

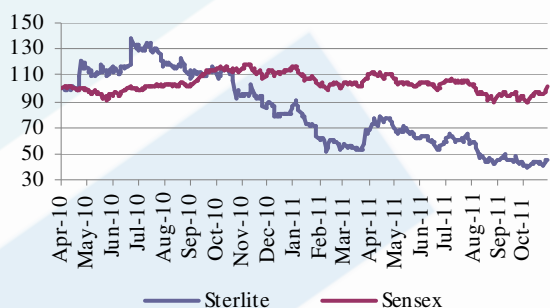
Sterlite Technologies Ltd.- Result Update Q2FY12

Recommendation	HOLD
CMP	Rs. 39
Target Price (FY13E)	Rs. 67
Sector	Heavy Electrical Equipment

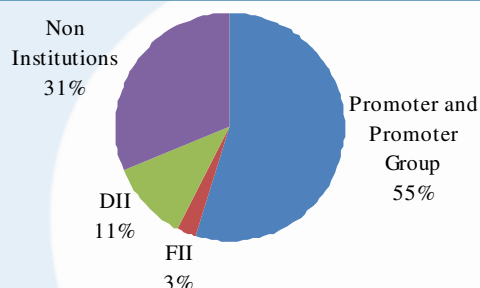
Stock Data	
Bloomberg	SOTL
BSE Code	532374
NSE Code	STRTECH
52 Weeks High/Low	124/34
Market Cap (Rs. in Cr.)	1513

Description	FY10	FY11	FY12E	FY13E
Revenue	2432	2262	2871	3423
EBITDA	404	281	284	372
<i>EBITDAM</i>	<i>16.60%</i>	<i>12.41%</i>	<i>9.91%</i>	<i>10.87%</i>
PBT	317	179	143	235
PAT	246	142	107	176
<i>PATM</i>	<i>10.11%</i>	<i>6.26%</i>	<i>3.74%</i>	<i>5.15%</i>
EPS (Rs.)	6.92	3.97	2.74	4.49

Sterlite v/s Sensex



Shareholding Pattern as on April 2011



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Result Highlights

Net revenue stood at Rs. 707 Crs. as against Rs. 509 Crs (up 39% yoy) & Rs. 547 Crs. (up 30% qoq), mainly driven by power business.

- The company posted flat volumes of 2.8 million fkm for Optic fiber and 0.8 million fkm for optic fiber cable over previous quarter of Q1FY12.
- Power conductors segment volumes reached 36,500 MT vs 31,270 MT in Q1FY12 up 17%.

Margins improved for Power, but weakens for telecom

EBIDTA declined on yoy basis from Rs. 94 Crs. in Q1FY11 to Rs. 54 Crs. but saw an increase of 22% sequentially. The power business margins improved from 2% to 4% on qoq basis mainly due to improved realization, but still sharply lower as compared to 13% in Q2FY11. The telecom segment margins saw a major dip from 23% in Q1FY12 to 15%. The key reason for this decline is the issues related to plant stabilization for expanded capacity which is expected to ease down by end of fiscal.

Additionally, increase in the oil prices has further pushed their total expenditure in Q2FY12 to Rs. 657 Crs, a 56% increase qoq. The Company plans to use alternative sources source of energy which might reduce the cost pressure to some extent and efficiently manage the rising expenditure. The company showed a qoq growth in its PAT level; from Rs. 5 Crs. to Rs. 12 Crs. but is still lower than Q2FY11 (Rs. 58 Crs.)

Disappointing Profits

A sharp decline of 78% yoy was seen in the PAT levels to Rs. 12.6 Crs. from Rs 57 Crs. This decline is well due to continuing high interest cost. The interest cost of the company remains significantly higher at Rs. 21 Crs. a 125% increase on yoy basis. We expect the interest cost to be around Rs. 80 Crs. for FY12. As indicated by the management the company is expected to improve its working capital going forward.

Intact order book and future plans on track

The company has a confirmed order book of Rs. 2400 Crs. of which Rs. 2100 Cr. are power conductor orders and the rest being orders for telecom. Further, orders worth ~ Rs. 900 Crs would be executed in this fiscal. Additionally, Rs. 200 Crs. of system integration order is likely to

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materialize in the 2HFY12. The company expects smooth order flows from PGCIL, its major contributor to the power business.

STL continues to work on its expansion plans of taking the conductor capacity to 200,000 MT. It is likely to start execution on this plan and the machines for the same are likely to be installed by the end of this fiscal. On the telecom front, the company is expected to increase its optical fiber capacity from 12 mn fkm to 20 mn fkm.

Revised Estimates

Looking at the performance in H1FY12, we have revised our estimates downwards for FY12 and FY13. Net sales are reworked to Rs. 2871 Crs. and Rs. 3423 Crs from the earlier Rs. 3576 Crs and Rs. 4352 Crs for FY12 and FY13 respectively. The company is unlikely to meet its the earlier mentioned guidance of Rs. 400 Crs of EBIDTA for the current fiscal. We bring down our EBIDTA estimates to Rs. 284 Crs. and Rs. 372 Crs (OPM of 9.91% and 10.87%) from the earlier Rs. 360 Crs. and Rs. 446 Crs. for FY12 and FY13 respectively. Interest cost is expected to remain high at Rs. 80Crs. for this fiscal bringing down the PAT levels to Rs. 107 Crs. and Rs. 176 Crs. (PATM of 3.74% and 5.15%) for FY12 and FY13 respectively. With this the respective EPS works out to Rs. 2.74 and Rs. 4.49.

