

May 17, 2023

RESULT REPORT Q4 FY23 | Telecommunication

Sterlite Technologies

Operating performance inline with expectation; continues to gain market share in OFC market

Result Synopsis

Sterlite Technologies (SOTL) reported inline operating performance for the quarter. Both, the sequential revenue growth and EBITDA margin were as per expectation. It reported revenue growth of 0.5% QoQ, led by 1.3% QoQ increase in Global networking segment; the Global Services segment declined by 7.6% QoQ as it continues to realign its Services segment with higher focus on profitability. There was sequential improvement in EBITDA margin (up 76 bps QoQ) led by control on direct cost. Order book was down 3% YoY to Rs 111bn.

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 steady globally and provides revenue visibility. It has been gaining market share in global OFC market. The rise in revenue mix from international clients is in right direction. It plans to increase attach rate to 40% by Q4FY25. 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 14.3% over FY23-25E with average EBITDA margin of 15.8%. We maintain our BUY rating on the stock with target price of Rs 210/share based on EV/EBITDA of 7.5x on FY25E. The stock trades at EV/EBITDA of 8.0x/6.1x on FY24E/FY25E.

Result Highlights

- Reported revenue of Rs 18.7bn (down 0.5% QoQ, up 25.1% YoY). The growth was led by 1.3% QoQ increase in Global networking segment, however Global Services segment declined by 7.6% QoQ. While Digital and Technology segment grew by 35% QoQ on low base.
- EBITDA margin increased by 76 bps QoQ to 13.7% due to decrease in overall direct cost by 1.4% QoQ.
- Order book was down 3.0% YoY to Rs 111bn.
- Its market share in Global ex- China OFC market grew from 9% in FY22 to 12% in FY23.
- Reported PAT (after MI) of Rs 650mn (up 27.5% QoQ) vs Rs 510mn in Q3FY23.
- Declared a final dividend of Rs 1/- per share.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	18,720	18,453	18,620	1.4%	0.5%
EBITDA	2,560	2,768	2,678	-7.5%	-4.4%
EBITDA Margin (%)	13.68%	15.00%	14.38%	(133)bps	(71)bps
Adjusted PAT	650	998	705	-34.9%	-7.8%

Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 165
Target Price	: Rs 210
Potential Return	: +27.3%

Stock data (as on May 17, 2023)

Nifty	18,182
52 Week h/l (Rs)	193 / 129
Market cap (Rs/USD mn)	65726 / 798
Outstanding Shares (mn)	399
6m Avg t/o (Rs mn):	172
Div yield (%):	0.3
Bloomberg code:	SOTL IN
NSE code:	STLTECH

Stock performance



	1M	3M	1Y
Absolute return	2.4%	-3.9%	-8.4%

Shareholding pattern (As of Mar'23 end)

Promoter	54.1%
FII+DII	10.1%
Others	35.9%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	210	215

Δ in earnings estimates

	FY23	FY24E	FY25E
EPS (New)	6.1	12.5	17.7
EPS (Old)	7.2	14.6	18.1
% change	-15.6%	-14.2%	-2.1%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	69,220	78,910	90,364
YoY Growth	27.4%	14.0%	14.5%
EBIDTA	8,910	11,837	14,910
YoY Growth	34.6%	32.8%	26.0%
PAT	2,440	5,027	7,109
YoY Growth	74.6%	106.0%	41.4%
ROE	12.1%	22.2%	26.6%
EPS	6.1	12.5	17.7
P/E	27.1	13.2	9.3
BV/share	52	61	73
EV/EBITDA	10.9	8.0	6.1

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Exhibit 2: Quarterly snapshot Console: Margin continues to improve

