

November 12, 2024

Sterlite Technologies Limited: Long-term rating downgraded to [ICRA]AA- (Stable), short-term rating reaffirmed and outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short term – Commercial paper	500.00	500.00	[ICRA]A1+; reaffirmed
Long term – Fund-based – Working capital	931.00	931.00	[ICRA]AA- (Stable); downgraded from [ICRA]AA (Negative) and outlook revised to Stable from Negative
Long term – Fund-based – Term loan	95.00	95.00	[ICRA]AA- (Stable); downgraded from [ICRA]AA (Negative) and outlook revised to Stable from Negative
Long term – Fund-based – Term loan	25.15 (million Euros)	25.15 (million Euros)	[ICRA]AA- (Stable); downgraded from [ICRA]AA (Negative) and outlook revised to Stable from Negative
Short term – Non-fund based	3433.00	3433.00	[ICRA]A1+; reaffirmed
Long term/Short term – Unallocated	16.00	16.00	[ICRA]AA- (Stable)/ [ICRA]A1+ long-term rating downgraded from [ICRA]AA (Negative); outlook revised to Stable from Negative & short-term rating reaffirmed
Total	4975.00 + 25.15 million euros	4975.00 + 25.15 million euros	

*Instrument details are provided in Annexure-I

Rationale

The rating action factors in the slower-than-expected ramp-up in Sterlite Technologies Limited's (STL) profitability, mainly stemming from a weakness in the North American markets, which has kept the capacity utilisation of the American facility subdued. The North American markets saw high channel inventory build-up, resulting in slack demand. STL reported an operating profit of Rs. 229 crore in H1FY2025, which coupled with net debt levels of around Rs. 2,169 crore (excluding lease liabilities), has translated into continued weak leverage metrics. ICRA also notes that the company has raised Rs. 1,000-crore equity earlier this fiscal which has translated into some reduction in debt from March 2024 levels and corresponding improvements in debt metrics.

The long-term demand prospects, however, remain favourable, reflected in a strong order book of more than Rs. 8,600 crore as of September-end. The two major orders which can push the activity in this sector are the BEAD programme in the US and Bharat Net Phase III in India. Once the delivery of these projects starts, which is likely from Q4 FY2025/Q1 FY2026, the profitability is expected to improve. However, till that time, ICRA expects the profitability growth to remain weak, keeping the debt metrics elevated in the near term. For FY2024, the gross debt/OPBDITA stood closer to 6x and is likely to moderate, though it will remain high above 3x for FY2025 (including services business).

ICRA has also taken into account the proposed demerger of the services business, which is likely to improve the credit profile of STL post demerger of services business. This is because the services business is a relatively low profit generating business, while its working capital intensity is high.

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. 8,630 crore as of September 2024, 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 the US (BEAD), India (Bharatnet Phase III), Germany and the 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.

The ratings, however, remain constrained by the moderation in the debt coverage and profitability metrics in H1 FY2025 with a meaningful recovery in the coming quarters. The revenue and margins moderated because of 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 overall lower capacity utilisation and under-absorption of fixed costs, leading to lower profitability.

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 Stable outlook on STL's long-term rating reflects ICRA's opinion that an expected improvement in profitability (though slower than earlier envisaged) is likely to keep the credit profile steady, going forward. This, along with a demerger of the services segment, is likely to moderate the working capital intensity of the business, going forward.

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 FY2024), Europe (41% in FY2024), America (22% in FY2024) and the balance to other countries. The company is also focused on increasing its presence in the US and is expected to increase further in the medium term.

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. 8,630 crore as of September 2024, 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 digitisation. This apart, large Government projects like BEAD in the 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 the 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

Moderation in operating margins and debt metrics - STL's operating profit margin (OPM) stood at 10.4% in FY2024 vis-à-vis 12.95% in FY2023 and remained materially lower from the average margin of ~20.5% between FY2017 and 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 stood at Rs. 2,947 crore and it went further down to ~Rs. 2,169 crore (excluding lease liabilities) in H1 FY2025 because of retirement of debt from funds raised via QIP.

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 along with increased production to meet the anticipated demand. Going forward, with the demerger of the services business, around Rs. 1,000 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 – In FY2024, the company derived ~65% of its revenues 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 mitigating 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 of ~Rs. 481 crore and cushion from undrawn bank lines to the extent of ~Rs. 800 crore as on September 30, 2024.

Rating sensitivities

Positive factors – A favourable rating action can be taken if there is a substantial improvement in the profitability and a material deleveraging of the balance sheet that would significantly improve the debt coverage metrics.

