

## Sterlite Technologies Limited

March 22, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non Convertible Debenture Programme (Proposed)	-	150.00	[ICRA]AA- (Positive) Assigned
Non Convertible Debenture Programme	150.00	150.00	[ICRA]AA- (Positive) Outstanding
Commercial Paper	450.00	450.00	[ICRA]A1+ Outstanding
Fund based-Term Loan	300.00	300.00	[ICRA]AA- (Positive) Outstanding
Fund based- Working Capital Facilities	790.00	790.00	[ICRA]AA- (Positive) Outstanding
Non-fund based Limits	2,885.00	2,885.00	[ICRA]AA- (Positive)/ [ICRA]A1+ Outstanding
<b>Total</b>	<b>4,575.00</b>	<b>4,725.00</b>	

### Rating action

ICRA has assigned the long-term rating of [ICRA]AA- (pronounced ICRA double A minus) with Positive outlook to the Rs. 150.00 crore<sup>1</sup> proposed non convertible debenture programme of Sterlite Technologies Limited (STL or the company)<sup>2</sup>.

ICRA has the long-term rating of [ICRA]AA- (pronounced ICRA double A minus) outstanding on the Rs. 150.00 crore non convertible debenture programme of STL. ICRA has the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs. 450.00 crore commercial paper of STL. ICRA also has the long term rating of [ICRA]AA- (pronounced ICRA double A minus) outstanding on the Rs. 300.00 crore term loans and Rs. 790.00 crore fund based facilities of STL. ICRA has the long term rating of [ICRA]AA- (pronounced ICRA double A minus) and the short term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs. 2,885.00 crore non fund based facilities of STL. The outlook on the long-term ratings remains 'Positive'.

### Rationale

The assigned rating continues to favourably factor in improved order book position of the company, supported by favourable industry outlook, resulting in better revenue visibility over the next two to three years. Further, strong global demand for the optical fiber (OF) and optical fiber cable (OFC) has translated into healthy revenue growth and robust profitability of the company during FY2017 and 9M FY2018 and the momentum is likely to be maintained in the near term, which would translate into higher accruals.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

The ratings continue to factor in 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 ~47% of the revenue in H1 FY2018 from ~37% in FY2017. ICRA also continues to derive comfort from gradual improvement in financial ratios like healthy operating profitability above 21% and return on capital employed of ~22-25%. The capital structure and coverage indicators of the company have marginally improved with Total Debt to OPBDITA of 1.8 times and interest coverage of 6.2 times as on September 2017; however going forward, large project capex of ~Rs. 1,000 crore in order to increase the OF capacity from 30 million fiber kilometres (mn fkm) to 50 mn fkm over the next two years will continue to have a bearing on 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 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.

## Outlook: Positive

ICRA believes that STL's healthy business position and current strong demand outlook will continue to drive 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 further improvement in the financial risk profile will present a case for ratings upgrade. The outlook may be revised to 'Stable' 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 ~6-6.5%. The share of export revenue for the company has expanded from ~31% in FY2016 to ~47% in H1 FY2018 due to increasing geographical diversification.

**Strong order book position of Rs. 4,573 crore as on December 2017; 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 for three years. Though the long-term contracts restrict the future upside that may be available; they provide predictability to the revenue profile. Order book for the services business has remained dominated by the pending network-for-spectrum (NFS) order won in FY2015. Some part of the services order book also includes smart city project orders won by the company. The order pipeline for the additional services orders remains strong and finalisation of some of these orders is expected by the fiscal end.

Supported by all the aforementioned drivers, the order book of the company stood at Rs. 4,573 crore as on December 2017. The order book is expected to be boosted 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. 1,000 crore for increasing OF capacity from 30 mn fkm to 50 mn fkm** - The company, at present, is incurring sizeable capex of ~Rs. 1,000 crore for increasing the OF manufacturing capacity from 30 mn fkm to 50 mn fkm backed by strong demand prospects. 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 might moderate 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 currently derives ~47% of the revenue in H1 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.

**Project execution risks and high working capital cycle associated with the services business** - The order book of the services business is dominated by the large NFS order and an associated AMC order. The order has been facing slow execution on account of territorial problems related to the state of Jammu and Kashmir. In general, the project nature of such orders exposes the company to execution risks. Further, comparatively longer receivable cycle of the NFS project impacts the working capital position of the company to some extent. Going forward, as the remaining revenues from the NFS order get billed as well as new projects get finalised, the working capital intensity of the company is likely to remain relatively high.

**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 Condispar Condutores Eletricos Limitada fir manufacturing of OFC in Brazil. 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 30 mn fkm and an OFC capacity of 15 mn fkm.

## Key Financial Indicators (Audited)

	FY2017	H1 FY2018
Operating Income (Rs. crore)	2448.9	1495.3
PAT (Rs. crore)	217.7	145.8
OPBDIT/ OI (%)	21.2%	21.9%
RoCE (%)	20.7%	25.1%
Total Debt/ TNW (times)	1.2	1.2
Total Debt/ OPBDIT (times)	2.1	1.8
Interest coverage (times)	4.2	6.2
NWC/ OI (%)	24.4%	14.8%

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

**Any other information: None**

### Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		Date & Rating Mar 2018	Date & Rating in FY2017 Dec 2016	Date & Rating in FY2016 Sep 2015	Date & Rating in FY2015 -
			Mar 2018	Mar 2018				
1 NCD (Proposed)	Long Term	150.0	-		[ICRA]AA-(Positive)	-	-	-
2 NCD	Long Term	150.0	150.0		[ICRA]AA-(Positive)	[ICRA]AA-(Stable)	-	-
3 CP	Short Term	450.0	NA		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+ &	-
4 Term Loans	Long Term	300.0	300.0		[ICRA]AA-(Positive)	[ICRA]AA-(Stable)	[ICRA]AA- &	-
5 FB Limits	Long Term	790.0	NA		[ICRA]AA-(Positive)	[ICRA]AA-(Stable)	[ICRA]AA- &	-
6 NFB Limits	Long term/Short Term	2,885.0	NA		[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](http://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
NA	NCD (Proposed)	-	-	-	150.00	[ICRA]AA- (Positive)
INE089C07075	NCD	23-Mar-17	8.45%	20-Mar-20	75.00	[ICRA]AA- (Positive)
INE089C07083	NCD	23-Mar-17	8.45%	20-Sep-20	75.00	[ICRA]AA- (Positive)
NA	Commercial Paper	NA	NA	7-365 days	450.00	[ICRA]A1+
NA	Term Loans	Jan-2014	NA	Apr-2020	300.00	[ICRA]AA- (Positive)
NA	FB Limits	NA	NA	NA	790.00	[ICRA]AA- (Positive)
NA	NFB Limits	NA	NA	NA	2,885.00	[ICRA]AA- (Positive)/[ICRA]A1+

Source: Sterlite Technologies Limited

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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.

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](http://www.icra.in)

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