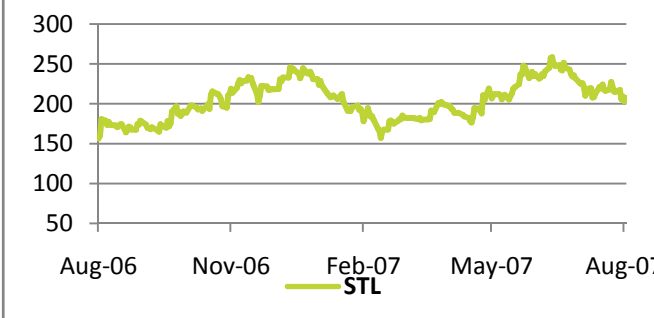


Recommendation		BUY							
CMP (27/08/2007)		Rs.215							
Sector		Telecom & Power							
Stock Details									
BSE Code	532374								
NSE Code	STROPTICAL								
Market Cap (Rs. cr)	1380								
Free Float (%)	58.87								
52- wk HI/Lo	263/139								
Avg. volume BSE	401666								
Face Value	Rs.5								
Dividend (FY07)	15%								
Shares o/s (No.)	6.44								
Relative Performance	1Mth	3Mth	1Yr						
SOTL	-7.8%	-1.4%	29.6%						
Sensex	-8.7%	1.5%	25.1%						
									
Shareholding									
Promoters Holding	41.13%								
Institutional (Incl. FII)	21.89%								
Corporate Bodies	9.48%								
Public & others	27.50%								
Sunil H Jain, Sr. Analyst (+91 22 30272192) sunil@nirmalbang.com									
Year	Sales (Rs. cr.)	Growth	EBIDTA (Rs. cr.)	EBIDTA (%)	PAT (Rs. cr.)	PAT (%)	EPS (Rs.)	P/E(x)	P/BV
FY07A	1198.2	109.7%	114.0	9.5%	50.9	56.5%	7.9	27.2	3.3
FY08E	1596.4	33.2%	183.6	11.5%	86.3	69.8%	13.4	16.0	2.7
FY09E	2111.7	32.3%	277.3	13.1%	148.7	72.2%	23.1	9.3	2.1

Snapshot:

SOTL, part of Vedanta Group, is market leader in all its segments of operation viz. Optical Fiber (OF), Optical Fiber Cable (OFC), Copper Cable & Power conductor. SOTL is 7th largest producers of OF and among 10 largest producers of power conductor globally.

We believe SOTL is poised for substantial improvement in performance due to:

- Improvement in realization of OF.
- Substantial growth in demand for power conductor.
- Integrated plant structure for manufacturing OF & Conductor making it lowest cost producer.
- Volume growth from over 50% increase in capacity of conductor already commissioned in Aug-07 and over 50% increase in capacity of OF getting commissioned in Sep-07
- Conversion of copper cable capacity to structured data cable and diversifying to offer system integration solution for broad band, for better utilization & higher margin in copper cable / Access business segment.

We expect SOTL revenue and PAT to grow at 33% & 71% CAGR respectively between FY07-FY09.

The stock discounts FY07, FY08E and FY09E earnings of Rs.7.90, Rs.13.41 & Rs.23.09 at 27.2x, 16.0x and 9.3 respectively.

We are positive on the growth prospects of the company and recommend **BUY** on the stock with a price target of Rs.350 over a 12-15 months horizon implying upside potential of 63%.



