

October 26, 2023

RESULT REPORT Q2 FY24 | Telecommunication

Sterlite Technologies

Muted performance for the quarter; Witnessing softer demand in the North American market

Result Synopsis

Sterlite Technologies (SOTL) reported mixed operating performance for the quarter. The sequential revenue growth was below expectation; while EBITDA margin was as per estimates. Revenue declined by 1.8% QoQ, led by 2.5% QoQ decrease in Global networking segment; the Global Services segment grew by 6.2% QoQ as it continues to realign its Services segment with higher focus on profitability. There was sequential improvement in EBITDA margin (up 20 bps QoQ) led by focus on cost optimization. Order book was down 3.9% YoY to Rs 105bn.

SOTL is expected to benefit from multi-year digital creation cycle led by 5G, FTTx and fibre demand from hyperscalars. Also, optical cable prices are broadly steady globally and provides revenue visibility. It has been gaining market share in global OFC market. However, we expect that revenue from the US market would continue to be muted over next 2-3 quarter and that would have an impact on overall revenue for FY24. We expect EBITDA margin to improve going ahead led by continued focus on cost optimization and easing off certain cost pressure related to raw material. It has been able to pass some increase in cost to customers. The moderation in capex intensity will help to keep debt under control. We estimate revenue CAGR of 9.1% over FY23-25E with average EBITDA margin of 15.6%. We change our Rating on the stock from ADD to NEUTRAL with revised target price of Rs 156/share based on EV/EBITDA of 6.5x on FY25E. The stock trades at EV/EBITDA of 9.0x/6.4x on FY24E/FY25E.

Result Highlights

- Reported revenue of Rs 14.9bn (down 1.8% QoQ, down 11.2% YoY). The Global networking segment decreased by 2.5% QoQ; Global Services segment increased by 6.2% QoQ. While, Digital and Technology segment grew by 26% QoQ on account of low base.
- EBITDA margin increased by 20 bps QoQ to 14.3% due to decrease in overall direct cost by 2.1% QoQ.
- Order book was down 3.9% YoY to Rs 105bn.
- Its market share in Global ex- China OFC market YoY remained flat at 11% in H1CY23.
- Reported PAT (after MI) of Rs 340mn (down 37.0% QoQ) vs Rs 540mn in Q1FY24.
- Expects revenue to decline for FY24; Significant focus on Net Debt reduction for FY24.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	14,940	16,624	17,850	-10.1%	-16.3%
EBITDA	2,130	2,494	2,820	-14.6%	-24.5%
EBITDA Margin (%)	14.26%	15.00%	15.80%	-75 bps	-154 bps
Adjusted PAT	340	806	1,110	-57.8%	-69.4%

Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 150
Target Price	: Rs 156
Potential Return	: + 4%

Stock data (as on October 26, 2023)

Nifty	18,857
52 Week h/l (Rs)	193 / 142
Market cap (Rs/USD mn)	60210 / 724
Outstanding Shares (mn)	399
6m Avg t/o (Rs mn):	200
Div yield (%):	0.6
Bloomberg code:	SOTL IN
NSE code:	STLTECH

Stock performance



	1M	3M	1Y
Absolute return	-6.5%	0.8%	-8.8%

Shareholding pattern (As of Sep'23 end)

Promoter	54.0%
FII+DII	7.4%
Others	38.6%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	ADD
Target Price	156	177

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	6.1	13.5
EPS (Old)	9.3	15.2
% change	-34.8%	-11.2%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	69,220	67,504	81,456
YoY Growth	27.4%	-2.5%	20.7%
EBIDTA	8,910	9,872	13,440
YoY Growth	34.6%	10.8%	36.2%
PAT	2,440	2,434	5,419
YoY Growth	74.6%	-0.2%	122.6%
ROE	12.1%	11.2%	22.0%
EPS	6.1	6.1	13.5
P/E	24.7	24.7	11.1
BV/share	52	57	66
EV/EBITDA	10.3	9.0	6.4

