HDFC securities

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20 YEARS

# Initiating Coverage

# Sterlite Technologies Ltd.

28-October-2020

RETAIL RESEARCH

# Sterlite Technologies Ltd.

| Industry | LTP | Recommendation | Base Case Fair Value | Bull Case Fair Value | Time Horizon |
|---|---|---|---|---|---|
| Other Telecom Services | Rs. 153.8 | Buy on dips to Rs.135.5 and add more on dips to Rs.127 | Rs. 145 | Rs. 161 | 2 quarters |

| | |
|---|---|
| HDFC Scrip Code | STETEC |
| BSE Code | 532374 |
| NSE Code | STRTECH |
| Bloomberg | SOTL IN |
| CMP Oct 27, 2020 | 153.8 |
| Equity Capital (Rscr) | 79.1 |
| Face Value (Rs) | 2.0 |
| Eq- Share O/S (cr) | 39.6 |
| Market Cap (Rscrs) | 6085.7 |
| Book Value (Rs) | 48.0 |
| Avg. 52Wk Volumes | 2184069 |
| 52 Week High | 174.7 |
| 52 Week Low | 58.7 |

| Share holding Pattern % (Sept, 2020) | |
|---|---|
| Promoters | 54.8 |
| Institutions | 10.0 |
| Non Institutions | 35.2 |
| Total | 100.0 |

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## Our Take:

As remote working and cloud infrastructure becomes more and more relevant, the demand for an end to end network solutions providers like Sterlite Technologies Ltd. (STL) could see rise in demand as well as sales of its products in medium to long term. In order to cater to the strong demand for data and digitalization, STL has been constantly augmenting its optic fibre capacity which currently stands at ~50Mn FKM v/s 25Mn FKM in FY16 while its optic cable capacity currently stands at 18Mn FKM v/s 8Mn FKM in FY16. Along with this, STL has also multiplied its order book by 3x over last 3 years which currently stands at Rs. 10,000Cr. Going forward, the company has laid down an ambitious plan to double its revenue by FY24 along with debt reduction (Net D/E <0.5x v/s FY20-1.2x) and ROCE>20% v/s 16% as on FY20.

In the current scenario, the operating performance and cash accruals of the company will be impacted in FY21 due to COVID-19 however market leadership position and a strong order book should benefit accruals over the medium term. As a result, net debt to EBITDA should remain below 2 times, despite temporarily increasing to more than 2.1 times in FY21.

STL will benefit from its global experience and domain expertise in driving customer engagement through the Americas, Europe, and Asia. Its customers worldwide depend on to drive end-to-end solutions for their specific needs. As on FY20, India contributes ~2/3rd of STL overall revenues followed by Europe (22%), China (3%) and ROW (9%). Company expects to see better growth from Europe and India in near to medium term. The order inflows traction has been encouraging with key order wins from a European telco, Japanese telco and Airtel in Q2FY21. Recently appointed global domain leaders by STL will continue to empower its customers and execute strategic growth plans.

In the India business, government vision of every village to get optical fiber internet in the next 1,000 days should augur well for market leaders like STL.

## Valuations & Recommendation:

STL has good track record of client acquisitions and engaging in niche and advance technologies over the past. Despite the near term revenue as well as margin pressure due to Covid-19 pandemic, STL will drive fiber investments and expand its market presence. STL has witnessed robust demand recovery as telecom companies are insulated from the virus impact and the lockdown has accelerated data consumption. Adoption of open source standard and software defined networking, diversifying out of complete dependence on Chinese vendors are some drivers of growth that will benefit the company in the medium term.

Though we remain optimistic on its revenue and profitability trajectory as well as cost rationalisation efforts going forward, we are aware of the pricing pressures. Investors could buy the stock on dips to Rs.135.5 (6.0xFY22E EV/EBITDA) and add more on dips to Rs.127 (5.7xFY22E EV/EBITDA) .We feel the Base case fair value of the stock is Rs. 145 (6.35xFY22E EV/EBITDA) and the Bull case fair value is Rs. 161 (6.9xFY22E EV/EBITDA) over the next two quarters. At the CMP of Rs 153.8 the stock trades at 6.67x FY22E EV/EBITDA.

