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Sterlite Technologies (STETEC) ₹ 310

Expands Europe presence with acquisition…

Sterlite Technologies (Sterlite) has announced the signing of definitive agreements for acquisition of a European specialised optical fibre cable manufacturer Metallurgica Bresciana S.p.A (Metallurgica) in all cash deal for the total consideration of Euro 47 mn (₹ 367 crore), to be funded by the mix of internal accruals and European debt instruments.

Deal Contours…

The acquisition price looks attractive/cheap considering the company has sales of Euro 48.7 (₹364 crore), which translates into ~1 x price/sales. Even from the P/E multiple perspective, where the company has reported PAT of ₹ 35 crore on TTM basis, the deal multiple worked out to be at 11x P/E for CY17, which is substantial discount to Sterlite's own valuations of 3.7x Price to Sales (FY18) and ~32x P/E (FY18).

Metallurgica designs and manufactures special precision optical fiber cables and specialized copper cables (40% of the revenues) for various communication applications. The acquisition will significantly expand Sterlite's market presence in Europe, which is in line with company's growing focus on exports (54% of the consolidated revenue in FY18 vs 24% in FY16), and further to Europe (contribution has increased from 11% of the consol revenue pie to 27% in FY18) which has been the focus area for growth.

Rationale for acquisition …

The target company is an established European optical fibre manufacturer catering to European Telcos. The acquisition will provide Sterlite an access to European market, which will eventually help to increase its global market share (currently at 7%) for optical fibre products. As per the management, the acquisition will bring in new tier 1 customers and augment its product portfolio. It will also add a capacity of 3 mn fkm cable capacity to its existing 15 mn fkm, which can be further expanded to 5 mn fkm, at a minimal capex. The transaction is expected to be EPS accretive, despite lower margin profile (~15% in CY17) as the cost of funding is at benign 2% levels with European debt instruments. The company expects payback period of 4-5 yrs. and IRR of 25%. We incorporate the revenues into our estimates, which has resulted in ~2% and ~3% increase in EPS for FY19E and FY20E respectively.

"Steal deal", remains our preferred pick in the telecom space…

We reiterate that demand funnel for Sterlite, both on Product (global 4G network expansion and 5G foray) and services (SI/NI opportunities from NFS/ Bharat Net etc), looks strong. We also highlight that new OF capacity expansion would bring in additional revenue opportunity of ~₹ 1000 crore at the full capacity (from FY20 onwards) which would in turn be margin accretive. The ramp up in OFC capacity and services revenues from Navy order, current acquisition would further boost the growth trajectory. The recent acquisition also seems to be "steal deal" and is likely to boost the management overall vision of achieving ~US$ 100 mn PAT by FY20. Given the robust growth potential (topline and earnings CAGR of 35.4% and 34.1%, respectively, in FY18-20E), we maintain our BUY recommendation on the stock. We value the company at 30x FY20E P/E to arrive at target price of ₹ 450.

Rating matrix

Rating	:	Buy
Target	:	₹ 450
Target Period	:	12 months
Potential Upside	:	45%

What's changed?

Target	Chnaged from ₹ 440 to ₹ 450
EPS FY19E	Changed from ₹ 10.3 to ₹ 10.5
EPS FY20E	Changed from ₹ 14.7 to ₹ 15.1
Rating	Unchanged

Key financials

₹ Crore	FY17	FY18	FY19E	FY20E
Net Sales	2,594	3,205	4,389	5,872
EBITDA	519	749	962	1,292
Net Profit	201	334	418	601
EPS (₹)	5.1	8.4	10.5	15.1

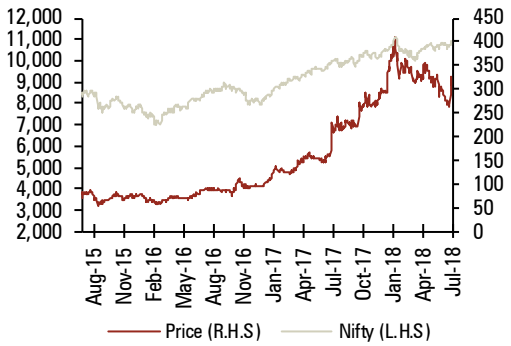
Valuation summary

	FY17	FY18	FY19E	FY20E
P/E	61.4	37.0	29.5	20.6
Target P/E	89.0	53.6	42.8	29.8
EV / EBITDA	25.7	17.6	14.7	11.0
P/BV	14.0	10.8	8.4	6.2
RoNW	22.9	29.6	28.5	30.3
RoCE	16.1	21.6	21.6	25.1