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Exhibit 2: Quarterly snapshot Console: EBITDA Margin continues to improve sequentially

Particulars	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY%	QoQ%	H1FY24	H1FY23	YoY%
Sales (Rs mn)	16,830	18,820	18,720	15,220	14,940	-11.2	-1.8	30,160	31,680	-4.8
EBITDA	2,310	2,430	2,560	2,140	2,130	-7.8	-0.5	4,270	3,920	8.9
EBITDA %	13.7	12.9	13.7	14.1	14.3	53 bps	20 bps	14.2	12.4	178 bps
Depreciation	760	780	780	810	850	11.8	4.9	1,660	1,530	8.5
EBIT	1,550	1,650	1,780	1,330	1,280	-17.4	-3.8	2,610	2,390	9.2
EBIT Margin %	9.2	8.8	9.5	8.7	8.6	-64 bps	-17 bps	8.7	7.5	111 bps
Other income	50	100	250	220	50	0.0	-77.3	270	90	200.0
Interest cost	770	780	890	920	950	23.4	3.3	1,870	1,440	29.9
PBT	830	970	1,140	630	380	-54.2	-39.7	1,010	1,040	-2.9
Tax	210	230	340	190	120	-42.9	-36.8	310	270	14.8
PAT (excl. MI)	440	510	650	540	340	NA	-37.0	880	230	282.6
NPM (%)	2.6	2.7	3.5	3.5	2.3	-34 bps	-127 bps	2.9	0.7	219 bps

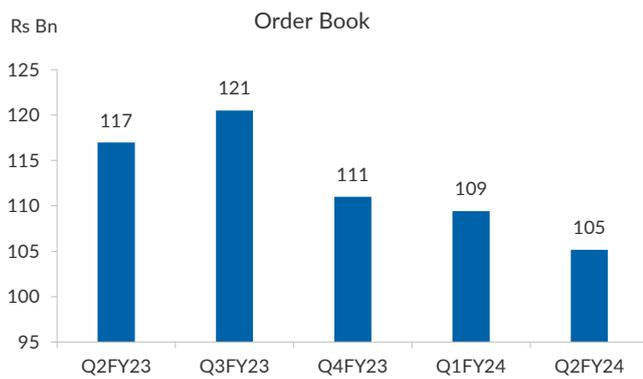
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- North America data center capex market is forecasted to reach \$90 billion by 2027.
- Increase in sales in EMEA, India and APAC markets to fill the short-term volume gap from North America market.
- Ramp up of the US plant to be driven by expected demand surge in North America by Q1FY25.
- Digital Business continues to grow and expected to achieve EBITDA break even by Q4 FY24.
- Completion of capex cycle with the US plant operationalization; Capital Allocation priority towards debt reduction.
- Revised FY24 guidance: Expect revenue to decline for FY24; Significant focus on Net Debt reduction for FY24.
- Company has filed the Services business demerger scheme with the exchanges; Expects to complete the demerger by Q1 FY25.
- Expects to reduce debt by Rs 200 crore in FY24.