Optical Fiber



Optical Fiber Cable



Copper Cables



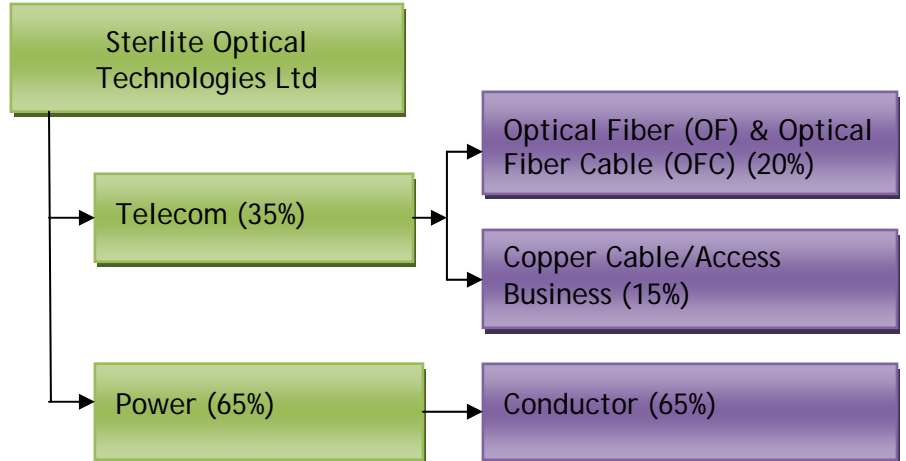
Structured Cables



Power Transmission Conductors

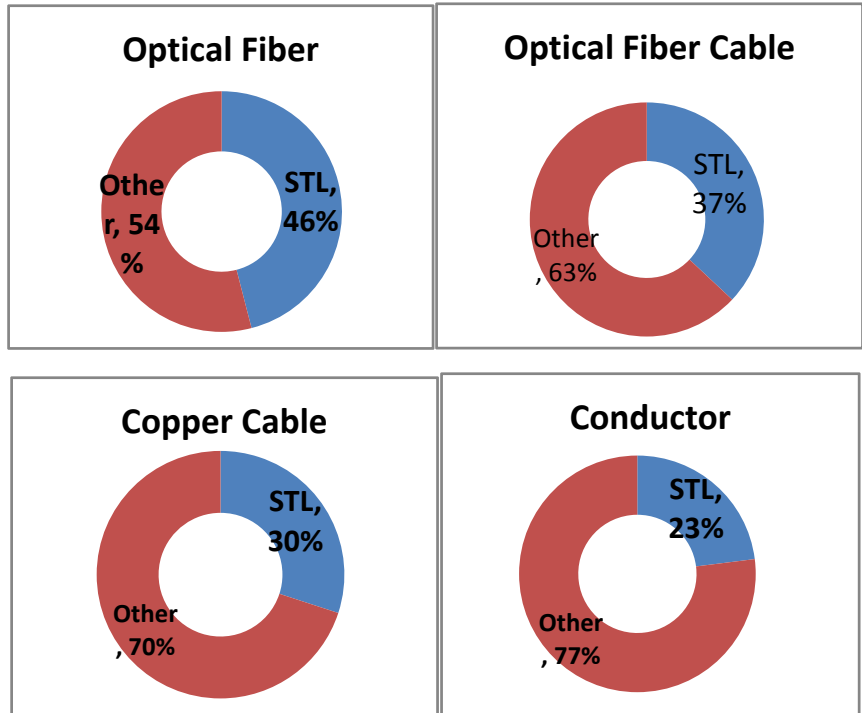
About SOTL

- Part of \$6.5 bn Vedanta Group
- SOTL has presence in Telecom & Power sector

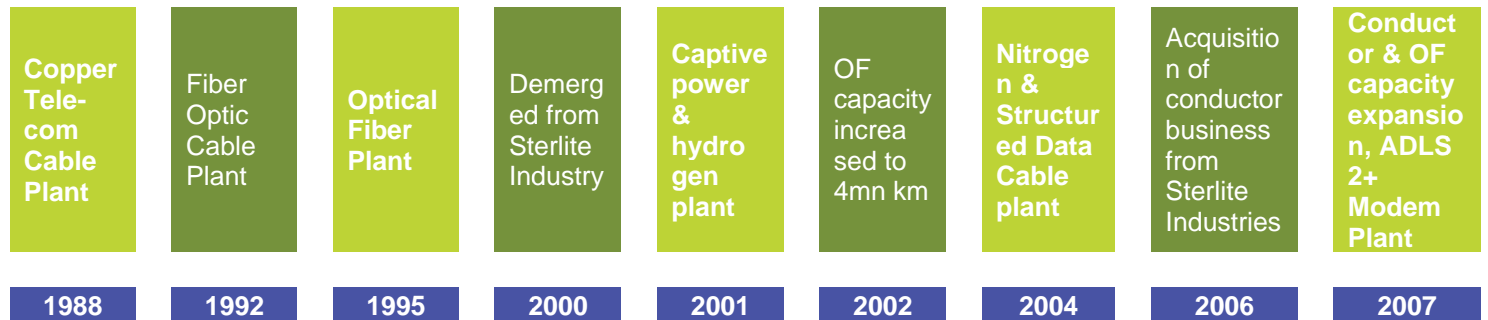


*% revenue distribution of FY07

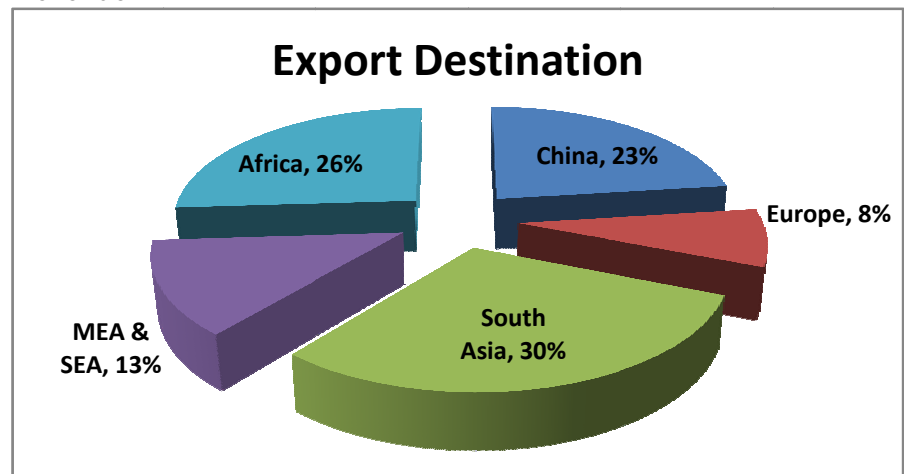
- Market leader in all the area of operation
SOTL Market Share