Stock data

Particular	Amount
Market Capitalization (₹ crore)	12,358.1
Total Debt (FY18) (₹ crore)	1,260.4
Cash (FY18) (₹ crore)	376.2
EV (₹ crore)	13,207.3
52 week H/L (₹)	415/ 155
Equity capital (₹ crore)	79.7
Face value (₹)	2.0

Price Chart



Research Analysts

Bhupendra Tiwary
bhupendra.tiwary@icicisecurities.com

Sameer Pardikar
sameer.pardikar@icicisecurities.com

Exhibit 1: Change in Estimates

	FY19E			FY20E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Revenue	4,181.9	4,389.1	5.0	5,550.8	5,872.5	5.8	Raised our topline estimates to incorporate acquisition
EBITDA	928.0	962.3	3.7	1,248.9	1,291.9	3.4	
EBITDA Margin (%)	22.2	21.9	-27 bps	22.5	22.0	-50 bps	
PAT	410.1	418.5	2.0	583.5	600.8	3.0	
EPS (₹)	10.3	10.5	2.0	14.7	15.1	3.0	

Source: Company, ICICI Direct Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY17	FY18	FY19E	FY20E
Total operating Income	2,593.6	3,205.5	4,389.1	5,872.5
Growth (%)	14.0	23.6	36.9	33.8
Cost of raw materials	998.4	1,267.0	1,789.1	2,495.8
Employee Expenses	290.3	350.2	429.3	557.9
Administrative Expenses	786.0	838.9	1,208.4	1,526.8
Total Operating Expenditure	2,074.6	2,456.1	3,426.8	4,580.5
EBITDA	518.9	749.3	962.3	1,291.9
Growth (%)	13.0	44.4	28.4	34.3
Depreciation	159.2	182.2	206.3	281.9
Interest	122.9	103.8	125.8	140.8
Other Income	23.5	39.3	36.0	41.0
Exceptional Items	-	4.4	-	-
PBT	260.2	498.2	666.2	910.2
Minority Interest	16.3	29.8	38.4	36.3
PAT from Associates	(2.8)	(0.9)	-	-
Total Tax	39.7	133.2	209.3	273.1
PAT	201.4	334.3	418.5	600.8
Growth (%)	31.0	66.0	25.2	43.6
EPS (₹)	5.1	8.4	10.5	15.1

Source: Company, ICICI Direct Research

Cash flow statement				₹ Crore
(Year-end March)	FY17	FY18	FY19E	FY20E
Profit after Tax	201.4	334.3	418.5	600.8
Add: Depreciation	159.2	182.2	206.3	281.9
Add: Interest paid	122.9	103.8	125.8	140.8
(Inc)/dec in Current Assets	-149.4	-89.2	-673.7	-701.2
Inc/(dec) in CL and Provisions	117.0	256.4	78.7	283.6
Others	0.0	0.0	0.0	0.0
CF from operating activities	451.2	787.6	155.6	605.9
(Inc)/dec in Investments	-41.9	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-219.4	-525.0	-900.0	-450.0
Others	-150.7	-4.6	-5.2	-6.0
CF from investing activities	-411.9	-529.6	-905.2	-456.0
Issue/(Buy back) of Equity	0.6	0.0	0.0	0.0
Inc/Dec in Minority Interest	14.0	29.8	38.4	9.0
Issue of Preference Shares	0.0	0.0	0.0	0.0
Inc/(Dec) in loan funds	205.3	130.0	500.0	-
Interest paid	(122.9)	(103.8)	(125.8)	(140.8)
Others	-76.6	-75.2	-89.3	-89.3
CF from financing activities	20.4	-19.2	323.3	-221.2
Net Cash flow	59.7	238.9	-426.4	-71.2
Opening Cash & cash equivalents	77.7	137.4	376.2	-50.2
Closing Cash & cash equivalents	137.4	376.2	-50.2	-121.4

