

Sterlite Technologies Ltd.



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The emerging technologies give tailwind to its growth

CMP INR 172	Target INR 308	Potential Upside 79.0%	Market Cap (INR Mn) 68859	Recommendation Buy	Sector Telecom
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Result highlights

Sterlite Tech reported strong numbers in Q1 FY18 driven by robust volume from the government-driven projects, deployment of 4G technology, and traction in services and software business. Sterlite Tech reported revenues of INR 7,444 Mn, up by 23.4% YoY which is primarily driven by increase in exports to international market from INR 1810 Mn in Q1 FY17 to INR 3200 Mn in Q1 FY18, an increase of 77% YoY. Q1FY18 operating margins stood at 15.5% vs Q4FY17 margins of 16.7%, the margin has declined due to increase in Excise duty compared to the previous quarter. Order book remains robust at INR 31,400 Mn, up 4% qoq. The order book consists of INR 14,990 Mn worth of orders for Services and Software whereas INR 16,410 Mn is for Products.

MARKET DATA

Shares outs (Mn)	400
EquityCap (INR Mn)	799
Mkt Cap (INR Mn)	68859
52 Wk H/L (INR)	175/74
Volume Avg (3m K)	941.1
Face Value (INR)	2
Bloomberg Code	SOTL IN

KEY FINANCIALS

Particulars (INR Mn)	FY16	FY17	FY18E	FY19E
Net Sales	21440	24489	29939	37297
EBITDA	4592	5189	7302	9573
PAT	2305	2602	4228	5856
EPS	3.8	5.0	7.7	10.9
OPM	15.6%	14.7%	18.3%	19.9%
NPM	7.2%	8.2%	10.2%	11.7%

Source: Company, KRChoksey Research

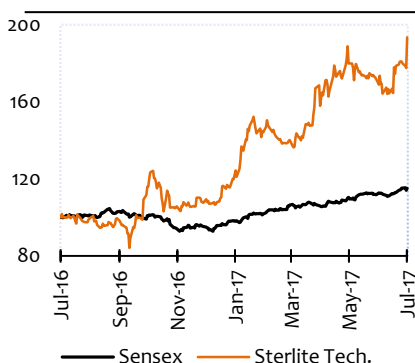
Domestic as well as the International market to boost demand for OF and OFC

SOTL reported revenue of INR 7,444 mn, which is largely driven by volume growth and solid realization for OF and OFC. EBITDA margin was reported at 21% in Q1FY18 compared to previous quarter of 23% Q4FY17. The decline in margin came primarily due to significant increase in excise duty, however the impact has got smoothened due to decline in cost of material coupled with improvement in Work-in-Progress. We believe that several factors namely evolution from 4G to 5G technology and increase in domestic consumption of data due to entrance of Rjio which will lead to severe expansion of domestic demand for OF and OFC.

On the global front, the company has increased its revenue contribution from international market from 30% in Q1FY17 to 43% in Q1FY18. We believe that the company would continue to penetrate global market on the back of — China's commitment to invest \$400 Bn for upgrading its 5G network and Fiber-to-the-Home (FTTH) technology between 2020 and 2030, and US region to make an investment of \$130-\$150 Bn for Fiber as backhaul for 5G networks over the next 5-7 years..

Key Concall Highlights: (i) The company has given a guidance for Net Profit to reach \$100 Mn by 2020E (ii) Management expects to incur a Capex of INR 10-12 Bn between FY18E and FY20E for building additional capacity for OF and OFC (iii) Order book stood at INR 31.4 Bn that is largely being dominated by government projects of 46% followed by International markets and Indian private telcos of 32% and 22% respectively. (iv) Kakinada Smart City project's worth is expected to be at INR 110-120 Cr, which requires a phase-wise execution to design, build and manage over the next six-year period.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	31955
NIFTY	9900

Valuation and view

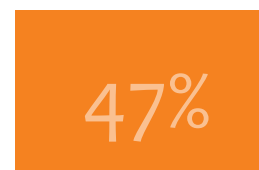
We expect the company to deliver strong performance through FY18-19E on the back of exponential digitization growth, project wins from government, rapid execution of order book (12-18 Months), and implementation of 5G network driven by optic fiber. We believe that Sterlite Tech augurs well to deliver end-to-end services under one roof, right from manufacturing to integration of software and service solution around optical fiber, which would be the key to the nation's digitization. We have re-rated the stock and upgraded the target price to INR 308 (upside of 79% from CMP) based on 28x FY19e EPS of 11.

