

## Sterlite Technologies Ltd

Recommendation	Hold
CMP (01/02/2012)	Rs. 39
Target Price	Rs. 48
Sector	Power & Telecom

## Stock Details

BSE Code	532347
NSE Code	STRTECH
Bloomberg Code	SOTL IN
Market Cap (Rs cr)	1,567
Free Float (%)	50%
52- wk HI/Lo (Rs)	71/27
Avg. volume BSE (Quarterly)	1,79,468
Face Value (Rs)	2.00
Dividend (FY 11)	25%
Shares o/s (Cr)	35.64

Relative Performance	1Mth	3Mth	1Yr
STL	40.32%	3.3%	-25.8%
Sensex	8.5%	-0.3%	-7.7%



Shareholding Pattern	31 <sup>st</sup> Dec 11
Promoters Holding	54.69%
Institutional (Incl. FII)	12.90%
Corporate Bodies	5.78%
Public & others	26.63%

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## Continued pressure on margins

**Sterlite Technologies Ltd (STL) reported lower than expected numbers as its operational efficiencies continue to remain under pressure. The bottomline was a drag due to higher interest cost and depreciation.**

Revenues for the quarter stood at Rs. 663.5 cr, up 14.5% on a YoY basis. Sales from the Power Transmission business were up by 13%, YoY whereas sales from the Telecom business were up by 19%, YoY on the back of strong volumes in the telecom business. Volumes from the power conductor business (32600 MT) were lower on QoQ and YoY basis.

EBITDA for the quarter was Rs. 52.2 cr, up 21.2%, YoY and 3.6%, QoQ. EBITDA margin continues to remain under pressure and came in at 7.8% for the quarter. This is primarily due to lower margins in the telecom business as the capacity expansion continues to face cost overruns and stabilization issues. EBITDA/tonne for the power conductor business showed signs of improvement on QoQ basis. (7900/tonne as compared to 6400/tonne).

PAT for the quarter was Rs. 9.5cr, down by 43%, YoY and 25%, QoQ. PAT margin suffered as a result and came in at 1.4% for the quarter. This was primarily due to higher interest costs (up 80%, YoY) due to high debt and higher depreciation costs (up 42%, YoY) due to the merger of its subsidiary (Sterlite Infratech) with itself.

Order book for the quarter stands at Rs 2400 cr and STL received orders worth Rs. 680 cr for the quarter. PGCIL is expected to come out with tenders for 150000 MT of conductors in Q4FY12 which is expected to result in better order booking for the power conductor business.

## Valuation &amp; Recommendation

Concerns on the profitability continue as the telecom business faces pressure due to cost over runs and plant stabilization issues for its capacity expansion. Power Conductors business shows slight improvement in margins but is still significantly lower than its historical levels. The volumes in the power conductor business are expected to be better in the coming quarters. We have revised our FY12 estimates in view of current results and the management commentary and introduced FY13 estimates. We value STL at 12x its FY13E EPS of 4.03 for a target price of Rs. 48 and maintain our Hold rating.

We expect the company to perform better in FY13 on the back new capacities coming online, improving realization in the power conductor business and stabilization of the new fiber optic capacity.

Year	Net Sales (Rs cr)	Growth (%)	EBITDA (Rs cr)	EBITDA Margin (%)	PAT (Rs cr)	PAT Margin (%)	EPS	P/E (x)	EV/EBITDA (x)	RoE
FY 10A	2431	6.2	381	15.7	246	10.1	7.3	5.3	4.4	32%
FY 11A	2262	-7.0	265	11.7	140	6.2	3.9	9.9	8.1	14.4%
FY 12E	2688	18.8	203	7.6	55	2.0	1.4	27.9	11.5	5.0%
FY 13E	3273	21.8	369	11.3	158	4.8	4.0	9.7	6.8	13.0%

