

January 25, 2024

RESULT REPORT Q3 FY24 | Telecommunication

Sterlite Technologies

Muted performance for the quarter; Witnessing softer demand in the North American market

Result Synopsis

Sterlite Technologies (SOTL) reported muted operating performance for the quarter. The sequential revenue growth & EBITDA margin was below estimates. Revenue declined by 11.5% QoQ, led by 20.9% QoQ decrease in Global networking segment; the Global Services segment grew by 8.0% QoQ as it continues to realign its Services segment with higher focus on profitability. There was sequential decrease in EBITDA margin (down 745 bps QoQ) led by higher inventory. Order book was down 6.3% YoY to Rs 98.5bn.

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 broadly steady globally and provides revenue visibility. It has been gaining market share in global OFC market. However, we expect that revenue from the US market would continue to be muted over next 2-3 quarter and that would have an impact on overall revenue for FY24. We expect EBITDA margin to improve going ahead led by continued focus on cost optimization and easing off certain cost pressure related to raw material. 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 12.3% over FY23-26E with average EBITDA margin of 14.8%. We maintained our NEUTRAL rating on the stock with revised target price of Rs 144/share based on EV/EBITDA of 5.7x on FY26E. The stock trades at EV/EBITDA of 6.7x/5.5x on FY25E/FY26E.

Result Highlights

- Reported revenue of Rs 13.2bn (down 11.5% QoQ, down 29.8% YoY). The Global networking segment decreased by 20.9% QoQ; Global Services segment increased by 8.0% QoQ. While, Digital and Technology segment grew by 2.6% QoQ.
- EBITDA margin decreased by 745 bps QoQ to 6.8% due to decrease in overall revenue.
- Order book was down 6.3% QoQ to Rs 98.5bn.
- Its market share in Global ex- China OFC market YoY decreased to 9% in H1FY24 against 10% in H1FY23.
- Reported Loss (after MI) of Rs 570mn vs Profit of Rs 340mn in Q2FY24.
- Expects revenue to decline for FY24; Significant focus on Net Debt reduction for FY24.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	13,220	16,400	15,890	-19.4%	-16.8%
EBITDA	900	2,460	2,480	-63.4%	-63.7%
EBITDA Margin (%)	6.81%	15.00%	15.61%	-819 bps	-880 bps
Adjusted PAT	-570	665	740	-185.7%	-177.0%

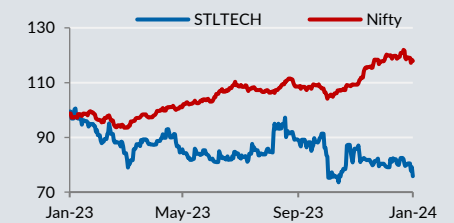
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 137
Target Price	: Rs 144
Potential Return	: + 5.1%

Stock data (as on January 25, 2024)

Nifty	21,353
52 Week h/l (Rs)	193 / 129
Market cap (Rs/USD mn)	57029 / 686
Outstanding Shares (mn)	399
6m Avg t/o (Rs mn):	287
Div yield (%):	0.7
Bloomberg code:	SOTL IN
NSE code:	STLTECH

Stock performance



	1M	3M	1Y
Absolute return	-5.7%	-9.3%	-23.8%

Shareholding pattern (As of Dec'23 end)

Promoter	54.0%
FII+DII	6.7%
Others	39.3%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	144	156

Δ in earnings estimates

	FY24E	FY25E	FY26E
EPS (New)	2.4	12.2	16.0
EPS (Old)	6.1	13.5	NA
% change	-60.2%	-9.5%	NA

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Net Revenue	60,223	73,066	82,915
YoY Growth	-13.0%	21.3%	13.5%
EBIDTA	7,696	12,056	14,096
YoY Growth	-13.6%	56.6%	16.9%
PAT	975	4,905	6,408
YoY Growth	-60.0%	403.1%	30.6%
ROE	4.6%	21.0%	23.5%
EPS	2.4	12.2	16.0
P/E	56.4	11.2	8.6
BV/share	54	62	74
EV/EBITDA	10.8	6.7	5.5

PARTH GHIYA

Associate

parth.ghiya@ysil.in

Exhibit 2: Quarterly snapshot Console: EBITDA Margin negatively impacted during the quarter

