

October 20, 2011

Reco Hold	Changed from Hold
CMP Rs38	Target Price Rs47
EPS change FY12E/13E (%)	-27/ -8
Target Price change (%)	-8
Nifty	5,091
Sensex	16,936

Price Performance

(%)	1M	3M	6M	12M
Absolute	(4)	(28)	(44)	(61)
Rel. to Sensex	(3)	(22)	(35)	(54)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Telecom
Bloomberg	SOTL@IN
Equity Capital (Rs mn)	786
Face Value(Rs)	2
No of shares o/s (mn)	393
52 Week H/L	101/34
Market Cap (Rs bn/USD mn)	15/305
Daily Avg Volume (No of sh)	780198
Daily Avg Turnover (US\$m)	0.7

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	54.7	50.1	50.1
FII/NRI	3.3	4.3	4.5
Institutions	11.6	12.5	12.9
Private Corp	6.1	6.5	6.7
Public	24.3	26.7	25.8

Source: Capitaline

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- **Revenue at Rs7.0bn, up 38.8% yoy led by strong growth from power segment. EBITDA at Rs504mn declined 44.3% yoy with EBITDA margin at 7.1%. Telecom margin down 1318bps yoy**
- **PAT at Rs126mn was down 78.0% yoy (our est. of Rs140), led by 44.4% and 41.8% decline in EBITDA in Power & Telecom segment, respectively followed with high interest cost**
- **Cut EPS by 26.9%/ 8.0% for FY12E/13E to Rs2.9/Rs5.2 due to margin pressure in telecom segment pertaining to capacity expansion**
- **Maintain HOLD with revised TP of Rs47 (earlier Rs51). Valuation at 13.2x and 7.4x on our EPS estimate of Rs2.9/5.2 for FY12E/13E**

Revenues better than expected, EBITDA and PAT miss estimates

STL reported better than expected revenues for Q2FY12, however on the EBITDA and PAT front it was below estimates. Revenue at Rs7.0bn was up 38.8% yoy, led by strong growth of 55.8% yoy in power segment while telecom segment registered growth of 7.6% yoy. Realization in power segment improved 19.5%yoy and 10.9%qoq. Cons. EBITDA declined 44.3% yoy, due to 44.4% and 41.8% EBITDA decline in Power & Telecom segment. High fuel cost and plant stabilization is attributable to significant decline EBITDA in telecom segment. EBITDA margin at 7.1% was down 1065bps yoy. Lower EBITDA and high interest cost resulted in PAT of Rs126mn, down 78.0% yoy.

Telecom margins take a hit, power margins show some improvement

Volumes in fibre segment increased to 2.8mn fkm v/s 2.3mn fkm in Q2FY11, however, correction in fibre prices has led to just 7.6% yoy increase in revenues. EBITDA margin from telecom segment was down 1318bps yoy, primarily attributed to high power and fuel cost and plant stabilization for expanded capacity. STL sold 36500MT conductors with EBITDA/MT of ~Rs6500 v/s ~Rs2700 in Q1FY12. Nevertheless, overall margins improved qoq led by strong EBITDA in power segment.

Management cuts down on EBITDA guidance, Order book at Rs24bn

Total order book at the end of Q2FY12 stood at Rs24bn flat sequentially. PGCIL which is the major contributor to company's power business has awarded orders worth Rs2.4bn to STL. In H1FY12 company managed to do EBITDA of Rs806mn, looking at the weak performance management has reduced its EBITDA guidance from earlier Rs4.0bn (did not mention revised number) for FY12E. Ongoing issue pertaining to high fuel cost and fibre plant stabilization would take couple of months to settle so we have reduced our EBITDA estimates in the fibre segment for FY12E.

EPS estimates cut by 26.9%/8.0% for FY12E/13E

Looking at the weak performance in H1FY12, we expect the pressure would prevail on the margin going forward, as well. Considering, lower EBITDA margin in telecom segment, we have revised our EBITDA est. downwards by 13.2%/ 5.2% for FY12E/13E. Subsequently, our EPS estimate declines by 26.6%/8.0% for FY12E/13E resulting in EPS of Rs2.9/5.2 for FY12E/13E. We retain HOLD with reduced target price of Rs47 (Rs51 earlier). We highlight that the short-term pressures on power margins is behind us but pressure on telecom segment margin remains a concern in near term.

Financial Snapshot

Y/E Mar	Rs Mn									
	Net Sales	EBITDA (Core)	EBITDA (%)	PAT	EPS (Rs)	EPS % chg	ROE (%)	P/E (x)	EV/ EBITDA	P/BV
FY10	24316	3807	15.7	2459	6.3	178.4	32.0	6.1	4.7	1.6
FY11	22621	2656	11.7	1414	3.6	-42.5	14.5	10.5	8.3	1.4
FY12E	28095	2751	9.8	1132	2.9	-19.9	10.5	13.2	7.9	1.3
FY13E	32347	3995	12.4	2026	5.2	78.9	16.6	7.4	5.2	1.1

