

## Sterlite Technologies Q3FY21

### 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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	1199	1118	7.25%	908	32.05%	2861	3744	-23.58%
PBT	109	86*	26.74%	67	62.69%	208	459*	-54.68%
PAT	79	65	21.54%	49	61.22%	152	362	-58.01%
Consolidated Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	1322	1209	9.35%	1169	13.09%	3377	4018	-15.95%
PBT	120	71*	69.01%	80	50.00%	207	451*	-54.10%
PAT	86	50	72.00%	55	56.36%	143	351	-59.26%

\*Contains exceptional item of loss of Rs 50.71 Cr.

### Detailed Results:

- The quarter saw revenue growth of 9% YoY in consolidated terms.
- Consolidated net profit rose by 64% YoY for the quarter mainly due to a lower base last year due to exceptional loss.
- The current order book stands at Rs 10707 Cr. Volumes of optical fibre and cables sold were at an all-time high in Q3.
- Exports accounted for 44% of revenues in 9MFY21.
- The company expects continued growth in Q3 & Q4 according to Vision 2023.
- The client base revenue breakup in 9M is as follows:
  - Telcos: 64%
  - Enterprises: 11%
  - Citizen Networks: 22%
  - Cloud Players: 3%
- The completion of various data network projects for the company are as follows:
  - Network Modernisation for Indian Navy: 87%
  - MAHANET: 92% (A) 34% (B)

3. T-Fibre for Telangana: 18% (A) 13% (B)
4. FTTH rollout for a large Indian Telco: 2%
5. Modern Optical fibre rollout for large Indian telco: 21%
8. The order book spread across customer segments is as follows:
  1. Telcos: 47.8%
  2. Citizen networks: 34.3%
  3. Enterprises: 17.5%
  4. Cloud: 0.4%
9. The order book spread is expected is Rs 1501 Cr in the rest of FY21, Rs 5470 Cr in FY22 and Rs 3766 Cr for beyond FY22.
10. EBITDA margins were at 18%.

#### **Investor Conference Call Highlights:**

1. Demand for fibre is expected to be at almost 255 million in H2FY21.
2. The global micro data center market is expected to grow 5 fold by 2025.
3. The company has launched STL LEAD 360 which has a lot of technology interfaces using robotics, using drone survey, using VR-based digital training as well as very strong cloud-based planning and integrated remote field management to ensure both a very fast as well as long-lasting network rollout.
4. STL has also launched its range of wireless solutions in Q3. The first among these is Garuda, which is a smart 5G indoor small cell.
5. STL has also launched a high-capacity outdoor Wi-Fi access point for high-density deployments.
6. The commercial rollout of these newly launched products should start from H2FY22 onwards.
7. STL has completed the acquisition of Optotec in Q3. The addressable market for STL post-acquisition is \$8-10 billion.
8. STL is also bringing back the expansion of optical fiber cable capacity which is expected to be expanded from 18 million km to 33 million km by June 2021.
9. STL has bagged a 5-year multimillion-dollar deal for 5G RAN systems and a significant order of an Opticonn Solution for a leading telecom player in Europe.
10. Despite rising demand for OFC, pricing has remained stable and has not risen much in Q3.
11. The management maintains margin guidance of 18-20%.
12. There was a drop in depreciation in Q3 as the goodwill from the Elitecore acquisition was fully amortized in Q2.
13. The management admits that to reach revenues of Rs 10,000 Cr STL needs to have an order book of Rs 16,000-18,000 Cr.
14. Currently, the company will be looking to use the cash generated from operations to retire debt and thus will not be looking for acquisitions for some time.
15. Wireless is not expected to be higher than 4-5% of revenues for STL according to management.

16. The company is yet to decide whether it will utilize the PLI benefit or not on making wireless devices. This is because it is focused on product design and capability at the moment.
17. STL is looking to offer end to end solutions by combining CODU software from ASOCS with Open RAN hardware.
18. The earliest this can be implemented is expected to be FY23.
19. EU accounts for 26-27% of revenues currently.
20. The management expects overseas growth to faster for STL as compared to India.
21. Given the ratio of products to services remains at current levels of 50:50, the management expects margin expansion to come from value-added product sales.
22. The company has 21 key accounts which generate 82% of sales. The company is focused on creating a larger addressable market of their wallets and deeper penetration of their wallets for these accounts.

**Analyst's View:**

The company has had a good quarter and it has witnessed the highest ever cable sales volumes. However, high-profit growth YoY in this quarter is mainly due to the lower profit base last year. In Q3FY20, they had a high exceptional loss of 50 Cr. That is not there this quarter, hence, profit optically looks higher. They are seeing a good recovery in the product business with utilization levels at an all-time high. The company is seeing a good deal-wins abroad mainly in its products in Q3 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, both of which have announced that they will connect more than 100 million homes in next 5 years. It remains to be seen how the post-COVID-19 unravels and how fast will the 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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