## Sterlite Technologies Ltd

## Q3FY12 – Result Update

	Q3FY12	Q2FY12	Q-o-Q	Q3FY11	Y-o-Y
Net Revenue	664	707	-6%	579	15%
Operating Exp.	611	657	-7%	536	14%
EBITDA	52	50	4%	43	21%
EBITDA (%)	7.9%	7.1%	75 bps	7.4%	43 bps
Depreciation	20	16	26%	14	42%
EBIT	33	35	-6%	29	12%
EBIT (%)	4.9%	4.9%	0 bps	5.0%	-13 bps
Interest	23	21	12%	13	80%
Other Income	3	3	6%	7	-53%
Tax Provision	3	5	-28%	7	-52%
Tax Rate (%)	25.8%	26.4%	-64 bps	29.2%	-343 bps
PAT	9.5	12.6	-25%	17	-43%
Extraordinary Items	0	0	NA	0	NA
Reported PAT	9.5	12.6	-25%	17	-43%
Reported PAT (%)	1.4%	1.8%	-36 bps	2.9%	-145 bps
EPS	0.24	0.32	-25%	0.47	-49%

Source: Company, Nirmal Bang Research

Segment	Q3FY12	Q2FY12	QoQ	Q3FY11	YoY
<b>Segment Revenue</b>					
(a) Power Transmission Business	476	515	-8%	422	13%
as % of sales	72%	73%		73%	
(b) Telecom Products & Solutions	188	193	-2%	157	19%
as % of sales	28%	27%		27%	
Total Segment Income	664	707	-6%	579	15%
<b>PBDIT</b>					
(a) Power Transmission Business	26	24	9%	12	111%
PBDIT (%)	5.4%	4.6%		2.9%	
(b) Telecom Products & Solutions	30	30	0%	38	-22%
PBDIT (%)	15.9%	15.6%		24.2%	
Total	56	54	4%	50	11%

Source: Company, Nirmal Bang Research

We have revised our FY12 estimates on the back of continued pressure on the operational front leading to concerns on profitability and introduced FY13 estimates.

	FY12E	
	Old	New
Revenue	2762.3	2688.3
EBITDA	316.5	203.3
EPS	3.5	1.4



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### Valuation and Recommendation

The power conductor business has shown improvement in terms of margins, however lower volumes this quarter is a concern. PGCIL is expected to come out with tenders for 150000 MT in Q4FY12 and we feel this would lead to better orderbooking in Q4FY12. However concerns over the margin in the telecom business continue this quarter with no signs of pressure easing in the current fiscal. High interest expense will continue to weigh down on profitability. In view of the concerns over the profitability we have revised our FY12 estimates and introduced FY13 estimates. We value STL at 12x its FY13E EPS of 4.03 for a target of Rs. 48 and maintain our Hold rating.

We expect the company to perform better in FY13 on the back new capacities coming online, improving realization in the power conductor business and stabilization of the new fiber optic capacity.

