

Sterlite Technologies Limited

July 10, 2018

Summary of Rated Instrument:

Instrument	Rated Amount(Rs. crore)	Rating Outstanding
Non-Convertible Debentures	300.00	[ICRA]AA- (Positive)
Commercial Paper	450.00	[ICRA]A1+
Fund Based – Term Loan	300.00	[ICRA]AA- (Positive)
Fund Based – Working Capital Facilities	790.00	[ICRA]AA- (Positive)
Non-Fund Based Facilities	2,885.00	[ICRA]AA- (Positive)/ [ICRA]A1+
Total	4,725.00	

Material Event

Sterlite Technologies Limited (STL) has announced on July 06, 2018, that it has entered into a definitive agreement to acquire Metallurgica Bresciana S.p.A (Metallurgica) – an Italian optical fiber cable (OFC) manufacturer. The transaction is expected to be concluded in two weeks.

Impact of the Material Event

The ratings remain unchanged at the earlier rating of [ICRA]AA- (Positive) and [ICRA]A1+ as the acquisition is not likely to have any material impact on the credit profile of the company.

Details of Metallurgica:

- Designs and manufactures precision optical fiber cables and specialised copper cables for communication applications. At present ~60-65% of the revenue is generated from the OFC business and remaining from the copper cables business.
- Approximately 85% of the Metallurgica’s revenue is generated from European market while the remaining ~15% from China.
- Has 3 million fiber kilometers (mn fkm) OFC capacity which is being utilised at ~60%
- CY2017 revenue of 48.7 mn Euro with EBDITA profitability of ~15% and net profitability of ~9%

Details of the transaction:

- STL will acquire 100% of the equity of Metallurgica for a consideration of ~47 mn Euro which will be funded by a debt to equity mix of around 80:20.
- The debt will be availed on the balance sheet of Metallurgica and it will be Euro denominated debt with rate of interest of ~2%. Metallurgica already has a debt of ~10 mn Euro on the balance sheet.
- The management expects an IRR of ~20% and payback period of around five years for the transaction.

ICRA expects the acquisition to generate synergies for STL, as the company can better serve the European market, which is one of the largest overseas market for STL, through manufacturing presence in the geography. The acquisition will expand STL’s customer portfolio in the European market. Further, improved optical fiber supply and resultant better capacity utilisation will improve operating performance of Metallurgica.

Though the debt funding for acquisition is expected to increase the consolidated gross debt level of the company by ~Rs. 350-400 crore than the earlier estimates, the low cost of debt and expected improved accruals from Metallurgica will support the credit profile of the company. ICRA will continue to monitor the progress of the transaction, detailed terms of the proposed debt and overall impact on the financial risk profile of the company.

The previous detailed rating rationale is available on the following link: [Click here](#)

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