SOTL Timeline



- Globally 7th largest Optical fiber manufacturer with 46% market share in India, 12% market share in China and 5% market share globally.
- Among top 10 players in power conductor segment globally.
- SOTL exports to over 38 countries and Exports contribute over 25% of revenue.



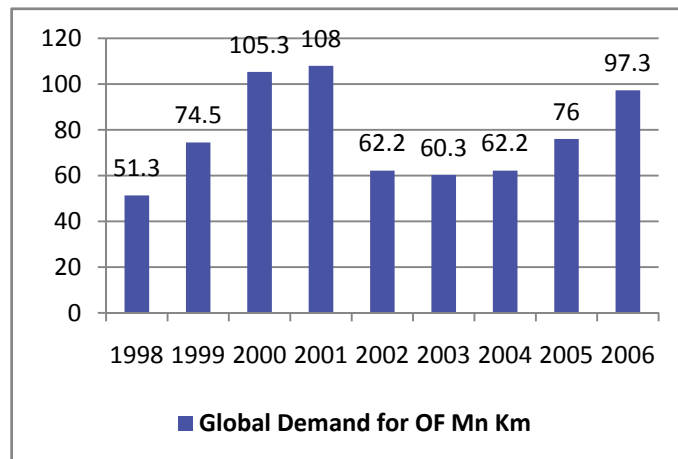
- Plants

OF	- Aurangabad - Maharashtra
OFC	- Rakholi, UT of Dadra & Nagar Haveli
Copper Cable	- Silvassa, UT of Dadra & Nagar Haveli
Structured Cable	- Dadra, UT of Dadra & Nagar Haveli
Conductor	- Silvassa, UT of Dadra & Nagar Haveli
Conductor	- Haridwar, Uttaranchal
- SOTL has implemented Six Sigma for processes improvement by eliminating defects.

Investment Rationale

OF - revival in demand will lead to improvement in realization

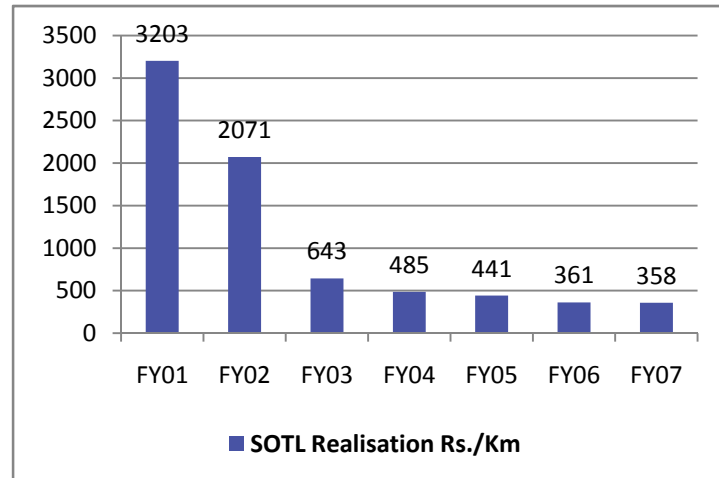
▪ Global demand of OF



Source: CRU, UK

- Global demand for OF in 2007 is expected to reach the level of peak telecom demand in 2000-01.
- OF demand has grown by 22% and 28% in 2005 & 2006 respectively.
- The demand is driven by backbone infrastructure development in under developed market and Fiber-to-premises in developing / developed market.
- Demand is also driven by higher bandwidth requirement for data, video, IPTV, VOIP etc.
- Total installed capacity of OF is around 110Mn Km.
- Capacity utilizations are at peak & lead time for delivery is increasing.
- No new green field plant has come up in last 6-7 years and no new green field plant is on ground level.
- Shut down plants are getting re-commissioned and capacity is increased through de-bottlenecking.
- Present realization does not justify green field plant with return on capital employed lower than 10%.

- Realizations are at bottom of the cycle.



- We believe higher demand, peak capacity utilization and no major capacity addition will lead to improvement in realisation of OF.