**Financial Summary (Consolidated)**

| Particulars (Rs cr) | Q2FY21 | Q2FY20 | YoY-% | Q1FY21 | QoQ-% | FY19 | FY20 | FY21E | FY22E |
|---|---|---|---|---|---|---|---|---|---|
| Total Operating Income | 1159.5 | 1359.7 | -14.7 | 876.2 | 32.3 | 5,087.3 | 5,154.4 | 4,831.9 | 5,771.1 |
| EBITDA | 202.4 | 286.7 | -29.4 | 121.7 | 66.4 | 1,119.6 | 1,010.3 | 903.6 | 1,087.9 |
| Depreciation | 81.6 | 75.0 | 8.8 | 74.2 | 10.0 | 195.0 | 290.3 | 322.4 | 312.3 |
| Other Income | 9.3 | 9.1 | 2.2 | 9.5 | -2.0 | 36.9 | 34.3 | 41.1 | 28.9 |
| Interest Cost | 49.8 | 59.7 | -16.7 | 50.1 | -0.6 | 105.5 | 221.0 | 200.8 | 237.2 |
| Tax | 23.6 | 3.3 | 607.2 | 4.1 | 471.6 | 278.2 | 108.9 | 101.1 | 144.6 |
| APAT | 58.5 | 159.6 | -63.4 | 6.0 | 881.0 | 577.8 | 424.4 | 320.2 | 422.5 |
| Diluted EPS (Rs) | 1.5 | 4.0 | -63.4 | 0.2 | 866.7 | 14.1 | 11.8 | 7.6 | 10.1 |
| RoE-% | | | | | | 38.9 | 26.0 | 15.4 | 19.4 |
| P/E (x) | | | | | | 10.9 | 13.0 | 20.3 | 15.2 |
| EV/EBITDA | | | | | | 6.9 | 7.9 | 8.4 | 6.7 |

(Source: Company, HDFC sec)

**Q2FY21 Result Review**

STL reported above expectation numbers in Q2FY21, consolidated net profit was down by 63.4% YoY to Rs 58.5 crore, impacted by lower revenue and higher mix of service business. Revenue from operations slipped by 14.7% to Rs 1,159.5 crore in Q2FY21. However, the net profit was nine-fold higher than Rs 6 crore reported in Q1FY21. Revenue also rose over 32% on QoQ basis. Spot fiber realisation was between US$5-6/fkm vs US$7 YoY (was at US$6 as on Q4FY20). China Mobile's 2020 Optical fiber cable tender saw 25- 30% deterioration in price vs. even the breakeven price seen in China Mobile's 2019 tender. This had the effect on realization of spot fibre.

STL's manufacturing operations have exceeded pre-COVID levels and its order book is at an "all time high" of over Rs 10,705 crore with diversified wins. In India, the company announced a new deal with Airtel to build a future-ready network with enhanced scalability, reduced

latency, and improved bandwidth. Company expects second half of FY21 will be better than the year-ago period. Networks for delivering next-gen services such as FTTH, 5G, IoT, Industry 4.0, and enhanced user experience with ubiquitous connectivity will help drive growth for the company going forward.

## Recent Triggers

**Roll out of 5G to boost the demand for optic fibre and fibre cable, is positive for STL**

Switching from 4G to 5G requires more bandwidth. Billions of connected devices need a lot more bandwidth than present scenario and 5G is specifically designed to address these needs. Delivering its intended and unlimited peak data rates for 5G, demand of optical fibre cables (OFCs) has emerged as an industry favourite and moving to new era in network communication. STL is one of the top beneficiaries, as Company is a manufacturer and supplier of FC and OFC. With core capabilities in optical connectivity, network and system integration, and virtualized access solutions, STL is leading end-to-end solutions provider for global data networks. STL has 358 global patents as on March 31st 2020 vs. 271 global patents, as on March 31st 2020, which has increased four times in the last five years. Company has partnered with global telecom companies, cloud companies, citizen networks and large enterprises to deliver solutions for their fixed and wireless networks for current and future needs.

STL plans to Invest about Rs 250 crore to expand its optical fibre cable capacity to 33 million fibre kilometres (fkm) from 18 million fibre km now, by June next year. A lot of the fibre capacity expansion is being driven by increased demand in Europe and the Middle East where companies are investing in fibre infrastructure.

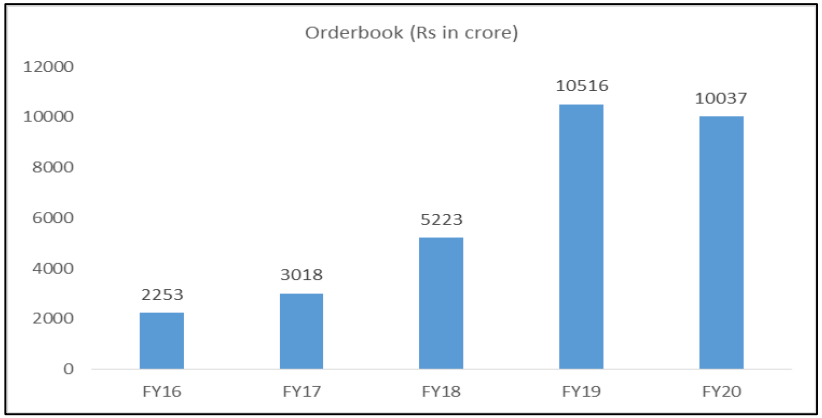
**STL's strong traction of order book**

STL total order book stood at Rs 10,705 crore vs. Rs 10,300 crore in Q1FY21 and Rs 10,035 crore in Q4FY20, of which O&M portion was Rs ~Rs 2675 crore, (contributes 25% of total order book). Company expects outstanding order execution worth Rs 2564 crore in H2FY21 with ~Rs 8141 crore remaining in FY22 and beyond. These orders ranged from continued business development in optical connectivity solutions and network services to emerging areas such as software virtualisation.

