

CMP: ₹ 304

Target: ₹ 295 (-3%)

Target Period: 12 months

HOLD

July 23, 2021

Strong performance on benign base...

About the stock: Sterlite Technologies (STL) is a leading telecommunication infrastructure player with offerings in optical fibre and cables, hyper-scale network design & deployment and network software.

- STL has announced a fresh capex of ₹ 200 crore to set up 9 mn Fkm optical fibre cable plant in the US and UK. Consequently, its overall optical fibre cable capacity is expected to expand from 33 mn Fkm to 42 mn Fkm
- On the financial front, it aims to reach ₹ 10000 crore revenue run rate by Q4FY23 along with net debt/equity < 0.5 and RoCE > 20%

Q1FY22 Results: STL reported a mixed bag quarter.

- Revenue came in at ₹ 1309 crore, up 49% YoY but down 11% QoQ
- EBITDA came in at ₹ 231.9 crore, up 90.6% YoY, down ~10% QoQ with EBITDA margins at 17.7%, up 380 bps YoY and 30 bps QoQ
- PAT was at ₹ 115.8 crore vs. ₹ 6 crore in the base quarter, down 7% QoQ. It was also aided by net exceptional gain of ₹ 16.2 crore

What should investors do? STL share price has grown by ~243% over the last five years.

- We maintain HOLD on the stock as we await improvement in leverage and sustainability of growth

Target Price and Valuation: We value STL at ₹ 295 (₹ 280, earlier), at 18x FY23 P/E.

Key triggers for future price performance:

- Transition into solution provider from product/services currently
- Demand offtake from expanded and overall fibre/cable pricing trajectory
- Improvement in leverage, which has gone up due to expansion and weak cash flow generation

Alternate Stock Idea: Apart from STL, in our coverage we like Bharti Airtel.

- A play on favourable industry structure - a good enough kicker for eventual hike in tariff as well as superior digital play in medium to long term
- BUY with target price of ₹ 690

Key Financial Summary

(Year-end March)	FY19	FY20	FY21	5 yr CAGR (FY16-21)	FY22E	FY23E	2 yr CAGR (FY21-23E)
Net Sales (₹ crore)	5,087.3	5,154.4	4,825.2	16.2	6,452.6	7,837.6	27.4
EBITDA (₹ crore)	1,127.2	1,069.3	810.7	12.0	1,162.9	1,410.8	31.9
Net Profit (₹ crore)	562.8	433.9	275.5	12.4	545.7	645.9	53.1
EPS (₹)	14.0	10.8	6.9		13.8	16.3	
P/E (x)	21.8	28.3	43.9		22.1	18.7	
Price / Book (x)	7.1	6.4	6.1		5.3	4.5	
EV/EBITDA (x)	12.3	13.1	17.9		12.8	10.5	
RoE (%)	33.0	25.0	14.0		23.2	23.9	
RoCE (%)	27.8	20.9	12.9		17.5	19.5	

Source: Company, ICICI Direct Research



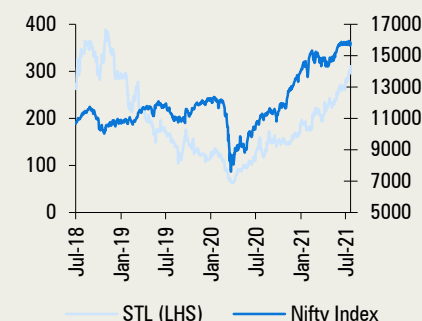
Particulars

Particular	Amount
Market Capitalization (₹ crore)	12,083.9
Total Debt (FY21) (₹ crore)	2,839.7
Cash & Inv (FY21) (₹ crore)	429.3
EV (₹ crore)	14,054.3
52 week H/L (₹)	318/ 116
Equity capital (₹ crore)	79.3
Face value (₹)	2.0

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	54.8	54.6	54.5	54.4
DII	5.7	7.3	8.6	9.7
FII	4.3	4.6	5.1	6.0
Other	35.3	33.6	31.9	29.9

Price Chart



Recent Event & key risk

- The company has acquired Clearcomm Group Ltd, a UK based network integration player
- Key Risk:** a) Continued leverage, b) Faster than expected offtake from new capacities

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Key business highlights

Company's growth outlook commentary: STL has indicated that OFC capacity utilisation is at 70%. It also said that optical fibre demand has revived by investments in digital infrastructure. Industry optical fibre volume grew 6.3% YoY to 131 mn fkm in Q1FY22 while STL market share grew to ~6.5% in Q1FY22 vs. 4.5% in Q1FY21 (5.1% in Q4FY21). STL reiterated that unprecedented decade of digital network creation is on the anvil. The company has also maintained that, going ahead, growth should be driven by growing OFC volumes, optical interconnect business, scaling up SI business (both domestically and going global) and building access solution business. We bake in revenues CAGR of ~27.4% in FY21-23E. We expect FY22 revenues to witness a spurt (up ~34% YoY) driven by improved capacity utilisation as well as continued traction in solutions based business, with FY23 revenue growth at ~22%YoY. We build in margins of 18% for FY22E and FY23E, based on management guidance of margin band of 17-18%.

