

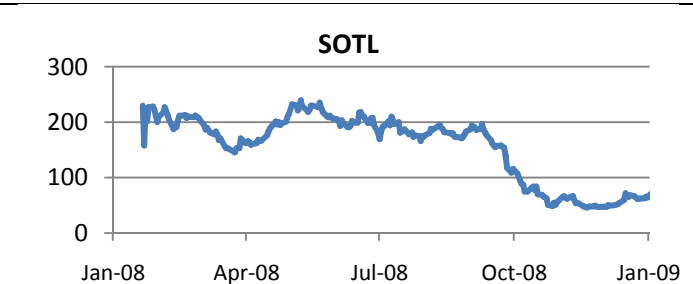
Quarterly Update
Sterlite Optical Technologies Ltd (SOTL)

Recommendation	BUY
CMP (21/01/2009)	Rs. 53.5
Sector	Telecom & Power

Stock Details

BSE Code	532374
NSE Code	STROPTICAL
Market Cap (Rs. cr)	345.1
Free Float (%)	56.4
52- wk HI/Lo	249/41
Avg. volume BSE (Quarterly)	11425
Face Value	Rs.5.00
Dividend (FY08)	20%
Shares o/s (No. in Crs)	6.45

Relative Performance	1Mth	3Mth	1Yr
SOTL	-16.4%	-17.1%	-75.1%
Sensex	-9.9%	-11.0%	-48.3%


Shareholding Pattern as of 31/12/2008

Promoters Holding	43.60%
Institutional (Incl. FII)	16.53%
Corporate Bodies	10.05%
Public & others	29.82%

Sunil H Jain, Sr. Analyst (+91 22 30272211)
sunil@nirmalbang.com

Quarterly Result Analysis

- ◆ Sales was flat QoQ but up by 28% YoY. Decline in Telecom product sales QoQ is compensated by increase in Power Transmission Sales. Optical Fiber Volume was down by 3.5% QoQ whereas Conductor volume was up by 35% YoY.
- ◆ Margin in Q3 bounced back to its normal level at 11.0% as compare to 7.3 % in Q2 which was down on account of some lower margin order in Power Transmission business executed by company in that quarter.
- ◆ QoQ the EBIT margin of Telecom business was consistent were as Power Transmission margin improved substantially.
- ◆ Interest cost was up by 58% YoY and 28 % QoQ on account of higher rate of interest and higher borrowings. During the quarter company reduced its total borrowing by Rs.190Cr with better working capital management. The loan O/S at the end of Q3 was Rs.593Cr. Lower loan o/s will reduce interest cost in coming quarters.
- ◆ The MOM forex loss provided during the quarter was lower at 4.2cr as against Rs.15.9cr in Q2 with lower depreciation of rupee against dollar in Q3 and reduction in un-hedged position from \$42mn at the end of Q2 to \$ 26 mn at the end of Q3.
- ◆ STL reported EPS of Rs.4.9 for Q3FY09 as against Rs.4.1 in Q3FY08 and Rs.0.9 in Q2FY09.
- ◆ The order book has also increased to Rs 1415 Crs comprising of Rs 1200 Crs from Power Transmission and Rs 215 Crs from Telecom business. 40% of the order book is executable in Q4.
- ◆ The expansion plan of conductor from 1,15,000T to 1,60,000T will be operating by Mar 2009 and expansion of OF & OFC from 6 Mn KMs to 12 Mn Km and for 2 Mn km to 6 Mn kms respectively will be operational by Jan 2009

- Management has reiterated guidance of Rs.2300 revenue and Rs.130-140 Cr Operating profit for FY09. At 2.5 times Q3FY09 annualised adjusted EPS and 0.66 times Price to Book value of FY08 the stock looks cheaply valued. The stock can be purchased at a current price with target price of Rs 100.

Quarterly Result

Rs. in cores	Q3FY09	Q3FY08	Var	Q2FY08	Var
Net Sales	642.0	502.0	27.9%	665.6	-3.5%
EBITDA	70.6	58.4	20.8%	48.4	45.7%
Other Income	0.2	0.2	35.3%	0.5	-54.9%
Depreciation	11.3	9.5	18.8%	10.8	4.4%
EBIT	59.6	49.1	21.3%	38.1	56.1%
Interest	18.9	11.9	58.1%	14.7	27.9%
PBT	40.7	37.2	9.5%	23.4	73.9%
Extraordinary (Forex Loss)	-4.2	0.0		-15.9	
Tax & Deferred Tax	5.1	10.8	-52.9%	1.4	255.9%
PAT	31.5	26.4	19.2%	6.1	417.3%
Adj. PAT	35.1	26.4	32.9%	19.4	80.6%
Equity shares Capital	32.3	32.2		32.3	
EPS (Rs.)	4.9	4.1	19.1%	0.9	417.3%
Adj EPS	5.4	4.1	32.7%	3.0	80.6%
Ratios					
Operating profit margins (%)	11.0%	11.6%	-64	7.3%	372
NP Margin (%)	4.9%	5.3%	-36	0.9%	399
Order Book	1415.0	1040.0		1320.0	

Segment	Q3FY09	Q3FY08	Var	Q2FY08	Var
Revenue					
Telecom Product & Solution	215.0	217.3	-1.1%	277.6	-22.6%
Power Transmission	427.0	284.8	50.0%	387.9	10.1%
Total	642.0	502.0	27.9%	665.6	-3.5%
EBIT					
Telecom Product & Solution	19.6	23.5	-16.4%	26.2	-25.0%
Margin	9.1%	10.8%	-168	9.4%	-30
Power Transmission	39.9	25.7	55.7%	12.0	233.1%
Margin	9.4%	9.0%	35	3.1%	626

NOTE

Disclaimer

This Document has been prepared by Nirmal Bang Research (Nirmal Bang Securities PVT LTD).The information, analysis and estimates contained herein are based on Nirmal Bang Research assessment and have been obtained from sources believed to be reliable. *This document is meant for the use of the intended recipient only. This document, at best, represents Nirmal Bang Research opinion and is meant for general information only.* Nirmal Bang Research, its directors, officers or employees shall not in anyway be responsible for the contents stated herein. Nirmal Bang Research expressly disclaims any and all liabilities that may arise from information, errors or omissions in this connection. *This document is not to be considered as an offer to sell, or a solicitation to buy any securities.* Nirmal Bang Research, its affiliates and their employees may from time to time hold positions in securities referred to herein. Nirmal Bang Research or its affiliates may from time to time solicit from or perform investment banking or other services for any company mentioned in this document.