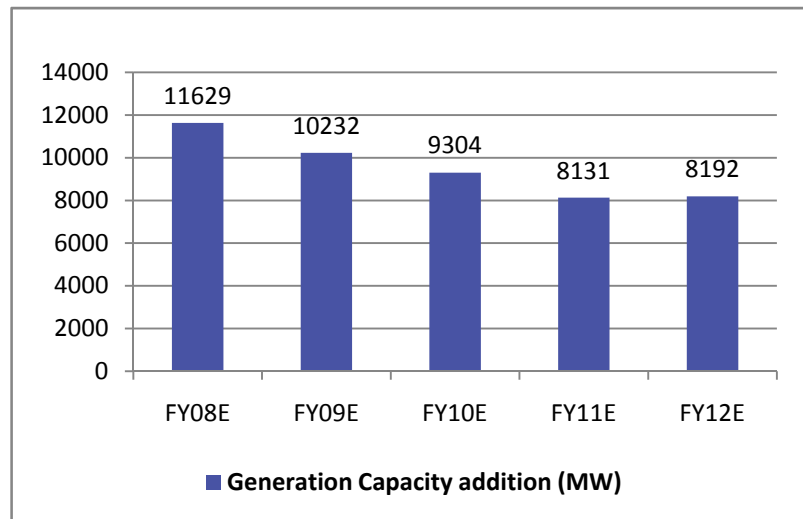
Advantage SOTL

- Only fully integrated manufacturer of OF outside US, Europe & Japan.
- Globally lowest cost producer with operating margin over 25% & Technology at par with global leaders.
- Thrust on R&D with over 70 applications filed for product & process patent. 5 patents registered in FY07.
- 7th largest producer of OF in world.
- Focus on Indian as well as global market.
- Present across all product segments - fiber for backbone, fiber to home, fiber to nod etc.
- Increasing capacity by 50%, to be operational in Sep.07.

We believe SOTL will be in advantageous position compared to its global and local peers because of its lowest cost structure, competitive technology and continuous thrust on technology up-gradation. SOTL has set a target to become 3rd largest player globally in OF by 2010 indicating aggressive expansion plan in near future. The recent capacity expansion along with improvement in realization will improve profitability of OF business of SOTL substantially.

Great Indian Power Story

- Government has set a target of 67000MW addition in power generation capacity during XI Plan (2007-12)
- In the Xth plan, 18305MW generation capacity addition was achieved against target of 39258MW (47%)
- CRISIL has projected 47488MW addition in XIth plan, 2.6 times capacity addition achieved during Xth plan.



Source: CRISIL

- Addition in power generation capacity will need to be transmitted and distributed.
- Globally investments in generation are matched by similar investment in Transmission & Distribution. However in India, investment ratio of T&D to generation is 0.51:1 indicating significant rampup is necessary in existing T&D setup.
- CRISIL research expects investment of around Rs.700 billion in the transmission sector out of which Rs.156 billion alone in conductors for transmission line based on generation capacity addition of around 47,488 MW during the Eleventh Plan.
- CRISIL Research estimates investments in distribution to be around Rs 374 billion, based on generation capacity addition of around 47,488 MW during the Eleventh Plan.
- As per AC Nielsen Report on conductor industry, Demand for Aluminum Conductors is expected to grow at a CAGR of 22%. In 2009-10, it will reach up to 29.40 Lakh km (11.9 Lakh Tons.), valued at Rs.19,500 Crores.

- As per AC Nielsen Report on conductor industry In India, there are around 360 Aluminum Conductors manufacturing units with estimated capacity of about 6.0 lakh tons.
- SOTL is the largest producer of conductor with 23% market share.
- SOTL has integrated plant structure manufacturing conductor from aluminum ingot and has advantage of around 1.5% in operating margin over competitors.
- SOTL plants are located in tax free area of Silvasa and Haridwar.
- SOTL has global reach with 19% of sales in Q1FY08 in international market and 34% of order book in conductor division from international market.
- Healthy order book position at Rs.980Cr (70000MT) and healthy order pipe line.
- We believe the focus of government on power sector investment will drive the consistent demand for conductor. SOTL being market leader and lowest cost producer will benefit most from present scenerio in conductor industry.

Capacity Expansion, to take advantage of growing demand

Product	Existing Capacity	Capacity Utilisation	Increase	% Increase	Schedule
Optical Fiber Mn KM	4.00	97.6%	2.2	55.0%	Sep-07
Optical Fiber Cable Mn FKM	3.22	37.4%	0.0	0.0%	NA
Copper Cable CKM	9.50	20.3%	0.0	0.0%	NA
Conductor MT	75000	77.6%*	40000	53.3%	Started Aug-07

*-9 months

- Optical Fiber is more of a technical job and has highest value addition, where as Optical Fiber Cable is more of a conversion job and generate conversion margin only.
- OF has an operating margin of over 25% whereas OF along with OFC has operating margin of 15-17%.
- SOTL is more focused on OF and produce OFC only where it is required by customer.
- Copper cable industry still suffers from shortage of demand. SOTL is gradually converting this facility to structured DATA cable.
- SOTL is operating at full capacity in OF and Conductor segment and expanding capacity by over 50%.
- Greenfield Conductor manufacturing plant at Haridwar has recently started operation in Aug-07 and OF expansion is scheduled to commission in Sep-07.

