

## Sterlite Technologies Q2FY21

### Financial Results & Highlights

STL, Sterlite Technologies Limited (Formerly Sterlite Tech) is a digital technology multinational company having offices in India, China, US, SEA, Europe and MEA. It is listed on Bombay Stock Exchange and National Stock Exchange of India. It has more than 270 patents and serving customers in over 150 countries, including Fortune 100.

The company is specialized in optical fibre and cables, hyper-scale network design, and deployment and network software and offer bespoke integrated solutions for global data networks of CSPs, Telcos and OTTs. STL has also partnered with global telecom companies, cloud companies, citizen networks and large enterprises to design, build and manage such cloud-native software-defined network. It has strong global presence with next-gen optical preform, fibre and cable manufacturing facilities in India, Italy, China and Brazil and two software-development centres.

Standalone Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	909	1271	-28.48%	753	20.72%	1662	2626	-36.71%
PBT	67	163	-58.90%	33	103.03%	100	373	-73.19%
PAT	49	160	-69.38%	24	104.17%	73	298	-75.50%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1169	1369	-14.61%	886	31.94%	2055	2810	-26.87%
PBT	80	163	-50.92%	7	1042.86%	87	380	-77.11%
PAT	57	160	-64.38%	3	1800.00%	60	304	-80.26%

### Detailed Results:

- The quarter saw a revenue decline of 14.6% YoY in consolidated terms.
- Consolidated net profit declined by 64% YoY for the quarter.
- The current order book stands at Rs 10705 Cr. Manufacturing operations have exceeded pre-covid levels.
- Exports accounted for 47% of revenues in Q2FY21.
- The company expects continued growth in Q3 & Q4 according to Vision 2023.
- The client base revenue breakup in H1 is as follows:
  - Telcos: 66%
  - Enterprises: 11%
  - Citizen Networks: 20%
  - Cloud Players: 3%
- The completion of various data network projects for the company are as follows:
  - Network Modernisation for Indian Navy: 83%
  - MAHANET: 88% (A) 1% (B)
  - T-Fibre for Telangana: 14% (A) 8% (B)

4. FTTH rollout for a large Indian Telco: 2%
5. Modern Optical fibre rollout for large Indian telco: 5%
8. The order book spread across customer segments is as follows:
  1. Telcos: 43.9%
  2. Citizen networks: 36.9%
  3. Enterprises: 18.8%
  4. Cloud: 0.4%
9. The company has completed the open market buyback program of Rs 100 Cr.

**Investor Conference Call Highlights:**

1. The company has made good additions to its advisory board and management teams both in India and abroad which it expects to help deliver Vision 2023 and provide impetus to its global growth approach.
2. Around Rs. 2500 Cr of the order book is expected to be executed in H2FY21 and the rest will be done in FY22 and beyond.
3. The company has won a large order for Opticonn solution from a leading telecom player in Europe.
4. It has also won a fiber rollout order for 10 circles for Airtel. It has also won a large digital transformation mandate from a leading telecom operator in Africa.
5. Lastly, the company has won some Wi-Fi-6 hardware and service management platforms from a disruptive Japanese digital network creator.
6. STL's capacity utilizations have exceeded the pre-COVID levels and the company expects to see further improvements in Q3 & Q4.
7. Overall debt has increased slightly to Rs 2158 Cr.
8. The management agrees that Bharatnet is indeed created to be shared by all telcos and that network creation in the same geographies is done more for capacity reasons rather than ownership reasons. This is true everywhere in the world.
9. O&M part accounts for around 30% of the total project Capex and is executed over 7-10 years.
10. The fiber rollout order for Airtel is for Rs 700 Cr and the Mahanet order is of Rs 2000 Cr all-inclusive. The Telangana order is of Rs 1700-1800 Cr.
11. Most of the global orders won by the company (other than the Africa order) are for data centres from the acquisition done last year.
12. Fiber capacity utilization is at 60% of 50 million capacity while cable utilization is at 90%+ of 18 million capacity. Margin wise, the management expects product margins to inch towards 20%+ as utilization rises.
13. Revenue mix was at around 60-40 with the majority skewed towards the product side.
14. The company is expected to reduce its dependence on fiber prices as it is looking to make more sales on cables going forward which have almost 3 times realization as compared to bare fiber.
15. The main driver for the virtualized access products business is the propagation of 5G, Wi-Fi-6, and cloud computing ecosystem. The company expects real products to start shipping from Q2FY22 onwards. The company will be essentially looking at getting off-the-shelf hardware, embedding it with software, and staying away from manufacturing as much as possible.
16. The management expects pricing to be stable as demand in non-China territories firms up going forward.
17. The company is still on track for its pending capex of Rs 550 Cr which is expected to do by 9MFY22 at the latest.

18. The management expects the move towards Open RAN to gain momentum over the next 3-5 years with the announcement of Jio and Airtel to move towards it and Qualcomm to make chips for Open RAN.
19. The increase in cable capacity from the present 18 million to 30 million is expected to take place in modular phases over the next 7-odd months. The newly added capacity of 12 million can provide additional revenue of \$150-160 million at full capacity (considering the realization of \$15-16 for cable).
20. The capex mentioned above of Rs 550 Cr is for both the fiber and cable expansion. Total capacity after the expansion is expected to be at 50 million of fiber and 30 million cables which the management feel is enough to fulfill the company's goal of reaching yearly revenues of Rs 10,000 Cr.

#### **Analyst's View:**

Sterlite Technologies saw a big revenue and profit decline in the current quarter. The company has had a down quarter as the business recovers from COVID-19. They are seeing a good recovery in the product business with utilization levels rising above pre-covid levels. The company is seeing a decent deal wins abroad mainly on the data center business and is also expecting to see sales for virtualized access products start from next year onwards. There is a massive opportunity in the cards for the company from the development of the 5G ecosystem announced by Reliance Jio based on Open RAN technology which is also supported by Airtel. It remains to be seen how the uncertainty around COVID-19 unravels and how fast will move towards 5G take place in the company's principal geographies. Nonetheless, given the company's capabilities in providing integrated and tailored network solutions, its expanded production capacity, and long-running order, Sterlite Technologies looks like a pivotal stock to watch out for in the communications technology space.

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