Particulars	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY%	QoQ%	9MFY24	9MFY23	YoY%
Sales (Rs mn)	18,820	18,720	15,220	14,940	13,220	-29.8	-11.5	43,380	50,500	-14.1
EBITDA	2,430	2,560	2,140	2,130	900	-63.0	-57.7	5,170	6,350	-18.6
EBITDA %	12.9	13.7	14.1	14.3	6.8	-610 bps	-745 bps	11.9	12.6	-66 bps
Depreciation	780	780	810	850	840	7.7	-1.2	2,500	2,310	8.2
EBIT	1,650	1,780	1,330	1,280	60	-96.4	-95.3	2,670	4,040	-33.9
EBIT Margin %	8.8	9.5	8.7	8.6	0.5	-831 bps	-811 bps	6.2	8.0	-185 bps
Other income	100	250	220	50	200	100.0	300.0	470	190	147.4
Interest cost	780	890	920	950	940	20.5	-1.1	2,810	2,220	26.6
PBT	970	1,140	630	380	-680	-170.1	-278.9	330	2,010	-83.6
Tax	230	340	190	120	-170	-173.9	-241.7	140	500	-72.0
PAT (excl. MI)	510	650	540	340	-570	NA	-267.6	310	740	-58.1
NPM (%)	2.7	3.5	3.5	2.3	-4.3	-702 bps	-659 bps	0.7	1.5	-75 bps

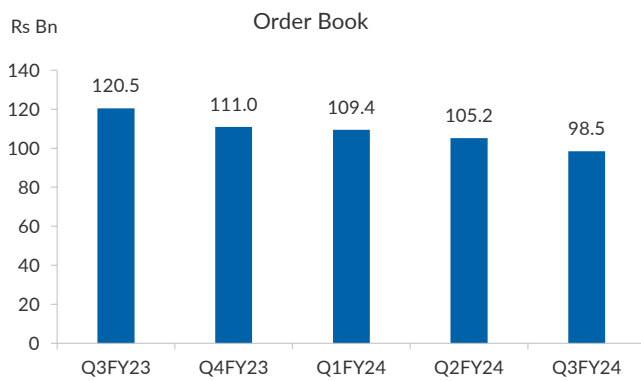
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Under the Digital and Technology segment, focus is to reach EBITDA Breakeven.
- 5G in North America is expected to grow from \$173 Mn to \$601 Mn by the end of 2027. North America is projected to have the highest 5G penetration in 2029 at 92%.
- North American Data Centre market is expected to grow to \$139 Bn by 2028. North American Public Cloud Revenue is expected to grow to US\$507 bn by 2028 at CAGR of 9.6%.
- India Data Centre: Capex is expected to be ~Rs 45,000 crores by FY26. Tower fiberisation at ~38% vs Govt. target of 70% by FY24-25.
- Reduction in EBITDA Margin was primarily on account of lower OFC Volumes.
- Won orders from a Taiwanese Network & Connectivity products OEM for speciality cable.
- Won multiple large deals for optical fibre cable from North America.
- Won long term large orders for fibre cable supply & roll out for a large Indian private telco.
- Net Debt has reduced by Rs 174 Cr from FY23. Still headroom to reduce debt by another Rs 50 crore by end of FY24.
- The company has filed the Services business demerger scheme with the NCLT; awaiting first hearing date.

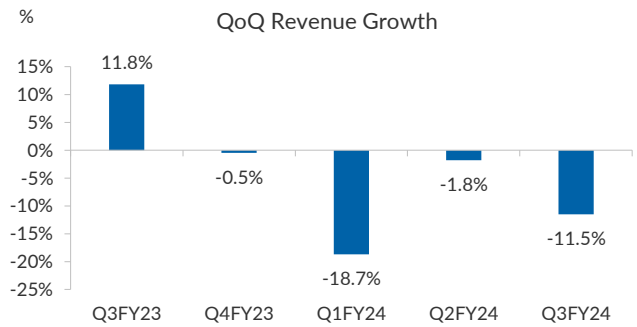
STORY IN CHARTS

Exhibit 3: Orderbook was down sequentially



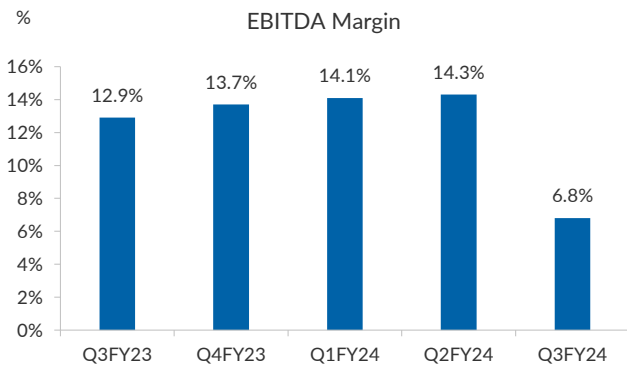
Source: Company, YES Sec

Exhibit 4: Sequential revenue performance was weak due to lower international sales