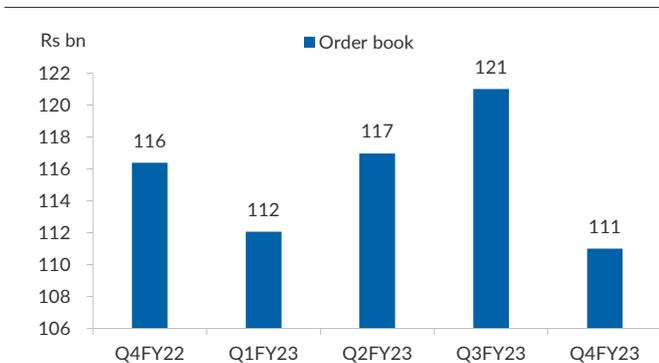
Particulars (Rs mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	YoY%	QoQ%	FY23	FY22	YoY%
Sales	14,960	14,850	16,830	18,820	18,720	25.1	-0.5	69,220	54,320	27.4
EBITDA	1,330	1,610	2,310	2,430	2,560	92.5	5.3	8,910	6,620	34.6
EBITDA %	8.9	10.8	13.7	12.9	13.7	478 bps	76 bps	12.9	12.2	69 bps
Depreciation	870	770	760	780	780	-10.3	0.0	3,090	3,080	0.3
EBIT	460	840	1,550	1,650	1,780	287.0	7.9	5,820	3,540	64.4
EBIT Margin %	3.1	5.7	9.2	8.8	9.5	643 bps	74 bps	8.4	6.5	189 bps
Other income	290	40	50	100	250	-13.8	150.0	440	640	-31.2
Interest cost	690	670	770	780	890	29.0	14.1	3,110	2,380	30.7
PBT	60	210	830	970	1,140	1800.0	17.5	3,150	1,800	75.0
Tax	60	60	210	230	340	466.7	47.8	840	570	47.4
PAT (excl. MI)	-290	-210	440	510	650	NA	27.5	1,390	254	448.3
NPM (%)	-1.9	-1.4	2.6	2.7	3.5	541 bps	76 bps	2.0	0.5	154 bps

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

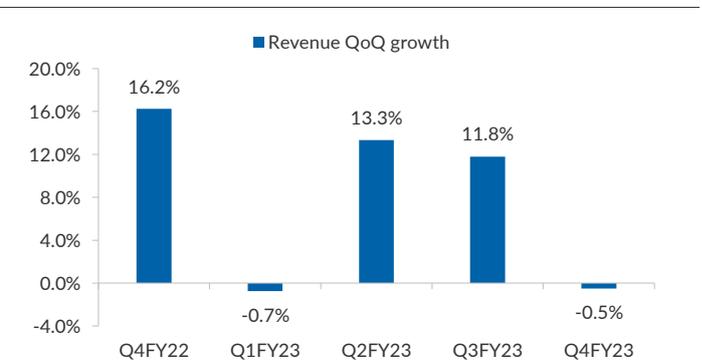
- Divested IDS Business at a consideration of GBP 14 Mn. Divested Telecom Software Business for a consideration of \$15 Mn.
- Capex for Telcos & Data centers likely to hit \$647 bn. in 2027 from \$536 bn in 2023.
- China to introduce early 6G applications by 2025 First commercial 6G network would be available by 2030.
- In North America, inventory buildup in Q4 2022 may delay growth as some carriers will draw down their inventories first before new ordering starts again.
- Telcos expected to spend approx. \$1.5 bn. to \$2.5 bn. for fiber roll out for next 2 to 3 years. Telcos are expected to deploy approx. 200,000 km of cable.
- India private revenue share has gone up to 43% in FY23 as compared to 31% FY22.
- STL UK has achieved operational break even in the month of Mar'23. Aiming to be profitable from H1 FY24 in UK operations.
- Guided Revenue Growth of 10% to 12% and Net Debt / EBITDA to be less than 2.5x in FY24.
- Global Services Business to be demerged to "STL Networks Limited" (a WOS of STL) on a going concern basis. The demerger is intended to meet the requisite conditions under the IT Act to be tax neutral.
- H1FY24 expected to be softer as compared to H2FY24 due to challenges in North America.

