

April 30, 2024

Sterlite Technologies Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short term – Commercial paper	800.00	500.00	[ICRA]A1+; reaffirmed
Long term – Fund-based – Working capital	931.00	931.00	[ICRA]AA (Negative); reaffirmed
Long term – Fund-based – Term loan	295.00	95.00	[ICRA]AA (Negative); reaffirmed
Long term – Fund-based – Term loan	25.15 (million Euros)	25.15 (million Euros)	[ICRA]AA (Negative); reaffirmed
Short term – Non-fund based	3433.00	3433.00	[ICRA]A1+; reaffirmed
Long term/Short term – Unallocated	16.00	16.00	[ICRA]AA (Negative)/[ICRA]A1+; reaffirmed
Total	5475.00 + 25.15 million Euros	4975.00 + 25.15 million Euros	

*Instrument details are provided in Annexure-I

Rationale

The Negative outlook continues to factor in the expected pressure on Sterlite Technologies Limited's (STL) profitability in the near term because of the weakness in the North American markets, which has kept the capacity utilisation of the American facility subdued. North America had witnessed high inventory levels at the cablers. While this has started to come down, there has been a steady moderation. Moreover, while the company recently raised Rs. 1,000-crore equity which has improved the overall leverage metrics, the profitability is likely to remain subdued for at least 3-6 months, thereby not allowing the coverage indicators to expand commensurately after the equity infusion.

ICRA has also taken into account the proposed demerger of the services business, which is likely to improve the credit profile of STL. This is because the services business is a relatively low profit generating business, while its working capital intensity is on the higher side. ICRA expects the net debt/OPBDITA to remain more than 4x as on March 31, 2024; however, with this equity-raise and proposed completion of the demerger, the net debt/OPBDITA is likely to improve at a comfortable level as on March 31, 2025.

The ratings continue to factor in STL's position among the leading players in the telecom cable industry with sizeable manufacturing capacities, the 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 a strong market position. The company had a healthy order book of Rs. 9,849 crore as of December 2023, which provides revenue visibility over the medium term. Moreover, the long-term demand outlook for STL's products is likely to remain favourable, driven by the capex by major telcos globally for 5G rollout and by domestic telcos/corporates to strengthen their network, along with Government programmes to fiberise villages in US (BEAD), India (Bharatnet Phase III), Germany and UK, among others.

Further, the expanding portfolio of the company's optical interconnect products would support revenue growth and margin expansion over the medium term, besides the increased penetration and order bookings for supplies to the US. Additionally, the ratings continue to factor in STL's geographically diversified revenue mix with sizeable revenue contribution from exports and its diverse customer base.

ICRA takes note of the successful completion of the qualified institutional placement by the company for Rs. 1,000 crore in which some marquee mutual funds participated, The proceeds of this issue have been deployed towards debt retirement, which will improve the leverage metrics in FY2025. Moreover, divestments from the non-core business, addition of higher margin products and the cost rationalisation measures undertaken by the company are expected to support its margin profile, going forward.

The ratings, however, remain constrained by the moderation in the debt coverage and profitability metrics in FY2024 with meaningful recovery only after 3-6 months. The moderation in the revenue and margin profile was led by the demand slump in the North American market due to the elevated inventory levels with cablers and higher interest rates, which resulted in a deferment of some projects and thus orders for STL. This led to lower capacity utilisation of the American facility and under-absorption of fixed costs, leading to losses for that facility. The inventory position of the cablers is expected to improve, going forward, thereby improving the company's revenues as well as profitability.

The working capital intensity remained relatively high, especially in the services segment, which coupled with elevated debt levels of around Rs. 3,700 crore as of September 2023, have resulted in a moderation of the debt metrics in FY2024. The company also faces intense competition in the telecom cable industry due to the presence of big global players with a diversified manufacturing base. In the domestic market, the revenue generation and order book remain dependent on the capex cycles of telecom service providers.

The outlook on STL's long-term rating remains Negative for the next few quarters on account of the pressure on the profitability compared to the previous years which has weakened the debt protection metrics. Therefore, improvement in profitability following the QIP would be critical to strengthen the debt coverage metrics and thus, remains a monitorable.