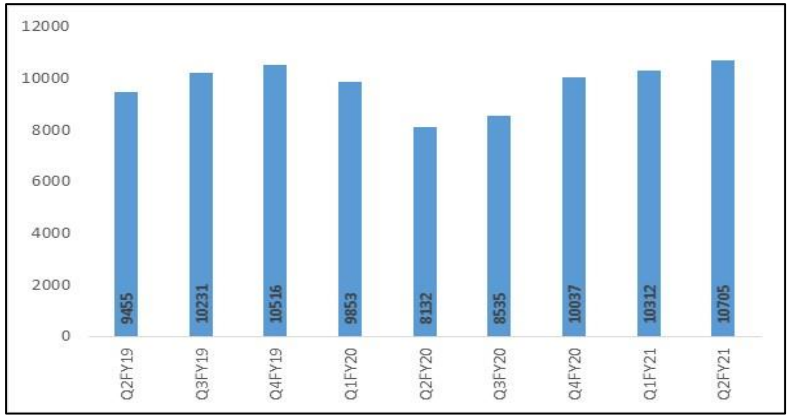
STL is working on diversification in order to avoid risk of slowdown in optical fibre demand led by demand compression in China. The company's strategic roadmap entails expanding the addressable market to US$ 75bn by FY23 from $20 billion in FY17. This will be done by transforming STL from a traditional telecom product and services player to an end-to-end data network solutions company. There is a high

level of engagement and investment in digital services as customers realise that their networks cannot keep up with the surge in internet traffic. Company has signed new multi-million dollar contracts in the UK, Africa, Middle East, Italy, and Russia and secured new orders from global digital service providers. A strong order book could help attain 40-50 per cent year-on-year (YoY) growth in services business. Lagging global fiber demand could weigh on revenue growth of product business.

**Order Book (Rs in crore)-Annual**




**Order Book (Rs in crore)-Quarterly**




**STL to build optical fibre network for Airtel in 10 circles**

STL is partnering with Bharti Airtel, India's largest integrated telecom company for building a modern optical fibre network for Airtel across ten circles. With a modern optical network, Airtel will be able to deliver superior customer experience through enhanced scalability, reduced latency, and improved bandwidth. The network will also form a foundation for many services such as 5G, fibre to the home (FTTH), internet of things (IoT), enterprise networks, and Industry 4.0. STL has been a long-term partner to Airtel in the optical connectivity space. This 5G speed and high capacity network will enable to provide faster delivery of new services, while delivering an enhanced user experience.

## Long term Triggers

**Established in the Indian telecom cables business and looking to expand its global presence**

STL is leading company in the optical fibre (OF) and optic fibre cable (OFC) both in domestic and international market, driven by its technically-superior products. STL has been preferred by OFC manufacturers and by telecom operators and telecom infrastructure providers. Company was the first fibre manufacturer in the world to achieve zero waste to landfill certification across glass, fibre, and cable manufacturing companies around the world. STL's clients are diversified including telecom companies (50% of revenues), enterprises (23%) and citizen networks (24%).

STL is a one-stop products as well as service solution for most clients, as Company offers a wide range of system integration services and software services. Company enjoys top quality of products, strong and reputed clientele, and diversified presence across broadband infrastructure value chain including products, services, and software. It could help STL to sustain its position in the Indian telecom cables industry over the medium to long term.

STL's exports has contributed 47% of revenue in Q2FY21 vs. 35% of revenues in FY20 and has diversified revenue mix across geographies with Europe (30%) and India (50%) accounting for bulk of product revenue, followed by China (4%) in H1FY21. Company has been increasing its presence in the export markets with a global market share of ~7%, as per the management. Recent acquisition of Metallurgica Bresciana (MB) and IDS will further help in increasing traction in European market. The company has signed a few multi-year and multi-million dollar engagements to deploy Opticonn, wireless solutions, and FTTx Mantra solutions for marquee customers in Europe, the Middle East and Africa, India, and the US.

**STL's focus on sizeable order book and aims to double revenue in three years**

STL is among the lowest-cost producers of OF (Optical Fiber) and OFC (Optical Fiber Cable) in the industry because of extensive backward integration. Manufacturing OF from the glass stage offers advantages in terms of cost and quality. Company also has its own plants for power, nitrogen, and electrolysis, to meet the need for hydrogen and oxygen. Moreover, the company has facilities to produce silicon tetrachloride, the basic raw material for quartz glass manufacturing.

Apart from this, all the segments have strong growth prospects, particularly the services division due to digitisation and new generation technologies in the industry. With expected increase in the penetration of broadband services, the government's focus on rural digitisation,

and implementation of smart-city projects on a large scale, the medium-term demand outlook looks healthy. Outstanding orders stood all time high at Rs 10,705 crore as on 30th September 2020, which is 2.4x of sales (TTM) vs. Rs 10,312cr as on 30th June 2020. Its utilisation moved to pre Covid level and we expect substantial revenue visibility over the medium term.

