

RESULT UPDATE

MID CAP

Share Data

Reuters code	STTE.BO
Bloomberg code	SOTL IN
Market cap. (US\$ mn)	1,197
6M avg. daily turnover (US\$ mn)	6.9
Issued shares (mn)	403
Target price (Rs)	230

Performance (%) 1M 3M 12M

Absolute	(7)	(29)	(41)
Relative	(8)	(34)	(46)

Valuation Ratios

Yr to 31 Mar	FY19	FY20E	FY21E
EPS (Rs)	14.0	14.2	15.2
+/- (%)	66.3	1.3	7.1
PER (x)	15.6	14.6	13.7
PBV (x)	5.2	4.0	3.3
Dividend/Yield (%)	2.0	2.2	2.3
EV/Sales (x)	2.1	1.7	1.5
EV/EBITDA (x)	9.3	8.9	8.0

Major Shareholders (%)

Promoters	54
FII's	6
MF's	10
BFSI's	2
Public & Others	28

Financial highlights

(Rs mn)	3QFY19	4QFY19	QoQ (%)	4QFY18	YoY (%)	FY18	FY19	YoY (%)	FY20E	YoY (%)	FY21E	YoY (%)
Revenue	13,349	17,912	34.2	8,466	111.6	32,055	50,873	58.7	65,665	29.1	71,754	9.3
EBITDA	2,938	3,151	7.2	2,203	43.0	7,493	11,271	50.4	12,335	9.4	13,214	7.1
EBITDA margin (%)	22.0	17.6	-	26.0	-	23.4	22.2	-	18.8	-	18.4	-
Other income	104	132	26.6	172	(23.1)	384	369	(3.9)	394	6.9	431	9.3
Depreciation	512	498	(2.8)	525	(5.1)	1,822	1,950	7.0	2,627	34.7	2,870	9.3
PBT	2,256	2,478	9.8	1,597	55.1	5,017	8,635	72.1	8,855	2.6	9,482	7.1
Tax	760	822	8.1	362	126.9	1,332	2,782	108.9	2,922	5.1	3,129	7.1
Adjusted PAT	1,476	1,676	13.6	1,168	43.5	3,366	5,703	69.4	5,775	1.3	6,187	7.1
Reported PAT	1,476	1,676	13.6	1,168	43.5	3,366	5,703	69.4	5,775	1.3	6,187	7.1
PAT margin (%)	11.1	9.4	-	13.8	-	10.5	11.2	-	8.8	-	8.6	-

Sterlite Technologies

Downgrade to Hold

Price: Rs 208

BSE Index: 38,565

23 April 2019

4QFY19 Result – Margin to remain under pressure due to change in offering mix

Sterlite Technologies's (SOTL) 4QFY19 revenue at Rs 17.9 bn (34.2% QoQ/111.6% YoY) was higher than our est. EBITDA margin at 17.6% was way below est. led by change in offering mix (product:service at 52:48 versus 70:30 earlier) and softening of optic fibre prices. Going ahead, SOTL expects services pie to revenue to be ~50% versus 37% in FY19 (commands 11-12% margins) while remaining will be products revenue (commands 25-26% margins). Due to change in revenue mix, management expects ~18-20% EBITDA margins (23.2% EBITDA margins in FY19) and ~25% RoCE (FY19 RoCE was 34%). Despite capacity expansion on track as per management, lower optic fibre prices will lower products business margins, increasing services mix to revenue will soften overall margins and will lead to higher receivables. Current valuations leave little upside based on our revised estimates for FY20/21 and downgrade the stock to Hold from Buy.

Operational performance was weak – Margins declined by 440 bps QoQ to 17.6% due to change in product mix and softening of optic fibre prices. Order book at ~Rs 105 bn grew 101.3% YoY with equal product and services mix. Increasing pie of services to order book coupled with softening of optic fibre prices in China and India has led management to revise margin guidance to 18-20% and RoCE to >25% from 34% achieved in FY19. SOTL is on track to expand fibre capacity to 50 m fkm (current 30 m fkm) by June 2019 and optical fibre cable capacity to 33 mn fkm from 15 mn fkm by FY21.

Outlook and valuation: The stock is currently trading at P/E multiple of 13.7x FY21 EPS. SOTL's changing revenue profile mix towards services business and weak optic fibre prices leading to softening in margins, RoCE coupled with high receivables. Current valuations leave little upside based on our revised estimates for FY20/21; hence we downgrade the stock to Hold from Buy.

