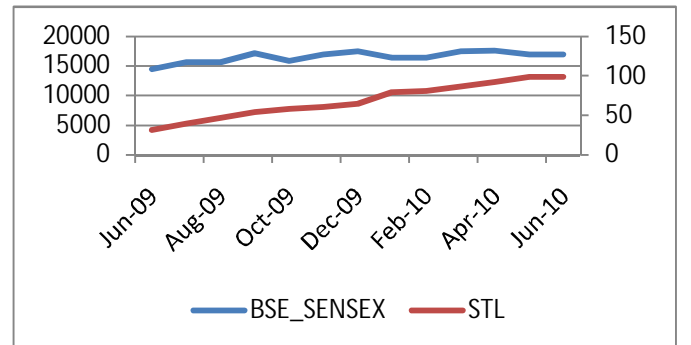


Quarterly Result Update
Serlite Technologies Ltd.

Recommendation	Hold
CMP (30/07/2010)	Rs. 103
Sector	Telecom & Power

Stock Details	
BSE Code	532374
NSE Code	STRTECH
Market Cap (Rs. cr)	4062
Free Float (%)	51.37%
52- wk HI/Lo	123.90/41.27
Avg. volume(Monthly in Lakhs)	3.15
Face Value	Rs.2
Dividend (FY10)	25%
Shares o/s (No.)	35.55 Cr

Relative Performance	1Mth	3Mth	1 Yr
Sterlite Tech	1.80%	14.9%	207.62%
Sensex	-0.13%	-3.46%	16.75%



Shareholding Pattern as of 30/06/2010	
Promoters Holding	48.63%
Institutional (Incl. FII)	17.31%
Corporate Bodies	8.89%
Public & others	34.06%

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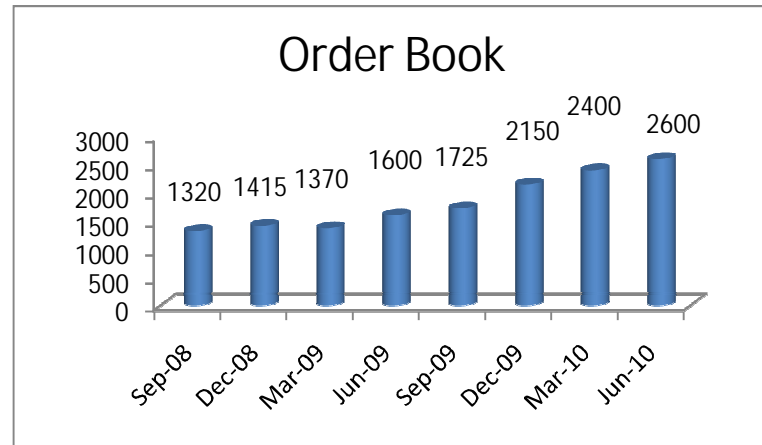
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Year	Sales(Rs.Cr)	Growth	EBIDTA (Rs. Cr.)	EBIDTA %	PAT (Rs. Cr.)	PAT (%)	EPS (Rs.)	P/E	P/BV
FY09A	2289.2	35.8%	234.2	10.2%	116.8	23.3%	3.6	28.7	5.4
FY10A	2431.6	6.2%	381.0	15.7%	246.1	110.6%	7.3	14.1	3.8
FY11E	3034.2	24.8%	493.1	16.3%	318.0	29.2%	8.1	12.8	3.1

STL came out with Q1FY11 results. Sales were marginally lower, but profitability was in line with our expectations.

Quarterly Result Analysis

- Revenue for the Q1FY11 stood at Rs 491.80 crores against Rs 436.2 crores in Q1FY10, up by 12.7% on YoY basis, but declined by 25.8% on QoQ basis from Rs 662.4 crores in Q4FY10. Sales lower than expected is on account of lower sales in telecom segment, both in OF & OFC.
- EBIDTA for the Q1FY11 was Rs 83.01 crores as against 77.65 crores in Q1FY10, up by 6.90% and Rs 110.07 crores in Q4FY10, down by 24.58%.
- EBIDTA margins stood at 16.88%, decreased by 92 basis points on YoY basis, but 26 basis points up on QoQ basis. EBITDA margins remained stable. Decline on YoY basis was on account of lower realization from power conductor segment and increase in staff cost by 40% on YoY basis on account of bonus payment.
- STL reported Adj PAT of Rs 55.60 crores in Q1FY11, a decline of 23.0% on QoQ, but growth of 22.2% on YoY basis.
- STL reported diluted EPS of Rs 1.42 against Rs 1.84 in Q4FY10.