Key rating drivers and their description

Credit strengths

Leading player in telecom cable industry - STL is a leading player in the Indian optical fibre (OF) and optical fibre cable (OFC) market with a 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 and acquisitions globally. As a result, it has been able to develop a 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 recent years and its revenue mix is fairly diversified across geographies such as India (35% in 9MFY2024), Europe (34% in 9MFY2024), America (24% in 9MFY2024) and the balance to other countries. The company is also focused on increasing its presence in the US — whose revenue contribution has increased in FY2025 and is expected to increase, going forward, post capacity expansion.

Integrated nature of operations - STL is a fully-integrated player with presence across the industry value chain. It manufactures glass preforms from silica, which are used to manufacture OF. Moreover, the OF is consumed internally to manufacture OFC.

Favourable long-term demand outlook; strong order book provides revenue visibility - STL had a healthy order book of Rs. 9,849 crore as of December 2023, which provides revenue visibility over the medium term. Moreover, the demand for STL's products/services has increased, driven by capex by major telcos globally towards 5G rollout and by domestic telcos/corporates to strengthen their network in the light of the increasing level of digitisation. This apart, large Government projects like BEAD in US and Bharatnet Phase III in India are likely to keep the demand for STL's products buoyant. Further, the expanding portfolio of optical interconnect products will drive revenue and margin over the medium term. The healthy order book and increased demand are expected to drive the company's revenue growth over the next few years.

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

Credit challenges

Moderate operating margins and debt metrics - STL's operating profit margin (OPM) stood at 12.58% in 9M FY2024 vis-à-vis 12.95% in FY2023 and remained materially lower from the average margin of ~20.5% between FY2017 to FY2020. This was on account of higher channel inventory in the North American market, increased interest rates which created pressure on demand, spike in raw material prices and logistic costs, higher operating cost incurred for new ventures as well as team expansion in the US and the UK for scaling up international operations. Moreover, the company booked lower margins in the product and services segment.

STL's debt levels increased amid the moderation in operating profitability, which weakened the debt protection metrics in FY2023 and FY2024. The company's net debt remained elevated at Rs. 3,689 crore as on September 30, 2023, mainly to fund the capex requirements in addition to the increased working capital intensity. The net debt at the end of FY2024 is estimated at Rs. 2,800-2,900 crore. The net debt has moderated after the Rs. 1,000-crore QIP and is likely to moderate further by around Rs. 400-500 crore after the hive off of the services business.

Elongated working capital cycle - STL's working capital intensity continued to be high owing to the elongated receivable and inventory levels. The higher gross working capital cycle was mainly because of delays in receiving payments in the services segment as the counterparties were majorly Indian PSUs. Going forward, with the demerger of the services business, around Rs. 1,000-1,100 crore of receivables will move to the demerged entity, resulting in an improvement in STL's working capital intensity, which is inherent to the products business.

Intense competition in the industry - The company derived ~65% of the revenues in 9M FY2024 from the export markets, where big global players have an established presence. Though STL enjoys cost-competitive manufacturing, the stiff competition limits its pricing flexibility. The company is focusing on the organic route to gain traction in new geographies and value-added services as well as mitigate pricing pressure in the relatively commoditised OF/OFC segment.

Liquidity position: Adequate

STL's liquidity remains adequate, supported by steady internal generation, free cash/liquid investments ~Rs. 521 crore and cushion from undrawn bank lines to the extent of ~Rs. 309 crore as on December 31, 2023. The company has reduced its debt from the Rs. 1,000 crore raised through a QIP; this is expected to further improve the liquidity by increasing the cushion in unutilised bank lines.

Rating sensitivities

Positive factors – Given the Negative outlook, a rating upgrade is unlikely in the near term. A favourable rating action can be taken if there is a substantial improvement in the profitability and debt coverage metrics. A specific metric for upgrade will be total debt/OPBDITA below 1.0 times and TOL/TNW below 1.5 times on a sustained basis.

Negative factors – A substantial decline in the operating profitability and/or any large debt-funded capex that may deteriorate the capital structure, such as the net debt/OPBDITA exceeding 2.0 times or the TOL/TNW exceeding 3.0 times, could also lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
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 an established presence in the global OFC market. ICRA has consolidated the operational and 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 mfkms and an OFC capacity of 37 mfkms (in the process of being enhanced to 42 mfkms).