Nirmal Bang Securities Pvt. Ltd

38-B / 39, Khatau Building, 2nd Floor, Alkesh Dinesh Mody Marg, Fort
 Mumbai – 400023, Tel: +91-22-22641234, Fax: +91-22-22634035.
 Website: www.nirmalbang.com

- The expanded capacity will be running at 100% capacity utilization in Q4 and SOTL have to further expand capacities to meet market demand.

Near term commissioning of expanded capacity will reduce the gestation period for benefit to be derived from expansion.

Efforts to improve performance of copper cable / Access business

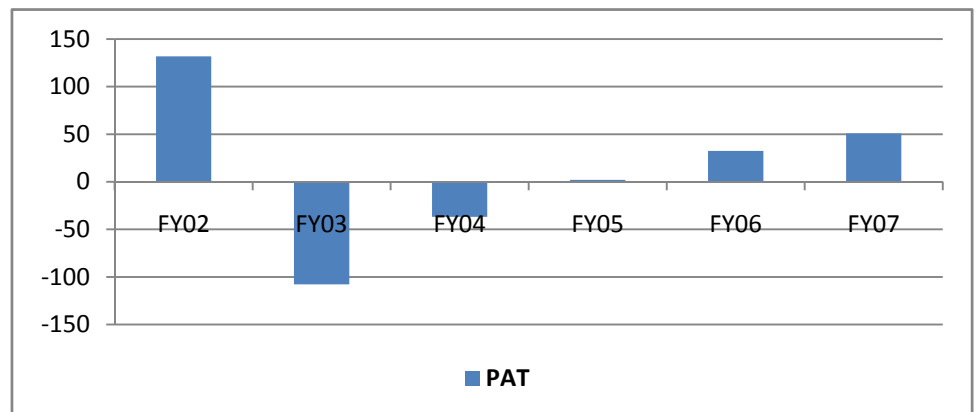
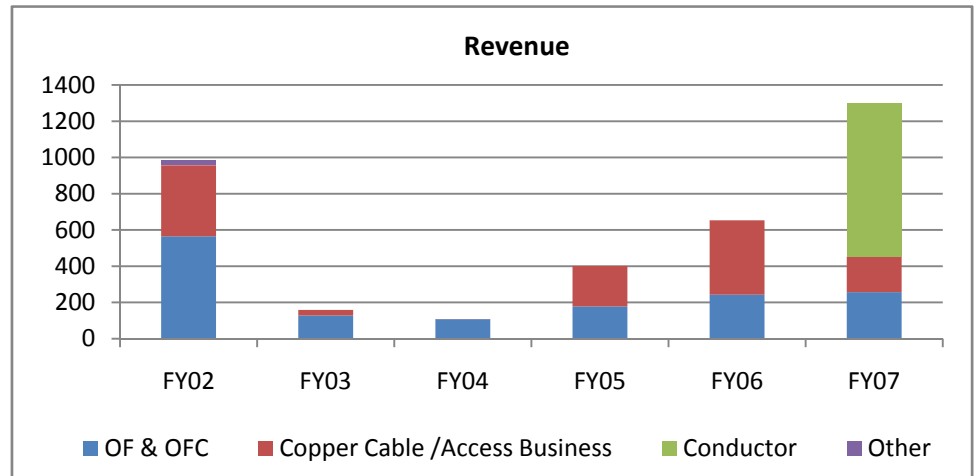
- Demand in the local market is stable since last 4 years and not declining further.
- SOTL is exploring newer international market for Copper Cable.
- SOTL is converting copper cable capacity to structured data cable, which has higher demand and better margin.
- Growth in structured Data Cable is driven by infrastructure & real estate development.
- SOTL has recently diversified to offer system integration solution for broad band wherein it will improve and upgrade BSNL / MTNL exchanges. SOTL has even got initial order of Rs.170CR from MTNL for this which will be executed over FY08-FY09.

Investment Concern

- Conductor business is driven by demand from government initiated project. Any disruption or delay in implementation of these projects may reduce the demand for conductor in domestic market and reduces utilization of capacity.
- SOTL business has very high debtor's day and require higher working capital. Increasing interest rate may increase the cost of fund for working capital and reduce profitability.
- Any Technological changes in OF can have long term impact on company.
- SOTL has filed an appeal before High Court against a demand of Rs.198.2Cr raised by Central Excise for alleged use of imported machinery of EOU for production and sales in Domestic Tariff Area. SOTL believe it has a strong case and do not see any liability on this account but if the decision comes against SOTL then it will have major impact on financials of company.

Result analysis

SOTL had faced down cycle in OF, OFC & Copper cable during 2003-2005.



