

Sterlite Technologies Limited

RECOMMENDATION SNAPSHOT					
*CMP	Initiation Price	Target	Potential Upside	Recommendation	MCap (Rsbn)
Rs249	Rs151	Rs375	50%	Buy	99.1

*as on 19th Jan, 2022

About the Company:

Sterlite Technologies Limited (STL) is a global leader in end-to-end data network solutions. It is a fully integrated manufacturer of optical fiber cables and is among a handful of players that can undertake the entire process of manufacturing from silicon to pre-form to fiber to cables. The company designs and deploys high-capacity converged fibre and wireless networks. In addition to its product setup, STL has forward integrated into providing services to its customers like system integration and software which allows it to provide comprehensive and integrated offerings to customers sharply differentiating it and thereby positioning it to capture greater share of wallet from global demand for creation of next generation data networks. The company is industry's leading integrated solutions provider for global data networks. Besides, it also partners with global telecom companies, cloud companies, citizen networks and large enterprises to design, build and manage such cloud-native software-defined networks. STL has a strong global presence with next-gen optical preform, fibre, cable and interconnect subsystem manufacturing facilities in India, Italy, China and Brazil, along with two software-development centres across India and one data Centre design facility in the UK. The company has Dr. Anand Agrawal as its CEO.

Results: Quick Glance

- The consolidated net sales for the quarter came in at Rs13,555mn as compared to Rs13,144mn in the same quarter last year, growth of 3.1%
- The EBITDA margins stood at (3.7%) as compared to 17.5% in the same quarter last year. The margins took a hit mainly on account of one time provisions (total worth Rs2,287mn) relating to settlement and negotiations with customers
- For the quarter, the company reported net loss of Rs1,403mn as against a profit of Rs860mn in the comparative quarter
- The EPS for the quarter stood at Rs(3.45)

Conference Call Highlights:

- The management highlighted that the provisions during the quarter were based on certain old projects related to the services business. As on date, the projects are nearing completion
- The fiber volume capacity utilization stands at ~75-80%
- **Deals:** (i) During the quarter, STL secured large orders worth Rs3bn in the North American markets; with revenue share reported at 13%. Additionally, the company is investing in OFC capacity in South Carolina; the operations of which are anticipated to commence by Q2FY23. (ii) STL won multi year orders of ~Rs7bn for proprietary Opticonn solutions. (iii) It has received a pilot order for Garuda for 5G networks and is also targeting general availability for macro radio units and RAN products in FY23
- STL's focused markets have grown with ~41% coming in from Europe and Middle East and ~12% from America
- STL has spent ~Rs250-400mn towards the access solutions business
- Unbilled amount has come down over the past several quarters and stands at ~Rs9,000mn at present
- The management is ramping up the talent spread and executions in the UK. Clearcomm integration has been completed. Over the medium term, the revenue contribution from UK is expected to reach 25% of the global business services
- STL further strengthened its patent portfolio, taking the total patent count to 678; for Q3FY22 it stood at 100
- **Project Status:** MahaNet (completed), FTTH (Phase 1: 83% completed), T-Fiber (44% complete), Hyperscale data centres in EMEA (completed 49 and ongoing number 13), UK FTTH (All projects: 2% completed)
- The management anticipates increasing the attach rate from the current levels of 14% to 100%
- Order book for Q3FY22 stood at Rs117bn as against Rs107bn in Q3FY21
- R&D investment continues to be at ~3-4%
- For FY23 revenue guidance (Rs100bn), ~35-40% would come in from the services business ~5% from the wireless/access solutions

Sector: Other Telecom Services

RESULT REVIEW Q3FY22

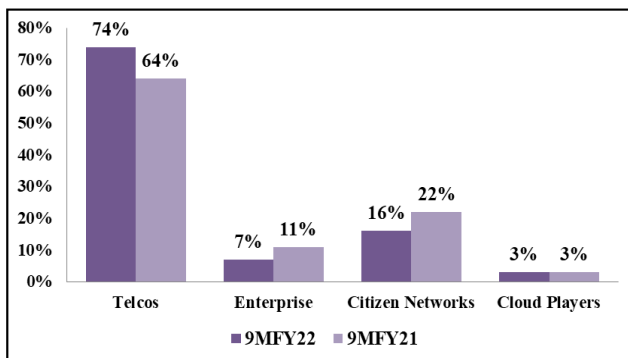
Declared On: 19 Jan 2022

Sterlite Technologies Limited

Financials:

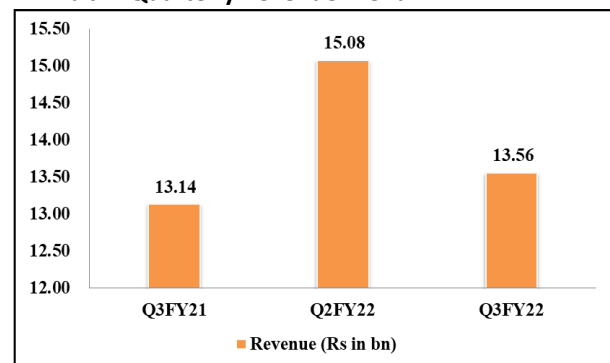
Performance (Q3FY22)									
Q3FY22 Result (Rs mn)	Dec-21	Dec-20	y-o-y	Sept-21	q-o-q	9MFY22	9MFY21	y-o-y	FY22E
Total Revenue	13555	13144	3.1%	15075	(10.1%)	41723	33502	24.5%	57567
EBITDA	(507)	2301	-	2628	-	4441	5542	(19.9%)	8478
EBITDA Margins	(4%)	18%	-	17%	-	11%	17%	(35.7%)	15%
Other Income	154	77	101.7%	62	147.3%	282	265	6.3%	381
Depreciation	901	682	32.1%	745	20.9%	2344	2240	4.6%	2981
EBIT	(1408)	1619	-	1884	-	2096	3301	(36.5%)	5497
Interest	661	498	32.7%	569	16.2%	1724	1496	15.2%	2105
PBT	(2068)	1121	-	1315	-	372	1805	(79.4%)	3391
Tax	(481)	333	-	358	-	261	609	(57.2%)	1113
Exceptional item	0	0	-	0	-	(162)	0	-	0
Net Profit (after tax, exceptional item and share of P/(L) of JV)	(1435)	865	-	1009	-	631	1461	(56.8%)	2808
Loss from discontinued operations	32	(5)	-	48		93	(27)	-	(36)
Net Profit for the period	(1403)	860	-	1057	-	724	1434	(49.5%)	2772

Exhibit 1: Revenue across Customers Segments



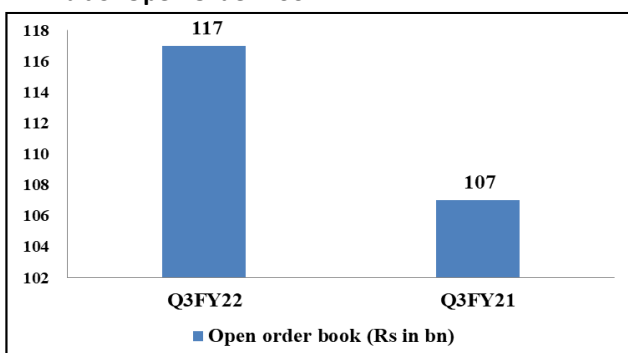
Source: Company PPT, Progressive Research

Exhibit 2: Quarterly Revenue Trend



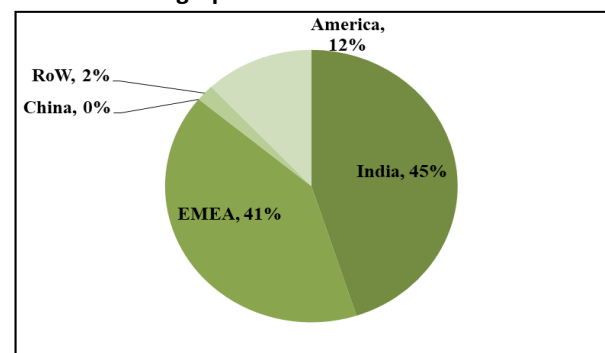
Source: Company PPT, Progressive Research

Exhibit 3: Open Order Book



Source: Company PPT, Progressive Research

Exhibit 4: Geographical Mix-9MFY22



Source: Company PPT, Progressive Research

Outlook and Recommendations:

The company has reported decent results on the revenue front, but for the hit taken on the operating margins majorly due to the one time provisioning done for certain ongoing projects. However, as these projects are on the completion stage, the provisioning would be reversed accordingly on recognition of revenues. The different projects under execution are on track. With regard to the capacity utilization across segments, there has been gradual improvement seen. There have been a string of deals that the company has entered across geographies and segments which should be revenue accretive going forward. The company has been pretty focused with regard to the patent portfolio as well as increased the attached rate gradually. The order book stands decent for the quarter, giving the cushion for future growth. The company has maintained its guidance across revenues, strategies of growth, ramp up on the product offerings and global traction across digital networks. The focus continues on the growth levers that would enhance the system integration business, growth across the optical business as well as access solutions. Overall, we are positive on the business prospects and continue to maintain our target price of Rs375.

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