

June 20, 2010

HOLD

MEDIUM RISK

PRICE Rs. 112

TARGET Rs. 116

POWER

EARLIER RECO

HOLD	
Price	Rs. 107
Target	Rs.116
Date	Apr. 26, 2010

SHARE HOLDING (%)

Promoters	48.6
FII	5.8
FI /MF	12.6
Body Corporates	8.89
Public & Others	24.12

STOCK DATA

Reuters Code	STTE.BO	
Bloomberg Code	SOTL@IN	
BSE Code	532374	
NSE Symbol	STRTECH	
Market Capitalization*	Rs. 43.9 bn US\$ 0.9 bn	
Shares Outstanding*	392.0 mn	
52 Weeks (H/L)	Rs. 124 / 36	
Avg. Daily Volume (6m)	415,393 Shares	
Price Performance (%)		
1M	3M	6M
9	29	35

200 Days EMA: Rs. 85

*On fully diluted equity shares

Part of  Bonanza



ANALYST

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Sterlite Technologies Ltd. (STL) has posted a decent growth in top line as well as bottom line for the period ended 30th June 2010. We attended the concall of STL. Some of the key points pertaining to results and discussed in the concall are summarized below:

Key Highlights of Q1FY11

- During the quarter ended 31st Mar 2010, STL's Net sales grew by 12.7% YoY to Rs 4917.6 mn mainly on back higher sales value from Power Transmission business. However, in terms of volumes the conductors segment grew to 27,000 MT from 26,000 MT whereas its Optic fibre volume grew by 14% to 2.2 mn km.
- Exports contributed to 22% of its net sales on back of strong order execution for Europe and America. The Company added good Tier-I clients all the businesses across geographies. The sales in Europe surpassed all its international exports, with 35% contribution to its total exports.
- However, its EBITDA remained flat YoY to Rs. 830.1 mn and EBITDA margins declined by 92 bps to 16.9%, on back of higher raw material and employee expenses.
- Its PBT (including other income) increased by 19.8% YoY on back of higher other income of Rs.54.7 mn and lower interest cost of Rs.71.2 mn (a de-growth of 40% YoY) in line with reduced debt on YoY basis. Its Gross debt stands at Rs. 5500 mn at end of Q1FY11. Its PAT stood at Rs. 555.8 mn registering a growth of 22.2% YoY.

Segmental Analysis

- For Q1FY11, Telecom products & solutions segment have contributed 31% to the sales and has grown by 8.6% on YoY basis at Rs.1522.3 mn. The share of copper cable has been moving down and hence this segment is not witnessing a strong growth but due to better margins (in excess of 20%) in Optic fibre business its PBIT grew by 22% YoY to Rs. 345.1 mn.
- Power transmission segment sales grew by 14.7% YoY to Rs. 3395.3 mn. The PBIT of this segment grew by of 54.2% YoY to Rs. 408.9 mn whereas its margins stood at 12%, lower by 165 bps on YoY basis.

Strong Order book & Expansion of capacity on track

- At the start of Q2FY11, the Company has a strong order book of over Rs. 26 bn, a growth of 62% YoY. About Rs. 14 bn worth of order backlog is from PGCIL. Power Conductors contributed Rs. 18 bn worth of orders and the Telecom segment contributed Rs.8 bn worth of orders. The order inflow during the year stood at Rs. 7 bn.
- STL has expanded its capacity in power conductors to 160,000 MT and will be further expanded to 200,000 MT in phases. The company is well on track to expand its capacity of fibre optic to 20 mn km.

OUTLOOK & VALUATION

STL is on an expansion mode for all its manufacturing capacities and envisions to capturing a substantial market share in the next two years. The global demand for Optic Fibre would be driven by China and India and that for Power Conductors will be fueled by additional investment in transmission and distribution lines in India. With expanded capacities we believe STL will enjoy economies of scale and improve its margins. We have increased our sales and production estimate for Power conductors on expectation that demand on the conductors segment would improve. We have lowered our depreciation and interest estimates and increased tax rate but maintained our estimates for profit for FY11 and FY12. At the CMP of Rs.112, the stock is trading at 14.4 x its FY11E & 11.6x its FY12E EPS of Rs.7.8 & Rs.9.7, respectively. We have valued STL at Rs.116, i.e. 12x its FY12E Earnings. We maintain our rating to HOLD on the stock with a target price of Rs.116.

