

Sterlite Technologies

Sequentially improved operating performance; continues to gain market share in OFC market

Result Synopsis

Sterlite Technologies (SOTL) reported sequentially improved performance for the quarter. Both, the sequential revenue growth and EBITDA margin were as per expectation. It reported revenue growth of 12.3% QoQ, led by 15.5% QoQ increase in Global networking segment, and 10.5% QoQ increase in Global Services segment. There was sequential improvement in EBITDA margin (up 255 bps QoQ) led by lower logistics cost and better realization. Order book grew 4.4% QoQ to Rs 117bn.

SOTL is expected to benefit from multi-year digital creation cycle led by 5G, FTTx and fibre demand from hyperscalars. Also, optical fibre cable prices are on the rise globally and should benefit Sterlite Technologies. It has been gaining market share in global OFC market. The rise in revenue mix from international clients is in right direction. We expect EBITDA margin to improve going ahead led by easing off certain cost pressure related to raw material and logistics. 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 20.1% over FY22-24E with average EBITDA margin of 14.2%. We maintain our BUY rating on the stock with target price of Rs 210/share based on EV/EBITDA of 8x on FY24E. The stock trades at EV/EBITDA of 10.7x/6.7x on FY23E/FY24E.

Result Highlights

- Reported revenue of Rs 17.7bn(up 12.3% QoQ, up 17.3% YoY). The growth was led by 15.5% QoQ increase in Global networking segment, and 10.5% QoQ increase in Global Services segment; While Digital and Technology segment was flattish (down 2% QoQ).
- It has ramped down its Wireless solutions business to cut down on losses in the segment.
- EBITDA margin increased by 255 bps QoQ to 9.8% on lower logistics costs and passing on of certain costs to customers.
- Order book grew 4.4% QoQ to Rs 117bn.
- Its market share in Global ex- China OFC market grew from 9% in FY22 to 11% in H1FY23.
- Reported PAT(after MI) of Rs 440mn vs net loss of Rs 200 mn in Q1FY23.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	17,680	18,201	17,801	-2.9%	-0.7%
EBITDA	1,730	1,638	1,659	5.6%	4.3%
EBITDA Margin (%)	9.79%	9.00%	9.32%	79 bps	47 bps
Adjusted PAT	440	81	169	443.2%	160.4%

Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 165
Target Price	: Rs 210
Potential Return	: 27%

Stock data (as on Nov 04, 2022)

Nifty	18,117
52 Week h/l (Rs)	317 / 129
Market cap (Rs/USD mn)	65602 / 796
Outstanding Shares (mn)	398
6m Avg t/o (Rs mn):	177
Div yield (%):	0.3
Bloomberg code:	SOTL IN
NSE code:	STLTECH

Stock performance



	1M	3M	1Y
Absolute return	-0.7%	7.5%	-40.0%

Shareholding pattern (As of Jun'22 end)

Promoter	54.1%
FII+DII	13.2%
Others	34.2%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	210	203

Δ in earnings estimates

	FY22	FY23E	FY24E
EPS (New)	0.8	6.8	15.6
EPS (Old)	0.8	7.4	14.3
% change	NA	-7.6%	8.9%

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Net Revenue	57,543	69,542	82,991
YoY Growth	19.3%	20.9%	19.3%
EBITDA	5,348	8,648	13,278
YoY Growth	-34.0%	61.7%	53.5%
PAT	324	2,744	6,250
YoY Growth	-88.4%	746.1%	127.8%
ROE	1.6%	13.4%	26.5%
EPS	0.8	6.8	15.6
P/E	204.2	24.1	10.6
BV	49	53	64
P/BV	17.6	10.7	6.7

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Exhibit 2: Quarterly snapshot Console: Operating performance was inline with expectation

Particulars (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	YoY%	QoQ%	H1FY23	H1FY22	YoY%
Sales	15,075	13,555	15,820	15,750	17,680	17.3	12.3	33430.0	28167.6	18.7
EBITDA	2,628	(507)	908	1,140	1,730	-34.2	51.8	2870.0	4947.4	-42.0
EBITDA %	17.4	(3.7)	5.7	7.2	9.8	-765 bps	255 bps	8.6	17.6	-898 bps
Depreciation	745	901	911	820	820	10.1	0.0	1640.0	1443.8	13.6
EBIT	1,884	(1,408)	(3)	320	910	-51.7	NA	1230.0	3503.6	-64.9
EBIT Margin %	12.5	(10)	0.0	2.0	5.1	-735 bps	312 bps	3.7	12.4	-876 bps
Other income	52	152	283	60	310	495.0	416.7	370.0	204.7	80.8
Interest cost	569	661	690	690	780	37.1	13.0	1470.0	1063.0	38.3
PBT	1,367	(1,916)	(410)	(310)	440	-67.8	NA	130.0	2645.3	-95.1
Tax	358	(481)	(113)	(80)	40	-88.8	NA	(40)	741.9	-105.4
PAT (excl. MI)	1,064	(1,371)	(224)	(200)	440	-58.6	NA	240.0	2221.2	-89.2
NPM (%)	7.1	(10.1)	(1.4)	(1.3)	2.5	-457 bps	376 bps	0.7	7.9	-717 bps