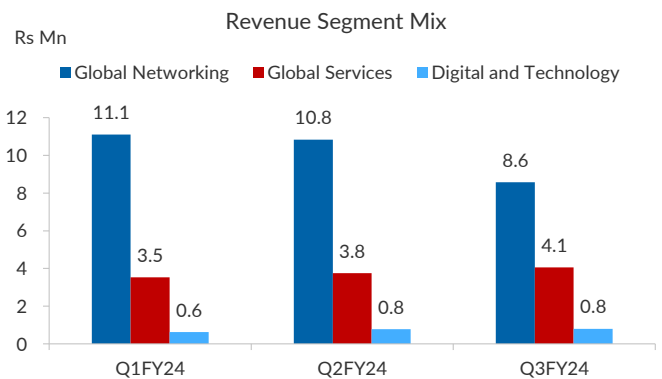
Source: Company, YES Sec

Exhibit 5: EBITDA margin decreased sequentially due to higher inventory



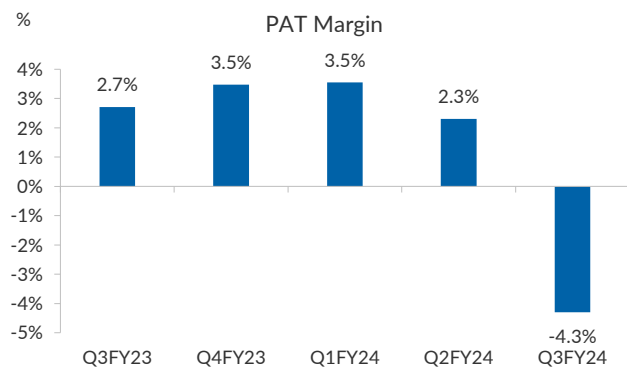
Source: Company, YES Sec

Exhibit 6: Global networking was impacted due to weak performance from the US market



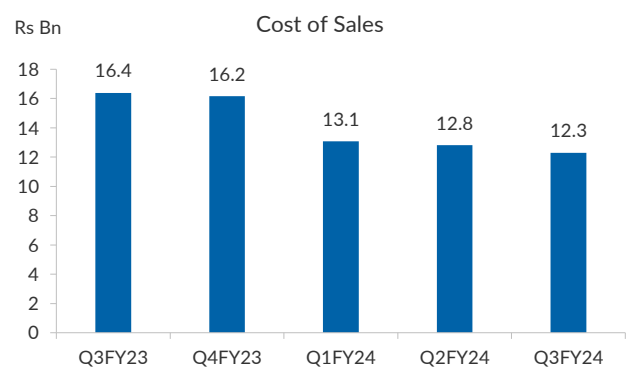
Source: Company, YES Sec

Exhibit 7: PAT margin was negative during the quarter



Source: Company, YES Sec

Exhibit 8: Cost of sales was lower sequentially



Source: Company, YES Sec

FINANCIALS

Exhibit 9: Balance Sheet

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share capital	793	800	800	800	800	800
Reserves & surplus	19,081	18,750	20,110	20,835	24,268	28,754
Minority Interests and others	981	920	40	44	48	53
Non-current liabilities	15,170	18,220	12,420	12,148	11,947	11,826
Long-term borrowings	12,557	15,360	10,020	9,519	9,043	8,591
Other non-current liabilities	2,613	2,860	2,400	2,629	2,904	3,235
ST borrowings, Curr maturity	12,340	17,750	26,650	23,985	21,587	19,428
Other current liabilities	32,361	31,150	28,630	27,592	33,134	37,920
Total (Equity and Liabilities)	80,726	87,590	88,650	85,404	91,784	98,780
Non-current assets	36,046	37,780	36,590	36,636	37,571	39,984
Fixed assets (Net block)	31,091	32,240	31,500	32,312	33,573	34,459
Long-term loans and advances	172	40	30	30	30	30
Other non-current assets	3,560	4,580	4,100	3,334	3,008	4,535
Current assets	44,680	49,810	52,060	48,768	54,213	58,796
Cash & current investment	4,293	5,300	5,470	5,035	5,174	5,317
Other current assets	40,387	44,510	46,590	43,733	49,039	53,479