STL intends to double its revenue to Rs 10,000 crore by 2023, while reducing its debt-equity ratio by half to 0.5 in the same period. This is part of the company's Vision 2023 plan, built upon how the business has performed in the last three years. This would come on the back of strong growth in three of its four key business segments. In India, Digital service providers, Cloud companies and citizen networks are moving to next phase of growth and the telecoms are getting ready for their next spend cycles. Europe, which contributes about a third of the total revenue has already started constructing new infrastructure, all of which will help the company grow faster.

**Sound fundamentals led by Comfortable capital structure and strong debt coverage indicators**

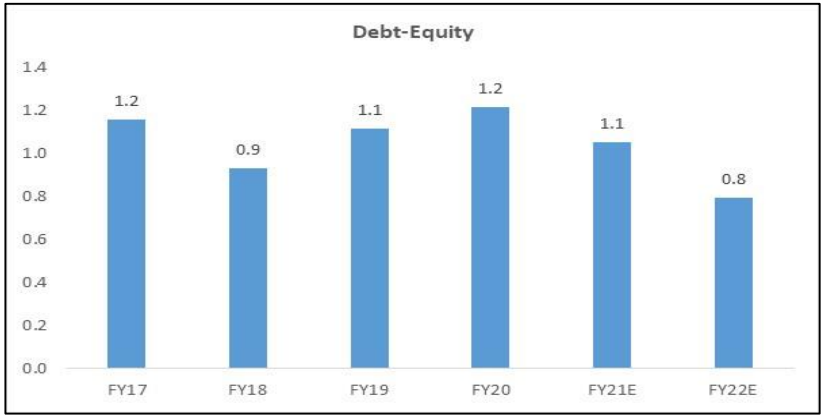
- FY20 has been a challenging year, where STL witnessed its lowest growth since its demerger, reported 1.3 per cent (YoY) revenue growth. PAT was down by 15.9 per cent (YoY) and EBITDA margin stood at 19.6 per cent in FY20 vs. 22 per cent in FY19.

- STL's Vision 2023 seeks to double the revenue to Rs 10,000cr, reduce the net debt to equity by half to 0.5, and deliver a Return on Capital Employed (RoCE) above 20 per cent over the next three year. This comes with the backdrop of a credible performance-doubling of revenues in the last three years.

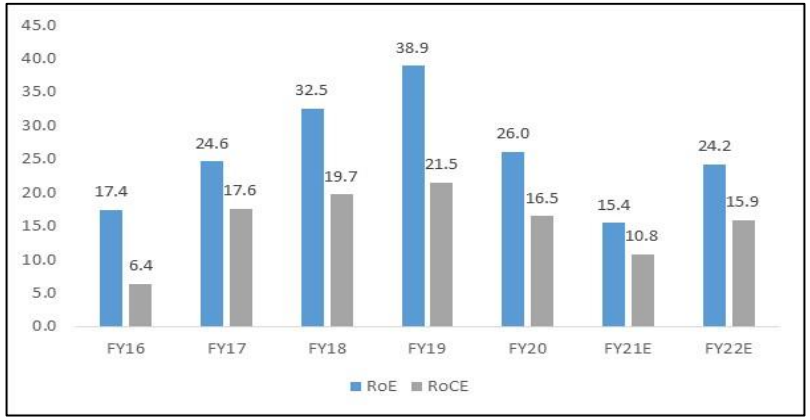
- Company is carrying cash & cash equivalents of Rs 478cr as of 31st March 2020 vs. Rs 333cr as on 31st March 2019. Company has also announced open market buyback with a max buyback price of Rs 150 per share. Offer opened on 7th April 2020 and closed on 6th Oct 2020 for 9.95 per cent (9,666,666 equity share) of capital.

- STL has recommended a final dividend of Rs 3.5 per equity share (F.V of Rs 2 per equity share) in FY20, subject to the approval of the shareholders, dividend yield stood at 3.2 per cent at current market price.

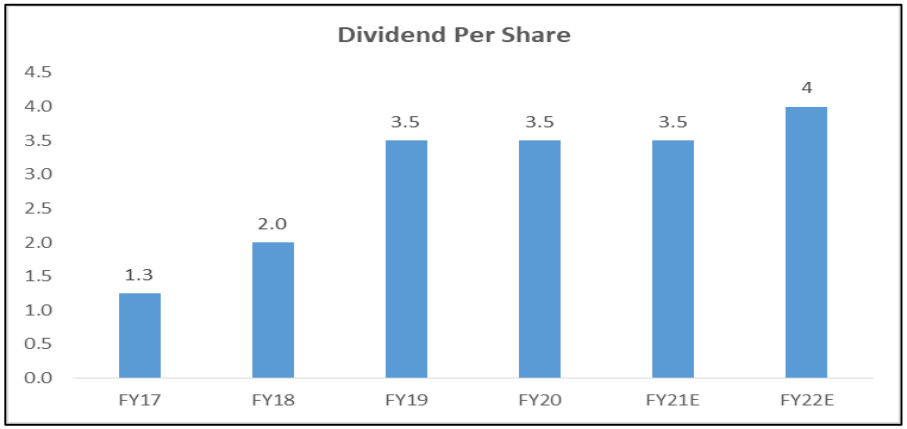
**Debt/Equity(x)**




**Return Ratio (%)**




**Dividend Per Share (Rs)**




(Source: Company, HDFC sec)

**Recent appointment of operation heads and management to empower customers and execute strategic growth plans**

Continuing with macro shifts, STL has announced a series of customer segment leadership appointments. Stephen Szymanski has joined STL as general manager and regional commercial executive, Americas; Luis Fernando Leon, sales manager, Central America; Mayur Tanna, head-enterprise business, India; and Tushar Shah, key account manager, United Kingdom.

