April 25, 2023

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	800.00	[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	295.00	[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**	**5475.00 + 25.15 million Euros**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings continue to factor in Sterlite Technologies Limited's (STL) 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 a strong market position. The company had a healthy order book of Rs. 12,054 crore (i.e. 2.1 times of FY2022 OI) as of December 2022, 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 for 5G rollout and by domestic telcos/corporates to strengthen their network. 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.

The ratings, however, remain constrained by the moderation in the debt coverage and profitability metrics in FY2022 with meaningful recovery only over the medium term. Notwithstanding the improvement in Q3 FY2023, the company's margin in 9M FY2023 remained lower than the earlier years. Elevated commodity prices, the location of the manufacturing facilities in the US and Italy along with reduced exposure to the Government orders in the services segment contributed to such moderation in margin profile. ICRA notes that divestments from the non-core business, addition of higher margin products and reduction in logistics cost are expected to support the margin profile, going forward.

Further, an elongated working capital cycle with NWC/OI in FY2022 at 27% (PY: 34%) and the ongoing capital expenditure have increased the debt levels to Rs. 3,400 crore as on September 30, 2022, from Rs. 2946 crore as on March 31, 2022. ICRA notes that the company is also considering raising equity funds to reduce the borrowings in FY2024. The company faces intense competition in the telecom cable industry due to the presence of big global players with a diversified manufacturing base.

The outlook for the long-term rating remains Negative for Sterlite Technologies Limited (STL) on account of the elevated debt levels and moderation in profitability compared to the previous years which has weakened the debt protection metrics. Therefore, improvement in profitability along with the ability to raise equity funds would be critical to strengthen the debt coverage metrices 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 (26% in 9M FY2023), Europe (32% in 9M FY2023), America (36% in 9M FY2023) and the balance to other countries. The company is also focused on increasing its presence in the US — whose revenue contribution has increased in the current fiscal 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. To provide for its future growth, the company has already enhanced its OF capacity and is in the process of increasing its OFC capacity from 37 mfkm to 42 mfkm, which is expected to be completed in FY2024.

Favourable long-term demand outlook; strong order book provides revenue visibility – STL had a healthy order book of Rs. 12,054 crore as of December 2022, 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. Further, the expanding portfolio of optical interconnect products will be the revenue and margin driver 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 - STL's operating profit margin (OPM) moderated to 9.3% in FY2022 (PY: 16.8%) on account of a one-time provision of ~Rs. 200 crore, increase in raw material prices and logistic costs, operating cost incurred for new ventures as well as team expansion in the US and the UK for scaling up international operations. STL's operating margin, though improving in 9M FY2023 to 12.6%, remained lower than the earlier levels in the backdrop of commodity price headwinds which the company has been able to pass on only with a lag of 2-3 quarters. Moreover, the company booked lower margins in the product and services segment. The increase in raw material cost, logistics prices and reduced Government orders in the services segment which had better margins than private players also moderated the margin profile. This was done to rationalise its exposure to Government projects which suit its working capital and profitability matrix.

Elongated working capital cycle - STL's working capital intensity improved in FY2022 on account of increased support from customer advances and lower quantum of contract assets, though it continued to remain high with NWC/OI at 27% (PY: 34%) and the gross working capital cycle (inventory days + debtor days) increasing to 193 days in FY2022 compared with 179 days over FY2021. 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, in the medium term, the company plans to reduce the share of the services business and increase the share of premium offering in this segment compared to the generic offering which would allow the working capital intensity to reduce from the current levels.

Moderation in coverage indicators with increased borrowings resulting in high debt repayments - STL's debt levels have increased along with the decline in operating profitability, which led to a moderation in the debt protection metrics in FY2022 and H1 FY2023. The company's net debt increased to Rs. 3,400 crore as on September 30, 2022 from Rs. 2946 crore in FY2022, mainly to fund the capex requirements in addition to the increased working capital intensity. Higher debt levels in FY2022 resulted in a moderation of the debt metrics with a net gearing of 1.5 times (PY: 1.3 times), interest cover of 2.2 times (PY: 4.0 times) and net debt/OPBIDTA of 5.5 times (PY: 3.1 times). Moreover, the increase in total debt in H1 FY2023 further moderated the leverage with a net gearing of 1.7 times. While the debt metrics are likely to moderate further from the FY2022 levels in FY2023 on account of the higher debt levels, the capitalisation and coverage indicators are expected to improve from FY2024 onwards with the likely expansion of OPBIDTA along with reduction of debt levels. The company is contemplating raising equity funds to reduce its borrowings.

Intense competition in the industry – The company derived ~74% of the revenues in 9M FY2023 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. 469 crore and cushion in the form of undrawn bank lines of Rs. 400 crore as of December 2022-end (against drawing power). In light of the sizeable repayments due in FY2024, the company may need to refinance some obligations if it faces further delays in equity mobilisation or is unable to substantially grow its cash from operations.

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 scale of operations along with an improvement in the capital structure and coverage indicators. 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 operating profitability due to a global supply-demand mismatch, which could keep the margins depressed on a sustained basis, may trigger a downgrade. Large debt-funded investments that may deteriorate the capital structure, such as the net debt/OPBDITA exceeding 2.0x or the TOL/TNW exceeding 3.0x, could also lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology In
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 mfkm and an OFC capacity of 37 mfkm (in the process of being enhanced to 42 mfkm).

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)

	FY2021	FY2022	9M FY2023
Operating income	4825.2	5754.3	5050.0
PAT	254.1	28.8	60.0
OPBDIT/OI	16.8%	9.3%	12.6%
PAT/OI	5.3%	0.5%	1.2%
Total outside liabilities/Tangible net worth (times)	2.9	3.3	-
Total debt/OPBDIT (times)	3.6	6.5	-
Interest coverage (times)	4.0	2.2	2.9

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Apr 19, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Apr 25, 2023	Apr 28, 2022	Apr 29, 2021	-
1	Commercial Paper	Short Term	800.00	400.00	[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(Stable)	-
4	Term Loan	Long term	295.00	295.00	[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(Stable)	-
6	Non-Fund based facilities	Short Term	3433.00	-	[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(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
INE089C14CM5	Commercial Paper	23-Feb-2023	8.05%	19-May -2023	75.00	[ICRA]A1+
INE089C14CN3	Commercial Paper	03-Mar-2023	8.05%	29-May 2023	25.00	[ICRA]A1+
INE089C14CP8	Commercial Paper	10-Apr-2023	8.05%	07-Jul -2023	100.00	[ICRA]A1+
INE089C14CQ6	Commercial Paper	13-Apr-2023	7.80%	26-May-2023	100.00	[ICRA]A1+
INE089C14CR4	Commercial Paper	17-Apr-2023	8.20%	13-Oct-2023	100.00	[ICRA]A1+
Not placed	Commercial Paper	NA	NA	NA	400.00	[ICRA]A1+
NA	Working Capital Facilities	NA	NA	NA	931.00	[ICRA]AA(Negative)
NA	Term Loan	Jan-2014	NA	Mar-2024	95.00	[ICRA]AA(Negative)
NA	Term Loan	Oct-2021	NA	Oct-2023	200.00	[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	75.00%	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

Company Name	Ownership	Consolidation Approach
Impact Data Solutions Ltd	80.00%	Full Consolidation
Impact Data Solutions B.V.	80.00%	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
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	12.50%	Equity Method
Sterlite Conduspar Industries Ltd	58.05%	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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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.

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