# Sterlite Technologies Limited

**August 24, 2018**

## Summary of rated instruments

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Non-Convertible Debentures | 300.00 | 300.00 | [ICRA]AA (Stable) upgraded from [ICRA]AA- (Positive) |
| Commercial Paper | 450.00 | 450.00 | [ICRA]A1+ reaffirmed |
| Fund Based – Term Loans | 300.00 | 300.00 | [ICRA]AA (Stable) upgraded from [ICRA]AA- (Positive) |
| Fund Based – Working Capital Facilities | 790.00 | 790.00 | [ICRA]AA (Stable) upgraded from [ICRA]AA- (Positive) |
| Non-Fund Based Facilities | 2,885.00 | 2,885.00 | [ICRA]A1+ reaffirmed |
| Interchangeable Facilities | (2,885.00) | (2,885.00) | [ICRA]AA (Stable) upgraded from [ICRA]AA- (Positive); [ICRA]A1+ reaffirmed |
| **Total** | **4,725.00** | **4,725.00** | |

*Instrument details are provided in Annexure-1

## Rating action

ICRA has upgraded the long-term rating assigned to the Rs. 300.00 crore[1] non-convertible debentures of Sterlite Technologies Limited (STL or the company)[2] to [ICRA]AA (pronounced ICRA double A) from [ICRA]AA- (pronounced ICRA double A minus).

ICRA has reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 450.00 crore commercial paper of STL.

ICRA has upgraded the long-term rating assigned to the Rs. 300.00 crore term loans and the Rs. 790.00 crore fund-based facilities of STL to [ICRA]AA (pronounced ICRA double A) from [ICRA]AA- (pronounced ICRA double A minus). ICRA has reaffirmed the short-term rating assigned to the Rs. 2,885.00 crore non fund-based facilities at [ICRA]A1+ (pronounced ICRA A one plus). ICRA has also upgraded the long-term rating assigned to Rs. 2,885.00 crore interchangeable facilities of STL to [ICRA]AA (pronounced ICRA double A) from [ICRA]AA- (pronounced ICRA double A minus) and reaffirmed the short-term at [ICRA]A1+ (pronounced ICRA A one plus). The outlook on the long-term rating is 'Stable'.

## Rationale

The revision in the long-term rating favourably factors in the healthy demand prospects in domestic as well as export markets which are reflected in strong revenue growth and continued improvement in the order book position of the company. The robust order book of Rs. 6,034 crore as on June 2018, which is 1.9 times the FY2018 revenues, results in improved revenue visibility over the next two years. The increased scale of operations along with diversified product portfolio is reflected in robust profitability of STL during FY2018 and Q1 FY2019 and the momentum is likely to be maintained in the near future.

---

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

The ratings continue to factor in the leading position of STL in the OF and OFC segments in India as well as geographically diversified presence in export markets. The exports of the company have increased to ~54% of the revenue in FY2018 from ~37% in FY2017 and are likely to contribute half of the revenue going forward as well. ICRA also derives comfort from improvement in financial ratios in FY2018 with healthy operating profitability above 23% and return on capital employed of ~30%. The capital structure and coverage indicators of the company have improved with Total Debt to OPBDITA of 1.6 times and interest coverage of 7.2 times as on March 2018. Going forward, the capital structure is likely to remain healthy despite the ongoing large project capex of ~Rs. 1,100 crore to increase the OF capacity from 30 million fiber kilometres (mn fkm) to 50 mn fkm over the next two years. Strong accruals will help the capital structure and coverage indicators of the company.

The order pipeline of the company in services business remains strong; however, possibility of delays in finalisation of orders as well as slow moving orders may impact the revenue realisation from the services division. Further, high working capital cycle for the services business impacts the liquidity position of STL to some extent; nevertheless, overall liquidity position of the company remains adequate.

The ratings continue to derive comfort from the fully backward integrated operations providing cost competitiveness, ability to provide end-to-end services as well as diversified domestic and international customer base.

STL has acquired an Italian OFC manufacturer, Metallurgica Bresciana S.p.A, in July 2018 and improved geographical footprint in the key geography of Europe as well as potential operating synergies will benefit the company over the medium term. ICRA does not anticipate any major deterioration in the consolidated capital structure of STL due to the debt funded acquisition and it will be a credit positive for the company.

The ratings remain constrained by intense competition in the market with presence of large scaled global players with diversified manufacturing base. Further, improvement in the working capital intensity and timely completion of the large project capex will be the key monitorables going forward.

