

29th June, 2009**BUY**

Price	Target Price
Rs183	Rs 230

Sensex	14,765
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Price Performance

(%)	1M	3M	6M	12M
Absolute	26	170	194	26
Rel. to Sensex	20	83	86	20

Source: Bloomberg

Stock Details

Sector	Cables
Reuters	STOP.BO
Bloomberg	SOTL@IN
Equity Capital (Rs mn)	323
Face Value (Rs)	5
52 Week H/L	214/41
Market Cap (Rs bn/ USD mn)	12/249
Daily Avg Vol. (No of shares)	210,465
Daily Avg Turnover (US\$ mn)	0.5

Shareholding Pattern (%)

(31 st Mar '09)	
Promoters	43.6
FII/NRI	4.1
Institutions	12.2
Private Corp.	10.8
Public	29.3

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Rising higher

Sterlite Technologies (STL) has announced further expansion of its optic fiber capacity from 12mn fkms to 20mn fkms with capex outlay of Rs2.5bn (capex at US\$6.5/fkm). The new capacity to be functional by FY2011 would be a mix of brown field and green field expansion and would make STL 3rd largest (from 5th now) manufacturer of optic fiber in the world after Corning and Furukawa. The expansion would be partly funded by further issue of 7.3mn preferential warrants to the promoters (at ~Rs150/share) and the rest by mix of internal accruals and debt.

We highlight that STL is currently at the end of expansion of optic fiber capacity from 6mn fkms to 12mn fkms and OFC capacity from 2mn fkms to 6mn fkms. While it has announced the expansion of optic fiber capacity from 12mn to 20mn fkms, we believe that further expansion of OFC capacity beyond 6mn fkms also looks likely given that the bare optic cable has to be cabled before use and also lower capex involved.

The new capacity expansion plans together with partial equity funding of the project not only provides further visibility of earnings growth beyond FY11 but also keeps balance sheet leverage in check with D/E at 0.6x and 0.4x in FY10E and FY11E respectively. With tripling of optic fiber capacity over FY09-11E and increased contribution of high margin business, we estimate overall EBIDTA margins of the company to improve from 10.2% in FY09 to 11.7% in FY11E and 12.3% in FY12E respectively.

While we have increased our PAT estimates for FY10E and FY11E by 2.5% and 6.4% mainly due to lower interest expense on equity infusion, our EPS estimates are reduced by 2.2% and 3.6% due to 17.5% equity dilution over FY09-11E. Since the full benefit of new planned capacity would be available in FY12, we have introduced estimates for FY12 with EPS of Rs35.1. Our revised estimates imply **Revenue, PAT and EPS CAGR of 17.3%, 46.1% and 37% respectively over FY09-12E**. Considering better profitability, strong earnings CAGR, improved balance sheet health, absence of forex loss uncertainty and ROE's improving from 14% in FY09 to ~20% from FY10 onwards we believe that the stock warrants re-rating. We are revising our price target on the stock to Rs230 per share (from Rs126 earlier) based on ROIC/WACC multiple to the IC which is at an implied P/E of 8x FY11E FDEPS of Rs28.3. Reiterate BUY.

Promoters continue to invest, stake to increase from 43.6% to 53.5%

To part fund the planned expansion to 20mn fkms, STL has approved the issue of 7.3mn warrants to promoters, which would be as per the SEBI determined price (~Rs150 per share). The current warrants issue together with 6.45mn warrants issued earlier not only increases the promoter holding in the company from 43.6% as on Mar-09 to 53.5% by Dec-10 but also reinforces strong confidence of the promoters in the business and growth prospects of the company.

Target revised to Rs230 based on 8.5x FY11E – Reiterate BUY

With strong earnings growth visibility of 37% over FY09-12E, better balance sheet health, and improving margins and return profile (ROE increasing from 14% to ~20%) we are increasing our target price on the stock to Rs230 per share (from Rs126 earlier) valuing the stock at ROIC/WACC multiple on the invested capital which is at an implied P/E of 8.5x for FY11E. AT CMP of Rs183, stock trades at 7.5x, 6.5x and 5.2x our estimated EPS and 6x, 4.8x and 3.6x EV/EBIDTA for FY10E, FY11E and FY12E respectively. Reiterate BUY rating.