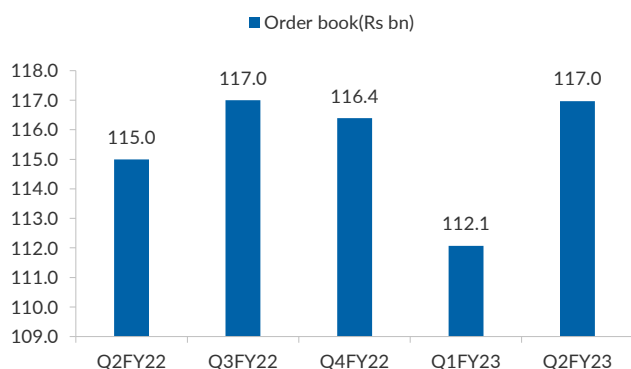
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

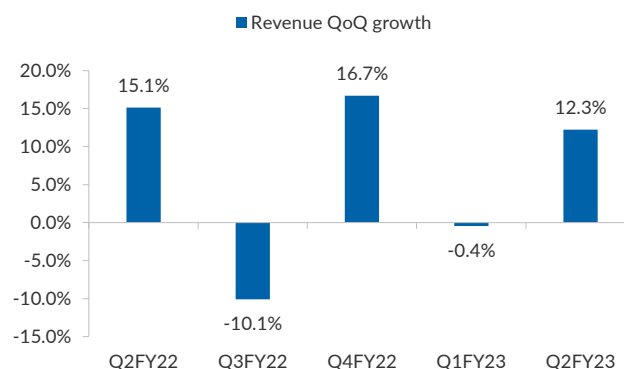
- It has been gaining market share in OFC American market. It expects full utilization for the US plant by Q1FY24.
- The aim is to be profitable in the UK by H1FY24.
- It divested its stake in non-core IDS to Hexatronic group.
- It would come up with detailed plan for Digital and Technology in Q3.
- It ramped down investment in Wireless business that helped to improve cash flows.
- OFC realization was better in the quarter due to better product mix and price increase.
- Logistics costs has come down by over 15-20% over last few months.
- The cost of raw material remains high such as price of Helium.
- The aim is to focus on few businesses with right margin.
- It guided for capex of Rs 2.5bn for H2FY23.
- Paid Rs 790mn for acquisition of 25% stake in China Plant

Exhibit 3: Orderbook was showed marginal growth YoY

Exhibit 4: Sequential revenue performances was led by strong growth in its core segments



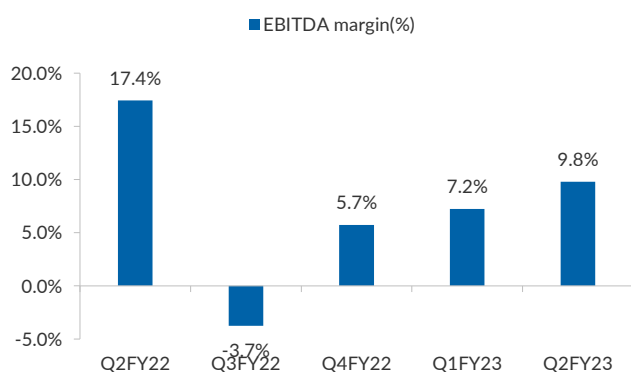
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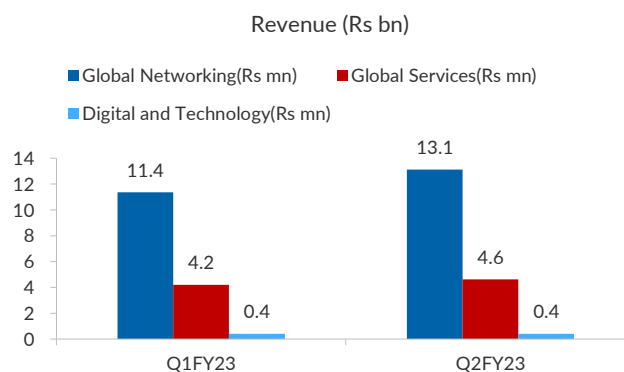
Source: Company, YES Sec