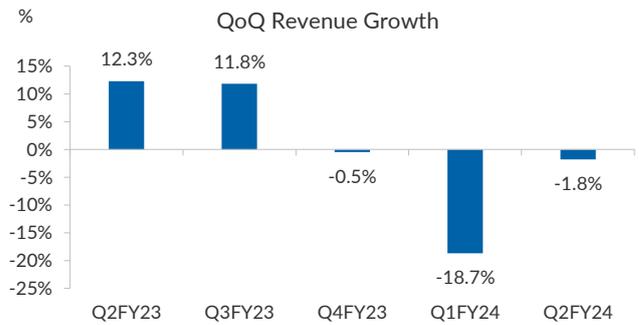
STORY IN CHARTS

Exhibit 3: Orderbook was down sequentially



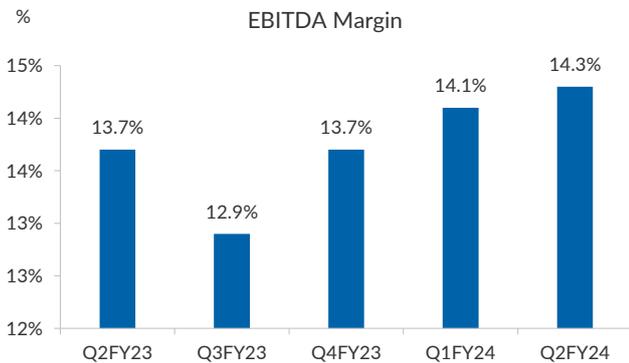
Source: Company, YES Sec

Exhibit 4: Sequential revenue performance was weak due to lower international sales



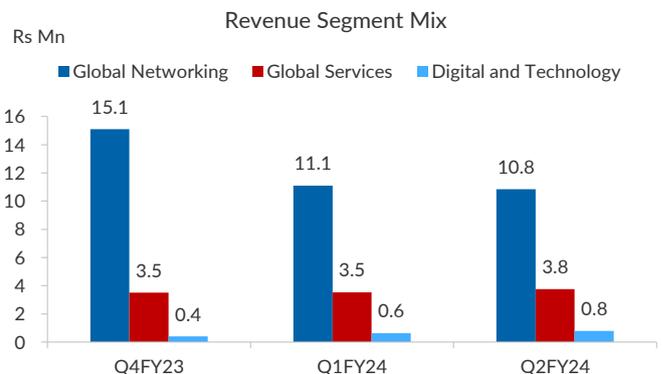
Source: Company, YES Sec

Exhibit 5: EBITDA margin improved sequentially on lower raw material cost



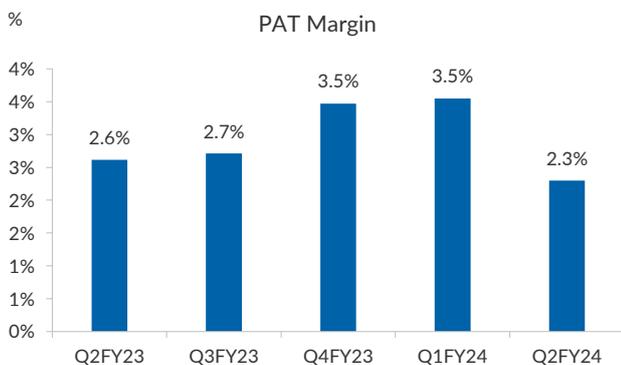
Source: Company, YES Sec

Exhibit 6: Global networking was impacted due to weak performance from the US market