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	PAT	ROE (%)	EV/ EBITDA	P/BV	Div Yld (%)	EPS (Rs)	EPS P/E
FY08	16,858	2,071	12.3	1007	18.7	9.7	2.2	0.5	15.6	11.7
FY09	22,892	2,341	10.2	880	14.2	7.6	1.9	0.7	13.7	13.4
FY10E	26,901	3,126	11.6	1740	21.3	6.0	1.6	1.1	24.5	7.5
FY11E	32,502	3,814	11.7	2214	19.7	4.8	1.3	1.4	28.3	6.5
FY12E	36,937	4,543	12.3	2743	19.9	3.6	1.0	1.4	35.1	5.2

Optic capacity more than tripling in 2 years, OFC to follow

Sterlite currently has a capacity of 6mn fkms which would increase to 12mn fkms in Q2FY10. With continued strong demand for optic fiber from leading global telco's especially in regions like Asia, Sterlite has decided to further increase its capacity to 20mn fkms by FY2011. We highlight that optic fiber is the most lucrative business for STL with EBIDTA margins at ~40% in Q4FY09 v/s overall margins at ~11%. While STL has decided to expand optic fiber capacity, we believe that it would also further expand its OFC capacity which is currently being increased to 6mn fkms, as the incremental capex is lower and can get an incremental 10% margin.

Earning estimates tweaked for FY10/FY11, introducing FY12

After factoring in equity dilution of 17.5% over the next 18 months and reduced interest expenses on equity fund infusion, our PAT & EPS estimates are tweaked by 2.5%/6.4% and -2.2%/-3.6% for FY10E /FY11E respectively. Since the full benefit of the expanded capacity would be available in FY12E, we have introduced estimates for FY12E with EPS at Rs35.1. Our revised estimates imply revenue, PAT and EPS CAGR of 17.3%, 46.1% and 37% respectively over FY09-12E.

	FY09	FY10E			FY11E			FY12E
	Actual	Old	New	% chg	Old	New	% chg	Introducing
Revenues	22,892	26,893	26,901	0.0%	32,246	32,502	0.8%	36,937
EBIDTA	2,341	3,125	3,126	0.0%	3,719	3,814	2.5%	4,543
EBIDTA %	10.2	11.6	11.6	-	11.5	11.7	20	12.3
PAT	880	1,697	1,740	2.5%	2,080	2,214	6.4%	2,743
EPS	13.7	25.1	24.5	-2.2%	29.4	28.3	-3.6%	35.1

Source: Company, Emkay Research

Optic fiber demand continues to remain strong

The demand for optic fiber continues to remain strong on the back of continued capexes by major global telecom operators. The demand for optic fiber has been particularly strong in Asia which is the key market for Sterlite Technologies. While global demand for optic fiber increased by 13.5% from 131mn fkms to 148mn fkms in CY08, demand in Asia (ex Japan) increased by 21% mainly led by China and India where the demand grew by 13% and 55% respectively. With no major effect of global slowdown, we believe that Sterlite would be able to sell its increased production post expansion especially due to strong demand in the target markets of China and India.

World demand for optic fiber	CY05	CY06	CY07	CY08
North America	21,178	26,739	30,106	31,736
Western Europe	12,730	13,516	19,754	23,032
E & C Europe	2,998	4,091	7,265	9,434
Asia	36,459	48,164	66,152	76,930
Rest of world	3,972	5,792	7,539	7,331
World Total	77,337	98,302	130,816	148,463
Demand for optic fiber in Asia				
Japan	12,353	14,978	13,641	13,278
South Korea	3,491	4,304	4,750	6,187
Taiwan	632	869	1,147	1,184
China	16,675	23,555	39,047	44,158
ASEAN	1,263	1,890	1,935	3,361
Indian Sub cont.	2,045	2,568	5,632	8,762
Total Asia	36,459	48,164	66,152	76,930
Asia as % of world optic demand	47.1	49.0	50.6	51.8
India & China as % of Asian optic demand	51.3	54.2	67.5	68.8
India & China as % of world optic demand	24.2	26.6	34.2	35.6