- Stephen has over 25 years of experience in business development, product management, and executive leadership. Before joining STL, Stephen was senior vice president- Telecom, for Prysmian Group in North America, where he managed a large portfolio of responsibilities with a keen focus on strategy and operational execution.

- With over 24 years of work experience, Luis has also been associated with organizations like 3M, Prysmian, and Siemens. Luis holds a Master's degree from the National University of Colombia.

- Mayur has over 25 years of experience spanning Telecom, 4G/5G Networks, IoT Business and Enterprise business strategy in companies like Siemens, Marconi, Ericsson, Augere, Aircel and Mobilogix.

- Tushar joins STL from Infinera, where he handled key accounts and built deep and extensive relationships with customers across Telecom, Government and Technology sectors. Tushar has also extensively worked with large tech organisations like Lenovo, Huawei, Ciena in various sales and business development roles.

- Apart from this, STL has appointed Mihir Modi as Chief Financial Officer. Mihir Modi is a finance professional with a wide range of experience in digital growth businesses. He joins STL from Rainshine Entertainment, a digital media content company he had co-founded in 2018. Prior to this, he was with Zee Entertainment as its Chief Business Officer and CFO. His experience in building deep industry alliances, managing internal efficiencies and eventually delivering consistent shareholder value, will help bolster STL's strategy to deliver profitable growth.

STL will benefit from their global experience and domain expertise in driving customer engagement through the Americas, Europe, and Asia. Its customers worldwide depend on to drive end-to-end solutions for their specific needs. These global domain leaders will continue to empower its customers and execute strategic growth plans.

**What could go wrong?**

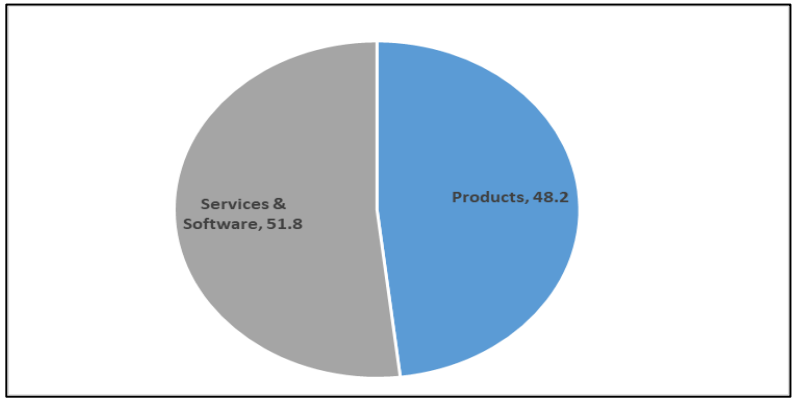
- Potential pricing pressure, intense competition in the overseas market, uncertainty in telecom industry and currency fluctuations are key concerns. Globally penetration of 5G is still at a very nascent stage. Gradual transition from 4G to 5G is likely to play out over next 4-5 years even in developed countries. Longer than expected time of shift from 4G to 5G can impact demand and pricing of optic fire in longer term. Global fibre demand contracted 9% in first half of 2020, on account of China slowing down after a massive 4G build.
- STL is the largest player and a clear market leader in the domestic market, despite competitive pressure from peers such as Himachal Futuristic Communications Ltd (HFCL), Vindhya Telelinks Ltd, Aksh Optifibre Ltd, and Finolex Cables Ltd.
- Debt funded capex as well as acquisition could impact its profitability.
- STL customer's inability to make timely payments due to challenges posed by Covid-19 may result in sizeable short-term borrowings in the interim. While the company has enough funds to manage short-term cash flow requirements, timely correction in the working capital cycle could remain a risk factor.
- Current assets, receivables, and inventory were high at 233 days, 111 days, and 32 days, respectively, as on March 31, 2020, vs. 261 days, 97 days, and 42 days, as on 31st March 2019. The working capital cycle may remain stretched over the medium term, given the significant revenue contribution from the services business and from government projects. However, to balance the working capital cycle, the company is able to negotiate favourable terms with suppliers, leading to an increase in payable days as well.
- STL saw some more senior-level exits with Jitendra Balakrishnan, chief technology officer (CTO) of the software business, and Swati Rangachari, chief of its corporate affairs, resigned from the company. Besides Balakrishnan and Rangachari, network services business head Ajay Razdan has also tendered his resignation. STL's chief financial officer (CFO) Anupam Jindal's resignation which was accepted.
- China is the largest consumer of the OFC (~58% of global consumption). Demand fluctuation in China can impact the capacity utilization of OFC manufacturers.
- Dip in telecom capex or delay in it can impact the revenue growth and hence the margin profile.
- Any alternate connectivity technology can endanger the prospects of OFC industry.
- Debt of STL has risen by Rs.188 cr in H1FY21. This was borrowed to pay dividend and for buyback purposes. This may not be the ideal reason to increase borrowings.