Source: Company, ICICI Direct Research

Balance sheet				₹ Crore
(Year-end March)	FY17	FY18	FY19E	FY20E
Liabilities				
Equity Capital	79.7	79.7	79.7	79.7
Preference Share Capital	0.0	0.0	0.0	0.0
Reserve and Surplus	800.4	1,059.5	1,388.7	1,900.3
Total Shareholders funds	880.1	1,139.2	1,468.4	1,980.0
Total Debt	1,130.4	1,260.4	1,760.4	1,760.4
Others	371.6	401.4	439.8	448.7
Total Liabilities	2,382.0	2,801.0	3,668.5	4,189.1
Assets				
Gross Block	2,329.7	2,554.7	2,929.7	4,270.6
Less: Acc Depreciation	1,016.9	1,199.2	1,405.4	1,687.3
Net Block	1,312.7	1,355.5	1,524.2	2,583.2
Capital WIP	65.9	365.9	890.9	0.0
Total Fixed Assets	1,378.6	1,721.4	2,415.1	2,583.2
Investments	49.1	49.1	49.1	49.1
Inventory	333.5	263.5	541.1	724.0
Debtors	691.2	851.9	1,142.4	1,528.4
Loans and Advances	7.1	8.8	12.0	16.0
Other Current Assets	280.2	277.0	379.3	507.5
Cash	137.4	376.2	-50.2	-121.4
Total Current Assets	1,449.3	1,777.4	2,024.6	2,654.6
Creditors	448.6	658.7	721.5	965.3
Provisions	62.6	92.0	100.7	134.8
Other current liabilities	57.3	74.4	81.5	87.2
Total Current Liabilities	568.6	825.0	903.7	1,187.3
Net Current Assets	880.8	952.4	1,121.0	1,467.3
Other non current assets	73.5	78.1	83.3	89.4
Application of Funds	2,382.0	2,801.0	3,668.5	4,189.1

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18	FY19E	FY20E
Per share data (₹)				
EPS	5.1	8.4	10.5	15.1
Cash EPS	9.1	13.0	15.7	22.2
BV	22.1	28.6	36.9	49.7
DPS	1.5	1.9	2.2	2.2
Cash Per Share	25.5	30.1	35.3	42.4
Operating Ratios (%)				
EBITDA Margin	20.0	23.4	21.9	22.0
EBIT Margin	13.9	17.7	17.2	17.2
PAT Margin	7.8	10.5	9.5	10.2
Inventory days	46.9	30.0	45.0	45.0
Debtor days	97.3	97.0	95.0	95.0
Creditor days	63.1	75.0	60.0	60.0
Return Ratios (%)				
RoE	22.9	29.6	28.5	30.3
RoCE	16.1	21.6	21.6	25.1
RoIC	16.9	28.1	27.1	23.6
Valuation Ratios (x)				
P/E	61.4	37.0	29.5	20.6
EV / EBITDA	25.7	17.6	14.7	11.0
EV / Net Sales	5.1	4.1	3.2	2.4
Market Cap / Sales	4.8	3.9	2.8	2.1
Price to Book Value	14.0	10.8	8.4	6.2
Solvency Ratios				
Debt/EBITDA	2.2	1.7	1.8	1.4
Net Debt / Equity	1.1	0.7	1.2	0.9
Current Ratio	2.6	1.9	2.5	2.5
Quick Ratio	1.9	1.5	1.9	1.9

Source: Company, ICICI Direct Research

ICICIdirect.com coverage universe (Telecom)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Bharti Airtel (BHAAIR)	362	480	Buy	144,706	9.5	2.5	1.3	38.1	142.9	268.6	7.0	8.1	8.5	8.4	5.7	5.3	7.4	2.6	0.8
Bharti Infratel (BHAINF)	317	330	Hold	58,660	14.9	13.5	12.9	21.4	23.5	24.5	9.6	8.4	9.3	20.1	21.1	19.3	17.7	14.7	15.0
Idea Cellular (IDECEL)	54	63	Hold	23,562	-1.1	-9.6	-13.7	NM	NA	NM	7.2	12.5	23.6	3.3	-2.3	-5.4	-1.6	-15.3	-28.1
Sterlite Tech. (STETEC)	310	450	Buy	12,358	5.1	8.4	10.5	61.4	37.0	29.5	25.7	17.6	14.7	16.1	21.6	21.6	22.9	29.6	28.5
Tata Comm. (TATCOM)	606	690	Hold	17,280	43.3	-11.5	7.9	14.0	NM	76.3	10.3	10.8	10.3	6.1	5.9	6.4	17.2	9.4	46.2

Source: Company, ICICI Direct Research

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Pankaj Pandey Head – Research pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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