- Revenue came down substantially in FY03 & FY04 resulting in to loss of Rs.107.78Cr & Rs.36.86Cr respectively.
- The performance was impacted because of over capacity, delay in implementation of broad band, higher growth in wireless segment etc. The situation of OF is improving with higher demand from fiber to home in developed / developing market and backbone cable in under developed market.
- Demand for copper cables are still at bottom. Revenue from copper cable declined again in FY07 on account of lack of order from MTNL & BSNL. SOTL is moving towards structured data cable and project busiess to achieve growth in this segment.
- SOTL has purchased Conductor division of Sterlite Industry in July 2006 and as such FY07 has 9 months working of conductor division. SOTL has also merged its 100% subsidiaries into itself last year.

Revenue	FY06	FY07	Var (%)
OF	78.8	97.5	23.7%
OFC	164.1	159.8	-2.6%
OF & OFC	242.9	257.3	5.9%
Copper Cable	410.5	194.8	-52.6%
Telecom Revenue	653.4	452.0	-30.8%
Power Conductor	0.0	848.9	
Total	653.4	1300.9	99.1%

Annual Result

- We have compared Standalone SOTL result for FY07 with consolidated FY06 result as both subsidiaries of SOTL got merged in the company during FY07.
- During FY07 the overall sales had grown by 99.1% on account of acquisition of conductor business. The telecom business revenue had declined by 30.8% due to 52.6% decline in copper cable / access business revenue. OF & OFC business revenue increased by 5.9%, in that OF revenue grew by 23.7% but OFC revenue declined marginally by 2.6%.
- The **EBIDTA** margin reduced from 10.80% in FY06 to 9.51% in FY07 but in absolute term it has increased by 84.67% from Rs.61.71Cr to Rs.113.96Cr mainly on account of addition of conductor business.
- Due to acquisition cost of Rs.148.50cr funded by loan and increasing working capital requirement the outstanding loan increased from Rs.237.82Cr in FY06 to Rs.586.66Cr in FY07. This has resulted in to increase in **interest** charges by 89.5% from 18.18Cr in FY06 to Rs.34.46Cr in FY07.
- **Depreciation** declined from Rs.33.53Cr in FY06 to Rs.31.57Cr in FY07 on account of impairment of certain assets.
- **Other income** reduced from Rs.19.15Cr to Rs.5.15Cr.
- SOTL reported **PBT** of Rs.53.08Cr in FY07 against Rs.29.15Cr in FY06.
- The **tax** provisioning was low in FY07 on account of carry forward losses of earlier years and MAT credit available. Tax provision for FY07 was Rs.2.22Cr.
- SOTL reported **PAT** of Rs.50.86Cr & **EPS** of Rs.7.90 on diluted equity of Rs.32.2Cr (i.e. 6.44cr shares of Rs.5 each) in FY07.

Quarterly Result

- Q1FY08 result is not comparable with Q1FY07 as SOTL was not having conductor business at that time. Sequentially also results are not comparable due to seasonality involved in the business.
- Revenue growth:

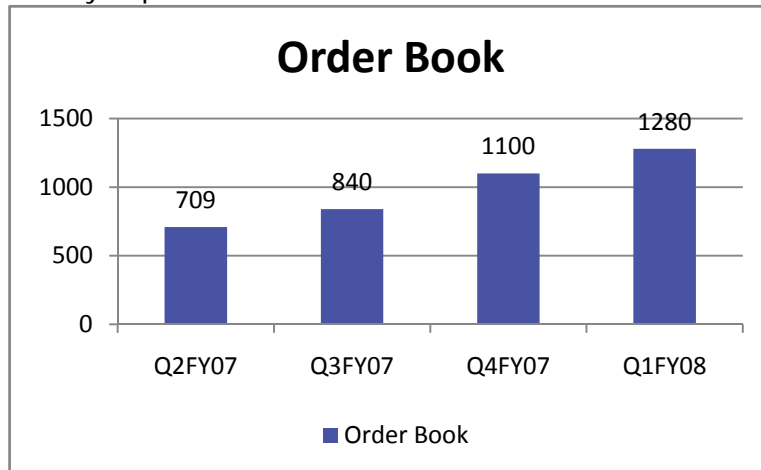
Segment Revenue Growth	YoY	QoQ
Optical Fiber Business	2.9%	-20.1%
Copper Cable/ Access Business	-58.5%	-27.1%
Power Transmission Business		-43.1%

- QoQ over all revenue declined by 38% to Rs.239.56Cr and YoY like to like business revenue declined by 24%.
- QoQ decline in revenue was on account of seasonality in power and telecom both the businesses. And YoY decline in revenue was on account of low order book in copper cable / access business.

Nirmal Bang Securities Pvt. Ltd

38-B / 39, Khatau Building, 2nd Floor, Alkesh Dinesh Mody Marg, Fort
 Mumbai – 400023, Tel: +91-22-22641234, Fax: +91-22-22634035.
 Website: www.nirmalbang.com

- OF realization though improved in \$ terms from \$7.67 to \$7.73 QoQ but due to appreciation of rupee, declined in rupee term from Rs.357 to Rs.328.
- Though the revenue in this quarter declined but the order book consistently improved.