Source: Company, YES Sec

Exhibit 10: Income Statement

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	48,252	54,320	69,220	60,223	73,066	82,915
Operating expenses	(40,145)	(47,700)	(60,310)	(52,527)	(61,010)	(68,820)
EBITDA	8,106	6,620	8,910	7,696	12,056	14,096
Depreciation	(2,853)	(3,080)	(3,090)	(3,355)	(2,923)	(3,317)
EBIT	5,254	3,540	5,820	4,342	9,133	10,779
Other income	578	640	440	675	873	963
Exceptional & extraordinary	0	0	0	0	0	0
Profit before tax	3,802	1,800	3,150	1,286	6,502	8,510
Tax (current + deferred)	(1,113)	(570)	(840)	(381)	(1,636)	(2,142)
Profit / (Loss) for the period	2,689	1,230	2,310	905	4,865	6,368
Reported Profit / (Loss)	2,790	1,397	2,440	975	4,905	6,408
Adjusted net profit	2,790	1,397	2,440	975	4,905	6,408

Source: Company, YES Sec

Exhibit 11: Cash Flow Statement

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	3,802	1,800	3,150	1,286	6,502	8,510
Depreciation	2,853	3,080	3,090	3,355	2,923	3,317
Change in working capital	(2,405)	(5,200)	(4,590)	1,822	239	351
Total tax paid	(830)	(1,005)	(1,490)	(427)	(1,692)	(2,208)
Cash flow from oper. (a)	4,872	415	2,830	9,092	10,604	12,239
Capital expenditure	(3,238)	(4,229)	(2,350)	(4,167)	(4,184)	(4,202)
Change in investments	301	2,112	(440)	0	0	0
Others	1,087	(299)	760	1,595	1,383	(343)
Cash flow from inv. (b)	(1,850)	(2,416)	(2,030)	(2,572)	(2,800)	(4,545)
Free cash flow (a+b)	3,022	(2,000)	800	6,521	7,803	7,694
Equity raised/(repaid)	(15)	7	0	0	0	0
Debt raised/(repaid)	2,892	8,213	3,560	(3,166)	(2,874)	(2,611)
Dividend (incl. tax)	(1,378)	(794)	(200)	(311)	(1,472)	(1,922)
Others	(4,483)	(2,610)	(4,390)	(3,479)	(3,318)	(3,017)
Cash flow from fin. (c)	(2,983)	4,817	(1,030)	(6,956)	(7,664)	(7,551)
Net chg in cash (a+b+c)	38	2,816	(230)	(435)	139	143

Source: Company, YES Sec

Exhibit 12: Ratio Analysis

Y/e March 31	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue Growth	(6.4)	12.6	27.4	(13.0)	21.3	13.5
EBITDA Growth	(24.2)	(18.3)	34.6	(13.6)	56.6	16.9
EBIT Growth	(32.6)	(32.6)	64.4	(25.4)	110.4	18.0
Net Profit Growth	(43.4)	(49.9)	74.6	(60.0)	403.1	30.6

Profitability Ratios(%)						
EBITDA Margin	16.8	12.2	12.9	12.8	16.5	17.0
EBIT margin	10.9	6.5	8.4	7.2	12.5	13.0
Net Profit margin	5.8	2.6	3.5	1.6	6.7	7.7
RoA	6.9	4.2	6.6	5.0	10.3	11.3
RoE	14.3	7.1	12.1	4.6	21.0	23.5
RoCE	11.3	6.8	10.0	7.4	15.7	18.0

Valuation Ratios						
PER(x)	NA	0.0	22.5	56.4	11.2	8.6
PCE(x)	NA	0.0	9.9	12.7	7.0	5.7
Price/Book(x)	NA	0.0	2.6	2.5	2.2	1.9
EV/EBITDA(x)	NA	0.0	9.7	10.8	6.7	5.5