KEY FINANCIALS

Y/E Mar.	Revenue (Rs mn)	APAT (Rs mn)	AEPS (Rs)	AEPS (% Ch.)	P/E (x)	ROCE (%)	ROE (%)	P/BV (x)
FY09	22892	1165	18.0	22.7	22.4	13	20	4.2
FY10*	24316	2387	6.7	(62.8)	16.7	21	31	4.3
FY11E	30023	3046	7.8	15.7	14.4	22	28	3.4
FY12E	35326	3791	9.7	24.4	11.6	21	26	2.7

*Stockplit from Rs. 5 to Rs. 2 and bonus shares in ratio of 1:1 and warrants conversion

QUARTERLY STATEMENT

Rs.mn

Y/E March	Q2FY09	Q2FY10	Q1FY10	Q1FY11
Net Revenues	6556	4658	4362	4918
Growth %	64	(29)	8	13
Total Expenditure	6171	3770	3585	4088
PBIDT	384	888	777	830
Growth %	(30)	131	177	7
% Margin	6	19	18	17
Interest	147	100	119	71
Depreciation	108	119	114	131
Other Income	5	23	26	55
Extraordinary items	59	-	-	-
PBT	75	692	570	683
% Margin	1.1	14.9	13.1	13.9
Tax	14	146	115	127
Rate %	19	21	20	19
RPAT	61	547	455	556
% Margin	0.9	11.7	10.4	11.3
Extraordinary adj.	(50)	-	-	-
APAT	111	547	455	556

PROFIT & LOSS STATEMENT

Rs.mn

Y/E March	FY09	FY10	FY11E	FY12E
Net Sales	22892	24316	30023	35326
Raw material Costs	17309	16055	20927	24445
Staff costs	491	580	667	767
Other Expenses	2750	3872	3723	4339
EBITDA	2342	3810	4706	5774
Interest	532	381	343	360
Depreciation	425	483	541	718
Other Income	30	128	153	176
Extraordinary items	319	(101)	-	-
PBT	1094	3175	3976	4873
Tax	193	714	929	1082
RPAT	902	2461	3046	3791
Extraordinary adj.	(263)	74	-	-
APAT	1165	2387	3046	3791

BALANCE SHEET STATEMENT

Rs.mn

As on 31st March	FY09	FY10	FY11E	FY12E
Share Capital	323	711	784	784
Reserves & Surplus	5834	8139	11921	15391
Share warrants app.	-	271	-	-
ESOP o/s	53	39	39	39
Net Worth	6209	9160	12744	16214
Secured Loans	4679	3579	3758	3946
Unsecured Loans	287	3	3	3
Total Loan funds	4966	3582	3761	3948
Deferred tax liability	560	602	617	632
Capital Employed	11735	13344	17121	20794
Net Block	5453	6264	8423	9706
Cap. WIP	1114	570	500	800
Fixed Assets	6567	6834	8923	10506
Investments	920	1061	1061	1061
Sundry Debtors	5459	6290	7567	9194
Cash & Bank Bal	779	2097	1694	2361
Loans & Advances	2012	1567	2571	2801
Inventories	1004	1709	2007	2679
Current Assets	9253	11663	13839	17035
Curr Liab & Prov	5005	6214	6702	7808
Misc. Exp	-	-	-	-
Total Assets	11735	13344	17121	20794

FINANCIAL RATIO STATEMENT

Y/E March	FY09	FY10	FY11E	FY12E
Growth (%)				
Net Sales	36	6	23	18
APAT	23	105	28	24
EBITDA	17	63	24	23
Profitability (%)				
EBITDA Margin	10	16	16	16
Adj. PAT Margin	5	10	10	11
ROCE	13	21	22	21
ROE	20	31	28	26
Per Share Data (Rs.)				
Adj. EPS	18.0	6.7	7.8	9.7
Adj. CEPS	23.1	8.4	9.2	11.5
BVPS	96.2	25.8	32.5	41.4
Valuations (X)				
PER	22.4	16.7	14.4	11.6
PEG	1.0	(0.3)	0.9	0.5
P/BV	4.2	4.3	3.4	2.7
EV / EBITDA	13.0	10.8	9.8	7.9
EV / Net sales	1.3	1.7	1.5	1.3
Dividend Yield (%)	0.3	0.4	0.5	0.6
Turnover Days				
Debtors days	87	94	92	95
Payable days	101	130	110	110
Gearing Ratios				
Total Debt to Equity	0.8	0.4	0.3	0.2

Source : Company, Sushil Finance Research Estimates

Rating Scale

This is a guide to the rating system used by our Equity Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

- Recommendations with “Neutral” Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- ** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.

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