Exhibit 3: Orderbook was down sequentially



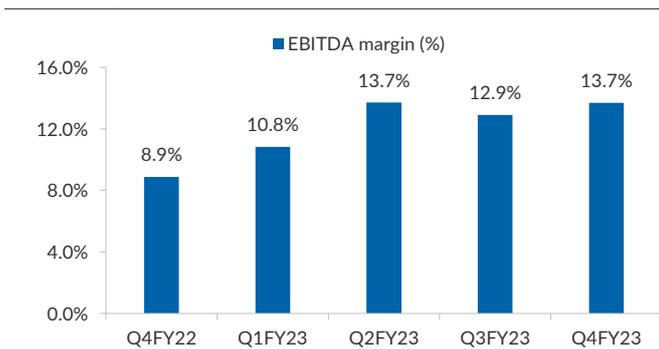
Source: Company, YES Sec

Exhibit 4: Sequential revenue performances was muted led by the Services segment



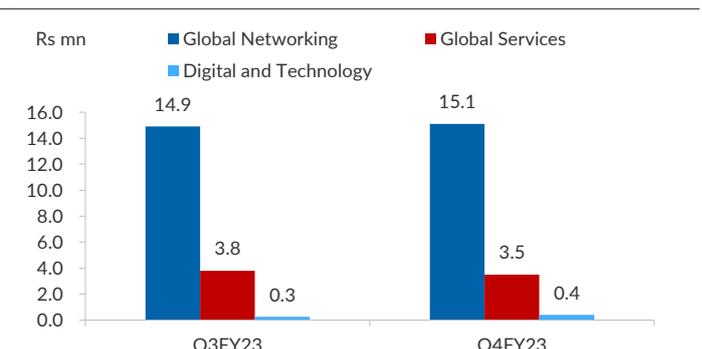
Source: Company, YES Sec

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



Source: Company, YES Sec

Exhibit 6: Digital segment showed strong sequential growth



Source: Company, YES Sec

FINANCIALS

Exhibit 7: Balance Sheet

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Reserves & surplus	10,951	16,388	18,390	19,081	18,750	20,110	23,528	28,363
Shareholders' funds	11,753	17,193	19,198	19,874	19,550	20,910	24,328	29,163
Non-current liabilities	7,505	10,575	12,076	15,170	18,220	12,420	12,148	11,471
Long-term borrowings	6,305	9,348	9,700	12,557	15,360	10,020	9,519	8,567
Other non-current liabilities	1,200	1,226	2,376	2,613	2,860	2,400	2,629	2,904
Current liabilities	17,040	41,401	39,784	44,701	48,900	55,280	57,721	60,408
Other current liabilities	12,412	31,574	27,479	32,361	31,150	28,630	33,736	38,821
Total (Equity and Liabilities)	37,117	70,123	72,090	80,726	87,590	88,650	94,241	101,090
Non-current assets	17,555	30,342	34,407	36,046	37,780	36,590	38,560	40,357
Fixed assets (Net block)	15,172	27,800	30,706	31,091	32,240	31,500	32,408	32,977
Non-current Investments	196	353	1,003	1,223	920	960	960	960
Other non-current assets	1,838	1,763	2,333	3,560	4,580	4,100	5,162	6,389
Current assets	19,562	39,781	37,683	44,680	49,810	52,060	55,681	60,733
Cash & current investment	2,935	3,339	4,776	4,293	5,300	5,470	5,035	5,174
Other current assets	16,627	36,442	32,907	40,387	44,510	46,590	50,646	55,559
Total (Assets)	37,117	70,123	72,090	80,726	87,590	88,650	94,241	101,090
Total debt	10,933	19,175	22,006	24,897	33,110	36,670	33,504	30,154
Capital employed	24,705	38,549	44,612	48,365	56,440	60,020	60,505	62,269