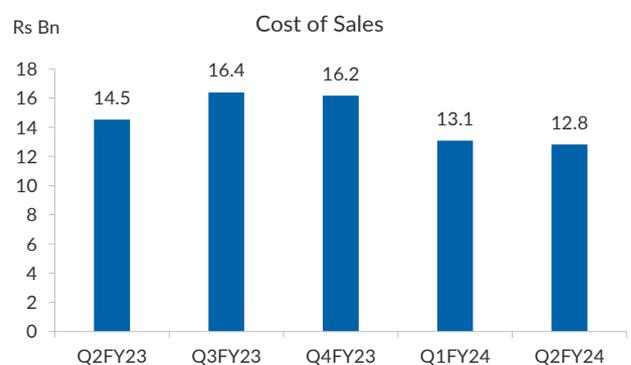
Source: Company, YES Sec

Exhibit 7: PAT margin decreased below 3%



Source: Company, YES Sec

Exhibit 8: Cost of sales was lower sequentially



Source: Company, YES Sec

FINANCIALS

Exhibit 9: Balance Sheet

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Reserves & surplus	18,390	19,081	18,750	20,110	21,912	25,705
Shareholders' funds	19,198	19,874	19,550	20,910	22,712	26,505
Non-current liabilities	12,076	15,170	18,220	12,420	12,148	11,947
Long-term borrowings	9,700	12,557	15,360	10,020	9,519	9,043
Other non-current liabilities	2,376	2,613	2,860	2,400	2,629	2,904
Current liabilities	39,784	44,701	48,900	55,280	53,971	57,479
Other current liabilities	27,479	32,361	31,150	28,630	29,986	35,893
Total (Equity and Liabilities)	72,090	80,726	87,590	88,650	88,875	95,980
Non-current assets	34,407	36,046	37,780	36,590	37,483	38,604
Fixed assets (Net block)	30,706	31,091	32,240	31,500	32,262	33,188
Non-current Investments	1,003	1,223	920	960	960	960
Other non-current assets	2,333	3,560	4,580	4,100	4,231	4,427
Current assets	37,683	44,680	49,810	52,060	51,392	57,376
Cash & current investment	4,776	4,293	5,300	5,470	5,035	5,174
Other current assets	32,907	40,387	44,510	46,590	46,357	52,202
Total (Assets)	72,090	80,726	87,590	88,650	88,875	95,980

Source: Company, YES Sec

Exhibit 10: Income Statement

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	51,544	48,252	54,320	69,220	67,504	81,456
Operating expenses	(40,851)	(40,145)	(47,700)	(60,310)	(57,632)	(68,016)
EBITDA	10,693	8,106	6,620	8,910	9,872	13,440
Depreciation	(2,903)	(2,853)	(3,080)	(3,090)	(3,405)	(3,258)
Other income	343	578	640	440	473	436
EBIT	8,133	5,832	4,180	6,260	6,939	10,618
Exceptional & extraordinary	0	0	0	0	0	0
Profit before tax	5,923	3,802	1,800	3,150	3,248	7,189
Tax (current + deferred)	(1,089)	(1,113)	(570)	(840)	(873)	(1,809)
Profit / (Loss) for the period	4,834	2,689	1,230	2,310	2,374	5,379
Reported Profit / (Loss)	4,929	2,790	1,397	2,440	2,434	5,419
Adjusted net profit	4,929	2,790	1,397	2,440	2,434	5,419

Source: Company, YES Sec

Exhibit 11: Cash Flow Statement

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	5,923	3,802	1,800	3,150	3,248	7,189
Depreciation	2,903	2,853	3,080	3,090	3,405	3,258
Change in working capital	(501)	(2,405)	(5,200)	(4,590)	1,592	66
Total tax paid	(1,260)	(830)	(1,005)	(1,490)	(919)	(1,865)
Cash flow from oper. (a)	8,932	4,872	415	2,830	10,544	11,642
Capital expenditure	(5,809)	(3,238)	(4,229)	(2,350)	(4,167)	(4,184)
Change in investments	(1,979)	301	2,112	(440)	0	0
Others	62	1,087	(299)	760	496	425
Cash flow from inv. (b)	(7,726)	(1,850)	(2,416)	(2,030)	(3,671)	(3,759)
Free cash flow (a+b)	1,207	3,022	(2,000)	800	6,873	7,883
Equity raised/(repaid)	3	(15)	7	0	0	0
Debt raised/(repaid)	2,830	2,892	8,213	3,560	(3,166)	(2,874)
Dividend (incl. tax)	(1,411)	(1,378)	(794)	(200)	(772)	(1,626)
Others	(2,521)	(4,483)	(2,610)	(4,390)	(3,370)	(3,244)
Cash flow from fin. (c)	(1,098)	(2,983)	4,817	(1,030)	(7,308)	(7,744)
Net chg in cash (a+b+c)	109	38	2,816	(230)	(435)	139

Source: Company, YES Sec

Exhibit 12: Ratio Analysis

Y/e March 31	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue Growth	1.3	(6.4)	12.6	27.4	(2.5)	20.7
EBITDA Growth	(5.1)	(24.2)	(18.3)	34.6	10.8	36.2
EBIT Growth	(16.1)	(28.3)	(28.3)	49.8	10.8	53.0
Net Profit Growth	(13.6)	(43.4)	(49.9)	74.6	(0.2)	122.6