Quarterly results

	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD12	YTD11	YoY (%)
Power conductors	3,304	4,219	5,141	3,942	5,147	55.8%	30.6%	9,089.4	6,699.5	35.7%
Telecom	1,790	1,573	1,681	1,531	1,926	7.6%	25.8%	3,456.7	3,312.5	4.4%
Net sales	5094.4	5791.1	6822.3	5473.3	7072.8	38.8%	29.2%	12,546.1	10,012.0	25.3%
(Inc)/ dec in stock in trade	(318.5)	594.6	255.8	(369.1)	(302.4)	-5.1%	-18.1%	-671.5	-1,159.7	-42.1%
Raw materials	3490.8	3587.9	4817.2	4203.7	5361.6	53.6%	27.5%	9,565.3	7,448.2	28.4%
Staff cost	208.1	215.4	206.0	213.1	251.5	20.9%	18.0%	464.6	404.2	14.9%
Other exp	808.4	962.4	1053.5	1123.7	1258.1	55.6%	12.0%	2,381.8	1,583.6	50.4%
Total operating exp	4188.8	5360.3	6332.5	5171.4	6568.8	56.8%	27.0%	11,740.2	8,276.3	41.9%
EBIDTA	906	431	490	302	504	-44.3%	66.9%	805.9	1,735.7	-53.6%
Depreciation	133.4	138.4	157.5	146.3	156.0	16.9%	6.6%	302.3	264.2	14.4%
EBIT	772.2	292.4	332.3	155.6	348.0	-54.9%	123.7%	503.6	1,471.5	-65.8%
Interest	92.2	128.5	182.2	218.5	207.5	125.1%	-5.0%	426.0	163.4	160.7%
PBT	680.0	163.9	150.1	-62.9	140.5	-79.3%	-323.4%	77.6	1,308.1	-94.1%
Other income	32.7	71.6	0.7	138.0	31.5	-3.7%	-77%	169.5	87.4	93.9%
Taxes	137.2	64.5	47.8	22.8	45.4	-66.9%	99.1%	68.2	264.2	-74.2%
PAT	575.5	171.0	103.0	52.3	126.6	-78.0%	142%	178.9	1,131.3	-84.2%
EPS	1.5	0.4	0.3	0.1	0.3	-78.0%	142.1%	0.5	2.9	-84.2%

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	17.8	7.4	7.2	5.5	7.1	(1,065)	161	6.4	17.3	(1,091)	
EBIT	15.2	5.0	4.9	2.8	4.9	(1,024)	208	4.0	14.7	(1,068)	
EBT	13.3	2.8	2.2	(1.1)	2.0	(1,136)	314	0.6	13.1	(1,245)	
PAT	11.3	3.0	1.5	1.0	1.8	(951)	83	1.4	11.3	(987)	
Effective Tax rate	19.3	27.4	31.7	30.4	26.4	714	-396	27.6	18.9	867	

Segmental EBITDA	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY %	QoQ %	YTD'12	YTD'11	YoY %
Power conductor	424	122	144	83	236	-44.4%	185.4%	318	871	-63.4%
Telecom	515	380	347	357	300	-41.8%	-16.1%	657	953	-31.0%
Total	938	502	491	440	536	-42.9%	21.7%	975	1,823	-46.5%

Segmental EBITDA %						bps	bps				bps
Power conductor	12.8	2.9	2.8	2.1	4.6	(824)	248	3.5	13.0	-949.5	
Telecom	28.8	24.2	20.6	23.3	15.6	(1,318)	-777	19.0	28.8	-974.5	
Total	18.4	8.7	7.2	8.0	7.6	(1,085)	-47	7.8	18.2	-1,043.6	

EPS estimate cut by 26.9%/8.0% for FY12E/13E

	FY12E			FY13E		
	Old	New	Chg %	Old	New	Chg %
Revenue	2,743.9	2809.5	2.4	3,234.9	3234.9	0.0
EBIDTA	317.3	275.1	(13.3)	421.2	399.5	(5.2)
EBIDTA %	11.6	9.8	-178 bps	13.0	12.4	-67 bps
PAT	154.9	113.2	(26.9)	220.3	202.6	(8.0)
EPS	4.0	2.9	(26.9)	5.6	5.2	(8.0)

Source: Emkay Research

Maintain HOLD with revised TP of Rs47 (earlier Rs51)

The company has reported weak numbers during H1FY12, led by execution of low margin orders in power segment and margin decline in fibre segment in Q2FY12. We believe as the company is on the expansion mode and with increasing fuel and power cost, it would face margin pressure in telecom segment going forward. Considering the current issues we further revise our EPS downwards by 26.9%/8.0% for FY12E/FY13E. Margins improvement in power segment seems to be on track as EBITDA/MT during the quarter stood at ~Rs6500 v/s Rs2700 in Q1FY12. However, following concerns would still remain 1.) margin pressure in telecom segment and 2.) high debt on books resulting in high interest cost.