Source: Company, YES Sec

Exhibit 8: Income Statement

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	32,055	50,873	51,544	48,252	54,320	69,220	78,910	90,364
Operating expenses	(24,561)	(39,602)	(40,851)	(40,145)	(47,700)	(60,310)	(67,074)	(75,454)
EBITDA	7,493	11,271	10,693	8,106	6,620	8,910	11,837	14,910
Depreciation	(1,822)	(1,950)	(2,903)	(2,853)	(3,080)	(3,090)	(3,259)	(3,615)
Other income	384	369	343	578	640	440	1,064	1,175
EBIT	6,055	9,690	8,133	5,832	4,180	6,260	9,642	12,470
Exceptional & extraordinary	0	0	0	0	0	0	0	0
Profit before tax	5,017	8,635	5,923	3,802	1,800	3,150	6,665	9,447
Tax (current + deferred)	(1,332)	(2,782)	(1,089)	(1,113)	(570)	(840)	(1,677)	(2,378)
Profit / (Loss) for the period	3,685	5,853	4,834	2,689	1,230	2,310	4,987	7,069
Reported Profit / (Loss)	3,366	5,703	4,929	2,790	1,397	2,440	5,027	7,109
Adjusted net profit	3,366	5,703	4,929	2,790	1,397	2,440	5,027	7,109

Source: Company, YES Sec

Exhibit 9: Cash Flow Statement

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	5,017	8,635	5,923	3,802	1,800	3,150	6,665	9,447
Depreciation	1,822	1,950	2,903	2,853	3,080	3,090	3,259	3,615
Change in working capital	351	(971)	(501)	(2,405)	(5,200)	(4,590)	1,053	176
Total tax paid	(1,076)	(2,259)	(1,260)	(830)	(1,005)	(1,490)	(1,723)	(2,433)
Cash flow from oper. (a)	6,768	8,040	8,932	4,872	415	2,830	11,166	12,653
Capital expenditure	(4,243)	(14,578)	(5,809)	(3,238)	(4,229)	(2,350)	(4,167)	(4,184)
Change in investments	(1,255)	0	(1,979)	301	2,112	(440)	0	0
Others	(366)	1,169	62	1,087	(299)	760	156	132
Cash flow from inv. (b)	(5,864)	(13,409)	(7,726)	(1,850)	(2,416)	(2,030)	(4,011)	(4,051)
Free cash flow (a+b)	905	(5,368)	1,207	3,022	(2,000)	800	7,155	8,602
Equity raised/(repaid)	(155)	3	3	(15)	7	0	0	0
Debt raised/(repaid)	752	8,243	2,830	2,892	8,213	3,560	(3,166)	(3,350)
Dividend (incl. tax)	(320)	(804)	(1,411)	(1,378)	(794)	(445)	(1,609)	(2,275)
Others	(1,171)	(1,121)	(2,521)	(4,483)	(2,610)	(4,145)	(2,815)	(2,837)
Cash flow from fin. (c)	(894)	6,320	(1,098)	(2,983)	4,817	(1,030)	(7,590)	(8,463)
Net chg in cash (a+b+c)	11	952	109	38	2,816	(230)	(435)	139

Source: Company, YES Sec

Exhibit 10: Ratio Analysis

Y/e March 31	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue Growth	23.6	58.7	1.3	(6.4)	12.6	27.4	14.0	14.5
EBITDA Growth	44.4	50.4	(5.1)	(24.2)	(18.3)	34.6	32.8	26.0
EBIT Growth	58.0	60.0	(16.1)	(28.3)	(28.3)	49.8	54.0	29.3
Net Profit Growth	67.2	69.4	(13.6)	(43.4)	(49.9)	74.6	106.0	41.4

Profitability Ratios (%)

