April 29, 2021

Sterlite Technologies Limited: Ratings reaffirmed at [ICRA]AA (Stable)/ [ICRA] A1+; rated amount enhanced; rating withdrawn for Rs. 150-crore NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
ST Commercial Paper	650.0	800.0	[ICRA]A1+; reaffirmed
LT Non-Convertible Debenture Programme	150.0	150.0	[ICRA]AA (Stable); reaffirmed
LT Non-Convertible Debenture Programme	150.0	0.0	[ICRA]AA (Stable); reaffirmed and withdrawn
LT Fund based- Working Capital Facilities	705.0	705.0	[ICRA]AA (Stable); reaffirmed
LT Fund based-Term Loan	168.0	168.0	[ICRA]AA (Stable); reaffirmed
LT Fund based-Term Loan	0.0	25.15 (million Euros)	[ICRA]AA (Stable); assigned
ST Non-fund based Facilities	2885.0	2885.0	[ICRA]A1+; reaffirmed
LT/ST Interchangeable facilities#	(2885.0)	(750.0)	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed
LT/ST Unallocated	217.0	217.0	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed
Total	**4925.0**	**4925.0 + 25.15 million Euros**	

**Instrument details are provided in Annexure-1 #interchangeable into fund based limits*

Rationale

The rating action factors in Sterlite Technologies Limited's (STL's) position among the leading players in the telecom cable industry with sizeable manufacturing capacities, integrated nature of operations and presence across the industry value chain (from preform manufacturing to software solution/network integration). These factors have enabled the company to sustain its scale of operations and strong market position, along with supporting its profit margins. The adverse impact of Covid-19/nationwide lockdown coupled with subdued prices for optic fibre (OF)/optic fibre cables (OFC) in the international market has led to moderation in the company's performance in H1 FY2021. This is likely to result in a revenue decline for the entire fiscal as against the previous one. Nonetheless, STL has reported good recovery in operations/performance in the recent quarters, as demonstrated by a steady increase in revenues, profitability and order inflow. The company had a healthy order book of Rs. 10,737 crore (services segment accounting for ~60% and products segment accounted for the balance of the same) as of December 2020, which provides revenue visibility over the medium term. This coupled with increased demand for STL's products/services, driven by capex by major telcos globally towards 5G rollout and by domestic telcos/corporates towards network strengthening in light of increasing level of digitisation, is expected to drive the company's revenue growth over the next few years. Additionally, the ratings continue to factor in STL's geographically diversified revenue mix with sizeable revenue contribution from exports and its diverse customer base, which it has built over the years.

However, the ratings are constrained by the vulnerability of the company's profit margins to volatility in OF prices (largely because of supply overcapacities and slowdown in capex by Chinese telecom service providers) as also demonstrated by a decline in margins in the recent years. Intense competition; and high competitive intensity of the industry with presence of large-scale global players with diversified manufacturing base. Additionally, STL's leverage levels have increased and debt protection metrics have witnessed some moderation in FY2021 with weaker performance due to the pandemic, incremental working capital partly funded from extended credit period by suppliers, debt-funded capex being undertaken for capacity expansion and acquisition (of Optotec SpA) done by the company during the fiscal. The acquisition value is ~EUR 29 million, funded through debt of ~EUR 25.15 million and the balance through internal accruals. However, improvement in debt protection metrics is likely over the medium term with improvement in profitability and no major increase in debt levels.

Key rating drivers and their description

Credit strengths

Leading player in the telecom cable industry – STL is the leading player in the Indian OF and OFC market with sizeable market share, significant manufacturing capacities and integrated nature of operations. Over the years, the company has enhanced its manufacturing capacities and widened its service offerings/geographic presence through in-house development as well as acquisitions globally. As a result, it has been able to develop presence across the industry spectrum, providing products as well as end-to-end services for network integration/software solutions. STL has developed a strong global footprint in the recent years and its revenue mix is fairly diversified across geographies with India (65% in FY2020) accounting for the bulk of the revenues. The balance is accounted for by exports to Europe (22% in FY2020) and China (3% in FY2020). The company is also focussed on increasing its presence in other regions—the Americas and the Middle Eastern countries—whose revenue contribution is expected to increase going forward.