Source: CRU, Emkay Research

Quarterly results

	Q408	Q109	Q209	Q309	Q409	YoY	FY08	FY09	YoY
Revenues									
Power conductors	3,577.6	2,571.1	3,879.4	4,270.4	4,007.1	12%	10,504.6	14,728.0	40%
Telecom	1,858.6	1,470.8	2,776.2	2,149.5	1,767.9	-5%	6,353.3	8,164.4	29%
Total operating revenues	5,436.2	4,041.9	6,655.6	6,419.9	5,775.0	6%	16,857.9	22,892.4	36%
(Inc)/ dec in stock in trade	482.0	(653.4)	463.5	570.0	169.7	-65%	(213.6)	549.8	-357%
Raw materials	3,507.1	3,555.1	4,836.3	4,259.0	3,875.0	10%	12,392.6	16,525.4	33%
Staff cost	90.4	92.9	134.0	128.7	135.7	50%	414.3	491.3	19%
Other exp	771.7	661.5	737.4	756.2	829.2	7%	2,297.9	2,984.3	30%
Total optg exp	4,851.2	3,656.1	6,171.2	5,713.9	5,009.6	3%	14,891.2	20,550.8	38%
EBIDTA	585.0	385.8	484.4	706.0	765.4	31%	1,966.7	2,341.6	19%
Depreciation	106.3	105.0	108.0	112.7	99.5	-6%	371.7	425.2	14%
EBIT	478.7	280.8	376.4	593.3	665.9	39%	1,595.0	1,916.4	20%
Interest	119.7	87.2	147.4	188.5	109.2	-9%	408.4	532.3	30%
Forex (gain)/ loss	(17.7)	105.2	159.0	41.7	41.7	-336%	(76.7)	347.6	-553%
PBT	359.0	88.4	70.0	363.1	515.0	43%	1,263.3	1,036.5	-18%
Other income	32.1	12.9	5.1	2.3	16.5	-49%	58.7	36.8	-37%
Taxes	48.1	13.1	14.3	50.9	114.6	138%	297.2	192.9	-35%
PAT	343.0	88.2	60.8	314.5	416.9	22%	1,024.8	880.4	-14%
EPS	5.3	1.4	0.9	4.9	6.8		15.9	13.7	-14%

% of sales						Chg bps		Chg bps	
Raw material costs	73.4	71.8	79.6	75.2	70.0	(334)	72.2	74.6	234
Staff costs	1.7	2.3	2.0	2.0	2.3	69	2.5	2.1	(31)
Other expenses	14.2	16.4	11.1	11.8	14.4	16	13.6	13.0	(59)
EBIDTA	10.8	9.5	7.3	11.0	13.3	249	11.7	10.2	(144)
EBIT	8.8	6.9	5.7	9.2	11.5	272	9.5	8.4	(109)
PAT	6.3	2.2	0.9	4.9	7.2	91	6.1	3.8	(223)

Segmental EBIDTA									
Power conductor	357.6	226.9	152.1	435.2	469.7	31%	1,140.1	1,283.9	12.6%
Telecom	241.8	171.7	337.4	273.1	312.2	29%	867.6	1,094.4	26.1%
Total	599.4	398.6	489.5	708.3	781.9	30%	2,007.7	2,378.3	18.5%

Segmental EBIDTA %						Chg bps		Chg bps	
Power conductor	10.0	8.8	3.9	10.2	11.7	173	10.9	8.7	(214)
Telecom	13.0	11.7	12.2	12.7	17.7	465	13.7	13.4	(25)
Total	11.0	9.9	7.4	11.0	13.5	251	11.9	10.4	(152)

Financials

Profit & Loss

	FY08	FY09	FY10E	FY11E	FY12E
Net Sales	16,858	22,892	26,901	32,502	36,937
Growth (%)	41%	36%	18%	21%	14%
Raw materials	12,121	17,075	19,342	23,336	26,410
% to sales	71.9%	74.6%	71.9%	71.8%	71.5%
Personnel cost	419	491	619	731	813
% to sales	2.5%	2.1%	2.3%	2.3%	2.2%
Admin & other exp	2,246	2,984	3,815	4,620	5,171
% to sales	13.3%	13.0%	14.2%	14.2%	14.0%
EBITDA	2,071	2,341	3,126	3,814	4,543
% of Sales	12.3%	10.2%	11.6%	11.7%	12.3%
Depreciation	372	425	483	596	660
EBIT	1,700	1,916	2,643	3,218	3,884
% of Sales	10.1%	8.4%	9.8%	9.9%	10.5%
Interest charges	437	532	462	394	354
Other Income	41	(311)	40	50	50
PBT	1,304	1,073	2,221	2,875	3,580
Taxes	297	193	481	661	837
PAT	1,007	880	1,740	2,214	2,743
Growth (%)	105.9%	31.1%	97.7%	27.2%	23.9%
ETR	22.8%	18.0%	21.7%	23.0%	23.4%