EBITDA Margin	23.4	22.2	20.7	16.8	12.2	12.9	15.0	16.5
EBIT margin	18.9	19.0	15.8	12.1	7.7	9.0	12.2	13.8
Net Profit margin	10.5	11.2	9.6	5.8	2.6	3.5	6.4	7.9
RoA	18.3	18.1	11.4	7.6	5.0	7.1	10.5	12.8
RoE	32.8	39.4	27.1	14.3	7.1	12.1	22.2	26.6
RoCE	26.6	30.6	19.6	12.5	8.0	10.8	16.0	20.3

Valuation Ratios

PER(x)	NA	NA	NA	NA	NA	27.1	13.2	9.3
PCE(x)	NA	NA	NA	NA	NA	12.0	8.0	6.2
Price/Book(x)	NA	NA	NA	NA	NA	3.2	2.7	2.3
EV/EBITDA(x)	NA	NA	NA	NA	NA	10.9	8.0	6.1

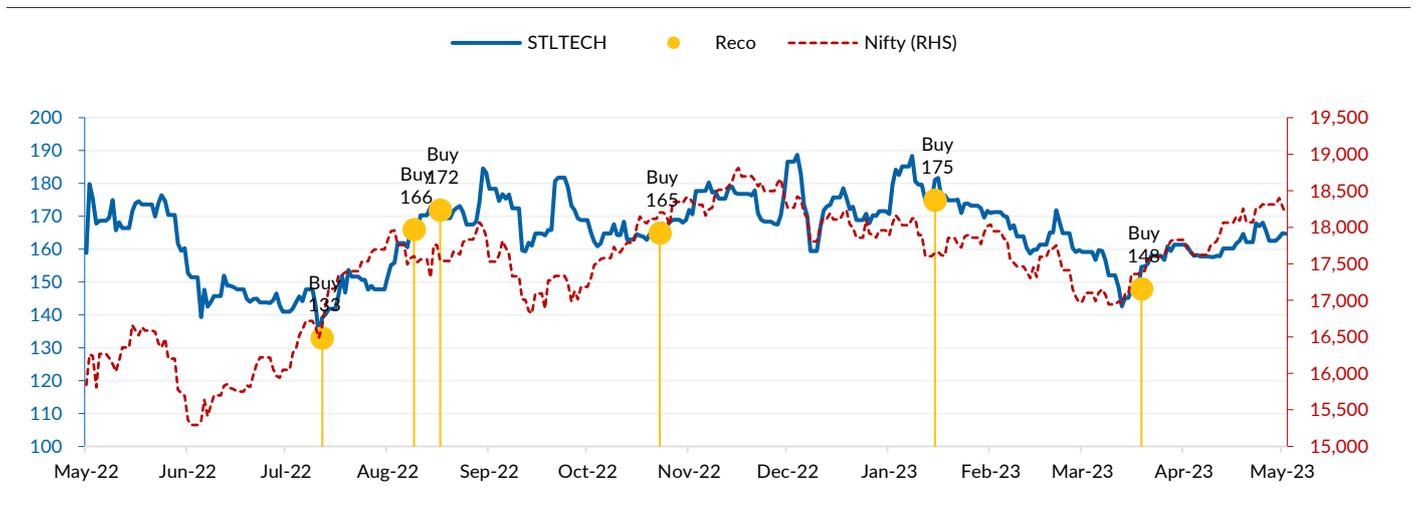
Source: Company, YES Sec

Exhibit 11: Dupont Analysis

	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net margin (%)	10.5	11.2	9.6	5.8	2.6	3.5	6.4	7.9
Asset turnover (x)	1.0	0.9	0.7	0.6	0.6	0.8	0.9	0.9
Leverage factor (x)	3.2	3.7	3.9	3.9	4.3	4.4	4.0	3.7
Return on Equity (%)	32.8	39.4	27.1	14.3	7.1	12.1	22.2	26.6

Source: Company, YES Sec

Recommendation Tracker



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