Order book stays healthy: The order book was at ~₹ 11200 crore (vs. ₹ 10754 crore in Q3), of which O&M portion was 25%. STL expects outstanding order execution worth ₹ 4200 crore in remaining nine months of FY22 and rest in FY23 and thereafter. The order inflows traction has been encouraging with key order wins in Q1 such as a) Multi-million dollar deal with a large European telco for the Opticonn solution, b) Incremental order for Lead360 from a large Indian Telco and c) Strategic Partnership with a leading telecom solution provider in the UK to connect homes to broadband by deploying FTTx Mantra.

Key takeaways of conference call

- **Order inflow & project status:** Project Varun (Indian Navy project) is 95% complete. Mahanet is 92% complete. Key new projects under execution are T-Fibre project (order size ₹ 1700-1800 crore), which is 27% completed, and fibre & FTTH rollout for large Indian telco is 48% complete
- **Acquisition:** The company announced a small acquisition of Clearcomm Group Ltd, a UK based network integration company, which has annual revenues of £20 million, margin of ~13-15% in the last year and last three years' sales CAGR of 26%. The company intends to leverage platform and team to enhance offerings UK and other geographies. The transaction is structured to acquire 100% of the share capital in two tranches. Tranche 1 entails acquisition of 80% of the share capital, which will happen immediately and is based on an enterprise value of £15.5 million. The balance 20% shareholding will be acquired in 2023
- **Others**
 - The company indicated that net capex during the quarter was minimal as it received sale proceed of ₹ 67 crore land sale (out of total proceed of ₹ 75 crore)
 - On Prysmian lawsuit on patent infringement against STL in the UK High Court, the company termed it a usual competitive move and indicated that it is confident of own product and capability
 - Net debt was at over ₹ 2600 crore vs. ₹ 2410 crore in Q4

STL is uniquely positioned to benefit from 5G cycle both domestically and globally. The attempt to transition into solutions player is a step in the right direction, albeit traction ahead will be key. We await improvement in leverage, some growth traction and better capital allocation before turning constructive.

Exhibit 1: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	Q4FY21	YoY (%)	QoQ (%)	Comments
Revenue	1,309.2	1,348.2	876.2	1,475.0	49.4	-11.2	The topline growth was largely on benign base and pick up in OFC segment
Other Income	6.5	11.3	9.5	16.5	-31.5	-60.3	
Cost of raw material	659.8	647.1	396.5	854.1	66.4	-22.7	
Purchase of traded goods	1.9	13.5	0.3	0.0	NA	NA	
Employee Expenses	193.4	148.3	147.1	179.1	31.5	8.0	
(Increase) / decrease in inventories	-71.9	20.2	21.5	-117.8	-434.1	-39.0	
Other Expenses	294.2	289.9	189.1	303.2	55.5	-3.0	
EBITDA	231.9	229.2	121.7	256.5	90.6	-9.6	
EBITDA Margin (%)	17.7	17.0	13.9	17.4	383 bps	32 bps	
Depreciation	69.9	61.2	74.2	61.2	-5.8	14.1	
Interest	49.4	55.0	50.1	53.4	-1.3	-7.4	
Total Tax	38.4	34.8	4.1	50.3	831.6	-23.8	
PAT	115.8	91.4	6.0	124.4	1,842.1	-7.0	PAT was also aided by exceptional gain

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	6,592.7	6,452.6	-2.1	7,734.8	7,837.6	1.3	Realign after management commentary and Q1 results
EBITDA	1,186.7	1,162.9	-2.0	1,392.3	1,410.8	1.3	
EBITDA Margin (%)	18.0	18.0	2 bps	18.0	18.0	0 bps	
PAT	541.7	545.7	0.7	622.3	645.9	3.8	
EPS (₹)	13.7	13.8	0.7	15.7	16.3	3.8	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 3: Profit & loss statement (₹ crore)				
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	5,154.4	4,825.2	6,452.6	7,837.6
Growth (%)	1.3	-6.4	33.7	21.5
Cost of raw materials	2,467.5	2,394.9	3,165.4	3,918.8
Employee Expenses	629.8	647.4	775.8	901.3
Administrative Expenses	987.8	972.2	1,348.6	1,606.7
Total Operating Expenditure	4,085.1	4,014.5	5,289.8	6,426.9
EBITDA	1,069.3	810.7	1,162.9	1,410.8
Growth (%)	-5.1	-24.2	43.4	21.3
Depreciation	290.3	285.3	309.7	399.7
Interest	221.0	203.0	247.9	265.9
Other Income	34.3	43.0	40.3	50.0
Exceptional Items	59.0	3.6	(17.5)	-
PBT	533.3	361.8	663.0	795.2
Minority Interest	(9.5)	(10.1)	(14.8)	(12.0)
Profit from Associates	-	14.9	38.7	38.7
Total Tax	108.9	111.3	170.8	200.1
PAT	433.9	275.5	545.7	645.9
Growth (%)	-22.9	-36.5	98.1	18.4
EPS (₹)	10.8	6.9	13.8	16.3