- The EBIDTA margin was higher at 12.9% as compared to 8.8% in Q1FY07 & 8.11% in Q4FY07. The improvement was on account of execution of some higher margin business in conductor segment and some forex roll over gain.
- PBT improved by 19% QoQ to Rs.16.34Cr.
- Due to higher provisioning of taxes as compared to write back in Q4FY07, SOTL reported decline in PAT from Rs.19.32Cr in Q4FY07 to Rs.12.74Cr in Q1FY08.
- SOTL reported Quarterly EPS of Rs.1.98.

Valuation & Recommendation

We believe improvement in realization of OF, growing demand for power conductors, integrated plant structure leading to low cost production and near term volume growth to take advantage of growing demand will lead to improvement in performance of SOTL substantially.

- We expect SOTL revenue and PAT to grow at 33% & 71% CAGR respectively between FY07-FY09.
- The stock discounts FY07, FY08E and FY09E earnings of Rs.7.90, Rs.13.41 & Rs.23.09 at 27.2x, 16.0x and 9.3 respectively.
- The stock trades at 3.3x for FY07 and 2.7x FY08E to book value.
- Post full expansion in FY09E the RoE and RoCE are at 25.2% & 19.0% respectively.
- EV/Sales for FY08E is at Rs.1.3 times which looks very attractive.

“Our strategic path is to grow our business to a \$1 billion company by 2010 and our vision is to be positioned within the Top 5 global companies for each of our business segments.”
Anil Agarwal Chairman SOTL..

Peer Group Comparison

We do not have like to like comparable company of SOTL as it operates in OF, OFC, Copper Cable & power conductor business. We tried to compare SOTL with Universal Cable (UCL), which has OF & power cable business, Finolex Cable (FCL), which has OF, OFC and power cable business & Apar Industries Ltd (Apar) which has conductor, transformer Oil business, Specialty oil and Synthetic rubber business.

UCL & FCL are again not strictly comparable as they manufactures OF from pre-form of OF where as SOTL manufactures from basic raw material silicon.

We also tried to compare SOTL with Corning Incorporation, USA, Draka Holding, Netherland, the world leaders in OF.

Trailing 4 Quarter (Rs.in Cr)	STL	UCL	Apar	FCL	Corning (USD)	Draka (Euro)
Net Sales	1319.4	408.3	1484.4	1123.7	5376.0	2529.4
EBITDA	133.2	36.8	75.4	123.5	893.0	145.3
EBITDA Margin	10.1%	9.0%	5.1%	11.0%	16.6%	5.7%
PAT	64.8	17.7	49.3	78.2	1900.0	45.4
EPS	10.1	7.6	15.3	5.1	1.3	1.24
CMP	215.0	92.4	203.5	78.2	23.6	36.2
PE	21.4	12.1	13.3	15.3	18.6	29.2

We believe SOTL is getting premium valuation on account of:

- Leader in all segments
 - Diversified market with over 25% export
 - Fully integrated in OF & Conductor business
 - Over 50% increase in capacity of power conductors commissioned in Aug-07 and over 50% increase in capacity in OF is getting commissioned in Sep-07
 - Benefit of price increase in OF will accrue maximum to SOTL as it manufactures from Silicon, the basic raw material available locally, whereas UCL, FCL, Aksh Optifiber etc manufactures from pre-form of OF (an intermediate stage) and will benefit marginally as benefit will more accrue to supplier of pre-form of OF.
 - Technology driven company with over 70 patent applications filed and 5 patents registered during FY07.
- We are positive on the growth prospects of the company and recommend **BUY** on the stock with a price target of Rs.350 over a 12-15 months horizon implying upside potential of 63%.
 - We have derived our target price based on FY09E earning and Price earning multiple of 15.

Initiating coverage
Sterlite Optical Technologies Ltd (SOTL)

Profitability (Rs. In Cr)	FY06A	FY07A	FY08E	FY09E
Y/E - March				
Revenues - Net	571.3	1198.2	1596.4	2111.7
% change	61.3%	109.7%	33.2%	32.3%
EBITDA	61.7	114.0	183.6	277.3
% change in EBITDA	49.0%	84.7%	61.1%	51.0%
Interest	18.2	34.5	43.6	47.2
EBDT	43.5	79.5	140.0	230.2
Depreciation	33.5	31.6	38.7	44.7
Other Income	19.2	5.2	6.0	6.0
Extraordinary	0.0	0.0	0.0	0.0
PBT	29.2	53.1	107.2	191.4
Tax	-3.3	2.2	20.9	42.7
PAT	32.5	50.9	86.3	148.7
Adj. PAT	32.5	50.9	86.3	148.7
Shares o/s (No. in Cr.)	6.4	6.4	6.4	6.4
Adj Diluted EPS	5.0	7.9	13.4	23.1
Cash EPS	10.3	12.8	19.4	30.0
DPS (Rs.)	1.0	1.5	2.0	2.5