Valuation

Strong business model of the company and industry demand picking up gives a promising outlook for the stock from a longer term perspective. We believe the worst seems to be over on the fundamental front, however, the company faces near term hurdles in the form of higher cost of fuel, higher interest cost (on account of not being able to manage their working capital requirements) and issues related to plant stability. At Rs. 39, the stock is trading at 9x FY13E EPS of Rs. 4.49 against a five year average P/E of 15x. So we revise our target downwards to Rs. 67 for FY13E which is a 73% upside from current levels.

Income Statement (Rs in Crs.)			
	Q2FY12	Q2FY11	yoy Change (%)
Net Sales	707.28	509.44	38.8%
Other Income	3.15	3.27	-3.7%
<i>Total Income</i>	<i>710.43</i>	<i>512.71</i>	<i>38.6%</i>
Total Expenditure	656.88	418.88	56.8%
<i>EBITDA</i>	<i>53.55</i>	<i>93.83</i>	<i>-42.9%</i>
EBITDAM(%)	7.6%	18.4%	-58.9%
Less: Interest Paid	20.75	9.22	125.1%
Less: Depreciation	15.6	13.34	16.9%
<i>Profit Before Tax</i>	<i>17.2</i>	<i>71.27</i>	<i>-75.9%</i>
Less: Tax	4.54	13.72	-66.9%
<i>Net Profit After Tax</i>	<i>12.66</i>	<i>57.55</i>	<i>-78.0%</i>



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Income Statement (Rs in Crs)					
	FY09	FY10	FY11	FY12E	FY13E
Net Sales	2289	2432	2262	2871	3423
<i>% Growth</i>	35.80%	6.22%	-6.96%	26.91%	22.00%
Other Income	7	23	15	17	17
Total Income	2296	2455	2277	2888	3440
Total Expenditure	2055	2051	1997	2604	3068
<i>Exp/Net Sales</i>	89.77%	84.34%	88.25%	90.69%	89.63%
EBITDA	241	404	281	284	372
<i>EBITDAM (%)</i>	10.52%	16.60%	12.41%	9.91%	10.87%
Less: Depreciation & Impairment	43	48	56	62	70
EBIT	198	355	225	223	302
<i>EBITM (%)</i>	8.66%	14.61%	9.93%	7.76%	8.83%
Less: Interest & Financial Charges	91	38	45	80	67
PBT	108	317	180	143	235
<i>Effective Tax Rate (%)</i>	17.89%	22.50%	21.15%	25.00%	25.00%
Tax	19	71	38	36	59
PAT	89	246	142	107	176
<i>PATM (%)</i>	3.87%	10.11%	6.26%	3.74%	5.15%
EPS	2.49	6.92	3.97	2.74	4.49

Balance Sheet (Rs in Crs)					
	FY09	FY10	FY11	FY12E	FY13E
Share Capital	36	71	71	78	78
Reserve & Surplus	583	813	938	1081	1252
Shareholder's Funds	624	915	1010	1186	1357
Total Loan Funds	497	358	767	757	747
Deferred Tax Liability (NET)	56	60	66	102	80
Sources of Funds	1179	1336	1844	2046	2185
Gross Block	976	1095	1611	1851	1951
Less: Depreciation & Impairment	431	468	524	586	656
Net Block	545	626	1087	1265	1295
Investments	93	107	112	125	150
Current Assets, Loans & Advs	928	1139	1434	1614	1881
Less: Current Liabilities	501	624	796	962	1145
Net Current Assets	427	515	638	652	736
Application of Funds	1179	1336	1844	2046	2185



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Key ratios					
Particulars (Rs in Crs)	FY09	FY10	FY11	FY12E	FY13E
Operating Ratios (Days)					
Inventory Turnover	30	26	36	32	30
Debtors Turnover	85	88	121	115	104
Creditors Turnover	87	118	153	150	152
Per Share Data (Rs.)					
EPS	2.49	6.92	3.97	2.74	4.49
Dividend	0.25	0.50	0.50	0.70	0.70
Book Value	18	26	28	30	35
Valuation Ratio (x)					
P/E	15.67	5.64	9.82	14.23	8.68
P/BV	2.22	1.51	1.38	1.29	1.13
EV/Sales	0.79	0.63	0.87	0.72	0.56
EV/EBITDA	7.49	3.80	7.04	7.32	5.19
Returns (%)					
RoE	14.19%	26.86%	14.02%	9.06%	12.98%
RoCE	16.82%	26.59%	12.18%	10.89%	13.82%
Dividend Payout	10.04%	7.23%	12.59%	25.54%	15.58%
Market Cap					
Market Cap	1387	1386	1390	1529	1529
Debt	497	358	767	757	747
Cash	80	208	181	205	345
EV	1803	1536	1976	2081	1931



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