Integrated nature of operations boosts profit margins – STL is a fully-integrated player with presence across the industry value chain. It manufactures glass preforms from silica, which are used for manufacturing OF. Moreover, the OF is consumed internally to manufacture OFC, which provides cost competitiveness and boosts the company's profitability. To provide for its future growth, the company has already enhanced its OF capacity in FY2020 and is in the process of almost doubling its OFC capacity, which is expected to be completed during the current year. Also, as a part of its forward integration strategy, STL has recently acquired an Italian company—Optotec SpA (acquired for ~ 29 million Euros)—which offers a variety of products that connect, protect and seal the OF network, which will further help in increasing traction in the European market.

Favourable long-term demand outlook; strong order book provides revenue visibility – STL had a healthy order book of Rs. 10,705 crore as of December 2020, which provides revenue visibility over the medium term. This coupled with increased demand for STL's products/services, driven by capex by major telcos globally towards 5G rollout and by domestic telcos/corporates towards network strengthening in light of increasing level of digitisation, is expected to drive the company's revenue growth over the next few years.

Diversified customer base in domestic and international markets – Given its established track record of operations, diverse product/service offerings and global footprint, STL has been able to develop a wide customer base. This includes reputed companies, ranging from telcos, Government agencies, private organisations and cloud networking companies.

Credit challenges

Increase in share of services business could elongate working capital cycle – Revenues from the services segment have increased in the recent years, contributing ~49% in FY2020, on the back of order wins in the domestic market from various Government agencies. Given that a sizeable part of the existing order book comprises services orders, revenue and payments would be realised on a milestone basis, which may lead to an elongation of working capital cycle and elevated funding requirements. However, to the extent possible, STL enters into back-to-back contracts with suppliers to optimise its working capital cycle.

Increase in leverage levels – STL's leverage levels have increased and debt protection metrics have witnessed some moderation in FY2021 with moderation in performance due to the pandemic, incremental working capital partly funded from extended credit period by suppliers, debt-funded capex being undertaken for capacity expansion and debt funding of acquisition (of Optotec SpA) done by the company during the fiscal. However, improvement in debt protection metrics is likely over the medium term with improvement in profitability and no major increase in debt levels.

Reduction in OF and OFC realisations due to supply overhang – OF realisations dropped in the international market because of supply overhang as China, which alone accounted for about half of global OF production, witnessed reduction in demand.

STL's profitability remains vulnerable to volatility in prices (largely because of supply overcapacities and slowdown in capex by Chinese telecom service providers) as also demonstrated by a decline in margins in the recent years. While there has been supply overhang issue in the recent times, the overall outlook for OF/OFC remains favourable over the long term due to increasing digitisation as well as higher bandwidth requirement.

Intense competition in the industry – The company derived ~35% of the revenues in FY2020 from the export markets, where large-sized global players have established presence. Though STL enjoys cost-competitive manufacturing, the stiff competition limits its pricing flexibility. The company is focusing on organic and inorganic routes to gain traction in new geographies and value-added services as well as mitigate pricing pressure in relatively commoditised OF/OFC segment.

Liquidity position: Adequate

STL's liquidity remains adequate, supported by steady internal generation, free cash/liquid investments ~Rs. 300 crore as of March 2021-end) and cushion available in the form of undrawn bank lines of Rs. 200–250 crore as of March 2021 (against lower of sanctioned limit/drawing power). Moreover, the company has raised Rs. 440 crore through NCDs in March 2021, which add to the fund availability. Part of the funds raised will be used for redemption of the existing NCD due in April 2021 and the balance will be largely utilised for working capital funding. The ongoing capex programme towards capacity expansion is expected to get concluded in the current fiscal and no major capex is expected in the medium term. STL's cash accrual generation is expected to be more than sufficient to meet its debt servicing obligations over the medium term.