## Company Profile:

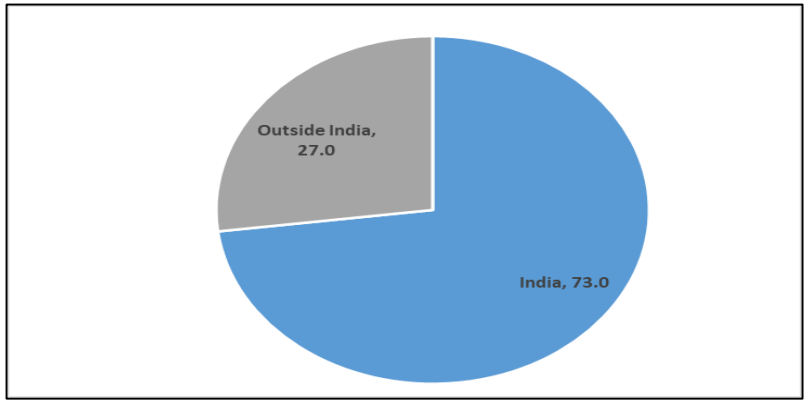
Sterlite Technologies Ltd (STL) is a leading manufacturer of optical fibre (OF) and optical fibre cable (OFC) company and Company designs, builds and manages data networks for customers. Company is specialized in optical fiber and cables, hyper-scale network design, and deployment and network software and offers bespoke integrated solutions for global data networks of Communications Service Provider (CSPs), and Telcos. STL has also partnered with global telecom companies, cloud companies, citizen networks, and large enterprises to design, build, and manage such a cloud-native software-defined network. It has a strong global presence with next-gen optical preform, fiber, and cable manufacturing facilities in India, Italy, China and Brazil, and two software-development centres. It has more than 358 patents, serving customers in over 150 countries and 3100 plus employees as on 31st March 2020.

## Revenue Mix (FY20,%)- Consolidated

### Segments Revenue




### Geographical Revenue




(Source: Company, HDFC sec)

## Peer Comparison

**(On TTM basis)**

| Company | CMP Rs. | Mar Cap Rs.Cr. | EPS Rs. | P/E | P/ BV | EV/EBITDA | Div Yld % | ROE % | Debt / Eq | OPM-% | PATM-% |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Sterlite Tech.** | **153.8** | **6085.7** | **4.9** | **28.1** | **3.5** | **10.0** | **2.3** | **25.4** | **1.3** | **17.6** | **4.9** |
| HFCL | 16.5 | 2170.6 | 1.0 | 16.5 | 1.2 | 6.9 | 0.0 | 15.3 | 0.5 | 11.6 | 4.0 |
| Vindhya Telelink | 735.9 | 872.0 | 166.7 | 4.4 | 0.4 | 4.1 | 1.4 | 9.9 | 0.4 | 13.3 | 11.3 |

## Financials (consolidated)

### Income Statement

| (Rs Cr) | FY18 | FY19 | FY20 | FY21E | FY22E |
|---|---|---|---|---|---|
| **Net Revenues** | **3177.1** | **5087.3** | **5154.4** | **4831.9** | **5771.1** |
| Growth (%) | **29.7** | **60.1** | **1.3** | **-6.3** | **19.4** |
| Operating Expenses | 2433.1 | 3967.7 | 4144.1 | 3928.3 | 4683.3 |
| **EBITDA** | **744.1** | **1119.6** | **1010.3** | **903.6** | **1087.9** |
| **Growth (%)** | **44.2** | **50.5** | **-9.8** | **-10.6** | **20.4** |
| **EBITDA Margin (%)** | **23.4** | **22.0** | **19.6** | **18.7** | **18.9** |
| Depreciation | 182.2 | 195.0 | 290.3 | 322.4 | 312.3 |
| **EBIT** | **561.8** | **924.6** | **720.1** | **581.1** | **775.5** |
| Other Income | 39.3 | 36.9 | 34.3 | 41.1 | 28.9 |
| Interest expenses | 103.8 | 105.5 | 221.0 | 200.8 | 237.2 |
| **PBT** | **497.3** | **856.0** | **533.3** | **421.4** | **567.2** |
| Tax | 133.2 | 278.2 | 108.9 | 101.1 | 144.6 |
| **RPAT** | **364.1** | **577.8** | **424.4** | **320.2** | **422.5** |
| APAT | **334.3** | **562.8** | **473.4** | **299.4** | **399.3** |
| Growth (%) | **66.0** | **68.3** | **-15.9** | **-36.7** | **33.4** |
| EPS | 8.4 | 14.1 | 11.8 | 7.6 | 10.1 |