## Outlook: Stable

ICRA believes that STL’s healthy business position and current strong demand outlook will continue to drive the revenue growth and profitability of the company. Timely completion of the large ongoing capex within budgeted costs and without deterioration of the capital structure as well as maintaining stable financial risk profile will be the key monitorables going forward. The outlook may be revised to ‘Positive’ if the debt levels of the company decline significantly resulting in further strengthening of the financial risk profile. Improvement in the working capital cycle will also remain important for any upward movement in the rating. The outlook may be revised to 'Negative' if the capital structure deteriorates from the current level, within acceptable limits or if the liquidity position weakens moderately on account of stretch on the working capital cycle.

## Key rating drivers

## Credit strengths

**Leader in the domestic OF and OFC market with fully backward integrated capacity; increasing market share in the export markets -** STL is the leader in the Indian OF and OFC market with market share of ~45%. The company is the only fully backward integrated player in India with capability to manufacture glass preforms from silica and the same provides cost competitiveness and hence results in healthy profitability. The company has been increasing its presence in the export markets with global market share of ~7%. The share of export revenue for the company has expanded from ~31% in FY2016 to ~54% in FY2018 due to increasing geographical diversification. Going forward, the share of exports is likely to be around 50% as evidenced the order book composition.

**Strong order book position of Rs. 6,034 crore as on June 2018; primarily driven by long term product orders -** The product order book of the company historically remained modest on account of rolling nature of orders. In the recent past, healthy global demand has prompted various customers to enter into long term contracts for supply of OF and OFC. Sterlite has entered into long-term contracts in export markets for supply of OF upto three years. Though the long-term contracts restrict the future upside that may be available; they provide predictability to the revenue profile.

Supported by all the aforementioned drivers, the order book of the company stood at Rs. 6,034 crore as on June 2018, which is ~92% higher on YoY basis.

The order book for the services business has been declining with execution of the network-for-spectrum (NFS) order won in FY2015. However, the order pipeline for the additional services orders remains strong. STL has received an advance purchase order for an Indian navy project amounting to Rs. 3,500 crore and finalisation of the order is expected in the near future, which will further boost the order book position. The order book is also expected to be supported by various drivers like increasing data requirements, deeper smartphone penetration, government spending on various projects under the Digital India umbrella like Bharatnet and Smart Cities and future network-for-spectrum projects.

**Diversified customer base in domestic and international markets -** The company has a well diversified customer base across the domestic as well as the export markets with top 10 customers contributing to less than 40% of the revenue and none of the top customers accounting for more than 10% of the revenue. The diversification insulates the company from counterparty risks.

**End-to-end service provider in the telecom industry with presence in products, services and software businesses –** The company has ability to provide solutions across a broad spectrum of telecom industry with presence in products, services as well as software businesses. Presence across the value chain helps the company project itself as one-stop solution to its clients. Further, it creates various cross selling opportunities for the existing customers.

## Credit weaknesses

**Incurring sizeable capex of ~Rs. 1,100 crore for increasing OF capacity from 30 mn fkm to 50 mn fkm -** The company, at present, is incurring sizeable capex of ~Rs. 1,100 crore for increasing the OF manufacturing capacity from 30 mn fkm to 50 mn fkm backed by strong demand prospects. STL has already commissioned 7 mn fkm OF capacity in China and 3 mn fkm OF and 10 mn fkm glass preform capacity in India is likely to be commissioned by December 2018. Remaining 10 mn fkm capacity for OF and glass preform is scheduled to be commissioned by June 2019.

The current capacity of the company is being optimally utilised and long term contracts with customers provide revenue visibility and hence a fair confidence of utilising the additional capacity. However, external funding of the capex will restrict the improvement the capital structure of the company to some extent. Further, any time or cost overruns as well as possibility of delays in plant stabilisation may pose challenges for the financial risk profile.

**Intense competition from large sized global players -** The company derived ~54% of the revenue in FY2018 from the export markets where large sized global players have established presence. Though the company enjoys cost competitive manufacturing, the competition limits the bargaining power of the company. The domestic market offers a comparatively better position for the company due to its leading position; however, competitive telecom market and resultant pressure on the financial risk profiles of the telecom service providers limit the potential available in the near term. Nevertheless, strong order book position of the company mitigates the risks to an extent.

**Project execution risks and high working capital cycle associated with the services business -** The order book of the services business has been facing slow execution over the years. In general, the project nature of such orders exposes the company to execution risks. Further, comparatively longer receivable cycle of such projects impacts the working capital position of the company to some extent. Going forward, as the order booking for services business increases, the working capital intensity may increase further.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

Corporate Credit Rating Methodology

## About the company:

Sterlite Technologies Limited, 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. STL has grown over the years to become the largest OF and OFC manufacturer in the country. The company has sizeable presence in export markets as well with an established presence in global optical fiber market.

In May 2015, the management announced demerger of Telecom and Power businesses of the company to create two separate entities, which was completed in May 2016. In September 2015, STL acquired Elitecore Technologies Private Limited which was a telecom billing software company. After the aforementioned demerger, STL continues to operate as a telecom player offering products and solutions for optical fibers, fiber optic cables, data cables, system integration, telecom billing software and FTTH services.