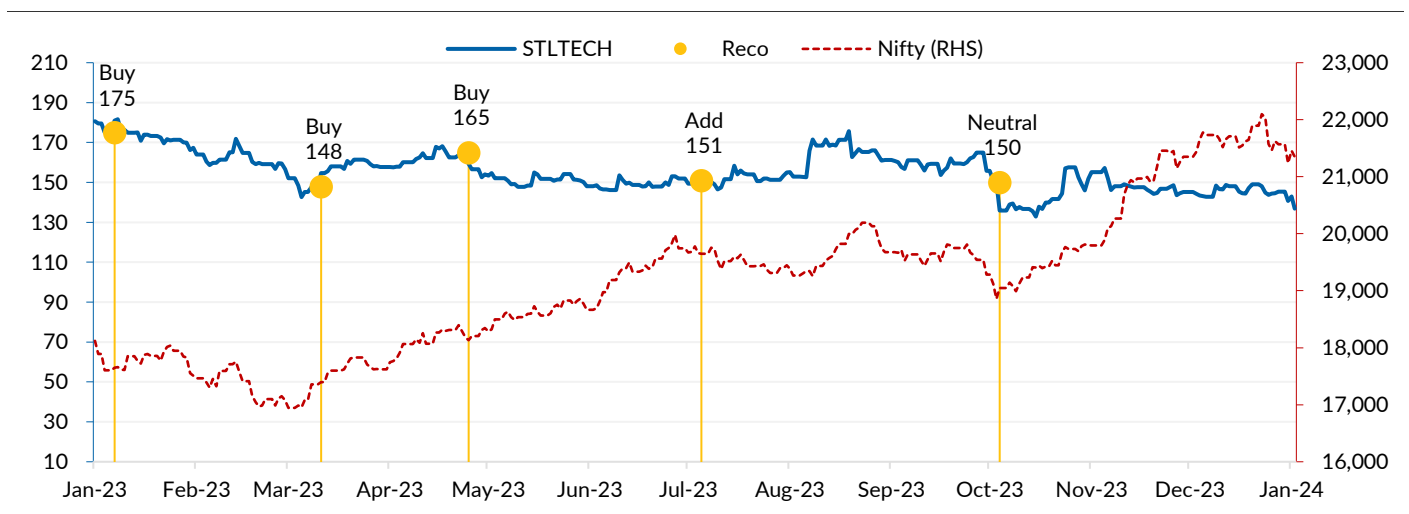
Source: Company, YES Sec

Exhibit 13: Dupont Analysis

Dupont Analysis	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net margin(%)	5.8	2.6	3.5	1.6	6.7	7.7
Asset turnover (x)	0.6	0.6	0.8	0.7	0.8	0.9
Leverage factor (x)	3.9	4.3	4.4	4.1	3.8	3.5
Return on Equity(%)	14.3	7.1	12.1	4.6	21.0	23.5

Source: Company, YES Sec

Recommendation Tracker



DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections. Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The

securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

YES Securities (India) Limited distributes research and engages in other approved or allowable activities with respect to U.S. Institutional Investors through SEC 15a-6 rules and regulations under an exclusive chaperone arrangement with Brasil Plural Securities LLC. The views and sentiments expressed in this research report and any findings thereof accurately reflect YES Securities (India) Limited analyst's truthful views about the subject securities and or issuers discussed herein. YES Securities (India) Limited is not registered as a broker-dealer under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and is not a member of the Securities Investor Protection Corporation ("SIPC"). Brasil Plural Securities LLC is registered as a broker-dealer under the Exchange Act and is a member of SIPC. For questions or additional information, please contact Gil Aikins (gil.aikins@brasilplural.com) or call +1 212 388 5600.

This Research Report is the product of YES Securities (India) Limited. YES Securities (India) Limited is the employer of the research analyst(s) who has prepared the research report. YES Securities (India) Limited is the employer of the YES Securities (India) Limited Representative who is responsible for the report, are responsible for the content of the YES Securities (India) Limited Research Report; any material conflicts of interest of YES Securities (India) Limited in relation to the issuer(s) or securities discussed in the YES Securities (India) Limited Research Report. This YES Securities (India) Limited Research Report is distributed in the United States through Brasil Plural Securities LLC (BPS). The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and is/ are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account. This report is intended for distribution by YES Securities (India) Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity. Transactions in securities discussed in this research report should be effected through Brasil Plural Securities LLC (BPS) or another U.S. registered broker dealer/Entity as informed by YES Securities (India) Limited from time to time.

YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House,
Off Western Express Highway, Santacruz East,
Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 7th Floor, Urmi Estate Tower A, Ganpatrao
Kadam Marg, Opp. Peninsula Business Park, Lower Parel (West),
Mumbai - 400 013, Maharashtra, India.

✉ research@ysil.in | Website: www.yesinvest.in

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single
Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member
Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | CDSL &
NSDL: IN-DP-653-2021 | MERCHANT BANKER: INM000012227 |
RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER:
INA000007331 | Sponsor and Investment Manager to YSL Alternates
Alpha Plus Fund (CAT III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 |
AMFI ARN Code - 94338.

Details of Compliance Officer: Name: Aditya Goenka,
Email id: compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

Grievances Redressal Cell: customer.service@ysil.in/igc@ysil.in

DISCLOSURE OF INTEREST

Name of the Research Analyst : Parth Ghiya

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.