Profitability Ratios(%)						
EBITDA Margin	20.7	16.8	12.2	12.9	14.6	16.5
EBIT margin	15.8	12.1	7.7	9.0	10.3	13.0
Net Profit margin	9.6	5.8	2.6	3.5	3.6	6.7
RoA	11.4	7.6	5.0	7.1	7.8	11.5
RoE	27.1	14.3	7.1	12.1	11.2	22.0
RoCE	19.6	12.5	8.0	10.8	11.7	17.8

Valuation Ratios						
PER(x)	NA	NA	42.3	24.7	24.7	11.1
PCE(x)	NA	NA	13.2	10.9	10.3	6.9
Price/Book(x)	NA	NA	3.0	2.9	2.7	2.3
EV/EBITDA(x)	NA	NA	13.1	10.3	9.0	6.4

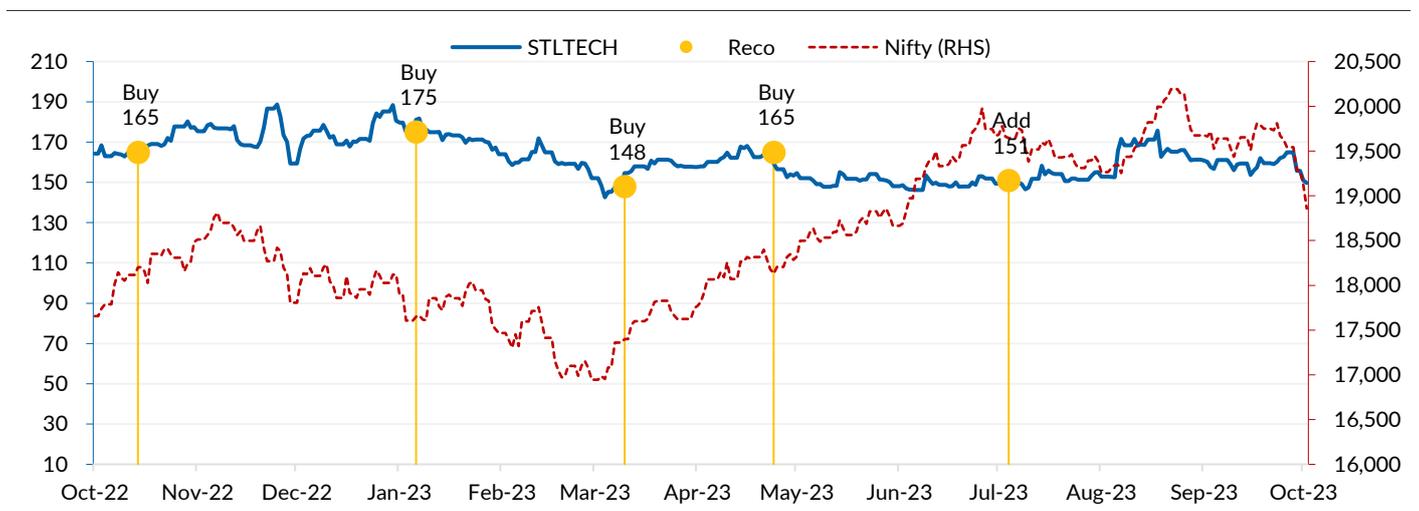
Source: Company, YES Sec

Exhibit 13: Dupont Analysis

Dupont Analysis	FY20	FY21	FY22	FY23	FY24E	FY25E
Net margin(%)	9.6	5.8	2.6	3.5	3.6	6.7
Asset turnover (x)	0.7	0.6	0.6	0.8	0.8	0.9
Leverage factor (x)	3.9	3.9	4.3	4.4	4.1	3.8
Return on Equity(%)	27.1	14.3	7.1	12.1	11.2	22.0

Source: Company, YES Sec

Recommendation Tracker



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