

28th November 2006**BUY**

Price	Target Price
Rs220	Rs224
Sensex	13,774

Price Performance

(%)	1M	3M	6M	12M
Absolute	11.1	26.7	48.0	130.1
Rel. to Sensex	4.4	9.0	20.3	76.9

Source: Capitaline

Stock Details

Sector	Diversified
Reuters	STOP.BO
Bloomberg	SOTL@IN
Equity Capital	Rs322mn
Face Value	Rs5
52 Week H/L	Rs222/80
Market Cap	Rs14168mn
Daily Avg Vol. (No of shares)	2545561
Daily Avg Turnover (US\$)	\$10mn

Shareholding Pattern (%)

(30th Sept.'06)	
Promoters	40.1
FII/NRI	4.05
Institutions	12.5
Private Corp.	9.6
Public	33.9

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Sterlite Optical Tech.

Analyst Meet
Update

Is this just the beginning?

We attended the analyst meet of Sterlite Optical, presided by the Chairman Mr. Anil Agarwal who shared his long-term vision for the company and committed to become one of the top five global players in the businesses like Optic Fiber, Power transmission conductors and others. The growth strategy lined up is to achieve USD 1bn in revenues in next 3 years (FY10), up from USD 110mn in FY06. We believe that the company is on verge of strong growth on back of robust demand growth in the optic fiber business, that has pushed the realizations upwards, acquisition of the power transmission conductors business, which will witness CAGR growth of over 35% for next 5 years and clear vision and hunger for grabbing market share. We maintain our positive stance on the company, though the current price of Rs220 is nearing our target of Rs224. We believe, that the company would witness re-rating as profits can take a leap jump in coming years.

Key takeaways from the analyst meet**Optic fiber business –**

- Robust demand growth in the international market driven by US, China and Japan. First nine months of CY06 volume at 75mn km as compared to 73mn km in CY05 and in direction to reach 100mn km by CY06, which is near the peak 108mn km achieved in 2002.
- Lead-time of supplies of Optic fiber has increased to 6-8 weeks currently as against zero couple of quarters back.
- Prices which has remained stable at around \$7.5-8.5/fkm for the past 3 years (peak of \$45-50/fkm in 2001), has seen signs of upward movement and the company has raised prices by 4-6% in some geographies.
- Planned capacity expansion of 2.5mn fkm to 6.5mn fkm by Mar 07 in the fiber business with capital outlay of Rs560mn. Intends to reach 12mn fkm in next 3 years. This can lead to their rank jumping from 7th currently to 4th.
- OPM in the optic business at current prices are at around 18-20%+ and has strong upside with realizations improving and getting benefit of fully integrated manufacturing facility.
- Current unexecuted orders of Rs3.8bn in the telecom business.
- **We feel that the business can show strong improvement in performance and if there will be price increases, the profits will rise sharply. The business is poised for strong upturn after bottoming out.**

Access business -

- JFTC business is not witnessing any improvement in off-take and the company is in process of using the facility for structured cabling.
- Structured cabling to be key driver of revenues in the Access business. The business is estimated at USD 70mn in India and the company wants to be major player in the same.
- The company is in process of converting the manufacturing facility of JFTC to manufacture Structure cables. This will help the company to utilize the existing facility and save on capex.
- Margins to remain stable at around 8-9% EBIDTA level.
- Network integration business to see strong growth as system integration orders flow in from telcos and governments.

Power transmission conductors business -

- Domestic demand driven by investment in the T&D segment. Over Rs700bn to be spend on T&D infrastructure during XI plan can generate opportunity of Rs200bn of conductors alone.
- Planned capacity expansion in Uttaranchal of 40000MT to 115000MT at outlay of Rs800mn by June 07. Intends to ramp up to 200000MT in next 3 years.
- Margins to remain stable at around 8-9% EBIDTA level.
- Have orders worth Rs11bn on hand.
- **We believe that its leadership position, large capacity and financial muscle to take care of working capital requirements, will help the company grow at over 30-35% over next 4-5 years.**

Capex of Rs2.8bn including acquisition

The company intends to spend over Rs3bn in next 7-8 months for capacity expansion in fibers (Rs560mn), conductors (Rs800mn) and acquisition (Rs1.5bn). The funding would be met through promoter's contribution towards equity (Rs840mn) and balance through mix of internal accruals and debt.