Income Statement

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Net sales	32,055	50,873	65,665	71,754
Growth (%)	23.6	58.7	29.1	9.3
Operating expenses	(24,561)	(39,602)	(53,330)	(58,541)
Operating profit	7,493	11,271	12,335	13,214
EBITDA	7,493	11,271	12,335	13,214
Growth (%)	44.4	50.4	9.4	7.1
Depreciation	(1,822)	(1,950)	(2,627)	(2,870)
Other income	384	369	394	431
EBIT	6,055	9,690	10,103	10,774
Finance cost	(1,038)	(1,055)	(1,248)	(1,292)
Profit before tax	5,017	8,635	8,855	9,482
Tax (current + deferred)	(1,332)	(2,782)	(2,922)	(3,129)
Profit/(Loss) for the period	3,685	5,853	5,933	6,353
P/L of Associates, Min Int, Pref Div	(319)	(150)	(158)	(166)
Reported Profit/(Loss)	3,366	5,703	5,775	6,187
Adjusted net profit	3,366	5,703	5,775	6,187
Growth (%)	67.2	69.4	1.3	7.1

Balance Sheet

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Share capital	802	805	805	805
Reserves & surplus	10,951	16,388	20,315	24,522
Shareholders' funds	11,753	17,193	21,120	25,327
Minority interest and others	820	954	1,049	1,154
Non-current liabilities	7,505	10,575	12,223	11,444
Long-term borrowings	6,305	9,348	10,751	9,676
Other non-current liabilities	1,200	1,226	1,473	1,768
Current liabilities	17,040	41,401	40,853	43,633
ST borrowings, Curr maturity	4,627	9,827	11,792	10,613
Other current liabilities	12,412	31,574	29,060	33,020
Total (Equity and Liab.)	37,117	70,123	75,245	81,559
Non-current assets	17,555	30,342	33,393	33,731
Fixed assets (Net block)	15,172	27,800	30,716	30,893
Non-current Investments	196	353	353	353
Long-term loans and advances	350	427	427	427
Other non-current assets	1,838	1,763	1,897	2,058
Current assets	19,562	39,781	41,853	47,828
Cash & current investment	2,935	3,339	(2,480)	(1,171)
Other current assets	16,627	36,442	44,333	48,999
Total (Assets)	37,117	70,123	75,245	81,559
Total debt	10,933	19,175	22,543	20,289
Capital employed	24,705	38,549	46,185	48,539

Cash Flow Statement

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Profit before tax	5,017	8,635	8,855	9,482
Depreciation	1,822	1,950	2,627	2,870
Change in working capital	351	(971)	(10,401)	(703)
Total tax paid	(1,076)	(2,259)	(2,773)	(2,951)
Others	655	686	854	861
Cash flow from oper. (a)	6,768	8,041	(839)	9,560
Capital expenditure	(4,243)	(14,578)	(5,543)	(3,047)
Change in investments	(1,255)		0	0
Others	(366)	1,169	260	269
Cash flow from inv. (b)	(5,864)	(13,409)	(5,283)	(2,778)
Free cash flow (a+b)	905	(5,368)	(6,123)	6,782
Equity raised/(repaid)	(155)	3	0	0
Debt raised/(repaid)	752	8,243	3,368	(2,254)
Dividend (incl. tax)	(1,077)	(1,804)	(1,848)	(1,980)
Others	(414)	(122)	(1,216)	(1,239)
Cash flow from fin. (c)	(894)	6,320	304	(5,473)
Net chg in cash (a+b+c)	11	952	(5,819)	1,309

Key ratios

Period end (%)	Mar 18	Mar 19	Mar 20E	Mar 21E
Adjusted EPS (Rs)	8.43	14.02	14.2	15.2
Growth	66.3	66.3	1.3	7.1
CEPS (Rs)	13.0	18.8	20.7	22.3
Book NAV/share (Rs)	29.4	42.3	51.9	62.3
Dividend/share (Rs)	2.7	4.4	4.5	4.9
Dividend payout ratio	32.0	31.6	32.0	32.0
EBITDA margin	23.4	22.2	18.8	18.4
EBIT margin	18.9	19.0	15.4	15.0
Tax rate	26.5	32.2	33.0	33.0
RoCE	26.6	30.6	23.8	22.7
Total debt/Equity (x)	0.9	1.1	1.0	0.8
Net debt/Equity (x)	0.6	0.9	1.1	0.8
Du Pont Analysis - ROE				
Net margin	10.5	11.2	8.8	8.6
Asset turnover (x)	1.0	0.9	0.9	0.9
Leverage factor (x)	3.2	3.7	3.8	3.4
Return on equity	32.8	39.4	30.1	26.6

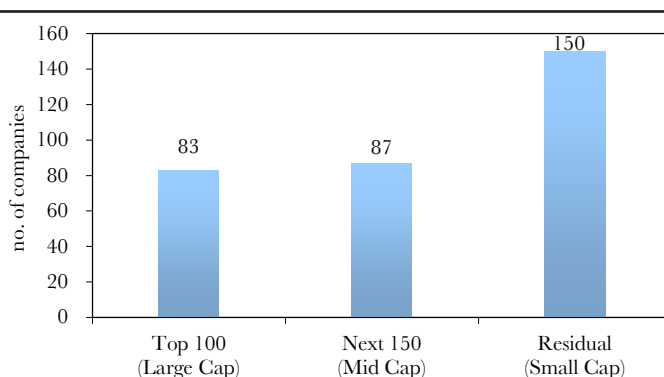
Valuations

Period end (x)	Mar 18	Mar 19	Mar 20E	Mar 21E
PER	37.1	15.6	14.6	13.7
PCE	24.0	11.6	10.1	9.3
Price/Book	10.6	5.2	4.0	3.3
Yield (%)	0.9	2.0	2.2	2.3
EV/EBITDA	17.7	9.3	8.9	8.0

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