### Balance Sheet

| As at March | FY18 | FY19 | FY20 | FY21E | FY22E |
|---|---|---|---|---|---|
| **SOURCE OF FUNDS** | | | | | |
| Share Capital | 80.2 | 80.5 | 80.8 | 79.1 | 79.1 |
| Reserves | 1095.1 | 1638.8 | 1839.0 | 1877.9 | 2087.3 |
| **Shareholders' Funds** | **1175.3** | **1719.3** | **1919.8** | **1957.1** | **2166.4** |
| Long Term Debt | 630.5 | 934.8 | 1065.2 | 945.2 | 965.2 |
| Net Deferred Taxes | 22.2 | 74.4 | 71.7 | 64.5 | 58.1 |
| Long Term Provisions & Others | 97.8 | 48.2 | 70.7 | 77.7 | 85.5 |
| **Minority Interest** | **82.0** | **95.4** | **103.2** | **92.9** | **83.6** |
| **Total Source of Funds** | **2007.8** | **2872.2** | **3230.6** | **3137.4** | **3358.9** |
| **APPLICATION OF FUNDS** | | | | | |
| Net Block & Goodwill | 1234.1 | 2467.9 | 3059.6 | 3219.9 | 3332.6 |
| CWIP | 357.0 | 419.4 | 132.8 | 0.0 | 0.0 |
| Other Non-Current Assets | 164.4 | 153.9 | 248.3 | 260.8 | 242.2 |
| **Total Non Current Assets** | **1755.5** | **3041.2** | **3440.7** | **3480.7** | **3574.8** |
| Current Investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Inventories | 337.9 | 589.7 | 451.8 | 397.1 | 474.3 |
| Trade Receivables | 867.2 | 1354.9 | 1563.1 | 1456.2 | 1723.4 |
| Cash & Equivalents | 293.5 | 333.9 | 477.6 | 568.7 | 877.2 |
| Other Current Assets | 457.7 | 1692.7 | 1275.8 | 1148.2 | 918.6 |
| **Total Current Assets** | **1956.2** | **3971.1** | **3768.3** | **3570.2** | **3993.6** |
| Short-Term Borrowings | 462.7 | 982.7 | 1264.6 | 1114.6 | 1079.6 |
| Trade Payables | 656.2 | 1912.8 | 1430.3 | 1323.8 | 1581.1 |
| Other Current Liab & Provisions | 585.1 | 1244.7 | 1283.5 | 1475.0 | 1548.8 |
| **Total Current Liabilities** | **1704.0** | **4140.1** | **3978.4** | **3913.5** | **4209.5** |
| Net Current Assets | 252.2 | -169.0 | -210.1 | -343.3 | -216.0 |
| **Total Application of Funds** | **2007.8** | **2872.2** | **3230.6** | **3137.4** | **3358.9** |

### Cash Flow Statement

| (Rs Cr) | FY18 | FY19 | FY20 | FY21E | FY22E |
|---|---|---|---|---|---|
| Reported PBT | 501.7 | 863.5 | 541.6 | 421.4 | 567.2 |
| Non-operating & EO items | 31.5 | 15.1 | 3.4 | -41.1 | -28.9 |
| Interest Expenses | 103.8 | 105.5 | 221.0 | 200.8 | 237.2 |
| Depreciation | 182.2 | 195.0 | 290.3 | 322.4 | 312.3 |
| Working Capital Change | 20.4 | -325.3 | -183.0 | 412.7 | 166.1 |
| Tax Paid | -110.7 | -222.8 | -176.9 | -101.1 | -144.6 |
| **OPERATING CASH FLOW ( a )** | **729.0** | **631.1** | **696.4** | **1,215.1** | **1,109.4** |
| Capex | -455.9 | -831.9 | -383.2 | -350.0 | -425.0 |
| Free Cash Flow | 273.1 | -200.8 | 313.2 | 865.1 | 684.4 |
| Investments | -135.8 | -358.7 | -251.4 | 64.9 | 42.6 |
| Non-operating income | 9.5 | 18.4 | 8.2 | 41.1 | 28.9 |
| **INVESTING CASH FLOW ( b )** | **-582.2** | **-1,172.1** | **-626.4** | **-244.0** | **-353.5** |
| Debt Issuance / (Repaid) | -18.4 | 774.7 | 340.4 | -270.0 | -15.0 |
| Interest Expenses | -96.5 | -108.1 | -221.4 | -200.8 | -237.2 |
| FCFE | 158.2 | 465.9 | 432.2 | 394.3 | 432.2 |
| Share Capital Issuance | 0.5 | 0.3 | 0.3 | -122.0 | 0.0 |
| Dividend | -38.1 | -96.8 | -170.1 | -138.5 | -189.9 |
| Others | 0.9 | 0.0 | -17.1 | 10.5 | 11.3 |
| **FINANCING CASH FLOW ( c )** | **-151.5** | **570.2** | **-67.9** | **-720.8** | **-430.9** |
| **NET CASH FLOW (a+b+c)** | **-4.7** | **29.1** | **2.1** | **250.3** | **325.0** |