SHARE HOLDING PATTERN (%)

Particulars	Jun 17	Mar 17	Dec 16
Promoters	54.3	54.48	54.5
FIIIs	7.95	7.04	5.92
DIIIs	11.92	11.33	11.22
Others	25.83	27.15	28.36
Total	100	100	100



Revenue CAGR between FY 17 and FY 19E



PAT CAGR between FY 17 and FY 19E

ANALYST

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Exhibit 1: Q1FY18

INR Mn	Q1 FY17	Q4 FY17	Q1 FY18	Y-o-Y	Q-o-Q	Q1 E	Deviation
Sales	6,034	7,072	7,444	23.37%	5.27%	7,023	5.99%
EBITDA	1,223	1,624	1,571	28.40%	-3.32%	1,697	-7.4%
Net Profit	377.31	639.40	605.90	60.58%	-5.24%	675.3	-10.3%
OPM (%)	14.29%	16.68%	15.55%	127	-112	17.7%	-218
NPM (%)	6.25%	9.04%	8.14%	189	-90	9.6%	-147

Source: Company, KRChoksey Research

Exhibit 2: Profit & Loss Statement

INR Mn	FY16	FY17	FY18E	FY19E
Net Sales	21440	24489	29939	37297
Other Operating Income	0	0	237	389
Total Revenue	21440	24489	30176	37686
Less:				
Cost of raw material and components consumed	9389	10637	11336	14321
Purchase of traded goods	337	407	434	583
Work-in-progress, traded goods	-118	-1061	-338	-1166
Employee Benefit Expenses	2051	2903	2907	3497
Other Expenses	5189	6413	8535	10878
Total Operating Expenditure	16848	19299	22874	28113
EBIDTA	4592	5189	7302	9573
Less: Depreciation & Amortization	1256	1592	1766	2060
EBIT	3336	3597	5536	7513
Interest Paid	1192	1229	1602	2203
Non-operating Income	162	235	294	546
Profit Before tax	2305	2602	4228	5856
Tax	652	397	1077	1464
Minority Interest	61	163	72	0
Share of JV	-56	-28	-8	-2
Net Profit	1537	2014	3071	4391
Adjusted Profit	1593	2042	3079	4392

Source: Company, KRChoksey Research

Exhibit 3: Ratio Analysis

INR Mn	FY16	FY17	FY18E	FY19E
EBITDA Margin (%)	15.6%	14.7%	18.3%	19.9%
Tax/PBT (%)	28.3%	15.2%	25.5%	25.0%
Net Profit Margin (%)	7.2%	8.2%	10.2%	11.7%
RoE (%)	20.4%	22.9%	27.6%	28.3%
RoCE (%)	14.6%	15.7%	16.9%	17.5%
Current Ratio (x)	1.3x	1.5x	1.7x	2.3x
Dividend Payout (%)	47.6%	28.7%	24.0%	0.0%
Book Value Per Share (Rs.)	18.7	21.6	27.9	38.8
Financial Leverage Ratios				
Debt/Equity(x)	1.1x	1.2x	1.1x	1.0x

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

INR MN	FY16	FY17	FY18E	FY19E
Liabilities				
Equity Capital	790	797	797	797
Reserves & Surplus	6756	8004	10338	14729
Equity	7546	8801	11134	15525
Net Worth	7546	8801	11134	15525
Minority Interest	312	452	300	300
Net Deferred tax liability/(Asset)	281	-34	351	458
Total Loans	8220	10181	12573	15965
Capital Employed	16360	19399	24359	32249
Assets				
Gross Block	18006	21128	24628	28378
Less: Depreciation	8158	9297	11767	13826
Net Block	9848	11831	12861	14551
Capital WIP	1723	659	985	1135
Investments	148	100	140	140
Intangible Assets (Net)	1522	1206	1910	1910
Others Assets	547	552	514	514
Current Assets				
Inventories	2053	3335	2303	3719
Sundry Debtors	7084	6867	9359	9800
Cash and Bank Balance	605	1298	3163	6863
Loans and Advances	0	0	0	0
Other Current Assets	2615	3228	3734	4622
Total Current Assets	12357	14728	18560	25004
Less:Current Liabilities & Provisions				
Sundry Creditors	3722	4486	5601	4804
Provisions	104	138	187	231
Other Current Liabilities	5959	5052	4824	5970
Total Current Liabilities & Provisions	9785	9676	10611	11006
Miscellaneous Assets				
Capital Applied	16360	19399	24359	32249

Source: Company, KRChoksey Research

Exhibit 5: Free Cash Flow Analysis

INR Mn	FY16	FY17	FY18E	FY19E
Net Cash Generated From Operations	2,146.7	4,885	4,961	5,757
Net Cash Flow from/(used in) Investing Activities	(1,555)	(2,322)	(3,535)	(3,354)
Net Cash Flow from Financing Activities	(809)	(1,869)	439	1,296
Net Inc/Dec in cash equivalents	(217)	693	1,865	3,700
Opening Balance	548	605	1,298	3,163
Adjusted due to demerger	274	0	0	0
Closing Balance Cash and Cash Equivalents	605	1,298	3,163	6,863

Source: Company, KRChoksey Research

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Sterlite Technologies Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
20-Jul-17	172	308	BUY	Buy	More than 15%
27-Apr-17	150	227	BUY	Accumulate	5% – 15%
19-Jan-17	109	142	BUY	Hold	0 – 5%
28-Oct-16	106	133	BUY	Reduce	-5% – 0
				Sell	Less than – 5%

ANALYST CERTIFICATION:

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