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	24,316	22,621	28,095	32,347
<i>Growth (%)</i>	6.2	-7.0	24.2	15.1
Raw Material exp	18,131	17,848	19,444	22,255
<i>% to sales</i>	74.6	78.9	69.2	68.8
Employee cost		826	983	1,084
<i>% to sales</i>	2.4	3.7	3.5	3.4
Marketing expenses	1,798	1,292	4,917	5,014
<i>% to sales</i>	7.4	5.7	17.5	15.5
Total expenditure	20,509	19,966	25,344	28,352
EBITDA	3,807	2,656	2,751	3,995
<i>Growth (%)</i>	62.6	-30.3	3.6	45.2
Depreciation	483	560	623	715
EBIT	3,325	2,095	2,127	3,280
EBIT margin (%)	13.7	9.3	7.6	10.1
Other Income	230	150	236	100
Interest expenses	381	452	845	642
PBT	3,173	1,793	1,518	2,738
Tax	714	380	386	712
<i>Effective tax rate (%)</i>	0.0	0.0	0.0	0.0
PAT	2,459	1,414	1,132	2,026
<i>Growth %</i>	177.8	-42.5	-19.9	78.9

Balance Sheet

Y/E, Mar (Rs Mn)	FY10	FY11	FY12E	FY13E
Equity share capital	711	713	784	784
Reserves & surplus	8,428	9,632	10,514	12,290
Net worth	9,139	10,345	11,298	13,074
Loan Funds	3,587	7,678	7,678	7,178
Net deferred tax liability	602	660	719	719
Minorities	28	10	10	10
Total Liabilities	13,356	18,693	19,705	20,980
Gross Block	10,946	11,807	16,233	17,733
Less: Depreciation	4,684	4,752	5,376	6,011
Net block	6,262	7,055	10,858	11,723
Capital work in progress	852	3,926	1,000	500
Investment	1,095	1,154	1,213	1,221
Current Assets	11,386	14,523	15,912	18,218
Inventories	1,709	1,928	2,228	2,380
Sundry debtors	6,290	8,665	9,391	10,191
Cash & bank balance	2,086	1,797	1,931	2,834
Loans & advances	1,301	2,132	2,363	2,813
Current lia & Prov	6,239	7,964	9,278	10,682
Current liabilities	5,729	7,598	8,852	10,191
Provisions	511	366	426	491
Net current assets	5,147	6,558	6,634	7,536
Total Assets	13,356	18,693	19,705	20,980

Cash Flow Statement

Y/E, Mar (Rs Mn)	FY10	FY11	FY12E	FY13E
PBT	2,943	1,644	1,283	2,638
Depreciation	483	560	623	715
Interest	381	452	845	642
Other Non-Cash items	-114	-141	-192	-250
Chg in working cap	406	-1,701	58	2
Tax paid	-714	-380	-386	-712
Operating Cashflow	3,385	434	2,231	3,034
Capital expenditure	-1,032	-4,427	-1,500	-1,080
Free Cash Flow	2,354	-3,993	731	1,955
Other income	230	150	236	100
Investments	-144	-59	-59	-9
Investing Cashflow	-946	-4,337	-1,324	-988
Equity Capital Raised	646	-25	71	0
Loans Taken / (Repaid)	-1,379	4,091	0	-500
Interest Paid	-381	-452	-845	-642
Dividend paid (incl tax)	0	0	0	0
Financing Cashflow	-1,114	3,614	-774	-1,142
Net chg in cash	1,326	-289	133	904
Opening cash position	760	2,086	1,797	1,931
Closing cash position	2,086	1,797	1,931	2,834

Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	15.7	11.7	9.8	12.4
Net Margin	10.6	7.3	5.6	7.5
ROCE	28.3	14.0	12.3	16.6
ROE	32.0	14.5	10.5	16.6
RoIC	36.4	19.8	15.5	20.4
Per Share Data (Rs)				
EPS (adjusted)	6.3	3.6	2.9	5.2
CEPS	7.5	5.0	4.5	7.0
BVPS	23.4	26.4	28.9	33.4
Valuations (x)				
PER	6.1	10.5	13.2	7.4
P/CEPS	5.1	7.5	8.5	5.4
P/BV	1.6	1.4	1.3	1.1
EV / Sales	0.7	1.0	0.8	0.6
EV / EBITDA	4.7	8.3	7.9	5.2
Gearing Ratio (x)				
Net Debt/ Equity	0.2	0.6	0.5	0.3
Net Debt/EBITDA	0.4	0.7	0.7	0.5

Recommendation History: Sterlite Technologies – SOTL IN

Date	Reports	Reco	CMP	Target
01/08/2011	Sterlite Technologies Q1FY12 Result Update	Hold	50	51
02/05/2011	Sterlite Technologies Q4FY11 Result Update	Hold	59	54
31/01/2011	Sterlite Technologies Q3FY11 Result Update	Buy	55	68
21/10/2010	Sterlite Technologies Q2FY11 Result Update	Hold	92	100

Recent Research Reports

Date	Reports	Reco	CMP	Target
19/10/2011	Dish TV Q2FY12 Result Update	Accumulate	77	96
11/10/2011	Telecom Sector Update			
29/09/2011	Analogue cable distribution Sector Update			
17/08/2011	Reliance Communication Q1FY12 Result Update	Hold	77	82

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