

BUZZING

STOCK

Sterlite Optical Technologies Ltd.

CMP – Rs.229

Analyst

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Key Stock Data

Sensex	13874
Nifty	4001
Sector	Cable-Telephone
Bloomberg	SOTL@IN
Reuters	STOP.BO
No. Of shares (m)	56
Market Cap (Rs m)	13,430
Market Cap (US\$ m)	302
52-week H/L	Rs.235/80

Shareholding Pattern (%)

Promoters	40.10
Mutual Funds & institutions	12.46
FII's	4.05
Corporate Bodies & Govt.	9.55
Pubic & Others	33.85

Overview : The Company is the seventh largest manufacturer of Optical Fibers and Fiber Optic Cables (OFC) in the world. It is the only fully integrated Optical Fiber producer in the country with 66% market share. Also it is the largest suppliers of Optical Fibers to overseas markets with global market share of 5%. It has 12% market share in the growing Chinese OFC market. Now with the recent acquisition of the power conductor division of the Sterlite Industry the company has placed itself among the top 10 power and telecom cable manufacturers of the world.

Global Focus in Optical Fiber

The company is the only glass manufacturer outside of USA, Europe & Japan with full control over its cost. It has a good research base, which consistently maintain the company to remain one of the cost leaders in this commodity business. Now with the advance of the telecommunication networks coupled with massive bandwidth requirement for the same, fiber is gradually reaching to the customer and the company is planning to capitalize on this by having a global focus. It aims to be among the top 3 Optical Fiber and Telecom Cable Manufacturers in terms of Market Share by 2009.

Stabilization of prices

Globally the growth of OFC demand started in the early Nineties, with an initial CAGR of 27% from 1990 to 1997. Later it grew very fast with a CAGR of 49% till 2001 and reached the peak demand of 108 million KM during FY01 and 2002. During the dotcom bust the OFC off take declined considerably and reached its low of 60 million KM in 2003. However, now the global off take is growing at 19% CAGR. It is expected to reach 100 Million KM mark by the end of 2006. At the same time due to the slump in demand in the recent past many non-serious players have exited the market leaving a good scope for the serious players.

Now the lead times of off take has increased. This indicates the demand supply position has matched perfectly. The standard single mode Optical Fiber price has now stabilized at \$10 per meter. We expect the company being a market leader in the country and with a good presence in the global market would capitalize well on this growing opportunity.

Expansion Plans

The company is expanding its optical fiber capacity at Aurangabad from 4mn Km PA to 6.5 million KM PA. Currently the company is running at 100% of its current capacity in optical fiber and cable. With this expansion, which is expected to complete by March 07, would meet the growing domestic and export demand for optical fiber cables and the capacity utilization would remain at more than 90%.

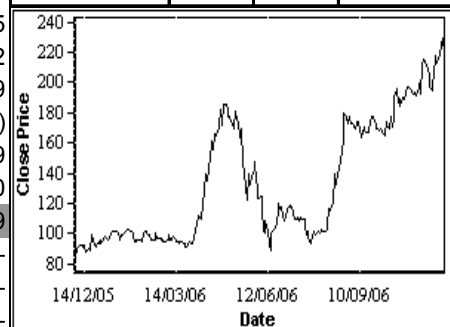
At the same time the company is setting up a new manufacturing facility for power transmission conductor in the tax heaven state of Uttranchal. This expansion will add 40,000 MT PA to the existing capacity of 75,000 MT PA. This expansion at Haridwar in Uttranchal will complete by the end of the first quarter of FY08. The company enjoys 23% market share in this business in the country and represent 45% of the total transmission conductor off take by Power Grid Corporation. With the rising capex in transmission sector in the country, we expect the expansion has come at a right time.

Valuation

We upgrade our profit estimate for FY06 from Rs.600m to Rs.756m due to the increased contribution from export of OFCs. The total sales would remain in the range of Rs.1,430m. The current market price Rs.229 discounts the fully diluted (Total Equity Rs.321.6m) FY07 E EPS of Rs 11.7 by 19.4 times.

Financial Snapshot

Sterlite Optical Technologies Ltd.							Rs.m	Ratios (%)		
Financial Year End: March	Q2 FY07	Q2 FY06	Chg. (%)	FY06	FY05	Chg. (%)		FY06	FY05	Chg.(%)
Net Sales	3797	1242	206	5474	3269	68	Debt -Equity	0.7	0.6	7
Other Income	5	3	78	195	52	276	PBIDTM	14	13	2
Total Income	3801	1244	206	5668	3321	71	PBDTM	11	10	8
Total Expenditure	3420	1120	205	4835	2847	70	RoCE	12	6	108
PBIDT	381	124	207	833	473	76	RoNW	14	4	248
Interest	69	37	88	161	104	55				
PBDT	312	87	258	672	369	82				
Depreciation	70	73	(4)	290	267	9				
Tax	0	1	(100)	0	2	(95)				
Reported Profit After Tax	199	12	1597	408	102	299				
Extra -ordinary Items	0	0	0	0	0	0				
Adj. Profit After Extra-ordinary item	199	12	1597	408	102	299				
No. of shares (m)	59	56	-	56	56	-				
EPS (annualised.) (Rs.)	13.5	0.8	-	6.9	1.8	-				
P/E	17.0	286.3	-	34.7	127.2	-				



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