Rating sensitivities

Positive factors – Substantial improvement in scale of operations along with improvement in capital structure and coverage indicators, with Total Debt/OPBIDTA below 1.0x and TOL/TNW below 1.5x on sustained basis could lead to a ratings upgrade.

Negative factors – Substantial decline in operating profitability due to global supply–demand mismatch, which could result in operating margin sliding below 15%; large debt funded investments thereby deteriorating capital structure, such that Net debt/ OPBDITA exceeds 2.0x or TOL/TNW exceeds 3.0x on sustained basis could lead to a ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Policy on Withdrawal of Credit Ratings
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company

About the company

STL, formerly Sterlite Optical Technologies Limited (SOTL), was established in July 2001 after the demerger of the telecom division of Sterlite Industries Ltd (SIL). In July 2006, STL acquired the transmission line business of SIL to foray into the power transmission cables business. The company has grown over the years to become the largest OF and OFC manufacturer in the country. It also has sizeable presence in the overseas markets with an established presence in the global OF market. ICRA has consolidated the operational and the financial profiles of STL, its subsidiaries and joint ventures for the analysis. The company, on a consolidated basis, has an OF manufacturing capacity of 50 mfkm and an OFC capacity of 18 mfkm (in the process of being enhanced to 33 mfkm).

Key financial indicators (audited)

STL (Consolidated)	FY2019	FY2020	9MFY21 Provisional
Operating Income (Rs. crore)	5087.3	5154.4	3350.2
PAT (Rs. crore)	585.4	432.8	146.1
OPBDIT/OI (%)	22.2%	20.7%	16.5%
PAT/OI (%)	11.5%	8.4%	4.4%
Total Outside Liabilities/Tangible Net Worth (times)	2.9	2.6	
Total Debt/OPBDIT (times)	1.8	2.3	
Interest Coverage (times)	10.7	4.8	3.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) – as of March 31, 2021	Date & Rating in	Date & Rating in FY2020			Date & Rating in FY2019		Date & Rating in FY2018
					April 29, 2021	March 5, 2020	November 14, 2019	May 3, 2019	August 24, 2018	July 10, 2018	March 22, 2018
1	ST Commercial Paper	Short-term	800.00	450.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	LT Non Convertible Debenture Programme	Long-term	150.0	150.0	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)
3	LT Non Convertible Debenture Programme	Long-term	150.0	-	[ICRA]AA(Stable) Withdrawn	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)
4	LT Fund based-Working Capital Facilities	Long-term	705.0	-	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)
5	LT Fund based-Term Loan	Long-term	168.0	168.0	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)
6	LT Fund based-Term Loan	Long-term	25.15*	25.15*	[ICRA]AA(Stable)	-	-	-	-	-	-
7	ST Non-fund based Facilities	Short-term	2885.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
8	LT/ST Interchangeable facilities#	Long-term/ Short-term	(750.0)	-	[ICRA]AA(Stable)/ [ICRA]A1+	[ICRA]AA(Stable)/ [ICRA]A1+	[ICRA]AA(Stable)/ [ICRA]A1+	[ICRA]AA(Stable)/ [ICRA]A1+	[ICRA]AA(Stable)/ [ICRA]A1+	[ICRA]AA(Stable)/ [ICRA]A1+	[ICRA]AA(Stable)/ [ICRA]A1+
9	LT/ST Unallocated	Long-term/ Short-term	217.00	-	[ICRA]AA(Stable)/ [ICRA]A1+	[ICRA]AA(Stable)/ [ICRA]A1+	[ICRA]AA(Stable)/ [ICRA]A1+	[ICRA]AA(Stable)/ [ICRA]A1+	[ICRA]AA(Stable)/ [ICRA]A1+	[ICRA]AA(Stable)/ [ICRA]A1+	[ICRA]AA(Stable)/ [ICRA]A1+