Financials

Post the meet we revisited our numbers for FY07 and FY08. The transmission conductors business is included from 1st July 2006, thus will have 9 months of results incorporated for FY07. Thus our numbers can see downward revision to the tune of Rs120mn for FY07, primarily due to the loss of Q1FY07 numbers of the power conductors business.

		FY07E	
	Old	Revised	% chg
Revenues	15724	13422	-15%
EBIDTA	1753.0	1571.0	-10%
PAT	891.0	772.0	-13%
EPS (Rs)	13.8	12.0	-13%

Reasons for revision in numbers

- FY07 revenues revised down 15% by Rs2.3bn – the sales of Q107 for the conductors business, which is being made part of the company only from 1st July 06 and nor 1st April 06.
- EBIDTA and PAT for the conductors business for a quarter are excluded and thus PAT down 13% from the estimate.

Thus we revise our estimated for FY07 downwards from Rs13.8 to Rs12, but maintain our FY08E EPS of Rs22.4. The stock is currently trading at 18x FY07E EPS of Rs12 and 10x FY08E EPS of Rs22.4.

Though the current price of Rs220 is nearing our target of Rs224, we believe that the story could have just begun. The possible triggers in performance improvement would be the rise in the optic fiber prices in the international market as supply has started to get tight. Further plans to expand capacities through organic or inorganic methods would drive the earnings and get the company to the billion-dollar mark.

Financials overview

(Rs mn)	Q2FY07	Q2FY06	YoY (%)	H1FY07	H1FY06	YoY (%)	12mFY06
Net Sales	3796.5	1241.6	205.8	4768.2	1826.9	161.0	5473.7
Total Expenditure	3419.9	1120.2	205.3	4305.8	1623.7	165.2	4835.4
a) (Increase) / Decrease in Stocks	305.6	25.6	1093.8	341.2	-183.2	-286.2	143.4
b) Consumption of Raw Material	2626.5	832.1	215.6	3170.3	1336.6	137.2	3776.1
c) Staff Cost	61.1	42.3	44.4	115.1	77.7	48.1	148.5
d) Other Expenditure	426.7	220.2	93.8	679.2	392.6	73.0	767.4
Profit Before Interest, Depreciation & Tax	376.6	121.4	210.2	462.4	203.2	127.6	638.3
EBIDTA Margins (%)	9.9	9.8		9.7	11.1		11.7
Other Income	4.8	2.7	77.8	34.8	46.2	-24.7	194.6
Interest	69.4	36.9	88.1	89.3	65.7	35.9	161.4
Depreciation	70.2	73.3	-4.2	132.3	146.4	-9.6	289.9
Profit Before Taxation	241.8	13.9	1639.6	275.6	37.3	638.9	381.6
Provision for Taxation - Current	0	1.2	-100.0	0	3.2	-100.0	0
- Deferred	41.2	0		41.2	0		-29
- FBT	2.1	1		2.6	1.4		2.8
Net Profit	198.5	11.7	1596.6	231.8	32.7	608.9	407.8
EPS (Rs) (diluted)	3.1	0.2	1596.6	3.6	0.5	608.9	6.3

Segmental performance

(Rs mn)	Q2FY07	Q2FY06	YoY (%)	H1FY07	H1FY06	YoY (%)	12mFY06
Segment Net Sales / Income							
Optic Fiber business	619.9	486	27.6	1148.3	788.6	45.6	2083.2
Access business/JFTC	416.5	755.6	-44.9	859.8	1038.3	-17.2	3390.5
Power Transmission conductors	2760.1	0		2760.1	0		0
Net Sales / Income from Operations	3796.5	1241.6	205.8	4768.2	1826.9	161.0	5473.7
Segment PBIT							
Optic Fiber business	75.2	25.8	191.5	99.2	68.9	44.0	193.6
Access business/JFTC	82.2	25	228.8	87.9	34.1	157.8	202.8
Power Transmission conductors	153.8	0		153.8	0		0
Others				24			146.6
Total PBIT	311.2	50.8	512.6	364.9	103	254.3	543
Less: Interest	69.4	36.9	88.1	89.3	65.7	35.9	161.4
Profit Before Tax	241.8	13.9	1639.6	275.6	37.3	638.9	381.6
PBIT (%)							
Optic Fiber business	12.1	5.3		8.6	8.7		9.3
Access business/JFTC	19.7	3.3		10.2	3.3		6.0
Power Transmission conductors	5.6			5.6			
Total PBIT %	8.2	4.1		7.7	5.6		9.9

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