Sterlite Technologies Limited

Instrument	Amount	Rating Action
Term Loans	Rs. 550.00 crore	[ICRA]AA- assigned; on Rating Watch with Developing Implications
Cash Credit	Rs. 845.00 crore	[ICRA]AA- assigned; on Rating Watch with Developing Implications
Non Fund Based Limits	Rs. 5185.00 crore	[ICRA]A1+ assigned; on Rating Watch with Developing Implications
Non Convertible Debentures	Rs. 150.00 crore	[ICRA]AA- outstanding; on Rating Watch with Developing Implications
Commercial Paper	Rs. 350.00 crore	[ICRA]A1+ outstanding; on Rating Watch with Developing Implications

ICRA has assigned an [ICRA]AA- (pronounced ICRA double A minus) rating to the Rs. 550.00 crore[*] Term Loan facilities and Rs. 845.00 crore Cash Credit facilities of Sterlite Technologies Limited (STL)[†]. ICRA has also assigned an [ICRA]A1+ (pronounced ICRA A one plus) rating to the Rs. 5185.00 crore Non Fund Based limits STL. The ratings are on Rating Watch with Developing Implications, reflecting the impending demerger of the company into two entities, pure-play telecom entity (STL) and pure-play power entity (Sterlite Power Transmission Limited, SPTL). As per the demerger scheme, STL will remain a listed entity while SPTL will be an unlisted company holding the power products and grid transmission projects businesses. While keeping the ratings on watch, ICRA also takes note of the proposed acquisition of Elitecore Technologies Private Limited (ETPL) by STL. The company has entered into a definitive agreement for the acquisition of ETPL, which is a telecom software product company providing Operations Support Services and Business Support Services. The acquisition will be for an enterprise value of Rs. 180.00 crore, completely funded by internal accruals.

ICRA has ratings outstanding of [ICRA]AA- (pronounced ICRA double A minus) for Non Convertible Debentures (NCD) and [ICRA]A1+ (pronounced ICRA A one plus) for Commercial Paper of STL. The ratings are on Rating Watch with Developing Implications.

The ratings take into consideration leading position of STL in domestic OF, OFC and PTC manufacturing providing economies of scale benefits. The company has geographically diversified operations with healthy presence in export markets for both the divisions. The company is one of the few integrated OFC manufacturers globally and approved vendor for major principals in telecom and PTC segments. ICRA takes note of the healthy long term demand prospects for both the divisions in domestic as well as export markets considering sizeable planned investments in upgrading optical fiber and T&D infrastructure. The same is reflected in healthy order backlog providing revenue visibility in the near term. The telecom division benefits from fully backward integrated operations which make STL a cost competitive player translating into robust profitability.

The demand drivers for the company remain exposed to capex cycles of power and telecom segments with sizeable exposure to regulatory framework and state utilities in domestic as well as exports market. Further company faces intense competition from well entrenched as well as new players limiting pricing power. Financial risk profile of the telecom division is healthy; however the overall financial profile has been impacted by modest profitability and high leverage of the power division. Performance of the power division remained subdued in H1 FY15 impacted by strong industry headwinds; however improvement in ordering in H2 FY15 coupled with continued healthy performance of the telecom division resulted in improvement in the financial risk profile of the company in FY15. The company reported improved profitability and return indicators in last fiscal.

[*] 100 lakh = 1 crore = 10 million

[†] For complete rating definition, please refer to ICRA website www.icra.in or any of the ICRA Rating Publications.

Diversification of the group into grid transmission projects on BOOM basis through SPVs had a sizeable impact on financial profile of STL due to high funding requirements, long gestation periods, comparatively modest IRRs and inherent execution risks. The cash flow position of the company was under pressure in the past given sizeable equity support required by SPVs. However, with three of the SPVs already commissioned, the group is generating stable revenue stream for these projects and STL's support requirements have come down to a large extent. Further, private equity funding in the grid transmission projects business provided support to the financial position of STL.

While arriving at the ratings, ICRA has also factored in the positives of demerger on STL due to the stronger business and financial profile of the telecom division. The proposed power entity after demerger, STPL, however would have a comparatively weaker credit profile in the near to medium term. Going forward, the telecom business of the company is expected to continue performing at healthy levels while the PTC business is expected to improve gradually. The ratings continue to remain sensitive to the demerger process and ICRA will continue to monitor the developments in this regard and evaluate the impact of the same on the credit risk profile of STL. ICRA will also continue to monitor developments regarding acquisition of ETPL and its impact on liquidity profile of STL.

Company Profile

Sterlite Technologies Limited (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.

STL has grown over the years to become largest OF, OFC and PTC manufacturer in the country. The company has sizeable presence in export markets as well with ~35% of standalone sales being derived from exports. STL also has an established presence in global optical fiber business, which is dominated by international majors like Corning Inc, Prysmian group, Yangtze Optical Fibre & Cable, Fujikura Limited and Furukawa Electric Company.

In 2010, STL ventured into grid transmission business and has won 7 tenders (being implemented under three wholly owned SPVs) on Built Operate Own & Maintain (BOOM) basis. Three of these 7 projects have already commissioned.

<u>Proposed Demerger:</u>

In May 2015, the management announced demerger of Telecom and Power businesses of the company to create two separate pure-play telecom and power entities. STL will continue to operate as a telecom player offering products and solutions for optical fibers, fiber optic cables, data cables, system integration and FTTH. A new entity Sterlite Power Transmission Limited (SPTL) will be created in order to cater to the power products (conductors, HV/EHV cables, OPGW) and power transmission projects. STL will continue to remain listed while SPTL will operate as an unlisted company.

The restructuring of the company has been planned due to difference in business models and financial risk profiles of the segments. Further, it provides more flexibility to the promoters in terms of fund raising and asset sale which would be essential for power division.

The existing shareholders will continue to hold equal number of shares in the new telecom entity i.e. STL, while they would be compensated through various options for SPTL, as given below.

1. Shareholders can continue with equity shareholder in SPTL
2. Shareholders can exit. In case they want exit , the following options are available to them:
    a. Sell shares to promoters/entity appointed by promoters within 30 days (1 Redeemable Preference Share = Rs. 112.30)
    b. Accept RPS (Dividend 8%) which is due for redemption after 18 months (1 Redeemable Preference Share = Rs. 125.80)

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