*#interchangeable into fund based limits *million Euros*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
INE089C14AV0	Commercial Paper*	04-Mar-21	5.50%	02-Jun-21	100.0	[ICRA]A1+
INE089C14AS6	Commercial Paper*	05-Jan-21	5.30%	29-Jun-21	50.0	[ICRA]A1+
INE089C14AT4	Commercial Paper*	11-Jan-21	5.25%	08-Apr-21	100.0	[ICRA]A1+
INE089C14AU2	Commercial Paper*	28-Jan-21	5.45%	28-Apr-21	100.0	[ICRA]A1+
INE089C14AN7	Commercial Paper*	16-Oct-20	5.50%	12-Apr-21	100.0	[ICRA]A1+
NA	Commercial Paper^	NA	NA	NA	350.0	[ICRA]A1+
INE089C07091	NCD	27-Mar-18	8.70%	March 2023	150.0	[ICRA]AA(Stable)
INE089C07075	NCD	23-Mar-17	8.45%	20-Mar-2020	75.0	[CRA]AA (Stable); Withdrawn
INE089C07083	NCD	23-Mar-17	8.45%	22-Sep-2020	75.0	[CRA]AA (Stable); Withdrawn
NA	Working Capital Facilities	-	-	-	705.0	[ICRA]AA(Stable)
NA	Term Loan	Jan 2014	9.1%	March 2024	168.0	[ICRA]AA(Stable)
NA	Term Loan	December 2020	2.2%	March 2027	25.15 million Euros	[ICRA]AA(Stable)
NA	Non Fund Based Facilities	-	-	-	2885.0	[ICRA]A1+
NA	Interchangeable facilities#	-	-	-	(750.0)	[ICRA]AA(Stable)/ [ICRA]A1+
NA	Unallocated	-	-	-	217.0	[ICRA]AA(Stable)/ [ICRA]A1+

as on March 31, 2021; ^ - Not placed #interchangeable into fund based limits* ***Source:* *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership (March 31, 2020)	Consolidation Approach
Jiangsu Sterlite and Tonguang Fiber Company	75%	Full Consolidation
Sterlite Conduspar Industrial Limitada	58.05%	Equity Method
Metallurgica Bresciana S.p.A	100.00%	Full Consolidation
Maharashtra Transmission Communication Infrastructure Limited	65.99%	Equity Method
Speedon Network Limited	100.0%	Full Consolidation
Sterlite Telesystems Limited	100.0%	Full Consolidation
Elitecore Technologies (Mauritius) Limited	100.0%	Full Consolidation
Elitecore Technologies Sdn Bhd.	100.0%	Full Consolidation
Sterlite Global Ventures (Mauritius) Limited	100.0%	Full Consolidation
Sterlite Technologies UK Ventures Limited	100.0%	Full Consolidation
Sterlite Tech Holdings (UK) Limited	100.0%	Full Consolidation
Sterlite Tech Holding Inc	100.0%	Full Consolidation
Sterlite Technologies Inc	100.0%	Full Consolidation
Sterlite Technologies S.p.A.	100.0%	Full Consolidation
Sterlite Innovative Solutions Limited	100.0%	Full Consolidation
Sterlite Tech Connectivity Solutions Limited	100.0%	Full Consolidation
Sterlite Tech Cable Solutions Limited	100.0%	Full Consolidation
Impact Data Solutions Limited	80.0%	Full Consolidation
Impact Data Solutions B.V.	80.0%	Full Consolidation
Vulcan Data Centre Solutions Limited	80.0%	Full Consolidation
PT Sterlite Technologies Indonesia	100.0%	Full Consolidation
ASCOS	12.50%	Equity Method
Sterlite (Shanghai) Trading Co. Limited	100.0%	Full Consolidation

Source: Company Annual Report

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