



Farsight

## MORNING FARSIGHT

Thursday, October 25, 2018

**STERLITE TECH**

**CMP:RS 324**

**TRGT:RS 400**

**TIME HORIZON: 1 YEAR**

Sterlite Tech is again looking a good buy, post good quarter performance, coupled with ongoing capex of Rs 320 cr in greenfield and brownfield expansion, to double its cable capacity and separate capex programme to expand its fibre capacity to 50 million tkm. For Q2FY19, Sterlite Tech achieved Income of Rs 1,090 cr against Rs 884 cr QoQ and Rs 788 cr YoY, a growth of 23% QoQ and 38% YoY. This resulted in EBITDA of Rs 279 cr against Rs 252 cr QoQ and Rs 179 cr YoY, a growth of 11% QoQ and 56% YoY. PAT is placed at Rs 141cr against Rs 129 cr QoQ and Rs 78 cr YoY, with an EPS of Rs 3.27 for Q2FY19 and Rs 6.28 for H1FY19, which was at Rs 8.38 for FY18. The future outlook for Sterlite Tech remains positive with the current open order book at around Rs 9,455 crore (2.9x of FY18 consolidated income), based on a good mix of international and domestic long-term contracts. Company has laid out strategic guidance cum target of FY20 PAT of \$100 million PAT (Rs 7,300cr +with EPS of over Rs 17), which is expected to achieve even ahead of schedule. Besides this, company has recently 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 (Rs 367 cr), which translates into —1x price/sales. Even from the P/E multiple perspective, where the company has reported PAT of Rs 35 cr 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. 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. It will also add a capacity of 3 mn fiber km cable capacity to its existing 15 mn fiber km, which can be further expanded to 5 mn fiber km, at a minimal capex. Besides this, company having —40-45% market share in the domestic optical fibre (OF) market, with an aggregate capacity of 30 million fiber kms, is well on track to expand to capacity to 40million Fiber KMs by December 2018 and 50 million Fiber Kms by June 2019, which is capacity expansion of more than 67% in the next 12 months. Company has posted an EPS of Rs 6.3 for H1FY19 and on an estimated EPS of Rs 13.50 for FY19 and Rs 17 for FY20, stock is trading at PE of 24x and 19x, which are seen low, given healthy earnings visibility and market leadership status. Share ruling at Rs 324 can move to Rs 400 in 1 year. Buy as an investor only.

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POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report)

Disclosure of interest statement – • Analyst interest of the stock /Instrument(s) - No. • Firm interest of the stock / Instrument (s) - No.