- STL has order book of Rs 2600 crores, increased from Rs 2400 crores in Q4FY11. The order book comprised of Rs 1800 crores from power conductor segment & Rs 800 crores from telecom segment.
- STL has acquired 100% stake in East North Interconnection company Ltd from PFC, an ultra mega power transmission project to be executed on BOOT model. The project cost would be around Rs 1000 crores and to be funded through Debt & Equity in the ratio of 30:70. STL expects the project to get complete by March 2013 & earn ROE of around 15% to 20%.
- Apart from XI Five year plan's total investment in transmission projects, PGCIL would be incurring addition investment of Rs 54000 crores for 9 power transmission highways, creating an additional demand of 65000MVA of power conductors. STL being a major player is strongly positioned to benefit from this opportunity.
- Demand on optical fibre business from Chinese and European market is increasing. European Telecom major BT is planning to provide broad band connectivity to 10mn houses in UK and in Australia the government has made regulatory changes to provide every house with broad band facility. Whereas at domestic front much awaited tender from Indian defence force was released in Q1 which is of around 3mnkms. STL derives significant sales from European market and BT being an existing customer, provides good prospects to bag the orders.

Valuation & Recommendations

STL is carrying out aggressive expansion plan in both the segment of its operation. The conductor capacity is being increased to 160000Mt & further planned to increase to 200000Mt. Whereas OF capacity is being increased from 6mn km to 12mn km and further to 20mn km. we expect volume growth on account of capacity increase supported by increasing demand in both the power conductor and telecom segments, which will drive the revenue growth for STL in coming 2 years.

We expect STL revenue to grow 24.8% in FY11, where as PAT is expected to grow at 29.2% in FY11. We expect STL to report EPS of Rs 8.10 in FY11 at which stock is trading at 12.78 times. We recommend to hold the stock with price target of Rs. 121

Quarterly Analysis

Rs. in cores	Q1FY11	Q1FY10	Var(YOY)	Q4FY10	Var(QOQ)
Net Sales	491.8	436.2	12.7%	662.4	-25.8%
EBITDA	83.0	77.7	6.9%	110.1	-24.6%
Other Income	5.5	2.6	109.6%	5.1	7.0%
Depreciation	13.1	11.4	14.6%	11.8	11.0%
EBIT	75.4	68.9	9.5%	103.4	-27.1%
Interest	7.1	11.9	-40.0%	7.5	-4.6%
PBT	68.3	57.0	19.8%	95.9	-28.8%
Extraordinary (Forex Loss)	0.0	0.0		0.0	
Tax & Deferred Tax	12.7	11.5	10.4%	23.7	-46.5%
PAT	55.6	45.5	22.2%	72.2	-23.0%
Adj. PAT	55.6	45.5	22.2%	72.2	-23.0%
Equity shares Capital	78.4	78.4		78.4	
EPS (Rs.)	1.42	1.16	22.2%	1.84	-23.0%
Adj EPS	1.42	1.16	22.2%	1.84	-23.0%
Ratios					
Operating profit margins (%)	16.9%	17.8%	-92	16.6%	26
NP Margin (%)	11.3%	10.4%	88	10.9%	40