Source: Company, ICICI Direct Research,

Exhibit 4: Cash flow statement (₹ crore)				
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	433.9	275.5	545.7	645.9
Add: Depreciation	290.3	285.3	309.7	399.7
Add: Interest paid	221.0	203.0	247.9	265.9
(Inc)/dec in Current Assets	346.4	-720.7	-1,346.0	-1,171.7
Inc/(dec) in CL and Provisions	203.7	385.5	911.4	671.4
Others	0.0	0.0	0.0	0.0
CF from operating activities	1,495.4	428.5	668.7	811.1
(Inc)/dec in Investments	-197.9	30.1	130.0	50.0
(Inc)/dec in Fixed Assets	-580.9	-323.8	-550.0	-250.0
Others	-604.9	-106.8	-5.7	-6.3
CF from investing activities	-1,383.6	-400.5	-425.7	-206.3
Issue/(Buy back) of Equity	0.3	-1.5	0.0	0.0
Inc/Dec in Minority Interest	7.8	-5.1	-14.8	-3.0
Issue of Preference Shares	0.0	0.0	0.0	0.0
Inc/(Dec) in loan funds	345.8	391.8	50.0	0.0
Interest paid	-221.0	-203.0	-247.9	-265.9
Others	-233.7	-206.4	-239.0	-239.0
CF from financing activities	-100.9	-24.2	-451.7	-507.8
Net Cash flow	10.9	3.8	-208.6	97.0
Opening Cash	233.7	244.5	248.3	39.7
Closing Cash	244.5	248.3	39.7	136.7

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet (₹ crore)				
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	80.8	79.3	79.3	79.3
Preference Share Capital	0.0	0.0	0.0	0.0
Reserve and Surplus	1,839.0	1,908.1	2,214.8	2,621.6
Total Shareholders funds	1,919.8	1,987.4	2,294.1	2,701.0
Total Debt	2,448.0	2,839.7	2,889.7	2,889.7
Others	461.7	650.7	635.9	632.9
Total Liabilities	4,829.5	5,477.8	5,819.7	6,223.6
Assets				
Gross Block	4,622.2	4,851.6	5,401.6	5,651.6
Less: Acc Depreciation	1,684.4	1,969.7	2,279.4	2,679.1
Net Block	2,937.8	2,881.9	3,122.2	2,972.5
Capital WIP	132.8	227.2	227.2	227.2
Goodwill	121.8	292.1	292.1	292.1
Total Fixed Assets	3,192.4	3,401.2	3,641.5	3,491.8
Investments	455.1	595.3	465.3	415.3
Inventory	451.8	626.4	813.2	998.5
Debtors	1,563.1	1,451.4	1,941.0	2,357.6
Loans and Advances	51.5	33.8	45.3	55.0
Other Current Assets	1,275.8	1,951.4	2,609.5	3,169.6
Cash	244.5	248.4	39.7	136.7
Total Current Assets	3,586.8	4,311.4	5,448.7	6,717.4
Creditors	1,430.3	1,943.7	2,599.2	3,157.1
Provisions	10.9	11.0	14.7	17.8
Other current liabilities	1,060.1	932.2	1,184.3	1,294.7
Total Current Liabilities	2,501.3	2,886.9	3,798.2	4,469.6
Net Current Assets	1,085.5	1,424.5	1,650.4	2,247.8
Other non current assets	96.5	56.9	62.5	68.8
Application of Funds	4,829.5	5,477.8	5,819.7	6,223.6

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	10.8	6.9	13.8	16.3
Cash EPS	18.0	14.1	21.6	26.4
BV	47.7	50.1	57.8	68.1
DPS	4.2	4.2	6.0	6.0
Cash Per Share	41.8	49.7	57.5	67.5
Operating Ratios (%)				
EBITDA Margin	20.7	16.8	18.0	18.0
EBIT Margin	15.1	10.9	13.2	12.9
PAT Margin	9.3	5.8	8.3	8.2
Inventory days	32.0	47.4	46.0	46.5
Debtor days	110.7	109.8	109.8	109.8
Creditor days	101.3	147.0	147.0	147.0
Return Ratios (%)				
RoE	25.0	14.0	23.2	23.9
RoCE	20.9	12.9	17.5	19.5
RoIC	15.8	10.3	14.1	15.6
Valuation Ratios (x)				
P/E	28.3	43.9	22.1	18.7
EV / EBITDA	13.1	17.9	12.8	10.5
EV / Net Sales	2.7	3.0	2.3	1.9
Market Cap / Sales	2.3	2.5	1.9	1.5
Price to Book Value	6.4	6.1	5.3	4.5
Solvency Ratios				
Debt/EBITDA	1.9	2.3	3.5	2.5
Net Debt / Equity	1.0	1.0	1.2	1.2
Current Ratio	1.9	2.3	2.1	2.1
Quick Ratio	1.6	2.0	1.8	1.8

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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