1	2.1	
Net Debt / Equity	1.0	1.0	1.1	1.1	
Current Ratio	1.9	2.3	2.3	2.3	
Quick Ratio	1.6	2.0	2.0	2.0	

Source: Company, ICICI Direct Research

**Exhibit 10: ICICI Direct Coverage Universe (Telecom)**

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Bharti Airtel	596	700	Buy	3,25,236	-59.0	-28.5	11.4	NM	NM	52.1	12.2	9.9	7.6	3.5	7.5	11.3	-4.7	-0.7	11.9
Indus Towers	254	220	Hold	47,026	17.8	16.4	17.6	14.3	15.5	14.5	5.8	5.6	5.2	18.1	19.7	22.2	24.4	23.4	25.9
Vodafone Idea	13	6	Sell	38,362	-25.7	-15.7	-8.5	NM	NM	NM	9.3	11.9	9.9	-5.7	-4.8	-4.2	NM	NM	NM
Sterlite Tech	193	200	Hold	7,647	10.8	7.3	11.7	17.9	26.6	16.5	9.0	11.5	8.1	27.8	20.9	14.6	33.0	25.0	15.1
Tata Comm	1,051	1,210	Buy	29,963	-3.0	44.6	46.0	NM	23.6	22.8	11.9	8.6	7.8	7.8	16.0	16.6	-22.2	NM	118.7

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

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

## ANALYST CERTIFICATION

I/We, Bhupendra Tiwary, CFA, MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report..

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.