Balance Sheet

	FY08	FY09E	FY10E	FY11E	FY12E
Equity Capital	322	322	355	391	391
Reserves & surplus	5,073	5,859	7,819	10,863	13,378
Net worth	5,395	6,181	8,174	11,254	13,769
Total Debt	6,632	4,972	4,922	4,922	3,922
Def tax liability	381	381	381	381	381
Capital Employed	12,408	11,534	13,477	16,557	18,072
Gross Block	9,189	9,731	12,241	14,841	15,141
Less Depreciation	3,950	4,375	4,858	5,454	6,113
Net Fixed Assets	5,239	5,356	7,383	9,387	9,028
CWIP	362	1,110	100	100	100
Investments	60	60	60	60	60
Inventory	2,194	1,000	2,358	2,849	3,238
Debtors	5,191	5,460	5,896	7,124	8,096
Cash and Bank	891	1,448	446	841	2,045
Loans & Advances	1,689	2,010	2,010	2,010	2,010
Total Curr. Assets	9,965	9,918	10,710	12,824	15,389
Current Liab	3,035	4,790	4,362	5,283	5,974
Provisions	182	120	414	531	531
Total Cur Liab & Prov	3,218	4,910	4,776	5,814	6,505
Net Current Assets	6,747	5,008	5,934	7,010	8,884
Total Assets	12,408	11,534	13,477	16,557	18,072

Cash Flow Statement

	FY08	FY09E	FY10E	FY11E	FY12E
PAT	1,007	880	1,740	2,214	2,743
Depreciation	372	425	483	596	660
interest	437	532	462	394	354
Change in WC	(1,415)	2,297	(1,928)	(681)	(670)
Tax	297	193	481	661	837
Others	(38)	(193)	(481)	(661)	(837)
CFO	659	4,134	756	2,522	3,087
Capex	(1,101)	(1,290)	(1,500)	(2,600)	(300)
Net Investments	28	0	0	0	0
Others	(211)	0	0	0	0
CFI	(1,284)	(1,290)	(1,500)	(2,600)	(300)
Change in equity	252	0	419	1,095	0
Change in debt	765	(1,660)	(50)	0	(1,000)
Dividend paid	765	(1,660)	(50)	0	(1,000)
interest	(446)	(532)	(462)	(394)	(354)
Others	867	0	0	0	0
CFF	1,385	(2,287)	(259)	472	(1,583)
Incr/(decr) in cash	760	558	(1,002)	395	1,204
Cash beginning	131	891	1,448	446	841
Cash ending	891	1,448	446	841	2,045

Ratios

	FY08	FY09E	FY10E	FY11E	FY12E
EBITDA %	12.3	10.2	11.6	11.7	12.3
EBIT %	10.1	8.4	9.8	9.9	10.5
NPM %	6.0	3.8	6.5	6.8	7.4
ROCE %	13.7	16.6	19.6	19.4	21.5
ROE %	18.7	14.2	21.3	19.7	19.9
EPS	15.6	13.7	24.5	28.3	35.1
Cash EPS	21.4	20.2	31.3	35.9	43.5
Book Value	83.7	95.9	115.3	143.9	176.0
Debtors days	112	87	80	80	80
Creditors days	66	76	59	59	59
Working capital TO	146	80	81	79	88
Total Debt: Equity	1.2	0.8	0.6	0.4	0.3
Asset Turnover (adj)	1.4	2.0	2.0	2.0	2.0
PE (x)	11.7	13.4	7.5	6.5	5.2
Cash PE (x)	8.6	9.0	5.8	5.1	4.2
P/BV (x)	2.2	1.9	1.6	1.3	1.0
EV/Sales (x)	1.2	0.8	0.7	0.6	0.4
EV/EBITDA	9.7	7.6	6.0	4.8	3.6
Dividend yield	0.5	0.7	1.1	1.4	1.4

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