Exhibit 5: EBITDA margin improved sequentially on lower logistics cost and some increase in realization

Exhibit 6: Strong sequential growth in core business segments



Source: Company, YES Sec



Source: Company, YES Sec

FINANCIALS

Exhibit 7: Balance Sheet

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Reserves & surplus	10,951	16,388	18,390	19,081	18,771	20,637	24,887
Shareholders' funds	11,753	17,193	19,198	19,874	19,567	21,433	25,682
Non-current liabilities	7,505	10,575	12,076	15,170	18,120	16,879	15,851
Long-term borrowings	6,305	9,348	9,700	12,557	15,362	13,825	12,443
Other non-current liabilities	1,200	1,226	2,376	2,613	2,759	3,054	3,408
Current liabilities	17,040	41,401	39,784	44,701	48,905	48,403	52,483
Other current liabilities	12,412	31,574	27,479	32,361	31,152	31,006	36,825
Total (Equity and Liabilities)	37,117	70,123	72,090	80,726	87,449	87,657	95,053
Non-current assets	17,555	30,342	34,407	36,046	37,637	37,602	38,996
Fixed assets (Net block)	15,172	27,800	30,706	31,091	31,844	32,707	33,366
Non-current Investments	196	353	1,003	1,223	921	921	921
Other non-current assets	1,838	1,763	2,333	3,560	4,830	3,932	4,668
Current assets	19,562	39,781	37,683	44,680	49,812	50,055	56,056
Cash & current investment	2,935	3,339	4,776	4,293	5,297	4,600	5,152
Other current assets	16,627	36,442	32,907	40,387	44,516	45,455	50,904
Total (Assets)	37,117	70,123	72,090	80,726	87,449	87,657	95,053
Total debt	10,933	19,175	22,006	24,897	33,114	31,223	28,100
Capital employed	24,705	38,549	44,612	48,365	56,297	56,652	58,228

Source: Company, YES Sec

Exhibit 8: Income Statement

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	32,055	50,873	51,544	48,252	57,543	69,542	82,991
Operating expenses	(24,561)	(39,602)	(40,851)	(40,145)	(52,194)	(60,894)	(69,712)
EBITDA	7,493	11,271	10,693	8,106	5,348	8,648	13,278
Depreciation	(1,822)	(1,950)	(2,903)	(2,853)	(3,255)	(3,323)	(3,547)
Other income	384	369	343	578	640	1,013	1,386
EBIT	6,055	9,690	8,133	5,832	2,733	6,338	11,118
Exceptional & extraordinary	-	-	-	-	-	-	-
Profit before tax	5,017	8,635	5,923	3,802	319	3,449	8,298
Tax (current + deferred)	(1,332)	(2,782)	(1,089)	(1,113)	(147)	(795)	(2,089)
Profit / (Loss) for the period	3,685	5,853	4,834	2,689	172	2,654	6,210
Reported Profit / (Loss)	3,366	5,703	4,929	2,790	324	2,744	6,250
Adjusted net profit	3,366	5,703	4,929	2,790	324	2,744	6,250

Source: Company, YES Sec

Exhibit 9: Cash Flow Statement

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Profit before tax	5,017	8,635	5,923	3,802	319	3,449	8,298
Depreciation	1,822	1,950	2,903	2,853	3,255	3,323	3,547
Change in working capital	351	(971)	(501)	(2,405)	(5,206)	(1,084)	374
Total tax paid	(1,076)	(2,259)	(1,260)	(830)	(681)	(731)	(2,011)
Cash flow from oper. (a)	6,768	8,040	8,932	4,872	(539)	6,833	11,641
Capital expenditure	(4,243)	(14,578)	(5,809)	(3,238)	(4,008)	(4,187)	(4,205)
Change in investments	(1,255)	-	(1,979)	301	2,111	-	-
Others	(366)	1,169	62	1,087	(289)	2,007	765
Cash flow from inv. (b)	(5,864)	(13,409)	(7,726)	(1,850)	(2,186)	(2,179)	(3,440)
Free cash flow (a+b)	905	(5,368)	1,207	3,022	(2,725)	4,654	8,201
Equity raised/(repaid)	(155)	3	3	(15)	2	-	-
Debt raised/(repaid)	752	8,243	2,830	2,892	8,217	(1,891)	(3,122)
Dividend (incl. tax)	(320)	(804)	(1,411)	(1,378)	(794)	(878)	(2,000)
Others	(1,171)	(1,121)	(2,521)	(4,483)	(1,888)	(2,581)	(2,527)
Cash flow from fin. (c)	(894)	6,320	(1,098)	(2,983)	5,537	(5,350)	(7,649)
Net chg in cash (a+b+c)	11	952	109	38	2,812	(696)	552