## Sterlite Technologies Ltd

### Financials

Profitability (Rs. In Cr)	FY10A	FY11A	FY12E	FY13E	Financial Health (Rs. In Cr)	FY10A	FY11A	FY12E	FY13E
<b>Y/E - March</b>					<b>Y / E - March</b>				
Revenues - Net	2431.6	2262.6	2688.3	3273.2	Share Capital	75.0	74.3	78.6	78.6
% change	6.2%	-7.0%	18.8%	21.8%	Warrant	27.11	27.12	0.00	0.00
EBITDA	381.0	265.6	203.3	369.5	Reserves & Surplus	813.9	934.5	1069.1	1204.9
% change in EBITDA	62.7%	-30.3%	-23.5%	81.8%	<b>Net Worth</b>	<b>916.0</b>	<b>1035.9</b>	<b>1147.7</b>	<b>1283.5</b>
Interest	38.1	47.4	86.6	98.4	Total Loans	358.2	619.8	794.8	994.8
EBDT	342.8	218.2	116.6	271.1	Deferred Tax Liabilities	60.2	66.0	69.0	77.5
Depreciation	48.3	56.0	67.9	73.5	<b>Total Liabilities</b>	<b>1334.4</b>	<b>1721.7</b>	<b>2011.4</b>	<b>2355.7</b>
Other Income	22.9	16.0	25.0	15.0	<b>Net Fixed Assets</b>	<b>683.4</b>	<b>866.9</b>	<b>998.3</b>	<b>1024.8</b>
Extraordinary	0.0	0.0	0.0	0.0	Investments	106.1	108.8	258.8	558.8
PBT	317.5	178.2	73.8	212.7	<b>Current Assets</b>	<b>1166.3</b>	<b>1538.3</b>	<b>1545.0</b>	<b>1710.9</b>
Tax	71.4	37.7	18.8	54.2	Inventory	170.9	191.4	229.6	266.4
PAT	246.1	140.5	55.0	158.4	Debtors	629.0	866.5	916.2	1087.7
Adj. PAT	246.1	140.5	55.0	158.4	Cash	209.7	130.1	49.1	56.8
Shares o/s ( No. in Cr.)	33.5	39.3	39.3	39.3	Loans & Adv	156.7	350.3	350.0	300.0
Adj Diluted EPS	7.3	3.9	1.4	4.0	<b>Current liability</b>	<b>570.4</b>	<b>755.8</b>	<b>753.5</b>	<b>899.7</b>
Cash EPS	8.8	5.0	3.1	5.9	Provisions	51.1	36.6	37.2	39.2
DPS (%)	25%	25%	25%	25%	<b>Working Capital</b>	<b>544.8</b>	<b>745.9</b>	<b>754.3</b>	<b>772.1</b>
<b>Quarterly (Rs. In Cr)</b>					<b>Cash Flow (Rs. In Cr)</b>				
	Mar-11	Jun-11	Sep-11	Dec-11		FY10A	FY11A	FY12E	FY13E
Revenue	682.23	547.33	707.28	663.53	<b>Operating</b>				
EBITDA	48.98	30.19	50.40	52.23	Operating Income	381.0	265.6	203.3	369.5
Interest	18.22	21.85	20.75	23.18	Change in WC	11.8	-280.7	-89.3	-10.2
EBDT	30.76	8.34	29.65	29.05	Other Adjustment	-11.0	5.3	0.0	0.0
Dep	15.75	14.63	15.60	19.62	<b>CF from Operation</b>	<b>381.7</b>	<b>-9.7</b>	<b>114.0</b>	<b>359.4</b>
Other Inc.	0.07	13.80	3.15	3.33	<b>Investment</b>				
Extraordinary	0.00	0.00	0.00	0.00	Capex	-64.0	-244.9	-199.2	-100.0
PBT	15.08	7.51	17.20	12.76	Other Investment	-14.1	-2.7	-150.0	-300.0
Tax	4.88	2.28	4.54	11.16	<b>Total Investment</b>	<b>-78.1</b>	<b>-247.6</b>	<b>-349.2</b>	<b>-400.0</b>
PAT	10.20	5.23	12.66	9.47	<b>Financing</b>				
EPS (Rs.)	0.26	0.13	0.32	0.24	Dividend Paid	-20.8	-23.0	-22.6	-22.6
<b>Operational Ratio</b>									
	FY10A	FY11A	FY12E	FY13E	Share Capital	6.6	0.2	7.3	0.0
EBITDA margin (%)	15.7%	11.7%	7.6%	11.3%	Premium / Reserve	63.3	2.2	72.1	0.0
Adj PAT margin (%)	10.1%	6.2%	2.0%	4.8%	Borrowing	-138.4	261.6	175.0	200.0
Adj EPS Growth (%)	110.6%	-42.9%	-60.9%	188.3%	Other Income	22.9	16.0	25.0	15.0
Price Earnings (x)	5.3	9.9	27.9	9.7	Other	0.0	0.0	0.0	0.0
Book Value (Rs.)	27.2	26.3	29.2	32.7	Interest	-38.1	-47.4	-86.6	-98.4
ROE (%)	32.0%	14.4%	5.0%	13.0%	Tax Paid	-67.2	-31.8	-15.9	-45.7
ROCE (%)	28.4%	14.8%	8.6%	14.2%	<b>Total Financing</b>	<b>-171.8</b>	<b>177.7</b>	<b>154.3</b>	<b>48.3</b>
Debt Equity Ratio	0.4	0.6	0.7	0.8	Net Chg. in Cash	131.8	-79.6	-80.9	7.6
Price / Book Value (x)	1.4	1.5	1.3	1.2	Cash at beginning	77.9	209.7	130.1	49.1
EV / Sales	0.7	1.0	0.9	0.8	Cash at end	209.7	130.1	49.1	56.8
EV / EBITDA	4.4	8.1	11.5	6.8					

Source: Company, Nirmal Bang Research

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