Negative factors– A continued weakening of the operating profit margins to below 10% on a sustained basis and/or any large debt-funded capex that may deteriorate the capital structure and coverage indicators could result in 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 an OI of Rs. 5,050.0 crore in 9M FY2023 with a net profit of Rs. 60.0 crore.

Key financial indicators

Consolidated	FY2023	FY2024	H1FY2025
Operating income	6925.0	5478.0	2631.0
PAT	227.0	(68.0)	(60.0)
OPBDIT/OI	13.0%	10.4%	8.7%
PAT/OI	3.3%	-1.2%	-2.3%
Total outside liabilities/Tangible net worth (times)	3.2	3.0	2.0
Total debt/OPBDIT (times)	4.3	5.9	6.1
Interest coverage (times)	2.9	1.5	1.5

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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years						
		Amount rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Commercial paper	Short-term	500.00	12-Nov-2024	[ICRA]A1+	25-Apr-2023	[ICRA]A1+	28-Apr-2022	[ICRA]A1+	29-Apr-2021	[ICRA]A1+
			30-Apr-2024	[ICRA]A1+	-	-	-	-	-	-
Non-convertible debenture programme	Long term	-	-	-	-	-	28-Apr-2022	[ICRA]AA (Negative); Withdrawn	29-Apr-2021	[ICRA]AA (Stable)
Working capital facilities	Long term	931.00	12-Nov-2024	[ICRA]AA- (Stable)	25-Apr-2023	[ICRA]AA (Negative)	28-Apr-2022	[ICRA]AA (Negative)	29-Apr-2021	[ICRA]AA (Stable)
			30-Apr-2024	[ICRA]AA (Negative)	-	-	-	-	-	-
Term loan	Long term	95.00	12-Nov-2024	[ICRA]AA- (Stable)	25-Apr-2023	[ICRA]AA (Negative)	28-Apr-2022	[ICRA]AA (Negative)	29-Apr-2021	[ICRA]AA (Stable)
			30-Apr-2024	[ICRA]AA (Negative)	-	-	-	-	-	-
Term loan	Long Term	25.15*	12-Nov-2024	[ICRA]AA- (Stable)	25-Apr-2023	[ICRA]AA (Negative)	28-Apr-2022	[ICRA]AA (Negative)	29-Apr-2021	[ICRA]AA (Stable)
			30-Apr-2024	[ICRA]AA (Negative)	-	-	-	-	-	-
Non-fund based facilities	Short Term	3433.00	12-Nov-2024	[ICRA]A1+	25-Apr-2023	[ICRA]A1+	28-Apr-2022	[ICRA]A1+	29-Apr-2021	[ICRA]A1+
			30-Apr-2024	[ICRA]A1+	-	-	-	-	-	-
Unallocated limits	Long term/	16.00	12-Nov-2024	[ICRA]AA- (Stable)/	25-Apr-2023	[ICRA]AA (Negative)/	28-Apr-2022	[ICRA]AA (Negative)/	29-Apr-2021	[ICRA]AA (Stable)/

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years						
		Amount rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
	Short term		[ICRA]A1+		[ICRA]A1+		[ICRA]A1+		[ICRA]A1+	
			30-Apr-2024	[ICRA]AA (Negative)/ [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-(Stable)
NA	Term loan	Jan-2014	NA	Mar-2031	95.00	[ICRA]AA-(Stable)
NA	Term loan	December 2020	NA	March 2027	25.15 million euros	[ICRA]AA-(Stable)
NA	Non-fund based facilities	NA	NA	NA	3433.00	[ICRA]A1+
NA	Unallocated limits	NA	NA	NA	16.00	[ICRA]AA-(Stable)/ [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
Speedon Network Ltd	100.00%	Full Consolidation
Sterlite Telesystems Ltd	100.00%	Full Consolidation
Elitecore Technologies (Mauritius) Ltd	100.00%	Full Consolidation
Elitecore Technologies Sdn Bhd	100.00%	Full Consolidation
Sterlite Global Ventures (Mauritius) Ltd	100.00%	Full Consolidation
Jiangsu Sterlite Tongguang Fiber Co Ltd	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
Sterlite Technologies SpA	100.00%	Full Consolidation
Metallurgica Bresciana	100.00%	Full Consolidation
Sterlite Innovative Solutions Ltd	100.00%	Full Consolidation
Sterlite Tech Connectivity Solutions Ltd	100.00%	Full Consolidation
Sterlite Condu spar Industries Ltd	50.00%	Equity Method

Source: Company data

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