Source: Company, YES Sec

Exhibit 10: Ratio Analysis

Y/e March 31	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue Growth	23.6	58.7	1.3	(6.4)	19.3	20.9	19.3
EBITDA Growth	44.4	50.4	(5.1)	(24.2)	(34.0)	61.7	53.5
EBIT Growth	58.0	60.0	(16.1)	(28.3)	(53.1)	131.9	75.4
Net Profit Growth	67.2	69.4	(13.6)	(43.4)	(88.4)	746.1	127.8

Profitability Ratios(%)							
EBITDA Margin	23.4	22.2	20.7	16.8	9.3	12.4	16.0
EBIT margin	18.9	19.0	15.8	12.1	4.7	9.1	13.4
Net Profit margin	10.5	11.2	9.6	5.8	0.6	3.9	7.5
RoA	18.3	18.1	11.4	7.6	3.2	7.2	12.2
RoE	32.8	39.4	27.1	14.3	1.6	13.4	26.5
RoCE	26.6	30.6	19.6	12.5	5.2	11.2	19.4

Valuation Ratios							
PER(x)	NA	NA	NA	NA	204.2	24.1	10.6
PCE(x)	NA	NA	NA	NA	18.5	10.9	6.8
Price/Book(x)	NA	NA	NA	NA	3.4	3.1	2.6
EV/EBITDA(x)	NA	NA	NA	NA	17.6	10.7	6.7

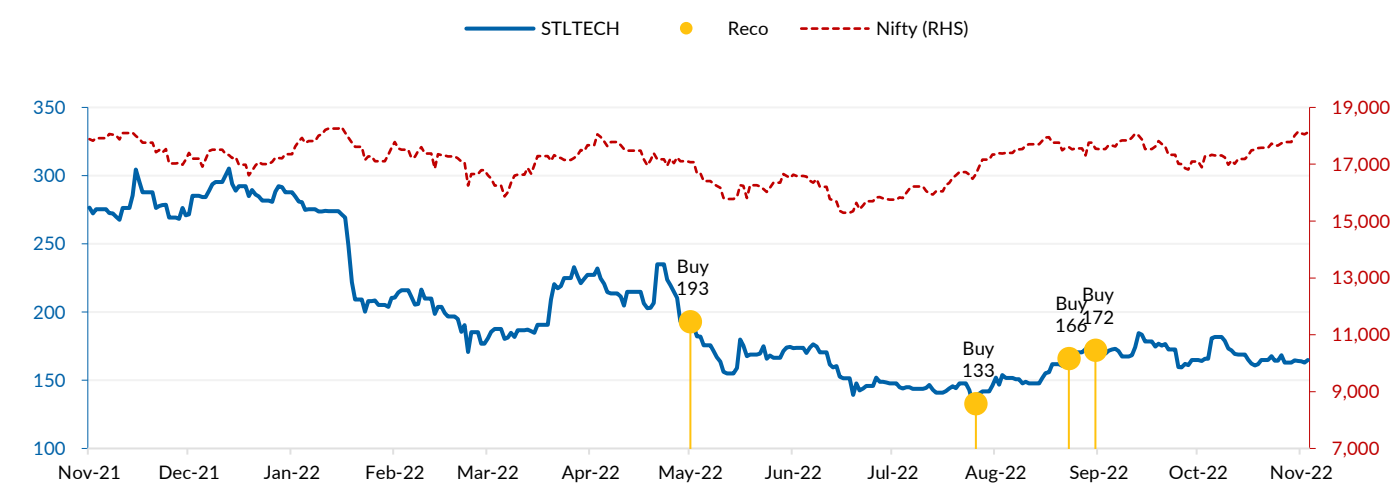
Source: Company, YES Sec

Exhibit 11: Dupont Analysis

Dupont Analysis	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net margin(%)	10.5	11.2	9.6	5.8	0.6	3.9	7.5
Asset turnover (x)	1.0	0.9	0.7	0.6	0.7	0.8	0.9
Leverage factor (x)	3.2	3.7	3.9	3.9	4.3	4.3	3.9
Return on Equity(%)	32.8	39.4	27.1	14.3	1.6	13.4	26.5

Source: Company, YES Sec

Recommendation Tracker



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