In FY2022, the company reported a net profit of Rs. 28.8 crore on an operating income (OI) of Rs. 5,754.3 crore compared to a net profit of Rs. 254.1 crore on an OI of Rs. 4,825.2 crore in the previous year. The company has reported OI of Rs. 5,050.0 crore in 9M FY2023 with a net profit of Rs. 60.0 crore.

Key financial indicators (audited)

	FY2022	FY2023	H1FY2024
Operating income	5437.0	6925.0	3016.0
PAT	142.0	227.0	67.0
OPBDIT/OI	12.2%	13.0%	14.2%
PAT/OI	2.6%	3.3%	2.2%
Total outside liabilities/Tangible net worth (times)	3.3	3.2	2.9
Total debt/OPBDIT (times)	5.2	4.3	4.3
Interest coverage (times)	2.8	2.9	2.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Apr 30, 2024	Apr 25, 2023	Apr 28, 2022	Apr 29, 2021
1 Commercial paper	Short Term	500.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2 Non-convertible debenture programme	Long term	-	-	-	-	[ICRA]AA(Negative); Withdrawn	[ICRA]AA(Stable)
3 Working capital facilities	Long term	931.00	-	[ICRA]AA(Negative)	[ICRA]AA(Negative)	[ICRA]AA(Negative)	[ICRA]AA(Stable)
4 Term loan	Long term	95.00	86.00	[ICRA]AA(Negative)	[ICRA]AA(Negative)	[ICRA]AA(Negative)	[ICRA]AA(Stable)

5	Term loan	Long term	25.15*	25.15*	[ICRA]AA(Negative)	[ICRA]AA(Negative)	[ICRA]AA(Negative)	[ICRA]AA(Stable)
6	Non-fund based facilities	Short Term	3433.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Unallocated limits	Long Term/Short Term	16.00	-	[ICRA]AA(Negative)/ [ICRA]A1+	[ICRA]AA(Negative)/ [ICRA]A1+	[ICRA]AA(Negative)/ [ICRA]A1+	[ICRA]AA(Stable)/ [ICRA]A1+

*million euros

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper	Very Simple
Working capital facilities	Simple
Term loan	Simple
Term loan	Simple
Non-fund based facilities	Very Simple
Unallocated limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Not placed	Commercial paper	NA	NA	NA	500.00	[ICRA]A1+
NA	Working capital facilities	NA	NA	NA	931.00	[ICRA]AA(Negative)
NA	Term loan	Jan-2014	NA	Mar-2031	95.00	[ICRA]AA(Negative)
NA	Term loan	December 2020	NA	March 2027	25.15 million euros	[ICRA]AA(Negative)
NA	Non-fund based facilities	NA	NA	NA	3433.00	[ICRA]A1+
NA	Unallocated limits	NA	NA	NA	16.00	[ICRA]AA(Negative)/[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Speedon Network Ltd	100.00%	Full Consolidation
Sterlite Tele systems Ltd	100.00%	Full Consolidation
Sterlite Innovative Solutions Ltd	100.00%	Full Consolidation
STL Digital Ltd (Erstwhile "Sterlite Tech Connectivity Solutions Ltd")	100.00%	Full Consolidation
Sterlite Tech Cables Solutions Ltd	100.00%	Full Consolidation
Sterlite Global Ventures (Mauritius) Ltd	100.00%	Full Consolidation
Jiangsu Sterlite and Tongguang Fibre Co Ltd	100.00%	Full Consolidation
Sterlite (Shanghai) Trading Co Ltd	100.00%	Full Consolidation
Metallurgica Bresciana S.p.A.	100.00%	Full Consolidation
Elite core Technologies (Mauritius) Ltd	100.00%	Full Consolidation
Elite core Technologies SDN. BHD	100.00%	Full Consolidation
Sterlite Technologies UK Ventures Ltd	100.00%	Full Consolidation
Sterlite Tech Holding Inc.	100.00%	Full Consolidation
Sterlite Technologies Inc.	100.00%	Full Consolidation
Vulcan Data Centre Solutions Ltd	80.00%	Full Consolidation
PT Sterlite Technologies Indonesia	100.00%	Full Consolidation
Sterlite Technologies DMCC	100.00%	Full Consolidation
Sterlite Technologies Pty. Ltd	100.00%	Full Consolidation
STL Edge Networks Inc.	100.00%	Full Consolidation
STL Networks Ltd	100.00%	Full Consolidation
STL Optical Interconnect S.p.A.	100.00%	Full Consolidation
Optotec S.p.A.	100.00%	Full Consolidation
Optotec International S.A.	100.00%	Full Consolidation