Quarterly (Rs. In Cr)	Sep.06	Dec.06	Mar. 07	Jun. 07
Revenue	379.65	313.95	386.27	239.56
EBITDA	37.66	33.31	31.25	31.02
Interest	6.94	10.02	10.86	8.85
EBDT	30.72	23.29	20.39	22.17
Depreciation	7.02	7.08	8.33	8.32
Other Inc.	0.48	0.01	1.72	2.49
Extraordinary	0.00	0.00	0.00	0.00
PBT	24.18	16.22	13.78	16.34
Tax	4.33	3.35	-5.54	3.60
Adj PAT	19.85	12.87	19.32	12.74
Adj Diluted EPS (Rs.)	3.08	2.00	3.00	1.98

Operational Ratio	FY06A	FY07A	FY08E	FY09E
EBITDA margin (%)	10.8%	9.5%	11.5%	13.1%
Adj PAT margin (%)	5.7%	4.2%	5.4%	7.0%
Adj EPS Growth (%)	1477.2%	56.5%	69.8%	72.2%
Price Earnings (x)	42.6	27.2	16.0	9.3
Book Value (Rs.)	51.5	64.4	80.3	102.0
ROE (%)	19.6%	13.6%	18.5%	25.2%
ROCE (%)	16.0%	10.9%	13.7%	19.0%
Debt Equity Ratio	0.7	1.4	1.2	1.0
Price / Book Value (x)	4.2	3.3	2.7	2.1
EV / Sales	2.8	1.6	1.3	1.0
EV / EBITDA	26.3	17.3	11.1	7.3

*FY06 consolidated figures are considered

Financial Health (Rs. In Cr)	FY06A	FY07A	FY08E	FY09E
Y / E - March				
Share Capital	29.4	30.8	32.2	32.2
Warrant/ ESOP	5.60	4.67	1.87	1.87
Reserves & Surplus	296.7	381.2	485.2	624.5
Misc. Exp (not w/o)	0.0	0.0	0.0	0.0
Net Worth	331.7	416.6	519.3	658.6
Total Loans	237.8	586.7	646.0	641.0
Deferred Tax Liabilities	21.0	10.3	17.8	31.2
Total Liabilities	590.5	1013.5	1183.0	1330.8
Net Fixed Assets	320.8	487.2	542.7	523.0
Investments	0.0	6.3	6.3	6.3
Current Assets	479.9	753.4	894.7	1132.5
Current liability & Provision	210.3	233.4	260.7	331.0
Working Capital	269.6	520.0	634.0	801.5
Total Assets	590.5	1013.5	1183.0	1330.8

Cash Flow (Rs. In Cr)	FY07A	FY08E	FY09E
Operating			
Operating Income	114.0	183.6	277.3
Change in WC	-278.6	-153.3	-160.9
Other Adjustment	-13.2	0.0	0.0
CF from Operation	-177.8	30.3	116.4
Investment			
Capex	-197.2	-94.2	-25.0
Other Investment	-6.3	0.0	0.0
Total Investment	-203.5	-94.2	-25.0
Financing			
Dividend Paid	-5.4	-7.5	-9.4
Share Capital	0.5	-1.4	0.0
Premium / Reserve	39.0	25.2	0.0
Borrowing	348.8	59.3	-5.0
Other Income	5.2	6.0	6.0
Other	0.0	0.0	0.0
Interest	-34.5	-43.6	-47.2
Tax Paid	-0.5	-13.4	-29.3
Total Financing	353.1	24.6	-84.8
Net Chg. in Cash	-28.2	-39.3	6.5
Cash at beginning	107.2	78.9	39.6
Cash at end	78.9	39.6	46.1

Nirmal Bang Securities Pvt. Ltd

38-B / 39, Khatau Building, 2nd Floor, Alkesh Dinesh Mody Marg, Fort
 Mumbai – 400023, Tel: +91-22-22641234, Fax: +91-22-22634035.

Website: www.nirmalbang.com

NOTE

Disclaimer

This Document has been prepared by N.B.Research (Nirmal Bang Securities PVT LTD).The information, analysis and estimates contained herein are based on N.B.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 N.B.Research opinion and is meant for general information only. N.B.Research, its directors, officers or employees shall not in anyway be responsible for the contents stated herein. N.B.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. N.B.Research, its affiliates and their employees may from time to time hold positions in securities referred to herein. N.B.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.*

Nirmal Bang Securities Pvt. Ltd

38-B / 39, Khatau Building, 2nd Floor, Alkesh Dinesh Mody Marg, Fort
Mumbai – 400023, Tel: +91-22-22641234, Fax: +91-22-22634035.
Website: www.nirmalbang.com