

Sterlite Optical Technologies Ltd. ★★

Sector: Tel. Cables & Power Conductors	CMP: Rs. 233.5	Book Value: Rs.55	Avg. Daily Vol. BSE (6m): 962203
BSE Code: 532374	Trailing EPS: Rs. 7.8*	MCap: Rs. 13730Mn	Face Value: Rs. 5
NSE Code: STROPTICAL	Trailing P/E: 30X*	Free Float: 60%	52Wk H/L: Rs. 238/ 80

Technical Outlook

One should buy this stock with medium and long-term perspective or on every decline.

Background

□ Sterlite Optical Technologies Ltd. (SOTL), a manufacturer of Optical Fiber (OF), Fiber Optic Cable (OFC) and Copper Telecom Cable is part of the Sterlite Group. It is the country's only fully integrated OF manufacturer. OF mainly finds application in telecom networks, television and the Internet.

□ SOTL is the market leader in OF and OFC in India with a share of over 60%. It also enjoys a globally competitive position in the OF products and exports over 30% of its total sales volumes. It has around 4% of global market share for OF Products.

□ SOTL has taken over the Power Transmission Conductor business of Sterlite Industries with effect from 1st July, 06. After this acquisition, the company has come in the position of market leader for Power Transmission Conductors, with a share of about 45% in high voltage power transmission conductors in the domestic market. It is country's largest manufacturer of power conductors with a capacity of 75,000 mtpa. In FY06, this business of Sterlite Industries had revenues of Rs5860Mn and profit before tax of Rs 480 Mn.

□ The company is expanding its manufacturing capacity for OF at Aurangabad from 4 Mn FKM to 6 Mn FKM pa. It is also expanding its Power Transmission Conductor manufacturing capacity from to 1,15,000 MT pa by setting a new unit at Haridwar, Uttaranchal.

□ Concern: A demand of Rs 1880Mn and interest thereon is upheld against SOTL in a pending Excise matter, which it is contesting in the High Court. High Court has granted interim relief, by which demand gets reduced by Rs 430 Mn. No provision has been made apart from provision for contingencies of Rs45 Mn.

□ Company's leadership position in both optical fiber and power conductors along with its capacity expansion plans augurs well, with the growing market for the same. Its vision is of being among the top 3 optical fiber & telecom cable manufacturers in the world by 2010 in terms of market share.

□ Going forward, the power conductor business is expected to boost the revenue growth, while OF business is expected to help it sustain margins. At the CMP of 233, the stock trades at P/E multiple of 30 times of its adjusted trailing earnings. One can consider investment with a long-term view.

Financial Overview

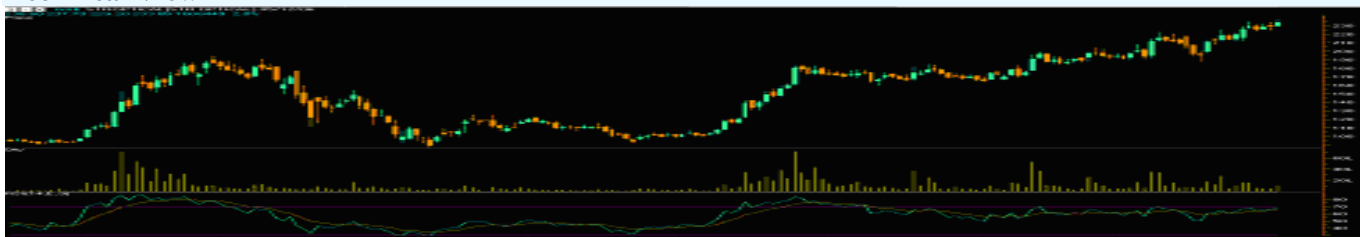
Rs. in Mn

Particulars	FY05	FY06	H1 06	H1 07
Net Sales	3268.8	5473.7	1827.1	4768.2
% growth	262.6	67.5	39.0	161.0
Op. Profit	421.6	638.3	203.4	462.4
% growth	Loss to Profit	51.4	8.4	127.3
OPM (%)	12.9	11.7	11.1	9.7
PAT (Rs.)	102.2	*261.1	32.7	231.7
% growth	Loss to Profit	*155.5	272.4	608.6
PATM (%)	3.1	*4.8	1.8	4.9
Eq. Capital	280.0	294.0	280.0	294.0
EPS (Rs.)	1.8	7.3	0.6	3.9
EPS (Rs.) *	NA	4.4	NA	NA
RONW (%)	4.0	13.9	-	-

(Source: Capitaline, BSE filings)

* Adjusted for one time other income of Rs 146.6 Mn in Q4 FY06

Technical View



The stock is in strong and absolute long-term bull trend. After making double bottom in June and July 2006, the stock entered into strong long-term bull orbit after crossing Rs 136 level. A monthly close above Rs 220 confirmed the same. One should buy this stock with medium and long-term perspective or on every decline. One can have the stop loss at Rs 203, 195.95 and 164.30 for the short, medium and long term, respectively. One can look at the target of Rs 249,315-322 and 450. Long-term holders can revise the targets as soon as the above targets get achieved.

Rating Methodology

“Equity Pick” is an investment idea with the purpose to recommend a fundamentally good company with future growth prospects and a technical outlook, advising the entry and exit from the investment.

In order to recommend a fundamentally strong company, a ranking system has been carved out based on various financial parameters on a ranking scale of 1.5-9.5 for each metric.

Analyst Stock Rating

After ranking each parameter, a final score is arrived at and the rating is done as follows:

- ❑ **Average (*)** - A stock with final score between 49 and 76 is given an “average” rating, denoted by one star.
- ❑ **Good (**)** - A stock with final score between 77 and 104 is given a “good” rating, denoted by two stars.
- ❑ **Excellent (***)** - A stock with final score of 105 and above is given an “excellent” rating, denoted by three stars.

The Rating System would give an assurance as to the strong fundamentals of the company but should not be relied upon as an investment advice. The decision for entry and exit will depend upon the technical outlook.

Notes

<u>HNI Sales</u>	<u>Institutional Sales</u>
Bharat Patel Tel.: 91-22-28577303/28577309	Sharmila Joshi Tel.: 91-22-22695078 / 22700119-121
 investmentz.com Online trading & more	

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