Company Name	Ownership	Consolidation Approach
STL Optical Tech Limited	100.00%	Full Consolidation
STL Digital Inc.	100.00%	Full Consolidation
STL Digital UK Limited	100.00%	Full Consolidation
MB (Maanshan) Special Cables. Co. Ltd	40.00%	Full Consolidation
Manshaan Metallurgica Bresciana Electrical Technology Limited	40.00%	Equity Method
ASOCS	11.71%	Equity Method
Sterlite Condu spar Industries Ltd	50.00%	Equity Method
STL UK Holdco Limited	100%	Full Consolidation
STL Solutions Germany gmbh	100%	Full Consolidation
STL Networks Service Inc. US	100%	Full Consolidation
STL Tech Solutions Limited	100%	Full Consolidation
Clearcomm Group Limited	80%	Full Consolidation

Source: Company

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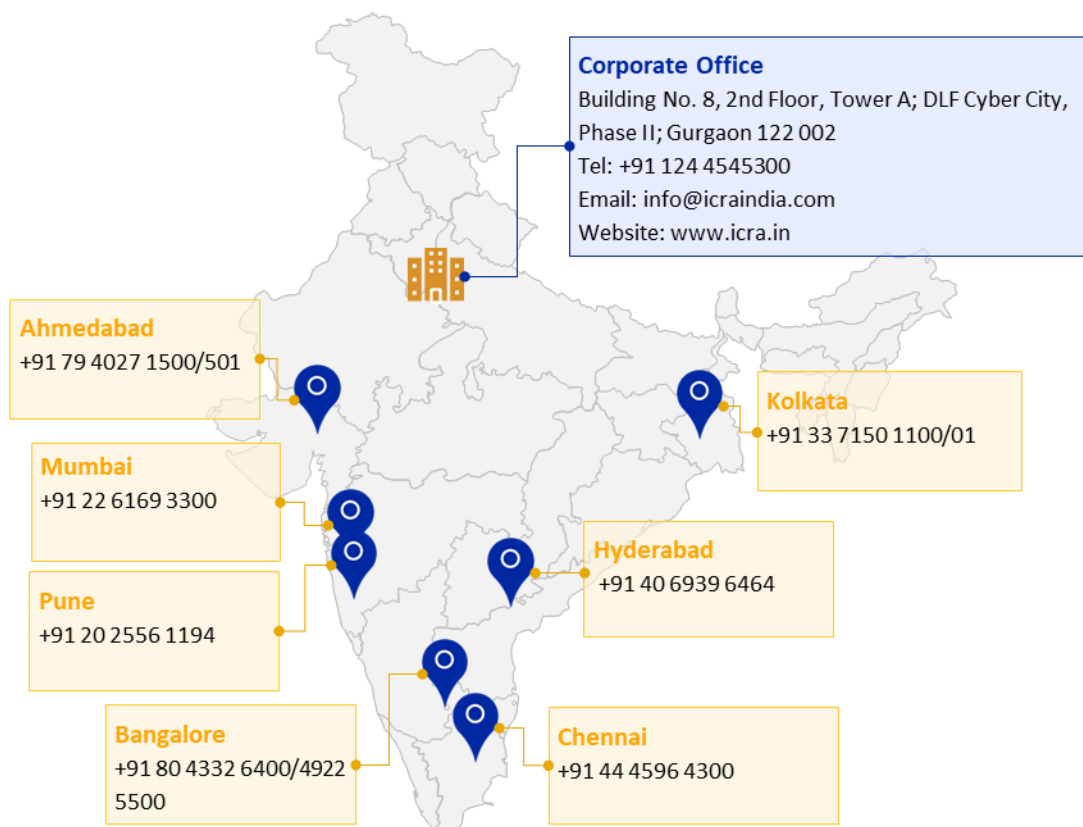


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