### Key Ratios

| Particulars | FY18 | FY19 | FY20 | FY21E | FY22E |
|---|---|---|---|---|---|
| EBITDA Margin (%) | 23.4 | 22.0 | 19.6 | 18.7 | 18.9 |
| EBIT Margin (%) | 17.7 | 18.2 | 14.0 | 12.0 | 13.4 |
| APAT Margin (%) | 10.5 | 11.1 | 9.2 | 6.2 | 6.9 |
| RoE (%) | 32.5 | 38.9 | 26.0 | 15.4 | 19.4 |
| RoCE (%) | 19.7 | 21.5 | 16.5 | 10.9 | 14.0 |
| **Solvency Ratio** | | | | | |
| Net Debt/EBITDA (x) | 1.5 | 1.7 | 2.3 | 2.3 | 1.9 |
| Net D/E (x) | 0.9 | 1.1 | 1.2 | 1.1 | 0.9 |
| **PER SHARE DATA (Rs)** | | | | | |
| EPS | 8.4 | 14.1 | 11.8 | 7.6 | 10.1 |
| CEPS | 9.0 | 12.9 | 18.9 | 19.3 | 15.7 |
| Dividend | 2.0 | 3.5 | 3.5 | 3.5 | 4.0 |
| BVPS | 29.4 | 43.0 | 48.0 | 49.5 | 54.8 |
| **Turnover Ratios (days)** | | | | | |
| Debtor days | 99.6 | 97.2 | 110.7 | 110.0 | 109.0 |
| Inventory days | 38.8 | 42.3 | 32.0 | 30.0 | 30.0 |
| Creditors days | 75.4 | 137.2 | 101.3 | 100.0 | 100.0 |
| **VALUATION (x)** | | | | | |
| P/E | 18.4 | 10.9 | 13.0 | 20.3 | 15.2 |
| P/BV | 5.2 | 3.6 | 3.2 | 3.1 | 2.8 |
| EV/EBITDA | 9.3 | 6.9 | 7.9 | 8.4 | 6.7 |
| EV / Revenues | 2.2 | 1.5 | 1.6 | 1.6 | 1.3 |
| Dividend Yield (%) | 1.3 | 2.3 | 2.3 | 2.3 | 2.6 |

(Source: Company, HDFC sec)

### Explanation about abbreviations and terms specific to telecom/optic fibre industry

**Hyper-scale network:** Hyperscale infrastructure is designed for horizontal scalability and leads to high levels of performance, throughput and redundancy to enable fault tolerance and high availability.

**Bespoke solution:** A bespoke solution is a completely custom built or tailor-made software specifically developed for an individual organization based on their requirement inputs and specifications.

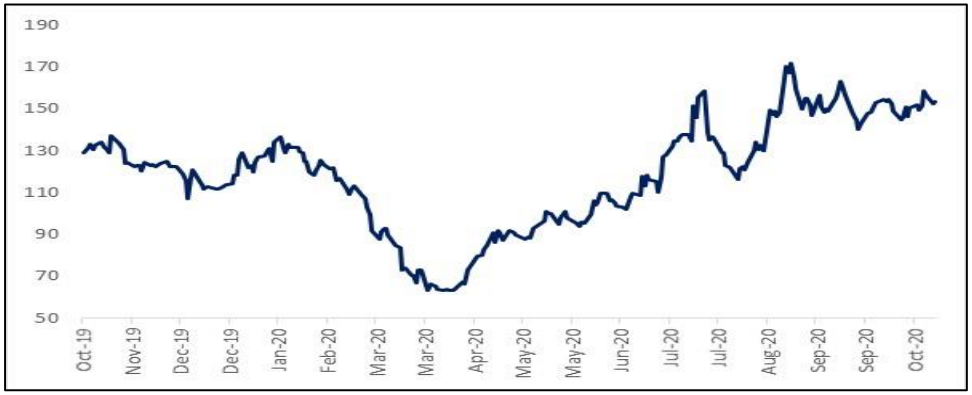
**Communication service providers (CSPs):** Companies that offer telecommunications, media, entertainment, applications, and other information-related services, often over a physical network.

**Optical Fibre (OF):** Optical fiber is a cylindrical dielectric waveguide (non-conducting waveguide) that transmits light along its axis, by the process of total internal reflection. The fiber consists of a core surrounded by a cladding layer, both of which are made of dielectric materials.

**Fiber to the home (FTTH):** FTTH is the delivery of a communications signal over optical fiber from the operator's switching equipment all the way to a home or business, thereby replacing existing copper infrastructure such as telephone wires and coaxial cable.

**Internet of things (IoT):** It describes the network of physical objects—"things"—that are embedded with sensors, software, and other technologies for the purpose of connecting and exchanging data with other devices and systems over the Internet.

### One Year Stock Price Chart




(Source: Company, HDFC sec)

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