The company has a 75:25 joint venture with Jiangsu Tongguang Communication Co Ltd in China for manufacturing of OF and another 58:42 joint venture with Conduspar Condutores Eletricos Limitada fir manufacturing of OFC in Brazil. Also, in July 2018, the company acquired an Italian OFC manufacturer, Metallurgica Bresciana S.p.A., for a consideration of Euro 47 million which was primarily funded by Euro debt.

ICRA has consolidated the operational and the financial profiles of the two joint ventures for the analysis. The company on a consolidated basis has an OF manufacturing capacity of 37 mn fkm and an OFC capacity of 18 mn fkm.

## Key financial indicators - Consolidated (audited)

| | FY2017 | FY2018 |
|---|---|---|
| Operating Income (Rs. crore) | 2448.9 | 3205.5 |
| PAT (Rs. crore) | 217.7 | 364.1 |
| OPBDIT/OI (%) | 21.2% | 23.4% |
| RoCE (%) | 20.7% | 30.2% |
| | | |
| Total Debt/TNW (times) | 1.2 | 0.9 |
| Total Debt/OPBDIT (times) | 2.1 | 1.6 |
| Interest coverage (times) | 4.2 | 7.2 |

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years:

| Instrument | Current Rating (FY2019) Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) Aug 2018 | Date & Rating Aug 2018 | Chronology of Rating History for the past 3 years: Date & Rating in FY2018 Dec 2017 | Date & Rating in FY2017 Dec 2016 | Date & Rating in FY2016 Sep 2015 |
|---|---|---|---|---|---|---|---|
| NCD | Long Term | 300.0 | 300.0 | [ICRA]AA (Stable) | [ICRA]AA- (Positive) | [ICRA]AA- (Stable) | - |
| CP | Short Term | 450.0 | NA | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ & |
| Term Loans | Long Term | 300.0 | 300.0 | [ICRA]AA (Stable) | [ICRA]AA- (Positive) | [ICRA]AA- (Stable) | [ICRA]AA- & |
| FB Limits | Long Term | 790.0 | NA | [ICRA]AA (Stable) | [ICRA]AA- (Positive) | [ICRA]AA- (Stable) | [ICRA]AA- & |
| NFB Limits | Long term/ Short Term | 2,885.0 | NA | [ICRA]AA (Stable)/ [ICRA]A1+ | [ICRA]AA- (Positive)/ [ICRA]A1+ | [ICRA]AA- (Stable)/ [ICRA]A1+ | [ICRA]AA- &/ [ICRA]A1+ & |

## 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 www.icra.in

## Annexure-1: Instrument Details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| INE089C07075 | NCD | 23-Mar-17 | 8.45% | 20-Mar-20 | 75.00 | [ICRA]AA (Stable) |
| INE089C07083 | NCD | 23-Mar-17 | 8.45% | 20-Sep-20 | 75.00 | [ICRA]AA (Stable) |
| INE089C07091 | NCD | 27-Mar-18 | 8.70% | 27-Apr-21 | 150.00 | [ICRA]AA (Stable) |
| NA | Commercial Paper | NA | NA | 7-365 days | 450.00 | [ICRA]A1+ |
| NA | Term Loans | Jan-2014 | NA | Apr-2020 | 300.00 | [ICRA]AA (Stable) |
| NA | FB Limits | NA | NA | NA | 790.00 | [ICRA]AA (Stable) |
| NA | NFB Limits | NA | NA | NA | 2,885.00 | [ICRA]AA (Stable)/ [ICRA]A1+ |

Source: Sterlite Technologies Limited

## ANALYST CONTACTS


**Subrata Ray**
+91 22 6114 3408
subrata@icraindia.com

**Anand Kulkarni**
+91 20 6606 9910
anand.kulkarni@icraindia.com


## RELATIONSHIP CONTACT


**L Shivakumar**
+91 22 6114 3406
shivakumar@icraindia.com


## MEDIA AND PUBLIC RELATIONS CONTACT


**Ms. Naznin Prodhani**
Tel: +91 124 4545 860
communications@icraindia.com


## Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

## ICRA Limited


**Corporate Office**
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

**Registered Office**
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

**Branches**

| | |
|---|---|
| Mumbai | + (91 22) 24331046/53/62/74/86/87 |
| Chennai | + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294, |
| Kolkata | + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008, |
| Bangalore | + (91 80) 2559 7401/4049 |
| Ahmedabad | + (91 79) 2658 4924/5049/2008 |
| Hyderabad | + (91 40) 2373 5061/7251 |
| Pune | + (91 20) 6606 9999 |