Financials

Profitability (Rs. In Cr)	FY08A	FY09A	FY10A	FY11E	Financial Health (Rs. In Cr)	FY08A	FY09E	FY10A	FY11E
Revenues - Net	1685.8	2289.2	2431.6	3034.2	Y / E - March				
% change	40.7%	35.8%	6.2%	24.8%	Share Capital	32.2	32.3	71.1	78.4
EBITDA	199.5	234.2	381.0	493.1	Warrant/ ESOP	5.73	5.26	31.02	3.91
% change in EBITDA	75.0%	17.4%	62.7%	29.4%	Reserves & Surplus	501.6	583.4	813.9	1212.1
Interest	43.7	53.2	38.1	34.8	Misc. Exp (not w/o)	0.0	0.0	0.0	0.0
EBDT	155.8	180.9	342.8	458.3	Net Worth	539.5	620.9	916.0	1294.4
Depreciation	37.2	42.5	48.3	55.6	Total Loans	663.2	496.6	358.2	386.3
Other Income	4.1	3.7	22.9	5.0	Deferred Tax Liabilities	38.1	56.0	60.2	76.5
Extraordinary(Foreign/Loss)	7.7	-34.8	0.0	0.0	Total Liabilities	1240.8	1173.5	1334.4	1757.1
PBT	130.4	107.3	317.5	407.7	Net Fixed Assets	560.1	656.7	683.4	857.8
Tax	29.7	19.3	71.4	89.7					
PAT	100.7	88.0	246.1	318.0	Investments	6.0	92.0	106.1	206.1
Adj. PAT	94.7	116.8	246.1	318.0					
Shares o/s (No. in Cr.)	35.6	32.4	33.5	39.2	Current Assets	996.5	925.3	1166.3	1332.0
					Current liability & Provision	321.8	500.5	621.4	638.7
Adj Diluted EPS	2.7	3.6	7.3	8.1	Working Capital	674.7	424.8	544.8	693.2
Cash EPS	3.9	4.0	8.8	9.5	Total Assets	1240.8	1173.5	1334.4	1757.1
DPS (%)	20%	25%	25%	25%					
Quarterly (Rs. In Cr)	Jun.09	Sep.09	Dec.09	Dec.09	Cash Flow (Rs. In Cr)	FY08A	FY09E	FY10A	FY11E
Revenue	436.18	465.83	867.27	662.36	Operating				
EBITDA	77.65	88.83	104.38	110.07	Operating Income	199.5	234.2	381.0	493.1
Interest	11.87	9.97	8.82	7.46	Change in WC	-144.6	238.7	11.8	-83.8
EBDT	65.78	78.86	95.56	102.61	Other Adjustment	-0.2	-3.4	-11.0	0.0
Dep	11.41	11.90	13.17	11.78	CF from Opeartion	54.7	469.5	381.7	409.3
Other Inc.	2.61	2.26	12.91	5.11	Investment				
Extraordinary	0.00	0.00	0.00	0.00	Capex	-109.8	-132.5	-64.0	-230.0
PBT	56.98	69.22	95.30	95.94	Other Investment	0.3	-86.0	-14.1	-100.0
Tax	11.50	14.55	21.58	23.74	Total Investment	-109.6	-218.5	-78.1	-330.0
Adj PAT	45.48	54.67	73.72	72.20	Financing				
Adj Diluted EPS (Rs.)	1.16	1.39	1.88	1.84	Dividend Paid	-7.5	-9.4	-20.8	-22.1
Operational Ratio	FY08A	FY09A	FY10A	FY11E	Share Capital	1.4	0.0	6.6	7.3
EBITDA margin (%)	11.8%	10.2%	15.7%	16.3%	Premium / Reserve	28.3	0.7	63.3	75.1
Adj PAT margin (%)	5.6%	5.1%	10.1%	10.5%	Borrowing	76.5	-166.6	-138.4	28.1
Adj EPS Growth (%)	86.3%	23.3%	110.6%	29.2%	Other Income	4.1	3.7	22.9	5.0
Price Earnings (x)	38.8	28.7	14.1	12.8	Other	7.7	-34.8	0.0	0.0
Book Value (Rs.)	15.0	19.0	27.2	32.9	Interest	-43.7	-53.2	-38.1	-34.8
ROE (%)	19.8%	20.1%	32.0%	28.8%	Tax Paid	-1.8	-2.6	-67.2	-73.4
ROCE (%)	15.4%	13.3%	28.4%	28.6%	Total Financing	65.0	-262.2	-171.8	-14.7
Debt Equity Ratio	1.2	0.8	0.4	0.3	Net Chg. in Cash	10.1	-11.2	131.8	64.6
Price / Book Value (x)	6.9	5.4	3.8	3.1	Cash at beginning	78.9	89.1	77.9	209.7
EV / Sales	2.6	1.7	1.6	1.5	Cash at end	89.1	77.9	209.7	274.3
EV / EBITDA	21.8	16.4	10.0	9.0					

Ratios

Ratio	FY08A	FY09A	FY10A	FY11E
Book Value (Rs.)	15.01	19.00	27.21	32.92
ROE (%)	19.8%	20.1%	32.0%	28.8%
ROCE (%)	15.4%	13.3%	28.4%	28.6%
Debt Equity Ratio	1.23	0.80	0.39	0.30

Valuation Matrix	FY08A	FY09A	FY10A	FY11E
Price Earnings (x)	38.84	28.72	14.10	12.76
Price / Book Value (x)	6.89	5.45	3.80	3.14
EV / Sales	2.58	1.68	1.57	1.46
EV / EBIDTA	21.77	16.45	10.05	9.01

NOTE

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